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PHILEQUITY CORNER

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Historic LA fire

The smoldering ruins of Los Angeles wildfires, the costliest in US history, serve as a solemn reminder of how quickly devastation can take hold when conditions align.

As of Friday evening in the US, the fire remains largely uncontrolled, with containment at just eight percent. The blaze has already destroyed over 10,000 homes and structures, consuming more than 36,000 acres–nearly the size of Quezon City, the largest city in Metro Manila.

According to JP Morgan, insured losses already exceeded $20 billion and total economic losses are over $50 billion. But potential for even higher losses looms, if the fires are not contained in the coming days.

Hollywood stars lose homes

Among those whose houses burned down are some of Hollywood's biggest names, including Paris Hilton, Billy Crystal, Anthony Hopkins, Jeff Bridges, James Wood, Mandy Moore and Mel Gibson, all of whom lost homes in the upscale enclave between Santa Monica and Malibu.

Among the hundreds of thousands who had to evacuate were Steven Spielberg, Tom Hanks, Diane Keaton, Adam Sandler and Ben Affleck. The sports world was also hit hard, with Los Angeles Lakers head coach JJ Redick losing his family home and Golden State Warriors head coach Steve Kerr seeing his childhood home in Pacific Palisades reduced to ashes.

US economy's resilience amid disaster

Despite the calamity ranking among the costliest natural disasters in modern US history, its $50 billion impact hardly dents America's $27 trillion economy.

Yet just as the wildfire spread rapidly under ripe conditions, US Federal Reserve officials remain vigilant against a possible flare-up of inflationary pressures – recognizing that even a small spark can spread with daunting speed.

Fed's more cautious approach

As Los Angeles firefighters battle to contain the fire, the Fed faces a different challenge: safeguarding price stability amidst significant policy uncertainty.

The minutes of the December 2024 FOMC meeting reflect growing concerns. "Almost all participants judged that upside risks to the inflation outlook had increased," the minutes noted.

"Participants cited recent stronger-than-expected readings on inflation and the likely effects of potential changes in trade and immigration policy."

Strong jobs data limits rate cuts

Last Friday's release of December jobs data, with non-farm payrolls growing by 256,000 versus consensus estimates of 155,000, gives the Fed less incentive to cut rates aggressively this year.

In fact, the December FOMC minutes show that the Fed has already trimmed its 2025 rate cut outlook to just two quarter-point cuts, down from four projected in September.

Trump's agenda adds to uncertainty

President-elect Donald Trump's Make America Great Again agenda adds to the concern. Since his November victory, Trump has reiterated plans to impose broad tariffs on trade partners. The proposed tariffs, tax cuts, deregulation plans and mass deportation of illegal immigrants could push inflation much higher if not checked.

He also initiated conflicts with Panama over Panama Canal issues; with Denmark by suggesting the US take over Greenland and with Canada by trolling that it should be the US's 51st state.

US dollar gains momentum

The possibility of fewer rate cuts has propelled the US dollar higher, with the US Dollar Index reaching 109.97 last Friday – its strongest level since November 2022.

The euro is near parity at 1.024 against the dollar. The surge weighed heavily on Asian currencies, sending the Bloomberg Asia Dollar index tumbling to its weakest level in decades.

A strong dollar complicates efforts by Asian policymakers planning rate cuts this year.

Treasury market reflects inflation fears

Treasury yields are reflecting mounting inflation concerns. The benchmark 10-year yield climbed to 4.78 percent last Friday, up from 3.6 percent in July 2024 when the Fed delivered its first rate cut.

The 30-year Treasury climbed to as high as five percent, before closing at 4.95 percent.

Bond traders are pricing in the risk that Trump's upcoming trade, tax and immigration measures could fuel inflation further.

US stock market erase Trump post-election gains

Rising yields, inflation concerns and poor investor sentiment caused by the LA wildfires have erased the post-election stock market gains that followed Trump's victory.

The Dow tumbled by 1.6 percent last Friday, pushing its decline from all-time highs to eight percent. The broader S&P 500 fell by 1.5 percent, bringing its total drop to 4.7 percent from record highs.

The tech-heavy Nasdaq Composite dropped by 1.6 percent during the same session, extending its total loss to 5.2 percent.

Inflation embers, central banks must stay vigilant

Much like how the Santa Ana winds fanned the wildfire's flames, policymakers must tread carefully to avoid stoking price pressures that, once ablaze, can prove exceedingly difficult to extinguish.