

MARKET COMMENTARY

February 2025

SNAPSHOT

- Equities advanced overall, with developed markets outperforming emerging
- Sovereign yields fell on the back of better inflation data
- Sterling weakened against major currencies

All percentages below are monthly returns for January 2024

EQUITIES



BOND MARKETS

BONDS

Better inflation data boosted returns

	UK GILTS	0.8%
	US TREASURIES	0.5%
	GLOBAL CORPORATE BONDS	1.6%
	GLOBAL HIGH YIELD BONDS	2.4%



*Values represent bond index returns

CURRENCIES

CURRENCIES

Sterling weakened against dollar on tariff concerns

Pound vs Other Currencies



KEY INDICATORS



GOLD – XAU/USD

6.7%



OIL – BRENT CRUDE

2.8%



COMMODITIES

4.1%



INFLATION – UK CPI (YOY)

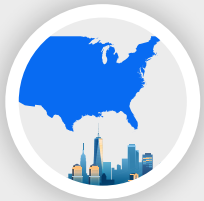
2.5%



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GLOBAL MARKETS

Global stock markets advanced despite a highly volatile month, driven by concerns over corporate earnings, intensifying AI competition, and potential tariff impacts.



US MARKETS

Mixed performance on strong earnings but AI uncertainty

US equities advanced, driven by strong earnings from Meta and Apple. The US economy grew 2.3% in Q4, while the Fed held rates steady as core Personal Consumption Expenditure (PCE) remained above 2%. The Nasdaq experienced significant volatility, as technology stocks sold off before recovering to end the month in positive territory. Competitive concerns over Chinese AI developer DeepSeek triggered a 17% one day drop in NVIDIA shares. Meanwhile, market sentiment was further weighed down by the US administration's global tariff plans.

2.7%

US 500



UK MARKETS

Reached record highs on a weaker pound

UK equities advanced, reaching a record closing level, supported by a weaker pound, which boosted the FTSE100 by benefiting multinational firms with overseas revenues. The more defensive FTSE250 lagged noticeably by comparison. A rotation into defensive stocks provided further support as investors sought safe havens amid technology market volatility. Gains were also driven by strong corporate earnings, notably Shell's announcement of a 4% dividend increase. However, signs of domestic economic weakness persisted, with two investment banks downgrading UK GDP forecasts for 2025. The government introduced a number of growth initiatives, including a controversial plan for a new Heathrow runway.

5.4%

UK All Share



EUROPEAN MARKETS

Strong on corporate earnings

European equity markets advanced, with the Stoxx Europe 600 gaining over 6%, driven by strong corporate earnings in technology, financials, and industrials. Easing concerns over US tariffs supported sentiment, though new tariff announcements later in the month introduced volatility. The ECB delivered its fifth rate cut in eight months, with President Lagarde signalling further easing. Euro-area GDP was flat in Q4 2024, with Germany contracting 0.2%, while Spain grew 0.8%. Inflation varied, with France at 1.8%, Germany at 2.8%, and Spain rising to 2.9%, reflecting mixed economic conditions.

6.8%

Euro 600 Index ex UK



JAPAN MARKETS

Pressured from technology sell-off

Japan's stock markets posted marginal gains over the month, despite pressure from a sell-off in major technology stocks following the emergence of Chinese AI developer DeepSeek, a potential challenger to US dominance. Japanese chipmakers were particularly affected. Domestic equities also faced headwinds from the Bank of Japan's (BoJ) hawkish stance, as it raised interest rates for the third time in a year and revised inflation forecasts upward. BoJ Deputy Governor Ryozi Himino reiterated the likelihood of further hikes if economic conditions align with forecasts. Meanwhile, Tokyo's core CPI rose 2.5% year-on-year, reinforcing expectations for gradual policy tightening.

0.1%

Japan Index



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THE WORLD AT A GLANCE

	2020	2021	2022	2023	2024
UK CASH	0.2%	0%	1.4%	4.7%	5.2%
US DOLLAR INDEX	-6.7%	6.4%	8.2%	-2.1%	7.1%
UK GILTS	8.3%	-5.2%	-23.8%	3.7%	-3.3%
US TREASURIES	8%	-2.3%	-12.5%	4.1%	0.6%
GLOBAL CORPORATE BONDS	7.1%	-1.9%	-6.8%	4.0%	2.8%
GLOBAL HIGH YIELD BONDS	3.8%	2.0%	-2.3%	8.2%	11.0%
US 500	16.3%	26.9%	-19.4%	24.2%	23.3%
UK ALL SHARE INDEX	-12.5%	14.5%	-3.2%	3.8%	5.6%
EURO 600 INDEX EX UK	1%	22.5%	-15%	14.9%	4.5%
JAPAN INDEX	4.8%	10.4%	-5.1%	25.1%	17.7%
ASIA EX JAPAN	22.4%	-3.1%	-15.4%	6.4%	16.2%
EMERGING MARKETS	15.8%	-4.6%	-22.4%	7.0%	5.1%
COMMODITIES	-26.1%	41.6%	41.9%	-9.7%	11.2%
GOLD	20.9%	-4.3%	-0.7%	12.8%	26.6%
HEDGE FUNDS	5.8%	3.0%	-4.4%	2.7%	5.3%

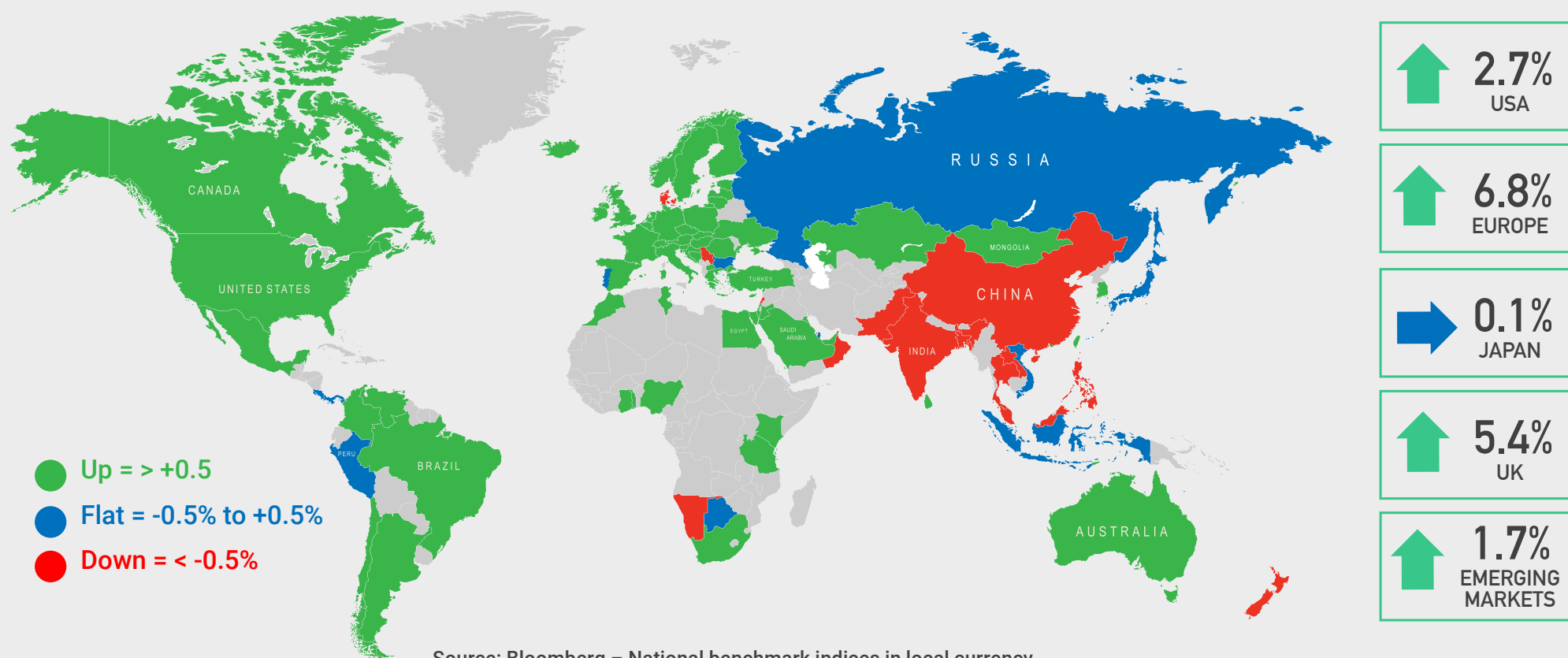
January 2025	Year to date
0.4	0.4
-0.1	-0.1
0.8	0.8
0.5	0.5
1.6	1.6
2.4	2.4
2.7	2.7
5.4	5.4
6.8	6.8
0.1	0.1
0.8	0.8
1.7	1.7
4.1	4.1
6.7	6.7
0.8	0.8

Source: Bloomberg

Total Return – Local Currency

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WORLD EQUITY MARKETS

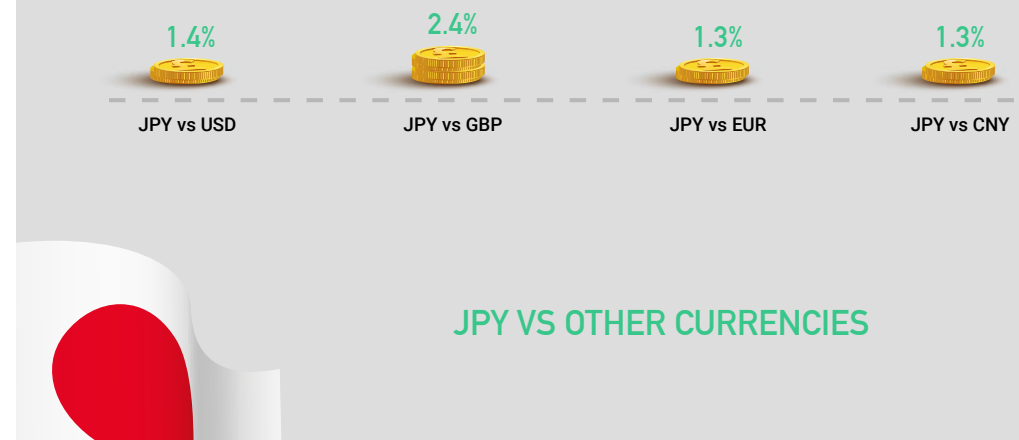
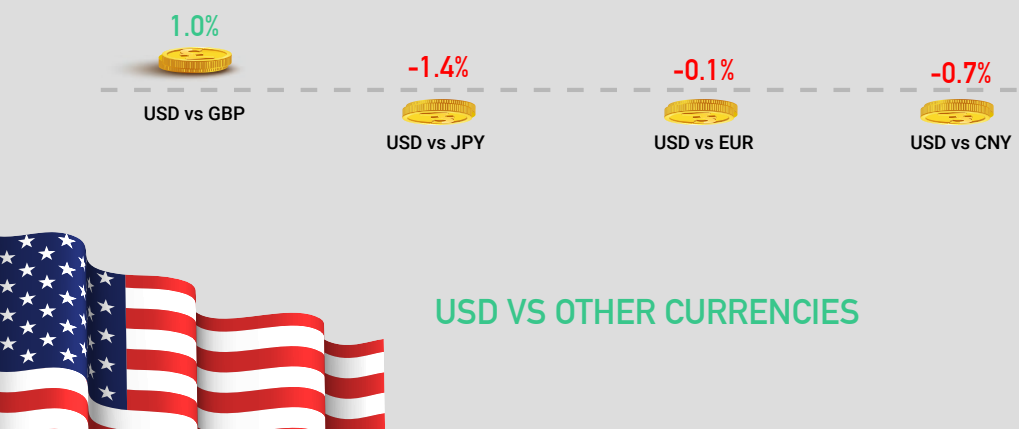
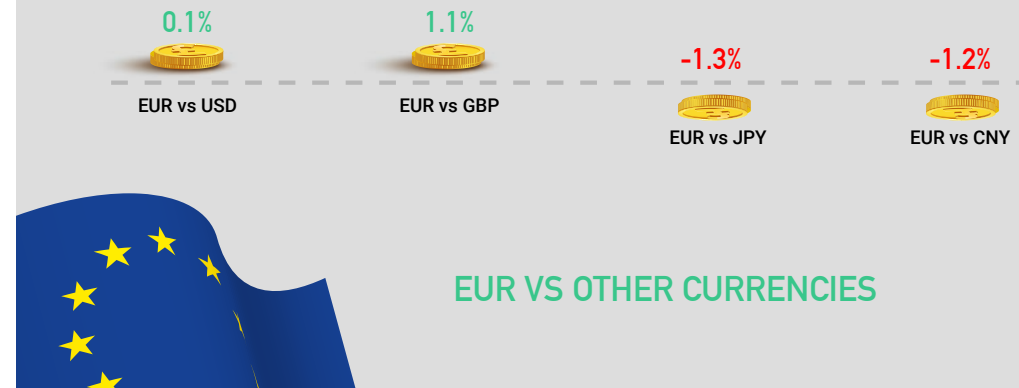
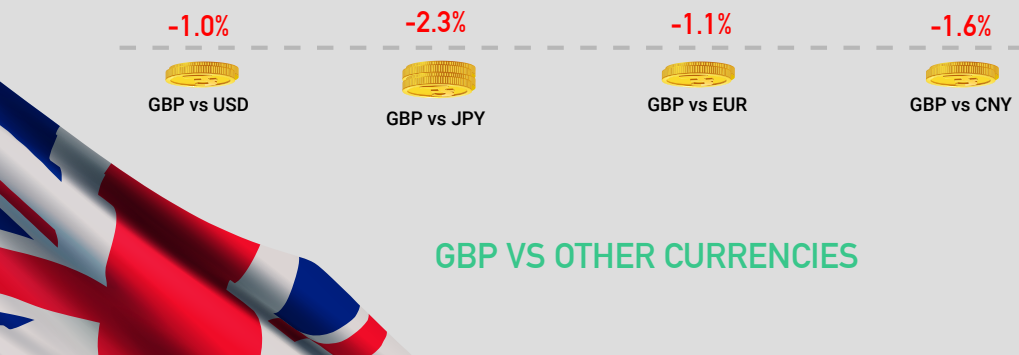


Key Points

- Global equities advanced, with developed markets generally outperforming emerging economies. European equities, having lagged in recent months, led gains overall.
- US equities rose, boosted by strong earnings from Meta and Apple, while the Nasdaq experienced volatility due to concerns over competition from Chinese AI developer, Deepseek.
- FTSE100 reached a record high, supported by a weaker pound, strong earnings, and a rotation into defensive stocks. Shell's dividend increase boosted gains, though economic weakness and GDP downgrades tempered optimism.
- Japan's stock market saw marginal gains despite a tech sell-off and pressure from the BoJ's hawkish stance, including a third-rate hike and revised inflation forecasts.

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CURRENCIES



Key Points

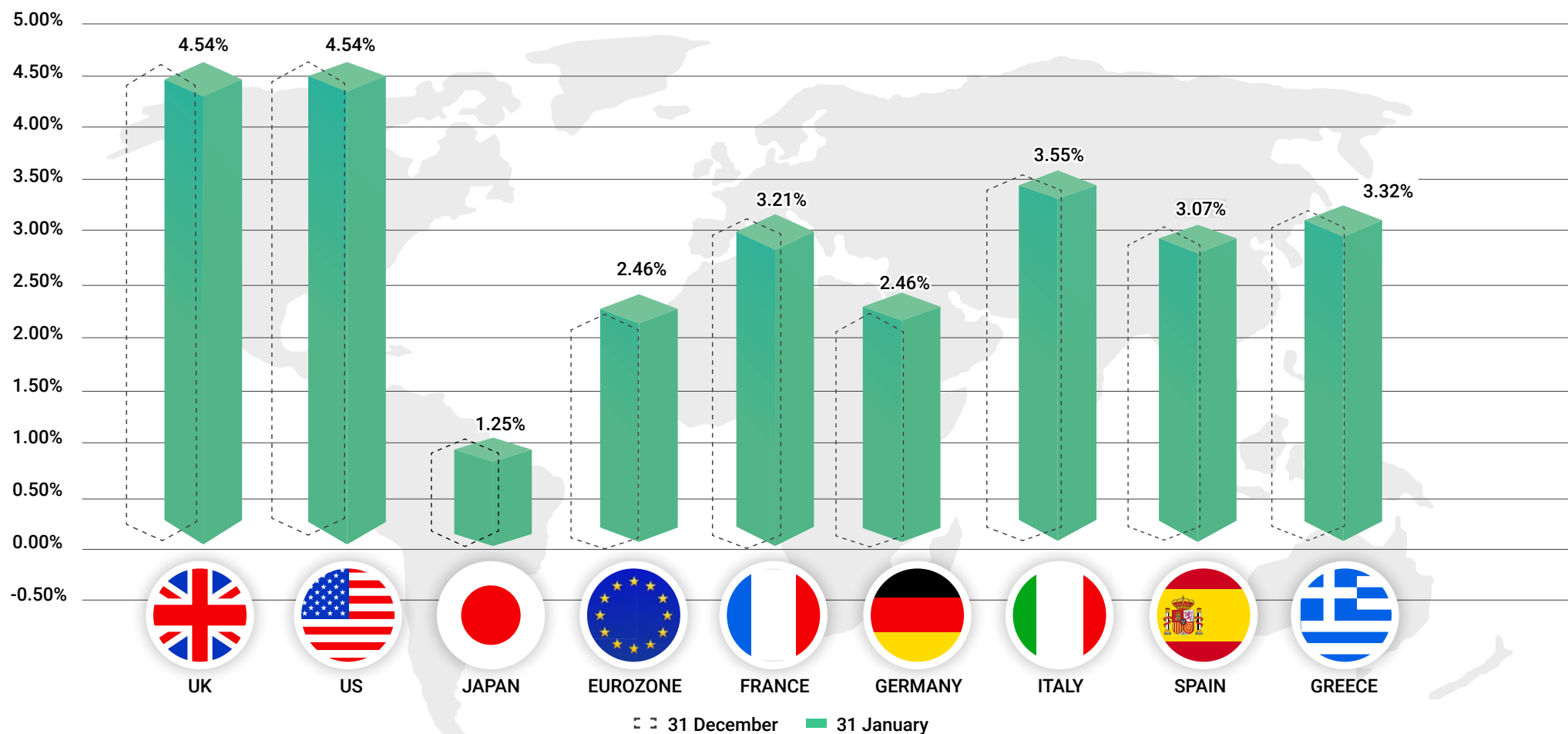
- The US dollar was mildly positive, strengthening against sterling, but declining against the yen and slightly against the euro. Tariff concerns continued to act as a tailwind.
- Sterling weakened as the UK economy struggled with sluggish growth and the strengthening of the US dollar.

- The Japanese yen strengthened against major currencies, supported by the Bank of Japan's (BoJ) third rate hike of the year. An upward revision in inflation forecasts, and the BoJ's commitment to tightening policy, helped boost market confidence in the currency.
- The euro was mixed, strengthening against sterling but weakening against the US dollar and yen. It faces challenges from tariffs and the increased pace of ECB rate cuts.

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GENERIC 10-YEAR YIELDS*

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



Key Points

- UK gilts rose on the back of better inflation data, though the market remains sceptical about the government's growth plan. The Bank of England is likely to cut rates in February, with expectations of two more cuts by year-end.
- US treasuries were marginally up, with the bond market relatively stable after weeks of uncertainty over Trump. There was no change to US interest rate expectations, with the market still pricing in two quarter-point cuts by the end of December.
- European sovereign bonds declined, as Christine Lagarde, ECB president, confirmed inflation is on track to hit 2% this year. Despite eurozone challenges, the ECB remains hawkish to align with the Fed

and manage exchange rate pressures, while monitoring tariff uncertainties. The market anticipates three rate cuts by year-end.

- Investment-grade credit continued to perform well as spreads tightened further. The strongest returns came from high-yield and subordinated debt, which have performed very well in this 'risk-on' environment.
- Emerging market debt rose as uncertainty surrounding US President Trump's policy actions led to a risk-off sentiment across emerging markets.

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GLOSSARY OF TERMS

BoE	Bank of England – central bank of the United Kingdom
BoJ	Bank of Japan – central bank of Japan
Correlation	The degree to which the returns of financial assets or instruments move in relation to each other
CNY	Chinese renminbi (yuan) – currency of the People's Republic of China
CPI	Consumer Price Index – a measure of inflation in which a basket of goods and services is calculated over different time periods
Dovish	The approach in which central banks are likely to keep monetary policy “loose” or accommodative
ECB	European Central Bank – the central bank of the European Union countries which have adopted the euro
EUR	Euro, the official currency of the European Union for the 20 of 27 member states that have adopted this currency
The ‘Fed’	or the US Federal Reserve System – the central banking system of the United States of America, which includes the Federal Reserve Board and the twelve regional Federal Reserve Banks
GBP	British Pound – sometimes referred to as ‘sterling’
GDP	Gross Domestic Product – a monetary measure of the market value of all goods and services produced in a specific time period by a country or countries

Growth Stocks	Stocks which display specific characteristics – high price-to-earnings (P/E), high price-to-book (P/B), low to no dividend yield – which typically demonstrate revenue growth and tend to reinvest earnings rather than distribute them as dividends
Hawkish	The approach in which central banks are likely to keep monetary policy “tight” or restrictive
JPY	Japanese Yen – currency of Japan
Macro	or Macroeconomics – a branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole
PMI	Purchasing Managers’ Index – an economic indicator used to measure the activity of the manufacturing/service sectors of the economy
USD	US Dollar – currency of the United States of America
Value Stocks	Stocks which may trade at lower prices relative to their intrinsic value, as defined by traditional fundamental analysis, and typically include evaluation metrics such as lower price-to-earnings (P/E) and price-to-book (P/B) ratios, and higher dividend yields, compared to Growth stocks.
Yield Curve	a graph (line) which depicts how the yields on debt instruments – such as bonds – vary as a function of their years remaining to maturity
YoY	Year over year

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