

The *Monthly* *Edit* / January 2025

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.





Market headlines

Equity markets gain despite tech sector turbulence

Global equities gains were driven by strong performances in non-tech sectors. Major equity indices hit record highs despite tech volatility due to concerns over generative artificial intelligence (AI) investments and profitability.

Inflation fears drive up borrowing costs

Borrowing costs spiked globally, led by US bond yield increases due to inflation and debt concerns, impacting UK bonds amid the Labour government's budget plans.

Central banks take different approaches

Central banks continue to face diverse economic conditions. The European Central Bank (ECB) cut rates, while the US Federal Reserve (Fed) held steady and the Bank of Japan raised interest rates.

Geopolitical trade tariff risks shake currency markets

Geopolitical risks lingered, with US President Trump's trade tariff threats impacting the Canadian dollar and Mexican peso, while ongoing US-China tensions added to market uncertainty.

The big topics

Eurozone economy struggles

The eurozone economy showed no growth in the last quarter of 2024, marking its worst performance since late 2023.

Germany, the largest economy in the region, fared even worse, contracting by -0.2%.

This lack of growth highlights ongoing structural regional issues such as a shortage of skilled workers, excessive bureaucracy, and insufficient investment persist.

Additionally, the eurozone is grappling with higher natural gas prices, weak demand for exports, and intense competition from countries like China. Although eurozone stocks performed well in January, this followed a challenging 2024 where the region significantly underperformed compared to global peers.

DeepSeek AI controversy and mixed tech performance

The controversy surrounding Chinese AI start-up DeepSeek escalated US-China tensions.

DeepSeek's claims of building an AI platform at a fraction of the cost of US competitors initially drove sharp losses for US megacap technology stocks, notably Nvidia. However, doubts around DeepSeek's model emerged, leading to investigations by Microsoft and OpenAI.

US officials are now considering new trade tariffs and curbs on Nvidia chip exports to China. Meanwhile, US tech giants Meta, Tesla, and Apple saw positive market reactions, while Microsoft faced mixed responses. The sector remains volatile, with investors focused on upcoming results from Alphabet, Amazon, and Nvidia in February.





UK shares attract investors

After years of underperforming Wall Street, UK shares appear to be attracting the attention of investors – indeed, January saw the best one-month performance in aggregate for the UK stock market for over two years.

The UK equity market offers relatively low valuations, and despite economic growth concerns following the Labour government's recent Autumn Budget's impact on businesses, sectors such as banks have shown resilience.

This tentative shift in investor sentiment highlights the potential for attractive returns in the UK equity market, where our asset allocation views hold a positive outlook favouring larger capitalised value-investment style companies that can also capture a constructive international growth outlook.

Different strategies from central banks

Central banks displayed diverse responses to economic conditions during the month.

The ECB cut interest rates by 0.25%, citing a fragile economy and downside risks to growth. In contrast, the Fed held rates steady, reflecting a cautious approach amid mixed economic signals.

The Bank of Japan raised rates to 0.5%, the highest in 17 years, moving away from decades of ultra-easy monetary policy. These varied approaches highlight the challenges central banks face in balancing inflation control with supporting economic growth in their respective regions.

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