momentum
global investment management

globalmatters

Global Matters | Monthly

Market review & outlook

February 2025

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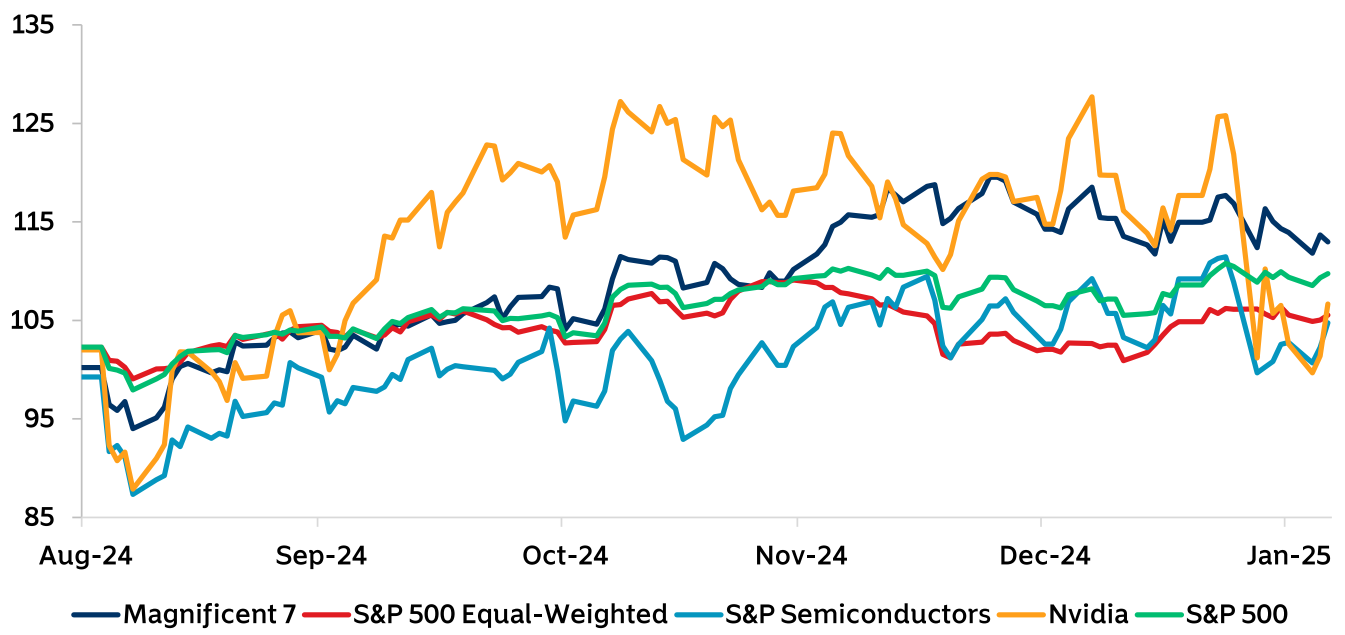
Global market review & outlook

In a foretaste of what might lie ahead, markets in January were largely driven by the policy agenda of the new administration in the US. In his second term, President Trump is evidently in a hurry to make good on campaign promises, perhaps conscious that his powers could be weakened at the midterm elections in two years, when the narrow majority of the Republicans in the House of Representatives risks being over-turned, constraining the President's freedom to enact policy changes.

In a wave of optimism driven by Trump's pro-business, deregulating, tax-cutting policies, Wall Street rose to an all-time-high soon after his inauguration, before correcting, initially on the unexpected release of China's DeepSeek new open-source AI model, seemingly produced at a fraction of the cost of those of the US tech giants, followed by the harsh reality of looming trade wars as Trump fulfilled his commitment to impose 25% tariffs on goods imports from Mexico and Canada, 10% on those from China, and leaving open the possibility of hitting the EU next.

Rising optimism for US growth, aided by evidence that the economy enters 2025 in good shape, with a resilient consumer, a strong labour market and positive leading indicators for both manufacturing and services, pushed equities and bond yields higher in the first half of the month, before concerns about the impact of the DeepSeek development on the competitiveness and leadership of the US in the AI boom led to a very sharp sell-off in megacap tech stocks. Investors questioned the strength of barriers to entry and returns on the huge capital investments made in the development of AI models. This was followed at month end by Trump's first move on tariffs, on an altogether much bigger scale than in his first term. Although the policy was a high profile part of Trump's campaign, a more measured approach had been anticipated, and the scale and speed of planned implementation sent a shudder through markets.

DeepSeek triggers setback in US megacap tech - especially semiconductor producers



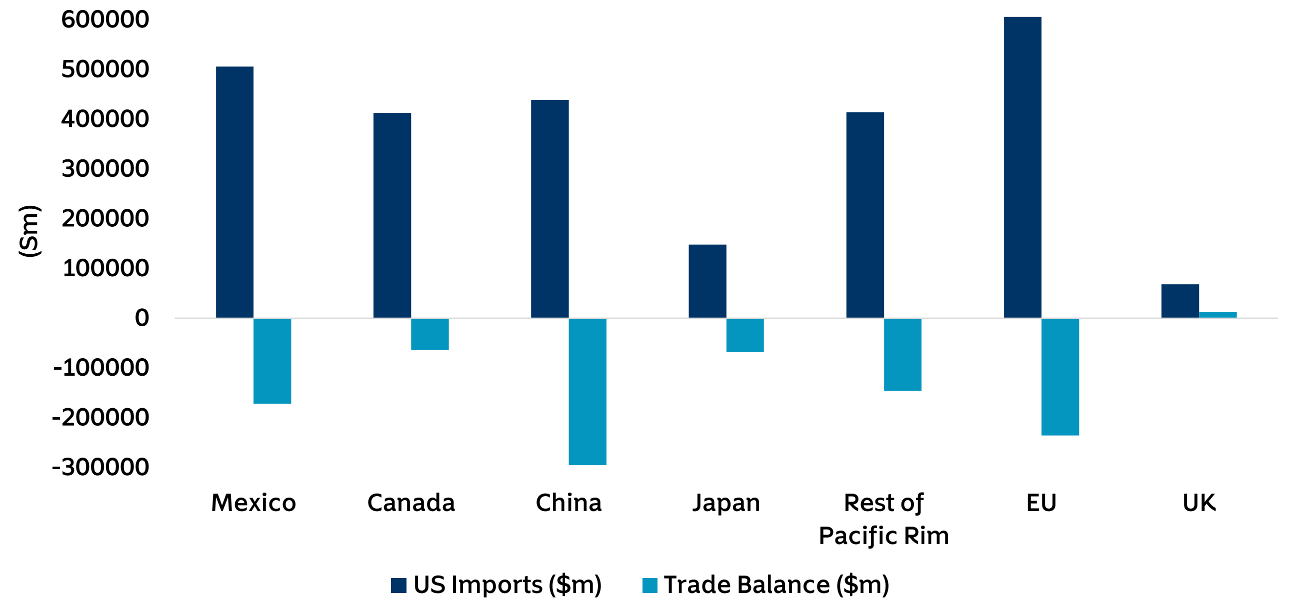
Source: United States Census Bureau as at 5 February 2025.

Despite these developments, global equities returned +3.5% in January, with the US +2.8%. Within the US, megacap tech came under pressure from the DeepSeek news, with semiconductor stocks especially weak. Nvidia, the undisputed winner to date of the AI revolution, fell by some 20% in a matter of days, knocking over $500bn off its market capitalisation. In a break of trend over the past year, Europe and the UK outperformed, +7.0% and 5.8% respectively in January, boosted by having lower index weights to tech and semiconductor stocks, and a much greater likelihood of rate cuts in 2025 due to economic stagnation. The ECB delivered a widely expected cut of 25bps in January, and signalled further cuts ahead, and the Bank of England is expected to cut rates again in February, in contrast to the US, where the Fed is on hold. The UK also benefited from high exposure among its large cap companies to foreign sourced earnings, enhanced by sterling's sharp decline in the past three months.

The immediate impact of the tariff news was to push the US dollar higher, and the Canadian dollar and Mexican peso lower, along with the euro - the EU is a Trump target due to the size of its exports to, and trade surplus with, the US, and Trump's concerns about its protectionist trade policies. The UK is much less at risk of punitive tariffs as its exports of goods to the US are relatively small, the trade account is slightly in favour of the US, and the UK remains the closest and most reliable strategic partner the US has in Europe. Similarly, Japan, seen by many in the US as an unsinkable aircraft carrier off the coast of China, is less likely to be in the crosshairs of the US.

Interpreting the impact of tariffs is problematic. As soon as they were imposed on Canada and Mexico, negotiations led to concessions to the US in the key areas of illegal immigration and drug trafficking, and a suspension of 30 days to pursue a longer-term deal. Some of this might be political posturing, playing to Trump's core base of support, but there is no doubt that tariffs are seen as the strongest economic tool at the discretion of the President. They are implemented by Executive Orders, which are legally binding and do not require congressional approval. Predicting the actions of a highly unpredictable President is hazardous, but a likely scenario is that tariffs are being used as a negotiating tool to achieve a wide range of aims. The enormous size of the US market and the dependency of other countries on exports to it give the President considerable leverage. Canada, Mexico and China account for $1.3tn of exports to the US, some 42% of the total, and the EU adds another $600bn. Each of these run substantial trade surpluses with the US.

US imports and trade balance 2024 (USD)



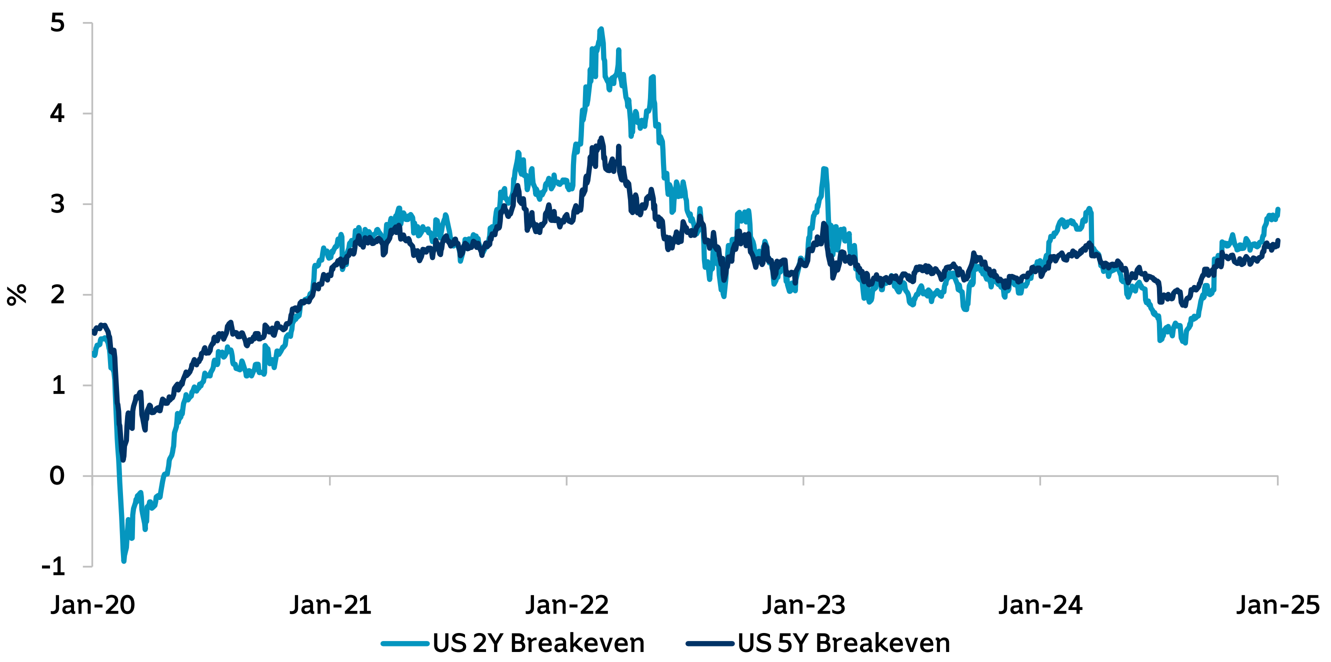
Source: Bloomberg Finance L.P., as at 31 December 2024.

Brinkmanship and last-minute deal-making are likely, and there is a good chance that the outcome for close allies of the US will be much more favourable than mooted so far. The position of China would seem to be different. There are already trade restrictions in place with China to prevent export of sensitive equipment that could undermine security and produce advanced technologies that would damage US interests, relationships with China across the West are strained, and the continuing over-production of China in manufactured goods and relative weakness of domestic consumption leading to huge structural trade surpluses is a long term issue that the US seems intent to address.

It would be wise, therefore, to build in some impact from tariffs on economic and market performance. The threat of them alone raises uncertainty levels, and the likely imposition of some, while below worst-case projections, will have ramifications.

Tariffs are likely to raise inflation, with some of those concerns already reflected in inflation expectations, up sharply in the US in recent weeks. Market-implied 2-year inflation expectations in the US have doubled from 1.5% in mid-September, when the Fed began its rate cutting cycle, to 3.0% at the end of January, while 5-year expectations have moved from 1.9% to 2.6%, taking them to the highest levels for two years. Inflation is likely to be a bigger concern than growth, but tariffs should be a one-off adjustment to inflation with limited flow through effects on broader price levels, and the Fed could well look through them. Rate cuts are still expected this year, albeit limited to 1 or 2 cuts of 25bps.

Inflation expectations in the US have moved up sharply since Sept



Source: Bloomberg Finance L.P., as at 6 February 2025.

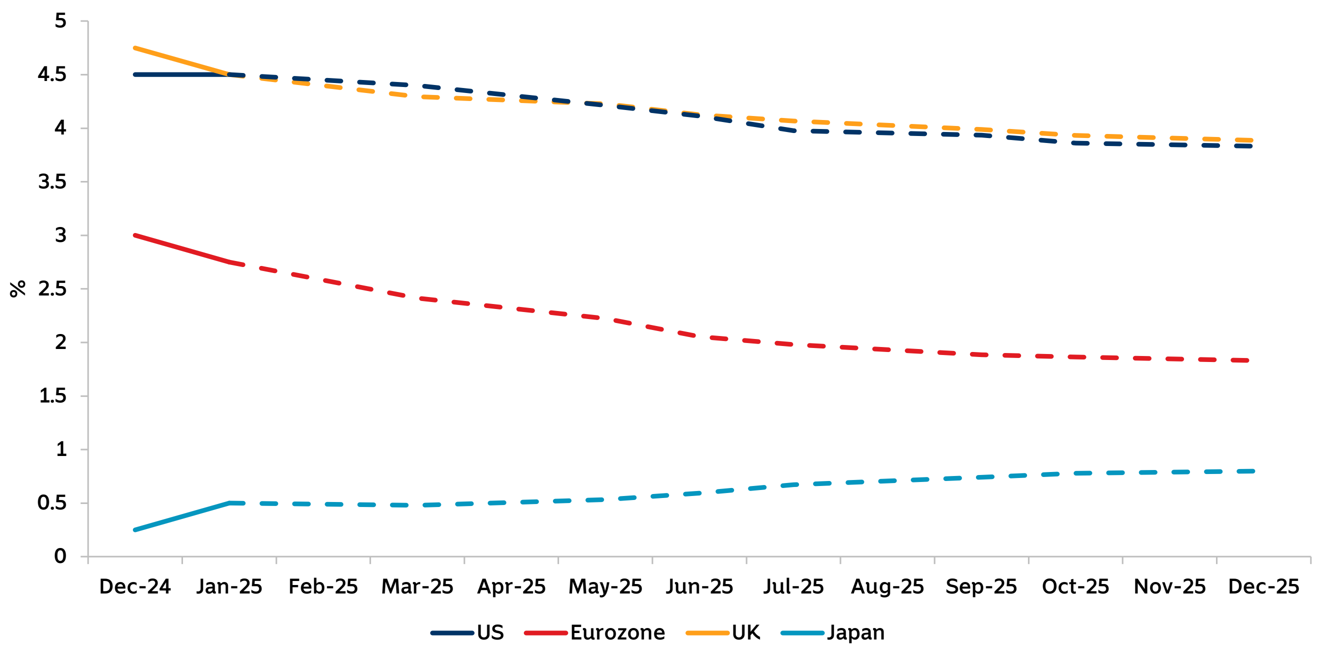
Growth will be negatively impacted if trade wars widen, and could weigh on investment, while there might have been some front-loading of production and imports ahead of the anticipated imposition of tariffs, leading to slower growth in the early months of 2025. The US is less dependent on trade than most of its trading partners, and has a powerful hand in bilateral trade wars. Its economy is likely to be relatively resilient, and enters 2025 considerably healthier than other developed countries. There is a further danger, as we have seen with the initial reaction of China, that retaliation to US tariffs will come in the form of sanctions on US tech companies, damaging their international prospects and opportunities.

None of this is helpful to markets, and calls for some caution at a point when there is maximum uncertainty about the extent of tariffs, the inevitable retaliation, and their impact on growth and inflation. Added to this is the surprise delivered by DeepSeek; this has potentially a huge impact on US megacap tech stocks, and calls into question US leadership and exceptionalism in AI, maybe becoming a bigger threat to markets than tariffs, given the dominance of these stocks in indices and performance in the past two years.

In sum, the year has started well for markets, but January has brought heightened uncertainty and unpredictability, in turn bringing higher volatility, which we expect to persist this year. While the ultimate outcome on the tariff negotiations ahead is difficult to predict, there is likely to be some meaningful imposition of tariffs, especially on China, and some resultant damage to growth and inflation. The US is better positioned to absorb any damage, and inbound investment to the US is likely to be incentivised by tariffs on trading partners, helping to keep the US at the forefront of global growth. This, together with interest rate differentials moving in favour of the US, will underpin the dollar. The exception is the yen, where the Bank of Japan continued as expected on its policy normalisation path with a rise in rates of 25bps in January, with more to come. But the DeepSeek development calls into question the exceptionalism and leadership of the US in AI, and highlights the vulnerability of highly valued megacap tech stocks to any negative news, perceived or otherwise.

We do not believe these developments will derail markets or trigger a sustained sell-off, but they do increase uncertainty, raise volatility and the risks of significant setbacks from time-to-time, and highlight the importance of diversification. The monetary easing cycle has some way to run, albeit more slowly and with a higher terminal rate than earlier expected in the US due to its economic resilience, and this will support valuations of equities and bonds. We therefore remain cautiously constructive about markets in 2025, but emphasise diversification across and within asset classes, taking tactical advantage of opportunities provided by volatility. The rise in bond yields in recent weeks has brought valuations to reasonable levels, and in equities we see opportunities outside highly rated tech stocks where the room for disappointment is very limited. A repeat of the exceptional returns in equity markets, especially the US, through 2023 and 2024 is very unlikely, but we expect equities to make further progress in this cycle, albeit amidst greater volatility.

Interest rate differentials expected to move in favour of USD (and Japanese yen) in 2025



Source: Bloomberg Finance L.P., as at 6 February 2025.

Market performance - Global (local returns) as at 31 January 2025

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	2.8%	6.1%	2.8%	25.9%
United Kingdom	MSCI UK NR	GBP	5.8%	7.1%	5.8%	17.1%
Continental Europe	MSCI Europe ex UK NR	EUR	7.0%	6.7%	7.0%	12.1%
Japan*	Topix TR	JPY	0.1%	3.6%	0.1%	11.9%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.4%	-2.0%	1.4%	17.3%
Global	MSCI World NR	USD	3.5%	5.5%	3.5%	21.4%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	8.4%	10.5%	8.4%	11.3%
Emerging Asia	MSCI EM Asia NR	USD	0.7%	-2.8%	0.7%	19.0%
Emerging Latin America	MSCI EM Latin America NR	USD	9.5%	-2.8%	9.5%	-15.3%
BRICs	MSCI BRIC NR	USD	0.1%	-3.5%	0.1%	16.7%
China	MSCI China NR	USD	0.9%	-1.0%	0.9%	34.8%
Global emerging markets	MSCI Emerging Markets NR	USD	1.8%	-2.0%	1.8%	14.8%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.5%	-0.2%	0.5%	1.5%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.3%	0.1%	1.3%	2.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.6%	-0.1%	0.6%	2.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.4%	2.1%	1.4%	9.7%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.8%	0.1%	0.8%	-0.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.1%	2.1%	1.1%	3.9%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.1%	0.7%	-0.1%	2.2%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.4%	1.6%	0.4%	5.1%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	0.6%	1.9%	0.6%	8.1%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.7%	-1.5%	-0.7%	-3.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.1%	1.7%	0.1%	2.1%
Global Government Bonds	JP Morgan Global GBI	USD	0.5%	-1.8%	0.5%	-1.6%
Global Bonds	ICE BofAML Global Broad Market	USD	0.5%	-1.4%	0.5%	-0.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	2.8%	4.0%	2.8%	14.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.8%	2.2%	1.8%	11.0%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	1.0%	-2.6%	1.0%	13.3%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	4.7%	-0.2%	4.7%	18.2%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.0%	-5.5%	1.0%	-2.7%
Global Property Securities	S&P Global Property USD TR	USD	1.3%	-2.8%	1.3%	9.1%
Currencies						
Euro		USD	0.1%	-4.8%	0.1%	-4.2%
UK Pound Sterling		USD	-1.0%	-3.9%	-1.0%	-2.3%
Japanese Yen		USD	1.3%	-2.0%	1.3%	-5.3%
Australian Dollar		USD	0.5%	-5.5%	0.5%	-5.3%
South African Rand		USD	1.0%	-5.7%	1.0%	0.1%
Commodities & Alternatives						
Commodities	RICI TR	USD	3.0%	5.1%	3.0%	8.1%
Agricultural Commodities	RICI Agriculture TR	USD	3.3%	4.2%	3.3%	5.4%
Oil	Brent Crude Oil	USD	2.8%	4.9%	2.8%	-6.1%
Gold	Gold Spot	USD	6.6%	2.0%	6.6%	37.2%
Interest Rates				**Current Rate**		
United States				4.50%		
United Kingdom				4.75%		
Eurozone				2.90%		
Japan				-0.10%		
Australia				4.35%		
South Africa				7.50%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimated figures.*

Market performance - UK (all returns GBP) as at 31 January 2025

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	5.8%	7.1%	5.8%	17.1%
UK - Large Cap	MSCI UK Large Cap NR	GBP	6.4%	7.4%	6.4%	19.4%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	4.2%	6.5%	4.2%	4.4%
UK - Small Cap	MSCI Small Cap NR	GBP	3.2%	3.6%	3.2%	12.4%
United States	S&P 500 NR	USD	3.3%	9.6%	3.3%	28.5%
Continental Europe	MSCI Europe ex UK NR	EUR	8.3%	5.7%	8.3%	9.9%
Japan*	Topix TR	JPY	2.4%	5.2%	2.4%	8.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.9%	1.2%	1.9%	19.8%
Global developed markets	MSCI World NR	USD	4.1%	8.9%	4.1%	24.0%
Global emerging markets	MSCI Emerging Markets NR	USD	2.3%	1.2%	2.3%	17.2%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.8%	0.0%	0.8%	-0.9%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.7%	1.4%	0.7%	3.5%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.8%	0.5%	0.8%	-0.6%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	0.9%	-2.0%	0.9%	-5.2%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	1.3%	-2.8%	1.3%	-2.8%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	1.4%	-0.2%	1.4%	-0.3%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	1.3%	-6.2%	1.3%	-7.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	1.1%	2.1%	1.1%	3.9%
US Treasuries	JP Morgan US Government Bond TR	USD	1.3%	3.2%	1.3%	4.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	1.3%	3.4%	1.3%	5.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.4%	2.1%	1.4%	9.7%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.1%	0.7%	-0.1%	2.2%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.4%	1.6%	0.4%	5.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.6%	1.9%	0.6%	8.1%
Global Government Bonds	JP Morgan Global GBI	GBP	1.0%	1.4%	1.0%	0.5%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.5%	-1.4%	0.5%	-0.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	2.8%	4.0%	2.8%	14.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	2.3%	5.5%	2.3%	13.3%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	1.9%	0.3%	1.9%	11.4%
Currencies						
Euro		GBP	1.0%	-0.9%	1.0%	-1.9%
US Dollar		GBP	1.0%	4.1%	1.0%	2.4%
Japanese Yen		GBP	2.3%	2.0%	2.3%	-3.1%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	3.5%	8.6%	3.5%	10.4%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	3.8%	7.6%	3.8%	7.6%
Oil	Brent Crude Oil	GBP	3.4%	8.3%	3.4%	-4.1%
Gold	Gold Spot	GBP	7.2%	5.3%	7.2%	40.1%
Interest Rates				Current Rate		
United Kingdom				4.75%		

*Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.*estimated figures.*

Asset allocation views

Score	---	--	-	/	+	++	+++

Score MAIN ASSET CLASSES	Change ▲/▼/–	---	--	-	/	+	++	+++
Equities	–			X				
Fixed Income	–				X			
Alternatives	–					X		
Cash	–				X			

Overall View

We remain somewhat cautious on equity risk overall, mindful of the dominance of the US in the global equity context, and of the concentration within the US market. Our fixed income view remains largely constructive with sovereigns and credit still offering attractive nominal and real yields, but we recognize risk premia on some areas of corporate credit are thin today. Alternative assets including gold remain a good diversifier of returns, proving useful as market volatility has increased. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in medium term rates by extending duration.

Score EQUITIES	Change ▲/▼/–	---	--	-	/	+	++	+++
Developed Equities	–			X				
UK Equities	–					X		
European Equities	▼			X				
US Equities	–		X					
Japanese Equities	–					X		
Emerging Market Equities	▼				X			

UK equities remain a favoured valuation call with the UK remaining one of the cheapest developed markets. The attractive earnings yields continue to draw in private and overseas buyers. Sentiment had appeared to be turning more constructive, but the recent autumn budget has knocked business confidence. Japan remains attractive both on improving fundamentals and in valuation terms. The lack of breadth in US equities should increasingly favour an active approach to stock selection, and opportunities outside of large cap tech which continue to ride high after Trump's presidential win. European equities have optically quite attractive valuations but mask some deep fundamental regional challenges. Emerging market equities remain cheap as China, the dominant index constituent, battles domestic growth concerns and policy measures to buoy the market fall short of expectations.

Score FIXED INCOME	Change ▲/▼/–	---	--	-	/	+	++	+++
Government	–				X			
Index-Linked	▲					X		
Investment Grade Corporate	–				X			
High Yield Corporate	–			X				
Emerging Market Debt	–				X			

Global treasury yields still look attractive today, despite recent tightening, and we maintain our constructive government view but pare back a notch after some near term strength and concerns over inflation and longer term debt funding. Inflation linked bonds offer reasonable real yields and with lingering inflation risk offer some protection. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. Although defaults remain low, the growth outlook has moderated, and financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly higher quality credit.

Score SPECIALIST ASSETS/ALTERNATIVES	Change ▲/▼/–	---	--	-	/	+	++	+++
Global Listed Property	–			X				
Global Listed Infrastructure	–			X				
Specialist Assets	–						X	
Liquid Alternatives	–		X					
Gold	–				X			

Alternatives continue to offer diversification benefits but compete today with higher yielding cash and quality sovereign bonds. Increasing discounts in NAVs in listed private equity appear overly pessimistic, which supports our constructive medium-term view. Infrastructure and specialist financials remain attractive, but we take listed infrastructure down a score on more modest future return expectations. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance from this sector after the resetting higher of global rates in recent years. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive as a non-interest bearing asset today.

Score CURRENCIES vs. USD	Change ▲/▼/–	---	--	-	/	+	++	+++
GBP	–					X		
EUR	–				X			
JPY	–					X		

Against long term valuation metrics, the Yen remains cheap relative to the Dollar. The Bank of Japan's policy of yield curve control crushed the Yen in recent years, but their recent shift to a hiking bias has seen periods of rapid reappraisal as carry trades unwind. This should have further to run over the medium term. The higher for longer narrative in the US has buoyed the dollar, as has Trump's recent election victory, but as rates look set to fall its dominance may wane. Its safe haven status at a time of heightened geopolitical risk does however assure it a diversification premium.

The asset allocation views are updated at the end of each quarter unless otherwise stated.

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Important Notes

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