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$600bn
Market Cap Loss

Following the release of DeepSeek R1 model, Nvidia's market value fell by $600bn in a day.

4.5%
Fed Funds Rate

The Fed held rates at 4.5% in January as US inflation remains high.

6.2%
FTSE 100

The FTSE 100 gained 6.2% in January due to weaker GBP benefitting global companies.

January 2025

Market Spotlight
Around the world

- Chinese AI firm DeepSeek released their latest AI model, which showed comparable results with US rivals OpenAI at a fraction of the cost. This raised questions on prior investor assumptions of the level of future semiconductor demand required to power AI models, resulting in a sell off for tech and semiconductor companies.
- US GDP moderated in Q4 to 2.3% from 3.1%, however, remaining above trend. The consumer remains the driving force of the economy as personal consumption grew the most since Q1 2023.
- MSCI Europe ex UK was up 7.1% in January, driven by financial and consumer discretionary stocks. This was due to better macro data throughout the month, low valuations and better than expected Q4 earnings.
- US Q4 earnings has shown further resilience of Mag7 relative to S&P 493. Mag7 has exhibited stronger earnings growth (16% vs 8.4%) and revenue growth (8.6% vs 3.9%) compared to S&P 493 that have reported so far. S&P 500 companies so far have surprised on earnings by 4.4%, driven by beats in Communication, Technology and Financial sectors.
- In December, UK inflation edged lower to 2.5% from 2.6% in November, with core inflation slowing further. This decrease follows a recent pickup since a three-year low in September, driven by higher energy and service costs. However, December brought some positive progress as services inflation cooled, offering relief for the path of inflation.
- Brazilian equities were a strong outperformer within Emerging Markets in January, gaining over 10%. This has come as the central bank signalled further rate hikes to stabilise inflation and the currency.

Market snapshot

In global equities, Europe has seen a remarkable recovery following a weak December. Attractive valuations and improved economic data have supported equities in the region. In the US, equities had a positive start to the year; however, the emergence of DeepSeek led to a sell-off in mega tech stocks. Despite this, US equities finished the month in positive territory. Commodities also rebounded in January, with gas and oil prices rising due to colder weather and gold prices benefiting from heightened volatility.

Bonds experienced a volatile month, with yields rising at the beginning of the year and then normalizing due to uncertainty around tariffs.

Performance of global asset classes

	1 Month	YTD
Precious Metals	7.2%	7.2%
European Equities	7.1%	7.1%
UK Equities	6.2%	6.2%
Commodities	3.6%	3.6%
World Equities	3.4%	3.4%
US Equities	2.8%	2.8%
US Tech	2.2%	2.2%
Emerging Market Equities	1.8%	1.8%
Global High Yield Bonds	1.4%	1.4%
Global Corporate Bonds	0.6%	0.6%
Global Government Bonds	0.6%	0.6%
Japanese Equities	-0.8%	-0.8%
Chinese Equities	-3.0%	-3.0%

Source: Bloomberg, Returns are in local currency, as at 31 January 2025.

What is the data telling us?

Global Manufacturing PMIs, showed strength at the start of 2025, with output rising to its highest level in 7 months. The key gains came from the US, where new orders increased at a faster pace and production recovered. Despite still being in contraction, we saw marginal improvements recorded in the EU and UK. China saw a slight pull back in output due to the outlook on tariffs but remained in expansion.

Global Services PMIs, which has been the driving force of the economy showed some weakness in January, albeit still in expansionary territory. Services activity in the US was largely impacted by concerns regarding tariff uncertainty. In contrast, Japan saw strength in services as job creation continues to grow.

Purchasing Managers Index

Manufacturing

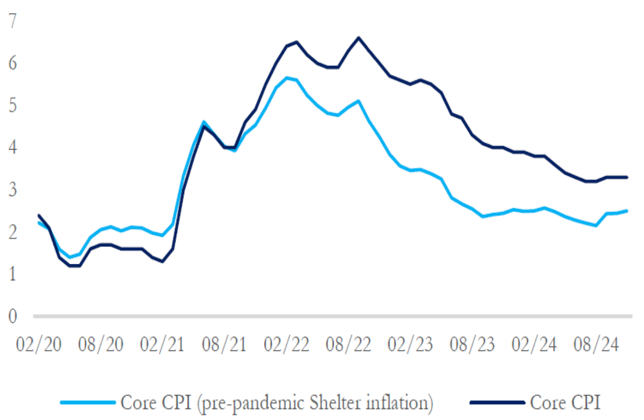
	2024											2025
	2	3	4	5	6	7	8	9	10	11	12	1
Global	50.3	50.6	50.3	51	50.9	49.7	49.5	48.8	49.4	50	49.6	50.1
US	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5	48.4	49.3	50.9
EU	46.5	46.1	45.7	47.3	45.8	45.8	45.8	45	46	45.2	45.1	46.6
UK	47.5	50.3	49.1	51.2	50.9	52.1	52.5	51.5	49.9	48	47	48.3
China	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1
Japan	47.2	48.2	49.6	50.4	50	49.1	49.8	49.7	49.2	49	49.6	48.7

Service

	2024											2025
	2	3	4	5	6	7	8	9	10	11	12	1
Global	52.4	52.4	52.7	54	53.1	53.3	53.8	52.9	53.1	53.1	53.8	52.2
US	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9	56	52.1	54.1	52.8
EU	50.2	51.5	53.3	53.2	52.8	51.9	52.9	51.4	51.6	49.5	51.6	51.3
UK	53.8	53.1	55	52.9	52.1	52.5	53.7	52.4	52	50.8	51.1	50.8
China	52.5	52.7	52.5	54	51.2	52.1	51.6	50.3	52	51.5	52.2	51
Japan	52.9	54.1	54.3	53.8	49.4	53.7	53.7	53.1	49.7	50.5	50.9	53

Source: JP Morgan, ISM Institute, HCOB, S&P Global/CIPS, Caixin, and Jibun Bank, from 1 February 2024 to 31 January 2025.

Assuming shelter has returned to pre-pandemic levels



Source: Bloomberg. Data rebased.
As at 31 January 2025.

Chart of the month

The run rate of core inflation remains above pre-COVID levels, with US core inflation running above 3% for the last 3.5 years. This higher inflation appears to be a more persistent reality. Shelter inflation has been particularly sticky, causing concerns for US inflation. The chart shows what core CPI would have been if shelter inflation had returned to its pre-pandemic 10-year average.

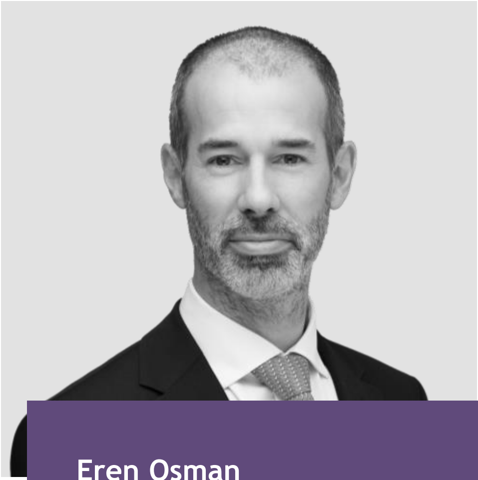
The good news is over the last two months, shelter inflation has moderated, in line with other indicators such market-based rents and house prices. Additionally, elevated wage growth, another factor keeping inflation high, has shown a relatively sharp drop in recent months. We will see if this trend continues, though the recent declines are encouraging.

Looking ahead

While we expect US growth to remain resilient, the series of announcements regarding Trump's policies, which are expected to shape the outlook for both growth and inflation warrants a close eye on data evolution for clues as to their impacts on business and consumers. Overall, we anticipate that supply shocks from policies such as restricting immigration and raising tariffs could be offset by positive demand from pro-growth policies and a deregulation agenda. Strong labour markets and increasing real incomes are expected to continue supporting consumer spending. Outside the US, growth in China and Europe are expected to be more negatively impacted by tariff threats. The major threat of a trade war for business confidence underscores the importance of fiscal stimulus for China, as it seeks to bolster its economy amid external pressures.

While Trump's policies are generally seen as inflationary, one of his main priorities is to bring inflation down, which may lead to some moderation or follow through that the markets are nervous of. Nevertheless, if fiscal largesse continues as seen in the US, it will likely mean that the Federal Reserve will maintain a higher-for-longer stance. A dilemma may arise as some central banks cut rates while the Fed pauses, potentially leading to currency weakness compared to the USD.

Contacts



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