Market Commentary

February 2025

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Following a strong start to the year last month, February saw global equities decline -3.3% (all returns in sterling), dragged down by weak performance from the US. Whilst the higher-for-longer narrative has thus far been largely shrugged off by resilient US markets, both business and consumer sentiment weakened amid growing concerns over the impact of Trump administration policy. We wrote last month that any introduction of proposed tariffs would likely be inflationary as well as potentially hampering economic growth, particularly given the impact they could have on the domestic US economy too. As at the end of February, the president had confirmed the introduction of 25% tariffs on imports from Canada and Mexico, as well as an additional 10% on imports from China, to be introduced on 4th March, with the EU seemingly also now in the crosshairs.

Having only recently been the major beneficiary of November's presidential election, US small-cap stocks were among the worst performing asset classes during the period, returning -8.1%. As both services activity and small business optimism fell, so did consumer confidence – registering its largest monthly decline since summer 2021. Whilst their large-cap counterparts broadly outperformed, concerns over lofty valuations, particularly those of technology names, weighed on sectors such as consumer discretionary and communication services. Underpinning uncertainty were the latest US inflation figures, which saw both headline CPI (3.0% versus consensus of 2.9%) and core (3.3% versus consensus of 3.1%) coming in slightly above expectations. The widespread market weakness came despite a ramping up of talks between the US and Russia to agree a resolution on the conflict in Ukraine, albeit without clear long-term agenda.

Elsewhere in developed markets, European equities were the only positive contributor to aggregate performance, returning 0.9% despite a with consensus tick up in headline inflation to 2.5%. In a month which marked the three-year anniversary of the Russian invasion of Ukraine, investors looked favourably on any political talks towards achieving a resolution, even with Europe seemingly being left out of initial discussions. Despite disappointing services output figures for the region, there was, however, a lift from better-than-expected manufacturing output. UK returns were mixed – with positive contribution from large-cap defence names propelling the main index to an all-time high at month end, but poor performance from small and mid-cap markets, with concerns over rising business costs post-budget still hampering sentiment. Japanese equities, which are often influenced by sentiment towards US and equity markets more globally, returned -2.5% during the month. A relative selloff for areas of the technology sector and a strengthening yen also acted as headwinds.

In Asia, much of the headlines continued to centre around DeepSeek, a month on from the initial euphoria surrounding the Artificial Intelligence (AI) disruptor's challenge to major US players. This, coupled with a seemingly more supportive stance from the Chinese government towards technology development more broadly saw Chinese equities rally 9% in the first three weeks of the month, before

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losing some ground at month end following the announcement of an additional wave of tariffs from the US. Whilst this acted as a significant boost for both the wider Asian and emerging market asset classes, concerns remain over more domestic issues such as GDP growth and the ongoing challenges from the real estate sector. Poor performance elsewhere in Asia, and from the Latin American component of emerging markets saw negative monthly aggregate returns for both asset classes despite tailwinds from China's sizeable positive contribution and a weakening US dollar.

Even with inflation uncertainty, it was a broadly positive month for global bonds, outperforming their equity counterparts by 3.9% on aggregate. As investors sought relative shelter from volatile risk assets, there were marginal gains for both corporate and government bonds, with higher quality investment grade issues generally faring better than high yield. Returns by region saw UK Gilts and US Treasuries among the top performers, with both the US two and 10-Year Treasury yields edging notably lower to 4.0% and 4.2% at month end, whereas Euro and emerging market debt generally lagged. Within alternative asset classes, there were marginal gains for both property and infrastructure sectors – both beneficiaries of falling yields. Commodities declined -2.6% during the month, with a significant spike in the price of natural gas unable to offset losses elsewhere. Returns within metals were mixed, with gains for the industrial sub-component but losses for all major precious metals during the month after rallying aggressively in January.

Whitechurch Investment Team
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