Whitechurch Securities Ltd
WEALTH MANAGERS

Market Commentary
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Telephone: 0117 452 1207
www.whitechurch.co.uk

Daniel Say
Senior Investment Analyst

2025 kicked off on a positive note after a chastening end to 2024, with concerns about higher-for-longer borrowing costs erasing summer gains for many of the more rate sensitive areas of the market. With the new year comes a new(ish) President. Markets spent much of January digesting comments from Donald Trump, particularly those related to his eye-catching tariff proposals. While many commentators expected these proposals to form the basis of future negotiations in relation to trade and border security, by month end it became clear that the timeline for such negotiations was rather short, with Trump announcing 25% import tariffs on goods from Canada and Mexico. Just a few days prior, Trump enjoyed an apparent first win of this more aggressive approach, with the threat of a 25% tariff ultimately forcing the Colombian government to back down on its previous refusal to accept deported migrants.

As macroeconomists try somewhat despondently to predict what the President might do next, one thing most do agree on is that if tariffs are eventually implemented, the impact is likely to be two-fold – an increase in US inflation (it is worth remembering that it is the importer, i.e., the US, not the exporter, that ultimately pays the tariff) and a slowdown in growth. A sustained uptick in inflation could result in fewer or no rate cuts this year, or even a rate hike. With the market still expecting the cost of borrowing to ease modestly over the course of 2025, a move in the opposite direction would have major ramifications for US markets and beyond.

Tariffs notwithstanding, on the ground January's inflation narrative was broadly positive. In the US, core inflation fell unexpectantly to 3.2%. Housing rent costs, which have been a major contributor of above target inflation in recent years, rose 0.3% month-on-month, a figure more in line with the long run trend. Despite this, the Federal Reserve is likely to tread a cautious path in the months ahead, with no imminent rate cut expected. The UK also enjoyed some more positive news, with headline inflation falling to 2.5%, which may give the Bank of England the room it needs to cut rates later this month. The European Central Bank remains confident that European inflation is heading back towards target – it reaffirmed its dovish (favouring lower rates) stance with a further 0.25% cut, as it seeks to boost the eurozone's tepid growth outlook.

The other major story in January surrounded DeepSeek, the little-known Chinese Artificial Intelligence (AI) company, which sent global tech stocks into a tailspin following the release of its 'R1' chatbot. Excitement surrounding recent developments in AI was a major driver of global equity returns in 2023/24, with US mega-cap tech names pouring billions of dollars into AI development and infrastructure. The DeepSeek release, which demonstrated similar performance to existing models at a fraction of the cost, sent shockwaves through the technology sector. AI posterchild Nvidia lost $600bn of market cap in a day, the largest loss for a single company in stock market history. Regardless of whether DeepSeek ultimately proves to be a gamechanger, it did provide a wakeup call for US tech firms which had, until now, enjoyed seemingly unrivalled dominance.

Moving on to markets where, despite a myriad of potential headwinds (not least Donald Trump's social media musings), it was a positive month for most major asset classes. Despite DeepSeek-related

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turmoil in the technology sector, the broad global equity index returned 4.4% (all returns in sterling). Such has been the dominance of the US in terms of equity market returns of late, that any deviation from this narrative, however short-lived, is worthy of a mention. While US equities produced a healthy 3.8% gain in January, they trailed other, more lowly valued regional equity markets, with Europe (+8.2%) and the UK (+6.1%) the two best performing major regions. The fact that Europe produced such a strong return was arguably surprising given the bloc's economic woes, but a lower weighting to technology was undoubtedly a tailwind given events in the AI space.

Looking East, there were more muted returns for Japan (+1.6%) following the Bank of Japan's 0.25% interest rate hike, as well as small gains for Asia ex Japan and Emerging Markets (EM) indices. China gained 0.9%, helped by less aggressive US tariff threats (Donald Trump's campaign promise of a 60% levy apparently replaced by a more modest 10%), but the performance of Asian/EM indices was held back by Indian equities (-3.6%) which fell for the fourth consecutive month. Falling valuations, disappointing corporate earnings and an uncertain economic outlook all weighed on sentiment.

Bond markets stabilised in January after a rocky end to 2025. UK government debt (gilts) fell 9.4% in the fourth quarter of 2024, drawing comparisons to September 2022 and the Truss/Kwarteng mini-budget debacle, when yields spiked in response to a large projected increase in government borrowing. While Rachel Reeves' autumn budget also committed to a rise in borrowing, moves in the gilt market were largely mirrored across other developed markets, suggesting at least some of the price action was driven by more global factors. In mid-January, positive inflation data prompted a government bond rally on both sides of the Atlantic, with gilts eventually flat on the month (belying significant volatility) and US Treasuries producing a 0.6% gain. With no sign yet of a more pronounced economic slowdown, the higher yields on offer in the corporate and high yield bond sectors saw these asset classes outperform their government peers.

Finally, looking to diversifying asset classes, property and infrastructure produced muted positive gains, as the rate sensitive sectors tracked government bond yields throughout the month. The renewable energy subsector lost ground as the prospect of higher long-term borrowing costs pressured asset valuations. Oil gained marginally, while gold, the traditional 'safe haven' asset, gained 6%, potentially fuelled by tariff-related uncertainty.

Whitechurch Investment Team
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