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Investment Management

Weekly Investment Update

31st January 2025

News Headlines

DeepSeek Release – Chinese AI startup DeepSeek disrupted the technology industry this week with the launch of its cost-effective AI model. The model offers performance comparable to those from major US technology companies such as OpenAI and Meta, but at a much lower cost. This challenges the existing high-investment, high-cost model prevalent in the AI industry. The model's open-source nature has also quickly made it a top player, evidenced by its ranking on Apple's App Store. The release contributed to a market-wide technology stock decline, with the S&P 500 and Nasdaq 100 indices dropping significantly on Monday, whilst Nvidia faced its worst single day stock drop ever, losing $589 billion in market capitalisation.

US Economy – The US economy ended 2024 on a strong note, with GDP growth of 2.3% in fourth quarter of 2024, although this fell slightly short of the anticipated 2.6%. Consumer spending remained strong, advancing by 4.2%, which helped offset declines in business investment, notably impacted by a Boeing strike. Inflation also edged up, with the core PCE price index (personal consumption expenditure) rising to 2.5% in Q4. The Federal Reserve continues to adopt a cautious stance on rate adjustments, supported by a robust economic backdrop, as they held the fed funds rate at the 4.25%-4.5% range during its January meeting.

ECB Rate Decision – The European Central Bank (ECB) cut its key interest rates by 0.25% yesterday, marking the fifth rate reduction since June, as the euro-zone economy showed zero growth in Q4 of 2024. ECB President Christine Lagarde stressed the significant uncertainties ahead but confirmed the direction towards lower rates. Following the rate cut, the euro weakened slightly, and European bonds rallied. The move comes following economic stagnation in Q4, particularly in Germany and France, with the threat of US tariffs also adding to concerns.

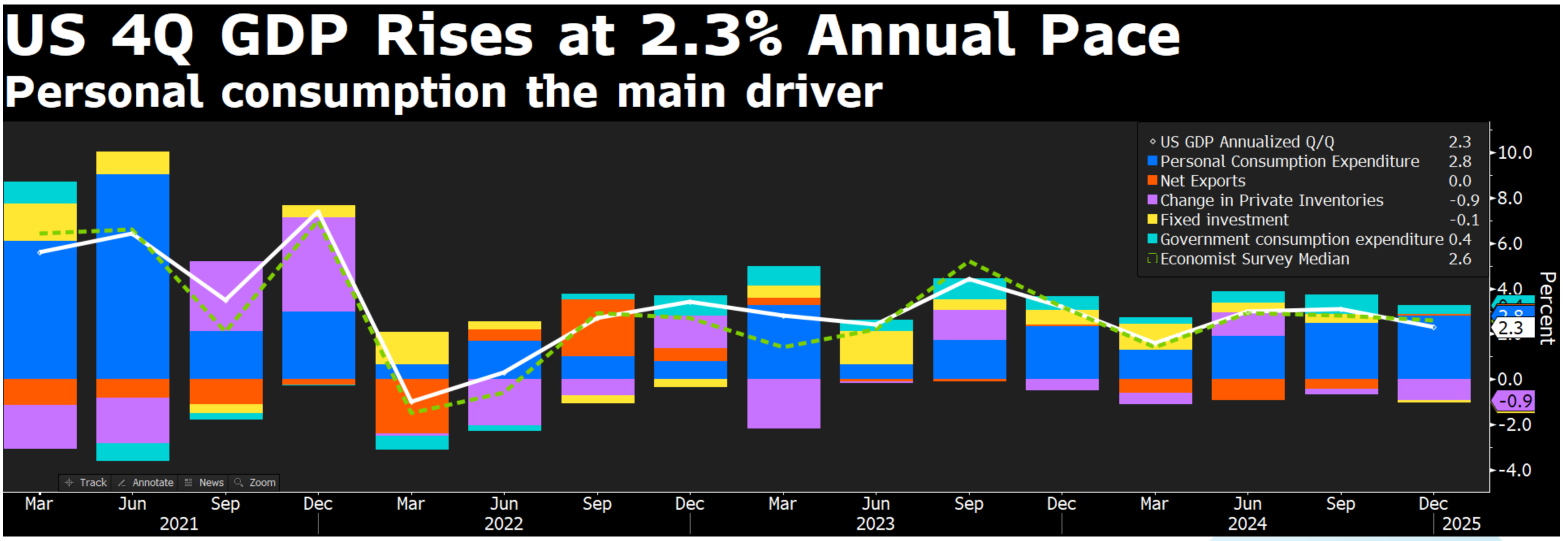
Market Summary

Global Equities – Global equities saw mixed performance this week. In the US, equities experienced significant volatility, initially driven by a technology sector sell-off following the release of the Deepseek AI model. However, markets then partially recovered, with the S&P 500 posting a small loss for the week as of Thursday’s close. European markets continued their strong performance, reaching new highs, bolstered by the ECB's latest rate cut. In the UK, market movements mirrored European trends, with the FTSE 100 index posting a healthy gain for the week, also benefitting from a weaker pound. In Asia, many markets were closed in the week due to New Year holidays, however Japan’s Nikkei 225 saw declines, with monetary policy discussions causing concerns about the yen's strength, which would affect Japanese exporters.

Commodities – Commodity prices generally decreased this week for a second consecutive week, with the Bloomberg Commodity index posting a loss as of Thursday’s close. Oil prices saw declines due to investor concerns around the potential negative economic impact of US tariffs against Canada, Mexico and China, as these tariffs could potentially disrupt global demand. However, gold hit a record high versus the US dollar this week, as the combination of central banks reducing interest rates and the uncertainties introduced by Trump's trade policies has increased the demand for the safe-haven asset.

Fixed Income – This week, government bond yields generally declined (meaning prices rose). US Treasuries saw falling yields, with the 10-year yield dipping to a 2025 low before a slight uptick, indicating mixed signals on Federal Reserve policy. In Europe, the ECB's anticipated rate cut led to a sharp decline in Bond yields, signalling ongoing loose monetary policy amidst economic stagnation in the region, particularly in Germany and France. UK Gilt yields followed suit, with the 10-year yield also falling to a 2025 low.

Chart of the Week



Source: Bloomberg – US 4Q GDP Rises at 2.3% Annual Pace

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
- Euro Area CPI (YoY)	- US JOLTS Job Openings		- BoE Interest Rate Decision - US Initial Jobless Claims	- US Unemployment Rate

Market Performance – 31/01/2025

Global Equity Market Indices	2025 YTD %*	2024 %*	2023 %*	2022 %*	2021 %*	2020 %*
FTSE 100	4.48%	8.89%	7.68%	4.57%	18.40%	-11.44%
S&P 500	3.23%	25.52%	26.26%	-18.13%	28.68%	18.39%
STOXX 600	4.81%	9.03%	16.63%	-9.88%	25.82%	-1.44%
Nikkei 225	-0.80%	21.27%	31.01%	-7.35%	6.66%	18.28%
Hang Seng	1.20%	22.79%	-10.46%	-11.48%	-12.64%	-1.00%
Fixed Income	**Yield %**					
UK 10 Year Gilt	4.56%					
US 10 Year Treasury	4.52%					
Commodities	**2025 YTD %****	**2024 %****	**2023 %****	**2022 %****	**2021 %****	**2020 %****
Gold	6.52%	26.35%	13.10%	-0.28%	-3.64%	25.12%
Currency						
GBP/USD	1.24 (31/01/2025)					
GBP/EUR	1.20 (31/01/2025)					

Source: FE Analytics/ Bloomberg *Total Return/Local currency **Spot Return USD*

Past Performance is no guide to future performance and the value of investment and income from them can fall as well as rise

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