FEBRUARY 2025 MARKET REPORT

Economic commentary

In February, we learned that UK consumer prices had risen by 3% over the 12 months to January, up from 2.5% in December. The Bank of England noted that inflation is making progress towards its 2% goal, allowing the Bank's Monetary Policy Committee (MPC) to reduce interest rates by 0.25% to 4.5%, following similar cuts in August and November. However, they expect inflation to rise to 3.7% by the third quarter of 2025 as global energy prices increase; the MPC are watching closely for signs of longer-term price pressures, as they balance lower interest rates (helping households and businesses) with the inflationary pressure that tends to result.

The US Federal Reserve (the Fed) also faces a balancing act. It sees a fairly healthy jobs market, and inflation of 3% (within reach of its 2% goal); these positives reduce the need for further immediate interest rate reductions. On the other hand, President Trump's attacks against the Fed's policies and his skittish attitude towards tariffs and diplomacy have created economic and political turbulence, sending US consumer confidence to a four-year low. The Fed will go into its next monetary policy meeting on March 19th trying to balance these competing factors, although it is widely expected that they will keep interest rates unchanged in a range of 4.25-4.5%. The month closed with an awkward meeting between President Trump and President Zelensky of Ukraine, representing a milestone in the US administration's 'America First' strategy. Government and business leaders in Europe and beyond have since rushed to understand a reality in which the US acts in a more withdrawn, more independent, and less predictable manner towards geopolitics.

Market commentary

In February, some excitement around the US market and big tech stocks faded as economic reality began to bite. A striking example is that of Nvidia, which despite in late February announcing 80% year-on-year profit growth, actually saw its share price decline 9% on the day; other US tech stocks that are 'priced for perfection' also saw substantial declines. Concerns about inflation and economic uncertainty added to the pressure. US stocks dragged down global stock market indices accordingly, given their substantial representation.

Ironically, the 'America First' tariff-laden strategy being deployed by the US has instead seen other stock markets enjoy much better performance. In China, investors chased technology stocks after the news in January that the AI model 'DeepSeek' could operate far more efficiently than some US models, lifting the whole sector. In Europe, some defence stocks saw substantial gains as markets expected higher government spending both on standing NATO armies and on direct support for Ukraine in a world where the US pulls back. In addition, European bank stocks did well on the back of resilient financial updates. As investors left US equities, they sought shelter in lower-risk bonds (representing loans to companies and governments), which pushed up the prices of many.

February revealed a contradiction which illustrates just how difficult it is to build a portfolio based on forecasts: economic and political outcomes are hard to predict, and positioning for the investment outcomes that result is even harder. This is precisely why we avoid making such predictions. Instead, we do a couple of simple things. Firstly, we start with a diversified portfolio that isn't too reliant on any one economic or market environment to succeed. Then, we look to tilt the portfolio gently towards investments whose valuations look attractive today, and away from those that look expensive. These disciplines do not rely on foresight, only patience.

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	1.3%	5.7%	5.2%	6.9%	18.3%	8.5%	8.9%	6.3%
US	-2.7%	-0.2%	10.5%	0.8%	18.4%	14.4%	16.6%	14.6%
Global	-2.0%	1.0%	9.0%	2.2%	16.0%	12.5%	14.2%	12.0%
Emerging Markets	0.9%	3.3%	5.4%	1.9%	10.4%	2.3%	4.0%	5.1%
Europe ex UK	2.4%	9.8%	4.5%	11.3%	10.1%	10.1%	10.6%	8.7%
Japan	-2.5%	0.7%	0.6%	-0.1%	1.9%	7.1%	7.2%	7.3%
China	9.2%	16.5%	36.2%	13.7%	41.3%	1.7%	-0.7%	4.1%
UK Smaller Companies	-3.2%	-2.1%	-3.9%	0.6%	10.1%	1.5%	1.8%	3.7%
Bonds (£)								
Sterling Corporate Bonds	0.5%	0.6%	0.8%	1.4%	5.2%	-1.3%	-1.7%	1.2%
Global High Yield (Hedged)	0.6%	2.0%	4.3%	1.9%	9.1%	4.4%	3.5%	3.3%
Global Bonds (Hedged)	1.4%	0.6%	1.5%	1.9%	5.4%	-0.6%	-1.0%	1.0%
Other (£)								
Global Listed Property	0.9%	-2.5%	0.9%	3.9%	10.4%	-0.1%	1.6%	4.3%
UK Listed Property	-1.6%	-6.3%	-12.4%	0.0%	-2.9%	-11.0%	-4.4%	-2.0%
Physical Gold	0.2%	8.0%	18.6%	8.6%	39.6%	16.7%	12.6%	10.9%

Economic Data	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.26	$1.27	$1.31	$1.27	$1.34	$1.28	$1.55
Bank of England Base Rate	4.50%	4.75%	5.00%	5.25%	0.50%	0.75%	0.50%
UK CPI YoY		2.6%	2.2%	3.4%	6.2%	1.7%	0.0%
US Unemployment Rate	4.1%	4.2%	4.2%	3.9%	3.8%	3.5%	5.5%
UK Unemployment Rate		4.4%	4.3%	4.3%	3.8%	4.1%	5.5%

Bond yields	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.5%	4.2%	4.0%	4.1%	1.4%	0.4%	1.8%
UK Corporate Bond Yield	5.4%	5.4%	5.3%	5.6%	2.8%	1.9%	3.0%

Data Sources: Data is at 28/02/2025. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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