JANUARY 2025 MARKET REPORT

Economic commentary

In January, we learned that consumer prices in the UK rose by 2.5% in the 12 months to December; a number that has remained consistently above the Bank of England's 2% target since last summer and shows no signs of falling materially. Chancellor Rachel Reeves' Autumn budget contained considerable spending commitments that have likely contributed to this, in particular wage settlements and public service boosts.

International attention was mostly focused around President Trump's January 20th inauguration, and the 50+ executive orders signed within his first few days, including: international tariffs, widespread deregulation, a sovereign wealth fund, energy projects, foreign aid cuts, and federal efficiency drives. Strikingly, he clashed with the Federal Reserve (the Fed) after they decided to hold US interest rates in a range of 4.25% to 4.5% at their January meeting, on the back of reasonable growth and jobs data – he criticised them for not cutting rates to make borrowing conditions easier for US companies and households. Further pressure from the President may make investors wonder whether the independence of the Fed will remain a permanent feature or not.

Against the backdrop of US trade rhetoric and weak growth numbers for the continent, the European Central Bank (ECB) announced an interest rate cut of 0.25% to 2.75%, its fifth cut since summer 2024.

Market commentary

January was full of market headlines and volatility, but most major asset classes delivered positive returns both in sterling and local currency terms. In the US, we saw Nvidia stock collapse 17% in a single day, wiping $600bn off its market value. This was on concerns that the Chinese AI company DeepSeek had produced an AI model so efficient that it would materially impact global demand of Nvidia's AI-empowering chips. The wider US market did well, however, with a mix of winners and losers from President Trump's ongoing 'America First' approach to trade. Japanese stocks were flat, but Europe enjoyed a boost from luxury goods products selling well overseas.

In the UK, government bond ('gilt') prices fell to levels that implied high future borrowing costs for the UK government – in fact the highest since the financial crisis. This was a result of a falling confidence in the ability of Chancellor Rachel Reeves to deliver economic growth whilst also keeping borrowing in check, as well as expectations of more stubborn UK inflation. The UK stock market did surprisingly well, however, closing at record highs. This was attributed to its blend of international revenue exposures combined with the weakest sterling/dollar rate for over a year, as well as low valuations vs most other major markets, all of which drove overseas interest in British companies.

January served as a reminder that short-term news is not always reflected in investment returns as one might expect. Despite concerns around the UK government, the UK stock market rose, and despite concerns around US tariffs affecting Europe, that market was up. We also saw what can happen to richly valued stocks that are 'priced for perfection' (e.g. the biggest US tech companies) – even small bits of news can derail the optimistic narratives around them, having a devastating impact on their stock prices. That's why we remain tilted away from such investments, and towards those that look more compelling on long-term valuation measures.

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	5.5%	6.9%	4.3%	5.5%	17.0%	7.8%	6.7%	6.5%
US	3.6%	9.8%	13.6%	3.6%	28.9%	14.2%	16.0%	15.2%
Global	4.3%	9.1%	11.6%	4.3%	24.3%	12.3%	13.3%	12.5%
Emerging Markets	1.0%	-0.2%	3.4%	1.0%	15.3%	1.0%	3.3%	5.0%
Europe ex UK	8.7%	5.8%	3.9%	8.7%	10.5%	7.8%	8.8%	8.8%
Japan	2.4%	5.4%	1.1%	2.4%	7.7%	7.8%	6.2%	7.9%
China	4.1%	3.6%	22.8%	4.1%	39.0%	-3.4%	-1.2%	3.4%
UK Smaller Companies	3.9%	2.1%	-1.7%	3.9%	11.1%	0.0%	0.5%	4.6%
Bonds (£)								
Sterling Corporate Bonds	0.9%	1.1%	0.9%	0.9%	3.5%	-2.3%	-1.8%	0.9%
Global High Yield (Hedged)	1.2%	2.7%	5.1%	1.2%	8.5%	3.7%	3.1%	3.4%
Global Bonds (Hedged)	0.4%	0.6%	1.2%	0.4%	2.9%	-1.6%	-1.0%	0.8%
Other (£)								
Global Listed Property	3.1%	0.1%	3.9%	3.1%	9.6%	-1.2%	0.3%	3.8%
UK Listed Property	1.7%	-5.9%	-10.9%	1.7%	-7.5%	-11.5%	-5.9%	-1.7%
Physical Gold	8.5%	6.0%	19.7%	8.5%	39.8%	18.9%	13.2%	10.1%

Economic Data	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.24	$1.29	$1.28		$1.27	$1.34	$1.32	$1.50
Bank of England Base Rate	4.75%	5.00%	5.25%		5.25%	0.25%	0.75%	0.50%
UK CPI YoY		2.3%	2.2%		4.0%	5.5%	1.8%	0.3%
US Unemployment Rate		4.1%	4.2%		3.7%	4.0%	3.6%	5.7%
UK Unemployment Rate		4.4%	4.1%		4.2%	3.9%	3.9%	5.6%

Bond yields	At date	3m ago	6m ago		1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.5%	4.4%	4.0%		3.9%	1.3%	0.5%	1.4%
UK Corporate Bond Yield	5.4%	5.6%	5.3%		5.4%	2.5%	1.8%	2.7%

Data Sources: Data is at 31/01/2025. 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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