

February Market Update: Eurozone Stalls, DeepSeek AI Sparks Tension, and UK Stocks Rebound

- Global stock markets rose as strong performances in non-tech sectors offset concerns over AI investments in the tech industry.
- Inflation fears drove up borrowing costs, with US bond yields surging and UK bonds reacting to Labour's budget plans.
- Central banks took different approaches, as the European Central Bank (ECB) cut rates, the US Federal Reserve (Fed) held steady, and the Bank of Japan raised interest rates.
- Trade tensions unsettled currency markets, with tariff threats from former US President Trump affecting the Canadian dollar and Mexican peso, while US-China tensions added uncertainty.

Eurozone Economy Stalls

The eurozone saw no growth in the final quarter of 2024, its weakest performance since late 2023, while Germany's economy shrank by 0.2%. Ongoing challenges like worker shortages, bureaucracy, and low investment continue to hold the region back. Rising natural gas prices, weak export demand, and competition from China add further pressure. Although eurozone stocks performed well in January, this followed a difficult 2024 where the region lagged behind global markets.

DeepSeek AI Controversy Shakes Tech Sector

Chinese AI start-up DeepSeek sparked fresh US-China tensions, initially causing sharp losses for US

tech giants like Nvidia with claims of a low-cost AI platform. However, doubts about DeepSeek's model led to investigations by Microsoft and OpenAI. In response, US officials are considering new trade tariffs and restrictions on Nvidia chip exports to China. While Meta, Tesla, and Apple saw market gains, Microsoft had mixed results. The sector remains volatile, with investors watching for earnings reports from Alphabet, Amazon, and Nvidia in February.

UK Shares Gain Investor Interest

After years of lagging behind Wall Street, UK shares are drawing fresh investor attention, with January marking their best monthly performance in over two years. Despite concerns about economic growth following the Labour government's Autumn Budget, the UK stock market offers attractive valuations, and sectors like banking have shown resilience.

This shift in sentiment suggests potential for strong returns, particularly in larger value-focused companies positioned for international growth.

Central Banks Take Different Paths

Central banks responded differently to economic conditions this month. The European Central Bank (ECB) cut rates by 0.25% to support a fragile economy, while the US Federal Reserve (Fed) kept rates unchanged, taking a cautious stance amid mixed signals. Meanwhile, the Bank of Japan raised rates to 0.5%—its highest level in 17 years—marking a shift away from ultra-low rates. These varied strategies reflect the challenge of balancing inflation control with economic growth.

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