February Market Update: cracks in the foundation

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In a nutshell

- Equity markets broaden beyond the big US names
- China finally backs the private sector
- Bank of England cuts the base rate to 4.50%

US stocks struggle

Is the leadership of the US stock market under pressure? February's returns saw the world's biggest market losing around 3% - the worst performance of all major indices. One swallow doesn't make a summer, but for investors struggling with lofty US valuations, it offers hope of a market rotation.

Nvidia takes a hit

Nvidia has been a market powerhouse, consistently outperforming analyst expectations, which have helped propel the company's value and size to incredible levels. This quarter it posted:

- Record-breaking profits
- 78% year-on-year earnings growth
- Slightly lower profit margins (~70%)

Yet the stock was down 8.5%. Why? High expectations - Nvidia stock is priced for continual perfection. If there's another 'okay' earnings call or another DeepSeek moment of potential disruption, the tech landscape could look very different.

China's stock market rebounds

Chinese Leader Xi Jinping boosted confidence in China's private tech sector after a recent meeting with major industry players, widely seen as a symbolic show of support. It's a big U-turn given his previous regulatory crackdown was a key reason behind the stock market's slump. The performance of Chinese tech has been impressive this year and there are many reasons to believe there's further to go.

Tariff tensions

Tariff back-and-forth continued through February, in what's beginning to feel like an endless dialogue with no obvious conclusion. Aggressive announcements from Trump have yet to result in anything particularly aggressive being applied. What's clear is that US consumers and businesses will feel the pain of any implemented measures as well.

While phase one of the Gaza ceasefires continues on shaky ground, Trump has turned his attention to finding a resolution to the Ukraine conflict. However, initial discussions with Russia excluded Ukraine, and any peaceful path to conclusion appears to hinge on the US's economic betterment. This was only reinforced by Zelensky's recent meeting at the Oval Office – widely seen as a masterclass from Trump and JD Vance in how to bully someone at a time of need.

UK interest rates

Starmer's meeting with Trump appeared to be more friendly, with the PM doing his best to keep the UK out of the tariff firing line. It feels all the more important against a backdrop of downgraded UK growth forecasts, which gave the Bank of England enough reason to cut rates to 4.5%. However, inflation continues to be a concern, particularly with the energy price cap being revised upward - annual inflation is expected to hit 3.7% before falling back towards target. The risk of stagflation - low growth combined with high inflation - is keeping UK 10- year Government Bond yields at 4.5%, stopping more. Currently, only two cuts are expected in 2025. Meanwhile, the dynamic is a little different in the US, with 10-year Treasury yields falling to around 4.25%.

Where's the opportunity?

Equity and Bond markets feel in flux. With war, tariffs and tech disruption, there are a lot of forces moving in different directions and competing with one another. Equities outside the US continue to look good value, while Fixed Interest offers an attractive income - particularly alongside the defensive characteristics of Government Bonds in a recessionary growth environment.

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