The Monthly Edit / February 2025

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.

BROOKS MACDONALD

Market headlines

Equity markets volatile due to trade tariff risks. A key part of US president Trump's election campaign, US trade tariff news whipsawed markets in February.

A mixed set of results from megacap tech. US tech giants, a key driver of equity market gains in recent years, had a mixed set of results and saw performance unwind by month-end.

Bond yields decline amid economic concerns. Bond yields fell as investors sought out safe-haven assets due to growing economic concerns and market volatility, despite inflationary pressures remaining a worry.

US and Russia begin peace talks, shaking up geopolitics. The US and Russia initiated peace negotiations, sidelining Europe and Ukraine, and threatening a fracturing in the North Atlantic Treaty organisation (NATO) military alliance.

The big topics

Trade tariff news impacts equity markets

Market fluctuations were driven by changes in trade tariff plans.

US president Trump's plans for 25% tariffs on the country's biggest trading partners, Canada and Mexico, were delayed by a month, but China was not so fortunate, facing 10% tariffs on top of past tariff measures. Despite the overall relief, hopes for global trade were hit later on with news that the US plans to introduce 'reciprocal' tariffs in April against countries taxing US trade.

Trade tariffs can add unwelcome costs for global trade, pushing up price pressures, and risk forcing central banks to keep interest rates higher for longer. Diversified equity allocations, across both regions, countries and investment styles, can help to dampen such challenges.

Economic concerns drive demand for safe-haven assets

Bond yields declined as investors sought stability.

Safe haven assets were in demand during the month as government bond yields declined (with corresponding bond prices rising). This was driven by growing concerns over economic stability and market volatility. Economic growth concerns appeared to outweigh the inflation outlook, especially with tariffs potentially keeping inflation pressures high.

With investors globally having to endure heightened volatility in bond yields in recent months, it continues to support our preference for shorter-dated bonds, which are less sensitive to economic changes compared to longer-dated bonds, yet still offer relatively attractive yields. Inflationary pressures remain a concern, but the focus has shifted more towards economic growth risks.

A mixed set of results from megacap tech

During the month, arguably the most-watched results from Nvidia landed – the posterchild for the current artificial intelligence technology spending boom.

Given their dominance in US and global equity indices, the latest set of results from the US 'Magnificent Seven' group of companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), were always going to be important for investors. Nvidia's results, in particular, were good but not great, challenging investor expectations.

The volatility in megacap tech shares during the month is a reminder of the importance of managing tech concentration risk in portfolios. It is also a reminder of the value of active management, where passive equity index allocations can at times hide significant concentration risk.

US and Russia begin peace talks, upending geopolitics

The US announced talks with Russia aimed at ending the war in Ukraine.

This move changes the narrative of Russia as the aggressor. Furthermore, the US appeared to sideline both Europe and Ukraine in the talks, while signalling a reduction in military support for Europe's defence more broadly.

This has led European countries including the UK to plan increased military defence spending as a share of Gross Domestic Product (GDP). For the UK, the government announced plans to increase defence spending from 2.3% of GDP currently, to 2.5% in 2027, rising to 3% in the next Parliamentary term. This move is expected to positively impact on the UK's defence sector and boost economic activity more broadly.

Important information

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