Monthly Markets Update

28 February 2025

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- Tech volatility rises as Nvidia faces headwinds
- Bond yields fall amid mixed economic signals
- Geopolitical risks acute

Key points

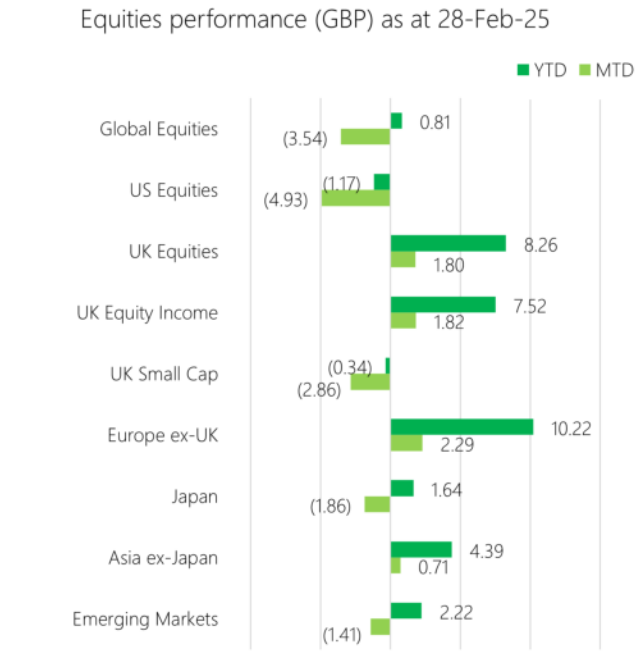
1. Tech stocks faced renewed volatility on valuation concerns. Nvidia's earnings beat expectations but its shares declined on concerns of slowing growth and rising competition.

2. Bond values increased as yields continued to decline, with the UK 10-year Gilt yield dropping to 4.48% and the 10-year US Treasury yield falling to 4.21%.

3. Geopolitical risks intensified as the US threatened new tariffs on imports from Canada, Mexico, and China and a diplomatic spat between Trump and Zelensky questioned US support for Ukraine.

Equities

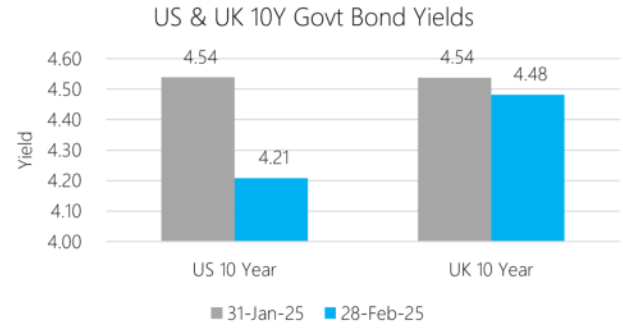
Global Equities closed the month -3.54% MTD. US Equities returned -4.93% MTD, UK Equities were up +1.80% MTD, and European Equities gained +2.29% MTD, all in GBP terms.

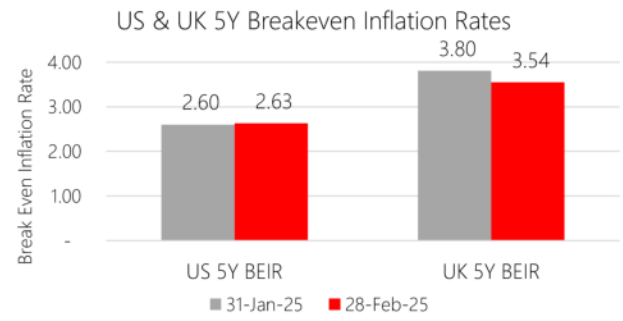


*Elston Indices

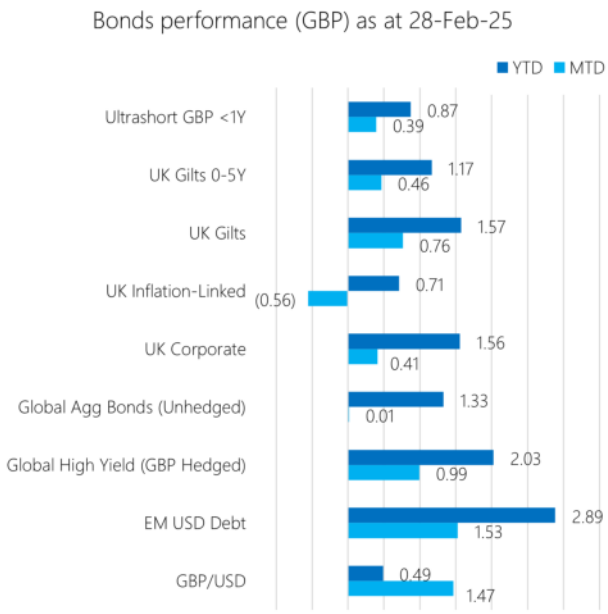
Bonds

UK 10-year Gilt yields decreased from 4.54% to 4.48%. US 10-year Treasury yields fell from 4.54% to 4.21%. 5Y UK BEIR however decreased from 3.80% to 3.54%. EM USD bonds delivered the another month of best performance gaining 1.41%.



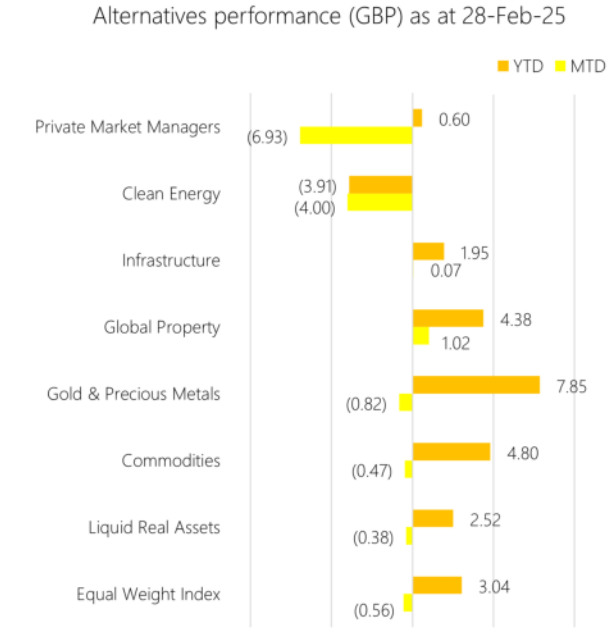


Source: Elston research, Bloomberg data



Alternatives

Alternative Assets: Gold & Precious Metals fell -0.82% MTD. Global Property securities were up +1.02%. Private Market Managers fell sharply, down -6.93% MTD, reflecting broader market volatility.
Alternative Strategies, an Equal Weight 4-asset index strategy was -0.56% for the month.



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Currency

Sterling strengthened against the Dollar (+1.47% MTD). £1 buys $1.2591.

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Month in review

We summarise key drivers and data points in the last month for markets, the economy and geopolitics.

Markets

EQUITIES

Global Equities

February 2025 saw volatility return to stock markets, influenced by trade tensions, central bank decisions, and earnings reports. President Trump's announcement of new tariffs on Canada, Mexico, and China initially caused sharp declines, but markets stabilised as details emerged beyond rhetoric. While US markets ended lower, UK and European equities were up, supported by lower valuations and announcements of increased defence spending. Chinese tech stocks surged, with the Hang Seng Tech Index up 31% year-to-date, driven by AI innovations and foreign investor optimism.

US Equities

The S&P 500 closed the month at 5,886.2, down -4.93% MTD, as tech stocks led declines owing to "concentration risk". Nvidia fell 8% despite record $43bn revenues, driven by AI chip demand. Investors are concerned about slowing growth, rising competition, and tariff impacts. Large-cap tech firms, including Apple and Google, reported strong Q4 earnings. Big tech firms have increase AI infrastructure spending by 40% to $360bn, with Nvidia being a key beneficiary, but there are concerns around their ability sustain these growth rates. Market sentiment wavered amid inflation and tariff risks.

UK Equities

The FTSE 100 closed at 8,806.1, up 1.80% in February despite a stronger pound. This was because of stronger earnings from large-cap stocks, particularly financials and exporters. NatWest and HSBC posted solid results, while Aviva's £3.6bn bid for Direct Line boosted the insurance sector. The broader UK market also benefited from the Bank of England's interest rate cut.

BONDS

UK Bonds

The Bank of England cut interest rates by 25bps, bringing the Bank Rate to 4.50%. UK 10-year gilt yields declined to 4.48%.

5-year UK Break-Even Inflation Rates (BEIRs, a market-derived measure of expected inflation) ranged from 3.54% to 3.80%.

Global Bonds

The Global Aggregate Bond Index (Unhedged) delivered flat return. While a decline in US Treasury yields supported positive performance, this was offset by a strengthening pound, which dampened returns in GBP terms.

ALTERNATIVES

Spot Gold price surged to its record high of $2,956 on 25 February, driven by central bank buying and heightened geopolitical risks. However, total return for the month in GBP terms was flat due to strengthening sterling.

CURRENCIES

Sterling strengthened to $1.2591. The US dollar weakened against a trade-weighted basket of currencies owing to trade uncertainties and slowdown concerns.

Economy

Growth

US GDP grew +2.5yy in Q4, with consumer spending remaining the primary driver. However, business sentiment softened as firms adjusted expectations amid tariff concerns.

The UK economy surprised to the upside, with GDP growth reaching 1.4%yy, exceeding estimates of 1.1%, providing a brief reprieve to policymakers.

In the Eurozone, Q4 GDP expanded just 0.9%yy, weighed down by weak industrial activity in Germany and sluggish services in France.

Inflation

US inflation remained higher than expected, with CPI rising 3%yy in January, while core inflation stood at 3.3%yy, reinforcing the Fed's cautious stance on rate cuts.

UK inflation came in at 3.0%yy in Jan, up from +2.5%yy last month and above the 2.8%yy estimate, adding further pressure on the BoE following its recent rate cut.

Eurozone inflation edged lower, but energy price volatility and persistent services inflation kept the ECB cautious about policy easing.

Rates

The US Fed kept rates unchanged at 4.75%, citing resilient labour market conditions and strong consumer spending as reasons to hold off on cuts.

The BoE cut rates by 25bps to 4.50%, but policymakers signalled caution about further moves. The UK is caught between concerns around slowing growth and persistent inflation.

The ECB also left rates unchanged, with markets expecting a possible rate cut by mid-2025, as growth concerns mount.

Geopolitics

US: President Trump threatened new tariffs on Canada, Mexico, and China, escalating trade tensions. While he acknowledged tariffs could increase short-term inflation, he insisted they would boost US manufacturing competitiveness in the long run. Trump and Vance were highly critical of Zelensky in the run up to and at the White House triggering concerns that Ukraine could lose the support of its largest backer. The proposed US-Ukraine deal securing US participation on rare earths and other extractive industries to recoup grant money provided was left unsigned.

UK: UK Prime Minister Keir Starmer met with President Trump, securing a restart of long-stalled trade negotiations. Trump stated a deal could be finalised quickly, though details remain vague.

Meanwhile, UK announced plans to increase defence spending to 2.5% of GDP by 2027, shifting resources away from foreign aid programs. This marked a renewed focus on "hard power" over "soft power."

EU: Germany's elections saw record voter turnout of 84%, resulting in a conservative CDU/CSU victory and the anti-immigration AfD party placing second.

Russia/Ukraine: Trump held a private call with Russian President Vladimir Putin, discussing potential terms to end the war without prior coordination with Ukraine or NATO allies. The leaked details suggest Ukraine would need to renounce NATO membership ambitions and cede territory to Russia, with Europe assuming the cost of reconstruction. The bypassing of Ukrainian and European leadership from those discussions caused outrage.

Bottom Line

Trump's "America First" policy and related tariff threats have triggered renewed market volatility, particularly in the tech sector where valuations were highest. Volatility could remain elevated whilst uncertainties persist. Selectivity therefore remains key within equity markets with a current focus on more defensive sectors and balancing concentration risk. Bonds have provided resilient, but remain vulnerable to the persistent inflation outlook, and fears around increased inflation resulting from trade frictions. Whilst staying invested s key to capturing returns, adapting portfolios to navigate short- and medium-term risks can help mitigate their impact. At time of elevated market volatility it remains even more important to be well diversified within and across asset classes.

What does this mean for portfolios?

While portfolios should have clear long-run strategic allocation to match a given risk profile, adapting portfolios to align to changing market and economic conditions can help mitigate near- to medium-term risks and help navigate the markets.

Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

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