Marlborough

Management Team
Multi-Asset Solutions Investment Team

Date
04/02/25

Capital is at risk. Please read full risk warning at the end of this document.

*Yield: Yield is the annualised expected return of holding a bond to maturity.

All returns are in sterling terms.

Monthly Commentary: February 2025

Multi-Asset

It was a strong start to 2025 for markets, with both equities and bonds delivering broadly positive returns in January. In equity markets, we saw Europe come out of the blocks quickly (up 8.2% on the month) and outperform the US (up 3.6%). In his inauguration month, Donald Trump continued to dominate the headlines, while the emergence of Chinese artificial intelligence company DeepSeek called into question the US technology sector's ability to deliver on investors' lofty expectations.

Volatility increased in bond markets during the month. Trump's proposed policy mix of tax cuts, immigration curbs and import tariffs fuelled expectations of higher US inflation, initially pushing up bond yields* around the world. Ultimately though, the Bloomberg Global Aggregate Corporate Bond Index ended the month up 1.4%. This was partly as a result of data showing US inflation eased slightly in December. Gold and other metal prices continued to rise on the back of Trump's tariff threats.

As a team, we continue to believe that a benign global growth environment will be supportive across asset classes. However, yields are now at levels where bonds look more attractive in relative terms. The DeepSeek news supports our view that the 'broadening out' theme is likely to be an important consideration over the coming months. This is the expectation that after a strong run by the largest companies in the US, other stock markets will now gain ground.

UK

The year did not get off to the best of starts for the UK, with yields on 10-year government bonds rising, as investor uncertainty continued amid forecasts of weaker economic growth. This was coupled with ongoing concern about US tariffs. However, when December's inflation figure came in at a lower-than-expected 2.5% this caused a change in sentiment. This was because it increased the likelihood of interest rate cuts by the Bank of England over the course of 2025. The FTSE 100 reacted positively, with the index closing the month up 6.2%. We continue to remain positive about UK equities.

Europe

The European Central Bank lowered interest rates by 0.25% to 2.75% at its January meeting. The bank has emphasised further cuts will depend on economic data and decisions will be made on a meeting-by-meeting basis. The European economy looks set to remain weak in the near term and uncertainty remains about tariffs. Economic growth, as measured by gross domestic product (GDP), stalled in the final quarter. The 0% growth figure was below the 0.1% forecast and followed 0.4% growth in the previous quarter.

US

Trump began signing a flurry of executive orders on day one of his second term in the White House. As companies announced their results, major banks performed particularly strongly, and the sector could benefit if the new administration pushes ahead with deregulation. As expected, the Federal Reserve kept interest rates on hold during the month, with the bank noting that growth remained steady and the labour market stable. Although GDP growth in the final quarter of 2024 slowed relative to the quarter before, the economy remains resilient and grew at an annualised rate of 2.3%.

Japan

It was a volatile start to the year for the Japanese equity market. Shares initially surged to record highs, driven by strong corporate earnings and positive global economic data. However, when an expected interest rate hike was delivered, it was with a hawkish tone from Kazuo Ueda, Governor of the Bank of Japan (BoJ). This prompted some volatility in the market. The BoJ raised its short-term policy rate from 0.25% to 0.5%, a level that Japan has not seen in 17 years. The stronger yen, a consequence of the BoJ's actions, put further pressure on Japanese equities. However, the Topix Index still ended the month up 2.4%.

Asia and Emerging Markets

Asian and emerging market equities had a mixed month, with China's marginal gains supported by improving economic data and softer-than-expected tariff threats from Trump. However, Indian equities fell for the fourth consecutive month due to factors including weak company earnings and economic uncertainty. This uncertainty weighed on the broader MSCI Emerging Markets Index and the MSCI Asia ex-Japan Index, although they still managed to gain 2.6% and 2.2% respectively. Emerging markets continued to be overshadowed by tariff concerns, though economists expect Chinese authorities to introduce supportive measures once the full impact is assessed. So far, policy responses have been limited to verbal reassurances, but significant stimulus efforts are anticipated. Investors remain cautious, awaiting further clarity on US trade policy and China's potential economic response.

Fixed Income

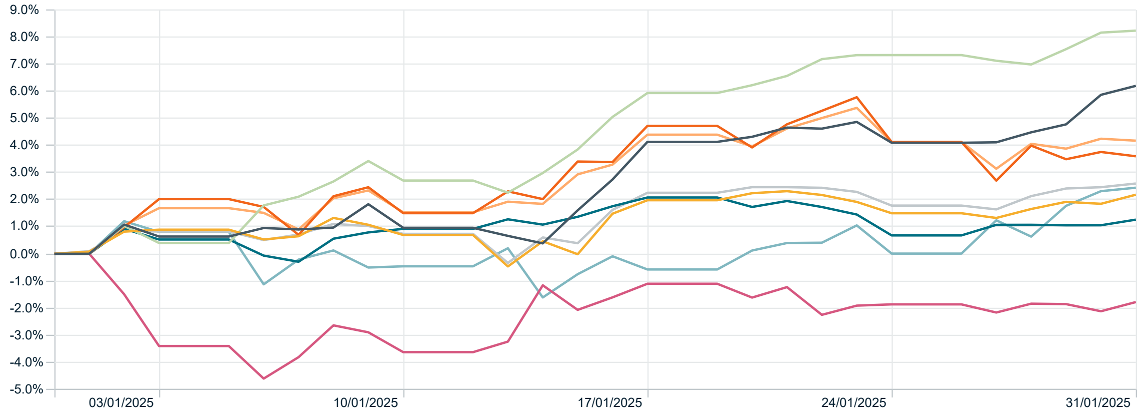
Trump's election campaign was long on bombast and rhetoric, but as bond investors prepared for his inauguration they were required to assess the likely path of policy and thus find the signal within the noise. Unsurprisingly, the result was a certain amount of volatility.

Yields ended the month lower – but only just – as the weakness that had wracked bond markets at the year-end continued into the early weeks of 2025. This was only to reverse as economic caution and concern returned to the narrative. As the month ended, Trump acted to follow through on one of his key manifesto pledges, tariffs. As we move into February, the US has threatened significant tariffs on imports from its closest trading partners – Canada and Mexico – and imposed an additional 10% levy on imports from China.

1 month performance

Time Period: 01/01/2025 to 31/01/2025

Currency: Pound Sterling

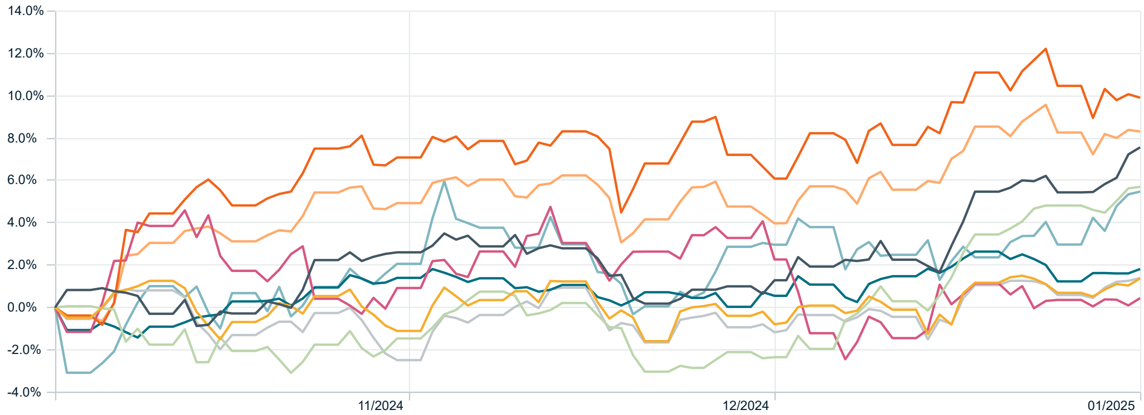


FTSE 100 TR GBP	6.2%	TOPIX TR JPY	2.4%	MSCI AC Asia Pac Ex JPN NR USD	2.2%
S&P 500 TR USD	3.6%	MSCI Europe Ex UK NR EUR	8.2%	SSE Composite Index PR CNY	-1.8%
MSCI ACWI NR USD	4.2%	FTSE WGBI USD	1.3%	MSCI EM NR USD	2.6%

3 month performance

Time Period: 01/11/2024 to 31/01/2025

Currency: Pound Sterling

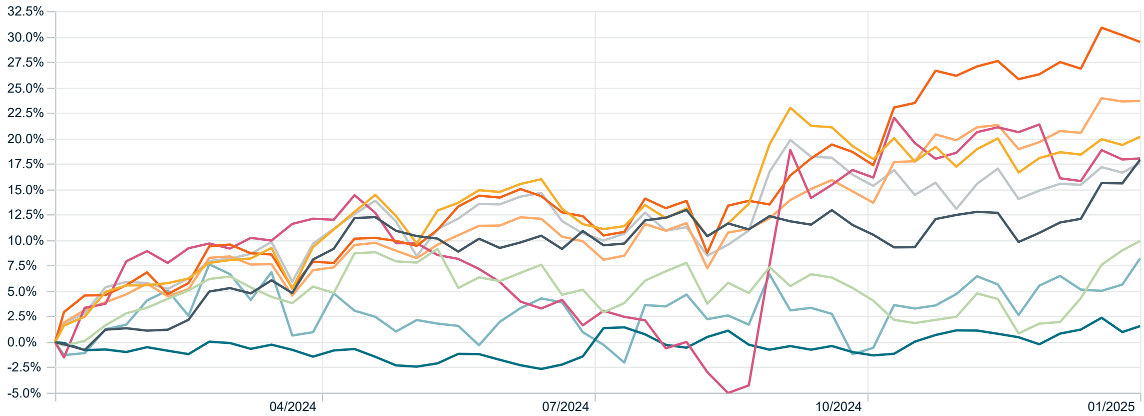


FTSE 100 TR GBP	7.6%	TOPIX TR JPY	5.5%	MSCI AC Asia Pac Ex JPN NR USD	1.4%
S&P 500 TR USD	9.9%	MSCI Europe Ex UK NR EUR	5.7%	SSE Composite Index PR CNY	0.4%
MSCI ACWI NR USD	8.3%	FTSE WGBI USD	1.8%	MSCI EM NR USD	1.4%

12 month performance

Time Period: 01/02/2024 to 31/01/2025

Currency: Pound Sterling



FTSE 100 TR GBP	18.0%	TOPIX TR JPY	8.2%	MSCI AC Asia Pac Ex JPN NR USD	20.2%
S&P 500 TR USD	29.5%	MSCI Europe Ex UK NR EUR	10.0%	SSE Composite Index PR CNY	18.1%
MSCI ACWI NR USD	23.7%	FTSE WGBI USD	1.6%	MSCI EM NR USD	17.6%

Source: Morningstar Direct

Risk Warnings

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