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Market Pulse

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EQUITIES REBOUND AMID ROSIER GROWTH OUTLOOK

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Global stock markets rebounded in January from losses in December, aided by a strong rally in European stocks amid a rosier growth outlook. US stocks rose overall, but AI bellwether Nvidia declined due to the release of a lower cost, less chip-intensive AI model from China's DeepSeek. German bond yields rose amid speculation of a potential easing of the 'debt brake' and possible increased debt issuance following elections in February. The global growth backdrop showed signs of improvement, with PMIs moving higher. The US dollar fell against the euro given initial perceptions of a softer US tariff stance post President Trump's inauguration compared to rhetoric during the election campaign.

US

After the inauguration of President Trump on 20 January, there were several executive orders signed. These included a reversal of some of President Biden's policies, revoking the offshore oil drilling ban as well as freezing funds for projects related to the Inflation Reduction Act. Tariffs were implemented on all Chinese imports (additional 10%) effective from 4 February, with China retaliating with tariffs of 10% to 15% on specific items. Mexico and Canada agreed a one-month delay in US tariff implementation with the US. These policies signalled the intent of the administration to implement the agenda outlined during the election campaign and contributed to market volatility in late January.

On the economic front, the December US employment report confirmed robust labour-market conditions. 256k non-farm payrolls were added, well above the consensus forecast of 165k, while unemployment unexpectedly fell slightly to 4.1%. More broadly, Q4 GDP rose by an annualised 2.3% quarter-on-quarter (QoQ), supported by a robust 4.2% rise in consumption.

US consumer prices rose by 2.9% year-on-year (YoY) in December, and core prices were up by a lower-than-expected 3.2%, with some of the data indicating easing price pressures. The Federal Reserve (Fed) left its key rate unchanged at 4.25-4.50% at its January meeting. Chair Powell stated that there was no "hurry" to cut rates but also said that policy was "meaningfully restrictive", suggesting the rate could be cut later in 2025.

Europe

Eurozone fourth-quarter GDP was unchanged from Q3 as an expansion in Spain (+0.8% QoQ) was offset by mild contractions in Germany (-0.2%) and France (-0.1%). The region's composite PMI, as well as that for Germany, moved into expansionary territory in January and suggested a more positive outlook for this year.

Headline consumer-price inflation accelerated to 2.4% YoY in December but was in line with market expectations. Core price inflation was unchanged from November at 2.7%. The European Central Bank (ECB) cut its deposit rate by 25 basis points (bps) to 2.75% at its January meeting and guided for further reductions as it expected inflation to move down to the 2% target later in 2025.

Asia

In contrast, the Bank of Japan (BoJ) raised its policy rate by 25bps to 0.5% as it expected strong wage growth during the spring shunto wage negotiations, which could lead to increased inflation pressures. Headline consumer prices rose by 3.6% YoY in December and core prices by 3.0%, with both accelerating from November. The BoJ is expected to raise rates gradually during 2025.

China's fourth-quarter GDP beat projections, rising by 5.4% YoY and bringing the full-year 2024 figure in line with the government's 5% growth target. This was supported by healthy December activity, with industrial production (6.2% YoY) and retail sales (3.7%) accelerating from November.

MARKET ROUND-UP

Equities

Global stock markets rose in January, supported by generally healthy corporate earnings and guidance, as well as an improving global growth backdrop. The MSCI All Country World index was up by 3.3% (3.0% in euros) over the month. This was driven by a strong rally in European stocks, with the MSCI Europe ex-UK rising by 7.1% (7.0% in euros) due to a better economic activity outlook and further expected ECB rate cuts. Emerging markets (EM) underperformed developed markets, as the threat of US tariffs weighed on sentiment, with the MSCI EM index rising by 1.6% (1.4% in euros) over the month.

US indices rebounded from losses in December, with the MSCI USA index 3.0% higher (2.6% in euros), but there was volatility around tech stocks. Some AI-related stocks were roiled towards the end of the month after the release of a new AI model from DeepSeek, a Chinese tech company, that was claimed to be significantly cheaper to train than US equivalents. AI bellwether Nvidia fell by 10.6% in January as expectations of lower chip demand required by new AI models like DeepSeek's dampened sentiment. These models, however, may speed up the delivery, adoption and monetisation of AI products, so the wider AI theme and market held up reasonably well.

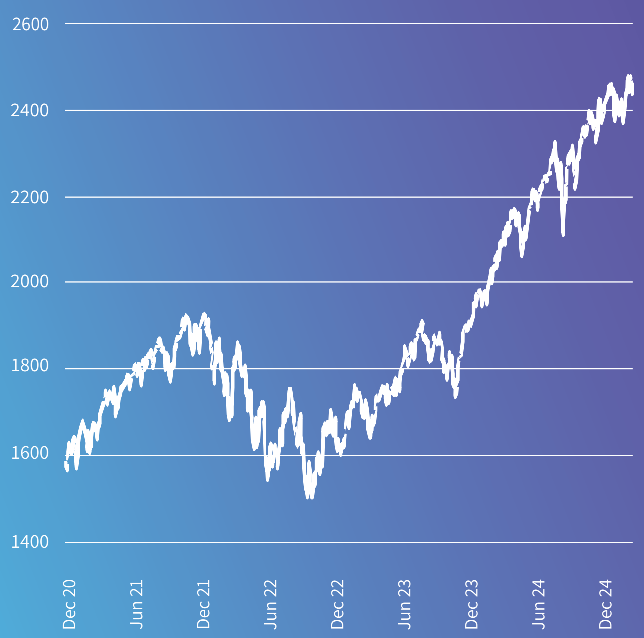
Bonds

Eurozone government bond returns were negative as a result of rising yields. The 10-year German bund yield was up by 11bps over the month to 2.46% due to the potential for increased debt issuance following Germany's federal election on 23 February. The ICE BofA 5+ Year Euro Government bond index returned -0.3% in January.

Concerns over the UK's government debt sustainability flared up during the month. UK economic activity is expected to be lacklustre this year, which could limit tax revenues and lead to a wider budget deficit, necessitating increased state borrowing. The potential for higher government borrowing helped push up gilt yields temporarily to the highest levels since 2008. The 10-year gilt yield was as high as 4.89% before ending January at 4.53% as the government pushed for growth-boosting policies.

CHARTS OF THE MONTH

Global equities



Source: ILIM, FactSet. Data is accurate as at 31 January 2025.

Bonds – German 10-year yield

Source: ILIM, FactSet. Data is accurate as at 31 January 2025.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	4.4	4.4	22.8
MSCI United Kingdom	4.8	4.8	14.7
MSCI Europe ex UK	7.0	7.0	7.7
MSCI North America	2.6	2.6	32.9
MSCI Japan	1.2	1.2	15.9
MSCI EM (Emerging Markets)	1.4	1.4	15.3
MSCI AC World	3.0	3.0	25.9

10-Year Yields	Yield last month (%)	2024 Yield (%)	2023 Yield (%)
US	4.55	4.57	3.88
Germany	2.46	2.35	2.02
UK	4.53	4.56	3.54
Japan	1.23	1.09	0.61
Ireland	2.72	2.63	2.38
Italy	3.55	3.51	3.69
Greece	3.34	3.23	3.06
Portugal	2.86	2.84	2.66
Spain	3.07	3.04	2.99

FX Rates	End last month	2024 Rates	2023 Rates
U.S. Dollar per Euro	1.04	1.04	1.10
British Pounds per Euro	0.84	0.83	0.87
U.S. Dollar per British Pounds	1.24	1.25	1.27

Commodities (USD)	MTD Return (%)	YTD Return (%)	2024 Return (%)
Oil (Brent)	2.8	2.8	-3.1
Gold (Oz)	6.7	6.7	27.1
S&P Goldman Sachs Commodity Index	3.3	3.3	9.2

Source: ILIM, Bloomberg. Data is accurate as at 1 February 2025.

THE ILIM VIEW – LOOKING AHEAD

With inflation having fallen significantly and central banks suggesting policy is still above neutral levels, rates are likely to be cut further through 2025, enabling bond yields to decline over the next 12 months. On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.46% and 4.55% to 1.75% and 4.00%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

The fundamental backdrop for global equities, and particularly US equities, remains positive, despite uncertainties relating to the implications of US policy. Steady growth, strong consumer balance sheets, ongoing disinflation, rate cuts and corporate-friendly policies continue to provide a positive equity backdrop.

Divergence within regional equity performance, however, is likely to remain a feature as US exceptionalism continues, with tax cuts and deregulation adding to its existing structural competitive advantages.

Global equity valuations are above long-term averages, trading on a 12-month forward P/E multiple of 18.4x against a long-term average of 16.1x. Despite equities appearing fully valued, the outlook on a 12-month view is positive. With growth expected to remain firm and US corporates set to benefit from growth-friendly policies from the Trump administration, earnings are forecast to rise strongly in the next one to two years. Additional rate cuts under a positive fundamental backdrop can also contribute to gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

THE MONTH AHEAD

FEBRUARY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			06 GB BoE Interest Rate Decision	07 US Non Farm Payrolls (Jan) US Unemployment Rate (Jan) US Michigan Consumer Sentiment Prel (Feb)
		12 US Inflation Rate YoY (Jan) US Fed Chair Powell Testimony	13 GB GDP Growth Rate YoY Prel (Q4) US PPI MoM (Jan)	14 EA GDP Growth Rate QoQ 2nd Est (Q4) US Retail Sales MoM (Jan)
	18 GB Unemployment Rate (Dec) DE ZEW Economic Sentiment Index (Feb)	19 GB Inflation Rate YoY (Jan) US FOMC Minutes	20 JP Inflation Rate YoY (Jan)	21 GB Gfk Consumer Confidence (Feb) GB Retail Sales MoM (Jan) GB S&P Global Manufacturing PMI Flash (Feb)
24 Ifo Business Climate (Feb)		26 DE Gfk Consumer Confidence (Mar)	27 US Durable Goods Orders MoM (Jan) GDP Growth Rate QoQ 2nd Est (Q4)	28 US Core PCE Price Index MoM (Jan) US Personal Spending MoM (Jan)

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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