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Market Spotlight Around the world

- German election results were in line with polls as CDU/CSU gained the most votes. They will need at least one coalition partner to secure parliamentary majority. The far right AfD came second, marking it as the party with the largest increase since 2021. The initial market reaction was positive following the outcome, with the DAX and euro both posting gains.
- European defence stocks surged 13% in February amid proposed Russia-Ukraine peace talks and discussions among European leaders on boosting defence budgets. Analysts suggest an increase in fiscal spending, rising from an average of 2% of GDP to 2.5-3%.

€500bn

Fiscal Spending

Germany announced a €500bn spending bill to be used on infrastructure

242K

Initial jobless claims

US jobless claims rose meaningfully in the month, raising concerns of a cooling labour market

3%

JPY appreciation

The Japanese yen (JPY) appreciated versus the USD in February as Japanese yields rose.

- US growth slowed in February, as evidenced by a decline in the US Economic Surprise Index, raising doubts about US exceptionalism. Consumer confidence has weakened, highlighting fears that tariffs could hinder growth and drive-up inflation.
- Nvidia reported record Q4 2024 revenue. However, gross margins fell due to the higher costs of producing the Blackwell chip. This has weighed on its share price, contributing to broader semiconductor sector underperformance.
- Chinese internet stocks continued their strong performance in February. This was driven by better-than-expected earnings from companies such as Alibaba, valuation re-ratings and the continued developments in the AI space which has broadened beyond the US.

Market snapshot

In February, US equities underperformed as investors reconsidered the narrative of US exceptionalism. Concerns over economic growth mounted due to Trump's policy agenda so far which may be dampening sentiment. Bonds continue to serve as effective diversifiers, with bond prices rising amid a weaker growth outlook.

Meanwhile, European equities continued to outperform, bolstered by increasing prospects of a Ukraine ceasefire. Emerging markets saw gains, driven by strength in Chinese tech and a softer dollar. Conversely, Japanese equities struggled as the yen appreciated, supported by rising yields.

Performance of global asset classes

| | 1 Month | YTD |
|--------------------------|---------|-------|
| European Equities | 3.4% | 10.8% |
| UK Equities | 2.0% | 8.3% |
| Chinese Equities | 1.9% | -1.1% |
| Global Corporate Bonds | 1.6% | 2.3% |
| Global Government Bonds | 1.4% | 2.0% |
| Global High Yield Bonds | 0.8% | 2.2% |
| Emerging Market Equities | 0.5% | 2.3% |
| Commodities | 0.4% | 4.0% |
| Precious Metals | -0.4% | 6.8% |
| World Equities | -0.6% | 2.7% |
| US Equities | -1.3% | 1.4% |
| US Tech | -2.7% | -0.6% |
| Japanese Equities | -6.0% | -6.8% |

Source: Bloomberg, Returns are in local currency, as at 28 February 2025.



What is the data telling us?

Global Manufacturing PMIs expanded further in February, providing optimism on a manufacturing upturn. Despite a global pick up we saw some weakness in the US as demand eased and sentiment soured on the first shock of Trump’s tariff policy. Elsewhere, we saw a bounce back in Chinese manufacturing. Europe continues to see improvements in manufacturing with the majority of regions seeing a slower contraction in activity.

In contrast, Global Services PMIs showed weakness for the second consecutive month, but still in expansionary territory. This has resulted in global growth being more balanced across manufacturing and services.

Purchasing Managers Index

| | Manufacturing | | | | | | | | | | | | 2025 | |
|--------|---------------|------|------|------|------|------|------|------|------|------|------|------|------|--|
| | 2024 | | | | | | | | | | | | 2025 | |
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | | |
| Global | 50.6 | 50.3 | 51 | 50.9 | 49.7 | 49.5 | 48.8 | 49.4 | 50 | 49.6 | 50.1 | 50.6 | | |
| US | 50.3 | 49.2 | 48.7 | 48.5 | 46.8 | 47.2 | 47.2 | 46.5 | 48.4 | 49.3 | 50.9 | 50.3 | | |
| EU | 46.1 | 45.7 | 47.3 | 45.8 | 45.8 | 45.8 | 45 | 46 | 45.2 | 45.1 | 46.6 | 47.6 | | |
| UK | 50.3 | 49.1 | 51.2 | 50.9 | 52.1 | 52.5 | 51.5 | 49.9 | 48 | 47 | 48.3 | 46.9 | | |
| China | 51.1 | 51.4 | 51.7 | 51.8 | 49.8 | 50.4 | 49.3 | 50.3 | 51.5 | 50.5 | 50.1 | 50.8 | | |
| Japan | 48.2 | 49.6 | 50.4 | 50 | 49.1 | 49.8 | 49.7 | 49.2 | 49 | 49.6 | 48.7 | 49 | | |

| | Service | | | | | | | | | | | | 2025 | |
|--------|---------|------|------|------|------|------|------|------|------|------|------|------|------|--|
| | 2024 | | | | | | | | | | | | 2025 | |
| | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | | |
| Global | 52.4 | 52.7 | 54 | 53.1 | 53.3 | 53.8 | 52.9 | 53.1 | 53.1 | 53.8 | 52.2 | 51.6 | | |
| US | 51.4 | 49.4 | 53.8 | 48.8 | 51.4 | 51.5 | 54.9 | 56 | 52.1 | 54.1 | 52.8 | 53.5 | | |
| EU | 51.5 | 53.3 | 53.2 | 52.8 | 51.9 | 52.9 | 51.4 | 51.6 | 49.5 | 51.6 | 51.3 | 50.6 | | |
| UK | 53.1 | 55 | 52.9 | 52.1 | 52.5 | 53.7 | 52.4 | 52 | 50.8 | 51.1 | 50.8 | 51 | | |
| China | 52.7 | 52.5 | 54 | 51.2 | 52.1 | 51.6 | 50.3 | 52 | 51.5 | 52.2 | 51 | 51.4 | | |
| Japan | 54.1 | 54.3 | 53.8 | 49.4 | 53.7 | 53.7 | 53.1 | 49.7 | 50.5 | 50.9 | 53 | 53.7 | | |

Source: JP Morgan, ISM Institute, HCOB, S&P Global /CIPS, Caixin, au Jibun Bank, from 1 March 2024 to 28 February 2025.

Strong outperformance of European equities



Source: Factset. Data rebased.
As at 28 February 2025.

Chart of the month

We have seen a significant change in market dynamics this year, driven by a potential resolution of the Russia-Ukraine war and discussions on increased defence spending across Europe. The European STOXX 600 index outperformed the S&P 500 by approximately 9% in USD terms since the beginning of the year. The contrast is stark compared to last year, where the S&P 500 outperformed European equities by 23%.

The recent announcement from the leaders of the German centre-right parties of a 500bn EUR off-budget infrastructure fund, as well as exempting the defence spending from the debt brake limits, further emphasises the change in approach from the EU to bolster domestic growth. While defence spending may have a limited growth multiplier, as much of it will fund arms purchases abroad, infrastructure investment could provide a stronger cyclical boost to the economy in 2026.

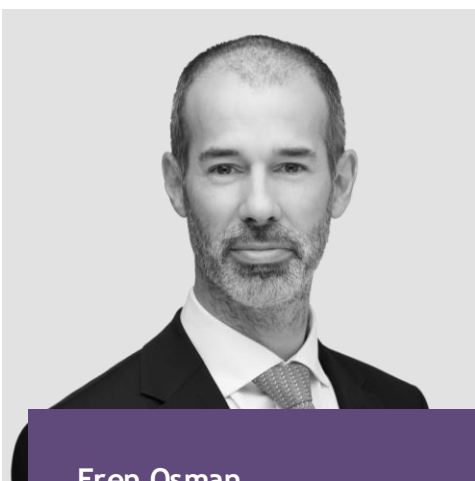
Looking ahead

Last month, we saw US exceptionalism losing steam, with the S&P 500 erasing post-Trump election gains. The shift stems from indicators of slower economic growth and policy concerns around tariffs. However, we believe while the US economy is slowing it is not collapsing. Corporate and consumers remain resilient with healthy balance sheets. A solid labour market is supportive as well. Additionally, US earnings outperformed peers, with Q4 earnings results with US companies growing earnings 11% faster than European peers.

Recent announcements of increased Europe fiscal spend, coupled with further fiscal stimulus in China, are expected to boost global growth. A weaker USD could also serve as a positive catalyst for emerging markets.

Inflation remains volatile. Tariffs and increased spending from Europe and China point to an inflationary environment. Unless the US labour market shows significant weakness, we anticipate the Fed to remain relatively hawkish. Similarly, the ECB may need to adjust its growth and inflation outlook to account for increased fiscal spending, potentially limiting rate cuts in 2025.

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