

Global equities continue their charge despite AI overspending fears



Month in brief

DeepSeek – a new AI market disruptor – sent shockwaves through tech markets in January

UK government bonds recovered after a mid-month scare

The Fed left its lending rate unchanged whilst the ECB lowered rates in January, the BOE then lowered borrowing rates in early February

Investment grade and high yield credit spreads remain very tight

Global equities delivered another 4.2% in January despite a sell-off that saw \$350bn wiped off the market cap of tech giant Nvidia over the month. The robustness of the UK government bond market was put to the test in early January but proved resilient as yields subsided in the second half of the month.

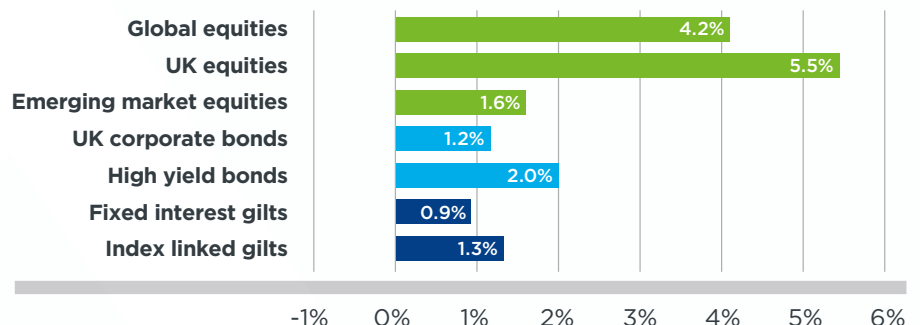
Artificial Intelligence (AI) leader Nvidia broke its own record for single day losses on 27 January when almost \$600bn of value was stripped from its market capitalisation after DeepSeek – a new Chinese entrant to the AI market – released a groundbreaking model that could redefine how AI technology is built at lower costs with less intensive chip requirements. After a 17% fall, Nvidia shares had recovered by 9% to the end of the month.

February started with US tariffs unsettling markets, coming off the back of strong market performance in January. Despite concerns of an overspend on AI amongst the largest US technology companies, global equities continued their recent fruitful run in January. Large inflows into Eurozone stocks – seen as more defensive than tech heavy US stocks – saw the Stoxx Europe 600 index close in on record highs at the end of the month. The FTSE 100 also enjoyed its best monthly performance since the aftermath of the 2022 gilts crisis, delivering 6.1% gains in January.

UK government bond markets were closely watched in January as they came under their biggest strain since the gilts crisis. The 10-year gilt yield rose to its highest level since the 2008 global financial crisis during the month, sparking unfounded concerns of another meltdown in the UK gilt market. The market proved resilient and yields declined as the month progressed, with yields finishing the month fractionally below where they started it.

Equities and bonds posted positive returns in January

One Month to 31 January 2025



Click to watch Ife's two-minute video.

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Stickier than expected global inflation was one of the main drivers of the rise in UK gilt yields in January. Inflation in the United States rose to 2.9% over the 12-months to December which was the key reason for the Federal Reserve (Fed) to leave interest rates unchanged at a range of 4.25%-4.5% in January. The Fed has indicated it is now 'on pause' in its rate reduction cycle after three consecutive rate cuts.

On the other hand, the European Central Bank (ECB) voted to continue cutting rates with a quarter percentage cut to 2.75% in January, citing economic headwinds to its stagnating economy as a key motivator behind the decision. The month ended as the Trump administration was set to impose an array of tariffs on imports to the US. The everchanging situation has created an uncertain outlook for global economies in February. In early February, the Bank of England followed the ECB with a 0.25% reduction in its official rate to 4.5% after concerns over a weakening economy.

In bond markets, credit spreads continue to trade at exceptionally tight spreads by historic comparison. Global high yield spreads also remain well below long term averages and their sustained rally continued in January. However, the potential defaults of Thames Water and French Telecoms giant Altice – two of the European high yield market's largest issuers – are so large they have the potential to push aggregate default levels to their highest in any year since the global financial crisis in 2008. Index linked gilts outperformed fixed interest gilts thanks to a small uptick in long-term inflation expectations.



The 10-year gilt yield rose to its highest level since the 2008 global financial crisis during the month, sparking unfounded concerns of another meltdown in the UK gilt market.

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Ife Ogidan**. Alternatively, please speak to your usual XPS contact.



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