

Markets react anxiously to Trump tariffs



Month in brief

US consumer confidence experienced its biggest monthly decline in over 3 years during February

US stocks suffer but UK and European equities rose

UK inflation rose to 3% but the Bank Rate was cut to 4.5%

Bond markets were much more stable over February

Fears that the Trump administration's aggressive tariff policy could weaken US economic growth prospects saw the biggest monthly fall in US consumer confidence since August 2021 over February. A sharp sell off in US equities had unfolded during the month.

Both the S&P 500 and the NASDAQ managed to recoup some of their February losses in the final trading session of the month but still ended the month almost 1% and 3% down respectively. In contrast, the UK FTSE 100 and European Stoxx 600 indices performed well over February delivering 2% and 3% respectively.

In particular, Europe's defence sector has rallied thanks to bets on increased military and defence spending to come from European governments. A summit of European leaders in London, aimed at securing peace in Ukraine, followed a fiery exchange between Presidents Trump and Zelensky at the White House. Any peace deal is expected to see European governments shoulder more of the responsibility for European security and deterrence of Russia as Trump is yet to be persuaded into offering a US security guarantee.

News that UK CPI inflation had risen to 3.0% over the 12 months to January came not long after the Bank of England's decision to cut rates by 0.25% to 4.5% in early February. Despite inflation being above the 2% target, better than expected retail sales and promising economic growth data has provided a much needed shot of confidence for investors after growing concerns that stagnation could grip the UK economy. Sterling benefitted from a rosier outlook for UK growth and the suggestion that the UK might escape Trump tariffs. Sentiment improved after a positive meeting between Trump and Prime Minister Sir Keir Starmer towards the end of the month and Sterling finished 1.7% up on the Dollar and 1.3% up on the Euro.



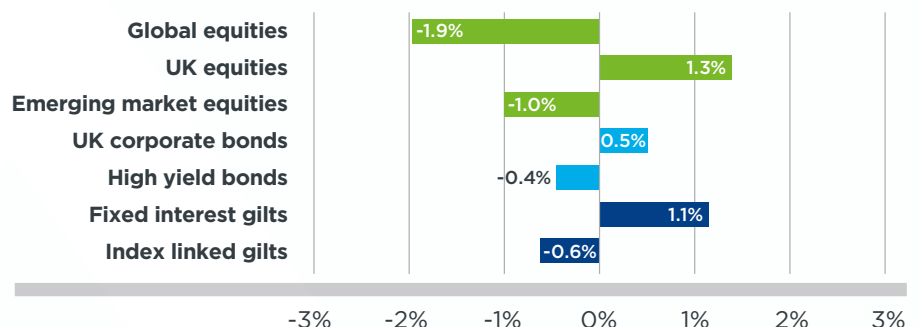
Click to watch Gemma's two-minute video.

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UK equities performed well in February

One Month to 28 February 2025



Meanwhile in Europe, inflation has fallen to 2.4% which prompted the European Central Bank to cut borrowing costs across the Eurozone in early March by 0.25% to 2.5%. The growth outlook for the Eurozone remains pessimistic with the region heavily exposed to tariffs on exports to the US. Expectations are for two further rate cuts in Europe over the remainder of 2025.

Compared to a frantic January, bond markets experienced a much more unassuming February.

Long dated fixed interest gilts posted positive performance and outperformed their index-linked counterparts thanks to a modest fall in long-term inflation expectations during February. UK investment grade credit spreads widened very marginally to the extent that they offset the tightening seen over January and are now back to broadly where they started the year. Credit performance was still modestly positive thanks to the interest earned over the month.

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Find out more

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



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