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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Geopolitics and trade decisions weigh on markets

Key takeaways

Market sentiment stumbled last week as investors once again considered the implications of US tariffs, which are expected to hamper global economic growth and raise inflation. Technology shares also weakened, while bond yields fell.

Revived tariff threats add to investor woes

President Trump's renewed warning that he will impose 25% tariffs on imports from Canada and Mexico, in addition to a further 10% on Chinese goods, rattled investors at the end of the week. Global markets sold off, led downwards by Asia, while the dollar strengthened. US bond yields weakened (and bond prices, which move in the opposite direction, rose) as global economic growth fears increased. Elsewhere, artificial intelligence bellwether stock Nvidia fell by nearly 10%, despite an earnings update that exceeded expectations. This weighed on the technology sector, and contributed to the tech-heavy Nasdaq index recording its largest weekly drop since early September 2024.

The 'Trump Trade' unwinds

Following the US presidential election, the prospect of further deregulation acting as a spur to economic growth propelled outperformance in specific market sectors. Banks, technology and the oil & gas sectors were among the beneficiaries. In contrast, the looming threat of tariffs is now pushing investors into more defensive stock market sectors, such as consumer staples (food, household goods), healthcare and real estate. Investors worry that the additional costs linked to new tariffs will be associated with higher inflation, which in turn may slow the pace of future interest rate cuts by the US central bank, the Federal Reserve.

Defence sector pushes European shares to near record high

Even before last weekend's gathering of European leaders to discuss support for Ukraine, the region's defence sector had performed strongly on prospects of higher European military spending. This has helped European stock markets outperform those in the US so far this year. Even if there is the prospect of a ceasefire and peace between Ukraine and Russia, Trump's 'America First' foreign and defence policies are expected to force Europe to take responsibility for more of its own defence. This has resulted in a surge in defence expenditure and a rally for the share prices of defence companies in the region.

Market moves

Nvidia, the world's second largest company by market value, reported fourth quarter earnings that beat expectations, with sales rising 78% year-on-year and operating profit 77% higher on the same basis.

The oil price dropped over the week, reflecting US tariff concerns and prospects of a peace deal between Russia and Ukraine.

Japan's stock markets fell sharply in response to the selloff in US technology shares, while the possible introduction of tariffs also weighed on investor sentiment.

What to look out for this week

On Tuesday, China will begin its 'Two Sessions' political meetings, which are the gatherings of its top legislature, including the National People's Congress. Budgets and plans for this year will be reviewed, and the annual economic growth target (GDP) announced.

On Thursday, the European Central Bank is expected to announce a further cut in interest rates.

On Friday, the latest US job creation data will be released and is expected to show the unemployment rate steady at 4%.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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