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Wealth & Asset Management

WEEKLY BULLETIN

A surprise from China sends tech shares tumbling

Key takeaways

Artificial intelligence (AI) related shares fell after a Chinese upstart called DeepSeek claimed it could match the performance of more expensive western AI rivals. Ahead of the announcement of new US tariffs at the weekend, investor sentiment partially recovered, and all market sectors delivered positive returns during January.

A low-cost AI model from China shocks investors

The news that a Chinese AI company, DeepSeek, could match the performance of US rivals, while needing less processing power and energy requirements, led a sell-off for AI-related shares in US markets. Investors worried that the planned high levels of expenditure by US technology companies on high-end chips and related infrastructure may not be necessary. As a result, many AI-related shares suffered double-digit percentage losses. $1 trillion of value was lost from US markets, more than half of which was contributed by high-end chip designer Nvidia. Shares in energy utility companies also fell as expected demand for power to drive data centres could be reduced. Investors sought safety in US government bonds. Although stock market indices like the tech-heavy S&P 500 and Nasdaq ended the week lower, sentiment partially recovered, supported by strong corporate earnings results and upbeat reported outlooks from technology giants.

US announces tariffs on its largest trading partners

Announced at the weekend, the US will impose tariffs on all goods from Canada, Mexico and China, its three largest trading partners. This will affect trade worth about $1.3 trillion and represents 43% of US imports (based on 2023 data). Imports from Canada and Mexico will be subject to 25% tariffs (lower for energy products), and there will be a 10% additional tariff on Chinese imports. Unless lifted quickly, this move could lead to significant economic consequences for Canada and Mexico. It could also lead to upside risks to US inflation, possibly causing the US central bank to pause further cuts to interest rates.

Shares deliver a strong start to the year

Despite the sell-off for technology-related shares in the final week of January, all the major US indices ended the month higher, led by the less tech-exposed Dow Jones Industrial Average. Elsewhere, UK shares delivered their strongest monthly performance in more than two years on their way to an all-time-high. Shares in Europe also rose, with the STOXX Europe 600 achieving a record high, helped by the European Central Bank's decision to cut interest rates by 0.25% to 2.75%. The announcement at the weekend about US tariffs on the imports of goods from Canada, Mexico and China is increasing market volatility and expected to dominate the headlines for a while.

Market moves

The US central bank kept interest rates unchanged.

The seven largest shares in the US S&P 500 now comprise 33% of that index – the highest proportion on record.

The gold price had its best month in dollar terms since 2011, rising by 7%.

German inflation in January fell to 2.3% year-on-year, compared with an equivalent 2.6% in December 2024.

What to look out for this week

On Wednesday, Chinese business confidence for January (represented by the Caixin services purchasing managers' indicator) is expected to weaken compared with the previous month.

On Thursday, the Bank of England is expected to cut interest rates to 4.5% from 4.75%.

On Friday, the US jobs report ('non-farm payrolls') for January will be released. Look for job creation of about 205,000, lower than the 265,000 new jobs added in December.

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

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