



## WEEKLY BULLETIN

## Markets react to tariffs and counter tariffs

## Key takeaways

While data releases show the US economy is continuing to perform strongly, the threat of US tariffs and counter tariffs adds a degree of volatility to financial markets.

**Shares recover following a delay to a possible trade war**

Stock markets began the week lower in response to news that the US intended to impose tariffs against Canada, Mexico and China. The tariffs against Canada and Mexico were subsequently delayed for 30 days. US stock markets made a partial recovery as investors focused on strong fourth quarter earnings results, although they still ended the week lower. In contrast, shares in Europe rose, while in Hong Kong the stock market (measured by the Hang Seng Index) ended the week up 4.5%, its best performance for four months. China's stock market (measured by the CSI 300 Index) closed 2% higher as artificial intelligence (AI) company DeepSeek has acted as a catalyst for the domestic AI sector.

**A surprise drop in US unemployment**

Data releases continue to show that the US economy is performing strongly. Latest US jobs data for January showed a surprise drop in unemployment to 4% from 4.1% in December. This was despite lower-than-expected job creation in January. A further sign of the strength of the US economy was strong ISM Manufacturing Index data for January, the highest reading for this private sector survey since July 2022. Investors think the US central bank will not now cut interest rates again until the second half of this year, and so the yield on the benchmark 10-year US government bond rose (and prices, which move in the opposite direction, fell) in response.

**Bank of England cuts interest rates and growth outlook**

A weak domestic economy, and the potential for a more difficult global outlook if a trade war takes place, led the Bank of England to cut interest rates by 0.25% to 4.5%. This was the third rate cut since August 2024. The Bank also halved its already low domestic economic growth forecasts, now expecting a rise of 0.75% this year, compared to the 1.75% it expected last November. By comparison, the Bank expects the US economy to grow by 2.25% in 2025. Despite the UK buying more goods from the US than the other way around, it also warned that UK growth could be vulnerable in the event of a global trade war.

## Market moves

The gold price reached another record high on Friday.

Helped by strong corporate earnings, the UK's FTSE 100 Index reached an all-time high on Thursday.

Difficulties for European automakers continue, with Porsche announcing a shock 2025 profit warning, reflecting low demand for electric vehicles in Europe and weak demand for its cars in China.

## What to look out for this week

On Wednesday, US inflation data for January will be released. Prices are expected to rise by 0.2% month-on-month, and 2.9% year-on-year. The head of the US central bank, Jerome Powell, will testify to Congress.

On Thursday, UK economic growth for the final quarter of 2024 will be released, and is expected to show a rise by 1% year-on-year, but unchanged quarter-on-quarter.

On Friday, US retail sales for January are expected to be flat month-on-month.

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

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