FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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BRITAIN BECOMES ISLAND OF STABILITY AMID SLIDING GLOBAL MARKETS

This week markets were spooked by surveys indicating that the spectre of a trade war has sapped American consumers of their confidence and spiked inflation expectations. Stocks slipped as the stream of gloomy data trickled in while bonds rallied. President Donald Trump fanned the flames mid-week by threatening to slap the EU with a 25% tariff. He approved 25% levies on Canada and Mexico, and also a 10% tariff on Chinese imports. These were due to go into effect in March, policies which he had paused last month. This sent stocks in the US, Asia and Europe downward. Even Nvidia's stellar fourth quarter financial performance, whose blowout results often sent stocks soaring, could not turn the sentiment. Nvidia plunged 8.4%, losing its vaunted $3tn market capitalisation crown in the process, and other big tech firms languished.

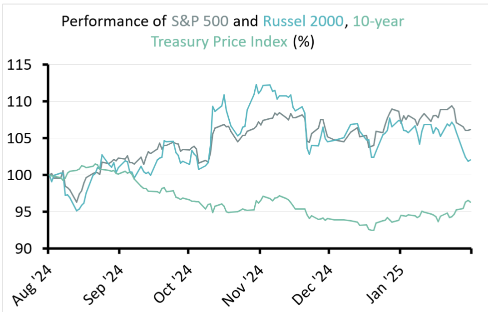
Conversely Britain was an island of stability, with UK equities and the pound gaining, as Prime Minister Sir Keir Starmer turned on the charm in Washington. Trump said a 'real' trade deal was at hand where Britain could escape tariffs. The relationship might be somewhat 'special' after all.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+1.09%	-4.29%	-4.18%	+0.39%	-2.29%	-0.24%	-0.13%	-4.10%	-1.76%	-0.95%	-0.39%

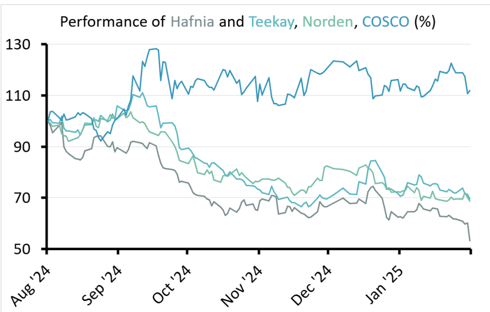
US: WEAK CONSUMER AND BUSINESS DATA SEND STOCKS REELING

A stream of gloomy data from the US showing falling sentiment, a fading housing market, and contracting business activity sent US stocks lower and bonds climbed throughout the week. Investors sought safety as the US economy might be cooling quicker than expected. Business growth may be stalling as services' Purchasing Managers Index, a gauge of business sentiment, contracted for the first time in over two years, offsetting a small pick-up in manufacturing. Separate surveys by the University of Michigan and the Conference Board showed falling consumer confidence while both year-ahead inflation and long-term inflation expectations jumped on uncertainty around tariffs and trade. Also, data showed a slowdown in the housing market.



Weak sentiment spread throughout US stock markets with the S&P 500 and the Nasdaq sliding. Bonds performed better as investors fled riskier assets, pushing the 10-year Treasury yield down to 4.29% from 4.5%, and prices which moves inversely to yields, climbed.

SHIPPING: TRADE TENSIONS HIT LONG-TERM SHIPPING

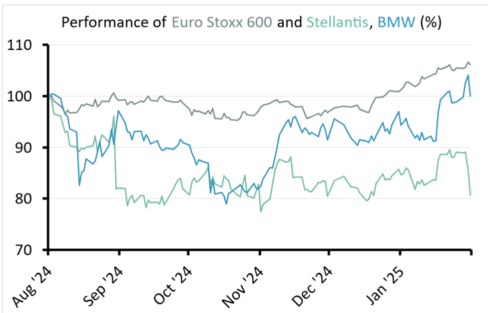


The uncertainty introduced into international trade by Trump has impacted shipping and oil trading. Middle East instability and Houthi attacks on cargo ships in the Red Sea have increased shipping costs by lengthening routes and adding to maritime insurance premiums since last year. Now trade tensions and tariff threats from Washington are delivering uncertainty in shipping in a different way. Tariffs could reroute US seaborne trade with other countries and push more Canadian and Mexican oil to Asia.

In this environment ship brokers and oil traders are avoiding long-term contracts so they can respond to the pace of change and fluid trade policy from the White House. Conversely, shipowners prefer to lease out ships for long periods of time. But there is little appetite for such long-term contracts in the shipping market right now. This means that shipowners have been saddled with the uncertainty, forcing them to curb their fleet size and merge operations to streamline their operations.

EUROPE: AUTOS LEAD THE FALL FROM US TARIFF THREAT

European stocks pared gains at the threat of 25% tariffs on EU goods by Donald Trump. Both the Stoxx Europe 600 and Germany's Dax index eased following the announcement, though they are still up for the week. European equities have broadly outperformed their US counterparts this year, with large cyclical stocks including banks and industrials performing well, as the outlook for the region has slightly improved.



Automakers were particularly hit hard by tariff threats. Volkswagen and Mercedes-Benz in Germany both fell 2%, while Porsche decreased by 2.3%. Stellantis, which owns Peugeot, Fiat and Jeep brands, plunged over 5% as it simultaneously posted a €127m loss for the second half of 2024, compared to a €7.7bn profit a year earlier. Weak consumer sentiment in US, EU and China and mounting uncertainty posed by a range of tariffs are clouding outlooks for carmakers. BMW has paused its £600mn investment plan to produce electric Minis in Oxford as it decelerates electrification.

Data sourced from Investing.com.