REEVES
INVESTMENT SERVICES

Market Outlook

Market Views

Trump's Executive Orders & Chinese AI Shake Markets in January

President Trump wasted no time in his return to the White House, signing numerous executive orders in his first two weeks. These included more than a dozen immigration-related orders, withdrawing the U.S. from global climate agreements, and imposing tariffs on key trading partners.

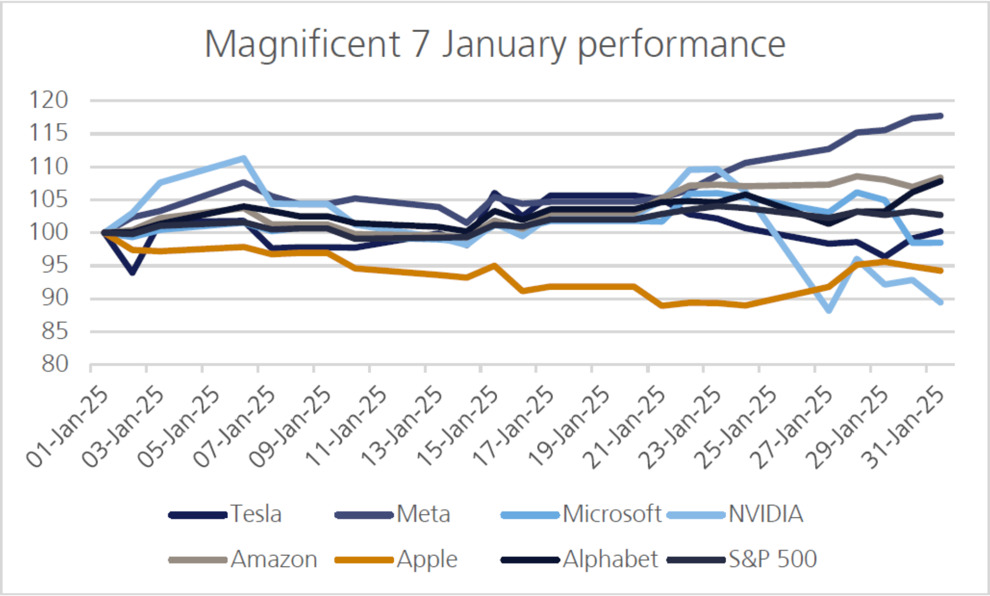
While Trump's actions dominated headlines, a major market shakeup came from an unexpected source—a Chinese AI startup called DeepSeek. The company claimed to have built an AI rival to ChatGPT with far fewer resources than previously thought possible. This revelation triggered a sharp decline in AI-related stocks, with Nvidia losing billions in value and dropping around 17% on January 27. The sell-off caused the S&P 500 to fall by 1.5% in a single day. However, other sectors such as healthcare, finance, and industrials remained strong, helping the S&P 500 post an overall 2.8% gain for the month.

Bond markets also saw volatility, with U.S. and UK government bond yields rising early in the month due to concerns over budget deficits and tariffs. However, these fears later eased, and yields stabilised. The Federal Reserve kept interest rates unchanged after three consecutive cuts since September 2024, while the European Central Bank lowered rates.

The turbulence in AI stocks highlights the risks of over-reliance on a few dominant companies. While passive investment funds remain tied to the biggest stocks regardless of valuation, active fund managers can adapt, manage risk, and find opportunities beyond the most crowded trades.

Equities

In January, stock market gains spread beyond the technology sector. While three of the "Magnificent 7" stocks, including Nvidia, dropped—Nvidia ended the month down 10.6%—the overall market still performed well. The S&P 500 rose 2.8%, and the Russell 2000 gained 2.6%. Strong fourth-quarter earnings boosted sectors like healthcare, finance, industrials, and utilities.



Source: Bloomberg

In January, U.S. government bond yields jumped to 4.9% over fears that Trump's fiscal policies could worsen the already large deficit. However, by the end of the month, they settled at 4.6%. A similar trend was seen in the UK, where 10-year government bond yields rose above 4.8% for the first time in 17 years. Investors were initially worried about the new Labour government's ability to stick to its financial plans, but those concerns eased, bringing yields back down.

Meanwhile, stock markets in Europe performed well. The FTSE 100 climbed 6.2% as investors shifted away from technology stocks and into oil and gas companies. The STOXX Europe 600 also gained 6.4%, boosted by optimism over potential interest rate cuts from the European Central Bank. Germany's DAX reached record highs, rising 9.2% in January, despite the country's economy falling into recession last year.

Central Banks Update

The U.S. Federal Reserve (Fed) kept interest rates unchanged in January, pausing its rate cuts due to uncertainty in the economy and politics. This comes after three rate cuts since September 2024. The Fed expressed confidence in the job market but noted that inflation is still slightly high, making it harder to lower rates further. Fed Chair Jerome Powell said they need to see inflation drop closer to 2% or signs of job market weakness before making any changes.

Meanwhile, the European Central Bank (ECB) cut interest rates by 0.25%, as expected. With slow economic growth in the Eurozone and the risk of new tariffs, the ECB is likely to continue cutting rates at each meeting until mid-June.

U.S. Politics Update

Trump promised big changes in Washington, and he has followed through so far. He has pulled the U.S. out of the Paris Agreement, an international climate treaty, and shut down several domestic programs aimed at tackling climate risks. He also moved to expand oil drilling in Alaska and plans to freeze federal permits for wind farms across the country.

On trade, Trump is sticking to his tough stance on tariffs. At the end of his second week in office, he announced major tariffs on Canada, Mexico, and China. Many experts warn that tariffs can drive up prices and disrupt global trade. Canada and Mexico are facing 25% tariffs on their exports, while China will see a 10% increase on top of existing tariffs. Canada and Mexico plan to retaliate, but as of February 4, their tariffs have been delayed for 30 days after last-minute talks. In response, China imposed new taxes on U.S. coal, liquefied natural gas, crude oil, and several types of machinery and vehicles. The news caused stock markets in Europe and Asia to dip as the U.S. dollar strengthened in early February.

China Update

China has had a tough start to the year, continuing to struggle with a property downturn and slow income growth, which has hurt consumer confidence and business activity. In January, China’s stock markets declined, with the Shanghai Shenzhen CSI 300 Index dropping 2.8% and the Shanghai Composite falling 2.7%. Trump's tariff threats also caused the Chinese yuan to weaken.

Despite these challenges, there are reasons for optimism. More details are expected on President Xi Jinping’s economic stimulus plans, which aim to boost consumer spending and revive the struggling property market. Additionally, China’s rapid advancements in AI highlight its growing technological independence. The AI startup DeepSeek made headlines by developing a ChatGPT rival using only 2,000 chips instead of the usual 16,000 or more, showcasing China’s ability to innovate despite global competition.

Summary

January saw the market rally broadened beyond the tech sector, following disruptions to the industry's dominance. While the "Magnificent 7" companies fell by 0.30% overall, the S&P 500 still gained 2.8%, driven by strength in other sectors, including small-cap stocks.

President Trump has wasted no time pushing forward with his campaign promises, including placing tariffs on major U.S. trading partners. These actions will have global consequences, making it harder for central banks to continue cutting interest rates. Meanwhile, DeepSeek's breakthrough in AI development demonstrated how quickly dominant tech giants can be challenged, emphasising the risks of market concentration. This reinforces the importance of diversification—while passive funds remain tied to the biggest names, active managers can adjust exposure and seek new opportunities.

We continue to monitor these evolving factors when constructing portfolios, prioritising high-quality businesses that show adaptability and resilience in uncertain markets.

Future Focus

In February, our research team will closely track the following developments:

- Trump's tariffs: After vowing during his campaign to impose high tariffs on key U.S. trading partners, Trump has followed through, with the first round announced in early February.
- Bank of England (BoE) meeting on 6 February: The BoE cut rates in November but held them steady in December. Unlike the European Central Bank (ECB), which has a clearer path for rate cuts, the BoE faces uncertainty due to stubborn inflation, which could slow further reductions.
- Germany's political landscape: Following Olaf Scholz's loss in a confidence vote in December, Germany is set for a general election on 23 February. Support for the far-right Alternative für Deutschland (AfD) party has been rising, partially influenced by Elon Musk.

We will continue to analyse these key developments and their impact on global markets.

Outlook by Asset Class/Region

Asset/Region	View
Cash	Positive
Government Bonds	Neutral
Credit Fixed Income	Positive
Property	Neutral
UK Equity	Positive
US	Positive
Emerging	Negative
Asia	Neutral
Commodities	Neutral
Alternatives	Positive
Technology	Neutral

Important information

Pensions are a long term commitment, you may not be able to access your pension funds until the age of 55 (currently), investments can go down as well as up and you might not get back your initial capital. Pension and tax legislation does and can change in the future which could impact your pension.

Please note: The Financial Conduct Authority does not regulate tax planning.

As a mortgage is secured against your property it may be repossessed if you do not keep up the mortgage repayments.

The value of your investment and any income from it could fall or rise, and you may not get back the full amount you invest.

Past performance is not a reliable indicator of future results. We always recommend you talk to a qualified financial adviser before making any investment decisions.

REEVES
INVESTMENT SERVICES

Reeves Investment Services part of Reeves Group
Park View House, Benton, Newcastle Upon Tyne, NE7 7TZ

Tel: 0800 989 0029

Email: investments@reevesifa.com