



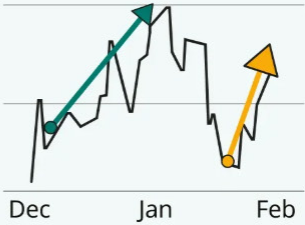
FINURA

YOUR MARKET REVIEW
FEBRUARY 2025



INFOGRAPHIC: THE GLOBAL ECONOMY

Fear alone of Trump's trade policies to impact markets



US dollar fluctuates in response to tariff fears



Irrespective of the final result of tariff threats...



...fears of extreme outcomes are sufficient to drive market volatility...

▶ ...as seen with resumed dollar strength as the US announced tariffs on China, Mexico and Canada



A new trade war could be different than the previous one

X2 Combined share of US imports from Canada and Mexico versus share from China,

Source US Census Bureau.

Trump's first trade war with China had minimal impact on US inflation...



...a second trade war could be quite different...

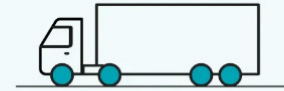
...with Canada and Mexico accounting for double the share of imports



China avoided a lot of the tariffs in first trade war



...however, goods from Mexico and Canada travel over land...



...so tariffs may be harder to circumvent this time around



Source: [Schroders as at February 2025.](#)



MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Long / Positive
● Neutral
● Short / Negative

	Category	View	Comments	
Main Asset Classes	Equities	●	We remain positive on equities as, despite significant uncertainty, equities have shown resilience and resumed an uptrend.	
	Government Bonds	●	We remain neutral on government bonds. Although signs of disinflation offer some support, trade tensions and inflation risks create uncertainty.	
	Commodities	●	Despite a small rally driven by agriculture and precious metals, we remain neutral overall.	
	Corporate Bonds (Credit)	●	We retain our positive view on credit with a continued focus on European high yield. Despite recent volatility, credit spreads have shown resilience, particularly in Europe.	
Equities	US	●	We maintain a positive view on US equities, supported by robust economic growth and strong earnings momentum, despite heightened political uncertainties.	
	UK	●	We remain neutral on UK equities as the economic environment is unclear. Recent forecasts from the Bank of England (BoE) signal potential weaknesses in growth and sticky inflation, suggesting a cautious approach to monetary policy going forward.	
	Europe ex UK	●	We retain our positive view. Although the political landscape in Europe is turbulent, much of it is already reflected in current market prices. Additionally, the market's resilience, despite the risk of potential tariffs, suggests there is room for upside surprise.	
	Japan	●	We maintain a neutral stance on Japanese equities, acknowledging the global uncertainties and lack of strong domestic catalysts to significantly drive the market.	
	Global Emerging Markets ¹	●	We remain neutral on emerging market equities due to ongoing geopolitical risks and the lack of clarity over future global trade policies.	
	Asia ex-Japan: China	●	We maintain our neutral view. While Chinese structural reforms and supportive policy measures provide a foundation for potential growth and stability, uncertainties persist due to ongoing trade tensions with the US.	
	EM Asia ex China	●	We remain cautious. Elevated inventory levels in markets such as Taiwan suggest a potential downturn, as rising inventories often presage stock market declines. This uncertainty is compounded by the potential negative impacts of US trade tariffs.	
	Government Bonds	US	●	We remain neutral. Although valuations have become moderately attractive, robust growth and inflation risks highlight why the Federal Reserve (Fed) has indicated it is unlikely to signal further cuts, at least in the short term.
		UK	●	Our continued neutral view stems from ongoing inflationary pressures and stagflation fears. The BoE's recent forecasts show it now expects lower growth and higher inflation in 2025, indicating a more cautious approach to rate cuts is likely.
Europe		●	We maintain a neutral stance. While we anticipate short-term disinflation, ongoing concerns about trade and geopolitical influences may hinder significant bond market moves.	
Japan		●	We remain neutral on Japanese government bonds. While minimal exposure to tariff risks provides some stability amidst global uncertainties, we see limited immediate drivers for significant bond market moves.	
US Inflation Linked (TIPS)		●	Our stance remains neutral. Since the primary benefit of inflation-linked bonds is to provide a hedge against rising inflation, mixed signals in inflation expectations keep us cautious.	
Emerging Markets Local		●	We remain neutral. EM local rates are looking attractive from a valuation standpoint, with real yields (the return a bond investor earns from interest payments after accounting for inflation) at historically high levels in several EM countries. However, risks lie in the strength of the US dollar and the potential impacts of a global trade war.	

¹ Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.



	Category	View	Comments
Investment Grade Credit	US	●	We remain negative as although valuations remain tight and reflect the high demand, recent signs of flattening demand and considerations around inflation pose some risks.
	Europe	●	We remain neutral on investment grade credit. Valuations in European investment grade are more attractive compared to the US, and interest rate cuts continue to benefit the floating rate nature of the European economy.
	Emerging Markets USD	●	Our view remains neutral. Although we see more value in this sector compared with developed markets, we remain attentive to the possible effects of increasing US yields.
High Yield Bonds (Non-IG)	US	●	We remain neutral. Fundamentals such as stable leverage (where debt levels are manageable relative to earnings) and manageable refinancing costs have provided support to the market. However, flat demand and tight valuations limit upside potential.
	Europe	●	We remain positive on European high yield as valuations remain attractive. European growth expectations are low but positive, the European Central Bank (ECB) remains supportive, and inflation is sticky but currently well-behaved.
Commodities	Energy	●	We remain negative on energy as forecasts for 2025 supply and demand growth predict the market will generate a significant surplus, with OPEC+ still on track to re-deploy supply in the second quarter.
	Gold	●	We retain our positive score as the recent rally in real yields has significantly boosted gold prices year-to-date. Nonetheless, the trend of central bank gold purchasing remains strong, and gold is still under-owned by investors. This implies that fear of missing out could further drive demand.
	Industrial Metals	●	We remain neutral as although there has been an increase in the global demand outlook, the overall narrative for metals remains dominated by weaker demand growth in China.
	Agriculture	●	We remain neutral on agriculture. Grain prices have risen recently due to worsening conditions in South America. However, the broader outlook remains one of strong supply dynamics, falling input costs, and the potential for tariff retaliation to lower prices.
Currencies	US \$	●	At least in the short term, the US dollar should be the clear winner amid trade tensions. With the persistent risk of a hardline stance on tariffs and a quiet January that saw favourable technical conditions, we maintain our positive outlook.
	UK £	●	We hold a neutral view on the pound. While the UK has temporarily avoided tariff risks, the overall outlook remains fragile. Additionally, there is a risk that services inflation may not continue its recent decline due to persistent wage pressures.
	EU €	● ▼	We have downgraded to a negative outlook as we see the euro as vulnerable to US trade policies, especially tariffs.
	CNH ¥	●	Our view on the renminbi remains negative, viewing it as a primary target in ongoing trade tensions between the US and China. We expect there may be further impact from retaliatory tariffs and anticipate a weaker currency going forward.
	JAP ¥	●	Our view on the yen remains neutral. Given its immunity from tariff threats so far, we recognise it has potential to serve as a safe haven amid market volatility and tariff uncertainties.
	Swiss F	●	We maintain a neutral stance on the Swiss franc. Despite the risk of depreciation, the currency's reputation as a safe haven should provide underlying support.



Source: [Schroders, February 2025](#).

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

MARKETS REVIEW

A look back at markets in February when US shares fell amid growth concerns and European markets gained.

THE MONTH IN SUMMARY

A look back at markets in February when US stocks fell while European shares outperformed. Bond yields fell (meaning prices rose) amid signs of rising risks to growth.

THE US

US shares fell in February amid some softer economic data and worries over the potential impact of trade tariffs on the US economy. The weakest sectors were consumer discretionary and communication services, while consumer staples led the gains. Another factor weighing on returns was lingering worries over the sustainability of earnings from US mega cap tech stocks, notably those exposed to the artificial intelligence theme.

Economic data raised some concerns over the health of the US consumer. Data from the Bureau of Economic Analysis showed personal consumption expenditure (PCE) fell 0.2% in January. This was the first negative reading in nearly two years and came in the wake of some cautious comments from US retailers about uncertainty ahead.

Some of that uncertainty surrounds trade tariffs, and the fear that tariffs could cause inflation to increase. President Trump threatened to impose 25% tariffs on goods from the EU and said that the planned tariffs on Canadian and Mexican goods would come into force in early March, following a one-month pause.

Read more: [Who is at risk of tariffs and what do they mean for equity markets?](#)

Minutes from the January Federal Open Market Committee (FOMC) meeting indicated that policymakers want to see “further progress on inflation” before considering any further rate cuts. The Federal Reserve (Fed) had kept rates on hold at the January meeting.

EUROZONE

Eurozone shares advanced in February. The financials sector led the gains with bank shares generally performing well amid robust corporate earnings and plans for shareholder returns. Other top gaining sectors included communication services. Within industrials, defence stocks moved markedly on expectations that European governments will have to lift military spending. The information technology and healthcare sectors underperformed in the month.

Investors began to anticipate a ceasefire between Russia and Ukraine. Politics was a key focus in the month amid tense meetings between European leaders and the Trump administration. Germany held elections which, as expected, saw Friedrich Merz’s Christian Democrats (CDU) emerging as the largest party. Negotiations to form a governing coalition will now begin. A coalition between the CDU and the Social Democrats (SPD) appears the most likely scenario. Key issues for the incoming government include the need for more defence spending.

Read more: [German elections: reform needed, but what’s feasible?](#)

The flash purchasing managers’ index (PMI) showed business activity in the eurozone continued to show marginal expansion.



The composite PMI was 50.2 in February, the same level as in January. PMI data is based on surveys of companies in the manufacturing and service sectors. A reading above 50 indicates growth while below 50 indicates contraction.

UK

UK equities rose in February. The financials, healthcare, and industrials sectors were the top gainers. The consumer discretionary, consumer staples, and basic materials sectors underperformed.

Large cap banks, defence companies and the big pharmaceutical groups led the FTSE 100 higher. Meanwhile, sentiment towards UK small and mid-sized companies continued to deteriorate over the period, weighing on the FTSE 250 and FTSE Small Cap indices.

UK small and mid-sized companies underperformed amid ongoing worries around the domestic economic outlook. This was reflected in the poor performance of a number of consumer-facing sectors such as housebuilders and retailers. News that the UK had narrowly avoided a technical recession at the end of 2024 provided little respite to sentiment.

While government bond markets stabilised, the UK's fiscal outlook remained a concern. In response to a growing European security threat Prime Minister Keir Starmer announced an unexpected increase in defence spending to 2.5% of GDP by 2027. This pledge, however, added to fears that UK Chancellor Rachel Reeves might need to raise taxes again.

The reprieve from a better-than-expected inflation reading in December proved short lived as the Office for National Statistics

revealed that Consumer Price Index inflation in January had risen to 3%, its highest rate in 10 months. The Bank of England cut interest rates by 25 basis points.

The UK was spared US tariffs. This helped sterling strengthen over the period (following a very poor January on fears about the country's fiscal outlook), as did hopes for improved EU relations.


JAPAN

The Japanese equity market declined in February, closing the month with a negative return of -3.8% for the TOPIX Total Return in yen terms. The Nikkei 225 fell by -6.1%, underperforming the TOPIX due to weak performance in large-cap stocks, particularly in the technology and exporter sectors.

Market sentiment continued to be heavily influenced by developments in the US, particularly the uncertainty surrounding trade policies. This lack of visibility has increased market uncertainty, leading investors to adopt a risk-off stance. As a result, Japanese equities - especially AI-related stocks, which had previously performed well, along with exporter stocks - experienced a sell-off.

Additionally, concerns have grown that these uncertainties could hinder US economic activity and lead to an economic slowdown, which contributed to a decline in US government bond yields. On the domestic front, solid economic data, including December-quarter GDP figures, and hawkish comments from some Bank of Japan (BOJ) officials, led to an increase in Japanese government bond yields and a narrowing interest rate gap with the US. Consequently, the Japanese yen appreciated against the dollar, further pressuring exporter stocks.





Meanwhile, Japanese companies reported their December-quarter earnings. Despite headwinds such as rising costs due to domestic inflation and uncertainty in global markets impacting exporters, overall results indicated that Japanese companies managed these challenges well, maintaining a solid earnings trend. Ongoing improvements in corporate governance, including share buybacks and dividend hikes, provided additional support to the Japanese equity market.

EMERGING MARKETS

Emerging markets (EM), as measured by the MSCI EM index, rose in US dollar terms in February. China drove the gains as it continued to benefit from optimism about its AI capabilities following the initial release of DeepSeek's lower-cost open-source AI model in January. The EM index outperformed the MSCI World index and S&P 500 Index, both of which declined over the month.

Poland was notably strong on the back of optimism about a potential end to the Russia-Ukraine war. The smaller markets of Kuwait, Greece, Chile and the Philippines all posted positive returns. Mexico gained as US tariffs, which were announced on 1 February, were paused until 4 March. The UAE and Qatar were also ahead of the broader index, while South Africa performed broadly in line with it, helped by strong performance from some financial services companies and index heavyweight Naspers, which owns a stake in Chinese internet company Tencent.

Korea posted negative returns with foreign equity outflows contributing to the market's underperformance. The Bank of Korea cut the policy rate by 25 basis points to 2.75% and downgraded its GDP growth forecast in response to growth concerns. Saudi Arabia lagged the broader index amid weaker

energy prices while Taiwan ended the month in negative territory, led lower by poor performance from some tech stocks.

Brazil's underperformance came against a backdrop of slowing economic growth data, as did India's. The Reserve Bank of India (RBI) lowered the repo rate for the first time in almost five years in February, to 6.25%. The repo rate is the level at which the central bank lends to commercial banks. The RBI said it was maintaining a neutral stance to provide a supportive backdrop for growth. Thailand and Indonesia posted the biggest losses in the month with growth concerns weighing on these markets.

ASIA (EX JAPAN)

Asia ex Japan equities achieved a modest gain in February. China, Hong Kong, and the Philippines were the best-performing markets in the MSCI All-Country Asia ex Japan Index. Indonesia, Thailand, and India were the worst-performing markets in the month.

Shares in China were sharply higher after government stimulus measures, such interest rate cuts, support for the country's troubled property sector, and liquidity injections, helped to stabilise the economy and restore investor confidence. Advances in artificial intelligence (AI) by Chinese companies has also led investors to reevaluate China as a leader in the technology sector with strong growth potential.

Shares in Hong Kong also achieved strong gains in the month, driven by technology and ecommerce stocks. Share prices in Taiwan were weaker in February amid fears over tariffs imposed by Donald Trump on semiconductor exports to the US and concerns over a potential slowdown in AI investments by some of the large US technology companies.

Share prices in India were also weaker in February amid signs of a slowdown in the Indian economy. Stretched valuations of Indian stocks and a weak rupee also weakened investor sentiment towards the country in February.

GLOBAL BONDS

February saw an increase in market uncertainty, especially in the US. This was driven by the current US administration's policy agenda, as well as several key indicators showing signs of weakness in the economy, including a dip in consumer confidence and retail sales.

As investors allocated to less riskier assets, US Treasuries found favour, causing yields to drop (yields move inversely to prices). At month-end, US 10-year Treasuries yielded 4.2% and two-year 3.99%.

On the corporate bond front, market conditions were less favourable. Investors began pricing in more risk, causing corporate bond spreads (the difference in yields between corporate and government bonds) to widen across both investment-grade and high-yield markets. In contrast, European corporate bonds fared better, with investment-grade spreads remaining unchanged, and a tightening of high-yield spreads reflecting the uncertainty around US economic outlook.

Investment grade bonds are the highest quality bonds as determined by a credit rating agency. High yield bonds are more speculative, with a credit rating below investment grade.

US Treasuries outperformed other global government bond markets. European government bond markets saw modest returns with 10-year German Bunds yielding 2.39%, Spanish 10-

year government bonds 3.10%, and Italian 10-year government bonds 3.47%.

Events in Europe grabbed attention, including the German elections, where the Christian Democrats (CDU/CSU) led by Friedrich Merz claimed victory. Additionally, ongoing discussions about the war in Ukraine raised questions about defence spending across Europe, and the Trump administration's aggressive use of tariff threats also increased market uncertainty.

In Asia, both China and Japan saw an increase in bond yields. In Japan, new data revealed that the economy grew at an annualised rate of +2.8% in the fourth quarter, significantly higher than the expected +1.1%. This stronger growth raised concerns about inflation and future interest rates, leading investors to adjust their risk.


In the UK, consumer demand continued to weaken, with rising prices for basic necessities and a softening job market. The Bank of England (BoE) cut interest rates by 25 basis points to 4.5%.

Meanwhile, Australia's central bank also cut its cash rate target from 4.35% to 4.10%, marking its first rate cut since 2020, as it reported progress in reducing inflation. The Reserve Bank of New Zealand followed suit with a third consecutive 0.5% rate cut, bringing its cash rate to 3.75%.

COMMODITIES

The S&P GSCI Index declined in February. Livestock and agriculture were the worst performing components of the index, while industrial metals and precious metals gained in the month. In agriculture, the price of cocoa was sharply lower, while price





falls for wheat, corn, soybeans, and cotton were more muted. Sugar and coffee prices gained in the month.

Within energy, the price of natural gas was sharply higher. In industrial metals, all sub-components advanced in February, with copper and lead achieving the highest price gains. In precious metals, the price of silver fell, while gold achieved a modest price gain.

DIGITAL ASSETS

February saw a meaningful retracement from the rally in digital assets that followed the US election in November last year.

While some of this may be profit taking, factors such as political tensions, trade concerns, inflation risks and central bank policies are also impacting digital asset markets.

In this context, Bitcoin recorded its largest monthly loss since June 2022, dropping 21%. Ethereum and Solana underperformed and dropped by 35% and 39% respectively.

On the regulatory front the US Securities and Exchange Commission (SEC) reportedly halted or dropped several ongoing lawsuits against several major cryptocurrency entities. These cases had previously centred on allegations of unregistered securities offerings or operating without proper licenses. This marks the official end of regulation through enforcement that was the approach under the previous US administration.

TOTAL RETURNS (NET) % – TO END FEBRUARY 2025

Equities	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	-0.7	-0.8	-2.0	15.6	20.3	16.2
MSCI World Value	1.6	1.5	0.2	15.2	19.9	15.8
MSCI World Growth	-2.8	-2.9	-4.1	16.0	20.7	16.6
MSCI World Smaller Companies	-3.3	-3.4	-4.6	7.7	12.0	8.2
MSCI Emerging Markets	0.5	0.4	-0.8	10.1	14.5	10.6
MSCI AC Asia ex Japan	1.0	1.0	-0.3	14.1	18.8	14.7
S&P500	-1.3	-1.4	-2.6	18.4	23.2	19.0
MSCI EMU	3.5	3.4	2.1	10.6	15.1	11.1
FTSE Europe ex UK	3.5	3.5	2.2	10.0	14.5	10.5
FTSE All-Share	2.7	2.6	1.3	17.8	22.6	18.4
TOPIX*	-1.1	-1.2	-2.4	1.9	6.0	2.4

Government Bonds	1 MONTH			12 MONTHS		
	USD	EUR	GBP	USD	EUR	GBP
JPM GBI US All Mats	2.1	2.1	0.8	5.0	9.2	5.5
JPM GBI UK All Mats	2.1	2.1	0.8	0.9	5.0	1.4
JPM GBI Japan All Mats**	2.1	2.0	0.7	-4.7	-0.9	-4.3
JPM GBI Germany All Traded	0.7	0.6	-0.7	-1.0	3.0	-0.5
Corporate Bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global Broad Market Corporate	1.6	1.6	0.3	5.4	9.7	5.9
BofA ML US Corporate Master	2.0	2.0	0.7	6.8	11.1	7.3
BofA ML EMU Corporate ex T1 (5-10Y)	0.8	0.7	-0.5	3.4	7.6	3.9
BofA ML £ Non-Gilts	1.8	1.8	0.5	4.5	8.8	5.0
Non-investment Grade Bonds	USD	EUR	GBP	USD	EUR	GBP
BofA ML Global High Yield	0.9	0.9	-0.4	9.3	13.8	9.8
BofA ML Euro High Yield	1.2	1.2	-0.1	5.4	9.7	5.9

Source: LSEG DataStream. Local currency returns in February 2025: *-3.8%, **-0.7%.

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Source: [Schroders, February 2025](#)

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