


# January Market Update: fasten your seatbelts – turbulence ahead

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## In a nutshell

- Trump signs a flurry of executive orders
- Bond yields reflect investor concerns
- DeepSeek puts an AI cat amongst the pigeons

It's been a lively start to the year. Donald Trump has dominated the news, signing a raft of executive orders and sharing some, let's say, questionable opinions during his first month in office. If he continues at this pace, four years is going to feel like a very long time… But, despite the political noise, markets have broadly taken things in their stride, with all major equity regions posting positive returns in January.

## Trumponomics: a turbulent start

We all knew Trump has big plans, but the sheer volume and tone of the executive orders he's signed still has a certain shock factor. A national energy emergency, a national border emergency, pardoning the 6th January rioters, pulling out of the World Health Organisation (WHO), to name a few. Add to this the continual threat of global tariffs and attempts to remove any trace of Diversity, Equity and Inclusion (DEI) initiatives in the US, and the economic, political, and cultural landscape looks very much in flux.

Not all of corporate America are getting in line with policy though. While Mark Zuckerberg is cosying up to Trump and rolling back DEI initiatives at Meta, others are standing firm on their commitments.

For markets, the speed and direction of change from Trump – whether on currency, bitcoin or equities - isn't new for investors. Risk is an important element for functioning financial markets, but digesting the current situation does feel tricker than normal.

## Bonds yields on the move

With all that in mind, an interest rate hold from the Federal Reserve (Fed) not only made sense, but was very much expected. With lingering concerns around inflation and a labour market just about holding up, there wasn't a real need to loosen financial conditions, regardless of how much Trump might want rates to come down.

Following a few volatile weeks for bond yields, there was undoubtedly a desire from the Fed to keep things calm. The US 10-year yield jumped to 4.8%, before finishing the month roughly where it began. The UK market followed suit, peaking at 4.9% before falling back. Most of this was driven by US market movements rather than domestic factors, though the (lacking) credibility of the UK government mean debt costs remain a challenge. Rachel Reeves' pro-growth speech didn't do much to shift sentiment – tangible signs of change are needed for that.

In Europe, the European Central Bank (ECB) cut interest rates again (now at 2.75%), in the hope of boosting growth and countering potential Trump tariffs. Unlike the UK, the fight against inflation is seen as a done deal in mainland Europe, giving the ECB more flexibility with policy rates.

Meanwhile, the Bank of Japan (BoJ) raised rates by 0.25%, in contrast with most other developed market economies. Confident that inflation and wage growth are beginning to embed themselves in the structure and culture of Japan, the BoJ pushed rates to 0.5% - the highest level in 17 years. This time, unlike last summer, the currency markets took it in stride.

## DeepSeek shakes up AI

Tech stocks were briefly rattled by the emergence of DeepSeek, a Chinese AI tool, reportedly built for a fraction of the cost of rivals and using older technology. The strong performance raised questions about the hefty spending by others and the current assumptions around market leadership. Whether DeepSeek proves to be a real game-changer or not, the fact it knocked Nvidia shares by 17% in a single session shows the level of volatility in some of these big tech stocks - trading on very stretched valuations.

## The Gaza ceasefire

Finally, some much needed good news: a ceasefire has been agreed in Gaza. Whether credit lies with Biden or Trump is neither here nor there, the hope is that the terms hold and lead to a lasting resolution.

| Name | 1m | 3m | YTD | 1yr | 3yr |
|---|---|---|---|---|---|
| FTSE Actuaries UK Conventional Gilts All Stocks | 0.80 | 0.17 | 0.80 | -0.35 | -19.96 |
| ICE BofA Global Corporate | 0.65 | 0.76 | 0.65 | 4.17 | -2.08 |
| ICE BofA Global High Yield | 1.24 | 2.03 | 1.24 | 9.84 | 10.59 |
| FTSE All Share | 5.52 | 6.91 | 5.52 | 17.06 | 25.49 |
| FTSE USA | 3.89 | 10.34 | 3.89 | 29.55 | 49.14 |
| FTSE World Europe ex UK | 8.15 | 6.00 | 8.15 | 11.08 | 26.49 |
| FTSE Japan | 2.37 | 5.19 | 2.37 | 7.74 | 24.96 |
| FTSE Asia Pacific ex Japan | 1.86 | 0.88 | 1.86 | 19.24 | 12.28 |
| FTSE Emerging | 1.60 | 1.65 | 1.60 | 20.35 | 10.36 |

*Source: FE Analytics, GBP total return (%) to last month end*

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