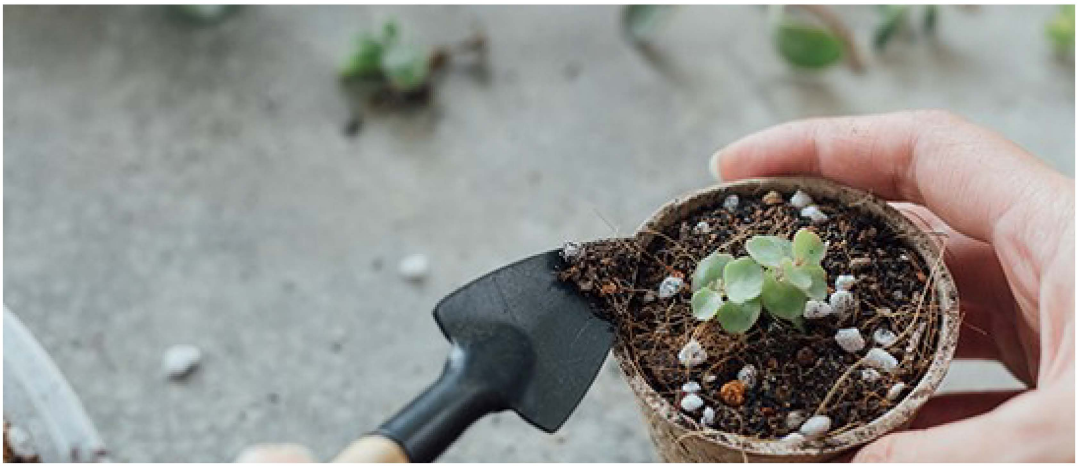

Article MARKET COMMENTARY

Market round-up: 27 – 31 January

Tom Watts recaps the week and looks ahead to next week.

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This week just ended

Long ago in China, so the story goes, the Jade Emperor decided there should be a way of measuring time. On his birthday he told the animals that there was to be a swimming race, with the first twelve animals to cross a fast-flowing river each having a year of the zodiac named after them.

With four animals (and a dragon) having already made it across the river, the emperor then heard the sound of the horse's hooves. Just as he was thinking the horse would be the next animal to arrive across the riverbank, a sneaky snake wriggled out from around one of its hooves. The horse was so surprised that he jumped backwards giving the snake a chance to take the sixth place in the race. The poor horse had to be satisfied with seventh place.

With Chinese New Year landing on Wednesday this week, so now we enter the Year of the Snake, a year associated with 'deep thinkers and those good at problem solving', so how apt it was then that the market moving news from China exhibited that exact sentiment.

DeepSeek AI, a low-cost Chinese artificial intelligence start-up from Hangzhou, rattled US tech stocks on Monday, tanking the value of the world's largest company, chip maker, Nvidia, by as much as 17%, wiping $593 billion from its market capitalisation in a day, the largest one-day loss in history. The semiconductor sub-index also fell 9.2%, suffering its biggest loss since March 2020.

The relatively unknown AI assistant says it uses less data at a fraction of the cost of incumbent services and by Monday had overtaken U.S. rival ChatGPT in terms of downloads from Apple's App Store, triggering the selloff. Its apparent ability to match OpenAI's capabilities at a much lower cost has posed questions over how, much like a snake, it could *constrict* the business models and profit margins of U.S. AI giants.

Perhaps the provincial government's office in Zhejiang, where DeepSeek is based summarised the situation best this week, 'The moon overseas is not actually more round, whatever others can do, we can also do it and even do it better.'

Whilst markets steadied during the rest of the week, recouping much of the losses from earlier on, with UK and European benchmarks reaching new highs, all eyes were back on US markets as the Federal Reserve held a press conference on Wednesday, holding interest rates steady.

As expected, Fed Chair, Jerome Powell, said the central bank is 'well-positioned' for the challenges ahead and noted the risks to cutting rates too aggressively, saying 'we know that reducing policy restraint too fast or too much could hinder progress on inflation.'

After the full press conference, interest rate futures showed that investors now expect the central bank to hold off on cutting rates again until at least June.

Much like the snake's forked tongue, the European Central Bank (ECB) diverged from the Fed this week, cutting rates by a further 0.25% on Thursday, leaving borrowing costs at 2.75% on the continent. A largely expected move and the seventh such cut since June. Christine Lagarde, head of the ECB commented that 'wage growth is moderating as expected, and profits are partially buffering the impact on inflation.'

Markets now believe the ECB will cut again during their March meeting with even a small chance of a jumbo 0.5% cut starting to be priced in.

With snakes in mind, rounding off the week, it was now the world's most valuable company's turn to report its earnings figures. Apple disclosed headline results in line with many predictions but falling short on tempting Chinese consumers in particular for its iPhones. Coming in at $18.5 billion, below estimates of $20.9 billion, an 11% year-over-year decline in the one of the world's quickest growing smartphone markets, the poor performance in China was the only blot in Apple's copy book, with their non-device offerings including the App Store, AppleCare and Apple Music all aiding year on year growth – it all adders up, as they say!

This coming week

Although banks and markets will be closed in China in observation of their New Year celebrations on Monday, it doesn't mean there will be a quiet start to the week, as Monday morning brings us a range of Purchasing Manager Index readings for the Manufacturing sector. The readings should cover all major economies, including China, Eurozone heavyweights, the US and the UK, giving us a strong feel for how the economy is shaping up from a company level. The data acts as a leading indicator of economic health, with businesses reacting quickly to market conditions, and their purchasing managers holding perhaps the most current and relevant insight into the company's view of the economy.

With all that data focussing on what countries are making, Thursday gives us a chance to see what the Bank of England (BoE) makes of the domestic data that has been coming our way, most likely cutting rates by a further 0.25% to 4.5%. With the move fully priced into the market, the big question is, will those on Threadneedle Street nudge investors to expect faster reductions than they currently predict as the economy begins to flatline.

Last week investors were beginning to price in three 0.25% rate cuts during 2025, compared with fewer than two in early January, when there was a sharp but short-lived surge in British government bond yields. Public engagements from BoE members have been thin on the ground since the start of the year but those who have offered views have tended to stress the potential for lower interest rates going forward.

The coming week also takes on a distinctly US labour themed feel, with Job openings data followed by unemployment claimant count figures and Non-Farm Payroll (NFP) figures. All are important in their own way and together, help us build a comprehensive picture of how the employment landscape in the US is shaping up.

However, NFPs are the most highly regarded by the US Federal Reserve, we should expect heightened market volatility come the end of the week during its release. The data itself will be accompanied by Average Hourly Earnings, allowing us to gauge future inflation expectations as the more consumers earn, the more they tend to spend. It all combines to be a vital piece of data for the Federal Reserve and should take on added significance with the labour market in the US having shown to be heating up again at a rate that could make the Fed uncomfortable.

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Back to top

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