

# Quarterly Market Commentary March 2025

## Economic challenges, monetary policy shifts, and overarching global uncertainties

**W**elcome to the March 2025 issue of *Quarterly Market Commentary* from Irwell Wealth Management.

Global markets displayed mixed performance from December 2024 to February 2025, shaped by various macroeconomic factors, adjustments in monetary policy, and geopolitical developments. Similarly, UK markets experienced a range of outcomes during this period, influenced by economic challenges, monetary policy shifts, and overarching global uncertainties.

During this period, the FTSE 100 showed resilience. However, this optimism was tempered in early 2025 as political uncertainties regarding key domestic policies increased market volatility. In February, the Bank of England reduced interest rates to 4.5%, halved its UK growth forecasts for the year, and cautioned that households would face renewed pressure from rising prices.

Equities across Europe also exhibited mixed performance, as those of its continental peers offset the UK's results. The STOXX 600 lagged, hindered by weak industrial output and adverse fluctuations in energy prices. The outlook in North America seemed more optimistic,

buoyed by strong holiday spending supporting tech-heavy indices like the Nasdaq.

However, US markets began to show signs of fragility in early 2025 amid growing concerns regarding the Federal Reserve's hawkish stance. Asian markets were mixed; while China's recovery displayed strength, Japan's Nikkei index struggled due to challenges from higher bond yields.

The bond markets reflected cautious investor attitudes globally. UK gilt yields rose slightly in December, tracking inflation concerns, but stabilised thereafter as economic data indicated slower growth ahead. European bonds generally faced upward yield pressures as the European Central Bank maintained a tight monetary policy amidst persistent inflation. Conversely, US Treasury yields surged early in the period due to strong labour market data but settled in January on expectations of economic cooling. Emerging market bonds showed modest gains, attracting interest from yield-driven investors recovering from earlier bearish sentiment.

Commodities exhibited varied performance during the period.

Crude oil prices rallied in December, supported by strong holiday travel demand and OPEC+ production cuts. However, energy markets turned cautious by February as fears of slowing global demand weighed on sentiment. Gold continued to act as a safe haven, with its price advancing amidst geopolitical tensions and market uncertainty. Industrial metals saw an initial bounce due to Chinese demand recovery but later eased as global economic activity showed signs of moderation. Looking ahead, global markets remain delicately balanced. The interplay of opportunities in sectors such as technology and energy efficiency, coupled with challenges like persistent inflation and sluggish economic growth, will be critical. For the UK, investor sentiment may hinge on clearer economic policy directions from the government and further insights from the Bank of England.

Internationally, markets may gain additional clarity in the coming months from central bank actions and ongoing developments across Europe and Asia, indicating a cautious yet strategic approach for investors navigating these uncertain conditions.

**TAKE CONTROL OF YOUR WEALTH, YOUR WAY**

Your ambitions deserve a plan as unique as you are. With our personal and proactive approach to wealth management, we take the time to understand your goals and develop tailored solutions for every stage of your life. Start building your financial future with confidence—contact us today to begin your customised wealth management journey! To discuss your requirements, please contact us for further information.

*Global markets displayed mixed performance from December 2024 to February 2025, shaped by various macroeconomic factors, adjustments in monetary policy, and geopolitical developments.*

---

THIS PUBLICATION DOES NOT CONSTITUTE FINANCIAL, INVESTMENT, TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH.

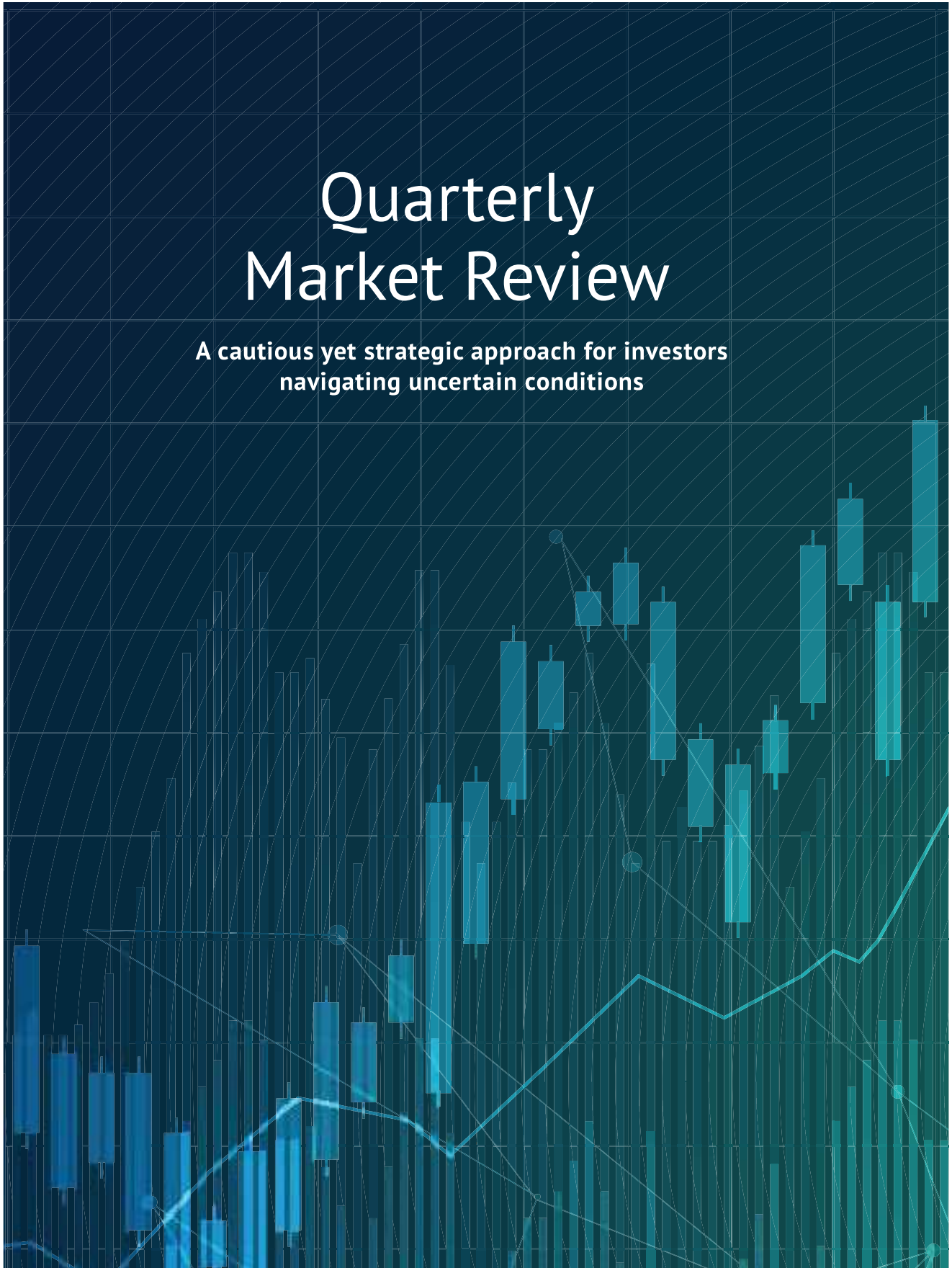
THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, ALWAYS SEEK PROFESSIONAL ADVICE.

# Quarterly Market Review

A cautious yet strategic approach for investors  
navigating uncertain conditions



## UK

December's highly anticipated festive sales period fell short of expectations, highlighting ongoing challenges within the UK retail sector. Retail sales volumes decreased by 0.3% in December 2024, contrary to forecasts predicting a 0.4% rise. This marked the worst performance since March 2024, as food sales dropped to their lowest levels since 2013. Weaker-than-expected consumer spending during the holiday season added pressure, while rising operational costs—driven by higher wages and taxes—significantly burdened businesses.

The NatWest SME Growth Tracker further underscored these challenges. In December, SME activity dropped below the 50.0 contraction threshold to 48.7, indicating a sharp downturn in manufacturing and subdued consumer activity. These difficulties defined a challenging end to 2024 for UK markets, exacerbating uncertainty about the economic path ahead.

Despite these headwinds, the FTSE 100 closed the year on a solid note, ending December 2024 at 7,950 points. This closing figure reflected a modest upswing from its recent lows, with the energy and defensive sectors providing some stability as investors sought refuge in larger, resource-driven companies.

UK equities began 2025 with renewed optimism, fuelled by larger corporations that created upward momentum throughout January.

The energy, industrial, and financial sectors led the growth, capitalising on global trends such as high energy demand and significant infrastructure investment. The FTSE 100 soared further during this period, reaching a record high of 8,505.22 points on January 17. This performance coincided with easing inflationary pressures, which boosted investor confidence and spurred a rally in equity markets.

The Purchasing Managers' Index (PMI) for mid-market firms also provided positive signals, registering an encouraging score of 53.3 in December. This signalled growth in the services sector and a resurgence in momentum for mid-sized enterprises. Large-cap UK companies, long supported by value-seeking investors shifting away from overvalued US technology stocks, continued to benefit from these broader trends. However, this resilience contrasted sharply with the challenges faced by smaller and mid-sized enterprises (SMEs).

SMEs faced significant hurdles in January, burdened by fiscal uncertainties and market volatility. Their stagnant PMI, along with a sharp decline in manufacturing output to 41.1 in December, highlighted their struggles with increasing input costs and diminishing demand. Decreasing investor confidence affected domestically focused enterprises the most, as concerns about the UK's fiscal outlook persisted. The first half of January presented considerable challenges, further emphasising the uneven recovery between well-capitalised large corporations and vulnerable SMEs.

Rising gilt yields and a weakening pound throughout January added to these challenges, increasing investor caution towards UK assets. The 10-year gilt yield showed significant volatility during the month, though it began to ease in February, reflecting early signs of market stabilisation. This trend mirrored improvements in currency stability, suggesting that

tentative government interventions were having a calming effect.

By February, signs of recovery began to emerge despite ongoing challenges. The FTSE 100 closed the month at another record high, 8,659.37 points. This historic performance was bolstered by strong corporate earnings and renewed interest in resource-driven sectors, underscoring the resilience of large-cap stocks.

With the government facing criticism over the sluggish economy, the Bank of England's monetary policy committee (MPC) voted in February by a majority of seven to two to reduce interest rates from 4.75% to 4.5%. This decision aims to provide some financial relief to borrowers. Additionally, the bank halved its UK growth forecasts for this year and warned that households would experience renewed pressure from rising prices.

Broader economic sentiment remained cautious in February. Corporate investment lagged amid modest growth expectations, and consumer activity did not significantly revive. The PMI for UK services slightly declined to 49.9, hovering near the contraction threshold, while manufacturing displayed only a slight upward movement. Sectors heavily reliant on domestic demand continued to face challenges, particularly as discussions of potential US trade tariffs resurfaced, raising concerns about market exposure for UK equities.

Resource-led large corporations largely navigated these pressures through their diversified global operations. However, SMEs continued to bear the brunt of domestic vulnerabilities, with many struggling to remain competitive. Mid-market firms emerged as a bright spot during this period, as their PMI consistently stayed above 50.0, driven by robust demand in the service sector. Analysts identified this segment as a crucial growth driver in a challenging economic environment.

The Chancellor, Rachel Reeves' commitment to adhering to fiscal rules reassured investors; however, challenges such as weak corporate investment and complicated trade negotiations remain significant.



## EUROZONE

December 2024 closed on a turbulent note for the Eurozone, as sluggish economic activity and concerning trade developments cast a shadow over the final quarter of the year. GDP growth for 2024 was estimated at a modest 0.7%, while Q4 output stagnated due to weaker consumer confidence and slowing global demand. In response, the European Central Bank (ECB) cut interest rates by 0.25% in December, aiming to reinvigorate a struggling economy.

ECB President Christine Lagarde acknowledged the ongoing risks, highlighting trade frictions, consumer spending restraint, and the ripple effects of new US tariffs as key challenges. The tariffs, announced in late 2024, sparked fears of disruptions in export-heavy sectors, particularly impacting automotive and industrial goods.

Despite the sluggish economic backdrop, signs of resilience emerged in January 2025, as the Eurozone achieved gains that surpassed many other global regions. A notable rotation away from US technology stocks strengthened European markets, coinciding with easing concerns about trade tariffs. Significant performers included the financial and healthcare sectors, where banks capitalised on a supportive interest rate environment that reinforced confidence in their balance sheets. Meanwhile, healthcare firms experienced increased demand across European markets, providing encouraging returns for investors.

The information technology sector experienced volatility, particularly following news surrounding DeepSeek, which caused uncertainty in the semiconductor and software industries. While semiconductor equipment producers experienced fluctuations, they managed to post overall gains by the end of the month.



*The road ahead for 2025 reflects a need for flexibility and diversification to confront challenges directly.*

Software stocks, on the other hand, demonstrated consistent growth, driven by surging demand across diverse European and global markets.

Positive momentum also emerged in business activity surveys, with the HCOB flash composite purchasing managers' index (PMI) climbing from 49.6 in December to 50.2 in January. This signalled a return to expansion after prior months of contraction. This recovery was fuelled by stabilisation in manufacturing and modest gains in services, lending cautious optimism to the start of the year.

February 2025, however, presented new challenges as the economic environment continued to be fraught with uncertainty. The implementation of US trade tariffs reignited fears of supply chain disruptions, particularly in the semiconductor sector, where concerns about global linkages intensified. Mixed PMI results reflected the uneven landscape—manufacturing showed incremental progress but still faced significant hurdles, while improvements in business sentiment remained fragile due to ongoing caution regarding investment.

Healthcare and financial sectors remained reliable performers,

while export-driven areas such as automotive and industrial goods continued to bear the burden of trade tensions. Policy responses were critical throughout February, as governments and European institutions worked to negotiate trade disputes and stabilise economic conditions.

Investors were advised to stay attentive to macroeconomic signals, including decisions regarding fiscal support and inflation control, due to the importance of these factors in sustaining progress. While technological innovation and growth in healthcare provided pockets of opportunity, the overall sentiment was characterised by a push-and-pull dynamic between short-term caution and long-term optimism.

The road ahead for 2025 reflects a need for flexibility and diversification to confront challenges directly. Although promising early-year advances suggest potential, overcoming risks associated with trade, supply chains, and geopolitical developments will be integral to driving further progress. Both investors and policymakers are tasked with navigating these pressures to sustain momentum and promote stability.



*President Trump commenced his second term in mid-January, with his renewed "America First" policies eliciting reactions across various industries.*

## US

December's robust non-farm payroll data portrayed a resilient picture of the US economy as 2024 drew close. With 256,000 jobs added, these figures surpassed expectations, indicating a strong labour market. This solid performance provided some reassurance as the economy faced potential headwinds, although questions regarding the sustainability of growth lingered.

Additionally, the Federal Reserve maintained a hawkish stance in December, opting to keep interest rates steady while signalling that rate cuts were unlikely in the near future. These decisions underpinned its ongoing commitment to managing inflationary pressures amid wage growth and stable employment.

January 2024 marked a mixed start for US equity markets. While shares experienced some gains, they lagged behind other global regions, especially as competition from the Chinese start-up DeepSeek threatened US dominance in artificial intelligence (AI). This disruption unsettled the technology sector, resulting in significant declines.

DeepSeek's assertions about creating generative AI technology with market-leading capabilities at a fraction of the usual cost particularly unsettled investors, resulting in significant sell-offs of AI-sensitive stocks like NVIDIA. Meanwhile, other sectors such as communication services, healthcare, and financials yielded more positive results, helping to balance the overall market.

January was also influenced by the US Q4 earnings season, which disclosed mixed results among major corporations. On the political front, President Trump commenced his second term in mid-January, with his renewed "America First" policies eliciting reactions across various industries. Domestically focused sectors embraced the agenda, but new tariff announcements triggered concerns regarding international trade relations.

While some investors perceived these tariffs as protecting key industries, others feared disruptions to supply chains and heightened inflationary pressures, which polarised market sentiment.

By February 2024, the ripple effects of these tariff policies became increasingly evident, prompting reassessments of global and domestic supply chain dependencies. The heightened attention to reshoring trends generated new opportunities for domestic industries, particularly in sectors aligned with green energy and climate initiatives.

Concurrently, technology companies continued to encounter pressure, both from domestic tariff policies and escalating international competition from the likes of DeepSeek. This situation encouraged businesses to re-evaluate their strategies, adapting to a rapidly changing landscape.

In contrast, the healthcare sector sustained strong growth, driven by advancements in biotechnology and surging demand for wellness solutions. Meanwhile, energy producers and financial firms adapted their operations to align with economic trends, striving for operational efficiency and sustainable growth. These patterns signal a nuanced, challenging environment for the US economy and its markets as 2025 unfolds, with competing forces of caution and opportunity shaping the investment landscape.



*Emerging concerns over upcoming US tariffs significantly impacted sentiment, with export-driven firms bearing the brunt of the apprehension.*

## JAPAN

December 2024 brought heightened pressures to the Japanese equity market as global economic tensions escalated. Emerging concerns over upcoming US tariffs significantly impacted sentiment, with export-driven firms bearing the brunt of the apprehension. However, the Bank of Japan (BoJ) intervened promptly to stabilise confidence.

Despite the market’s challenges, corporate governance initiatives such as share buybacks and increased dividend payouts reassured investors and highlighted the long-term potential of Japan’s equity framework. These dynamics laid the groundwork for intriguing developments in the months to come.

January 2025 saw the Japanese equity market deliver a mixed performance. The TOPIX Total Return index recorded a modest gain of +0.1% in yen terms, while the Nikkei 225 edged down by 0.2%. The first half of the month experienced a downturn, driven by heightened volatility in large-cap technology stocks and lacklustre results from export-reliant companies. However, resilience emerged in the latter half as market sentiment improved. Preliminary earnings figures for the December quarter revealed encouraging results from Japanese corporations, further boosting investor confidence.

International developments, particularly in the US, heavily influenced the market trajectory in January. Fears of persistently high inflation, combined with uncertainty over newly announced tariffs, triggered sell-offs in key sectors such as automobiles, basic materials, and technology. Export-oriented Japanese firms, grappling with the impact of inflation, faced significant market adjustments.

The downward pressure was partially alleviated as reports emerged suggesting delays in further tariff implementations on Chinese imports. Optimism also grew following the announcement of SoftBank Group’s “Stargate” initiative, a consortium investment aimed at advancing cutting-edge artificial intelligence (AI) technologies. While the technology sector initially led gains, these advances were tempered by uncertainties surrounding competitive Chinese AI developments, such as DeepSeek’s low-cost generative AI model.

The BoJ’s monetary policy decisions in late January further shaped market behaviour. A highly anticipated policy rate hike resulted in gains across financial stocks, particularly banking institutions, as higher rates promised improved profitability

for lenders. The Japanese yen also modestly appreciated against the US dollar, narrowing the interest rate differential and further supporting market stability.

February 2025 revealed a strengthening recovery across several sectors following the turbulence of previous months. Earnings updates highlighted better-than-expected performances in certain industries, particularly in financials and technology. The technology sector, which had faced uncertainty due to global AI developments, demonstrated its resilience through positive earnings reports and a renewed focus on domestic R&D initiatives, bolstered by recent policy changes. Additionally, green shoots emerged in export-driven industries, reflecting adjustments to evolving global trade dynamics.

The broader equity market also benefited from a steadier domestic backdrop in February. The Japanese equity market continued its recovery trajectory as progressive corporate reforms aligned with improving policy frameworks. Yet, the shadow of US-led tariff policies loomed large, ensuring that market movements remained closely tied to international trade developments and economic news.

By the end of this three-month period, it became evident that the Japanese equity market’s fortunes were influenced by the subtle interplay of global trade tensions and domestic monetary strategies. This balance highlighted both the vulnerabilities and opportunities present in navigating Japan’s intricate economic and financial landscape.

*China emerged as a focal point, benefiting from recently announced stimulus measures aimed at countering domestic economic deceleration.*



## ASIA (EX JAPAN)

December saw the Asia ex-Japan equities market demonstrate moderate resilience despite a complex macroeconomic backdrop. Korea and Taiwan recorded gains, supported by strong export performance in the semiconductor industry. China emerged as a focal point, benefiting from recently announced stimulus measures aimed at countering domestic economic deceleration. Meanwhile, Indian equities displayed signs of recovery,

As we entered January 2025, Asia ex-Japan equities, represented by the MSCI AC Asia ex-Japan Index, experienced modest growth. Significant contributions from markets such as Korea, Singapore, and Taiwan bolstered the index's performance, while declines in India, Hong Kong, the Philippines, and Malaysia tempered the region's overall progress.

The information technology (IT) sector stood out as the month's highlight, driven by the groundbreaking launch of a generative AI model by China's AI pioneer, DeepSeek. This innovation equaled the capabilities of established market leaders at considerably lower costs, drawing investor interest and boosting IT sector gains.

Chinese equities slightly outperformed the broader index, supported by technological advancements. However, optimism was tempered by discussions regarding new US trade tariffs under the country's new leadership. Initial proposals suggesting 60% tariffs on imports were ultimately reduced in formal announcements, providing some relief to markets, although uncertainties regarding international trade policies continued. Meanwhile, India encountered challenges due to mixed corporate earnings and

concerns about its economic growth trajectory—highlighting the stark contrasts among regional economies.

By February 2025, shifting market dynamics introduced both opportunities and challenges for Asia ex-Japan equities. Chinese markets continued their upward trajectory, buoyed by strong consumption trends and accelerated technological innovation. Taiwan also retained its leadership in semiconductor technology, benefiting from sustained global demand for advanced chips. Conversely, markets like Hong Kong struggled under the weight of rising borrowing costs, a sluggish property market, and enduring political uncertainty, which contributed to a muted market outlook.

Meanwhile, escalating tensions between China and the US took centre stage as newly imposed tariffs targeted automotive exports. Despite these friction points, the IT sector remained a core growth driver in the region. DeepSeek's AI solutions expanded their applications across industries such as healthcare, retail, and education, enhancing the sector's relevance. Taiwan's dominance in chip manufacturing acted as an additional catalyst, reinforcing its importance as global demand for semiconductors continued unabated.

Geopolitical tensions and evolving macroeconomic conditions shaped the outlook, and investor sentiment leaned towards flexible strategies. High-growth sectors such as technology and clean energy attracted heightened attention, while recovering industries like consumables and manufacturing offered balance within diversified portfolios.

Regions such as China and Taiwan, bolstered by strong domestic growth indicators, were favoured as relative safe havens, in contrast to economies that are primarily vulnerable to trade-related pressures. This divide highlighted the necessity for tailored strategies to navigate Asia ex-Japan's complex and dynamic markets.

## EMERGING MARKETS

The MSCI EM Index measures the cautious optimism and challenges faced by emerging markets in December 2024. While the index posted slight gains in US dollar terms, it lagged behind the broader MSCI World Index. The announcement of additional US tariffs under the Biden administration created uncertainty, escalating tensions in global trade relationships. However, a weaker US dollar provided some respite for emerging economies, bolstering their competitiveness.

Technological advancements also influenced market narratives in December, most notably with the

launch of DeepSeek's cost-effective, open-source AI model. Competing against established systems, this Chinese innovation captured attention and increased volatility, particularly within tech stocks, as investors contemplated its long-term implications.

South America performed robustly during this period, with Colombia claiming the top spot for returns in US dollar terms. Brazil and Poland also made strong showings. Brazil's gains were supported by a stronger real, while Middle Eastern markets like Kuwait, Saudi Arabia, and the UAE capitalised on higher crude oil

prices, benefiting significantly from the energy sector's rebound.

Despite some bright spots, certain regions struggled in December. The Indian market faced growth concerns, leading to significant declines exacerbated by weak financial markets and a lack of clear policy direction. Similarly, Malaysia and the Philippines recorded some of the steepest



*A weaker US dollar provided some respite for emerging economies, bolstering their competitiveness across the emerging market sectors.*

losses, reflecting uneven performances across parts of Asia.

China, also facing pressure from impending US tariffs, dealt with investor apprehension, reducing its potential gains. Conversely, Korea experienced a modest recovery from earlier underperformance, while South Africa benefited from a weaker US dollar and interest rate cuts, which improved investor sentiment.

January 2025 brought mixed outcomes for emerging markets. Brazil raised interest rates by 100 basis points to combat persistent inflation, showcasing its commitment to economic stability and maintaining investor interest in its equity and bond markets. Despite such policy measures bolstering sentiment, regional markets experienced further volatility. Tariff-related uncertainty from the US spurred apprehension, particularly

in China and Taiwan, as investors evaluated the trade implications for crucial export economies.

Asia's technology sector continued to be in the spotlight, driven by DeepSeek's groundbreaking AI solutions. The company's cost-effective generative AI offerings maintained interest, although competition and shifting market dynamics tested investor confidence. Meanwhile, commodity-driven markets like South Africa and the Middle East sustained momentum, supported by positive developments in energy and resource exports. Indian equities, however, remained subdued as mixed corporate earnings and a stalled economic recovery weighed down performance.

February 2025 continued the theme of adaptation and shifting dynamics across emerging markets. China demonstrated resilience, recovering due to robust consumption figures and its technological advantage. Taiwan affirmed its leadership in semiconductor development, benefiting from global demand, although ongoing US tariff pressures on Chinese exports created tension. Middle Eastern markets remained focused on oil market stability, while South Africa benefited from stronger commodity performance.

Conversely, Hong Kong and other smaller Asian economies faced currency pressures along with rising borrowing costs, which tempered broader regional optimism. Emerging markets overall demonstrated varied progress, heavily influenced by geopolitical events and trade policies. Structural trends like technological innovation and green energy transitions provided opportunities for forward-looking nations willing to adapt to global shifts, positioning them as potential leaders in their respective regions.





*Optimism regarding inflation was tempered by the US announcement of new tariffs on key imports, leading markets to react cautiously.*

## GLOBAL BONDS

**D**ecember 2024 saw cautious movements in the global government bond market, reflecting the broader economic and political uncertainties. Optimism regarding inflation was tempered by the US announcement of new tariffs on key imports, leading markets to react cautiously. The response varied across global bonds, with yields experiencing modest and uneven shifts.

UK gilt yields remained pressured by fiscal uncertainties, and the eurozone also faced mixed results amid inflation concerns and subdued economic activity. High-yield markets, however, showcased continued robust demand, particularly in the US, where narratives of economic resilience sustained attention.

As January 2025 unfolded, the global bond market initially displayed subdued trends before gaining a stronger footing later in

the month. Encouraging inflation data fuelled improvements, with significant contrasts across regions. German Bund yields increased to 2.46%, signalling firmer conditions in the eurozone, while yields on US government bonds decreased, with the 10-year US Treasury yield dropping to 4.55%. Significant policy developments, notably President Trump's inauguration, also influenced the market.

His administration's announcement of additional trade tariffs sparked intensified discussions regarding their potential economic impact, both at home and abroad. The new tariffs continued to create ripples, especially in equity and bond markets, contributing to volatility as analysts evaluated their broader ramifications.

January showcased a tale of two continents in the investment-grade corporate bond segment. While credit spreads in the US showed limited movement despite robust supply, spreads in Europe and the UK tightened, reflecting stable macroeconomic conditions and growing investor confidence. Eurozone bond performance offered a mixed picture, with headline inflation increasing to 2.5% year-on-year; however, this occurred alongside softer data for services inflation, which tempered expectations for tighter monetary policy.

Meanwhile, UK gilt yields surged sharply before pulling back, reflecting the tension between growth fears and inflationary pressures. Convertible bonds experienced strong performance, with the FTSE Global Focus Convertible Bond Index increasing by 2.2%, fueled by robust demand and equity-like upside potential that attracted cautious investors.

By February 2025, the global bond market continued to navigate uncertainty, with ongoing trade tensions and slowing economic growth influencing sentiment. The spread between US corporate bonds widened, indicating heightened risk expectations as the economic effects of US tariffs became clearer.

European and UK corporate bonds showed resilience, although demand started to decrease compared to previous months. The eurozone's inflation figures steadied investor outlook, contributing to the stabilisation of gilt yields, though concerns about the overall economic health remained. Recent CPI data in the UK eased some pressure, yet inflationary worries still persisted.

February also brought buoyancy to the convertible bond sector, preserving its strong performance from previous months. The appeal of convertible bonds, with their combination of equity-like advantages and bond stability, positioned them as a favoured choice among investors during these turbulent times. Additionally, central banks continued to respond to the evolving economic landscape.

The Bank of Japan raised its rate by 25 basis points, reflecting a more hawkish outlook driven by upgraded inflation projections, while the European Central Bank adopted a contrasting approach, cutting its refinancing rate by 25 basis points to 2.90%. Meanwhile, the US Federal Reserve maintained steady rates after the significant reduction phase it had previously undertaken.

Throughout these three dynamic months, the global government and corporate bond markets acted as a barometer of the shifting economic and political challenges shaping late 2024 and early 2025. The interplay of inflation measures, trade policies, and central bank interventions emphasised the need for flexible and forward-looking strategies that investors require to navigate the evolving landscape.



# Summary

## Managing risks associated with geopolitical tensions, uneven fiscal recoveries, and inflationary pressures

In conclusion, the trends outlined for late 2024 and early 2025 suggest a complex landscape for global markets for the remainder of the year. Trade tensions, particularly with the US imposing tariffs, will likely continue to disrupt export-heavy industries in the Eurozone, Japan, and Asia ex-Japan.

However, the ongoing geopolitical standoff involving the US, Russia, and Ukraine adds another layer of uncertainty, with potential implications for global energy markets, supply chains, and overall investor sentiment. Any escalation could worsen supply disruptions, particularly in energy and raw materials, leading to volatility in commodity markets and further increasing costs for manufacturing and transport-dependent industries.

These tensions, along with weaker domestic consumer activity in regions such as the UK and the Eurozone, may hinder overall economic growth. UK SMEs are expected to face ongoing pressures from fiscal uncertainties and stagnant demand, which could lead to further contractions unless targeted relief is provided.

Meanwhile, geopolitical conflicts causing energy supply instability could intensify seasonal price shocks, deepening economic strain

on smaller businesses. Conversely, large-cap resilience, especially within the UK's FTSE 100 and Japan's financial and technology sectors, may help sustain investor confidence throughout the year, particularly in industries less affected by direct energy price exposure.

Sector-specific opportunities appear concentrated in technology and healthcare. Innovations, including China's DeepSeek-led AI advancements and developments in US biotechnology, are set to propel growth in these domains. However, the unpredictable geopolitical climate may influence global R&D collaboration and further fragment technological supply chains, especially in semiconductors and critical technologies.

Taiwan's semiconductor momentum may encounter disruption from increased geopolitical risks, while trends in green energy and reshoring in the US might gain traction as countries strive to lessen dependence on vulnerable supply chains. Rising demand for green technology, especially in renewable energy solutions, may also create opportunities for nations that are actively investing in energy security.

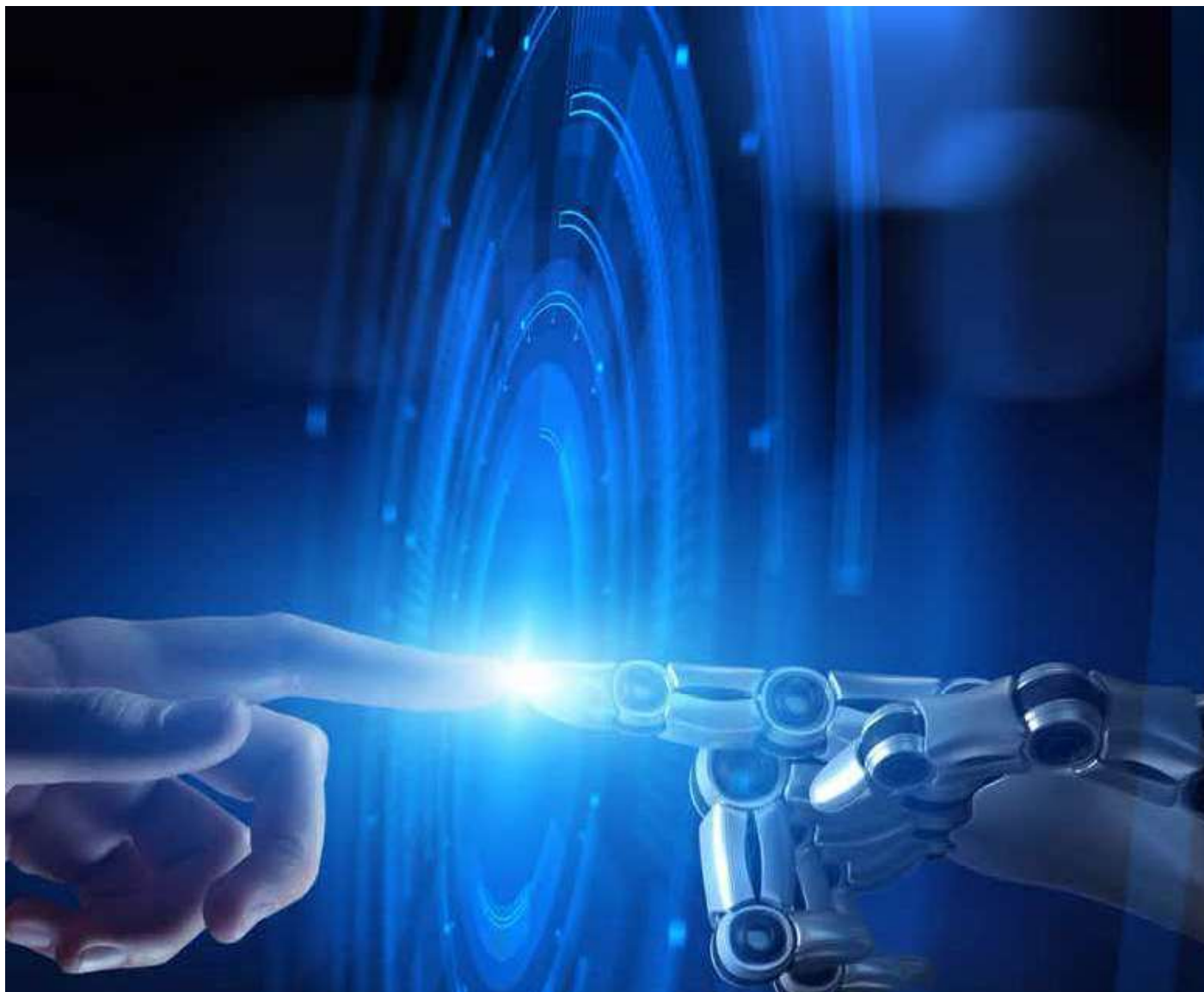
Emerging markets, including regions of Asia outside Japan and South America, are well-positioned



to benefit from technological advancements and green energy transitions but remain vulnerable to US tariffs and the repercussions of geopolitical conflicts. For Japan and export-dependent economies, boosting domestic R&D growth and implementing corporate reforms will be vital to mitigate external challenges.

Additionally, the ongoing conflict in Ukraine and its ripple effects may encourage nations to reevaluate their trade alliances and energy dependencies, speeding up trends toward localised production and diversified trading partnerships.

Cautious optimism persists globally, but markets must balance risks related to geopolitical tensions, uneven fiscal recoveries, and inflationary pressures. Investors may favour diversified strategies focusing



on resilient sectors such as energy, technology, and healthcare, which are poised to benefit from both innovation and increased demand.

To sustain growth through 2025, policymakers will need to prioritise market stabilisation, energy security, and targeted support for vulnerable sectors such as SMEs and export-driven industries. The interplay between geopolitical events and economic recovery will remain a pivotal factor shaping the global economic landscape in the years to come.

*Trade tensions, particularly with the US imposing tariffs, will likely continue to disrupt export-heavy industries in the Eurozone, Japan, and Asia ex-Japan.*