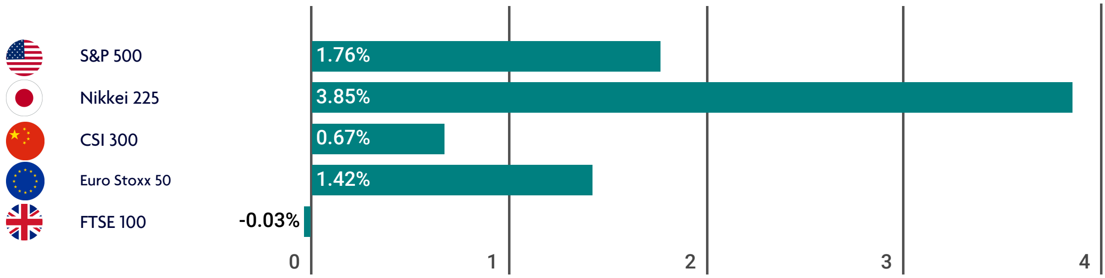
Weekly Market Update

27 January 2025

Last week's performance – major stock markets

January continues to look like a good month for most major stock markets, last week we saw further gains across the US, Europe, China and Japan, however the UK performed flat. Major stories from the week included President Trump's inauguration and an interest rate hike from the Bank of Japan.

Market Monitor (%): How did major stock markets perform last week*?



Market Update:

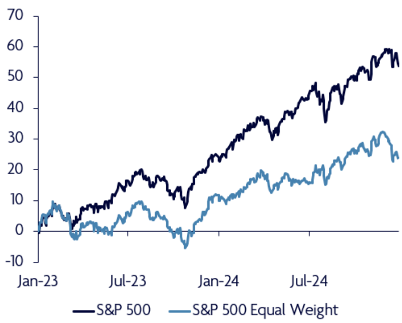
Headlines during the week were largely dominated by political developments in the wake of Monday's inauguration of President Donald Trump. Notably, Trump did not impose a new round of tariffs on day one—as some had feared—and instead, called on federal agencies to conduct a review of U.S. trade policies to determine the impact of potential future tariffs, although he did pledge to impose 25% tariffs on Canada and Mexico as soon as February. In an interview later in the week, Trump also stated that he would "rather not have to use" tariffs on China, which helped fuel optimism for a potential trade deal between the world's two largest economies. The developments seemed to be generally well received by investors and helped drive positive sentiment early in the week.

The Bank of Japan raised interest rates for the third time in a year. The 0.25 percentage point increase put the policy rate at around 0.5%, its highest level since the 2008 global financial crisis. The BoJ's widely expected rate hike was accompanied by an upward revision to the central bank's inflation expectations for the 2025 fiscal year, with all measures above the 2% target and risks to the upside (as the bank gains confidence on the outlook for wage growth). This gave some room for the BoJ to hike rates again in 2025, with many investors expecting this in the second half of the year.

Chart of the week*: Risks of stock dominance

Apple, Microsoft, Amazon, Google, Facebook, Tesla, and Nvidia. These companies, collectively known as the 'Magnificent Seven,' have not only captured the market's attention but also taken a commanding share of its growth. These seven stocks make up a significant share of the S&P 500, currently over 30% and have outperformed the market significantly. For instance, in the past 3 years, they have accounted for an overwhelming third of the market's total gains. This concentration can create a false sense of security for investors, relying heavily on a select few companies to drive returns. Market concentration like this can pose significant risks. So, what can investors do? Diversification is key. By spreading investments across various asset classes, sectors or geographies, investors can protect themselves from significant losses should any one investment or sector underperform. Hear more on our outlook for markets including the US, in our 2025 investment outlook here.

US Equity Returns (%)



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