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INVESTMENT MANAGEMENT

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Market Snapshot

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Equity markets rose this week after Donald Trump failed to introduce tariffs against China, Mexico and Canada on his first day in office, as he threatened to do during his campaign. Mr Trump was inaugurated on Monday and immediately issued a sack full of Executive Orders in areas that look set to shape his presidency. Many of the orders related to the oil industry as President Trump urged the oil industry to "drill, baby, drill", but there are suggestions that Wall Street may be reticent to fund such a campaign.

The FTSE 100 was up 0.4% over the week by mid-session on Friday, with the more UK-focused FTSE 250 trading little changed.

Economics

The UK government borrowed more than expected in December, according to the Office for National Statistics (ONS). The government borrowed £17.8bn, up £10.1bn in December 2023 and above the £14.6bn expected by the Office for Budget Responsibility (OBR). It was also the highest figure in four years and the third highest December figure on record which highlights the challenge the government faces as concerns about stagflation grow. The interest payable on central government debt was £8.3bn in December, largely because of movements in the retail prices index. This was up £3.8bn from December 2023 and the third highest December figure since monthly records began in January 1997.

To add to the Labour government's economic woes, consumer confidence in the UK has plunged, according to the latest consumer sentiment monitor from the British Retail Consortium (BRC). A net -34 of respondents to its survey said that the economy would get worse over the next three months, down from -27 in December. This put confidence in the health of the UK economy at its lowest level since the BRC started collecting data on the topic in March 2024. A slowdown in the UK economy supports this, with gross domestic product (GDP) growth of just 0.1% in November and an annual contraction in retail sales during December. UK consumer confidence also fell sharply in January, the GfK consumer confidence index — a measure of how people view their personal finances and broader economic prospects — fell 5 points to minus 22, the lowest reading since the end of 2023. Indeed, Primark-owner **Associated British Foods** issued a sales form for its high street business (see below).

UK pay after inflation has risen at its fastest rate for more than three years, driven by strong wage growth in the private sector. Pay packets increased on average by 3.4% between September and November compared with the same period a year ago after taking into account the impact of price rises, according to the Office for National Statistics. The Bank of England is still expected to cut interest rates at its 6 February meeting.

Japan's central bank has increased the cost of borrowing to its highest level in 17 years after consumer price rises accelerated in December. The move by the Bank of Japan to raise its short-term policy rate to "around 0.5%" comes just hours after the latest economic data showed prices rose last month at the fastest pace in 16 months.

Geopolitics

Unsurprisingly, political developments were mostly driven by Donald Trump after he was inaugurated for his second term as US president. He immediately released a flurry of Executive Orders. Significantly, no new tariffs were introduced on the first day, as he had threatened in his campaign. President Trump said he was considering imposing a 10% tariff on imports of Chinese-made goods as soon as 1 February. If introduced, this would be significantly lower than the 60% tariff Trump highlighted in his campaign. Mr Trump said discussions with his administration were "based on the fact that they're sending fentanyl to Mexico and Canada". Tariffs on Mexican and Canadian goods were also said to be still on the agenda at 25% and Mr Trump said he would hit the EU with tariffs arguing that the bloc "treat us very, very badly".

Executive Orders rescinded a total of 78 Executive Orders issued by predecessor President Joe Biden. Orders issued included:

- The US's immediate withdrawal from the Paris Agreement on climate change with a promise to "drill, baby, drill".
- Revoking a 2021 Biden order that sought to ensure half of all new vehicles sold in the US by 2030 were electric.
- The repealing a 2023 memo from Joe Biden barring oil drilling in 16 million acres in the Arctic. The new president promised to fill up strategic oil reserves and export US energy all over the world. Mr Trump is easing regulatory burdens on oil and natural gas production, which he promises will bring down costs of all consumer goods. However, the Financial Times reported reluctance on Wall Street to fund new drilling programmes, with one shale investor noting that a new shale boom was not "Mr Trump's gift to give."
- The granting of a 75-day extension to **TikTok**, which is owned by Chinese group ByteDance, so it can comply with a law that requires a sale or ban of the platform.
- Pulling the US out of the World Health Organisation.
- Trump also signed an order renaming the Gulf of Mexico, making it the Gulf of America and the highest mountain in North America, now known as Denali, will revert back to Mount McKinley
- Temporarily suspending all US foreign assistance programmes for 90 days pending a review.
- Pardons for about 1,500 Trump supporters charged over the 6 January 2021 riot at the US Capitol. The order also cut sentences of 14 members of the far-right Proud Boys and Oath Keepers organisations, including some who were convicted of seditious conspiracy.
- Declaring illegal immigration at the US-Mexico border a national emergency. He also designated criminal cartels as terrorist organisations.
- Removing sanctions on Jewish settlers who committed violence against West Bank Palestinians.
- Rescinding the Biden administration's last-minute decision to remove Cuba from the US list of state sponsors of terrorism.

Donald Trump warned he will impose high tariffs and further sanctions on Russia if Vladimir Putin fails to end the war in Ukraine. Mr Trump had previously said he would negotiate a settlement to Russia's full-scale invasion "in a single day". Russian President Vladimir Putin has grown increasingly concerned about distortions in Russia's wartime economy, according to a report by news agency Reuters. It said Russian annual inflation reached 9.5% in 2024, driven by high military and national security spending, which is set to account for 41% of total state budget spending in 2025. As a result, the Russian central bank raised interest rates to 21% in October.

Shares in businesses exposed to artificial intelligence (AI) surged following President Trump's announcement of a new joint venture, called "The Stargate Project", which plans ultimately to invest $500bn to build new AI infrastructure in the US. The initial funds have been raised from Japanese technology investor **SoftBank**, ChatGPT developer **Open AI**, **Oracle**, and United Arab Emirates investment group **MGX**. According to the announcement, Stargate will begin with an initial investment of $100bn, with more to come over the next several years. Demand for the physical infrastructure to support AI computing, such as data centres, computer chips, and electricity, is expected to continue growing as the technology develops. Its technology partners are **Arm Holdings**, **Microsoft**, **Nvidia**, and Oracle, and their shares jumped. Privately company Open AI is also listed as a technology partner. In a study released last year, McKinsey said that global demand for data centre capacity would more than triple by 2030. To meet that demand, the consultancy estimated that at least twice the capacity would have to be built by 2030 as has been constructed since 2000.

The annual World Economic Forum (WEF) kicked off in Davos, Switzerland. Donald Trump spoke remotely, delivering his first major speech to global business and political leaders. In it, he has said he will ask Saudi Arabia and other Opec nations to "bring down the cost of oil" and doubled down on his threat to use tariffs. Referring to the Russia-Ukraine conflict, he said the oil price was high enough that that war will continue, suggesting that the higher oil price was helping to sustain funding for the conflict. "You gotta bring down the oil price, that will end that war. You could end that war," he added.

Companies

Tesco, **Aldi**, and **Lidl** backed British farmers in their dispute with the government over tax changes in the Budget. Tesco said: "the UK's future food security is at stake" and the government should pause the introduction of inheritance tax on farms worth more than £1m.

Netflix announced better-than-expected new subscriber numbers in its fourth-quarter earnings, helped by the second series of South Korean drama Squid Game as well as sports events. The streaming giant added almost 19 million. Management also said it will raise prices in the US, Canada, Portugal and Argentina in the coming weeks. The group slightly raised its revenue outlook for this year to a mid-range of $44bn, which would translate into a roughly 13% increase from last year.

Associated British Foods fell as it cut its outlook for sales growth at Primark in 2025. It said warmer autumn weather and cautious consumers dented UK revenue in its first quarter. Previously guiding to sales growth in the high-single-digit percent area, management now expects this will be in the low single digits in its current financial year. Sales growth at Primark is also likely to be driven by store openings and not organic growth. Guidance for its food business remained unchanged. This statement reflects the gloomy outlook for UK retailers as Britons rein in expenditure and the tax burden on retailers rises following Chancellor Rachel Reeves increase in employer National Insurance contributions in the October Budget. UK retail sales unexpectedly fell in December, marring retailers "golden quarter". Subdued consumer sentiment looks likely to continue to hit the sector in the early part of this year.

It was, however, a bumper Christmas for the travel industry and low-cost airline **easyJet** slashed its first-quarter losses, as demand increased and fuel costs fell. However, the company failed to impress a market that had expected more – and its shares fell. Losses were reduced by 52% year on year – and it flew 7% more passengers than during the equivalent quarter of last year. For the key second half, when easyJet usually makes the bulk of its money, demand and bookings are ahead annually. Management said this supported the market consensus for current-year pre-tax profits of £700m. The airline is guiding for capacity growth of around 8% for the year.

Burberry's third-quarter results saw some signs of brightness for the troubled company. Management said it was now more likely its second-half results will broadly offset the first-half operating loss, compared to its previous guidance at the interim stage which said it was "too early to determine whether our second-half results will fully offset the first-half adjusted operating loss."

A £9bn deal for nuclear submarine reactors has been agreed between the Ministry of Defence and **Rolls-Royce** – the biggest ever. Defence Secretary John Healey is expected announce the agreement on Friday during a visit to the firm's nuclear reactor production facility in Derby. The eight-year contract, called Unity, is designed to make the design, manufacture and support services for reactors more efficient and environmentally friendly.

Intermediate Capital Group rose after it revealed strong fundraising in the third quarter and a 5.1% increase in quarter-on-quarter assets under management (AUM). At the end of December AUM totalled $107bn, representing 27.5% growth year-on-year.

Shares in **Spectris** surged after its management said it expected to beat market expectations in its 2024 results. The precision instruments supplier said adjusted operating profit will be above the upper end of analysts' forecasts of £183.3m to £201m, but still down from the £262.5m reported in 2023.

Stronger-than-expected sales of cancer drugs helped US healthcare giant **Johnson & Johnson** beat Wall Street expectations in its fourth-quarter results, with guidance for 2025 meeting analysts' expectations.

Consumer goods business **Procter & Gamble** reported second-quarter earnings and revenue that were ahead of market expectations, driven by improved sales in the US and China, its two largest markets. Net sales rose 2% to $21.9bn in the three months to 31 December, the biggest increase in three quarters. Most of the growth came from higher volumes with prices relatively unchanged compared with the same period a year ago. Sales in North America grew 4% while in China sales fell just 3%, compared with a 15% decline previous quarter.

Pub chain **JD Wetherspoon** said increases in the minimum wage and employer national insurance contributions would cost £60m as it reported a 5.1% jump in like-for-like sales in the 25 weeks to 19 January. Bar sales increased by 4.5%, food by 5.6% and slot/fruit machines by 11.7%. Hotel room sales fell 6.5%.

Premier Foods said it now expected full-year trading at the top end of guidance, as it reported a 3.1% increase in group sales for the third quarter, with branded sales rising 4.6%. Growth was led by volume not price rises, with branded volumes up by 7%.

FTSE 250 infrastructure group **Kier** said it had "traded well" in the six months to December and was launching a £20m-buyback programme. While it didn't give any details on its first-half revenue, the company said its order book had increased to £11bn with more than 95% of full-year turnover already secured.

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