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Market Snapshot

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FTSE 100 hit another record high this week as the pound weakened against the dollar. The Bank of England cut interest rates by 25 basis points at its February meeting, so UK benchmark interest rates now stand at 4.5%. Due to the expected inflationary nature of many of Donald Trump's policies, the Federal Reserve is expected to keep its powder dry and not cut interest rates that much this year. This is a fair wind behind the dollar and currency markets could help the FTSE 100 hit a series of all-time highs in the next few months.

Donald Trump withdrew his tariff threats against Canada and Mexico at the 11th hour causing much confusion. Trade barriers may now be raised in a month's time depending on events in the next four weeks. An additional 10% tariff was raised on Chinese goods.

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Big Tech has revealed plans to spend more than \$300bn on AI in 2025, despite recent news from DeepSeek.

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

Economics

The Bank of England (BoE) cut interest rates by 25 basis points to 4.5%, as it halved its UK growth forecasts for 2025 and warned households would face renewed pressure from rising prices later this year. The central bank downgraded its 2025 UK gross domestic product (GDP) growth forecast made in November from 1.5% to 0.75% and warned that inflation would reach a fresh peak of 3.7% by the autumn – almost twice the 2% target set by the government. However, it predicted this spike, driven

by energy costs, would be temporary. Borrowing costs are now at the lowest level since June 2023.

The probability that the BoE will cut rates four times this year leapt to about 70% after the central bank's rate cut decision, according to derivative market positions. Before the decision, traders expected three rate cuts this year with a roughly 35% chance of a fourth.

The UK construction sector endured a gloomy January. The latest S&P Global UK construction purchasing manager index (PMI), an industry survey, came in far below analysts' expectations. It plunged to 48.1 in January from 53.3 in December, with any reading below 50 suggesting the sector is shrinking. It is the first time that the index has fallen below 50.0 since February 2024. Analysts had been expecting a reading of 53.4.

Eurozone inflation moved up to 2.5% in January as energy prices rose, according to an initial reading. This compares with 2.4% in December. Energy inflation was 1.8% versus 0.1% in the previous month. Services is expected to have the highest annual rate in January at 3.9%, compared with 4% in December, followed by food, alcohol & tobacco (2.3% from 2.6%) when the final reading is released.

Geopolitics

Markets tumbled on Monday after President Trump announced over the weekend that he would impose 25% tariffs on imports from Canada and Mexico, and an additional 10% tariff on Chinese imports. However, on Tuesday, Mr Trump agreed to pause the implementation of 25% tariffs on Canada and Mexico for 30 days. This followed a statement from Canada's Prime Minister Justin Trudeau which said he would implement a \$1.3bn border plan – although this was announced two months ago – and appoint an official to deal with the smuggling of the illegal drug fentanyl into the US. Mexico's president Claudia Sheinbaum offered to send 10,000 troops to the border with the US to deal with the drugs trade. Global markets fell on Monday in response to the weekend's statements by the US president and

cryptocurrencies plunged. Ethereum fell by more than a fifth and Bitcoin lost 7%.



Beijing also said it was imposing export controls on key minerals: tungsten, tellurium, ruthenium, molybdenum and ruthenium-related items to “safeguard national security interests”.

On Tuesday, just as the tariffs on China took effect, Beijing took retaliatory action. The country's Finance Ministry said it was imposing tariffs of 15% on US coal and liquefied natural gas imports and 10% on crude oil, farm equipment and large-displacement vehicles and pickup trucks imported from the US. It also revived antitrust investigations into **Alphabet's** Google and **Nvidia** and said it was considering a probe into Intel. Beijing also said it was imposing export controls on key minerals: tungsten, tellurium, ruthenium, molybdenum and ruthenium-related items to “safeguard national security interests”.

Goldman Sachs argued that the Eurozone economy will suffer a “sizeable hit to activity” from the rise in trade tensions. The investment bank said that recent events support its forecast of weak Euro-area growth, ongoing disinflation and continued sequential interest rate cuts by the European Central Bank.

Energy transition

Global demand for oil will not fall until at least 2040, according to a forecast by **Vitol**, the world's largest independent energy trader. The group, which trades about 7% of the world's oil supply daily, expects global demand to peak at almost 110m barrels per day (bpd) at the end of the decade, before falling back to current levels of about 105m bpd in 2040. However, forecasts vary. The international Energy Agency predicts a peak of 105.6m bpd in 2029 and BP forecasts demand will plateau at the end of this decade and fall to 91.4m bpd in 2040.

Sales of battery vehicles are growing in the UK, but not by enough to meet government targets. New car sales in the UK declined in January for the fourth straight month, according to figures from the Society of Motor Manufacturers and Traders (SMMT), with growth in electric and hybrid models offset by falls in conventional fuel vehicles. Registrations totalled just 137,000 last month, down 2.5% from 142,876 in January 2024, with the SMMT blaming “weak consumer confidence and tough economic conditions”. Battery electric car sales jumped 41.6% year-on-year to 29,634, with BEVs now accounting for 21.3% of the market, up from 14.7%

last January. Sales of plug-in hybrid electric vehicles rose 5.5% to 12,598, while hybrid electric vehicles rose 2.9% to 18,413. However, while EV demand is clearly growing, sales are not rising fast enough to deliver current ambitious targets, according to SMMT chief executive Mike Hawes.

Companies

Alphabet's shares fell sharply following its fourth-quarter results, which slightly missed expectations. While Google Search and YouTube beat expectations, revenue growth at Google Cloud decelerated quarter-on-quarter, missing expectations by 2% (+30% compared with +35% in the third quarter). Management said this was due to “more demand than we have available capacity”. Therefore, the slowdown in cloud growth appears to be a supply issue rather than demand, with the company working on bringing more capacity to customers. The group also said it was going to spend \$75bn this year on building capacity for AI products, which was significantly ahead of expectations and unnerved investors following last week's announcement from China's DeepSeek, which said it has developed an AI Assistant that can rival those produced in the West but at a fraction of the cost.

Amazon shares fell after its fourth quarter results showed weakness in its cloud computing unit and it forecast lower-than-expected first-quarter revenue and profit. Amazon said it plans to boost capital expenditures to \$100 billion in 2025, largely driven by AI investments. The company reported \$83 billion in capital expenditures last year.

GlaxoSmithKline's fourth-quarter sales beat expectations thanks to strong performances from the General Medicine (GM) and Speciality Medicine (SM) franchises. Vaccine sales were weak. Management unveiled plans to buy back £2bn of equity over the next 18 months and raised its five-year sales outlook, guiding to sales of more than £40bn, up from £38bn previously. The weakness in vaccine sales was due to a 69% fall in sales of Arexvy (for lower respiratory tract disease (LRTD) caused by respiratory syncytial virus), attributed to a more limited regulatory recommendation in the US and high inventories following its launch in 2023. However, shingle-vaccine Shingrix beat expectations, and meningitis vaccines had their strongest year of sales to date. There were no significant pipeline updates.

AstraZeneca posted forecast-beating numbers, fuelled by strong demand for its cancer and cardiometabolic drugs. Revenues jumped 21% to \$54.1bn on a constant currency basis, ahead of guidance for “high-teens growth”. The pharmaceutical giant expects to increase total revenues by a high, single-digit percentage in the current year.

Novo Nordisk fourth-quarter revenues beat consensus expectations, driven by insulin sales and broad-based growth across the wider portfolio. Its high-profile glucagon-like peptide-1 (GLP-1) treatments – Ozempic and Wegovy which are used to treat obesity and type-2 diabetes – saw sales growth of 12%. Ozempic sales beating expectations and Wegovy sales narrowly missed sales targets. Sales in North America were driven by GLP-1 diabetes sales growth (+7%), although Ozempic sales were negatively impacted by one-off comparator effects in the fourth quarter of 2023. Insulin sales benefitted from US rebate adjustments, despite lower volumes. However, management said 2025 sales growth would slow slightly as competition for obesity treatments intensified.

US pharma group **Eli Lilly** posted a surge in fourth-quarter revenues, fuelled by strong demand for its blockbuster diabetes and weight-loss drugs. Volume growth from tirzepatide drugs Mounjaro and Zepbound helped drive revenues up by 45% to \$13.5bn. Sales growth of both treatments were slightly below expectations, which Eli Lilly had previously flagged, blaming constraints at wholesalers.

Guinness, Smirnoff vodka and Captain Morgan rum maker **Diageo** withdrew its medium-term guidance for 5% to 7% organic sales growth ahead of incoming tariffs on Mexican and Canadian imports by the Trump administration, saying it cannot accurately predict how additional duties will affect its financial performance. Its shares fell following the statement despite its first-half figures coming in modestly ahead of market expectations. The main products impacted will be the group's tequila portfolio, which given geographic origin requirements must be made in Mexico, and its Canadian whisky brands.

Sales of **Tesla** vehicles plunged in five European countries during January in an apparent reaction to Elon Musk's political posturing. Tesla's UK sales fell nearly 12% annually during the month, but were down 63% in France, 44% in Sweden, 38% in Norway and 42% in the Netherlands. In California, the largest US car market with more than 1.7 million vehicle registrations in 2024, Tesla sales fell by 12%.

Management at **Anglo American** said it expected to write down the value of De Beers once more, as the diamond industry continues to struggle. This would be the second time that management have taken a red pen to the unit's valuation in a year, just as the company prepares to spin out or sell the iconic unit. The move is part of a major restructuring launched during its defence of a takeover move from rival BHP. The company is shedding its diamonds, platinum, nickel, and coal business to focus on copper as it tries to unlock value from its complex structure and shareholdings.

Vodafone reported another revenue decline in its key German market in its third quarter, sending its shares sharply lower. The telecoms group said German sales slipped 6.4% year-on-year, compared with a 6.2% decline in the second quarter due to the impact of a new state media law. Laws in Germany now prohibit landlords from billing cable TV fees to tenants freeing them up to choose their own TV technology for the first time in decades, as well as "intensifying competitive pressure" in the market. Despite the weak quarter, management reiterated its full-year guidance of €11bn in core earnings.

Lawyers representing 3,500 claimants are preparing to sue US group **Johnson & Johnson** over alleged links between talcum powder and cancer. It is claimed that thousands of women and some men contracted cancers after using the group's talcum powder products that had been contaminated with asbestos.

Defence contractor **Babcock** saw its shares propelled to a five-year high after it revealed strong trading continued in the three months to December. Management now expects both revenue and underlying profit to exceed the top end of analysts' expectations. This followed strong growth in its nuclear and marine businesses. Investment in defence has increased following Russia's invasion of Ukraine and as the US pressures NATO members to increase their spending.

Management at catering giant **Compass** hailed a strong first quarter of its financial year, with a solid performance across all sectors and regions. This resulted in organic revenue growth ahead of full-year guidance. However, it also warned that movement in currency markets could have a negative impact on its full-year performance.

Engineering company **IMI** fell after saying it had been hit by a cyberattack on its computer systems. In a short statement, it added that it "engaged external cyber security experts to investigate and contain the incident".

Nissan is preparing to pull out of merger talks with **Honda**. The two Japanese groups revealed in December that they were mulling a combination that included **Mitsubishi** as a buttress against the challenges thrown up by the transition from the internal combustion engine to electric vehicles. However, reports suggested that the talks have stalled amid tensions over the perceived imbalance between the parties.

Utility **SSE** produced a quarter more renewable energy in the latter part of 2024 than the previous year, amid a ramp-up in the number of operational wind turbines. The energy giant said its 26% year-on-year output growth for the nine months to December

31 was a result of “the impact from capacity additions and variable weather conditions”. SSE confirmed that it would build a new wind farm in the Scottish Highlands, called Strathy South, which is expected to be able to power about 220,000 homes when completed.

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