February 2025 | Monthly update

Omnis Managed Portfolio Service

Markets have rallied, but trade tariffs, China's slowdown and interest rate uncertainty keep investors cautious

Market-moving events

UK stocks rise as inflation drops. The FTSE 100 hit a record high as UK inflation fell to 2.5%, raising hopes for rate cuts. Government bond yields spiked before easing, while Labour's tax and spending plans added uncertainty. The economy grew just 0.1% in November, with weak retail sales. Unemployment rose to 4.4%, signalling a potential slowdown in the jobs market.

Trump's tariffs shake markets. US stocks dipped as Trump raised tariffs on Mexico, China and Canada. Bond yields climbed after strong job growth, with 256,000 jobs added. The Fed held rates at 5.25%, citing stubborn inflation, which rose to 2.9%. Core inflation eased slightly to 3.2%. Markets grew cautious over how tariffs might impact inflation and economic growth.

China's economy under pressure. China's markets fell as trade fears and weak demand hit sentiment. The yuan dropped to a 16-month low, while inflation slowed to 0.1%, raising deflation concerns. Exports rose 10.7% year-on-year, providing a rare boost. Policymakers face challenges reviving growth amid weak domestic demand and escalating trade tensions with the US.

Investment highlights

A positive month for markets. Global equities performed well, with UK and European stocks particularly strong. Both large and small caps rose as inflation eased. Value stocks outperformed growth, mainly due to weakness in large-cap tech. Government bonds outperformed corporate bonds, as market sentiment remained cautious despite expectations for interest rate cuts.

Tactical asset allocation. Rate cuts should pave the way for out-of-favour asset classes to come back into favour, including value, small cap and sovereign debt. Investors are already tilting their portfolios to these areas. Our diversified portfolios hold all these asset classes and we'll continue to make tactical decisions to capture opportunities we identify.

We remain cautiously positioned. We have an overweight allocation to bonds and slight underweight in equities. Although stock markets have rallied, a weaker economy could put pressure on company revenues. Our central case remains falling inflation, a peak in the interest rate cycle and a soft landing, but with a larger than normal risk of a deeper recession.

Asset allocation

Red = underweight
Amber = neutral weighting
Green = overweight

If you'd like more detail on our asset allocation views then please visit our online dashboard.

equities

Negative = US + Japan
Neutral = Asia, Europe, UK + emerging markets

bonds

Negative = corporate bonds
Positive = gilts, global bonds + strategic bonds

alternatives + cash

Negative = absolute return bonds + diversified returns
Positive = short-dated bonds + cash

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