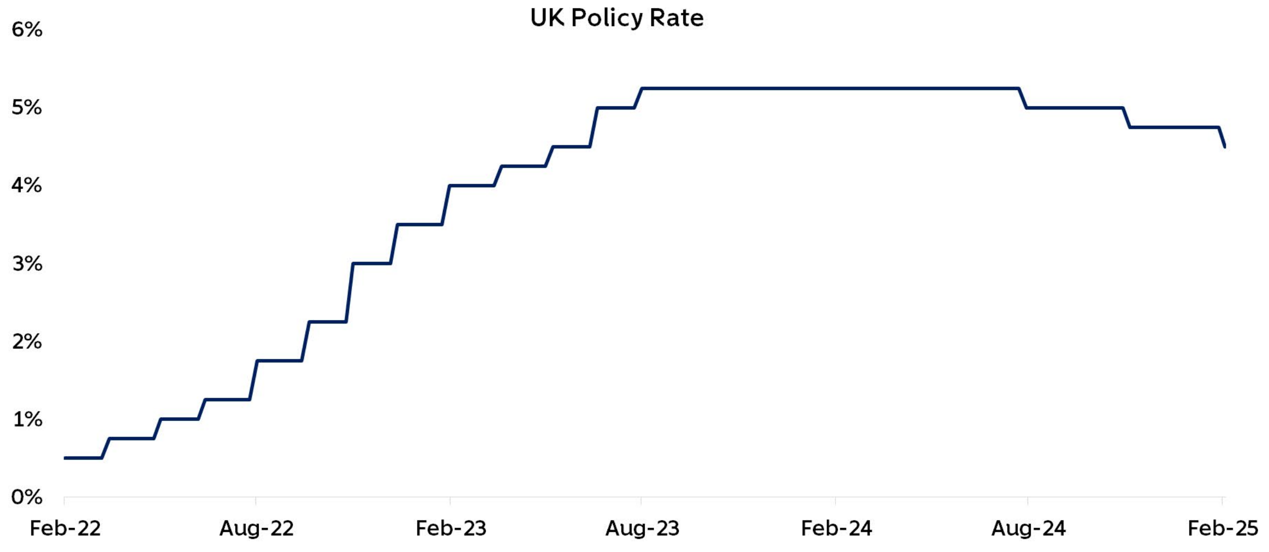
Chart of the Week

10 February 2025



Source: Bloomberg Finance L.P., as at 6 February 2025.

Bank of England cuts rates: how low can they go?

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What this chart shows

The chart above shows the latest 25bps rate cut by the Bank of England (BoE) to 4.5%. This is the lowest the policy rate has been in 19 months with two of the nine policymakers in the Monetary Policy Committee (MPC) supporting a 50bps rate cut on February 6, 2025. The bank signalled a 'gradual and careful approach' to future rate cuts, forecasting two more quarter point reductions by the end of this year, in an effort to reign inflation back to the BoE's 2% target. This is now the third reduction in policy rate since August 2024, with the BoE halving growth expectations and raising its inflation forecast.

Whilst the US Federal Reserve has moderated its monetary policy easing in the face of sticky inflation and uncertainty surrounding President Trump's trade tariffs, the UK (and Europe) are on different paths due to lacklustre economic growth. Both the UK and European central banks are now expected to cut rates more than previously forecast in an effort to support growth.

In the UK, the Bank of England views Chancellor Rachel Reeves' decision to raise employer national insurance contributions as having a greater-than-expected impact on jobs and prices. As a result, it has revised its economic growth forecast for this year to just 0.75%—half of its November projection. Meanwhile, inflation is expected to rise further and peak at 3.7% by the third quarter of 2025.

Why this is important

UK government bonds have had a volatile start to the year, with the market's views on the BoE's interest rate path see-sawing since November due to uncertainty around the potential for tariffs on the UK and the impact of chancellor Reeves' October Budget. Markets had until today been reticent to price in a more aggressive rate cutting path, fixated on a terminal rate of 4%, mainly on the back of expectations that increased government spending would be inflationary. However, markets seem to be coming round to the idea that there is another component in the fiscal equation and that is the likelihood of increased taxes, which on a net basis should keep fiscal policy tight.

There is little reason to doubt that the UK will maintain its fiscal discipline, particularly in light of the turmoil in bond markets caused by Liz Truss' budget and the lasting damage to the country's fiscal credibility. With ongoing uncertainty in global trade, the prospect of a tight fiscal policy, and a significant downward revision in growth forecasts, the likelihood of additional rate cuts appears higher than what is currently priced in.

*At time of writing on 06/02/2025

Weekly market update

week ending 7 February 2025

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last week was marked by significant global trade tensions, primarily driven by the US imposing tariffs on multiple countries, leading to market volatility, corporate earnings impacts, and concerns over global economic growth.

US

- **Tariff concerns continue:** President Donald Trump imposed 25% tariffs on imports from Mexico and Canada, and 10% on Chinese imports, leading to swift retaliatory measures and global market concerns.
- **Stock market volatility:** Major indices such as the Dow Jones, S&P 500, and Nasdaq experienced declines between 1% and 2% due to fears of a global trade war.
- **Job market data:** The US added 143,000 jobs in January, below the expected 168,000, with unemployment slightly decreasing to 4%.
- **Corporate earnings:** Alphabet's shares dropped by 7% following a weak earnings report, attributed to underperformance in cloud computing and increased AI investments.

UK

- **Interest rate cut:** The Bank of England reduced interest rates from 4.75% to 4.5% to stimulate the economy amid rising prices and slowing growth, as expected
- **Inflation outlook:** Despite the rate cut, the Bank warned that inflation could peak at 3.7% by autumn, nearly double the government's target.
- **Trade concerns:** UK markets were affected by global trade tensions, with potential implications from US tariff policies under President Trump.
- **Corporate restructuring:** Lloyds Banking Group announced a restructuring plan that could result in 200 job losses.

Europe

- **Tariff uncertainty:** European companies expressed concerns over potential US tariffs under President Trump's trade policies, leading to slowed investments, particularly in sectors like wind and solar energy.
- **Market reactions:** Major European stock indices, including Germany's DAX and France's CAC, experienced declines of over 1% due to trade war fears.
- **Economic forecasts:** The European economy is projected to recover modestly, with growth increasing from 0.9% in 2024 to 1.3% in 2025, supported by easing inflation and resilient labour markets.
- **Corporate earnings:** Companies like Volvo Cars and Diageo anticipate lower profitability due to trade uncertainties and potential tariffs.

Rest of the World/Asia

- **Tariff impacts:** In response to US tariffs, China announced retaliatory measures, escalating trade tensions between the two nations.
- **Market response:** Chinese markets faced declines upon returning from the Lunar New Year holiday and the Chinese yuan weakened to a 14-month low against the US dollar, reflecting concerns over the economy and trade tensions influenced by the US tariff hikes.
- **Currency surge:** The Japanese yen experienced a significant increase following promising wage growth and inflation-adjusted wage increases, suggesting potential interest rate hikes by the Bank of Japan.
- **Energy markets:** Oil prices surged due to anticipated supply disruptions amid global trade tensions, with Brent crude reaching its highest level in two months.

Weekly market data

week ending 7 February 2025

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Asset Class / Region	Currency	Week ending 7 February	Month to date	YTD 2025	12 months
		Cumulative returns			
Developed Markets Equities					
United States	USD	-0.2%	-0.2%	2.5%	21.8%
United Kingdom	GBP	0.3%	0.3%	6.4%	17.8%
Continental Europe	EUR	0.7%	0.7%	7.7%	12.9%
Japan	JPY	-1.8%	-1.8%	-1.7%	9.9%
Asia Pacific (ex Japan)	USD	1.2%	1.2%	2.5%	16.1%
Australia	AUD	-0.2%	-0.2%	4.3%	15.9%
Global	USD	-0.1%	-0.1%	3.4%	19.1%
Emerging Markets Equities					
Emerging Europe	USD	0.6%	0.6%	9.1%	10.6%
Emerging Asia	USD	1.4%	1.4%	2.2%	16.9%
Emerging Latin America	USD	1.5%	1.5%	11.2%	-15.6%
BRICs	USD	2.5%	2.5%	2.6%	15.8%
China	USD	4.8%	4.8%	5.7%	34.9%
MENA countries	USD	0.5%	0.5%	3.6%	4.5%
South Africa	USD	3.7%	3.7%	9.2%	25.4%
India	USD	-1.2%	-1.2%	-2.7%	2.8%
Global emerging markets	USD	1.4%	1.4%	3.2%	13.2%
Bonds					
US Treasuries	USD	0.4%	0.4%	1.0%	2.6%
US Treasuries (inflation protected)	USD	0.4%	0.4%	1.7%	4.5%
US Corporate (investment grade)	USD	0.3%	0.3%	1.0%	4.4%
US High Yield	USD	0.0%	0.0%	1.4%	9.6%
UK Gilts	GBP	0.5%	0.5%	1.3%	1.0%
UK Corporate (investment grade)	GBP	0.4%	0.4%	1.6%	5.4%
Euro Government Bonds	EUR	0.6%	0.6%	0.4%	3.8%
Euro Corporate (investment grade)	EUR	0.3%	0.3%	0.8%	6.1%
Euro High Yield	EUR	0.4%	0.4%	1.0%	9.0%
Global Government Bonds	USD	0.6%	0.6%	1.2%	0.8%
Global Bonds	USD	0.4%	0.4%	0.9%	1.8%
Global Convertible Bonds	USD	0.5%	0.5%	2.8%	11.2%
Emerging Market Bonds	USD	0.4%	0.4%	1.7%	8.9%

Asset Class / Region	Currency	Week ending 7 February	Month to date	YTD 2025	12 months
		Cumulative returns			
Property					
US Property Securities	USD	1.2%	1.2%	2.2%	14.9%
Australian Property Securities	AUD	-0.4%	-0.4%	4.3%	16.5%
Asia Property Securities	USD	0.9%	0.9%	1.9%	-1.5%
Global Property Securities	USD	0.9%	0.9%	2.2%	11.0%
Currencies					
Euro	USD	-0.9%	-0.9%	-0.3%	-4.1%
UK Pound Sterling	USD	-0.4%	-0.4%	-0.9%	-1.7%
Japanese Yen	USD	2.0%	2.0%	3.7%	-2.3%
Australian Dollar	USD	0.2%	0.2%	1.3%	-3.9%
South African Rand	USD	1.0%	1.0%	2.5%	2.6%
Swiss Franc	USD	-0.3%	-0.3%	-0.3%	-4.0%
Chinese Yuan	USD	-0.7%	-0.7%	0.1%	-1.4%
Commodities & Alternatives					
Commodities	USD	0.7%	0.7%	3.8%	10.8%
Agricultural Commodities	USD	0.2%	0.2%	3.5%	5.7%
Oil	USD	-2.7%	-2.7%	0.0%	-5.7%
Gold	USD	2.2%	2.2%	9.0%	40.5%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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