March 2025 | Market update

European stocks outshine Wall Street

Global markets diverged as trade tensions hit sentiment, while strong earnings fuelled gains elsewhere

Markets diverge on tariffs. European markets outperformed the US despite Trump's tariff threats. Strong corporate earnings pushed major indices to record highs, while the FTSE 100 climbed on optimism over interest rate cuts and solid corporate results.

US stocks fell amid tariff uncertainty and weakening consumer demand. Trump warned of a 25% tariff on EU imports and possible UK taxes, confirmed duties on Canadian and Mexican goods, and threatened an extra 10% on Chinese imports. The moves fuelled fears of a global trade war, job losses and rising US inflation.

Rising inflation, slowing growth. US consumer confidence dropped for a third month, while inflation estimates rose on concerns that tariffs could push up household costs. Business activity stagnated as uncertainty over trade policy and major government spending cuts weighed on sentiment.

US inflation rose to 3% in January, up from 2.9%, adding to speculation over when the Federal Reserve might cut interest rates. Job growth slowed, with 143,000 positions added, while unemployment edged down to 4% from 4.1%. Wage growth continued to outpace inflation, but concerns remain over a potential economic slowdown.

UK economy defies slowdown. UK inflation accelerated to 3% in January, up from 2.5%, complicating the Bank of England's rate-cut plans. Despite this, the Bank lowered interest rates by a quarter point to 4.5%, the lowest since June 2023. The FTSE remained steady despite tariff threats, while the pound hit a 2024 high against the dollar after stronger-than-expected GDP data boosted confidence in the UK economy.

The UK narrowly avoided recession as growth picked up in late 2024 following a summer slowdown. This provided some relief for Chancellor Rachel Reeves, with wage growth continuing to outpace inflation. Unemployment held steady at 4.4%, and consumer spending showed signs of resilience, helping to sustain economic momentum.

Conservatives win German election. A conservative victory in Germany's election brought relief to markets, with a coalition likely with the third-placed Social Democrats. The outcome eased uncertainty over Germany's economic direction.

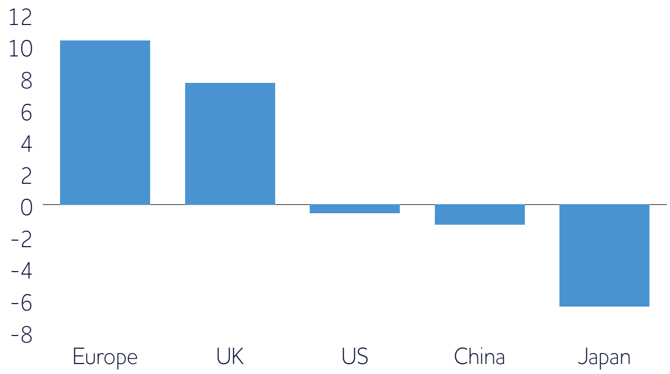
Euro area inflation increased to 2.5% year-on-year in January, up from 2.4% in December, exceeding expectations. The region's economy fared better than first estimated in late 2024, though growth remained weak. GDP rose just 0.1% quarter-on-quarter, slowing from 0.4% in the previous three months, reflecting broader economic challenges.

China escalates trade tensions. China announced tariffs on $14 billion of US goods, ranging from 10% to 15%, targeting exports such as liquefied natural gas, coal, crude oil and farm equipment. Chinese authorities also launched an anti-monopoly probe into Google, further straining relations with Washington.

China's consumer inflation rose in January, driven by Lunar New Year spending. Despite ongoing trade tensions, domestic demand showed some resilience, supporting economic activity in the short term.

Figure 1: Europe is outperforming

Stock market returns by country since the start of the year (%)



Source Bloomberg

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