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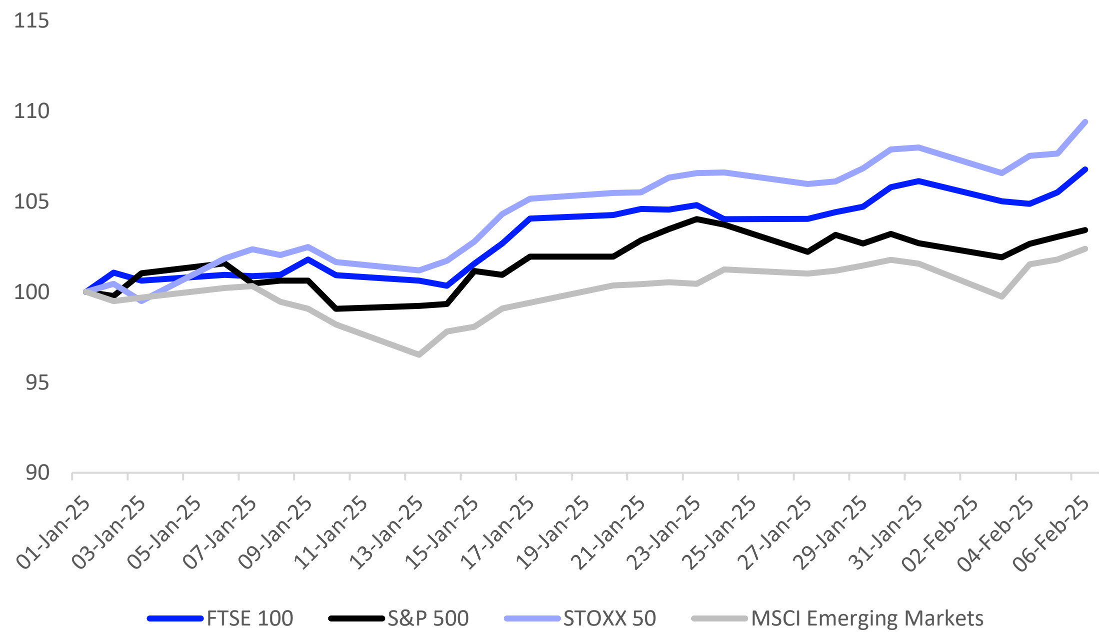
EXCHANGE

MACROECONOMIC AND EQUITY CAPITAL MARKETS UPDATE

January 2025

Major Indexes Start 2025 Strong

Index Returns*



	Index Returns (%)				Index Characteristics		
	Level	YTD	1Y	5 year	P/E	P/B	Div Yld.
FTSE 100	7,461.9	6.8	13.6	16.3	16.4	1.8	3.5
STOXX 50	4,448.8	9.4	14.2	40.8	17.0	2.2	3.0
S&P 500	4,839.8	3.4	22.8	81.8	27.2	5.0	1.5
MSCI EM	970.9	2.5	10.2	0.0	-	-	-

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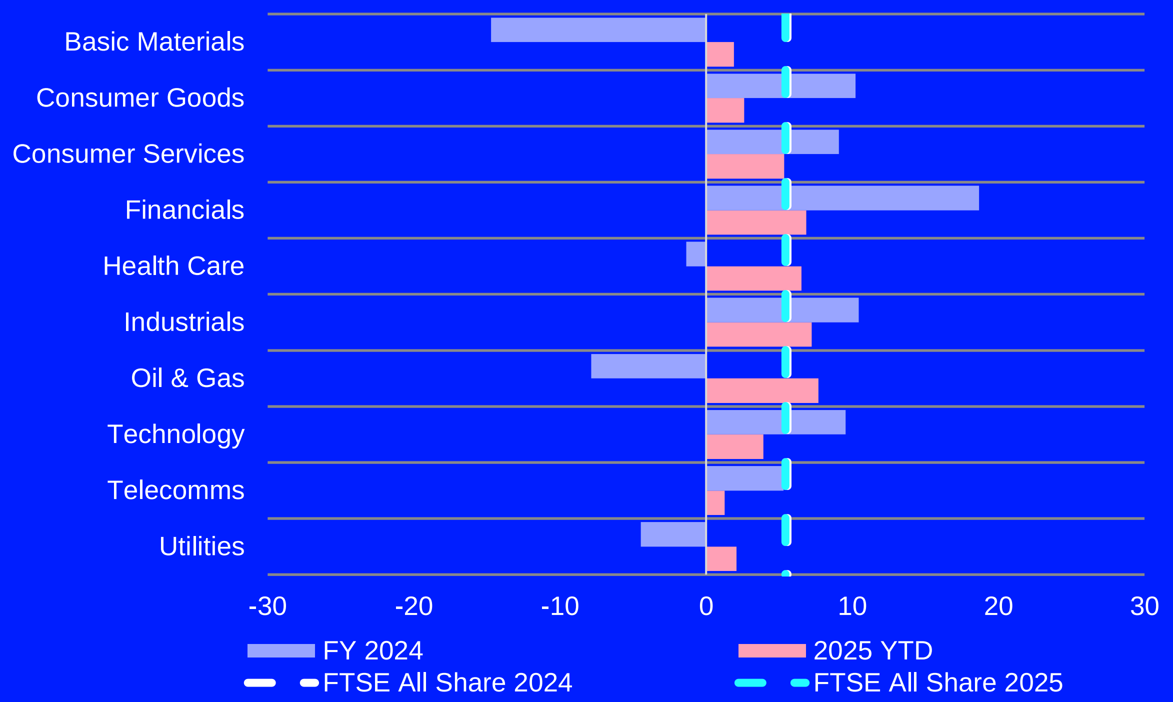
Source: LSEG Workspace, Morningstar, 7th February 2024. *Prices rebased to 100 on 01/01/25

- Global markets saw strong starts to 2025 with the FTSE 100 up 6.1% in January and the STOXX 50 up 8.0%. European markets have largely been seen as an investment opportunity in recent years, with investors moving into these markets and value opportunities at the start of 2025.
- The S&P 500 started the year by rising 2.7%. It's underperformance relative to European markets was driven by a sharp decline in the Technology sector following the market response to China's DeepSeek AI model. On the day of President Trump's inauguration, the index saw a moderate increase.
- All sectors in the FTSE All Share have seen positive returns so far in 2025, Oil & Gas and Industrials are the best performing sectors in London so far this year, with returns of over 7% in January.

FTSE All-Share Sector Returns



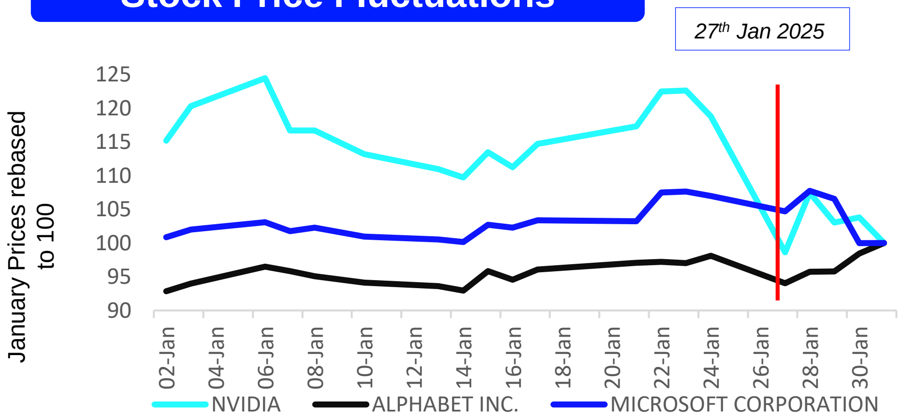
DeepSeek AI and Impact on US Markets

The DeepSeek Breakthrough

In January 2025, DeepSeek, a Chinese AI startup, unveiled its R1 model, an open-source AI assistant that matched the performance of leading U.S. models but was developed at a fraction of the cost - approximately $6 million, significantly lower than the hundreds of millions spent by U.S. competitors

This cost efficiency was achieved by utilising fewer and less advanced GPUs, challenging the dominant belief that cutting-edge AI required substantial computational resources. This unexpected advancement sent shockwaves through the tech sector and had profound implications for the U.S. market. The R1 model, quickly gained popularity, surpassing OpenAI's ChatGPT in downloads on the iOS App Store in the United States.

Stock Price Fluctuations



Broader Economic Implications

- **Investment Strategies:** The reduced cost of AI development led investors to question the sustainability of massive capital expenditures in AI infrastructure. Companies heavily invested in AI faced scrutiny over future growth prospects.
- **Market Concentration Risks:** The event highlighted the U.S. market's reliance on a handful of tech giants. The significant stock price fluctuations of these companies raised concerns about market stability and the potential ripple effects on the broader economy.
- **Environmental Impact:** The rapid growth of AI infrastructure has led to increased energy consumption. The energy demands of AI data centres contribute to higher greenhouse gas emissions.
- **Geopolitical Ramifications:** DeepSeek's success was perceived as a "Sputnik moment" for American AI, signalling a potential shift in technological leadership and prompted discussions about the need for increased U.S. investment in AI research and development to maintain a competitive edge.

DeepSeek AI Timeline January 2025

20th January - DeepSeek R1 Goes Public

R1 is released as an open-source AI model.

21st January–'Stargate Project'

Donald Trump announces AI initiative to secure U.S. AI leadership.

27th January - DeepSeek surpasses ChatGPT

DeepSeek overtakes ChatGPT to become the top free app on the U.S. iOS App Store.

27th January Nvidia Loses $600 bn in Value

Nvidia's stock plunges 18%, wiping out $600 billion in market cap, with Broadcom and AMD also suffering heavy losses.

Other tech giants also faced a dip in stock prices, with Microsoft (-4%), and Alphabet (-3%), pulling Nasdaq down 3% as investors panic.

28th January – Calls for increased U.S. AI Investment

DeepSeek's advancement were likened to a "sputnik moment", sparking discussions about the need for increased U.S. investment in AI research.

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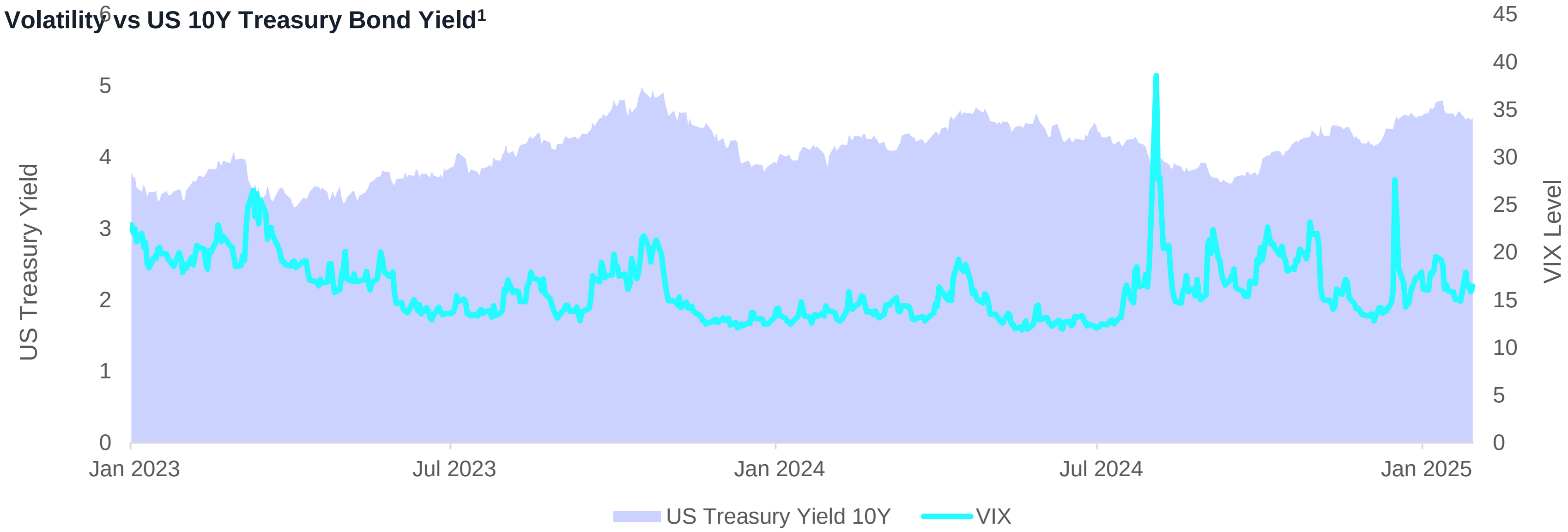
Source: 20th February 2025, Reuters, The Guardian, FT

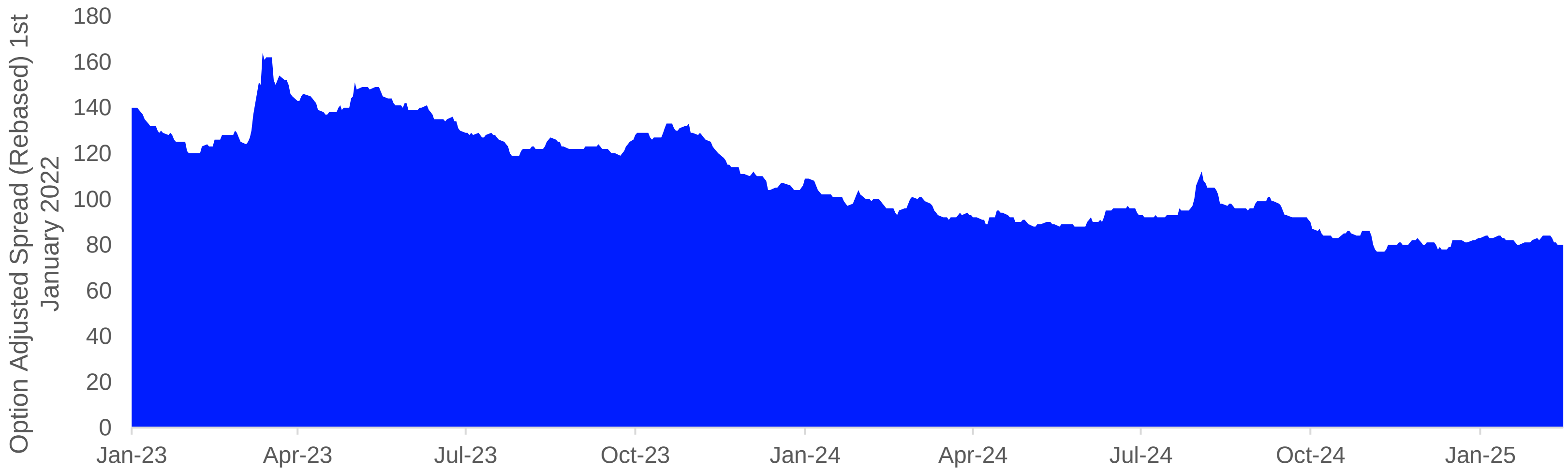
Global Fixed Income Dynamics

- In January, the VIX had moderate fluctuation throughout January, increasing to 19.54 on the 10th and closing at 16.3. The spike was driven by stronger-than-expected job reports.
- Additionally political uncertainty surrounding President Elect Donald Trump's return to the white house contributed to increasing yields reaching the highest level since November 2023.
- U.S. bond spreads increased this month, increased further to 80-84 basis points. Despite spreads staying relatively tight, the Fed's 'higher for longer' stance on rates is driving wider US spreads.

Volatility vs US 10Y Treasury Bond Yield[1]



10Y US Corporate Bond Spreads[2]



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Source: LSEG Workspace, 18th February 2025. [1] Refinitiv US Government Benchmark Bid Yield [2] ICE BofA US Corporate Index Option-Adjusted Spread

London Stock Exchange 2025 Transactions

1

Number of **IPOs** on LSE in 2025 YTD

18

Number of **FOs** on LSE in 2025 YTD

£3.8bn

Total capital raised on LSE in 2025 YTD

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Source: Dealogic, LSEG Workspace, February 2025.

Jumbo ECM Deals Start 2025 Strong

BAT

Date	14th January 2025
Transaction	Follow-On
Amount Raised	£1,221.4 million

2nd largest equity issuance globally in 2025 and largest transaction since listing

HALEON

Date	15th January 2025
Transaction	Follow-On
Amount Raised	£2,499.0 million

Largest equity issuance globally in 2025 and largest transaction since listing

Top 10 Offerings on the London Stock Exchange 2025 YTD

Issuer Nameth	Offer Type	Issue Date	Capital Raised (£m)	Market Cap (£m) at Deal
Haleon plc	Follow-On	14 January	2,499	33,235
British American Tobacco plc	Follow-On	14 January	1,221	64,785
Cornish Metals Inc	Follow-On	29 January	56	103
Synairgen plc	Follow-On	16 January	18	30
Oxford BioDynamics plc	Follow-On	15 January	7	10
Helix Exploration plc	Follow-On	24 January	5	23
Quadrise plc	Follow-On	24 January	5	111
Mkango Resources Ltd	Follow-On	21 January	2	29
Zenith Energy Ltd	Follow-On	13 January	2	8
GSTechnologies Ltd	Follow-On	14 January	2	57

London Sees Strong Sovereign Start to 2025

£100.9bn

Raised on the London Stock Exchange in 2025 YTD

1,240

Bond transactions on the London Stock Exchange in 2025 YTD

65%

65% of capital raised by bonds on the London Stock Exchange in 2025 YTD has been by international issuances.

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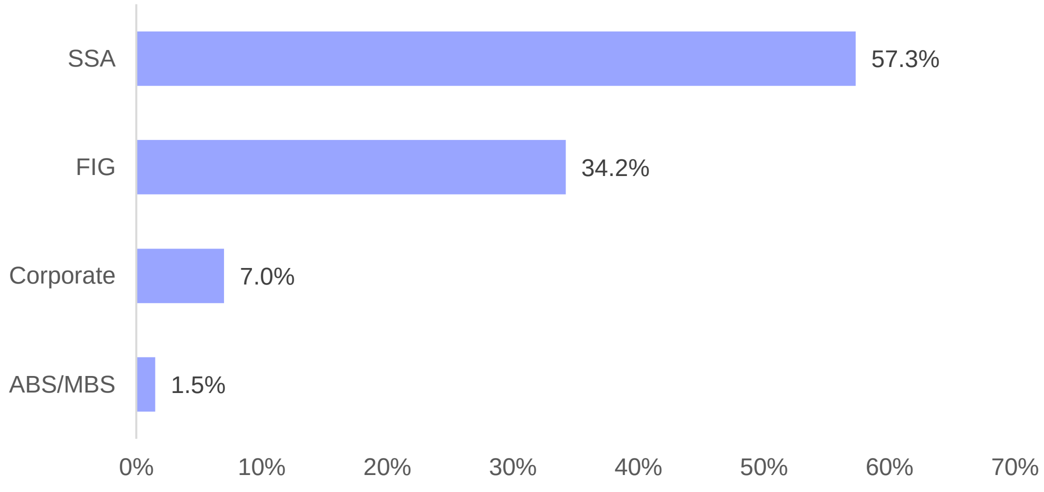
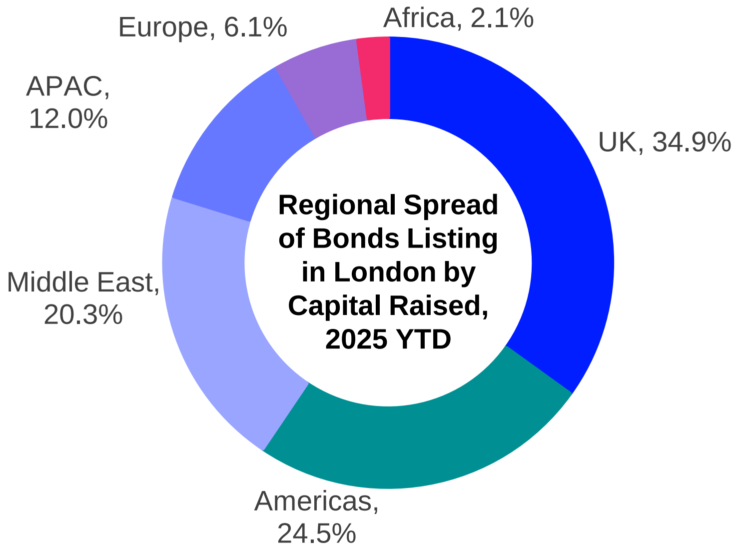
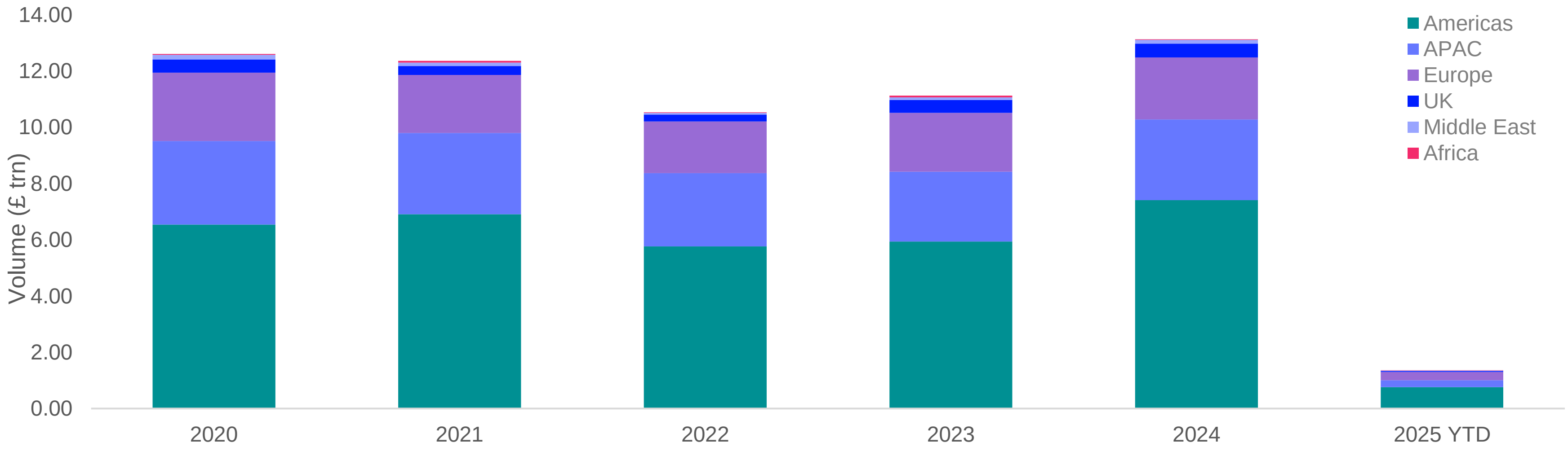
SSA's account for the majority of capital raised in London in 2025 YTD





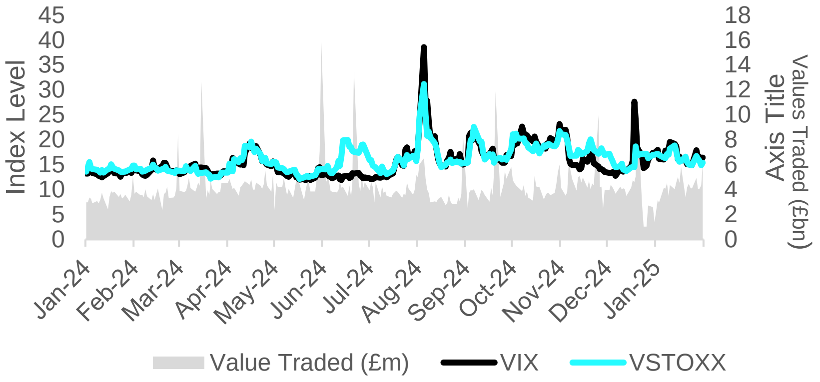
Global DCM Volumes by Issuer Region



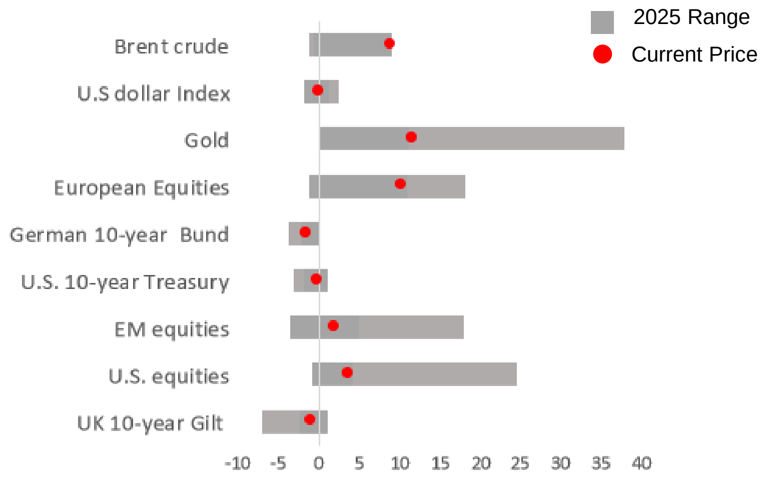
Source: London Stock Exchange, Dealogic, February 2025 All charts include active and matured bonds. Does not exclude 144A/Reg S lines. SSA refers to Supranational, Sovereigns and Agencies. FIG refers to Financial institution groups. ABS/MBS refers to asset-backed and mortgage-backed Securities. Regional spread of London listed bonds is based on total capital raised by bonds from each region.

Impacts Seen Across Volatility and Asset Class Performance Following Fed Rate Cuts

Volatility rises in January



Select Assets in Review



Inflation Moderating with Positive Growth Outlook

	Real GDP (%)			CPI Inflation (%)			Policy Rates		
	23	24	25E	23	24	25E	23	24	25E
UK	0.4	0.9	1.1	7.4	2.5	2.7	5.25	4.75	3.8
Eurozone	0.4	0.8	0.9	5.5	2.4	2.1	4.5	3.15	2.15
US	2.9	2.7	2.2	4.1	2.9	2.7	5.5	4.5	3.95
China	5.2	4.8	4.5	0.2	0.2	0.8	3.45	3.1	-
Japan	1.5	-0.2	1.2	3.3	2.6	2.2	-0.1	0.25	0.7

- Growth forecasts remain stable, with UK AND Eurozone GDP expected to rise slightly, Inflation continues to ease across most regions, supporting expectations for gradual rate cuts in 2025.
- Market volatility increased in January 2025, as reflected in the VIX and VSTOXX indexes. This reflects investor uncertainty following the Fed's rate cuts and shifting economic factors such as trade policy uncertainty.
- Gold prices reached record highs, driven by increased central bank demand, geopolitical uncertainties, and a weaker US dollar. January also saw notable underperformance from Emerging Market Equities as investor pulled back from riskier assets due to concerns over new U.S. trade policies and their potential impact on China, India and other key economies.

Source: London Stock Exchange, LSEG Workspace, Bloomberg, 7TH February 2025. Note: [1] Value Trade based on London Stock Exchange Orderbook trading data.

Two of the Major Central Banks Expected to Cut at Next Meeting

Interest Rate Decision Predictions

Central Bank	Next Meeting Date	Current Rate	Predicted Action[1]	Change By[1]
Federal Reserve	19 March 2025	4.375	NO CHANGE	-
European Central Bank	6 March 2025	2.75	CUT	-0.25
Bank of England	20 March 2025	4.5	NO CHANGE	-
Bank of Japan	19 March 2025	0.5	NO CHANGE	-
Swiss National Bank	20 March 2025	0.50	CUT	-0.25
Bank of Canada	12 March 2025	3.0	NO CHANGE	-
Reserve Bank of Australia	1 April 2025	4.1	NO CHANGE	-

Recent Economic Events

	Event
07 Jan	**Job Data**
08 Jan	Retail Sales
09 Jan	Consumer Price Index
10 Jan	Unemployment Data
16 Jan	Retail Sales
16 Jan	GDP
22 Jan	Imports
30 Jan	Job Data

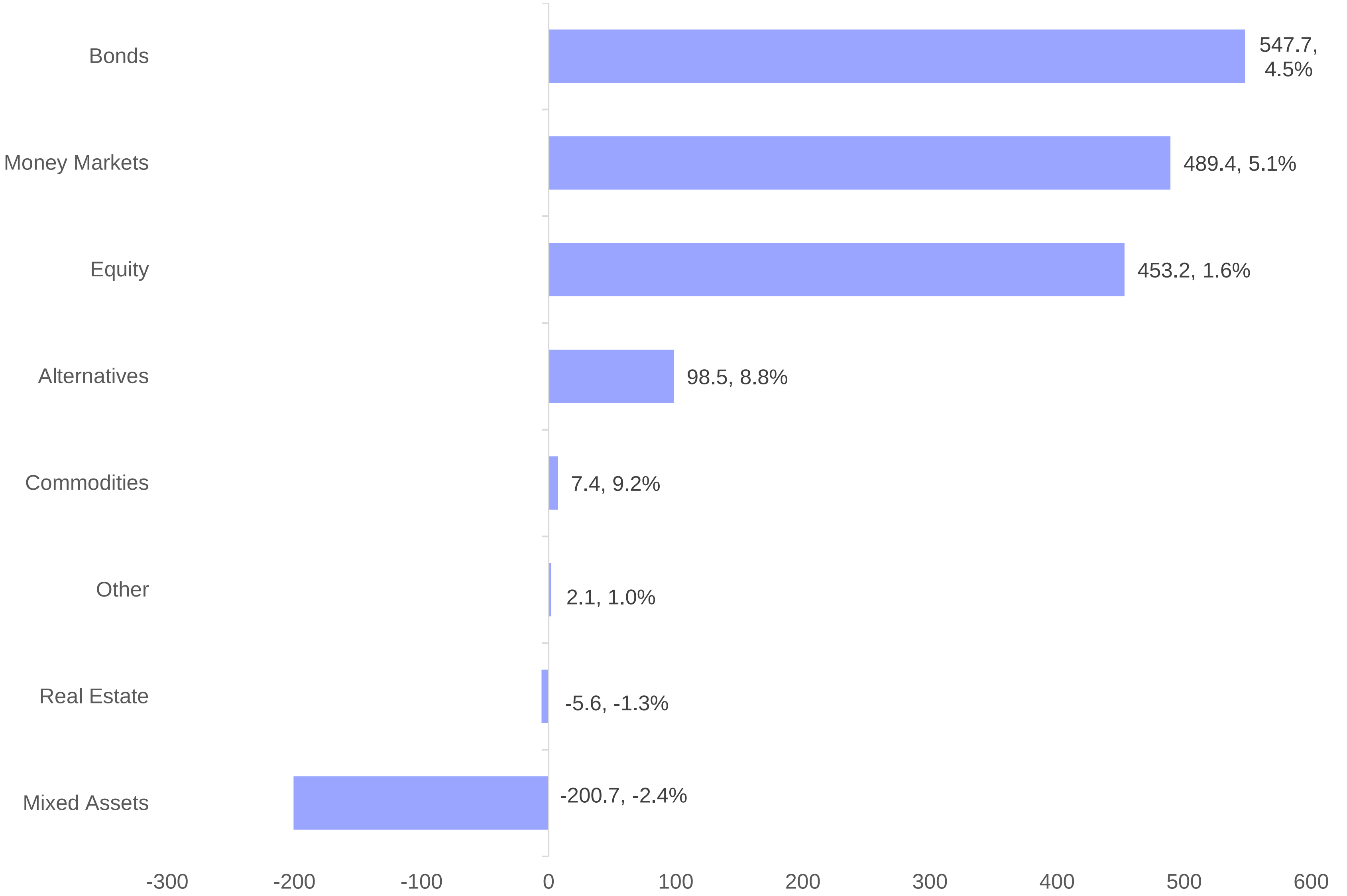
Source: LSEG Workspace, February 2025.

[1] LSEG Workspace provides centrally calculated probabilities and expected changes for several central bank target interest rates.

Several Asset Classes Saw Inflows in 2024

- Bonds saw inflows reaching £548bn, as investors looked to lock in high yields before interest rates start to fall. Money market funds also grew by 5.1%, and equities had moderate inflows, as some investors slowly returned to the stock market. The strong demand for bonds and money markets shows that many still prefer safer investments, while the slower growth in equities suggests that confidence is improving but still moderated
- At the same time, mixed assets saw outflows of £201bn, as investors moved away in favour of choosing either bonds or equities more directly.
- Overall, flows suggest *that* investors are being careful, balancing safety and opportunity as they wait for clarity on interest rates and global economies.

Net Flows from Global Funds 2025 YTD



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Source: LSEG Workspace, LSEG Lipper, February 2025. *Lipper data for 1st January 2024 – 31st December 2024.

Regional Trends and Headlines

Europe

The UK economy grew by 0.1% in Q4 2024, with December activity up 0.4%, driven by services and construction. However, growth per capita remains under strain, impacting living standards.

France’s public auditor urged immediate budget cuts, warning that rising debt repayments, and lower tax revenues threaten financial stability. The government aims to reduce the deficit to 5.4% of GDP, but the €110 billion savings plan lacks details.

Germany has asked the EU to ease its gas storage mandates, citing financial strain from compulsory stockpiling. With storage levels below 50%, concerns over supply costs are rising as discussions continue on extending targets beyond 2025.

North America

President Donald Trump announced 25% tariffs on imports from Mexico and Canada (10% on Canadian energy products). However, the tariffs came to a halt after Canada and Mexico agreed to strengthen border security measures and anti-smugglings efforts.

Banco de México reduced its benchmark interest rate by 50 basis points to 9.50%, citing a decrease in annual inflation to 3.69%—the lowest inflation rate since 2021 and within the central bank’s target range. Governor Victoria Rodríguez emphasised that the fight against inflation has entered a new phase, allowing for more accommodative monetary policy.

In January 2025, the U.S. economy added 143,000 jobs, with the unemployment rate edging down to 4.0%, signalling a cooling but still resilient labour market. Meanwhile, real GDP growth for Q1 2025 is projected at 2.1%, as consumer spending slows amid persistent but easing inflation pressures.

Central and South America

The Argentine government’s attempt to privatise the Paraná-Paraguay waterway, vital for 80% of the country’s exports, failed after receiving only one formal bid. The waterway remains under the control of Jan de Nul, until a new tender is organised.

President Nayib Bukele offered to house U.S. prisoners in El Salvador’s mega prison in exchange for support in developing nuclear energy. This move aims to bolster the relationship between El Salvador and the United States under President Donald Trump’s administration.

Bazilian mining giant Vale is in advanced discussions to sell a 70% stake in its renewable energy unit, Aliança Energia, and a solar plant to U.S.-based Global Infrastructure Partners (GIP). The deal, estimated between 5 to 6 billion reais ($870 million to $1.04 billion).

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Source: Financial Times, BBC New, The Guardian, Reuters, Feburary 2025.

Regional Trends and Headlines

Middle East

The Middle East has become the fastest growing region outside of China in terms of the growth of its renewable energy capacity. Data suggests that in five years time, 30% of the region's total energy capacity will come from renewables.

Saudia Arabia has stated it is aiming to invest at least $600bn in the US over the next four years, Crown Prince Mohammed Bin Salman said in a call with President Trump. This pledge is more than 50% of the country's GDP and appears to be a change in policy following comments in late 2024 by officials stating that Saudi Arabia would scale back its overseas investments.

Iran has encouraged fellow OPEC members to unite against potential sanctions from the US, following President Trump stating that he wanted to implement a "maximum pressure" sanctions campaign on the country.

Africa

Botswana is looking to increase its stake in DeBeers ahead of its planned IPO. The Government currently owns 15% of the company, with the remaining 85% stake owned by Anglo American.

South Africa is in emergency talks with ArcelorMittal after the company announced plans to close the country's two biggest steel mills. ArcelorMittal announced plans to close the plants citing the high costs of energy and logistics, low GDP growth in the country, and an influx of cheap steel imports from China.

TotalEnergie's Mozambique based Liquified Natural Gas (LNG) project is at risk of losing financing with UK, US, and Dutch Governments in discussion to withdraw commitments following a series of terrorist attacks in the region of the development in 2021.

Asia-Pacific

The New Reserve Bank of India has cut interest rates for the first time in five years, reducing rates by 25 basis points to 6.25%. The new Secretary of the Bank, Sanjay Malhotra, was appointed in December in a move that suggested cuts were imminent. The prior rate of 6.5% had been held for two years.

Japan is set to loosen rules on accessing its strategic rice reserves for the first time since 2011 in the wake of the tsunami and Fukushima nuclear disaster. Rice prices in Japan are currently the highest they've been on record. The stockpile was established thirty years ago to protect against the risk of crop failure or natural disasters.

Hong Kong's securities regulator has moved to allow single stock leveraged ETFs and inverse products on overseas stocks.

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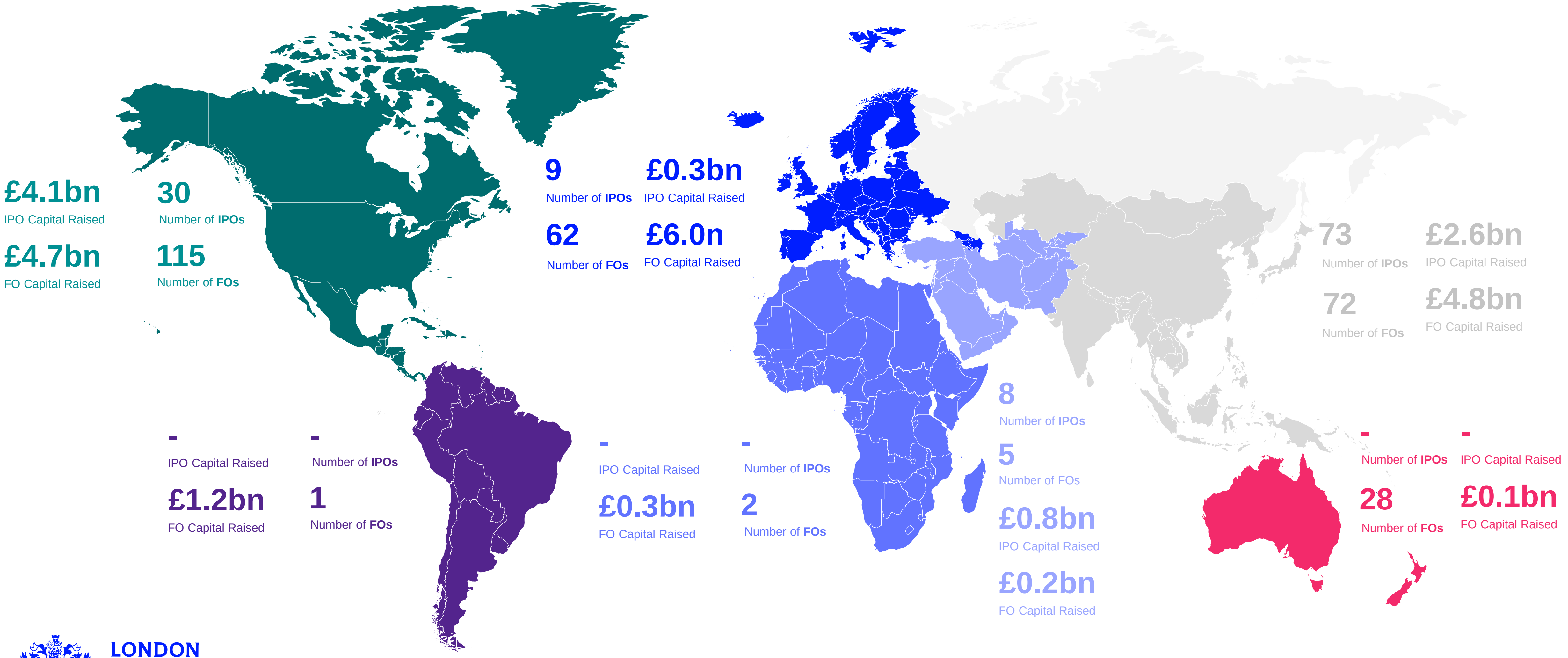
Source: Financial Times, Rystad, Al Jazeera, 7th February 2025.

Global Equity Capital Markets, 2025 YTD



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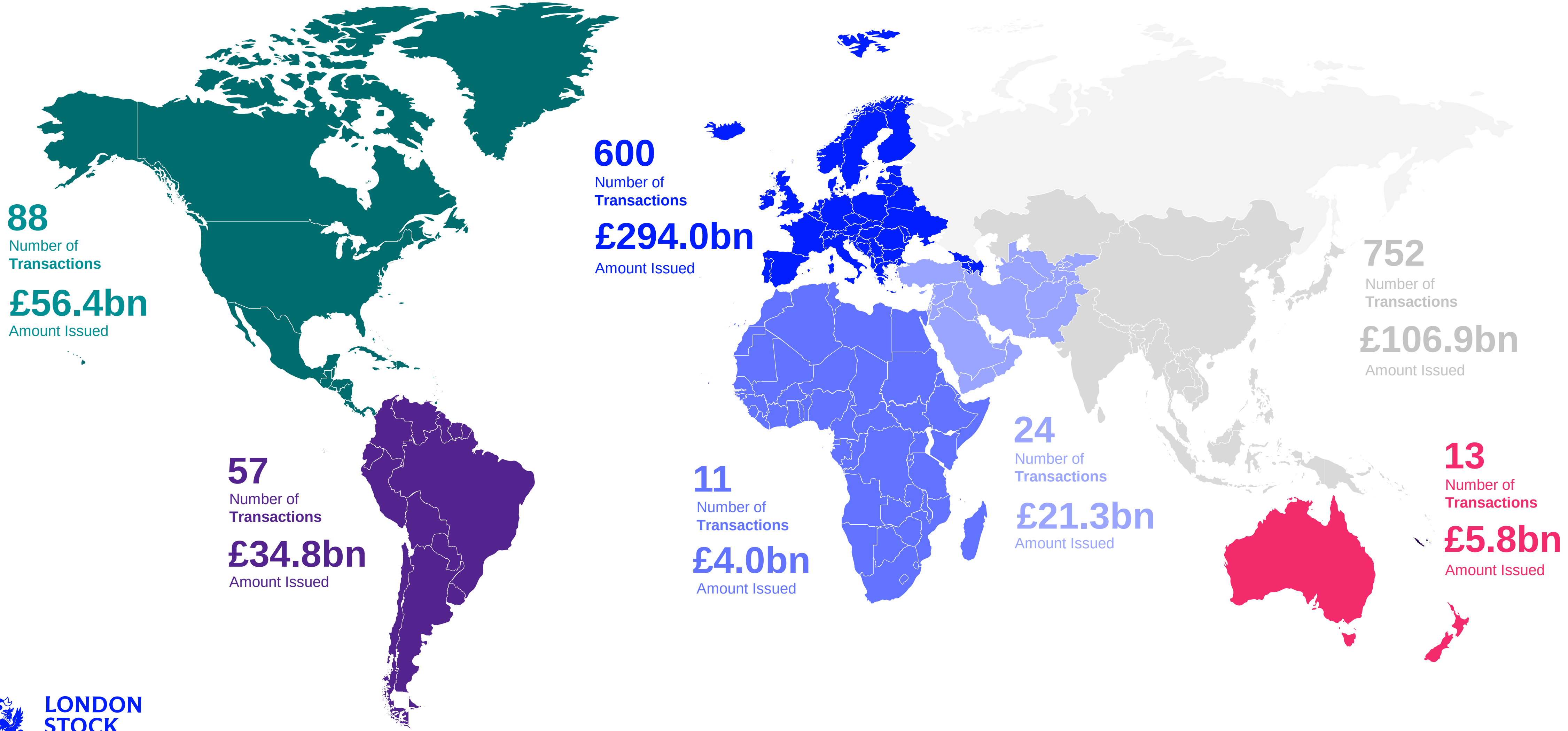
Source: Dealogic, 7th February 2025. Deals data covers 1st January 2025 – 31st January 2025

Global Debt Capital Markets, 2024



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Source: Dealogic, 18th February 2025. Notes: Deals data covers 1st January 2025 – 31st January 2025. Region based on Deal Region. Excludes unlisted and unassigned bonds.

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