

A frosty February

February 2025 market review



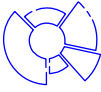
Kevin Quinn,
Chief Investment Strategist,
Bank of Ireland Investment Markets

February 2025 was a challenging month for investors as they focussed on evidence of slowing US economic growth. However, this led to gains in the bond market, with bond yields¹ dropping as demand rose for lower risk assets, despite the continued stickiness in inflation.


The geopolitical stage remained uncertain in February, as the month finished with a debacle between President Trump and Ukrainian President Zelenskyy, which has dominated headlines since.

There were 6 key drivers of February's returns:


1 Make Europe great again

- ▶ So far in 2025, we have seen a rotation in equity markets, with Europe taking the lead over the US. 
- ▶ European equities gained 3.6% in February 2025, bringing their performance for 2025 to date to 10%².
- ▶ In contrast the Magnificent 7³, key drivers of 2024's returns, saw losses of 8.4% in February, bringing year to date returns to -6.9%⁴.


2 Gold keeps glistening

- ▶ Gold made gains of 2.1% in February, on the back of a strong January, although it dropped a little later in the month. Its value hasn't quite yet reached the \$3,000 per ounce milestone. 
- ▶ Increased demand in February came from buying by US warehouses looking to replenish inventories ahead of any US tariff problems.

3 DeepSeek panic is over

- ▶ The fall in values of the Magnificent 7 and artificial intelligence (AI)-related stocks following the arrival of the new lower cost AI-rival DeepSeek in January was short-lived and didn't persist in to February. 
- ▶ However, AI stocks have been under considerable scrutiny ever since, especially around the level of capital expenditure planned to bring AI to fruition.
- ▶ Innovation of the DeepSeek kind will accelerate the use of AI but may challenge the profitability of some existing AI firms. So far in 2025, the Magnificent 7's performances have diverged significantly.


4 Geopolitics is shifting at a pace

- ▶ A potential for a peace deal in Ukraine, but a weakening of transatlantic relations, alongside US tariffs to come for Mexico and Canada in April and a threatened 25% on the European Union, have all conspired to make the geopolitical backdrop quite unpredictable for markets. 
- ▶ This may also be flattering some economic data as front loading of economic activity appears to be in evidence in anticipation of what may be to come.

5 Earnings, earnings & more earnings

- ▶ Simply put, Q4 2024 company earnings were exceptionally strong, with the US looking like it has delivered 16.9% year-on-year growth (20.4% excluding energy stocks) driven mostly by margin expansion⁵. 
- ▶ Meanwhile, Europe has also delivered better than expected, with earnings growth of 7% or 13.7% when its energy sector is excluded² over the same time period.
- ▶ Importantly for markets and investors the growth is coming from different sectors and is no longer so heavily dominated by technology⁶.

6 Is America slowing?

- ▶ Robust US economic growth over the past couple of years has surprised many and has been behind much of market's strong performances. 
- ▶ The most recent US economic growth (measured by Real Gross Domestic Product growth) for Q4 2024 showed a slowdown from 3.1% per annum (p.a.) in Q3 2024 to 2.3% p.a. in Q4 2024.
- ▶ The consensus forecast for 2025 now stands at 2.3% for the full year falling to 2% p.a. for each of the following two years⁷.
- ▶ Both the lagged impact of higher interest rates and policy uncertainty appear to be dragging on US growth, while consumer confidence has also fallen somewhat in early 2025.

¹ Yield is the annualised rate of return of a bond expressed as a percentage.
² Source: BOI Investment Markets/Bloomberg 03.03.25 measured by the Stoxx 600, the largest European market index. ³ Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA, and Tesla. ⁴ Source: Bloomberg 03.03.25. ⁵ Source: LSEG I/B/E/S estimates 27.02.25. ⁶ Source: Bloomberg 25.02.25. ⁷ Source: Bloomberg 03.03.25.

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Warning: These figures are estimates only. They are not a reliable guide to the future performance of this investment.

Outlook for March 2025



- ▶ 2025 has seen investors continue to make gains, as underlying economies and in particular company earnings have remained robust.
- ▶ Despite the concerns about tariffs, the view in markets appears to be that tariffs may not endure in the longer run, so while they have had a negative impact so far in 2025, a long-running trade war seems less likely.
- ▶ The US approach to relations with its European allies has seen a modest increase in bond yields as expectations grow that there will be increased defence spending in Europe. This may require a loosening of government spending constraints, a positive for markets and some economies.

February 2025 market snapshot



- ▶ February saw increased competition in the AI market, earnings growth slowing from the Magnificent 7 and a welcome broadening in the sources of equity returns.
- ▶ European equity investors have enjoyed a strong start to 2025, leaving the Magnificent 7 behind, at least so far in 2025.
- ▶ Gold is glistening and in times of geopolitical uncertainty such as now, there are reasons to believe its rally can continue.
- ▶ The US economy is slowing although it is still clear of recessionary conditions.

Spotlight on February 2025 fund performance:



- ▶ On the back of weaker equity performance, our core multi-asset funds had a tough month in February. Those funds with greater bond exposure, performed better.

- ▶ For our core risk category 3 funds, where bonds make up a greater share of the exposure, returns were stronger. We saw **PruFund Cautious** lead the way.



- ▶ For core risk category 4 funds, **PruFund Growth** was the top performer.



To find out how our fund performed in February, visit our



As always, we encourage you to talk to an Advisor before making any change to your investment portfolio.

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