

Markets Show Resilience to Trump's Tariff Threats

Global stock markets appear largely unshaken by the prospect of a trade war sparked by former US President Donald Trump's tariff threats. Since the start of the year, markets in Mexico, China, and Europe have outperformed the S&P 500 in dollar terms, fully recovering from the initial shock of proposed 25 per cent tariffs. While Canada's market has been weaker, it remains positive for the year, despite US exports accounting for nearly a fifth of its GDP.

This market reaction suggests several possibilities: investors may believe Trump is bluffing, that tariffs will have minimal impact on corporate profits, or that any potential damage has already been priced in as his electoral odds improved. At the index level, there is no sign of a looming tariff shock in 2025.

At the company level, however, certain sectors are feeling the pressure. European auto manufacturers like Porsche, BMW, and Mercedes, which rely heavily on US sales, could be exposed, though their production structures vary. Drinks companies such as Diageo and Pernod Ricard, whose imported products are integral to their branding, have already cited tariff uncertainty in profit warnings, with their stock prices taking a hit.

Analyst sentiment and stock performance indicate mixed reactions. Some experts, such as Jacob Pozharny of Bridgeway Capital, view the muted market response as an opportunity, suggesting professionals are optimistic about affected markets while stock performance remains subdued. Whether the markets are right to remain unfazed by Trump's tariff rhetoric remains an open question.

Bank of England Cuts Rates to 4.5% Amid Inflation Concerns

The Bank of England (BoE) has cut interest rates by 0.25 percentage points to 4.5%, citing weaker-than-expected December inflation and softer economic activity. However, inflation pressures remain firm, driven by strong wage growth, rising energy costs, and corporate plans to raise prices in response to tax hikes.

Despite signs of slowing growth, the outlook may not be as weak as business surveys suggest. Increased public services spending from the Autumn Budget could provide a boost, partially offsetting private sector weakness. With inflation expectations rising and the labour market still resilient, rapid rate cuts remain unlikely.

The BoE's Monetary Policy Committee voted 7-2 in favour of the cut, with two members pushing for a larger reduction. However, the central bank tempered expectations for further easing, emphasizing a "gradual and careful" approach. Governor Andrew Bailey reiterated that future cuts will depend on inflation trends and economic conditions, keeping investors on alert for upcoming data releases.

Big Tech's AI Spending Frenzy

Amazon is setting the pace for an AI arms race in 2025, with a jaw-dropping \$100 billion-plus investment in infrastructure. If that sounds excessive, consider this: Microsoft, Alphabet,

Amazon, and Meta collectively poured \$246 billion into capital expenditures last year, and they're not slowing down—this year's projections exceed \$320 billion.

The spending spree isn't without consequences. Microsoft and Alphabet saw their market caps shrink by \$200 billion each after weaker-than-expected cloud growth, while Nvidia suffered a \$600 billion nosedive after Chinese start-up DeepSeek debuted a shockingly cheap AI model.

Yet, Big Tech remains undeterred. Sundar Pichai is betting \$75 billion on AI, Satya Nadella is throwing down \$80 billion for Azure, and Mark Zuckerberg wants to spend “hundreds of billions” more. Their rationale? If you're not all-in on AI, you're out of the game.

But with cheaper, commoditized AI models emerging, investors are wondering whether this is a technological gold rush or just the early tremors of an AI bubble.

UK Labour Market Struggles

The British jobs market just hit its weakest point since the pandemic, with hiring demand falling across nearly every sector. The latest KPMG/REC survey shows vacancy levels declining at their fastest pace since August 2020, as businesses pull back on expansion plans. The culprit? A toxic mix of upcoming tax hikes, regulatory shifts, and persistent economic uncertainty.

October's Budget, which introduced a £25 billion increase in employer national insurance contributions, is weighing on corporate sentiment, with many firms opting to freeze hiring rather than absorb higher costs. The minimum wage hike set for April is adding pressure, particularly in sectors with low-wage, part-time workers. Meanwhile, tech and professional services—once the UK's hiring strongholds—are taking the biggest hit. While the Bank of England's recent rate cut to 4.5% might offer some relief, it's unlikely to reverse the trend overnight. For now, layoffs remain contained, but with employers reluctant to take on new staff, the real question is: how long before the hiring freeze turns into job cuts?

Morgan Stanley Cedes M&A Dominance to JPMorgan and Evercore

The balance of power in investment banking is shifting. JPMorgan and boutique firm Evercore have dethroned Morgan Stanley as Goldman Sachs' top rivals in M&A advisory. JPMorgan pulled in \$3.29 billion in fees last year, while Evercore edged out Morgan Stanley with \$2.45 billion to its \$2.38 billion.

JPMorgan's rise has been fueled by aggressive investment in its M&A unit, leveraging its lending power to secure deals, while Evercore has carved out a niche as the leading boutique. Meanwhile, Morgan Stanley's pivot to wealth management under former CEO James Gorman has cost it ground in investment banking, though new CEO Ted Pick may shift priorities back.

The shake-up underscores a broader trend; boutiques like Evercore and Jefferies are taking market share from traditional banks, while JPMorgan is proving that scale and lending firepower can be potent weapons in the M&A battlefield. It seems Wall Street's M&A pecking order is being rewritten.