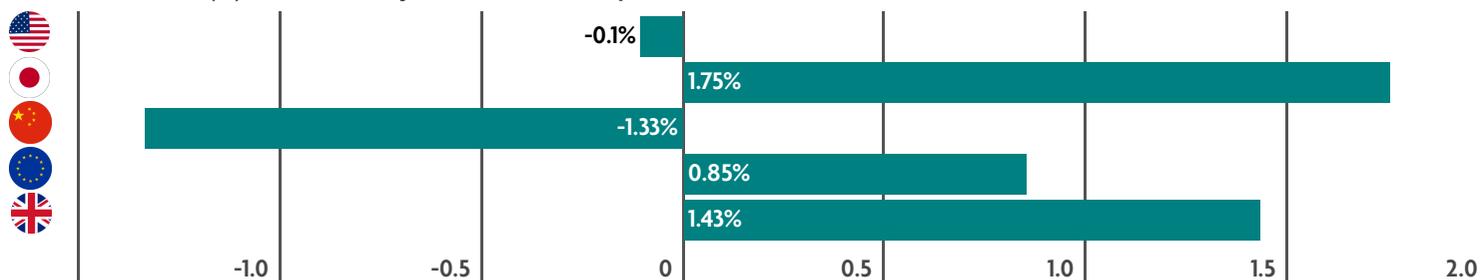


Market Monitor (%): How did major stock markets perform last week*?



Key stories from last week



US: TECH SECTOR EXPERIENCES WORST WEEK SINCE NOVEMBER

U.S. equity markets ended the week mixed, with technology stocks seeing their sharpest decline since November amid mounting concerns about AI's disruptive effects and potential overinvestment. This weakness in large-cap tech contrasted with gains in small-cap and value stocks, which benefited from a rotation into less AI-exposed sectors. The Nasdaq fell nearly 2%, while the S&P 500 was flat and mid-cap and small-cap indexes posted solid increases. Labour market data surprised to the downside, with ADP payrolls undershooting expectations, job openings falling to their lowest level since 2020, and layoffs spiking. Manufacturing activity rebounded strongly, with the ISM manufacturing PMI reaching its highest level since 2022, while services activity held steady in expansionary territory. Overall, the week reflected an uneasy blend of tech-sector weakness, softening employment trends, and pockets of macroeconomic resilience.



JAPAN: EQUITIES SHRUG OFF TECH SECTOR CONCERNS TO RALLY ON OPTIMISM SURROUNDING UPCOMING ELECTION

Japanese equities posted strong gains, supported by optimism ahead of the February 8 election, where Prime Minister Takaichi's Liberal Democratic Party was expected to secure a majority. Global concerns about AI's impact on software firms weighed somewhat on sentiment but did not prevent overall market strength. The yen weakened as investors anticipated that an expanded political mandate could support fiscal stimulus measures. Takaichi's comments initially framed the weak yen as beneficial for exporters, though she later emphasised the need for economic resilience. Economic data revealed a steep decline in household spending amid inflation pressures that continue to erode purchasing power. With living costs a major election issue, the government signalled further tax relief to support households.



CHINA: TECH SECTOR WEAKNESS AND FALLING COMMODITY VOLATILITY WEIGH ON CHINESE EQUITIES

Chinese equities declined as falling commodity volatility and tech-sector weakness weighed on markets. Private survey data showed modest improvement in economic activity in January, with services Purchasing Manager Index (PMI) data rising to a 3-month high, while manufacturing PMI data expanded for the second consecutive month. However, official government PMI data told a more downbeat story, suggesting broad economic softness and highlighting the ongoing struggle to boost domestic consumption. The divergence between private and official surveys reflected structural differences, as private PMIs skew toward export-driven firms. Economists expect a continued easing of monetary policy this year to support growth.



EUROPE: OPTIMISM AROUND EUROZONE ECONOMY OFFSETS GLOBAL MARKET VOLATILITY

European equities rose for the week, as optimism around the eurozone economy underpinned investor sentiment. Germany's DAX rose 0.74%, Italy's FTSE MIB added 0.77%, and France's CAC 40 Index gained 1.81%. The European Central Bank left interest rates unchanged for a fifth consecutive meeting, highlighting a resilient economy and inflation moving closer to its 2% target. Inflation in January slowed more than expected, with headline inflation falling to 1.7% and core inflation easing to its lowest level since 2021. Retail sales in December declined slightly, though overall fourth-quarter data suggested stronger household spending. Investor sentiment improved as evidence accumulated that inflation pressures were easing across the region.



UK: BANK OF ENGLAND HOLDS INTEREST RATES STEADY BUT NEAR-TERM INTEREST RATE CUTS EXPECTED

The Bank of England held interest rates steady at 3.75% in a closely divided vote that saw four of nine policymakers favouring an immediate cut. Markets interpreted this as a strong signal that rate reductions could begin as early as March. Governor Andrew Bailey emphasised that inflation is expected to reach the 2% target by April, almost a year earlier than previously projected, creating room for policy easing. He also noted that market expectations of two rate cuts in 2026 were "reasonable." Investors welcomed the prospect of earlier-than-expected monetary stimulus. Overall, the policy outlook has become more dovish as inflation pressures ease.



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*Source: Bloomberg. All performance measured in local currency.

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