

Global Market Strategy – February 2025

China's DeepSeek shakes up tech sector Trump to reverse Biden ban on oil & gas drilling Energy “the best opportunity in 3 decades”

(Individual stock mentions here are observations and not recommendations to buy.

Individual stock purchases are highly speculative and strict 15% stop-loss limits should be observed.)

This last week the **technology** sector was shaken when Chinese Artificial Intelligence (Ai) start-up company DeepSeek announced it had developed an open source large language model (LLM) which was capable of teaching itself to improve its intelligence. Moreover, DeepSeek claimed its cost of development was tiny compared to the vast amounts being spent by the ‘Big 6’ American technology companies, MSFT, GOOGL, NVDA, AMZN, META and TSLA. (Apple (AAPL) is spending roughly a fifth of the amount being spent by the other large tech companies on Ai.)

Such a left-field event sent the tech sector spiralling as investors questioned whether they should be investing in the likes of Nvidia if it didn't have the moat it thought it had. NVDA fell 17% last Monday, losing \$600 billion worth of value, the largest single day fall in value of any company ever. The other Big 5 companies also fell strongly, as did many other technology companies in the Ai space, notably Arista Networks (ANET) and ARM Holdings (ARM). On average, these companies have recovered approximately half the losses incurred on Monday but DeepSeek's announcement has unnerved US tech and has been a massive wake-up call for the sector. There has been a certain complacency that no-one yet could get near NVDA's capability to produce the most powerful chips needed for the advance of Ai and the benefits it would bring. Five days after the shock, investors are still wary of climbing back aboard NVDA and await later this month their earnings release for Q4 and guidance for the year ahead. As NVDA is in a quiet reporting period, the company has been unable to comment on DeepSeek's claims. Dan Ives, however, of Wedbush Securities, believes stockmarket reaction to date has presented a massive buying opportunity.

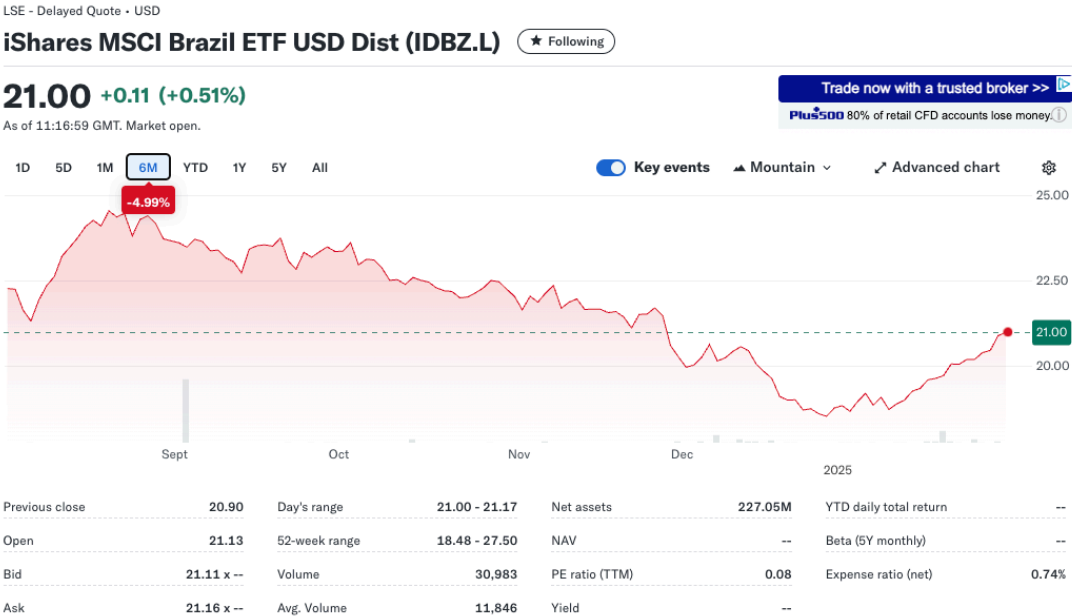
Even if DeepSeek have done what it claims, how secure is it? Yahoo Finance report that DeepSeek's app has been downloaded over 1.2 million times on Play Store and over 1.9 million times on Apple's App Store. DeepSeek itself claims there have been over 5 million downloads on the Play Store. Spanish newspaper *El Pais* warned that “downloads of the Asian country's app are expanding its potential to control, misinform and erode democratic principles in the West.” Soon after DeepSeek's boast, it was hit by a major cybersecurity hack. Those who starting using DeepSeek's open-source (ie open to everyone) Ai model may not have read the small print when they accepted the terms and conditions of downloading the app, and were unaware that they were giving DeepSeek permission to access their contacts and other personal information.

In contrast to the other Big 6, AAPL had a good week, the market giving a nod to their less than all-in need to spend on Ai R&D. To date Apple's own Apple Intelligence hasn't yet caught on and is underwhelming. Anyone who has tried to get Siri to carry out anything but the most basic instruction will be frustrated. On the flip side, anyone who buys anything from Apple is impressed by the quality of the product, workmanship, service, back-up and even packaging and presentation. The company produces best-in-class products which breed loyalty to their ecosystem. Although iPhone sales in China fell 11% year on year (probably because customers are postponing an upgrade until their Ai is properly developed), sales of iPad and iMac increased. Services revenue (from the App Store, subscriptions to music, security, storage, ApplePay, product insurance etc) for the first time hit \$100 billion year on year (y/y), rising 4% to \$26.34 billion for the quarter.

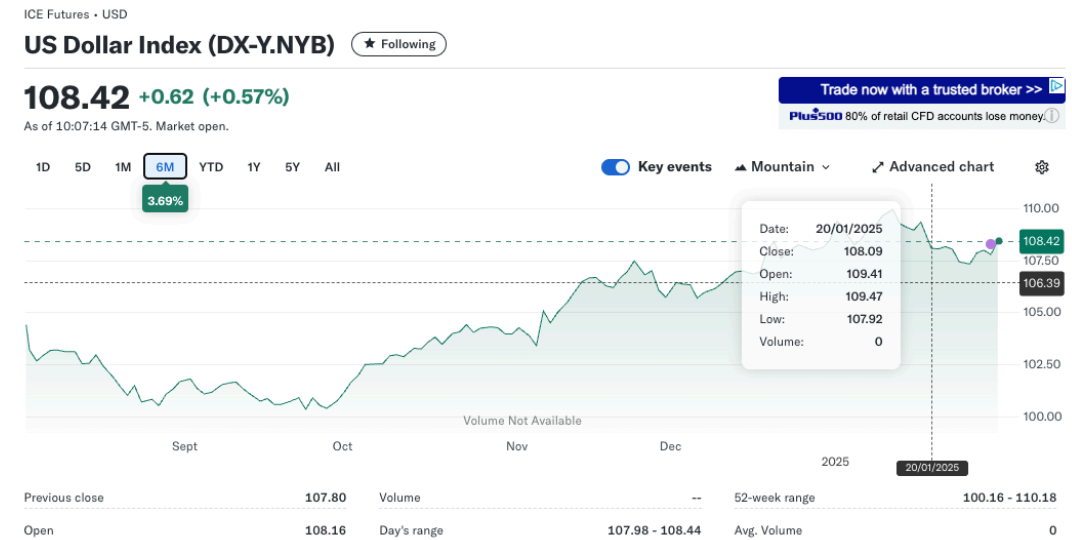
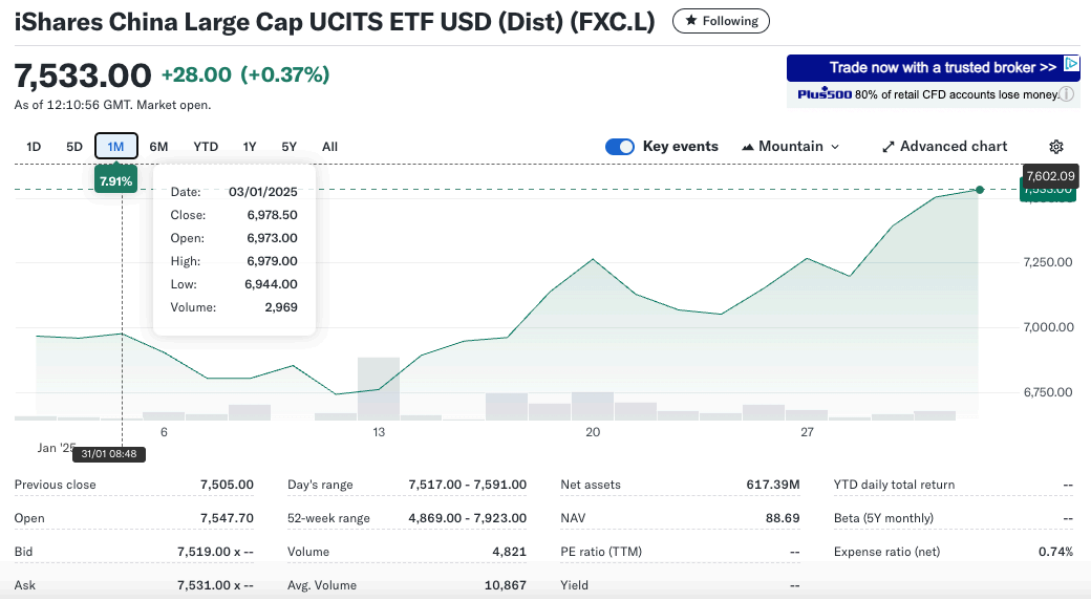
Those overweight in tech have been reminded this last week of the need to diversify. **Chinese equities** have been quietly rising over the last month. Being the second largest economy in the world, investors should have investment exposure there. For sure, they have fundamental problems (demographic, heavily leveraged property investment, high savings environment, stagflation), similar to those Japan experienced for 30 years but the authorities are determined to overcome them and investors can expect more economic stimulus measures to combat these and other problems such as Trump tariffs.

Emerging markets (EM) will not truly take off until the US dollar weakens but they are showing signs of life already. Fed chair Jerome Powell last week indicated the Federal Reserve is not in any hurry to reduce interest rates further in the immediate future despite Trump cajoling him to do so. Trump wants a weaker dollar in order to help drive American exports and ease interest costs on business. However, with strong employment and an all-time high stockmarket driving the wealth effect, inflation poses a continued threat.

Brazil also could be on the verge of a breakout. It is expected to grow for the third straight year at 3% and currently its stockmarket trades at a 75% discount to that of the US, and with a yield of 8.86%.

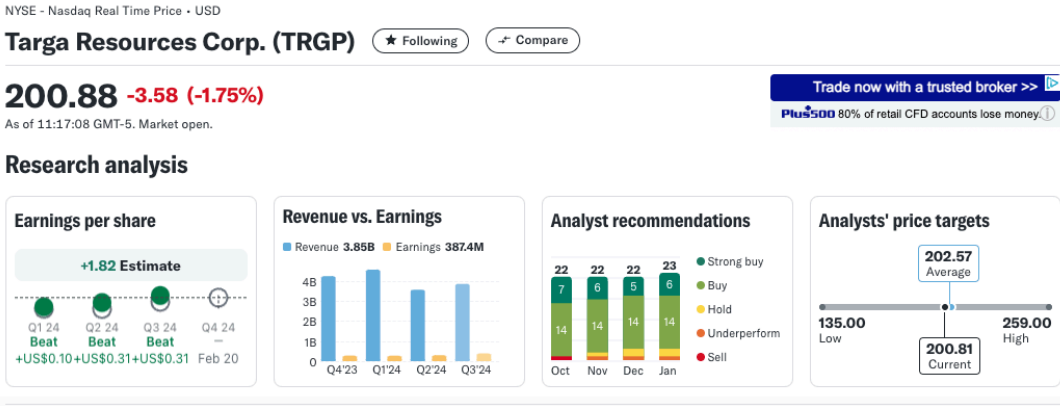
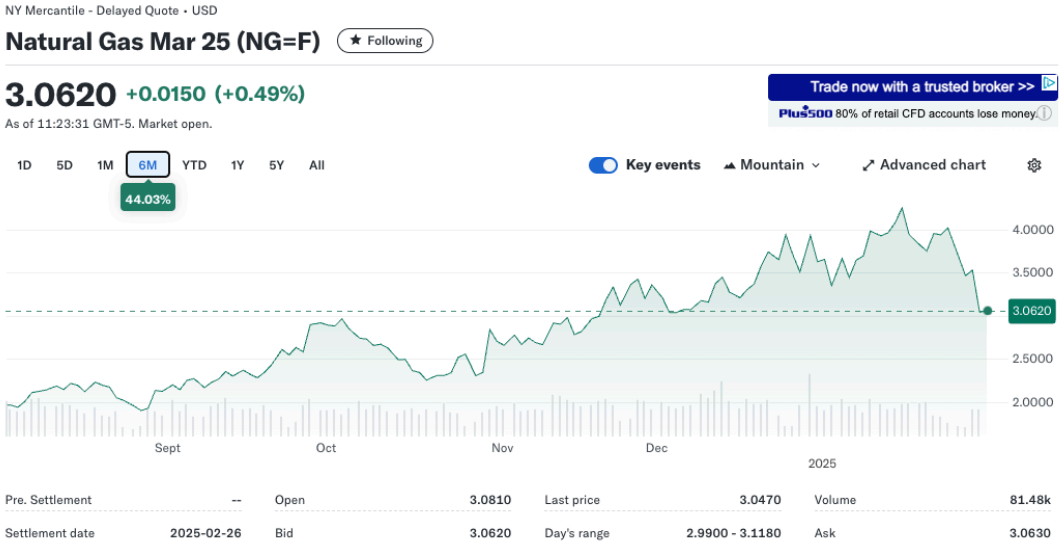


Source: uk.finance.yahoo.com



There has never been a better time in the last 30 years to invest in **natural gas and propane**. So says Doug Rachlin, senior portfolio manager of \$3.5bn of assets and Managing Director of Neuberger Berman. Speaking on CNBC last week, Rachlin told how the US exports 46% of the world’s consumption of propane. With Liquefied Natural Gas (LNG) exports from the US set to double by the end of the decade as the demand for energy to power data storage intensifies, this is the time to include exposure to propane and natural gas in your portfolio. (Propane is a byproduct of natural gas. Both natural gas and propane are odourless, colourless, and clean-burning fossil fuels. Propane is more energy-efficient and considered to be a green fuel, while natural gas is not. *Source: Google*)

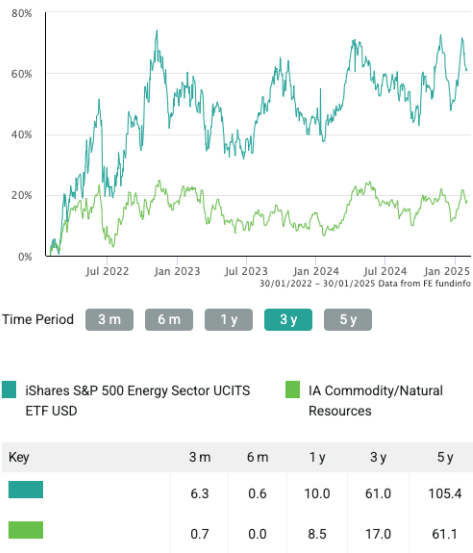
NatGas consumption depends on the health of the macro economy. If the economy is healthy and growing, then both natural gas, natural gas liquids and propane should prosper, and if Trump follows through on his promise to roll back Biden’s suspension of offshore drilling then there is every prospect for energy prices to move substantially higher, not only through the level of \$4 MMBtu but to \$5 MMBtu, according to analysts. Like all commodities, the energy sector is highly volatile, more so even than technology.



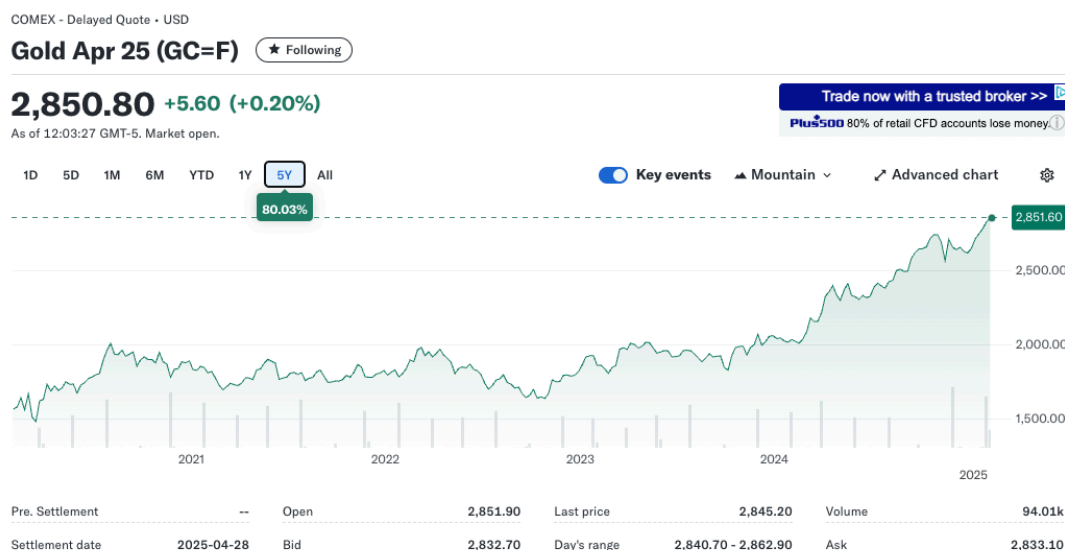
Fund Information

Fund Type:	Exchange Traded Fund
Group Name:	iShares
Sector:	IA Commodity/Natural Resources (View more)
Asset Class:	Commodity/Energy
Fund Launch:	20/11/2015
Fund Size:	\$820.52m (30/01/2025)
Multi-Manager:	No
Own ISA Wrapper:	No
Trustee / Depository:	-
ISIN:	IE00B42NKQ00
SFDR Product Type:	6
Has UK SDR Label:	-

Cumulative Performance



Almost unnoticed, **gold** moved through record levels last week in spite of the strong dollar. Trump tariffs increase the risk of pushing up commodity prices around the world but they also risk pushing the dollar higher. This, combined with a tech sell-off and elevated geopolitical levels, gives impetus to gold as a safe haven. \$3,000 per troy ounce is within range and will be hit sooner rather than later on renewed talk of an ever higher US budget deficit.



Source: uk.finance.yahoo.com

At the base of all this are the likes of BlackRock, Capital Economics, Ed Yardeni (<https://yardeni.com/>) and others who feel US equities are the place to be this year and they should achieve a 10-12% return for investors. The US continues to generate strong margin growth, backed by a robust economy, in contrast to the UK and Europe.

Technical

Last month saw the announcement of record UK inheritance tax (IHT) receipts for April to December 2024 by HMRC. They were £6.3 billion, up £6,600,000 on the same period a year earlier.

IHT receipts could comfortably be at least 50% higher than this in coming years as pensions come into the estate for calculation purposes (bringing many more estates over the £2m threshold and consequent taper of the residential nil rate band) and the nil rate band remains frozen and is further extended from 2028 to 2030. (It has been £325,000 since 2009).

Pensions continue to be the most tax-efficient means of saving but as well as being used as a retirement vehicle, they will increasingly be used as a source of additional regular taxable income drawdown during working life for those with their own owner-director small limited company business. Drawings from pension will be preferential for some to drawing dividends from the company if the long term goal is to keep working throughout life and/or to hand over the business (which will benefit from Business Relief) to the next generation. Once at or close to the Lump Sum & Death Benefit Allowance (LSDBA) of £1,073,100, the Lump Sum Allowance (LSA) of up to £268,275 should be drawn to spend or create a trust for beneficiaries (which could include the spouse) from which capital or income could be derived. If the remaining pension is not fully needed for income purposes, consideration should be given to drawing from it nonetheless to fund a whole of life policy in trust with an immediate [currently] tax exempt sum assured for beneficiaries equal to the approximate eventual IHT liability.

Clearly, this strategy is most effective for those who can ensure they remain basic rate taxpayers in retirement. Non-income producing investment bonds, where 'income' of up to 5% can be drawn on a tax-deferred basis for 20 years, will be an important part of tax and estate planning. General Investment Accounts (GIAs) will be used sparingly following the cut of the capital gains allowance just two years ago from £12,300 to £3,000, and the similarly severe cut of the dividend allowance from £2,000 to £500 (although the latter was £5,000 in 2016/17).

Higher risk Business Relief and Enterprise Investment Schemes will also come more into the reckoning despite their illiquidity. Those with let property portfolios, unless they are within a company set-up, are likely to gradually disinvest in order to make legacy planning and tax-efficient access to capital more achievable. Thankfully, given the reinforcement of austerity measures by the new chancellor, it seems unlikely existing allowances will be cut any further in future budgets.

Current favoured investment plays (in **Bold** immediate, Non-bold long term)

Cautious risk: Cash / National Savings Premium Bonds

Balanced risk: **Managed / Multi-asset funds**

Market risk: **Multi-asset funds**, UK equity

Adventurous risk: **Asia**, Europe, **US equity**

Speculative risk: **Technology, Healthcare/Biotech**, New Energy, **Emerging Markets, China**, India, **US smaller companies, Gold & Silver**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (all US, including fintech) 38%, Energy (including New/Green & NatGas/Propane) 7%, Crypto 5%, Pharmaceuticals (US) 2%, Global Multi-Asset 8%, US smaller companies 14%, UK Equity 4%, India 2%, China 12%, Brazil 3%, Gold/Silver 4%, Cash 1%

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