MONTHLY UPDATE

Latest views from the investment team

Trump Turns Up The Heat

President Trump continues to redefine US relations with the world, putting pressure on Europe to increase defence spending and pressing forward with tariffs on key trading partners. However, stock market leadership so far this year has come from Europe and Asia and not the US, where the post-election 'Trump bump' has been fading. Inflation refuses to be cowed and hovering at 3% year-on-year is causing angst for central bankers who'd prefer to be cutting interest rates to support growth.

It was another busy month on the geo-political front, caused largely by President Trump's continuing desire to re-jig the world order. Feathers have been ruffled across the globe due to Trump's more unconventional leadership style. One message Europe in particular is hearing loud and clear, is that they must look to their own security. Prime Minister Starmer's rather showy delivery of King Charles II's invitation to visit the UK shows how some are adapting; ostentatious flattery may not be everyone's cup of tea, but it's a beverage Trump consumes in quantity. Elsewhere, February saw tentative advances towards a cessation of hostilities in the Ukraine and an AI generated video of Gaza being turned into a, quite frankly, Vegas/Disneyland dystopian nightmare. Anyone hoping for a quiet 2025 should probably think about taking some time off-grid instead.

On US imposed tariffs, it now appears, although the situation is changing daily, Europe will face tariffs of 25% on goods, another 10% for China (on top of an existing 10%) and 25% also for Mexico and Canada. Although still light on detail, markets have started to view tariffs as now more likely than not. This has caused some jitters in stock markets and the US, after a long time of leadership, has been lagging the returns of markets in Europe and Asia. Tariffs for the US may mean higher inflation (as imports become more expensive) and reduced economic growth (via lower levels of consumer spending). Furthermore, the US market is currently dominated by a small number of massive companies, and some investors have started to question not only their lofty share prices but also their ability to keep growing at the levels they have been; more on this in the questions below.

Another worry is our old friend inflation, although far from its peak celebrity status in 2022, it's hanging around like an old bar fly refusing to leave at closing time. Both the UK and US saw an uptick to 3% in their annual inflation rates in January and this is putting pressure on their respective central banks, keen to cut interest rates to support growth. Although the Bank of England did reduce interest rates at their latest meeting, expectations for more aggressive interest cuts have gradually been coming down over the past year. Markets, consumers and businesses would all celebrate interest rates falling faster, but this would be short-lived if inflation simply ends up eroding the value of any financial gains made.

Bottom Line

The path to peace in the Ukraine is not going to be a straight one, as Zelensky's public dressing down in the White House at the end of the month proves. Europe is feeling a little isolated, although it's been good news for the region's defence companies, whose share prices have reacted warmly on the need to rearm the bloc. Nevertheless, peace could be a boost to Europe's economy and stock markets, not least because it could lead to lower energy prices, which would be good news for all.

Month by numbers

Change in various markets over the month:

Asset		Change / Value
Equities		
UK	↑	1.32%
Europe	↑	3.35%
US	↓	-2.64%
Emerging Markets	↑	0.74%
Japan	↓	-4.00%
Bonds / Rates (* Absolute change (%))		
UK Base Rates	↓	-0.25% / 4.50%
Fed Funds Rate	–	0.00% / 4.50%
UK 10-Year Yield	↓	-0.06% / 4.48%
US 10-Year Yield	↓	-0.35% / 4.20%
Currencies		
GBP / USD	↑	1.50% / $1.26
GBP / EUR	↑	1.37% / €1.21
DXY (USD Index)	↓	-0.70% / 107.61
Commodities		
Gold	↑	1.48% / $2851.34
Oil (Brent)	↓	-4.23% / $73.56
Noteworthy		
Rolls Royce	↑	24.97%

Q&A

What's on your mind?

What are the impacts of trade tariffs?

Tariffs are taxes that governments impose on imported goods and services to protect domestic industries, generate revenue, or influence trade relationships. By making imported goods more expensive, tariffs can encourage consumers to purchase domestic alternatives. In his current presidency, Donald Trump, as part of his "America First" policy, has kept tariffs top of mind. In February alone, he announced a 25% tariff on all steel and aluminium imports. Trump also imposed a 25% tariff on imports from Canada and Mexico, with a 10% tariff specifically on Canadian energy products. Trump also threatened the EU with a 25% tariff on all imports. The UK on the other hand, remains somewhat out of the Trump administration spotlight. This thinking has been supported after a seemingly positive meeting between Sir Keir and The President last month. However, more widely these policies have led to heightened trade tensions and created uncertainty for global markets and businesses. While some US domestic industries may benefit from reduced competition, others, especially those reliant on imported materials, face increased costs. Economists warn that prolonged trade disputes could slow economic growth and disrupt international supply chains.

What are the risks in the US market?

The success of a small number of technology-related titans (Apple/Amazon/Microsoft etc) have driven the bulk of US market gains over the past few years and, as such, now represent a significant part of the market. For example, the top 10 largest US companies now account for c.40% of the US market and c.25% of world global markets. Furthermore, the total US weighting as a proportion of global markets is presently over 70%. In short, the success of these companies has been due to elevated levels of product demand and profit growth; more recently from artificial intelligence (AI) hype and adoption. Whilst this has been rewarding for investors, share prices have risen to very high levels and competition can arise to challenge even the most entrenched incumbent. We saw this in January with Chinese AI start-up DeepSeek, which brough a cheaper and simpler model to market. History tells us that market leadership does not last forever, and common sense (as well as basic portfolio theory) would suggest that it is prudent to ensure proper diversification; especially as none of us know what will happen, or who will be the winners, in the future.

Why has gold been so strong?

Having returned more than 30% (in US dollar terms) in the last 12 months, we ask – why has gold been so strong? Positioned as perhaps the only true 'risk-free' asset, due to its lack of single ownership and limited supply – traits currencies or even government bonds don't possess – golds recent resurgence has been largely borne out of its security characteristics. The key driver of recent price moves has been central bank buying – with the major buyers of late including Russia, China and Poland. Since 2022, global central banks have been aggressively increasing their gold reserves in order to diversify away from the US dollar and US assets. Increasing geopolitical uncertainty, including the Russia-Ukraine war, tensions in the Middle East, and rising US-China frictions has also been a tailwind to the precious metal. Furthermore, resurgent inflation has further driven investors to increase their gold allocation – as inflation, while moderating, remains elevated compared to pre-pandemic levels. Finally, record-high demand from ETFs and strong retail investment in China and India have pushed prices higher, with gold coming close to $3,000/oz in February.

For more information, please contact your adviser.

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