MONTHLY UPDATE

Latest views from the investment team

Tariffying Times

The US is pressing ahead with trade tariffs that are designed to support its labour market and raise revenue. These could also increase prices and global tensions, inviting reciprocal taxes and impacting international trade. Germany and the UK have responded to US retrenchment with increased defence spending. The US stock market has underperformed other major regions in the first three months of the year, especially as its largest companies face investor selling pressure.

It's fair to say markets have been mildly troubled by US President Trump's tariff obsession in the first three months of the year. Seen as a way to boost revenue, protect the US economy from overseas competition and create jobs, it could also raise prices and the chances of a global trade war. After decades of increased globalisation and the emergence of complicated international supply chains, this protectionist policy continues a retreat that began under Trump in his first term in office. Not all countries will be affected in the same way, those who export most to the US and import least will be more heavily impacted, this includes countries like China, Mexico and Vietnam; ironically the latter has benefitted from Chinese trade being re-routed after the introduction of previous trade tariffs.

However, as we cover in the first question below, it has been the US stock market that has suffered this year, as increased tariff uncertainty comes when share prices, especially of the nation's largest companies, were already elevated and expectations high. In fact, stock markets in the UK, Europe and China have fared much better, leading many investors to reconsider their Old-World allocations, which had long been shrinking at the expense of the New.

As the US under Trump starts to realign the world order, not least by undermining long-held security guarantees, this has galvanised some countries to act. Britain and France have led an initiative dubbed the 'coalition of the willing' to provide more direct support for Ukraine and Germany has moved to unlock billions in defence and infrastructure spending - more on this below. Whilst most other European countries don't have the economic firepower to match German spending, this is a seismic shift for a debt and defence shy nation.

On the economic front, we had the UK spring statement, which was thankfully less of an event than last Autumn's budget, although growth expectations have been slashed and it's clear the Treasury does not have a lot of fiscal wiggle room. Inflation in the UK and US has continued to abate but its sticky nature is keeping central bankers nervous and reluctant to resume interest rate cuts.

Bottom Line

In the first three months of 2025, investors have become increasingly anxious around the unpredictability of the Trump administration. This has impacted US stocks and the US dollar, both of which were already richly priced. Years of investor concentration in the US may be changing course, as illustrated by the success of other markets in the first quarter. Easter might be a reminder to many, that a certain eggs and basket(s) analogy could be worth pondering on in April.

Month by numbers

Change in various markets over the month:

Asset		Change	Value
Equities			
UK	↓	-1.77%	
Europe	↓	-4.29%	
US	↓	-5.89%	
Emerging Markets	↑	0.30%	
Japan	↓	-0.62%	
Bonds / Rates (* Absolute change (%))			
UK Base Rates	–	0.00%	4.75%
Fed Funds Rate	–	0.00%	4.5%
UK 10-Year Yield	↑	0.19%	4.67
US 10-Year Yield	↑	0.01%	4.21%
Currencies			
GBP / USD	↑	-2.53%	$1.29
GBP / EUR	↓	-1.26%	€1.20
DXY (USD Index)	↓	-3.16%	104.21
Commodities			
Gold	↑	9.26%	$3123.36
Oil (Brent)	↑	2.13%	$74.74
Noteworthy			
Fresnillo	↑	24.14%	

Q&A

What's on your mind?

How have stock markets performed in the first quarter of 2025?

A turbulent first quarter for global equity markets was widely expected as investors came to terms with new uncertainties. In a move largely driven by the US administration and President Trump's domestic and foreign policies, US stocks, which had previously enjoyed a period of sustained outperformance, were hit hard; with technology stocks notably struggling. Negative investor sentiment triggered sharp selloffs, with the country's largest technology related companies, including Apple and Tesla, collectively erasing nearly $2 trillion in value. In contrast, European markets had a good quarter, particularly the defence sector which reacted to increased defence spending announcements. The UK also saw solid gains, reaching an all-time high in early March. China's major index rose strongly over the period, fuelled by growing investor confidence as authorities implemented pro-growth policies. Additionally, Chinese technology and AI firms continue to release products that rival those from Western counterparts, at much lower costs. Japan, however, faced a poor first quarter, marking their worst quarter of performance since March 2020. The downturn was driven by trade tariffs concerns and a stronger yen.

What new fiscal measures have Germany and the Eurozone announced?

The Eurozone was also grabbing investor attention in March with proposals that would alter the fiscal landscape of the monetary union. The charge was led by Germany which proposed significant changes to its fiscal policy, marking a departure from its traditionally conservative stance on government spending. Spurred on by new Chancellor Friedrich Merz, the government has proposed exempting defence expenditure exceeding 1% of GDP from the country's constitutional debt limits. This move aims to bolster military capabilities in response to evolving security challenges and reflects a broader European initiative to enhance defence readiness, often referred to as "Rearm Europe". Additionally, Germany plans to establish a €500 billion infrastructure fund over the next decade to address longstanding underinvestment in critical sectors. These policy changes have led to increased discussions on fiscal consolidation among European leaders. Domestically, the initiatives have sparked debate within Merz's conservative party and among the public, with concerns about rising debt levels. Nonetheless, these measures signal a transformative period in German and European fiscal policy.

Why is it important to stay invested during periods of uncertainty?

Throughout history investors have had to withstand political noise, headlines and market shocks. Whilst the appeal of cash during uncertain times is understandable, history has taught us that sticking to the plan often yields the best outcomes. One major reason to stay invested is the long-term growth potential of markets. Historically, stocks have consistently outpaced inflation and delivered substantial returns over cash - often due to the effects of compounding. Furthermore, one of the biggest risks of moving to cash is missing the best-performing days in the market, which often occur in severe market sell-offs. Successfully timing an exit is difficult, but even more challenging is knowing when to reinvest. Market rebounds often happen swiftly, meaning that the initial upside is frequently missed. Investors waiting for an ideal re-entry point may then hesitate further, anticipating a pullback that might not materialise, ultimately delaying their return to the market. Therefore, staying invested can often be the most prudent decision, although as ever it is dependent upon personal circumstances and time-horizons.

For more information, please contact your adviser.

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