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Investment Solutions

Quarterly Commentary

Quarter 1 2025

A disruptive start to the year

With a few weeks of hindsight, it's clear that the first quarter of 2025 was anything but typical. Trump's return to the Oval Office has already sent shockwaves through global politics and markets. His second term is shaping up to be more forceful and less predictable, with chaotic headlines becoming the new normal.

The "America First" strategy is back — this time louder and more ideological. Tariff threats, jabs at allies, and wild suggestions (like making Canada the 51st state) have thrown traditional alliances and trade norms into question.

So What? *Investors underestimated the risks. By March, it became clear that tariffs were not just campaign noise. Markets began to wobble as Trump doubled down.*

Markets: A Strong Start Turned Sour

Markets started the year on a high. January was strong, especially in Europe, thanks to post-election optimism. But things turned quickly.

China's AI firm DeepSeek launched a low-cost rival to ChatGPT. This shook confidence in US tech leadership. At the same time, trade tensions flared. Trump added tariffs on China, Canada, and Mexico, sparking investor nerves.

The S&P 500 hit a new high in February — but then fell sharply into correction territory.

A key moment? Ukraine's President was snubbed in Washington, while Trump praised Putin. The global power balance didn't just shift — it flipped.

So What? *Market confidence took a hit. The idea that the US is a stable, reliable anchor for global order is now up for debate.*

Tariffs: Back with a Vengeance

By March, tariff talk dominated again. Trump even called 2nd April "Liberation Day" — teasing more tariffs. This raised real fears of a global trade war and economic slowdown.

Countries like Germany are now boosting defence spending, realising they may need to look beyond the US for protection.

Safe-haven assets rallied. Gold soared. Government bonds gained. Bitcoin dropped sharply, and the US dollar weakened against other major currencies.

So What?

Defensive assets are back in favour. Institutional investors are bracing for uncertainty and protecting against geopolitical risk.

Inflation & Interest Rates: Tough Choices Ahead

Tariffs push prices up — plain and simple. They're a tax on imports that ends up costing consumers. This risks pushing inflation higher while slowing growth. Classic stagflation risk.

Trump is pressuring the Fed to cut rates, but so far, they're holding steady (4.25%–4.5%). They still expect two cuts in 2025, but only if things deteriorate further.

US inflation is easing but still above target. Growth forecasts have been cut. Unemployment has edged up to 4.2%.

So What?

The US Federal Reserve is stuck. It can't cut rates too quickly without fuelling inflation. But the economy is slowing, and pressure is building.

UK: Growth Dragging, Inflation Stubborn

Chancellor Reeves' Spring Statement was all about cuts — no new taxes, but tighter spending. The OBR slashed 2025 growth forecasts from 2% to 1%.

Inflation is easing but still sticky (2.8% in February). Services inflation is particularly stubborn at 5%. The Bank of England cut rates by 0.25% in January to 4.5% but paused again in March.

GDP grew 1.5% in Q4 2024 — the best in two years, but still modest. Unemployment holds at 4.4%. Consumer confidence remains negative, with the cost-of-living squeeze still weighing heavily.

So What?

The UK economy is treading water. Inflation is falling slowly, but confidence is low, and growth is fragile.

Global Overview: Shifting Priorities

Defence spending is rising fast, especially in Germany. Inflation is easing (2.2%), and the ECB cut rates twice. But growth is uneven — Germany is in recession, while Spain and the Netherlands are doing better.

So What?

Europe is trying to fill the security gap left by the US, while still battling inflation.

Modest recovery continues (1.2% GDP growth in Q4), but Japan is vulnerable to US trade moves. Inflation has eased to 3.7%. Rates were raised to 0.5% in January and left unchanged.

So What?

Japan is stuck between growth and risk. Tariffs on exports would hit hard.

Strong headline growth (5.4%), but deeper issues remain — especially in property and jobs. Unemployment hit 5.4%. China is looking to boost stimulus and may pivot trade focus toward Europe.

So What?

China's numbers look fine, but there's fragility underneath. The US relationship is clearly deteriorating.

Equities: Leadership Shift

The big US tech stocks, the "Magnificent Seven", stumbled badly.

- Nvidia: -22%
- Tesla: -38%
- S&P 500: -4.4% in dollars, -7% in sterling
- Equal-weighted S&P: -0.75%
- Russell 2000: -9.5% in dollars, -12% in sterling

Meanwhile, value stocks and non-US markets held up better:

- UK FTSE All Share: +4.5%
- FTSE 250: -5%
- Europe (ex-UK): +6.1% in euros, +7.4% in sterling
- Germany: +11.3%
- Japan: -3.6% in yen, -1.8% in sterling
- MSCI China: +15%
- Asia Pacific ex-Japan: +1.1%

So What? *The US no longer looks bulletproof. Diversification — both geographically and across sectors — is paying off.*

Bonds: Back in the Game

As equities wobbled, bonds made a comeback:

- Inflation-linked bonds: +3.4% (Bloomberg Global Index)
- US Treasuries gained as yields dropped
- UK Gilts: +0.4% (held back by borrowing concerns)
- Eurozone bonds: weaker (yields rose on defence spending)

Credit markets:

- Investment grade and EM bonds outperformed
- High yield lagged after a strong Q4

So What? *Bonds are useful again — especially inflation-linked and high-quality debt. Junk bonds look riskier now.*

Property: Quiet Gains

Global real estate (REITs) returned 1.7%. Lower yields helped. UK commercial property was flat. US real estate is still under pressure, but no fresh bad news emerged.

So What? *Property is stabilising, but don't expect fireworks — especially in the US.*

Commodities: Gold Shines Bright

- Gold: +18%, now over $3,000/oz
- Silver: +18%
- Copper: +11%
- Oil: mixed, Brent ended around $75/barrel
- Cocoa: -32.5% (falling demand)
- S&P GSCI commodity index: +4.9% in dollars, +1.8% in sterling

So What? *Safe-haven demand is strong. Gold is leading the way.*

Currencies: Dollar Weakens

- Sterling: +3% vs USD
- Sterling: -1.3% vs euro, -1.7% vs yen

So What? *A weaker dollar helped lift non-US returns. UK investors in US assets took a hit on FX.*

KEY TAKEAWAY

The world is changing fast… so… Stick to fundamentals, stay diversified and view investing through a long-term lens.

1st January and 31st March through history

1st January 1983	**Launch of the FTSE 100 Index** The FTSE 100 officially began, although it was published from 3rd January (the first trading day). It started at a base level of 1,000 points.
1st January 1999	**Launch of the Euro (as a virtual currency)** Marked the introduction of the euro as an electronic currency for banking and financial markets. 11 countries joined initially. Euro notes and coins would follow in 2002, but from this day, it started being used in bond markets, stock pricing, and electronic payments.
31st March 1889	**Eiffel Tower Opens** It was a monumental public-private investment project and a symbol of industrial progress, funded in part by private capital with long-term revenue expectations.
31st March 1999	**Dow Closes Above 10,000 for the First Time** Though not the final close, i.e. intra-day, the Dow broke the 10,000 mark during trading — a massive psychological milestone for US markets. Symbolic of the dot-com boom's peak momentum.

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