Economic & Market Commentary

Q1 2025

Quarter to 31 March 2025

Trump's tariffs and what "Liberation Day" revealed

Since Trump's inauguration on 20th January 2025, his administration has set about fixing trade imbalances and encouraging domestic manufacturing.

The primary instrument used to try to achieve this has been tariffs and, whilst early signs showed this approach to have some success in bringing about action, as we saw with Mexico and Canada's last ditch efforts at the border, the sheer number of tariff headlines over the last few months has created a lot of uncertainty and volatility in the stock market.

Tariffs prior to "Liberation Day"

Mexico and Canada were the first to be targeted and despite a temporary agreement being made which postponed the introduction of US tariffs for one month, on the 4th March, 25% tariffs were imposed on all imports from Mexico and Canada, with the exception of 10% tariffs on Canadian energy resources.

Meanwhile, for China a 10% tariff was placed on all imports, effective 4th February 2025. On 4th March this was increased further to 20%.

Certain sectors were also targeted, with all steel and aluminium imports incurring 25% tariffs from 12th March and 25% tariffs on all imported automobiles from 26th March.

What did "Liberation Day" reveal?

The 2nd April 2025 was dubbed "Liberation Day" by President Trump, as this was the day that the US administration announced reciprocal tariffs on countries that levy duties on US goods. If the tariffs remain in place, they could have a hugely negative impact on a number of countries.

According to US data, the tariffs levied by the US are still less than those charged to the US for exporting, though there are probably some valid objections to how some of the numbers quoted have been calculated.

Amongst the surprises was a 46% tariff on Vietnam. The Vietnamese market had largely been expecting a 10% tariff, so the news was taken very badly by the stock market. There are hopes that negotiations between the two countries will help reduce that number. On the flip side of that, the UK received a relatively light tariff of 10% although, along with the position with other countries, the 25% tariff on cars, steel and aluminium exported from the UK to the US remains.

How has this impacted the stock markets?

Global stock markets have seen a significant fall following the "Liberation Day" announcements, and while the tariffs are intended to help US companies compete against overseas rivals, the initial response from US stock markets was worse than seen in many other areas.

While this may seem counter-intuitive, it probably reflects the fact that US markets have been trading at much higher valuations than elsewhere, so were more sensitive to bad news.

It is worth pointing out that our own strategy has held an exceptionally low weighting to the US for some time, due to our concerns over excessive valuations, especially in big tech, which dominate the indices.

That approach proved a headwind while US markets raced even further ahead of most others but has paid off well recently.

Predicting the short term is impossible, but it seems likely that the shakeout for US stocks created by 'Trumpenomics' might result in an opportunity to add to US allocations at much more attractive valuations than have been seen for quite a while.

Time will tell on that but, in the longer term, Trump's "America First" policies should support US corporate profits and enable US stocks to continue to reward investors handsomely.

In the shorter term though, we have the risk that Trump's US policy reset will spook investors so much that many abandon the US ship and put their money elsewhere, closing the valuation gap between the US and other markets in the process.

Whether that happens or not will depend on issues that cannot be known at the time of writing this, but it has felt for a long time that the tide will turn at some point.

In our view, remaining focussed on the areas that seem undervalued is a wise strategy in these uncertain times, so we do not anticipate recommending any significant strategic changes despite the fact that the global economic landscape is experiencing some potentially seismic changes.

Market performance

How each of the major indices have performed to the end of the current quarter

	3m	1yr	3yr	5yr	10yr
Equities					
IA UK All Companies	0.2	5.1	11.0	61.4	58.6
IA UK Smaller Companies	-7.4	-2.6	-14.7	38.9	64.0
IA Europe Excluding UK	5.6	0.9	20.7	75.5	101.7
IA North America	-7.2	2.2	22.8	102.8	196.8
IA Latin America	8.5	-16.5	-7.2	47.3	31.0
IA Japan	-1.5	-2.2	16.5	46.9	92.2
IA Asia Pacific Excluding Japan	-3.2	3.8	1.5	43.0	74.1
IA China/Greater China	5.6	20.8	-7.6	2.2	47.7
IA Global Emerging Markets	-1.5	3.2	4.6	40.3	55.7
MSCI Frontier Markets	4.7	9.8	7.6	54.3	59.9
Equity specialist					
IA Healthcare	-3.7	-9.3	-3.9	31.1	79.3
IA Technology and Technology Innovations	-11.1	-1.3	23.6	102.3	291.9
IA Commodity/Natural Resources	1.8	-3.1	-0.5	107.7	97.7
MSCI ACWI/Energy	5.9	-0.7	30.6	158.1	85.9
Bonds					
IA Standard Money Market	1.2	5.1	12.9	13.2	15.2
IA Sterling Corporate Bond	1.0	3.2	0.7	5.1	19.5
IA Sterling High Yield	1.1	7.8	14.1	39.4	44.0
IA UK Gilts	0.7	-1.5	-17.5	-26.2	-6.6
IA UK Index Linked Gilts	-1.4	-8.4	-37.8	-35.7	-12.8
IA Global EM Bonds Blended	0.1	3.6	12.4	19.7	36.7
IA Global Mixed Bond	0.8	3.4	3.8	4.9	22.7
IA Global High Yield Bond	-0.9	5.2	13.4	33.4	59.9
Alternatives/Specialist					
IA Infrastructure	2.5	7.3	0.3	38.2	72.9
IA UK Direct Property	0.4	2.3	-6.4	2.3	20.5
IA Property Other	-0.8	-0.4	-14.5	18.3	28.1
IT Private Equity	-0.6	4.8	13.2	113.7	125.7
IA Targeted Absolute Return	1.2	4.7	11.7	26.0	26.3
Gold Bullion Sterling/Troy Ounce in GBP	15.8	37.8	64.4	85.5	202.2

Source: FE Analytics – Total Return; bid to bid

Equity markets overview

Latin America shares led the way over the first quarter of 2025, benefitting from being relatively isolated from global geopolitical conflicts.

Meanwhile, technology shares have seen a reverse in fortunes, which is hardly surprising given the degree to which they had risen and being priced for a perfect world when few could describe what we have as that.

The Federal Reserve decided not to cut interest rates in March, following concerns over the potential inflationary impact of tariffs. However, they did flag another half percentage point of rate cuts through 2025.

Over the next quarter, markets will have plenty to ponder, both in terms of the impact of tariffs and the shifting sands in the world of geopolitics. Investor focus is also likely to remain on the outlook for interest rates in the US and elsewhere.

A bumpy ride seems likely, but that should not alarm the longer-term investor and our advice, as always, is to ride through the storm and avoid falling victim to the proverbial “acting in haste and repenting at leisure”.

Bond and property markets overview

Most bond sectors have posted small gains over the last quarter, showing that the asset class can be a useful diversifier in markets where investors react to added risks caused by economic and political uncertainty.

In fact, this has caused treasury yields fall over the quarter (so prices rising), despite concerns around the inflationary impact of tariffs.

As with equities, markets are likely to respond to news as it comes along but the expectation is that central banks in the US, UK and EU will continue to cut interest rates this year, which is a positive for both bond and property prices.

Our views on sectors and regions

What we think about investment opportunities in each sector or region, be it negative (✗), neutral (▬) positive (✓), or very positive (✓✓) over 12 months and 5 years.

Region or sector	12-month view	5-year view	Notes
Buy to let residential property	✗	▬	No changes to our views here. The supply and demand dynamics look unsupportive to valuations and tenant numbers as the government seeks to pressurise local authorities to grant planning for 1.5 million homes over the next 5 years. Add in a trend of onerous regulatory changes and it's easy to see a continuation of the recent pattern of landlords leaving the market. Interest rate cuts might curtail that, but probably only at the margin.
UK and Global Real Estate Investment Trusts (REITs)	✓✓	✓✓	The trend of recovery following the mauling caused by Covid lockdowns followed by interest rate increases seems well established and we see that theme continuing.
UK Gilts (Government bonds)	▬	▬	Global dismay at the economic and political acumen of the new government is a headwind, but the direction of travel for interest rates elsewhere, and especially in the US, should be supportive.
UK Index Linked Gilts	✓	✓	'Linkers' look better placed than their fixed interest counterparts to benefit from the trend of falling global interest rates which we expect to be in place until rates are less oppressive to global prosperity.
UK Investment Grade Corporate Bonds	✓	✓	Unlike Government Bonds, these are priced to reflect the risk of default as well as the prospect for changing interest rates. Higher taxes are a headwind to default rates, but a well-managed fund can navigate that while taking advantage of stock specific opportunities from companies trading globally rather than just domestically.
Global Bonds	✓	✓	Our view that there will be a global trend of falling interest rates, discussed elsewhere, meaning we feel the bond markets should enjoy rising values, remembering that bond prices normally move in the opposite direction to interest rates. Meantime, interest rates generated from these funds offer a decent return even if values don't improve.
UK High Yield Bonds	✓	✓	The trend of recovering values looks well supported by the global economic backdrop and we see no reason this won't continue for a while yet.
Global High Yield Bonds	✓	✓	These are exposed to much of the same factors as their UK equivalents, looked at above. However, the much bigger marketplace creates more opportunities and assists diversification, both of which are supportive.
UK Large Cap	✓	✓	Relatively poor prospects for the UK economy are less relevant with the biggest companies, where a high proportion of earnings often comes from overseas operations or exports. Higher taxes are a concern and help to justify the relatively weak valuations, however, those weak valuations result in high dividend yields. Additionally, the trend of companies losing their London listing due to takeovers by foreign companies, or investors moving to more business-friendly locations, supports share prices, even though it negatively impacts UK Plc.
UK Mid and Small Cap	✓✓	✓✓	Mid and small caps have been overlooked for some time as investors sought the relative safety of the biggest companies as higher interest rates threatened a slowdown. We feel this has created a particularly compelling opportunity as we expect the trend to reverse as confidence returns. This is a global theme, but the UK looks well positioned to participate in a return to favour for smaller companies, despite unsupportive government policy.

Region or sector	12-month view	5-year view	Notes
Europe (excluding UK)	–	✓	Despite a good start to the year, recently announced 20% reciprocal tariffs have caused European markets to fall. There remains political upheaval and weak economic performance for the region to contend with, though recent announcements to increase spending on defence and infrastructure may help growth prospects in the longer term.
North America	–	✓	Following a wide range of US tariffs being levied on countries across the globe and the uncertainty that this has generated, we are cautious on North American equities in the short-term. In the long-term, Trump's policies may be positive for corporate America and a re-rating of company valuations in the near-term may create a buying opportunity.
Japan	–	✓	After decades of disappointment and false dawns, Japanese shares seem to have turned the corner and have rewarded the patience of investors handsomely in last few years. That has removed some of the extreme undervaluation, but we feel the trend has further to go, now Japan is back on the investors' radar and the economy is looking in better shape than it has been for decades.
China	–	–	Chinese equities have seen a pick-up in performance over the last year, albeit from a low base, with plans to increase the budget deficit fuelling a change in market sentiment. However, China looks likely to continue its trade war with the US and recent tariffs will not help geopolitical tensions.
Asia and the Far East	–	✓✓	Asian equities have been aggressively targeted by US tariffs and the trade war with China shows no sign of stopping. The less developed Asian countries may struggle to meet their GDP growth targets should these high levies remain. However, the long-term growth story remains intact, and Asia is home to some excellent, world leading companies. The growing Asian middle class is a theme that is likely to continue and lead to consumers having more disposable income, a positive growth dynamic.
Emerging Markets	–	✓✓	Although this includes Eastern Europe, the Middle East, Africa and Latin America, the comments above, regarding Asia, apply equally here. However, fund managers have a wider choice, so more opportunity to diversify risk and take advantage of some themes not so well represented in Asian economies.
Latin America	✓	✓✓	After producing the worst results of any region in 2024, the potential for recovery looks compelling. Much will depend on global supply and demand dynamics for resources, both agricultural and mineral, and history shows how fickle and volatile that can be. Patience may need to extend even further but with high dividend yields (due to weak values) investors can be well rewarded while they wait for valuations to improve.
Africa	–	–	As previously commented, Africa may reward investors handsomely one day, but the risks are high, and seem to be rising, so we feel exposure via emerging market funds, or simply through companies quoted in the developed markets but operating in Africa, is currently adequate.
Frontier Markets	✓	✓✓	These are the smaller emerging markets and offer investors access to unusually high growth prospects in exchange for inevitably increased risks, albeit with those mitigated by diversification. Frontier Markets have large, young populations and low labour costs, creating significant potential for rising productivity and output. The economic growth potential is often linked to domestic demand, helping countries in this category to thrive regardless of the wider global economy.

Region or sector	12-month view	5-year view	Notes
Commodities and Natural Resources	✓	✓✓	Our views here are very similar to those expressed earlier for Latin America. After a disappointing 2024 we feel supply and demand dynamics are likely to shift in favour of rising commodity prices while falling interest rates, assuming they come along, should reduce the strain on profits. In the meantime, dividend yields can be exceptional, making the sector ideal for a buy and hold strategy.
Gold	▬	▬	Not far off it's all time high, reflecting its reputation as a 'safe haven' during troubled times, gold may be due a more lacklustre period. Regardless, it's a speculative asset that pays no interest or dividend, so not well suited to the needs of many investors.
Healthcare and Biotechnology	▬	✓	Perhaps surprisingly, one of the worse performing sectors over 1 and 3 years. That seems likely to reverse given demographic trends. While this applies across the board, larger healthcare companies are well represented in mainstream regional funds, so we prefer funds focussed on the more specialist and cutting-edge biotechnology sector, but the higher risks must be factored in when assessing allocation levels.
Technology	▬	✓	Following the recent sell-off of technology stocks, these now appear more attractive on a valuation basis. However, these companies have very much been caught up in the global trade wars and share prices could continue to struggle in the short-term. Over the longer term, it's hard to argue that technology won't continue to drive economic development and companies operating in the sector enjoy excellent profits.
Infrastructure	✓	✓	This sector has experienced similar headwinds to commercial real estate, with high borrowing costs weighing down on valuations. As with Real Estate Investment Trusts, we see this as a very attractive buying opportunity. The relatively low correlation with other sectors can also be helpful in risk management, while the high dividends are particularly appealing for those investing for income.
Clean Energy	✓✓	✓✓	This is surely an area of growth as the world seeks to tackle climate change and the need for better energy security, but the period of high interest rates has meant this has not been reflected in the performance of most companies operating in the field, especially the infrastructure end of it. This has left valuations low, and income yields unusually high. We believe the opportunity for investors to enjoy that high income while they await an improvement in valuations to be exceptional.

Important notes

The importance of investment time horizon

There is a direct relationship between risk and potential reward, and between risk and time horizon. One of our core objectives is to help our clients find a sensible balance with their capital to reflect these relationships and, of course, their own objectives and preferences. In this document we tend to look at shorter term history and future expectations, since that is the purpose of a quarterly market review. However, while short term movements in asset values are often critical to speculators, they are not nearly so relevant to the sensible investor. They are, of course, interesting to follow but it is the medium to long term outlook which really matters, and that is where Atkins Bland retains its main focus when assessing suitable investment strategies for our clients. This is because sensible people investing in stock markets, bonds or property do so with capital available for the medium to long term and will have positioned themselves, so they have enough cash to meet shorter term spending needs. Sensible investors are, therefore, able to ride through the ups and downs of capital values. For those investing for capital growth, shifts in the medium-term outlook, economic cycle or relative valuations between different investment areas can provide good opportunities to enhance capital values and our advice seeks to take advantage of this. For those investing for income, changing valuations and conditions seldom have much impact on the income being generated from investments already held (other than from deposit accounts) but they can alter the percentage income yield available from new investments. This means that moving from one area to another can prove a worthwhile strategy as conditions shift. Again, our reviews and ongoing advice processes are designed to take advantage of opportunities created by these changes. Advice we give does, therefore, consider current conditions and some shorter-term developments but is always overlaid with the prime objective of a focus on medium to long term outlook, since this is what drives medium to long term results. During any year there will be good and bad days for the stock markets, and often there will be bad and good weeks or even months. The fact that this will be the case is easy to predict, but the timing of short-term changes in share prices is notoriously almost impossible to predict, so attempting to do so is largely the domain of gamblers rather than investors. For anyone prepared and able to put up with the short-term volatility of capital values, we firmly believe that equities and other asset backed investments are an ideal home for longer term investors seeking income, growth or a mixture of both, and our recommended strategies will continue to reflect this belief.

Risk warning and disclaimers

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader. This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied. The value of investments will fall as well as rise, as can any income produced or generated. An investor may, therefore, get back less than invested.

Inflation can reduce the real value of capital and the income it generates. Past investment performance is not a reliable guide to the future. Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy. The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective. Errors and omission excepted.

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