INVESTMENT UPDATE

MAY 2025

ROCKHOLD ASSET MANAGEMENT

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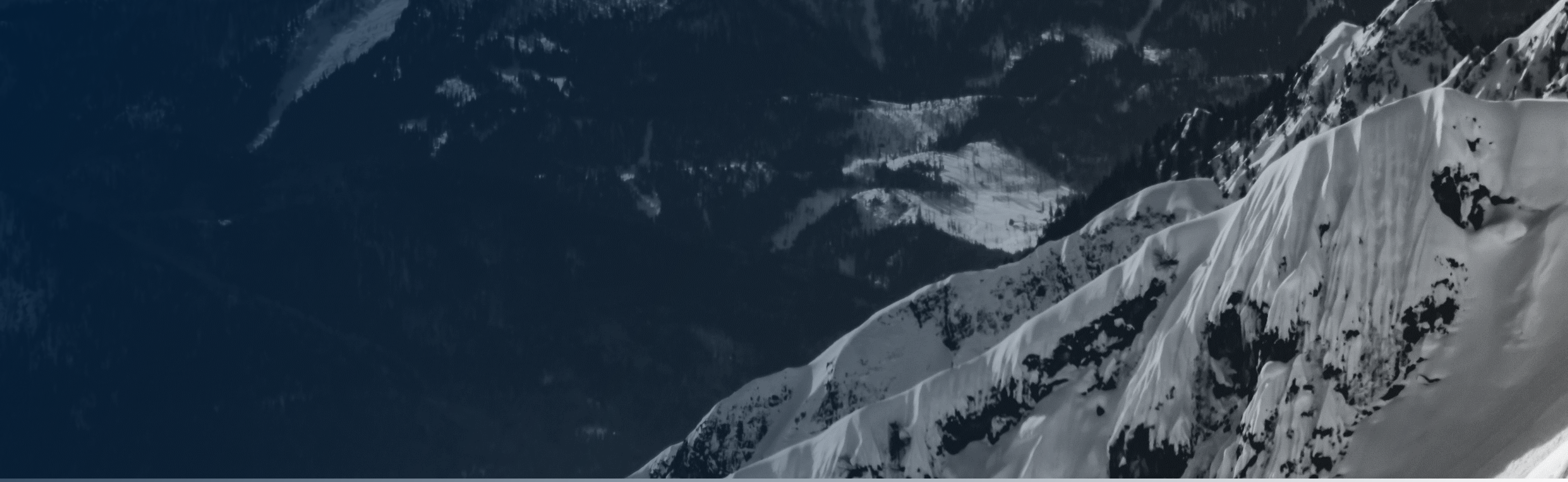


INVESTMENT UPDATE

MAY 25

Index	Level 31 Mar	Level 30 Apr	Change*
S&P 500	5611	5569	-0.7%
FTSE 100	8582	8494	-1,0%
Euro Stoxx 600	533	527	-1.1%
Nikkei 225	35617	36045	+1.2%
Shanghai	3335	3279	-1.7%
US 10 Yr Treasury Yield	4.24%	4.17%	-0.07
UK 10 Yr Gilt Yield	4.70%	4.42%	-0.28
Bund 10 Yr	2.72%	2.44%	-0.28

*all returns in local currency terms. Past performance is not a guide to future returns.

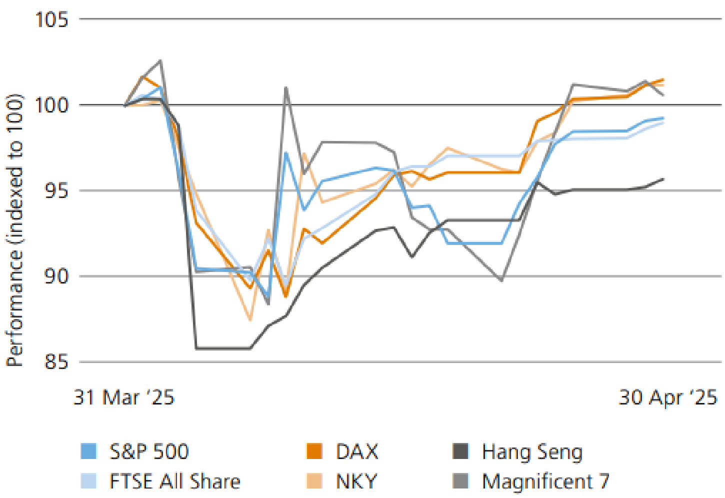
Overview

Given that major stock market levels ended up the month not far from where they started it and, in the case of Japan, actually rising, one could be forgiven for being under the impression that April had been pretty uneventful.

However, the reality is that markets were extremely volatile following President Trump's 'Liberation Day' announcements on tariffs, which impacted every country in the world to varying degrees. Markets initially fell sharply following the announcements, and the short term pick up in volatility also affected the US government bond markets, as yields there rose.

Despite the latter most probably being due to technical issues relating to futures' margin, the combined effect of US equities and bonds falling together finally prompted action from the President. There followed a series of qualifications and caveats in certain sectors and a delay to the most extreme levels of tariffs, albeit with a blanket 10% level remaining in place. The effect of this was to leave the S&P 500 by the end of the month at less than 1% below its starting level.

Equity market volatility in April



Source: Bloomberg

However, one lingering impact of Trump's policies, whether this be due to approach or attitude, was to leave the US dollar significantly weaker than where it had been; down 3% against the pound. Conversely, the Euro rose significantly, as we saw an allocation of assets away from the US to Europe, the latter market significantly ahead of the US now since the start of the year as investors look to economic stimulus from increased spending by the incoming German government and on the regions' defence. These movements in currency can have a marked impact on returns from UK investors, as holding assets in a region with a weakening currency reduces returns and vice versa.

Bond markets soon stabilised following the retractions on tariffs and many areas of this asset class generated positive returns for investors over the month. Of particular interest was the high yield area of the market. One would expect this higher credit risk area of the market to be susceptible to concerns over economic growth, which the tariffs represent. However, whilst we initially saw an increase in the yield spread over treasuries, these too narrowed again somewhat as the month progressed.

The net result was that many portfolios were fairly unchanged over the month, although the Fund Blend portfolios struggled due to their higher and diverse US exposure.

US

The initial impact of Liberation Day on the main US market was marked. However, as mentioned above, once the delay to the sweeping global tariffs, ex-China, were put on hold for 90 days and especially following the suspension of the tariffs on mobiles and other electronics, the index quickly rallied. It should be noted that it was led by a narrow range of stocks, notably those companies spared under the electronics tariffs' concession, as well as some of the Magnificent 7 stocks, such as Alphabet, who reported strong earnings growth. The equal weight version of the index negative return of 2% for the month demonstrates this effect, and mid-cap stocks were left in a similar position. Small cap stocks also suffered, which illustrates the issues still potentially overhanging the US and global economy. Trump's concessions on tariffs and subsequent comments from Treasury Secretary, did suggest that tariffs set at outset were negotiable, particularly in relation to China. However, the latter's response to these comments were hardly conciliatory, suggesting that authorities there believe they have more leverage on this front than was anticipated.

UK

In the UK, the FTSE 100 continued to show renewed investor interest amid global trade policy uncertainty. A rocky start in the month driven by global trade tensions quickly settled, buoyed by strong corporate earnings and some stability in domestic economic data. The latter was probably a contributor to the positive returns in the more domestically focussed FTSE 250 Index, up nearly 3%. Markets here seem to be factoring in an increasing number of rate cuts by the Bank of England, especially following the current uncertainty over the strength of the global economy.

Europe

The story for Europe in April can be told using a similar one to that in the UK. Resilient corporate earnings and easing of political tensions in the largest nations proved to be the offsetting factor to the trade concerns that have rippled across the globe. Economic conditions in the region look favourable for markets moving forwards. Fears of lingering services inflation keeping rates higher for longer have begun to ease in the wake of Trump's tariff agenda, with an ECB rate cut in June currently being priced in the market.

Japan

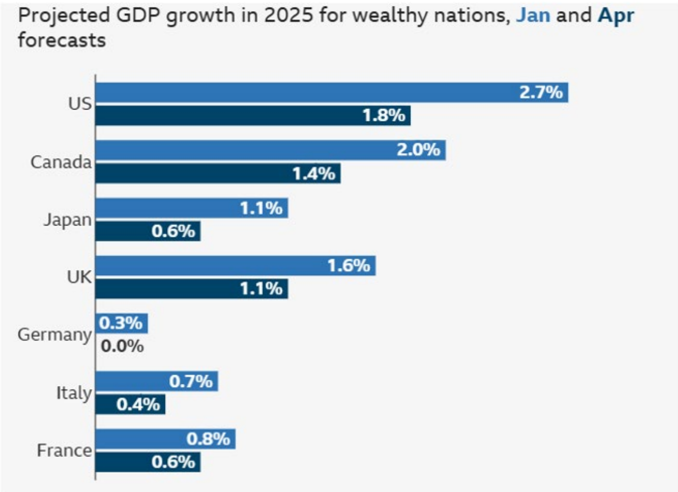
Japan proved an exception during the month, as the market rallied on news of Japanese negotiators moving swiftly to engage with the Trump administration over tariffs and talk of progress on this front. However, there was no firm news to confirm how positive, or otherwise, this might be. The country is particularly vulnerable on this regard, having a huge reliance on exports and, as a part of that, has a large trade surplus with the US. Sentiment was also improved by some strong earnings growth being reported during month. However, it was undoubtedly the £27bn of company share buy backs during the month that helped buoy the market, as companies took advantage of lower share prices following the tariff shock. This amount was around three times the previous level and does serve to demonstrate how corporate Japan is now taking investors interests into account, rather than just hoarding cash, as would have historically been the case.

Asia and Emerging Markets

All Asian and emerging markets fell initially on the tariff news, only to bounce back as elsewhere. However, the extent to which markets recovered varied, depending on the likely impact of tariffs, but many markets ended up in the black. Latin American markets as a group were some of the better performing markets globally, as they have relatively few trading relationships with the US. Even markets such as Thailand, which are most likely to be impacted rallied to a higher level following the delay, presumably on hopes of a positive outcome to negotiations. China of course stands out, even with lower headline tariff rates, the level is still high. However, the Chinese government's refusal to fold and their announcement of reciprocal tariffs, seemed to add some confidence that the US would row back on the extreme levels imposed on the country.

Summary

Clearly, given the unpredictability of Trump's policy making generally, we are still left with a high level of uncertainty as to their likely impact. However, markets now know the likely worst-case scenario and are hopeful that these can be negotiated lower. The IMF has lowered growth estimates globally, but is not predicting recession and, to the contrary, seemingly robust US growth in the face of everything.



Source: IMF WEO April 2025

It is too early to tell whether Trump's actions have caused an end to American exceptionalism and doubts do surround the prospects for the US dollar, as investors reconsider their exposure to US assets generally. This is evidenced by the fact that the dollar is usually a beneficiary at times of extreme market events, but on this occasion has weakened considerably, to the benefit of other currencies. The fact markets have recovered from their low points helps to evidence why we don't take action during such volatile environments, and the fact that many markets have made positive progress through April, despite everything, certainly validates a policy of portfolio diversification, even within the US itself, as there will be winners and losers from US tariff policy both there and abroad.

Rockhold Asset Management, with contribution from 7IM, Marlborough and LGT, May 2025

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IMPORTANT INFORMATION