March 2025 quarter end review update

The table details the quarterly data for the FTSE All-Share Index.

Quarter	Open	Close	High	Low	Return year to date
January – March	4467	4623	4784	4454	3.49%

On the 20th January this year the new American President started his tenure in office and began to fulfill his stated program of reducing government expenditure and using tariffs as the means of generating growth. The initial flurry of activity was positive for markets but the implications and, more importantly, the response from the affected countries has been mixed. However, the large economies of the EU and China have responded with their own tariffs, which weighed on markets because of the uncertainty.

Clearly Trump's attention is spread far and wide, from geopolitical issues to tariffs which have impacted asset values. However, there are other factors at play – DeepSeek has shown that you can develop AI software at a lower cost than first thought, which means barriers to entry are lower than previously assessed. Consequently, valuations in the same sector in the USA, which were already high, witnessed the Magnificent 7 leading shares fall by 9%.

This also illustrates that markets are less concerned with the policy, as they have no influence or control over it, than they are about a consistent and clear direction of travel. Where there is change and uncertainty, markets can become irrational, and volatility increases with the direction often moving lower.

The expectation remains that central banks in the USA and UK will cut interest rates during the course of the year, but the introduction of tariffs will require them to adopt a cautious approach because the cost of goods and services could result in imported inflation. Consequently, central banks will need to wait and see how this unfolds.

Despite this or because of it, many countries are seeking to stimulate growth by re-assessing their capital expenditure and committing to infrastructure projects whether in relation to road and rail or construction. This is expected to provide a greater degree of certainty for the sectors involved, which in turn will benefit economic growth, as will the decision in the UK and Europe to increase defense spending.

While the current market environment is one of greater uncertainty, the reality is that many companies continue to generate profits and remain attractive to investors. Current consensus forecasts suggest earnings growth in 2025 of 9% in the USA, 7% in the UK and 8% in Europe. For 2026, the respective forecasts are 12%, 11% and 12%. What should be noted is that there is little difference between the regions, which is a big change from the last few years where American companies have generally trounced the rest of the world in terms of earnings growth.

At the same time, if tariffs are a bargaining chip by the USA to secure better trading terms with countries, then it is safe to assume that at some point an agreement will need to be reached.

For the UK the impact of the increase in the minimum wage and national insurance from 6th April 2025 will be a factor for companies to contend with, which will impact profits. However, as noted, the primary objective and agenda for the present government is economic growth.

This same objective applies to Europe, where the policy approach is resulting in interest rate cuts and increased capital expenditure, as underlined by the changes agreed by Germany to increase borrowing for defense spending.

The key to investing is not to lose sight of the fundamentals – well run, profitable companies with the ability to grow can offer the long-term returns that investors seek. When built around a broad allocation between regions and asset classes to manage the risk and impact of government policy, this provides diversification for portfolios to better manage them.

There is no doubt that the current and previously accepted "world order" is being upturned, with uncertainty as the dominant force, which increases market volatility. However, we have witnessed that Trump can change direction and pivot policy as quickly as he takes to sign an executive order. This has resulted in Europe and the UK, along with several other countries, responding to ensure that they are better placed economically and to some extent, militarily, to overcome these changes and to better deal with the future. It appears that currently change is the one certainty.

The table sets out our current asset allocation views.

Underweight	Neutral	Overweight
	Government Gilts Index-linked Gilts: Global	High Yield Bonds (for income)
Emerging Markets	Investment-Grade Bonds Equities: US, Far East, Japan, China	Equities (large cap): UK, Europe, Asia
	Equities (small cap): UK, US, Europe	Global Equities
Property (bricks & mortar)	Commodities	
Gold	Global property shares	

**Neutral means that, while we retain the asset class, we do not generally want to add to the position, apart from exposure via mixed asset funds.*

2nd April 2025