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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

Fallout from Tariffs Continues

7 April 2025

Since 'Liberation Day' on 2nd April, we have continued to see a significant elevation in market volatility. While the US has led the downturn, other equity regions have fallen broadly, albeit to a lesser extent. Over the past two trading days the US market is down 10% in sterling terms, but the FTSE has held up better, losing 6%. The volatility is continuing however, and by the afternoon on Monday the FTSE was down another 3-4%, while the US was down 1%.

Falling bond yields have been able to protect investors who hold bonds - gilts are up 1% over the past two days. On the equity side, the defensive nature of infrastructure assets has helped to protect downside, as have active equity managers with a focus on quality and income.

There is still so much uncertainty as to how this plays out. Some hope remains in markets that President Trump can still be negotiated down, but that hope is fading as we are only 2 days out from the 'reciprocal' tariffs coming into effect. It is also yet to be seen how the Federal Reserve and other central banks will react. Investors have started to price in more interest rate cuts. Markets now expect US interest rates to fall about 1.25% this year, 0.5% more than a week ago.

The key things for investors to remember are:

- Selloffs like this are a function of equity markets and are one of the reasons why investors get rewarded for holding equities.
- Long-term investors have the luxury of being able to look through short-term volatility – use this luxury.
- Valuations on several asset classes are becoming more attractive – US equity markets and corporate bonds, in particular, have been expensively priced recently.

In terms of what we are doing at HRIS:

1) We are continuing to take the view that
   - Over the long-term, investment risk will be rewarded, and diversification can improve the stability of returns
   - Over the medium term, markets are dynamic and can offer scope to capture opportunities with predictable outcomes, even where timing is not certain
   - Over the short-term, market influences are often sentiment led and are less reliable indicators of long-term future performance

As a result, we are not making kneejerk reactions on the back of recent market volatility. The portfolios' diversification by region and asset classes has served them well.

2) We are assessing the medium to longer-term implications of the recent volatility on our investment portfolios, including identifying any opportunities that may arise.

3) In the meantime, we continue to reflect on markets and portfolios daily, including
   - Monitor “portfolio drift” i.e. how far fund allocations have moved away from target allocation.
   - Assessing if the underlying managers and funds are performing as expected, given the market conditions.
   - Daily interaction between HRIS portfolio managers and the broader Hymans Robertson Asset Class and Capital Markets Research teams.

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