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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

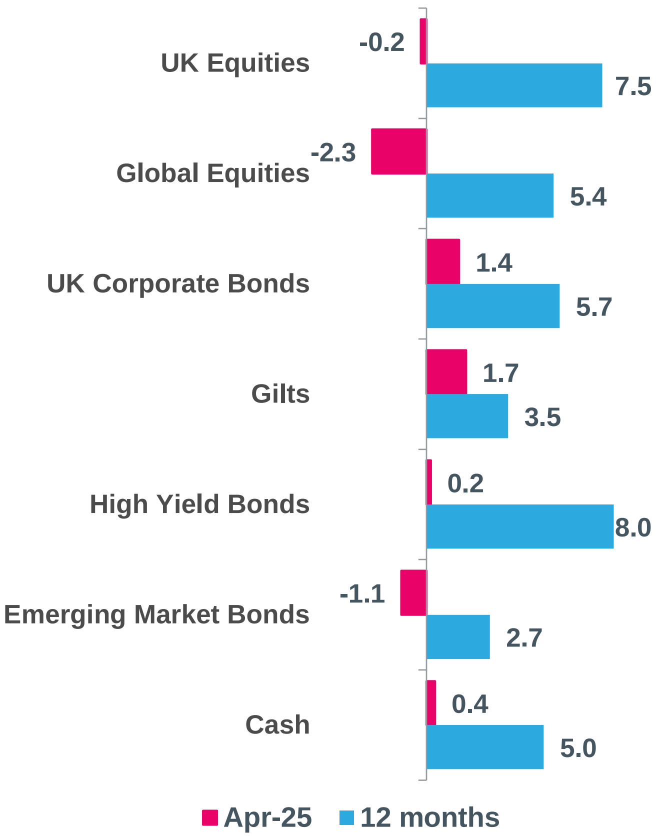
Market digest

April 2025

Monthly highlights

- President Trump shook investors with his Liberation Day tariff announcements.
- US equity markets in particular fell, although the recovery had already begun by the middle of the month thanks to a delay in implementation of the tariffs. Bonds held up better than equity markets.
- On page 3 of this document, we provide market commentary to cover the 12 months to 31 March 2025.

Asset class returns (%)



Source: Morningstar. Figures to 30 April 2025. Returns in sterling terms except high Yield bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Market summary

- Our model portfolios typically invest in a combination of the asset classes shown in the left-hand chart.
- President Trump's Liberation Day tariff announcements unleashed chaos on markets as the breadth and severity of the tariffs were far larger than investors anticipated. However, a 90-day delay announced a week later triggered a recovery that continued over the remaining weeks of April.
- The US equity market was the hardest hit region, while other regions fared better. The UK ended the month only 0.2% down while European equities notched gains.
- The pound strengthened significantly against the US dollar. This dollar weakness hurt returns on dollar denominated assets such as US equities.
- Bond markets were also volatile but most delivered gains, especially gilts (bonds issued by the UK government), as the weaker growth outlook lowered the yields on bond (bond prices rise as yields fall).
- At a portfolio level, bonds tended to outperform equities, resulting in lower risk portfolios producing greater returns than higher risk portfolios over the month.

Outlook and topical market themes

- The Bank of England cut interest rates in May to 4.25%. We do not expect a further cut in June, but we do expect more over 2025 (roughly one a quarter).
- The market's recent volatility has been a good test of investors' ability to focus on the long term. Those that withstood the temptation to de-risk – such as by selling equites during the downturn - have likely benefitted from the recent rapid recovery in equity markets.

Tariffs are likely to make the Bank of England cut interest rates faster than planned, but not by much

The Bank of England (BoE) continued to signal a gradual approach to cutting interest rates in May. The 0.25% cut to rates was widely anticipated. The inflation data over the past few months has been better than the BoE's February forecast. Although, inflation is still expected to increase in the short term, this will mainly be government-set and indexed price hikes, like water bills and mobile phone contracts, that tend to be inflation-linked.

It looks like the uncertainty caused by Donald Trump's tariff policies - and their potential impact on economic growth – swayed several members of the Monetary Policy Committee (MPC) toward supporting a rate cut this time. Surprisingly though, two MPC members voted to keep rates unchanged (two other members also voted for a 0.5% cut). Some commentators also thought the MPC may remove the word 'gradual' from their current guidance on interest rate reductions – they have not. Both of these signals have reduced the probability of a further interest rate cut in June.

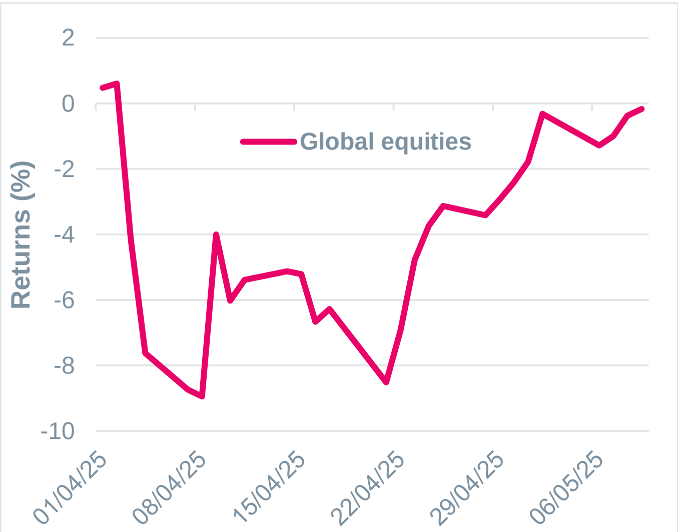
Investors need to focus on the long-term in the face of tariff uncertainty

It's been over a month now since Trump announced a sweeping set of tariffs on 2nd April - 'Liberation Day'. The elevated volatility is calming as the initial level of tariffs are being rolled back or postponed. Countries such as the UK and China have struck deals with the US, raising investor hopes that the sky-high tariff levels were a negotiating tactic all along. By early May, the US stock market had regained the losses sustained since 2nd April.

The rapid recovery in stock markets highlights the danger of panic selling when things get ugly in markets. The best course of action is typically to remain laser focused on your long-term investment goals. A selloff may even present investors with buying opportunities. It's also important to ensure your portfolio's allocation is well diversified, both between and within asset classes, including regional diversification. This should support a quicker and more predictable time to recovery of portfolio returns; something that is important for all portfolios, but particularly those where regular disinvestments are being taken from the portfolio (we'll discuss, the importance of "time to recovery" in a future article).

Chart of the month

Sharp drop for global equities was followed by an equally rapid rise



The chart shows the returns for global equities since the start of April, and President Trump's Liberation Day tariff announcements.

Although the initial drop was sharp (losses extended to over 8% at one point), by the end of the month the drawdown had shrunk to only 2%, and the losses had completely disappeared by the first week of May. This acts as a useful reminder that, although equities should be your friend over the long-term, they are a risky asset class and can be your foe over the short-term.

Source: Morningstar, FTSE All World

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Annual market summary: covering the 12 months to 31 March 2025

The key question for investors through 2024 was how fast central banks would start to reduce interest rates. As it turns out, the re-election of Donald Trump was of more importance over the period. A close election was expected, but what we got was an emphatic victory for Trump. Markets quickly pivoted towards 'Trump trades' reflecting the expected winners and losers from Trump's expected policy agenda.

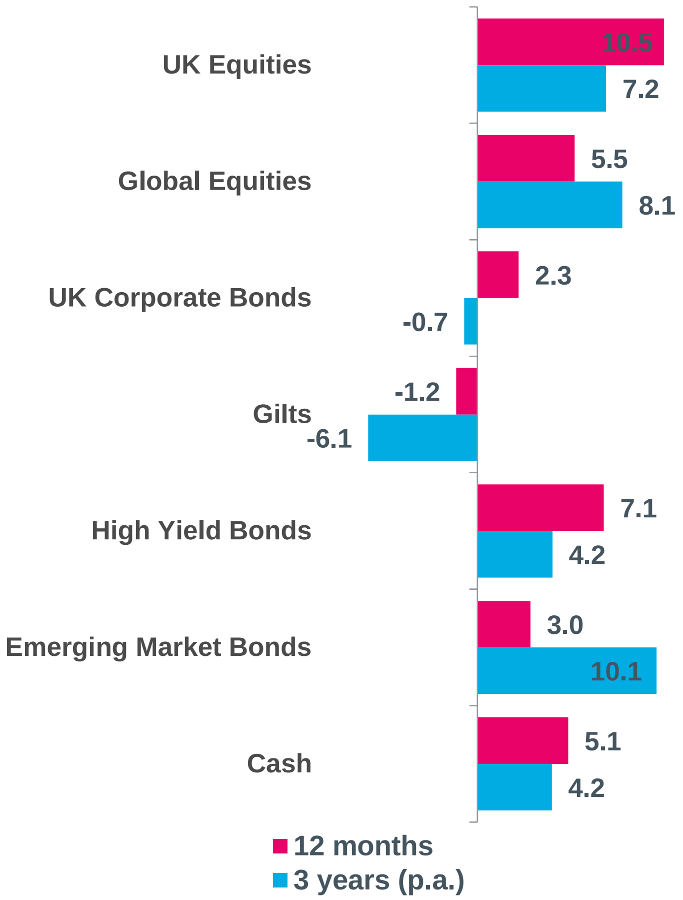
However, investors' early enthusiasm for President Trump's policy agenda started to wane, and then completely evaporated, as Trump prioritised implementing heavy tariffs on trade partners, as opposed to working on the more market friendly policies such as tax cuts and deregulation.

Central banks started on their path towards lower interest rates. The Bank of England cut by 0.75% over the period to 4.5%, while the US Federal Reserve cut rates by 1%. Trump's tariff policies have led to greater uncertainty over the near-term path for interest rates in the US, as inflation is expected to rise in the short term at the same time as economic growth slows.

The first three quarters of the period were largely positive for equity performance, but some gains were given back in Q1 2025. The UK equity market ended the period as one of the top performing regions, after the US market fell heavily in Q1 25.

Bond performance was mixed over the period, as expectations on inflation and interest rates were ever changing. Although central banks began their rate cutting cycle, bond yields ended up rising over the period. Trump's election victory was a big driver of bond yields upwards, as was the Budget in the UK, and German fiscal stimulus announcements. On top of that, strong US economic growth, and sticky inflation, lowered expectations as to how far central banks will cut rates. Given these events, gilts fell over the period. Performance on corporate bonds, especially high-yield bonds, was better as credit spreads (the additional yield on corporate bonds over government bonds) fell, pushing up prices.

Asset class returns (%)



Source: Morningstar. Figures to 31 March 2025. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.