RATHBONES | Incorporating Investec Wealth & Investment (UK)

07 April 2025

Market reflection

John Wyn-Evans
Head of Investment Strategy

Overview

The bumpy ride for equity investors continued through March, with most of the pain being inflicted by the mega-cap US equities that had previously been leading the market higher. The main uncertainties surround the potential negative impact of a new round of trade tariffs that President Trump is expected to announce on 'Liberation Day, which is April 2nd.

Continued overleaf

Without knowing how much is being imposed on what and the extent of any potential retaliatory measures, it remains hard to advocate for greater-than-benchmark risk exposure in balanced portfolios. Big US Tech firms are also being depressed by another bout of nerves about the payoff from the huge investment being made in AI-related growth. This has become more acute since a ‘budget’ Large Language Model was released by DeepSeek in China, with more Chinese tech companies following suit. We continue to believe that this is more of a speedbump than a roadblock on the path to broader AI adoption, but we might need to see more concrete evidence of enhanced profitability before sentiment can improve. On a more positive note, European equities are outshining their US peers as investors react positively to the EU’s recognition of the need to increase investment, especially in the Defence sector now that the US is threatening to withdraw support. Germany, soon to install a new government, has led the way by loosening its cap on defence spending and getting a €500bn bill through its parliament for increased infrastructure spending. A peace deal in Ukraine could be another supportive factor, although the terms will be important. We note that Gold continues to make new all-time highs in both dollars and sterling. Not only is this a response to ongoing geopolitical threats, but also to the threatened demise of the rules-based system of global cooperation and the primacy of the dollar.

- The Bloomberg consensus estimate for World GDP growth in 2025 is 2.85%, a small downgrade from where we started the year (3%). Momentum has slowed fastest in the US. In January, Goldman Sachs was forecasting Q1 GDP growth of 2.7% and its estimate now stands at just 0.6%. We maintain the view that the US is not going to fall into a recession, but there is little doubt that we are experiencing a soft patch in activity.

- Weaker growth momentum has boosted global government bonds. The Bloomberg Global Aggregate Index recovered early losses to show a gain of 2.5% so far this year in US dollars and 1.1% in sterling. We retain a relatively short duration bond exposure owing to longer-term concerns about fiscal deficits and the risk of more volatile and persistently higher levels of inflation than we have been used to.

- The Chancellor delivered her first Spring Statement to the House at the end of March, and the market’s reaction was relatively benign, possibly helped by the Debt Management Office announcing slightly lower Gilt issuance than expected this year and with a tilt towards shorter maturities. However, the fiscal ‘headroom’ afforded to Ms Reeves by the Office of Budget Responsibility remains a paper thin £9.9bn even after announced spending reductions. We suspect that more tax increases are in the offing at next autumn’s Budget unless economic activity improves to an unexpected extent. Unfortunately, speculation about tax increases before the last Budget only dampened growth ahead of the event.

 Continued overleaf

RATHBONES | Incorporating Investec Wealth & Investment (UK)

investecwin.co.uk

Investec Wealth & Investment (UK) is a trading name of Investec Wealth & Investment Limited which is a subsidiary of Rathbones Group Plc. Investec Wealth & Investment Limited is authorised and regulated by the Financial Conduct Authority and is registered in England. Registered No. 2122340. Registered Office: 30 Gresham Street. London. EC2V 7QN