Markets Review - to end March 2025.

THORNTONS INVESTMENTS

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	-2.7%	3.5%	2.5%	6.6%
Global Equities	-6.9%	-5.2%	0.8%	2.6%
UK Gilts	-0.9%	0.5%	-4.5%	-4.7%
UK Property	0.4%	1.3%	2.6%	5.1%
Gold	6.9%	15.5%	23.3%	38.1%
Commodities	0.3%	2.2%	15.3%	9.5%
Sterling	0.5%	0.6%	-1.0%	2.6%

Returns to 31st March 2025. Source: Refinitiv

Market Overview

March saw stock markets pull back from recent highs, as President Trump proved that tariffs were not just his favourite word but should be enacted as well. The market that suffered most was his own, with US equities establishing a technical correction (-10%) at one point. The falls were further compounded by dollar weakness, as investors scrambled to assimilate the economic damage that might ensue from pending tariffs. Recession and stagflation started to drop out of the economic lexicon and into forecasts, sending US treasuries higher and yields lower. US bonds may have benefitted from a 'risk-off' trade, but by far the biggest winner was gold. The classic risk protection metal is up 19% ($ price) since the start of the year, its strongest quarter since the 1980s.

Obviously the imposition of tariffs will impact on exporters to the US as well and some of the obvious and immediate casualties, such as the auto sector, have been marked down heavily in anticipation. The old market adage is that you should 'buy to the sound of canons' (attributed to Baron de Rothschild), meaning that the fear leading up to conflict is usually worse for markets than the actuality. However, we are now dealing with extreme uncertainty, that is how Trump likes to operate, it keeps his opponents off-balance and markets are not particularly keen on uncertainty. The flip side of this is that he can change his mind and direction very quickly if things are not working out.

In Europe the centrist coalition in Germany, following their elections, and passing of a €500bn fiscal package, provided a more supportive background. In general stocks have held up well, although government bonds immediately sold off across Europe due to concerns over rising deficits implied by defence spending commitments.

China, meanwhile, has seen some renewed interest, particularly in the tech sector, recently reembraced by President Xi. AI in its many forms has significant potential to improve productivity and with it growth, which is desperately needed. Despite all the noise elsewhere, the UK is a leader in this area, which may become more visible once the noise settles down.

Oil remains in the low $70s per barrel on weak economic growth outlooks and Russian tariff threats are offset by Saudi plans to increase production. Industrial metal prices have been volatile on the possibility of tariff introduction. New mine projects in general are few and far between, so any pickup in demand could easily see prices recover. The surge in European gas prices, that have bumped up our energy utility prices, have retreated sharply as winter ends and on vague hopes of some sort of deal between Russia and Ukraine. Gold continues to see strong demand from central banks, particularly in Asia, as well as more retail interest.

The extended shipping times caused by attacks in the Red Sea notwithstanding, transport availability, as well as material and component supply are mostly back to normal. The worry is that tariffs will again disrupt the global supply chain and lead to shortages of some critical components. China has become the dominant supplier in a number of crucial areas, such as rare earth metals where they control ~90% of global processed supply and have already started to restrict shipments.

A global interest rate cutting cycle (bar Japan) is still in place. Although there are different views on the pace and extent of cuts, they will help small companies and households with mortgages, albeit with delays reflecting the large use of fixed rate mortgages. The yields on long bonds, however, remain elevated, reflecting the growing levels of government debt across the western world, with little sign of seriously tackling budget deficits. This continues to act as a headwind against long term investment financing.

Property fund mergers in 2024 have been followed by a number of takeovers for property REITs as their large discounts to underlying asset value has attracted international interest. With rental payments remaining largely up-to-date and vacancy rates at low levels, REITs still look to offer some attractions, if share price discounts remain. Listed infrastructure trusts also trade on wide discounts, renewable energy focused ones still face uncertainty on energy prices, but new regulations should provide more certainty on long term power pricing. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

The election indigestion that beset 2024 did little to settle political turmoil, with a number of surprise elections called for this year already. The clear shift towards nationalist politics was countered by an exceptionally high turnout in the recent German election, that looks like creating a right of centre government that precludes more extreme elements. In the US the Trump administration has unleashed a raft of executive orders, but many of these require Congressional examination before policy implementation.

Despite flirting with technical recessions (two successive quarters of economic contraction) in Europe a full-on recession has so far been avoided; the fabled 'soft-landing'. However, supporting economies through Covid and the energy price spike have a real cost and take away from other economic activity; meanwhile the tricky issue of how to fund greater levels of defence spending will need to be addressed. Softness is now beginning to emerge in the employment market, although real wages are growing after a long period of erosion and there is a significant cohort of savers who actually benefit from higher interest rates.

The company results from the final quarter of 2024 have in general held up reasonably well, with aggregate reported profits moving ahead, however, individually there has been a wide dispersion, with companies that disappoint often seeing a sharp drop in their share price. Consumers have been showing greater price sensitivity and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

The recent ceasefire agreement in Gaza came as a welcome break, although progress seems to have stalled before being able to continue to work through the next agreed stages. The situation in Ukraine remains unresolved and Trump's tariffs may further inflame East vs West tensions. This background necessitates well-diversified portfolios and a positive change in sentiment can result in some sharp market rallies. It is important to remain calm and keep the focus on long-term winners and survivors.

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Market Outlook

Equities	Stock markets took a tumble in March, most notably in the USA, as Trump's tariffs (due to start 2nd April) became less of a threat and more real. The uncertainty that comes with the raft of executive orders emanating from the White House has unbalanced markets and threatens to trigger a recession as well as fuel inflation in the US and elsewhere if retaliatory measures are taken. Recession is not yet our central case and low valuations outside the US would make equities attractive if calm is restored.
Fixed Interest	Enthusiasm for interest rate cuts has cooled in the US with the economic uncertainty created by tariff proposals, whilst weak economic activity in Europe is pressuring the ECB to cut rates. The Bank of England is still likely to cut further this year, but is likely to wait for inflation to improve later in the year, after April's expected pop. Government bond yields popped up on Germany's plan to launch a fiscal stimulus package, which includes increased defence spending.
Commercial Property	In contrast to housing, commercial property values have come down significantly, particularly office and retail values. As working and shopping patterns settle into a new equilibrium, there is growing acquisition activity attracted by the wide discounts on property trusts. There has been little new build in recent years and demand is continuing to hold up. Debt costs are still a headwind but, selectively, there are some attractions.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, some with attractive inflation linked contracts, and growth tied to improved connectivity and de-carbonising economies; although build costs have risen. High debt costs, that weighed on the valuations of private equity and infrastructure trusts, remain an issue but de-gearing is taking place. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly.
Cash	The investment return on cash and cash like instruments has peaked and, whilst currently stable, should continue to decline this year.

Thorntons Investments **2nd April 2025**