MONTHLY UPDATE

Latest views from the investment team

Gold Shines Brightly Amidst Market Angst

March was another volatile month for asset prices with large divergences between geographies and asset classes. Stocks suffered, to varying degrees, from uncertainty as more US tariff announcements, this time relating to imported steel and autos, triggered concern about inflation, economic growth and corporate earnings. In all, tariff concerns resulted in US stocks experiencing their worst quarter since 2022. US government bonds ended March largely unchanged while UK and European bond prices fell. Meanwhile, commodities gained, as gold surged to a new all-time high.

US stocks have endured a difficult start to 2025, as described in our note 'US stocks tumble'. Expensive valuations, technology breakthroughs in China and a shift in government policy all contributed to the uncertainty which caused a 10% decline in US stocks between mid-February and mid-March. More recently, President Trump has declared April 2nd as "Liberation Day" – the date on which import tariffs will take effect – and this has weighed on asset prices. The tariff situation remains fluid and warrants careful monitoring.

Towards the end of the month sentiment improved slightly following the Federal Reserve's decision to leave interest rates unchanged once again. This outcome was largely anticipated; however, chair Powell downplayed concerns about the recent inflation uptick by calling it "transitory." While this assessment could hold true, investors remain cautious, recalling Powell's repeated use of the term in 2021 before inflation peaked at 9%. Nonetheless, it suggests a central bank reluctant to raise borrowing costs, despite near-term inflation pressures, partially from tariffs. However, government policy – which has become a primary driver of stock prices this year – is unsettling markets. This led to a weak month for equity markets, with the technology and consumer discretionary sectors taking the biggest hit amid mounting concerns over stretched valuations and declining consumer confidence. The decline was exacerbated for UK investors as the US dollar also fell.

There were more encouraging signs in Europe as Germany's Bundestag voted to reform the 'debt brake' – a move that will unlock a huge increase in government spending, with a focus on larger budgets for both defence and infrastructure. German leaders have been catalysed to act since the US pulled back from European security and initiated strategic changes to global trade. This is a vast change, with the potential to boost confidence and economic activity in the region, as well as influence similar actions from other European nations. European bond prices declined as yields rose, reflecting expectations of increased bond issuance to finance higher government spending. However, this development was viewed positively by equity markets and supported the euro, which appreciated as a result. European stocks outperformed their US counterparts, gaining around 7% in the first quarter. UK stocks also gained in the first quarter, but lagged Europe as UK growth forecasts declined alongside measures of business confidence since the Chancellor's autumn statement. Pleasingly, the spring statement delivered in March by Reeves, described below, had little impact on markets.

Amid the uncertainty fuelled by US policies, there were some winners in March. Energy prices found support from geopolitical tensions, particularly the sluggish progress in ceasefire negotiations between Russia and Ukraine, while gold surged more than 10%. Amid heightened market anxiety, gold continues to be seen as a safe haven. Its limited supply and low correlation with both stocks and bonds make it an attractive hedge. Historically, gold has performed well during periods of high inflation and weak economic growth—both of which are typically challenging environments for equities. Moreover, central banks have been increasing their gold reserves to diversify away from US assets.

Bottom Line

Uncertainty remains elevated due to US trade policies while increased government spending in other parts of the globe provide a more encouraging backdrop in some regions. Diversification, active asset allocation and rigorous fund selection remain key for navigating this environment and dampening the volatility of portfolios.

NORTH CAPITAL

Month in Numbers

Change in various markets over the month:

ASSET NAME		CHANGE / VALUE
EQUITIES Local Currency		
United Kingdom	▼	-2.58%
Eurozone	▼	-3.94%
United States	▼	-5.75%
Emerging Markets	▲	0.04%
Japan	▼	-4.14%
BONDS/RATES Absolute change (%)		
Bank of England Base Rate	-	-0.00%
		4.50%
Federal Reserve Funds Rate	-	0.00%
		4.50%
UK 10-Year Gilt Yield	▲	0.19%
		4.67%
US 10-Year Treasury Yield	▲	0.01%
		4.21%
CURRENCIES		
GBP/USD	▲	2.70%
		$1.29
GBP/EUR	▼	-1.49%
		€1.19
DXY (USD Index)	▼	-3.16%
		104.21
COMMODITIES		
Gold (USD/ Troy Oz)	▲	9.61%
		$3,125.254
Brent Crude Oil (USD/Barrel)	▲	1.66%
		$74.78
NOTEWORTHY		
IAG SA (British Airways)	▼	-25.97%

April 2025

As of 31 March 2025

Q&A

Why has Reeves cut spending?

UK Chancellor Reeves had the difficult task of delivering an update on the health of the economy in March at the annual spring statement. The UK's public debt has increased at a faster pace than other advanced economies since the pandemic. Alongside borrowing heavily to support people who could not work during the Covid lockdowns, this situation has also arisen due to lackluster economic growth since, meaning limited tax received overall, at the same time as there have been rising demands on public services. The upshot is that, with interest rates much higher than a few years ago, the cost of servicing this debt has grown substantially, limiting the capacity for spending in other areas such as defence, education, or social security. In the current fiscal year, the Office for Budget Responsibility (OBR) expects more to be spent on debt interest payments than on education or defence. Continuing to spend more and more would likely put further upward pressure on borrowing rates, exacerbating the problem. Additionally, business and consumer confidence have trended lower in recent months and the OBR has halved its growth forecast for 2025, suggesting that tax receipts won't come to the rescue. With this backdrop, the Chancellor announced significant spending cuts and has pledged to pursue pro-growth policies, such as planning reform. However, the Institute for Fiscal Studies has warned that more tax rises might be needed later in the year if these policies are not fruitful.

High Yield, Low Drama

At first glance, investing in high-yield bonds may appear excessively risky, often bringing to mind the financial crisis and companies on the verge of default, such as the recent example of Thames Water. However, the reality is more nuanced. In recent years, structural changes within the market have made high-yield bonds a more attractive and resilient option for investors. Reflecting this, we introduced a modest allocation to the asset class across our multi-asset portfolios at the start of 2025 by investing in the Artemis Short-Dated Global High Yield Bond.

High-yield debt refers to bonds issued by companies with credit ratings BB or below – a widely used measure of financial strength. In contrast, companies rated BBB or above are considered investment grade and are viewed as having a lower probability of default. To compensate for the higher risk associated with lending to sub-investment-grade borrowers, high-yield bonds typically offer higher interest payments. Our current allocation provides an attractive yield in the current environment of over 6.5%.

One of the most notable changes to the high-yield market since the 2007–2009 global financial crisis has been the improvement in the quality of issuers. Today, the average high-yield company is financially stronger than in the past. This is reflected in the reduced share of bonds rated CCC or lower – typically associated with distressed borrowers – and a higher proportion of bonds rated BB. Currently, BB-rated issuers account for approximately 50% of the global high-yield index, while CCC-rated bonds represent less than 10%, contributing to a lower expected probability of default. Moreover, the market is now dominated by large, well-established public and private companies, rather than smaller, speculative issuers. Notable holdings within our fund include companies such as INEOS, TUI, and Iceland.

We access the high-yield market through a high-quality asset manager with a strong track record of identifying attractive opportunities while managing risk effectively. Their disciplined approach to credit selection and portfolio construction helps reduce the likelihood of defaults and improves overall portfolio resilience. In addition, we favour bonds with shorter maturities – the fund averages 1.8 years – which limits exposure to longer-term credit and interest rate risks, further strengthening the defensive characteristics of the investment while preserving the yield characteristics that make it so attractive.

Disclaimer

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