FLASH UPDATE

07 April 2025

NORTH CAPITAL

Global Stocks Tumble after "Liberation" Day

Although US import tariffs were widely expected, the scale of the measures announced last week exceed financial market expectations. In response, US and European equities posted their steepest weekly losses since March 2020, down 9.1% and 4.5% respectively by Friday's close. The selloff extended into Monday, with Asian markets sharply lower and European and US markets following suit. Escalating trade tensions, coupled with growing policy uncertainty from an increasingly unpredictable White House, are threatening to disrupt global trade, economic activity, and corporate earnings.

At the time of writing, we have witnessed some US and Japanese indices enter a technical bear market (down 20% from the peak), European markets erase all its gains since the end of 2023, and the Hong Kong market taking its biggest daily hit since 1997. This is a broad market decline, not restricted to just highly valued American tech or low-quality smaller companies. On Monday morning every stock on the major European index opened in the red with several household names having trading suspended for volatility, in short nobody was buying. This has since stabilised marginally. Alongside the equity market, we also saw increases in bond prices globally as markets price greater central bank rate cutting due to a slower economy. Commodity prices also declined due to the same fears. There was also significant volatility in currency markets, albeit Sterling ended the week little changed against the Dollar.

While many economists disagree, the US President believes that implementing tariffs will protect US jobs and raise revenues and, therefore, over time, help to reduce US government debt. Overall, the effective tariff rate on imported goods is set to move from 2.5% to 22%, the highest it has been since the First World War. For context, the market expected this number to be closer to 10%.

As it stands, a baseline rate of 10% is being applied to all imported goods coming into the US and 60 nations face additional tariffs. China will face an effective tariff rate of 54%, while many other Asian nations have also been heavily impacted including Vietnam (46%), Taiwan (32%) and Japan (24%). Tariffs on European goods will be 20%, while the UK is facing just the baseline rate of 10%. These numbers are still subject to change – any retaliatory action could push these tariffs higher still. It is worth considering, however, that the current President can be susceptible to a quick recalibration, potentially to mitigate the market reaction but maybe also because of fruitful negotiations. Any softening of this policy should be positive for equity markets.

Economists are estimating that US inflation is likely to increase by 1-1.5% this year while growth, and the Dollar, fall. Trump is encouraging overseas companies to invest in manufacturing capabilities in the US to avoid tariffs and, while this could eventually be possible, in the short-term it seems likely that US consumers will be faced with higher prices for imported goods. In addition, the huge amount of policy and economic uncertainty is likely to reduce the likelihood of corporate investment moving quickly.

The North Capital Position

At North Capital, we focus on building resilient portfolios designed to navigate volatility and deliver long-term results. This includes a strategic overweight to the more defensive UK equity market and a long-term allocation to real assets such as gold, broad commodities, and infrastructure to provide diversification and inflation protection.

Tactically, we adjust our positioning based on market conditions. Currently, we hold an underweight in equities, having reduced exposure to US and global stocks in favour of cash, gold, and European equities. Our cash position has risen to around 7%, up from our typical 1%, reflecting caution amid growth-negative US policies and elevated policy uncertainty.

We remain agile and prepared to re-enter growth assets as clarity improves. A weakening in economic data, for example rising unemployment, could prompt the Federal Reserve to ease policy, supporting demand and asset prices. Over the medium term, we see structural upside in US equities through AI adoption and resilient earnings, while ongoing fiscal support underpins our positive outlook on Europe.

Lastly, we take a long-term perspective that reinforces our conviction through periods of volatility. History shows that staying invested is key, as some of the best days in equity market performance occur close to the worst. Maintaining discipline through market drops has consistently rewarded patient investors.