# MONTHLY UPDATE

Latest views from the investment team

## An April to Remember

April was a month that is likely to be remembered for many years in politics and financial markets. On 2nd April, a date President Trump proclaimed as "Liberation Day", the US administration announced sweeping tariff increases which was higher than market participants expected. This move sent stocks sharply lower globally and, if enacted, will increase the aggregate effective tariff rate in the US to its highest level since the early 1900s. However, since then, Trump put into effect a 90 day pause on the tariffs (excluding China), allowing some time for new trade agreements to be negotiated and catalysing a bounce in stocks. In the end, stocks in the US, UK and Europe recovered much of the intra-month losses. However, depreciation of the US dollar and appreciation of the Euro resulted in outperformance of European stocks for UK investors.

Stocks have taken some reassurance from Trump's introduction of a 90 day pause on higher tariff rates. However, while this is welcome news for investors, many uncertainties remain. There is no clarity yet on whether significant deals will be struck within 90 days and fears could re-emerge as the deadline approaches. Lingering uncertainty inhibits business investment decisions and measures of US consumer and business confidence have plunged since the start of the year. Also, this pause does not apply to tariffs on China, one of the US's largest trading partners. After some tough posturing which sent Sino-US tariffs above an alarming 145%, there has been a potential U-turn from the US with statements pointing to an eventual rate much lower than this, but there have not been firm details yet and the Chinese response is unclear. In the meantime, retailers such as Walmart and Target have warned that US shoppers may face empty shelves and higher prices, and recent shipping data supports these concerns. There has been a sharp drop observed over recent weeks in the number of container ships departing China for the US. As well as empty shelves, this could lead to significant job layoffs in areas such as trucking, logistics and retail. The chart below of the US Policy Uncertainty Index (a measure of the unpredictability of US government policy based on media coverage) summarises the environment as it reached its highest level since Covid lockdowns.

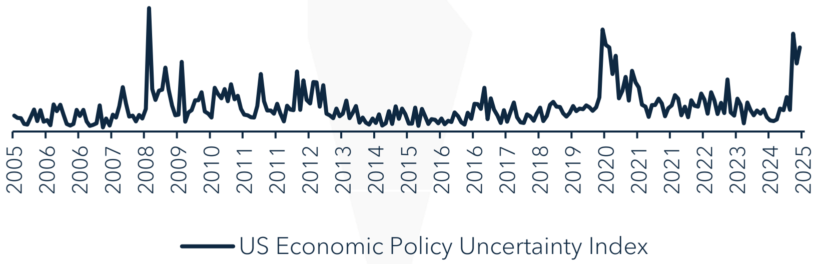


*Figure 1 Source: LSEG Datastream, North Capital Management. As at 30 April 2025.*

While much of the recent news has been negative, the admission from Elon Musk that his Department of Government Efficiency's goal of cutting spending by $1 trillion will not be met and, indeed, only $150 billion may be cut, is likely to be good news for economic activity. Also, encouragingly, some parts of the market are faring much better. The Euro continued to benefit from recent steps from German authorities to increase government spending. This policy change seems to be having a positive effect on the ground with business confidence in the region climbing. The Euro gained 5% against the US dollar and 1% against Sterling in April, helping European stocks make a positive return for UK investors. Government bonds also gained, as yields fell to reflect growing expectations of interest rate cuts in response to concerns about the disruption of tariffs. Moreover, the uncertain environment led to further gains for gold.

## Bottom Line

Volatility and changes in policy favour some regions and assets classes over others, underscoring the potential benefits of disciplined and tactical asset allocation. Over long-term horizons, history demonstrates that staying invested is usually favourable. Diversifying portfolios with alternative assets, such as gold and infrastructure, builds resilience and is likely to smooth the long-term path of returns.

NORTH CAPITAL

### Month in Numbers

*Change in various markets over the month:*

| ASSET NAME | | CHANGE / VALUE |
|---|---|---|
| **EQUITIES** Local Currency | | |
| United Kingdom | ▼ | -1.02% |
| Eurozone | ▼ | -1.68% |
| United States | ▼ | -0.76% |
| Emerging Markets | ▼ | 0.49% |
| Japan | ▲ | 1.20% |
| **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 | ▼ | -0.23% |
| | | 4.44% |
| US 10-Year Treasury Yield | ▼ | -0.06% |
| | | 4.16% |
| **CURRENCIES** | | |
| GBP/USD | ▲ | 3.19% |
| | | $1.33 |
| GBP/EUR | ▼ | -1.46% |
| | | €1.18 |
| DXY (USD Index) | ▼ | -4.55% |
| | | 99.47 |
| **COMMODITIES** | | |
| Gold (USD/ Troy Oz) | ▲ | 5.85% |
| | | $3,308.12 |
| Brent Crude Oil (USD/Barrel) | ▼ | -13.97% |
| | | $64.33 |
| **NOTEWORTHY** | | |
| Netflix Inc | ▲ | 21.36% |

May 2025

*As of 30 April 2025*

# Q&A

## An Update on Global Conflicts

In recent months, geopolitical tensions have vied for the attention of global markets, however persistent tariff headlines and growing concerns about global economic growth have overshadowed these very real concerns. We believe the economic impact of these developments warrants close monitoring and consideration. In Ukraine, the war has devolved into a protracted and costly stalemate, with limited front-line movement. The initial momentum within the US administration to pursue a diplomatic resolution to the conflict appears to be fading, with attention now turning to other geopolitical and domestic interests. While markets have partially adjusted to the prolonged Ukraine conflict, persistent uncertainty continues to put pressure on energy prices as well as stocks, particularly in Europe. Turning to the Israel-Gaza conflict, Israel's ground offensive has intensified following the collapse of a ceasefire in mid-March, with severe humanitarian consequences and growing risks of regional escalation, including clashes with Hezbollah and an expanded role for Iran. These developments have created some volatility in oil markets and increased flows into safe-haven assets like gold. Meanwhile, Houthi attacks on Red Sea shipping routes continue to disrupt global trade, adding to inflationary pressures. Looking ahead, the potential resurgence of Trump-era foreign policy, renewed flashpoints in the Middle East, and the risk of escalating tensions between China and Taiwan all warrant close monitoring.

## What are US Companies Saying About the Economy?

Against a backdrop of heightened economic uncertainty, the Q1 2025 earnings season has been relatively solid for US companies. Earnings growth has remained robust, with widespread positive surprises and better-than-expected net profit margins. Strength from major technology firms and the continued resilience of healthcare companies have stood out as bright spots. However, performance has varied significantly by sector, with areas such as energy and materials facing clear headwinds. As investors, we believe it is essential to look beyond the headline figures. One particularly telling development is the rising number of companies choosing to withdraw their full-year financial guidance. This represents a meaningful shift in corporate sentiment and reflects growing discomfort with the current economic and policy landscape. Management teams across several industries have pointed to elevated macro uncertainty, particularly stemming from the unpredictable and unconventional direction of US economic policy, as a key factor behind their caution. Notable examples include UPS, Procter & Gamble, and nearly all major US airlines. These are not marginal businesses, but companies that sit at the heart of both consumer and corporate America. Their collective hesitancy sends a powerful signal, in our view, that the risk of a slowing US economy is increasing as the year progresses. We are underweight US equities in our portfolios, instead preferring opportunities in Europe or in safe havens such as gold.