



Wealth
Management US

Quarterly report

Q1 2025 market review



| Forward-looking
for generations

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Cover image
Bauer brothers, Hortus Botanicus, detail from
"Lilium," 1776/1804
© LIECHTENSTEIN. The Princely Collections, Vaduz–Vienna

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Germany's new coalition
announced a historic fiscal
regime which some believe
could prove to be the spark
to reignite long-term growth
in Europe.

Sanjay Rijhsinghani, Chief Investment Officer

Summary: Q1 2025

Since the end of the first quarter, President Donald Trump declared 2 April as “Liberation Day”, unveiling a sweeping tariff policy that has triggered significant market volatility. Investor concerns around a global growth shock and higher inflation have resulted in equities, bonds and the US dollar selling off. While Trump has partially reversed course, the initial damage and ongoing uncertainty have left investors and businesses unsettled. We will continue to provide you with our views as the impact on markets becomes apparent.

The main text in this Quarterly relates to market events that occurred in the first quarter before “Liberation Day.”

In the first quarter, Trump set out to swiftly implement his agenda following the inauguration in January. He has kept most of his campaign promises, including applying tariffs on long-standing trading partners and imposing sweeping cuts across the US government. He has also pulled back support from America’s long-established global allies. This has led to a sharp reversal for US equities over the quarter as investors price a more challenging outlook.

At a glance

- Tariffs cause equity market declines
- Growth and inflation concerns mount
- China’s DeepSeek moment hits Magnificent 7 companies
- Germany’s historic fiscal package spurs European equities
- Central banks face uncertainty over future rate cuts

Macro summary

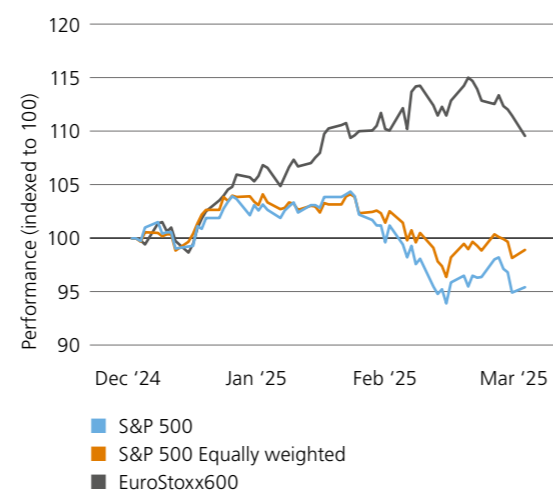
The S&P 500 Index fell 4.3% in the first quarter, while the small-cap Russell 2000 Index dropped 9.5% as the initial euphoria around expected deregulation and tax cuts faded. Conversely, European and Asian markets demonstrated resilience, with European indices benefitting from increased government spending and Chinese technology stocks rebounding on advancements in artificial intelligence (AI).

Long-standing European allies were stunned as Trump's efforts to end the war in Ukraine led to the US putting pressure on Ukrainian President Volodymyr Zelensky while offering concessions to Russia. This spurred the continent into action as they agreed to boost defence spending in response to the shifting of alliances. After its election, Germany's coalition announced a historic, new fiscal regime, a remarkable reversal for a country known for its cautious spending. Some believe it could prove to be the spark to reignite long-term growth in Europe. Meanwhile, central banks continued to diverge in their interest rate cutting policies as widely predicted, with tariffs and stagflationary data—slow economic growth coupled with rising inflation—complicating their future paths. US government bonds performed well over the quarter as investors embraced risk-off assets while German government debt fell sharply given its fiscal plans. Furthermore, in January, Chinese start-up DeepSeek released a new AI model rumoured to be as good as US models and cheaper. This led to questions around US technology valuations and wiped billions off the Magnificent 7 companies' value. These companies fell 16% in the first three months of the year, reversing post-election gains.

European equities led the way as technology stocks corrected

It was a tough quarter for US equities, with the aggressive threat of tariffs and the DeepSeek-driven sell off in large technology stocks roiling markets. The widespread tariff announcements began in late January after the Trump administration's arrival in Washington, when they announced 25% tariffs would be placed on Canada and Mexico. Investors relaxed somewhat when these tariffs were delayed, resulting in the S&P 500 hitting new highs in mid-February. However, tariff uncertainty picked up again when the extension for Canada and Mexico ended and Chinese tariffs were raised from 10% to 20% on 4 March. On 12 March, tariffs on steel and aluminium were imposed at 25%. All told, tariff turbulence sent the S&P 500 down 4.3% in the quarter, while the Nasdaq Index dropped 8%. This extended into April as reciprocal tariffs were announced.

S&P 500 vs S&P Equal Weight vs Stoxx 600 Q1 2025



Source: Bloomberg

While US equities struggled, European markets posted solid performance. Economists upgraded growth forecasts for the region as Germany led the way in rewriting the continent's historic fiscal regime rule book, with a marked shift towards higher defence and infrastructure spending. The first quarter witnessed the biggest quarterly performance gap between the Stoxx Euro 600 Index and the S&P 500 in a decade.¹ Germany's fiscal package, announced after the new coalition was formed, helped send the DAX Index up 11.3% over the period, while France's CAC Index rose 6%. The increased spend from Europe along with improving fundamentals and cheap valuations not only proved to be a powerful catalyst for European equities, but also benefited the euro, which saw a 4.5% rise versus the dollar.

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While US equities struggled, European markets posted solid performance.”

Sanjay Rijhsinghani, Chief Investment Officer

UK equities had a solid quarter, gaining 6.1%. The outlook for the UK remains challenging however, owing to inflation continuing to prove sticky and weakened business and consumer sentiment following the first Labour budget. The Office for Budget Responsibility (OBR) adjusted their 2025 growth forecasts down to 1% from 2%. With this backdrop, Chancellor Rachel Reeves delivered her Spring Statement, which included welfare cuts, departmental savings and increased defence spending.

Asian equities meanwhile were buoyed over enthusiasm surrounding DeepSeek, underscoring the valuation differences across global technological firms as China and India ramp up their AI capabilities. The more technology-focused Hang Seng Index rose 16.1% in the quarter, but the Shanghai Composite fell 0.2% as tariff concerns weighed on the market. Meanwhile in Japan, the Nikkei dropped 9.9%, partly due to the strengthening yen.

A fork in the road for central banks

The divergence among central banks' interest rate cutting regimes picked up steam in the first quarter. The Federal Reserve (Fed) held interest rates steady at their first two meetings of the year, with Chairman

¹ Deutsche Bank, Bloomberg



Fixed income

Jerome Powell highlighting the uncertain outlook. Powell acknowledged concerns about tariffs, but said he expects tariff-driven inflation will likely be “transitory”. His comments helped lift stocks but the outlook remains murky given the uncertainty.

The Bank of England (BoE) meanwhile lowered rates in February but held them steady in March, as the UK faces a lack of clarity over global trade and inflation. The European Central Bank (ECB) began the year by lowering interest rates, in line with market expectations which had forecasted the ECB would cut interest rates at every meeting until June. But the ECB’s future path is less certain, with US trade policies and fiscal stimulus complicating the central bank’s future decisions. Some ECB members have said it should consider holding rates steady as tariffs could push inflation higher and dampen economic growth. The Bank of Japan (BoJ), which is embarking on a rate-hiking cycle, delivered another hike in January bringing interest rates to 0.50%. The BoJ signalled more hikes ahead given elevated wage pressures.

Conclusion

The first quarter of 2025 was marked by heightened geopolitical tensions, volatile markets and a

shifting global landscape. Trump’s sweeping tariffs have escalated the threat of trade wars, which have raised fears of inflation and a global slowdown. Central banks globally face tough decisions as they balance inflation risks with economic growth concerns. We are hopeful that the recently announced trade tariffs are a tool to get countries to the negotiating table. On the bright side, the shift in sentiment in Europe is remarkable. European stocks have been out of favour with investors for a long time and the shifting fiscal policy combined with fading US dominance have driven a reappraisal of the region.

Since the end of the quarter, we have witnessed more volatility globally as Trump’s tariffs have escalated following “Liberation Day”. We will aim to keep you informed as developments unfold, and next quarter, will provide a detailed update on the impact of these tariffs on markets globally.

Volatility and uncertainty will likely continue. As always, we will monitor the geopolitical risks and evaluate how they affect asset classes and our underlying companies. Ultimately, we look for companies that are well positioned to withstand political turbulence and compound earnings over time.

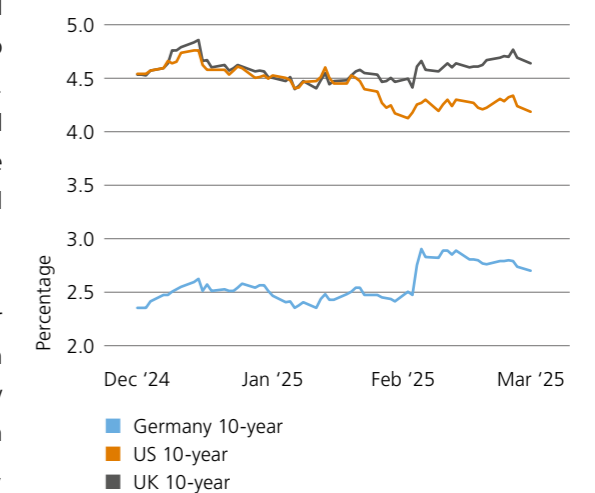
Investor expectations have experienced a material recalibration just three months into Trump’s second term. Deregulation and tax cuts took a step back to a much more aggressive approach towards tariffs. This led to a loss of confidence for businesses and households, resulting in investors re-assessing the outlook for the US and consequently, the global economy.

The Fed opted to keep rates on hold over the quarter following cumulative cuts of 1% in 2024. Growth forecasts coming into the year had the US economy operating around the 2% trend level, but inflation showed signs of being stickier. Given this backdrop, investor expectations coalesced around one or two quarter-point rate cuts for 2025. However, the subsequent ratcheting of tariffs resulted in additional rate cuts being priced in, as the hit to demand was seen to elicit a response from the Fed. During their last meeting in March, they revised the growth forecast to 1.7% from 2.1%, while increasing the core inflation assumption to 2.8% from 2.5%.² Chairman Powell opted to describe tariff effects as likely being “transitory”, a term that has haunted the Fed since the pandemic. At that point, they saw inflation as a one-off shock.

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Just after the quarter ended, the calculus changed. The so-called “Liberation Day” saw the level of tariffs move towards the highest rates in a century.

Jeremy Sterngold, Deputy CIO and Head of Fixed Income

Bunds, treasuries and gilt yields Q1 2025



Source: Bloomberg

However, just after the quarter ended, the calculus changed. The so-called “Liberation Day” saw the level of tariffs move towards the highest rates in a century. The effects of tariffs and whether they remain at these levels, has increased uncertainty materially and raised the risk of a recession.

Change in the geopolitical norm

Earlier in the quarter, President Trump tried to mediate ongoing international conflicts. This initially led to a short-term ceasefire in the Middle East, although this has since fallen through. He also pushed for ending hostilities between Russia and Ukraine. His approach was to apply pressure on Ukraine by withholding arms and military intelligence. A subsequent scheduled meeting between Presidents Trump and Zelensky, which was planned to include the potential signing of a materials deal, led to a public spat, resulting in worsening ties between the US and

² Federal Reserve: www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250319.pdf

Equities

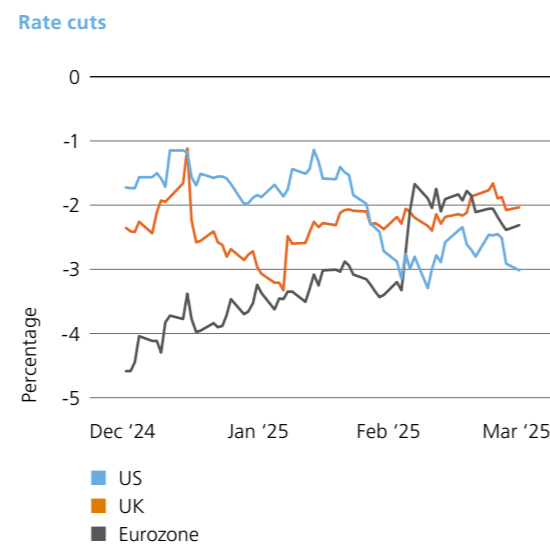
Ukraine. This galvanised European leaders into action with pledges across the continent to boost defence spending. This happened amidst a German election where the more traditional parties fought off the far right by a slim margin.

Amid growing concerns surrounding NATO's long-term unity, Germany saw its most significant pivot since World War II. The debt brake, which limited Germany's annual borrowing to 0.35% of GDP and has long hampered German growth but has resulted in the lowest debt levels among G7 nations, has been lifted to support infrastructure and military expenditure. This could result in an effective stimulus of circa EUR 1 trillion or 20% of GDP. The euro strengthened on the back of the news, while looser fiscal policy sent 10-year German bund yields 0.3% higher to 2.8% on 5 March, the largest daily jump since German reunification in 1990.³ However, after the quarter-end, German bund yields fell as investors sought safe haven assets outside of the US.

Lower rates but an uncertain future

The ECB lowered rates to 2.5% at their March meeting as expected. As inflation has moved closer to the target, this has given the ECB some leeway to cut rates further but the future path is more challenging. They are facing the counteracting forces of increased fiscal loosening on the one hand, but growth concerns stemming from tariff uncertainty on the other, ultimately muddying the outlook.

The BoE lowered rates to 4.5% in February, but held them steady at their March meeting. The Monetary Policy Committee (MPC) members voted 8-to-1 to keep rates unchanged. This was widely expected given the impending Spring Statement which had the potential to change the fiscal picture. Investors' con-



Source: Bloomberg

fidence in the UK has fallen over the quarter given its fiscal position and softer growth outlook. The headroom factored in by tax increases announced during the Autumn Statement was more than eroded by higher bond yields. This resulted in further cuts to spending but the uncertain outlook means investors are not convinced that the UK will turn a corner amid elevated gilt supply. Meanwhile, the BoE is expected to undertake a gradual easing cycle with two or three quarter-point rate cuts priced in for 2025.

Solid demand for corporate bonds

With tight spreads coming into the year and an uncertain outlook, companies flooded the market to refinance their looming debt maturities. Given historically attractive yields, the issuance was met with solid demand. However, towards the end of the quarter, we saw additional compensation demanded for corporate debt increase over rising economic concerns.

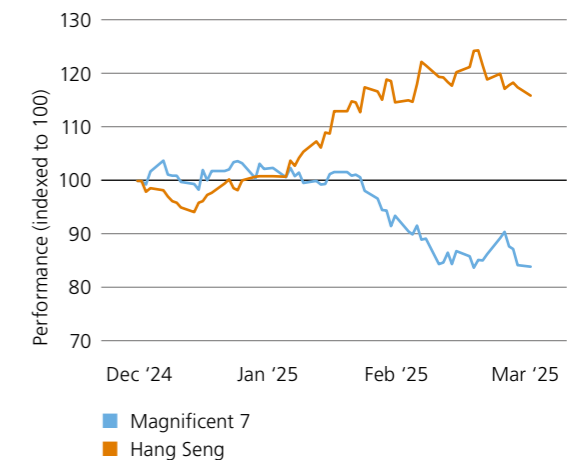
International equities

While 2024 saw every quarter post positive returns for many equity markets, led by the US, it has been a very different start to 2025. The so-called Trump bump post his re-election in November has reversed as investors, unnerved by uncertainty caused by US government policy, turned away from US assets and towards European equities, which have been overlooked for years. Comments from the Trump administration have signalled that Pax-Americana—also known as the period of US-led peace, international order and stability in the western hemisphere post-World War II—is over. Europe will now focus on its own long-term defence arrangements without the US. This sent European defence stocks higher.

German tank manufacturer Rheinmetall more than doubled over the quarter, as the outgoing German parliament voted to amend the constitution to enable a huge increase in defence spending. This drove up the share prices of German domestic names, with Commerzbank rising 33%, utility E.ON 24% and Deutsche Telekom and Post both up more than 15%. By the end of the quarter, the German DAX index rose 11%.

Hong Kong fared even better than Germany, with the Hang Seng index rising 16% in a marked contrast to flat mainland Chinese indices. Comments on trade and tariffs held back China, while China's AI-related stocks continued to benefit from the DeepSeek moment earlier in the quarter. Internet and technology behemoths Alibaba and Tencent rose 55% and 19% respectively.

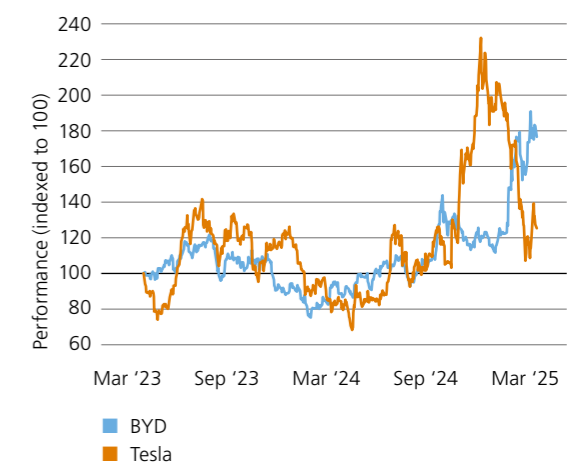
Magnificent Seven vs Hang Seng Index Q1 2025



Source: Bloomberg

Notably, the difference between Chinese car manufacturer BYD and Tesla over the quarter was stark. BYD rose 47% while Tesla fell 36%, with the former overtaking the latter to become the world's largest electric car producer. Even after those moves, BYD's USD 148 billion market cap is still a fraction of Tesla's USD 860 billion (at the time of writing).

BYD vs Tesla over 2 years



Source: Bloomberg

³ Deutsche Bank



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After a meteoric 2024 when it seemed AI could do no wrong, near-monopoly AI chip supplier Nvidia fell -20% over the quarter, while another member of the AI value chain, Broadcom, dropped -28%. Indeed, the Magnificent 7 stocks lost quite a bit of lustre during Q1, as Alphabet (Google) fell -18%, Amazon -13% and Apple and Microsoft both -11%. Meta was the only one of the seven to escape the fallout with just a -1% fall. Japan was no safe haven either as the broad Topix index fell over 3%, with tariffs weighing on semiconductor equipment makers Disco (-30%), Advantest (-30%) and Tokyo Electron (-15%). Meanwhile, automakers Toyota, Honda, Nissan and Mitsubishi, which export a lot of their most profitable cars to the US, all declined by -10% or more.

As one might expect, healthcare and utilities sectors were amongst the few sectors to see positive returns, as markets anticipate these will be relatively immune to tariffs.

All told, the S&P 500 fell -4% in the first quarter and the tech-heavy Nasdaq -8%. The volatility looks set to continue after the announcement of widespread and deep tariffs following the end of the quarter.

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The so-called Trump bump post his re-election has reversed as investors, unnerved by uncertainty caused by US government policy, turned away from US assets and towards European equities.

Russell Harrop, Head of Equities

UK equities

Over the first three months of the year, the FTSE 100 index rose 6.1%. Conversely, the FTSE 250 mid-cap index fell -5%. We have written about the virtues of large versus medium-sized companies for some time, but given the recent dichotomy in performance, are the valuations of the more domestically focused mid-cap equities compelling enough to offset the consumer outlook in the UK?

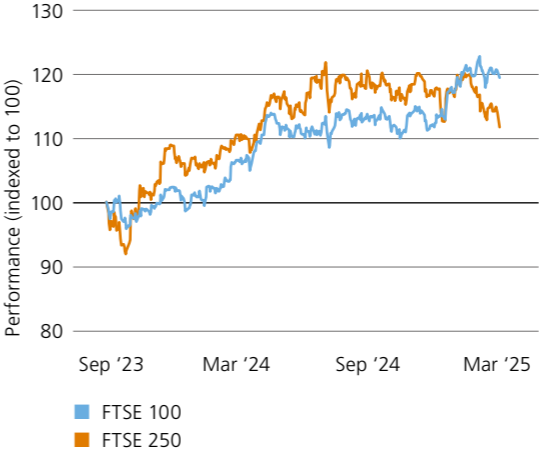
rate of income tax. Combined with sticky inflation (which has translated to lower real incomes); the lagged effects of past interest rate hikes (which has raised mortgage costs); and job uncertainty stemming from weak business confidence, the prospects of a strong recovery in consumption over the rest of 2025 seems remote.

Some of these factors help explain recent profit warnings and downgrades from builders' merchants Travis Perkins and Kingfisher, the names behind the B&Q and Screwfix chains. Defence company QinetiQ also issued a profit warning in advance of its full-year results due to delays in receiving short-cycle contracts. On the flipside, there have been several positive updates since the start of the year from life insurance groups Legal & General, Phoenix and Prudential, and the non-life general insurance group Aviva. A sub-theme we saw in those results was 'self-help', with the businesses benefiting from recent efficiency improvements. Some of these improvements have stemmed from strategic decisions, but new technology is also playing a role, and when speaking about these developments in AI, Prudential's CEO stated:

“AI is bringing its own set of opportunities to the insurance sector in the way customers and agents interact. It will also have material implications for health businesses and for policy underwriting, servicing and claims cost management.”

Strategic change was another key feature in updates from the UK's oil majors BP and Shell during the quarter. BP's new CEO has been under pressure from activist investors, and his decision to veer away from

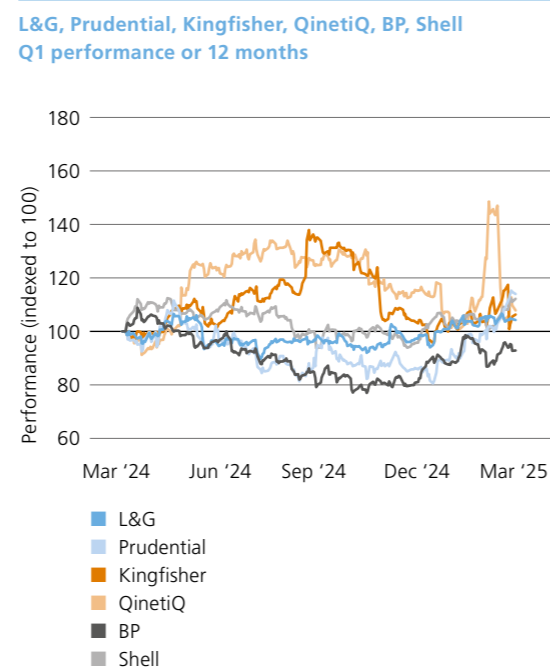
FTSE 100 vs. FTSE 250 over 18 months



Source: Bloomberg

Since her appointment as Chancellor of the Exchequer, Rachel Reeves has been walking a fiscal tightrope. Only time will tell if this high-wire act can succeed but given the precarious state of the nation's finances, there are widespread fears that the books will only be balanced with an increase in the headline

investments in renewable power in favour of more traditional oil and gas development led some commentators to suggest that BP was going to be re-branded as 'Big Pivot'. Shell never embraced renewable energy investment to the same extent, but it has also placed more focus on its traditional strengths and in a late March update, reiterated its focus on generating more cash flow for its shareholders and distributing them via dividends and share buybacks. There are merits to remaining diversified across sectors and it is important to recognise the strength of the investment case will vary from stock to stock. We therefore continue to advocate a selective approach within the FTSE 100.



Source: Bloomberg

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Only time will tell if Chancellor Reeves can succeed, but given the precarious state of the nation's finances, there are widespread fears that the books will only be balanced with an increase in the headline rate of income tax.

James Follows, Head of UK Equities

Key market data

Key market data (as at 31 March 2025)

| Asset class | Level | 1m % | 3m % | 6m % | 1y % | 3y % | 5y % | YTD % |
|--|---------|-------|--------|-------|--------|--------|--------|--------|
| Equity indices (total return) * | | | | | | | | |
| FTSE All-Share (GBP) | 4624 | -2.75 | 3.49 | 2.50 | 6.58 | 10.41 | 48.79 | 3.49 |
| S&P 500 (USD) | 5612 | -5.75 | -4.59 | -2.61 | 6.80 | 23.87 | 117.13 | -4.59 |
| Euro Stoxx 50 (EUR) | 5248 | -3.94 | 7.20 | 4.96 | 3.25 | 34.49 | 88.32 | 7.20 |
| Nikkei 225 (JPY) | 35618 | -4.14 | -10.72 | -6.07 | -11.77 | 28.02 | 88.28 | -10.72 |
| MSCI World (USD) | 2850 | -4.96 | -2.57 | -0.60 | 7.50 | 29.46 | 119.84 | -2.57 |
| MSCI AC Asia Pacific ex Japan (USD) | 702 | -0.63 | 1.24 | -2.52 | 12.47 | 16.82 | 59.48 | 1.24 |
| MSCI Emerging Markets (USD) | 69484 | 0.34 | 2.73 | -1.62 | 12.01 | 16.33 | 61.49 | 2.73 |
| 10 year bond yields ** | | | | | | | | |
| UK | 4.67 | 0.18 | 0.11 | 0.68 | 0.74 | 3.03 | 4.34 | 0.11 |
| US | 4.21 | 0.02 | -0.36 | 0.42 | 0.01 | 1.89 | 3.53 | -0.36 |
| Germany | 2.69 | 0.29 | 0.33 | 0.58 | 0.40 | 2.14 | 3.18 | 0.33 |
| Japan | 1.52 | 0.15 | 0.43 | 0.66 | 0.81 | 1.30 | 1.49 | 0.43 |
| Commodities (USD) | | | | | | | | |
| Gold | 3122.80 | 10.08 | 18.77 | 18.46 | 40.83 | 60.21 | 97.22 | 18.77 |
| Oil | 74.74 | 2.13 | 0.13 | 4.14 | -14.56 | -30.74 | 228.67 | 0.13 |
| Currency | | | | | | | | |
| GBP-USD | 1.29 | 2.51 | 3.06 | -3.77 | 2.18 | -1.97 | 4.10 | 3.06 |
| GBP-EUR | 1.19 | -1.31 | -1.20 | -0.58 | 2.16 | 0.98 | 5.74 | -1.20 |
| EUR-USD | 1.08 | 3.87 | 4.32 | -3.21 | 0.02 | -2.92 | -1.55 | 4.32 |
| USD-JPY | 149.54 | -0.77 | -4.85 | 4.54 | -1.19 | 23.20 | 38.52 | -4.85 |

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.

** Displayed as absolute changes in yields, rather than percentages.

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Investor expectations have recalibrated just three months into Trump’s second term, leading to re-assessments of the outlook for the US and consequently, the global economy.

Jeremy Sterngold, Deputy CIO

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