CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY

7 APRIL 2025

In recent days, we have seen global equity markets fall dramatically following President Trump's announcement of tariffs on trading partners around the world. In our March commentary, we noted that the uncertainty surrounding the imposition/raising of trade tariffs was undermining previously buoyant markets. It would seem that the reality of these tariffs – ranging from 10% to 46% - has hit equity market confidence by a far greater degree than anticipated. There was also a 25% tariff imposed on all auto imports globally. China retaliated by announcing tariffs on US goods of 34% which sent markets even lower as the potential for a full blown trade war appears more likely.

As we write, President Trump supported by the Treasury Secretary, Scott Bessent, has not softened his approach. Whilst equity markets around the world move into correction territory and a global recession appears more likely, he signalled that he would not back down from his aggressive stance. He believes that strong medicine is needed to fix the deficits that the US is running with other trading partners, including China and the European Union. The President is now waiting to see if other countries step forward to the negotiating table and whether revised trade deals are credible. President Trump is likely to want to do a deal.

Given the extent of global supply chains, it may take some months to see the impact of the US tariffs on both international companies and US companies. The rise of globalisation in recent decades has led to manufacturing processes using components sourced from across the world. The uncertainty surrounding the impact on prices, demand, investment plans and hiring are likely to have a detrimental effect on the US economy, which has proved so resilient in recent years, and also on the global economy. The chances of a US recession have increased sharply in recent days as a result of the US tariff policy.

As US economic growth is likely to slow, the market is now pricing in more interest rates cuts for 2025 than previously expected –four or five 0.25% cuts– to stimulate growth. Jerome Powell, Chair of the Fed, said last Friday that the Fed was in no hurry to cut rates. Tariffs are very likely to stoke inflation so the Fed is faced with a possible recession and above target inflation – stagflation. However, this increased level of inflation is likely to be transitory given that higher prices fall out of inflation measures after a year. The Fed will perhaps now have to weigh up its priority – supporting growth or combatting inflation if there are no changes to US trade policy.

As was seen over other global financial crises including the Great Financial Crisis (2007/8) and Covid 19 pandemic (2020), global financial markets and governments can adapt to changing economic conditions over time. Governments around the world may now look to support their economies by taking actions to lessen the impact of these tariffs such as tax cuts, deregulation and/or increased spending.

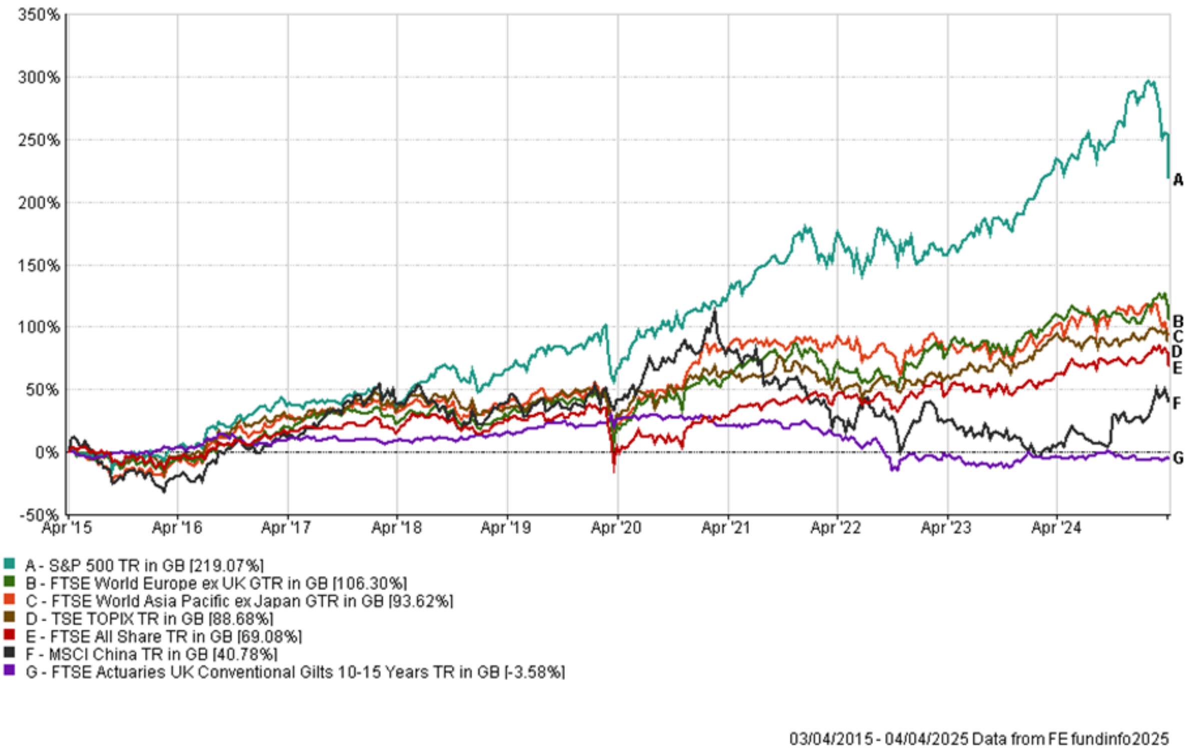
Equity investors have seen the values of their portfolios drop sharply in recent days as uncertainty prevails in markets about the impact of the newly imposed US trade tariffs. Equity prices have been falling irrespective of individual companies' export trade with the US and much current selling will be regarded as knee-jerk with the benefit of hindsight. Buyers will return, because despite the current difficulty in pricing certain assets, there will be plenty of listed companies around the world that continue to grow their profits. There is no point in selling to embed current market losses - hold onto the assets and await a return to orderly pricing.

Speculative portfolios have been hardest hit given that their equity exposure is almost 100%. As the risk profile reduces in portfolios, losses have been mitigated by greater exposure to lower risk assets including cash, gilts and high quality corporate bonds which have offered some portfolio protection against equity market falls. Our portfolios are diversified by region and by asset class as the risk profile reduces. We have continued to hold UK equity funds and those funds with greater exposure to large companies should provide some defence against inflation risk due to their large energy weighting.

Ultimately, our portfolios are positioned to achieve good longer term returns so we continue to invest across a range of funds in proportions which reflect the objectives and risk tolerance of clients. The charts below show the importance of investing over a longer term time horizon through various investment headwinds and cycles.

We will continue to keep you updated on investment market developments and our views during these uncertain times.

INVESTMENT MARKETS 10 YEAR STERLING TOTAL RETURNS



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If you have any queries please do not hesitate to contact your Cartlidge Morland consultant.

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