THORNTONS INVESTMENTS

Markets Review - to end February 2025.

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	0.9%	5.1%	3.9%	14.2%
Global Equities	-2.3%	0.7%	7.9%	13.7%
UK Gilts	0.8%	-0.8%	-3.4%	-2.1%
UK Property	0.6%	1.7%	2.8%	4.8%
Gold	0.1%	8.2%	18.8%	40.0%
Commodities	-2.0%	7.3%	16.3%	15.8%
Sterling	1.4%	0.4%	0.1%	2.6%

Returns to 28th February 2025. Source: Refinitiv

Market Overview

‘Cry havoc and let slip the dogs of war.’ In starting with a Shakesperian quote, perhaps it is apt to reference the bible and say it is now just over 40 days and 40 nights since President Trump’s inauguration and the world feels very different. In keeping with the mantra of his Silicon Valley tech backers, ‘move fast and break things’, we have seen a flurry of executive orders which have left many bewildered. Executive control is most powerful on foreign policy, which is why we have seen early intervention in Gaza and Ukraine. This has given the rest of the West a rude awakening that ‘Pax Americana’ is not the given it has been since the Second World War.

Financial markets are trying to grapple with the consequences of this. Hopes that some sort of resolution over Ukraine might be forthcoming and the expected formation of a centrist government in Germany, made European stocks the best performers over February. Not surprisingly defence related shares have seen the greatest moves. What is vexing markets most, though, is the introduction of tariffs and tit-for-tat retaliatory responses being implemented. That would lead to higher prices and a nasty drag on growth. The risk of escalation has already leaked into currency moves, bonds and gold; where government bonds and gold are sought for safety in risky times.

Interestingly, so far, all of this has not helped US stock markets, which ended largely unchanged for the year at the end of February. In large part this was due to weakness in previously all conquering tech stocks. Nvidia, the poster stock for AI, produced stunning results for 2024, but still fell over concern about vulnerability to its growth prospects. Additionally US consumer confidence appears to have taken a knock from uncertainty over US policy, or trying to predict the unpredictable.

In contrast to all this UK stock markets have had a solid start to the year. Helped by supportive full year results, particularly from banks, strong share buyback programmes and still cheap valuations, the UK has been one of the better performing markets. Long may it continue!

Oil remains in the low $70s per barrel on weak economic growth outlooks and tariff threats, whilst industrial metal prices remain depressed for similar reasons. New mine projects in general are few and far between, so any pickup in demand could easily see prices recover. The surge in European gas prices, that will see our utility prices rise in April, retreated sharply in February on the back of hopes that some sort of deal could be brokered between Russia and Ukraine. Gold continues to see strong demand from central banks, particularly in Asia, offsetting the recent headwinds of a strong dollar and higher bond yields.

The extended shipping times caused by attacks in the Red Sea notwithstanding, transport availability, as well as material and component supply are mostly back to normal. The worry is that tariffs will again disrupt the global supply chain and lead to shortages of some critical components. China has become the dominant supplier in a number of crucial areas, such as rare earth metals where they control ~90% of global processed supply and have already started to restrict shipments.

A global interest rate cutting cycle (bar Japan) is still in place. Although there are different views on the pace and extent of cuts, they will help small companies and households with mortgages, albeit with delays reflecting the large use of fixed rate mortgages. The yields on long bonds, however, remain elevated, reflecting the growing levels of government debt across the western world, with little sign of seriously tackling budget deficits. This continues to act as a headwind against long term investment financing.

A number of property funds merged or were wound up in 2024 due to difficulties in offering sufficient liquidity. However, rental payments remain largely up-to-date, whilst repricing of properties settles down. Higher bond yields have reduced valuations but many REITs still trade at discounts to assessed value, that are attracting interest. Listed infrastructure trusts also trade on wide discounts, renewable energy focused ones still face uncertainty on energy prices, but new regulations should provide more certainty on long term power pricing. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

The election indigestion that beset 2024, did little to settle political turmoil, despite clear outcomes in the UK and US. The one clear shift was a continued swing towards nationalist politics. With an exceptionally high turnout in the recent federal election, Germany looks like creating a right of centre government that precludes more extreme elements. In the US the Trump administration has unleashed a raft of executive orders, but many of these first require an examination before policy implementation.

Despite flirting with technical recessions (two successive quarters of economic contraction) in Europe a full-on recession has so far been avoided; the fabled 'soft-landing'. However, supporting economies through Covid and the energy price spike have a real cost and take away from other economic activity; meanwhile the tricky issue of how to fund greater levels of defence spending will need to be addressed. Softness is now beginning to emerge in the employment market, although real wages are growing after a long period of erosion and there is a significant cohort of savers who actually benefit from higher interest rates.

The early company results from the final quarter of 2024 have in general held up reasonably well, with aggregate reported profits moving ahead, however, individually there has been a wide dispersion, with companies that disappoint often seeing a sharp drop in their share price. Consumers have been showing greater price sensitivity and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

The recent ceasefire agreement in Gaza has come as a welcome relief and hopefully it will become embedded and continue to work through the various agreed stages. The situation in Ukraine remains unresolved and Trump's tariffs may further inflame East vs West tensions. This background necessitates well-diversified portfolios and a positive change in sentiment can result in some sharp market rallies. It is important to remain calm and keep the focus on long-term winners and survivors.

Market Outlook

Equities	A strong start to 2025 has had two sticks thrown into the spokes of expectations. Trump has quickly opened his toolbox and pulled out tariffs as a negotiation tool. This situation is very fluid as deferrals/withdrawals have swiftly followed after engagement with the country he was due to impose them on. Additionally China, through DeepSeek, have claimed AI equivalence to the best of the West, but with dramatically less resource. Both undermine assumptions of growth and profitability, but not ruin them; expect more volatility.
Fixed Interest	Enthusiasm for interest rate cuts has cooled in the US with the election of President Trump and a Republican Congress, whilst the economic funk in Europe is pressuring the ECB to cut rates. The Bank of England is still likely to cut further this year, but is likely to wait for inflation to improve later in the year. Although government is sought as a safe investment in risky times, debt levels are high and rising; yield curves could well steepen (short term interest rates lower and long term bond yields remaining high).
Commercial Property	In contrast to housing, commercial property values have come down significantly, particularly office and retail values. With working and shopping patterns settling into a new equilibrium, there is still some 'price discovery' ongoing and discounts on property trusts reflect the uncertainty. However, there has been little new build in recent years and demand is continuing to hold up. Debt costs are still a headwind but, selectively, there are some attractions.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, some with attractive inflation linked contracts, and growth tied to improved connectivity and de-carbonising economies; although build costs have risen. High debt costs, that weighed on the valuations of private equity and infrastructure trusts, remain an issue but de-gearing is taking place. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly.
Cash	The investment return on cash and cash like instruments has peaked and, whilst still attractive, should continue to decline this year.

Thorntons Investments **4th March 2025**

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