Markets Review - to end April 2025.

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	-0.6%	-2.5%	3.7%	3.7%
Global Equities	-2.5%	-11.3%	-3.8%	3.3%
UK Gilts	1.9%	1.8%	-0.1%	0.0%
UK Property	0.6%	1.7%	2.8%	4.8%
Gold	2.3%	9.5%	16.2%	35.0%
Commodities	-9.5%	-11.0%	1.5%	-2.6%
Sterling	0.7%	2.4%	1.8%	3.4%

Returns to 30th April 2025. Source: Refinitiv

Market Overview

April felt like both the longest and shortest month ever experienced in financial markets. Liberation Day, as President Trump coined it, proved to be much more extensive and punitive in tariff proposals than almost anyone predicted. The shock and potential harm to economic activity saw nearly all markets fall in unison, stock market, bond market and the US dollar. Gold was the only clear winner and at one stage, surged to a new record high of $3,500 per oz. The robust response from China, resulting in a tit-for-tat tariff escalation, and President Trump questioning the position of the independent Governor of the Federal Reserve Bank, further unsettled markets, especially the bond market.

This was enough to force a partial climbdown, and the imposition of most 'reciprocal' tariffs was quickly deferred for 90 days. Markets subsequently recovered some of their poise, barring the notable weakness of the dollar, and by the end of the month stock market damage was limited. In a sign that Liberation Day may yet have a negative real world impact, commodity markets were notably weaker, with oil dropping 15%, over concerns of weaker demand at a time OPEC+ is looking to increase supply. Similarly bond markets rallied strongly (yields fell) over concerns about economic weakness, also helped by a subsequent backing of the Fed by President Trump.

First quarter company earnings have started to be issued and although they are generally reporting solid results, there is real uncertainty as to how the rest of the year will pan out. Automotive companies have found life difficult, given they were first in the firing line of tariff imposition, and have pulled forecasts. Economic data has also held up quite well from the first quarter, but 'soft' economic data, such as sentiment and confidence surveys, have weakened considerably.

A recent deal struck between Ukraine and the US over resource sharing has further eased tension, but uncertainty remains heightened as we await the real meat of any trade agreement deals to be struck with the US, particularly with China. The UK's position looks relatively advantaged amongst all this uncertainty and the low valuations of UK companies is not going unnoticed.

The price of oil has now dropped close to $60 per barrel on weak economic growth outlooks and by Saudi plans to increase production. Industrial metal prices slumped on the introduction of US tariffs, only partially recovering on their deferral. The surge in European gas prices, that have bumped up our energy utility prices this month, have retreated sharply with the end of winter and on vague hopes of some sort of deal between Russia and Ukraine. Gold surged on strong retail demand, driven by tariff uncertainty, but subsequently fell back from its record high as tensions eased and central banks refrained from buying.

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' finances and households with mortgages, albeit with delays reflecting the large use of fixed rate mortgages. The yields on long bonds have declined, on economic growth concerns, but reman sensitive to the growing levels of government debt across the western world. Along with tariff uncertainty, this continues to act as a headwind against long term investment decision taking.

Property fund mergers in 2024 have been followed by a number of takeovers for property REITs as their large discounts to underlying asset value has attracted international interest. With rental payments remaining largely up-to-date and vacancy rates at low levels, REITs still look to offer some attractions, if share price discounts remain. 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, with a number of surprise elections called for this year already. The clear shift towards nationalist politics was countered, to an extent, in the recent German election, creating a right of centre government that has enabled a large fiscal spending package. In the US the Trump administration has unleashed a raft of executive orders, but there has been some judicial pushback and many require Congressional 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 a rise in household savings means consumer finances are generally quite healthy.

The company results from the first quarter of 2025 have in general held up reasonably well, with aggregate reported profits moving ahead, however, there is considerable uncertainty over prospects for the rest of the year due to US tariffs. AI continues to be a strong structural growth driver. 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 ceasefire agreement in Gaza sadly broke down all too quickly, but a US push to strike a nuclear deal with Iran might offer a different route to de-escalate Middle East conflict. The situation in Ukraine remains unresolved, despite the agreement for preferential US access to new resource developments. This background necessitates well-diversified portfolios and, as we saw last month, 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.

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Market Outlook

Equities	Stock markets were whipsawed in April, particularly in the USA, as 'Liberation Day' introduced a barrage of US tariffs, escalated tit-for-tat tariffs with China and then a 90 day deferral of 'reciprocal' tariffs. After a rapid row-back on some Trump policies/pronouncements, markets ended on a slightly calmer note. However, the uncertainty created will almost certainly have real world effects and although early first quarter company results have been reassuring, many companies have expressed caution and have pulled full year forecasts.
Fixed Interest	Enthusiasm for interest rate cuts cooled in the US with the economic uncertainty and inflationary potential created by tariff proposals, whilst President Trump's verbal attack on the Fed Governor, Jay Powell, spooked bond markets. The ECB was able to cut rates, as inflationary pressures fade and the Bank of England is likely to cut this month, as despite April's inflation read likely to pop on utility bills, council tax rises and National Insurance hikes, the outlook is much more benign later in the year.
Commercial Property	There has been a marked pick-up in M&A activity in property trusts (REITs), as market stabilisation and steep discounts to quoted asset values have attracted takeover offers. This has probably been aided by a growing consensus that debt costs (one of the key factors in valuing property) are set to ease. Supply and demand have settled down and with limited new build, and higher energy standards required, the market looks to be well underpinned.
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 currently stable, are likely to decline this year.

Thorntons Investments **2nd May 2025**