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ECONOMIC REVIEW

Inflation concerns resurfaced in the US during the first quarter. The Federal Reserve left interest rates unchanged and signalled plans for a slower pace of rate cuts.

Riskier assets performed poorly, and the US stock market had its worst quarterly performance since the pandemic. Concerns included US tariffs and the risk of stagflation – slow economic growth and high unemployment, alongside rising inflation. Large technology companies were particularly weak. In contrast, European stock markets had the largest quarterly outperformance against the US S&P 500 in a decade. This was helped by a shift in fiscal policy, particularly in Germany, where government proposals enabled higher defence spending and infrastructure investment.

Investor moves into less risky assets supported government bonds, particularly in the US, although European government bonds were weaker. Inflation expectations and global uncertainty helped gold to its strongest first-quarter returns since the 1980s.

FUND REVIEW

EssilorLuxottica, the world's largest maker of lenses and frames, contributed positively to returns. The company's product innovation and collaboration on smart glasses boosted optimism.

Shares in Otis, the elevator manufacturer, rose after demand from China appeared to have bottomed. As around 80% of the company's profits come from servicing, Otis offers recurring revenue streams.

Shares in Microsoft fell. High capital spending and slow growth in the firm's cloud business were a cause for concern. Earnings beat expectations, but trade tensions made investors cautious.

Nvidia, a global leader in GPUs and chips used in AI applications, was hit by geopolitical and technology sector pressures. Concerns over potential US tariffs on Taiwan raised fears over the company's supply chain exposure. Investors were also cautious on Nvidia's pricing power in AI chips and the rollout of its next generation Blackwell chip.

FUND TRANSACTIONS

We started a position in Chipotle, the fast-food restaurant chain. Spending on dining out by Americans is growing quicker than spending on food consumed at home. Chipotle provides reliable service for this growing customer base with high quality, healthy food.

We took a holding in Ferrari. This is a high-quality company and we believe that the market does not fully appreciate Ferrari's long-term pricing power.

We reduced our exposure to healthcare by selling the position in Siemens Healthineers. The company remains the market leader in imaging and diagnostics machines. However, its customers face challenges, with hospitals consolidating and capital spending coming under pressure. We do not believe the current share price offers good value.

OUTLOOK

Global corporate earnings growth appears to be slowing. In the first quarter, equity markets in Europe and China benefited from the uncertainty caused by Donald Trump's trade policies, with investors looking to diversify at the expense of US markets. Core US inflation remains sticky, and with business and consumer confidence weakening, Make America Great Again policies could lead the US into a recession later in 2025. Global trade relations and regulations are likely to come under greater scrutiny.

We are taking an underweight view on equities, compared with our benchmark, on the expectation that companies could experience slower growth due to economic uncertainty. We are underweight corporate bonds and neutral government bonds as we feel they are currently not offering strong returns or adequate diversification. We aim to respond rapidly to a White House that is acting more aggressively and decisively than during Trump's first term. We have increased our holdings in gold as a defence against further market volatility.



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