



Investment Update Q1 2025

The first quarter of 2025 delivered a mix of optimism and caution for investors. Global markets entered the year on a strong footing, with European equities leading the charge after years of underperformance. UK equities also posted solid gains, with the MSCI UK up 6.5%, while US markets lagged behind, weighed down by political uncertainty and early signs of economic deceleration.

This regional divergence was driven in part by shifting fiscal strategies. In Europe, governments—particularly in Germany—moved away from austerity, committing to large-scale infrastructure and defence spending. Meanwhile, the US took a more conservative stance, proposing trade tariffs that rattled markets and raised concerns about future growth. The result was a notable rotation in global equity leadership, with investors favouring regions perceived to be on firmer economic footing.

One of the key market moving events of the quarter was the release of a generative Artificial Intelligence (AI) chatbot by Deepseek, a Chinese start-up company.

This new technology, known as the R1 model, quickly became a sensation. It's not just the technology that's impressive, but also its cost-effectiveness compared to competitors. This development caused a significant stir in the market, particularly among US chipmakers like Nvidia, which saw a sharp decline in their stock prices. Utilities also fell on the belief that AI advancements may be less energy intensive than previously thought.

In contrast bond markets provided a measure of stability during the quarter.

UK gilts delivered modest positive returns, supported by expectations of further interest rate cuts. That being said, both the Bank of England and the Federal Reserve (Fed) held rates steady at their March meetings, but diverging inflation pressures could lead to different paths ahead.

UK inflation is forecast to rise to 3.7% later this year, while US policymakers face the challenge of balancing growth concerns with persistent price pressures. The Fed has indicated that it's ready to adjust its policy as new data comes in, but for now, it seems committed to a careful, well-reasoned strategy that resists both political pressure and short-term market fluctuations. In short, the Fed has done a good job of convincing people that it wants to cut rates but seems in no hurry to do so.

Tariff turmoil

April brought a sharp reminder of how quickly sentiment can shift. The US administration's sweeping tariff announcements—dubbed “Liberation Day” by some—sent shockwaves through global markets. While the initial reaction was severe, with US stocks nearing bear market territory, a partial rollback of the tariffs helped markets recover much of their losses by month-end.

While the headlines may be dominated by tariffs and geopolitics, it's important to remember that markets are forward-looking. Much of the recent volatility reflects uncertainty rather than a

fundamental deterioration in economic conditions. In fact, many companies continue to report solid earnings, and employment data in the US remains resilient.

What have we been doing?

Our activity in the first quarter of 2025 was relatively modest and largely stock specific.

In Europe the long-held position in Janus Henderson European Selected Opportunities Fund has finally reached the end of its line. Too many manager changes in a short space have been unsettling and whilst returns have been profitable, we have a good reserve list of other choices and prefer to trust future returns to Fidelity.

Those clients investing in the Commodity sector will see that we have replaced their shares in the iShares Diversified Commodity Swap fund with a position in the J Safra Sarasin (JSS) Commodity Transition Enhanced Fund. The JSS fund uses a rule-based approach to invest in a broadly diversified mix of commodities (including carbon credits) with the aim of outperforming the Bloomberg Commodity Index. The fund rebalances against a target portfolio on a monthly basis in order to profit from typical commodity characteristics such as high volatility, low correlation and mean-reversion. We anticipate capturing improved returns at a lower cost.

We look forward to commenting on these trades and more in the individual portfolio commentaries we prepare, tailored to your

own accounts. If you would like any further information ahead of such time, please do get in touch and we will be delighted to talk you through our activities on your behalf.

Staying Connected

We are also pleased to share that our new client portal and mobile app are now live. These tools are designed to make it easier for you to track your investments and access important updates. If you haven't yet registered, please reach out to us.

As always, thank you for your continued trust in Radcliffe and Quilter Cheviot.

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