

GLOBAL OUTLOOK

April 2025

INTRODUCTION

This document shows the charts that we think are particularly useful to help us determine where we are in the economic cycle and what the outlook is for markets.

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SUMMARY OF OUR VIEWS

MACROECONOMIC BACKGROUND

The April 2nd introduction of tariffs on every country of 10% and of “reciprocal” tariffs on a wide range of countries that the US has a trade deficit with, has created a new world order. The 145% tariff on Chinese imports is also much higher than expected.

The policy making around this is chaotic. The idea that countries will try to do deals in the 90-day window before “reciprocal” tariffs come into force in early June is fine in principle but actually doing a deal will be a challenge. Trump wants to reduce bilateral trade deficits so he will want countries to buy more US goods. But that is very difficult to just suddenly do.

This is particularly true for US agriculture which has received a lot of venting by the Trump administration on the “unfairness” of the barriers to US exports thereof. But there are laws in the UK and Europe, for example, about the production of foodstuffs that make it illegal to import US beef from cattle that have been injected with growth hormones, or of chicken that has been treated with chlorine.

Of course the UK may choose to relax those rules in the interests of doing a deal but that could be very damaging to British farming.

As for China, it will be hurt by a significant reduction in its exports to the US. Although only representing 2.5% of Chinese GDP, at a time when domestic consumption is sluggish, a drop in export volumes will hurt the economy. Whether a deal can be done between the US and China remains to be seen.

So far the market has focused on the threat to global economic growth from the tariff policy. Expectations for inflation over the next five years have actually fallen since the tariff announcements. It will be critical to watch how those evolve in coming weeks as it is that which is allowing the market to expect the Federal Reserve to cut rates by 1% this year.

Meanwhile one other Trump policy goal is having success. Border crossings from Mexico dropped off a metaphorical cliff in February and March. In each of the last three years over 2 million people went into the US illegally via the southwest border, or over 175,000 per month on average. In February and March a total of only just over 11,000 came over in each of the two months. That annualises at 136,000 for the year.

That is a dramatic change in one of the dynamics of the US labour force, in particular the agriculture and construction industries. It is estimated that 40% of those working in agriculture are illegal and 20% in construction are too.

The drop in supply of new potential workers could lead to the need to increase wages in those industries. The two industries represent a little under 8% of the total US labour force. We shall be watching that closely as it could lead to a knock-on impact in other industries. An acceleration in wage inflation would be a negative for markets.

The main bit of good news is the contrarian signal from the poor readings on investor sentiment that have been evident in recent weeks. Equity investor sentiment is at levels that has historically been a good buying opportunity.

SUMMARY OF OUR VIEWS (CONTINUED)

There is also a lot of doom and gloom about the end of trust in US assets that could be a factor in the rise in bond yields and in the weakness of the dollar. Such a thing is rather difficult to quantify but the euro and yen have been stronger in recent weeks. It is unusual for US government bonds and the US dollar to be weak at a time when investors are seeking a “flight to safety”. Certainly any further back up in bond yields would likely get the Trump administration to pay attention, as it appeared to do when introducing the 90-day lag on “reciprocal” tariffs.

EQUITIES (NEUTRAL)

The MSCI All Country World Index fell 6.3% in March and is down 4.3% this year.

The announcement of widespread tariffs after the US market close on April 2nd added to what was already a bearish tone from equity markets. As we write this the US market is at the same level it finished the day after the tariff announcement, a level that represents a decline of 8.2% so far this year. The NASDAQ index is down 12.9% this year but is up nearly 10% from its low on April 8th.

Markets have been helped by the April 9th announcement of a 90-day delay in “reciprocal” tariffs on most US trading partners. But the outlook remains very uncertain.

As we enter earnings reporting season the potential for downgrades to the current consensus expectation of 11% earnings growth in the US is high. JP Morgan CEO Jamie Dimon speculated that zero growth was more likely when delivering JPM’s Q1 earnings results, which seems like a reasonable prediction.

For the rest of the world uncertainty is also likely to hurt. But the Euro area Stoxx 50 index is still up for the year as we write, as is the FTSE 100. Remarkably the Hong Kong market is also still up. Whether those gains will hold remains to be seen.

As earnings season unfolds it will likely provide some guidance to investors on the outlook. However it is very difficult for companies to make robust estimates about their future business when the policy making backdrop is this chaotic. It seems likely that volatility will remain elevated in the weeks ahead.

FIXED INCOME (NEUTRAL)

The overall gilt total return index returned -1.2% in March and is up 0.5% this year.

We still see value in government bonds. We also see them as an important diversifier.

Short dated sterling credit is also attractive with yields of 5.5% on offer for an investment grade portfolio of bonds maturing within the next 18 months.

SUMMARY OF OUR VIEWS (CONTINUED)

ALTERNATIVES (NEUTRAL)

We believe Alternatives have an important role to play in diversified portfolios.

Absolute Return strategies can give exposure to an uncorrelated stream of returns giving diversification benefits. This sector has struggled in recent years, but well-run funds have attractive volatility dampening characteristics.

Real Assets such as property (both physical and intellectual), infrastructure (including transportation), commodities (such as gold) and other investments underpinned by physical assets offer a combination of income and capital return that is attractive. Many of the assets that produce income have inflation-linked cashflows.

CASH (NEUTRAL)

Even though savings rates have risen, cash still loses purchasing power quickly in any period of high inflation.

PART 1
POLITICS, POLICY, BONDS & CURRENCIES



TRUMP 2.0 POLICIES CREATE UNCERTAINTY: TARIFFS

This chart shows the effective tariff rate on all US imports since 1891.

The latest iteration of Trump's tariff plans means that the average tariff rate is estimated by Bloomberg to be 24%. Although he has backtracked on some of the tariffs, the rate of 145% on imports from China means the overall average rate is the highest it has been for over a century.

In Fiscal 2023 the US raised \$82 billion from tariffs out of an overall tax take of \$2,916 billion. The potential revenue from the new level of tariffs could be as high as \$1 billion. But that presumes that behaviours do not change. The reality is that they will.

There is a 90-day pause in the so called "reciprocal" tariffs. But some other tariffs will be going ahead including the 10% base tariff on all imports. Section 232 tariffs on steel, aluminium and auto parts look likely to go ahead from May 3rd.

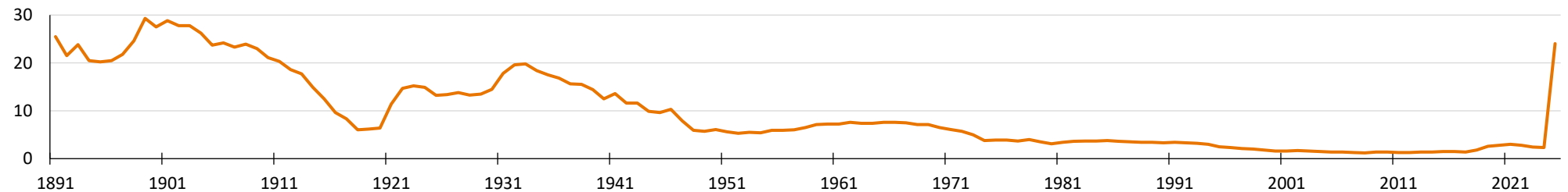
The question now will be whether deals can be done with individual countries. Japan, South Korea and India are mentioned.

They may be able to strike deals but the nature of those deals is difficult to predict. Reducing bilateral trade deficits will require countries to purchase more US goods but that will not be easy to do.

Much of the gripes from Trump are about foreign countries not buying US agricultural products. But there is no easy fix for that.

All this creates massive uncertainty and could have implications for inflationary expectations and geopolitical risks. Tariffs are a lose-lose policy and we have had plenty of evidence of that in the last two weeks.

US IMPORTS AVERAGE EFFECTIVE TARIFF %, 1891 – 2025 EST.



Source: https://www.usitc.gov/documents/dataweb/ave_table.pdf, Bloomberg, London & Capital Waverton. As at 15.04.25

TRUMP 2.0 POLICIES CREATE UNCERTAINTY: DOGE

The publicity generated by the Department of Government Efficiency. (DOGE) in the first weeks of Trump 2.0 has been extraordinary. Partly this is because of the media savvy of its leader, Elon Musk.

But it has created headlines for finding “waste” across the departments and agencies of the Federal government. And for giving employees cash if they resign. There have also been firings of workers in some Departments and Agencies.

The size of the task of restraining government spending though is enormous. The Federal government spent \$7.1 trillion in 2024 according to the National Accounts. That is \$7,100 billion.

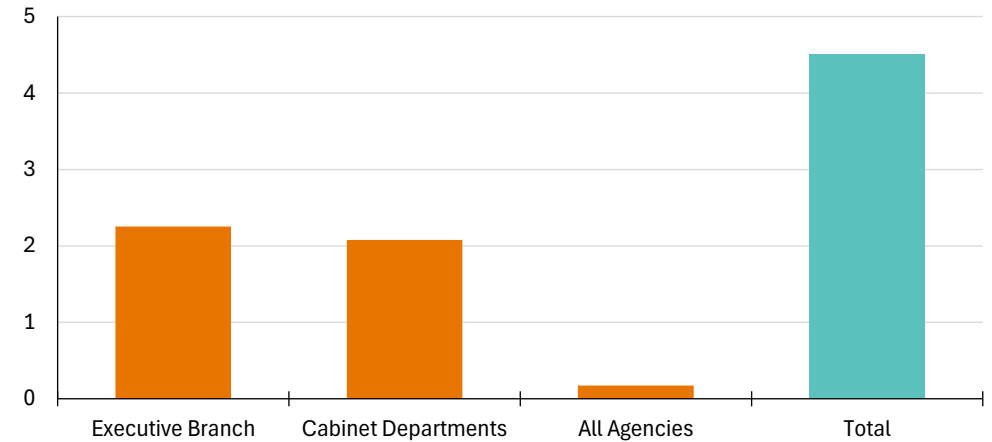
To put that in perspective, the 4.5 million Federal Government employees are paid a total of \$422.7 billion, an average salary of \$94,000 per annum. If Musk fired all of them, that would reduce government spending by just 6%.

This needs to be taken into consideration when Musk or Trump Press Secretary Karoline Leavitt wave a piece of paper around saying they have found an agency that is spending \$50 million on something they do not like.

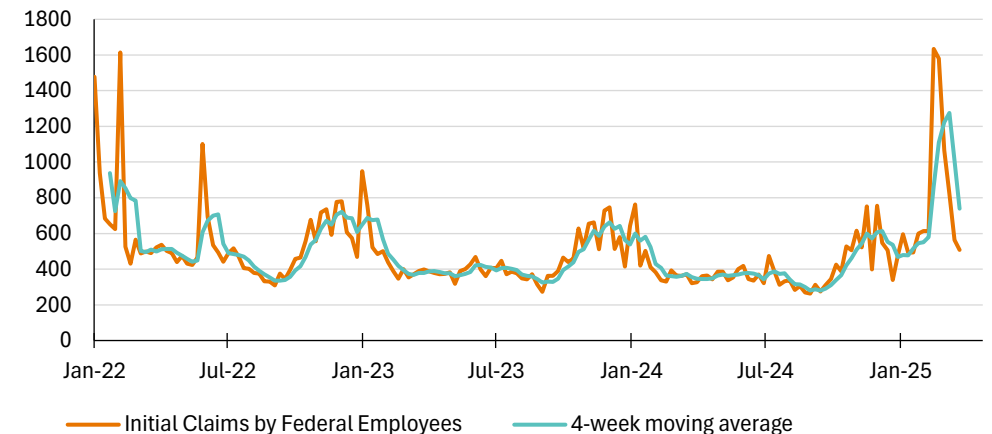
Musk claims so far to have saved \$155bn but it is difficult to know how accurate that figure is. One piece of hard data that is useful is looking at initial unemployment claims of Federal Employees (the bottom chart). It ticked up in February but has since come back down.

We remain sceptical about how much DOGE can do but it is another Trump policy that is creating a lot of uncertainty/chaos.

NUMBER OF FEDERAL GOVERNMENT EMPLOYEES (MILLIONS)



INITIAL UNEMPLOYMENT INSURANCE CLAIMS BY FEDERAL EMPLOYEES



Source: www.doge.gov, Department of Labor. London & Capital Waverton. As at 28.03.25

TRUMP 2.0 POLICIES CREATE UNCERTAINTY: IMMIGRATION & DEPORTATION

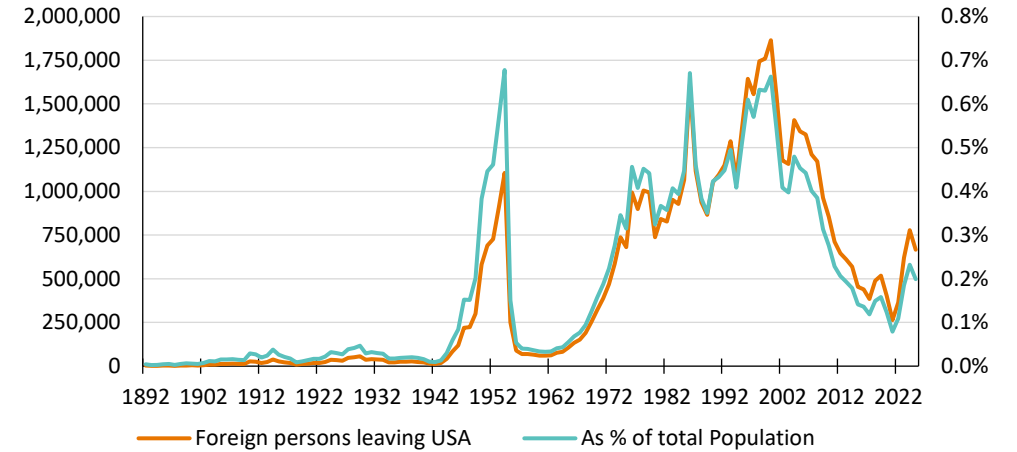
The top chart shows the number (LH scale) of inadmissible or deportable foreigners who have left the country each fiscal year back to 1892. The data is also shown as % of the US population (RH scale).

Trump is starting at a low base relative to history so may well be that he increases the number somewhat. But more people left by this measure in the Biden administration (2.0 million) than did in Trump 1.0 (1.8 million).

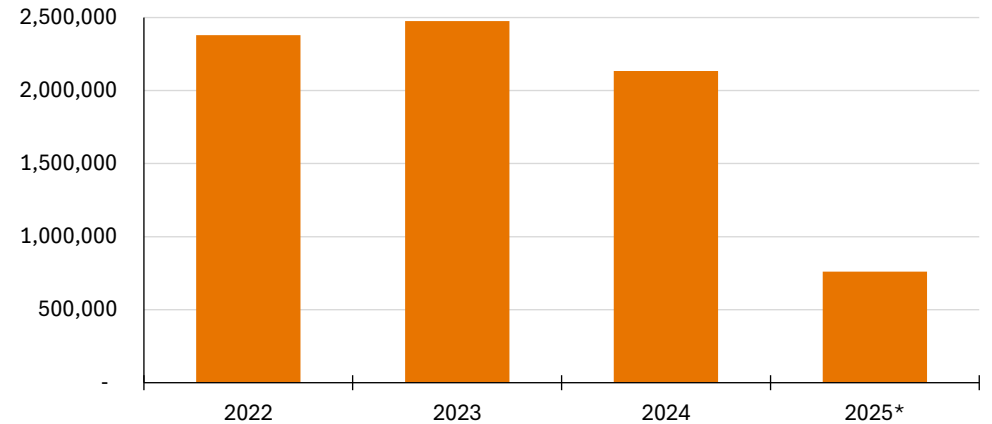
We can track the number of people removed monthly (last data is November 2024) so we can watch this closely. But it is possible that this is a classic "don't let the facts get in the way of a good story". One is sceptical this is going to impact wages, at least in the short term. If there is a material pick up, then it will impact industries such as construction and agriculture that have historically widely used cheap labour and have turned a blind eye to where people came from.

But one accepts that Trump does appear to be making some migrants think twice about crossing the border while this is getting so much publicity. The bottom chart shows the number of people encountered at the south-west border by US Customs & Border Protection officers. After six months of the new fiscal year, crossings are running at a third of the rate of the last three years on an annualised basis. Remarkably in February and March 2025 a cumulative 22,716 came over. If we annualise the last two months that is just 136,000 in a year. That would be a collapse that would mean a meaningful reduction in the supply of cheap labour for the agricultural and construction industries. That could have an impact on wages in those industries. One to be watched closely in coming months.

INADMISSIBLE FOREIGNERS WHO LEFT THE USA, FISCAL YEARS 1892 - 2023



SOUTHWEST LAND BORDER ENCOUNTERS, FISCAL YEARS 2022 – 2025

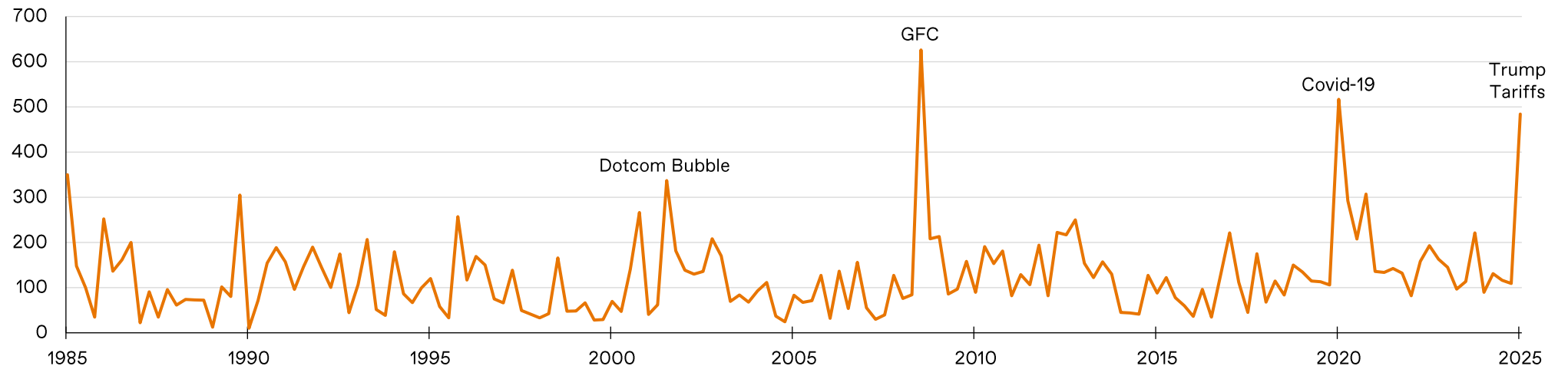


Source: <https://www.cbp.gov/newsroom/stats/southwest-land-border-encounters> and <https://ohss.dhs.gov/topics/immigration/immigration-enforcement/immigration-enforcement-and-legal-processes-monthly>
 *data annualised from first six months of 2025 fiscal year. As at 31.03.25

ALL ADDS UP TO HIGH LEVELS OF UNCERTAINTY

The level of uncertainty surrounding US policy making is very high today. This index is calculated based on scanning thousands of press articles for those that cover “uncertainty” or “uncertain”. A simple but effective way of thinking about periods of elevated confusion. One suspects the current situation is more in the category of “chaos” than uncertainty but we do not have a “Chaos” index.

US ECONOMIC POLICY UNCERTAINTY INDEX



Source: Baker, Bloom & Davis, London & Capital Waverton. Data as at 1 April 2025.

FISCAL POLICY WILL BE DOMINANT ISSUE IN 2025

This chart shows the US budget deficit as a % of US GDP. It is currently 7.0%. The deficit could become a bigger issue in coming months for two reasons.

Firstly, the Federal government debt limit has been reinstated as of 2 January 2025 at the level that includes all borrowing since the June 2023 suspension of the debt limit by Congress.

So, it is a legal requirement that at some point this year Congress will have to raise the debt limit to permit more borrowing. The US Treasury can rely on its cash holdings for a little while before the limit needs to be raised but it is likely that the new Congress will have to deal with this issue by the summer of 2025.

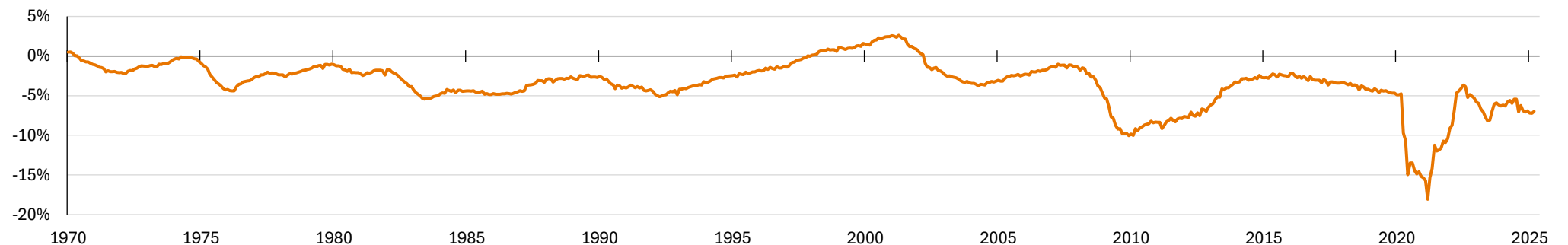
Secondly, the 2017 tax cuts for individuals and small businesses roll off at the end of 2025. If new legislation is not passed to renew them, then taxes will rise by over \$4 trillion.

That is looking likely to happen. Renewed tax cuts would be a positive for demand in the economy in the short term but will boost the deficit further in the medium term.

When Trump took office in 2017 the deficit was 3% of GDP. The current situation gives much less leeway for expansionary policy.

The bond market swooned in April although that appears to have been driven more by technical issues relating to the spread between yields on cash bonds and futures. We have not seen the bond vigilantes yet. Maybe we will in the months ahead.

US BUDGET BALANCE AS % OF GDP 1970 - CURRENT



Source: Bloomberg, London & Capital Waverton. As at 31.03.25

RATE CUTS EXPECTED IN THE US AND UK

The top chart shows current expectations for the US Federal Reserve policy rate over this year and next and how those expectations have shifted since April 1st, the day before the tariff announcements.

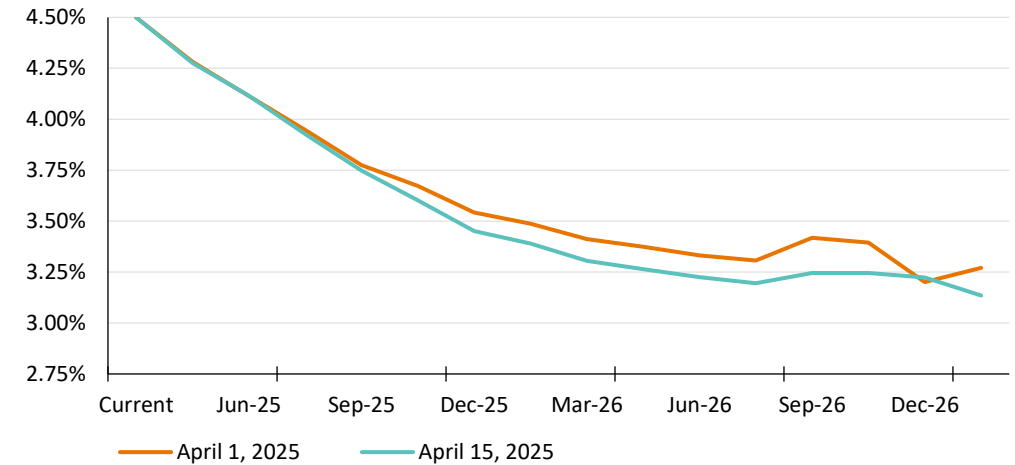
There has not been a material change in expectations which remain for four cuts to 3.5% by the end of this year.

This is interesting given that the market clearly continues to focus on expectations of a weak growth outlook in the months ahead rather than a Fed being constrained by rising inflation.

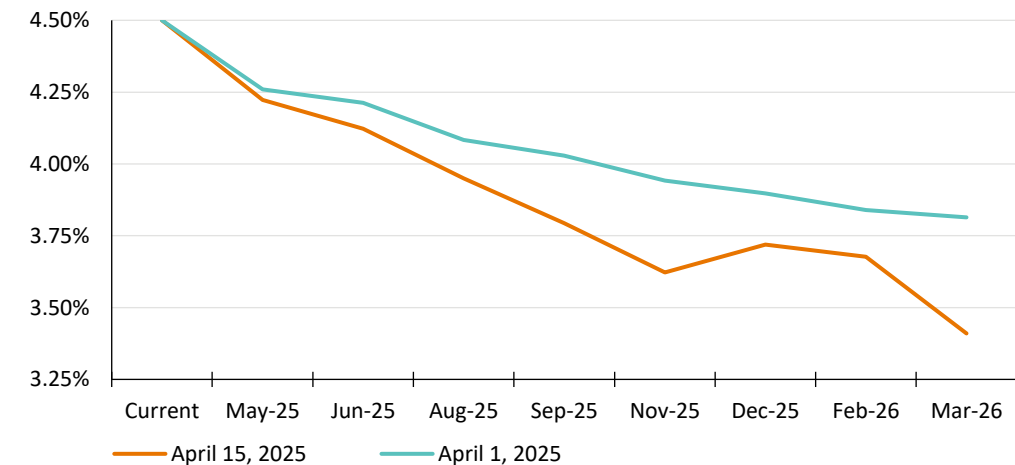
Interestingly in the UK expectations have increased this month for how the Bank of England will move with the view being that by March 2026 the BoE will also have cut rates four times to get to 3.5%.

Market expectations for inflation are likely to be the critical thing to watch in coming weeks and months. If they do move up materially that will have a detrimental impact on markets.

IMPLIED US FED FUNDS RATE %



IMPLIED UK BASE RATE %



Source: Bloomberg, London & Capital Waverton. As at 15.04.25

TREASURIES SELL-OFF

The top chart shows how the yield on 10-year gilts and 10-year US Treasuries has evolved over the last two years.

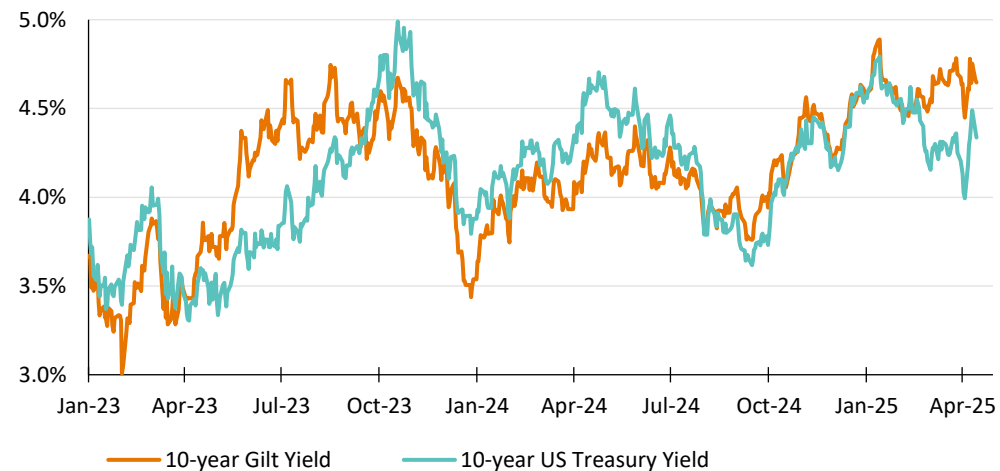
Bond yields rose this month in the US. This appears to have been an unwinding of the so-called basis trade wherein investors arbitrage the price difference between cash Treasury bonds and futures contracts on those bonds. The unwinding of that trade appears to have been a big factor in the rise in yields. But that has been disruptive because it meant that despite all the uncertainties associated with tariffs and other Trump policies, government bonds were not a safe haven in the first half of April.

The bottom chart shows those same yields after deducting the current 10-year inflation swap rate in each market. The swap rate is one indication of market expectations for inflation over the life of the bond. Inflation swaps are priced on RPI in the UK so we deduct 1.2% from the swap rate to get an implied indication of expectations of CPI inflation (1.2% is about the long-term “wedge” between RPI and CPI inflation).

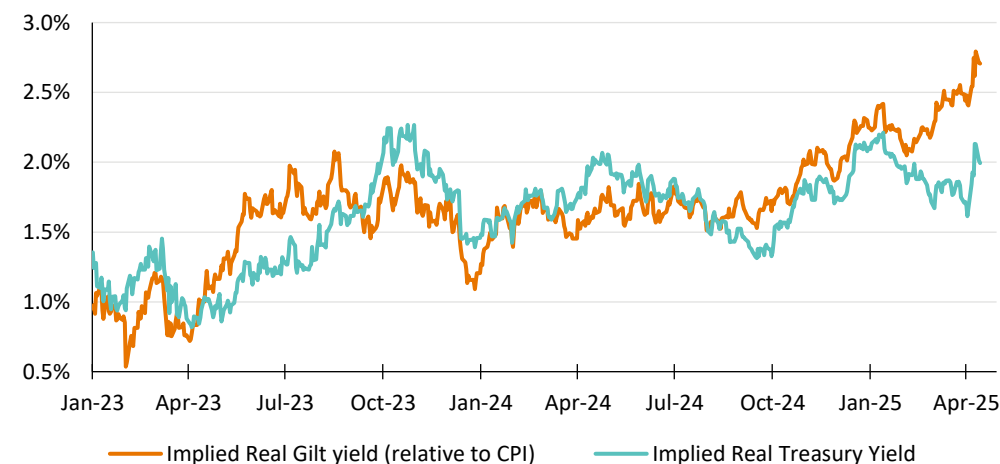
As the chart shows, both markets continue to offer, on this measure, a positive real yield. The inflation linked bond market is saying something similar in the US where the Treasury Inflation Protected Securities market is giving a positive real yield. The January 2034 TIPS yields 2.1%. The UK linker market is optically less attractive (the March 2034 linker yields 1.4%) but as this is based on RPI, the total return (thanks to RPI being higher than CPI) is similar between UK and US linker markets.

We still think there is value in government bonds given the positive real yields on offer.

US AND UK 10-YEAR BOND YIELDS (%)



US AND UK IMPLIED REAL 10-YEAR BOND YIELDS (%)



Source: Bloomberg, London & Capital Waverton. As at 11.04.25

INFLATION RATES HAVE DECELERATED AROUND THE WORLD

The peak for US inflation was in June 2022 at 9.1%. It is now 2.4%. The euro area peaked in October 2022 at 10.6% (now 2.2%) and the UK also peaked in October 2022 when RPI was 14.2%, and CPI 11.1%. RPI is now 3.2% and CPI is 2.6%.

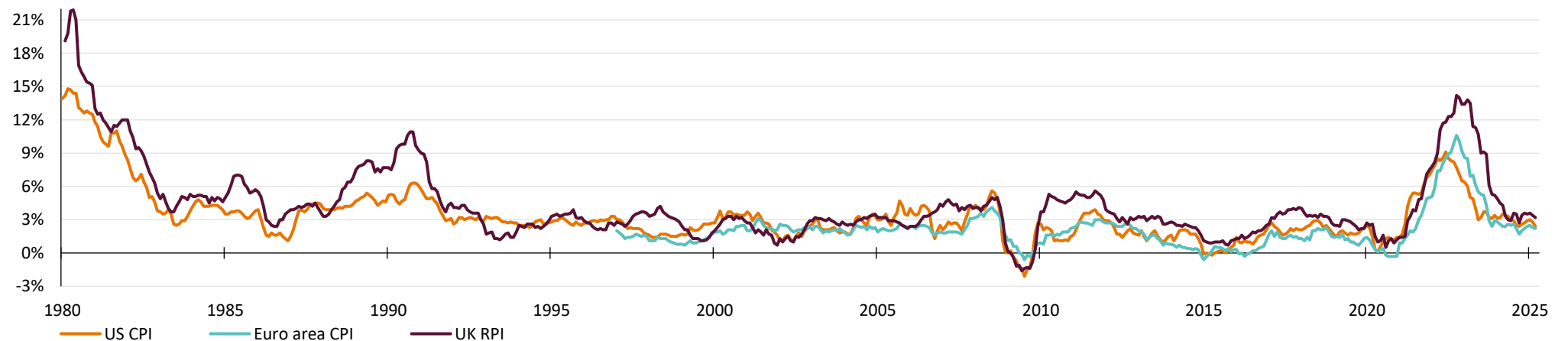
US core inflation (excluding food and energy) peaked at 6.6% in September 2022. It is now 2.8%.

There remain concerns about the inflationary impulse across the developed world. The improvement has stalled in recent months with inflation higher at the end of 2024 than it was in September 2024 in all three countries/regions.

With the impact of Trump's policies being debated some inflation risk premium may reappear.

However, for now, as the next charts show, the market is still somewhat sanguine about future inflation.

INFLATION (% CHANGE YEAR-ON-YEAR) 1980 – CURRENT



Source: Bloomberg, London & Capital Waverton. As at 31.03.25

EXPECTATIONS FOR FUTURE INFLATION REMAIN SANGUINE

The top chart shows the 5-year inflation swap rate which is one reflection of the market's view on future inflation. One can buy or sell the swap. If you think inflation will average more than the current price, you buy the swap and vice versa. The payoffs are roughly linear. If you buy at 2% and the outcome is 2.2%, you make about 10%.

The market remains sanguine about inflation over the next five years and indeed in recent weeks on both sides of the Atlantic, inflation expectations have been decelerating even as the tariff news was worse than expected. This is good news.

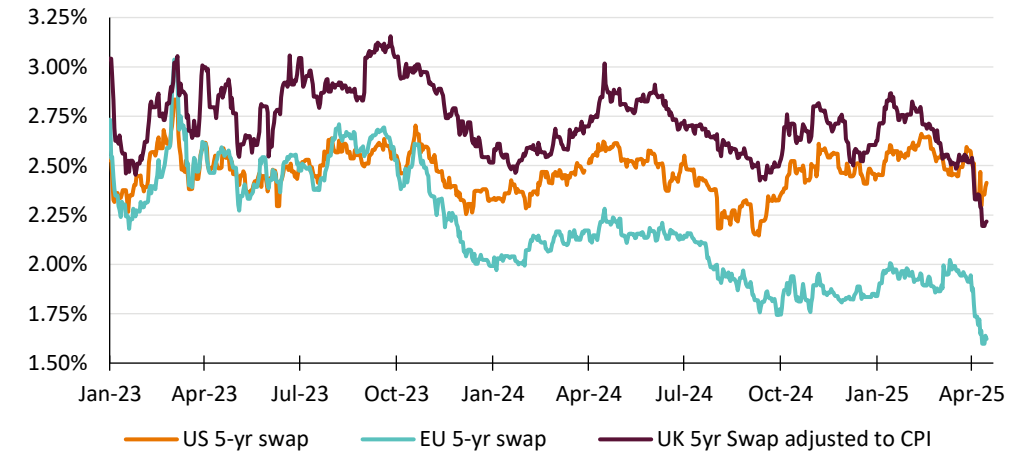
The bottom chart shows longer-term inflation indicators. Here the picture also remains encouraging.

The teal line is the 10-year US inflation swap and the dark blue line is the inflation rate calculated from the spread between five year nominal and inflation linked bonds five years forward. Both have been rangebound in recent months.

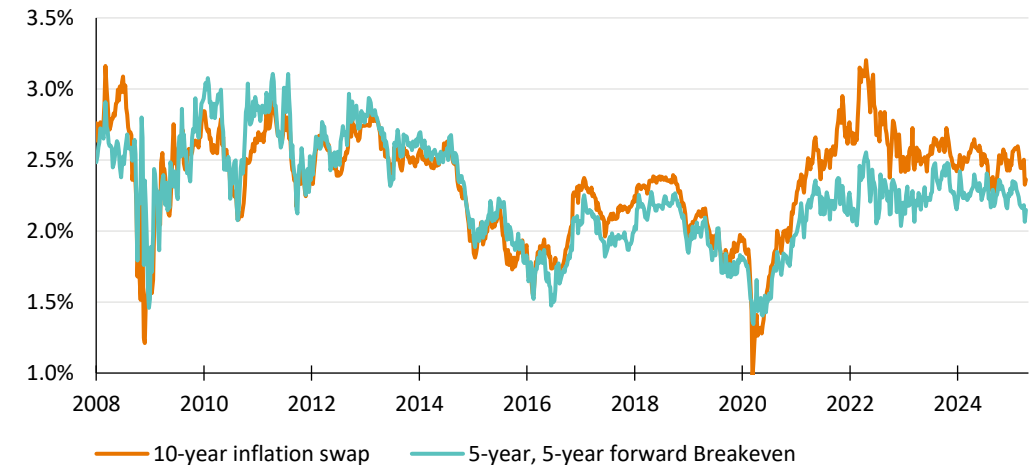
The general picture from both these charts is that the market remains pretty sanguine about future inflation.

One of the critical things to watch in coming weeks will be to see if the imposition of tariffs on a wide range of goods does anything to these measures of expected inflation.

5-YEAR INFLATION SWAP RATE (%)



LONG-TERM US INFLATION EXPECTATIONS



Source: Bloomberg, London & Capital Waverton. As at 15.04.25

THE BROAD COMMODITY COMPLEX HAS BEEN WEAK

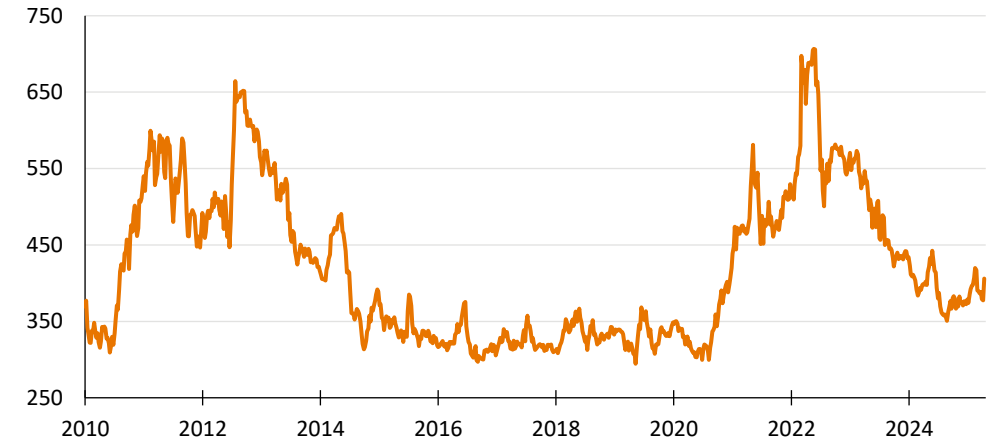
The broad commodity complex is in the doldrums.

Grain prices have been falling as fears of supply disruption from Ukraine, the bread basket of Europe, and Russia, have not materialised sufficiently to support prices.

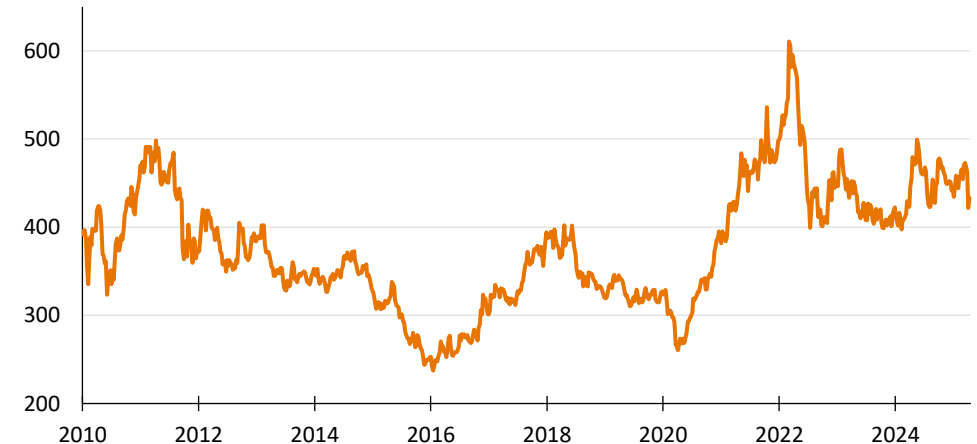
The Industrial Metals index (bottom chart) has been range bound for the last eighteen months.

Demand from the People's Republic of China (PRC) is an important driver of industrial metals prices. There is little to suggest that recent efforts at stimulus are having much impact. Meanwhile the imposition of significant US tariffs could further pressure the economy in a negative way.

S&P GSCI GRAINS INDEX



S&P GSCI INDUSTRIAL METALS INDEX



Source: London & Capital Waverton, Bloomberg. As at 11.04.25

DOLLAR WEAK THIS YEAR

The top chart shows a trade weighted dollar index. It has been weakening this year and has been particularly weak since the 2 April tariff announcements.

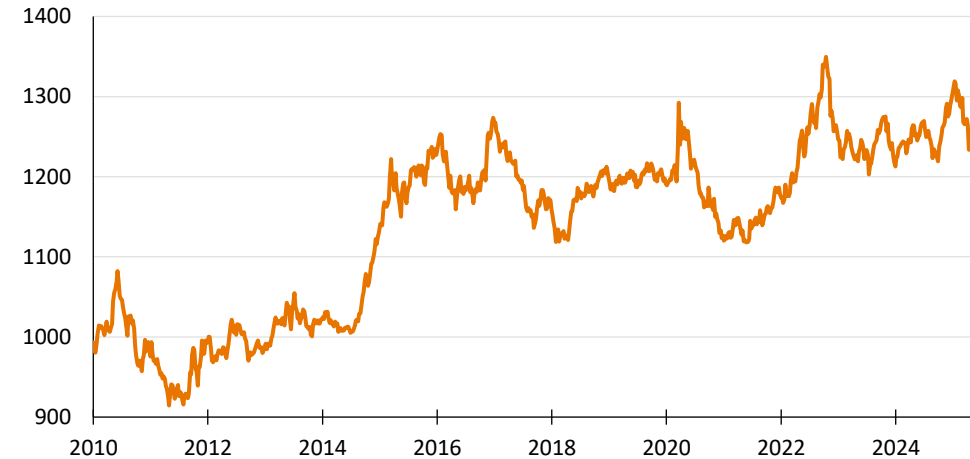
Some of that is possibly due to the market expecting the Federal Reserve to cut interest rates in coming months by more than is being expected in other major markets.

But some of it may reflect some generic nervousness about US dollar assets, although such a thing is very difficult to model with any confidence.

The bottom chart shows that an index of emerging market currencies. This index is weighted by the weighting of each country in the MSCI Emerging Market equity index, so China is the biggest component.

The US dollar is up against EM currencies, including the renminbi which is at 7.31 to the dollar, from 7.10 at the time of the election. It is at the top end of its range against the dollar.

TRADE WEIGHTED US DOLLAR (BBDXY)



MSCI EMERGING MARKET CURRENCY INDEX



Source: London & Capital Waverton, Bloomberg, MSCI. As at 11.04.25

STERLING STILL RANGEBOUND AGAINST THE EURO, BUT WEAKER OF LATE

Sterling has been weaker against the euro in April. The euro has also been stronger against the dollar. Some of the move is associated with the uncertainty created by the tariff policy which is deemed likely to hurt the US economy. But it is a little surprising that the euro has been rising in value given that for a lot of European manufacturing companies the tariffs are going to be a serious headwind.

As for the UK, we continue to think that the exchange rate versus the euro is a better measure of the market view of UK specific risks than the sterling/dollar rate. The chart shows the number of euros per pound since 1 July 2016. The average exchange rate since then is shown as the teal line and we show a range 6% either side of that average.

We use 6% as that was the range sterling was allowed to trade against its DM2.90 central rate when it was in the Exchange Rate Mechanism (ERM). Famously sterling was forced out of the ERM in September 1992 when it was unable to hold within that range.

We note that over the period shown (over 2,200 trading days), sterling has only been out of a 6% trading range for ten days.

For now, there is little sign of an elevated UK sovereign risk premium on this measure at least but the recent weakness against the euro is perhaps a warning that could change.

EUROS PER POUND (01.07.2016 – CURRENT)



Source: Bloomberg, London & Capital Waverton. As at 15.04.25

GOLD AT A RECORD HIGH

As of the end of March 2025, gold was at a record high in US dollars and in sterling terms.

With all the uncertainty highlighted on previous pages of this presentation, we are of the view that gold has a role to play in diversified portfolios.

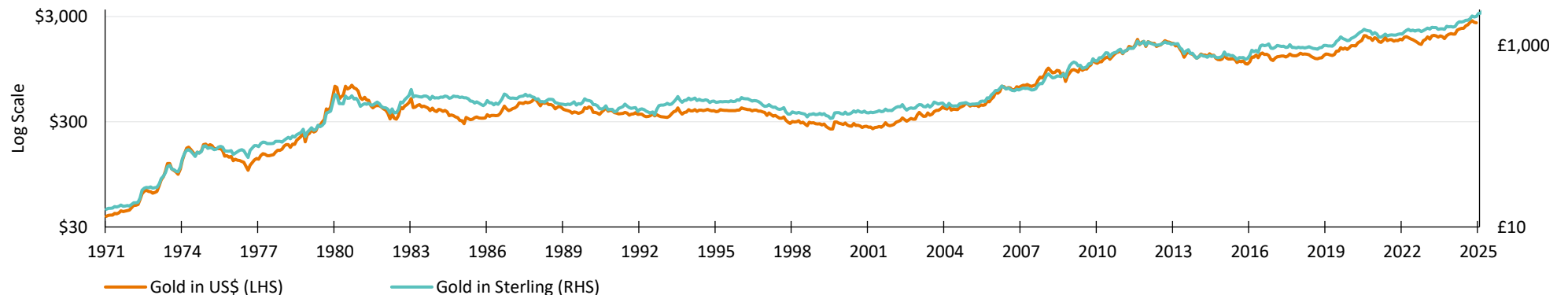
Gold benefitted from the exceptional monetary policy in evidence from 2008 to arguably 2021. With zero or even negative nominal interest rates the opportunity cost of owning gold had never been lower.

In recent months, the rally in gold appears to be based on buying by central banks around the world, including in China. It is also possible that gold has benefitted as a hedge against any reappearance of inflation.

There is also the possibility that the Trump Administration will revalue its gold holdings. It carries them in the accounts at a value of \$42.22 per ounce. The current price is \$3,123. The value of the gold held by the US government is \$11bn at the \$42 valuation. It would be over \$800 billion at the current price. That could be used to finance a sovereign wealth fund or just be used to shore up the health of the government balance sheet.

There are lots of devils in the detail of doing that though so count it as unlikely. More important in the short term will be whether the demand from central banks for gold continues.

GOLD PRICE PER TROY OUNCE IN US DOLLARS AND IN STERLING (1971 – CURRENT)



Source: Bloomberg, London & Capital Waverton. As at 31.03.25

PART 2
EQUITIES & CREDIT



2025 EARNINGS GROWTH ESTIMATE +13% GLOBALLY AND +14% FOR THE US

For 2025 the consensus numbers remain very robust at +13% for the World index and +14% for the US.

It remains the case that there are valuation excesses in some of the leading companies in the US but valuations in the rest of the US market, and in the rest of the world, are not stretched.

But these earnings estimates will change over the next few weeks as companies report Q1 results and as analysts try and work out the effect of Trump's tariffs.

EARNINGS PER SHARE CALENDAR YEAR GROWTH RATE

REGION	PE NTM	RELATIV E	GROWTH RATE		
			2024	2025	2026
World	17.2	-	+11.0%	+12.9%	+10.2%
US	20.5	119%	+10.9%	+14.2%	+11.9%
Europe ex UK	14.4	83%	+12.6%	+11.5%	+10.0%
UK	11.9	69%	+5.4%	+11.2%	+8.5%
Japan	13.6	79%	+11.8%	+8.9%	+3.4%
Asia Pac ex Japan	12.7	74%	+10.6%	+13.4%	+14.1%
Latin America	8.4	49%	+38.1%	+10.5%	+9.1%
Emerging markets	13.6	79%	+13.4%	+11.7%	+10.1%
World ex USA	13.3	77%	+11.1%	+11.2%	+8.9%

Source: MSCI, FactSet, London & Capital Waverton. Data as at 31.03.25

STOCK MARKET VALUATION LOWER

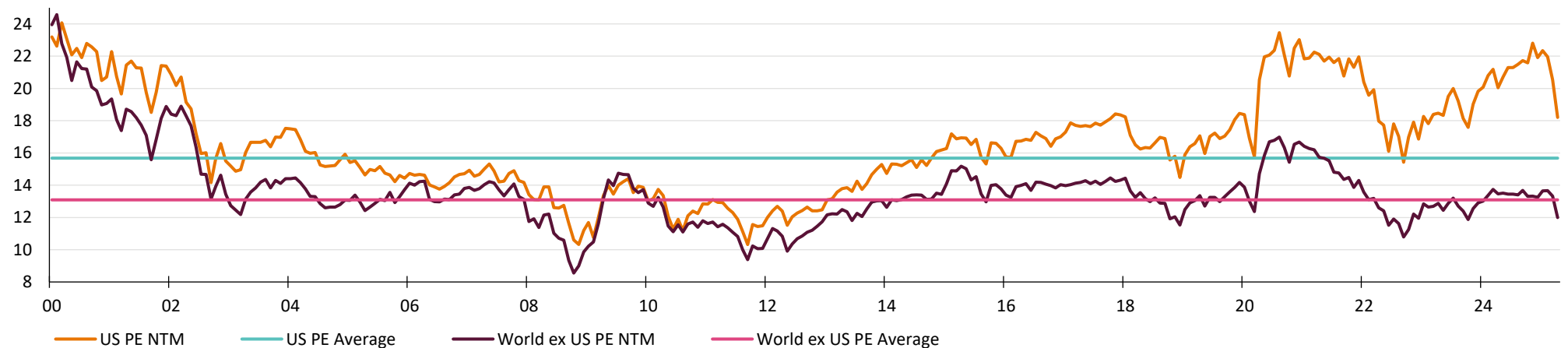
The PE ratio for the US market (solid orange line) is 18.2 times.

It is again above its 20-year average of 15.7 times (the teal horizontal line).

The World outside the US now trades at 12.9 times earnings, a little above its 20-year average of 13.1.

There is always uncertainty about the EPS these valuations are predicated on, and even greater uncertainty at the moment. But particularly outside the US there is a reasonable amount of uncertainty priced in suggesting that on any good news global markets could well rally strongly.

MSCI US AND MSCI GLOBAL EX US PRICE-EARNINGS RATIO BASED ON NEXT 12 MONTHS EARNINGS



US MARKET NOT AS EXPENSIVE AS HEADLINE VALUATION SUGGESTS

Although the valuation of the US market is elevated in absolute terms and relative to its own history, a small number of large companies in the index are the cause of that. The narrowness of the leadership in the market in the last two years has exacerbated that.

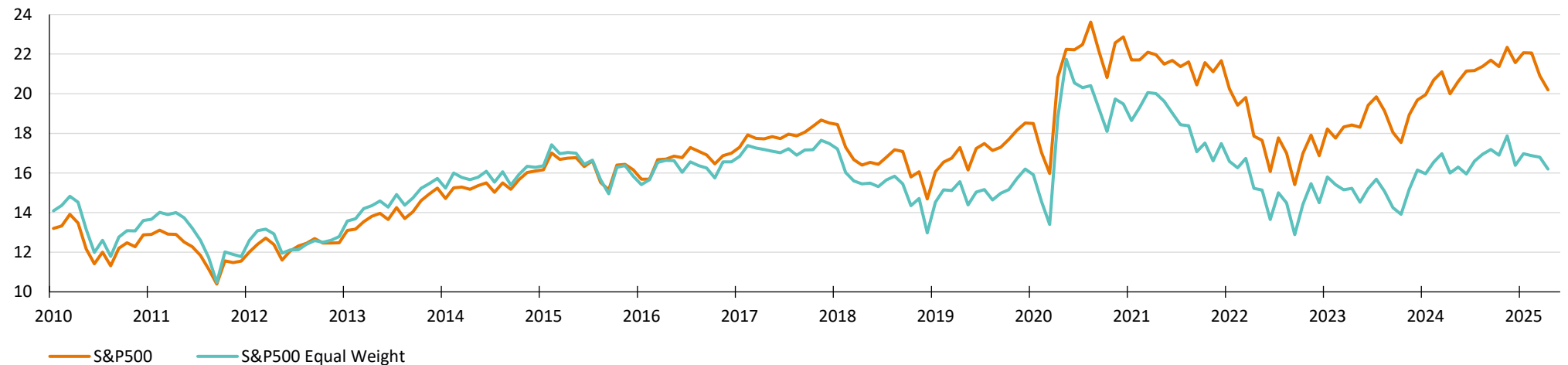
This chart looks at the price/earnings ratio of the index (orange line) and the PE of an equally weighted version of the S&P500 index, both on forward earnings.

The former is at 20 times, the latter is at 16 times (as of April 14th). The discount has narrowed with the market correction in recent weeks thanks in no small measure to the 18% decline in the “Magnificent Seven” so far this year.

We have still been able to find value in the US market and have added US stocks to our Global Recommended Portfolio in recent months, even before the correction.

It is important to bear this in mind as it suggests that while elevated valuations pose risks to a few of the largest stocks in the index, the rest of the market is trading at reasonable levels. The 20-year average PE for the US is 15.7 times so the equally weighted index is back at that level.

S&P500 INDEX AND S&P500 EQUAL WEIGHTED INDEX, PRICE EARNINGS RATIO 2010 – CURRENT



US PROFITS AS % OF GDP AT RECORD HIGH IN Q4 2024

This chart shows pre-tax profits of corporate America relative to GDP through Q4 2024, the most recent data available. This profit series shows aggregate profits across the whole economy and shows them in US dollars, not as earnings per share.

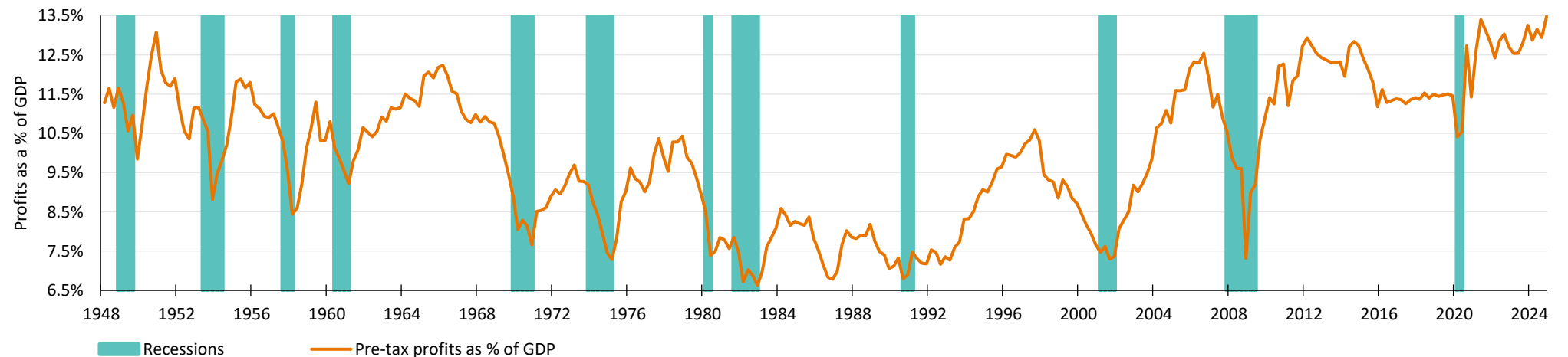
Consequently, this series is not susceptible to financial engineering via such things as share buybacks to boost earnings per share. It is a proxy for profit margins. In every recession except 1982, profits were falling as a % of GDP before it.

But on this measure profits have been resilient in recent quarters. Profits are at a record high of 13.5% of GDP. This is another indicator suggesting a recession in the near term is unlikely, and indeed confirms that the health of the corporate sector is genuinely robust.

However, the tariff policy will be a hit to profits in some sectors of the economy. Indeed, if anything, it is likely to be a bigger problem for small and medium size businesses than it is for the giant multinationals. A company like Apple has been given favourable treatment by having tariffs on phones and other products being exempted from extra tariffs.

So although at the moment this is an indicator suggesting the corporate sector is in good health that could change quite quickly.

US PROFIT CYCLES AND RECESSIONS (%)



Source: MSCI, FactSet, London & Capital Waverton. As at 31.12.24

UK MARKET HAS BEEN A DISAPPOINTING ONE FOR MANY YEARS

The UK stock market has significantly underperformed the World index in recent years.

Between 2001 and 2014 there was not a lot of difference between the two.

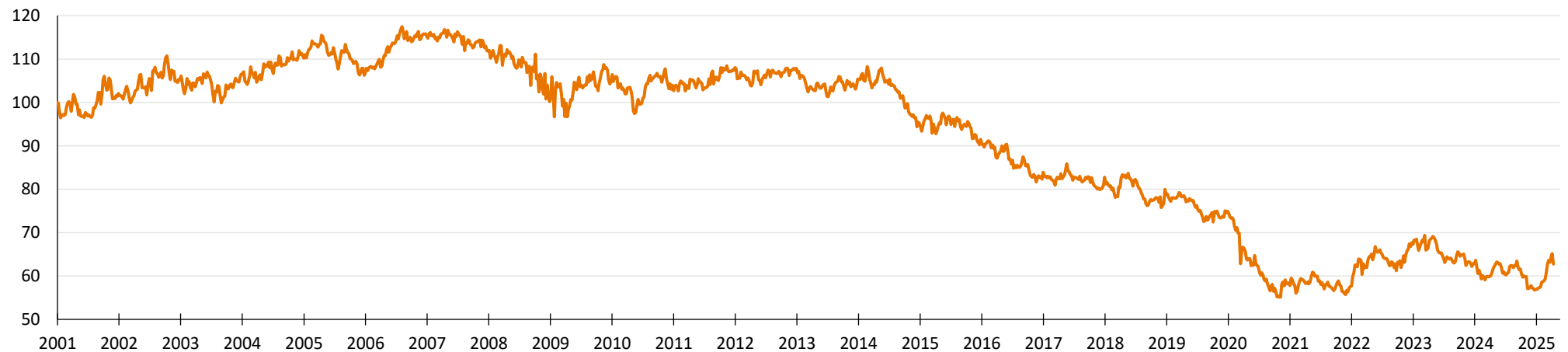
But from May 2014 to October 2020, the UK market underperformed by 49%. It had a better time in 2022 but it has resumed underperformance in the last two years.

One of the issues for the UK is that it has few technology or communication service companies that have been the market leaders in recent years. They are a combined 4% of the UK market.

Another issue is that recently the weakest sectors in terms of earnings growth have been energy, healthcare, materials and financials. They are a combined 52% of the UK market.

It will be interesting to see if the recent rotation out of technology related sectors produces a better performance from the UK.

MSCI UK RELATIVE PERFORMANCE TO MSCI ALL-COUNTRY WORLD, BOTH IN STERLING



Source: MSCI, Bloomberg, London & Capital Waverton. As at 11.04.25

JAPANESE MARKET HAS SEVERAL TAILWINDS

The Japanese stock market has been aided by a number of tailwinds in recent years. The market first hit new all-time highs in March 2024 when it finally (as measured by the Nikkei 225 Index) closed above its 29th December 1989 previous high.

Macro factors have played a role. The Bank of Japan has bucked the trend of other developed world central banks by, coincidentally, only ending negative policy rates in March 2024. The policy rate is now at +0.5% having been raised again in January 2025. The apparent ending of deflation enabled this to happen although policy rates obviously remain very negative in real terms.

But there have also been significant changes to corporate governance including a sharp increase in the number of independent directors.

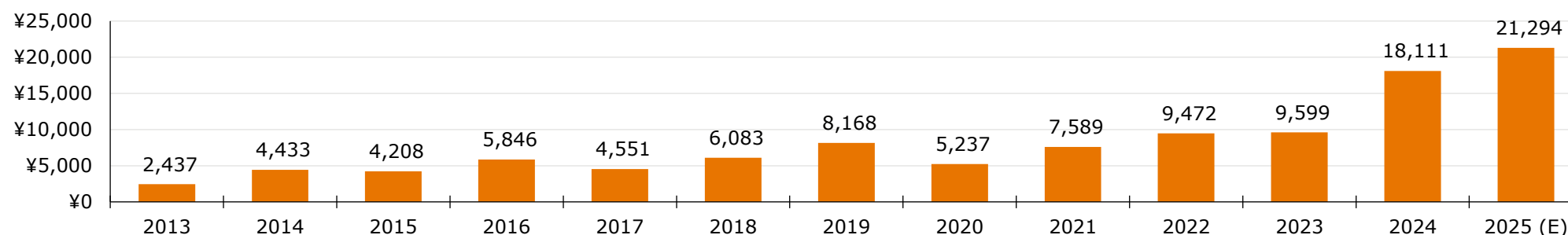
Shareholders have benefitted directly from a significant pick-up in the number of buybacks done by Japanese corporates.

This chart shows that buybacks were at a record level in 2024, 89% above the level of 2023. They are expected, according to Mizuho, to rise another 18% in 2025 to 21.3 billion yen, or \$146 billion at the current exchange rate.

On top of that, foreign investors have been more bullish and have also been buying the market. We continue to like a number of Japanese companies and are overweight in aggregate in our global equity portfolios.

These secular tailwinds make us confident that select Japanese equities have an important role to play in equity portfolios.

JAPANESE CORPORATE SHARE BUYBACKS 2013 – CURRENT IN BILLIONS OF JAPANESE YEN



Source: Mizuho, Tokyo Stock Exchange. As at 03.04.25

US INVESTOR SENTIMENT BEARISH

This is the weekly survey of its members done by the American Association of Individual Investors. The chart shows the % of respondents who are bullish among those that express a view (so it is Bulls as a % of Bulls plus Bears).

This could not be a simpler sentiment measure, but it is worth knowing about.

The two horizontal lines are showing one standard deviation above (teal line) the average level and one standard deviation below (purple line).

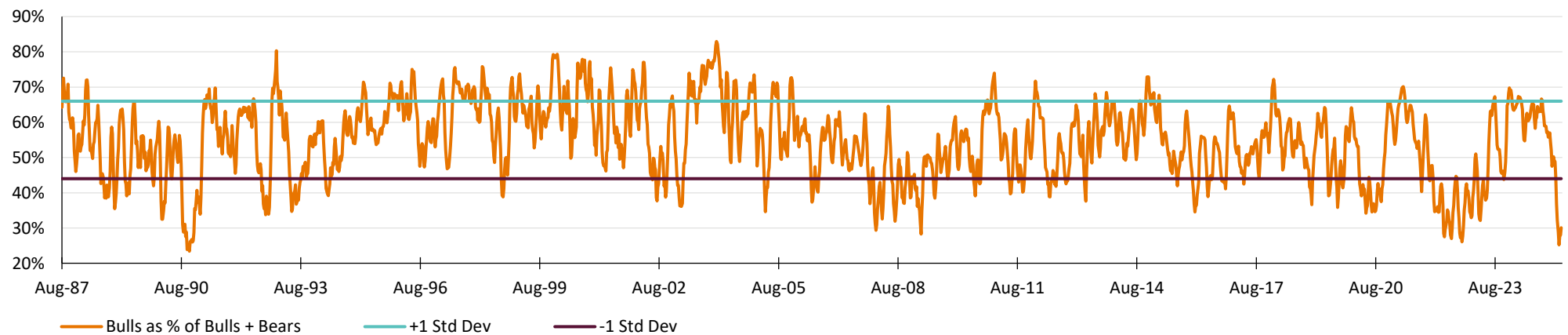
If you buy the market when the orange line is below the purple line your average return in the next year is +15%.

If you buy the market when the orange line is above the teal line your average 12-month return is +6%.

This sentiment measure has followed the market down in April but it had been weak ahead of the tariff announcements. It went below the purple line at the end of February.

One of the bits of good news for the market is that by this measure at least, investors are already very bearish.

AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS SURVEY, BULLS AS % OF BULLS PLUS BEARS



Source: AAI, Bloomberg, London & Capital Waverton. As at 11.04.25

CORPORATE BALANCE SHEETS YET TO SHOW REAL STRESS

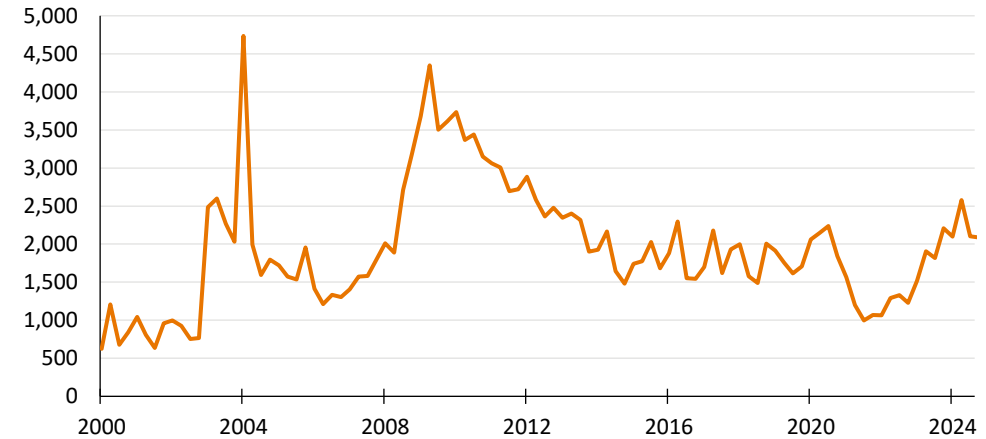
The top chart is a quarterly series showing the number of US corporate bankruptcies (officially called “Chapter 11” filings). It hit its lowest level for 18 years in Q3 2021.

It has moved up since then but has declined in both Q3 and Q4 2024.

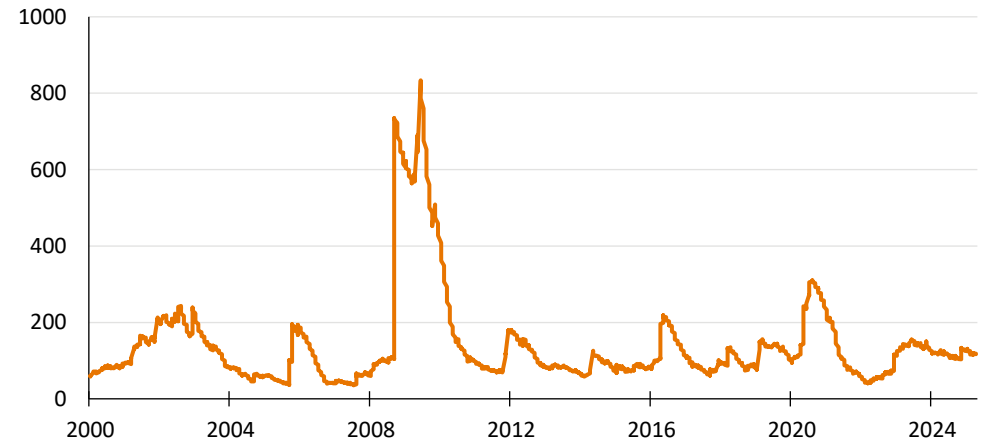
The Bloomberg Index in the bottom chart is of economy wide US bankruptcies and takes into account the size of the bankruptcy as well as the number of them. Hence there were more big bankruptcies in 2009-10 than in 2003-04. That index is at historically very low levels.

It remains the case that up to now, corporate balance sheets are holding up well. There has to be a risk that widespread tariffs change this benign picture.

US BANKRUPTCY FILINGS (2000 TO CURRENT, QUARTERLY)



BLOOMBERG US CORPORATE BANKRUPTCY INDEX (2000 - CURRENT, WEEKLY)



Source: Bloomberg, London & Capital Waverton. As at 11.04.25

CORPORATE CREDIT MARKETS COME OFF THE BOIL

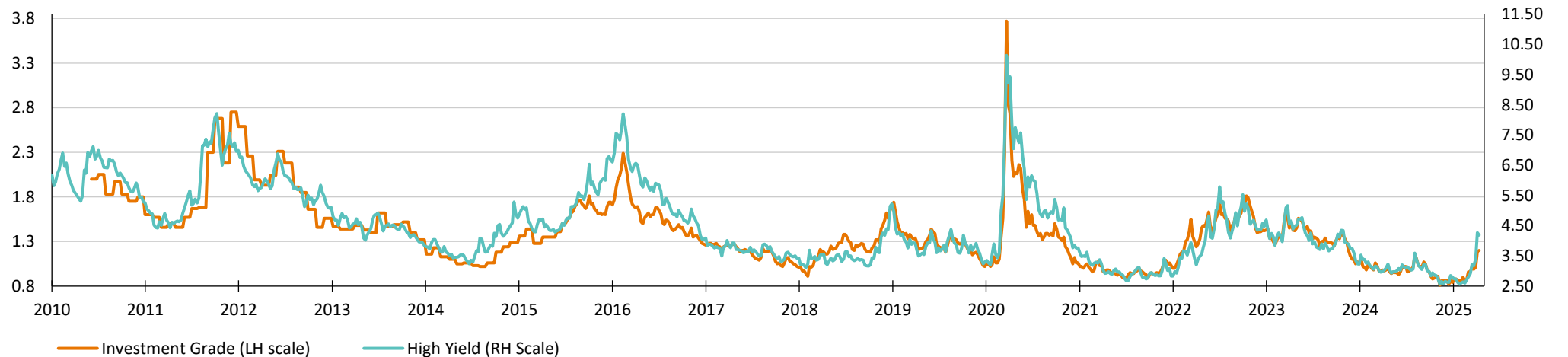
Credit spreads have widened in the wake of the tariff announcements on 2nd April.

Spreads will widen further if there is a risk of slower growth and higher inflation.

We remain of the view that credit spreads have further to widen to better reflect the risks.

Hence our lowest allocation to credit in our bond funds since their inception.

US CORPORATE BOND SPREADS (%)



Source: Markit, Bloomberg, London & Capital Waverton. As at 11.04.25

CORPORATE BONDS, S&P500 EARNINGS YIELD & T-BILLS HAVE SIMILAR YIELDS

The Moody's Baa yield (a benchmark for the investment grade market) has been above the earnings yield of the S&P500 Index at end of each month since January 2023. At the end of March 2025, the numbers were 5.9% versus 4.8%.

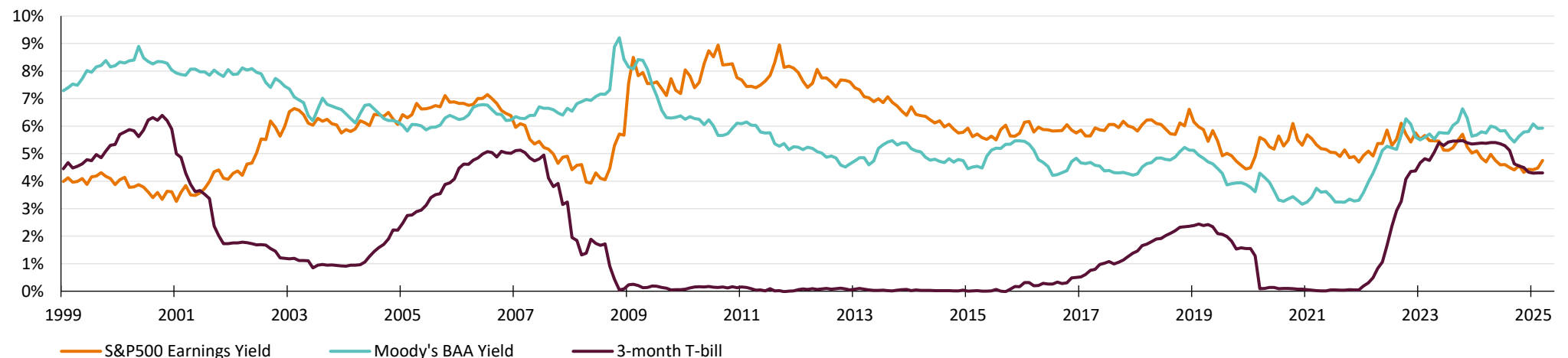
The last two periods when this was the case were the run up to the Dotcom peak in 2000 and its unwind. Then this happened again during the Global Financial Crisis of 2007-09.

Normally it would be perceived that equities had some valuation challenge from corporate bonds when this is the case but in 2023 and 2024 both gave good returns.

The purple line is the 3-month Treasury bill rate which is currently 4.3%, only slightly below the S&P500 earnings yield. Cash remains the most competitive it has been to equities since 2001.

This chart also suggests it is rational for investors to be more favourably disposed toward cash today than has been the case since pre the GFC.

MOODY'S CURRENT BAA CORPORATE YIELD, S&P500 FORWARD EARNINGS YIELD, 3-MONTH TREASURY BILL YIELD (%)



WEAKNESS OF CHINESE CURRENCY NEEDS TO BE WATCHED

The Rmb has been weak since the US Presidential election in early November.

As my colleague Benjamin Hall points out, on March 16th, the government announced a 30 point “special action plan for stimulating consumption”. This included property market stability, trade-in schemes, improvements to welfare state (pensions, social security, childcare).

Clear commitment to further incremental policy to support domestic demand as required following introduction of tariffs.

So far there has not been any noticeable improvement in activity. Ben Hall believes that the combination of lockdowns and a three-year downturn in the property market has damaged consumer confidence and that it will take time before the latest initiatives from the government will work.

The uncertainty of the US tariffs will not be helping either.

The Taiwan dollar is stable, despite the scaremongering headlines about Taiwan that appear regularly. We continue to remain sceptical about the PRC conducting a military operation against Taiwan. But the sabre rattling around the issue will continue.

We will continue to watch the Taiwan dollar to see if the market is taking any threat from Beijing more seriously than it apparently does, quite reasonably, at the moment.

RENMINBI PER US DOLLAR



TAIWAN DOLLAR PER US DOLLAR



Source: Bloomberg, London & Capital Waverton. As at 11.04.25

PART 3

OUR APPROACH TO INVESTING RESPONSIBLY



OVERVIEW OF RESPONSIBLE INVESTMENT AT LONDON & CAPITAL WAVERTON

Signatory of:



LONDON & CAPITAL WAVERTON RESEARCH PROCESS

- Integration of ESG factors into fundamental analysis and decision-making
- Incorporated into research process across all asset classes
- Specialist thematic, sustainable and impact fund research



ETHICAL RESTRICTIONS

Client-specific ethical exclusions can be applied at the portfolio or fund level

ENGAGEMENT AND VOTING

- Direct engagement with company management
- Collaborative engagement activities
- Proxy voting by Glass Lewis

RESPONSIBLE STEWARDSHIP OF CLIENTS CAPITAL

We aim to identify responsible allocators of capital ensuring business resilience and long term financial sustainability

How we incorporate ESG

- Integrated approach to the assessment of ESG factors
- Detailed fundamental analysis avoids greenwashing
- Mitigates poor data quality and inconsistent third-party ESG ratings
- Focus on engagement over an exclusion/divestment strategy
- Identify those successfully adapting to ESG opportunities/risks
- Acknowledge when ESG risks are integral to transition solutions
- Pragmatic approach focused on high or improving ESG standards

The advantages of our investment approach

- **Global:** largest universe of investment opportunities
- **Direct:** greater transparency around ownership
- **Active:** flexibility to avoid areas at risk of capital loss
- **Concentrated:** in-depth identification / monitoring of risks
- **Experienced team:** library of knowledge is an advantage
- **Engaged:** long-term relationships create a two-way dialogue
- **Strong ESG outcomes:** natural result of our approach

IMPORTANT NOTICE

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