

# MARKET PERSPECTIVES BY ALGERNON PERCY

## LAST QUARTER RECAP

2002

The US stock market sees its worst quarter relative to the world index since at least 2002 – compounded by a weak US dollar (down 3% versus sterling).

4.3%

The S&P 500 closes down 4.3%; the MSCI World Index (ex-US) closes up 5.2% – both in US dollar terms.

5.5%

30-year gilts see their highest yield since 1998 (5.5% on 14th January).

2008

10-year bunds experience their biggest rise in yields since German unification; Japanese 10-year yields reach a post 2008 high.

3 years

NASDAQ sees its largest one-day fall in three years.

\$3,124

Gold shoots past \$3,000, closing at \$3,124 – up 19% on the quarter, its best since 1986.

"A little group of willful men, representing no opinion but their own, have rendered the great Government of the United States helpless and contemptible."

WOODROW WILSON, SPEECH ON MILITARY PREPAREDNESS, JAN. 1916.

## THE OUTLOOK FOR INTEREST RATES

### BOND YIELDS AROUND THE WORLD ARE DIVERGING.

Looking at the returns from bond markets over the last three months (+0.5% from gilts, and +1.5% from the global market broadly, in sterling terms), one could be forgiven for thinking it was an uneventful quarter. However, there was considerable diversity between different countries, with Japanese yields going relentlessly up as inflation there takes hold, and US treasury yields declining on concerns of an economic slowdown. German bond yields shot up from 2.4% to 2.9% in just a few days as the Bundestag ratified a massive stimulus package, thereby removing the 'debt brake' which has held German, and by implication European, borrowing costs down for so long.

### US TREASURIES HAVE OUTPERFORMED.

US and UK bond yields have diverged over the last three months: having both started a shade under 4.6%, the US 10- year yield has fallen below 4.2%, whereas the equivalent gilt remains at 4.6% (and long-dated paper has moved decisively over 5%). The US economy is performing better than the UK economy and the budget deficit there is higher than this side of the Atlantic (7% versus 5%) – so one would expect there to be more downward pressure in the UK. However, the UK economy has been flatlining for some years, and there seems to be no change on that front, whereas the momentum for the US economy has deteriorated significantly in recent weeks with falling US consumer confidence and huge uncertainty over import tariffs. Traditionally, the US has been able to sustain large budget deficits because the dollar is the world's reserve currency and lenders have supreme confidence that they will always be paid back by this growth engine.

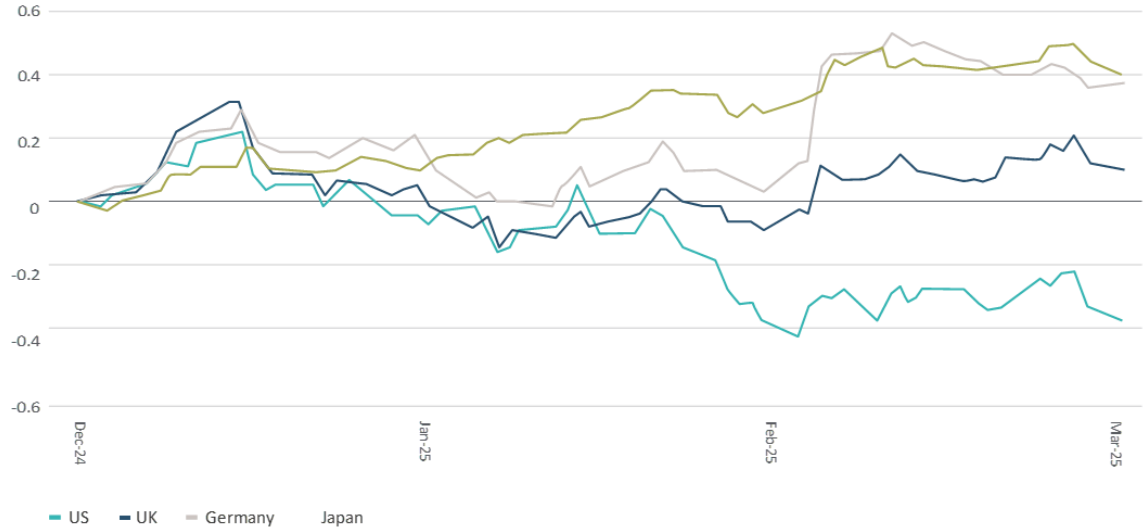
### GOLD IS SEEN AS A SAFE HAVEN.

The rise in the value of gold, which until recently has been fuelled by central bank buying rather than investment flows or jewellery demand, suggests that the US dollar's reserve currency status may be called into question. The uncertainty over current economic policy in the US must surely encourage central banks and investors generally to continue diversifying away from the greenback, and the autarkic behaviour of the US, China and Russia weighs against the idea of a single dominant currency. As an aside, if Mr. Trump is successful in turning the US trade deficit into a surplus, that will necessarily be accompanied by a deficit on the capital account – i.e. money coming out of US dollar assets.

### GILTS LOOK BETTER VALUE THAN OTHER BOND MARKETS.

The conundrum in the US at this juncture is how the Fed would choose to deal with an economic slowdown at a time when inflation will likely be pushed up by tariffs. The direct order effect of the tariff imposition on the scale announced on 'Liberation Day' is likely to be at least +1.5% on consumer price inflation, and the idea that this will be 'transitory' may be wishful thinking given the structural inefficiencies that would enter the system under a seriously protectionist regime. As far as bond markets are concerned, we think the UK represents a safer haven than the US at these levels: the Chancellor of the Exchequer is determined to stick to the Office of Budget Responsibility's rules keeping the budget deficit under control, and the inflation threat here is no worse than it is in America.

MOVEMENT IN 10 YEAR YIELDS IN Q1 2025



Source: Bloomberg

## THE OUTLOOK FOR EQUITIES

### EUROPEAN AND US EQUITY RETURNS HAVE DIVERGED.

Equity markets have also diverged to a remarkable degree, with Continental Europe outperforming the US by nearly 15%. Whilst this has partly been driven by macroeconomic considerations, also manifested in a fall in the value of the US dollar against other currencies, it largely reflects a material shift in sectoral popularity. The US technology sector had a difficult January as a new artificial intelligence (AI) app, DeepSeek, was unveiled in China. Not only did this herald an apparently impressive competitive threat to American incumbents like ChatGPT, but it brought into question the future profitability of chip manufacturers like NVIDIA and the outlook for ancillary businesses such as data centres and power providers. European stock markets, on the other hand, have very little exposure to AI, but rather more to industrials like Siemens which would benefit from a European stimulus (as announced in Germany after the election there).

### WE ARE UNDERWEIGHT US TECHNOLOGY.

The US has long been a favoured hunting ground for Waverton stock ideas, and it makes up a healthy proportion of our portfolios – but we are underweight the region relative to the index. By the same token, we have avoided holding some of the big US tech companies – notably NVIDIA (which fell 17% one day in January) and Tesla (which was down 36% in the three months to the end of March as investors shied away from its erratic CEO, Elon Musk).

We have correspondingly been gradually building our China exposure through names like Tencent (media and technology), H World (hotels) and Yum China (restaurants) – all of which have been serving us well. Accordingly, our global portfolios have proven relatively robust during Q1 volatility, and our European funds have seen some very positive moves.

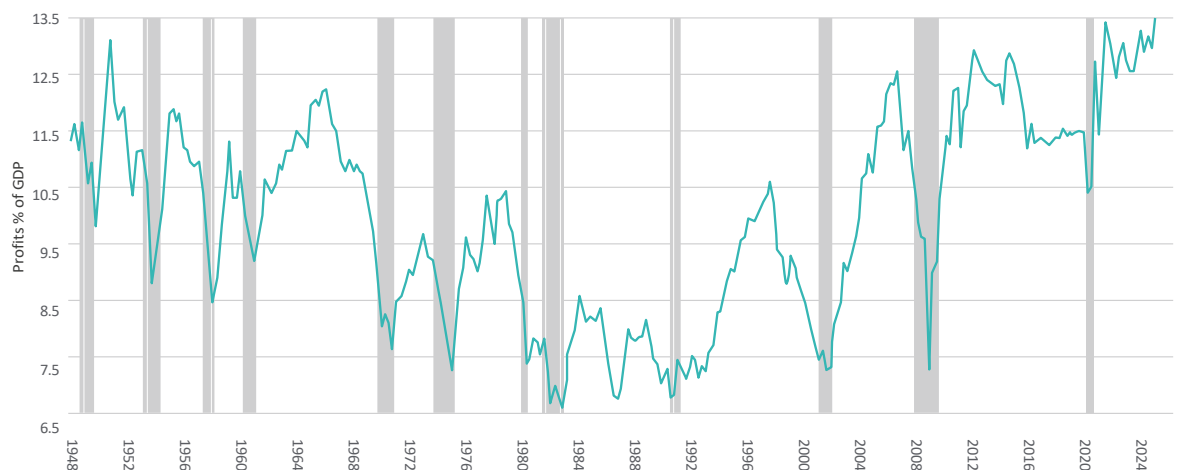
**TRADE UNCERTAINTY MAY BE AT ITS PEAK.**

At the time of writing, US trade policy is dominating stock market news flow. It difficult to run portfolios reactively in response to this stream of ticker tape because the magnitude and timing of the putative tariffs is changing on a daily basis. This is hard enough for fund managers, but for industrial companies whose lead times in terms of capital allocation (building new factories etc.) is measured in years or even decades, it must be extremely trying. Also, just as it's nigh on impossible to work out a large multi-national company's true underlying currency exposure, worrying about the specifics of each tariff announcement is probably a fool's errand: for example, US car manufacturers source thousands of components from all over the world, some of which will be imported, then exported to Mexico for fabrication, before being reimported for final assembly in Detroit.

**EUROPE IS VULNERABLE TO AN ECONOMIC SLOWDOWN IN THE US.**

It does look as though the US economy is slowing down, even before a trade war has broken out (if that is what it's going to be), and we have been conscious of that in our stock selection. Perversely, that does mean piling into Europe and Pan-Asia on 'knee-jerk' revulsion of the US could be risky because those regions are usually more cyclical than the US, and will be exposed to a decline in world trade. Japan does remain interesting given the ongoing self-help there and a generational change in the business cycle (away from persistent deflation); and long-term, China could become an increasingly important counter-weight to the US in the global economy if the consumer there revitalises. At times like this, when uncertainty is high, we focus on the core attributes of the companies we are investing in – most particularly sustainability of business models and long term opportunities to grow cash flow – so that our portfolios can weather the political and macro-economic storms which are blowing through. Corporate America is in rude health, US corporate and consumer balance sheets are on the whole strong, and unemployment there is very low – so there are some strong fundamentals to serve as a buffer against the impact of high tariffs.

**PROFITS AS A PERCENTAGE OF GDP**



Source: Bloomberg and Waverton. Data as at 31.12.24.

STERLING ADJUSTED	3 MONTHS (%)	6 MONTHS (%)	9 MONTHS (%)	1 YEAR (%)
ICE BofA UK Gilt Index	0.5	-3.1	-0.7	-1.8
ICE BofA Global Broad Market Index (Hedged)	1.5	-0.3	4.1	3.9
MSCI United Kingdom All Cap Index	4.9	4.3	6.6	10.3
MSCI United Kingdom Index	6.4	6.2	8.1	12.0
MSCI AC World Index	-4.3	1.5	2.0	4.9
MSCI AC World (ex UK) Index	-4.6	1.4	1.8	4.7
MSCI AC World (ex US) Index	2.1	1.0	2.9	4.0
S&P Composite Index	-7.1	1.9	1.7	5.9
MSCI Europe (ex UK) Index	7.4	2.9	2.9	2.5
MSCI Japan	-2.6	0.5	0.1	-3.7
MSCI AC Asia Pacific ex Japan Index	-1.9	-3.5	0.6	7.1
MSCI Emerging Markets	-0.1	-1.6	0.8	6.1
Growth Index	-2.9	1.0	2.3	4.4
Balanced Index	-2.0	0.8	2.6	4.2
Cautious Index	-1.1	0.4	2.8	3.9
Defensive Index	-0.4	0.2	2.9	3.6
Return on Cash £ (1 month deposit rate)	1.1	2.3	3.6	4.9
Inflation - UK CPI	0.3	1.3	1.4	2.3
Gold Price (£2412.55)	15.6	22.4	30.3	37.5
£ vs US\$	3.1	-3.8	2.1	2.2
£ vs Euro	-1.2	-0.6	1.3	2.2
£ vs Yen	-1.9	0.6	-5.1	1.0

US DOLLAR ADJUSTED	3 MONTHS (%)	6 MONTHS (%)	9 MONTHS (%)	1 YEAR (%)
ICE BofA US Treasury Index	3.0	-0.4	4.4	4.5
ICE BofA Global Broad Market Index (Hedged)	1.4	-0.2	4.3	4.2
MSCI United Kingdom All Cap Index	8.1	0.3	8.9	12.7
MSCI United Kingdom Index	9.7	2.2	10.3	14.4
MSCI AC World Index	-1.3	-2.3	4.2	7.2
MSCI AC World (ex UK) Index	-1.7	-2.5	4.0	7.0
MSCI AC World (ex US) Index	5.2	-2.8	5.1	6.2
S&P Composite Index	-4.3	-2.0	3.8	8.3
MSCI Europe (ex UK) Index	10.7	-1.0	5.1	4.7
MSCI Japan	0.3	-3.3	2.3	-1.6
MSCI AC Asia Pacific ex Japan Index	1.1	-7.1	2.7	9.4
MSCI Emerging Markets	2.9	-5.3	2.9	8.4
Growth Index	-0.3	-1.7	4.5	6.8
Balanced Index	0.3	-1.3	4.7	6.6
Cautious Index	0.9	-1.0	4.9	6.3
Defensive Index	1.3	-0.8	5.0	6.1
Return on Cash \$ (1 month deposit rate)	1.1	2.3	3.7	5.1
Inflation - US CPI	0.7	1.6	2.1	2.5
Gold Price (\$3114)	19.1	17.8	33.1	40.5
US\$ vs £	-3.0	3.9	-2.1	-2.1
US\$ vs Euro	-4.1	3.3	-0.8	0.0
US\$ vs Yen	-4.8	4.5	-7.0	-1.2

\* All MSCI benchmarks are net of tax.  
Source: Factset, RIMES

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