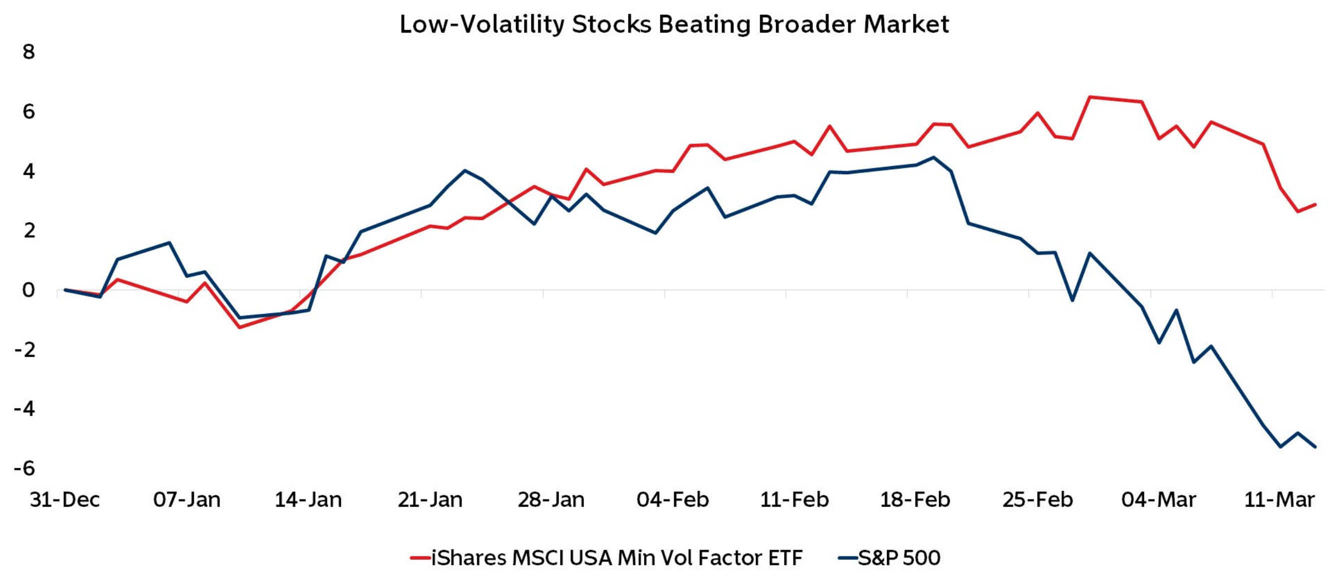
Chart of the Week

17 March 2025



Source: Bloomberg Finance L.P., Momentum Global Investment Management, as at 13 March 2025.

Minimum Volatility: why it's outperforming in 2025

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What this chart shows

Minimum volatility (or "min vol") strategies aim to provide equity market exposure while reducing overall risk. They achieve this by emphasizing stocks that have historically exhibited lower price swings and lower correlations with each other. Unlike defensive sector funds, which concentrate on specific industries like utilities or healthcare, min vol strategies use quantitative portfolio optimization to construct a diversified mix of stocks with lower volatility characteristics.

So far in Q1 2025, minimum volatility strategies have outperformed the S&P 500. This has echoes of the unwinding of the Tech Boom in 2000. From Q1 2000, tech stocks retreated from lofty valuations investors sought solace in minimum volatility stocks. Over the next two years the market retreated 24% with minimum volatility stocks falling 5%, that's an annualised outperformance of over 10%. However, several macroeconomic and market-specific factors help explain this shift:

Rising Market Volatility: While equities have continued to grind higher, market volatility has increased due to concerns over persistent inflation, Federal Reserve policy uncertainty, and geopolitical risks. In such an environment, high-beta stocks tend to experience larger price swings, while min vol stocks—often characterised by more stable earnings and lower market sensitivity—hold up better.

Defensive Rotation & Sector Trends: Investors have started to rotate away from high-growth, high-valuation stocks (such as tech) toward more stable, defensive companies. With the market pricing in the increasing risk of recession in the US, sectors like consumer staples, utilities, and healthcare, which tend to be more heavily represented in min vol strategies, have benefited from this shift.

Interest Rate & Liquidity Concerns: The potential for higher-for-longer rates increase pressure on speculative, high-growth stocks while favouring companies with stronger balance sheets, predictable cash flows, and lower leverage—a profile that aligns with many min vol holdings.

Risk-Adjusted Return Focus: With markets still near all-time highs, investors are more conscious of downside risks and are shifting toward strategies that offer a smoother ride without sacrificing too much upside potential. Historically, min vol strategies tend to outperform in volatile or uncertain periods, as they provide equity exposure while reducing drawdowns.

Why this is important

The outperformance of minimum volatility in Q1 2025 reflects a market environment where investors are becoming more cautious, favouring stability over speculative momentum. While min vol strategies are not designed to lead in strong bull markets, their ability to weather market turbulence and provide smoother returns is proving attractive in an environment of rising volatility and shifting macroeconomic expectations. If uncertainty persists, this trend could continue throughout the year.

Weekly market update

week ending 14 March 2025

momentum
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Last week we saw significant volatility in global stock markets, primarily driven by escalating trade tensions and concerns over potential economic slowdowns. This underscores the interconnectedness of global economies and the sensitivity of financial markets to geopolitical developments.

US

- The S&P 500 entered correction territory for the first time since late 2023, declining over 10% from February highs, primarily due to investor concerns about potential economic slowdowns linked to trade policies. However, US stocks rebounded on March 14, with the S&P 500 marking its best daily performance since the election.
- Both headline and core CPI surprised on the downside with the monthly headline CPI print coming in at its weakest since August 2024 at 0.0% which pushed the year-on-year figure down to 3.2%. Core CPI came in at 0.2% month-on-month, pushing the year-on-year figure down to 3.1%. The Fed is widely expected to keep rates on hold during Wednesday's FOMC meeting.
- Amid market uncertainty, gold prices hovered near record highs, reflecting investor anxiety over economic growth due to trade policies.
- President Trump's comments did not rule out a potential recession resulting from his tariffs, exacerbating investor worries about economic slowdown.

UK

- The UK stock market experienced fluctuations in line with global trends, influenced by investor concerns over potential economic slowdowns linked to trade policies.
- The UK faced potential repercussions from US tariff policies, particularly in sectors like steel and aluminium, prompting discussions on strategic responses to protect domestic industries.
- UK regulatory bodies continued to assess the implications of global trade tensions on the financial services sector, emphasising the importance of maintaining stability and investor confidence.
- Domestic economic indicators, including inflation and employment data, were closely monitored to gauge the impact of global market volatility on the UK economy.

Europe

- Before the announcement of a historic debt deal in Germany, optimism was growing among economists about German and euro zone growth, as indicated in a Reuters poll from March 10-14.
- The EU prepared retaliatory measures in response to US tariffs, covering €26bn of American goods, aiming to protect its economic interests and industries.
- The European Central Bank faced challenges in balancing persistent inflation and fiscal uncertainty, with some economists predicting fewer rate cuts this year compared to previous expectations.
- European stock markets experienced fluctuations, reflecting investor sentiment influenced by global trade uncertainties and regional economic data.

Rest of the World/Asia

- Chinese President Xi Jinping declined an invitation to visit Brussels for a summit marking the 50th anniversary of EU-China relations, potentially impacting future economic collaborations.
- Chinese markets, such as the Hang Seng Index, experienced gains, partly due to a tech rally, though analysts cautioned that these markets are not immune to potential chaos stemming from US stock turmoil.
- Japan's economic outlook was influenced by ongoing global trade tensions, prompting discussions on strategies to mitigate potential impacts on its export-reliant economy.
- Gold prices soared towards $3,000 per troy ounce, reflecting investor anxiety over economic growth due to trade policies.

Weekly market data

week ending 14 March 2025

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Asset Class / Region	Currency	Week ending 14 March	Month to date	YTD 2025	12 months
		Cumulative returns			
Developed Markets Equities					
United States	USD	-2.2%	-5.2%	-3.9%	10.5%
United Kingdom	GBP	-0.4%	-1.4%	6.8%	15.4%
Continental Europe	EUR	-1.4%	-1.6%	9.1%	8.7%
Japan	JPY	0.3%	1.3%	-2.4%	4.4%
Asia Pacific (ex Japan)	USD	-1.5%	1.0%	2.6%	10.1%
Australia	AUD	-1.9%	-4.1%	-3.5%	4.5%
Global	USD	-2.0%	-3.6%	-0.9%	9.9%
Emerging Markets Equities					
Emerging Europe	USD	3.4%	11.1%	24.0%	24.2%
Emerging Asia	USD	-1.2%	1.7%	3.1%	11.1%
Emerging Latin America	USD	3.3%	6.2%	14.1%	-11.8%
BRICs	USD	-0.2%	5.0%	8.4%	18.4%
China	USD	-0.1%	6.4%	20.0%	43.6%
MENA countries	USD	-0.8%	-2.3%	0.0%	-1.1%
South Africa	USD	0.1%	6.2%	12.4%	29.7%
India	USD	-0.5%	1.8%	-6.5%	-2.4%
Global emerging markets	USD	-0.7%	2.1%	4.5%	9.3%
Bonds					
US Treasuries	USD	0.1%	-0.5%	2.3%	4.5%
US Treasuries (inflation protected)	USD	-0.1%	-1.0%	2.6%	5.6%
US Corporate (investment grade)	USD	-0.3%	-0.9%	1.7%	5.5%
US High Yield	USD	-0.7%	-1.0%	1.1%	8.4%
UK Gilts	GBP	-0.1%	-1.1%	0.5%	-0.1%
UK Corporate (investment grade)	GBP	-0.3%	-1.1%	0.5%	3.3%
Euro Government Bonds	EUR	-0.2%	-2.8%	-2.3%	0.7%
Euro Corporate (investment grade)	EUR	-0.3%	-1.6%	-0.5%	4.4%
Euro High Yield	EUR	-0.6%	-1.1%	0.6%	7.2%
Global Government Bonds	USD	-0.2%	0.3%	2.4%	1.8%
Global Bonds	USD	-0.1%	0.3%	2.4%	3.1%
Global Convertible Bonds	USD	0.0%	0.0%	3.1%	10.3%
Emerging Market Bonds	USD	-0.3%	-0.5%	2.2%	7.9%

Asset Class / Region	Currency	Week ending 14 March	Month to date	YTD 2025	12 months
		Cumulative returns			
Property					
US Property Securities	USD	-2.9%	-4.9%	-0.5%	10.0%
Australian Property Securities	AUD	-0.3%	-2.3%	-4.7%	-0.5%
Asia Property Securities	USD	-0.2%	2.3%	6.0%	1.1%
Global Property Securities	USD	-1.7%	-2.6%	0.7%	7.6%
Currencies					
Euro	USD	0.4%	4.7%	5.2%	0.0%
UK Pound Sterling	USD	0.2%	2.7%	3.3%	1.4%
Japanese Yen	USD	-0.6%	1.3%	6.0%	-0.1%
Australian Dollar	USD	0.5%	1.9%	2.2%	-4.0%
South African Rand	USD	0.7%	2.7%	4.0%	3.3%
Swiss Franc	USD	-0.7%	1.9%	2.6%	-0.2%
Chinese Yuan	USD	0.1%	0.5%	0.9%	-0.6%
Commodities & Alternatives					
Commodities	USD	0.2%	0.7%	3.2%	5.5%
Agricultural Commodities	USD	-0.3%	-0.3%	-0.6%	0.3%
Oil	USD	0.3%	-3.6%	-5.4%	-17.4%
Gold	USD	2.6%	4.4%	13.7%	38.1%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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