momentum
global investment management

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Global Matters | Quarterly

Market review & outlook

April 2025

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Contents

Global market review & outlook

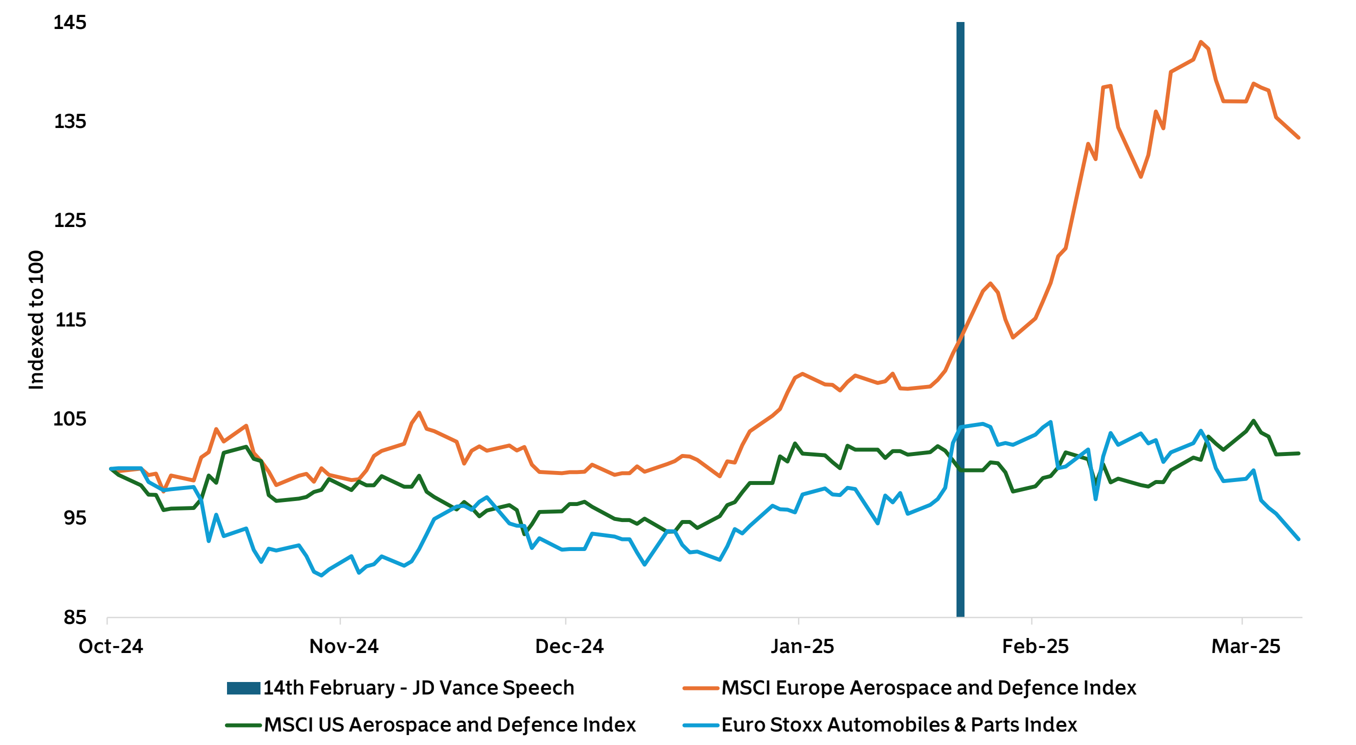
The first quarter of 2025 is likely to be remembered as the beginning of a new epoch, both geopolitically, as the new administration in the US rewrites the post-war global order, and economically, with an end to globalisation, replaced by revitalised nationalism. The energy, determination and ruthlessness of the new Trump administration, Trump 2.0, to implement its policy agenda has been breathtaking, with far-reaching consequences yet to be fully played out. An immediate impact of the endless flurry of tariff announcements and threats has been a steep rise in uncertainty and resultant damage to consumer and business confidence, reversing the optimism around US growth triggered by Trump's election and his tax cutting, deregulating, pro-growth agenda. Fears of a sharp slowdown and recession have risen.

Amidst the ensuing turmoil, the release of China's DeepSeek new open-source AI model led to a big sell-off in US megacap tech stocks. DeepSeek's model seems to rival technology developed by ChatGPT maker OpenAI, produced at a fraction of the cost, and without access to Nvidia's top end chips which have been banned from export to China since September 2022. Investors began to question the competitiveness and leadership of the US in the AI boom, the strength of barriers to entry, and prospective returns on the huge capital investments made in the development of AI models, especially data centres. The combination of tariff chaos and threats to US leadership in AI brought into question US exceptionalism.

Pressure from the US administration and its determination to implement radical change is reverberating globally, nowhere more than among its closest allies. J D Vance's speech at the Munich Security Conference on 14 February will perhaps be seen as a pivotal moment, emphasising the shift of the US to China as its biggest security threat and leaving Europe in no doubt that the time had come for the continent to take responsibility for its own security. NATO members have been forced into higher defence spending commitments, and, most significantly, Germany has taken extraordinary measures to lift its fiscal straitjacket, the constitutional debt brake, and release substantial funds for defence and infrastructure investment. Share prices of Europe's defence stocks have soared, in contrast to automakers, which are most directly impacted by tariffs.

> **"the endless flurry of tariff announcements and threats has seen a steep rise in uncertainty and damage to consumer and business confidence, reversing the optimism around US growth triggered by Trump's election**

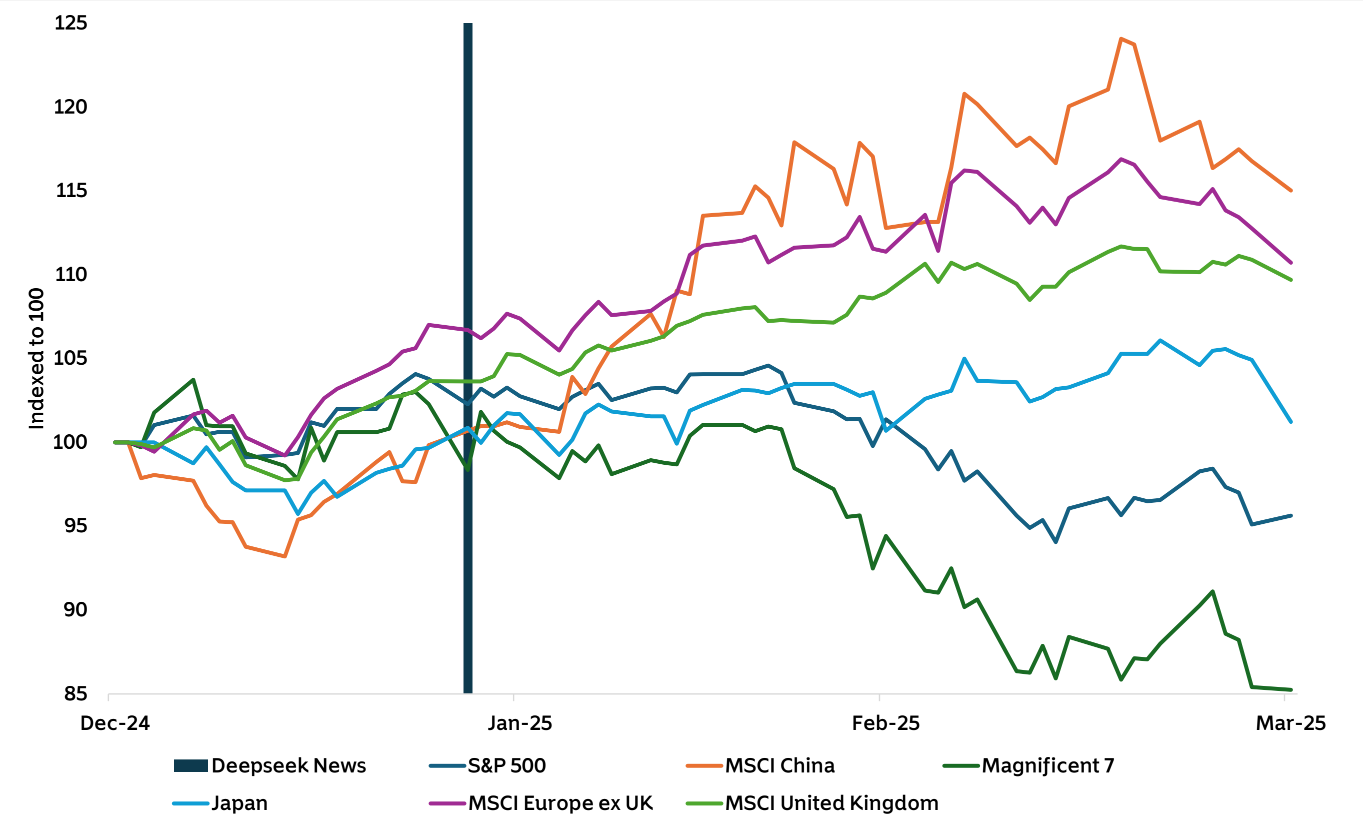
Europe's defence stocks soar – automakers fall sharply



Source: Bloomberg Finance L.P., as at 31 March 2025.

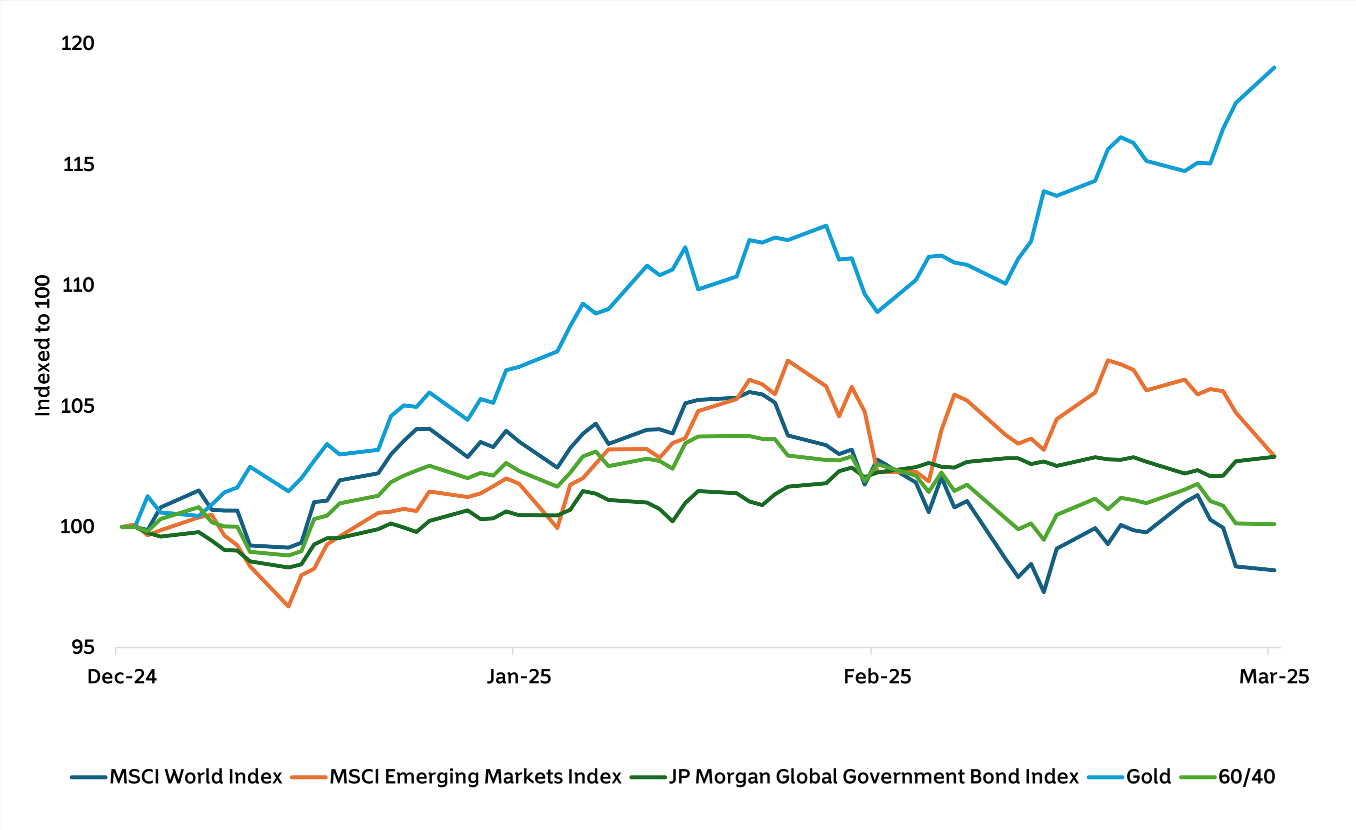
The prospect of reflation in Germany underpinning a recovery in the moribund European economy, together with the ECB's rate cuts of 50bps during Q1 (taking aggregate cuts since mid-2024 to 150bps), and hopes for de-escalation of the war in Ukraine, produced a surge in share prices in Europe, in contrast with falls in the US as fears of stagflation emerged. All equity markets came under selling pressure in late March, as rising concerns about the impact of tariffs were amplified by the announcement of additional 25% tariffs on all cars and key parts not made in the US, and ahead of 'Liberation Day', 2nd April, when Trump announces details of his reciprocal tariffs. European markets nevertheless ended the quarter with solid gains, MSCI Europe ex UK +6.1% in euro terms and MSCI UK +6.4% in GBP terms, while US equities sank, the S&P 500 index -4.4% and the Magnificent 7 index of megacap tech stocks -14.8%.

Diversification across equity markets is rewarded in Q1 2025



Source: Bloomberg Finance L.P., as at 31 March 2025.

Asset class returns Q1 2025



Source: Bloomberg Finance L.P., as at 31 March 2025.

An increasingly challenging economic environment again led to underperformance of small cap stocks, with the Russell 2000 index in the US -9.8% and weakness evident in European and UK small companies. Returns from markets outside the US were enhanced in USD terms by dollar weakness, with the euro up by 4.5% in Q1, GBP by 3.2% and the yen by 4.8%, unwinding most of the gains in the dollar since Trump's election victory.

On top of doubts triggered by the DeepSeek development, there were troubling signs that tariff uncertainty was damaging business and consumer confidence in the US. Leading indicators pointed to a business slowdown ahead, while consumer confidence fell sharply, and the inflationary impact of tariffs was reflected in rising inflation expectations, through both market-implied forward inflation indicators and consumer surveys. A still resilient labour market and sticky inflation led the Fed to keep policy on hold; while noting the high levels of uncertainty arising from government policy decisions, the FOMC's quarterly economic projections pointed to a lower rate of growth and somewhat higher inflation than previously projected, raising the spectre of stagflation.

In this increasingly uncertain environment, equities struggled as the quarter developed, with gains in the early weeks of the year diminished, and in the case of the US, wiped out, by quarter end, leaving the MSCI World index -1.8% in Q1 after a fall of -4.5% in March. Emerging markets performed somewhat better, the MSCI Emerging Markets index +2.9% in Q1, driven largely by a return of +15% in the MSCI China index.

A steep rally began in Chinese markets in mid-January, driven by optimism around China's AI innovation following the DeepSeek news, and by a thawing of the government's clampdown on China's big private sector tech companies. The authorities are providing some support, with the National People's Congress in March committing to issue bonds to rebuild capital of state-owned banks, and raising the fiscal deficit target for 2025 to 4% of GDP from 3% in 2024. Huge investments in the green transition, semi-conductor manufacturing and EVs are paying off. However, the recovery in the equity market has been narrow, led by China's big tech stocks, especially Alibaba and Tencent, while the domestically focussed 'A' shares market has been subdued, with the CSI 300 -0.4% YTD. The battered property development industry seems to be close to a bottom, but recovery is likely to be long and slow, keeping the consumer subdued, and US tariffs remain a threat. While sentiment to China has improved, due primarily to its tech sector and success in AI, the recovery is unlikely to be smooth.

"A steep rally began in Chinese markets in mid-January, driven by optimism around China's AI innovation following the DeepSeek news, and by a thawing of the government's clampdown on China's big private sector tech companies

Events in Q1 have been a timely reminder of the benefits of portfolio diversification. After a long period of market dominance by the US, and within that a narrow group of growth stocks, US equities have significantly underperformed so far this year, and the leadership of its megacap tech stocks has been called into question. Equities generally have been volatile, undermined by the uncertainty created by tariff threats, while US Treasuries have proved to be a safe haven, returning +2.9% in the quarter.

But not all government bonds have performed well: while yields of 10-Y US Treasuries fell from 4.57% at the end of 2024 to 4.20% by the end of March, reflecting concerns about a weakening US economy, German 10-Y yields, the benchmark for the Eurozone, rose from 2.36% to 2.74% over the same period, as growth prospects for Germany improved following the newly-elected government's commitment to invest heavily in defence and infrastructure - the EUR500bn infrastructure spending planned over 12 years adds potentially up to 1% pa to GDP. Furthermore, the paradigm shift in European and UK political leaders' attitude to defence spending will mean more borrowing, underpinning bond yields.

Careful country selection and diversification have been important factors in portfolio performance this quarter, as has the inclusion of gold as a reliable diversifier. With a gain of 19% in Q1 and 40% over 12 months, gold has again demonstrated its value during geopolitical upheavals, deep uncertainty, and concerns about the dollar. Multi-asset investing, geographic and currency diversification have all proved their worth.

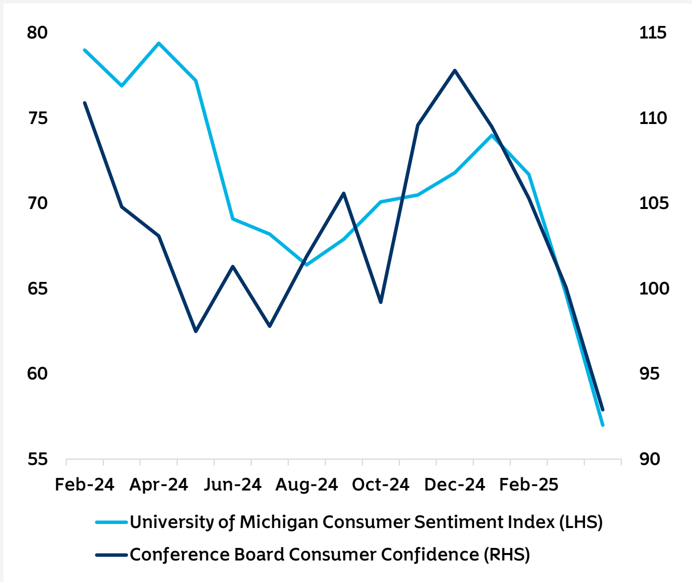
For the time being, tariffs dominate the global narrative. Compared with Trump 1.0, the tariff strategy under Trump 2.0 is much more wide ranging, covering a broader spectrum of trading partners and products, as well as higher levies. And the current administration appears braced for, and prepared to accept, some short-term pain as they implement their radical policy shift.

At the time of writing, Trump has just announced his reciprocal tariffs plans, and they are materially worse than expected. Substantially different levies have been imposed on a country/region basis, ranging from the UK, which runs a trade deficit with the US, and is hit with the minimum base line of 10%, while the EU rate is 20%, broadly as expected, and Japan 24%, while China and smaller Asian countries face the biggest tariffs, including Vietnam at 46% and China 34%, on top of the earlier tariff of 20%. Some goods have been exempted from the tariffs, including pharmaceuticals, semi-conductors, certain minerals, lumber and copper. But these are relatively minor, and, if implemented in full, there is no doubt that the global economy including the US will take a hit, with some early forecasts suggesting as much as 1-1.5% off GDP.

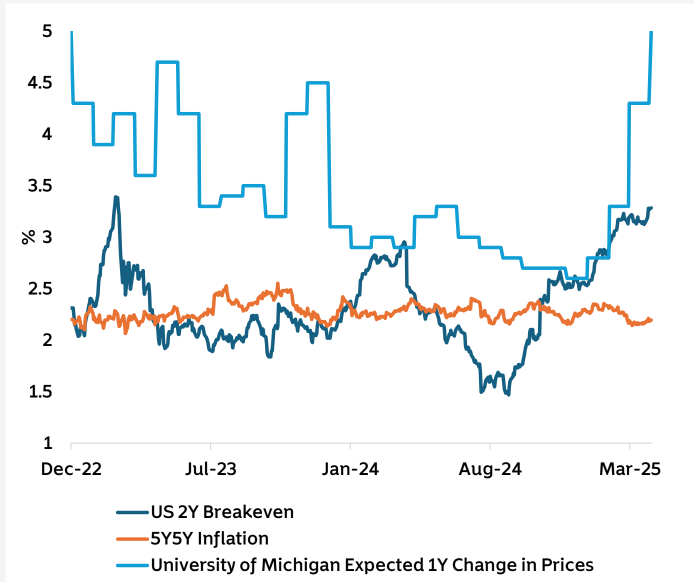
In reality it is too soon to make an assessment; although there is now some clarity on the maximum extent of the potential damage, the uncertainty is only partially lifted, as much will depend on how other countries respond. The worst possible outcome, an all-out trade war, cannot be dismissed, and that would benefit very few countries, businesses or individuals, at least in the short term. On the other end of the spectrum, it appears that deals can be done with the Trump administration, mitigating some of the damage that tariffs could cause. Longer term, companies will adjust to the new regime, with some shifting production to the US, as Trump is hoping. But it is difficult in the light of the announcement to be anything but cautious about economic prospects in the short term.

Negotiations between the US and its trading partners will proceed with haste in coming days, and markets will be susceptible to each development. Predicting the eventual outcome is impossible given the unpredictability of the President, but some substantial tariffs will inevitably remain, and business and consumer confidence is likely to have been damaged further. They are likely to be disruptive and will hamper growth, not least because of the inter-connectedness of the global economy, as well as being inflationary. The considerable uncertainty around these outcomes, and the increasing likelihood of a sharp slowdown in growth, would suggest that central banks will ease policy further than previously expected, and markets have reacted to the news with falls in bond yields alongside a sell-off in equities.

US consumer confidence weakens



US inflation expectations



Source: Bloomberg Finance L.P., as at 31 March 2025.

In view of the intense uncertainty, a highly unpredictable political environment and wide range of potential outcomes, higher market volatility is likely to persist for a time. While we might be at the nadir of trade war fears it is impossible to have confidence in the eventual outcome. Tactical opportunities to add to risk in our portfolios are being created by the sharp market moves, but some caution and patience is required in the very short term. Risks of significant setbacks are high, and, more than ever, diversification across and within asset classes will be vital as we navigate through an extraordinary period of global turmoil.

Market performance - Global (local returns) as at 31 March 2025

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-5.7%	-4.4%	-4.4%	7.8%*
United Kingdom	MSCI UK NR	GBP	-1.8%	6.4%	6.4%	11.9%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.3%	6.1%	6.1%	4.7%
Japan	Topix TR	JPY	0.2%	-3.4%*	-3.4%*	-1.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.4%	1.1%	1.1%	9.1%
Global	MSCI World NR	USD	-4.5%	-1.8%	-1.8%	7.0%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	4.7%	16.8%	16.8%	15.9%
Emerging Asia	MSCI EM Asia NR	USD	-0.1%	1.3%	1.3%	9.8%
Emerging Latin America	MSCI EM Latin America NR	USD	4.8%	12.7%	12.7%	-13.6%
BRICs	MSCI BRIC NR	USD	4.8%	8.1%	8.1%	19.0%
China	MSCI China NR	USD	2.0%	15.0%	15.0%	40.4%
Global emerging markets	MSCI Emerging Markets NR	USD	0.6%	2.9%	2.9%	8.1%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.2%	2.9%	2.9%	4.5%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	0.5%	4.2%	4.2%	6.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.3%	2.3%	2.3%	4.9%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.0%	1.0%	1.0%	7.7%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-1.1%	0.5%	0.5%	-1.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.9%	0.7%	0.7%	2.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.8%	-1.2%	-1.2%	1.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.0%	0.0%	0.0%	4.2%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	-1.0%	0.6%	0.6%	7.2%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.0%	-2.4%	-2.4%	-5.2%
Australian Government	JP Morgan Australia GBI TR	AUD	0.1%	1.2%	1.2%	2.4%
Global Government Bonds	JP Morgan Global GBI	USD	0.6%	2.9%	2.9%	1.9%
Global Bonds	ICE BofAML Global Broad Market	USD	0.6%	2.9%	2.9%	3.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-1.4%	1.1%	1.1%	8.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-0.8%	2.1%	2.1%	7.4%*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	-3.8%	0.8%	0.8%	9.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-5.0%	-7.3%	-7.3%	-8.6%*
Asia Property Securities	S&P Asia Property 40 Index NR	USD	2.6%	6.2%	6.2%	-0.5%
Global Property Securities	S&P Global Property USD TR	USD	-1.9%	1.4%	1.4%	5.5%
Currencies						
Euro		USD	4.3%	4.5%	4.5%	0.2%
UK Pound Sterling		USD	2.7%	3.2%	3.2%	2.3%
Japanese Yen		USD	0.4%	4.8%	4.8%	0.9%
Australian Dollar		USD	0.6%	1.0%	1.0%	-4.2%
South African Rand		USD	2.0%	2.8%	2.8%	3.0%
Commodities & Alternatives						
Commodities	RICI TR	USD	2.7%	5.3%	5.3%	6.5%*
Agricultural Commodities	RICI Agriculture TR	USD	-0.6%	-0.9%	-0.9%	-1.9%*
Oil	Brent Crude Oil	USD	2.1%	0.1%	0.1%	-14.6%*
Gold	Gold Spot	USD	9.3%	19.0%	19.0%	40.1%*

Interest Rates	Current Rate
United States	4.50%
United Kingdom	4.50%
Eurozone	2.65%
Japan	0.50%
Australia	4.10%
South Africa	7.50%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimated figures.*

Market performance - UK (all returns GBP) as at 31 March 2025

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	-1.8%	6.4%	6.4%	11.9%
UK - Large Cap	MSCI UK Large Cap NR	GBP	-1.2%	8.0%	8.0%	14.8%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-5.2%	-2.3%	-2.3%	-5.6%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.6%	-3.6%	-3.6%	0.8%
United States	S&P 500 NR	USD	-8.0%	-7.2%	-7.2%	5.5%*
Continental Europe	MSCI Europe ex UK NR	EUR	-2.9%	7.6%	7.6%	2.6%
Japan	Topix TR	JPY	-1.9%	-1.6%*	-1.6%*	-2.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.9%	-1.9%	-1.9%	6.7%
Global developed markets	MSCI World NR	USD	-6.8%	-4.7%	-4.7%	4.7%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.8%	-0.2%	-0.2%	5.7%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-1.2%	0.5%	0.5%	-1.8%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.2%	1.4%	1.4%	4.0%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-0.8%	0.8%	0.8%	-0.7%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-2.8%	-0.9%	-0.9%	-8.1%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-2.2%	-1.4%	-1.4%	-8.1%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-1.3%	-0.3%	-0.3%	-3.3%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-3.7%	-3.3%	-3.3%	-15.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.9%	0.7%	0.7%	2.5%
US Treasuries	JP Morgan US Government Bond TR	USD	-2.2%	-0.2%	-0.2%	2.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-2.7%	-0.7%	-0.7%	2.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.0%	1.0%	1.0%	7.7%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.8%	-1.2%	-1.2%	1.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.0%	0.0%	0.0%	4.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-1.0%	0.6%	0.6%	7.2%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.8%	-0.2%	-0.2%	-0.4%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.6%	2.9%	2.9%	3.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-1.4%	1.1%	1.1%	8.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-3.2%	-1.0%	-1.0%	5.1%*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-4.3%	-1.7%	-1.7%	3.2%
Currencies						
Euro		GBP	1.5%	1.2%	1.2%	-2.1%
US Dollar		GBP	-2.6%	-3.1%	-3.1%	-2.3%
Japanese Yen		GBP	-2.2%	1.5%	1.5%	-1.4%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	0.2%	2.1%	2.1%	4.1%*
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	-3.1%	-3.8%	-3.8%	-4.0%*
Oil	Brent Crude Oil	GBP	-0.4%	-2.9%	-2.9%	-16.4%*
Gold	Gold Spot	GBP	6.6%	15.4%	15.4%	37.0%*
Interest Rates				Current Rate		
United Kingdom				4.50%		

*Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.*estimated figures.*

Asset allocation views

Score	−						+
	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/–							
Equities	–			■				
Fixed Income	–				■			
Alternatives	–					■		
Cash	–				■			

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/–							
Developed Equities	–			■				
UK Equities	▼				■			
European Equities	–			■				
US Equities	–		■					
Japanese Equities	–					■		
Emerging Market Equities	–				■			

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/–							
Global Listed Property	▲				■			
Global Listed Infrastructure	–			■				
Specialist Assets	–						■	
Liquid Alternatives	–		■					
Gold	–				■			

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/–							
Government	–				■			
Index-Linked	▼				■			
Investment Grade Corporate	–				■			
High Yield Corporate	▲				■			
Emerging Market Debt	–				■			

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/–							
GBP	–					■		
EUR	–				■			
JPY	–					■		

The asset allocation views are updated at the end of each quarter unless otherwise stated.

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Important Notes

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