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Q1 2025 Commentary

“Investors became concerned about US trade policy and the risk of a US recession, which caused increased market volatility in Q1 2025”

Q1 2025 was volatile. Volatility has stemmed from elevated investor uncertainty regarding US trade policy. This has subsequently dampened global growth expectations, but in particular this has impacted the US and Europe the most.

Rising US recession risk led to falling yields in bond market, causing a positive return from US Treasuries. Conversely in Europe, expectations of much larger bond issuance to finance government spending weighed on sovereign bond returns as yields rose and prices fell. Overall, this resulted in global bond prices falling over Q1 2025.

United Kingdom

FTSE All Share: 4.51%

UK equities rose over Q1 2025, with larger companies performing well as investors rotated away from US equities. Smaller and mid-sized companies suffered due to concerns about the economic outlook.

The UK avoided a technical recession at the end of 2024 and further spending cuts in the Spring Statement prompted further questions around the state of the UK economy. While the Office for Budget Responsibility said the UK fiscal outlook remained stable, it warned



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that risks from upward pressure on defence spending and global trade concerns might lead to further tax hikes in the autumn budget.

United States

S&P 500: -7.21%

Investor uncertainty about Artificial Intelligence (AI) and trade tariffs caused US shares to fall in Q1 2025. News that China's DeepSeek had developed an AI model comparable to the US

spent on defence and infrastructure. Albeit the gains in Q1 were impacted in March, amid worries over the US imposing tariffs on imports.

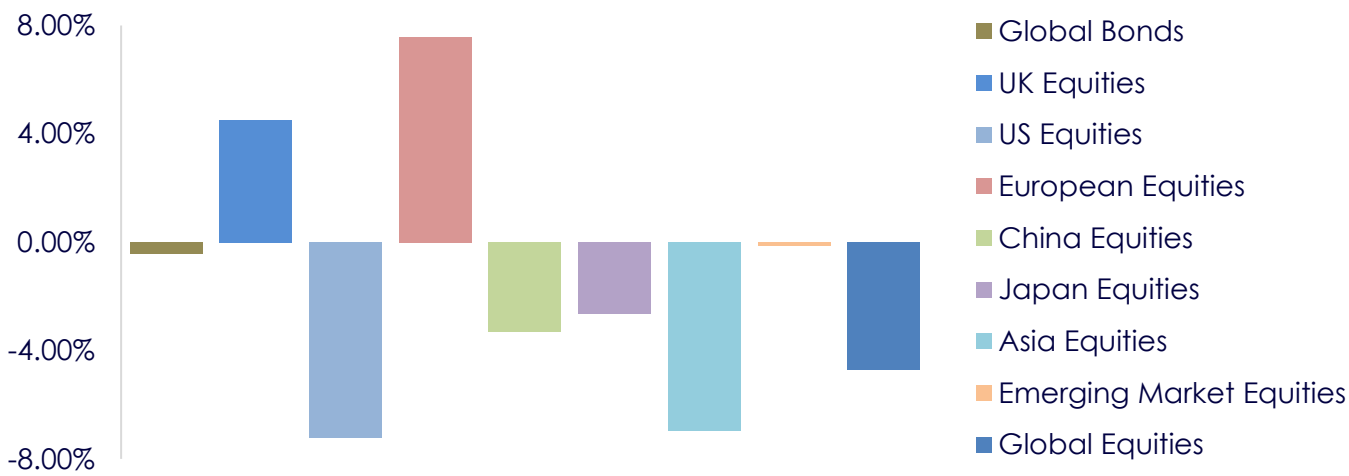
The European Central Bank (ECB) cut interest rates twice, as inflation fell to 2.3%.

China

CSI 300: -3.30%

Shares in China were impacted by investor fear

Discrete Quarterly Performance as at 31/03/2025



market leaders, but at a fraction of the cost, put pressure on some of the largest stocks in the US index. Furthermore, President Trump, announced tariffs on certain countries and goods. Towards the end of Q1, investors were anxious ahead of the “Liberation Day” announcements, with a potentially broader range of tariffs being introduced.

In March, the US Federal Reserve (Fed) cut its US growth forecast for 2025 to 1.7% from 2.1%. The Fed also lifted its inflation outlook to 2.7% from 2.5%, keeping interest rates on hold at 4.25-4.50% during the quarter.

Europe

FTSE Developed Europe ex UK: 7.57%

Eurozone shares gained sharply in Q1 as the region benefitted from the rotation out of US equities. February brought the German elections and optimism that the new administration would pursue a pro-growth agenda, with extra money expected to be

over Trump's tariffs, despite the government stimulus measures, such as interest rate cuts, support for the property sector, and liquidity injections, which helped to stabilise the economy and restore some investor confidence. Advances in artificial intelligence (AI) by Chinese companies also led investors to reevaluate China as a leader in the technology sector with strong growth potential.

Japan

MSCI Japan: -2.65%

The Japanese equity market posted a negative return in Q1 facing pressure from the uncertainty surrounding US tariff policy, as well as rising concerns about the risk of a US recession. These fears were exacerbated by an announcement towards the end of March that the Trump administration would impose 25% tariffs on imported cars.

Macroeconomic data provided some cause for optimism, with positive news on inflation

and wage growth, along with the announcement of increased defence spending by the Japanese government. The Bank of Japan also raised its interest rate in late January, a widely expected move that supported financial stocks such as banks. Additionally, ongoing activity related to corporate governance reform continued to provide some support for Japanese equities.

Emerging Markets

MSCI Emerging Markets: -0.13%

With the exception of Europe and the UK, Emerging Markets outperformed developed markets over Q1 2025, being bolstered by a weaker US Dollar.

Poland, Greece, Czech Republic and Hungary, posted particularly strong returns, supported by an improved outlook for the Eurozone.

India declined, primarily because of growth concerns. Indonesia, Thailand and Taiwan returned double digit negative returns, as uncertainty relating to US trade tariffs weighed on technology stocks in particular.

Global Bonds

Bloomberg Barclays Global Agg: -0.41%

There was a notable shift in the global macroeconomic landscape during Q1 2025. US exceptionalism was challenged as heightened policy uncertainty led to a sharp fall in sentiment and raised recession concerns.

US Treasuries outperformed during Q1, with yields falling and prices rising, in response to weaker economic activity data.

In the UK, the vulnerable fiscal position, underscored by the government's Spring Statement, influenced performance as Gilt yields ended slightly higher.

In Asia, Japanese government bonds underperformed all major markets, with rising yields amid strong Q4 2024 GDP growth of 2.2% and rising inflation, signalling the potential for interest rate hikes by the Bank of Japan. Conversely, in China, a largely deflationary outlook stemmed a rise in yields.

All investment involves risk. It is important you understand that past performance is not a guarantee of future performance. The value of investments and any income derived from them may go down as well as up and you might not get back the full amount you invested.

Cumulative Performance and Annualised Volatility as at 31/03/2025

	1 Year %	3 Years %	5 Years %	Volatility % ²
Global Bonds	0.85	-2.89	-10.41	5.39
UK Equities	10.46	23.27	76.55	11.50
US Equities	5.52	30.51	120.18	13.47
European Equities	2.88	24.86	77.00	13.58
Japan Equities	-4.19	19.04	46.50	11.97
Asia Equities	-3.13	1.48	63.62	14.88
China Equities	8.97	-10.98	11.60	19.08
Emerging Market Equities	5.79	6.49	40.78	12.75
Global Equities	4.76	27.01	102.88	12.42

Data source FE Analytics 31/03/2025. Indices used: Global Bonds: Bloomberg Barclays Global Aggregate, UK Equities: FTSE All Share, US Equities S&P500, European Equities: FTSE Developed Europe (Ex UK), Japan Equities: MSCI Japan, Asia Equities: FTSE World Asia Pacific (Ex Japan), China: CSI 300, Emerging Markets Equities: MSCI Emerging Markets, Global Equities: MSCI World. Volatility annualised over 5 years.

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