Investment Commentary

March 2025

Market overview

Following a robust beginning to 2025, February proved to be a mixed month for equity markets with positive returns from the eurozone and Asia but declines in the US and Japanese markets. Returns from most areas of the bond market were positive as growth concerns intensified, particularly in the US.

Strong returns from eurozone markets were fuelled by expectations of further rate cuts, but also expectations of increased defence spending and hopes of a possible end to hostilities in Ukraine. The UK market also rose in February despite a backdrop of anaemic growth and rising inflation. Optimism for improved EU relations and the absence to-date of US-imposed tariffs also contributed to the strengthening of sterling over the month. Nevertheless, concerns regarding the UK's fiscal outlook persist following Prime Minister Keir Starmer's announcement of an unexpected increase in defence spending to 2.5% of GDP by 2027, which has sparked concerns surrounding potential tax increases.

The weaker sentiment in the US market was largely driven by trade war concerns as President Donald Trump announced further tariffs on imports from Mexico and Canada, in addition to the 10% tariff introduced on Chinese imports earlier on in the month. Consequent concerns over the impact of these tariffs on growth and inflation weighed particularly heavily on consumer-related sectors, and on smaller companies more generally. In addition, softer economic data and concerns over the sustainability of earnings from US mega cap tech stocks, notably those exposed to the artificial intelligence ('AI') theme, further detracted from returns in the US.

Asian markets rose over the month, fuelled by strong returns from Chinese technology stocks, which were bolstered by the continued excitement surrounding AI start-up DeepSeek. In addition, announcements from Beijing suggested that growth targets are on track, and also proposed further stimulus to offset potential trade war headwinds. Japan stood out as the anomaly in the region, with the TOPIX falling -3.8% over the month.

As growth expectations declined, investors turned to more defensive assets and US treasuries performed strongly over the month, rising over 2%. Relative strength in the corporate sector meant that corporate bonds also performed well, providing a good hedge to the weakness in some areas of the equity market. As expected, the Bank of England cut interest rates by 25 basis points (to 4.5%) to mark the third reduction since the initiation of the rate cutting cycle in August last year. The weak growth outlook in the eurozone and easing inflation (2.4% in February) reinforces the expectation of the European Central Bank continuing its dovish stance in 2025. In the US, however, expectations around rate cuts continue to moderate.

Strategy Positioning

Despite the current uncertainties over US trade policy we continue to believe that the fundamental backdrop is favourable for risk assets, with positive global economic growth and diminishing inflationary pressures, as we move further into 2025. We anticipate generally positive corporate earnings announcements propelled by an improvement in profit margins and a more supportive environment for capital projects as the cost of capital falls.

We maintain an optimistic stance on fixed income assets on the back of further expected rate cuts in most developed markets and continued low default rates across corporate issuers. We are maintaining a commitment to alternative investments, where applicable to the mandate, which continue to provide appealing, risk-adjusted returns and lower volatility in periods of market weakness.

CONTACT US

Nugenis Financial Planning
5 Oak Tree Court
Mulberry Drive
Cardiff Gate Business Park
Cardiff CF23 8RS

029 2050 8000

JustAsk@nugenisfp.co.uk

nugenisfp.co.uk

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