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INVESTOR INSIGHT

A look at the markets by RSMR

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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

US policies dampen investor confidence.

This year started with investors upbeat due to solid economic growth in the US powered by the stock markets, but this suddenly all changed.

The tough stance of the new US administration and its approach to tariffs, defence, expansion, and immigration, transformed investors' mood causing a decline in US technology stocks. As a result, less talked about areas of the world have rebounded into focus, including the Eurozone where companies have benefitted, and equity markets have risen by 7.9%.

Now the global economic outlook is for slower growth, persistent inflationary pressures, and escalating trade tensions. According to credit ratings agency Fitch Ratings, global growth will slow to 2.3% in 2025, down from 2.9% in 2024, while the World Bank expects it to stick at 2.7% in 2025-26, possibly ending up in a low-growth rut insufficient for sustained economic development.

In the US, economic growth forecasts have been cut to 1.7% for 2025 reflecting the effect of recent trade policies, while a sluggish 0.7% performance is forecast for the UK where growth was minus 0.7% in January and the Bank of England held interest rates at 4.5% in March.

This gloomier mood does not mean a global recession is imminent, although the likelihood has increased, because other economic regions, including Europe, are reacting strongly to counter the US policies.

> "This gloomier mood does not mean a global recession is imminent"

The asset classes – a quick round-up

EQUITY MARKETS

So far this year markets have been unpredictable after last year's upbeat progress. Some company valuations were too high and so it was inevitable that there would be a market correction, but few anticipated that it would be due to the new US administration's policies.

Markets had initially welcomed Donald Trump's re-election as US President, but his combative approach has disrupted global politics which is unsettling risk assets and causing increasing equity market volatility. As a result many investors have reduced their exposure to risk, markedly in the US.

European equities have outperformed the US for the first time in several years, largely due to a reallocation of capital from other regions.

FIXED INTEREST

Fixed interest markets have been hard to forecast as investor confidence about interest rate cuts has fluctuated due to stubborn global inflation and inconsistent US policy statements.

Hopes for central bank rate cuts have faded, mainly due to the wait-and-see policy of the US Federal Reserve (Fed) as it assesses the effects of Trump's tariff announcements.

As a result, returns from government bonds have fluctuated with US Treasury returns probably remaining within a 4% to 5% range throughout 2025, suggesting a period of relative stability compared to last year.

The 10-year US Treasury yield reached around 4.80% in January before falling to about 4.25% by late March. In the UK, returns have been similar, and interest rates are higher than was expected 12 months ago.

A decline in economic activity is the biggest risk to fixed interest investments, given its likely negative effect on equities.

In this scenario, evidence of higher credit risks would drive bond prices down but, as long as inflation remains moderate, this would be partially offset by the expectation of lower interest rates in a weaker economic environment.

ALTERNATIVE INVESTMENTS

While interest rate cuts have supported property and infrastructure, several central banks have paused further reductions pending the outcome of tariff negotiations.

Global office leasing volumes rose by 9% in 2024, reaching the highest annual level since 2019. This is expected to continue. The property market recovery is expected to last all year, but high interest rates and geopolitical uncertainties may create challenges.

Significant infrastructure investment is expected across energy, digital, and public spaces. The implementation of the US Infrastructure Investment and Jobs Act (IIJA) has led to more than 60,000 construction projects, including repairs to 175,000 miles of roadway and modernisation of more than 10,200 bridges.

Another trend is digital infrastructure and data centres where significant investment is expanding capacity to support growing digital economies.

Oil supply is back to normal and price fluctuations are due to geopolitical tensions and trade policy shifts. Forecasts for 2025 are for average prices of between $65 and $70 a barrel.

Gold is the standout commodity, having risen for more than 12 months with prices achieving $3,057.21 per ounce. This is attributed to the Fed's indication of interest rate cuts and continuing geopolitical and economic uncertainties, enhancing gold's appeal as a 'safe haven' asset. Other metals have seen significant gains, with copper prices up 34% year-to-date, reflecting strong demand and supply constraints in the market.

RSMR Global round-up

- The Eurozone, where inflation fell to 2.3% in February, had its fastest economic growth in seven months in March, according to the Purchasing Managers' Index (PMI).

- UK inflation fell to 2.8% in February 2025, from 3% in January.
- After two years of above-average growth in the US, the Fed and Organisation for Economic Co-operation and Development (OECD) suggest a dip this year.
- Exports from China, which announced more economic stimulus measures, to the US fell from 21% in 2018 to 14% in 2023.
- The Fed held interest rates at 4.5-4.75% in February.
- Vietnam and Indonesia have become global manufacturing hubs, expected to average between 4.2% and 8% growth, despite tariffs.
- India's gross domestic product (GDP) has reached $4.3tr, a 105% increase.
- Japan's economy is one of the strongest among developed nations having expanded at an annualised rate of 2.8%, exceeding analyst estimates.
- Emerging markets have shown improved earnings potential and will benefit from a weaker dollar.

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SO, WHAT'S NEXT?

The economic future is more uncertain than for several years, reflecting the actions of the new US administration. The US undoubtably remains the world's dominant economic power and its actions have a significant influence on our predictions about global growth and stability.

The current White House leadership team is creating greater uncertainty having disrupted the status quo in international relations in trying to 'make America great again'. This is a global challenge as Trump resets the agenda for working alongside America politically and economically, in the biggest policy shift for decades.

The optimism at the end of 2024 has stalled due to challenges in global trade following the US government tariff announcements, with recession an increasing possibility.

Time will tell whether policies introduced now will create a new world order, define new trading blocks, or perhaps result only in subtle changes that keep the wheels of commerce turning.

The economic landscape appears more hazardous than expected last December, with weaker growth forecasts suggesting more muted returns for investment portfolios.

More optimistically, as long as this market correction does not lead directly to recession, it may offer opportunities to reset company valuations and for investors to buy more cheaply.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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