BROMPTON ASSET MANAGEMENT

Quarterly review

for the three months to 31 March 2025

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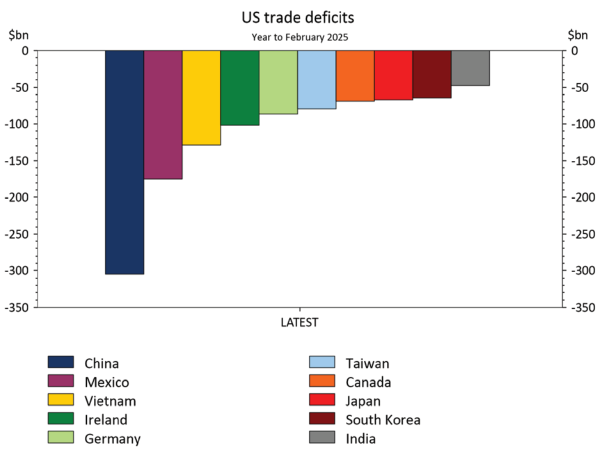
Global equities fell 4.15% in sterling over the quarter as Donald Trump's mercurial policy-making rattled investors. Growth stocks underperformed, falling 9.55% in sterling, driven lower by the impact of higher interest rates on future corporate cashflows. Growth-company valuations typically suffer more from higher rates because investors discount their rising cashflows more aggressively. By contrast, value stocks rose 1.83% in sterling. US technology stocks, which were amongst the most highly-valued companies at New Year, posted particularly sharp declines, falling 15.28% in sterling. Global bonds fell 0.41% in sterling, driven lower by the dollar's 2.97% fall against the pound. Gold's safe-haven attractions resulted in a 14.70% gain in sterling.

The US trade deficit reached a $131 billion peak in January, before narrowing to $123 billion in February, the latest month for which data is available. The chart below shows the countries with which the US has the largest deficits. President Trump takes an adversarial approach to trade, regarding deficits as "losses" that make the US worse off and should be redressed through higher tariffs and a weaker dollar. Restoring America's production of strategically-important components and commodities is his priority. During the Covid pandemic, trade disruption had already forced some companies to retreat from fragile, albeit low-cost, supply chains in favour of greater resilience, increasing their purchases from domestic suppliers, dual-sourcing and holding higher stocks of key commodities and components.



In early April, global equities fell following Trump's announcement of 10% baseline tariffs on all imports and higher tariffs for major trading partners, as shown in the table below. The proposed tariffs on UK and eurozone imports were 10% and 20% respectively while more punitive tariffs were proposed on imports from some developing economies. The adverse market reaction forced Trump to back track and put tariffs above the 10% baseline rate on hold for 90 days with the exception of tariffs on Canada, China and Mexico. The China tariffs were hiked to 125% following Beijing's announcement of reciprocal tariffs.

Country	US proposed tariffs*
China	34%
Mexico	25%
Vietnam	46%
Ireland	20%
Germany	20%
Taiwan	32%
Canada	25%
Japan	24%
South Korea	25%
India	26%

*Figures as announced on or prior to 2 April 2025.

Higher tariffs are inflationary and may lead to interest rates remaining higher for longer. In Federal Reserve monetary policy-setting meetings in January and March, rates stayed on hold at 4.25-4.5%. The Fed paused rate cuts notwithstanding its forecast for core consumption prices expenditures, its preferred inflation measure, falling from 2.5% in 2025 to close to target in 2026 and 2027 at 2.2% and 2% respectively.

US commitment to bodies such as NATO that have secured the pax Americana, has fallen under Trump, who insists Europe should pay for its defence. In response, Germany's Bundestag voted to exempt defence spending from the country's strict debt rules and create a €500 billion infrastructure fund. Benign inflation prospects encouraged the European Central Bank to reduce its policy interest rates by a quarter percentage point over the quarter. Quarter-point cuts announced in January and March cut the rates on the key deposit facility, the main refinancing operations and the marginal lending facility to 2.5%, 2.65% and 2.9% respectively. Lower valuations compared to some other equity markets, easier monetary policy and increased defence spending led to outperformance from equities in Europe excluding the UK, up 7.63% in sterling over the quarter.

Quarterly review (continued)

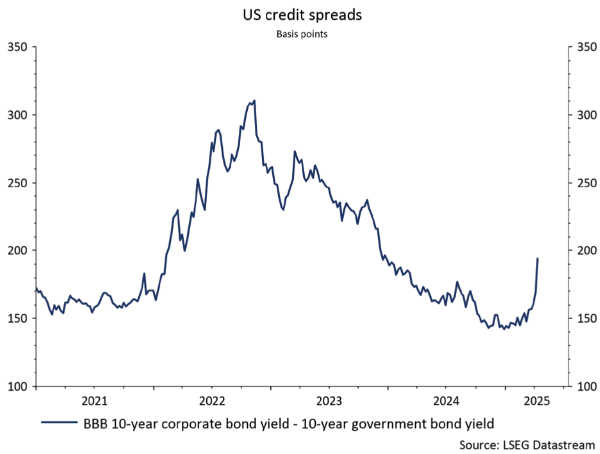
for the three months to 31 March 2025

The Bank of England cut its rate by a quarter point in February to 4.5%. UK inflation remained sticky and the March monetary policy committee minutes suggested it would rise to 3.75% in the third quarter of 2025. UK equities outperformed, up 4.91%, although UK small companies, with their greater sensitivity to the faltering domestic economy, fell 6.33%. In April, the government invoked strategic industrial needs in passing legislation to take control of British Steel's Scunthorpe plant, the last in the UK capable of producing virgin steel.

Equities in Asia excluding Japan and emerging markets fell 1.14% and 0.05% in sterling respectively although Chinese stocks, which appeared cheap relative to some other emerging markets, rose 11.65% despite the threatened trade war with the US. DeepSeek, a Chinese artificial intelligence (AI) company, produced an open-source large language model at a fraction of the cost of proprietary US models. The emergence of a new supplier led investors to reappraise the value if not the scale of the commercial opportunities for AI and may culminate in lower valuations for some technology stocks.

Trump's pro-growth policy agenda underpins the Fed's economic growth forecasts for 2025 and 2026 of 2.1% and 2% respectively. Higher inflation may, however, limit the Fed's scope to cut interest rates and could lead to a hard landing in the longer term. In response, credit spreads, the return investors demand from riskier corporate bonds compared to sovereign bonds, widened, as shown in chart opposite.

Shorter-dated inflation-linked bonds provide diversification and some protection from tariff-fuelled inflation in the short term but low oil prices and Chinese technological innovation are likely to be deflationary over the longer term and may favour a higher allocation to longer-dated conventional bonds in due course.



European equities ended the quarter on low valuations compared to the US and may prove defensive given the higher equity risk premia on offer to investors in Europe. This is the term given to the additional returns potentially available to equity investors compared to low-risk bond investors. A weaker dollar may lead to capital inflows and outperformance for emerging markets. Gold provides diversification and a potential store of value given the fixed supply compared to paper currencies. Central bank buying, particularly from China, to reduce dependence on US Treasury bonds, may push bullion prices to new highs.

Important information

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