

Monthly Market Commentary

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Watchful waiting through the first 100 days of President Trump Mark Two

We have just passed the milestone for the first 100 days of the second presidency of Donald Trump. He greeted the milestone with a rally in Michigan, celebrating what he called “the most successful 100 days in the history of America.” While it’s ultimately up to American voters to decide, the data paints a more mixed picture.

His rally came as US economic activity shrank at an annualised rate of 0.3% in Q1, a sharp drop from 2.4% growth the previous quarter and well below forecasts of a 0.3% rise. True, there are some short-term factors such as stockpiling of goods ahead of the introduction of tariffs that played a part in that number, but it is nonetheless a rapid turnaround in the prospects for the US economy.

Although 100 days is a short period, we can still think about it as having three distinct eras (if an era can last just a few days, certainly it has felt like that). In the first era, which ran from Trump’s inauguration on 20 January until 2 April, the market was anxious about Donald Trump’s proposals on tariffs but there was no panic. An underlying belief persisted that when the tariffs were finally announced on what he termed ‘liberation day’ it would be done in such a way that markets would be protected. This was built on the belief that in his first term Trump worked hard to keep markets up, seeing them as a key metric to judge his own success. This phase came to an abrupt end on liberation day.

When Trump stood in the Rose Garden of the White House and announced a raft of enormous and arbitrary tariffs across the world there was genuine shock. Why were we not better prepared? Well, how could we be prepared for a set of tariffs that seemed to relate to no rational methodology at all. On this day, attitudes from market participants changed. Instead of believing that Donald Trump would basically prop up the stock market, investors now concluded he really didn’t care. His motivation really was achieving generational change where manufacturing returned to the United States. This would entail enormous economic disruption and stock market losses, but this was his belief system, and he was going to do it. This can be seen as the moment of maximum despair about Trump. We wrote at the time that the key thing for investors to remember at that moment was that he is not all-powerful. He will fundamentally meet institutional forces that would seek to restrain him.

Whilst we had felt the first stage was unduly complacent and had moved into some higher-quality assets ahead of the inauguration to prepare, we now felt that the second phase was too despairing.

This second phase came to an end just as suddenly as it had begun. On 9 April and in the days running up to it, markets had started to exhibit an even more worrying feature than falling share prices. The cost of US government borrowing had begun to rise even as the value of the dollar fell. This is just not in conventional terms ‘supposed to happen.’

It indicated that the United States, conventionally thought of as the safest place in the world to lend your money to, was having to pay more to persuade investors to lend to it. Lenders estimated that Trump’s actions would undermine the US economy.

Normally, if the US government is paying you more to lend it money, we see the dollar rise. Investors flow back to the safety of the United States rather than lend money to riskier places because the gap between the interest they get paid on the safer lending to the United States has shrunk. This time, the dollar fell. In other words, money was still fleeing the nation. This is common in emerging markets and even some smaller developed markets when they hit hard times but is extremely rare for the mighty United States.

In our view, it is this factor that led Trump to suddenly reverse course and massively reduce his tariffs for a 90-day period for all nations other than China. In other words, the bond markets spoke, and Trump lost the game of chicken. There are those who will argue it was all part of a master plan. We will of course never know. Yet his own trade adviser probably wished he had been told the plan, if indeed there was one, as he was appearing before Congress vociferously defending the tariffs at the moment he withdrew them.

This moment ushered in a third era. It has not been easy, and the market remains highly volatile, but it is not as scary as the second era. Now we recognise that something short of the tariffs announcement made on 2 April is the 'worst case scenario' for tariffs. The bond market simply won't lend him the money he needs at the rate he needs if he goes back to that level of protectionism. There is after all always a bigger kid in the playground. For Donald Trump, the bigger kid is the bond market.

Yet despite this, there are still punishing tariffs in place and there is still a rapid staccato range of new policies being announced constantly, which are unsettling markets. The economic damage is to some extent done with business and consumer confidence having fallen sharply. So, it is certainly not the case that 'all is well'.

So how have we responded to this situation? When there is market turbulence such as this, the overwhelming urge is to do something. Doing something relieves our anxiety about these events. We have seen some other wealth managers do things like move a very small portion of their assets out of the United States and into Europe. In the short-term, this may have helped very slightly. But its impact is really very small indeed.

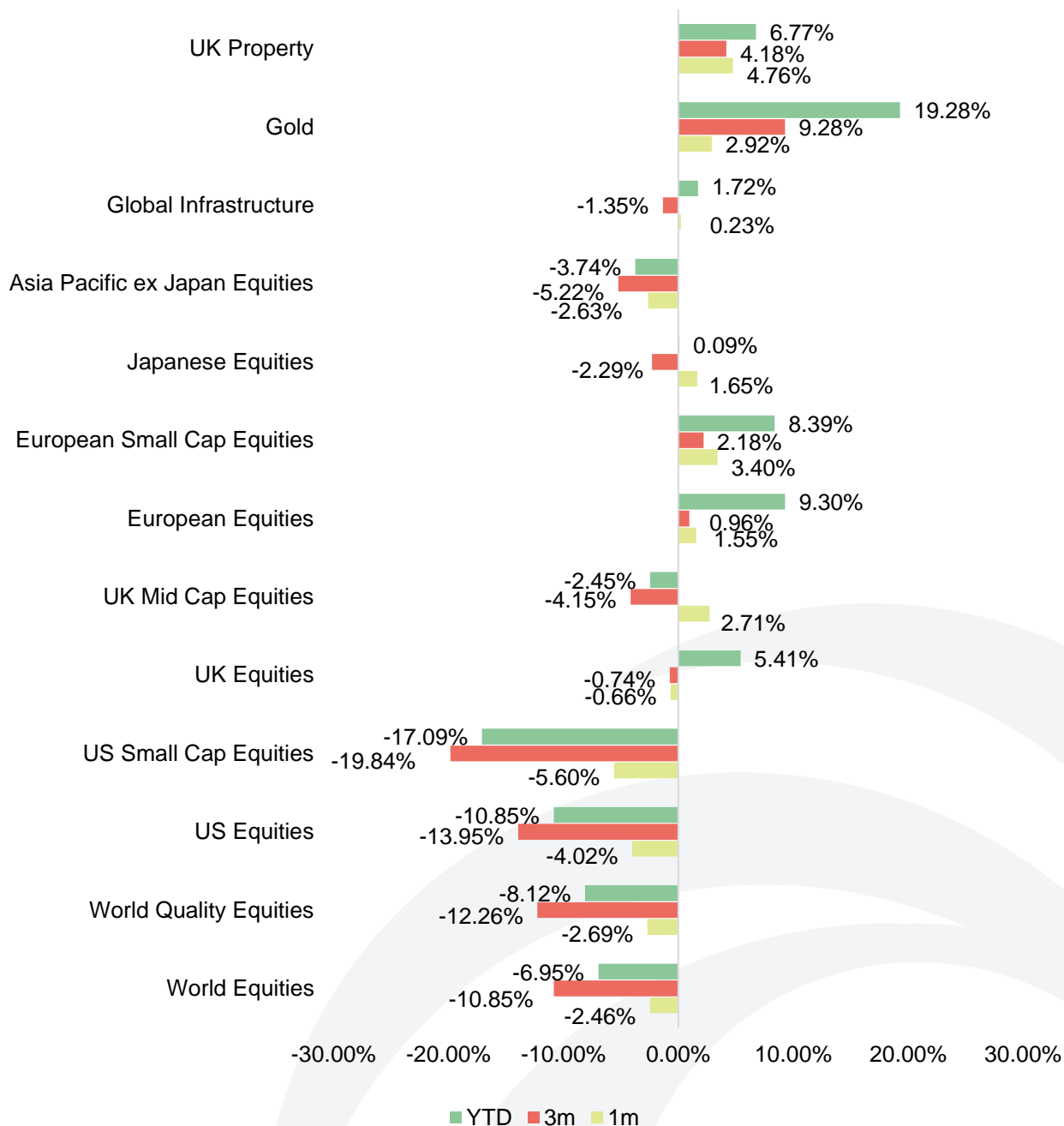
Ultimately, our conviction has been that to take risk out of portfolios in the past three months whilst this turbulence has been going on would have done two things. Firstly, it would have locked investors into the losses that occurred suddenly when the aggressive tariffs were announced, even though it seems there is now a slow pullback from these policies. Secondly, it would have meant that investors would have seen their portfolios trading during a period of high volatility when it is frankly anybody's guess hour by hour and day by day whether the trading would help.

Instead, we believe that the more psychologically uncomfortable position of watchful waiting has been the right policy. We have not rushed to make changes to these long-term portfolios because we know that attempting to time short-term market volatility very rarely rewards investors. Ultimately, the world works through its problems and finds solutions. Sometimes we just have to wait.

We will continue watchful waiting in the days ahead as we carefully judge the right moment to re-balance portfolios. We will be looking for a period of more modest stock market volatility to make that judgement.

Asset Class Performance:

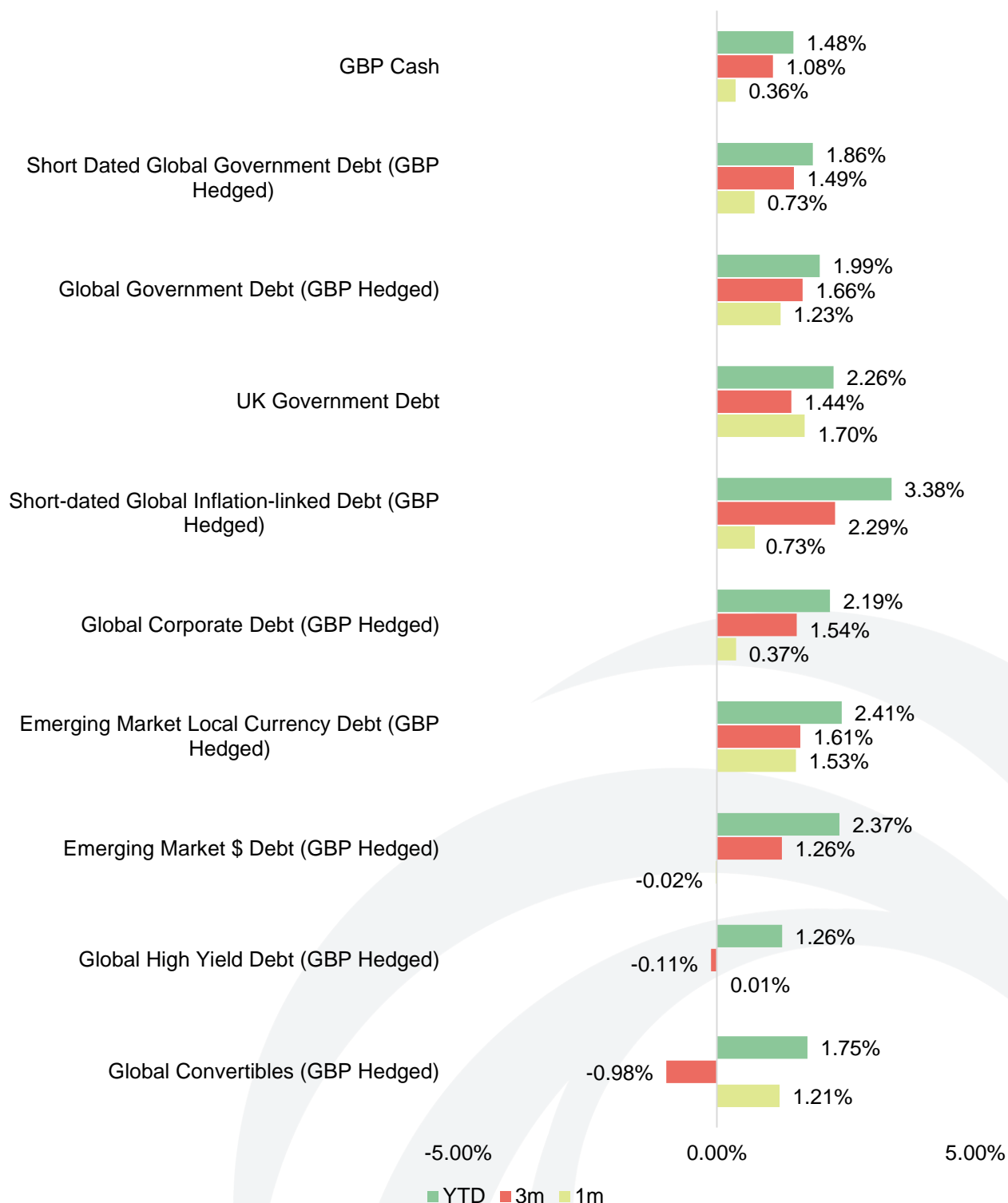
Equities & Alternatives



Source: FactSet, data to 30/04/2025

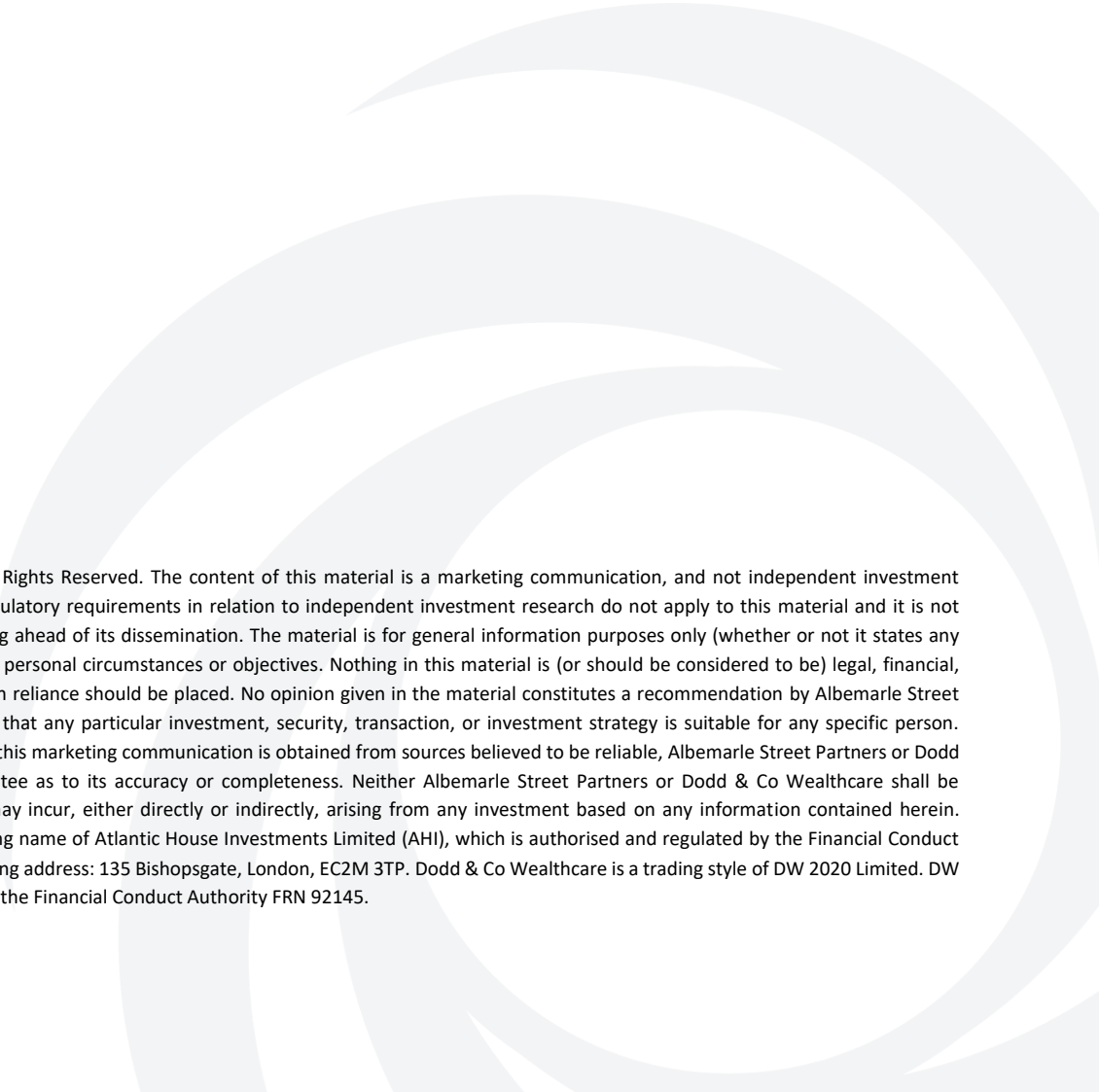
Past performance is not a guide to future performance

Bonds & Cash



Source: FactSet, data to 30/04/2025

Past performance is not a guide to future performance

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