PERIOD ENDING 15th APRIL 2025

STANHOPE CAPITAL FORTNIGHTLY BULLETIN

TACTICAL POSITIONING

The last two weeks have seen extreme intra-day movements in equity, bond and currency markets reminiscent of the chaos that reigned during the early days of the Covid lockdown. We have not rushed to re-arrange portfolios as exposures, already in place, to gold, cash, bonds and, to some extent, European equities have provided a partial cushion against dislocated markets. Trump's trade tariff policy is likely to go through many iterations during the coming weeks and the ultimate outcome is still uncertain. Any inflationary pressure from tariffs could be transitory and we currently still expect interest rate cuts in the US and Europe in the second half of this year. Near term, there is a good chance that markets will consolidate at current levels. Recent data on inflation has been good and should leave Central Bankers feeling more relaxed.

MARKET MOVES

	Equities *(incl. Dividends)*						
15-Apr-25	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	-3.2%	-3.9%	-4.4%	-3.4%	-3.9%	-3.5%	-2.6%
Year to Date	-4.1%	-8.0%	1.5%	2.6%	-13.5%	-0.2%	-1.6%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	-5.0%	3.3%	-14.2%	4.3%	2.4%	4.7%	13bps
Year to Date	3.6%	23.4%	-14.5%	9.0%	5.7%	9.8%	-24bps

Note: [1]Europe excluding UK; [2]Bloomberg Commodity Index; [3]US Treasury 10 Year Yield shows absolute, not percentage, change in yield; Source: Bloomberg

Trump's Liberation Day

President Donald Trump's 2nd April announcement of sweeping tariffs on US imports marks the most significant escalation in American trade policy in a century. The new tariff package imposes a 10% universal baseline tariff on all imported goods, alongside a series of "reciprocal" tariffs targeted at countries with the largest trade surpluses with the United States. Initial measures included a 34% tariff on China, the US's third-largest trading partner; a 20% tariff on the European Union, the US's largest trading partner; and a 24% tariff on Japan, a key American ally in Asia. Several Asian countries heavily dependent on US export markets, such as Vietnam, Cambodia, and Thailand, also face elevated tariff levels.

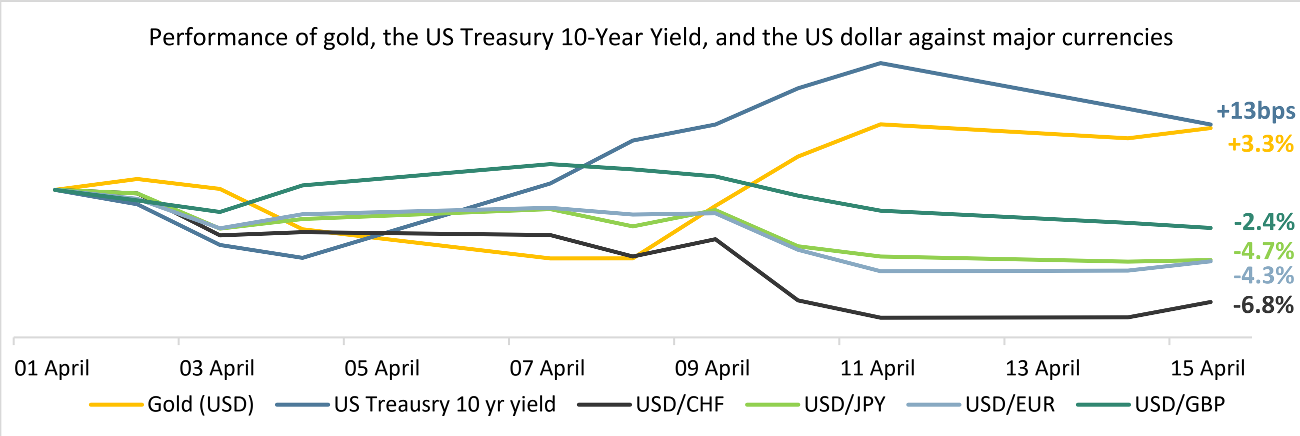
The sharp escalation in global trade tensions and heightened policy uncertainty triggered a broad sell-off in risk assets, with mounting concerns over the potential impact on both US and global economic growth. US equity markets recorded their steepest two-day drop since the 2020 pandemic shock, with major indices falling 10.5%. US high-yield bonds also posted significant losses. The US dollar weakened, approaching its largest single-day decline since 2023.Treasury yields fell sharply before rebounding, with the 10-year yield falling to a six-month low of 3.88%, and the 2-year yield touching 3.46%, before both rose significantly over the following days.

On 9th April, as reciprocal tariffs officially took effect, President Trump announced a 90-day pause on elevated tariff rates for 57 trading partners, including the European Union, Japan, and South Korea. These countries will temporarily revert to the 10% baseline rate, opening a window for diplomatic negotiations. China was excluded from the suspension. Instead, Washington and Beijing escalated tariffs further, with total US duties on Chinese goods rising to 145% and Chinese duties on US goods rising to 125%. The 10% baseline tariffs, implemented on April 5, remain in place for most other countries. Markets responded positively to the partial pause, with global stocks rebounding strongly and US stocks recording their largest single-day gain since 2008.

Gold Shines as the Ultimate Safe Haven

The US tariffs and the uncertainty about the eventual outcome led to market volatility rising to its highest level since the COVID-19 pandemic. Mounting fears of a global trade war, coupled with a broad sell-off in US equities and Treasuries, led investors to seek refuge in gold, which surged to a record high of $3,240 per troy ounce. Gold has experienced a historic rally this year, fuelled by investor demand and central bank purchases aimed at diversifying away from the dollar.

US Treasuries, traditionally viewed as a safe haven during periods of market stress, experienced a notable sell-off, defying the typical pattern of rallying during periods of market uncertainty. The 10-year yield rose to 4.56% over the fortnight. Similarly, the dollar failed to serve its usual role as a "flight-to-safety" asset, weakening against major currencies. The simultaneous rise in yields and decline in the dollar signals a broader retreat from dollar-denominated assets, highlighting growing concerns about the trajectory of US economic policy.



Source: Bloomberg as of 15th April 2025

"Coalition of the Willing"

The war in Ukraine, coupled with President Trump's comments on reducing US funding for NATO, have driven European nations to scale up defence spending. A France and UK-led coalition has paved the way for a defence and security pact to be signed at next month's EU leaders' summit, aimed at supporting Ukraine and advancing long-term peace. The proposed pact includes a €150 billion loan programme enabling governments to access EU budget-backed financing for joint military procurement. The European Commission has made the signing of the pact, along with a broader geopolitical declaration, a precondition for UK participation, as part of wider efforts to finalise UK-EU agreements on energy, migration, and fisheries. The Presidents of the European Commission and European Council, as well as UK Chancellor Rachel Reeves, all support this initiative, advocating for closer cooperation on defence. The European aerospace and defence sector gained 25.7% year to date.

Earnings Season: Corporate Outlooks in the Spotlight

The first quarter earnings season is underway, and investors are closely monitoring corporate guidance amid heightened trade policy uncertainty. Widespread tariffs are expected to pressure profit margins by raising import costs. While some companies may pass these costs on to consumers, others may choose to absorb them, potentially impacting profitability. A broad slowdown in consumer spending could weigh heavily on sectors such as retail, while a more uncertain business environment may lead to reduced capital expenditure. The season began with strong results from major banks, including Morgan Stanley and JPMorgan Chase, both of which reported record revenues following a robust start to the year in financial markets. Analysts at US financial data firm FactSet highlight that analysts are forecasting earnings growth of 7.3% for the quarter.

ECONOMIC UPDATES

In the US, the March non-farm payrolls report revealed a stronger than expected increase of 228,000 jobs, while the ADP report recorded 155,000 private sector additions, highlighting ongoing labour market strength. However, the unemployment rate edged up from 4.1% in February to 4.2%. The ISM Manufacturing Purchasing Managers Index ('PMI') fell to 49.0, signalling contraction after two months of expansion, while the Services PMI edged up to 50.8, the slowest pace in nine months. The New York Fed's consumer survey showed short-term inflation expectations rose to 3.6% from 3.1% in February, driven by concerns over rising food and rent costs. Consumer sentiment on personal finances and employment prospects also declined.

The UK labour market softened, with the number of jobseekers rising at the fastest pace in four years as businesses implemented layoffs and reduced hiring ahead of this month's increase in employer taxes. Wage growth, however, remained strong.

Inflation across the eurozone eased to 2.2% in March from 2.3% in February, owing to falling energy prices and slower service inflation. The HCOB Manufacturing PMI rose to 48.6, suggesting early recovery in the manufacturing sector, while the Services PMI increased to 51.0, indicating modest growth.

JONATHAN BELL, IVO COULSON, MARGAUX KOENIG

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