ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

March 2025

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Monthly Commentary

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/03/2025	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	208.65	-0.9%	+0.8%	+3.8%	+3.7%	+17.3%
ARC Balanced	Medium Risk	260.46	-2.3%	-0.5%	+2.9%	+5.4%	+28.5%
ARC Steady Growth	Medium High Risk	314.86	-3.1%	-1.2%	+2.5%	+7.0%	+38.2%
ARC Equity Risk	High Risk	372.51	-3.4%	-1.7%	+2.5%	+8.5%	+48.2%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/03/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8582.81	-2.6%	5.0%	7.9%	14.2%	51.3%
UK All Share	UK	4623.62	-2.7%	3.5%	6.6%	10.4%	48.8%
Dow Jones Ind Avg	US	42001.76	-4.2%	-1.3%	5.5%	21.1%	91.6%
S&P 500 Index	US	5611.85	-5.8%	-4.6%	6.8%	23.9%	117.1%
Nikkei 225	Japan	35617.56	-4.1%	-10.7%	-11.8%	28.0%	88.3%
MSCI Europe Ex UK	Europe	211.79	-4.6%	5.7%	2.4%	18.3%	68.4%
MSCI Asia Ex Japan	Asia	714.07	-0.2%	1.4%	9.1%	-1.4%	27.5%
MSCI Emg Mkts (£)	Emg Mkts	683.61	-1.8%	-0.1%	5.8%	6.5%	40.8%
MSCI World Index (£)	Global	3628.64	-4.6%	-2.1%	5.6%	18.9%	95.9%
UK Conventional	Gilts	3042.02	-1.0%	0.5%	-1.2%	-17.3%	-25.9%
UK Index-linked	Gilts	3649.09	-2.1%	-1.4%	-8.0%	-35.9%	-31.1%
UK Real Estate Investment Trusts	Property	1833.66	0.4%	0.9%	-12.0%	-38.9%	-15.0%
WTI Crude ($/Barrel)	Oil	71.48	2.5%	-0.3%	-14.1%	-28.7%	249.0%
Gold Spot $/Oz	Commodities	3123.57	9.3%	19.0%	40.1%	61.2%	98.0%
£1 = US$	Currencies	1.2918	2.7%	3.2%	2.3%	-1.7%	4.0%
£1 = €	Currencies	1.1944	-1.5%	-1.2%	2.1%	0.6%	6.1%
£1 = Yen	Currencies	193.73	2.3%	-1.5%	1.4%	21.2%	45.0%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	31/03/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	11,941.73	-5.1%	-4.3%	-0.6%	-7.9%	32.1%
Latest Weighted Average Discount	-16.1%						
12 Month Weighted Average Discount	-15.1%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

March was a challenging month across global markets, with most major indices and asset classes posting negative returns. The weakness was broad-based, affecting both equities and bonds, and was reflected in the performance of diversified portfolios and investment companies. It was, however, interesting to note UK real estate's positive month given the context of declines in those other asset classes.

Gold had another strong month as investors sought safety in perhaps the most traditional store of value. It was also made more affordable by the US dollar's weakness. In contrast to its major peer, sterling fared well, but not as well as the Euro which remained firmly in demand.

Readers should also note that the five-year numbers are now perhaps their most distorted by the COVID-19 pandemic given the March 2020 lockdowns. Anyone who filled their car up with petrol 5 years ago will fondly remember how low the oil price was for a brief period. Unfortunately for drivers though, that did not last long, so the near 250% increase in the oil price shown in the 5-year period since then should be taken with a pinch of salt.

UK Commentary

Despite reaching a new all-time high (briefly exceeding 8,900) the FTSE 100 ended up down over the month. Positive sentiment toward the UK stock market was overshadowed by risk-off sentiment from the US. It is still worth acknowledging, however, the significance of this all-time high valuation and that, despite what many commentators may say, there is still demand out there for UK assets.

The Chancellor's spring statement brought little change. The measures announced include welfare reforms expected to save £3.4 billion, reductions in departmental spending of £3.6 billion by 2029-30, and enhanced tax compliance measures aiming to raise an additional £2.2 billion, none of which significantly move the dial for the UK's economic outlook in any significant way.

A related story we have been following for a while now became much larger this month as the ONS delayed the release of key inflation data (as well as other releases), effectively admitting it can't properly calculate Producer Price Inflation (PPI). This shocking and embarrassing revelation came shortly after a Freedom of Information request from the FT revealed internal emails from senior figures deriding the quality of the data back in 2023 where the sample size of the Labour Force Survey collapsed to just five respondents. For a developed nation to lack any sort of reliable data upon which to base policy is remarkable. Effective economic policy requires reliable insights, which the ONS currently seems unable to provide. This is also a good reminder to investors like ourselves that insights from corporate results are typically a much better way to build a picture of what is going on in an economy than relying on government figures.

North America Commentary

The word of the month relating to North America was very much "tariff" with the US announcing duties on neighbours Canada and Mexico (as well as China). These tariffs were then repeatedly paused and reinstated. As we write this commentary in April, we are post the "Liberation Day" tariff announcements which overshadowed anything announced in March, so while it is important to note these events, we won't comment much further here. Please see more below and feel free to get in touch if you wish to discuss recent developments in further detail.

These tariffs were not well liked by global investors, who sold the US dollar and US treasuries alike. The US dollar lost as much as 7.4% over the month against major peers, with the Swedish krona being the largest beneficiary. Among leading currencies, only the South Korean Won and Taiwanese Dollar lost value against the US dollar over the month.

Taiwan Semiconductor Manufacturing Company (TSMC) announced a $100 billion investment in advanced manufacturing facilities in the US. With Apple also announcing plans to invest over $500 billion in the US, the commitment from these key companies shows their confidence in the future and will support significant growth for years to come. Some may point out that efforts such as these aim to earn favour in the White House and avoid tariffs, while others will say that commitments like this are exactly why the tariffs have been imposed in the first place.

US inflation cooled more than expected in February, falling to 2.8% and providing a welcome boost to both consumers and investors. This lower-than-anticipated figure—below January's 3% and economists' forecasts—arguably strengthens the case for the Federal Reserve to consider interest rate cuts in the months ahead, supporting a more accommodative policy stance as growth moderates.

Europe Commentary

Eurozone inflation has eased to 2.4%, reinforcing hopes that recent price pressures are temporary. This helped with the ECB's decision to cut its benchmark interest rate by a quarter-point to 2.5%, a move they hope can help to stimulate economic activity.

Germany is pressing ahead with a significant boost to military and infrastructure spending, potentially unlocking hundreds of billions in extra funding. Chancellor-in-waiting Friedrich Merz reached an agreement with other parties to ease debt ceiling rules to achieve this. However, this led to German 10-year notes experiencing one of their worst weeks since 1990, as bond investors considered the scale of the borrowing. Meanwhile, the euro rallied sharply, gaining nearly 5% against the US dollar at its peak in its strongest weekly gain since 2009. The euro ended the month up 4.25% against the US dollar.

SAP has emerged as Europe's most valuable company, surpassing Novo Nordisk. This new milestone is driven by SAP's strong momentum in cloud computing and artificial intelligence, which has attracted significant investor interest and fuelled robust business growth. The company's strategic focus on digital transformation has resonated with clients and shareholders alike, cementing its reputation as a cornerstone of Europe's tech sector.

Asia Pacific Commentary

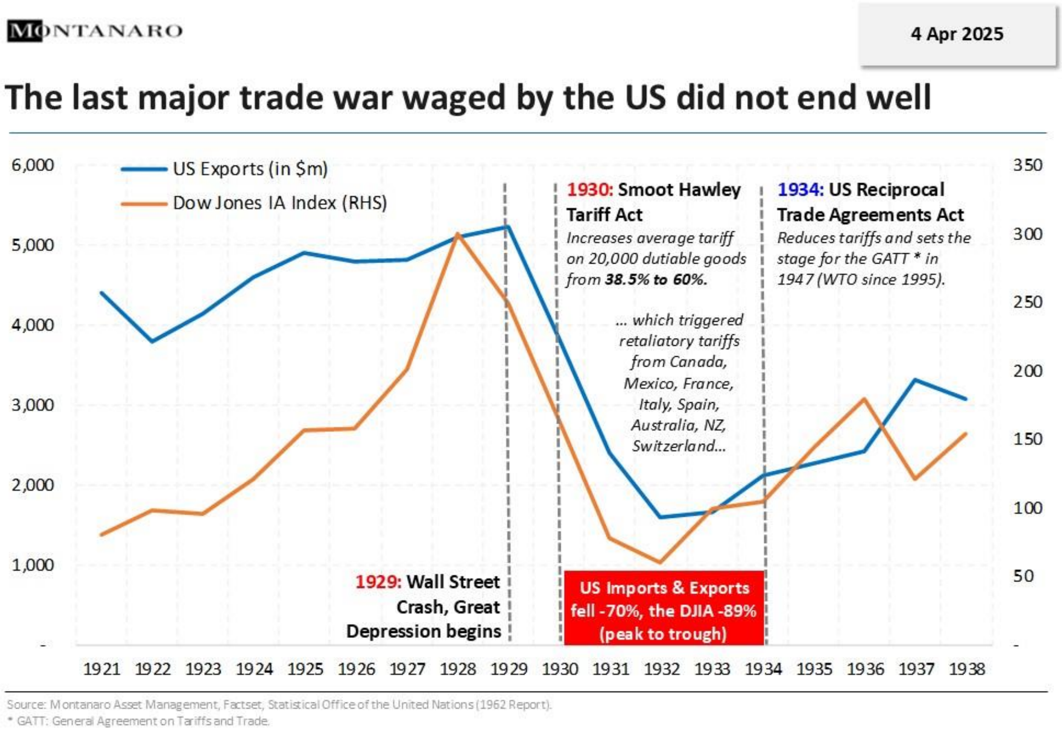
Hyundai Motor Group and fellow South Korean giant POSCO are investing $21 billion in the US, including $5.8 billion for a new steel plant in Louisiana. This move aims to strengthen Hyundai's American supply chain, support its car manufacturing, and reduce the impact of US tariffs on imported steel. The Louisiana facility, set to open in 2029, will supply advanced steel for Hyundai and Kia vehicles and create over 1,300 jobs. President Trump cited this example as evidence that his tariff policy was working.

Emerging Market Commentary

The Chinese economy proved to be firmly in deflationary territory as consumer prices were revealed to be 0.7% lower than a year earlier. This marked the second consecutive year and the fifth straight month of year-on-year declines. In response, the policy makers unveiled an ambitious new "Special Action Plan to Boost Consumption," which aims to "vigorously boost consumption" and "expand domestic demand in all directions," reflecting President Xi Jinping's renewed focus on supporting household spending as a key driver of the world's second-largest economy. Measures include promoting reasonable wage increases, enhancing employment support, and improving minimum wage mechanisms—all designed to raise household incomes and strengthen consumer confidence.

Shares in EV maker BYD hit a record high after the company unveiled breakthrough charging technology that can add nearly 470km of range in just five minutes—matching petrol refuelling times and setting a new industry benchmark. Founder Wang Chuanfu highlighted the innovation as a key step in eliminating charging anxiety and boosting BYD's competitiveness against Tesla. The Chinese company's stock has now recorded a near 91% gain over the past year in local currency terms as sales topped $100bn for the first time.

Chart(s) of the month – US Tariff History



The above chart from Montanaro Asset Management highlights a time in history where the US hiked tariffs aggressively, and that it didn't work out well for them at all. In fact, many historians point to the Smoot Hawley Tariff Act as a significant contributor to the duration and severity of the Great Depression.

This piece of legislation, passed in 1930, was a US law that sharply raised taxes on thousands of imported goods to try to protect American jobs during tough economic times. However, instead of helping, it backfired as other countries hit back with their own tariffs, making it much harder for the US to sell abroad. As a result, global trade dropped sharply and American exports and jobs in export industries plummeted.

Like many, we have limited insight into the motivations behind Mr. Trump's tariff policies. We are minded to believe they are an attempt to strong arm other nations into opening up their markets to US goods and companies to invest in the US, and that it is all part of negotiating tactics. However, it remains to be seen whether this is true or not, how long tariffs last for, and at what rates they are eventually set at.

Investment Profile – F&C Investment Trust

F&C Investment Trust, originally known as Foreign & Colonial, holds the distinction of being the world's first investment trust and one of the earliest collective investment vehicles ever established. Founded in 1868 by Philip Rose, its mission was to democratise investing by giving individuals of moderate means access to the same opportunities as large institutions—a purpose that remains central to its ethos today.

Launched in the Victorian era, just after the introduction of limited liability for investors, F&C began by investing in a diversified portfolio of government bonds, helping to spread risk for smaller investors at a time when such diversification was rare. Over time, the trust evolved, expanding into equities in 1925 and later adding private equity to its portfolio, reflecting the changing landscape of global markets and investor needs.

Today, F&C is a FTSE 100 company with a market capitalisation nearing £6 billion, making it one of the world's premier investment trusts. Under the management of Paul Niven since 2014 the trust has delivered a total return of around 230%, focusing on leading global companies such as Apple and Microsoft, while maintaining a modest allocation to private equity strategies. Its closed-ended structure allows for a flexible, long-term approach, enabling investment in less liquid assets to enhance performance.

F&C's commitment to income is equally impressive: it boasts a 54-year record of consecutive dividend increases and currently offers a 1.4% yield, earning it the status of an AIC Dividend Hero. More than 150 years after its founding, F&C continues to provide investors with diversified access to the world's capital markets.

Investment Team's thoughts

At the time of writing, we have gone through "Liberation Day", which for many nations around the world signifies a celebration of their freedom from previous rulers. However, Donald Trump has given new meaning to the phrase, and in future, many will now remember 2nd April as the day he released his long-awaited international trade tariff schedule, with huge increases across the board. This has caused a surge in market volatility, and somewhat of a realignment in investor focus as many have moved capital out of the US and towards Europe. This trend, evident in March and earlier in 2025, suggests a shift in market dynamics.

Long term readers will know we have made many comments to this effect in recent years based upon the relative valuations of markets on either side of the Atlantic, believing a reallocation in this direction would be rational, a view we continue to hold. We are also optimistic that the UK's beleaguered stock market could be well set to benefit from this trend over the coming years.