momentum global investment management

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Global Matters | Monthly

Market review & outlook

March 2025

BLUESTAR AMG

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Contents

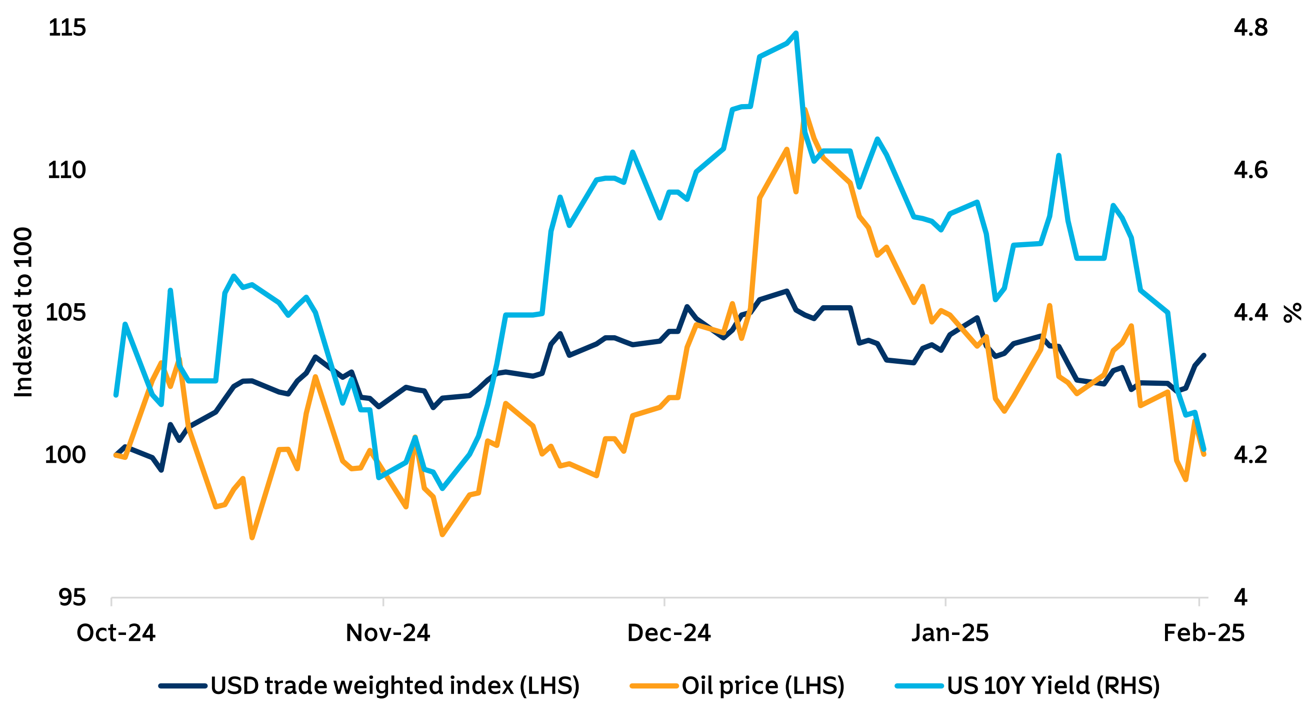
Global market review & outlook

Rarely is it that changes in government have such immediate and far-reaching consequences as we are currently experiencing; the energy, determination and ruthlessness of the new Trump administration to implement its policy agenda has been breath-taking, leaving the rest of the world's political leaders scrambling to formulate a response. Making extensive use of his Presidential Executive Orders, in little more than a month Trump has imposed substantial tariffs, or threats thereof, on all of the major trading partners of the US, allies or not; the Elon Musk-led Department of Government Efficiency ('DOGE') is dramatically shaking up the Federal government with immediate rolling back of regulations and huge job cuts; the Israel-Gaza conflict has been brought to at least a temporary end; the Russia-Ukraine war is heading towards a resolution, and, as far as the US is concerned, Russia is being brought back in from the cold.

It is no exaggeration to say that the outline of a new world order has been defined, perhaps no better articulated than by J.D. Vance at the Munich Security Conference on 14 February, where the pivot of the US to China as its biggest security threat could not have been clearer, and Europe was left in no doubt that the time had come for the continent to take responsibility for its own security:

> *"as President Trump has made abundantly clear, ... our European friends must play a bigger role in the future of this continent. We don't think you hear this term, "burden sharing," but we think it's an important part of being in a shared alliance together that the Europeans step up while America focuses on areas of the world that are in great danger". J.D. Vance*

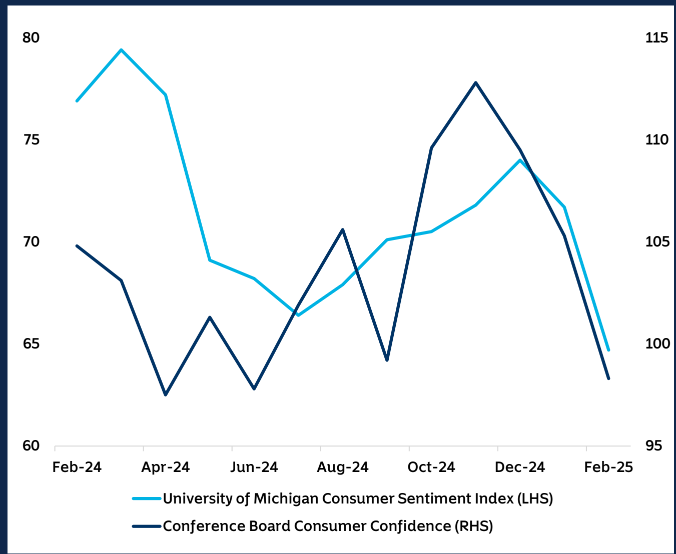
USD, oil, 10-Year yields: Trump euphoria fades – USD stalls, oil falls, bond yields drop



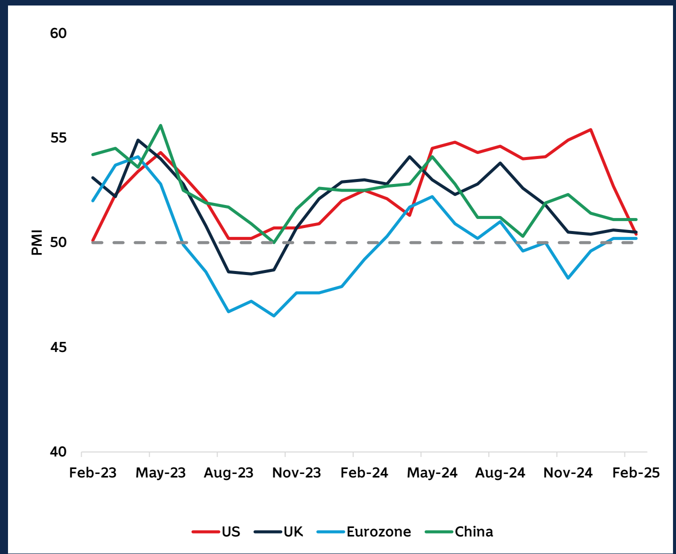
Source: Bloomberg Finance L.P., as at 28 February 2025.

Investors have been racing to map out the implications of these dramatic shifts, and equity markets have struggled for direction. The exuberance of the election and the 'Trump trade' have been unwound, the dollar's rise has stalled, and bond yields have fallen back as fears grow that the policies will damage confidence and growth not just outside the US but increasingly in the US itself. Early signs of slowing growth in the US were reflected in Purchasing Managers Indices, with the Composite PMI for February falling close to stall levels at 50.4. Services PMI at 49.7 fell below the 50 threshold between expansion and contraction, and although manufacturing PMI remained robust at 53.8, some of this was due to front-running of tariffs, whereas new orders slowed.

US consumer confidence weakens



Leading indicators point to slowdown in US, stabilising in Europe, UK and China



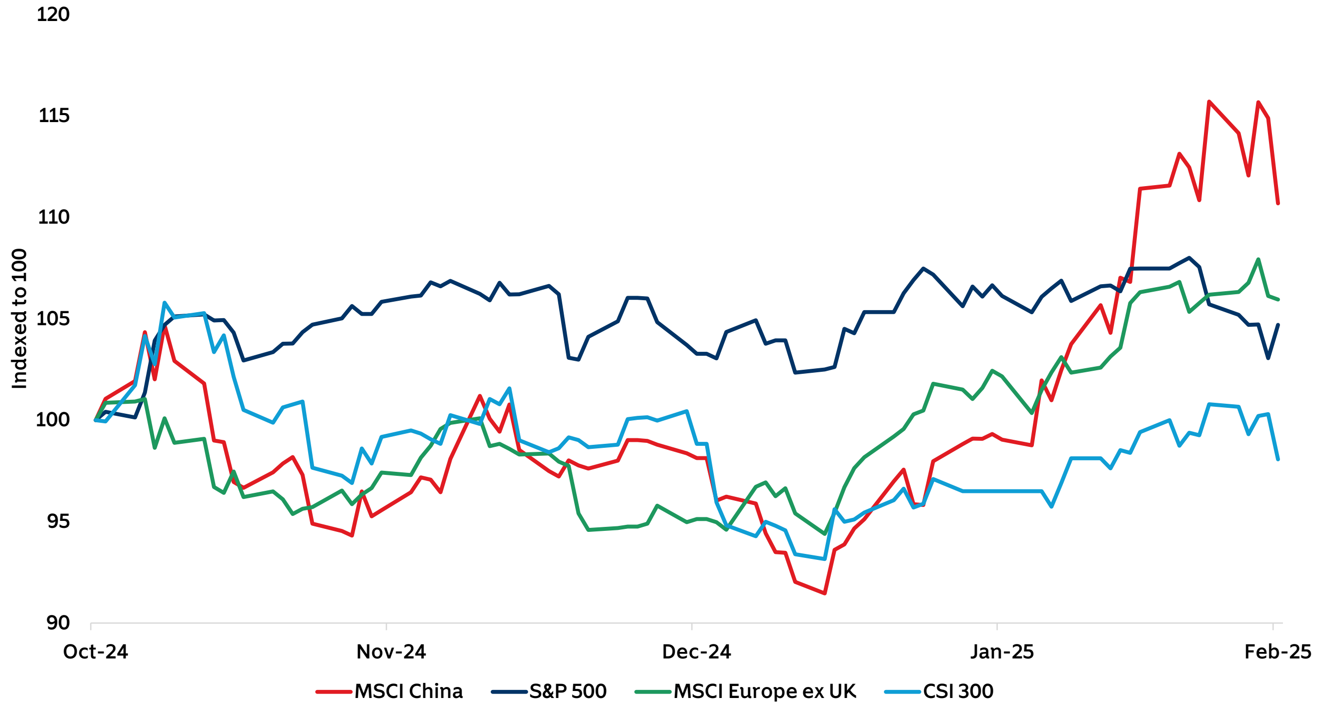
Source: Bloomberg Finance L.P., as at 28 February 2025. The chart on the RHS shows the Composite Purchasing Managers' Indices' for the four regions.

This led to a good month for bonds, with global government bonds returning +1.8%, while equities drifted, MSCI World -0.7%. Within equities, there has been a remarkable shift in leadership, with the megacap tech stocks in the US suffering sharp declines on fears over the impact of trade wars and the Chinese AI development, DeepSeek. The Magnificent 7 fell by 5.4% in February, and the dominance of these stocks in the US market led to a decline of 1.3% in the S&P 500, leaving it up by only 1.4% so far this year. Perhaps surprisingly given the news flow, European markets made further progress, with MSCI Europe ex UK +3.7% in the month, taking year-to-date gains to 10.9% in local currency terms. The UK also outperformed, with MSCI UK +2.4% in February, +8.3% YTD.

In a morass of uncertainty, one thing seems abundantly clear: Europe and the UK have no choice but to increase defence spending, and to do so in scale and with urgency. Defence shares have soared in price as a result, whereas bond yields in Europe have not fallen to the same extent as those in the US, as investors worry about the seemingly inevitable rise in debt to fund the additional spending on defence and security. Whereas in the US the 10-year Treasury bond yield fell by 33bps to 4.21% in February as growth fears deepened, the German 10-year yield fell by only 5bps to 2.41% and the UK by 6bps to 4.48%, despite weak growth and both the ECB and Bank of England cutting rates by 25bps in the month. The paradigm shift in European and UK political leaders' attitude to defence spending, as well as the need for huge infrastructure investment and to stimulate near-stagnant growth, will mean more borrowing and probably higher yields.

The strong performance of European equities came despite weak growth. Falling interest rates, with the prospect of more cuts to come, have supported markets, and leading indicators in the Eurozone have ticked up, while those in the UK have stabilised, albeit both still at subdued levels. Europe, especially Germany, is seen as a major beneficiary of de-escalation of the war in Ukraine, which offers the prospect of lower energy prices as Russian supplies could become more widely available. The outcome of the German general election was viewed as broadly positive, resulting in the likelihood of a two-party coalition led by the centre right CDU. Although the combination of the CDU and the centre left SPD garnered less than 50% of the popular vote, it will have a small majority of the seats in the Bundestag, enabling them to enact policy changes, although falling below the two-thirds majority required to loosen the constitutional 'debt brake' which restricts the amount that the government can borrow. Changing the constitution could be difficult once the new government is formed as it will need support from the smaller parties, the largest of which, the Alternativ für Deutschland (AfD), won 20.8% of the vote, but is frozen out as a coalition partner. This has added to the urgency, and in the clearest possible message that Europe's priorities have dramatically shifted in the past month, the new chancellor-in-waiting, Merz, has effectively torn up his pre-election pledges and is seeking approval before the new government is formed, expected by Easter, for much higher borrowings to support the rearming of Germany. If approved, the scale is such that it would have a meaningful impact on Germany's growth rate, with spill-over effects on the rest of Europe.

US equity market stalls, Europe, China outperform year-to-date



Source: Bloomberg Finance L.P., as at 28 February 2025, equity market returns 31 October 2024 to 28 February 2025.

The biggest gains in February, however, came in China, with the MSCI China index +11.8% in USD terms. A steep rally began in Chinese markets in mid-January, helped by optimism around China's AI innovation, triggered by the DeepSeek news, but also by a thawing of the clampdown on China's big private sector companies, especially in the tech sector. President Xi brought together business leaders, including those previously ostracised by the administration, signalling a desire to help the private sector to stimulate growth, possibly including loosening of regulations. Successive cuts in interest rates and liquidity injections are also having some impact, with corporate lending picking up, the huge investments in the green transition, semi-conductor manufacturing and EVs are paying off, and exports are strong. The recovery in the equity market has been led by China's big two tech stocks, Alibaba and Tencent, which represent 28% of the MSCI China index, and are up by over 60% and 30% respectively between mid-January and the end of February. Domestically focussed indices such as the CSI 300 fared less well, +1.9% in February, but sentiment to China generally has improved and the damage from higher US tariffs is seen as containable, with a relatively measured response from China to date and a drive by the authorities to support innovation and home-grown industrial capabilities.

February will surely go down as a pivotal time in geopolitical affairs. President Trump's barrage of policies and geopolitical interventions have created considerable uncertainty, damaged confidence and completely disrupted the established world order. Some consequences are clear: Europe is about to embark on a massive surge in spending on defence, funded mainly by debt. The pace at which the sums mooted can be spent remains to be seen, but the direction is beyond doubt, and is likely to be sufficiently large to lift growth levels above current moribund levels.

The impact of tariffs is less clear, partly because they are being used as a negotiating tool and the ultimate outcome is likely to be different from the initial impositions. However, some tariffs will remain and on balance they are likely to be disruptive and will hamper growth, not least because of the inter-connectedness of the global economy, as well as being inflationary - although this could well be a one-off effect which the Fed will look through. Additionally, settlement of the war in Ukraine could push energy prices lower, offsetting some of the inflationary impact of tariffs. But the considerable uncertainty around these outcomes, the fiscal stimulus from defence spending in Europe and the near certainty of higher debt levels would suggest that central banks will be more cautious in cutting rates this year. Higher for longer seems the likely outcome, and with bond yields having fallen this year, we believe this is a time to be patient before adding to duration.

This intense uncertainty, along with signs of a slowdown in the US economy in the shorter term, has led to higher market volatility, and it would be no surprise if this persists. A highly unpredictable political environment and wide range of potential outcomes, both economically and in financial markets, increase the risks of significant setbacks from time-to-time, and highlights the importance of diversification. A degree of caution is required, but the current growth scare in the US could well be overdone and we remain cautiously constructive about markets in 2025. As we have seen so far this year, especially with the sharp setback in US megacap tech stocks, diversification across and within asset classes will be vital, and we will be seeking tactical opportunities provided by volatility to add to risk in our portfolios.

"The biggest gains in February, came in China, with the MSCI China index +11.8% in USD terms. A steep rally began in Chinese markets in mid-January, helped by optimism around China's AI innovation, triggered by the DeepSeek news

Market performance - Global (local returns) as at 28 February 2025

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	-1.3%	-1.1%	1.4%	17.9%
United Kingdom	MSCI UK NR	GBP	2.4%	7.1%	8.3%	19.0%
Continental Europe	MSCI Europe ex UK NR	EUR	3.7%	10.5%	10.9%	13.5%
Japan	Topix TR	JPY	-3.8%	0.2%	-3.7%*	2.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.2%	0.4%	1.6%	12.5%
Global	MSCI World NR	USD	-0.7%	0.1%	2.8%	15.6%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	2.9%	12.5%	11.6%	10.4%
Emerging Asia	MSCI EM Asia NR	USD	0.7%	1.6%	1.4%	13.2%
Emerging Latin America	MSCI EM Latin America NR	USD	-1.8%	0.9%	7.5%	-16.7%
BRICs	MSCI BRIC NR	USD	3.1%	2.8%	3.2%	14.2%
China	MSCI China NR	USD	11.8%	15.8%	12.8%	39.0%
Global emerging markets	MSCI Emerging Markets NR	USD	0.5%	2.1%	2.3%	10.1%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	2.1%	1.1%	2.6%	5.0%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	2.3%	1.9%	3.6%	6.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	2.0%	0.6%	2.6%	6.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.7%	1.6%	2.0%	10.1%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.8%	-0.8%	1.6%	1.4%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.5%	1.0%	1.6%	5.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.7%	-0.9%	0.6%	4.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.6%	0.7%	1.0%	6.6%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	1.0%	2.3%	1.7%	8.8%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.7%	-1.5%	-1.4%	-4.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.9%	1.4%	1.1%	3.5%
Global Government Bonds	JP Morgan Global GBI	USD	1.8%	-0.5%	2.2%	1.7%
Global Bonds	ICE BofAML Global Broad Market	USD	1.7%	-0.2%	2.3%	3.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-0.3%	-0.6%	2.5%	12.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.1%	1.4%	2.9%	10.6%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	3.7%	-3.2%	4.7%	15.2%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-6.8%	-9.2%	-2.4%	5.4%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	2.6%	0.5%	3.6%	0.1%
Global Property Securities	S&P Global Property USD TR	USD	2.0%	-2.8%	3.4%	11.1%
Currencies						
Euro		USD	0.1%	-1.9%	0.2%	-4.0%
UK Pound Sterling		USD	1.5%	-1.2%	0.5%	-0.4%
Japanese Yen		USD	3.0%	-0.6%	4.4%	-0.4%
Australian Dollar		USD	-0.1%	-4.7%	0.3%	-4.4%
South African Rand		USD	-0.2%	-3.4%	0.8%	2.7%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.5%	4.5%	2.5%	7.8%
Agricultural Commodities	RICI Agriculture TR	USD	-3.4%	-0.3%	-0.2%	2.0%
Oil	Brent Crude Oil	USD	-4.7%	0.3%	-2.0%	-12.5%
Gold	Gold Spot	USD	2.1%	8.1%	8.9%	39.8%

Interest Rates	Current Rate
United States	4.50%
United Kingdom	4.50%
Eurozone	2.90%
Japan	-0.10%
Australia	4.10%
South Africa	7.50%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimated figures.*

Market performance - UK (all returns GBP) as at 28 February 2025

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	2.4%	7.1%	8.3%	19.0%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.8%	8.1%	9.3%	22.0%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-1.1%	0.5%	3.1%	2.2%
UK - Small Cap	MSCI Small Cap NR	GBP	-3.0%	-1.5%	0.1%	10.3%
United States	S&P 500 NR	USD	-2.4%	0.0%	0.8%	18.2%
Continental Europe	MSCI Europe ex UK NR	EUR	2.3%	9.8%	10.8%	9.5%
Japan	Topix TR	JPY	-2.0%	0.8%	0.3%*	2.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.9%	1.5%	1.0%	12.7%
Global developed markets	MSCI World NR	USD	-1.8%	1.2%	2.2%	15.9%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.6%	3.2%	1.7%	10.3%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.8%	-0.9%	1.7%	1.1%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.5%	1.1%	1.2%	4.6%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.8%	-0.5%	1.7%	2.0%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	1.1%	-3.3%	2.0%	-2.9%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-0.6%	-3.6%	0.7%	-3.6%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-0.4%	-1.4%	1.0%	0.2%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-0.9%	-6.9%	0.4%	-9.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.5%	1.0%	1.6%	5.0%
US Treasuries	JP Morgan US Government Bond TR	USD	0.8%	2.0%	2.1%	5.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.7%	1.6%	2.1%	7.1%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.7%	1.6%	2.0%	10.1%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.7%	-0.9%	0.6%	4.1%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.6%	0.7%	1.0%	6.6%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.0%	2.3%	1.7%	8.8%
Global Government Bonds	JP Morgan Global GBI	GBP	0.7%	0.6%	1.7%	1.9%
Global Bonds	ICE BofAML Global Broad Market	GBP	1.7%	-0.2%	2.3%	3.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-0.3%	-0.6%	2.5%	12.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.0%	2.5%	2.3%	10.9%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	0.9%	-1.7%	2.8%	11.3%
Currencies						
Euro		GBP	-1.3%	-0.7%	-0.3%	-3.6%
US Dollar		GBP	-1.4%	1.2%	-0.5%	0.4%
Japanese Yen		GBP	1.5%	0.6%	3.8%	0.0%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	-1.6%	5.6%	1.9%	8.1%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	-4.5%	0.8%	-0.8%	2.2%
Oil	Brent Crude Oil	GBP	-5.7%	1.4%	-2.5%	-12.3%
Gold	Gold Spot	GBP	1.0%	9.3%	8.3%	40.1%
Interest Rates				Current Rate		
United Kingdom				4.50%		

*Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.*estimated figures.*

2025

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/–							
Equities	–			■				
Fixed Income	–				■			
Alternatives	–					■		
Cash	–				■			

Overall View

We remain somewhat cautious on equity risk overall, mindful of the dominance of the US in the global equity context, and of the concentration within the US market. Our fixed income view remains largely constructive with sovereigns and credit still offering attractive nominal and real yields, but we recognize risk premia on some areas of corporate credit are thin today. Alternative assets including gold remain a good diversifier of returns, proving useful as market volatility has increased. Cash provides optionality on any pullback as well as a decent yield, but increasingly we prefer to lock in medium term rates by extending duration.

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/–							
Developed Equities	–			■				
UK Equities	–					■		
European Equities	▼			■				
US Equities	–		■					
Japanese Equities	–					■		
Emerging Market Equities	▼				■			

UK equities remain a favoured valuation call with the UK remaining one of the cheapest developed markets. The attractive earnings yields continue to draw in private and overseas buyers. Sentiment had appeared to be turning more constructive, but the recent autumn budget has knocked business confidence. Japan remains attractive both on improving fundamentals and in valuation terms. The lack of breadth in US equities should increasingly favour an active approach to stock selection, and opportunities outside of large cap tech which continue to ride high after Trump's presidential win. European equities have optically quite attractive valuations but mask some deep fundamental regional challenges. Emerging market equities remain cheap as China, the dominant index constituent, battles domestic growth concerns and policy measures to buoy the market fall short of expectations.

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/–							
Government	–				■			
Index-Linked	▲					■		
Investment Grade Corporate	–				■			
High Yield Corporate	–			■				
Emerging Market Debt	–				■			

Global treasury yields still look attractive today, despite recent tightening, and we maintain our constructive government view but pare back a notch after some near term strength and concerns over inflation and longer term debt funding. Inflation linked bonds offer reasonable real yields and with lingering inflation risk offer some protection. Despite offering alluring all in yields, we think the spreads offered today on investment grade and riskier high yield corporate bonds do not compensate investors adequately for the underlying fundamental credit risk. Although defaults remain low, the growth outlook has moderated, and financial conditions remain somewhat tight today. We prefer shorter duration bonds in both developed and emerging markets, particularly higher quality credit.

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/–							
Global Listed Property	–			■				
Global Listed Infrastructure	–			■				
Specialist Assets	–						■	
Liquid Alternatives	–		■					
Gold	–				■			

Alternatives continue to offer diversification benefits but compete today with higher yielding cash and quality sovereign bonds. Increasing discounts in NAVs in listed private equity appear overly pessimistic, which supports our constructive medium-term view. Infrastructure and specialist financials remain attractive, but we take listed infrastructure down a score on more modest future return expectations. Our liquid alternatives continue to offer attractive diversification benefits during periods of market uncertainty, but the bar has been raised for the performance from this sector after the resetting higher of global rates in recent years. Gold's status as a haven asset means it remains a useful diversifier, but its recent run higher makes it look somewhat expensive as a non-interest bearing asset today.

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/–							
GBP	–					■		
EUR	–				■			
JPY	–					■		

Against long term valuation metrics, the Yen remains cheap relative to the Dollar. The Bank of Japan's policy of yield curve control crushed the Yen in recent years, but their recent shift to a hiking bias has seen periods of rapid reappraisal as carry trades unwind. This should have further to run over the medium term. The higher for longer narrative in the US has buoyed the dollar, as has Trump's recent election victory, but as rates look set to fall its dominance may wane. Its safe haven status at a time of heightened geopolitical risk does however assure it a diversification premium.

The asset allocation views are updated at the end of each quarter unless otherwise stated.

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Important Notes

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