

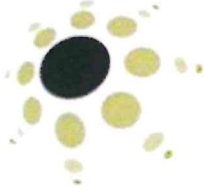
# Quarterly Investment Bulletin

Apr 2025

Cedarwood Wealth Management Ltd

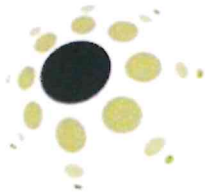
85 West Regent Street, Glasgow, Lanarkshire, G2 2AW, United Kingdom

Tel: 0141 3540000 Email: [clientservices@cedarwoodwm.co.uk](mailto:clientservices@cedarwoodwm.co.uk)



### Headlines

- ❖ In February the US Federal Reserve held interest rates at 4.5 - 4.75%.
- ❖ Global stock markets have been volatile.
- ❖ In March the Bank of England held interest rates at 4.50%.
- ❖ UK economic growth was marginally negative in January at -0.1%.
- ❖ Japan's inflation rate has risen to 2.6%.
- ❖ UK inflation dropped slightly to 2.8% in February.
- ❖ European inflation fell to 2.3% in February.
- ❖ US technology stocks fell back as concerns over government policy unnerved investors.
- ❖ Donald Trump's tariff announcements have driven the agenda on global trade.
- ❖ The US market has fallen in the first quarter.
- ❖ European equity markets have led the way this year rising by 7.3%.
- ❖ China announced further supportive stimulus measures.
- ❖ Europe reacted strongly to US policy on defence and tariffs.
- ❖ Emerging markets have shown improved earnings potential and will benefit from a weaker dollar.



## General Economic Overview – Quarter 1 2025

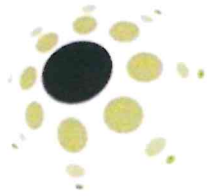
The quarter began as last year ended. Investor sentiment was positive based on the continued path of solid economic growth in the US and this, supported by accommodative fiscal and monetary policy, powered the stock markets. While other areas of the global economy looked weaker, stock markets were pulled along by US exceptionalism.

What a difference a few tariffs can make to the global investor outlook. General sentiment has changed over the quarter, most notably in the decline of US technology stocks, as momentum in this sector has been challenged. Conversely, previously overlooked areas of the world have come back into focus, and European companies have benefited from the change in sentiment. The catalyst for this has been the stance of the new US administration and the delivery of its promised strategies on tariffs, defence, and immigration.

The global economic landscape is now marked by slower growth, persistent inflationary pressures, and escalating trade tensions. According to Fitch Ratings, global growth is projected to slow to 2.3% this year, down from 2.9% in 2024, whilst the World Bank anticipates global growth will hold steady at 2.7% in 2025-26, suggesting it is settling into a low-growth trajectory which may not be sufficient for sustained economic development. US economic growth forecasts have been revised downward to 1.7% for 2025, reflecting the impact of recent trade policies, and the UK faces sluggish growth, projected at 0.7% for this year, due to base effects from late 2024 and weakening forward-looking data. Conversely, Japan's economy shows resilience, with expected growth of 1.2% in 2025, supported by rising wages and a gradual recovery in private consumption. Compared to the outlook in the final quarter of 2024, expectations have clearly dampened, and comments by the Federal Reserve (Fed) suggest that inflation may be more persistent in this environment. This shift in mood does not mean that a recession is imminent, and it has pushed other economic regions to react strongly to counteract these US policies.

The financial markets have reflected the uncertainties created by the new US administration and the S&P 500 has fallen 4.6% (USD) by the end of Q1 (source: T. Rowe Price). We noted in last quarter's review that if implemented, Trump's global trade policies were likely to unsettle financial markets.

It's too early to predict how the year will end, but there is a greater air of uncertainty ahead of further announcements from the White House (post quarter-end, 2<sup>nd</sup> April was 'liberation day' when more US tariffs were announced). In many ways, it is reassuring to see economic regions forging their own path, but it is difficult to divert attention from US policies, given that it is the dominant world economy and largely dictates the trajectory of global economic growth. At the moment, the unpredictability of US policy statements means the uncertainty is likely to persist for the foreseeable future.



# Equity Markets

After the positive momentum of 2024, markets so far in 2025 have been highly unpredictable. It was perhaps inevitable that a correction would occur, given that valuations in some regions and sectors had become extended, but few anticipated that this correction would be driven by the policies of the new US administration. Markets had initially welcomed the election of Donald Trump in Q4 2024, but his approach has disrupted global politics and challenged the status quo which has unsettled risk assets and led to increased equity volatility in recent months.

Investors have responded by reducing exposure to risk, a trend that has been more pronounced in the US than elsewhere. European equity markets have outperformed the US for the first time in several years, largely due to a reallocation of capital from other regions, driven by valuation differentials between markets, as well as portfolio rebalancing. Notably, the upward movement in European equities has been due to price adjustments rather than earnings upgrades.

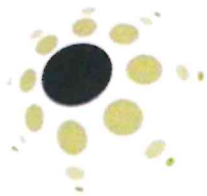
## UK

Since our last review, UK economic growth prospects have been mixed. The economy contracted by 0.1% in January, highlighting underlying vulnerabilities and complicating the government's fiscal planning. In response, Chancellor Reeves' recent spring budget announced £14 billion in spending cuts to address fiscal constraints. More positively, inflation fell to 2.8% in February 2025, down from 3% in January, but UK gross government debt remains a major concern, having risen from 85.7% of GDP in 2019 to 101% in 2024. This is the largest increase among 40 advanced economies (excluding Singapore), according to IMF data, and the government is keen to prevent further debt expansion.

The UK faces a delicate balancing act: it must encourage business investment while simultaneously curbing government spending as pandemic-related costs continue to weigh heavily on public finances. At the same time, there is growing pressure to increase spending on defence and to support the struggling NHS. The UK currently pays over £100 billion in annual interest, a figure that will continue to rise unless interest rates fall further and the Bank of England's decision to hold rates at its most recent meeting – after inflation briefly nudged back up to 3% in January – has not helped matters. February's inflation figures were more encouraging, but the path to rate cuts appears slower than was expected a year ago.

Despite these challenges, the UK stock market has performed well in recent months, particularly relative to the US. Large-cap stocks have seen valuation improvements and have driven returns, benefiting from a shift in global capital flows and uncertainty over US economic policy, while more domestically focused small- and mid-cap stocks have struggled. Investors have redirected assets toward undervalued markets while favouring the relative safety of larger companies.





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### US

The mood in the US has changed this year as the momentum from 2024 faded amid an escalation of policy announcements from the White House. Initially, the market ignored these announcements, but greater analysis and the reactions of other regions have meant investors have moved into safer havens and away from the mega-cap technology stocks that have driven markets in the previous two years.

After two years of above-average growth in the US, expectations have changed for 2025, and forecasts from the Fed and the OECD both suggest a dip this year. The use of trade tariffs also raises the question of how soon interest rates can be cut, given rising inflation expectations. The Fed has indicated that it is adopting a wait-and-see approach at the moment, and for the second consecutive month it has maintained steady interest rates while projecting slower growth and elevated inflation by year-end. Consumer confidence has declined for the fourth straight month, and future expectations have hit a 12-year low, largely due to concerns over tariffs and inflation. Conversely, employment data remains strong, and non-farm payrolls continue to hold up well, and consumer spending is steady, giving the economy a resilient appearance.

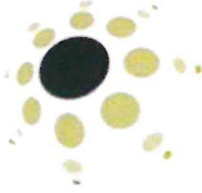
The strength of the US economy in recent years led to what was termed 'US exceptionalism' – a belief that the US could continue to prosper even if the rest of the world was struggling – but the narrative has shifted in Q1 2025, and the challenge now is whether the US can maintain its outperformance under a less accommodative policy regime. It would be unusual for economic outperformance to continue indefinitely, as other regions and sectors strive to catch up or move ahead. This may be a turning point, and while it is unlikely that the US economy will be overtaken anytime soon, other countries, particularly in Asia and Europe, will undoubtedly seek to close the gap.

It has become apparent that there will be more policy uncertainty coming from the White House, and this has already started to impact investor sentiment as assets have moved to other regions and sectors outside of large-cap technology. There is a growing belief that this could lead to a decrease in the current stock concentration in the US market, even though we do not expect mega-cap stocks to materially decline. Ideally, the rest of the market will benefit from a strong economy, but one that may not grow as rapidly as it has over the past two years.

### Europe

For several quarters, we have expressed concerns about the European economy, as political uncertainty and weak economic data have unsettled investors, and the strength of the US economy has drawn capital away from European Union countries, compounded by ongoing challenges stemming from the Russian invasion of Ukraine. While many of these factors remain, sentiment toward Europe has shifted in 2025 as lower interest rates and the resolution of key elections have improved the outlook for investors. Also, declining confidence in the US economy has prompted capital flows toward undervalued markets, making European companies particularly attractive.

Europe is not free of the issues we have previously identified, but confidence is returning as the Eurozone witnessed its fastest economic growth in seven months in March, as indicated by the Purchasing Managers' Index (PMI), suggesting a potential rebound in economic activity. The Eurozone



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economy is still projected to expand modestly, with real GDP growth forecasts ranging from 0.9% to 1.1% for 2025 (source: Conference Board) which follows a period of subdued growth in 2024. One of the issues for Europe has been the performance of the German economy which has been in technical recession during 2024. Again, there has been a shift in sentiment with the ifo Business Climate Index, a key indicator of business sentiment in Germany, increasing to 86.7 points in March from 85.3 in February. This improvement reflects greater satisfaction with current business conditions and heightened optimism for the future, and suggests that German businesses are hopeful for a recovery. That said, this hasn't boosted the ifo institute's 2025 growth predictions which are for muted growth of 0.2% due to subdued customer spending and cautious company investment. In response to these economic challenges, the German government has approved a significant fiscal stimulus package, including a €500 billion infrastructure investment fund, aiming to bolster economic growth and address structural issues within the economy.

Political change is happening across Europe as the far-right movement has gained ground in both Germany and France. In Germany, federal elections held on 23<sup>rd</sup> February 2025 resulted in a shift in Germany's political landscape. The conservative Christian Democratic Union / Christian Social Union (CDU/CSU), led by Friedrich Merz, secured 28.5% of the vote, marking a significant change from the previous administration. The far-right Alternative for Germany (AfD) party has however doubled its parliamentary representation, now holding 152 of the 630 seats in the Bundestag.

The ECB cut interest rates in the quarter by 25 basis points to 2.5%, marking the second cut in 2025. The battle with inflation continues as the rate rose above target in January to 2.5%. Looking ahead, market expectations suggest that the ECB may continue to lower rates, potentially reaching 2% by the end of the summer, which aligns with statements from ECB officials indicating a data-driven and pragmatic approach to monetary policy.

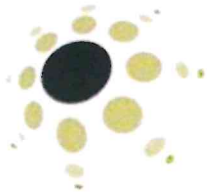
### Asia & Emerging Markets

Asian markets have recovered some ground in the last two quarters as global investors consider the bottom of the market was reached during 2024, but the way forward is not clear, and new alliances are being forged as President Trump builds on the tariff policy he initiated in his first term. China is the prime target, but it is more prepared and issued retaliatory tariffs on \$14bn worth of goods in February. This was in response to the 10% blanket tariff on Chinese goods imposed by the US but leaving room for some negotiation.

Trade tariffs have been the major talking point of US China relations, which did appear to improve in March as it was suggested that Xi Jinping would visit the US in the not-too-distant future. It is hoped that this battle doesn't escalate causing financial markets to recoil and in reality, the trade between the two nations is significantly less than it was in 2016 and so tariffs are less effective. China's exports to the US, as a percentage of its total exports, fell from 21% in 2018 to 14% in 2023, while its exports to other regions such as the Association of Southeast Asian Nations and the European Union have expanded.

China has other domestic issues to contend with, not least its property market which has been sapping consumer confidence – policies have been put in place to help improve the situation, but they have only





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had a marginal impact. There are also other issues – China was once the hub of global manufacturing but is now being challenged by other emerging countries. Cheap labour is no longer abundant and employment in these labour-intensive areas is now in decline, so industries face the dilemma to either automate, with the loss of jobs affecting millions of lower skilled workers, or slowly wither away. Alternatively, China could move up the production chain as it has done in the auto industry and in exports of high-tech products including batteries and solar cells, which are pockets of significant growth.

What is negative for China can be positive for other areas of southeast Asia such as Vietnam and Indonesia who have taken up the role as global manufacturing hubs. Growth in these areas is expected to average around 4.2% in 2025 and in Vietnam to be between 6.5 and 8%, despite the potential effect of tariffs. Vietnam announced plans to reduce its tariffs on several US products, including liquefied natural gas, automobiles, and ethanol, aiming to lower its trade surplus with the US and avoid potential tariffs. There are some political issues in Indonesia – government plans to improve welfare have caused currency depreciation, as a significant increase in borrowing would be required. Mexico has been a beneficiary of its proximity to the US in recent years and its cheaper manufacturing base has been used by US companies. The new regime in the White House has now threatened the status quo and this has resulted in the Organisation for Economic Cooperation and Development (OECD) projecting Mexico's GDP to decline by 1.3% in 2025 and 0.6% in 2026, making it the only OECD member expected to enter a recession during these years.

The Indian economy continues to be a bright spot in the region although the stock market has seen a number of setbacks since October last year and it was only in March this year that we saw a positive monthly return. India's gross domestic product (GDP) has reached \$4.3 trillion, doubling over the past decade and marking a 105% increase which surpasses the growth in all G7, G20, and BRICS nations during the same period. Inflation eased to 4.3% in January 2025, leading the Reserve Bank of India (RBI) to cut interest rates in February. A further reduction to 6.0% is anticipated in April, with a further cut expected in August. India's economy continues its robust growth trajectory, with significant GDP expansion and controlled inflation and the stock market has rebounded positively, supported by renewed foreign investment and improved investor sentiment.

Earnings growth expectations had improved in emerging markets, but the threat of tariffs has challenged these expectations. It is difficult to predict how this will pan out as we are in the middle of the current announcements and negotiations. Consensus earnings growth for EM in 2024 was over 15% and nearly 16% in 2025, compared to just 7% and 11% for DM and 11% and 14% for the US (source JP Morgan, September 2024). If the US cuts interest rates later in 2025, this will boost earnings momentum, acting as a tailwind for countries with high levels of dollar debt.

### Japan

The Japanese economy appears to be in good health and is one of the strongest of the developed nations heading into 2025 having expanded at an annualised rate of 2.8%, significantly exceeding analyst estimates. The growth was boosted by corporate spending, which grew by 0.5% in the final quarter, and by consumer spending due to increases in food inflation. Inflation now stands at 2.6% which is something of a new experience after long periods of stable prices and has delivered one unexpected consequence in that Japanese consumers have started to cut back on the purchase of vegetables as



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food prices have risen more than other areas. Japan's economy is projected to grow by 1.5% in 2025, driven primarily by domestic demand as the anticipated increase in personal consumption is supported by real wage growth from ongoing wage hikes.

After a long period of low or negative interest rates, there were signs of a normalisation of monetary policy in January as the Bank of Japan raised interest rates to 0.5%, the highest level in 17 years (the BOJ held rates in March on concerns over US tariff effects). This ended speculation about the path of rates in Japan and strengthened the yen against the dollar. After decades of near-zero inflation, inflation has surpassed the Bank of Japan's (BOJ) 2% target for over two years and the tight labour market has contributed to the strongest wage growth since the 1990s. BOJ Governor Kazuo Ueda has indicated that they may raise interest rates if persistent increases in food costs lead to broader inflationary pressures. Inflation is likely to remain elevated in the near term, which could keep the pace of spending relatively modest, and a more hawkish monetary policy stance in the US as well as a reversal of wage gains are risks that could further hinder Japan's recovery. The fight against deflation is not over according to Katsunobu Kato, the Japanese finance minister, as he indicated that the government is watchful that inflation comes from the right kind of stimulus – from higher prices and wages and not a weaker yen and higher commodity costs.

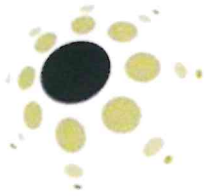
### Fixed Interest

Fixed interest markets have been difficult to predict this year as sentiment around likely interest rate changes has fluctuated with stubborn global inflation figures and changing policy statements from the US. Expectations of central bank interest rate cuts have declined since the final quarter of last year, primarily due to the 'wait and see' policy of the Fed as it assesses the effects of the White House tariff announcements.

This has meant that government bond yields have tended to fluctuate within a relatively set range with US Treasury yields probably remaining within a 4% to 5% range throughout 2025, suggesting a period of relative stability compared to last year. The 10-year US Treasury yield reached approximately 4.80% in January 2025 before declining to around 4.25% by late March. In the UK, yields have followed a similar pattern, and interest rates have remained higher than was expected 12 months ago. Current levels of developed market yields around the world could well be close to fair value, leaving coupons the main source of returns and if the Fed and ECB do not cut rates by at least 50 bps in 2025, it will be difficult for bonds to rally. With fiscal policy likely to remain loose around the world and inflation sticky (even if continuing to drift lower), the term premium on bonds could continue to rise.

Corporate credit has been a source of stronger returns in recent years but spread tightening has meant that current expectations are based on the coupons rather than capital appreciation. There is the possibility that spreads might widen as risk factors increase, such as the rising delinquency rates on credit card loans seen in the US which have reached their highest level since 2011. Such trends may signal increased financial stress among consumers, potentially leading to broader credit concerns. If spreads were to widen significantly this would also be a negative signal to the equity market, and US investment-grade bond spreads widened to 94 basis points on 11<sup>th</sup> March 2025, marking their highest level since 18<sup>th</sup> September 2024 (Source Reuters).





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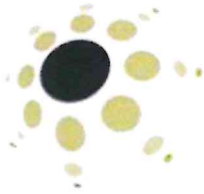
Whether high yield debt can offer investors better returns in 2025, after a strong 2024, depends on whether spreads widen and on the environment for defaults. It may seem obvious, but starting yields matter considerably for high yield investors. Historically, the vast majority of long-term returns in this asset class are driven by coupon income. As of 9<sup>th</sup> January 2025, yields across the overall US and global high yield bond markets were 7.4% and 7.2%, respectively. Although yields fell in 2024, they remained higher than at most times during the past 15 years giving a cushion should interest rates eventually fall. Recent default activity among high yield issuers has generally been limited to liability management exercises (LMEs) and forecasts for defaults remain low, and private markets have tended to absorb a lot of the higher risk bonds reducing default exposure for the retail investor. A material slowdown in economic activity is the most significant risk, given its likely negative impact on equities and their very high historic correlations with high yield bonds. In this scenario, wider credit spreads would drive bond prices lower but, as long as inflation remains moderate, this would be offset somewhat by the expectation of lower interest rates in a weaker economic environment.

## Alternatives

Interest rates have been moving in the right direction for real estate and infrastructure, although a number of the central banks have been on pause for several months as they await the outcome of the tariff negotiations. Global office leasing volumes rose by 9% in 2024, reaching the highest annual level since 2019, and this trend is expected to continue as companies gain confidence in their workplace needs. The real estate market is poised for continued recovery throughout 2025, supported by improving economic conditions and strategic investment opportunities, but elevated interest rates and geopolitical uncertainties may pose challenges.

Significant investment is expected in the infrastructure sector across energy, digital, and public domains – for example the ongoing implementation of the Infrastructure Investment and Jobs Act (IIJA) in the US has led to over 60,000 construction projects, including repairs to 175,000 miles of roadway and modernisation of more than 10,200 bridges. With \$720 billion in IIJA funds yet to be allocated, significant potential remains for further infrastructure development as projects transition from planning to construction. Digital infrastructure and data centres are an obvious trend, and significant investment is being focussed on expanding capacity to support the growing demands of digital economies.

Commodity markets have been influenced by a complex interplay of geopolitical events, policy changes, and supply-demand dynamics, leading to varied performances across different sectors. Oil has had a subdued year with supply back to normal levels and oil price fluctuations have been due to geopolitical tensions and trade policy shifts. Forecasts for 2025 predict average prices to stay between \$65 and \$70 per barrel for the year. The standout commodity has been gold which has been on an upward trend for over twelve months – gold prices have reached record highs, climbing as high as \$3,057.21 per ounce. This surge is attributed to the US Fed's indication of potential interest rate cuts and ongoing geopolitical and economic uncertainties, enhancing gold's appeal as a safe-haven asset and Central Banks have been buying gold to bolster government reserves. Other metals have seen significant gains, with copper prices up 34% year-to-date, reflecting strong demand and supply constraints in the market.



### Summary

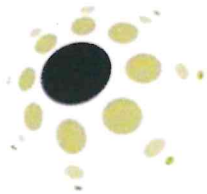
The future is always uncertain, but consensus suggests it is more uncertain now than in recent years which is no doubt a reflection of US political events. The US is undoubtedly the dominant economic power across the globe and its actions have a significant influence on our predictions of global growth and stability. The current White House leadership team are creating a greater level of uncertainty having disrupted the status quo in international relations in pursuit of their goal to 'make America great again'. This is a challenge around the world as President Trump resets the agenda for working alongside America politically and economically and appears to be the biggest shift we have seen for some time. But is this really the case? We have seen how US policies can change day to day – how tariff policy and rhetoric can change, with the final outcomes often significantly different from the initial proposals. Only time will tell whether the policies that are initiated now form the basis of a new world order, define new trading blocks, or perhaps result in more subtle changes that keep the wheels of commerce turning as before.

Whatever the outcome of the political changes around the world, and we shouldn't forget more extreme political views are finding their voice in a range of democracies not just the US, investors need to be aware of the short term effect of this on companies and markets. In 2025 equity markets have shifted momentum away from the US and technology and into safe havens and areas of weaker valuation. Most of the managers we speak with don't think this is a bubble bursting as we saw in the late 1990s, but more of a correction or pause, allowing undervalued sectors the opportunity to catch up a little. So far, European stock markets have been the main beneficiary as prices have risen rather than there being a re-evaluation of earnings. Asian stocks have also fared better as the problems in China are gradually being picked off without them firing the 'bazooka stimulus' at the ongoing problems in the property market.

The optimism seen at the end of 2024 has been dampened by challenges in global trade following the US government policy announcements but despite these concerns, the likelihood of a recession still appears remote. Political issues aside, the US continues to dominate global financial markets, though the tide may be turning as countries recognise that they may not be able to rely on the US to safeguard Western democracy, at least in the short term. As we move further into 2025, the landscape appears more challenging than was anticipated last December, with weaker growth forecasts suggesting more muted returns for our portfolios. More optimistically, as long as this market correction isn't the catalyst for a recession it may offer some opportunities for company valuations to reset themselves and for investors to buy in at less extended levels.

**Ken Rayner**  
**CEO**  
**RSMR**  
**April 2025**





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