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## QUARTERLY INVESTMENT UPDATE

This information reflects our general views and should not be taken as a recommendation or advice as to how any specific market is likely to perform.

## SEPARATING UNCERTAINTY FROM RISK AS WE PREPARE FOR WHAT'S AHEAD

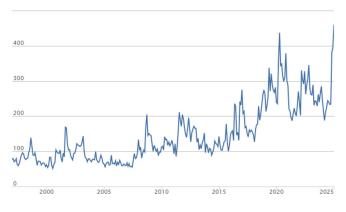
When it comes to managing wealth, there is a big difference between the concepts of "risk" and "uncertainty". Risk is deemed to be quantifiable in some way, allowing managers to construct portfolios with the right balance between assets and the right mix within those asset classes. At least then we might have some idea of the potential gains and losses to which clients are exposed.

#### Heightened uncertainty

Uncertainty, on the other hand, offers a much broader range of potential outcomes with the prospect of greater volatility to boot. In such circumstances it pays long-term investors to stick closer to benchmarks and we certainly do not see this as a time to be playing fast and loose, although we remain fully invested.

As you might imagine, uncertainty is difficult to measure, but there is a Global Economic Policy Uncertainty Index with data going back to 1996 (compiled by the academics Scott Baker, Nick Bloom and Steven Davis) and it currently has its highest reading since we were in the early stages of the Covid crisis.

## Global Economic Policy Uncertainty Index



Source: Economic Policy Uncertainty, as of 26 March 2025

America's aggressive trade policy and geopolitics are the main factors creating this elevated uncertainty, but there are things we can do to prepare.

#### Trump 2.0: Trade

When it comes to apportioning blame for the current uncertainty, fingers are pointed at the US. Investors have been wrongfooted and the expected bullish "Trump Trade" has not been borne out by events. The consensus view was that Americans would be getting tax cuts and deregulation to sweeten the pill of tariffs. It was supposed to unleash animal spirits and to provide support for equities and the dollar. However, it's been just the bitter stuff so far. Furthermore, whereas tariffs were only expected to be a threat that would quickly be withdrawn once reasonable concessions were offered, for now they appear to be stickier.

Our view has been, and continues to be, that tariffs are an inappropriate tool with which to conduct economic policy. They hinder efficient global trade and become, in effect, a tax on the consumers of the countries who levy them. They can be inflationary if import cost increases are passed on to consumers, or detrimental to margins if absorbed by companies.

This is having a negative effect as more companies are citing policy uncertainty as a reason to withhold investment and to pause hiring. Consumers are equally unsettled by the threat of another bout of inflation as tariffs are passed through to them. Then there are the federal workers and consultants cowering in the shadow of Elon Musk's DOGE (Dept of Government Efficiency) chainsaw. Add in the anecdotal evidence of non-US holidaymakers showing a preference for other destinations and there is a realistic possibility of some weak economic data ahead.

Past performance is not a reliable indicator of future performance.

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## QUARTERLY INVESTMENT UPDATE

#### What it means for your portfolio:

We are doing all we can to mitigate portfolio exposure to such risks at the company level. We can focus on "domestic" companies that trade primarily within their own borders. We can also identify multinational companies whose production facilities are largely located in the country of final consumption.

#### Trump 2.0: Geopolitics

If Trump the Trader poses a threat to commercial equilibrium, then Trump the Diplomat presents a more existential threat. Alongside the sabre that he is rattling at supposedly friendly places including Canada, Greenland and Panama, he has waded straight into the discussions between Russia and Ukraine as well as having his say in the Middle East. With almost daily pronouncements being made with respect to both theatres of conflict, we are aware that anything written here may have a very limited shelf life (indeed, that is the case in an unusually high number of current situations). Even so, we may be on a path towards some de-escalation in the Ukraine war, which would be helpful to sentiment, although not necessarily on terms that most people would deem to be acceptable (that is, they will end up favouring Russia with respect to territorial gain and Russia might not be punished for its actions so far). Yet all of this has proved to be the catalyst for a seismic shift in the European political agenda, which could have far-reaching effects for investors.

# Zeitenwende: "The times they are a-changin"

The German language is famous for putting words together to make new ones, like Zeitenwende, from "Zeit" (time) and "Wende" (turn). Literally a turning point, or in the more expansive Langenscheidt's German dictionary "a new era". Something has been brewing in Europe for a while. In a report for the European Commission (EC), former European Central Bank President Mario Draghi outlined the need for

much greater investment and looser regulation. From tiptoeing in this direction, the EC has now broken into a moderate trot. And even if this turns out to be a marathon, Germany's newly elected Chancellor sees it as a sprint.

Trump's threat to withdraw America's security umbrella from Europe was a kick up the backside - a case of unexpected collateral improvement. This has woken Europe to the need to spend more to provide its own military deterrent - a lot more. The EU has already launched a €150bn bond programme and believes that as much as €800bn can be raised for defence spending by allowing governments more fiscal leeway.

Germany is the one country that can clearly afford to spend more, given a relatively low debt-to-GDP ratio of 62%, and Chancellor-elect Merz has already pushed a bill through Parliament to lift the deficit cap on defence spending. He has also championed a bill that would provide a massive €500bn for infrastructure. It is widely recognised that Germany's cautious fiscal approach has starved the country of investment, with its trains being even less punctual on average than those in the UK, if you can imagine that.

All of this has triggered more interest in European equities. But if this really is a "Zeitenwende", and there are many who remain sceptical, there should be gains to play for. A recent fund flow analysis suggested that for every hundred investment dollars that had left Europe since 2022, only three had so far returned.

#### What it means for your portfolio:

We continue to look for opportunities in companies with exposure to both defence and infrastructure spending (fortuitously, a few straddle both). You can read more about our views on this volte-face in European fiscal policy in our Investment Insights magazine, available on our website.

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### QUARTERLY INVESTMENT UPDATE

#### **DeepSeek**

Given the torrent of political news, it would have been easy to overlook another momentous market event – news in January that a relatively unknown Chinese entity, DeepSeek, had created a Large Language Model capable of competing with established Generative AI models (think of Chat GPT as an example), at a fraction of the cost. Every share touched by the enthusiasm for all things related to Artificial Intelligence (AI) was hit hard, and these ranged from chipmakers and software providers to those involved in building datacentres and supplying their power.

As Microsoft founder Bill Gates is alleged to have said about technological progress, "People often overestimate what will happen in the next two years and underestimate what will happen in ten". We can also cite the Jevons Paradox, which states that new technologies will only be adopted more quickly as greater efficiency makes them more affordable.

#### Gold

One asset that continues to perform well is not exactly new or innovative, but one with a sixthousand-year track record of maintaining its purchasing power, and that is gold. We noted a couple of years ago that the gold price's traditional relationship with bond prices, inflation expectations and the dollar had broken down and it has become evident that much of this is down to central bank buying of gold as a reserve asset alternative to the dollar. You can read more about our views on gold in this recent Review of the Week.

#### It's a bumpy ride, but stay aboard

In December, we identified the potential risks ahead, citing concerns about Trump's policy direction in particular. We also suggested that 2025 would be a year of greater volatility in stock markets.

It's unusual for the US stock market to fall more than 20% in the absence of a recession. although there have been two occasions during the last forty years when that has happened. The first was the Black Monday crash in October 1987 which (although triggered by overvaluation and legitimate economic concerns) was exacerbated by automated sell orders driven by portfolio insurance products (after which "circuit breakers" were introduced to prevent a recurrence). It's barely visible on a long-term chart. The second (once the economic data was revised) was in 2022. Again, there was speculative froth to be blown off, but this was also a period which featured a unique repricing of money, during which the Federal Funds (interest) rate rose from zero to 5.5% and the 10-year US Treasury yield jumped from 0.5% to 5%. We do not envisage such circumstances being repeated today. However, we will remain sharply focused on the US economy and the impact of tariffs in the weeks ahead.

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## **ASSET ALLOCATION**

#### **EQUITIES**

#### **EUROPE**

The European Commission's ReArm Europe plan aims to boost EU defence spending in the face of weaker US military support. It would exempt member states' defence budgets from the bloc's fiscal rules, which could unlock €650bn over four years. The plan also includes €150bn in loans funded by joint borrowing.

Although there will be significant political and logistical challenges to ramping up European defence and infrastructure spending quickly, the dramatic shift in approach suggests the outlook for European growth over the next few years has improved (figure 1).



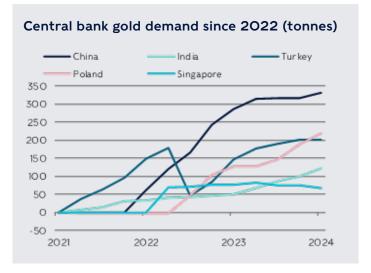
**Figure 1**Although the German economy is in the doldrums, the outlook for growth over the next few years is brighter.

Source: FactSet, Rathbones, as at 21 March 2025

#### **DIVERSIFIERS**

#### **COMMODITIES**

Gold continues to play a valuable diversifying role in these times of heightened geopolitical uncertainty and volatility. It is still showing a low correlation with both equities and bonds, which is useful in a world where bonds can't be relied on to provide a cushion in a stock market sell-off. Geopolitical fracturing seems likely to keep central banks and other institutions diversifying their reserves away from the dollar and into gold (figure 2). However, with little visibility on the key fundamental drivers of gold prices, trading gold over the short term is particularly difficult.



**Figure 2**Central bank buying has been a key source of demand for gold in recent years, driving strong performance.
Source: World Gold Council, Rathbones; latest figures as at 24 March

**Past performance is not a reliable indicator of future performance.** The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

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2025

## **HOLDINGS IN FOCUS**

#### **LSE Group**

Despite retaining its historic name, the legacy London Stock Exchange operation is now a very small proportion of the group. LSE Group has become a broad and diversified company supplying a very wide range of data & analytics products and trading services to financial market participants globally.

The Group is a high-quality company, which should provide investors with steady, compounding growth over time. There is huge visibility for revenue growth, with a significant majority of revenue coming from recurring subscription services with strong pricing power.

The financial profile of the company is strong, with steady and attractive revenue growth. Margins are high, cashflow is excellent and significant balance sheet optionality exists to pursue M&A or return cash to shareholders. Moreover, the management team is highly capable, with a proven track record.

Longer-term upside could come from the successful roll-out of products being developed alongside strategic partner Microsoft. These involve increased use of Office, Teams messaging and CoPilot AI services within LSE's data products. These are longer-term developments but, if successful, could help LSE Group gain an edge against its competitors.

#### **CBRE**

CBRE is a capital-light growth compounder in commercial real estate services. The business operates across the whole real estate value chain, with industry-leading global brokerage, development and facilities management divisions.

The outlook for the new fiscal year is strong but conservative. It was interesting to note that their highly rated CEO, Bob Sulentic, commenting that his confidence in CBRE has never been higher.

We think CBRE can compound earnings per share at the mid-teen level over the medium term. This will be driven by continued growth in the facilities management business and a return to growth in the brokerages' capital markets division, alongside a margin rebuild story still in its infancy.

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

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## **KEEPING YOU UPDATED**



#### **INVESTMENT INSIGHTS Q2 2025**

#### Europe's Big Reset

In this quarter's edition of Investment Insights we consider what the unknowns of America's evolving policy agenda mean for investors, and explore some of the opportunities arising from the shifting economic and geopolitical landscape **Read here** 



#### **Politics vs Profits**

After a good start to the year, an onslaught of policy announcements from the White House has since sent US equities into retreat. But falls of this magnitude are a normal part of investing, and the importance of politicians shouldn't be overrated. Watch here



#### **GENERAL FINANCIAL AWARENESS COURSE**

Understanding investments can be like learning a different language. At Rathbones, we believe in education to enhance your understanding of the wealth management environment. Once you understand your money, you are better equipped to make informed decisions. **Register here** 

#### 16-25 FINANCIAL AWARENESS COURSESS

Our financial awareness courses, delivered by Rathbones' investment managers, are designed to help young people take control of their finances, providing them with the knowledge and skills to build a secure financial future. **Register here** 

#### **FEMALE FINANCIAL AWARENESS COURSESS**

Our female financial awareness courses are designed to show women how to fulfil their financial goals through the power of investing, to better understand their money and to be better equipped to make informed decisions. **Register here** 



#### **RATHBONES INSPIRED MINDS**

## What does inspiration mean to you? Do you need it? Where does it come from?

To find out, we invited some truly inspired minds to join broadcaster, cricket commentator and classics buff Daniel Norcross, on the Rathbones Inspired Minds podcast. Daniel talks to acclaimed writers, scientists, thinkers and entrepreneurs and asks what inspired them to pursue their fields of expertise. Listen to historians Tom and James Holland, Peter Frankopan,

former England cricketer Ebony Rainford-Brent, comedian Andy Zaltzman and many more inspired minds in our fascinating new podcast series. **Listen here** 

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