3D Financial Planning
Independent Financial Advisors

Newsletter
April 2025

Market Update – Q1 2025

As we closed out the first quarter of 2025, markets were shaped by rising trade tensions, economic policy shifts, and sector-specific developments. European equities led the way, while the US struggled amid growing tariff uncertainty. Emerging markets fared relatively well, and gold saw strong gains as investors sought safe havens. Though this summary focuses on Q1, it's worth noting that *Liberation Day*—a key event anticipated throughout the quarter—took place just after quarter-end on 2nd April, and its early repercussions have already begun to ripple through global markets.

US Equities
US equities declined in Q1, with tech and consumer sectors hit hardest. Anticipation around *Liberation Day*, when President Trump was expected to announce further trade tariffs, dominated sentiment in March. These fears proved well-founded in early April, when tariffs on cars and additional imports were confirmed, adding to the existing strain on key industries. The AI sector also faced pressure, as China's new low-cost AI platform, DeepSeek, raised concerns about future US tech dominance. While energy and healthcare posted gains, investor caution prevailed. The Fed left rates unchanged at 4.25–4.50%, but revised its 2025 growth outlook downward to 1.7%.

Eurozone Equities
European equities delivered strong performance in Q1, supported by Germany's post-election stimulus plans and rotation away from high-priced US tech stocks. Banks led the rally, benefiting from robust earnings and minimal direct exposure to tariff tensions. However, towards the end of March, concerns escalated about possible US tariffs targeting Europe's automotive sector—worries that materialised shortly after quarter-end on *Liberation Day*. Despite this, Q1 gains were strong, driven by industrials, utilities, and energy stocks.

UK Equities
UK equities posted modest gains in Q1, thanks largely to strong performances from large-cap financial, healthcare, and energy companies. Global investors looked to the UK for its defensive qualities as US tech volatility increased. However, smaller and mid-sized firms continued to face headwinds. The Spring Statement cast a cautious tone, raising questions about future tax increases and fiscal restraint. Investor sentiment was also shaped by fears of new US tariffs—particularly in the automotive sector—later confirmed after *Liberation Day*, putting pressure on globally exposed UK firms.

Japanese Equities
Japanese equities fell in Q1, with larger exporters and technology firms bearing the brunt of trade-related anxiety. The looming threat of US auto tariffs—which were confirmed after *Liberation Day*—was a key drag on sentiment. Despite these challenges, some domestic resilience came from the financial sector, supported by higher bond yields amid rising wage and inflation data.

Emerging Market Equities
Emerging markets outperformed US indices but lagged behind Europe. A weaker US dollar and Chinese stimulus provided support. China's launch of DeepSeek helped boost confidence in its AI sector, although *Liberation Day* and the subsequent confirmation of US tariffs raised concerns around global supply chains and demand for exports from Taiwan, Thailand, and others. In contrast,

Eastern European markets benefited from Germany's policy boost and a more stable outlook for the eurozone.

Asian Equities (ex-Japan)

Asian markets were mixed in Q1. China, South Korea, and Singapore gained on optimism around AI leadership and domestic stimulus. Taiwan, however, declined as investor concern grew about how US tariffs—anticipated throughout March and delivered in April—might impact semiconductor exports. Similar worries held back markets in Thailand and Indonesia.

Global Bonds

Bond markets responded to diverging economic signals. In the US, slower growth expectations and pre-*Liberation Day* caution drove demand for Treasuries. European bond markets were lifted by confidence in Germany's new fiscal plans, while UK gilts saw yields rise slightly after a cautious Spring Statement. US corporate bonds outpaced their European peers across both high-yield and investment-grade markets.

Commodities

Commodities saw gains, led by precious metals. Gold and silver rose sharply, with investors seeking safety ahead of *Liberation Day* tariff announcements. These gains extended into early April as the measures took effect. Energy markets posted broad increases—especially natural gas—while industrial metals like copper rallied. Agricultural commodities were mixed: cocoa dropped significantly, while sugar and coffee prices climbed.

Source: Schroder Investment Solutions – Q1 Update 2025

***

Trade Tensions After the Pause: What Comes Next?

As we approach the early-July expiry of the 90-day tariff pause introduced following "Liberation Day," investors globally are carefully monitoring developments. The temporary pause enacted in early April offered markets some respite, yet uncertainty is rising again as the deadline nears. Investors and businesses alike are questioning what will follow: Will tariffs return at their previous levels, intensify further, or can diplomatic negotiations bring lasting stability?

The tariffs initially imposed by the Trump administration targeted numerous imports, from automobiles to industrial metals, aiming to protect American industries. However, these measures carry risks of triggering trade wars, inflating consumer prices, and disrupting global supply chains. Recognising these dangers, the 90-day suspension provided essential breathing space, allowing for diplomatic engagement. Yet, recent statements from Washington indicate limited progress, with President Trump signalling that an extension of this tariff pause is improbable.

Complexity in Action: The Global Supply Chain

To appreciate why markets are so sensitive to tariff developments, consider the journey of a simple t-shirt—highlighting the complexity of today's global economy.

The process begins in the cotton fields of the United States, the world's leading cotton exporter. From there, raw cotton travels internationally—perhaps first to a spinning factory in Colombia, where sophisticated machinery, such as the German-made Trutzschler Blendomat, transforms it into yarn. This machinery competes directly with similar equipment from Korea and Japan, illustrating just how globalised production equipment itself has become.

Once spun, the yarn is dyed and woven into fabric, potentially in a facility in Indonesia. Only after these international steps does the fabric finally arrive in Vietnam, ready for final assembly into the t-shirts sold worldwide—including prominently in the United States.

Indeed, Vietnam accounts for approximately half of Nike's footwear manufacturing and nearly one-third of its apparel. Thus, when Vietnam faced significant new tariffs, it sent ripple effects through global markets, clearly seen in Nike's share price, which fell sharply following the "Liberation Day" announcements.

This interconnectedness exemplifies how imposing tariffs isn't simply about taxing imports—it's about potentially disrupting a finely tuned global network. Efforts to return manufacturing exclusively to the US are ambitious, yet markets remain sceptical, recognising the monumental challenge and risks involved.

Source: 7IM – April 2025

What Happens Next?

As the 90-day deadline approaches, sectors reliant on complex international supply chains—automotive, apparel, electronics—face particular vulnerability. Tariffs could reignite market volatility, increase consumer costs, and escalate geopolitical tensions.

However, diplomatic solutions remain possible, and market pressure may motivate last-minute agreements to prevent broader economic disruptions. As your planners, we will stay vigilant and ensure you maintain diversified portfolios, balancing caution with opportunity.

A Reminder Through Data

Below is a visual showing how different asset classes have performed over recent calendar years. It clearly illustrates a valuable truth: no single asset class consistently leads the market. Leadership changes year by year—often unpredictably.

This isn't just a data point; it's a demonstration of why spreading investments across a range of assets remains a practical, proven strategy. Not because it's exciting, but because it works.

2020	2021	2022	2023	2024	YTD	Q1 2025	
US Equities 16.2	Commodities 41.6	Commodities 41.9	US Equities 18.9	US Equities 26.2	Europe ex UK Equities 7.4	Europe ex UK Equities 7.4	Best performing asset class
Emerging Market Equities 14.7	Global Property 28.4	UK Cash 1.4	Global Equities 15.9	Global Equities 20.1	UK Equities 4.5	UK Equities 4.5	
Global Equities 13.2	US Equities 27.6	UK Equities 0.3	Europe ex UK Equities 14.8	Commodities 11.2	Global Corporate Bonds 1.8	Global Corporate Bonds 1.8	
Japanese Equities 9.5	Global Equities 20.1	Japanese Equities -4.1	Japanese Equities 13.3	Global High Yield Bonds 10.4	Commodities 1.8	Commodities 1.8	
Europe ex UK Equities 7.5	UK Equities 18.3	Europe ex UK Equities -7.6	Global High Yield Bonds 12.6	Japanese Equities 10.0	Global High Yield Bonds 1.3	Global High Yield Bonds 1.3	
Global Corporate Bonds 7.2	Europe ex UK Equities 16.7	Global Equities -7.6	Global Corporate Bonds 8.0	UK Equities 9.5	UK Cash 1.1	UK Cash 1.1	
Global Treasury Bonds 4.6	Global High Yield Bonds 2.2	US Equities -9.4	UK Equities 7.9	Emerging Market Equities 9.4	Global Treasury Bonds 0.8	Global Treasury Bonds 0.8	
Global High Yield Bonds 4.2	Japanese Equities 2.0	Emerging Market Equities -10.0	Global Treasury Bonds 5.8	UK Cash 5.3	Emerging Market Equities -0.1	Emerging Market Equities -0.1	
UK Cash 0.2	UK Cash 0.1	Global Treasury Bonds -11.7	UK Cash 4.8	Global Property 3.8	Global Property -1.2	Global Property -1.2	
UK Equities -9.8	Global Corporate Bonds -1.0	Global High Yield Bonds -12.4	Global Property 4.6	Global Corporate Bonds 3.3	Japanese Equities -1.5	Japanese Equities -1.5	
Global Property -11.0	Emerging Market Equities -1.6	Global Property -14.9	Emerging Market Equities 3.6	Global Treasury Bonds 2.7	Global Equities -4.2	Global Equities -4.2	
Commodities -26.1	Global Treasury Bonds -2.0	Global Corporate Bonds -15.3	Commodities -9.7	Europe ex UK Equities 1.9	US Equities -7.2	US Equities -7.2	Worst performing asset class

Source: Schroder Investment Solutions – Quarterly Bulletin Q1 2025

***

Spotlight on UK Interest Rates: Implications for Savers and Borrowers

Interest rates in the UK are once again in focus, as the Bank of England (BoE) faces pressure to respond to a slowing global economy and growing market volatility. With the next Monetary Policy Committee meeting scheduled for 8 May, many analysts are now expecting a rate cut—potentially the first of several this year.

The Bank Rate currently stands at 4.5%, but market expectations suggest three rate cuts may be delivered in 2025, bringing it down to 3.75% by the end of the year. This shift in sentiment is largely driven by escalating trade tensions with the US. President Trump's recent tariff announcements—particularly a proposed 10% tariff on all UK exports, following existing 25% levies on steel, aluminium, and cars—have weighed on confidence and raised concerns about a global recession.

While inflation in the UK has ticked up to 2.8%, above the Bank's 2% target, the broader threat to economic growth is becoming more difficult to ignore. A former BoE policymaker has even called for more urgent rate reductions to safeguard the economy. Governor Andrew Bailey, who has recently been nominated to chair the global Financial Stability Board, now finds himself balancing inflation control with maintaining financial resilience.

For savers, any rate cuts could reduce returns on cash deposits and savings accounts. On the other hand, borrowers—particularly those on variable-rate mortgages or looking to remortgage—may welcome a gradual easing in rates. According to recent data from the Independent, average monthly repayments for a £200,000 mortgage could fall by over £100 if rates fall as predicted.*

As always, the interest rate outlook remains subject to change, and we will continue monitoring developments closely to ensure your financial planning remains aligned with the broader economic environment.

**Source: The Independent, April 2025*