Canaccord Genuity
Wealth Management

MPS investment update
April 2025 (written 8 April 2025)

Portfolio asset allocation

	Risk profile 3	Risk profile 4	Risk profile 5	Risk profile 6	Risk profile 7
Debt and Fixed Interest	**59.74**	**47.63**	**32.80**	**17.76**	**0.00**
Emerging Market	2.98	2.98	2.03	0.00	0.00
International	10.90	11.95	8.96	5.18	0.00
Government	22.05	13.57	8.57	4.03	0.00
Corporate	23.81	19.12	13.24	8.54	0.00
Equities	**18.53**	**38.19**	**57.83**	**78.05**	**96.92**
Emerging Market	1.00	1.99	1.98	2.72	2.99
Far East	0.94	1.89	2.09	3.68	4.64
Japan	0.97	1.05	1.86	2.45	3.00
North America	4.42	9.02	13.72	18.60	23.2
Thematic	1.06	2.92	5.59	6.98	8.52
United Kingdom	3.13	7.84	12.65	18.68	22.26
International	7.01	13.48	19.94	24.94	32.30
Alternative Investments	**14.71**	**10.05**	**5.12**	**0.00**	**0.00**
UCITS Funds	12.66	8.01	2.98	0.00	0.00
Commodities	2.05	2.03	2.14	0.00	0.00
Cash	**7.02**	**4.13**	**4.25**	**4.19**	**3.08**

Data as at 31 March 2025

Core inputs to our asset allocation framework

The economy

The global economy has entered a more fragile phase. The US, long the engine of global growth, is showing signs of slowing. Some softening was expected, but the uncertainty unleashed by President Trump's sweeping 'Liberation Day' tariffs has compounded the slowdown and intensified volatility across markets. While we still don't foresee a deep recession, the near-term trajectory has become more uncertain.

In Europe, there are glimmers of improvement, but sentiment is fragile and now at risk of fading if global conditions deteriorate further. Recent fiscal announcements could help, but their effects will take time to materialise. China's retaliatory tariffs mark a major escalation in the trade war and raise the stakes for global growth.

We expect a continued period of low global growth with heightened risks, though not a base case global recession. The path of trade policy will be critical from here and the most recent 90-day pause has provided relief.

Inflation

Recent tariff announcements have pushed inflation firmly back into focus. While underlying trends had been gradually improving, the introduction of widespread trade barriers and the onset of a global trade war reignited fears of renewed price pressures. Assuming that protectionist policies are here to stay, higher import costs in the US pose clear upside risks to inflation. In the UK, the combination of weak growth and sticky inflation brings stagflation - low growth and high inflation - into view. Europe faces lower inflation risk in the near term, but stepped-up commitments to defence and infrastructure spending could add some upward pressure over time.

We still expect inflation to settle above pre-pandemic norms, though not at destabilising levels. Inflation expectations have ticked higher, and with them, central banks may face a more delicate balancing act between supporting growth and managing inflation.

Interest rates

Central banks now find themselves caught between inflation risks and slowing growth. Markets are currently pricing in nearly five rate cuts by year-end in the US - we think this may prove optimistic. The US Federal Reserve (Fed) is unlikely to move aggressively if trade-driven inflation proves persistent. Meanwhile, the European Central Bank (ECB) and People's Bank of China (PBOC) face growing pressure to ease policy. The era of coordinated global monetary easing (when a central bank lowers interest rates or increases money supply to stimulate economic growth) appears to be behind us, raising the risk of greater policy divergence and fragmentation.

Fiscal policy is now firmly in the driving seat. In the US, the focus is shifting toward government efficiency and attempts to rein in fiscal excess, while elsewhere the response may lean toward further stimulus. Our base case is that real yields could fall as growth slows, but nominal yields may remain sticky if inflation stays elevated and the number of rate cuts ultimately underwhelms. However, if the growth shock deepens, central banks will be forced to act more decisively and there is value in government bonds from this perspective.

Corporate earnings

While recent events have understandably weighed on sentiment, we do not believe they invalidate the underlying strength seen in corporate fundamentals at the end of 2024. Companies entered the year with strong balance sheets and healthy margins.

2025 earnings expectations have been revised down modestly, reflecting the shifting backdrop, but the starting point remains solid. A 9.4% earnings growth forecast for the US is still respectable. Risks to the outlook are tilted to the downside in the near term, but companies are broadly speaking in good health and able to navigate volatility.

The true test this quarter will be guidance, not just numbers and whether companies feel equipped to adapt in what is now a more unpredictable operating environment. We're not expecting the fireworks of 2023–2024, but a measured delivery against recalibrated expectations would be a positive outcome.

Valuation and positioning

After a long period of stretched multiples (unusually high valuation ratios), particularly in the US, the reset we've seen in recent weeks has created a more attractive entry point across global markets. The most significant changes have occurred where optimism has been excessive - namely US tech - but the rotation we've been positioned for has also accelerated, with defensive sectors, UK-listed global companies and parts of Europe now outperforming. This valuation shift is not just cosmetic. Lower prices are starting to reflect the new, more volatile macro environment, and in doing so, are offering risk premiums that better compensate for it.

Bond markets have been especially dynamic. We used the shifting landscape in March to adjust our positioning, leaning into defensive characteristics ahead of April's volatility. We shifted a significant portion of our duration exposure into UK gilts, where valuations look more compelling and extended maturity in US Treasury Inflation-Protected Securities (TIPS) to reflect rising inflation expectations.

These are significant shifts in positioning, the most active we've been in some time and they reflect the scale of the underlying changes in markets.

Key subject of the month: Tariffs, trade wars and the end of globalisation

Understanding the arguments for tariffs is the first step to grasping their potential implications. The US runs a dual deficit (trade and budget) which is the result of the US dollar being the world's reserve currency as well as other trade-related factors. This has contributed to long-term economic imbalances and industrial decline in large cohorts of the US, contributing to massive inequality and a sense of despair. This is the 'Triffin Dilemma' in action (the conflict where a reserve currency country must run trade deficits to supply global liquidity, but this can undermine its own economy), and Trump is determined to fight it through a combination of unconventional methods, aimed at effectively 'restructuring the global trading system' in favour of middle-class America.

The administration argues that US consumer demand has been siphoned out of the US economy into the global economy. This has led to the closure of more than 90,000 US factories since 1997 and a decline in the manufacturing workforce of more than 6.6 million jobs, equating to more than a third from its peak. Trump's focus is on addressing the history of perceived 'unfair' trade terms and escaping the structural decline from their consistent dual deficit, all the while maintaining US dominance. Trump's focus is on benefiting 'Main Street' not 'Wall Street' and his barometer during his second term is the 10-year Treasury yield rather than the S&P500. Since the strategy is now one of risk before reward this means more uncertainty and volatility, particularly in the short-term. Risk assets (like equities) should offer a higher risk premium in the short-term and markets are moving to price this in.

Tariffs announced on 'Liberation Day' are targeted at balancing trade deficits. The administration has used a simple formulaic approach to calculate tariff levels. The US is, in many cases, simply matching the protectionism of its trading partners. This is the first major offensive in a global trade war and the rest of the world now faces a decision on how to retaliate: escalate or negotiate. This produces the most uncertainty, however in our assessment the clearest implications for the global economy and asset prices are:

US stagflation

Imported goods will come at a higher cost and there will be a supply chain shock, at least until the US can shift production onshore. This process will likely be stagflationary (lower growth, higher inflation).

The end of globalisation

Trump is a negotiator; if countries with their own protectionist policies negotiate to lower trade barriers, the impact could be softened. We have already seen that when partners cooperate with the administration, it can lead to tariff rollbacks and the formation of more beneficial trade agreements. However, if the trade war escalates, the supply shock for the US could become more severe, while the negative GDP shock for America's largest trading partners could be catastrophic.

Fiscal and monetary policy impact

Central banks now find themselves caught between inflation risks and slowing growth. The Fed may hesitate to cut rates if trade-driven inflation proves persistent, while the ECB and PBOC face pressure to ease. The era of coordinated global monetary easing may be over, leading to greater policy divergence and market volatility. Either way, fiscal policy is now in the driving seat with the US prioritising government efficiency aimed at reducing fiscal indiscipline, while the global response may be to increase spending to stimulate. Could this mark the end of US exceptionalism? This has been the market's interpretation so far.

Key asset allocation positioning

- We are still neutral in all asset classes at a 'headline level', reflecting our view that most asset classes are offering a fair balance between risk and reward
- This view has now been constant through the last 18 months and while we believe it remains appropriate for 2025, we stay open-minded about what is proving to be an unpredictable year
- We persist with a moderate underweight stance towards the US, large cap tech and growth themes in equity markets, although we have moderated that underweight stance
- We still admire the value opportunities in regions like Asia, Europe and the UK, although we do not have an extreme positional skew
- While our overall equity allocation remains neutral, we believe we're well placed for a potentially weaker economic backdrop, given our emphasis on companies with dependable business models and robust cash flows
- In fixed income, we have extended our interest rate sensitivity, mainly by adding more inflation-linked bonds, particularly medium-term US TIPS, which we believe are well-suited to a stagflationary environment
- We still see value in taking corporate credit risk but have moved decisively up the quality spectrum; this has helped cushion portfolios during recent volatility and reflects our shift to prioritise capital preservation and resilience
- Alternative fund blends are continuing to add value, we are prioritising diversification, moderate volatility and seek an attractive risk-adjusted return profile
- As we've said consistently, our central stance is to remain balanced, diversified, and highly flexible; this remains the most effective way to navigate what continues to be an unstable global landscape.

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