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Investment Management

Window on the World

MAY 2025

“April 2, 2025, will forever be remembered as the day American industry was reborn, the day America’s destiny was reclaimed and the day that we began to make America wealthy again.”

President Donald Trump, 2 April 2025

2 April 2025 was dubbed “Liberation Day”, when the US President outlined trade policy and tariffs on over 60 countries and fired the starting gun on a month of chaos and heightened volatility in markets. Shocked at the scale of the tariffs and their potential economic impact, investors initially recoiled, driving a sharp drop in equity markets. A subsequent softening in rhetoric and delay in the start of the tariffs then drove an equally sharp rebound – but nerves remain on edge. As we close the month, a degree of calm has returned to markets, but the evolution of US trade policy is still very much ongoing, and its implications for the global economy remain unclear.

CAPITAL MARKET RETURNS APRIL 2025

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	-0.7	-0.7	8.1	5.4
US Equities	-0.7	-7.5	12.1	-4.9
European Equities	-1.1	-1.5	8.0	6.5
Japanese Equities	0.3	-3.2	-0.4	-3.1
Emerging Market Equities	1.3	2.5	9.5	4.4
UK Gilts	1.8	1.5	3.3	2.3
UK Corporate Bonds	1.3	0.5	5.8	1.7
UK High Yield Bolds	0.6	1.3	10.4	2.5
US Corporate Bonds	0.1	1.9	7.7	2.5
US High Yield Bonds	0.0	-0.4	8.7	0.9

Source: Bloomberg, Verso Investment Management, as of end April 2025

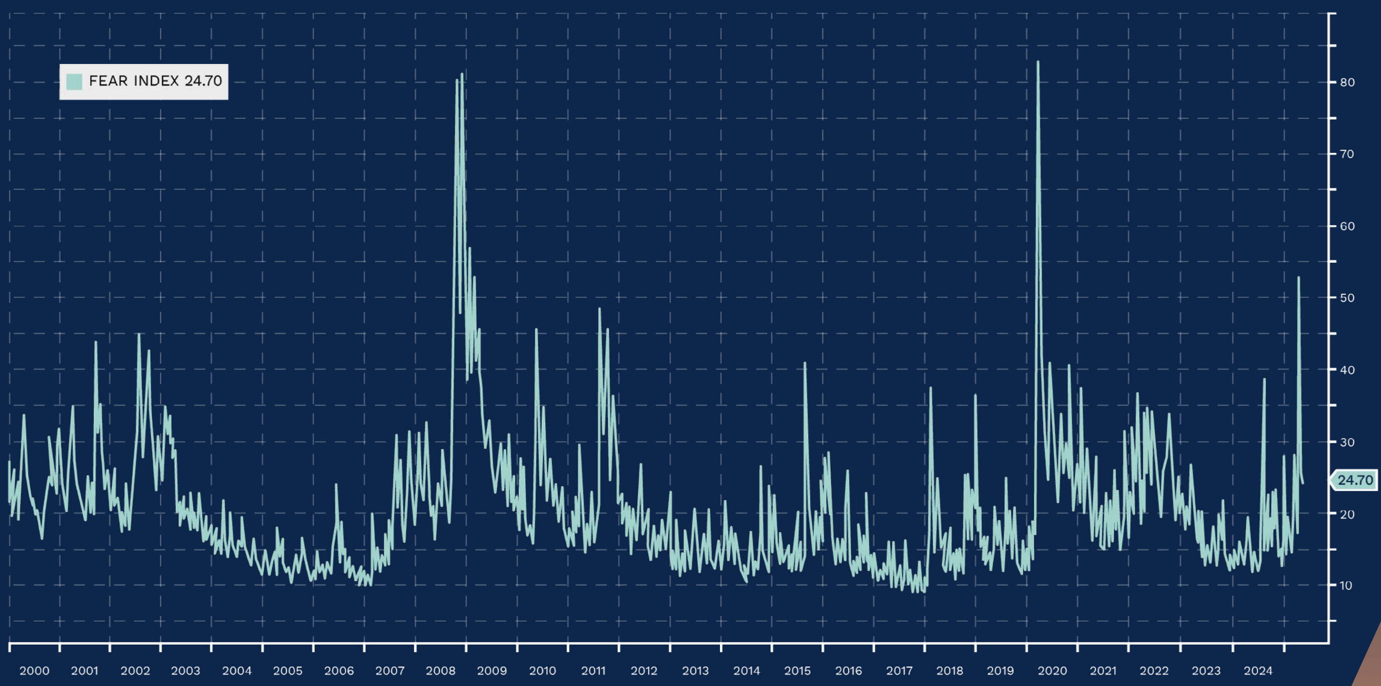
The initial reaction from investors to what was a broader and more punitive set of tariffs than expected was rapid. US equities bore the brunt of the correction, with one of the sharpest two-day declines on record, falling by more than 10%. A consequence of this was that financial market volatility rocketed, with the Volatility Index (VIX) – a measure of equity market volatility nicknamed the “fear gauge” – reaching its third-highest level this century. Bonds, which would normally be a safe haven, also experienced downward pressure as long-dated US Treasury yields rose, along with a fall in the US dollar, potentially signalling capital flight from US assets in general.

A few days later, and a softening of President Trump’s tone on tariffs, including a 90-day pause on most countries that hadn’t imposed reciprocal tariffs, drove an equally rapid move higher in equities, with US equities rising by over 9% on the day of the announcement. The markets had been desperate for a positive development, which the pause has provided, and for many investors, a hope that the tariff burden would be much lighter than initially indicated. By the end of April, most equity markets had finished the month broadly flat, except for emerging market equities, which finished more than a percentage point higher, primarily due to solid returns from South American equities.

The shock to confidence resulting from the tariffs also hit bond markets, which experienced significant volatility. Yields on US Treasuries moved higher, with the yield on the 30-year government bond reaching 4.9%, before falling back to 4.6%. And spreads on investment-grade credit and high-yield bonds initially moved higher too, before retracing some of these moves. While the moves in the US market reverberated around the world, there was also divergence in performance across regions. Most notably, UK Government bonds ended the month in positive territory, as investors priced in more interest rate cuts from the Bank of England as inflation continues to move lower and the tariff threat was digested.

Although President Trump loves tariffs, there's little doubt they will have an impact on businesses in both the US and the rest of the world. Early evidence from surveys ("soft" data) would suggest that the tariff developments are beginning to weigh on sentiment and possibly impact decisions on spending and investment. Purchasing Manager Indices, which are a measure of business confidence, across regions showed signs of declining during the month, although it's a little early to read much into this, they may potentially be signalling economic moderation looking forward. In the same vein, consumer confidence readings also declined in both the US and Europe.

\ EQUITY MARKET VOLATILITY, AS MEASURED BY THE VIX (THE SO-CALLED FEAR GAUGE), REACHED ITS THIRD-HIGHEST LEVEL THIS CENTURY IN APRIL



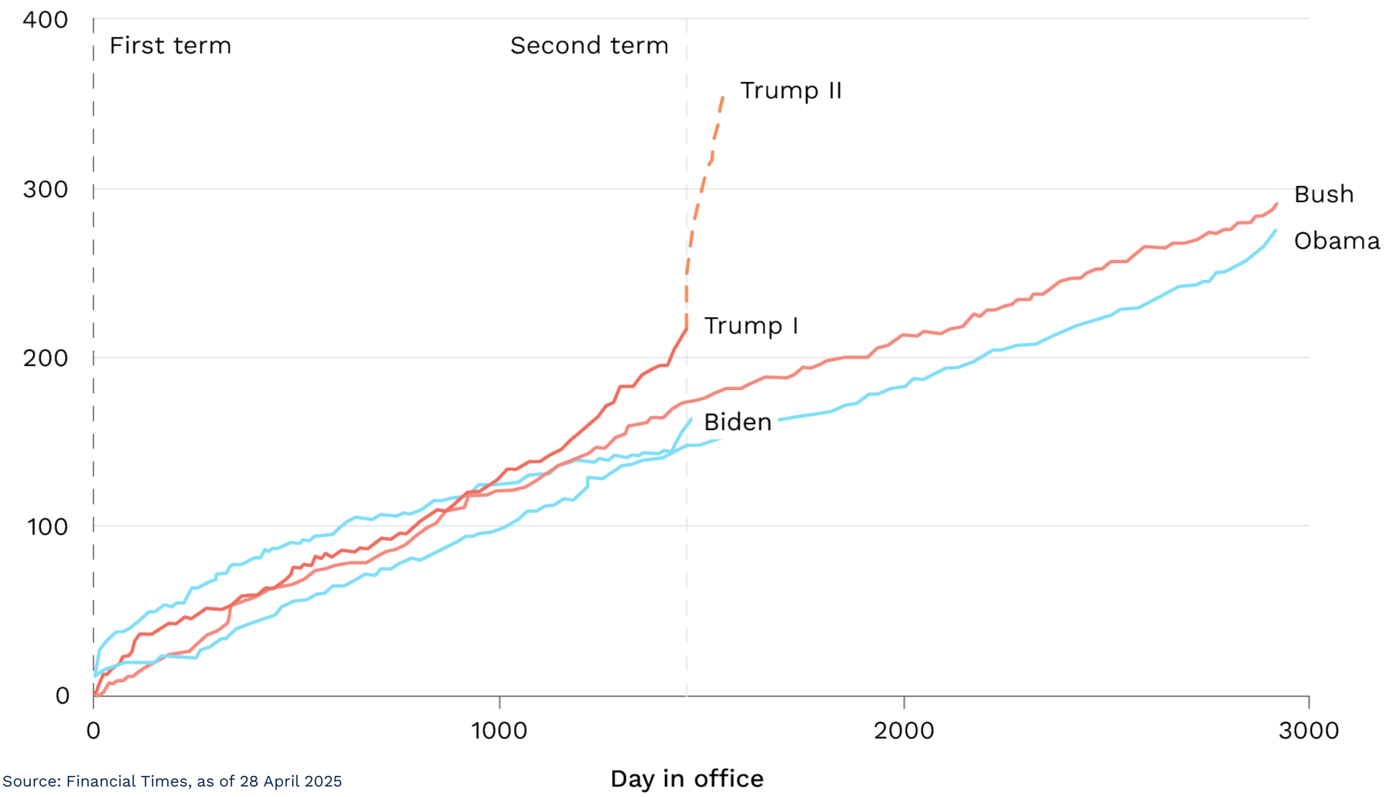
Source: Bloomberg, Verso Investment Management, as of 6 May 2025

Where next for tariffs and the first 100 days?

The end of April marked the first 100 days in office for President Trump, and it's fair to say he has sought to quickly execute his radical agenda. On top of the threat to long-standing trade alliances with the Liberation Day announcement, the President has also empowered Elon Musk to significantly reduce US government spending and cut jobs, while also seeking to broker peace deals in Ukraine and Israel. Most, if not all, of his policies have been driven through by executive orders, many of which revoke those put in place by former President Joe Biden. Clearly, some of these will be challenged in the courts, and there are signs that many of the decisions taken have begun to weigh on his popularity rating – the performance of US equities since his inauguration have underperformed other global equity markets by more than 13% in Sterling terms, which will not have helped his popularity.

\ PRESIDENT TRUMP HAS SIGNIFICANTLY INCREASED THE USE OF EXECUTIVE ORDERS TO PASS LEGISLATION IN HIS SECOND TERM

Running total of executive orders signed, for recent US presidents



Source: Financial Times, as of 28 April 2025

Looking ahead, there was a clear shift in the administration's focus by mid-April, which was likely a response to the market turbulence it had generated (there remains a school of thought that President Trump views the US stock market as a barometer of his success). Consequently, the outlook for tariffs has evolved rapidly over the past month, and we expect it to remain centre stage as we move into the summer. At the time of writing, we can say we know the following: for most countries, tariffs are subject to a 90-day pause, which expires on 9 July. China remains the exception, with both countries imposing very punitive tariffs on imports, which effectively means a trade embargo exists between the two countries.

Both China and the US have indicated that this current stance is untenable, and concessions have already been made on certain products and sectors, and that talks are highly likely. Investors are hoping, and it seems a good bet, that deals will be made, which will probably mean the effective tariff rate on US imports is likely to be somewhat lower than the current estimated 23%. Nevertheless, forecasting the final outcomes is notoriously hard, and timing is difficult. It therefore seems highly likely this period of hiatus will continue to weigh on sentiment and corporate decision-making regarding capital investment and hiring, which in turn raises the risk of a setback in global economic activity. As such, we will be monitoring developments over the next few weeks and months very closely.

Portfolio positioning

The introduction of tariffs and resulting volatility in equity markets happened in a very short period of time, and history shows that high levels of volatility, as measured by the "fear gauge", can present a good buying opportunity, with equity markets typically higher in the following 12 to 36 months' time.

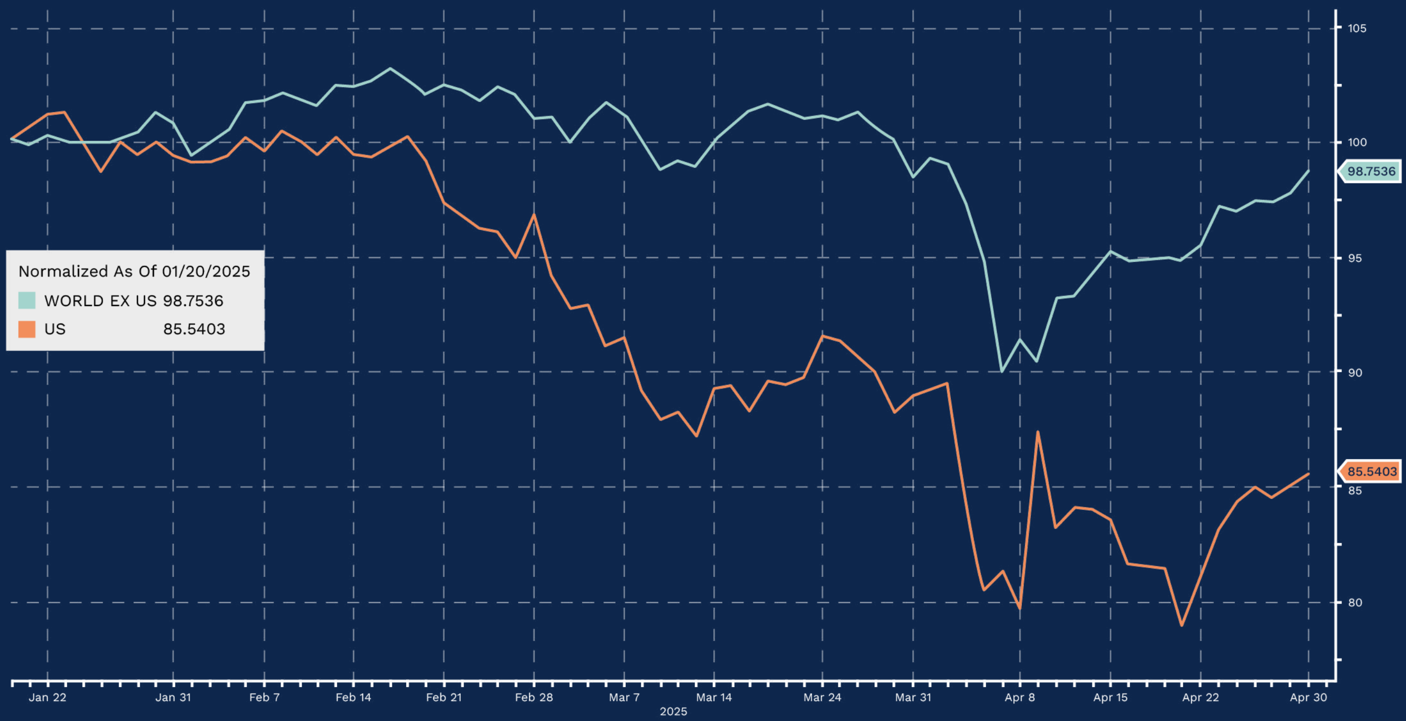
So, we took the opportunity to add to equities during the market rout in mid-April across our portfolio range. This ensured our overall neutral positioning in equities was maintained, which has benefited from the subsequent sharp rebound.

More generally in equities, we remain positioned for a broadening out of returns, favouring non-US equities over US equities. This stance has been working in our favour since President Trump was inaugurated in January, and we retain a preference for UK and emerging markets, and have recently added to Japan, where the economy is showing signs of improving for the better – the country may also prove to ultimately be a net beneficiary of changes in terms of trade between the US and China.

\ NON-US EQUITIES (BLUE LINE) HAVE OUTPERFORMED US EQUITIES (ORANGE LINE) BY MORE THAN 13% SINCE PRESIDENT TRUMP WAS INAUGURATED.

Desperately seeking deepseek

The new service was launched on Jan 20; a week later, attention took off



Source: Bloomberg, Verso Investment Management, as of end April 2025

The safe haven characteristics of government bonds clearly stand out in this environment, with yields moving lower, pushing values higher. For our multi-asset portfolios, they have continued to be a good counterbalance this year and still offer attractive income characteristics. One of the likely impacts of tariffs is higher inflation, so we anticipate that our index-linked exposure will provide good inflation hedging characteristics should, as we expect, inflation move higher. Our corporate bond positioning is modest, invested in low-duration credit funds that provide less sensitivity to interest rate movements and inflation, but still provide a solid base for returns. For now, we see no reason to change this stance, but we would be looking at adding more to investment-grade credit if spreads widen.

In summary, the uncertainty created by the sudden and large-scale shift in US policy has the potential to seriously impact international trade, and how this develops will remain a key feature in the weeks ahead. Although we expect deals to be struck between countries and regions, the longer the uncertainty persists, the greater the risk to economic growth, and we are already seeing corporations across a range of industries cut guidance or forecasts for the year ahead. As with all crises, a route out is ultimately found, and this time will be no different. In addition, central banks have significant firepower in their arsenal to provide liquidity and stimulate economic activity if conditions were to weaken significantly.

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