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April delivered investors with another eventful month, which saw market volatility soar to post-Covid highs in the first few days. The Trump administration's highly anticipated "Liberation Day" on 2nd April saw the announcement of wholesale punitive tariffs, setting the tone for the rest of the month. After what had already been a tumultuous Q1, the announcement overshadowed a broad trend lower in inflation for most major regions. Whilst the initial reaction was a sharp widespread selloff in equity markets, most recovered by at least some extent before month end, while bond markets reacted more favourably, with yields initially moving lower (and prices higher). Within equities, there was again, as we saw in Q1, a significant divergence between the returns for major regions, with sentiment seemingly dictated by the potential impact of proposed tariffs, as investors sought to identify any obvious winners or losers.

After a torrid first quarter, US equities were again the worst performing of the major regions, with a return of -3.8% (all returns in sterling). We have been reporting for months on how so-called US exceptionalism has been increasingly brought into question, and that both consumer and business confidence has been wavering. Whilst an economic moderation of sorts was already underway, April's trade policy announcements further increased uncertainty, with domestically oriented stocks particularly hit. US smaller companies, for

example, recorded a loss of -5.2% during the month, taking the year-to-date return to -17.4%. There were, however, signs of reprieve as the month went on, leading to a partial recovery in equity markets. Not long after the initial tariff announcement came a drip-feed of row backs from the President, including a 90-day pause for all countries – China aside – facing tariffs above 10%.

As with Q1, one of the apparent winners was Europe, with a gain of 1.9%, representing an +18.3% swing over US equities year-to-date. Despite initially selling off in lockstep with global equities early in the month, stocks rallied as the European Union suspended any retaliatory tariffs on transatlantic metal trade for 90 days. Whilst composite services and manufacturing output weakened slightly during the month, performance was buoyed by lower energy costs, increased fiscal spending and a further interest rate cut from the European Central Bank. Gains in UK small and mid-cap stocks were enough to offset large-cap losses for UK equities to return an aggregate of 0.8%. Economic data was mixed, with GDP growth and retail sales ahead of expectations, but there were signs of weakness in the labour market and a sharp decline in services output. Conversely, services output in Japan bounced, as did the price of export-oriented companies on yen weakness, with Japanese equities returning 1.3% by month end.

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As with the US, Asian equities backed up a poor first quarter with a monthly aggregate loss of -2.2%. Headlines were dominated by increasing geopolitical tension with the US, after Donald Trump's tariff rhetoric appeared to hone in on China as the "biggest abuser of them all". At one stage, proposed tariffs on imported Chinese goods stood at 145%, before conceding that this figure is likely to "come down substantially, but it won't be zero". US relations aside, Chinese economic data was mixed, with a sharp contraction in manufacturing output, but strong GDP growth. Elsewhere in the region, there were gains for India and Korea, whilst Taiwan – another of the US's tariff targets – suffered marginal losses. Emerging markets also experienced mixed fortunes, with losses in Asia not enough to offset gains in Latin America, with Brazil and Mexico seemingly viewed as potential beneficiaries of the, now global, trade war.

It was a positive month for bond markets relative to global equities, as many investors looked to reallocate towards risk-off assets. Whilst yields were initially sent higher, both the US 2 and 10-year Treasury yields finished the month marginally lower, at 3.62% and 4.17% respectively. Government bonds broadly outperformed their corporate counterparts, with similar regional trends to equities seeing Europe as the best – and the US as the worst – performer. As for corporate bonds, higher

quality Investment Grade rather unsurprisingly outperformed their High Yield counterparts, whereas within alternative asset classes there were more marginal gains for both property and infrastructure sectors – both beneficiaries of falling yields. Commodities declined a staggering -11.5% during the month, dragged down by heavy losses in both natural gas (-24.0%) and oil (-20.1%) on increasing fears of a global economic slowdown and supply increases. In metals, there were single-digit losses for both industrial and precious metals, except for gold, which continued its meteoric rise with a further gain of 2.2%.

Whitechurch Investment Team
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