BLACKFINCH
ASSET MANAGEMENT

Blackfinch Asset Management

Monthly Market Moves

March 2025

Market Overview

It was another month of volatility for investment markets, as President Donald Trump continued to make his mark on the global stage, spiking US trade policy uncertainty to unprecedented levels. The Federal Reserve (Fed) also appeared influenced by tariff uncertainty. The Federal Open Market Committee left interest rates unchanged at a range of 4.25% to 4.5% in their latest meeting. This was universally expected, but the comments from Fed Chair Jerome Powell stole the headlines. He suggested that the level of uncertainty for the US economy was in part caused by confusion surrounding the new administration, particularly over tariffs. Finally, eyes continue to focus on China as geopolitical tensions remain elevated. The Chinese government recently set an annual economic growth target of approximately 5% for the third straight year. An ambitious goal that analysts believe will require significant stimulus.

A further raft of financial tariffs applied by the US administration, with uncertainty spiking to near-all-time highs

- US Equity markets remained volatile throughout March, a symptom of several new tariff announcements, including President Donald Trump's announcement of a 25% levy on all non-US made automobiles. Adding to the recent market volatility, incoming economic data suggests both consumers and investors are concerned over a broader economic slowdown in the US.
- The Federal Reserve (Fed) voted to keep policy rates unchanged, in line with expectations, whilst cutting its growth forecast and hiking its inflation outlook. Chair Jerome Powell stressed that the potential impact of tariffs on inflation would likely be 'transitory'.
- The University of Michigan's final US consumer sentiment reading for March was revised lower and declined sharply from February. Year-ahead inflation expectations jumped to 5.0% and long-run inflation expectations rose to 4.1%, their highest level in over 30 years. Surveys of Consumers Director Joanne Hsu, stated "consumers continue to worry about the potential for pain amid ongoing economic policy developments." This will add to concerns about the second-round effects of tariffs on inflation.
- The Bureau of Economic Analysis reported that its core personal consumption expenditures (PCE) price index - the Fed's preferred measure of inflation – increased by 0.4% in February, up from January's reading of 0.3%. On an annual basis, core PCE increased 2.8%, a figure still well above the Fed's long-term inflation target of 2%.

A 'non-event' Spring Budget, delivered by Chancellor of the Exchequer Rachel Reeves, as the UK economy remains stagnant

- After much speculation, British Chancellor of the Exchequer Rachel Reeves confirmed further spending cuts in the annual UK Spring Statement. The Office for Budget Responsibility (OBR) also revised its forecast for economic growth in 2025, halving the original figure to 1% and suggested higher levels of inflation and unemployment later in the year.
- Questions remain on how Reeves can stimulate the economy and meet her pledges of attractive economic growth over the longer-term. Recent Gross Domestic Product (GDP) data confirmed this, as the UK economy ground to a halt in the final quarter of 2024, with quarter-on-quarter growth being reported at 0.1% – a touch higher than Q3's flat reading.
- Away from politics, as widely expected, the Bank of England voted 8-1 to keep interest rates on hold in their March meeting. The Bank's Governor, Andrew Bailey, emphasised the high level of economic uncertainty as the key factor in the decision to hold rates steady.

Germany's new administration announces their 'fiscal bazooka,' improving prospects for the wider Europe

- Germany's parliament voted in favour of a new fiscal package, consisting of defence spending, a €500bn infrastructure fund, and an increase in the allowable structural deficit. The key component of the announcement was the proposal to soften the 'debt brake,' a historic rule that has previously prohibited excessive borrowing. 513 votes were cast in favour of the proposal, with only 207 voting against.
- However, US tariffs remain a potential headwind for economic growth. Christine Lagarde, president of the European Central Bank (ECB), said that the recent 25% tariff imposed by the US would lower eurozone growth by around 0.3% in the first year, while retaliatory tariffs could increase that number to 0.5%.
- In encouraging news, Ukrainian President Zelensky stated there were constructive talks between Ukraine and the US towards the end of the month. Shortly after, the world saw an announcement of a partial ceasefire between Russia and Ukraine, focussing on the suspension of attacks against energy infrastructure.

Summary

Investors continued the trend of shifting away from the US and into other developed regions, including Europe, as concerns over the raft of tariffs being announced by the new US administration could create an economic slowdown. Despite the shift, many of the regional equity markets were caught in the contagion of tariff fever and fell in value over the month. However, most fared better than the US, with Europe providing some shelter amid new economic stimulus, and Japan's brighter economic outlook and corporate reforms are driving improved earnings and shareholder returns. The most hurt by the profit-taking exercise in the US were some of the largest and most concentrated companies in the world, dubbed the 'Magnificent Seven', as investors looked to cash in their sizeable gains.

In a similar vein, bond markets have also seen a dispersion in performance. In the US, rising global trade tensions and concerns over softer economic growth opened the idea of potential rate cuts by the Fed, lowering government bond yields. This risk-off sentiment carried through to the UK, although UK government bonds fared relatively better as investors perceived there to be less risk in holding them over the US equivalent. Our positioning in alternative assets acted as a volatility dampener over the month, in particular listed infrastructure investment, as theme of Artificial Intelligence (AI) integration and data centre demand continues to grow.

Gold appeared to be a prudent commodity to shield investors from Trump's policies, as the price of an ounce of gold burst through its $3000 ceiling. An ounce of gold started March costing $2848 and finished at $3158. 'Black gold' wasn't quite so in demand however a barrel of Brent crude oil gained just over a dollar (and a half) to close at $74.74.

IMPORTANT INFORMATION