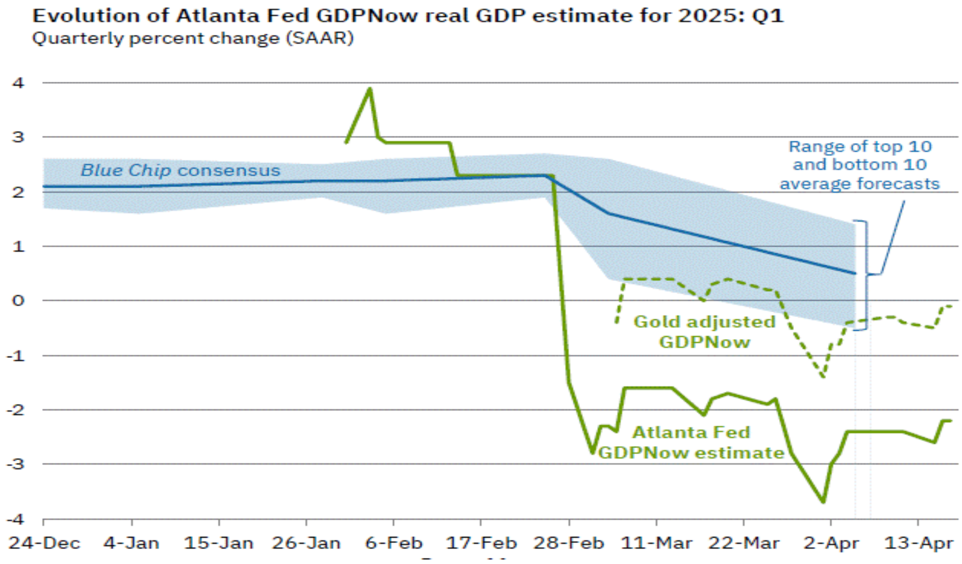
Investment Report 1T2025

The optimistic prognosis for the economy was upset by US President Donald Trump's trade battles in the first quarter of 2025. Markets experienced volatility as a result of the chaotic U.S. trade and tariff policies that caused a sharp decline in business and consumer confidence, and the major stock indices saw moderate declines. This created fears that corporate earnings growth would be disappointing and that economic growth would significantly slow. Concerns about tariffs caused US stocks to drop, but Europe did better after Germany revealed its spending plans. In the midst of the turmoil elsewhere, gold surged.

Because of market volatility in the first quarter of 2025, the S&P 500 faltered and returned -4.6%. Defensive sectors, which often fair better during market downturns, performed reasonably well, even though the total index closed the quarter in negative territory. Due to concerns that the Federal Reserve would halt interest rate decreases in early January, stocks began the new year by continuing their losses from late 2024. Nevertheless, the S&P 500 regained a large portion of those early losses by the middle of the month as a result of strong economic data, good inflation readings, and upbeat remarks from Fed officials regarding potential rate cuts. Furthermore, although concerns about drastic tariffs on "Day One" of the Trump presidency were not realized, stocks surged before and after Inauguration Day, anticipating a "pro-growth" administration. Shortly after President Trump took office, the S&P 500 reached a new all-time high. The surge extended until late January as the Fed stated that it still anticipated to cut rates in 2025, allaying concerns that rate cuts might stall. However, President Trump's warning of 25% tariffs on Colombia at the end of January was seen as a harbinger of impending tariff/trade instability. But since the duties were never put into effect, the markets mostly disregarded them, and stocks ended January strongly up.

Sector	Q1 2025 Returns	S&P 500 Index Weight
Energy	9.3%	3.7%
Health Care	6.1%	11.2%
Consumer Staples	4.6%	6.1%
Utilities	4.1%	2.5%
Financials	3.1%	14.7%
Real Estate	2.7%	2.3%
Materials	2.3%	2.0%
Industrials	-0.5%	8.5%
Communication Services	-6.4%	9.2%
Information Technology	-12.8%	29.6%
Consumer Discretionary	-14.0%	10.3%
S&P 500	**-4.6%**	**100.0%**

On the other hand, by the end of February, trade and tariff policy had a significant impact on markets and significantly raised market volatility. Market volatility briefly increased in the first few days of February as President Trump threatened and then postponed 25% tariffs on Canada and Mexico. Markets, however, assumed that President Trump employed tariff threats as a negotiation strategy and that significant tariffs would not be enacted after all because of the one-month deferral of those levies. As long as economic indicators remained strong, such feeling helped allay worries. The S&P 500 reached a new all-time high on February 19th as a result of those reasons. But the rally was short-lived. Consumer confidence fell sharply in late February, and some economic indicators suggested that the uncertainty around trade and tariffs was beginning to impede economic growth. When the Atlanta Fed's GDPNow went negative, suggesting that economic growth might be halting, those concerns were reaffirmed. Meanwhile, the S&P 500 saw a slight decline in February due to a "growth scare" triggered by tariff threats and general policy instability that persisted until the end of the month, along with a decline in consumer state of mind.



As President Trump delivered on his pledge to impose 25% tariffs on Canada and Mexico (and an additional 10% tariff on China), market falls picked up speed in March. Perception that tariff threats were only a negotiation ploy was dispelled when President Trump maintained many of the tariffs in place while delaying some of them on Canada and Mexico until early April. In the meantime, a number of businesses across multiple industries started to cut their earnings projections, citing a decline in company investment and consumer spending. The S&P 500 dropped to a six-month low as a result of the guidance reductions, which heightened concerns that policy uncertainty might lead to an economic downturn. Despite a respite in tariff threats in late March, markets attempted to recover, but President Trump's announcement of 25% car tariffs on March 26th sent equities down once more. The S&P 500 ended the quarter close to its lowest points of the year.

First Quarter Performance Review

According to market insiders, the S&P 500 saw a somewhat negative return for the quarter, but the market as a whole held strong, with the most of the dips coming from the widely held consumer and technology firms. Two of the 11 S&P 500 sectors experienced just slight decreases, and only four of them ended the quarter with a negative return. In the first quarter, the IT and consumer discretionary sectors saw significant drops, making them the worst-performing sectors by far. Additionally, those two industries had an impact on the overall performance of the index because they had some of the biggest weights in the S&P 500. Due to severe weakness in one of the biggest consumer stocks (Tesla) and widespread worries about decreased consumer spending in the wake of policy uncertainty, the consumer discretionary sector performed the poorest during the quarter. Following the launch of the Chinese AI program DeepSeek, which questioned presumptions on the future economic benefits of AI for large tech firms, tech stocks plummeted, making the sector the other significantly underperforming one in the first quarter.

When considering sector outperformers, the energy industry performed best in Q1 due to growing demand expectations after positive economic statistics from China and after certain European nations pledged to take on more debt in order to finance economic expansion. The usually defensive industries of healthcare, utilities, and consumer staples had moderate growth in Q1 because they were thought to be more immune to any new trade disputes and more likely to withstand a downturn in the economy. Due to a combination of growing concerns about economic growth and persistently high interest rates, small caps saw a significant fall in the first quarter and behind large caps in terms of market capitalization. In the first quarter, large-cap indices also saw a fall, albeit a smaller one.

US Equity Indexes	Q1 Return	YTD
S&P 500	-4.27%	-4.27%
DJ Industrial Average	-0.87%	-0.87%
NASDAQ 100	-8.07%	-8.07%
S&P MidCap 400	-6.10%	-6.10%
Russell 2000	-9.48%	-9.48%

Source: YCharts

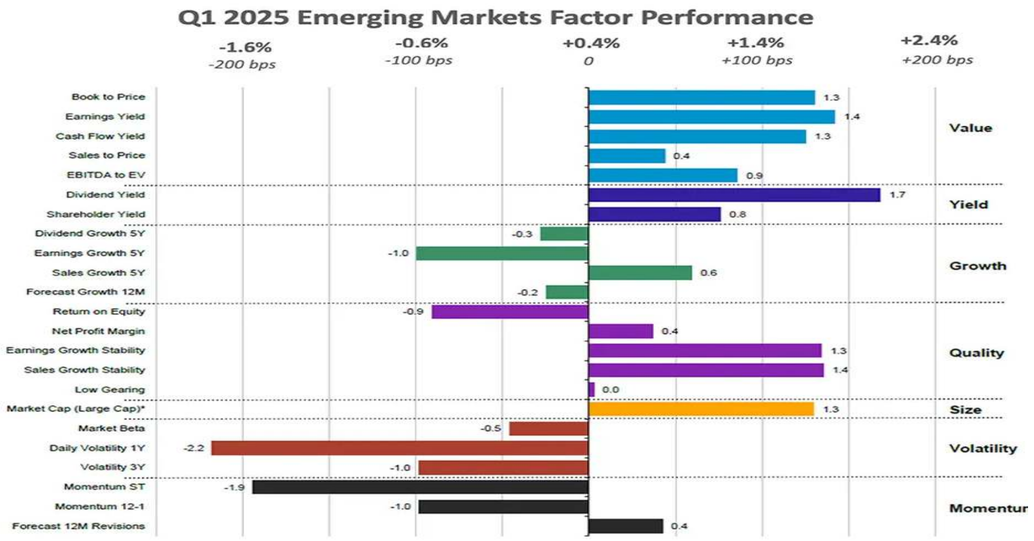
Foreign markets ended the quarter with a significantly positive return, outperforming the S&P 500 by a wide margin. Following signals from Germany and other EU nations that they would be willing to expand deficit spending to support defence and economic growth, foreign developed markets witnessed the biggest gains and outperformed developing markets. Positive Chinese GDP statistics exceeded expectations, resulting in relatively modest gains for emerging markets.

International Equity Indexes	Q1 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	7.01%	7.01%
MSCI EM TR USD (Emerging Markets)	3.01%	3.01%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	5.36%	5.36%

Source: YCharts

Emerging markets

Over the first quarter of 2025, the MSCI Emerging Markets (EM) index increased, outpacing US indexes but lagging behind MSCI Europe. A declining US 10-year Treasury yield and a declining dollar helped EM as a whole during a quarter that was dominated by trade tariffs and US policy uncertainty. A better picture for the eurozone after Germany's fiscal policy adjustments helped some of the emerging European markets, such as Poland, Greece, the Czech Republic, and Hungary, post exceptionally high gains. The index advanced as a result of China's success as well. The market has profited from confidence regarding its AI capabilities since DeepSeek's open-source, less expensive AI model was first released in January. The unveiling of several stimulus plans to boost domestic consumption at the conclusion of the quarter also contributed to an increase in sentiment. With the real stronger versus the dollar throughout the quarter, Brazil performed better than the rest of the world. The policy rate has been hiked three times since the year began and is currently at 14.25% as of early April due to inflation that is still higher than the central bank's target. Although South Africa's central bank lowered interest rates at the end of January, it was still ahead of the larger EM index. Due to the temporary suspension of some US trade tariffs, Mexico performed better. According to the dividend yield subfactor, emerging market equities that performed better in March and the first quarter of 2025 include China Mobile Ltd., a Chinese communication services provider, and Kweichow Moutai Co. Ltd., a Chinese consumer staple that increased by 4.5% in March and 3.1% in Q1. Chinese financial firm Industrial and Commercial Bank of China (0.7% in March and 2.4% in Q1) and Chinese communication services company China Telecom Corp Ltd (+1.7% in March and 9.4% in Q1) are notable outperformers with high sales growth stability that outperformed in Q1.



Commodities

Since gold's rise contributed to raise the key commodity indices, commodities saw a moderate increase in the first quarter. Due to the incoming administration's policy uncertainty and a lower US dollar, gold reached a new record high and traded above $3000/oz. Gold is being viewed as a buffer against geopolitical unrest, economic downturns, or persistent inflation—scenarios that have been at the forefront in recent months. Over the first quarter, gold futures prices increased 17.45% to all-time highs. Thanks to better-than-expected Chinese economic data and predictions of increased demand from Europe, oil recorded a slight loss but ended the quarter comfortably above its lows. A steep decline in cocoa prices caused agriculture, the index's worst-performing component, to decline. While the price of coffee and sugar increased throughout the quarter, the price of wheat, cotton, and corn saw more moderate declines. Natural gas saw the largest price increase during the quarter, although all of the energy subcomponents saw gains. zinc prices dropped, lead and nickel saw more moderate increases in price, but copper's price in industrial metals was significantly greater and during the quarter, the price of copper futures increased by 25.86%.

Commodity Indexes	Q1 Return	YTD
S&P GSCI (Broad-Based Commodities)	4.89%	4.89%
S&P GSCI Crude Oil	-0.51%	-0.51%
GLD Gold Price	19.02%	19.02%

Source: YCharts/Kovfin.com

Global Bonds

The first quarter of 2025 saw a significant change in the macroeconomic environment worldwide. As increased policy uncertainty caused sentiment to plummet and sparked economic worries, US exceptionalism was called into question. In contrast, the shift in Germany's fiscal policy led to a considerable improvement in the prognosis for the rest of Europe, which in turn caused a significant divergence in the fixed income markets. Plans by incoming Chancellor Friedrich Merz to relax borrowing restrictions and remove defence and security expenditures from the nation's stringent debt regulations were adopted by the German parliament in March. Additionally, this made it easier to establish a €500 billion infrastructure fund that will operate for the ensuing 12 years. As a result, German Bunds took the brunt of the subsequent sell-off throughout the eurozone, and after the announcement, yields saw their biggest daily increase since reunification in 1990 (yields move inversely to price). As attention shifted to the effects of tariffs ahead of the US "Liberation Day," there was a partial reversal of the market decline towards the conclusion of the quarter. Due to poor economic activity indicators, US Treasuries performed better this quarter, with yields declining and prices rising. Although its performance behind the US, Canada too experienced tariff uncertainty, which caused yields to decline. The markets for corporate bonds showed clear divergence. In the high yield and investment grade sectors, US dollar-denominated bonds performed better than euro-denominated bonds. According to a credit rating organization, investment grade bonds are the best quality bonds. High yield bonds have a credit rating lower than investment grade, making them more speculative. The government's Spring Statement highlighted the UK's precarious fiscal position and stagflation prospects, which had an impact on asset performance. Yields on gilts ended marginally higher. With rising yields amid robust Q4 GDP growth of 2.2% and rising inflation, leading to possible rate hikes by the Bank of Japan, Japanese government bonds underperformed all major markets in Asia. In China, however, a mainly deflationary outlook prevented yields from rising.

	3 months			12 months		
Government bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	2.9	-1.4	-0.2	4.5	4.5	2.3
JPM GBI UK All Mats	3.6	-0.7	0.5	0.6	0.6	-1.5
JPM GBI Japan All Mats**	2.6	-1.7	-0.5	-4.0	-4.0	-6.1
JPM GBI Germany All Traded	2.5	-1.8	-0.6	0.1	0.1	-2.0
Corporate bonds						
BofA ML Global Broad Market Corporate	2.9	-1.4	-0.2	4.9	4.9	2.7
BofA ML US Corporate Master	2.4	-1.9	-0.7	5.3	5.3	3.1
BofA ML EMU Corporate ex T1 (5–10Y)	4.0	-0.3	0.9	4.1	4.1	1.9
BofA ML £ Non-Gilts	3.8	-0.5	0.7	4.7	4.7	2.5
Non-investment grade bonds						
BofA ML Global High Yield	2.0	-2.2	-1.0	8.1	8.0	5.8
BofA ML Euro High Yield	5.0	0.7	1.9	8.1	8.1	5.8

Source: LSEG DataStream. Local currency returns in Q1 2025: *0.2%, **-1.1%.

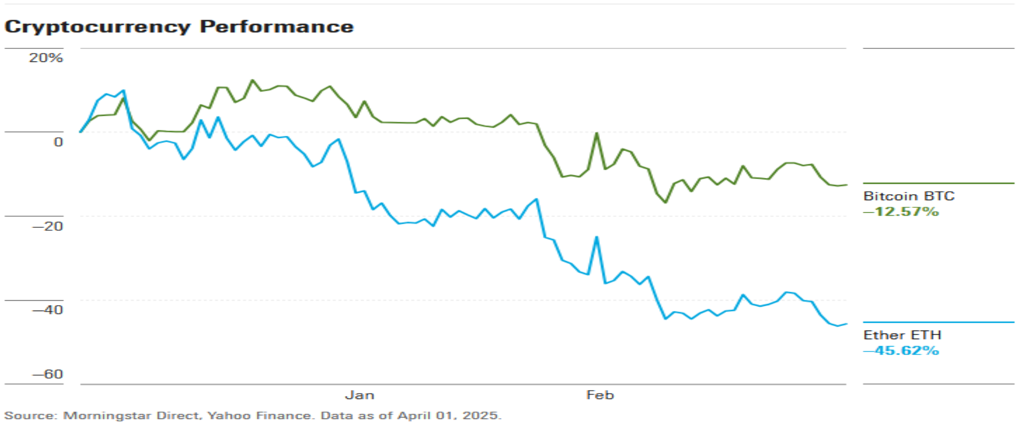
The major benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, saw a little positive return during the first quarter of 2025. Longer-duration bonds outperformed shorter-duration bills and notes, thanks to better-than-expected inflation readings and broader worries about economic growth. Concerns about future economic growth in the face of policy uncertainty were mirrored in the first quarter's performance of the corporate bond market, which saw higher-quality but lower-yielding investment-grade bonds outperform higher-yielding but lower-quality bonds. Nonetheless, a persistent sense of economic confidence was evident as both investment-grade and high-yield corporate bonds ended the first quarter with small gains.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	2.78%	2.78%
BBgBarc US T-Bill 1-3 Mon	1.04%	1.04%
ICE US T-Bond 7-10 Year	3.90%	3.90%
BBgBarc US MBS (Mortgage-backed)	3.06%	3.06%
BBgBarc Municipal	-0.22%	-0.22%
BBgBarc US Corporate Invest Grade	2.31%	2.31%
BBgBarc US Corporate High Yield	1.00%	1.00%

Source: YCharts

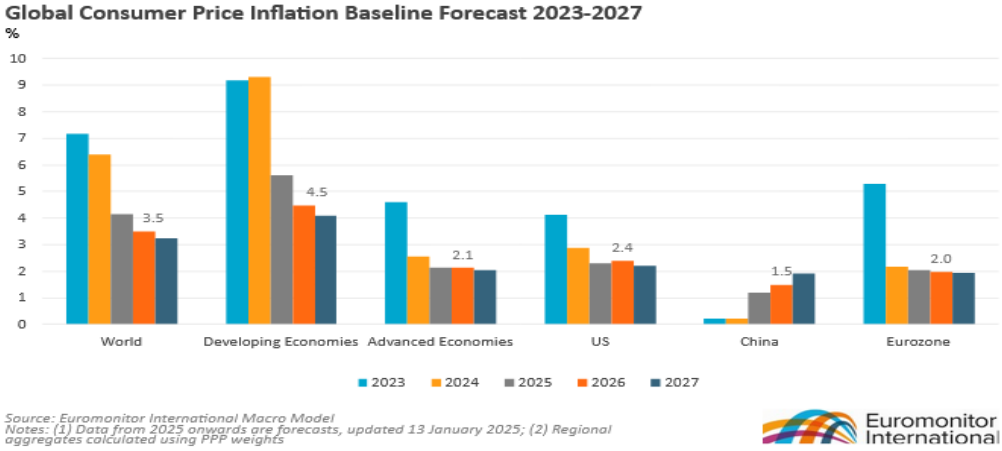
Digital Assets

The first quarter saw conflicting forces ensnaring the digital asset markets. While the Trump administration continued to pursue its goals of making the US the global centre of cryptocurrency, all risk assets were severely impacted by the uncertainty surrounding tariff policy. The market capitalization of digital assets as a whole dropped 18%, indicating that these marketplaces were not immune. While a broad index of altcoins with large and small capitalizations was down 35%. After gaining more than 52% in the final quarter of 2024, Bitcoin fell 12.57% during the quarter along with tech stocks. Following Trump's election to a second term, cryptocurrencies and the financial assets associated with them had a surge, but they lost ground as interest shifted away from riskier investments and the growth prospects deteriorated. Between January and March, ether, the second-largest cryptocurrency, dropped 45.62%. Some potentially favourable news for digital assets, including Congress passing the GENIUS Act, which would create a comprehensive legislative framework for the creation and regulation of stable coins in the US, were overshadowed by market headwinds. Large, regulated incumbents can now successfully enter the stable coin market thanks to this step.



Global Inflation

With significant upward revisions for advanced economies and slight downward revisions for emerging market and developing economies in 2025, global headline inflation is predicted to decline at a slightly slower rate than that which was anticipated in January, reaching 4.3 percent in 2025 and 3.6 percent in 2026 as per the IMF-World Economic Outlook. Although services inflation is still sticky because of growing wages, inflation has showed signs of stabilizing and approaching the 2% objective in many major advanced economies, including the US and the Eurozone. On the other hand, weak local currencies and high domestic demand continue to drive inflation in developing countries like Brazil, Mexico, and Turkey. Potential US trade protectionism, which might result in higher tariffs and disrupt global supply chains, raising costs for consumers and businesses, is one of the main risks to the baseline inflation predictions. Due to the likelihood that trade protectionist policies will increase under US President Trump's administration, there is a risk of a global trade war. If President Trump follows through on all of his campaign pledges to reduce taxes, control immigration, and impose tariffs (60 percent on China, 25 percent on Mexico and Canada, and 10 percent on the rest of the world), the global economy may grow 0.5 percentage points slower in 2025 and 1.3 percentage points slower in 2026 than predicted according to Eurometer.



<u>Performance by regions</u>

Eurozone

In Q1, Eurozone shares rapidly increased. When news about DeepSeek were trending in January, there was a switch from concentrated holdings in US large-cap stocks to other stocks. German elections were held in February, raising hopes that Friedrich Merz's new government would adopt a pro-growth stance. Markets retreated in March due to concerns about the US placing import tariffs, initially on the car industry, capping advances. The banking sector had the best quarter-long performance. Because of some solid earnings releases, banks in particular had a good quarter. Additionally, banks are not as affected by trade tariffs. Other industries that saw significant growth were utilities, energy, industrials, and communication services. The quarter's weak performing industries were real estate, information technology, and consumer discretionary. Interest rates were lowered by the European Central Bank in January and March. According to Eurostat figures, annual inflation in the eurozone decreased from 2.5% in January to 2.3% in February. After the election, business morale in Germany improved. Based on a survey of enterprises, the Ifo business climate index increased from 85.3 in February to 86.7 points. As factory production in the eurozone resumed growing for the first time in two years, the HCOB flash purchasing managers' index for March reached a seven-month high.

Asia (ex Japan)

In the first quarter, equities in Asia outside of Japan saw slight increases. The MSCI AC Asia ex Japan Index's top-performing markets were South Korea, Singapore, and Mainland China. The quarter's worst-performing markets were Indonesia, Taiwan, and Thailand. Mainland shares Following government stimulus measures that helped stabilize the economy and regain confidence, including interest rate cuts, support for the nation's real estate market, and liquidity injections, China's stock price rose significantly during the quarter. China is being revaluated as a leader in the technology sector with significant development potential as a result of Chinese companies' advancements in artificial intelligence (AI). Although more slowly, Hong Kong shares also saw growth throughout the quarter. Amid concerns about Donald Trump's tariffs on semiconductor exports to the US and a possible slowdown in AI expenditures by some of the major US tech companies, Taiwanese shares saw steep drops in the first quarter. Despite indications of a slowdown in the Indian economy and concerns about a possible trade spat with the US, share prices in India also fell during the quarter.

UK

Although attitude toward UK small and mid-sized businesses remained shaky, the quarter saw a rise in UK equities due to the robust performance of larger corporations. As international interest shifted away from highly valued US technology companies, the large-cap financials, energy, and healthcare sectors prospered in line with European equities more generally. Due to persistent worries about the UK economy, small and mid-sized businesses in the country struggled. There was little relief when it was announced that the country had barely averted a technical recession at the end of 2024. In the meanwhile, the Spring Statement's budget cuts raised concerns about the UK economy. The UK budgetary outlook remains stable, according to the Office for Budget Responsibility, but it cautioned that increased pressure on defence spending and a tightening of the international trade climate could necessitate another round of tax increases in the fall. Housebuilders, merchants, and travel and leisure were among the consumer-facing industries that performed poorly due to the difficult domestic economic outlook. Consequently, one of the biggest factors affecting market performance during that time was the consumer discretionary sector, with technology and basic materials being other significant drawbacks. Sterling stabilised after a very weak January.

Japan

The TOPIX Total Return index ended the first quarter with a negative return of -3.4% in yen due to the decrease in the Japanese equities market. Because to poor performance in major firms, especially in the technology and exporter industries, the Nikkei 225 lagged the TOPIX. Uncertainty over Trump administration trade policy and growing worries about the possibility of a US recession put selling pressure on the Japanese equities market. A statement near the end of March that the Trump administration would put 25% tariffs on imported vehicles added fuel to these anxieties. Exporters and Stocks linked to technology were therefore among the most severely impacted. However, there were a number of advantages unique to Japan that helped to boost share values in some industries, such finance. These comprised the following: an announcement by Berkshire Hathaway that it is boosting its investments in Japanese trading houses; greater defence spending by the Japanese government; and rising Japanese government bond yields, which were fuelled by good inflation and wage growth figures. In late January, as was largely anticipated, the Bank of Japan increased its policy rate, which helped banks and other financial stocks.

Political and legislative developments are changing the global economic environment and adding uncertainty following the super electoral year in 2024. While the global economy is expected to grow steadily, the rate of expansion remains slow, and a number of negative factors can jeopardize the forecast. There were a number of unpleasant surprises in the first quarter, and there was a great deal of ambiguity around trade policies and justifiable worries about future economic expansion at the start of the second quarter. However, there are also positive aspects that need to be taken into account, such as an economy that is still robust and impending beneficial economic initiatives like deregulation and possible expansions of tax cuts. Thus, the picture for the markets and economy is not always bleak, even in light of these worries.