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MARCH 2025 MARKET REPORT

Economic commentary

In contrast to Chancellor Reeve's Autumn Budget, March's Spring Statement was received with cautious optimism by markets. Tax changes were limited, and restraint was shown around spending (except in defence – a major growth area). This allayed some concerns around inflation, which has now eased to 2.8% year-on-year (February data), down from 3% in January. The Bank of England's (BoE) Monetary Policy Committee voted to hold interest rates at 4.5%. On the one hand, they want to support businesses and households with affordable interest rates for borrowing, especially against a backdrop of weak economic growth/job creation. On the other hand, they don't want to stoke inflation – having somewhat successfully stabilised it – with cheap money.

Recent investor polls showed expectations of more interest rate cuts this year in several developed markets, but new US tariffs threaten to derail this as they will create global inflationary pressures if they are aggressive – which, at the time of writing, they did appear to be. In the US, the Federal Reserve kept interest rates at 4.25%–4.5%. As in the UK, US inflation is close to 2% target (with other economic indicators looking reasonable) but still hovers stubbornly above it at 2.8%; it could spike badly on the raft of new (and noisy) 'America First' policies.

German lawmakers voted to introduce a large spending package after years of underinvestment in the domestic economy, which will see a boost to defence forces. This has in turn boosted wider European sentiment around economic growth, employment, and industrial output, against a backdrop of stabilising inflation. Chinese manufacturing recorded its strongest growth in a year, as orders were front-loaded ahead of expected tariffs, adding to market confidence stemming from Beijing's economic stimulus measures introduced last year.

Market commentary

Despite commonality in the economic situations that many developed countries are facing – stabilising inflation with a mix of economic signals – market outcomes in the first quarter of 2025 were starkly varied and surprising to many. In the US, the S&P 500 delivered its worst quarter since 2009; a sharp sell-off in overvalued tech stocks (triggered by Deep Seek's disruption of the AI sector and political uncertainty) weighed heavily on the market. US equities fell by more than 10% from their peak, led by the 'Magnificent 7' and other AI-linked stocks, underscoring a shift in investor sentiment towards more attractively valued areas of global markets.

Although firmly in the crosshairs of 'America First' tariffs, Europe and China emerged as standout performers, after having lagged considerably in recent history. Globally, money rotated between stocks in different industry sectors – from tech stocks into healthcare and energy stocks, with energy equities rising despite a decline in oil prices, as investors sought value in historically cheaper market segments.

March was a stark reminder of the importance of diversification across style, sector, and region. Investors concentrated in the US market faced significant losses, while those with exposure to Europe, emerging markets, and elsewhere saw diversification pay off. It also reminded us that government policies with seemingly clear aims can end up having unexpected consequences in markets. Rather than predicting economic shifts and government decision making, our philosophy instead focuses on identifying undervalued assets with strong long-term potential, which has proven resilient amid recent turbulence.

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	1m	3m	6m	YTD	1yr	3y pa	5y pa	10y pa
Equity Markets (£)								
UK	-2.3%	4.5%	4.1%	4.5%	10.4%	7.2%	12.1%	6.2%
US	-8.0%	-7.2%	1.6%	-7.2%	5.4%	9.2%	17.1%	13.4%
Global	-6.8%	-4.7%	1.8%	-4.7%	4.7%	8.2%	15.1%	10.9%
Emerging Markets	-2.0%	-0.1%	-1.0%	-0.1%	5.8%	1.6%	6.5%	4.6%
Europe ex UK	-3.0%	8.0%	3.0%	8.0%	3.0%	8.4%	12.6%	8.1%
Japan	-1.5%	-1.7%	0.9%	-1.7%	-3.0%	6.2%	7.5%	6.5%
China	-1.0%	12.6%	13.1%	12.6%	37.1%	4.3%	0.2%	3.3%
UK Smaller Companies	-3.5%	-2.9%	-8.0%	-2.9%	1.5%	-0.7%	6.9%	3.2%
Bonds (£)								
Sterling Corporate Bonds	-0.5%	0.9%	0.1%	0.9%	2.6%	-1.1%	-0.9%	1.0%
Global High Yield (Hedged)	-1.0%	0.8%	1.7%	0.8%	7.2%	4.2%	6.1%	3.2%
Global Bonds (Hedged)	-0.5%	1.4%	-0.2%	1.4%	4.0%	0.1%	-0.7%	0.9%
Other (£)								
Global Listed Property	-4.6%	-0.8%	-4.6%	-0.8%	1.7%	-3.7%	5.4%	3.4%
UK Listed Property	1.2%	1.2%	-13.5%	1.2%	-8.6%	-11.8%	-0.2%	-2.0%
Physical Gold	6.8%	16.0%	22.9%	16.0%	37.4%	17.6%	13.1%	11.5%

Economic Data	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
Sterling/Dollar Rate	$1.29	$1.25	$1.34	$1.26	$1.32	$1.24	$1.48
Bank of England Base Rate	4.50%	4.75%	5.00%	5.25%	0.75%	0.10%	0.50%
UK CPI YoY		2.5%	1.7%	3.2%	7.0%	1.5%	0.0%
US Unemployment Rate	4.2%	4.1%	4.1%	3.9%	3.7%	4.4%	5.4%
UK Unemployment Rate		4.4%	4.3%	4.4%	3.8%	4.1%	5.5%

Bond yields	At date	3m ago	6m ago	1y ago	3y ago	5y ago	10y ago
UK 10-Year Gilt Yield	4.7%	4.6%	4.0%	3.9%	1.6%	0.3%	1.6%
UK Corporate Bond Yield	5.6%	5.5%	5.3%	5.3%	3.1%	3.1%	2.9%

Data Sources: Data is at 31/03/2025. For the above asset class return data, we used passive funds to represent market returns, given that they represent an investible net-of-fee return achievable by an end client. Economic figures like unemployment and CPI rates may not have been available for latest month-end at the time of publication. All returns have been calculated by Fundhouse, with reference to data from Refinitiv, Morningstar and the Bank of England. This content cannot be distributed without the consent of Fundhouse.

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