



Review

Global equity markets were moderately weaker during April, although the relatively muted headline moves disguise some of the most intense periods of volatility in recent times. By way of example, the S&P 500 finished the month down -0.7%, having initially fallen -12% over 5 trading days to April 8th. The UK equity market witnessed similar levels of volatility, although the iShares UK Equity Index tracker managed to end the period essentially flat, or -0.05% to be precise.

April was, unsurprisingly, all about tariffs and specifically the reciprocal tariffs announced by President Trump on April 2nd. These tariffs were significantly higher than market expectations and proved to be a key catalyst for the intense weakness in equity and other asset markets in the following days. Despite investor expectations of an imminent US recession increasing sharply, both the US dollar and US government bond prices fell materially – a highly unusual combination in periods of significant market stress. Meanwhile the VIX index (a measure of market volatility) climbed to levels last seen during the pandemic turmoil of 2020.

Despite trying to appear indifferent to the market chaos, the Trump administration eventually bowed to market pressure and announced a 90-day pause on all reciprocal tariffs for non-retaliating countries (which excluded China) on April 9th. The ensuing ‘relief’ rally meant the S&P 500 posted its best daily performance since October 2008 with a +9.5% gain. Over the balance of the month markets oscillated wildly as the rumour mill went into overdrive ranging from changes to the proposed tariffs to firing Jerome Powell as the Federal Reserve chairman. Despite this volatility, a relative degree of calmness towards the end of the month allowed for an impressive market recovery - given the context.

Away from tariff news, markets faced the interesting dynamic of generally resilient ‘hard’ economic datapoints relating to actual current activity levels, compared to collapsing ‘soft’ survey datapoints reflecting an increasingly uncertain outlook. Meanwhile, after years of US market dominance, global asset allocators appear, given the highly unpredictable nature of the Trump administrations behaviour, to be finally starting to consider the merits of alternative investment opportunities. Whether the UK will be a significant beneficiary of such considerations remains to be seen.

Fund performance / Activity

After several relatively poor months our fund had a better time in April, notwithstanding the extreme volatility noted above. As such, our fund gained +1.39% (share class A GBP Net Accumulation), outperforming the iShares UK Equity Index tracker fall of -0.05% and in line with the peer group average gain of +1.42%.

There were several individual positive contributors to performance in April including Dunelm, Kier, DFS Furniture, Marshalls and Wickes. Not owning oil majors BP and Shell was also positive as their share prices fell sharply alongside a falling oil price. Given heightened volatility, there were also several negative contributors this month including Bodycote, WH Smith, PageGroup, RS Group and Vesuvius.

Activity was more substantial during April as we looked to take advantage of the higher levels of volatility. We introduced one completely new holding, in apparel retailer JD Sports, and added to holdings such as Bodycote, Burberry, EasyJet, Victrex, Vesuvius, Ashmore and Intermediate Capital. These were funded by one complete disposal of tobacco business Imperial Brands, and profit taking in holdings such as Wickes, Prudential, Telecom Plus, Weir and Dunelm.



Market Outlook

Although the headline moves in financial markets appeared relatively modest, the scale of volatility witnessed during April was extraordinary, and whilst some semblance of calm has returned more recently, an underlying unease amongst investors is palpable. The Trump administration has on the face of it, made a dramatic attempt to reorder global trade, returning protectionism to the forefront of the US political agenda.

Whilst, temporarily at least, there has been a degree of walking back from the most draconian measures initially suggested, the disruption inflicted on global supply chains is real and already starting to have an impact, even if it is not yet showing up in the most recent economic data releases. Survey data in areas such as future expenditure and hiring intentions are weakening rapidly, in many cases as quickly as they did when the Covid pandemic first materialised around the world. Economic forecasters have been quick to downgrade growth expectations, most significantly for the US itself, with predictions of an imminent recession now the consensus. Against this increasingly uncertain backdrop companies are, perfectly understandably, offering muted outlook commentaries, even if to date they have typically seen relatively little actual impact on customer behaviour.

Clearly the backdrop outlined above makes for a potentially difficult and volatile stock market environment in the immediate future. We cannot know how significant the impact of trade disruption will be, nor can we know whether it will be short lived with major trading agreements being reached quickly, or a more protracted affair. It is for precisely these reasons that we consider it essential to focus on the medium-term potential of our investments when building our portfolio.

As we have mentioned previously, our approach in these situations is to look for opportunities to take advantage of periods of weakness to allocate capital, at increasingly attractive valuations, when considered from a medium-term perspective. We currently view this episode as such an opportunity and have been acting accordingly throughout this volatile period.

Obviously, we hope that we are currently passing through the period of 'peak uncertainty' as it relates to the economic outlook, and much needed clarity will start to emerge sooner rather than later. We cannot promise that to be the case which is why the medium-term horizon is such an important anchor in our investment process. Regardless of the near-term volatility, our enthusiasm for the medium-term potential of our current portfolio is substantial.

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Data source (unless otherwise stated): Bloomberg, FE Analytics

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