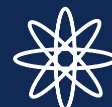

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ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

International equity markets experienced a modestly positive performance during the latest quarter with momentum significantly shifting to Europe away from the USA. International bonds, on the other hand, moved lower as concerns about inflation grew. Currency movements were relatively modest. Gold proved to be a strong performer.

The tables below detail relevant movements in markets :

International Equities 29.11.24 - 28.02.25

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	-2.9	-6.4	-7.3	-5.8
Finland	+10.9	+10.2	+9.2	+10.9
France	+12.2	+11.6	+10.5	+12.2
Germany	+14.4	+13.7	+12.7	+14.4
Hong Kong	+3.9	+5.0	+4.0	+5.6
Italy	+16.5	+15.8	+14.7	+16.5
Japan	+0.1	+0.7	-0.2	+1.3
Netherlands	+6.3	+5.6	+4.6	+6.3
Spain	+17.4	+16.7	+15.6	+17.4
Switzerland	+9.9	+8.3	+7.3	+8.9
UK	+6.5	+6.5	+5.5	+7.1
USA	-1.0	-0.1	-1.0	+0.5
All World Europe ex UK	+10.3	+9.7	+8.6	+10.3
All World Asia Pacific ex Japan	+1.8	+0.8	-0.2	+1.4
All World Asia Pacific	+1.2	+0.7	-0.2	+1.4
All World Latin America	+1.1	+3.1	+2.1	+3.7
All World Emerging Markets	+2.8	+2.7	+1.8	+3.3
All World	+0.9	+1.4	+0.4	+2.0

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : -0.7%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	29.11.24	28.02.25
Sterling	4.24	4.48
US Dollar	4.17	4.21
Yen	1.03	1.37
Germany (Euro)	2.09	2.41

Sterling's performance during the quarter ending 28.02.25 (%)

Currency	Quarter Ending 28.02.25
US Dollar	-1.3
Canadian Dollar	+2.0
Yen	-0.7
Euro	+0.7
Swiss Franc	+1.2
Australian Dollar	+3.6

Other currency movements during the quarter ending 28.02.25 (%)

Currency	Quarter Ending 28.02.25
US Dollar / Canadian Dollar	+3.2
US Dollar / Yen	+0.6
US Dollar / Euro	+1.9
Swiss Franc / Euro	-0.5
Euro / Yen	-1.3

Significant Commodities (US dollar terms) 29.11.24 - 28.02.25 (%)

Currency	Quarter Ending 28.02.25
Oil	N/C
Gold	+9.0

MARKETS

Looking at the table of international equity indices in local currency terms, the most striking feature was the performance of the FTSE All World Europe ex UK Index at +10.3%. On the negative side were the FTSE USA Index (-1.0%) and the FTSE Australia Index (-2.9%). In sterling terms, the pattern was the same with the FTSE All World Europe ex UK Index (+9.7%) and the FTSE Australia Index (-6.4%) and the FTSE USA Index (-0.1%).

The international bond market, as measured by ten year government bond benchmark yields, drifted lower as can be seen by the rise in all four countries' bond yields shown in our table.

Within the foreign exchange market the strongest movement was seen from the US dollar against which sterling fell by 1.3%. At the other end of the spectrum was a weak Australian dollar against which sterling rose by 3.6%.

In the commodity market, oil, as measured by Brent crude was unchanged but gold performed well acting as a store of value in uncertain times and being bought by some central banks, amongst other investors.

ECONOMICS

It's around this time that many may come to reflect on their new year's resolutions. Perhaps many amongst us never made any, with experience triumphing over hope, but, for those that read this and are still persisting with theirs, then the benefits are surely being reaped, whatever they may be. And to President Trump who had just over two months, from his election victory at the beginning of November until his swearing in on 21st January, to cement his intentions in his mind, and now we have the opportunity to consider what he's done in one short month versus what he resolved to do during his Presidential campaign.

It's quite difficult to think of a political event that has had a more direct effect on economics than the recent American Presidential election. Framed in a year of elections, the outcome of this vote was always likely to be very significant but the particular circumstances mean that the ramifications are extensive. The importance of the 47th President's tenure is because of its implications. The magnitude of the political shift from the Democratic Party of Biden and Harris has few historic comparators and Trump seems comfortable acting in a manner that most would consider far from the political mainstream. Trump's slim but numerical advantage in both Houses of Congress reinforces his mandate but, before getting too carried away, it's worth considering that the Republicans have 220 seats in the House of Representatives versus the 215 Democrats; Matt Gaetz said he will not return to Congress after withdrawing as Trump's preferred Attorney General pick and two others are poised to leave to join the Executive and it is not until the spring that elections will take place with, in all likelihood, three new Republicans voted in. The advantage in the Senate is 53 to 47 but, as we saw as Trump's pick for secretary of the Department of Defense, Pete Hegseth, three Republicans voted with the opposition which showed that there are some independently minded members of the GOP that may keep Trump on point.

Trump as a person, and also as reflected by his picks for key offices, is a disruptor and this fresh approach, transmitted with simple messaging has demonstrated an appeal to voters. He had expressed a view on DEI (diversity, equality and inclusion) and has acted quickly with an executive order that "faithfully advances the Constitution's promise of colorblind equality before the law." His appointment of Elon Musk, who we now know sometimes gets distracted by other world matters, promises a hot knife to administrative red tape, to mix metaphors. Trump's Executive Order of 31st December requires government agencies to identify at least 10 existing rules, regulations or guidance documents to be repealed each time one new one is introduced and in the fiscal year 2025 the total incremental cost of all new regulations, including repealed regulations, be significantly less than zero. The Order states that Trump's first term was successful in eliminating 5½ regulations for each regulation issued; the target had been 2 for 1. Other Presidential Actions cover the commitment for restoring "maximum pressure" on Iran, restoring the death penalty in certain cases, withdrawing from UNESCO, releasing files on the assassinations of John F Kennedy, his brother Robert and Martin Luther King and establishing a United States sovereign wealth fund. The first period in power is a time to create an impact and it would be difficult to criticise Trump for an absence of vigour in his actions. His followers will recognise much of these actions from his time on the stump and it appears to put the Democrats in a difficult position as he delivers on those things he resolved to do.

In total there are, at the time of writing, 70 new Presidential Executive Orders to consider, most covering non-economic issues such as 'Eradicating anti-Christian bias', 'Keeping men out of women's sports' and perhaps the most quirky 'Ending procurement and forced use of paper straws'. A quick perusal of the full list is recommended as they tell a story about the man. Any temptation to make a straw man comment at this time is being resisted.

Elections are a chance for voters to shake hands with the President-elect. A deal is done and it's for the President to uphold the pledges made or to take a different political direction. Trump gets credit for sticking to his promises, in the main, though there is scope to disagree with the merits of some or even many. Trump has taken to his second term with characteristic energy and whilst the Presidential Orders relating to DEI, men in women's sports and plastic straws versus paper straws will take their path, Meridian's focus remains on the economics.

The most worrying policy decision as far as we are concerned at this point is around the imposition of tariffs. There aren't many things that tend to unite economists but the sense that tariffs are bad is, more than most things, one. They distort markets, they create diversionary activity, they have unintended consequences, they hit consumers, lead to higher interest rates etc. etc. Trump will, of course, know this, but sees them as a useful negotiating tool. It's a blunt tool but effective in its way. It was encouraging to see a one month delay to Mexico and Canada tariffs as it underlines a sense of negotiation but now in March we find that Trump rides roughshod over the United States, Mexico, Canada [free trade] Agreement, which was of course signed off by Donald Trump on 1st October 2018. The Wall Street Journal's editorial board wrote an opinion piece on 3rd March titled "Trump Takes the Dumbest Tariff Plunge" summarising the move as the "dumbest in history and we may have understated the point".

He is weaponizing the US consumer because he believes US spending power is being abused by importers undercutting US manufacturers. Tariffs will also represent a financial transfer from the private sector to the public sector as consumers of goods – individuals and companies, pay a proportion of the cost of the good to the government. What nearly every economist can see is that the end game will play out as damaging the very same US consumer as this is a well-trodden but, fortunately these days, less walked path. Import handlers will collect the tariffs on behalf of the U.S Treasury, the foreign manufacturer will either cut their price and accept lower profit or the product will be sold at a newly taxed, higher price in the US domestic market. Foreign manufacturers may be inclined to divert their products to non-tariff or lower tariff countries rather than accept lower profit and the current (no pun intended) example where this may be the case is Chinese electric cars which,

as things stand, have just become harder to sell in the United States. A lower import duty applies in Europe on these cars and China may be planning on flooding the European market. This is, of course, a market whose producers are already struggling to compete with Chinese exports and there is a suspicion that dumping is going on. The UK currently has no tariffs on Chinese electric cars. Going back to the US, those importers who do not sacrifice profit will offer a more expensive product into the market. In the case of these being components that contribute to the manufacture of a bigger product that will be inflationary, with the consumer paying more for the end product and in the case of a finished good, local competitors will, most likely, raise their prices as demand grows and are unable to increase supply, at least in the short term. The Toronto Region Board of Trade points out that certain components in car production cross the US/Canada border as many as eight times before final assembly. Following Trump's address to Congress on 4th March we now know that reciprocal tariffs will be applied to all trading partners causing similar effects in those markets.

If tariffs are imposed on your country or economic area you will protest, you will point the imposer out as the protagonist, you will listen to their demands and then the decision making will need to start. Politically, it is almost impossible to respond with nothing for fear of looking weak so that leaves the magnitude of response as the variable. Are tariffs fair? Trump appears in believe in the reciprocal model where the US will match the tariff in place with any trading country. Trump finds this to be an equitable and effective way to address the US trade deficit with the world. It would be hoped that the administration will impose some gradation around, for example, pharmaceuticals and another example would be emerging markets which tend to protect their domestic markets by having high levels of tariffs on imports. They are easy taxes to collect and the most commonly cited area is agriculture where local producers are outcompeted on the global stage. Trump's belief appears to be that Americans have lost their jobs because the country imports more than it exports. Maurice Obstfeld, former chief economist at the IMF, points out that the US has had a current account trade deficit every year since 1982 while Germany and Japan have had surpluses - Germany since 2002 and Japan since 1981 and yet the US economy has grown faster than both of those countries. The balance of trade is not a good indicator of economic success. A better driver of wealth is productivity improvements through direct investment, innovation and efficiency. Tariffs offer a different direction of travel.

What is not in question is the power that the President of The United States can wield. What is also not in question are the counterweights to anything that the President may choose to do. The current political balance is most definitely in Trump's favour as, numerically, his party is in control, but the lead is slender. The next elections are never far away, in this case the mid-term elections in eighteen months' time, and members of both Houses are on their toes. Outside of the tribal politics and the less tribal Supreme Court (even though the appointments are political), Trump is accountable in at least three areas. Tariffs that introduce inflation that lead to interest rate rises will characterise Trump in the way the Trump characterised Biden – the sponsor of inflation and the originator of cost of living rises. Another Trump resolution was that "he'd bring prices down on day one". The voting public may move past a honeymoon period quite quickly if Presidential decrees mean having lower purchasing power but polling shows that it isn't the case yet. Lower economic growth and higher inflation will pressurise federal budgets and could raise the cost of borrowing, risking a self-feeding downward spiral and this is already an area of concern as the US Government already has a huge primary deficit of 7%. Thirdly, there is legal challenge which can take a little time to form and can only emerge once new government measures have crystallised. Whilst Trump may sometimes behave as if it is not the case, he is obliged to act within the law, domestic and international, or change them. An example would be NATO membership, where any desire to leave would have to be approved by the Senate or be subject to a Congressional Act. Are there any Republicans that would vote against that? You would imagine so and in any case the vote would need a supermajority of two thirds in the Senate to pass. Like many constitutional matters this is not completely clear cut and some experts contend that the President could challenge this.

An area which has been covered in this memorandum extensively over the last year or so has been regulation and regulatory creep. The public's sensitivity to risk is high and rising and the solution has been to regulate with more and more areas falling under the auspices of one regulator or another. The drivers behind regulation are straightforward but there is always a need to measure not only risk but the consequences of risk management. These are, naturally, two sided coins but there has been growing commentary around the outcomes of regulation. Trump has highlighted the need to pare back America's civil service and also their regulators and in February the UK Chancellor, Rachel Reeves also instructed cabinet ministers to conduct a full audit of Britain's 130 regulators specifically, and this is the important part, to ensure they are working to boost growth. The language is encouraging when the Treasury says "For too long, we have regulated for risk rather than growth, and that is why we are working with regulators to understand how reform across the board can kick-start economic growth". A good example of how this translates into the real world can be seen at the Competition and Markets Authority, the competition regulator, which is currently investigating, amongst other things, the baby formula market, Ticketmaster, veterinary services and Apple and Google mobile technology ecosystems. There has been growing concern that its reach has been over-extended and the time taken to approve or reject mergers and acquisitions has been too long. In January, the Chairman of the CMA resigned shortly after a government minister rang him. It seems that the government had become increasingly frustrated with the regulator in not doing enough to support growth. This coincided with the Business Secretary flying off to the world economic summit in Davos to burnish the UK's pro-growth credentials. Equally telling was the appointment of an interim Chairman of the CMA, Doug Gurr, who was formerly the head of Amazon UK. His role is expected to be made permanent. The deregulation push in the USA should be a positive for the US stock market as it is a quick way of encouraging 'animal spirits' to develop in companies and raise investment. The UK and Europe are a long way behind but the UK government's moves are encouraging.

The UK government has no choice but to look at all areas where growth can be encouraged. The fourth quarter growth figure for the UK economy was 0.1% - better than expected but still disappointing. The pressure on public spending only increases and Rachel Reeves is trapped in a slow growing economy with too high inflation and less comfort in believing that interest rates are going to fall significantly. The partner of economic growth in this context is, again, productivity gain. Put simply productivity is the value of goods and products measured against the resources required to produce them and most commonly is viewed in terms of labour inputs. This is not a nice-to-have because government spending forecasts are based on projections by the Office of Budget Responsibility and, as one of their committee members points out, higher productivity is "the almost pain-free route to fiscal sustainability". The trouble is that labour productivity, or output per hour worked, gained very slightly in the fourth quarter, by 0.7% but that didn't offset a drop of 1.1% in the three months to the end of September. Compared with a year earlier, output per hour was down 0.8%.

Specific mention of the United Kingdom issues this month should not be interpreted as concern that the domestic picture is worse than in other G7 countries but, rather, that there have been some comment-worthy developments in February. In terms of portfolio management there are two outcomes that arise, and continue to apply, flowing from this part of this month's commentary. Firstly, we remain cautious around UK debt. Sterling denominated bonds tend to price off government issued gilts and the risks are elevated at this time, in our view. Unemployment remains low and wage growth high with inflation threatening to remain above target. The expected trajectory of future interest rates does not point to a sharp reduction in interest rates and, on the supply side, the government's forecast requirements to borrow are more likely to increase than to drop. None of this is supportive of bond prices which also means higher swap rates, mortgage rates and a rise in the cost of servicing existing debt. This is further exacerbated by the fact that around a quarter of UK debt consists of index-linked bonds with coupons linked to the retail price index. The second comment about the U.K. relates to home bias. A recognised phenomenon in investing is to favour companies that are familiar rather than ones with the best prospects. UK portfolio managers often have a UK exposure that is many multiples higher than the country weighting in the world. This, presumably, implies that the manager believes that the prospects for the UK exposure are better than investing further afield but measured over

5 years, 10 years or 20 years or almost any other recent 10 year period for that matter, the UK market has underperformed the world market. There is no economic evidence emanating from the U.K. demanding a change in our view at this time and, where mandates permit, we will invest on an international basis in companies that operate on a global scale.

Whether it proves to be as era-defining as the US election remains to be seen but in the month of February we have seen a change in political direction in Germany. Agreed, it is unlikely to create the waves that we are seeing spreading from North America and in many ways it's the party that hasn't been voted in that creates the story. The right wing Alternativ fűr Deutschland came second with just over 20% of the popular vote but remains an unacceptable partner to all others. Germany has a tendency to take its time in forming coalitions and the economic consequences of any new policy will have to be considered in a future economic memorandum. The likely new Chancellor, Friedrich Merz, has struck a deal with the outgoing SPD, which is also the party that is likely to become its main coalition partner, where defence spending above 1% of GDP will sit outside of the country's constitutional balanced budget rule, known as the debt brake. Merz intends to increase defence spending to well above 2.1% of GDP, its current level. He has also promised the SPD that he will commit €500 bn. of debt financed infrastructure spend over the next 10 years. Whatever Germany decides, it looks increasingly like European indebtedness is going to rise as a consequence of the new resident in the White House. Ukraine has not been mentioned so far but it is never far away from much that is written and the most immediate consequence has been a fall in value of sovereign debt (and rising yields) as extra supply will be flowing into the market.

It is difficult to navigate between indifference to the incipient risks that exist or to feel overwhelmed by the facts as reported, often sensationally. In the first trading days of March markets have moved from being in 'wait and see' mode to a negative reaction to actual tariffs. US inflation expectations are rising, causing markets and the Federal Reserve to adjust their thinking and US consumer confidence in January was at an eight month low and deteriorated at its sharpest rate in 3½ years. The Conference Board noted "comments on the current administration and its policies dominated the responses". The checks and balances on power, mentioned earlier, in the United States extend far beyond the corridors of power but usually operate with a lag.

We are exactly five years on from the first COVID lockdown. That presented a very different economic threat and aside from the very few day traders who saw it coming, sold and then bought back in at the bottom, the most successful strategy was to sit tight, accept the short term fall in value and have sufficient confidence in equity markets to recover. Dividend income through a downturn also softens the blow. Economic threats come along from time to time and each is quite different. Meridian maintains the view that for those that have the luxury of a long term investment perspective, the most prudent approach is to remain in the market and look beyond the short term volatility and allow for a natural rebalance of powers. That sounds like a fair new year's resolution.

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