



**meridian**  
ASSET MANAGEMENT (C.I.) LIMITED

## INVESTMENT MEMORANDUM

The relatively modest movements in equity and bond prices over the quarter as a whole do not begin to tell the story of a tumultuous period following President Trump's tariff announcements on 2<sup>nd</sup> April. After a sharp fall on the announcement, detailing tariffs much higher than expected, markets then recovered strongly as, for various reasons, the President rowed back on his original plans. However, uncertainty remains given the unpredictable path being followed by the President.

The tables below detail relevant movements in markets :

### International Equities 28.02.25 - 30.05.25

Total Return Performances (%)				
Country	Local Currency	£	US\$	€
Australia	+4.1	+0.6	+7.7	-1.4
Finland	+5.1	+7.1	+14.7	+5.1
France	-1.5	+0.4	+7.5	-1.5
Germany	+6.5	+8.5	+16.2	+6.5
Hong Kong	+8.0	N/C	+7.1	-1.9
Italy	+6.7	+8.8	+16.5	+6.7
Japan	+5.4	+2.8	+10.1	+0.9
Netherlands	+1.2	+3.2	+10.5	+1.2
Spain	+8.7	+10.8	+18.6	+8.7
Switzerland	-2.3	+0.2	+7.3	-1.7
UK	+0.4	+0.4	+7.6	-1.5
USA	-0.1	-6.8	-0.1	-8.5
All World Europe ex UK	+0.7	+2.7	+10.0	+0.8
All World Asia Pacific ex Japan	+3.3	-0.6	+6.4	-2.5
All World Asia Pacific	+4.1	+0.5	+7.7	-1.4
All World Latin America	+11.2	+7.2	+14.8	+5.2
All World Emerging Markets	+3.4	-1.1	+6.0	-2.9
All World	+0.9	-3.9	+3.0	-5.7

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : -0.5%

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

	28.02.25	30.05.25
Sterling	4.48	4.64
US Dollar	4.21	4.40
Yen	1.37	1.48
Germany (Euro)	2.41	2.50

## Sterling's performance during the quarter ending 30.05.25 (%)

	Quarter Ending 30.05.25
US Dollar	+7.0
Canadian Dollar	+1.6
Yen	+2.3
Euro	-2.2
Swiss Franc	-2.6
Australian Dollar	+3.2

## Other currency movements during the quarter ending 30.05.25 (%)

	Quarter Ending 30.05.25
US Dollar / Canadian Dollar	-5.0
US Dollar / Yen	-4.4
US Dollar / Euro	-8.6
Swiss Franc / Euro	+0.4
Euro / Yen	+4.6

## Significant Commodities (US dollar terms) 28.02.25 - 30.05.25 (%)

	Quarter Ending 30.05.25
Oil	-14.3
Gold	+14.9

## MARKETS

- In overall terms, international equity markets were little changed in local currency terms but currency movements meant negative returns for sterling and euro based investors.
- In local currency terms the standout positive performer was Latin America but there were also above average performances from Japan, Australia and Emerging Markets. On the other hand, the USA underperformed.
- In sterling terms, there were outperformances from Latin America, Japan, the UK and Europe ex UK. Dragging down performances because of currency weakness was the USA.
- Ten year government bond yields, as shown in our table, drifted higher and bond markets generally experienced significant volatility over the quarter.
- The feature of the foreign exchange markets was the weakness of the US dollar. Conversely, the euro and Swiss franc were strong performers.
- In the commodity markets, oil was notably weak but gold was very firm.

## ECONOMICS

The task for those whose job is to write on the pages of history has become much more of a test. We had grown comfortable, over our lifetimes, enjoying a time of increasing political stability which itself may have been informed by the re-building from the dark days of the Second World War. It was a time when the interests of our leaders reflected a desire for peace and cooperation and which led us to a lower incidence of war, both militaristic and other more subtle wars of self-interest, and the reward was the globalisation of trade, freer movement of people and a more confident sense of harmony. Perhaps there was even a sense that economic cooperation could lead competing countries to a win/win situation. Free trade sponsored a period of great economic expansion. Harold Macmillan said back in 1957 “You will see a state of prosperity such as we have never had in my lifetime – nor indeed in the history of this country... Indeed, let us be frank about it - most of our people have never had it so good”. The good news story continued for many decades as expansion was funded by investment and people migrated across borders and continents to man machinery and to keep the production line moving. The World Bank estimates that 58% of the world population was living in extreme poverty in 1950. By 2020 that figure had dropped to around 8%. The geopolitics of the postwar period was shaped by the re-drawing of the world map and today’s tensions reflect some of those decisions. Russia was rewarded for its huge sacrifice by expanding its borders to the west. In the east, newly formed North Korea fell under its influence and Russia strongly supported the Chinese Communist Party as it took power in 1949. The State of Israel was established in 1948, recognised by the USA and USSR and invaded the very next day by its neighbours and, to the east, the Two Nation model led to the creation of Pakistan in 1947.

The nationalism of those days, after a long period of abeyance, has to some extent returned. Parties of the right have considerable sway in Germany, Netherlands and France and Reform in the UK represents a considerable threat to the two party model which has existed for many decades. Many of these new parties have policies more associated with the left but the banner of nationalism is something that connects them. The characteristics of political nationalism - prioritisation of a

country's interests over those of others and a belief that your country is the victim of the malign intents of others needs to be nurtured by convincing enough of the people that there is a way out. At its most extreme, nationalism leads to isolationism, a good country turned bad and, if the country is big enough, it quickly becomes everyone's problem. Cuba under Castro(s)? An amazing period when a small island in the Caribbean became a world player, but a limited threat all the same. The Soviet Union up until the 1980s? This needed a lot of attention, management and détente. The United States today? Quite difficult to find comparisons and quite early in the piece to foresee the end game. What everyone can see is that the United States has been the backbone of western democracy and liberty through our lifetimes and this has cemented its status on the international stage. Times change, economic pressures shift, the priorities of politicians move and, all of a sudden, everything is different.

The United States is the leader of the free world and also the leader of free markets and this is where the column is most interested. The market capitalisation of American companies as a proportion of all companies listed on the world's major exchanges is over 60% and America's national debt is over \$36,000,000,000,000 (trillion) with a further \$3.3 trillion of state and local debt. Most worryingly, at the run rate of the last three years, the US national debt grows by \$1 trillion every 188 days. As the old adage goes, this is not a problem until it is a problem but the experience of Liz Truss in September 2022 shows that debt markets can be spooked very easily. In that example, a collapse in demand was triggered by a surprise policy announcement that the government would tax less and spend more with the goal of stimulating the economy. It is not to say that it wouldn't have worked, and creating a larger economy is always the best way of making debt more manageable, but Truss and her Chancellor never got the chance because the cost of borrowing spiked, Kwasi Kwarteng was sacked as the pound fell below \$1.04 and Jeremy Hunt was brought in and reversed most of the tax cuts; it spelt the end for the Prime Minister too. Why this is important is that a spike in US yields in May, caused by falling bond prices, appears to have coincided with Donald Trump's most aggressive acts of "The Art of the Deal". Free market participants can choose whether to buy or sell, say, Tesla shares and the traffic will reflect the perception of the company. They can also choose whether to buy America's debt, or not, and, historically, America has had no problem in finding buyers at the right price. It would be wrong to describe the fall in bond prices in April as a buyers' strike but it was sufficient to raise the yield (borrowing cost) on 30 year Treasury bonds to almost 5%, a level it has surpassed in May. This would appear to have had some effect on Trump's decision to water down the tariffs, for 90 days at least, and for most markets to see signs that the Executive does have some sensitivity to the downside of its actions. It has been widely commented that the bond market, given its size and all governments' dependence on it, cannot be negotiated with. The borrower is a price taker. At a time when indebtedness is increasing wildly, to add a higher repayment cost to all new debt and all renewed debt represents unbearable pain for the Treasury of any country. Perhaps Mr Trump should have re-read his 1987 best seller, *The Art Of The Deal* and in particular the section on 'protecting the downside': *"I always go into the deal anticipating the worst. If you plan for the worst - if you can live with the worst - the good will always take care of itself."* America cannot afford to borrow 30 year money at 5% for long. The risk has not gone away and the credit rating agency, Moody's, joined its peers by downgrading the creditworthiness of the United States from its top rating to its second highest (in a 21 notch scale). Judgement is their stock in trade and its worth quoting from the note accompanying the decision to understand where the US government finds itself:

*"Without adjustments to taxation and spending, we expect budget flexibility to remain limited, with mandatory spending, including interest expense, projected to rise to around 78% of total spending by 2035 from about 73% in 2024. If the Tax Cuts and Jobs Act is extended, which is our base case, it will add around \$4 trillion to the federal fiscal primary (excluding interest payments) deficit over the next decade. As a result, we expect fiscal deficits to widen, reaching nearly 9% of GDP by 2035, up from 6.4% in 2024, driven mainly by increased interest payments on debt, rising entitlement spending and relatively low revenue generation. We estimate that the federal debt burden will rise to about 134% of GDP by 2035, compared with 98% in 2024."*

The bond market appears to have done us all a favour. Trump's goals are, in many ways, enviable, his methods are not. He views trade as a game of winners and losers with the existence of one causing the other, when, in fact, the best outcome has been successfully showcased over the last half century where levels of trade barriers have been at an historic low and world growth has been on a consistent upward trajectory (and America has benefitted more than almost any other country). His America First policies, unchallenged, risk causing a slump in global trade as countries respond to his punitive tariffs with tit-for-tat measures.

We are in a 90 day pause, a pause where Trump has been served warnings from the bond market, from advisers, from business leaders and from other countries and, in a busy month, the Court of International Trade added its view, which was not one of judgement on the merits or demerits of the tariffs but, naturally, on the legal footing on which they have been introduced. The outcome of the legal process will be appealed all the way to the Supreme Court in all likelihood and Trump will continue to state that unelected judges should not be able to dictate to an elected President.

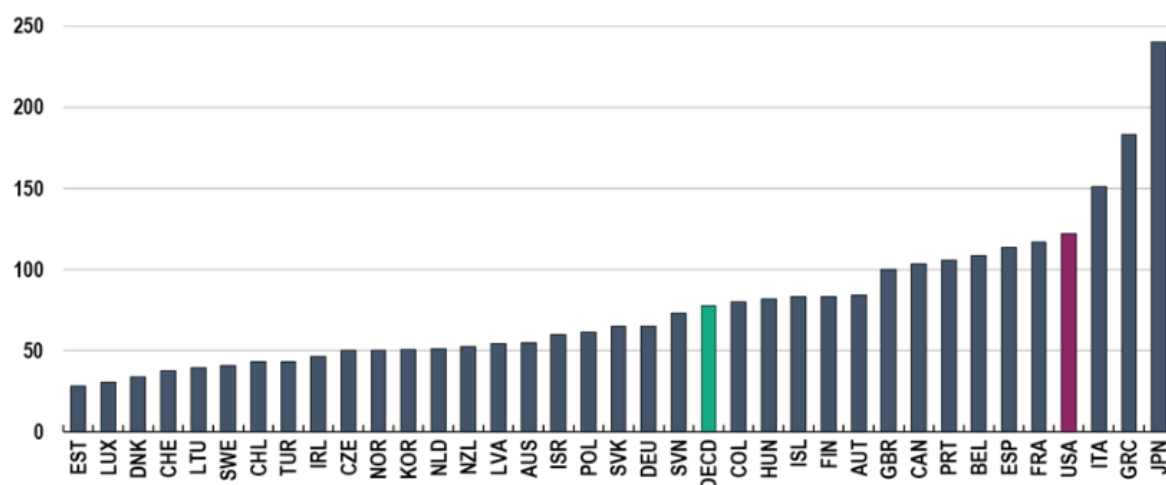
The uncertainty remains and the range of outcomes for when this period ends is extreme. At one end we could have a return to the maximal tariffs announced on 'Liberation Day', 2<sup>nd</sup> April, which would most likely trigger a world recession. At the other, we could see a successful policy of leveraged threat against trading partners leading to their dropping pre-Trump tariffs and trade barriers. Trump could claim victory and world trade and its participants would benefit. Where it probably gets more tricky is in trade relations with China. Western consumers have benefitted from the ever increasing oversupply of cheap Chinese goods but this has brought benefits and costs. The Law of Comparative Advantage says that each country should produce the goods that it can produce with the greatest relative efficiency. China (amongst many others) has exported low value goods to America and America has exported planes, machinery and technology such as semiconductors to China. China has restricted access to its internal market for foreign companies, has subsidised local producers in global markets and has shown little regard for widely accepted international rules on intellectual property. Now China is at the stage that it can focus more on internal consumption for growth and has a far greater capability in high tech, high value industries. It is rapidly becoming the world leader in battery technology and electric cars, it has successfully brought back samples from the dark side of the moon and made very significant advances in software design, showcased by its DeepSeek AI model. Trump, among others, feels it is time to reset the relationship and analysts are forecasting that it is relations with China that will be most tested at the end of the 90 day pause. It's worth adding that, as more traded goods have moved from China to the US than the other way round, China has accumulated dollars and spent the money on, amongst other things, US Treasuries; it currently holds around \$770 billion of US debt, which could be quite useful to the Chinese if tensions escalate between the two countries.

To some readers it may be a surprise that the most indebted G20 country in the world (and largest foreign holder of US debt) is Japan. Its path has run from the ruins of the Second World War and the collapse of its regional empire to the economic miracle of the last decades of the last century but since 1990 its level of indebtedness has ballooned to an extent not seen in any other leading economy. United States, France and United Kingdom (see table below) have public debt around 100% of GDP. The figure for Japan is close to 250% and yet the country does not often register as a significant risk to the world economy; it is even seen as a financial safe haven in times of stress. The simple reason for this apparent contradiction is that around 90% of the government debt is owned domestically That insulates their bonds from shifting changes in international appetite and volatility but, despite that, the last few weeks have seen steadily rising yields. The yield on its 40 year bonds has for two periods in the last ten years been below ½% and in 2023 was still around only 1½%. In 2025 the yield has risen from just above 2½% to, now, over 3½%. It's not only the extent of the rise but the rate of increase which is concerning its Ministry of Finance. Sellers have dominated the market and a sale of 20 year bonds in mid-May attracted the lowest level of bids in a decade. Even allowing for the helpful

market, Japanese Government Bonds (which still are a part of the Bank of Japan's quantitative easing, but at a reducing rate), are the third example in this memorandum that shows all issuers of bonds have no option but to pay the rate of interest that the market is prepared to tolerate. Yields on Japanese Government Bonds did, however, fall sharply on 26<sup>th</sup> May when Bloomberg reported that the Ministry of Finance had contacted a number of market participants asking them for their views on the appropriate amount of government debt issuance. That seems like a very sensible approach and the reaction from bond markets has been positive. The Ministry of Finance has shown it's listening and may reduce issuance of super long dated debt. Until that point bond markets were reacting to news as bond markets react. Sell offs follow news that governments are planning on spending more and taxing less. Bond buyers tend to be less convinced by the 'we'll grow our way out of this problem' and comforted by the thought 'the less debt you have, the more likely I am to be re-paid'. Japan's decision to listen is helpful but the underlying issues have not gone away. Countries, with Japan at the front of the fleet, are sailing further and further into uncharted territory.

It's worth noting that the United Kingdom has a sizeable debt problem and, like elsewhere, this manifests itself in the difficult choices the Prime Minister and Chancellor have to make. The UK does have the advantage in having a floating currency, control of its interest rates and has an independent central bank but the burden of taxation is already at the highest level since the 1960s and the fiscal deficit in the tax year ending in March 2025 was 5.3% of GDP. Britain will have to ask the market to lend the country £299 billion in this financial year.

Gross public debt, % of GDP, 2023 or latest year available



Source: OECD Analytical Database.

It should not be too difficult to deduce that Meridian has some concerns around the bond markets, given yields have been rising and prices falling or, put more accurately, it is the prices that fall, leading to a rise in yields and this is, of course, happening at a time when background interest rates are trending downwards. The whole of the bond market is strongly influenced by the price of sovereign debt so when a country's debt falls in value it bears negative price pressure on the bonds of the corporate debt market, pushing up their cost of borrowing too. Meridian is under no pressure to invest in one asset class or another and, for a long time, has had minimal exposure to bonds. It is often commented that every financial crisis is different and the closest there has been to a bond market crisis was in Europe in the aftermath of the Global Financial Crisis in 2008. This started when Greece revealed it had been misstating its budget deficit for a number of years and this spurred a crisis of confidence and drew in Portugal, Ireland, Cyprus and, to a lesser extent, Italy. The recovery from that position required some very serious support and the fact that most of the concern was around relatively small countries was important. Fast forward to today, in a market which only looks dispassionately

at the facts, Ireland, Cyprus and Portugal can borrow more cheaply for 10 years than France and Greece has costs marginally above France's and, also in May, Italy's government was rewarded with an outlook upgrade from credit rating agency Moody's and this, coming a few weeks after Standard & Poor's upgraded Italian debt by one notch to BBB+, reflecting greater fiscal discipline and government stability.

These are examples of countries improving their own chances with a combination of credible growth plans, fiscal discipline and austerity and it's worth underlining how supportive the debt markets are in these circumstances because the reverse is equally true when a country's plans lack credibility. In a number of major economies the concern is that, at a time of unprecedented indebtedness, we are entering a period where leaders are either unable or unwilling to prevent the debt spiral from continuing. It is said that countries never pay back their debt but it is managed down by economic growth and inflation. That will continue to be the case unless the tipping point is reached and sufficient bond buyers leave the market to create a sovereign bond crisis. No country is immune to this risk and, whilst Greece was small and in a currency union where its partners had limited choice but to bail the country out, a far larger country – France, United Kingdom or even the United States could suffer a debt crisis that would have economic consequences far beyond financial markets. In 2017 the United States spent \$263 billion on servicing the national debt and in 2025 it is forecast to spend \$952 billion. The cost won't grow at the same rate because COVID was a large part of the rise but current forecasts project a cost of \$1,328 billion by 2030. There are a lot of moving parts in such projections but the message is that there are a lot of sensitivities around spending plans, taxation and government policy.

It is very concerning when confidence falls in equity markets. We have seen it on a number of occasions and the pain is felt acutely, yet history shows that time is the great healer and markets do recover as the profitability of companies recovers and uncertainty recedes. When confidence ebbs away in bond markets the stakes are, arguably, much higher. We would appear to be quite a way from there being an existential threat to the finances of a leading economy of the world but reckless leadership (United States?), the seemingly impossible task of reducing deficits (France?) or a reassessment of risk (Japan?) need to be monitored. There is a strong feedback loop in bond markets and President Trump may have felt this recently. Equity markets continue to be very sensitive to new news and whatever is written here about tariffs today is highly likely to be out of date by the time it reaches the reader. We continue to advocate looking beyond the daily news and remind ourselves that there are sufficient counterforces to the US President's erratic policy making that will put increasing pressure on his ability to make his own unmoderated decisions. In May, a number of factors, the bond market principal amongst them, appeared to force Trump to water down his blanket tariff plans and now a legal process may end up restricting Trump's preferred negotiation tool. It may even be the case that the international markets, needed to fund national borrowing requirements, and warnings from bodies such as the OECD that it is America's economy that is forecast to be more damaged by his tariff policy than any other are enough. Perhaps internationalism can trump nationalism!

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