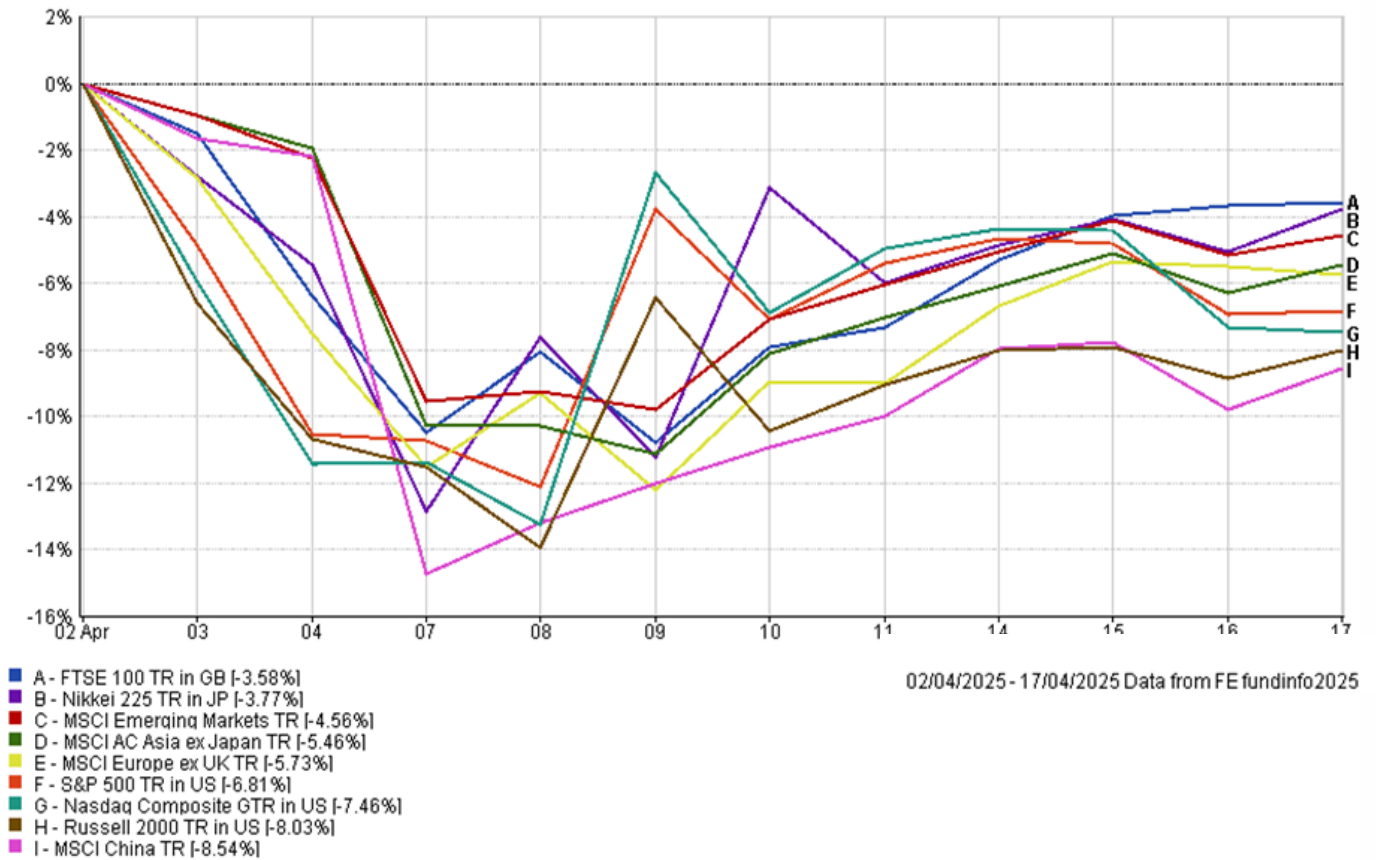


Market Matters - with Tom McGrath

Relative Calm as Trump takes a swipe at J Powell



It has been a little over two weeks since the announcement of tariffs – dubbed Liberation Day by the White House – and global equity markets, while off their lows, remain bruised. Losses across major indices range from -3.58% (FTSE 100) to -8.54% (MSCI China), with the FTSE 100 proving the most resilient. After the US offered a 90-day negotiation window to nations that don't retaliate, a partial recovery has provided some short-term relief, but the VIX remains elevated at 29.65. The fear gauge has risen over 44% in the past month. Markets may have calmed, but investor nerves remain frayed.

CBOE Market Volatility Index (VIX)



That's hardly surprising. Tariffs raise costs and the uncertainty they bring poisons business sentiment. Initially, it's the markets that react to the perceived economic damage; next will come the impact on the real economy. While some data like PMIs and March Retail sales have held up, that is largely the result of some front-loading in consumer behaviour buoyed by auto purchases and early spending ahead of price rises. The consensus is that US consumption growth will slow to 1.5% this year, down from 2.8% last year.

Under the new tariff regime, imports to the US are expected to decline materially, and history shows that really matters. Tariffs depress trade and squeeze supply chains. The initial hit may be disguised in the Q1 GDP data, but the effects will ripple through production and hiring in the coming months.

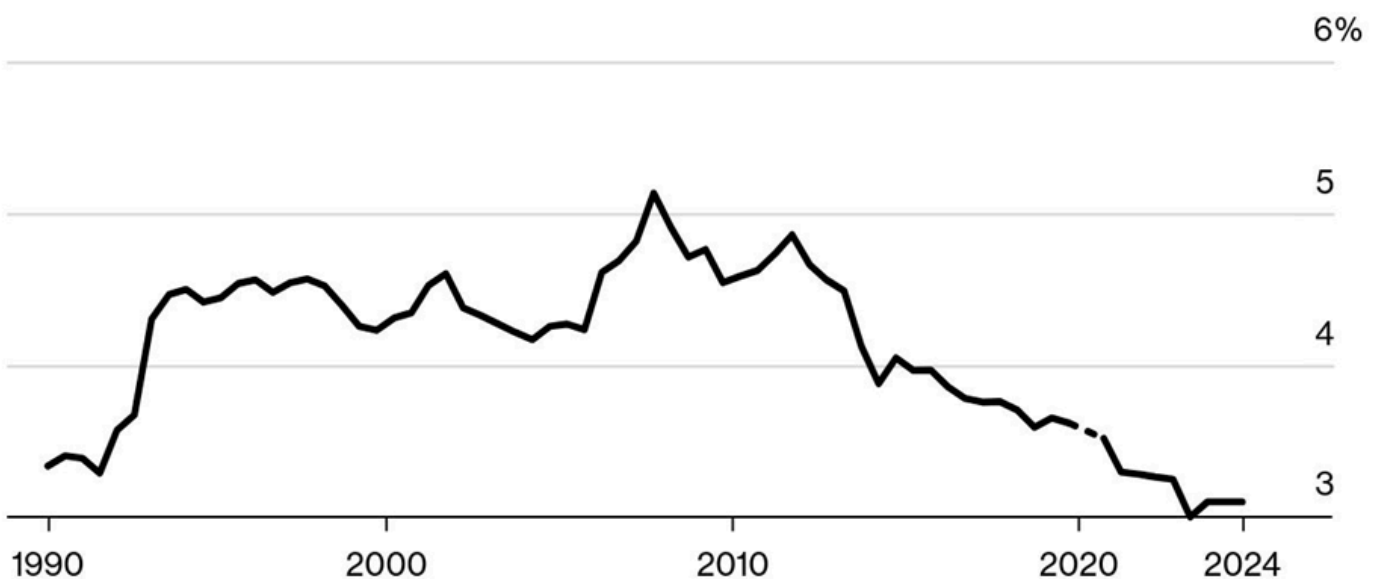
FED STAYS GROUNDED: The Fed remains on hold. Powell and colleagues continue to stress patience, watching for evidence that any price spikes they observe are temporary rather than structural. Governor Waller (a potential Trump pick for the next Fed Chairman) remains the lone voice arguing for rate cuts regardless of tariff effects... but the broader FOMC seems united in preferring to wait. Markets are still pricing a rate cut for June, but Powell's recent comments suggest the bar remains high. The Fed's focus this year will be on inflation, especially expectations. As Powell put it, their duty is to ensure that a one-time jump in the price level doesn't morph into something longer-lasting and more destructive.

In Powell we trust. With Trump attacking the Fed for refusing to cut rates and openly musing about removing Powell, the contrast could not be starker. Markets don't need cheerleaders; they need anchors. Powell has made it clear that the Fed will not act as an arm of the White House. His Q&A at the Economic Club of Chicago laid bare the risks of tariff-driven inflation and defended the Fed's independence. Trump took to Truth Social, declaring Powell's termination couldn't come fast enough. However, Powell cannot be removed for policy disagreements under the Federal Reserve Act. He will serve out his term.

The Fed may not be alone in its cautious tone this week. The IMF's updated growth projections are expected to reflect the early damage from tariffs, with broad markdowns to 2025 forecasts and a warning that financial stability risks are rising. Managing Director Kristalina Georgieva noted that high uncertainty could trigger renewed market stress. That aligns more with Powell than with Trump's instinct to escalate.

The IMF's Medium Term Outlook Keeps Looking Worse

Five year forecast for real global GDP growth



Source: IMF data, compiled by Nour-eddine Ech-charfi in "IMF WEO macroeconomic forecasts panel dataset"

Note: Data is charted in the year the forecast was published. Ex: 2024 data is a forecast for 2029. The IMF did not publish a five year forecast in April 2020.

Bloomberg

BESSENT IS BECOMING MORE PIVOTAL: While Powell remains grounded, Treasury Secretary Scott Bessent is attempting to navigate the volatile weatherfront between data and erratic policy. As the public face of America's economic message and the man tasked with selling Treasury bonds, he has walked a careful line. However, in recent days, he has appeared to be stepping out of Trump's shadow. Most observers and insiders credit him with persuading the White House to offer the 90-day negotiation pause, warning that another spike in yields could undermine market stability. The bond market had begun to wobble, and Bessent knew that letting yields climb further could trigger a broader confidence shock. His TV appearances have been calibrated, reassuring markets that the worst may be behind us.

Bessent's evolution in positioning is essential. Some reports suggest Elon Musk, once prominent in Trump's economic orbit, is drifting away amid policy tensions and infighting. Bessent may now be the only credible bridge between policy extremes.

The VIX may have peaked for now, but the fundamental tension between fiscal chaos and monetary prudence remains unresolved. That brings us to earnings.

Q1 earnings season is underway, and while early results have exceeded expectations, the looming impact of recent tariffs casts a shadow over future performance. Only 12% of S&P 500 companies have reported so far, with 71% beating earnings estimates. However, revenue beats are below average, indicating a potential deceleration in topline growth. The blended earnings growth rate stands at 7.2%, aligning with Q1 forecasts, but forward guidance is becoming increasingly critical.

Notably, Delta Air Lines has withdrawn its full-year guidance, citing uncertainty from tariffs and fuel costs. This move reflects a broader trend, with more companies retracting guidance due to tariff-related uncertainties than usual. Analysts anticipate that Q2 earnings growth may be vulnerable to downward revisions. Revenue growth has slowed to 4.3%, with sectors like Industrials—often a bellwether for global demand—experiencing year-on-year declines. Consumer Staples and Materials are also underperforming, while Information Technology and Health Care continue to lead. Despite a slight adjustment, the forward P/E ratio remains above the ten-year average, suggesting that valuations may still be stretched in the face of growing economic uncertainties.

Markets want clarity. Instead, they have a president demanding loyalty, a Fed chair defending independence, and a Treasury secretary trying to keep the bond vigilantes at bay. Investors will watch for signs of coherence as earnings season rolls on and global finance leaders descend on Washington for the IMF spring meetings. For now, Powell remains the rock. Bessent is learning to steady the ship. Trump? Unless the world bows to his dealmaking, he's already plotting another tariff wave.

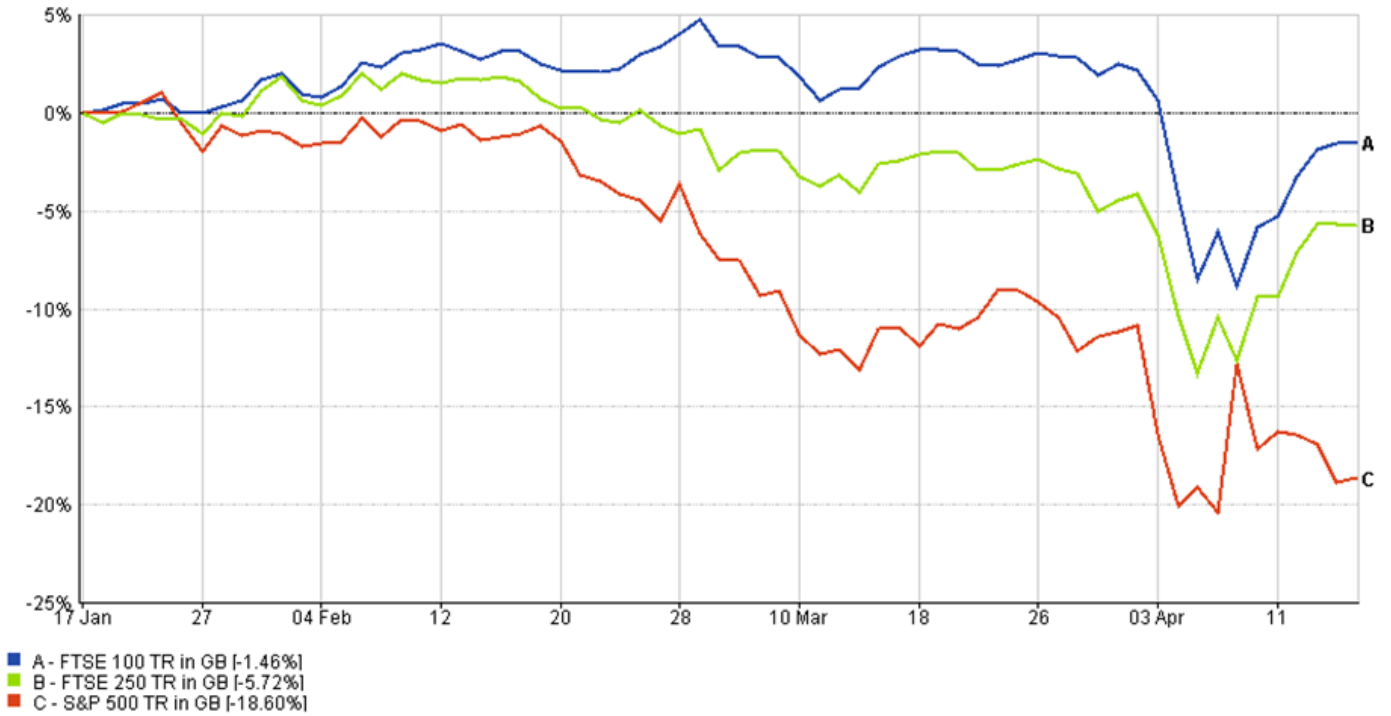
A British Bright Spot?

And back in Blighty, amid all the global policy drama, the UK has quietly delivered some welcome news. Inflation surprised to the downside in March, with annual CPI falling to 2.6%, below expectations and down from 2.8% in February. The most encouraging detail was not just the headline drop but the breadth of the move: virtually all categories came in softer than forecast, including services. For a Bank of England still wary of domestic price pressures, that was the green light markets were waiting for.

Gilt yields have come back down, with the 10-year back nearer to 4.5%, and traders now price in a 25 basis point rate cut as early as next month, with expectations of 75 basis points of easing over the rest of the year. This change in the data marks a potentially meaningful shift for a central bank long stuck in hawkish mode. Recent payroll revisions and softer employment trends suggest the labour market may be less tight than once feared. If that's the case, the BoE has more room to follow its European peers and begin easing.

While US tariffs threaten to boost prices in many countries, they may be disinflationary for the UK. Britain imports more from America than it exports, meaning US tariffs should reduce demand for UK goods and lower prices. Retailers are also bracing for a flood of cheap Chinese goods as exporters scramble to redirect shipments away from the US. That, too, could be disinflationary, albeit for less comforting reasons. However, with the UK Treasury still signalling tight fiscal policy, the monetary side may soon do more heavy lifting.

The UK might be one of the few places where inflation looks under control, rate cuts are in sight, and economic policy (for now, at least) feels relatively predictable. In a world of tariff tantrums, that's not nothing. Nor is there a significant outperformance the UK market has put in over the last 3 months versus the S&P 500, especially when viewed in Sterling, which has appreciated significantly against the USD over the period.



17/01/2025 - 17/04/2025 Data from FE fundinfo2025



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