Macroeconomic Commentary[1]

The first quarter of 2025 saw mixed returns across global equity markets. The NASDAQ saw a decline of 10.3% due to news of tariffs and the emergence of companies like DeepSeek which challenged the status-quo set by US technology companies. Conversely, China's Hang Seng managed to brush off worries of tariffs posting a return of 16.1% over the quarter, primarily driven by technology companies. The S&P 500 finished the quarter down 4.3%, due to geopolitical tensions, particularly those surrounding tariffs and the prospect of a trade war. European markets performed well, in part due to the pledge to increase investment in national defence. The FTSE 100 and Euro STOXX 50 finished the quarter up 6.1% and 7.7% respectively, measured in their local currencies. In fixed income, UK 10-year bond yields rose 11 basis points while US 10-year bond yields fell 36 basis points. The latter was predominantly driven by sentiment surrounding tariffs. Commodities saw a strong quarter, Brent Crude oil ended the quarter up 3.7% due to supply disruptions in Iran and Venezuela and increased demand, particularly in China. Increased geopolitical uncertainty saw the price of gold reach multiple all-time highs throughout the quarter, ending the quarter up 18.2%. The pound appreciated by 3.2% against the US dollar, partly due to positive economic data, including better-than-expected GDP figures. Against the euro, the pound depreciated by 1.2%.

Fund Commentary

During the first quarter of 2025, the Credo Global Equity Fund (CGEF) increased by 0.25%, outperforming the MSCI World Index by 4.99% in GBP terms[2].

Q1 2025 has been one of the most volatile quarters for equity markets for a long time. Although the year started relatively calmly, on 20 January, news of DeepSeek, a start-up Chinese technology company launching its Language Learning Model (LLM), sent shockwaves through the technology sector. Investors were asking how a startup company could produce such a sophisticated model, at purportedly one tenth of the cost of the large US models. The initial reaction to this was a selloff in stocks that had massively benefited from the idea that the capex spend on AI infrastructure was endless. We witnessed a rotation out of Growth stocks, and particularly those in the technology sector, into other sectors in the market.

In February, US President Trump announced tariffs on Mexico and Canada, which sent markets into a further frenzy, although these tariffs were later paired back. However, this gave investors a taste of what could happen if Trump went through with his proposed tariffs for the rest of the world. The MSCI Growth index was down 10.53% during the quarter versus the MSCI Value index, which was up 1.66%.

The main positive contributors to the CGEF over the period included Progressive Corp, AutoZone, Shell, Cigna Group, HCA Healthcare and Alibaba. The main detractors from the portfolio included Diageo, Flutter Entertainment, Alphabet and FedEx Corp.

We added new positions in Arch Capital and Icon, and sold out of our positions in AerCap Holdings, Coca-Cola, and Hiscox.

(1) Source: Bloomberg.
(2) Performance of the Credo Global Equity Fund Class A Retail Shares over the period 31/12/2024 to 31/03/2025..

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Looking Forward

Thus far, Q2 has been tumultuous. The "Liberation Day" announcements have caused a very negative reaction in world markets. There is a significant amount of uncertainty about, and it is difficult to second guess what US President Trump is likely to do next. As things stand, we believe that tariffs will be negotiated down across the board, and even the more significantly affected countries will still reach a deal. However, these negotiations are likely to take time, create further uncertainty, and will likely have certain other effects on currencies, interest rates, inflation and ultimately, company earnings.

As such, we have been monitoring the situation daily, trying to understand where there are potential weaknesses in the portfolio, and adjusting accordingly. In the main, we have not made any significant changes, as we still believe that we own a portfolio of companies that are resilient, and exhibit characteristics including big moats, high margins, and management teams that can mitigate some of these costs. We remain very comfortable with the positioning of the portfolio, particularly given the valuations of the stocks we own, and believe that this will give us further downside protection if the rotation out of Growth into Value continuous.

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