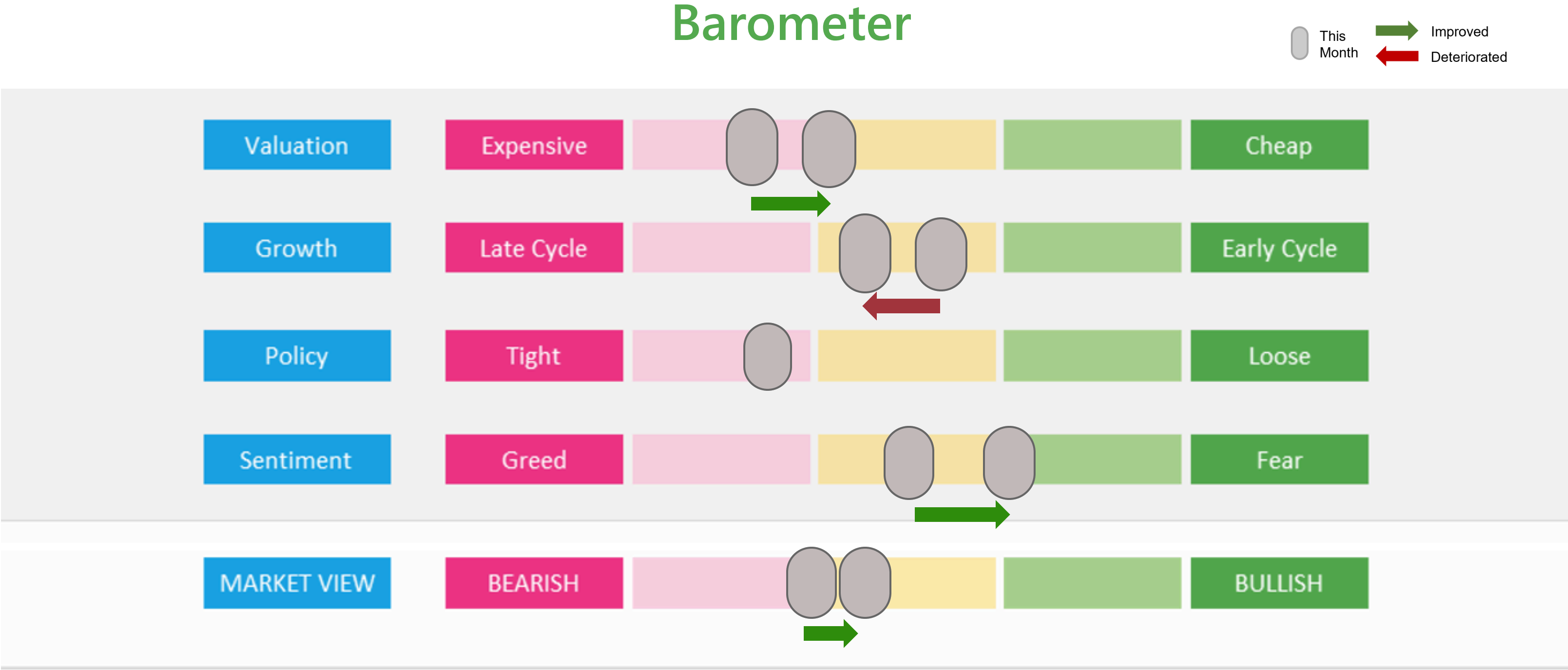
MAY 2025

CCLA GOOD INVESTMENT

Market Barometer

Barometer



Retaining a Risk Off Stance

We have retained our lowered equity weighting in our multi-asset funds, having cut by 5% points in early March. We find it unlikely that the "Liberation Day" tariffs will be allowed to fully take effect after the 90 days suspension on 9 July. If they were, we think a US recession would swiftly follow - an outcome no president would willingly countenance. However, the uncertainty that they have engendered has already damaged the growth outlook, and **we need to see some or many of the following to add risk back**.

- **Policy change from Trump**, or a significant watering down of the announced tariffs
- **Capitulation from the Fed**, prioritising rate cuts over fighting inflation
- **Capitulation of sentiment**, for example with the Hartnett Bull-Bear indicator at risk averse levels
- **Capitulation of analysts**, with EPS revisions breadth at trough levels.

In our **Charts of the Month** we look at:

- The **stagflationary impact of tariffs** with falling growth and rising inflation forecasts
- "Liberation day" announced tariffs **in historical context,** showing the potential for a trade shock of historic proportions
- **International demand for US treasuries** still holding up
- **Credit markets taking note** but not panicking.

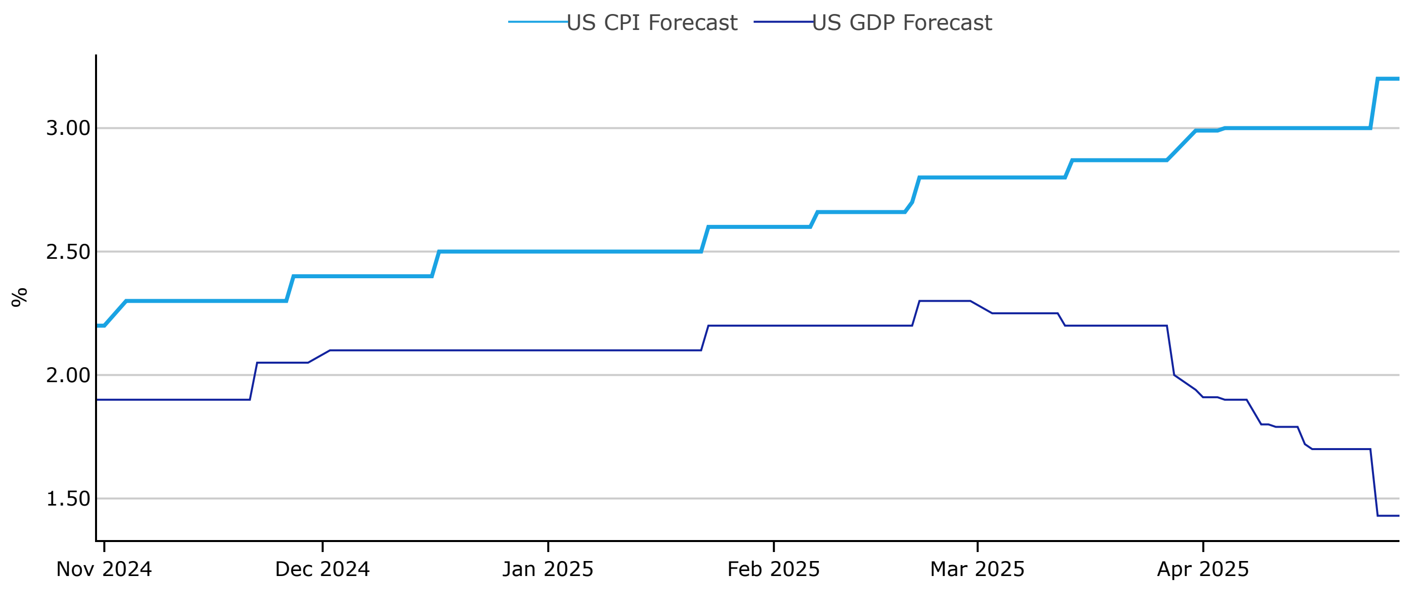
We are at 68% equity risk in our multi asset funds, down from 75% earlier in the year. While a recession is not our base case it's still a high risk, so we are watching for our checklist as outlined above. On balance we think deals will be done and tariff announcements watered down, but taking that on trust does not yet seem prudent.

Contents

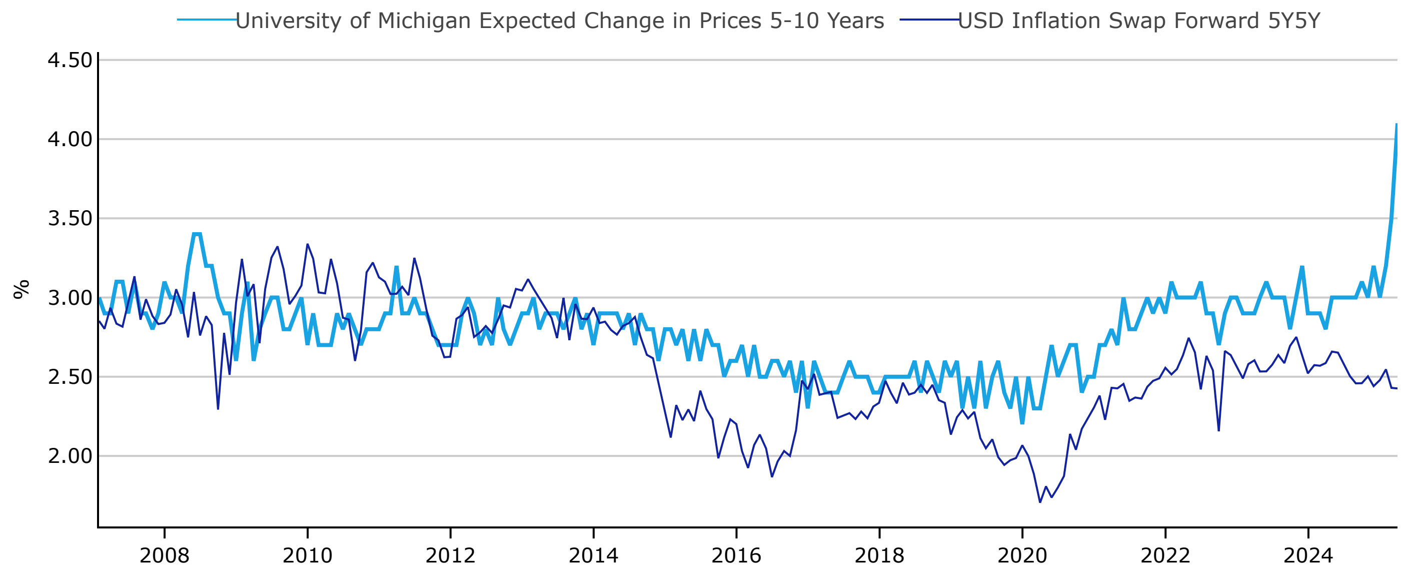
Charts of the Month (1 of 4)

It's become abundantly clear by now that **tariffs are stagflationary** (for the US) and potentially deflationary for the rest of the world. The evidence was already there in the violent equity market aversion to the "Liberation Day" announcement and associated 19% fall in the S&P500. The consensus on US real growth this year has been cut by 1% point while that for inflation has risen by a similar amount (see upper chart). Perhaps more worrying is that consumer inflation expectations very much look as though they are becoming un-anchored (lower chart), even if the professionals don't yet share that view, as seen in the continued stability of the inflation swaps.

Change to Consensus 2025 US Growth and Inflation Forecasts since Trump was Elected



Longer Term Inflation Expectations - Consumer and Market



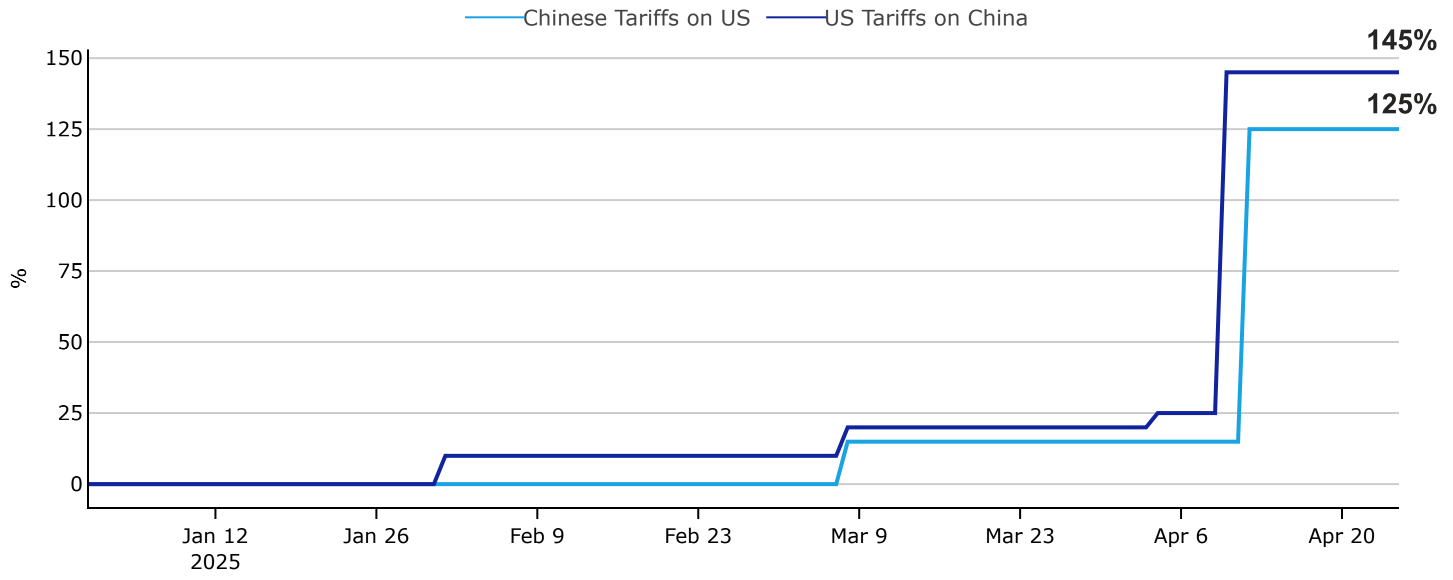
Sources | CCLA, Bloomberg as at 25 April 2025

TOP OF MIND

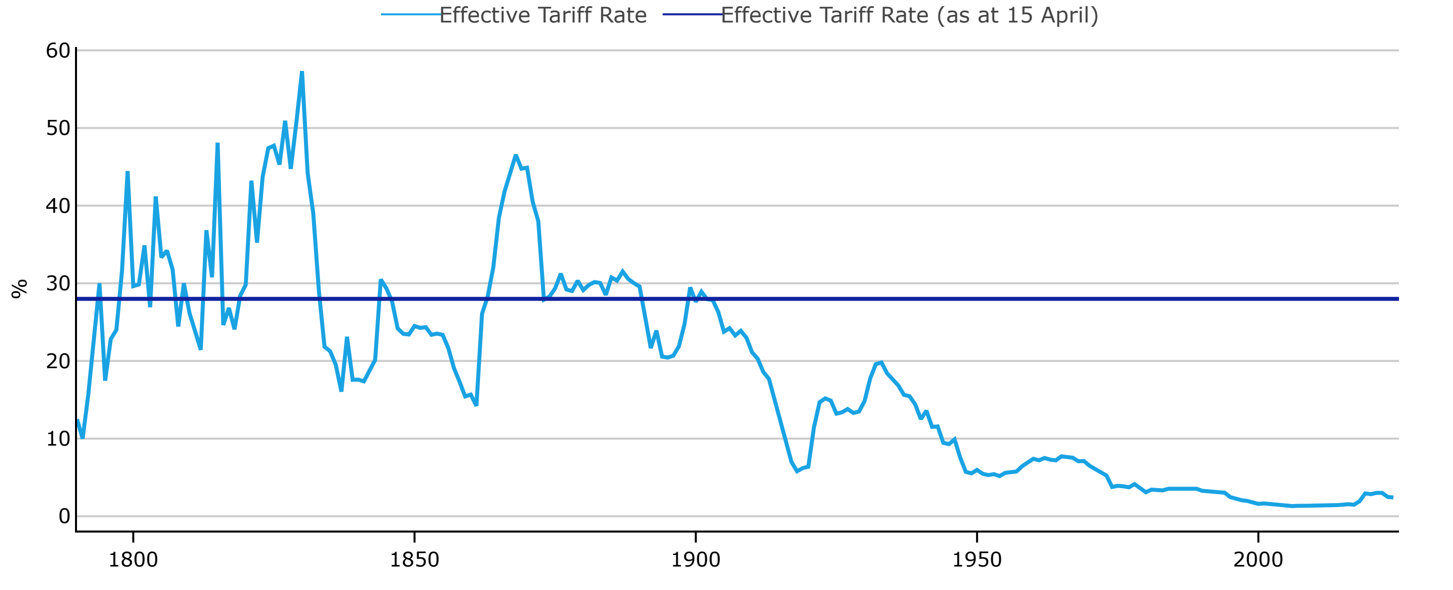
Charts of the Month (2 of 4)

Trump's tariffs, if fully enacted (a big if), would be a trade shock of historic proportions. US Trade Secretary, Scott Bessent has said that high tariffs between the US and China are "not sustainable", and Trump himself has said that there is a deal to be done with China, if only Xi Jinping would take Trump's call. So there seems to be every chance that a deal can be done between the two countries to de-escalate the incipient trade war. However, there's much that can go wrong at this point, in our view, and we need to see more progress to recommit to a risk-on stance.

Mutually Assured Destruction? China-US Kicks Off



A Shock of Historic Proportions

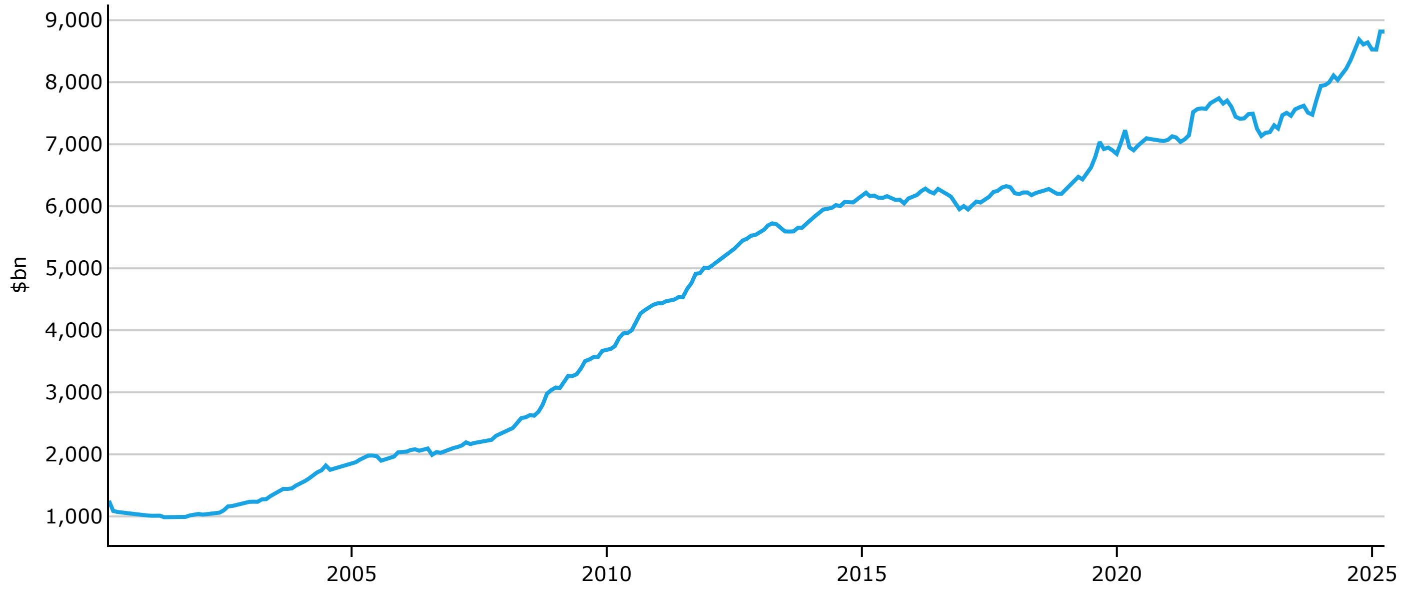


Sources | CCLA, top graph: Bloomberg as at April 2025. Bottom graph: The Budget Lab Yale as at 15 April 2025

Charts of the Month (3 of 4)

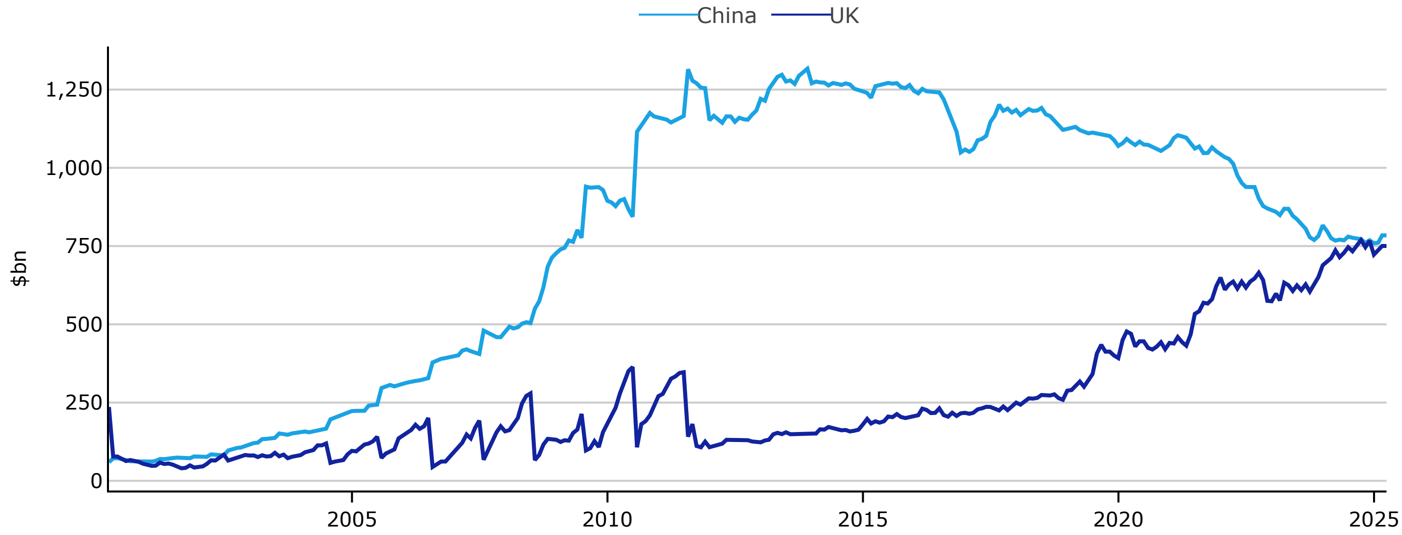
We do not subscribe to the view that US treasuries are going to have a prolonged "Truss moment". Yes, there is more supply given the very large US federal budget deficit (7% of GDP, or $2trn), and yes, China continues to slowly reduce its UST holdings, but as the upper chart shows, foreigners in aggregate are still large net buyers of USTs. It's fascinating and perhaps a surprise to see that UK institutions now hold the same amount of USTs as China! And those lines are crossing over. Perhaps something for the US trade negotiators to reflect on when they think about who their real friends are!

Major Foreign Holders' Total US Treasury Holdings



If You Are Wondering Who Your Friends Are…

US Treasury Securities Foreign Holders:



Sources | Bloomberg, CCLA as at April 2025.

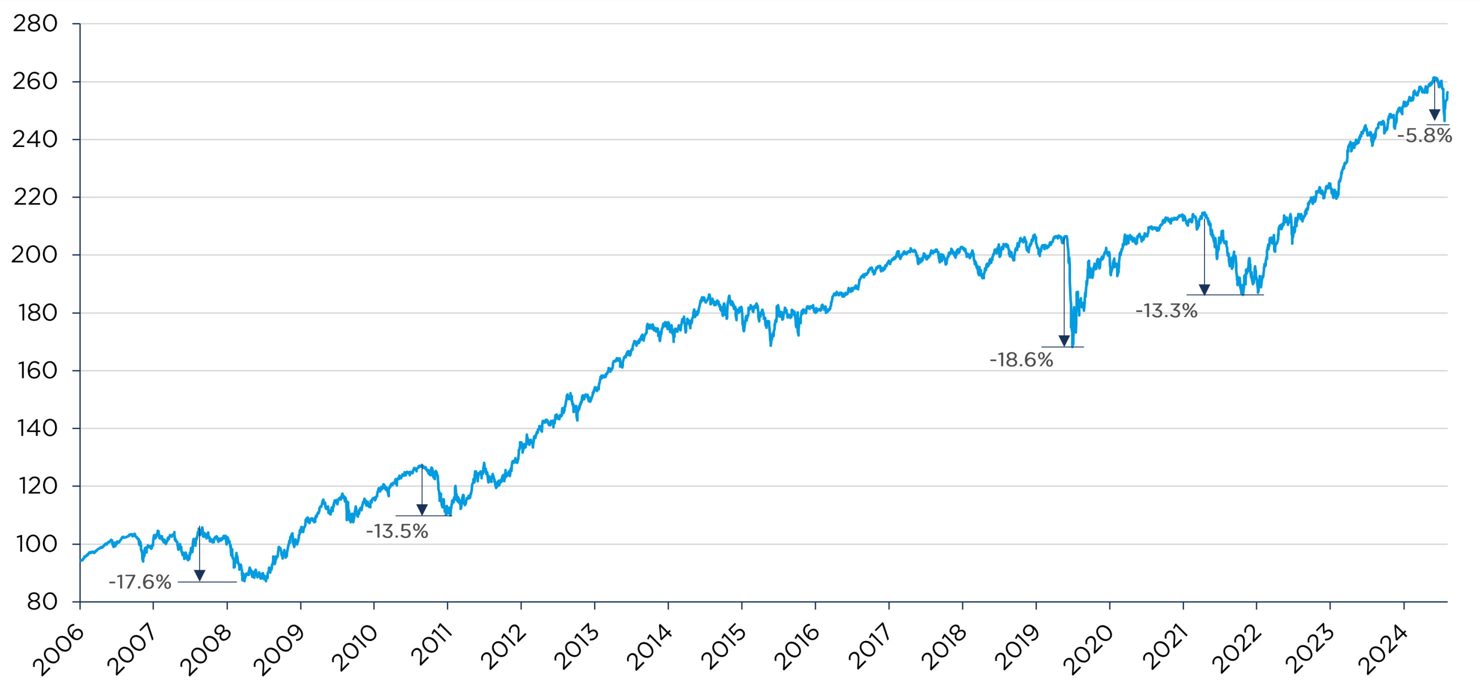
TOP OF MIND

Charts of the Month (4 of 4)

Credit remains reasonably well behaved. Underlying all the negative momentum in real activity, it's important to check in with credit markets for clues as to the solvency of the corporate sector - a key underpinning of risk assets. Below we show iTraxx Crossover index, which is the total return index for around 75 sub-investment grade European corporate debt issuers. What we have seen so far is around one third of the move lower that occurred during the GFC and the Pandemic and half what occurred in the Eurozone crisis of 2010 or in the inflation shock of 2021-2022. As we show on p11, underlying credit delinquencies are elevated for autos, but well behaved for credit cards and the critical mortgage category - and overall credit spreads remain tight.

iTraxx Crossover Total Return Index

100 = 20 March 2007



Sources | CCLA, Bloomberg, Markit as at April 2025

VALUATION

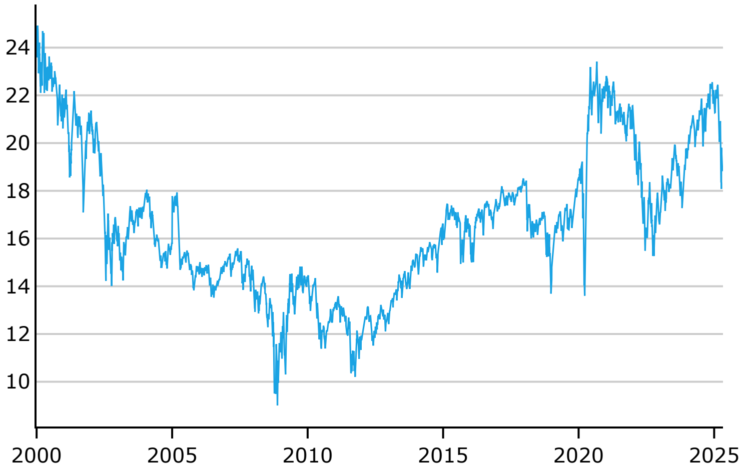
Equity | USA

US exceptionalism has been driven by stellar corporate earnings, leading to higher employment, wage growth, and consumption, thus supporting GDP. Tariffs pose a risk to this chain. Since the election, labour market demand is lower, margin-concerns are culling average hours worked, consumer confidence is worse than during the GFC, and earnings revisions remain under pressure.

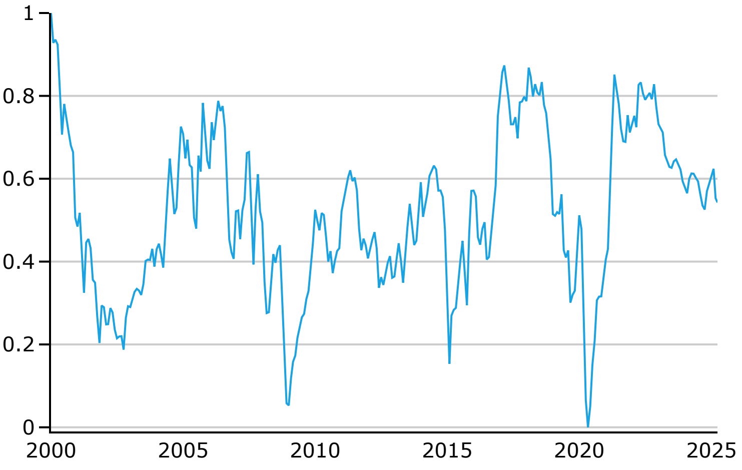
Nonetheless, the recent market correction is policy-driven, not due to balance-sheet issues or unforeseen events. It can be reversed quickly should the administration's mood change. US trades at a forward P/E of ~20x* from ~22x at peak**, and is thus closer to but not yet at its historical average (16x).

S&P 500 Valuations

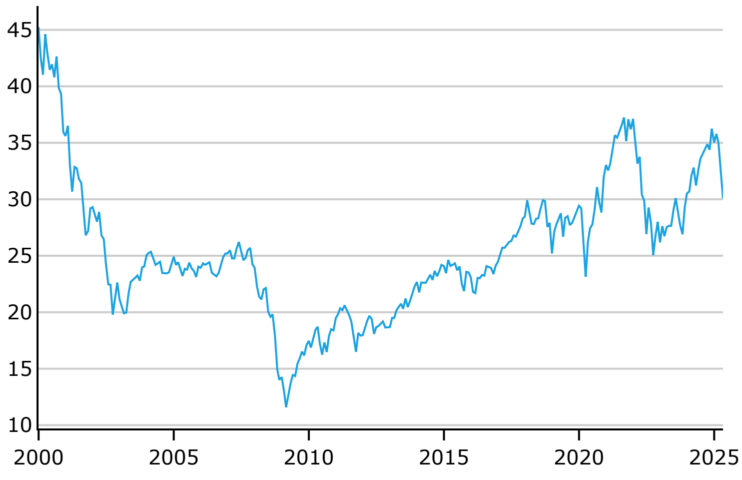
S&P 500 Forward PE



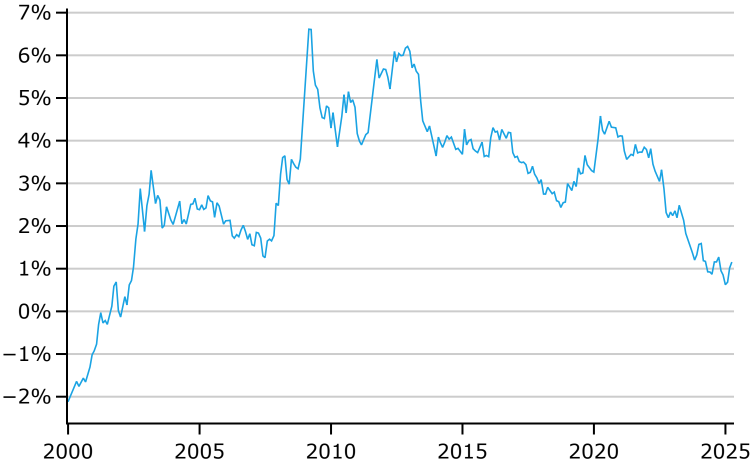
Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield. *29 April 2025, **19 Feb 2025.

Sources | S&P 500 PE: Bloomberg as at Apr 2025. CVI Model: CCLA as of Apr 2025, Shiller PE/CAPE: Morgan Stanley, Equity Risk Premium: CCLA as of Apr 2025

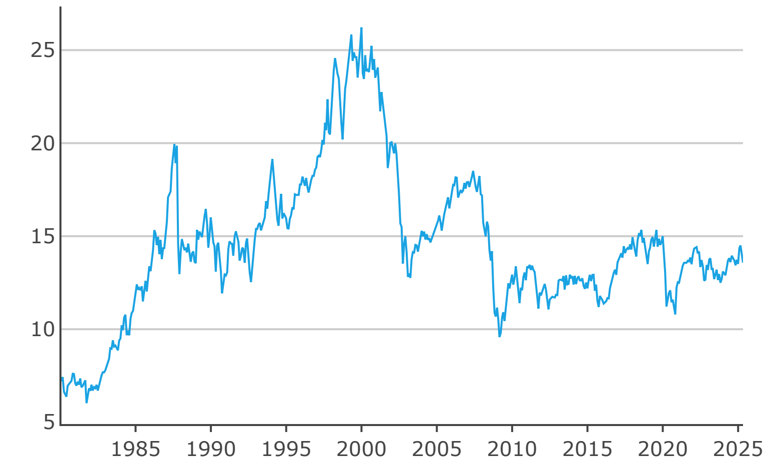
Equity | Regional

The US imposed 145% tariffs on China, leading China to retaliate with 125% tariffs on US goods. Consequently, analysts predict China's GDP could be 1-2% points[2] lower than previously forecast, affecting global equity - think Europe, LATAM, Australia; and commodity markets - think oil, iron, copper. To counter this, China's Politburo plans a new stimulus package ~¥2.0tr ($274bn)[1], including export subs, consumer spending boosts, and medical insurance discounts.

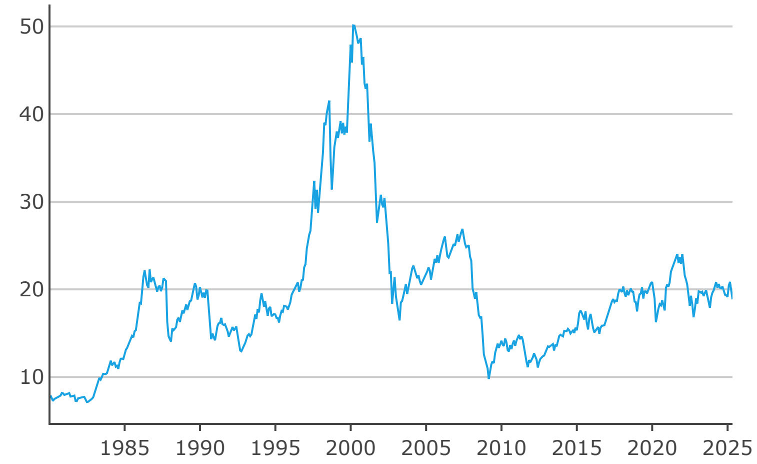
Despite the tariff turmoil, MSCI China remains resilient, up over 5% YTD*, unlike MSCI US.

Europe

UK | Shiller P/E

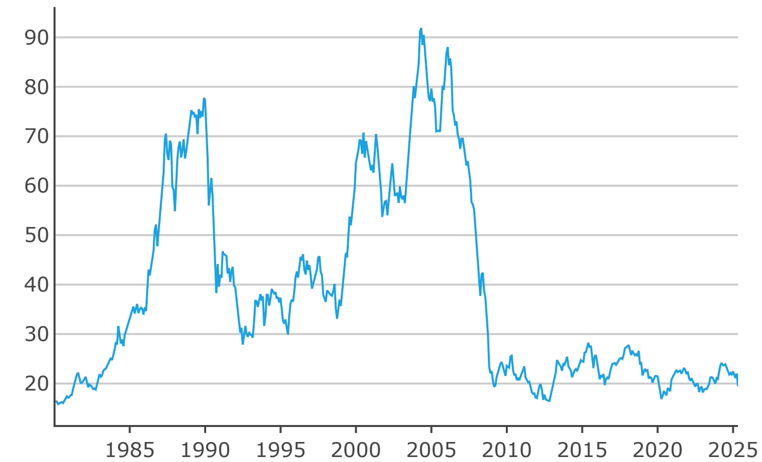


Europe (Ex-UK) | Shiller P/E

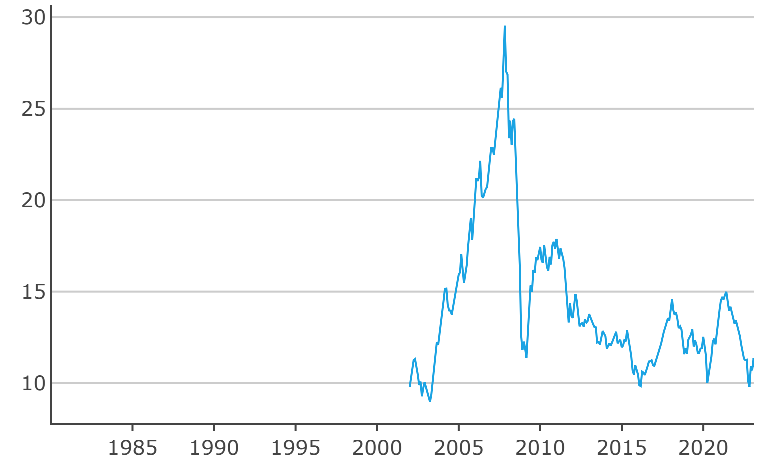


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of Apr 2025. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. *22 April 2025. 1.Bloomberg: 'China Discusses Frontloading Stimulus to Counter Tariff Hit' 7 April 2025. 2. Bloomberg: 'US Tariffs Seen as Far Worse Shock to China Than First Trade War' 3 April 2025

CCLA

VALUATION

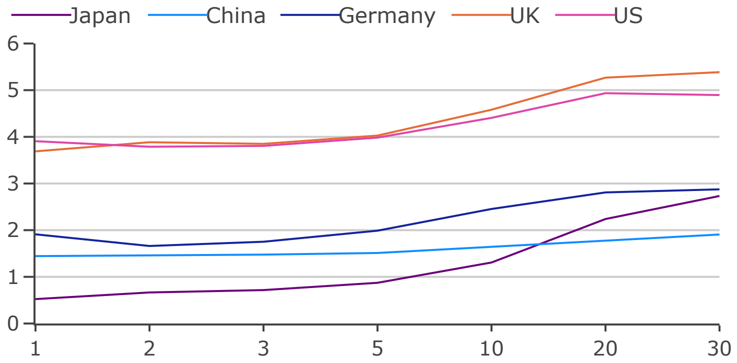
Bonds - Sovereigns

US stag-flationary fears have risen since Liberation Day, causing the US Treasury curve to bear-steepen. Since 1 April, 2Y yields fell ~20bps, while 20-30Y tenures rose by over 30bps. Concerns about short-end rates stem from tariff-induced negative growth revisions, rising discharges and an uptick in the unemployment rate. On the long-end, political instability is being priced in - the dollar is down ~5%, and the 10Y TIPS yield is up 33 bps.

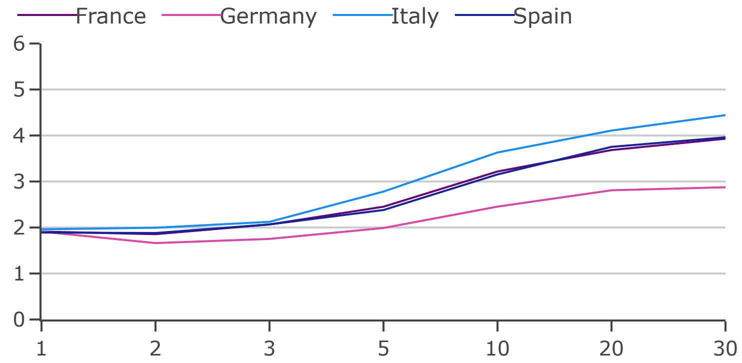
The latter highlights the shift in the long-standing safe-haven status of these two securities. Investors are diversifying out of US into CHF and gold – both of which have seen a notable rise over the month (~3.5%, ~11%*).

Global Government Yields

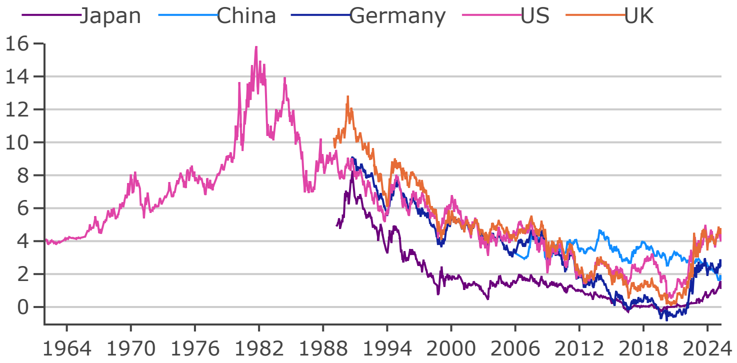
Global Treasury Yield Curves (Term vs %)



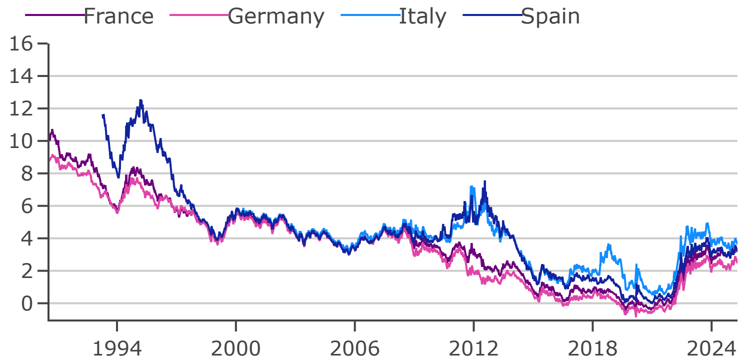
European Treasury Yield Curves (Term vs %)



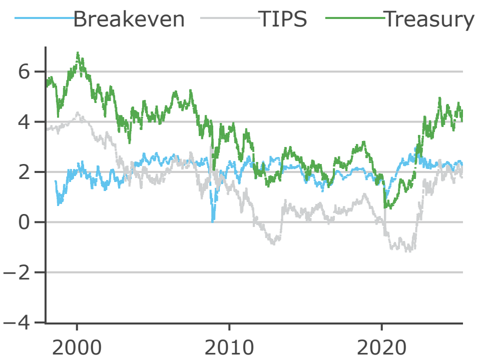
Global 10Y Yields %



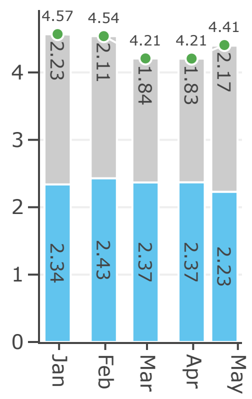
European 10Y Yields %



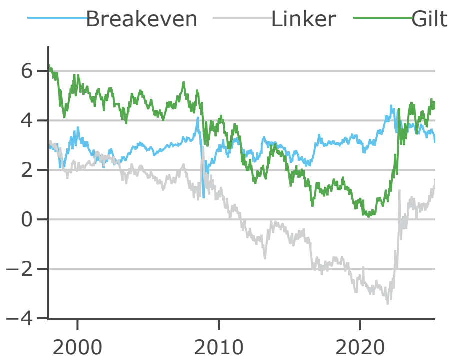
US 10Y Yields Breakdown %



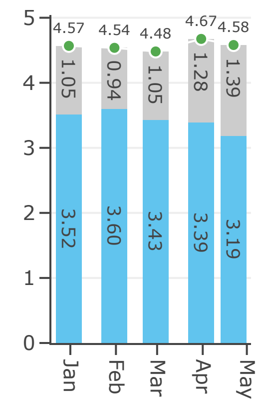
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



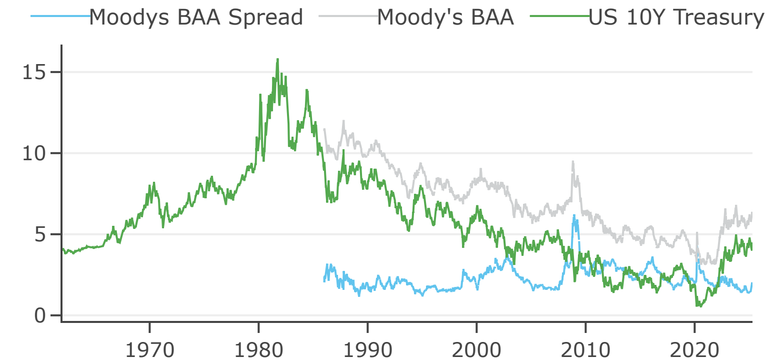
Bonds - Credit

During times of stress, US IG spreads usually reach ~2.4% or higher (e.g. 2.7% during COVID), but have so far remained stable ~1.1%. Why? Firstly, IG companies are healthier now vs. during COVID – better gross/net leverage and interest coverage ratios in aggregate. Secondly, tariffs impact only 22% of the US IG market, of which only half are BBB rated*. Thirdly, the supply-demand imbalance continues to keep a lid on spreads. Thus making the tariff (and growth) impact more of an equity story rather than a credit story.

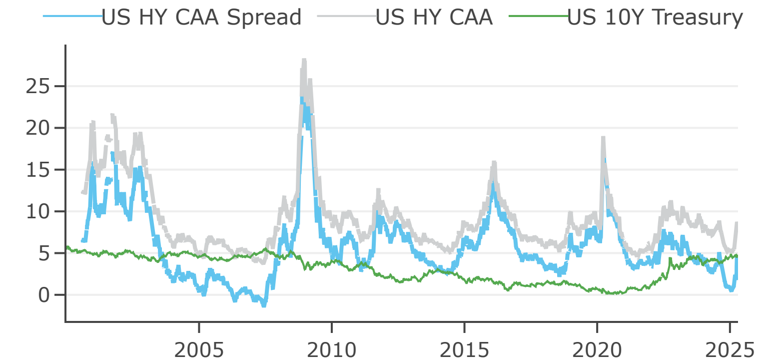
So no risk? Not quite, if a labour-market-induced recession hits, corporate revenues may suffer, worsening credit conditions and widening spreads. IG balance sheets are better positioned than HY to weather such a storm.

Global Credit Yields

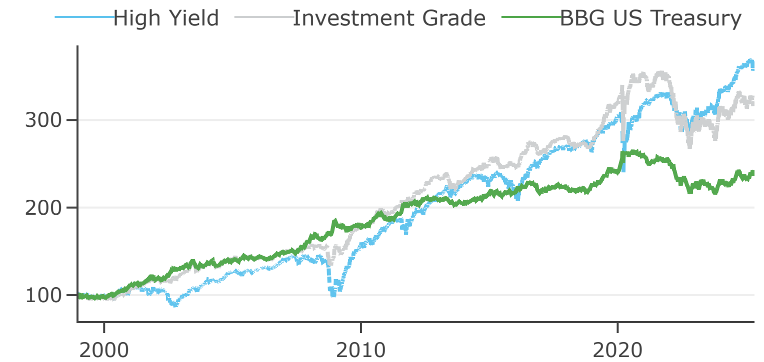
US Corporate Investment Grade Yield %



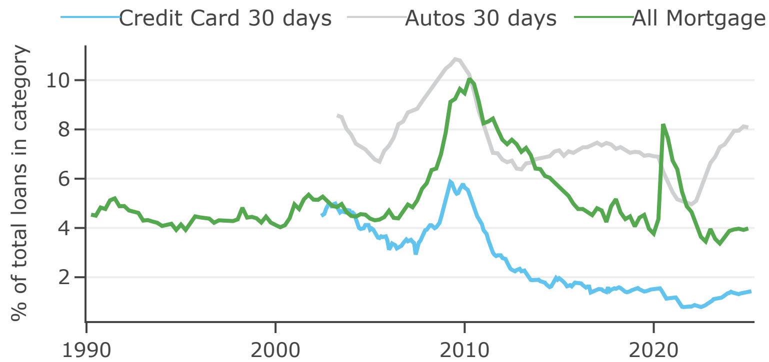
US Corporate Sub-Investment Grade Yield %



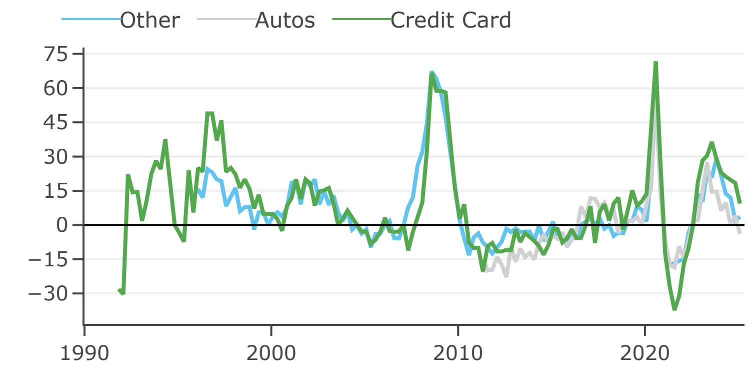
US Tr. vs IBoxx IG and HY Total Return $ (100= 31 Dec '98)



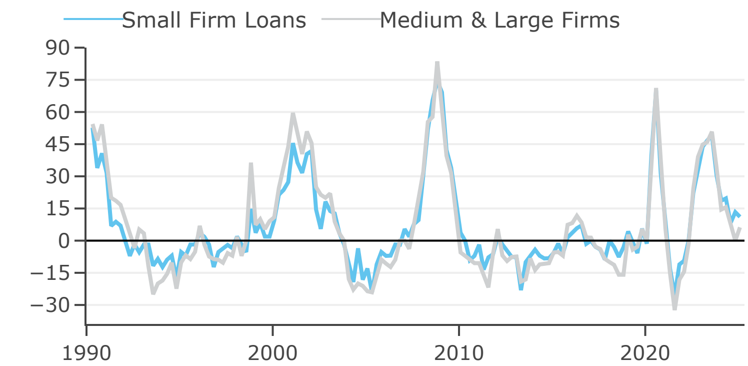
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Sources | Federal Reserve, Senior Loans Officers Survey, CCLA, Bloomberg as at Apr 2025.

VALUATION

Alternatives

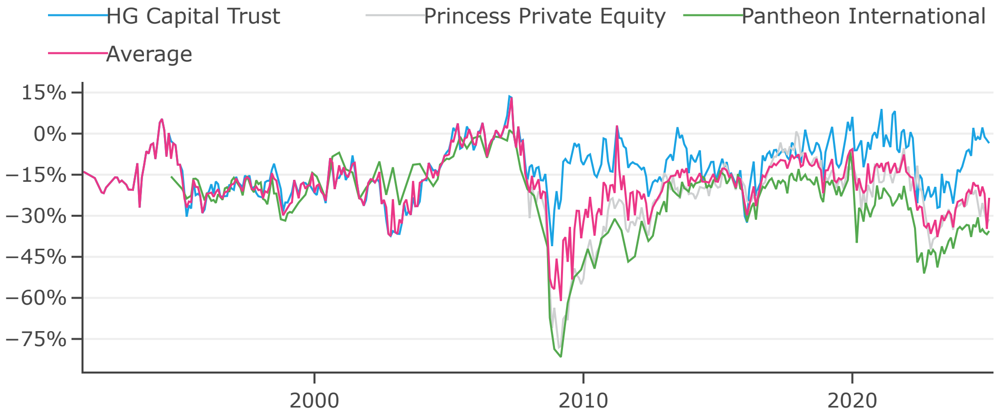
Gold has surged over 60% since early 2023 and ~23% YTD1. Driven by four key factors: central bank accumulation, geopolitical tensions, war, and de-dollarisation. Central banks continue to diversify into gold. Meanwhile the ‘art of the deal’ is creating enough policy volatility to push investors away from traditional safe-havens (dollar and treasuries), into gold.

Risks include a strengthening US economy, reversal of the debasement trend, and unexpected drops in central bank demand.

Global Valuations

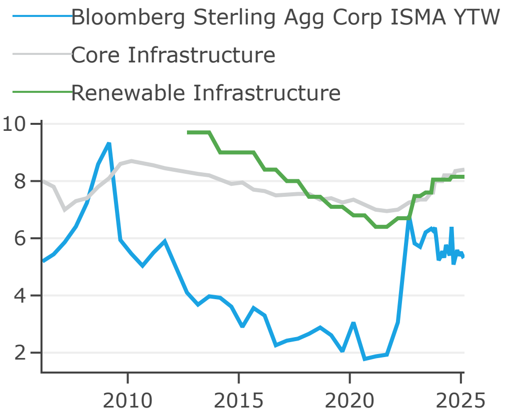
Listed Private Equity

Discount To NAVs



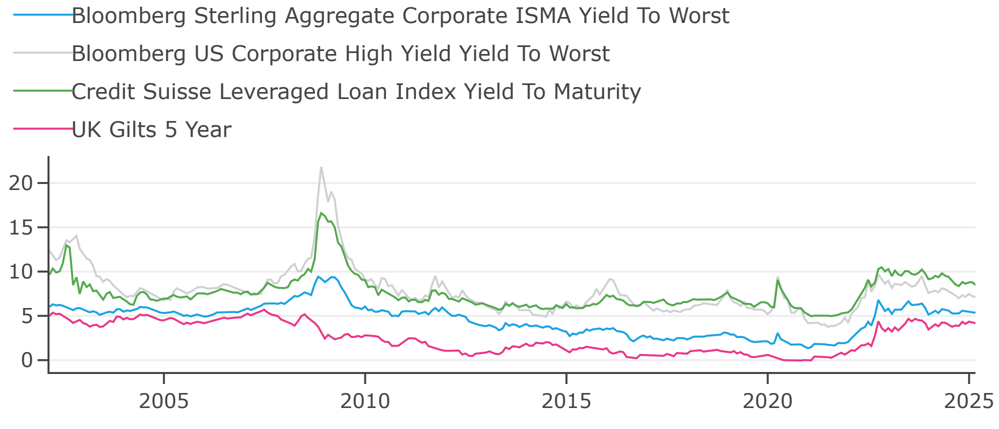
Infrastructure

Infrastructure Discount Rates vs Bond Y…



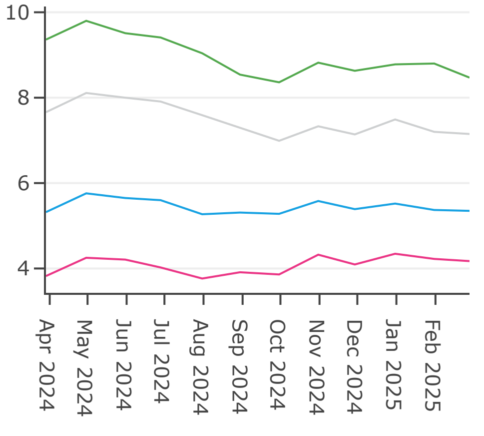
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Infrastructure: CCLA, Bloomberg; Bloomberg; Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook; Contractual Income: Bloomberg, Pitchbook. As of Mar 2025. 1. 24 April 2025. *JPM: JP Morgan

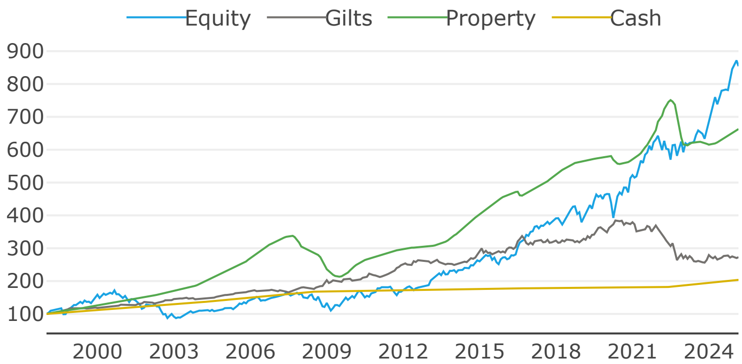
Property

Looking ahead, credit conditions for commercial real estate continue easing, the Bank of England is expected to cut rates four more times bringing rates to 3.5% by December, and vacancy rates appear stable. The all-property equivalent yield remains attractive at ~4.6% real*, and the real forward 5y return series has troughed (see middle left chart).

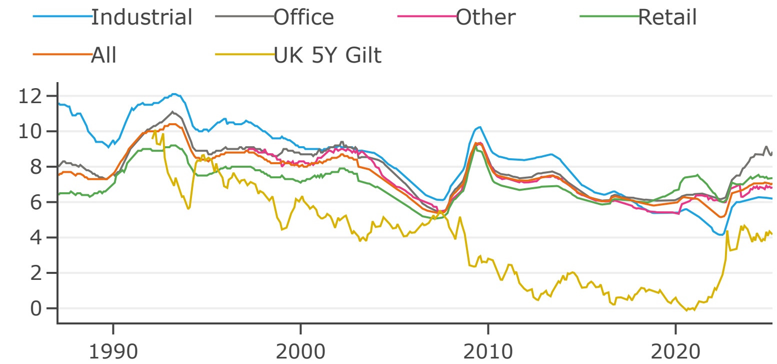
However, potential risks include subdued growth impacting rental yields and further spill-over effects from the US into UK bond markets.

UK Commercial Property Market

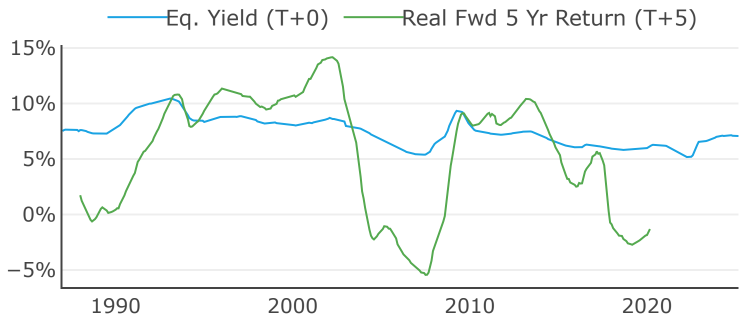
25 Years Of Return 1998=100



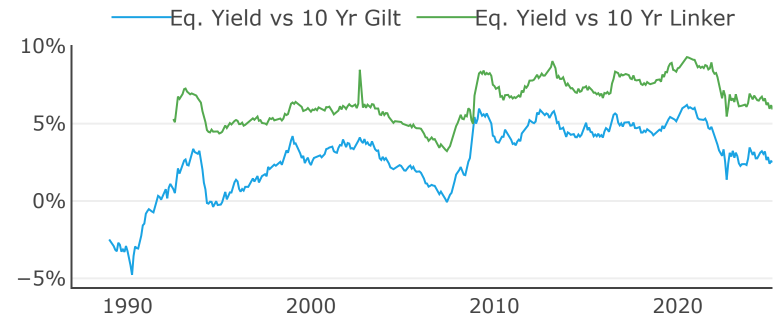
Equivalent Yields vs Gilt Yields %



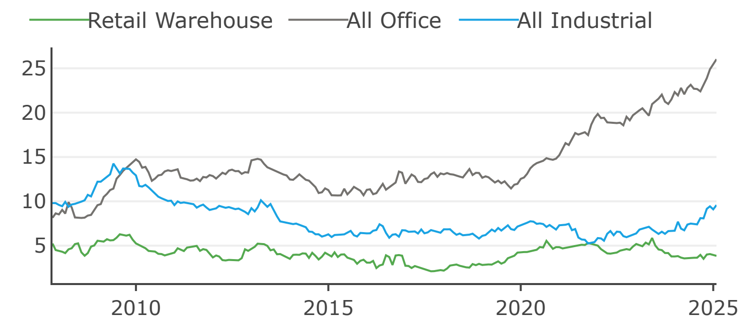
MSCI UK All Property Monthly TR Index %



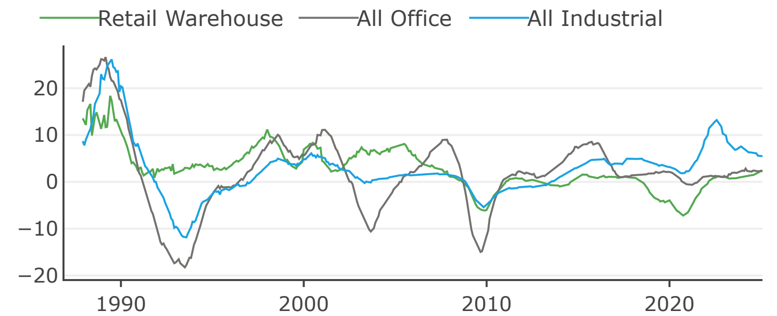
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at Mar 2025. 25 Years of Return, All Property Monthly TR Index as at Mar 2025. *7.1%-2.5%

VALUATION

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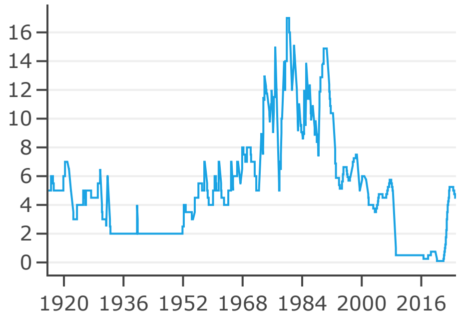
Cash

April Flash PMIs show sharp declines, bringing all readings into contraction. Assuming the Composite reading remains at 48 for two more months, Bloomberg Economics (BE) estimates a Q2 GDP contraction of 0.3%. Quite steep! However, noting PMIs exclude government spending - an important growth driver this year - when taken into account, BE forecasts a smaller 0.1% GDP contraction.

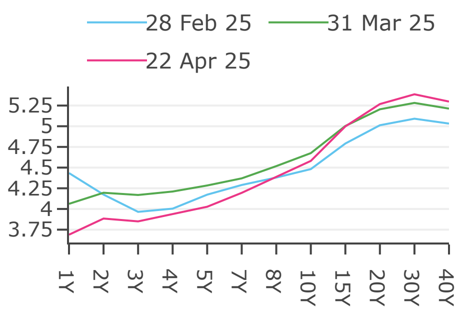
The UK's savings rate relative to consumption growth suggests a Wicksellian disequilibrium[1]. **Markets now expect two more rate cuts this year (from 4% to 3.5%). This should help move rates closer to neutral and shift funds from saving toward consumption/investment - ideally inducing growth.**

UK Sterling Market

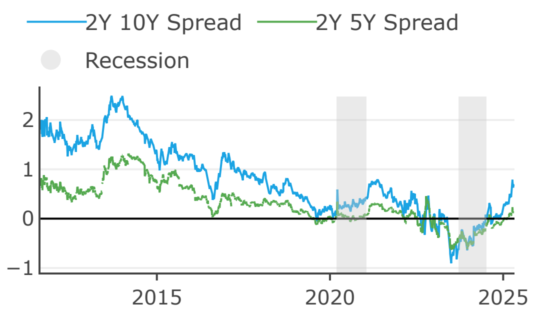
Official Bank Rate



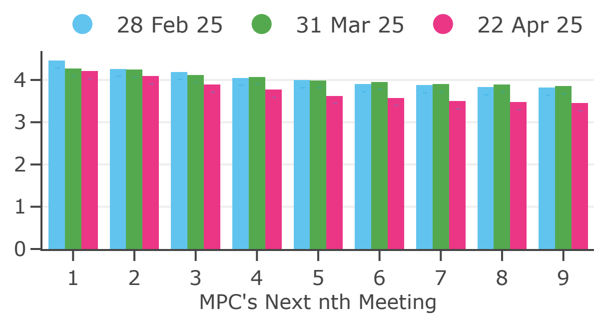
UK Gilt Curve



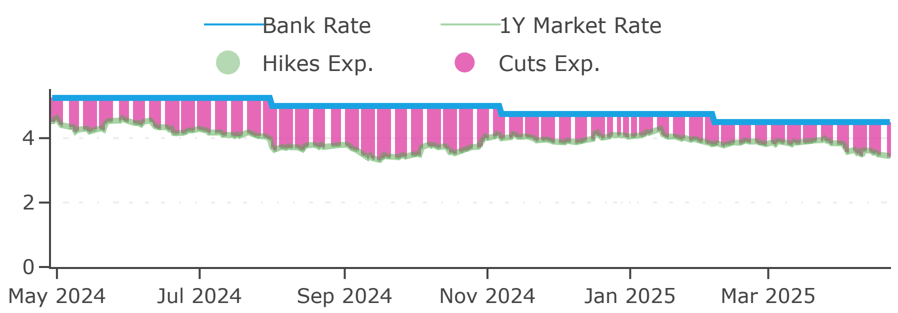
Gilt Spreads



Rate Expectations For Future MPC Meetings



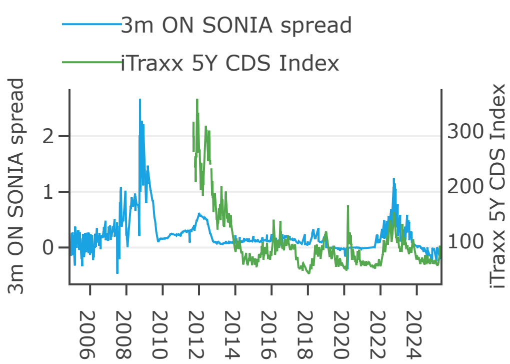
1Y Forward Market Rate Expectations



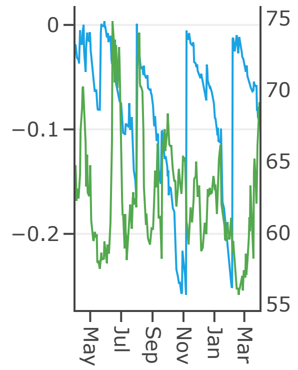
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2024			2025		
	Oct…	No…	Dec…	Jan…	Feb…	Ma…
RPI	3.40	3.60	3.50	3.60	3.40	3.20
CPI	2.30	2.60	2.50	3.00	2.80	2.60
CPI Core	3.30	3.50	3.20	3.70	3.50	3.40
CPI Services	5.00	5.00	4.40	5.00	5.00	4.70
CPI Goods	-0.30	0.40	0.70	1.00	0.80	0.60
Priv. Wages	6.60	5.80	6.00	5.90	5.80	

Market Stress



Last 12 Months



Sources | ITraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of Apr 2025.
1.Wicksellian disequilibrium: this occurs when the bank rate diverges from a natural rate of interest under which savings and investment would otherwise be equal.

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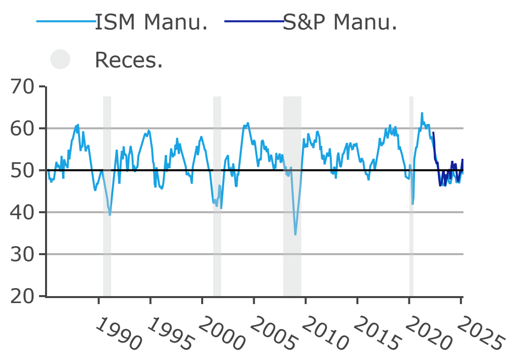
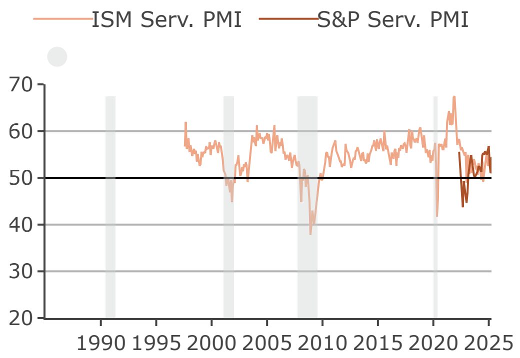
Global PMIs

S&P Global's Eurozone Flash PMI highlights a stagnating overall economy at the start of Q2 2025 primarily dragged by weakening Services sector and declining new orders. Composite at 50.1 while Services and Manufacturing in contraction at 49.7 and 48.7 respectively. Regions outside of Germany and France continued to show solid growth of output. **We wait to see if EZ Manufacturing picks up as defence spending gets underway.**

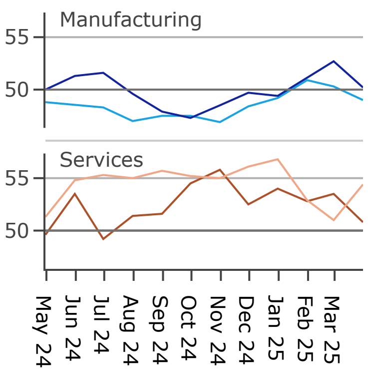
US Flash shows business activity growth slowed sharply in April, Composite fell to 51.2—its lowest in 16 months, despite a slight increase in manufacturing output. **Business confidence is near-pandemic lows.**

United States

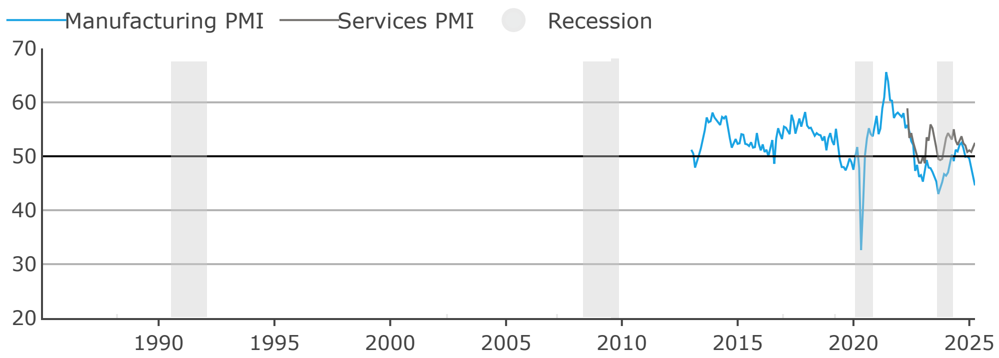




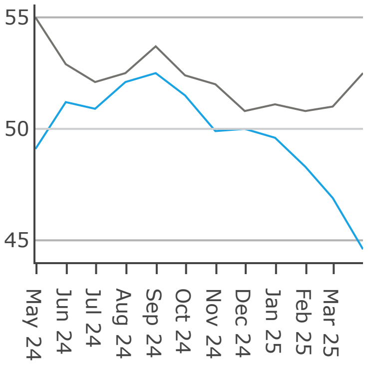
Last 12 Months



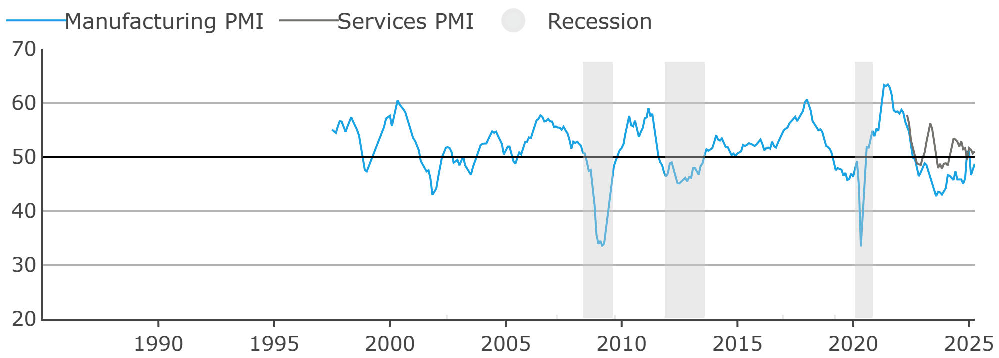
United Kingdom



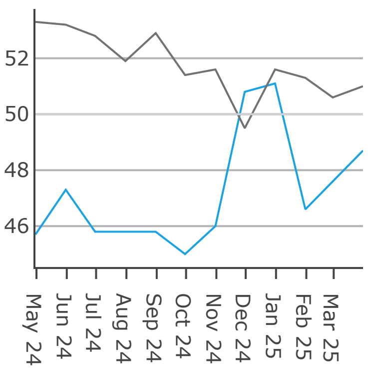
Last 12 Months



Eurozone



Last 12 Months



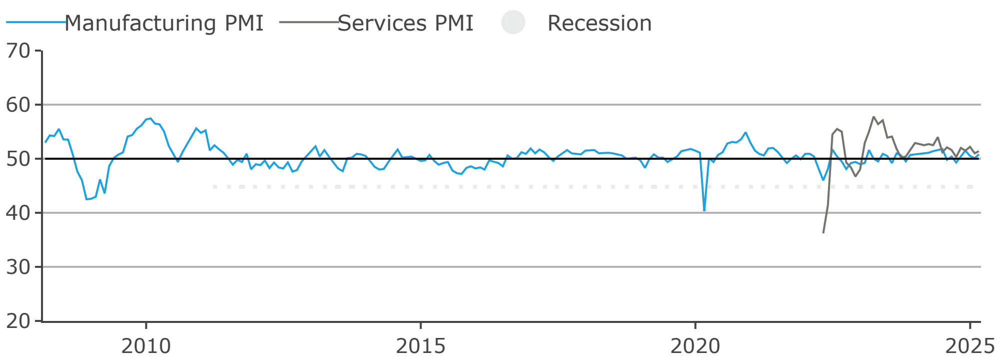
Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of Apr 2025. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP

Global PMIs

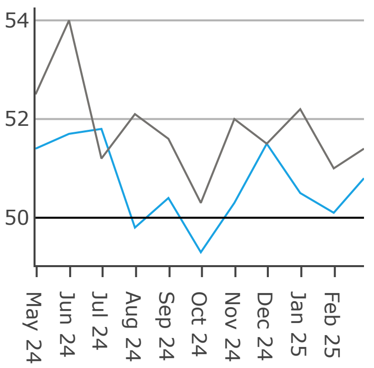
US tariff policies can hurt global manufacturing, trade balances, and economic growth. As at 23 April 2025, broad tariffs of 10% are imposed on all countries, excluding China, Canada, and Mexico. Additionally, a steep 145% tariff applies to *all* Chinese imports, while Mexican and Canadian goods outside the USMCA deal face a 25% tariff.

Separately, Canadian potash and energy face a 10% tariff, steel and aluminium a 25% tariff, and automobiles outside the USMCA a 25% tariff. **A potential consequence is trade diversion to ROW[1], offering scope to deflate goods CPI**.

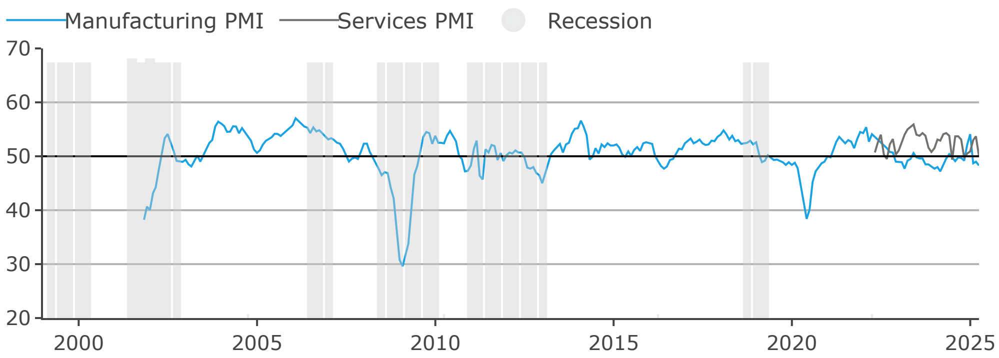
China



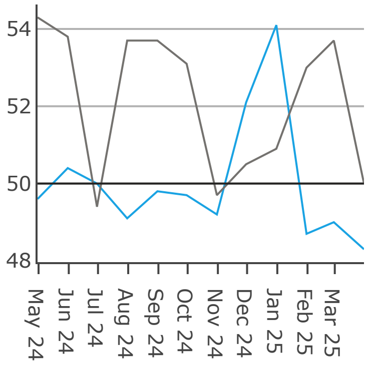
Last 12 Months



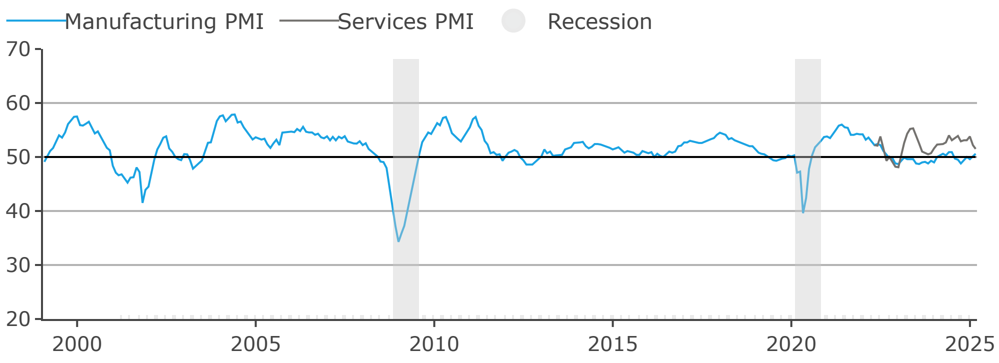
Japan



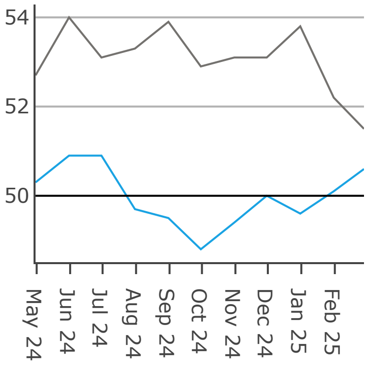
Last 12 Months



Global



Last 12 Months



Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of Apr 2025. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP. 1. Rest of world (world ex US).

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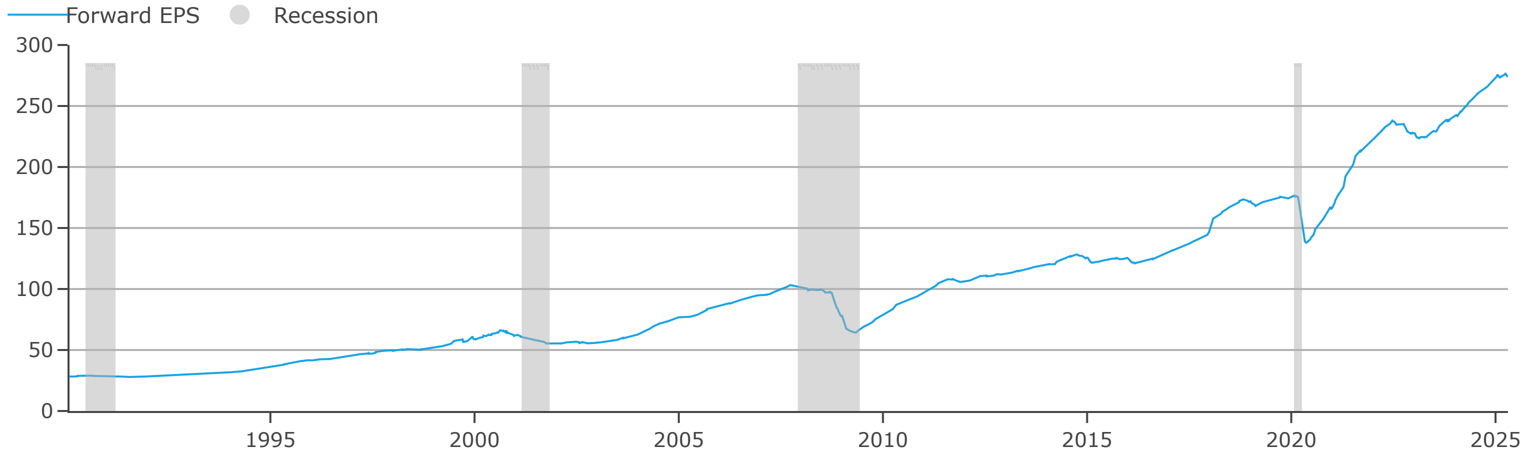
Earnings

So far[1], a third of companies have reported earnings, with more due in the next two weeks. Notably, 66% have beaten EPS, 58% have beaten sales, and 45% have exceeded both metrics. This aligns with long term historical averages (LTA), but market reactions have been sour. Earnings beats have only outperformed by +60bps, while misses have underperformed by -420bps – both considerably worse than LTAs.

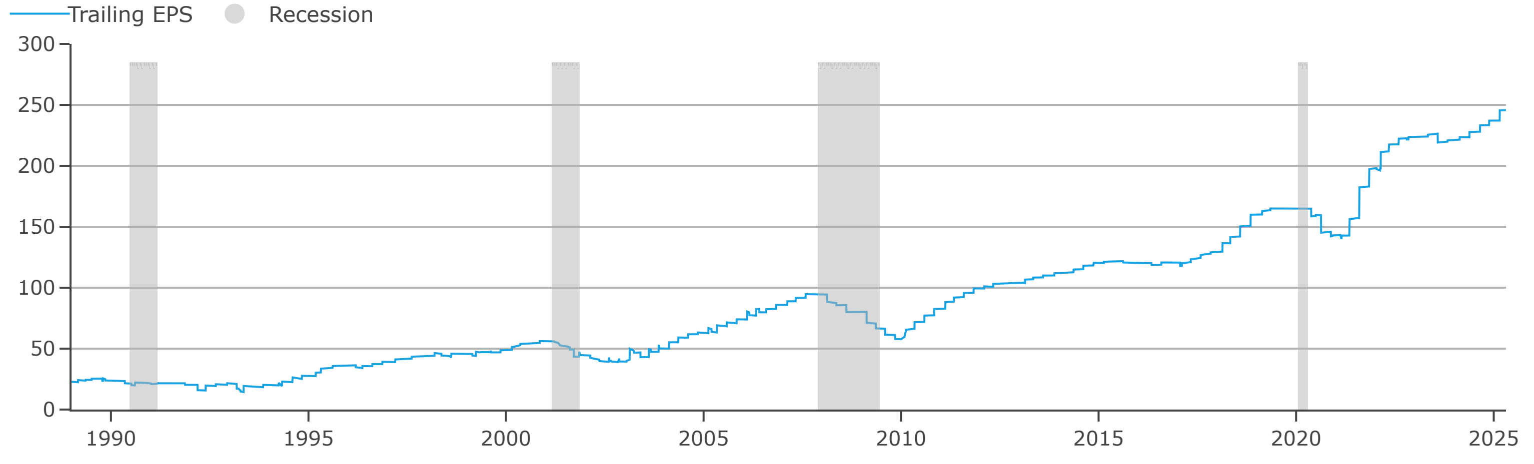
Defensive sectors: 26% reported a 5% top-line and 19% bottom-line growth. Cyclical sectors: 38% reported 4% top-line and 13% bottom-line growth. **Mixed commentary in relation to the US consumer: Financials report continued steady spending, while Staples highlighted weakening demand.**

S&P 500

Bloomberg Est. EPS



12M Trailing EPS



Sources | S&P500 12M Forward EPS using Bloomberg BF transformation, 12M Trailing EPS from Bloomberg as at Apr 2025. 1. 24 April 2025. Defensive and cyclical performance figures taken from Bloomberg 23 April 2025.

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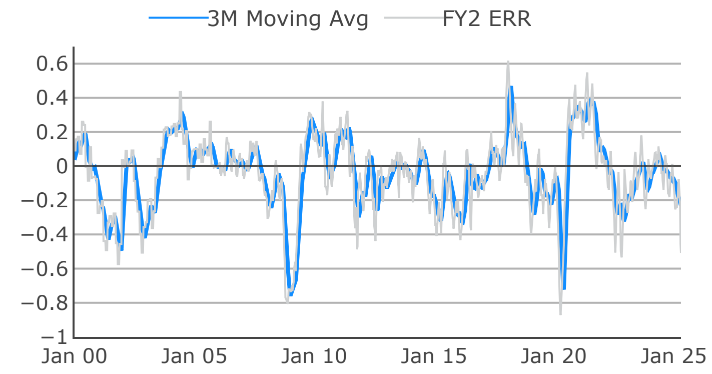
Earnings

These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been excellent times to add risk.

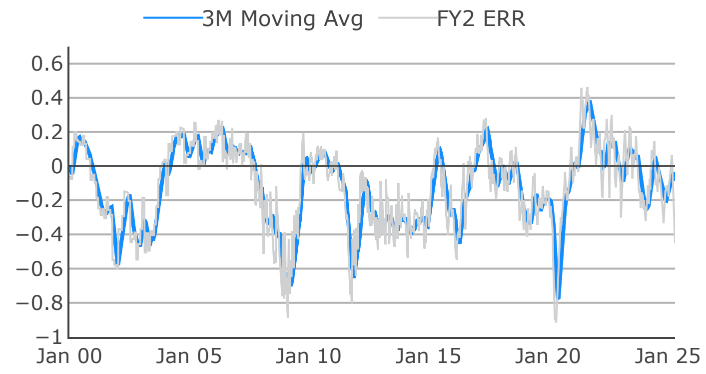
US earnings revisions breadth continues to deteriorate with no sign of troughing so far. Worth noting, while US revisions remain on a downward trajectory, EU and UK have troughed, and are showing signs of recovery.

Global Earnings Revisions Ratios

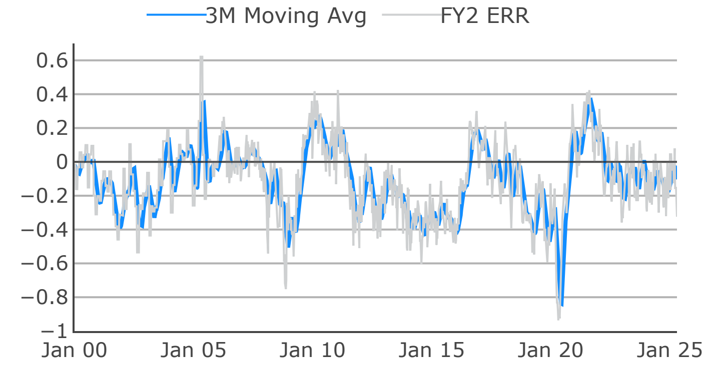
USA



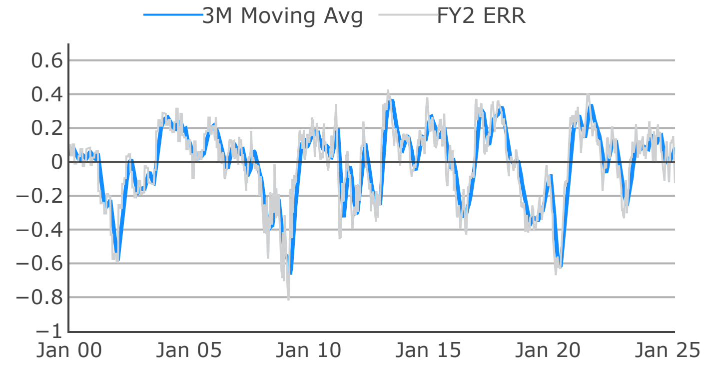
Eurozone



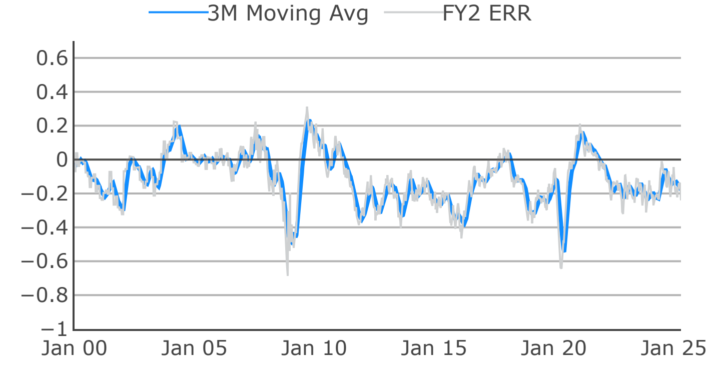
UK



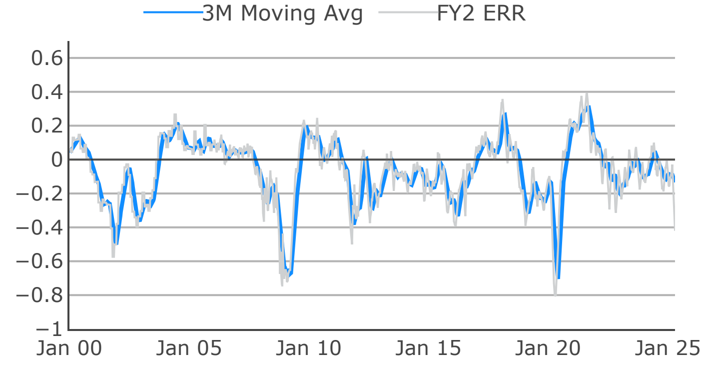
Japan



Emerging Markets



World



Sources | Eikon, the MSCI index has been used for each respective region, as at Apr 2025.

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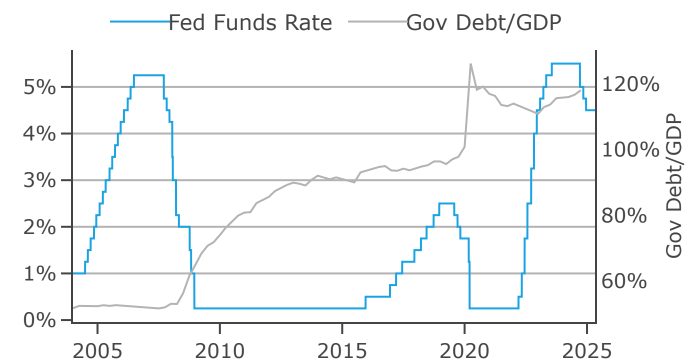
Interest Rates

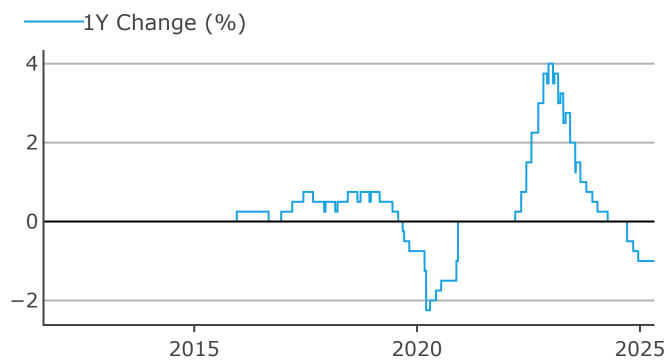
The Fed aims to transition from an "abundant" to an "ample" reserve regime by reducing its balance sheet through QT[1]. Since the boundary between these regimes isn’t precisely measurable, the Fed uses trends in bank reserves as a guide. If QT cause reserves to fall too far, it risks triggering a liquidity shock, like 2019.

However, the path to normalisation has become more complex. A new rule implemented in April by U.S. clearing houses requires around $70 billion in additional cash collateral. **This has drawn liquidity out of commercial banks, lowering their reserve balances at the Fed and shortening the remaining runway for QT.**

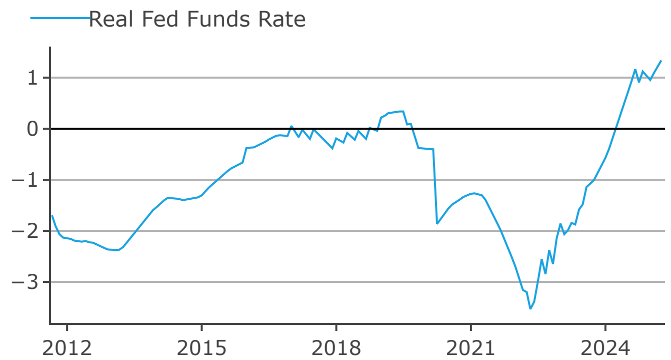
Fed Funds Rate



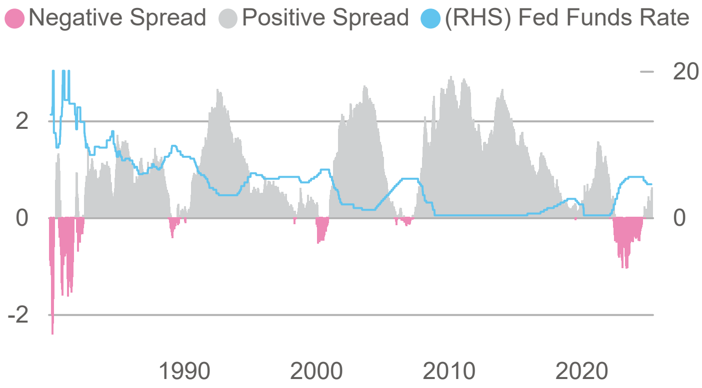
Change in Fed Funds Rate



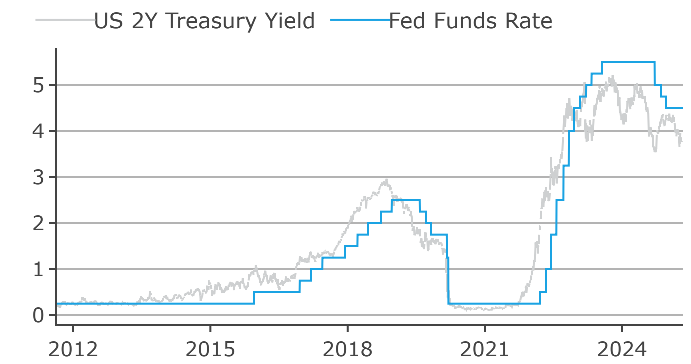
Real Fed Funds Rate (Using 2Y MA CPI)



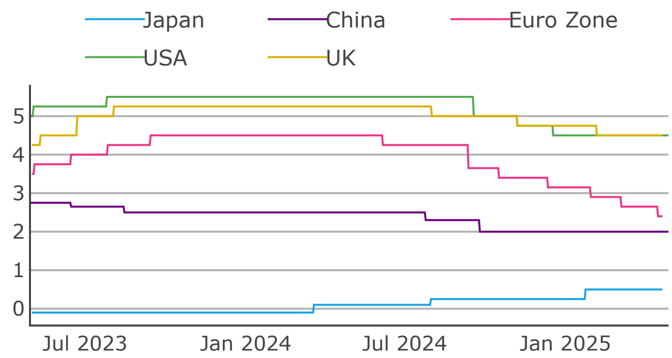
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



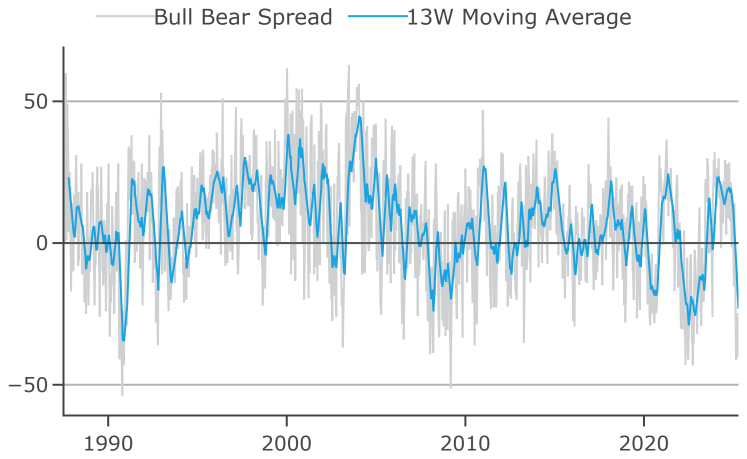
Sources | Bloomberg for all charts, as of Apr 2025. 1.Quantitative tightening

Sentiment

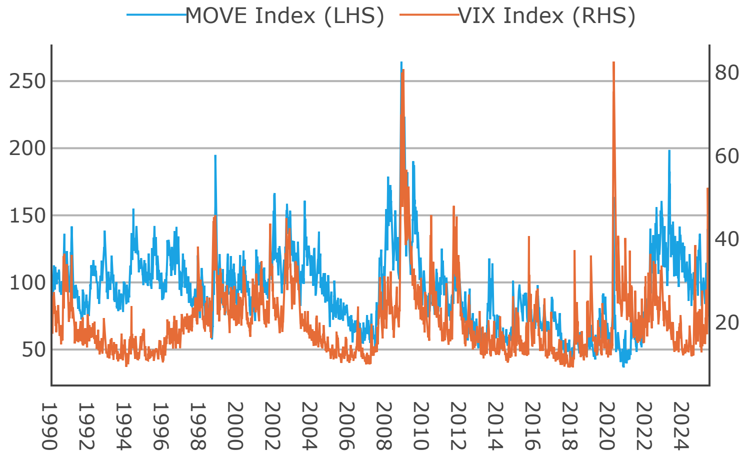
It is no surprise that the recent market volatility has curbed enthusiasm. The BAML Hartnett Bull & Bear Indicator has fallen sharply from 5.3 to 3.9. The decrease can be attributed to very bearish hedge fund positioning, bond flows and a pull back in long-only positioning. Interestingly, equity market breadth has remained neutral in >50th percentile, while credit market technicals remain strong at 79th percentile.

US Equity Indicators

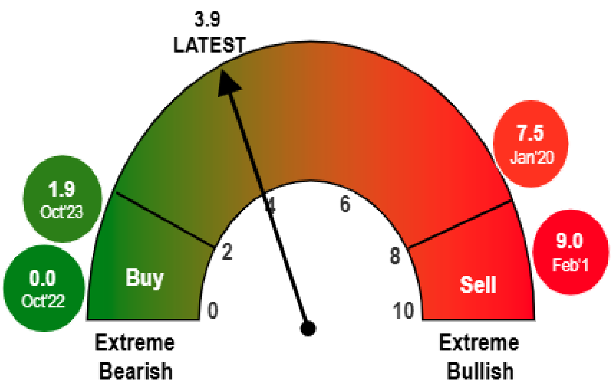
AAII Bull Bear Spread



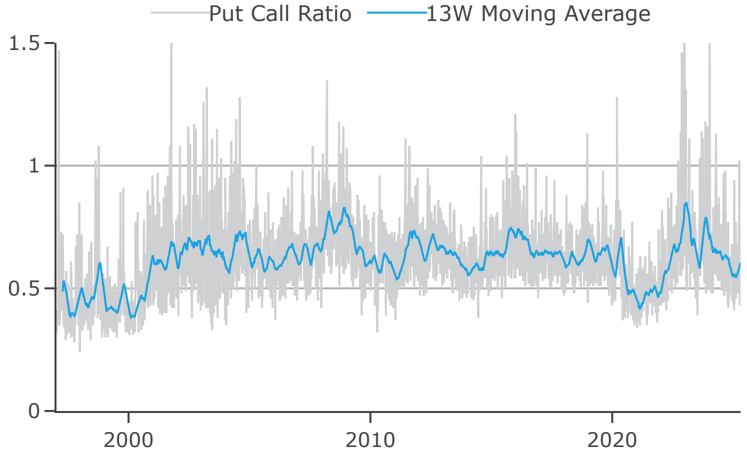
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio



Sources | Bull Bear Spread, VIX and Equity Put Call Ratio: Bloomberg. Michael Hartnett's Bull & Bear indicator by kind permission from Bank of America, as of Apr 2025

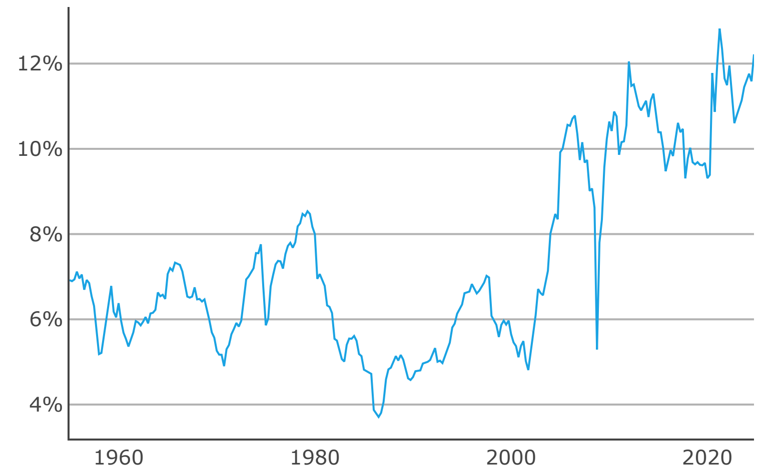
OTHER OBSERVATIONS

The Big Picture

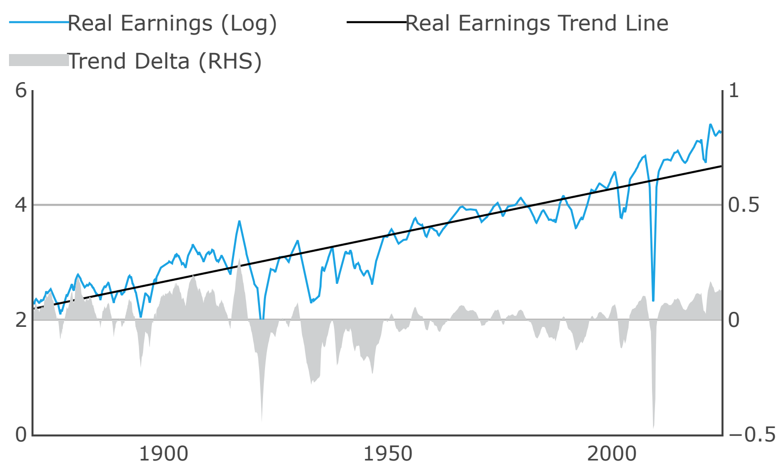
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, forward 10 year returns could be much lower than suggested by the ERPs.

Long Term Inbalances

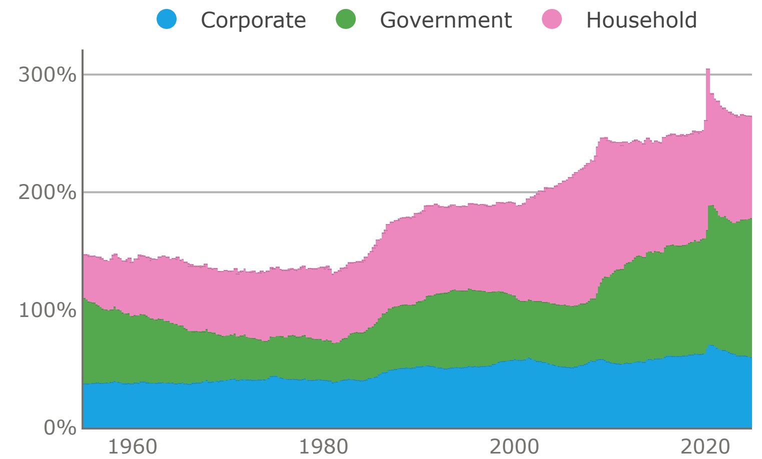
Profit Share of GDP



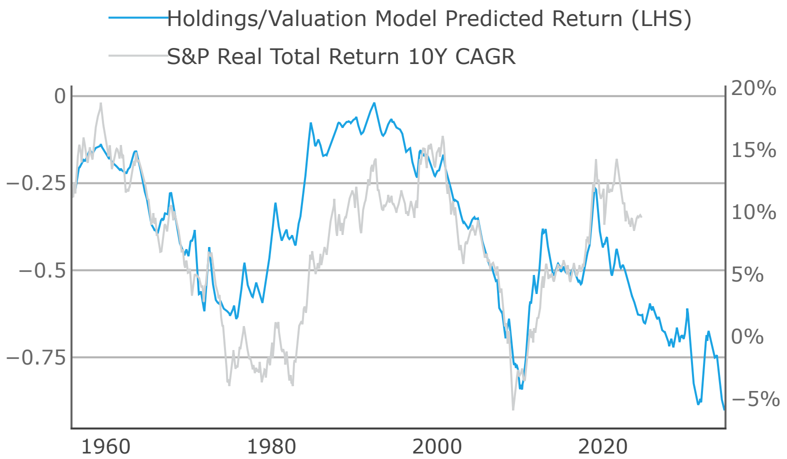
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Sources | Profit Share of GDP, and Non Financial Debt as Share of GDP: Federal Reserve Economic Data (FRED); Earnings Deviation From Trend: CCLA using Shiller CAPE data from Yale.edu; S&P 500 10Y Forward Returns: Holdings/Valuation Model uses three inputs: Tobin's Q, Shiller CAPE and Household Equity Holdings to predict 10Y forward returns. All data refreshed as at Apr 2025.

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