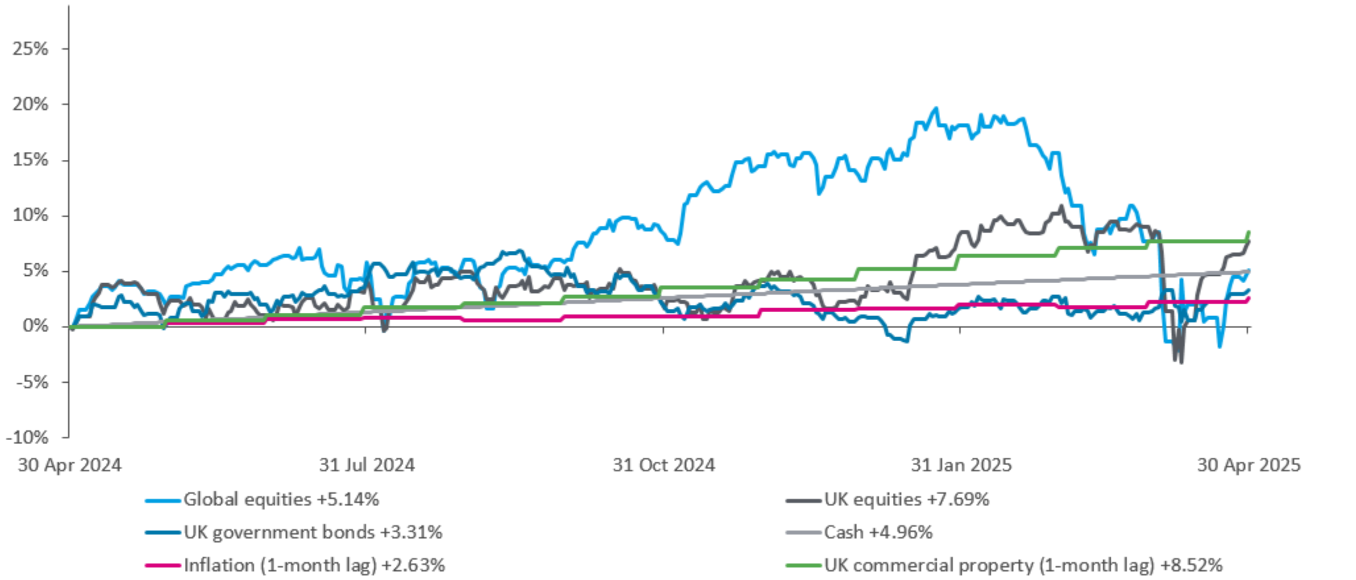
Market report

The headlines

- **World share prices tumbled after President Trump announced tariffs on imports from over 100 US trade partners.**
- **By the end of the month, however, share prices in most countries had almost entirely recovered or even risen, compared with the end of March.**
- **Bond yields spiked after Trump's announcement, but they ended the month lower than at the end of March, as investors expected economic growth to fall.**

Investment returns: The dip in share prices during April was short-lived.



Sources: Bloomberg, all in pound sterling terms, as of 30 April 2025. Daily data, except for inflation and UK commercial property, which we show monthly. UK government bond returns as per the Markit iBoxx £ Gilts Index. UK inflation index (30 April 2024 =0%) as per the Office of National Statistics' Consumer Price Index, with a one-month lag. UK commercial property as per the MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per the Sterling Overnight Index Average (SONIA). Global and UK equity returns as per the MSCI World Index. **Past performance is not a reliable indicator of future results.**

Economics and market news

'Volatility'. 'A downturn'. '*A crash*'. April's headlines had investors fearing the worst. At one point during the month, the MSCI World Index[1] of share prices was down *c.* 12% from its February high.

But April was a tale of two halves. At the end of the month, world share prices were a mere 0.4% lower than at the end of March. US shares ended April 0.5% lower for the month, in US dollars. UK share prices fell 0.2% over the month. And eurozone share prices rose 0.2% during April, in euros.

Government bond yields peaked in early April, but fell over the month as a whole.[2] The European Central Bank (ECB) cut interest rates during April, but America's Federal Reserve (Fed) kept interest rates on hold. The Bank of England (BoE) didn't have a rate-setting meeting.

The pound sterling continued to strengthen versus most other currencies, especially the weaker US dollar. This lowered returns from foreign shares in pounds.

United States

It's worth recapping the tariff story that dominated April, to look through the volatility that it triggered:

- On 2 April, President Trump announced a baseline tariff of 10% on imports from most countries, including the UK; specific tariffs on imports from countries with large goods trade surpluses with the US, e.g. 46% on imports from Vietnam; and a 104% tariff on Chinese imports, all in addition to existing tariffs. No additional tariffs would apply to Canada and Mexico. Exemptions included pharmaceuticals, microchips and gold. And a 25% tariff applied to steel, aluminium, vehicles and vehicle parts.
- Between Wednesday 2 April and Friday 4 April, the S&P500 index of leading US shares fell *c.* 13%, to a 14-month low. Trump, undaunted, declared that "money is pouring in" and that America would be "very rich again very soon". The Chinese government retaliated with tariffs on US imports.
- On Tuesday 8 April, in a tit-for-tat reaction, Trump raised the additional tariff on Chinese imports to 125%.
- By 9 April, US Treasury yields had been rising for several days, and the dollar had weakened. This was significant because treasury yields and currency strength usually move in the same direction. Other bond market segments also showed signs of stress. And JP Morgan chairman Jamie Dimon, the leading commercial banker in the US, told Fox TV that his firm's economists foresaw a US recession. President Trump allegedly watched that interview.
- On Thursday 10 April, President Trump announced a 90-day pause on most of the additional country tariffs that he had announced, until 9 July. But he clarified that the tariff rate on Chinese imports would remain 145%. Piecemeal exemptions, e.g. on smartphones and car parts, followed during the rest of the month.

After this pause, 10-year US Treasury yields fell from a peak of 4.48% on 11 April to 4.17% at the end of the April, lower than at the start of the month. (Bond prices rise when yields fall.)

But because of the tariff episode, investors have lowered their outlook for US growth and raised the number of Fed rate cuts they expect this year. The International Monetary Fund (IMF) projects that, if Trump's tariffs were implemented in full, the US economy would grow 1.8% this year, versus 2.7% in the IMF's January forecast.

Share prices also recovered, to a 0.7% loss for the S&P500 index by the end of April. Energy companies, health care firms and exporters were the poorest performers. But some firms' share prices surged in April, including those of software/defence firm Palantir, former General Electric power business GE Vernova and cybersecurity firm CrowdStrike.

Tariff news almost drowned out fundamental economic news in April. But it's worth noting that US personal consumption (PCE) inflation fell from 2.5% year on year (yoy) in February to 2.3% yoy in March. And US consumer spending rose in March, possibly because consumers accelerated large purchases ahead of Trump's tariffs.

But gross domestic product (GDP) fell 0.3% (annualised) in the first quarter, because imports surged. That, too, is probably the result of importers increasing their purchases ahead of Trump's tariffs.

Observers expect labour market data to be key to the Fed's next interest rate decisions, on 7 May and 18 June.

Just over half of the companies in the S&P500 index have reported earnings so far. Average earnings growth continues to be robust, at 14% yoy, but energy, materials and consumer firms were weaker than average.

United Kingdom

UK share prices fell 0.2% in April, mainly due to the shares of energy firms such as BP, Glencore and Shell.

By contrast, domestically oriented firms such as housebuilder Berkeley, DIY conglomerate Kingfisher (B&Q, Screwfix etc.) and insurance group Admiral were among the month's best performers.

President Trump's tariffs dominated economic news in the UK as well. In late April, the IMF projected that, under the additional tariffs that he originally announced, UK GDP would grow just 1.1% in 2025, down from its 1.6% projection in January.

UK polls, meanwhile, showed that Trump's tariffs weighed on the UK's export outlook, made consumers want to spend less, and made businesses less likely to invest.

To counter the impact of tariffs, the UK government is aiming for a UK-US trade agreement by mid-May. It is unclear if it can achieve that goal, because US negotiators appear to prioritise countries such as South Korea. Alternatively, a UK-EU summit is to take place on 19 May, which could improve trade relations.

On a more positive note, UK consumer price (CPI) inflation fell from 2.8% in February, yoy, to 2.6% in March. The BoE did not have a rate-setting meeting in April, but is expected to cut its Bank Rate from 4.50% to 4.25% on 8 May.

Short-dated, two-year UK gilt yields fell from 3.99% at the end of March to 3.60% at the end of April. Long-dated, 10-year gilt yields fell from 4.66% at the end of March to 4.45% at the end of April. The fact that short-dated yields fell faster than long-dated yields may reflect slower expected GDP growth but higher expected inflation in the long run.

The uncertainty caused by US tariffs also weighed on UK commercial property during the month. But the direct impact of tariffs on UK commercial property is limited, and prices rose moderately in April.

Other markets

Eurozone share prices fell just 0.2% during April. But shares in trade-sensitive firms such as carmaker Stellantis performed poorly, while consumer staples firms such as food group Danone advanced.

Eurozone inflation fell from 2.3% in February, yoy, to 2.2% in March. Eurozone GDP grew 1.2%, yoy, in the first quarter of 2025. And the ECB cut interest rates by another 0.25% in April, its third cut this year.

ECB president Christine Lagarde suggested that the bank might cut interest rates to below the so-called 'neutral' rate, to help the euro bloc's economy deal with the shock from US tariffs.

Chinese companies' share prices fell 4.5% over April, as the country's government retaliated against President Trump's tariff threats and appeared lukewarm on proposed negotiations.

China's GDP grew 5.4%, yoy, in the first quarter of 2025. But some of that growth may be due to a rush of pre-tariff exports.

Japanese share prices rose 0.4% during the month. As in other markets, share prices fell when President Trump announced his 24% tariff on Japan. But prices more than rebounded after he paused most tariffs.

Japan's central bank slashed its GDP growth forecast for 2025 from 1.1%, yoy, to 0.5%. Consumer price inflation fell from 3.7%, yoy, in February, to 3.6% in March, but the central bank doesn't expect inflation to fall to its 2% target until late 2026. As a result, it expects to continue to gradually raise interest rates from their current 0.5%.

(1) Source of share prices: MSCI (net total return in local currency), except where stated
(2) Sources of bond yields: US Federal Reserve, Bank of England, European Central Bank

Looking ahead

At its core, 'US stock market exceptionalism' is the belief that fundamental reasons exist for US shares to rise to higher valuations than elsewhere. In recent years, that 'exceptionalism' was driven by high corporate earnings growth, which boosted employment, wages and consumption and, in the end, boosted GDP itself.

Tariffs pose a risk to this virtuous chain, which is why we reduced the equity risk in our multi-asset portfolios in March. Since the start of 2024, we had gradually reduced our holdings of US equities.

As a result, our portfolios are now positioned more cautiously. But we see four major catalysts that would be bullish signals to raise our allocation to equity risk:

- A significant watering down of Trump's tariffs would be the main catalyst. Tariffs are stagflationary: they have raised inflation expectations and lowered expected GDP growth. We think it is unlikely that the US will implement these tariffs in full on 9 July.
- The Fed could prioritise interest rate cuts, despite inflationary pressures. That kind of 'Fed capitulation' would also be a bullish signal.
- Investor sentiment indicators based on investment flows. Continued falls in sentiment indicators would be a bullish signal.
- US earnings are being revised down, but these revisions aren't at their historical low point yet. If they approach their historical troughs, that would also be a bullish signal.

On balance, we believe that the tariffs announced will be watered down. For that reason, a US recession is not our base case scenario.

But the uncertainty that Trump's April announcements have caused has already damaged the growth outlook. So we are watching our checklist above before adding back equity risk.

Glossary

Please refer to the glossary on our website (www.ccla.co.uk/glossary) for explanations of terms used in this communication. If you would like the information in an alternative format or have any queries, please call us on **0800 022 3505** or email us at **clientservices@ccla.co.uk**.

CCLA
One Angel Lane
London EC4R 3AB

CCLA
BECAUSE GOOD IS BETTER

Freephone 0800 022 3505
clientservices@ccla.co.uk
www.ccla.co.uk