MARKET UPDATE
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The Minster Partnership

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Global markets experienced a shaky start to 2025 as they began to focus on concerns about the level and scope of pending US tariffs. Most major stock markets slid consistently through February and March, followed immediately by further sharp falls in the aftermath of President Trump's "Liberation Day" announcements in early April. This was the result of rising fears over the potential impact on inflation, the global economy, and the real prospect of full-blown trade wars.

Trump's policies on imposing tariffs are undoubtedly inflationary, and he initially introduced these more aggressively than most expected. Since then, Trump has been forced to reconsider the level and basis of tariffs, ultimately after the US bond market clearly signalled its concern via increases to US government bond yields (the rate the US Government pays to borrow). This created a huge issue for the Trump administration, given the rising levels of US government debt and an ongoing need to refinance. This was a clear indication that investors feared that Trump's policies significantly increased the risk of both a recession and higher inflation.

On 9th April, US bond markets forced the White House into a monumental U-turn, eventually pausing reciprocal tariffs for most countries. This marked a turning point for most major markets and sparked a recovery rally through the late spring and summer as markets breathed a collective sigh of relief. During the second and third quarters of 2025, several trade deals were announced between the US and major trading partners, including the UK, Japan, and the EU. These were warmly received by financial markets, further stoking a broad-based rally in share prices in most regions.

Despite the tariff policy being dialled back, the increase in the US tax take resulting from tariffs remains significant, and a large jump up from pre-Trump levels. Tariff costs will ultimately be passed on to consumers, and it is these inflationary pressures that remain a concern to economists and investors alike. Higher inflation is likely to mean cuts to interest rates may be slower than previously expected in most regions, as central banks aim to keep inflation under control whilst maintaining economic growth. In the UK, CPI (inflation) fell to 3.2% over one year to November 2025, moving gradually closer to the Bank of England's 2.0% target.

Our broad expectation for the next 12 months is for further global interest rate cuts; however, these may not be as aggressive as policymakers would like due to concerns over persistent or recurring inflation.

Whilst the last year has been a bumpy ride for stock markets, most regained the losses suffered in the early part of the year and are now trading at or close to all-time highs. This is true of the FTSE 100, which closed above 10,000 for the first time on 2nd January 2026. The recovery in global markets is reflected in the returns achieved for investors across the risk spectrum. Looking forward, a climate of falling interest rates is usually a positive for stock market performance, and bond markets should also be supported by further cuts to interest rates in the coming year.

Markets are likely to remain volatile, and this will be best navigated by holding a suitably diversified portfolio. Volatility is always the price paid for the prospect of higher long-term returns, and this year has demonstrated the importance of remaining invested in times of turbulence. With interest rates available on cash already substantially lower than a year ago, and with further cuts expected, many investors will continue to rely on risk assets to drive long term income and growth potential.

Despite the intense uncertainty and disruption of recent years, historical performance across all periods remains very attractive for most investors. The acceptance of risk has provided superior returns to both cash and inflation over the medium and longer term, demonstrating how investor patience can be rewarded over time.