MARKET UPDATE
March 2025

The Minster Partnership

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Following the market turbulence of the two previous years, 2024 proved to be a much stronger period for markets, with most portfolios generating attractive returns and the acceptance of greater risk generally being rewarded with higher returns.

Since late 2023 we have seen markets recover from an uncertain economic environment due to high inflation and threats of a global recession resulting from an unprecedented period of aggressive interest rate hikes. Inflation has fallen to more manageable levels across the world, and we have largely avoided a recession in major economies thus far. However, inflation continues to be a threat, particularly with the re-election of President Trump last year.

Whatever your views on Trump and the election outcome, US stock markets gathered pace and hit new highs after his victory, buoyed by the conclusive election outcome and the welcome of a more business-friendly administration. With the Republican party now controlling both houses of the US government, Trump's decisive victory means decisions can now be made and his policies widely implemented.

Trump's policies on imposing tariffs and general tax cuts are, however, likely to be inflationary and he has introduced these more aggressively than many expected. Similarly, the UK government's policies on raising National Insurance, increasing the minimum wage, and adding VAT to school fees, are also likely to contribute to higher inflation. This has sparked some concern about how economic growth might be impacted and this has been reflected in stock market valuations over the last few months, with many falling back to levels they were at around six months ago.

The latest inflation figures for the UK support this argument, with the Consumer Prices Index (CPI) rising to 3.0% over the year to January 2025. Despite being above the Bank of England's 2.0% target, this remains well above the peak of over 11.0% during the last few years.

These inflationary pressures mean that cuts to interest rates may be slower than previously expected in both the US and the UK, as central banks aim to perform a 'balancing act' between keeping inflation under control and maintaining economic growth and avoiding a recession. In the UK, economic growth has faltered since the Labour government took power and with inflation rising, the Bank of England is likely to be wary of cutting interest rates too quickly and further fuelling inflation.

The world remains exposed to huge geopolitical uncertainty, with the conflicts in Ukraine and the Middle East continuing for now. President Trump is also looking to make a mark by attempting to orchestrate an end to the Russia/Ukraine conflict, albeit many observers feel his approach has been heavy-handed. Time will tell how negotiations play out; however, it is difficult to deny that Trump's tactics have at least promoted some hope of progress in an increasingly stagnant situation.

Our broad expectation for 2025 is that we will see further global interest rate cuts, but these will not be as aggressive as policymakers would ideally like, due to being hamstrung by inflation numbers. We expect equity markets to provide positive returns this year, despite a challenging start, but these are likely to be more mooted than in 2024. Bond markets, too, should be supported by further cuts to interest rates. There will undoubtedly be periods of market volatility this year, but we are cautiously optimistic that these can be navigated by holding a suitably diversified portfolio. Volatility is always the price paid for the prospect of higher long-term returns and this year is likely to be no different as returns on cash/savings continue to fall.

Despite the intense uncertainty and disruption over the last few years, and a recent pullback in global equities linked to concerns over Trump's policies, performance over one year and over the longer-term remains relatively good for most investors. This shows that patient investors are generally rewarded over the longer-term and we expect this to continue to be the case moving forwards.