Global Focused Fund

Market context

The first quarter of 2025 was a turbulent period for global markets. While January began on firmer footing, sentiment quickly turned amid escalating trade tensions and sticky inflation. The US introduced tariffs on Canadian, Mexican and Chinese imports, fuelling concerns around global growth and inflation. Germany announced sweeping fiscal reforms to fund defence and infrastructure, driving European yields sharply higher. Central banks continued to diverge: the Federal Reserve kept rates unchanged in Q1, while the European Central Bank cut rates, and the Bank of Japan hiked rates for a third time in its policy normalisation cycle and signalled further hikes ahead.

Global equities declined over the quarter, led by US losses. The S&P posted mid-single-digit declines – its weakest quarter since Q3 2022—as the 'Magnificent Seven' fell into bear market territory on valuation and earnings concerns. European equities delivered mid-single-digit gains, supported by fiscal reform and strength in banks and defence stocks. Emerging markets edged higher, buoyed by improving sentiment around China and a weaker US dollar.

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Performance

The portfolio delivered a positive absolute return over the quarter, outperforming the peer-group average.

Offshore assets were the main contributors. Our underweight position in the 'Magnificent Seven' US tech stocks supported relative returns, although weakness in Amazon and Microsoft weighed on absolute performance. European holdings, particularly in banks and defence stocks, performed well driven by upward growth revisions and policy tailwinds.

Our gold shares also contributed positively, supported by a broad-based rally in the metal driven by policy uncertainty.

We trimmed risk assets into quarter-end and added to US nominal bonds in anticipation of slower global growth. We remain underweight resource counters, as tariff-related pre-buying and slowing US growth are likely to weigh on demand. China's shift toward technology-led growth also provides little support for commodity producers. European banks look interesting, offering decent growth at a low cost of capital.

Outlook

The US economy remains supported by a substantial fiscal deficit—around 6.5%—alongside low unemployment and persistent inflation. However, fiscal policy is becoming more restrictive and monetary policy has turned broadly neutral. As a result, US GDP growth is slowing, and markets have started to reflect this shift: the S&P 500 just recorded its weakest quarter relative to global equities since 2009. While the administration aims to reduce its role in the economy, this ambitious adjustment is likely to be accompanied by a period of weaker growth.

The so-called 'Trump put'—the assumption that policy would support asset prices—has faded as the administration focuses on Main Street over Wall Street. Meanwhile, markets are questioning whether the 'Fed put' still holds. The Fed is facing a difficult combination of tariff-driven inflation and slowing growth and has remained cautious so far. Against this backdrop, we added US 10-year treasuries to hedge against the possibility of a deeper slowdown.

In contrast, Europe is benefitting from stimulatory fiscal and monetary policy, and growth expectations are being revised higher. Our offshore exposure remains concentrated in Europe, with overweights in banks and defence—sectors aligned with this improved outlook. We remain significantly underweight the US.

In China, growth remains fragile. Property sales are falling at double-digit rates and governance concerns are mounting. Offshore debt holders of failing property developers have found themselves with limited legal recourse. State direction continues to dominate corporate behaviour, with several firms—including China Telecom—following state-owned banks in issuing rights offers at premiums to market prices.

The portfolio continues to focus on allocating capital to regions and sectors where growth is visible and attractively priced—currently, this remains most evident in Europe. Given the divergence in global policy and growth dynamics, an active and disciplined approach to asset allocation remains essential.

Specific risks.

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