Vintage Asset Management

Managing market volatility

The reaction of global stock markets has been swift and dramatic to the announcement by the Trump administration this month of the details of US reciprocal tariffs. The proposed level of tariffs, should they remain at high levels for an extended period, would impact global trade and reduce global growth appreciably. Markets have adjusted to this unexpected scenario while there remains some uncertainty on the eventual outcome, especially if the Trump approach is more of a negotiating strategy than a fully isolationist one. We expect that there will be shifts in sentiment and continued volatility, yet the falls in market values have already discounted a significant amount of reduced economic activity. We still favour a long-term, diversified approach while we shall be flexible as needed.

Global growth and inflation

The IMF estimates that in 2024 global GDP was $110 trillion, of which trade accounted for an estimated third of that at $33 trillion, with imports into the US of some $3.3 trillion, or 10%, and the US current account deficit at $900 billion meaning the impact of the tariffs is broadly equivalent to about 1% of global GDP.

Analysts are likely to reduce expectations for global growth and corporate earnings closer to zero and while a recession is more likely it is not certain. Tariffs (to date) have been focused solely on trade in goods and have excluded services, which grew by 7% in 2024. Those companies that are more exposed to global supply chains and manufacturing exports to the United States may suffer more whilst others may yet benefit from more of a domestic focus as well as any fiscal stimulus.

Inflation is likely to be a little higher than previously expected, although we expect central banks to be more concerned in the short run about the impact on consumer demand and outlook for growth, so being ready to cut interest rates; markets are pricing four one-quarter point cuts by the US Federal Reserve over the next twelve months.

Outlook

The imposition of tariffs has already strained relations between the US and its closest allies or trading partners and may enhance, for example, China's relations with the European Union and Asia as reliable trade partners. It seems clear that institutions which have formed the bedrock of the global order, such as the World Trade Organisation, will have a diminishing role at least perhaps until there is a change in the power dynamics in the White House or US Congress.

Inevitably there will be winners and losers and it may take time for those to emerge while over the medium term investors will need to assess carefully suitable jurisdictions for their capital. The UK has come through relatively unscathed and is taking a pragmatic and circumspect approach which may lead to a more positive outcome, whilst other countries are discussing measures, particularly fiscal, that can be put in place to mitigate the impact on both their consumers and companies. Some of these, such as a boost to Chinese consumer demand or German infrastructure, might result in significant new sources of demand.

Portfolios

Balanced portfolios are invested across a range of assets with typically half in equities, up to a third in bonds with other holdings including absolute return funds and gold. This well-diversified spread of assets should provide some relative resilience in times of equity market stress. We are not proposing to make any material changes to portfolios at this stage although we are monitoring the evolving situation closely and are always available to discuss your investments

Edward Hands – Investment Director

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