Melville Douglas Focused Quarterly Commentary

/ Q1 2025

Changing landscape under Trumponomics 2.0.

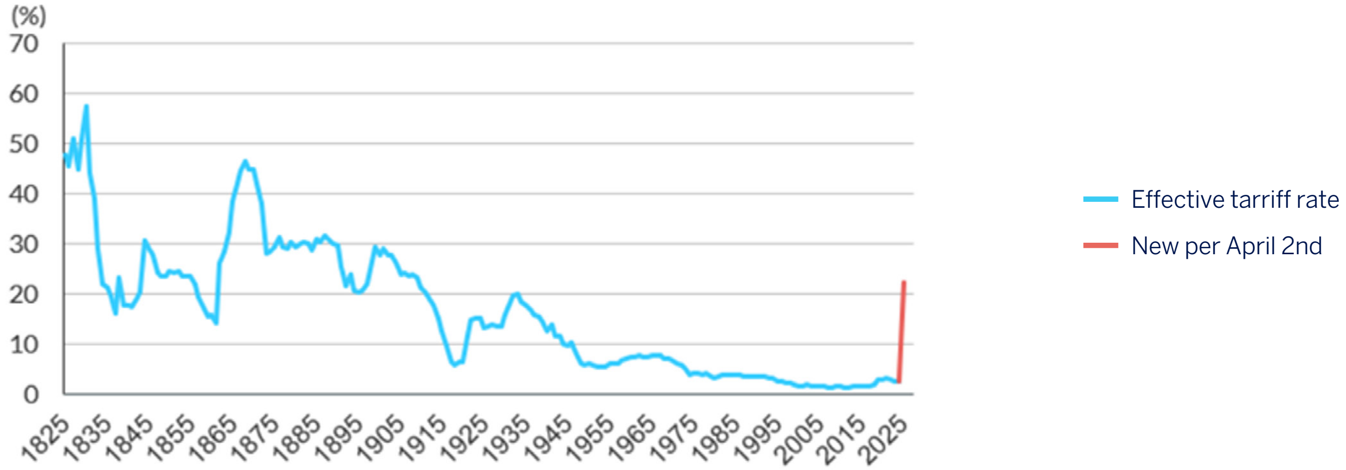
Bernard Drotschie
/ Chief Investment Officer

The first quarter of 2025 was marked by significant volatility across global financial markets, driven largely by the US President Trump's administration's proposed policies aimed at "making America great again." In particular the erratic deployment of trade tariffs and the US Administration's more onerous than expected import tariff announcements on "Liberation day" with threats of retaliation, have created elevated levels of policy uncertainty and deep rooted concerns over their effects on the global economic outlook for the rest of the year.

President Trump announced a significant shift in US trade policy, introducing a minimum baseline tariff of 10% on goods imported from all foreign countries. Additionally, higher "reciprocal tariffs" will be imposed on nations that levy tariffs on US exports. These measures are set to take effect on April 5 and April 9, respectively. If implemented, the effective US tariff rate is expected to approach 25%.

> extreme levels of policy uncertainty and heavy tariffs are meaningful economic headwinds that will likely cause ongoing volatility in asset prices.

U.S. EFFECTIVE TARRIFF RATE

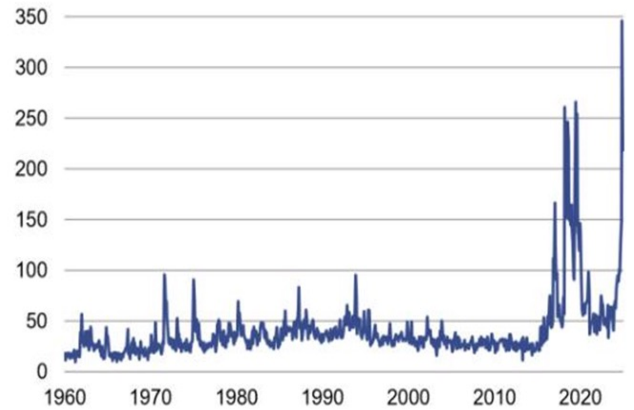


Source: Fitch Ratings, White House

Applied to a base of $3.3 trillion in US goods imports, this year's cumulative tariff hike should be viewed as a substantial tax increase of approximately $660 billion, or 2.2% of GDP. While these changes aim to bolster American industry and reduce the national debt, they also raise concerns about potential price increases for consumers and disruptions in global trade. The impact on inflation could be significant, potentially adding nearly 2% to headline inflation.

The US seems to be hoping that in implementing tariffs it will be able to force concessions from these countries in return for lowering the tariffs, time will tell, but in the short term, extreme levels of policy uncertainty and heavy tariffs are meaningful economic headwinds that will likely cause ongoing volatility in asset prices.

GLOBAL TRADE UNCERTAINTY



Source: IMF

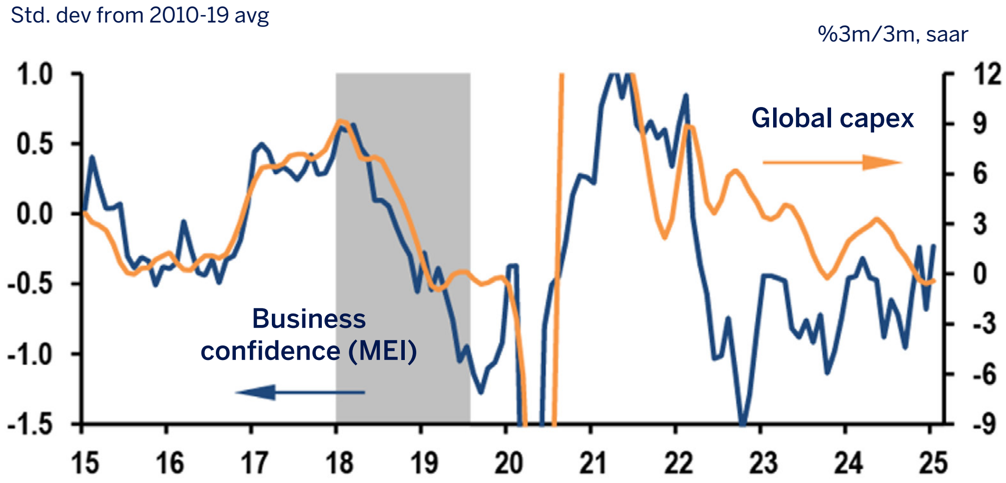
ECONOMIC POLICY UNCERTAINTY

Source: Federal Reserve Bank of St. Louis

> Trump has indicated that "short-term pain" may be necessary for long-term gains

Whilst the US economy looks set to benefit from lower taxes and deregulation in the medium term, the uncertainty over tariffs and accompanying risk of higher inflation has and is significantly impacting both consumer and business confidence so far this year, raising concerns about potential stagflation. Indeed the US Federal Reserve (Fed) now expects a combination of moderately lower economic growth and higher inflation in the near term, likely resulting in the Fed being forced to hold interest rates higher for longer as they attempt the difficult balancing act of keeping a lid on this renewed inflation risk without causing the economy to roll over into recession. Investors will need patience as the world adapts to the changing landscape under Trumponomics 2.0.

GLOBAL SENTIMENT AND CAPEX



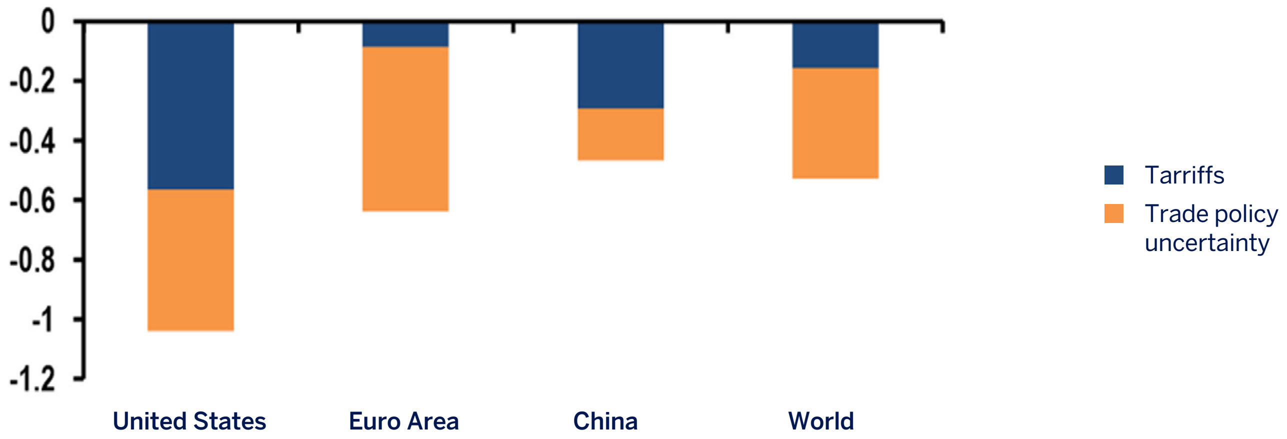
Source: JPMorgan Securities

Despite generally resilient economic data year-to-date, markets have been pricing in the prospect of companies delaying investment and hiring until the new administration's policies are clear. While Trump has called tariffs "the most beautiful word in the dictionary" and views them as a useful measure to negotiate favourable terms for the US, the risk is that retaliatory actions by its largest trading partners could evolve into a more economically damaging global trade war. This would have far-reaching implications as companies adjust their supply chains or move their manufacturing facilities. Recent IMF research suggests that a 10% increase in tariffs on all US imports, followed by 10% retaliatory tariffs on US exports, could reduce global growth (gross domestic product - GDP) by 0.5%, with the US bearing the brunt. The impact on GDP from adjustments in supply chains is harder to quantify, but President Trump has indicated that "short-term pain" may be necessary for long-term gains, a factor perhaps not yet fully priced into financial markets.

While we expect disruption in global trade, it should be noted that businesses have strengthened their resilience since the Global Financial Crisis, Trump's first term and COVID, enabling them to navigate uncertainties more effectively. Companies foresee minimal impact due to diversified supply chains, a "local-for-local" manufacturing model, and proven disruption management. Currency movements will offset some effects, and tariffs will be managed through pricing strategies. Growth strategies will focus on increasing volumes rather than price changes. Outside of the technology sector, companies remain cautious on capital expenditures, prioritizing debt reduction and returning surplus capital to shareholders.

In conclusion, while the proposed policies are introducing short-term challenges, businesses are better equipped to handle uncertainties. As always we will continue to monitor developments closely and focus on investing in very well managed global companies that are best able to deal with the evolving situation, while keeping a close eye on economic developments.

IMF ESTIMATE OF GROWTH IMPACT OF 10% INCREASES IN US TARIFFS
%-PT CHANGE IN GDP THROUGH 2026

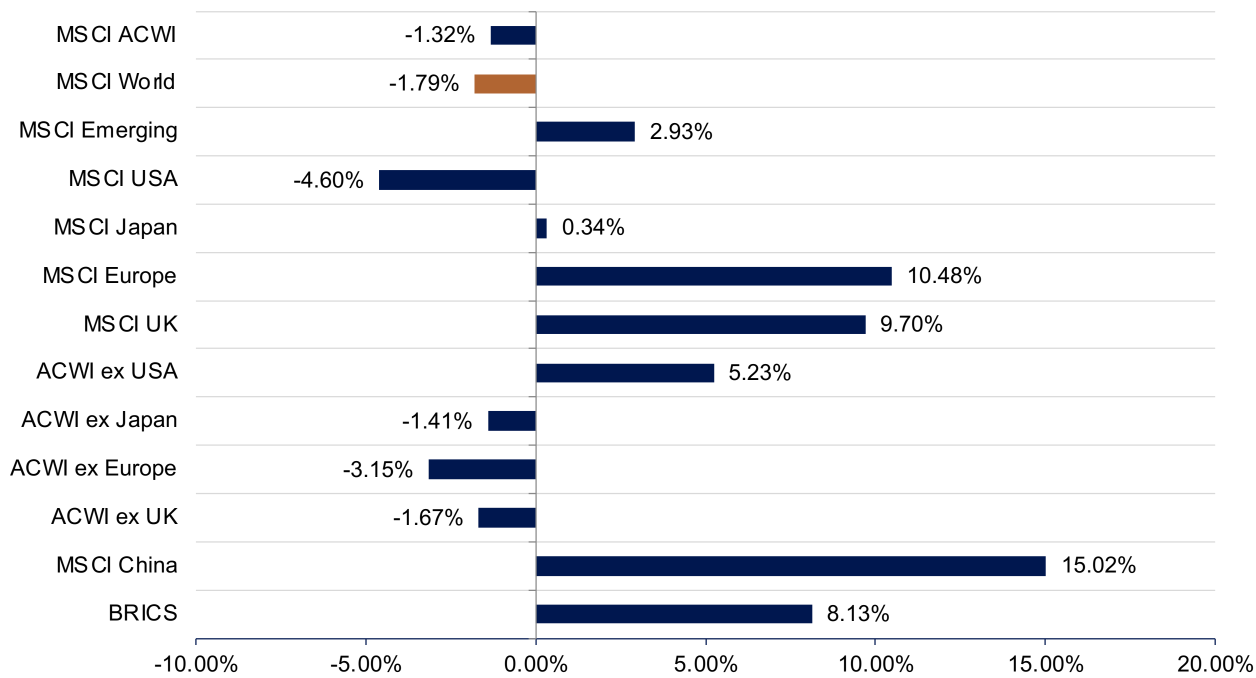


Source: JPMorgan Securities

Overview of Global Financial Markets in Q1 2025

US equity markets meaningfully underperformed their global peers, contrasting sharply with the initial post-election period. The MSCI USA fell -4.7%, while the MSCI ex USA rose by 5.2%, dragging global equity markets (MSCI All Country World Index ACWI) down by -1.3% in US dollar terms and by –4.28% in sterling due to the very significant weight of US stocks in the world equity index. Technology stocks lost their shine as investors shifted to cheaper sectors and regions, driven by broadening earnings growth outside of Technology. Concerns about new AI competition, particularly from China's DeepSeek model, further dampened sentiment towards US tech stocks. Meanwhile, China and the Eurozone emerged as star performers, benefiting from technological advancements, economic stimulus measures and lower valuations, as US growth momentum waned.

MSCI REGIONS - YTD



Source: FactSet

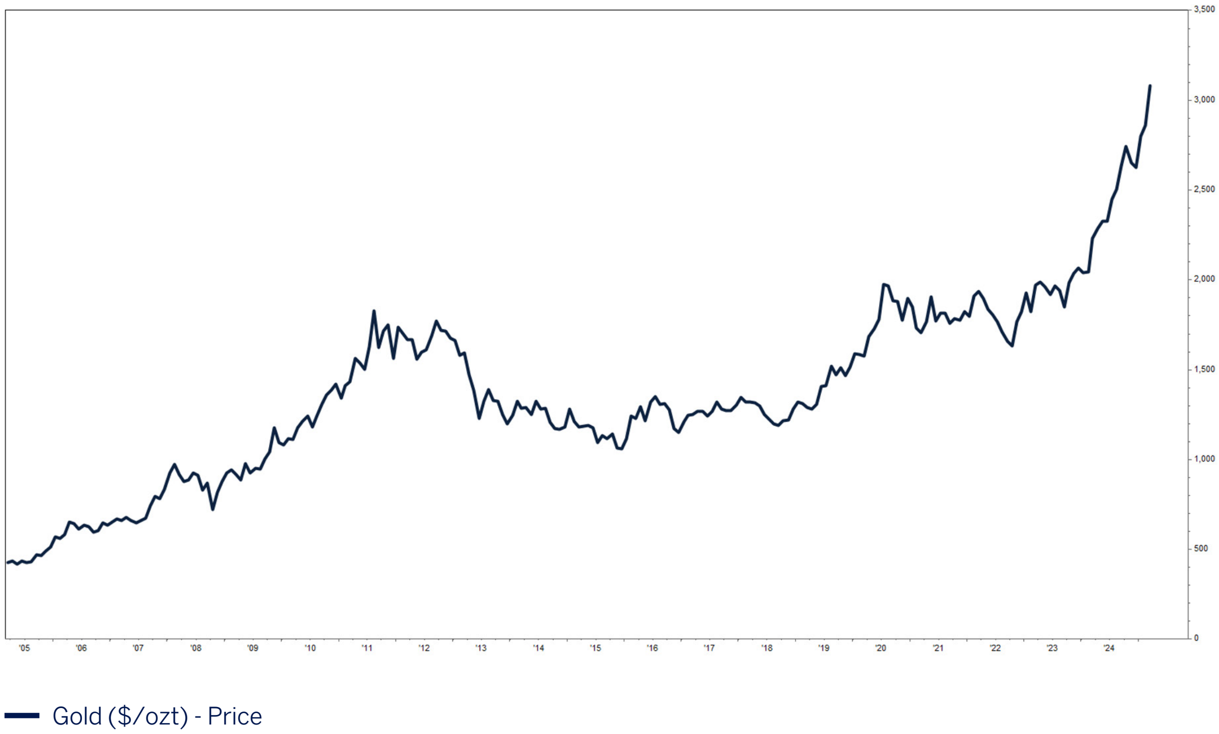
China's equity market experienced a strong performance, particularly in the Technology sector, thanks to the development of the DeepSeek app. This application raised questions about the dominance of US companies in artificial intelligence technology and highlighted the risk of increased competition in a sector where profit margins have been unsustainably high. The Hang Seng Index in Hong Kong has risen by 16% this year, making it the best performer among international peers. The emergence of DeepSeek has significant implications for US Technology companies. The app's competitive AI model has disrupted the market, leading to substantial declines in stock valuations of major US tech firms. NVIDIA, for instance, saw a dramatic drop in market value, reinforcing the need for diversification and caution in concentrating investments in high-flying tech companies.

The Eurozone also saw unexpected strong performance in its equity markets, leading to a reallocation of assets by investors. Several favorable events contributed to this rerating, including lower interest rates, the increased potential of a ceasefire in the war in Ukraine, talks about reducing regulatory burdens, and a more lenient fiscal policy in Germany aimed at funding infrastructure projects and materially increasing defense spending.

During the quarter gold futures rallied 19.3%

During the quarter gold futures rallied 19.3%, whilst US copper futures gained 25.9%. The drivers for the rally in gold were plentiful; resilient buying from central banks, a weaker dollar, trade uncertainty, and wars abroad all contributed. Investors also worried that a potential global trade war may drive prices higher and hurt growth thereby increasing the chances of an environment of stagflation in the US. Concurrently, gold's low correlation to all other asset classes made it an attractive safe-haven hedge.

GOLD ($ - TROY OUNCE)



Source: FactSet

Range bound fixed income yields to persist

The relentless back and forth on tariff news-flow in the first quarter made it extremely difficult to build a strong conviction on the near to medium-term direction of bond yields. Consensus opinion is that tariffs equate to slower growth and higher inflation, ordinarily a conundrum for bonds but, in the US at least, markets have recently focused on the negative growth implications of a potential global trade war with ten-year government bond yields lower by some 60 basis points from the highs of mid-January. There have been some pockets of weaker than expected economic data that have contributed to the move lower in yields, but we note that it has been predominantly survey/sentiment readings, unsurprising given heightened unpredictability on key issues such as the inflation outlook, trade war headlines, US Department of Government Efficiency (DOGE) cost cutting, Russia/Ukraine etc. The US Fed continue to communicate that interest rates are likely to remain elevated for an extended period due to persistent inflationary pressures and uncertainties stemming from Trump's policy proposals.

US GOVERNMENT 10-YEAR BOND YIELD

Source: FactSet

In this environment, fixed income assets will naturally benefit, to a degree, from their safe-haven status but the spectre of higher inflation from tariffs and supply chain disruptions (if a global trade war escalates) should put a floor on how low yields can move given that major central banks remain steadfastly focused on containing higher price pressures. Therefore, we would not be surprised if yields remain rangebound in the near term albeit with bouts of volatility as geo-political news flows continues to be both heightened and erratic.

Conclusion

The outlook for the global economy has become increasingly uncertain, with risks titled to the downside. This is largely a function of the US Administration's more onerous than expected import tariff announcements on "Liberation day" and threats of retaliation which took the market by surprise. Policy uncertainty in the US has become a significant risk to global economic activity. While we initially expected a more moderate approach from Trump compared to his pre-election promises, his increasingly aggressive rhetoric has made us less convinced. This uncertainty is likely to make companies more cautious about capital expenditures and hiring, potentially leading to a more significant slowdown than our base case, with stagflation as a possible outcome.

US equities have derated over the past couple of months but remain at elevated levels relative to the rest of the world. If the derating in the US continues due to weaker growth momentum compared to other regions, it could dampen global equity returns, which are dominated by US companies.

Given that the near-term outlook for the global economy has become increasingly uncertain and that valuations across asset classes don't allow much room for any form of financial dislocation or economic shock, we will be trimming our Equity exposure to underweight and increasing the allocation to Fixed Income to overweight, whilst leaving Cash unchanged. At the same time, we will be looking to capture new long-term investment opportunities that are sure to present themselves during a period of expected volatility. We will do this without deviating from our investment philosophy, by focusing on investing in high-quality assets and ensuring prudent diversification.

While the current environment presents challenges, our strategy remains focused on resilience and long-term growth. By maintaining diversification through a balanced asset allocation whilst supporting only high-quality investments, we are well-positioned to navigate the uncertainties ahead.

"We have deployed a neutral stance as we believe that it is not an environment to be making large tactical positions given the current elevated levels of uncertainty.

Investment Performance

Following a strong start to 2025 global equity markets, led US securities, have subsequently re-rated lower against the backdrop of increasing levels of US trade and economic policy uncertainty. Global fixed income markets benefitted from the prospects of slower economic growth with the flight to safety trade supporting Government bonds over corporate issues. Despite the high levels of uncertainty and market volatility, US dollar based portfolios have largely performed in-line during the quarter although sterling referenced multi asset and equity strategies have lagged marginally. We have deployed a neutral stance as we believe that it is not an environment to be making large tactical positions given the current elevated levels of uncertainty. Furthermore, prices of risk assets such as equites are still tilted to a favourable outcome from the Trump administration and do not provide enough margin of safety to justify increasing equity exposure in client portfolios to overweight at this time. Our fixed income strategies and weightings within multi-asset client portfolios delivered positive returns in the quarter inline or above their respective benchmarks. Returns in US dollars were more favourable as longer-dated bond yields declined from their highs in mid-January. For now, the overall duration and investment grade corporate exposure remain broadly neutral to benchmark as we wait for further clarity on the tariff impact on both the US and global economy.

Asset Classes

Equities	Underweight
Fixed Income	Overweight
Cash Plus	Neutral

Bernard Drotschie
/ Chief Investment Officer

Global Asset Allocation

Global Equity - Underweight

- While earnings growth momentum is expected to broaden out across sectors this year, we are concerned that the outlook for earnings will deteriorate as the global economy is expected to slow on the back of Trump's trade war.
- The risk of higher inflation on the back of aggressive trade tariffs poses a risk to valuations.
- Monetary policy has become less accommodative than was expected.
- Equity valuations in the US are elevated. Outside of the US, valuations remain reasonable after the rerating during Q1, but do not fully factor in the risk of a more extensive trade war at present.
- Expected returns in aggregate are not attractive on a risk adjusted basis relative to cash and fixed income, preventing a neutral position to the asset class.

Sector views

Consumer Discretionary	Overweight
Consumer Staples	Underweight
Energy	Underweight
Financials	Overweight
Healthcare	Overweight
Industrials	Underweight
Information Technology	Neutral
Materials	Neutral
Communications Services	Neutral
Utilities	Underweight
Real Estate	Underweight

Justin Maloney
/ Head: Global Equities

Derinia Mathura
/ Fund Manager

Global Fixed Income – Overweight

G7 Government	Underweight
Investment Grade - Supranational	Overweight
Investment Grade - Corporate	Neutral
High Yield - Corporate	Overweight

Karl Holden
/ Head: International Fixed Interest and Currency Strategy

- Whilst we see limited scope for bond yields to fall sharply, yields of 4% plus across the maturity spectrum remain attractive on a risk-adjusted basis when allowing for the uncertain global backdrop.
- Central banks want to ease monetary policy but need to bide their time until inflation is trending sustainably towards target levels, this will happen but not as quickly as previously anticipated.
- In the meantime, any further rises in yields should be viewed as medium to long-term buying opportunities, something we intend to exploit in the coming months as volatility persists.
- Real, after inflation, returns being achieved. The weighting will be reduced as investment opportunities arise.

Cash Plus – Neutral

- A prudent split between Enhanced Income, Liquidity and Absolute Return funds is being deployed.
- Weightings dependent on base currency of portfolio.
- Real, after inflation, returns being achieved. The weighting will be reduced as investment opportunities arise.

Market performance / as at 31 March 2025

EQUITIES	MARCH	YTD	12
Global			
Bloomberg World Large & Mid Cap NR (Sterling)	-6.22%	-4.28%	4.92%
Bloomberg World Large & Mid Cap NR (US dollar)	-3.85%	-1.34%	7.22%
UK			
Bloomberg UK Large,Mid & Small Cap NR	-2.37%	4.80%	11.23%
US			
Bloomberg US Large Cap NR	-5.90%	-4.62%	7.84%
Europe			
Bloomberg Europe DM ex UK Large & Mid Cap NR	-4.10%	6.29%	4.68%

FIXED INCOME	MARCH	YTD	12
Bloomberg Barclays Series-E UK Govt 1-10 Yr Bond Index	-0.14%	1.27%	2.30%
Bloomberg Barclays Series-E US Govt 1-10 Yr Bond Index	0.52%	2.49%	5.35%
Bloomberg Global Agg Treasuries TR Unhedged (GBP)	-1.85%	-0.46%	-0.30%
Bloomberg Global Agg Treasuries TR Unhedged (USD)	0.61%	2.59%	1.86%
Bloomberg Sterling Corporate TR Unhedged (GBP)	-1.32%	0.32%	1.93%
Bloomberg US Corporate TR Unhedged (USD)	-0.29%	2.31%	4.90%

CURRENCY vs. STERLING	MARCH	YTD	12
US Dollar	-2.55%	-3.00%	-2.20%
Euro	1.54%	1.33%	-2.01%
Yen	-2.10%	1.81%	-1.28%

CURRENCY vs. US DOLLAR	MARCH	YTD	12
Euro	4.21%	4.47%	0.20%
Yen	0.48%	4.97%	0.97%

It's Personal.

MelvilleDouglas
Standard Bank Group