

Red, White & Blew It?

The Easter bunny had a busy month delivering President Trump's tariff shaped eggs around the world. These proved too sour for markets, prompting a 90-day pause. At present the international trade outlook appears bleak – though more positively some wheeling and dealing has begun. US stocks have floundered, while European stocks have triumphed in 2025. The EU is stirring, with spending on the rise; sometimes, the sleepy bloc needs a wake-up call to spring into action.

April opened with a bang as President Trump unveiled his tariff bonanza on day two - somewhat modestly titled "Liberation Day." While the move had been widely anticipated, the scale of the tariffs, now at their highest level in a century, surprised nearly everyone. Hardly any nation remains unscathed, including the desolate, Antarctic-adjacent Heard and McDonald Islands; an interesting target, given they are solely inhabited by penguins.

Trump believes these tariffs will protect US jobs, support the economy, and raise revenues. He also argues they address an international trade imbalance, where much of the world has benefited from largely frictionless access to the US consumer. However, this view overlooks the fact that what the world gained, it repaid with investments into the US economy and assets.

Following the announcement, stock markets around the world slumped, and leaders of all stripes howled in frustration. Yet it was likely the quiet rise in US government bond yields - raising funding costs - that prompted Trump's climbdown on April 9th. This is only a 90-day pause; previous tariffs remain in place, and China was notably excluded. Meanwhile, the fallout is already being felt. The US economy contracted in the first three months of the year, as covered below, and the IMF has downgraded its 2025 global growth forecast.

As expected, it's been a rocky start to 2025 for markets, with US stocks bearing the brunt of the pain. Tariffs haven't helped, but investors were already questioning sky-high valuations and the dominance of a few colossal companies. Other regions have led the charge this year - Europe, for instance, appears to have emerged from a long slumber and delivered some of the best stock market returns. Investors have been encouraged by more attractive valuations and a growing willingness to loosen fiscal purse strings. Whilst the region is undoubtedly affected by the tariff fallout and the ongoing war in Ukraine, as a founding EU father once remarked, "Europe will be forged in crises."

Bottom Line

It may be some time until the international trade situation becomes clearer; it is already causing supply chain issues and headaches for businesses. Trade between the US and China has effectively come to a halt. There are some tentative signs that negotiations are progressing. Nevertheless, the reputational damage to brand USA is significant, and the capital inflows the nation has enjoyed in the last decade, may now spread to the rest of the world.

Month by numbers

Change in various markets over the month:

Asset	Change
	Value

Equities

UK	↓	-0.80%
Europe	↓	-0.34%
US	↓	-0.54%
Emerging Markets	↓	-0.21%
Japan	↑	0.37%

Bonds / Rates

* Absolute change (%)

UK Base Rates	—	0.00%
		4.75%
Fed Funds Rate	—	0.00%
		4.50%
UK 10-Year Yield	↓	-0.23%
		4.44%
US 10-Year Yield	↓	-0.06%
		4.16%

Currencies

GBP / USD	—	3.45%
		\$1.34
GBP / EUR	—	-1.58%
		€1.18
DXY (USD Index)	—	-4.55%
		99.47

Commodities

Gold	↑	5.29%
		\$3288.59
Oil (Brent)	↓	-15.55%
		\$63.12

Noteworthy

BP	↓	-18.19%
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Q&A

What's on your mind?

How have company earnings been so far?

Earnings season for Q1 is here, and results have been largely positive so far. Among the companies that have reported, profits have generally surpassed analyst estimates. This quarter provides insight into how firms are adapting to heightened policy uncertainty following 'Liberation Day'. Among notable reports, Tesla posted weak results, missing analyst expectations on both revenue and earnings. A decline in sales, along with intensifying competition from Chinese rivals, contributed to the shortfall. In response, CEO Elon Musk announced plans to scale back DOGE involvement and focus more on Tesla. In contrast, Alphabet set a more optimistic tone for the technology sector, beating expectations as continued investment in AI initiatives paid off. However, the company offered limited insight into how tariffs and global uncertainty could affect future performance. Forward guidance was more cautious, with a warning that tariff-related pressures could weigh on chip demand, as much of this quarter's demand was attributed to tariff front-running. Throughout this period, investor attention will likely remain focused on company guidance for signs of how firms are navigating ongoing uncertainty.

How has the UK economy and stock market performed year to date?

Like most equity markets the UK began April with a sharp downturn following the tariff announcements, experiencing its steepest daily decline since March 2020 on the 4th and hitting its lowest point in a year on the 7th. Yet, returns have improved since. By the end of the month the index of the largest UK companies had seen 13 consecutive days of gains, driven by its natural defensiveness and relative tariff insulation. In the broader UK economy, GDP growth has been modest, but expectations for 2025 and 2026 have worsened since as the year. The IMF cut its economic growth forecast for 2025 to 1.1% from 1.6%. Inflation remains a concern, slowing to 2.6% in March, but the Bank of England (BoE) forecasts it could reach 3.7% later this year. BoE Governor Andrew Bailey hopes this will be transitory. The BoE is expected to cut rates again in May, with further reductions by year-end, which could prove supportive for the economy.

What is the current outlook for the US economy?

Coming into 2025, the US economy, at a headline level, was rock solid - GDP growth was tracking at around 3%, unemployment was at its long-term average, and the nation's flagship stock market was at all-time highs. In late 2024, few market commentators were pointing to the cracks appearing and were largely dismissed by the many. Nonetheless, as former Federal Reserve Chair Ben Bernanke quipped, "economic expansions don't die of old age, they are murdered" - this sentiment may once again ring true for the current regime. If this period of US exceptionalism is to be quickly extinguished, the number one culprit could be none other than its Commander-in-Chief, Donald Trump. The US took one step down the recessionary path as its economy shrank in the first quarter. One more quarter of negative GDP growth would see the US enter a technical recession. One note of positivity, is that the majority of strategists expect any US recession to be short and shallow - citing that this is more a natural end to an economic cycle than a financial crisis.

For more information, please contact your adviser.

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