

HOPE CEASES TO BE A STRATEGY

Equities sold off on tariff fears

Markets suffered significant declines during March, with the MSCI World index declining by 8.01% in the month. Declines were led by U.S. equities, with the MSCI USA index falling by 9.4%.

The sell-off in equities was driven by fading hopes that the U.S. would rethink its approach to trade policy. U.S. President Donald Trump nominated April 2nd as "Liberation Day", when he would announce reciprocal tariffs on the entire world, thereby somehow liberating the U.S. from trade tyranny. Markets parsed the myriad of potential unforeseen economic impacts of these tariffs, unsure of the tolerance within the U.S. administration for economic pain. The predominant conventional view was that U.S. tariffs would be terrible for all economies, first and foremost the U.S., leading to the significant market declines.

European equities, although declining in the month, significantly outperformed the broader global market. The MSCI Europe index declined by 4.01%. German equities were amongst the best performing markets, after an announcement early in the month by Friedrich Merz, the likely next Chancellor of Germany, for large increases in spending on defense and infrastructure. Furthermore, the spending increases, funded by borrowing and thereby breaking German fiscal orthodoxy, would be pushed through during the remainder of the existing parliament.

Bonds sold off in response to the prospect of German fiscal expansion, with yields of long dated German bunds having their biggest jump in almost thirty years. The Euro also rose against the Dollar, reflecting both higher rates within Europe as well as concerns over the direction of the U.S. economy.

Value performed despite cyclical challenges

The Portfolio declined by 5.49%, which was less than the 8.01% drop in the MSCI World Index. The predominant driver of the outperformance of the fund was the style, with the value style outperforming growth. Geographic allocations were an additional modest positive, as the fund is underweight the US and overweight Europe. The MSCI World Value declined by 4.93% during the month. The underperformance of the fund relative to the value index was due to the fund having a slightly more cyclical orientation than the index. The negative impact of the greater cyclical position of the fund was only partially offset by the fund having more value exposure.

Information Technology was the weakest sector in March, as many highly priced technology stocks sold off, including members of the Magnificent 7 class of mega-cap stocks. Consumer Discretionary and Communication Services, both with representatives within the Magnificent 7, were also weak. Energy was the best performing sector reflecting a rise in the oil price. Despite the market declines, the portfolio did have some strong individual performers in March. The Mosaic Company, a US based fertilizer company, performed well as farmers appeared well placed to increase fertilizer application in response to higher crop prices. Japanese insurer Tokio Marine was also a strong performer as analysts increased their earnings outlook and expectations grew for higher payouts for shareholders. Finnish communications equipment manufacturer Nokia also performed well in March as the company completed some product launches and also signed a number of partnership agreements to roll-out its 5G infrastructure in different markets.

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Strategy

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