Current Positioning
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The past month summed up

All change. Donald Trump's on-off tariff plans discombobulated businesses and markets, see-sawing equity valuations and Treasury yields and validating our long-held belief that it is better to prepare for the future rather than to attempt to predict it.

The rationale

Our core view is that the economic and market outlook has deteriorated following the Trump administration's recent tariff tirade. This is already manifest in sharp movements in equity markets and there are hints that this may hurt the value and standing of US fixed income assets as well. Global growth looks likely to slow while the risks of higher inflation in the US have also increased.

As a result, we are taking some measured action within the equity element of our portfolios to buttress the already strong protective characteristics of the portfolios.

Trumped

We highlighted in previous notes the risks to the US economy from excesses of the Trump doctrine and a feeling in some quarters that the US was immune to challenges. The underlying view across many investors was that Trump would prove pro-business and the less market-friendly aspects of his plans, particularly those around tariffs, were more bluster and negotiation than solid policy. His actions after the so-called Liberation Day, when huge tariffs were introduced and then postponed, have challenged that assumption.

The short-term outlook is as uncertain as we can remember. The tariffs as first announced make little economic sense, leaving most grasping for some other endgame that might provide visibility as to what to expect. Contradictions loom large – is this a negotiating tactic designed to end with modest rates to provide much needed income to subsidise tax cuts down the line? Or, as Trump's economic adviser Peter Navarro claims, are tariffs an end in themselves to reduce imports and rekindle lost manufacturing jobs in the US?

The main point here though is that the only person who knows the rationale, if there is one, and can control the process and the narrative is the President himself. This generates added complications for asset allocators. As we’ve seen, the whiff of a change in direction from the President can cause massive market movements in minutes. Now is not the time for outsized bets.

What could change

While Trump has, as we write this, seemingly stepped back from the brink by pushing back the introduction of punitive rates by 90 days, investors are not out of the woods.

Chaotic policy has consequences that could spread more broadly across markets and the economy. With no certainty over the economic environment, large investment projects have been shelved. In our conversations with colleagues at American institutions, the word is out that hiring has stopped and job cuts may well follow. Then there's the risk of shortages as exporters to the US, fearing a glut of inventory as consumers stop buying, pause deliveries. Equally important is the fact that many items made in the US depend on parts from around the world that are themselves subject to tariffs, meaning prices either increase for US consumers or US companies take the hit.

Even if tariffs are rolled back, we may be past the point of no return if the shock to the US consumer is sufficient to rein in spending and induce a recession. Indeed, BlackRock Chairman Larry Fink has said he believes the US is in one already. Given the inflationary impact of rising trade barriers, the Federal Reserve is also unlikely to come to the rescue with rate cuts any time soon.

In short, we don't know quite how this is all going to play out. It is however clear that the highly unorthodox actions of the US administration have upended trading, are causing unease amongst allies and, whatever happens, have made the US an unreliable partner. This threatens the very bedrock of the present trading system, the reliability of US debt and the stability of the US currency.

From an investment point of view where does this leave us? We entered the year with a constructive view on our equity holdings, if not the overall world index. Dynamics of the past few years had led to an increasingly concentrated and expensive market, with large capital outlays by technology companies and investor enthusiasm in all things AI both ripe for reversal. With signs of global growth improving and valuations still appealing outside of US tech we had positioned for a broadening market environment.

As we stand today, the opening months of Trump 2.0 have yet to live up to their pro-market billing. Frenzied policy is damaging confidence which may weaken the currently resilient US labour market. The US can still avoid a recession this year, but the risks have clearly increased. We are paring back our equity allocation to neutral levels to reflect this slightly more cautious outlook.

Conclusion

Our balanced portfolio characteristics meant we were well prepared for market volatility and portfolios have held up relatively well year to date, assisted by our decision not to hold some major index constituents in the technology and related sectors which have been under pressure. The increased uncertainty has led us to make an incremental adjustment, bringing our equity allocation down to our long-term strategic levels.

The recent decline in stock markets has been strong enough that for some portfolios we have used this movement as the basis of our reduced exposure, while in other portfolios it may require some active rebalancing. Our defensive capabilities are maintained through holding shorter-term bonds, gold, which continues to outperform, and hedge fund investments, which aim to make positive returns in all market conditions.
