ISSUE 44 — SECOND QUARTER 2025

INVESTMENT INSIGHTS

EUROPE'S PLAN TO REARM AND REBUILD

America's pivot on Ukraine marks a turning point for European strategy, global influence and economic growth, with far-reaching implications for investors

Navigating the unknown
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Talking tariffs
Trade barriers could impact investors and consumers

A wild ride
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Snakes and ladders
A critical year for corporate governance in the UK

RATHBONES

FOREWORD

Investment Insights Webinar
Tuesday 29 April, 12.00 to 12.30pm
Join our investment experts at our next Investment Insights webinar on to hear their outlook for markets and the global economy.
To register, please visit https://registration.duuzra.com/form/InvestmentInsights29Apr25

Welcome to the latest edition of Investment Insights. This quarter we continue to monitor the global reverberations of Donald Trump's return to the White House. As the world adapts to his evolving policy agenda, investors are facing a shifting landscape that demands both agility and a firm, evidence-led perspective. It's easy to overstate the importance of politicians to the long-term performance of high quality, highly profitable companies with strong balance sheets.

On page 4, we examine how Europe is responding to the weakening of long-standing US security guarantees. Trump's return has prompted an extraordinary policy shift across the continent, with dramatic increases in defence spending and infrastructure investment. We explore the impact of this fiscal transformation for investors.

On page 6, we turn our focus to the growing uncertainty in global markets. From trade and geopolitics to inflation and interest rates, volatility is making a comeback. Our analysis does not suggest the volatility that could be created by a furious trade war will be beyond the normal range. Still, it is important that we consider the role of alternative investment strategies that can thrive in this environment – and explain how we're positioning portfolios to withstand the turbulence.

Tariffs are back in the spotlight on page 8, where we explore their real-world impact from the perspectives of friends, Tammy and Tabitha. We look at who wins, who loses and what other measures might be put in place in response.

On page 10, we revisit the question of whether cryptocurrencies – particularly bitcoin – have a role in multi-asset portfolios. Despite renewed investor interest and surging prices, we explain why we still view crypto as a highly speculative asset, not a reliable diversifier.

Our final article, on page 12, focuses on corporate governance. With revised governance codes coming into force this year in the UK, we outline how we're using our influence to encourage better practices – particularly among investment trusts – and why it matters for long-term returns.

We hope you enjoy this quarter's edition. As always, we welcome your questions about how the latest developments in the global economy and geopolitics may affect your investments. To learn more, please visit rathbones.com or contact your usual Rathbones adviser.

E. Savage.

Liz Savage and Ed Smith
Co-chief investment officers

WHY TRUMP'S RETURN IS PUSHING EUROPE TO REARM AND REBUILD

Donald Trump's return to the White House has shaken the old certainties of the global political order – bringing counterintuitive consequences for investors in Europe. Since January, the region's leaders have been forced to confront the reality of the most isolationist US administration in living memory and the weakening of the previously unquestioned US security guarantee.

With some justification, investors tend to think of European politics as slow-moving, resistant to change and defined by half-measures. Yet the extraordinary proposals recently tabled by Germany's new coalition and the European Commission have confounded those assumptions. Europe is ripping up the rulebook to rearm and rebuild its infrastructure.

Germany leads Europe's dramatic policy shift
Germany has spearheaded Europe's volte-face on defence spending and fiscal policy. Its new coalition, comprising the CDU, SPD and Greens, has agreed to two changes that are remarkable in their own right – and even more so in the context of German politics.

First, they have decided to exempt defence spending above 1% of GDP from the country's strict – and previously sacrosanct – 'debt brake' fiscal rule. Europe's foremost fiscal hawks are now preparing to borrow freely to fund rearmament. (In contrast, the UK is offsetting its own defence funding increase with spending cuts elsewhere.)

Second, they have announced a special fund for infrastructure worth €500 billion over a decade, also exempt from the fiscal rules. That equates to more than 1% of Germany's GDP annually. By some estimates, the infrastructure fund alone represents a proportionally greater outlay than the post-reunification rebuilding of the former German Democratic Republic in the early 1990s.

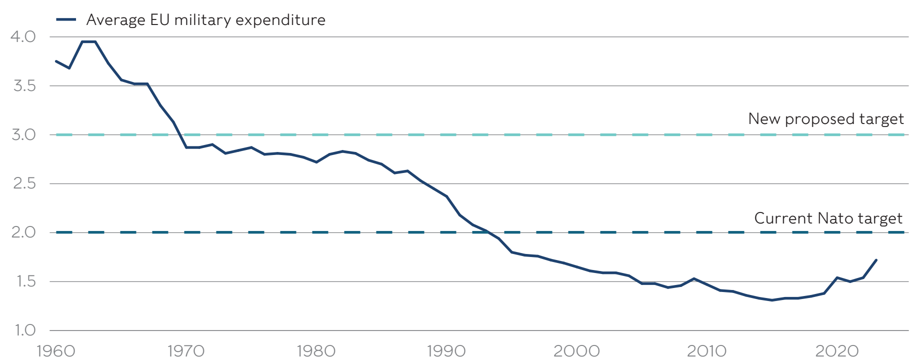
The European Commission follows suit
Germany is not alone in its shift on defence and fiscal policy. European Commission President Ursula von der Leyen has unveiled a broader ReArm Europe plan that would exempt European Union (EU) member states' defence spending from the EU's own fiscal rules. Von der Leyen argues that this move would allow an increase in defence spending of 1.5% of GDP on average – which is equivalent to €650 billion of additional spending over four years. Additionally, she has proposed €150 billion in loans to member states for defence investment, to be funded by joint borrowing.

As figure 1 shows, EU states have kept military spending very low since the end of the Cold War, with European NATO members routinely failing to meet the alliance's 2% of GDP target. That has already begun to change since Russia's full-scale invasion of Ukraine exposed Europe's vulnerabilities. But it is the clear weakening of US support since Trump's return that has persuaded European leaders they need to do far more. That shift was epitomised by JD Vance's iconoclastic speech at the Munich Security Conference and Volodymyr Zelensky's treatment during his recent White House visit. European leaders now discuss spending 3% of GDP or more on defence – a dramatic shift from the levels seen since the fall of the Berlin Wall.

Changes in execution and economic implications
Europe's push for greater military spending faces a number of significant practical hurdles. Spare capacity in the region's defence sector is currently limited, given the demands of the war in Ukraine. Meanwhile, much of Europe's defence spending continues to flow to suppliers outside the region – although estimates of exactly how much vary widely. Initially, therefore, a significant share of the increase in defence spending may necessarily be directed overseas, limiting the immediate boost to domestic demand.

To address this, policymakers aim to build up Europe's domestic military-industrial capacity. The European Commission has proposed that the €150 billion in loans be directed exclusively to European suppliers, with a focus on strengthening joint procurement. However, scaling up domestic production will take time, requiring significant infrastructure, workforce training and supply chains.

Figure 1: Defence on a budget
EU military spending as a share of GDP (%) has lagged behind NATO targets for decades but that's starting to change.
Source: LSEG and Rathbones



Beyond defence, Germany's broader investment push reflects a long-standing need to modernise its infrastructure. For years, the country has been widely acknowledged as underinvesting in transport and utilities. For all the clichés about German punctuality, analysis by the *Financial Times* has shown that the country's rail network is substantially less reliable than the UK's often-criticised system. Its economy, once the driver of euro area growth, has stalled since the pandemic.

A broader shift in European economic policy

Germany's shift is part of a wider trend in European policy-making. The influential European Commission report published in 2024 by Mario Draghi, former Italian Prime Minister and President of the ECB, focused on Europe's need to take control of its own destiny in an increasingly uncertain world. Draghi called for a major increase in investment to close the innovation gap with the US and China and to bolster Europe's economic security. His recommendations have reinforced the argument for significant fiscal expansion across the region.

There are also important questions about the broader economic impact of rising defence spending. Will rearmament weaken the economy by diverting resources from productive sectors? Or will it act as a stimulus, driving demand beyond the defence industry and spurring technological innovations with civilian applications? Academic studies suggest that increased defence spending tends to have a positive near-term effect on growth, although the extent varies depending on the circumstances. Since military expenditure often fuels inflation, the ECB''s policy response will be crucial in shaping the overall economic impact.

From an investor's perspective, Europe's dramatic policy shift has altered the regional landscape in two key ways. First, it has increased the risks associated with longer-dated government bonds, particularly in countries with weaker borrowing positions such as France and Italy. Europe is financing its rearmament through higher debt issuance, reinforcing our conviction in shifting away from long-dated government bonds. While sovereign bond markets have already reacted, the scale of the proposed changes suggests further movement is possible.

Second, it has created a significant and potentially lasting tailwind for European equities. Stocks in the region have outperformed their US counterparts by nearly 15% since the start of the year, yet valuations remain relatively low. While Europe's defence sector has been the clear winner so far, the broader industrial sector could continue to benefit. There may also be indirect opportunities in infrastructure development and the financial sector as capital flows adjust to these structural shifts.

A TURNING POINT IN EU DEFENCE POLICY

The ReArm Europe plan marks a historic shift in EU thinking on defence. For decades, the EU has prioritised economic integration over military power, relying on NATO — and by extension, the US — for security. But with American commitment in doubt and geopolitical risks rising, the EU is seeking greater autonomy in defence policy.

The plan reflects a growing consensus in Brussels that Europe must act as a geopolitical player, not just an economic bloc. It builds on recent initiatives like the European Defence Fund and Permanent Structured Cooperation (PESCO), but goes much further by proposing changes to the EU's fiscal rules to accommodate higher defence spending.

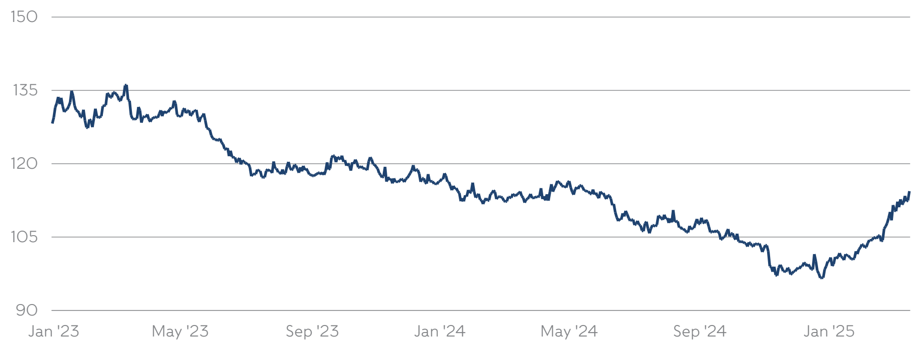
It also represents a test of political unity. While some countries support deeper integration on defence, others remain wary of shared borrowing and centralised coordination. Success will depend on how effectively the EU can balance national interests with collective goals.

If implemented, ReArm could reshape Europe's industrial base, accelerating innovation and joint production. It may also pave the way for closer links between EU economic and security policy — an idea that until recently was considered politically unthinkable.

Figure 2: Closing the gap

As this chart of the Stoxx Europe 600 to S&P 500 ratio shows, European stocks have trailed their US counterparts for years but now they're starting to catch up.

Source: LSEG and Rathbones



INVESTORS NEED TO ADAPT TO A MORE UNCERTAIN WORLD

The world has become a more uncertain place in recent months, but that's no excuse to bury our heads in the sand. As investors, there's plenty we can do to adapt – including allocating to specialist strategies designed to thrive in these conditions.

In our January edition of Investment Insights, we wrote about Donald Trump's knack for tearing up the script. The period since his inauguration has proved the point. High import tariffs have been threatened, delayed and amended on an almost daily basis. The newly formed Department of Government Efficiency is making waves, while geopolitical relationships remain in flux.

A simple way to quantify this uncertainty is to measure the frequency of news articles referencing the economy, uncertainty and politics together. That's exactly what the indices developed by academics Scott Baker, Nicholas Bloom and Steven Davis do, as shown in figure 3. The sharp rise since November is striking.

This period has also brought volatility in equity markets. In the US, the S&P 500 initially rose but then fell from mid-February, leaving it just below its level before the election.

Staying invested amid uncertainty

Despite these developments, we don't believe recent events justify dialling back our overall equity exposure, which remains moderate. Knee-jerk reactions can be harmful to long-term returns and we haven't seen enough evidence that the US economy is entering a downturn, despite the risks created by rising uncertainty. Volatility has also created winners as well as losers. For example, European stocks have enjoyed a strong run, as noted in our lead article above.

However, there are other ways to adjust portfolios for this period of heightened uncertainty. As we've highlighted before, key drivers of this environment – from geopolitics to fiscal and trade policy – are also contributing to structurally higher and more volatile inflation compared with the unusual stability of the 2010s. This limits the ability of longer-dated bonds – previously the go-to asset for protecting against stock market declines – to provide the same level of protection they once did.

Alternative strategies for uncertain times

This shift also creates opportunities for other types of assets. Certain actively managed investment strategies, particularly trend-followers (or CTAs in market jargon) and global macro funds, are well positioned for this environment. Both can invest across a wide array of assets beyond stocks and bonds, with trend-followers seeking to latch onto strong price momentum wherever it appears, while macro funds look to profit from changes in economic variables.

These strategies have strong track records when equities decline, even in periods when bonds perform poorly – such as in 2022. In fact, in all four periods since 2000 when a simple 60/40 portfolio (60% global equities and 40% UK government bonds) has fallen by more than 10%, indices tracking these two strategies have posted gains. Additionally, research attempting to replicate a simple trend-following strategy back to the late 1800s found that it would have provided positive returns during eight of the 10 worst drawdowns for a US 60/40 portfolio.

Beyond their ability to perform when traditional assets struggle, these strategies may actually benefit from heightened uncertainty. Markets that incorporate new information more frequently tend to generate more price trends, creating greater opportunities for trend-followers. Historical data supports this – the hypothetical trend-following strategy mentioned earlier has delivered higher returns in decades of greater macroeconomic volatility. A more volatile environment should also generate more opportunities for macro funds to capitalise on mispricing.

Positioning for resilience

Beyond these strategies, other elements of our portfolios are also designed to account for uncertainty and volatility. Gold remains an excellent diversifier against both equities and bonds, with a strong track record in periods of geopolitical uncertainty, including recently.

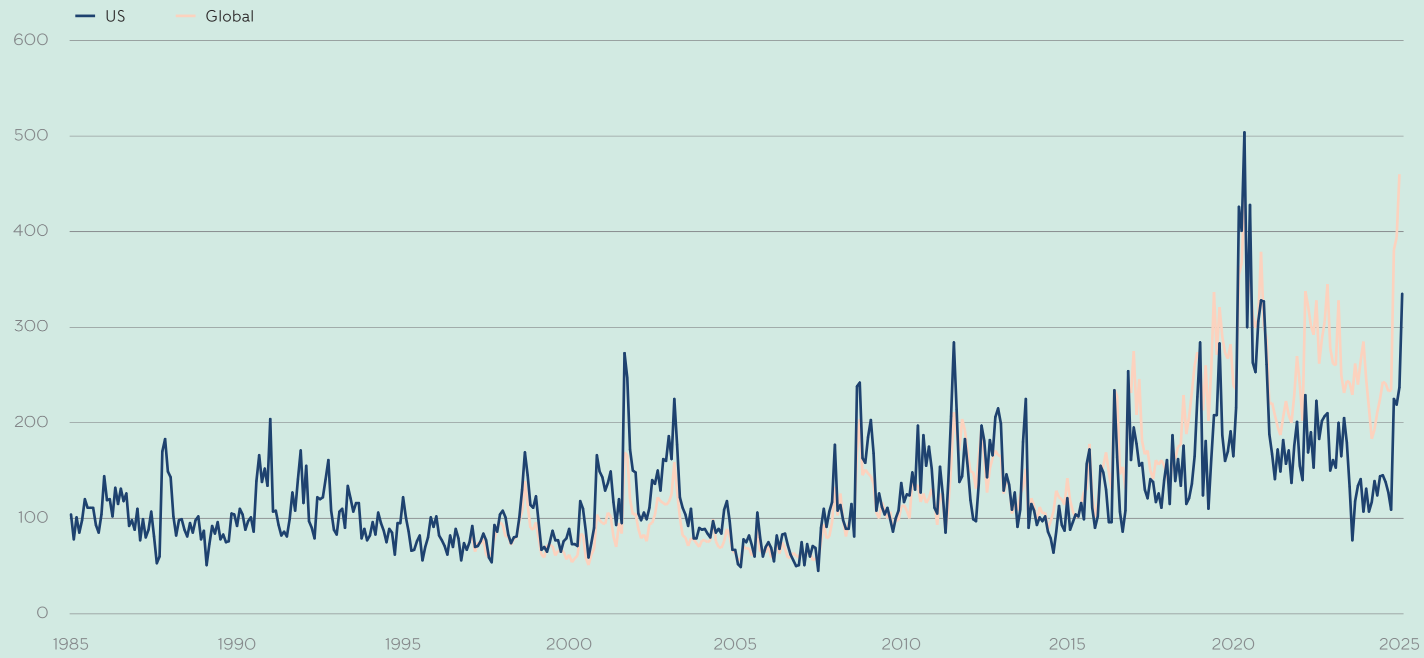
At the same time, we're shifting towards shorter-dated fixed income assets to mitigate the risks posed by higher and more volatile inflation. This includes allocating to short-maturity inflation-protected US government bonds, which we believe are well suited to protecting against key risks associated with Trump's policy agenda.

While uncertainty can be unsettling, it also presents opportunities. By adjusting our approach thoughtfully, we can navigate these challenges and position portfolios for resilience in an unpredictable world.

> **Markets that incorporate new information more frequently tend to generate more price trends, creating greater opportunities for trend-followers**

Figure 3: A world on edge

Global and US economic policy uncertainty indices reveal a sharp rise in political and market instability.
Sources: Measuring Economic Policy Uncertainty by Scott Baker, Nicholas Bloom and Steven J. Davis at www.policyuncertainty.com; Davis, Steven J., 2016. An Index of Global Economic Policy Uncertainty, Macroeconomic Review; Rathbones



HOW TRADE BARRIERS COULD IMPACT INVESTORS AND CONSUMERS

Tammy works from her home in a Pennsylvania steel town for an internet retailer, mainly selling high-end knick-knacks made in America. This allows her to balance work with raising her two daughters. She also dabbles in investing when she finds the time. Her husband, Troy, has a less flexible job as an engineer at the local steel plant. Together, they earn a fair income, though they've been shocked by rising prices since the pandemic.

Her friend Tabitha, whom she met as a teenager when Tabitha's father was an expat in Tammy's hometown, is now a lawyer in London specialising in mergers and acquisitions (M&A). She earns a good income – enough to invest regularly – though she remains conscious of inflation after experiencing a period of unemployment when prices were rising rapidly in 2023. Her husband, Tom, is a stay-at-home dad. Five years into the role, he still struggles in the kitchen, despite avidly watching recipe videos from around the world.

Winners and losers from tariffs

How will these two families be affected by tariffs? Economists generally agree that most consumers benefit from free trade. Without tariffs, companies can source the cheapest or highest-quality components globally, ensuring businesses and consumers get the best products at the best prices. This efficiency supports economic growth, which is good for Tammy and Tabitha's stock portfolios.

Tabitha also holds government bonds as safe haven assets. While economic growth can push bond yields higher by stoking inflation, free trade counteracts that effect by keeping prices lower. Companies can source materials from countries with spare capacity, reducing the labour market tightness that typically drives inflation.

Tariffs, however, work in the opposite direction. They create clear short-term winners – domestic companies shielded from foreign competition can gain market share and charge higher prices. When Trump announced steel tariffs in February, Tammy and Troy welcomed the news, as did investors in US steel stocks, whose prices rose. The recent removal of 'de minimis' exemptions for goods from China may also help Tammy's employer, whose domestically sourced products may now face less competition. Previously, there were no tariffs and less rigorous customs checks on goods worth under $800.

Yet higher tariffs mean higher costs for other businesses. Carmakers, for example, will face increased steel prices, which could lead to lower pay rises or even job losses for workers. The International Monetary Fund found that tariffs on Chinese goods during Trump's first term were almost entirely absorbed by US importers, with costs either passed on to consumers or cutting into corporate profits. And by preventing companies from making business decisions based on efficiency rather than tariff avoidance, tariffs can slow economic growth.

Looking back into history, a paper by the Federal Reserve (Fed) argues that the high tariffs of the 1930s contributed by a "modest" degree to the Great Depression – causing about 10% of the decline in US economic activity. The average tariff rate is unlikely to reach those levels during Trump's second term. However, in the modern era the effect of tariffs could be compounded by the fact that trade is more important to the US economy than it was back then. Moreover, nowadays some items cross borders many times during the transformation from raw material to finished product.

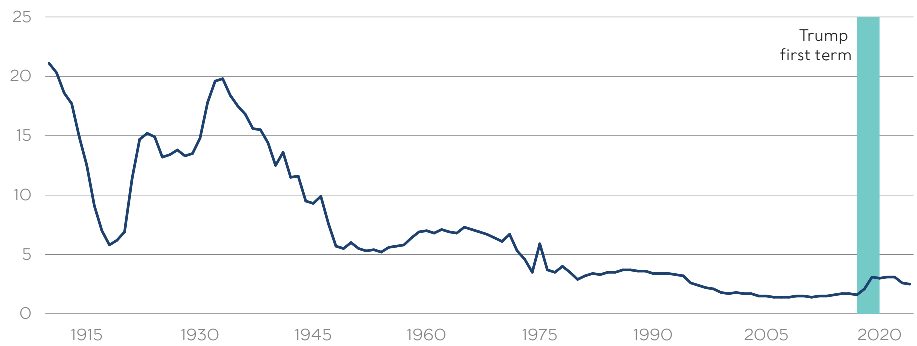
The inflationary ripple effect

Tariffs can also create longer-term inflationary pressures. While the initial increase in prices may be a one-off event, workers could start demanding higher wages to compensate for rising costs. This, in turn, forces companies to raise prices further, creating a wage-price spiral – especially in a tight labour market.

Consumers will probably bear some of the burden through higher prices, though governments could use tariff revenues to offset the impact, for example by cutting taxes. However, tariffs often trigger retaliation. If the UK imposes countervailing duties, Tabitha could see higher prices as well. Reduced global trade could also slow economic growth. That could reduce her bonus, since M&A is sensitive to the economic cycle.

Figure 4: Tariff trends

This chart shows the average tariff rate on US goods imports, as a percentage of value. Tariffs rose sharply in Trump's first term to their highest rate in 25 years, before eventually subsiding.
Source: St Louis Fed and Rathbones



There are broader effects, too. Inflation induced by higher tariffs can push up bond yields, strengthening the dollar and making US exports less competitive. However, a stronger dollar could also reduce the inflationary impact of tariffs by lowering import costs. Meanwhile, domestic companies shielded from foreign competition may become complacent. This could weaken their ability to compete internationally.

Trump's first-term tariffs provide some insight into these effects. The Tax Foundation, an international think-tank, estimates that tariffs shrank the US economy by only 0.2%, a modest impact due to the relatively small scale of the tariffs. However, a Fed study found that tariffs led to job losses in US manufacturing, as higher input costs and retaliatory measures outweighed the benefits to protected industries.

The bigger picture: trade finds a way

Despite protectionist policies, global trade has proved resilient. When one market closes, exporters often find alternatives. For example, Canadian policymakers have explored expanding oil exports to Asia in response to US tariffs. Trade in services is also harder to restrict than trade in goods. Unlike physical products, services can't be held up at a port until a tariff is paid. The UK, for instance, excels in services – the legal industry Tabitha works in is a prime example. It's hard to see Tabitha's job being harmed – except if tariffs become so severe that they seriously hit global growth. And Tom will still be able to watch his cookery videos – digital goods are hard to block.

The future direction of tariffs remains uncertain. Their impact could be far greater than in Trump's first term. In early March, the Tax Foundation estimated that new tariffs could shrink the US economy by 0.4% – twice the effect of the previous round – before accounting for foreign retaliation. The biggest targets are imports from the EU (facing 25% tariffs) and China (20%). However, it's unclear whether these tariffs are primarily negotiating tools, to be rolled back if Trump secures concessions. The level of retaliation from other countries will also be crucial. If tariff revenues are redirected into tax cuts or economic stimulus, the impact on growth could be offset.

Investing through uncertainty

In such an unpredictable environment, a prudent investment approach is essential. Avoiding excessive exposure to any single market while resisting the urge to react too strongly to short-term headlines is key.

It's also important to keep tariffs in perspective. Even if global trade slows, the flow of ideas that drive shareholder value will continue. Take the breakthrough in generative artificial intelligence by China's DeepSeek, despite US restrictions on chip exports. Regardless of tariffs, there will still be plenty of investment opportunities for Tammy and Tabitha to discuss – along with everything else happening in the markets.

TRUMP'S TARIFFS: THE STORY SO FAR

Donald Trump's second presidency is still in its early days, but trade policy has already taken centre stage. His administration has moved quickly to expand tariffs to protect US industry and reshape global trade.

In February, it reimposed tariffs on steel and aluminium, echoing 2018. Supporters say they protect jobs in states like Pennsylvania and Ohio. Critics warn they raise costs across industries, from construction to automotive.

Small-value online purchases — once exempt and fast-tracked — now face duties and tighter checks. The move is expected to hit e-commerce and consumers, while helping US retailers.

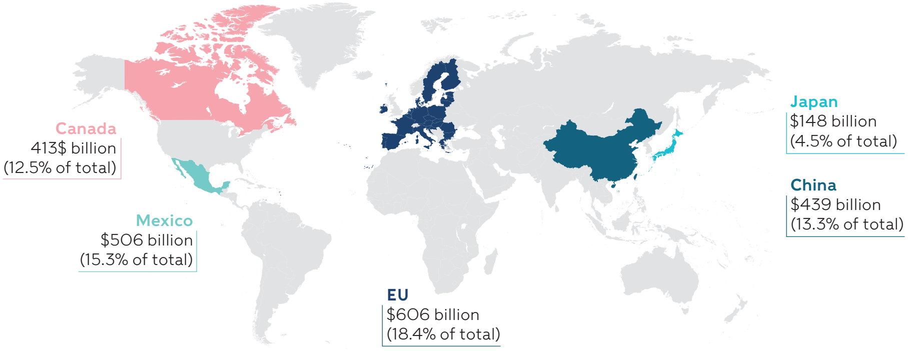
Looking ahead, the administration has proposed new tariffs on China and the EU — 20% and 25% respectively. If enacted, they could escalate trade tensions.

Some see this as a negotiating tactic. Others warn of retaliation and weaker global trade. Either way, investors will be watching. Trade policy can affect inflation, interest rates, profits and growth — all key to long-term investment outcomes.

Figure 5: Trading partners

US imports of goods from its key trading partners in 2024.

Source: US Census Bureau, LSEG and Rathbones



WHY CRYPTOCURRENCIES ARE NOT A RELIABLE DIVERSIFIER

Bitcoin has been on a wild ride since it first started grabbing investors' attention in the late 2010s. Over the past year alone, it has swung from lows near $40,000 to highs above $80,000. As expected, each surge in price tends to spark renewed client interest in cryptocurrencies, leading to more questions about whether they have a place in an investment portfolio.

While it would have been painful to watch bitcoin double in price from September to December 2024 – partly in anticipation of a pro-crypto Trump presidency – there are important reasons why investors should be cautious.

The first thing to highlight is that Financial Conduct Authority (FCA) regulations prevent us from investing in cryptocurrencies or crypto-linked products on behalf of our clients. The FCA bans the sale, marketing and distribution of derivatives and exchange-traded notes (ETNs) referencing unregulated crypto assets to retail investors. While this position could evolve, there are deeper considerations around bitcoin's suitability as an investment, including the following:

Extreme volatility. Since 2017, bitcoin has twice lost more than 75% of its value. Even if you believe in its long-term potential, it requires an exceptionally high risk tolerance. Since 2015, bitcoin's volatility has been around four-and-a-half times that of global equities.

Correlation with equities. Bitcoin is often described as a diversifying asset, but its correlation with equities – particularly technology stocks – has increased as institutional adoption has grown. The launch of spot bitcoin ETFs in the US has only reinforced this trend. As figure 6 shows, bitcoin's price movements have tracked Nasdaq-listed technology stocks more closely in recent years.

Speculative demand drives prices. The biggest factor influencing bitcoin's price appears to be speculative demand from US retail investors. This aligns with their broader appetite for technology-related investments and fluctuates accordingly. Meanwhile, arguments that bitcoin acts as a hedge against inflation or central bank money printing don't hold up. Its price collapsed in 2022 as inflation surged and has since risen again as inflation has moderated.

An asset with no cash flows

One of the greatest challenges in assessing bitcoin's value is that it doesn't produce cash flows. Investors typically value financial assets using discounted cash flow analysis – projecting future cash flows and discounting them based on time and risk. This approach doesn't work for assets like bitcoin (or gold or art), making them harder to value.

Bitcoin's future price depends on whether demand continues to grow. Some believe its adoption as a strategic reserve asset – an idea floated by President Trump – could drive further gains. But there are many uncertainties. Demand could shift to another, more technologically advanced cryptocurrency. The Trump administration's enthusiasm for bitcoin might prove short-lived (and his initial proposal was concerned mainly with how bitcoin already seized by US law enforcement is treated in any case). Central banks could introduce their own digital currencies. Speculative retail interest could fade or move elsewhere.

Bitcoin is the largest and most well-known cryptocurrency, but it's not the only one. Many alternative cryptocurrencies (altcoins) have emerged, offering different use cases and technological improvements. Some, like Ethereum, provide functionality for smart contracts (automated or self-executing), while others claim to offer enhanced privacy or faster transaction speeds. However, these alternatives face similar risks – extreme volatility, uncertain adoption and regulatory scrutiny. While some may carve out niches, none have yet demonstrated long-term stability as investable assets.

In summary, bitcoin remains an extremely volatile asset, now more correlated with equities than it was in the mid-2010s. While its price could continue to rise, this is driven largely by speculative forces rather than fundamental value. Investors should treat it as a high-risk speculative asset, rather than a portfolio diversifier. The same applies to other cryptocurrencies, which may offer technological differences but share bitcoin's vulnerability to speculative swings and regulatory uncertainty.

Figure 6: Moving together

Bitcoin's price swings have increasingly mirrored the Nasdaq 100, challenging its reputation as a diversifier.
Source: LSEG and Rathbones

A CRITICAL YEAR FOR CORPORATE GOVERNANCE IN THE UK

This is the year of the snake in the Chinese calendar. Less mystically, it's also shaping up to be the year of corporate governance. That's the system of rules, practices and processes used to manage and control companies, covering everything from who sits on boards to how those boards operate.

In the UK, revised versions of three major corporate governance codes have come into force this year: the UK Corporate Governance Code for larger listed companies, the Quoted Companies Alliance (QCA) Code for smaller firms, and the Association of Investment Companies (AIC) Code, which applies to investment trusts and similar vehicles.

Raising the bar for boards

The reputed characteristics of people born in the year of the snake are charm, intelligence and creativity. What are we looking for in board members? We want them not to be excessively paid, not to have served too long and to reflect the diversity of their customers and workforce.

Last year, we focused particularly on improving governance standards at smaller companies. This year, our attention has turned to investment companies. We've written to 131 of them, highlighting the importance of complying with the new AIC Code and encouraging boards to go further on issues such as board diversity, director tenure and fees.

One of our key concerns is 'overboarding' – not a nautical term, but governance-speak for when a director holds too many positions, potentially limiting their ability to contribute effectively to any single one.

Using our voice as shareholders

Our focus on investment companies is driven in part by the size of our shareholdings in several of them. As significant investors, we believe we have a responsibility to hold directors to account – particularly where performance has been lacklustre and where poor governance may be a contributing factor. Our positions also give us a strong voice in shaping how these companies are run.

Another factor is the high-profile campaign by US hedge fund Saba Capital Management, which has challenged governance at a number of investment trusts where we're also major shareholders. While we've opposed all of Saba's proposals, including calls to replace directors based on performance, the campaign has nonetheless helped to highlight some important issues in corporate governance.

Where investment companies choose not to comply with the AIC Code, we expect them to explain clearly how their alternative arrangements are delivering equally strong – or stronger – governance.

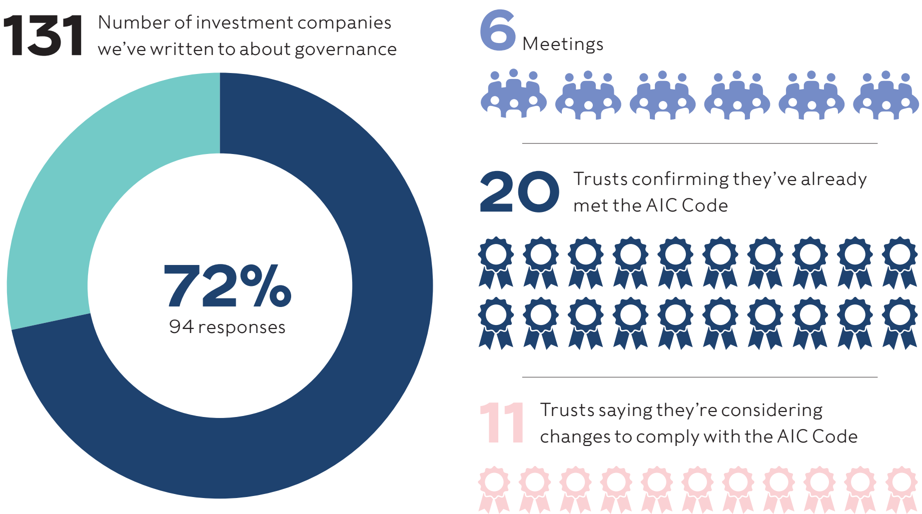
Working together for stronger boards

We plan to seek meetings with companies where we hold large stakes or where we feel their responses to our letters fall short. The AIC reviewed our letter to ensure it would have maximum impact. The association has also circulated the letter to its members, broadening its reach beyond our initial target list.

We've also contributed to a letter coordinated by the Investor Forum, an investor group we're part of. It outlines strong investor support for effective, independent and well-managed boards, and signals our willingness to engage more regularly with directors. It also urges boards to do more to address persistent discounts, where investment trust shares trade below the value of their underlying assets.

As long-term investors, we have a duty to use our ownership rights to influence corporate behaviour in ways that benefit our clients. In doing so, we aim to act not only with the insight of the snake, but also with the diligence, dependability and determination of those born in the year of the ox.

Figure 7: Stewardship in numbers
We've actively engaged with investment trusts over the past year as part of our commitment to active ownership.
Source: Rathbones



FINANCIAL MARKETS

The first quarter of 2025 was marked by renewed market volatility as investors reacted to escalating trade tensions and geopolitical uncertainty. A series of conflicting tariff threats from Donald Trump unsettled global markets and stoked fears of a recession. US equities fell sharply, with Trump refusing to rule out an economic downturn. Treasury yields also dropped on signs of slowing growth, while the 'Magnificent Seven' major tech stocks lost ground as investors braced for further turbulence.

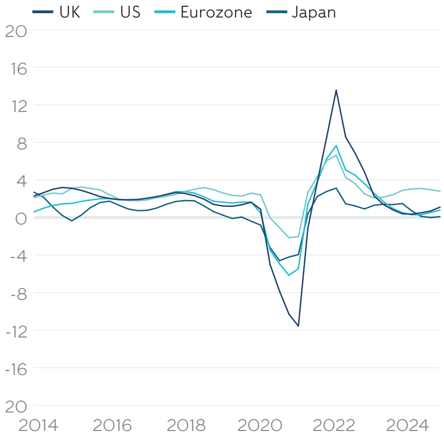
The tech sector was further shaken by the sudden rise of Chinese AI firm DeepSeek, which claimed its new model was developed at a fraction of the cost of US rivals. The news raised concerns about the future of US leadership in AI and compounded pressure on already volatile tech shares. Meanwhile, Asian markets slumped after Trump escalated a tariff war with major trading partners. However, a swift response from Chinese state banks – tasked with supporting consumer spending – helped stabilise the region's markets.

Signs of strength and resilience

European equities stood out as a rare bright spot, reaching record highs on the back of strong corporate earnings and hopes for Europe's ReArm plan to stimulate growth. The FTSE 100 also began the year strongly, enjoying its best month in over two years and climbing to an all-time high. In the bond market, UK gilt yields surged to levels last seen during the 2008 global financial crisis before easing back as inflation fears ebbed.

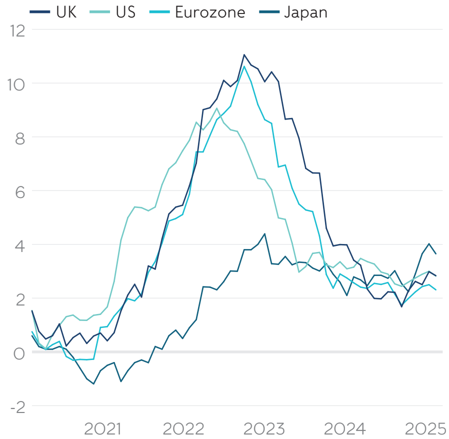
Gold prices hit new highs as inflation concerns, stoked by tariff uncertainty, fuelled demand for safe-haven assets. In contrast, oil prices declined amid fears of slowing global growth. The quarter closed with investors navigating a complex mix of geopolitical risk, technological disruption and diverging regional performance.

GDP growth
Annual change (%)



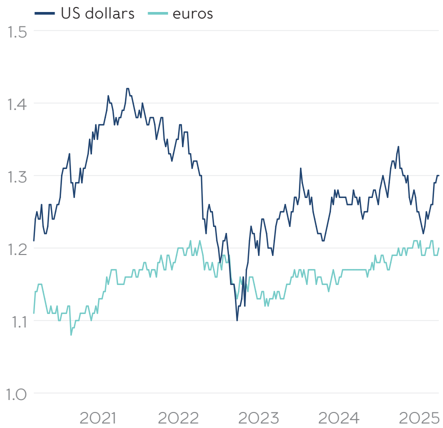
Source: Factset and Rathbones

Inflation
Annual change (%)



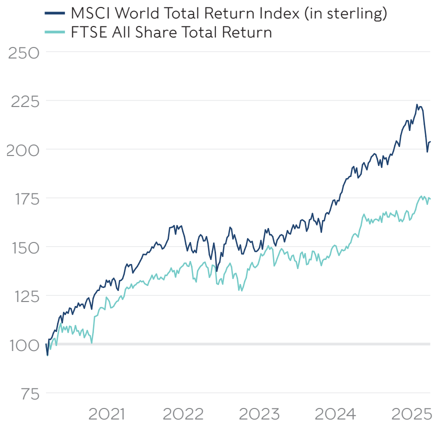
Source: Factset and Rathbones

Sterling



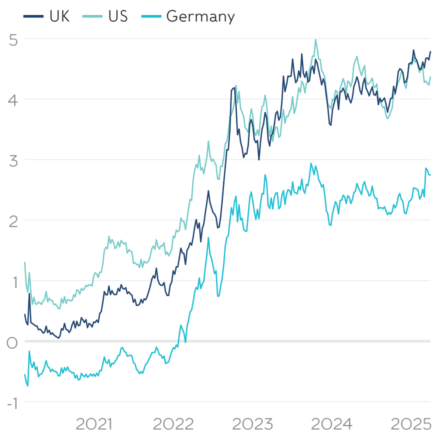
Source: Factset and Rathbones

Equities
April 2020 = 100



Source: Factset and Rathbones

Government bonds
10-year yields (%)



Source: Factset and Rathbones

Gold
US dollars per troy ounce

Source: Factset and Rathbones

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance is not a reliable indicator of future performance.

ADDITIONAL INFORMATION

Information valid at 31 March 2025, unless otherwise indicated. This document and the information within it does not constitute investment research or a research recommendation. The value of investments and the income generated by them can go down as well as up.

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