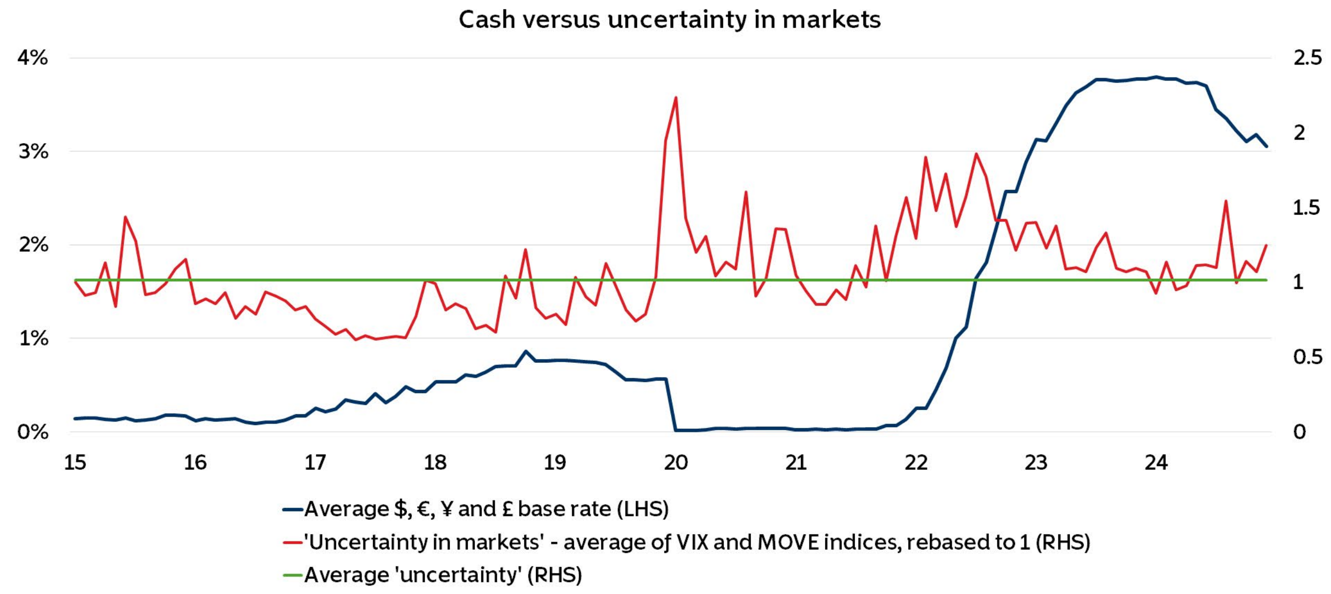
Chart of the Week
24 March 2025



Source: Bloomberg Finance L.P., as at 28 February 2025.

Don't forget cash

Richard Stutley, CFA
Portfolio Manager

What this chart shows

In blue is the average of base rates across the world's major currencies: the dollar, euro, yen and sterling. This is what investors can earn, per annum, by leaving their money in cash. The red line is a proxy for 'uncertainty in markets', derived from the VIX index and the MOVE index, which measure volatility in equity and bond markets respectively. When volatility is high, it means investors are uncertain about the future direction of markets.

Today, uncertainty is high (above its 10-year average, shown by the green line) and for good reason – wars; tariffs; inflation; mass layoffs of government workers in the US; the ripping up of the status quo; the implications of AI…and so on. Meanwhile average cash rates at 3% have moved up significantly compared to the era post the Great Financial Crisis.

Why this is important

Imagine I offered you an investment that had zero correlation to other asset classes (remember, correlations are the key to building better portfolios); and that was guaranteed to be flat when the equity market was down – not flat on average; or seven out of ten times similar to other investments which purport to protect capital. Every time! What does this investment cost today, you ask? It pays you nearly 3%. Remarkable.

Being tactical with cash – i.e. knowing when to raise it and when to deploy it – is part of our toolkit. Cash will never be the highest returning investment, but earning an average rate of 3% over 12 months is not bad by historical standards and very attractive in the context of the last decade. In turn, this sets a high hurdle for other defensive asset classes, including gold and hedge funds. With intense uncertainty over the economic outlook, it is pleasing as asset allocators to find that we can earn a reasonable return on cash and cash equivalents, which is why we hold some in portfolios.

Weekly market update
week ending 21 March 2025

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Across global markets, economies are grappling with persistent inflation, slowing growth, and rising uncertainties. Central banks are adopting a cautious approach, maintaining interest rates amid mixed signals from economic data, while governments and businesses struggle to navigate rising costs, trade tensions, and supply chain disruptions.

US

» The Federal Reserve opted to keep interest rates steady at 4.25%-4.50%, citing ongoing concerns about inflation despite potential economic slowdowns due to global tensions.

» February retail sales increased by 0.2%, rebounding from a decline of 1.2% in the prior month but still below expectations of a 0.6% rise, pointing to weaker consumer spending and growing caution among US households.

» Major companies such as Meta, Wayfair, and Starbucks announced significant layoffs, attributing them to rising operational costs and the integration of automation.

» President Trump's comments did not rule out a potential recession resulting from his tariffs, exacerbating investor worries about economic slowdown.

UK

» The Bank of England (BoE) maintained its policy rate at 4.5%, balancing concerns over inflation with the risks posed by slower economic growth amid global uncertainties.

» Chancellor Rachel Reeves outlined a new round of public sector cuts, aiming to address the fiscal deficit while avoiding tax hikes.

» Despite the challenges, surveys indicate a small uptick in business confidence, beating analyst expectations but highlighting how households remain cautious.

» Consumer inflation expectations for the short-term hit their highest level in over a year, further complicating the BoE's monetary policy decisions. The survey showed households expect inflation to be 3.9% for the year ahead, up from 3.5% in January.

Europe

» A new fiscal stimulus package from the German government aims to boost domestic consumption and counteract external trade pressures.

» February inflation data indicated that inflationary pressures across the Eurozone may have reached a plateau, which could ease the ECB's policy stance. CPI for February came in at 2.3% year-on-year, while Core CPI remained unchanged at 2.6% year-on-year.

» Ongoing tensions between the EU and US have led to a declining trade surplus from $14.2bn to $14bn, as tariffs and other trade barriers impact key exports.

» European stock markets outperformed US equities, with the MSCI Europe Index breaking out of a 17-year secular bear market, signalling the potential start of a decade-long bull market.

Rest of the World/Asia

» China's January-February economic data showed stronger-than-expected industrial production, boosted by equipment manufacturing and high-tech manufacturing.

» The People's Bank of China kept the 1-year and 5-year loan prime rates unchanged, opting for a wait-and-see approach as it evaluates the effects of recent policy shifts and ongoing global trade tensions.

» February inflation data revealed that prices remain above the Bank of Japan's 2% target, putting pressure on the central bank's stance on monetary policy.

» Global oil prices showed volatility, reflecting mixed market sentiment about future economic growth and the potential impact of geopolitical tensions in the Middle East.

Weekly market data

week ending 21 March 2025

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Asset Class / Region	Currency	Cumulative returns: Week ending 21 March	Month to date	YTD 2025	12 months
Developed Markets Equities					
United States	USD	0.5%	-4.7%	-3.4%	9.2%
United Kingdom	GBP	0.2%	-1.2%	7.0%	13.6%
Continental Europe	EUR	0.6%	-1.0%	9.8%	8.9%
Japan	JPY	3.3%	4.6%	0.7%	2.6%
Asia Pacific (ex Japan)	USD	1.3%	2.2%	3.8%	11.5%
Australia	AUD	1.8%	-2.3%	-1.7%	5.5%
Global	USD	0.7%	-2.9%	-0.2%	8.9%
Emerging Markets Equities					
Emerging Europe	USD	-6.1%	4.3%	16.4%	14.8%
Emerging Asia	USD	1.4%	3.1%	4.6%	12.7%
Emerging Latin America	USD	1.2%	7.5%	15.6%	-11.1%
BRICs	USD	1.2%	6.3%	9.7%	20.2%
China	USD	-1.7%	4.6%	18.0%	41.6%
MENA countries	USD	0.4%	-1.9%	0.3%	-1.2%
South Africa	USD	2.3%	8.6%	15.0%	35.8%
India	USD	5.4%	7.3%	-1.5%	3.9%
Global emerging markets	USD	1.1%	3.3%	5.7%	10.5%
Bonds					
US Treasuries	USD	0.4%	-0.1%	2.7%	4.8%
US Treasuries (inflation protected)	USD	0.7%	-0.3%	3.3%	5.8%
US Corporate (investment grade)	USD	0.6%	-0.3%	2.3%	5.8%
US High Yield	USD	0.4%	-0.5%	1.5%	8.4%
UK Gilts	GBP	-0.2%	-1.3%	0.3%	-1.0%
UK Corporate (investment grade)	GBP	0.0%	-1.1%	0.5%	2.7%
Euro Government Bonds	EUR	0.7%	-2.1%	-1.6%	1.3%
Euro Corporate (investment grade)	EUR	0.5%	-1.1%	0.0%	4.7%
Euro High Yield	EUR	0.4%	-0.6%	1.0%	8.0%
Global Government Bonds	USD	0.1%	0.5%	2.5%	2.3%
Global Bonds	USD	0.2%	0.5%	2.6%	3.3%
Global Convertible Bonds	USD	0.0%	0.0%	3.1%	9.8%
Emerging Market Bonds	USD	0.4%	-0.1%	2.6%	7.4%

Asset Class / Region	Currency	Cumulative returns: Week ending 21 March	Month to date	YTD 2025	12 months
Property					
US Property Securities	USD	-0.5%	-5.4%	-1.0%	8.1%
Australian Property Securities	AUD	1.8%	-0.5%	-2.9%	0.0%
Asia Property Securities	USD	0.7%	3.1%	6.8%	-0.3%
Global Property Securities	USD	0.1%	-2.5%	0.8%	5.9%
Currencies					
Euro	USD	-0.5%	4.1%	4.6%	-0.3%
UK Pound Sterling	USD	0.0%	2.6%	3.2%	2.1%
Japanese Yen	USD	-0.5%	0.8%	5.4%	1.7%
Australian Dollar	USD	-0.7%	1.1%	1.5%	-4.5%
South African Rand	USD	-0.2%	2.5%	3.8%	3.5%
Swiss Franc	USD	0.2%	2.2%	2.8%	1.8%
Chinese Yuan	USD	-0.2%	0.3%	0.7%	-0.7%
Commodities & Alternatives					
Commodities	USD	0.4%	1.1%	3.6%	5.4%
Agricultural Commodities	USD	0.5%	0.2%	0.0%	-0.8%
Oil	USD	2.2%	-1.4%	-3.3%	-15.9%
Gold	USD	1.3%	5.7%	15.2%	38.6%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

For more information, please contact:
Distribution Services

momentum
global investment management

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

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