UPDATE

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Special feature: Obesity

Fat Profits

Page 8

Other features:

China's growth story is faltering
Page 5

The right kind of immigration
Page 11

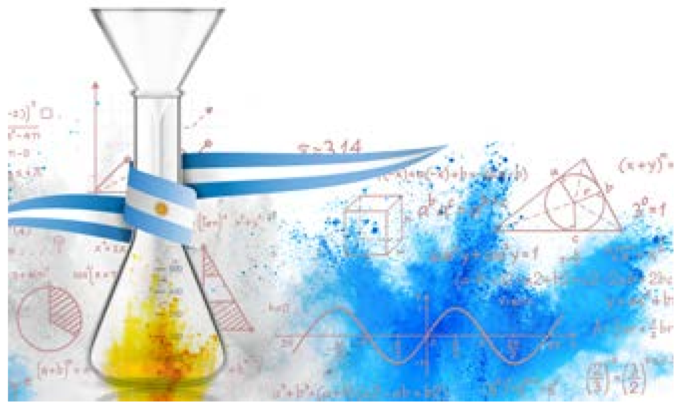
A world of opportunity
Page 16

Europe's too cheap to ignore
Page 20

The global population peak
Page 21

Market report
Page 23

Your Knightsbridge Team
Page 24



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Argentina's radical experiment

Javier Milei takes a chainsaw to the overbearing and bloated state.

6

Special feature: Fat Profits

Obesity: A huge market

Anti-obesity medication enjoying rapid sales and profit growth. A trend set to continue.

8

Is there hope for the UK economy in 2025?

In a gloomy outlook, is there room for some cautious optimism.

13

A not-so-foreign policy

Donald Trump has hit the ground running, with his "America first" protectionist approach.

18

A welcome note from Knightsbridge Wealth

Welcome to this latest edition of our Update. Global markets continue to navigate shifting economic and political landscapes, presenting both challenges and opportunities for investors. China remains in focus, with its economic growth stalling amid weak valuations, regulatory uncertainty, and a struggling real estate sector. While the government has signalled a more pro-growth stance, concerns over demographics, geopolitics and state intervention persist.

In Argentina, newly elected president Javier Milei has perused an aggressive austerity agenda, swiftly eliminating deficits and cutting government spending. While these measures have restored some financial stability, they have also deepened a recession, with rising unemployment and poverty levels. Nevertheless, Milei's popularity has held steady.

Meanwhile, Europe faces economic headwinds, political uncertainty and trade risks, yet markets have shown resilience. A record discount in European equities compared to the U.S presents potential opportunities, while developments such as interest rate cuts or a resolution to the Ukraine conflict could serve as catalysts for growth.

The U.S political landscape is evolving. Donald Trump's protectionist policies, particularly in trade, may introduce further volatility, with implications for emerging markets and global supply chains. While uncertainty lingers, markets have reacted positively in the short term, signalling investor confidence in navigating potential policy shifts.

Our feature this month focusses on a sector seeing remarkable growth, obesity treatment, with pharmaceutical giants Eli Lilly and Novo Nordisk driving innovation in anti-obesity medications. These drugs, initially developed for diabetes, have shown significant weight-loss benefits and could transform global healthcare. With demand surging and insurers expanding coverage, the market is poised for rapid expansion, potentially outpacing even AI and microchip industries in growth.

The emerging markets remain undervalued despite strong growth prospects, particularly in Asia. While trade tensions and global shifts present risks, select opportunities exist in regions benefiting from supply chain diversification.

As ever, Update is here to offer insight into the key issues affecting your investment decisions. We strive to paint you a true picture of the issues affecting investments and thank you for your continued support.

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China's growth story is faltering

Despite low valuations, there is little appetite from investors to buy Chinese stocks.

Over the past decade, the MSCI China index – the standard benchmark for foreign investors – has delivered a gross total return of 3.9% per year in sterling terms, barely half the already-disappointing return for the MSCI Emerging Markets ex China.

It used to be easy enough to argue that the overall market was poor because of the large number of state-controlled firms with little concern for their minority shareholders, but there were still excellent opportunities in technology or consumer goods. Yet that has been a harder case to make lately, since many of the big private-sector names have been weak over the past five years.

Still, taken at face value the market now looks cheap: the MSCI China trades on ten times forecast earnings. That reflects the presence of many poor-quality companies.

Investors feel the government hasn't done enough to turn around the economy and that it needs to do more, especially in real estate.

And there is no shortage of risks. We can come up with a list of reasons to worry about China in the medium term. There's demographics – the population is set to age faster than almost any other country. There's geopolitics – its territorial interests may one day bring it into direct conflict with other powers such as the US, particularly its insistence that Beijing should one day rule Taiwan, regardless of the views of the Taiwanese people. These are real concerns for investors over the next decade.

That said, you can find reasons to be negative about almost any country and these have little to do with how poorly the economy and the stock market have performed over the past few years. Instead, the immediate problems come down to two areas.

Firstly, the bursting of the real-estate bubble. Property had become a huge proportion of GDP – about 25% including both direct and indirect demand – and a key source of growth. It had also become wildly over-supplied, over-valued and over-indebted. The biggest problem with the decision to bring it to an end by curbing lending to developers is that the tougher rules came far too late. Policymakers made the same mistake as Western governments in the 2000s of letting a real-estate bubble run for far too long, with the result that tackling the problem became even more painful.

The second is the crushing of 'animal spirits' in the economy, through a series of other crackdowns on tech firms, finance and some smaller sectors. As with real estate, there were often solid arguments for the government to intervene. The giant tech firms had taken advantage of limited regulation and state influence (compared to many sectors of the economy) to build dominant positions and to try to extend this as widely as possible.

There was a risk of ending up with entrenched monopolies that harmed consumers and smaller businesses. The crackdowns showed all the traits that worry investors most about China – very sudden changes to regulations, no certainty on where the limits would be, a lack of fundamental private property rights and rule of law, and unambiguous signs that private-sector firms would be squeezed in favour of state-owned enterprises, and increasingly co-opted into serving the priorities of the government rather than shareholders.

No wonder that foreign investors became relentless sellers and talk of China being "uninvestable" was common. The sluggish performance of the A share markets – stocks listed in Shanghai and Shenzhen – showed that domestic investors were becoming increasingly pessimistic as well.

However, last year there were some signs that the government has pivoted and is becoming more pro-growth and even a bit more pro-business. There have been some moves to boost consumption, support the real-estate sector and provide more financing for local governments. This led to a rise in Chinese shares in September, but the gains have not been sustained. Investors feel the government hasn't done enough to turn around the economy and that it needs to do more, especially in real estate. The widespread consensus is that the property sector is so influential there is no way to get growth going again without stabilising it in the short term. There is also a fair amount of optimism that the government will do more. If it does, China is so unloved there is a lot of potential for markets to rally.

Argentina's radical experiment

In November 2023, Javier Milei won Argentina's election, promising to take a chainsaw to the overbearing and bloated state. Milei is a former economics professor and anarcho-capitalist who had no prior political experience. A life-long libertarian, Milei is hailed by some – Elon Musk and Donald Trump among them – as a beacon of pure capitalism and a champion of small government. Others regard him as a crazed far-right populist whose programme of extreme austerity remains all but certain to end in mass civil unrest, and create yet more misery for a nation of 46 million people well used to debt crises, bad governance and high levels of poverty.

To date, the Milei presidency has proved far smoother than many commentators expected. In office, Milei hasn't exactly pivoted to the centre, but he has become more pragmatic and presidential. Where once he savaged the Chinese as "assassins", with whom Argentina should not do business, he now hails his nation's second-largest trading partner as "truly a super-friendly partner. They have really surprised me."

Milei's chainsaw has certainly been busy. Since taking power, he has wiped out "years of hefty government deficits and money-printing" with a programme of fiercemausterity – halting capital spending, shrinking the government payroll and slashing pensions and state-sector salaries in real terms. Argentina's public finances recorded a surplus of 0.4% of GDP in the first eight months of this year, compared with a 4.6% deficit at the end of 2023. Milei closed 13 of 22 government departments, sacked as many as 30,000 officials and slashed the federal budget by 32%, one of the most rapid and drastic fiscal adjustments of any country in peacetime.

What about dollarisation?

> Milei's ultimate aim is to lift capital and exchange controls in order to let the peso float freely

Milei campaigned on a pledge to abolish Argentina's central bank and scrap the national currency in favour of full dollarisation, declaring that the peso was "not worth crap". In office, he began by devaluing the peso by 50%, and his team talks about plans for Peru-style "currency competition", in which both dollars and pesos would be legal tender. Milei's ultimate aim is to lift capital and exchange controls in order to let the peso float freely – it remains overvalued, making the country expensive in dollar terms. In terms of international investor confidence, there are promising signs. The gap between the black-market dollar and the official rate – a useful barometer of sentiment – has shrunk to just under 20% in October from

60% in January. But most foreign investors want to see how durable the Milei experiment proves before opening their chequebooks. Milei has done a remarkable job so far of discarding the fiscal baggage that has been weighing Argentina down. But mess up the big macroeconomic questions and that will count for little.

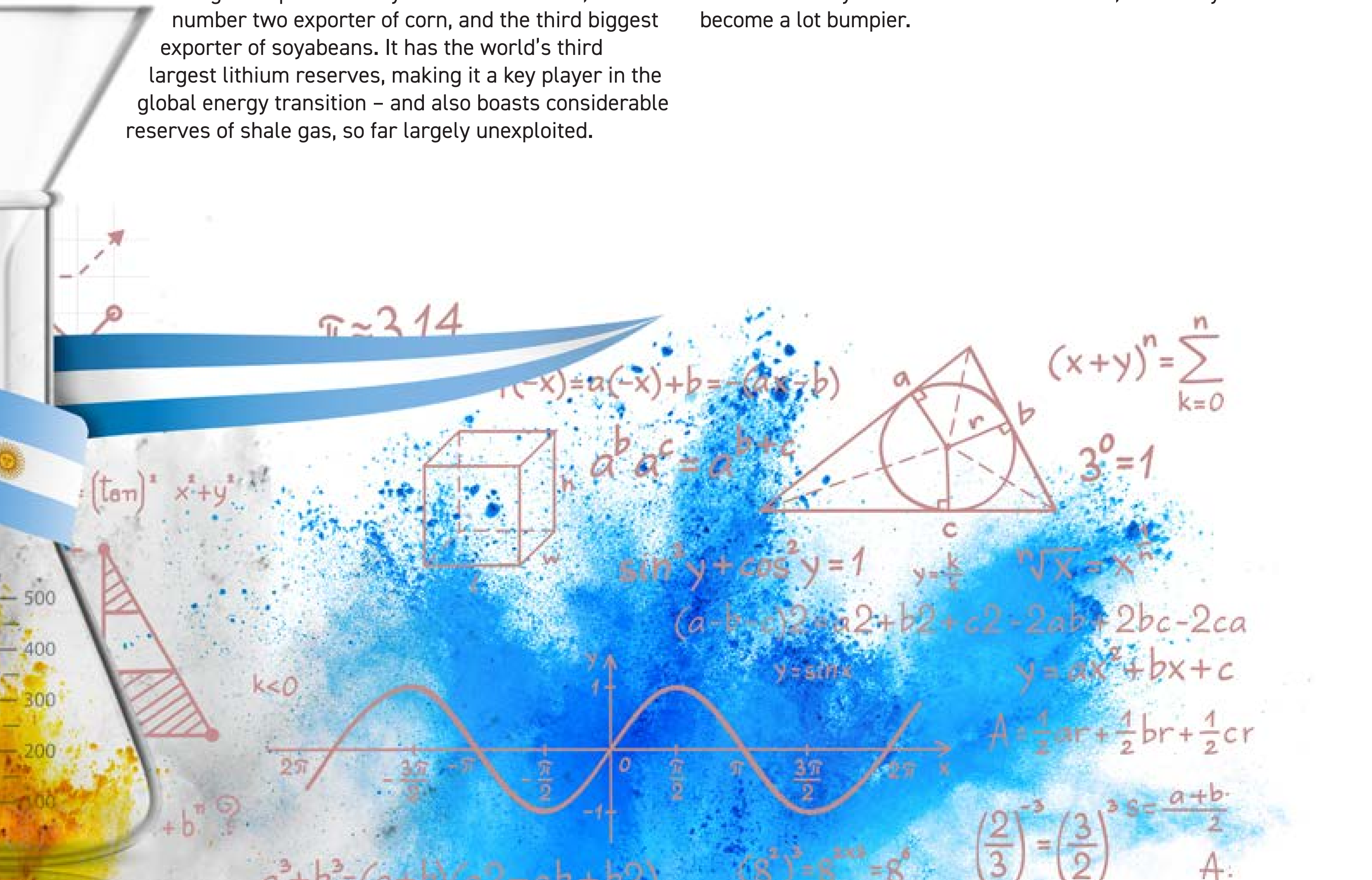
Inflation is falling rapidly. Argentina's annual inflation rate, at around 200%, remains the highest in the world. But the monthly inflation rate has fallen sharply from 25% in December to around 3.5% now, helping bring interest rates down. The stock market has boomed this year (up roughly 125%) and bonds have bounced, too. And the central bank has added a net $19bn to its reserves this year. However, the harsh austerity programme has deepened a recession that began in 2023. The economy is shrinking, unemployment is rising and the number living in poverty has jumped to 53%, the highest for 20 years and a rise of 11 percentage points in a year, meaning 3.4 million more people are now impoverished.

Argentina has economic strengths. It's the world's largest exporter of soyabean oil and meal, the number two exporter of corn, and the third biggest exporter of soyabeans. It has the world's third largest lithium reserves, making it a key player in the global energy transition – and also boasts considerable reserves of shale gas, so far largely unexploited.

The country remains the IMF's largest debtor, owing $44bn. The Milei government wants billions of dollars to help lift strict currency and capital controls that are slowing the country's exit from recession. Milei hopes he has identified a kindred spirit in Donald Trump, who might be able to help make that happen. On the other hand, Trump's promised tariffs are the opposite of Milei's market libertarianism, and a surging dollar would add pressure to radically devalue the peso, driving up inflation once again.

For now, Milei's popularity is holding up remarkably well for a president overseeing such harsh austerity. That's important, because his political movement has few seats in Congress, his presidency is reliant on coalition-building with mainstream parties, and protesters have sporadically taken to the streets. One difficulty will be the legal fights with creditors winding their way though courts in the US and Europe. Unfortunately for Milei, a tsunami of judgments that has been building for two decades is now breaking, with final rulings in all the [major] cases due in his four-year term. These could cost Argentina about £31bn without interest.

It's been a fairly smooth ride so far for Milei, but it may become a lot bumpier.



Obesity: A huge market

Anti-obesity medication (AOM) is transforming how people look and feel about themselves. Many celebrities, including Elon Musk, have given it a go. Musk claimed that he lost nearly 30 pounds. The drugs – with increasingly well-known names such as Wegovy and Mounjaro – are making waves among investors too. AOMs have been one of the hottest themes over the past 12 months, perhaps second only to artificial intelligence (AI), and there is plenty of long-term growth to come. The global pharmaceutical giants behind obesity medication, such as Eli Lilly in the US and Novo Nordisk, based in Denmark, are already enjoying rapid sales and profit growth, a trend set to continue for years to come.

Obesity is a huge market. The condition is defined as a complicated, chronic disease in which too many fat deposits undermine or damage a person's health. The World Health Organisation (WHO) now lists it as the fifth-biggest risk factor leading to death. It reduces quality of life as it can lead to diabetes, heart disease and some cancers, while it also affects bone health and reproduction.

This worsening human suffering, and the economic burden of coping with it, pose a challenge that this latest generation of AOMs seems to meet. Much more effective than previous weight-loss medications, these drugs are rapidly forming the new front line in the fight against obesity. They can improve long-term health, boost mental wellbeing and free up increasingly scarce healthcare resources.

The WHO reports that there were 890 million obese adults worldwide in 2022. You can add to this the 1.6 billion adults classified as overweight, but not quite obese. This adds up to 43% of the world's adults classified as overweight and obese – a sharp rise from 25% in 1990.

This uptrend is set to endure. The World Obesity Atlas predicts that over half of the world's population will be obese or overweight by 2030, due to poor eating habits, insufficient physical activity and genetic dispositions towards the disease. The World Obesity Federation projects that by 2035 more than 1.5 billion adults will be living with obesity. The condition is so pervasive that it is recognised by the WHO as an epidemic.

The annual economic cost of dealing with obesity worldwide is $3trn, a figure that will soar to $18trn by 2060, equating to a staggering 7% of projected global income. These figures include both medical expenses and lost productivity. In the US, the Centres for Disease Control and Prevention believe that the medical costs of obesity management alone were $173bn in 2019.

Goldman Sachs estimates that the number of Americans taking anti-obesity drugs will have trebled to 30 million by 2028, although their best-case scenario foresees 70 million. It points to several key drivers for the latest medications that support taking an optimistic view of their efficacy:

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accelerating uptake by patients as awareness grows; expectations that health insurers will increasingly stump up money for treatments; and patients taking the drugs for longer periods of time.

Sales growth expectations for the potential market over the coming years are high. Goldman Sachs reckons that the AOMs segment can grow by nearly 50% a year from $6bn last year to $100bn by 2030. Within the industry, the CEO of the $145bn drug giant Pfizer, Albert Bourla, notes that some estimates put the size closer to $150bn. Such growth rates would suggest AOMs could outpace the AI or microchip markets, for example, which are likely to expand by anywhere between 7% and 30% a year over similar time periods.

Of course, it's early days and forecasts could be revised either way as more is learnt about how the medication is being considered, prescribed and paid for. For now, though, growth is rocketing. Wegovy, introduced in 2021, saw sales soar from $876m in 2022 to $4.5bn a year later. Meantime, Eli Lilly's Zepbound, introduced in the US in November 2023, generated sales of over $2.9bn in its first full year.

Beyond these financial gains, the latest medications are also delivering markedly better health outcomes for patients. The drugs are known as "glucagon-like peptide 1" agonists, or simply GLP-1. Clinical research is showing weight loss of ranging from 15% of body weight to more than 25%, which can be maintained over multiple years with continued use. GLP-1 drugs include Ozempic and Wegovy from Novo Nordisk, and Mounjaro and Zepbound from Eli Lilly (the company that first mass-produced insulin as a breakthrough treatment for diabetes around a century ago).

These drugs were originally developed to treat type-2 diabetes, a serious health condition in which blood sugar levels are too high, affecting quality of life and increasing the risk of significant physical problems. The drugs cut blood sugar to safer levels. But evidence and trials subsequently confirmed that the medication also suppressed users' appetites and cut their calorie intake. Regulatory approval for some of them to be used specifically for obesity management followed.

This marks a big advance over previous generations of AOMs. Treatments that emerged in the 1940s and were used for decades were stimulants, including amphetamine. Concerns gradually grew around the potential for addiction, while serious adverse side effects, such as cardiovascular illnesses, were detected.

From the late 1990s, drugs such as sibutramine (developed by Boots in the UK) were prescribed "off-label" for weight loss, although they were serotonin inhibitors primarily intended for treating clinical depression. Marketed under brands such as Meridia, Reductil and Siredia, the treatment was withdrawn around 2010 because of heart attack and stroke risks. Another, orlistat, is sold as Xenical and works by stopping the absorption of fat (alongside a controlled diet). Many of these relatively recent anti-obesity drugs worked (side effects apart), but they were not so effective, with weight loss measured between just 3% and 11% at best.

But with efficacy having advanced in leaps and bounds with the latest drugs, the main problem for pharmaceutical groups is making sure people can gain access to them, because they are far from cheap. According to JPMorgan, a month of Wegovy would set you back around $1,350 and Zepbound $1,060. For many, this would be a struggle if not an impossibility, no matter how strong the desire to shed the pounds.

The immediate solution is to encourage more health insurers in the US to step in and foot the bill. Many don't because obesity treatments are seen as lifestyle related, rather than a health treatment. But attitudes are changing as increasingly widespread research points to the links between obesity and related illnesses, such as heart disease and mobility difficulties, which insurers pay to cover.

JPMorgan estimates that insurers' coverage of AOMs will jump from 40% today to around 80% by 2030, a sizeable shift underpinning analysts' upbeat sales and profit projections for the sector. The same research should also convince government-sponsored health services such as Britain's – where private health insurance is less widespread – to buy and supply more of the medication.

Another difficulty for the sector is short supply of the active ingredients to make the medication itself and the 'pens' that are pre-filled before distribution and used by patients to self-inject the correctly measured dose. Both Eli Lilly and Novo Nordisk are working to address these problems, although more efficient supply lines will take time to build. Novo bought manufacturer Catalent for $16.5bn in February to make the pens and other mechanisms.

Beyond short-term challenges, investors are presented with a medium-term growth sector dominated by Eli Lilly and Novo Nordisk. With their significant array of products, research capability and development pipelines, they are jointly expected to control more than 90% of the AOM market, according to Bloomberg. As a fast-expanding duopoly, they are now among the world's highest-valued pharmaceutical groups.

Strong though these firms' position is, other players are active in the field. High potential growth rates will inevitably attract new entrants. Pharmaceutical giant Pfizer, for example, is developing existing products and looking at licensing new ones to make inroads into the obesity market. Meanwhile, biotechnology group Amgen is trialling a product it thinks could have fewer side effects and require lower dosing than the current market leaders.

The right kind of immigration

To generate growth in an economy you need, among other things, people and employment.

The European Union (EU) has seen a slowdown in its output since around 2018, driven partly by an aging population placing pressure on the labour market and public finances. Add to that the many ongoing geopolitical uncertainties – a pandemic, the war in Ukraine, global trade frictions between the US and China along with the world's other major economies – and it's not hard to see what has contributed to its stagnation.

While the EU economy is set to grow by 1.5 per cent in 2025, according to European Commission estimates, this still marks a significant slowdown compared to previous years.

Malta is expected to grow the most in 2025 with an annual growth rate of 4.3 per cent; Germany, France and Italy are forecast at below 2 per cent growth.

Yet this anaemic performance comes despite record levels of immigration.

In 2022, immigration in the EU reached an all-time high of around 6.5 million, with those fleeing the war in Ukraine accounting for roughly four million of that figure and causing a surge in Central and Eastern Europe and Germany's populations.

In Spain, the biggest influx of immigrants came from Latin America, where Spanish is the most widely spoken language.

Adverse effects of climate change are also having an impact on migration as some parts of the world become uninhabitable, a trend that will likely continue over the coming decades.

Currently, the majority of refugees from Africa and Asia move to neighbouring countries. However, the United Nations estimates that water stress could displace 700 million people by 2030. If no action is taken to mitigate rising temperatures, a report from the World Bank states that there could be 216 million internal climate migrants by 2050 – greater than the population of Germany, France and Italy combined.

Immigration can also influenced by political and policy changes. After coming to government last year, Labour announced that it would be raising taxes on high-income earners.

London has long been one of the world's top destinations for migrating millionaires from the 1950s to the early 2000s. Now, according to wealth intelligence firm New World Wealth, they are leaving the British capital for places such as Paris, Dubai, Amsterdam, Monaco, Geneva, Sydney, and Singapore.

Figures suggest the UK lost 10,800 millionaires to foreign countries last year, more than double the number who left in 2023. Research by the Adam Smith Institute claims that this was as damaging as the UK losing half a million taxpayers.

In 2022-23 some 2.7 million of the 4.2 million EU jobs created between 2019 and 2023 were filled by non-EU citizens.

Overall, the number of immigrants into the EU who stay is rising. Figures from Eurostat show that in 2023 over 3.7 million first residence permits were issued in the EU, up from 3.6 million in 2022 and exceeding the pre-Covid figure of three million in 2019.

So long as there is employment for these people, there is the potential for economic growth.

The figures bear this out.

In 2022-23 some 2.7 million of the 4.2 million EU jobs created between 2019 and 2023 were filled by non-EU citizens. At the same time, the unemployment rate of EU citizens remained at historic lows, suggesting that immigrants helped towards alleviating labour shortages.

This stronger-than-expected net migration over 2020-23 into the euro area is estimated to push up potential output by 0.5 per cent over the next five years, delivering just under half the euro area's annual potential GDP growth.

To achieve that, policy efforts must seek to continue to integrate migrants into the labour force in the most productive way possible, while also ensuring that the supply of public services and amenities keeps up with the population increase.

Many EU countries attract highly skilled workers, particularly in sectors such as technology, finance and engineering that contribute to higher productivity, economic growth and can support an aging population.

However, some countries see a significant number of low-skilled immigrants, particularly from non-EU countries, which can place pressure on services and fuel political tensions.

To maintain its position as a key economic player, the EU must re-energise its economy, improving productivity and boosting investment in key areas such as green energy and digital infrastructure.

Through the European Green Deal, the EU has committed to carbon neutrality by 2050. This initiative will create opportunities in renewable energy, electric vehicles, energy-efficient technologies and sustainable infrastructure.

Likewise with the technology and digital innovation sectors. The EU is increasingly investing in areas such as artificial intelligence, blockchain and cybersecurity, and companies in these fields are poised for expansion, presenting investment opportunities and long-term growth potential.

The right balance of immigration will play a crucial role in addressing labour shortages in sectors requiring both high and low-skilled workers.

Not only will this increase the EU's capacity for output, it will offset the long-term challenges of an aging population, allowing for an investment-friendly environment that enhances the EU's appeal once again.

Immigration is currently a whipping boy of policy makers on the basis that too many low skilled immigrants are a drain on the economy. The debate in the UK has moved to one of what constitutes the 'right immigration'. Kemi Badenoch, leader of the UK's opposition Conservative party, has chosen to navigate the landscape by asserting that who the immigrants are is just as important as how many; the more easily someone fits into society the more numbers we can take.

This acknowledges a broader point that is supported by many employers. Immigration fuels the economy. It increases the productive capacity of the economy and raises GDP. Those settling here see their incomes rise, but so do those of the population at large. Immigrants often ease the labour market by flowing into industries and areas where there is a relative need for workers — where bottlenecks or shortages might otherwise dampen growth.

But as populism and tariffs haunt the global economy, a liberal view of immigration is not a view shared by all in positions of power and, arguably, its mismanagement over the last couple of decades has coloured the views of electorates across the planet.

In economic terms, it is a good thing. Politically it has become a bête noire. As ever the truth lies somewhere in the middle.

Is there hope for the UK economy in 2025?

Britain's economy was going gangbusters at the beginning of 2024. Unfortunately, last year appears to have ended with a whimper. The best hope now is that this pattern will be reversed in 2025, with a sluggish start giving way to a strong and sustained recovery. But the risks, sadly, lie mostly on the downside.

Recent data has certainly been poor. The latest official figures show that the UK economy failed to grow at all in the third quarter of last year. Most forecasters, including the Bank of England, now expect zero growth in the fourth quarter too.

For now, it still looks as if Britain will just about avoid an outright recession, defined as two successive quarters with a contraction in total output. But the UK may already be back in a technical recession in terms of output per head, which fell by 0.2% in the third quarter of 2024 and was set to dip again in the fourth.

Last year was therefore a year of two contrasting halves. In the first, the UK managed the joint-fastest growth in the G7 group of advanced economies. But it looked set to finish the second half at the bottom of the league table. Every survey of private businesses shows that confidence has weakened sharply since the summer, especially among smaller firms. At the same time, inflation is picking up again and recruitment has stalled. This has revived the spectre of "stagflation" – a toxic combination of weak activity, rising inflation, and job losses.

What explains this dramatic turnaround? Firstly, and to be fair to the chancellor, Rachel Reeves, the global backdrop has deteriorated. Germany and France are now facing economic and political crises that, if anything, are even worse than ours. There is growing uncertainty too about the outlook for inflation and interest rates in the US, especially with Donald Trump soon to be back in the White House.

Secondly, and again to be fair to Labour, the strong growth in the first half of 2024 was never likely to be sustained. In particular, the figures were flattered by the rebound from the weakness in the second half of 2023, when the UK economy was in an outright recession. Output per head fell in all four quarters of 2023.

The bigger picture is that growth has been sluggish for many years, mostly under the Conservatives. Nonetheless, the words and actions of the new government have clearly not helped. From the beginning, incoming Labour ministers have talked down the economy. The gloomy rhetoric was not entirely unjustified.

The previous government had left plenty of structural problems, including weak productivity, poor quality of many public services, high levels of economic inactivity with many people no longer looking for work, and record levels of both tax and national debt. Even so, constantly speaking about the "worst inheritance since World War II", and the need for tough decisions to correct the mistakes of the past, had a chilling effect on business and consumer sentiment. The rushed announcement of the means-testing of winter fuel payments for pensioners only added to the sense of foreboding.

Reeves' first Budget then delivered even bigger hikes in taxes and other business costs than most had feared. The new chancellor plans to increase public spending by about 2% of national income. Half of this will be financed with upfront tax increases and half by more government borrowing, which will add to the tax burden in future.

In effect, then, the chancellor intends to transfer another 2% of national income from the private to the public sector, at a time when the tax burden is already at a historic high. No wonder so many businesses are unhappy.

Bond markets did not like the Budget either. Many investors are still worried that the additional public spending will boost inflation and delay cuts in official interest rates; that the additional taxes will not raise as much money as expected; and that the extra borrowing will mean that yields must rise to attract enough buyers for the additional bonds.

The budget also appears to have further damaged trust in government more generally, undermining the credibility of the pledge not to raise taxes any further. Labour has claimed that the "payslips of working people" were protected because most of the additional revenues were raised from employers' national insurance (NI). But no serious economist would go along with this. Indeed, there was a time when Reeves herself recognised that employers' NI is a "tax on jobs".

The reality is that companies are only paper entities and cannot bear the economic burden of tax rises themselves. This burden is always passed on to real people. The only unknowns are the timing and distribution of the losses. In the case of the increases in employers' NI, the Office for Budget Responsibility (OBR) has assumed that just over two-thirds of the additional business costs will be passed on to working people, mostly in the form of lower wages, but also as higher prices.

> Looking past the headlines, most firms are still relatively upbeat about their own prospects, despite their worries about the UK economy as a whole.

Moreover, the OBR has assumed that the tax increases will cost 50,000 jobs. The upshot is that, even if the hikes in employers' NI do not appear in most payslips, they will eat into real incomes, and some people will no longer see a payslip at all.

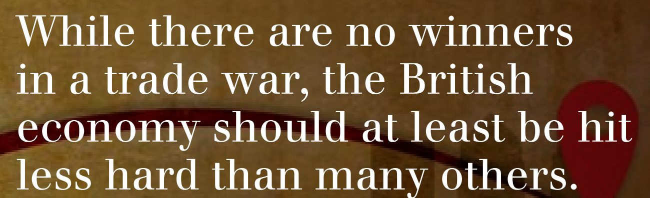
In the election campaign, the would-be chancellor insisted that "there are no additional tax rises needed beyond the ones that I've set out", and that there were no "black holes" to fill. That promise was barely credible at the time and has since fallen apart. Even many of those who are more sympathetic to Labour's plans to boost the state are frustrated. It would be more honest to say that much higher public spending requires much higher taxes, and to have raised those taxes in a more straightforward way. And of course, the shift in government policy is not limited to the Budget. State intervention will be ratcheted up even further in many other areas, including the uncertain impact of new net-zero policies on energy bills. Many firms will struggle too with the additional burdens of higher minimum wages and new employment rights, especially in sectors such as retail and hospitality.

Admittedly, the minimum wage has not yet cost many jobs because the demand for workers has been high and because it has been set at a reasonable level, based on independent advice. But this is now changing.

However, all is not necessarily lost. Looking past the headlines, most firms are still relatively upbeat about their own prospects, despite their worries about the UK economy as a whole. Consumer confidence also appears to have stabilised, and average incomes should still rise faster than prices, especially for those lower-paid workers who do keep their jobs. As is the case with businesses, most polls suggest that households are far less anxious about the outlook for their own finances than they are about the general economic situation. Many still have extra savings that were built up during the pandemic and could now be used to support spending too.

Even the Budget itself was not all bad. For instance, the chancellor's new "fiscal rules", while still flawed, are an improvement on what went before. Balancing day-to-day spending with current tax revenue makes good economic sense, as does tweaking the targeted measure of debt to take more account of new assets as well as liabilities. The planned increases in public spending should have some positive effects on growth this year and beyond, helping to offset the weakness in the private sector. The OBR has been loath to factor in a bigger boost from the planned increases in public investment until there are more details on how the money will be spent. But there may be some good news still to come here.

In the meantime, the signs of weakening in the labour market, and especially in pay settlements, should at least encourage the Bank of England's Monetary Policy Committee (MPC) to keep cutting interest rates. The most likely scenario is a series of gradual cuts, perhaps a quarter point every quarter. But the MPC has already signalled that it might be willing to pay more attention to the downside risks to growth and to lower rates more quickly.



External conditions may improve too. The European Central Bank also has room to cut rates further, and a more flexible approach to fiscal policy might allow the German economy to recover a little faster. Assuming no more nasty surprises, any UK recession is therefore likely to be shallow by past standards, inflation will probably not rise much further, and unemployment should stay relatively low. This could better be described as a bout of "stagflation-lite", rather than the far more severe forms that stalked the UK in the 1970s.

This more optimistic take is reflected in consensus forecasts for the UK economy. Independent forecasters expect growth to pick up from around 0.8% in 2024 to 1.3% in 2025. But this would still be less than the 2% assumed by the OBR for the Budget. The mechanical application of the new fiscal rules could then require another round of tax increases to fill the gap in the public finances. In turn, this could fuel a doom loop of lower confidence, weaker economic activity, lower tax revenues, higher borrowing costs – and more tax rises. As it is, the textbook economic models rarely give enough weight to sentiment. Unless corporate and consumer confidence recover quickly, the UK economy will likely expand by no more than 1% this year, with a good chance that growth is actually lower in 2025 than the 0.8% or so achieved in 2024.

The impact of a second Donald Trump presidency is one of the biggest unknowns, but also counts as a downside risk. So far, investors in US equities have reacted positively to the prospect of another burst of "Trumponomics" or, as the man himself puts it, "MAGAnomics". In part, this reflects the relief that Trump defeated Kamala Harris. The Democrats offered a mess of interventionist policies with a record of failure elsewhere. There are hopes too that the second Trump administration will be more conventional than the first, which itself was not as chaotic as many had feared.

But there is still plenty that could go wrong. Trump made many pledges and threats during the election campaign, including punitive tariffs on imports into the US, a raft of new and extended tax cuts, an all-out assault on red tape and government waste, mass deportations of undocumented workers, and more domestic production of oil and gas. Most of these measures should be positive for growth, at least in the short term. However, there is a high chance that one or more will fail badly.

The main concern is the impact of tariffs. Trump has promised to impose additional taxes of at least 10% on all imports, rising to 60% on imports from China. Some have dismissed this threat as just a bargaining tool, but his avowed love of tariffs means we should take it seriously.

There are several ways these could backfire. One is simply that the pass-through of the cost of tariffs and the increased demand for domestic goods will combine to push up prices. The US central bank – the Fed – is then likely to keep interest rates higher for longer, strengthening the dollar. Any benefit to the US trade balance is also likely to be undermined by retaliation from the EU and China. This policy is not necessarily doomed. The Fed might be willing to look past a step increase in the price level as the economy adjusts to the higher cost of imports, provided the rate of inflation is not permanently higher. The additional tariffs will at least be a new source of government revenue too.

What could this mean for the UK? While there are no winners in a trade war, the British economy should at least be hit less hard than many others. More than two- thirds of our exports to the US are services, which will be largely unaffected by any new tariffs. There is also a good chance that Trump will be willing to treat the UK more favourably than Mexico, the EU and China, with whom the US runs large deficits. By contrast, the US data show a small surplus in goods trade with the UK.

That said, any exemptions for UK exports to the US might require a separate trade agreement, assuming Trump plays by the rules. But the early indications are that a deal will be on the table, and that the US is no longer likely to demand unpalatable concessions on food standards in return. If so, this could be another "Brexit benefit".

Instead, the greatest risk to the UK economy may be the spillover from higher US interest rates. In the worst-case scenario, the US may be moving closer to a long-overdue fiscal reckoning. The US government has been able to run large budget deficits and build up a second Trump presidency could hamper the British economy mountain of debt partly because of the relative strength of the US economy and partly because of the advantage of borrowing in what is still the world's dominant reserve currency. But this could also change, especially if the US picks a fight with the major holders of its debt – notably China.

The upshot is that another burst of stronger growth and higher inflation in the US could add to the pressures on

A world of opportunity

the public finances in the UK. This is a particular concern because the cost of government borrowing in the UK is now closely tracking that of the US again. And even in the US, a longer period of high interest rates could finally challenge the extreme valuations of technology stocks, sending further shockwaves around global markets.

If there is hope for the UK economy, it lies in structural reform. Labour has talked a good talk on the benefits of liberalising planning rules and pensions, lighter regulation of financial services, and more support for housebuilding and infrastructure projects.

There will be a new drive to lift efficiency in the public services, especially by improving working practices and the use of technology in the NHS. And looking just a little further afield, there are some simple ways in which the UK-EU trade agreement could be improved without reversing Brexit. But politicians have made similar promises in the past and failed to deliver. Already the new government is sending some mixed signals. In the health sector, for example, health secretary Wes Streeting has simply announced yet another (three-year) review of social care.

Regulations in the labour market are actually being tightened. Some pension reforms have already been paused. Construction firms are questioning whether there are enough workers and materials to build 1.5 million new homes, even if opposition from the communities can be overcome. The much-hyped launch of the National Wealth Fund – often trumpeted as one of Labour's big changes – is little more than a rebranding of the existing UK Infrastructure Bank.

In short, rather than repairing the public finances, the Budget may simply have added to economic uncertainty and weakened the foundations of growth. A cynic might also wonder whether a Cabinet with no real business experience is best qualified to lift the productivity of the public sector and allow the private sector to thrive. The early signs are not encouraging.

Emerging markets offer strong long-term growth and excellent value, yet have struggled to get the attention of investors over the past five years.

Since 2020, the MSCI Emerging Markets Index has underperformed the MSCI Developed Market Index by a total of 45%. Virtually all this gap can be attributed to the outperformance of the US and the underperformance of China. Chinese equities comprise 28% of the MSCI Emerging Market index, followed by Taiwan at 20%, although half of that is accounted for by Taiwan Semiconductor, which has a 10.5% weighting.

The outperformance of the US equity market compared with the rest of the world since 2020 has driven relative Emerging Market valuations to multi-decade lows. The MSCI Emerging Market's forward price/ earnings (p/e) ratio now stands at a 40% discount to developed-market peers, the biggest differential since 2006. On a price-to-book value basis, EMs are trading at a gap to developed markets not seen since 2001. That is just the headline figure; the valuation dispersion among EM equities is enormous.

Chile, Turkey, Poland, Brazil and Mexico are all trading at discounts of 30% or more to their two-decade average. Korea and South Africa are trading at discounts of 20% or more. On the other hand, Taiwan, Thailand and India are the most overvalued markets.

Despite these low valuations, emerging economies as a group are expected to grow faster than their larger, developed peers in 2025. Analysis conducted by specialist EM fund manager Ashmore suggests they will grow 3.9% as a group in 2025, more than double the 1.5% predicted for developed markets. Asian economies will lead the charge, with growth of 4.4% pencilled in for 2025. Outside Asia, the Middle Eastern oil-power economies are expected to underpin growth in the Middle East/Africa region to 3.6% in 2025. Eastern European economies are expected to chalk up growth of 3%.

These figures are subject to a high degree of uncertainty, as we have yet to see how Donald Trump's tariffs on key US trading partners influence trade. Trump imposed tariffs of 25% on all goods from Canada and Mexico (excluding oil from Canada, which will be hit with a tariff of 10%) and tariffs of 10% on China. He then paused the levies on Canada and Mexico by a month.

Mexico has the most to lose. Exports to the US accounted for 25.2% of its GDP as of March 2024, making it the most exposed to any protectionist trade policies. China is one of the least exposed countries. Just 2.7% of China's GDP is tied to US exports. That's not to say tariffs won't have much of an impact on China's economy. Any trade restrictions are likely to be deflationary and could drive the country's policymakers to monetary stimulus or fiscal support to cushion the economic blow. The spillover effects of these policies could be a net positive for other emerging markets if the country unleashes its massive multi-trillion dollar fiscal surplus to save the economy.

The ultimate impact of a global trade war is difficult to determine, but that doesn't mean investors should give up on emerging markets. In fact, tariffs are likely to hit the pockets of US consumers more than anything else, and in recent years many countries have made huge progress in shifting their supply chains to deal with more protectionist policies.

> Chile, Turkey, Poland, Brazil and Mexico are all trading at discounts of 30% or more to their two-decade average.

In addition, there is more to the world of emerging markets than the traditional plays such as China, Mexico and Taiwan. Regions such as Poland, Turkey and South Africa are likely to escape the worst of the trade war and could even benefit as supply chains are rerouted. They also look incredibly cheap by historical standards.

These factors, coupled with the fact that US equities are currently priced at record highs, imply that adding historically cheap EM stocks to a portfolio and reducing exposure to expensive US equities could make sense.

A not-so-foreign policy

Donald Trump has hit the ground running, signing a slew of executive orders within hours of taking office, rolling back many of Bidens most significant domestic policies.

In typical theatrical style, he put pen to paper in front of a raucous crowd at the Capital One Arena and immediately got to work making good on many of his campaign promises.

By the end of his first day the president had declared a national emergency at the border with Mexico, slashed regulations inhibiting drilling for fossil fuels, pulled out of the Paris Climate Agreement and proclaimed that from now on the government will only recognise two genders, male and female.

However, after weeks of intense speculation, Trump stopped short of imposing new tariffs immediately after being sworn in and instead directed federal agencies to evaluate US trade relationships with China, Canada, and Mexico.

While at least for now, China may breathe a sigh of relief in the reprieve, it may be more short-lived for Canada and Mexico as the president told reporters on Monday he is considering imposing 25% levies on the two countries from February 1.

The US imported around $475 billion worth of goods from Mexico and $418 billion from Canada last year. Nigel Green, CEO of the deVere financial advisory group said that 30% of all US imports and that the consequences of 25% tariffs "could be seismic".

Trump has made it very clear that he intends to prioritise US interests and reaffirmed this in his inaugural speech declaring that "The Golden Age of America begins right now", promising Americans that the country will "flourish and be respected" under his leadership.

His "America first" policy aims to reduce reliance on international supply chains, encourage domestic production, and bring jobs back to the US, and the president has made no secret that he intends to make "massive amounts" of income from foreign trade duties as he works to rebuild American industry.

This protectionist approach is likely to see him re-evaluating current international agreements or withdrawing from them altogether if he perceives them unfavourable to the US, but he needs to tread carefully.

The US currently has 14 free trade agreements with 20 countries, comprising about 40 per cent of US goods exports. Imposing new tariffs and sanctions will almost certainly disrupt global markets and current trade dynamics, especially if tensions rise with China or other key trading partners on his hitlist such as Canada and Mexico.

Emerging markets outside China are also facing more challenging trade negotiations with Trump than ever. EM constitutes 55 per cent of the US trade deficit, and some investors are already ditching EM stocks as they brace for higher tariffs and contend with a soaring US dollar and rising bond yields.

In the short term, as investors respond to changing trade policies and geopolitical risks, stock markets, especially in emerging economies will experience volatility. However, the unpredictability of the new administration's US policies is not deterring all investors.

Following Trump's election victory in November, markets responded favourably. Both the Dow Jones industrials and Nasdaq indexes had their fourth-best daily points gain ever, while the S&P notched its sixth-highest point rise.

And again on Tuesday, post-inauguration, the S&P 500 climbed 0.9%, while many markets around the world reacted more tentatively. The Dow Jones Industrial Average rose 538 points or 1.2%, and the Nasdaq composite added 0.6%.

The president's pro-business approach works in his favour, and for now, traders are sticking with the view that the president's approach could boost corporate profits. However, the threat of widespread tariffs and reduced immigration are potential headwinds that could fuel volatility and put pressure on bond and stock prices.

Elsewhere Trump has been an advocate for more stability, particularly when it comes to the US involvement in foreign wars. He is already taking credit for the ceasefire agreement between Israel and Hamas, and now expectations for more of the same in Ukraine are high.

Despite the President's bold claims that he could end the war in 24 hours, this one has not been ticked off his to-do list yet, and while Trump has declared himself a "peacemaker" in his inaugural address, he did not refer to Ukraine specifically.

An end to the conflict in Ukraine will be a tricky balancing act and President Trump's nominee for Secretary of State Marco Rubio recently said that both Ukraine and Russia would have to make "concessions" to end the war and suggested that the US needs to have an "end goal" in mind for the fighting, with the suggestion that 100 days may be a more realistic aim.

While details of exactly how Trump plans to broker a peace deal between Russia and Ukraine are scarce, the president has made public his intention to meet with Vladimir Putin "very soon" and said that the Russian leader was destroying Russia by refusing to negotiate a ceasefire with Ukraine.

Trump has not ruled out placing sanctions on Russia should Putin refuse to play ball, and has also added his view that the European Union should be doing more to support Ukraine.

When it comes to US relations with other countries Trump's withdrawal from the Paris Agreement and his mantra of "Drill, baby, drill" has not done much to strengthen those bonds, with many believing that without US leadership the world will fall behind in its efforts to combat global warming. Not that this seems to phase the president who has approached his second-term decision-making with gusto.

Over the forthcoming weeks, we can expect to see a significant shift in global trade and international relations, bringing with it a degree of volatility, some of which is already being felt.

The president's off-the-cuff remark about imposing tariffs on Canada and Mexico in February saw both the Mexican peso and the Canadian dollar fall sharply almost immediately, perhaps giving an indication of what's to come.

Trump may have signed hundreds of executive orders, but some will face court challenges before becoming law, and that will take some time. In the meantime, it is a waiting game, it's Trump's world now and we all just live in it.

While what comes next for the global economy will become clearer in the forthcoming weeks, for now, it seems that the only thing certain is uncertainty.

Europe’s too cheap to ignore

Europe finds itself in the midst of a perfect storm. Growth faces stiff headwinds and electorates are routinely rejecting their leaders. Donald Trump is planning tariffs. Europe’s catalogue of problems is long, says Simon Nixon in the Financial Times. Growth has stalled, regulation is burdensome, energy prices are high and manufacturing is under pressure from China.

Yet with so much negativity, any positive surprises could well boost stocks. So what might go right? Unexpectedly large interest-rate cuts by the European Central Bank (ECB) would help. On the political front, an end to the war in Ukraine could improve sentiment. Finally, German elites are slowly coming around to the idea that the country must reform its self-defeating “debt brake”, which has long been an obstacle to higher growth.

A large Chinese stimulus in 2025 would also boost European equities. China is a key export destination for the continent’s goods.

Economic sentiment is on the floor in Germany, yet European stocks have enjoyed a surprisingly strong start to the year. The DAX index is up 7% already this year, with France’s CAC 40 not far behind. According to Bank of America, global fund managers have raised their European weighting by the most in any month since 2015. It seems the continent’s stocks have simply become too cheap to ignore, giving a substantial “margin of safety” for investors. The MSCI Europe index is trading at a record 40% discount to US stocks on a forward price/earnings basis.

Germany has been in recession for the past two years, yet the country’s stocks have been the best-performing major European market over that period. The blue chips of the DAX are large multinationals geared to global growth. Only 20% of the DAX’s sales originate in the home German market, with 24% from America and 18% from China. But a looming tariff war with Trump could soon choke off that release valve. Escaping Germany’s grim economic reality is becoming harder and harder for investors. DAX earnings look to have fallen by 9% for the full year 2024, with declines driven mainly by plummeting car-industry earnings.

Nevertheless, earnings look set to enjoy a strong recovery in 2025, with 11% year-on-year growth powered by technology, industrial and financial shares. Analysts’ year-end target for the DAX is 23,000 points, a further 7% gain from the current level

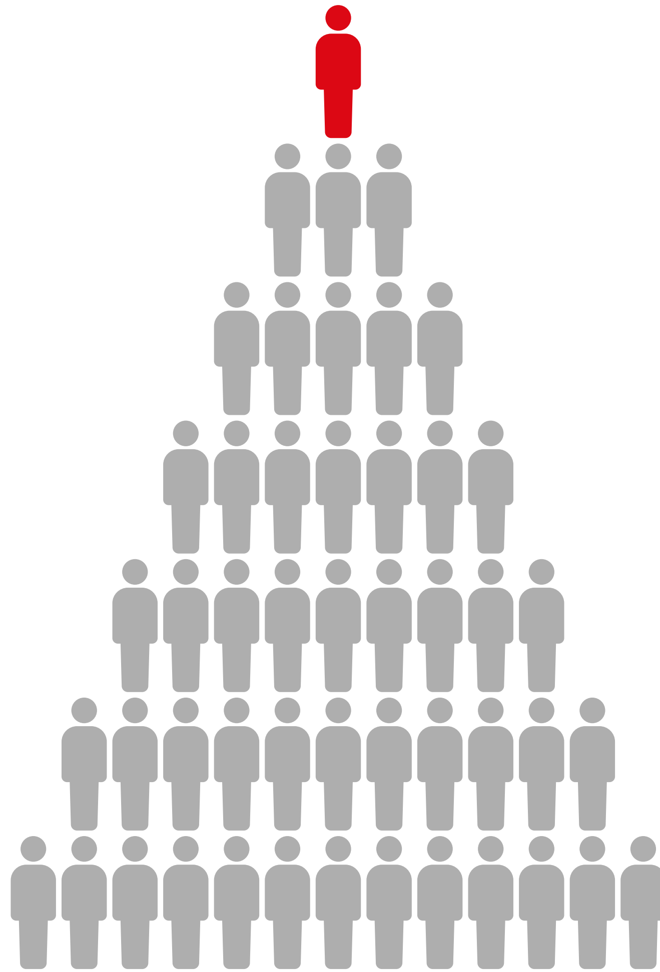
> The continent’s stocks have simply become too cheap to ignore, giving a substantial “margin of safety” for investors.

The global population peak

Collapsing birth rates mean that the world's population will fall much faster than expected. Are we prepared for what this means for our societies and our economies?

Rapidly falling birth rates mean the world's population will peak, and then start to decline rapidly within decades, according to a recent study led by the Institute for Health Metrics and Evaluation (IHME) at the University of Washington. If so, this will be the first time since the Black Death, which killed about 50 million people in the mid-1300s, that the global population will have fallen – and it will mark a radical change from the pattern of global population explosion since the Industrial Revolution. These forecasts are not entirely new. In 2020, a similar large-scale study by the IHME forecast that the number of people in the world would peak at 9.7 billion around 2064 – far earlier than previously expected – and would never be as big as demographers had assumed. What's new and striking about the latest evidence is the detail of the astonishing collapse in projected fertility rates, and the likely consequences for humanity.

Demographers regard a total fertility rate (TFR) of 2.1 children born to each woman as the level needed to sustain the long-term replacement of the population. The IHME study uses cutting-edge methods for forecasting mortality, fertility and key drivers of fertility – principally education levels, unmet need for modern contraception, child mortality and levels of urbanisation. Taken together with live births, TFR rates can be projected for every country in the world in 2050 and 2100, compared with 2021. Global TFR has more than halved over the past 70 years, from about five children per woman to 2.2 in 2021. Already, slightly more than half of countries (110 out of 204) have a TFR below the replacement level of 2.1. By 2050, the global TFR will be about 1.8, and more than three-quarters of countries (155 out of 204) will have TFRs below the crucial level. By 2100, it projects a global TFR of 1.6, and almost all countries (198 out of 204) will no longer be having enough children to maintain their population size.



One thing we know about demographic projections is that they are nearly always wrong. In the early 1990s, officials predicted the UK population would by now be in steep decline due to the falling fertility rate and a halt in longevity advances. The UK even briefly had net emigration. Yet three decades later the population is now ten million higher, largely due to unpredicted high levels of immigration. So we should take the latest predictions with a large pinch of salt when it comes to country-level specifics. But when it comes to the global trend, there's no doubt that we are fast approaching peak humanity. At some stage in the next 40 years or so, the world's population is likely to start falling almost as fast as it has grown.

What will this mean for humanity? First, the future will be a lot more African. The population of Africa is currently around 1.4 billion, about the same as each of India and China. That's less than a fifth of the global population. However, the TFR in sub-Saharan Africa remains exceptionally high, at four children per woman. Already, in 2021, 29% of the world's babies were born in that region, and by 2100, the proportion is projected to be an astonishing 54%. Thus, by century's end, whereas India's population is projected to be about 1.5 billion, and China's will be barely half today's level, Africa's is expected to be close to four billion. The story of the coming decades will essentially be of a demographically divided world. Low-income, high-fertility countries (especially in West and East Africa) will need better access to female education and effective contraception to mitigate exceptionally rapid population growth with the potential for humanitarian catastrophe. In contrast, low-fertility, high-income countries will need policies that support parents and attract immigrants, if they want to maintain population size and economic growth.

The world is facing staggering social change through the 21st century. Declining fertility rates will completely reconfigure the global economy and the international balance of power and will necessitate reorganising societies. Already, the 15 largest countries by GDP all have a fertility rate below the replacement rate (including the US, China, India and the UK). Japan and Italy have long been cited as countries with a rapidly ageing population. Now, countries like Brazil, Mexico and Thailand are in the same boat. For rich countries such as Britain, the study raises two questions. What level of immigration is desirable and how can large-scale immigration best be managed if it happens? Second, how do we pay for a rising dependency rate – ie, fewer working age adults and more elderly people – especially if the economy is shrinking?

Let's not despair just yet. Greater longevity is a success story. To adapt our society and economy to changed demography, the key factors will be a focus on personalised, preventative healthcare that increases healthy lifespans, not just longevity; and on policies that keep older people in work for longer.

Market report

Bonds
Investment Grade preferred

High Grade and Investment Grade bonds offer attractive returns, considering the low risk profile. Mid-single digit returns likely for medium duration bonds in the US over the next year. The market looks to be overly concerned with the inflationary consequences of Trump's policy proposals regarding tariffs and migration. The new US administration is likely to be well aware of political risks in reigniting inflation, and has shown a strong desire to reduce government spending.

Interest rates are falling in Europe, the UK and Switzerland, whilst rising in Japan. Yields in Europe are high relative to risk, with a yield over 3%, and 5% in the US. Credit fundamentals for Investment Grade Corporate Debt remains solid.

Equities
US and Asia look promising

Global equities (MSCI AC World) currently trade about 1.2 standard deviation above their 10-year average. While still some distance away from the post-COVID highs, it is on the high side, which limits the potential for significant rises. However, global valuation metrics are skewed higher by markets with high structural growth, such as the US technology sectors, for which the premium is justified. Beyond the US, valuations are less demanding, with most regions trading at or even below their 10-year average price-to-earnings ratio.

Yet, the economic backdrop remains positive for global equities, particularly in the US. Amid tariff uncertainty and rising inflation expectations, the Fed has taken a more cautious approach, sending yields higher and triggering some volatility in equity markets. Volatility is likely to remain a feature in 2025. The new US administration's policies remain uncertain and their approach is likely to be transactional. The robust underlying fundamentals will prevail, with dips creating attractive buying opportunities.

Equity markets are benefiting from strong structural trends, such as Artificial Intelligence. AI investment shows no signs of slowing down. Meanwhile, rising demand for power and electrification is enabling key players to continuously upgrade their guidance amid strong demand and increased pricing power. In this context, global earnings are likely to grow in the high single digits in 2025, driven by US and some Asian markets, with most sectors contributing positively. Earnings, rather than capital values, are likely to be the main driver of equity prices.

US and Asia ex-Japan look like preferred regions. US economic growth should outpace other developed markets by some margin, and the country is the most exposed to AI.

Asia also looks good value, with a structurally higher growth environment. Whilst China remains to be avoided, potential large fiscal stimulus could have positive ripple effects throughout the region.

Foreign Exchange
USD to weaken in second half of the year

The USD has strengthened further into 2025 with the greenback reaching historical extremes. Better incoming US data and US yields moving higher have provided broad USD support. Economic news elsewhere has been rather mixed, with growth prospects for Europe staying highly subdued.

There is much uncertainty around the Trump policy agenda. It appears that the market-unfriendly parts of the agenda (e.g., tariffs, trade tensions, immigration) are easier to implement and more likely to happen before the market-friendly parts (e.g., tax cuts, deregulation). A negative impact on US growth is not priced at all in the forex market, which cannot be said for the rest of the world, particularly Europe.

For the US, 2025 could be a story of two halves. Strength in the first half followed by a partial or full reversal in the second. 2H. The fact that the USD is trading at multi-decade highs underpins this narrative. Therefore, USD exposure needs to be reviews as the year progresses, and Sterling and the Euro are likely to strengthen.

Emerging market currencies will see their fair share of abrupt moves as US policies develop.

The Mexican peso will likely remain in focus over the coming months as trade and immigration were key issues during Trump's campaign. Central and eastern European currencies are exposed to potential US tariffs on Europe and an overall worse outlook for global trade. One currency that retains significant appeal and benefits from improving domestic policies is the Turkish Lira, which should be a good addition to diversified portfolios.

Commodities
Copper and zinc look good value

Tariffs are back in vogue, with President Trump threatening 25% duties on Canadian and Mexican exports, to force officials to address the issues of illegal trade in drugs to the US, alongside an additional 10% tariff on China in his first few days in office. Important to note is both countries are key suppliers of several metals to the US. When Trump introduced tariffs in 2018, investors shorted industrial metals, which turned out to be a profitable trade.

Continued investment in the energy transition alongside additional Chinese stimulus would provide the necessary push for a step higher in prices. Copper, then zinc, followed by aluminium look good value. Nickel and lead prices are expected to lag again in 2025.

Gold
Remains an attractive diversifier

Gold posted one of the best performances within the commodity sector in 2024, only surpassed by cocoa and coffee. The metal gained 27% last year, reaching an all-time high of USD 2,788/oz on 30 October. Moreover, 2024 marked the fifth consecutive year of gains, with central banks remaining cornerstones of gold demand. Central bank buying and higher global risk premiums have been key drivers of gold prices, even as the relationship between gold and real interest rates broke down.

The need for diversification has been key to gold's record-breaking rally, and this should continue with trade and geopolitical uncertainty likely to persist alongside US government debt concerns. Another year of strong official sector gold purchases is likely. Thus, gold remains an attractive diversifier in portfolios.

Oil
Prices on the rise

With all eyes on Trump 2.0 energy policy, several factors have combined to lift crude prices since early December, with freezing weather and geopolitics the main drivers.

Heating oil demand has increased because of frigid temperatures in the US and Europe. Also, against market expectations, global oil inventories have continued to decline amid strong compliance by OPEC+ producers to the agreed quotas. Trump, meanwhile, has added to the supply-side risks with his desire to apply "maximum pressure" on Iran while potentially cutting imports from Venezuela.

As such, risks to oil prices remain skewed to the upside in the short term. Russian crude exports should also remain under pressure in the short term owing to US sanctions, but the longer-term impact might be more limited as new, unsanctioned Russian tankers emerge. US crude production stands at a record level, but the growth rate has slowed down in recent years. Modest US crude supply growth is likely in 2025, as current prices don't offer incentives toward drilling more despite Trump's "drill baby drill" mantra. Oil demand should grow in line with the long-term growth rate of 1.2 million barrels per day, with the oil market almost balanced this year.

We've over 200 years experience in the world's largest Banks

Alexander Wade

Alexander is one of the most experienced London advisers in the international market, specialising in this field for over 17 years whilst at HSBC, where he was consistently recognised as one of its most accomplished advisers. He has over 25 years' experience in international wealth management.

Stuart Poonawala

Stuart has worked in financial services since 1998. In 2003, he helped to found HSBC's specialist London arm advising international clients which quickly became one of the bank's most successful UK divisions. In 2009, he launched Kubera Wealth, our sister company, focussing on providing quality advice to the UK market.

Graeme Cowie

Graeme is responsible for building our professional connections with international lawyers and accountants, as well as co-ordinating our relationship with key fund managers at a number of international Private Banks and Discretionary Fund Managers. He has spent over 20 years in financial services and investment management, most recently spending more than six years at UBS where he led the Strategic Partnership team.

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