

Liberation Day and a look back to Q1 2025: What this means for markets

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In the video, we delve into the recent events post Liberation Day and the deployment of tariffs and what this means for markets whilst also considering areas that are looking increasingly attractive in this new paradigm (such as Europe). Before covering the outlook for inflation, interest rates and income, discussing the appropriate mindset to bare when thinking of portfolio positioning in times like these.

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A look back to Q1 2025

The first three months of 2025 were remarkable. Whilst markets had rallied in October and November as Donald Trump's success in the US presidential election became apparent, concerns linked to persistent inflation and therefore interest rates, cast a shadow over markets. But January brought with it a renewed sense of optimism and saw markets, particularly in the US, return to that buoyant demeanour. That optimism, however, was short-lived. With Elon Musk and his DOGE programme disrupting huge swaths of US government infrastructure and

President Trump being increasingly cantankerous, confidence in markets quickly began to dissipate.

In the grand scheme of things, outcomes weren't terrible domestically. Sure, our sharemarket lost 2.9%^[1] over the period, dragging down its 12-month return to just 2.6%, but it still has delivered a solid 8.4% per annum over the past two years - comfortably ahead of our long-term expectation of 7.7%. Even if we cast our eyes to global markets, where we also experienced a drawdown, the severity was rather muted with a return of -2.0%^[2] for the quarter and two-year returns coming in at a healthy 19.1% per annum.

What made this period different was the pronounced weakness in US markets. The Nasdaq, which has a strong bias towards technology companies and has been the darling of investment markets for more than a decade now, fell by 10.8%^[3] over the three months. That this is more than double the drawdown of the S&P 500 (-5.0%^[4]), reflects some of the shine coming off the Technology sector, with the emergence of the Chinese AI iteration, Deep Seek, eroding some of the assumptions that had driven the exceptional performance of the so-called 'Magnificent 7'.

Liberation Day and the deployment of tariffs

In spite of the raft of changes we began to witness over the last quarter (of which we've only touched on superficially above), a few days into April these developments have faded into insignificance given the disruption created by President Trump's "Liberation Day". The deployment of tariffs on friends and foes alike ("in many cases the friend is worse than the foe", Donald Trump, 2nd April 2025) has effectively reversed the global economic and diplomatic framework that the US has championed and benefitted so strongly from for the past 80+ years.

Whilst we had alluded to the potential for disruption in our last Quarterly ("A Bull in a China Shop"), the market response to Trump's tariffs has been dramatic, with markets taking fright at the seeming abandonment of the President's business friendly credentials, not to mention the economic illiteracy revealed by the methodology taken to calculate the tariff rates. Indeed, the S&P 500 fell more than 10% in only three trading days following the announcement, only the fourth time in its history and the first time by choice (1987 Black Monday, 2008 Global Financial Crisis, 2022 COVID-19).

Finding the signal in the noise

With the proverbial cat, now amongst the market pigeons, we are now undeniably facing a period of heightened uncertainty and therefore volatility. As investors we see this as an environment that includes both opportunities and threats. For those investors who are able to keep a cool head and seek the 'signal' amongst the noise, we see a rare opportunity to benefit from significant market dislocation.

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[1] As measured by the S&P/ASX 300 index

[2] As measured by the MSCI All Country World index – AUD unhedged

[3] As measured by the Nasdaq Composite index – AUD unhedged

[4] In AUD unhedged terms

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