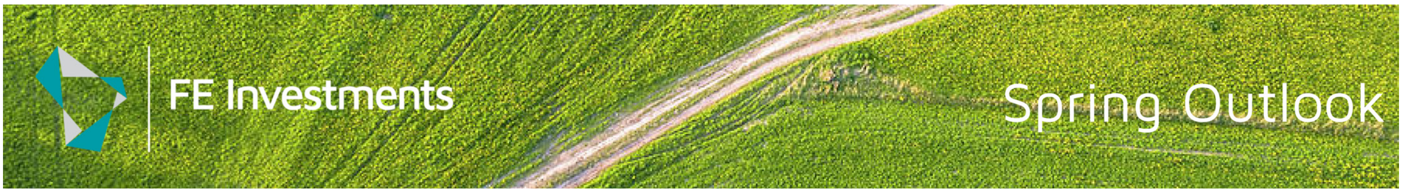
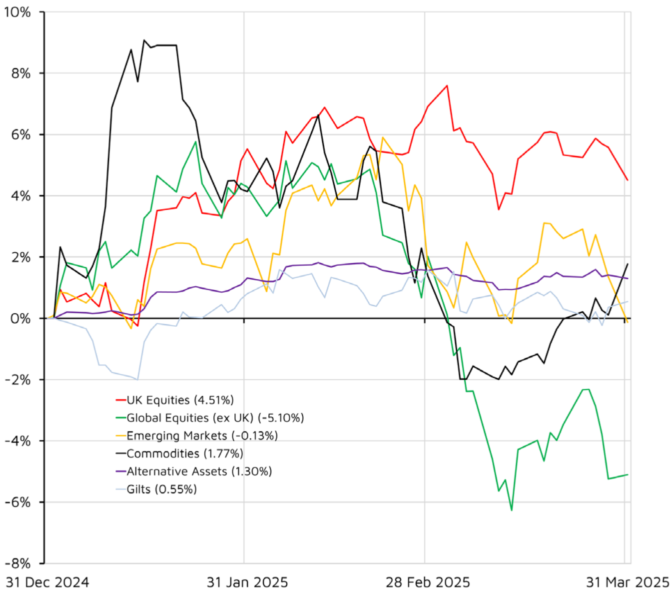


REVIEW OF THE PAST QUARTER:

The exuberance of US equity markets has given way to a more pessimistic outlook. Concerns about high valuations for growth stocks, worries that US trade policy will drag on global economic growth and signs the US economy is slowing have generated a big shift in investor sentiment. The shift in sentiment has seen a big inflow of money into European equities, and UK equities have also benefited as US markets fell heavily. The more positive view of European markets was helped by geopolitical changes. European countries have moved rapidly to boost military and infrastructure spending. This reversal of the dominant trend of 2024 has seen European and UK equities significantly outperform the US this quarter. Concerns about the impact of tariffs dragged on the value of Japanese equities towards the end of the period.

Emerging markets also gained during the period. Although Indian equities declined, Chinese equities made big gains due to a breakthrough in Chinese AI helping to boost tech stocks and an improved outlook for economic growth. Sterling strengthened against most other currencies, so this reduced gains from European and emerging markets, and amplified the losses from US equities.

UK government and corporate bonds made slight gains as slower economic growth and a slight slowdown in inflation supported expectations of rate cuts later this year. Investments in the money market continue to provide steady returns as interest rates remain above the long-term average.



Performance Data Calculated on a Total Return Basis

ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Alternative Assets
+1.12%	+0.55%	-1.42%	+0.73%	+4.51%	-5.10%	-0.13%	+1.30%

THE ACTUARIAL VIEW:

Our central scenario is for moderate inflation and continued economic growth, but there is an increasing risk of inflation rising above 3% or that countries will fall into recession. The OECD recent downgraded its forecast for global growth it still expects US GDP to increase by 2.2% in 2025. However, the uncertainty caused by the Trump administration's changeable position on tariffs has caused businesses to become more cautious and consumer spending is slowing. The uncertainty and potential for growth to slow means we have reduced our outlook for developed and emerging market economies from positive to neutral. The exception is China where government willingness to boost consumer spending and signs of improving economic growth mean the neutral outlook is maintained.

The potential for inflation to remain above target means central banks are likely in no hurry to cut interest rates, and this will weigh on the outlook for government bonds. UK gilts remain preferable to US government debt as slow economic growth and better inflation make cuts by the Bank of England more likely. High interest rates and uncertainty in bond and equity markets mean cash and alternative assets have a role to play for many investors as a source of returns and of diversification.However, high interest rates continue to weigh on the outlook for property and infrastructure.

WHAT TO LOOK FOR:

- **UK:** The Monetary Policy Committee (MPC) interest rate decision and minutes to be released on 8 May. Preliminary GDP growth for Q1 2025 will be available on 15 May. February wage growth and employment data to be published on 15 April. March retail sales are due on 25 April.
- **US:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) on 7 May. Minutes will be published three weeks after each decision. GDP growth for Q1 is to be released on 30 April. Monthly Nonfarm payrolls employment data released on 4 April. The core and CPI inflation rate is due on 10 April.
- **Eurozone:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) on 7 May. Minutes will be published three weeks after each decision. GDP growth for Q1 is to be released on 30 April. Monthly Nonfarm payrolls employment data released on 4 April. The core and CPI inflation rate is due on 10 April.
- **Other Data:** Bank of Japan monetary policy meeting on 30 April. Parliamentary elections in Canada on 28 April and Portugal on 18 May. March inflation rate for China is due on 10 April. Chinese GDP growth rate, retail sales and industrial production are due on 16 April.

ASSET CLASS SCENARIOS:

UK EQUITY

Most Likely: Headline inflation rises above target as the Bank of England cuts interest rates slowly. The economy shows signs of improvement, but consumer and business confidence remains low. There is less of a performance gap between small and large companies due to the relative underperformance of the former over the past two years. Housebuilders, technology and other rate-sensitive sectors should benefit from rate cuts.

Worst Case: Wars in Ukraine and Gaza keep commodity prices high, leading to higher UK energy bills and rising inflation. US tariffs worsen global trade, cause further US dollar depreciation and add inflationary pressures, and this weighs on global markets. Monetary tightening pushes markets into recession as stocks and bonds plummet. UK equities may be more defensive than other regions, given lower relative valuations.

Best Case: Rates fall as inflation slows without harming unemployment and growth. From its low valuation base, the UK outperforms other markets as sustained growth returns. Peace returns to Ukraine and Gaza, keeping inflation subdued. The US takes a more consistent approach to tariffs, and the UK and Europe agree a trade deal. With more bullish sentiment, money flows into UK equities with smaller companies benefiting the most.

GLOBAL EQUITY

Most likely: US tariffs continue to unsettle markets and cause the Federal Reserve to remain cautious about rate cuts. Recession is again a realistic possibility. Technology stocks fade as investors prefer industrials and banks that benefit from reshoring and deregulation in the US. European markets are buoyed by significant German stimulus and increase of defence spending. Wage growth in Japan will give the central bank scope to hike rates further.

Worst case: US tariffs wreak havoc on global trade and inflation, hampering global growth. War in Gaza intensifies and fighting in Ukraine and extreme weather lead to energy and food prices surging. Central banks hike interest rates again as they fight another stagflationary period and borrowing dries up as banks look to reduce risk.

Best case: War in Ukraine ends as Russian energy and Ukrainian exports ease inflationary pressures. China's economy rebounds and this boosts the global economy. Inflation cools and central banks are able to cut rates again. Stronger economic growth boosts cyclical sectors such as industrials & consumer discretionary as well as smaller companies. Technology stocks rebound as the scope of the AI revolution appears greater.

EMERGING MARKET EQUITY

Most Likely: Further Chinese government stimulus will be helpful in supporting the growth of China's economy, but largely the effects will be minimal as more forceful fiscal policy support will be required to stabilise the property market and boost domestic demand. Geopolitics and trade tensions will remain at the forefront of investor concerns and this will likely escalate tensions in US-China relations. Further rate cuts by the Federal Reserve are expected this year and this would be favourable for emerging markets.

Worst Case: The announcement of further Chinese government stimulus is not be enough to restore consumer confidence which will result in weaker than forecasted growth for the economy. Geopolitics and global trade undermine investor confidence. US inflation creeps up forcing the Federal Reserve to keep rates at current levels. Volatility continues in the technology space and negatively affects related stocks in tech-heavy markets such as Taiwan and South Korea.

Best Case: Government stimulus supports Chinese economic growth and reduce deflationary pressures. Geopolitics and tariffs are a concern but clarity on future US-China relations would be positive for sentiment. US rate cuts would be favourable for emerging markets. Indian growth continues as confidence returns to its equity market.

CASH

Most likely: We expect money market yields to remain steady as the Bank of England adopts a cautious approach. Moderate rate cuts are anticipated as inflation gradually eases and the economic environment remains stable. This steady approach should maintain the attractiveness of money market instruments for investors seeking stability and modest returns.

Worst case: If economic indicators signal a significant slowdown, the Bank of England may aggressively cut interest rates. This would lower yields on money market funds and make government bonds more attractive, reducing the appeal of cash instruments for investors. Such a scenario could lead to a shift in investor preference towards government bonds, impacting the overall demand for money market instruments.

Best case: Money market instruments continue to provide attractive yields as the Bank of England holds rates steady, with inflation proving to be stubborn and above its target. Returns adjusted for inflation would improve as inflation falls, making money market instruments a favourable option for investors seeking both safety and reasonable returns.

FIXED INCOME

Most likely: The Federal Reserve proceeds cautiously due to concerns about inflation and weak consumer sentiment. Weak consumer spending will cause US bond yields rise but stronger inflation will likely push down yields. The BoE will likely follow the lead of the Fed, with growth the main challenge for the ECB. High quality credit with reduced sensitivity to interest rates will continue to perform.

Worst Case: Inflation rises unexpectedly while growth stagnates, with added pressure from US tariffs. US and UK central banks leave rates on hold as the seek to limit price rises. 'Higher for longer' interest rates impact issuers struggling to refinance (especially of lower credit quality), and reduces consumer spending as government bond prices fall. Defaults increase at pace, and investors suffer capital losses in riskier markets.

Best case: Inflation slows faster than expected, with any shocks from potential tariff/energy related surprises kept to the short-term. The Fed seeks to restore confidence by cutting rates at least once more in Q2 and the UK follows suit. Growth numbers remain positive. Government bond yields fall in the short term while longer term costs rise. Defaults in quality and (more speculative) high yield credit remain minimal.

ALTERNATIVE ASSETS

Most likely: Inflation slows further but the Trump administration's tariff policies may add upward pressure and liquid real assets, such as commodities and global natural resources, should benefit due to their role as inflation hedges. Infrastructure and natural resources should benefit from AI-driven demand and these sectors' ability to pass on costs to customers. Precious metals are likely to draw investors seeking safe-haven assets and portfolio diversification.

Worst case: Market volatility and tariff impacts may lead to a global economic slowdown, edging towards a recession. This would negatively affect commodities, energy, and global natural resource equities. A shift in correlations between bonds and equities, coupled with recessionary fears, could result in poor performance for both real asset and absolute return strategies, as defensive investors prefer bonds.

Best case: An escalation in geopolitical tensions is likely to trigger a surge in real assets, including commodities, due to supply chain disruptions, and gold, as investors seek safety. Energy and global natural resources would also benefit. Interest rate cuts would enhance the attractiveness of property, given its sensitivity to interest rates, while sustained demand for data centres would create opportunities in real estate and infrastructure.

Data Sourced from FE Analytics and MSCI