Eden Park

Q1 2025 quarterly report

Overview

- China and Europe posted significant gains
- Tariffs cause equity market declines in the US
- Uncertainty and geopolitical risks remain high

Macroeconomic landscape

The first quarter of 2025 has been a tale of two markets. Fluctuating economic conditions, geopolitical uncertainty, and a shift in narratives helped some markets surge while others experienced volatility. Headwinds remain, but there have been plenty of bright spots, and as we head into the second quarter of the year, there is a sense that opportunities may emerge from the turbulence.

One of the biggest success stories of the quarter has been China. The Hang Seng Index has increased nearly 18%, driven by a sharp rebound in investor confidence and a renewed sense of optimism around China's technology sector. At the heart of this rally is the country's aggressive push into artificial intelligence, where domestic firms are making major strides in challenging US dominance.

The Euro Stoxx 50 and Germany's DAX have both posted significant gains, supported by a wave of government spending, particularly in defence and infrastructure. With geopolitical tensions prompting many European nations to increase military budgets, the defence sector has been a large benefactor. European Financials performed very well during the quarter too – being one of the more cyclical sectors, they benefitted from an uplift in economic sentiment. They also started from deeply discounted valuations, making them attractive as investors rotated into undervalued sectors.

In contrast to China and Europe, the US stock market has experienced more turbulence. The S&P 500 entered correction territory, falling more than 10% from recent highs. A key driver of this downturn has been Trump's aggressive tariff policies, which will not only raise costs for businesses, but have also fuelled concerns about potential trade wars. Sectors with significant international exposure, such as Technology and Automotive, have been particularly affected due to fears of retaliatory tariffs from other nations.

Despite the turbulence of Q1, markets have shown resilience, with different sectors and regions stepping up after years of US exceptionalism. This diversification has been a welcome shift, demonstrating that opportunities exist beyond the usual market leaders in Q2 and beyond.

For a more detailed summary of the Q1 investment landscape, including insights from LGT's CIO Sanjay Rijhsinghani and other key team members, **click here**.

Drill Maybe Drill?

Written by Ben Palmer, Lead Sustainable Portfolio Manager

In January, Trump was quick to sign a series of executive orders after being sworn into office. This included withdrawing from the Paris Agreement as he did within his first term. It's no secret that Trump has been a fan of expanding domestic oil and gas production to address energy security within the US. With the shift in US policies around energy and Trump's push to 'drill baby drill', the main question we get asked is "how will Trump and his administration's push towards fossil fuels affect the global net zero energy transition?"

The short answer: we expect business as usual for most of our investments across the sustainable portfolios. We will continue to be led by credible academic research around financial material risks, the global direction of travel and consumer demands.

The drivers

To understand how Trump's policies will affect the transition, it is important to understand the reasons why Trump has pushed for increased oil production.

One of the driving forces behind Trump's 'drill baby drill' policy is to bring down domestic energy prices in the US as this will help keep inflation under control and fuel growth. This is important for Trump, as there is a strong connection between cheap gas prices at the pump and voter satisfaction. As such, the Trump administration has mentioned ambitious oil prices of around $50 per barrel. With oil prices currently sitting at around $60 per barrel, there is a significant gap between the market and policy objectives. While this would be positive for consumers, it poses challenges for oil producers. According to a recent Kansas City Federal Reserve survey[1], to make a substantial increase in drilling economically attractive, the US oil price needs to be around $84 a barrel, much higher than current market prices, let alone the price the administration is targeting. When asked about 'drill baby drill', the head of Exxon's upstream division stated, "a radical change in production is unlikely because the vast majority is focused on the economics of what they're doing."

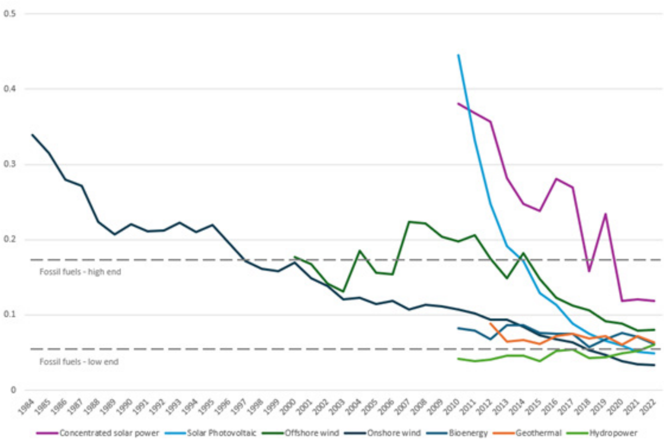
So where does this leave us?

We think it is likely that oil companies will increase production from their existing wells, as we have seen through Biden's term, but we are unlikely to see oil companies expand into unprofitable ventures. In short, we do not foresee 'drill baby drill' sticking unless something changes between the administration's desire to lower oil prices and the oil companies' need to see them move higher.

In the meantime, onshore wind and solar, which are still some of the cheapest (and cleanest) forms of new electricity generation, may be the most viable options for meeting the US' growing energy demands and moderating energy prices. In addition to this, the growing energy demand in the US stems from large technology companies building energy hungry data centres to power AI expansion. Many of these companies stand by their ambitious net zero commitments and therefore, will rely on not only cheap but clean energy to support their rapid expansion.

Levelised cost of energy by technology globally

The average cost per unit of energy generated across the lifetime of a new power plant.



This data is expressed in US dollar per kilowatt-hour, adjusted for inflation

Source: International Energy Agency

While the US rhetoric is disappointing from a sustainability angle, we believe the structural drivers of the energy transition remain intact. Outside the US, most major global leaders are still supportive of scaling up renewables capacity and reducing fossil fuel use. Reflecting on the economic argument, many countries lack significant fossil fuel reserves and therefore have limited energy security and independence. With the availability and attractive costs of wind and solar, nations see clear economic and political benefits in the energy transition.

For our sustainable portfolios, we remain focused on what matters for our investments and our clients: how businesses are allocating spend, where they are generating revenue and how they are protecting future profitability. It is important to note that we take a holistic approach to sustainability and while the energy transition is one element of the sustainable investment landscape, we also invest in other themes such as healthcare and the circular economy. Our ability to be active and dynamic allows us to allocate capital to the most attractive investment opportunities across our framework. As with Trump, structural change will not always be linear but by actively selecting quality companies that are aligned to structural themes, we will be able to navigate short-term volatility and capitalise on long-term value creation.

Q1 2025 Sustainable MPS performance

Model portfolio performance as at 31st March 2025

Portfolio	3 month	6 months	1 year	3 years	Since inception
LGT WM Sustainable Defensive	0.41	0.22	3.60	4.89	21.46
LGT WM Sustainable Cautious	-0.61	-0.61	2.65	5.76	28.43
LGT WM Sustainable Balanced	-1.82	-1.76	1.44	6.05	37.74
LGT WM Sustainable Growth	-3.01	-3.16	0.08	4.54	45.48
LGT WM Sustainable Adventurous	-3.84	-3.90	-0.95	4.02	48.24

12-month rolling performance

Portfolio	01/04/2020-31/03/2021	01/04/2021-31/03/2022	01/04/2022-31/03/2023	01/04/2023-31/03/2024	01/04/2024-31/03/2025
LGT WM Sustainable Defenisve	10.47	1.48	-4.63	6.16	3.60
LGT WM Sustainable Cautious	16.30	2.09	-4.38	7.75	2.65
LGT WM Sustainable Balanced	25.26	3.12	-3.79	8.67	1.44
LGT WM Sustainable Growth	33.62	3.58	-4.81	9.74	0.08
LGT WM Sustainable Adventurous	38.72	3.24	-4.26	9.69	-0.95

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance of all LGT WM funds in Q1 2025

Schroder Global Sustainable Value
+3.85%

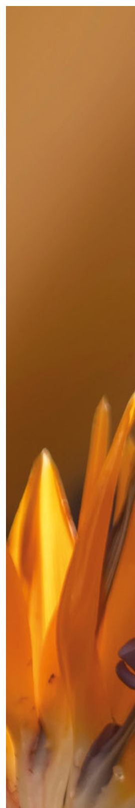
CG Dollar Fund
+3.74%

Vanguard Treasury Index Tracker
+2.90%

L&G Global Inflation Linked bond index
+2.68%

Alliance Bernstein Sustainable US Equity
-12.16%

Source: Morningstar



Sustainable MPS Q1 2025 performance update

Written by Kevin Le, Trainee Sustainable Portfolio Manager

The first quarter of the year has been a dynamic period with fluctuating economic conditions, significant geopolitical uncertainty and shifts in market narratives. In the US, aggressive tariff policies and the potential for subsequent trade wars have lowered consumer confidence and brought US 'exceptionalism' into question. US equity markets, which rallied last quarter, have now entered correction territory with the S&P 500 falling more than 10% from recent highs.

Europe on the other hand had a solid start to 2025, supported by government spending which has benefitted Infrastructure. We have seen defensive sectors such as Financials and Healthcare within Europe lead the region. In Asia, the Hang Seng index surged nearly 20%, driven by a renewed sense of optimism around China's technology sector and the region's broader economic recovery.

Overall, while the US equity markets performed poorly during the quarter, it was positive to see that year-to-date, our global equity funds have outperformed the global equity index **(MSCI ACWI)** on a relative basis. Our relative overweight to Europe and underweight to the US mega-cap technology names had provided protection over the quarter. Our bond allocation over the quarter also performed well, protecting performance for our lower risk models. It was positive to see the majority of our government/corporate bond funds had outperformed the **Bloomberg Global Aggregate index**.

Schroder Global Sustainable Value (+3.85%) was our top performer over the quarter with its exposure to Europe performing well. More specifically, as a value strategy the fund has a significant holding in defensive sectors such as Financials which have been the main driver of positive returns for the fund.

CG Dollar Fund (+3.74%) and the **Vanguard US Government Bond Index** (+2.90%) had both performed positively as US equities continued to sell off and the macroeconomic data surrounding the US started to weaken. The move away from equities and into US treasuries has been beneficial for the funds.

L&G Global Inflation Linked bond index (+2.68%) also performed well due to the rotation away from US equities and into government bonds. Additionally, uncertainty surrounding tariff policies on expected inflation had been positive to the fund's performance.

Alliance Bernstein Sustainable US Equity (-12.16%) struggled to perform this quarter as reduced consumer confidence and policy uncertainty surrounding tariffs within the US led to a drag on the region. The fund's exposure to US technology suffered significant declines as the emergence of low-cost and more energy efficient AI tools from China caused investors to reevaluate earnings forecasts. Additionally, US administration uncertainty and funding cuts have applied pressure on some of the fund's Healthcare exposure, which has also been a drag on the fund.

Portfolio changes and rationale

No changes

Upon reviewing current market conditions and performance for the quarter, the portfolio's existing overweight towards European equities and underweight towards US equities led us to the decision to make no portfolio changes over the quarter. We felt that with the current macroeconomic environment, our existing asset allocation remained structurally intact. Our continued emphasis on diversification and investing in high-quality companies provides protection against market volatility and we envisage they will continue to do so.

Further material

Glossary

Absolute Return Funds	A form of alternative asset. They actively adjust their positions between equities, bonds, gold and other asset classes, typically with the aim of providing investment return across all market conditions.
Active fund	A portfolio of investments that is selected by a professional investment manager and managed on an ongoing basis with the aim of achieving an outperformance objective.
Beta Strategies	Investment approaches that aim to match or closely follow the performance of a market index, reflecting the overall market movements.
Bonds	Bonds are debt securities issued by governments and corporations to raise money. Similar to an IOU, the investor lends money with the agreement that it will be paid back by a specific date, and they will receive periodic interest payments along the way. Bonds come under the umbrella of '**fixed income**' investments.
Credit Spreads	The difference in interest rates between two bonds, typically one being riskier than the other. It's a measure of the extra return investors demand for taking on additional risk.
Cyclical company	Companies with a direct relationship to the performance of the wider economy as consumers may purchase their goods when the economy is doing well but cut spending during downturns.
Defensive	Defensive positions prioritise preserving capital over growth. It is important to hold such positions in periods of market turbulence.
Diversification	Spreading your money across different types of investments, such as equities, bonds, and property, instead of putting all your money in just one type of investment. By doing this, you can reduce the overall risk of your investment portfolio.
Duration	The sensitivity of the price of a bond to changes in interest rates. A bond with a longer duration will typically be more sensitive to changes in interest rates than a bond with a shorter duration.
Fixed Income	Investments that provide regular, set interest payments, such as bonds or treasury bills, and return the principal at maturity.
Gilt:	A type of fixed income investment issued by the UK government. They are considered to be among the safest investments available. They have a fixed interest rate and a specific maturity date, which can range from a few months to several decades.
Growth vs Value	Most stocks are classified as either value stocks or growth stocks. Generally, a value stock trades for a cheaper price than its financial performance and fundamentals suggest it's worth. A growth stock is a company which comes at a higher price however, its profits are expected to grow significantly in the coming years as the company develops – this is typical for technology firms.
Hawkish	Describes a stance by central banks or policymakers that favor higher interest rates to control inflation, even if it might slow down economic growth.
High Yield Bonds	High yield bonds pay investors a higher level of interest due to a great risk the borrower may default.
Index	A fund that aims to track the performance of a market index.
Market Capitalisation (Market Cap)	Market 'cap' is the market value of a company based on its current share price and total number of shares. Ultra-large cap companies have the largest market capitalisation. The largest companies by market cap are currently Apple, Microsoft, Alphabet (Google), Amazon, Nvidia and Meta (Facebook).
Maturity	The length of time until the bond issuer must repay the original bond value to the investor.
Passive fund	A passive fund aims to follow a market index, offering a low-cost way to invest in a broad range of stocks or bonds.
Quality	Quality investing is an investment style that focuses on selecting stocks of companies with strong financial health, stable earnings, and solid management.
Rally	A market rally is a sustained increase in stock prices driven by positive investor sentiment and economic conditions.
Sentiment	Market sentiment is the overarching attitude or outlook of investors towards a particular security, sector of the market or economy as a whole.
Soft vs Hard landing	A soft landing refers to a gradual economic slowdown or adjustment, usually avoiding a recession, while a hard landing is a sudden and severe economic downturn often leading to a recession.
Volatility	The degree of fluctuation in a security's price or a market's performance over time. A highly volatile share experiences larger price changes compared to more stable investments, indicating higher risk.
Yield	The income you receive on an investment, such as dividends from shares or interest from bonds.
Yield Curve	A visual depiction of how the yields of bonds vary at different maturities. It shows how much you'd earn. if you invested your money for a short time, e.g. 6 months, versus if you invested it for a longer time, e.g. 10 years.

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