

Quarterly

Perspectives

Q1 2025

This update aims to give you an insight into recent market events and how this may have impacted your investments. Our Multi-Asset Solutions team at Santander Asset Management UK considers the market outlook and the changes they've made to position our clients for the road ahead.

## Summary of Quarterly Perspectives content:

- Review of the first quarter of 2025
- Investment performance of shares and bonds
- Our expert's thoughts on the investment outlook
- How have we changed our positioning based on the outlook and our tactical asset allocation
- Summary of the key points

## Outlook **at a glance**

**Current view:** ✓ Positive ■ Neutral ✗ Negative

**Quarterly change since previous outlook:** ▲ Upgrade ► Unchanged ▼ Downgrade

Asset classes	Current view	3 month change	At a glance
 Shares	✗	▼	We have a cautious outlook on shares due to economic uncertainty and slower global growth. At this time, we prefer safer investments like government bonds.
 Bonds	✓	▲	The current view on bonds is positive. Interest rates are expected to be cut further by the central banks, which will help bond prices. Bond yields are at good levels right now. A slowdown in the economy will also support bond prices.
 Cash	✓	▲	Due to our cautious positioning in our portfolios, we currently hold a positive view on cash. Holding more cash reduces the risk of big losses and acts as a cushion during market swings.

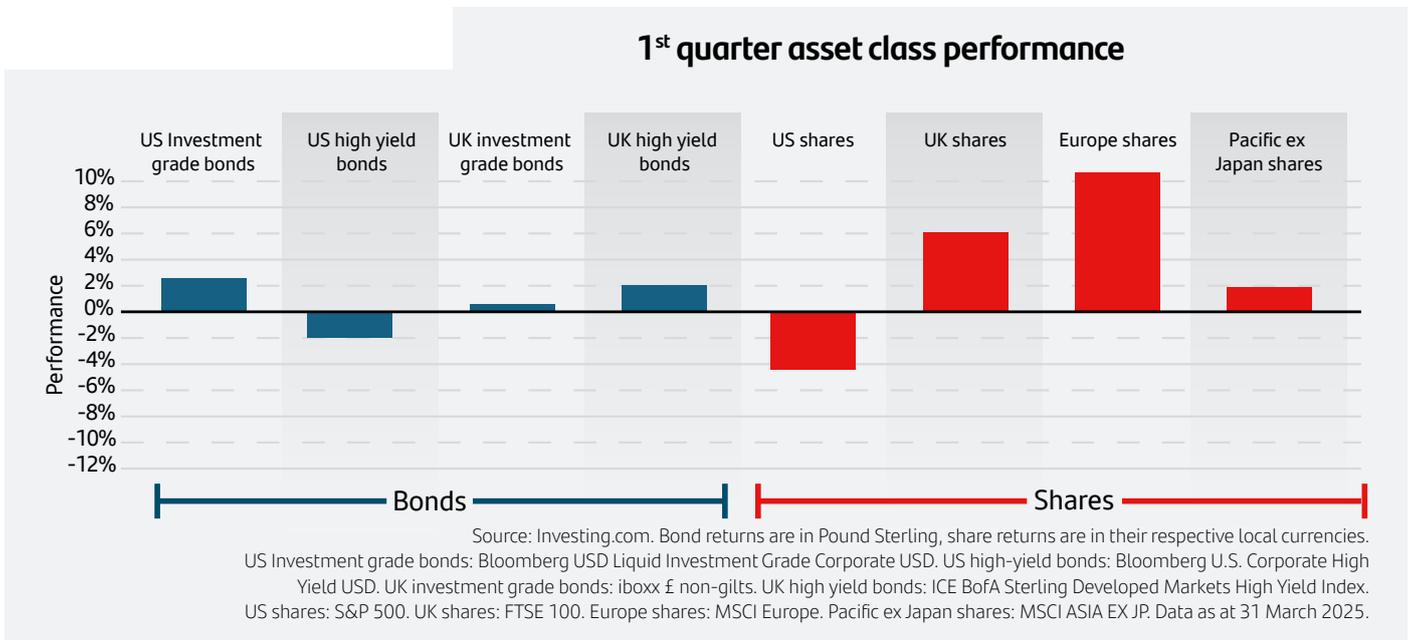
Regional stock markets	Current view	3 month change	At a glance
 US	✗	▼	We hold a cautious view of US shares. We have reduced our exposure to US shares due to the volatility and uncertainty from the global tariffs. We believe that company valuations are more favourable and resilient in Europe when compared to the US. Consumer spending is also starting to slow.
 UK	✗	▼	We currently hold a cautious view on UK shares. The UK economy is still fragile. Although, inflation is continuing to fall but is likely to continue slightly above the target rate. The Bank of England (BoE) is likely to cut rates further to support the economy.
 Europe	✓	▲	We currently hold a positive view on European shares. European markets are currently less expensive, making them more resilient to the US global tariff volatility. The European Central Bank's (ECB) interest rate cuts will help to support the European economy.

## Reviewing the first quarter of the year

The first quarter of 2025 was difficult for stock markets. The MSCI World Index fell by 4.6%<sup>1</sup> in sterling terms. President Trump's second term began with hopes for deregulation and tax cuts, but his tariffs and diplomacy strained NATO. However, Europe agreed to increase military spending, boosting defence-related stocks.

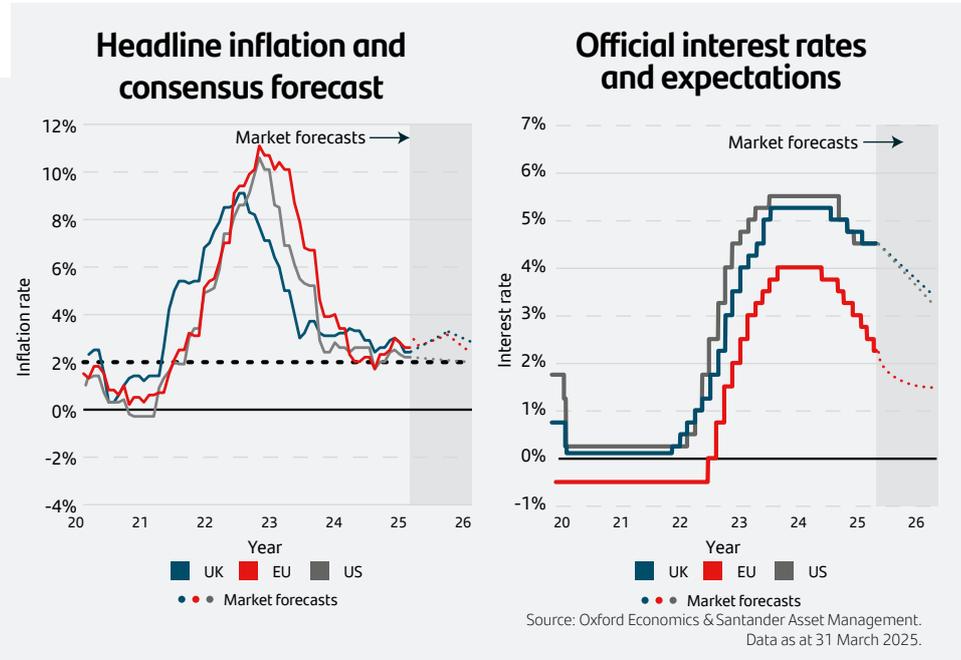
US shares were particularly weak due to slowing economic data and recession fears. Major stocks dropped, affecting main indices, and rate cut hopes faded as inflation rose before tapering off.<sup>2</sup> Despite the economic gloom, European indices hit new highs but sold off when Trump announced a 25% tariff on car imports.

Japan weakened as the Bank of Japan tightened policy and US trade tariffs unsettled investors. Emerging markets outperformed developed ones, with Latin America and Eastern Europe showing strong growth.<sup>3</sup>



## Inflation and interest rates

Understanding Inflation and interest rates is important so you can make informed investment decisions. They may help explain why your portfolio may be behaving in a certain way. The two charts below provide a view of historic and current trends in these areas. This should help you to better understand what's going on in the current economy.



When interest rates go up, it becomes more expensive to borrow money, which can lead to a decrease in spending and economic growth. This can cause shares and bonds to lose value and make it harder for companies to make profits, which can hurt your investment returns. However, raising interest rates can be a useful tool for tackling inflation. The slowdown in spending helps to reduce the upward pressure on prices that increases inflation. While rising interest rates may have a negative impact, it can play an important role in keeping inflation in balance.

## Inflation and interest rates outlook

In the US, tariffs are expected to add about 1% to inflation this year. The Federal Reserve (Fed) faces uncertainty about how much of this cost will be passed on to consumers and how it will affect growth. Despite ongoing inflation and a tight labour market, the Fed has been cautious about cutting interest rates. This is due to the complex relationship between weak growth and higher prices.

In contrast, the ECB has been more aggressive in cutting interest rates. This has provided support to the European economy, which is expected to grow at around 1% this year. The ECB's actions have helped to stabilise the market and provide a buffer against economic uncertainty. European markets are seen as more resilient compared to US markets, partly due to these proactive measures.

In the UK, the impact of increased National Insurance contributions is already visible in business confidence and hiring data. Growth is expected to be

around 1%, driven mainly by government spending. However, there is a risk of increased taxes in October, which could further impact growth.

We expect the BoE to cut interest rates a further three times this year, and the ECB twice. Markets expect the Fed to cut interest rates this year as they may be forced to respond to the weaker growth.

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## Share outlook

The outlook is cautious due to economic uncertainty and slower global growth. Market confidence about tariff rollbacks is viewed with doubt. We prefer safer investments like government bonds. European shares are favoured over US shares since European markets are currently less expensive, making them more resilient. The ECB's interest rate cuts will help to support their economy. In the US, consumer spending is careful, and we forecast growth to be around 1.2%, with a risk of a recession.

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## Bond outlook

Our current view on bonds is positive. Government bonds are preferred over credit given the market volatility. Investing in government bonds is seen as safer, even though they offer lower returns compared to credit. Interest rates are expected to be cut further by the Fed, which will help bond prices. Bond yields are at good levels right now. A slowdown in the economy will also support bond prices. Overall, we think government bonds are considered a safer bet in the current market.

### Baffled by bonds?

Visit our [Basics on Bonds](#) page for more information.

## Our tactical asset allocation

Our tactical asset allocation reflects our views on financial markets based on the current market conditions and our own market outlook over the coming months. The table below shows where we're underweight, overweight or neutral when compared to a funds benchmark.

If we're underweight, we think an asset class will perform worse than others, so we hold less of it. Being overweight means that we think an asset class will perform better, so we hold more of it. Being neutral means that we think an asset class will perform similarly to others. In that case, we'll hold a similar amount to the benchmark.

	February	March	April
<b>Shares</b>			
UK	●	●	●
US	●	●	●
Europe	●	●	●
Emerging Markets	●	○	○
Japan	●	●	●
<b>Bonds</b>			
Government Bonds	●	●	●
Investment Grade Credit	○	●	●
High Yield Bonds	●	●	●
Emerging Markets Bonds	●	○	●
<b>Money Market</b>			
Cash	●	●	●

● Very Overweight ● Overweight ○ Neutral ● Underweight ● Very Underweight

The table captures our preferences over the duration of the three months shown.

## Summary

- Global stock markets posted a mixed set of returns over the first quarter of the year.
- The US market underperformed compared to other global markets.
- We expect the BoE to cut interest rates a further three times this year, and the ECB twice.
- Markets expect the Fed to cut interest rates this year as they may be forced to respond to weaker growth.

- Our outlook on shares is cautious due to economic uncertainty and slower global growth.
- European shares are favoured over US shares.
- We prefer bonds over shares, with a preference for government bonds.

**Find out more**

Learn more, visit our website [here](#) for more insights into financial markets.

**Note: Data as at 31 March 2025.**

<sup>1</sup> MSCI, 31 March 2025

<sup>2</sup> Trading Economics, 31 March 2025

<sup>3</sup> Reuters, 3 March 2025

## Important Information

For retail distribution.

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