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Big changes emanating from the US mean investors are living in very interesting times.

It's almost 40 years since former Genesis lead singer Peter Gabriel's smash hit Sledgehammer stormed to the top of the US hit parade. Whilst impossible to know whether it formed part of the then simply 'Mr' Donald Trump's playlist, investors are now only too aware of what living in 'interesting times' means. When confronted by a man wielding a chainsaw (gifted to US Department of Government Efficiency – DOGE – supremo and tech entrepreneur Mr Elon Musk by Argentinian President Mr Javier Milei) and another man, the now President Trump, swinging a metaphorical sledgehammer, one's natural inclination might be to run for cover.

But no. Although US stock markets have retreated from recent all-time high levels, the departure has not been disorderly. In contrast the UK stock market has proved resilient and those of Europe (and China) have built on strength over the latter part of last year and started 2025 extremely strongly. Investor stoicism in the face of head-spinning developments remains extremely encouraging.

And nobody can say that they didn't see these developments coming. Mr Trump made no secret on his pre-election campaign trail that securing peace in Ukraine was a top priority. As would improving levels of US government efficiency and the implementation of trade tariffs on goods imported to the US from around the world. Following the 20 January inauguration, the genesis of ideas developed on the stump have been revealed. This has led to initiatives forcing a swift response from around the world including Russia, Ukraine, the UK, the Euro Area, Canada, Mexico, China, India and beyond. These watershed moments are highly reminiscent of the diplomacy characterising the late nineteenth century; alliances made, then broken and reforged. Nobody, though, wants the same ending.

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It's impossible to overstate how much uncertainty surrounds the implementation of trade tariffs on US goods imports and what they might mean for the economic outlook were they to be enforced. Stock markets typically react badly during periods of elevated opacity. Were the Trump administration's trade policies to go ahead they could have a negative impact on economic activity. However, the direct impact on the UK from a universal tariff of 10%, if it became effective, could yet prove comparatively limited. More concerningly, the threat of additional 'reciprocal' tariffs reflecting the VAT that countries such as the UK impose on US imports might be more material, imparting a downward influence on already subdued growth and upward pressure on inflation although following the Prime Minister's White House meeting with President Trump this might be less likely now. All this uncertainty has not been lost on the gilt-edged market or, indeed, the government bond markets of Europe where longer term borrowing costs have steadily increased.

Adding to the adjustment in European sovereign bond markets is the fallout from President Trump's apparent pivot away from support for Kyiv towards the Kremlin. Again, the evolution of realpolitik, that which Churchill once described as 'The Great Game' is labyrinthine, likely long and with many twists and turns before eventual resolution. However, European leaders have been forced into confronting regional defence, for decades an issue relegated to the background by the US

security umbrella and peace dividend brought about by the end of the Cold War. A paradigm shift on the part of the US away from its long-term commitment to Article 5 of the North Atlantic Treaty means that Europe must spend more to ensure its security, with increased government issuance contributing to the move in the bond market.

In a statement to Parliament, Sir Keir Starmer has confirmed that UK defence spending will increase from 2.3% of GDP to 2.5% by 2027, funded by a reduction in foreign aid. Beyond that, the Prime Minister has set out plans to increase defence spending to 3% of GDP between 2029 and 2033 (subject to economic and fiscal conditions). For markets, the primary consideration is how this initiative might be financed, particularly given how close the government reportedly is to breaching its fiscal rules already. Might households and businesses already under considerable strain and facing another round of cost increases in the spring have to bear additional revenue-raising tax increases, as well as possible spending cuts, in the future? Reports suggest that European leaders might be forging a plan to create a pan-European (including the UK) 'rearmament bank', potentially providing support for the defence sector without heaping an additional burden on public sector debt.

Assessing all of the above and looking on as we pick our way through what legendary polymath JK Galbraith once described

as the age of uncertainty, are the world's central banks. It falls to these august bodies to set monetary policy with a view to supporting growth whilst simultaneously holding inflation in check. When faced with circumstances such as these, the message from Threadneedle St and elsewhere is that interest rates are set based on policies on the statute book, not speculation, and that there is no reason to adjust settings other than by an occasional gentle nudge on the tiller. The Bank of England exemplifies this position, with a base rate cut to 4.5% accompanied by a recommitment to make further changes, but only when the smoke of battle disperses.

These are testing investment conditions without question, with every day seemingly bringing another twist in the plot. But investors can do better than simply, and Micawberishly, hope that something might turn up. At times such as these, a broadly diversified portfolio of financial assets comes into its own, perhaps augmented by a sprinkling of gold as the precious metal finds favour with those who wish to hedge their bets even further. Aably assisted by wealth managers who are battle hardened and well versed in the careful stewardship of financial assets, investors can take comfort from the fact that their interests are being carefully safeguarded as the Games Without Frontiers play out.

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