

KMG Rebalance Strategy January 2025

Investment changes

The Investment Committee met on 21st January to review the investment strategy as we begin a new calendar year.

Generally speaking, we believe that a backdrop of falling interest rates and continued economic expansion should be a positive one for risk assets like equities, and this forms our base-case scenario for the year ahead. Donald Trump's victory in the US election does pose risks, and has led to elevated policy uncertainty, in particular with respect to trade tariffs and the potentially inflationary impact of some policies. However, at this stage we think his pro-growth agenda – manifested for example in corporate tax cuts and deregulation – is likely to outweigh the more negative policies. In practice, we think it is unlikely Trump will implement the more extreme elements of his agenda.

The outlook for Europe and China, facing unrelated but material headwinds, is less positive, although the Chinese authorities have been incrementally ramping up policies to stimulate domestic demand. Tariff threats come at a bad time for both regions, with Europe's two largest economies, Germany and France, suffering from political instability. We view the outlook for the UK as being marginally better than for the Eurozone, with the former expected to benefit from higher public spending and greater policy certainty under a Labour government with a significant parliamentary majority.

Overall, we remain positive about the outlook for financial markets in 2025, although continued economic expansion will be crucial. As ever, the one quasi certainty is that there will be surprises in both economies and in markets, even if there are fewer electoral events scheduled than have been seen in 2024.

We are making a small number of changes this quarter, replacing Invesco Tactical Bond with an emerging markets government bond fund, and within equities we're selling Fidelity European and Schroder Global Recovery for more cost-effective exposure to US and European equities.

Tax

Where changes are made within portfolios there may be some capital gains tax incurred when switching outside a tax-free wrapper.

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Fund charges

The fund charges for the portfolios will marginally reduce after these changes.

More details of the changes together with the Key Information documents for the new funds will be available on the KMG Website at the following address:

<https://shackletonadvisers.co.uk/kmg/>

Thank you for your continued support.
Best wishes and yours sincerely,

The KMG Team
