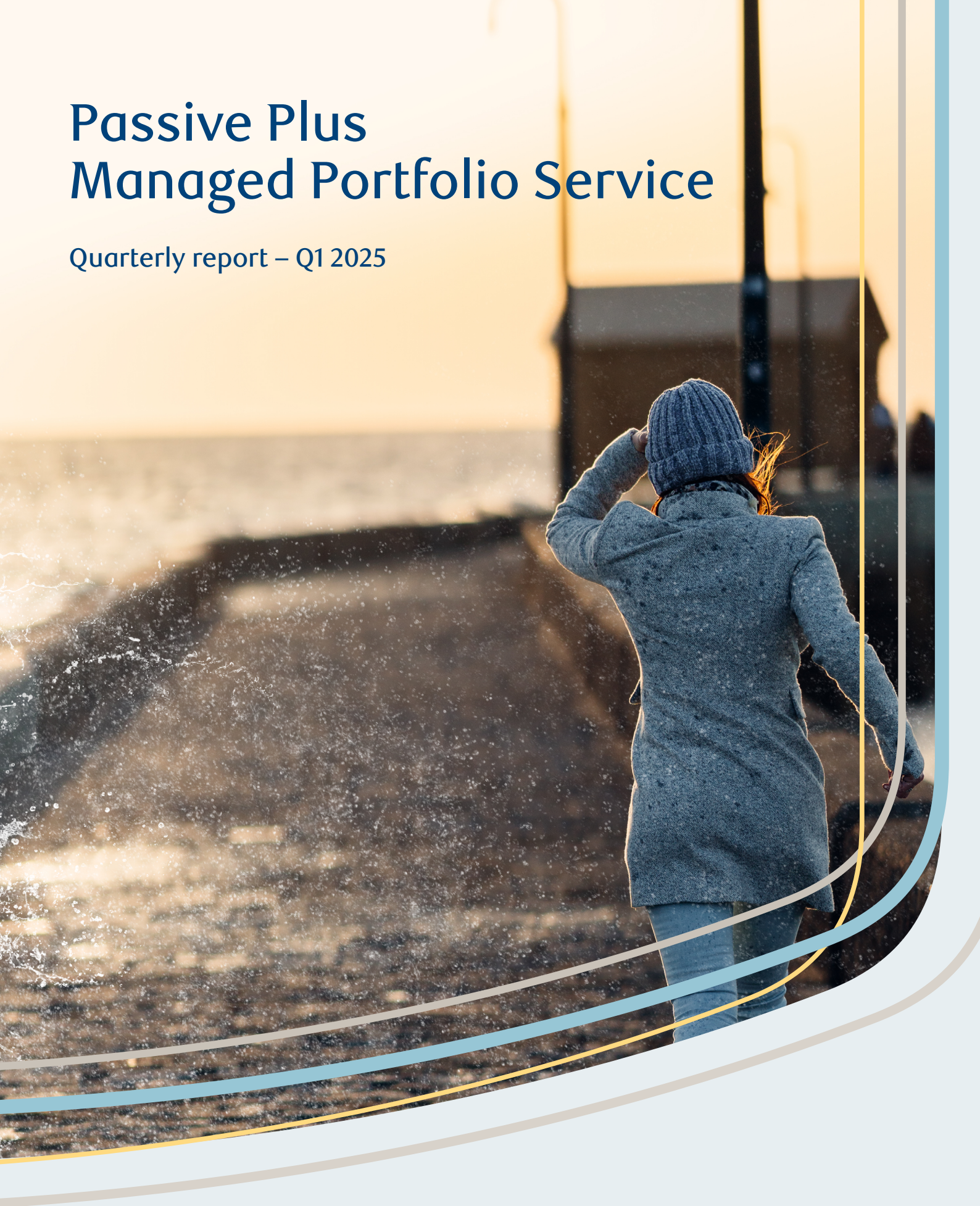


Passive Plus Managed Portfolio Service

Quarterly report – Q1 2025



Brewin
Dolphin

Introduction

Welcome to the RBC Brewin Dolphin Passive Plus MPS investment review. In this report, we cover information and events that influenced performance during the first quarter of 2025.

The first quarter of 2025 has been dramatic – and U.S. President Donald Trump was at the centre of the drama. During his first term, the president’s business-friendly actions (deregulation and tax cuts) outweighed his antagonistic actions (tariffs that were narrow in scope), but in this second term, these less favourable elements of his agenda are taking precedence.

The Trump administration’s tariff policy has taken several, often last-minute, turns. Over the first week of the president’s second term, tariffs were announced and then delayed at the eleventh hour, or announced and then adjusted within days. President Trump also imposed tariffs on steel, aluminium, cars, and car parts. This all took place while the threat of a bigger announcement loomed – what President Trump called ‘Liberation Day’.

On ‘Liberation Day’ (2 April), President Trump announced what he termed reciprocal measures based upon a list of perceived and real grievances detailed in an extensive report by the United States Trade Representative. The administration concluded that every country in the world unfairly penalises the U.S. enough to warrant a 10% tariff on exports. 60 countries warranted higher tariffs, most of which are small Asian and emerging economies. Japan, Switzerland and the European Union, however, were all charged high tariff rates, reflecting the frictions they impose on imports from America.

The economic impact from these measures should be severe, reducing economic growth and increasing costs for the U.S. and its trading partners. Retaliatory measures from other countries will only intensify this pain.

At February’s Munich Security Conference, U.S. Vice President J.D. Vance laid out the U.S. position that European states should contribute more towards Ukraine’s defence. The implications were significant. They accelerated a rapidly evolving attitude towards military spending in Europe.

The new UK government has struggled to make a positive impact economically, inheriting a difficult economic hand from its predecessor and focusing on taxing, spending and borrowing in the 2024 Autumn Budget.

In the Spring Statement, Chancellor Rachel Reeves updated parliament on the public finances relative to her self-imposed fiscal rules. Weaker growth and higher interest rates mean she was on track to break them, but welfare reforms, efficiency measures and some accounting nuance has put her back on track.

The big picture in Q1 2025

- The first quarter of 2025 was marked by a dramatic shift in investment performance, with bonds outperforming shares and European shares surpassing those in America. The U.S. dollar was among the weaker currencies, while gold provided a safe haven for investors. This performance was largely driven by the policies of U.S. President Donald Trump, who's taken a more protectionist stance in his second term.
- The imposition of tariffs on various goods – including steel, aluminium, cars, and car parts – has created tension and uncertainty in the market. The tariffs, which were announced on what President Trump termed 'Liberation Day', could have a severe economic impact, reducing growth and increasing costs for the U.S. and its trading partners.
- The administration's approach to trade policy has been aggressive, with the aim of reducing trade deficits, but this has been met with retaliatory measures from other countries. The economic impact of these measures is likely to be significant, and it's expected that the tariffs will be eased over time as President Trump seeks to negotiate concessions.
- In contrast to the U.S., Germany has taken a more business-friendly approach, with the newly elected government, led by Friedrich Merz, reforming the country's constitutional debt brake to exempt defence spending exceeding 1% of gross domestic product (GDP). This move is seen as a response to the evolving attitude towards military spending in Europe, which has been driven by the U.S. administration's focus on reducing trade deficits, and the potential loss of American support in combating threats on Europe's borders. The German government has also agreed to create a special €500 billion fund for investments in infrastructure and climate neutrality, which is seen as a positive move for the economy.
- Despite the challenging environment, European equities have preserved value better than their U.S. counterparts, driven by the perception that the U.S. administration's policies will have a greater negative impact on the American economy. The decision by the U.S. to fight on multiple trade fronts is seen as strategically naive, and the weakening of Europe's alliance with America has prompted the region to address domestic challenges.
- Overall, the investment landscape remains uncertain, with the ongoing trade tensions and geopolitical instability likely to continue to drive market performance.

Market overview Q1 2025

- The first quarter of 2025 saw varied performance across different asset classes.
- In equity markets, Developed Europe ex UK and Emerging markets delivered strong returns of 7.3% and 4.7%, respectively, with the UK equity market also returning 4.5%. North America and Japan underperformed with returns of -7% and -2%, respectively.
- In the bonds category, Global Inflation Linked and Global Corporate Bonds performed relatively well, with returns of 2% and 1.8%, respectively. However, UK Sovereign Bonds and UK Corporate Bonds had more muted returns of 0.5% each.
- In the alternatives space, gold stood out with a notable return of almost 16%, significantly outperforming other sub-asset classes. In contrast, absolute return and commercial property returned around 1% each.
- Overall, the diverse performance across sub-asset classes highlights the importance of a well-diversified portfolio.

Passive Plus MPS performance

Passive Plus MPS performance												
	Q1	2025 YTD	1yr	2yr	3yr	4yr	5yr	2024	2023	2022	2021	2020
Cautious Portfolio	0.4	0.4	4.7	11.3	5.5	6.9	18.8	6.2	6.6	-10.8	4.5	4.2
Cautious Higher Equity Portfolio	0.4	0.4	4.6	12.7	7.2	10.6	25.2	7.6	7.5	-10.5	7.2	3.4
Income Portfolio	-0.9	-0.9	4.6	14.1	9.0	13.5	32.2	8.9	8.2	-9.9	8.7	2.5
Income Higher Equity Portfolio	-1.7	-1.7	4.4	15.8	11.3	18.1	40.4	10.5	9.3	-9.0	11.2	1.9
Balanced Portfolio	-2.4	-2.4	4.2	17.2	13.3	22.6	49.7	11.8	10.2	-8.3	13.8	2.4
Growth Portfolio	-3.2	-3.2	4.2	19.5	16.4	28.4	64.9	14.0	11.4	-7.4	17.1	2.4
Global Equity Portfolio	-4.4	-4.4	3.9	22.6	19.7	35.0	79.7	16.7	13.1	-6.9	20.4	0.9

All figures shown above are calculated to 31 March 2025.

Performance Calculation: All income is reinvested. Performance is shown inclusive of underlying fund charges but gross of RBC Brewin Dolphin's investment management charge. Deduction of this charge will have the result of reducing the illustrated performance. Neither simulated nor actual past performance are reliable indicators of future performance.

Passive Plus MPS performance highlights Q1 2025



Asset allocation

What worked and why?

The portfolios benefitted from the overweight position to gold. The precious metal posted one of its best quarters amidst the risk-off sentiment (when investors become more risk averse) that prevailed in the U.S. equity market following the tariff announcements.

Fund selection

What worked and why?

During the first quarter, no fund had a meaningful contribution to positive selection performance.



What didn't work and why?

European ex-UK equities have been the best performers during the quarter, while the North America equity region has suffered the most from the market rotation. In recent years, U.S. equities have been the major driver of returns. But this quarter, the overweight to North America and the underweight to Europe ex UK have negatively impacted performance.

What didn't work and why?

Although the BH Macro fund and Winton Trend fund have been a drag on performance in alternatives, over the longer term, these should provide a positive, diversifying return to portfolios.

The value of investments can fall and you may get back less than you invested.

Passive Plus MPS portfolio changes Q1 2025

Asset allocation

At the beginning of Q1, there was a change to the strategic asset allocation benchmarks. Following the latest review by our Asset Allocation Committee, the allocation to UK equities in the highest risk profile was reduced by 2.5%, while the allocation to overseas equities was increased by the same amount, thereby providing a better balance of prospective risk and reward. In lower risk profiles, the change is less marked.

The Asset Allocation Committee has started the year maintaining its tactical underweight to European equities, while keeping an overweight to North America, as the U.S. economy shows more resilient fundamentals. The Committee decided to retain its overweight stance on sovereign bonds, citing their potential for upside in the event of economic weakness.

There were no changes in February. In March, the Asset Allocation Committee reduced the overweight to U.S. equities and increased European equities, as the extent of the proposed tariffs became more real. The increase in European equities followed Germany's announcements on defence spending, which markets received favourably.

Following a very positive run, gold was reduced, and cash was increased.

Fund selection

In January, we reduced exposure to UK equity funds and added exposure to overseas funds across the MPS ranges, in line with changes to the strategic asset allocation benchmarks.

In March, following a period of strong performance, a reduction to gold has been made in the MI Select Managers Alternatives fund, while the allocation to the BlackRock Sterling Liquidity fund has been increased. The allocation to U.S. passive index trackers has been reduced and the European index fund has been increased.

Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.

Cash

We hold a small overweight in cash. This provides some ammunition we can deploy when the outlook for other typically higher-yielding asset classes improves.

Bonds

Our base case view is that safe haven bond yields will move in a trading range in the quarters ahead. This largely explains why we have a neutral position in the bonds asset class. Within bonds, we are overweight government bonds, and underweight corporates. The yield differential between corporate and government bonds remains tight, and spreads are vulnerable to widening if economic growth comes in weaker than expected. The reality is that recessions are often unpredictable; five of the eight recessions the U.S. has seen since 1970 were caused by shocks. Government bonds would very likely outperform corporate bonds if a negative shock to growth were to materialise. With spreads tight, and given our desire to stick with a small equity overweight, our bond positioning acts as a partial hedge against this risk.

Global Equities

We expect the global economy to continue to expand, which is consistent with corporate profits going up. We also believe there's the potential for artificial intelligence (AI) themes to drive both strong economy-wide productivity and continued solid profit gains among the pick and shovel plays (strategies to invest in companies that provide necessary equipment for an industry). However, we believe only a small equity overweight is appropriate. For one, there's limited room for cyclical economic growth. With most economies close to full employment and labour force participation high, there isn't much scope for workers on the sidelines to get a job, earn an income, and increase aggregate consumption. Meanwhile, U.S. President Trump's immigration policies are likely to weigh on labour force growth. Further, U.S. equity valuations are unappealing. Valuations don't work as a good predictor of medium-term returns, but eventually the medium term becomes the long term. Finally, trade uncertainty is very high, and surveys indicate there's a dearth of cash on the sidelines available to buy the recent dip in equities.

↓ Alternatives

Following the recent strong rally in gold, we've taken some profits on our overweight position. Importantly, if our base case economic outlook plays out, we see limited scope for real bond yields – an important macro driver of gold – to decline. However, we retain a small overweight. With the world becoming increasingly multipolar, we expect central banks to continue to diversify their reserve holdings out of the U.S. dollar and other developed world currencies. Gold is also likely to act as a good hedge in the event that two risks materialise. If a full-blown global trade war occurs, real yields would likely drop and inflation rise – a great backdrop for gold. The other, longer-term risk is if inflation comes in persistently above expectations due to factors like de-globalisation, a changing age structure of society (that means fewer workers relative to consumers, resulting in strong wage growth), and persistently high government deficits.

→ UK Equities

UK relative performance should continue to be closely linked to global value vs growth style performance. Notwithstanding the recent surge in value-style relative performance, there are reasons to believe the outlook for the growth style remains brighter. However, some diversification into the value plays that the UK is so heavily weighted in makes sense at this stage, in our view. Although the domestic economic outlook is less important for UK equity relative performance given its high international exposure, it still matters. Indeed, there's a positive relationship between the performance of UK vs global GDP and UK vs global equity performance. We continue to believe the pessimism surrounding the UK economy is overdone. The UK equity market also trades on very undemanding valuation multiples.

↑ U.S. Equities

With Trump waging a trade war against the entire world concurrently (although very recently re-focusing on China), and with many countries ready to retaliate, our sense is that the trade tensions will do more damage to the U.S. than the rest of the world. For this reason and others – including President Trump's immigration stance, stretched valuation multiples and a still richly valued U.S. dollar – we've trimmed the size of our U.S. overweight. Nevertheless, we retain a small U.S. overweight. We expect the U.S. to maintain its productivity advantage vs most of the rest of the developed world. Moreover, the secular outlook appears relatively bright for the tech stocks the U.S. is so heavily weighted in. The main upside risk for the global equity market over the next few years is if an 'AI boom' scenario unfolds. With monetary policy now slightly less restrictive, a weaker version of the second half of the 1990s is a possibility this cycle. Back then, excitement linked to the growth of the internet drove gains. This cycle, AI could be the driver.

↓ Europe ex-UK Equities

The recent pickup in Europe ex UK relative outperformance has been driven by a combination of factors: the weakness in U.S. mega cap digital names, an improvement in European economic data at a time when U.S. indicators have softened, an uptick in optimism toward the cheaply valued European names following a period of deep pessimism toward the region, and the prospects of significantly higher European defence spending. The U.S. probably has a superior corporate profit backdrop, but investors recognise that Europe ex UK is still trading on a significant valuation discount to the U.S. European currencies remain cheap.

 **Japan Equities**

Japan has implemented shareholder friendly reforms, which could help drive a further expansion in relatively depressed price-to-book multiples. Japan is now experiencing a healthy dose of inflation, with wage growth strengthening. Importantly, inflation expectations have picked up. However, demographics amount to a major structural headwind for Japanese equity relative performance. Meanwhile, with the unemployment rate low and labour force participation high, Japan doesn't have much scope to put idle economic resources to work to drive cyclical growth.

 **Asia ex-Japan Equities**

China continues to battle multiple structural headwinds, but its productivity is a notable bright spot. Meanwhile, its policy focus is shifting from a stance to contain the private sector to one that supports it. Finally, some of the economic data has turned slightly less bad. Encouragingly, there are structural bright spots in the Asia ex Japan equity index, including India, with its very strong economic growth prospects, and Taiwan, given its high exposure to semiconductors.

 **Emerging Markets ex-Asia equities**

Saudi Arabia, Brazil, South Africa, Mexico, and the United Arab Emirates are the countries with the highest market cap weightings in the EM ex Asia equity index, making it very commodity exposed. While we don't expect much upside to commodity prices, EM ex Asia remains very cheaply valued.



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