Q1 2025 Overview – Countrywide Assured plc Balanced Managed Pension / Life Investing Fund

This report is provided by our Fund Manager Schroders and covers the portfolio activity on our main investing funds the Countrywide Balanced Managed Pension/Life Investing Funds, together with their short-term economic outlook. The report describes the current economic background and Schroders' perspective of this and how it impacts their management of the Countrywide Balanced Managed Pension/Life Investing Fund. It also covers all individual asset class sectors (UK & Global Equities; fixed interest; Property and cash).

Your policy will be invested in a specific customer fund of your choice which has its own fund objectives (see fund list and specific fund objectives) www.countrywideassured.co.uk/fund-centre/understanding-my-funds/fund-objectives/. All customer managed funds are invested in the Countrywide Balanced Managed Pension/Life Investing Funds, to a greater or lesser extent depending on the nature of the fund objective. If you're invested in an individual asset class sector fund, although no specific commentary is provided for these funds, the report does cover individual markets and other asset classes, which is consistent with the fund managers reasoning.

Portfolio Activity

We've had a dramatic start to the year. US exceptionalism has been challenged as unpredictable trade policies and aggressive tariffs have unsettled investors, causing substantial stock market losses and sparking fears that the US economy could enter a recession due to disruptions in global trade. By comparison, Trump's unwillingness to bring about security guarantees triggered a fiscal regime change in Germany, which has prompted a significantly improved outlook across Europe.

Our overweight equity position was maintained over the quarter; however, the composition of the regional tilts changed during this period, and we trimmed the combined long exposure as the quarter progressed. At the start of the quarter, the equity overweight was focused on the US, Europe, and the US Financials sector, having already started to diversify our exposure away from the US later last year, recognising concerns about index concentration and expensive valuations.

Against the backdrop of multiple Trump-related headlines, we maintained our focus on the trajectory for economic growth and interest rates in 2025. The US exhibited resilience, with robust labour markets and steady consumption supporting the outlook for equities. Against this backdrop, we initially maintained the overweight position in US equities through investments in the S&P 500 and US Financials, the latter to reduce our exposure to concentration risk in the S&P 500, and because Financials should benefit from curve steepening. The overweight position in US equities was ultimately closed towards the end of the quarter, recognising that uncertainty had increased due to Trump's policies, potentially leading to a reacceleration of inflation in the US, as well as increasing unease regarding the index concentration of the S&P 500.

In Europe, sentiment has improved, with monetary and fiscal policy becoming more supportive. We therefore maintained an overweight tilt towards European equities to reflect both positive business sentiment due to the fiscal measures announced by the German government and the expectation that easing from the European Central Bank (ECB) could provide a tailwind for European equities.

Finally we also diversified our long equity exposure to include emerging market (EM) equities in March, given the potential for a weaker US dollar and a more positive outlook on China. The underweight position in US 5-year government bonds was maintained over the period to fund the overweight position in equities.

In currencies, we established overweight positions in the US dollar and the Canadian dollar against the pound sterling in January. The US dollar remained supported by its positive carry and relative macroeconomic strength, while the Bank of Canada had delivered more easing than any other developed market central bank in 2024. We expected this trend to slow following an unexpected surge in Canadian employment data. In contrast, a poorly received budget and tax rises had impacted business confidence in the UK, which was likely to weigh on the performance of sterling. Due to tariff fears affecting the Canadian dollar and fading US exceptionalism, both positions were closed in February.

An overweight position in the Australian dollar against the Japanese yen was added mid-quarter. This was a short-term tactical trade, seeking to capitalise on central bank divergence, the disparity between the dynamics of the currencies, and the more constructive outlook of the Australian economy relative to that of Japan. This position was closed in early March as the Japanese yen rallied amid expectations of further interest rate hikes from the Bank of Japan.

Towards the end of the quarter, an overweight position in the euro against the pound sterling was added to the portfolio. A structural shift in European fiscal policy, with meaningfully less restrictive monetary policy, could signal the end of austerity in Europe, which should benefit the euro. Conversely, a poor growth outlook, strong fiscal headwinds, and a sell-off in gilt yields could lead to the pound sterling struggling.

Outlook

At the start of the year, we highlighted growing divergence across economies, central bank actions, and market performance. That view remains intact. However, the so-called “Liberation Day” has profoundly altered the near-term outlook. Political upheaval, sudden regime change, and the reordering of global alliances have introduced a level of uncertainty that markets had not priced in. As we move into the second quarter, our focus on divergence remains, now accompanied by a growing sense of dislocation — in political systems, market expectations, and cross-border capital flows. Repeated, rapid reversals in markets palpably demonstrate high uncertainty in economic expectations. Against this backdrop of almost unprecedented uncertainty, it is important to anchor our market outlook in disciplined cycle and scenario analysis. This is not a time for strong directional views; instead, the emphasis is on diversification, resilience, and flexibility.

In our baseline scenario, we continue to expect moderate global growth. However, the scale and scope of the proposed tariffs and uncertainty this has created in the global economy has led to a substantial rise in the risk of recession, particularly in the US. A key development in recent weeks is the extent to which our earlier "Aggressive Trump" risk scenario has now transitioned into our baseline scenario. At the start of the year, we considered the combination of steep tariffs and a restrictive immigration stance as a downside risk to the global economy. Following “Liberation Day”, these policies are now taking shape as defining features of the macro environment. Together, these factors create a stagflationary backdrop, with higher inflation and lower potential growth now embedded in our baseline scenario. The global spillovers are also material, as US policy actions provoke retaliation and introduce further uncertainty for global trade.

Given current volatility and heightened uncertainty, we maintain a more cautious near-term stance on equities. In our previous report, we expected equity market performance to broaden out — and that view has played out meaningfully in early 2025. Market performance has become more diverse, with strong regional divergence emerging. Europe, in particular, has outperformed, reflecting both attractive starting valuations and improving sentiment as investors reassess the region’s potential in a shifting global order. That broadening trend remains intact, but in the wake of “Liberation Day”, it has become more nuanced. Divergence across regions, sectors, and styles continues to define market dynamics, now with added emphasis on quality, resilience, and strategic positioning. We continue to see medium-term value in European and Emerging Market equities, where valuations are more attractive, and policy support may be increasing. In contrast, the US market remains concentrated in a few large companies, increasing stock-specific risk — a vulnerability exposed by the recent DeepSeek shock. With the international trade system under pressure, from US policy changes upending 80-years of trade, security and economic policy, continued US exceptionalism is now in doubt. This has led to dramatic policy responses outside the US, particularly in Europe and we believe there is a case for gradually diversifying equity exposure away from the US.

Fixed income markets have repriced meaningfully, reflecting increased uncertainty about growth, inflation, and central bank responses. Renewed inflation concerns have eroded confidence in duration's hedging role, creating a key challenge for portfolio construction. As a result, we remain neutral overall on government bonds, with a growing preference for high-quality duration in markets with credible policy frameworks. We have downgraded our view on corporate credit, despite a modest widening in spreads in recent weeks. In the US, increased policy uncertainty could translate into higher volatility and repricing, particularly in lower-rated corporate credit.

We have downgraded our view on the US dollar as markets begin to price in lower growth expectations, doubts around US monetary policy, and growing concerns about US institutional credibility. While it may still offer protection in risk-off episodes, its dominance is increasingly being questioned, particularly as global investors and central banks diversify away from US dollar denominated assets. The euro is well supported by structural shifts in European fiscal policy and relative under-ownership of European assets. Against both the US dollar and sterling — where inflation remains elevated and fiscal space constrained — the euro appears increasingly attractive.

The "Liberation Day" turmoil has ushered in a new era of unpredictability. Markets are reacting quickly and sometimes irrationally, but longer-term opportunities remain. A diversified, nimble, and global approach is more important than ever. Portfolios should be anchored in resilience — with hedges in place, exposures balanced across regions, and an eye toward quality and liquidity. While the road ahead may be bumpy, it is also navigable. History shows that even in times of dislocation, markets ultimately adjust. The challenge for investors is to remain grounded, forward-looking, and ready to act when clarity emerges. The fund is positioned accordingly.

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