March Market Update: a fiscal game-changer

Jasper Thornton-Boelman
Investment Director

In a nutshell

- Germany makes historic change to debt rules
- UK outlook dims as growth forecasts fall
- Markets braced for 'Liberation Day'

All eyes on Trump

March saw losses across all major equity indices, with the US leading the downturn. Ongoing uncertainty around the direct and extent of Trump's tariffs has put a dark cloud over risk assets, with more investors seeing the risk of recession as increasingly likely.

The US dominated headlines. Its stance on the Russia-Ukraine conflict has been disappointing, with a reluctance to directly blame Russia and the withdrawal of military assistance to Ukraine. The attitude towards Europe has been very negative, with the rhetoric from Trump and JD Vance suggesting the US cannot being relied on for financial support going forward.

A fiscal game-changer

This anti-Europe and inward-looking approach has provoked a strong response. Germany, an economy ran in a fiscally cautious manner (e.g. with low debt levels), has ripped up the rule book and new plans are underway:

- defence spending will now sit outside of debt limits
- a new infrastructure fund worth 12% of GDP is being launched
- local governments have more flexibility to run budget deficits

All of this points to stronger growth - and while it will be debt funded, there's still a lot of headroom compared to other developed nations.

The UK growth squeeze continues

Back at home, the growth outlook is less upbeat. The OBR (Office of Budget Responsibility) now forecasts the UK economy to grow at 1% for 2025, down from the 2% they'd forecast in October. Not great news for Labour and Rachel Reeves, who has the unenviable task of boosting growth whilst spending very little. The big near-term risk to the UK feels like 'stagflation' - high inflation coupled with low growth. While the most recent inflation numbers came in slightly below expectations at 2.8%, wage growth is still running at nearly 6%. Higher wages should support higher prices in a circular fashion, and this is something the BoE (Bank of England) have a close eye on. It's also one of the reasons we've not seen interest rates fall quicker.

Rates and Central Bank moves

Alongside the UK, the Fed (US Federal Reserve) kept interest rates steady in March. The unclear path of policy under Trump makes it very hard to judge the likely direction of inflation and employment, so the decision to stay at the 4.25 - 4.5% range wasn't surprising. The European Central bank (ECB) continues to be the most consistent in their rate cutting cycle, with a further 0.25% reduction bringing the main deposit rate to 2.50%.

What's next?

Volatility is expected to continue, following Trump's formal announcement of reciprocal tariffs at the start of April - an event dubbed as Liberation Day. Whether this was a negotiating tactic or a legitimate desire to reshape global trade remains to be seen. In either case, a quick resolution doesn't feel likely. So far, the message from markets has been that these measures could hurt the US more than its trading partners.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	-1.01	0.55	0.55	-1.19	-17.30
ICE BofA Global Corporate	-0.38	1.83	1.83	5.34	3.69
ICE BofA Global High Yield	-0.83	1.29	1.29	8.23	14.28
FTSE All Share	-2.25	4.51	4.51	10.46	23.27
FTSE USA	-8.08	-7.24	-7.24	5.78	30.27
FTSE World Europe ex UK	-2.59	7.64	7.64	3.79	28.40
FTSE Japan	-1.93	-2.21	-2.21	-3.72	19.17
FTSE Asia Pacific ex Japan	-2.69	-2.15	-2.15	6.34	7.03
FTSE Emerging	-1.48	-0.86	-0.86	9.74	11.09

Source: FE Analytics, GBP total return (%) to last month end

Parmenion

Registered Office: Aurora, Counterslip, Bristol, BS1 6BX.
Website: www.parmenion.co.uk

Parmenion Capital Partners LLP Authorised and regulated by the Financial Conduct Authority.

FCA Number 462085. Registered in England and Wales OC322243.

Version date: 08/04/2025