Aberdeen Index MPS

Quarterly commentary

Q1 2025

Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

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Objective

The Aberdeen Index MPS aims to achieve a total return from both income and capital growth through a diversified portfolio of collective investment funds over the long term. It is intended for investors with a very low through to a medium high attitude to risk. The portfolio invests in a wide variety of assets, typically in equities, fixed interest, alternatives and money markets. This blend of assets should help to dampen down volatility over the long term.

Discrete annual returns - year to 31/03

	2021	2022	2023	2024	2025
Aberdeen Index MPS 1	11.40%	0.90%	-5.25%	5.85%	4.20%
ARC £ Cautious	11.34%	1.62%	-4.25%	4.30%	3.78%
Aberdeen Index MPS 2	16.62%	2.57%	-3.86%	8.87%	4.60%
ARC £ Cautious	11.34%	1.62%	-4.25%	4.30%	3.78%
Aberdeen Index MPS 3	21.69%	5.78%	-2.80%	11.02%	4.97%
ARC £ Balanced Asset	17.86%	3.46%	-4.52%	7.19%	2.94%
Aberdeen Index MPS 4	26.69%	7.71%	-2.07%	13.08%	5.35%
ARC £ Steady Growth	23.53%	4.64%	-4.52%	9.24%	2.53%
Aberdeen Index MPS 5	31.92%	10.00%	-0.34%	15.71%	6.01%
ARC £ Equity Risk	30.35%	4.84%	-4.61%	10.99%	2.46%

Portfolio performance is based on Aberdeen Index MPS hosted on the Aberdeen Wrap platform. Performance figures are net of the abrdn Portfolio Solutions Ltd management fee and underlying funds OCF. Source: Aberdeen, Financial Express. As at 31.12.2024. ARC Private Client Indices are based on actual client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories based on the volatility of their returns relative to world equities, and an average return is calculated for each category. Grouping portfolios by their volatility differs from the traditional approach, which compares portfolios which have similar asset allocations. Instead, investment managers may use whatever asset allocation they consider appropriate to achieve the desired levels of return and volatility.

Key points

- In what was a volatile quarter for global markets, the broadest index for world equities ended the period down more than 4%. In the face of increased geopolitical tensions, predominantly characterised by a burgeoning tariff war between the US and its trade partners, central banks struck a 'wait and see' tone in the early months of 2025, when considering interest rate cuts. The first quarter of 2025 did, however, see both the Bank of England (BoE) and European Central Bank (ECB) cut rates by 25 basis points (bps).
- January saw the inauguration of Donald Trump, serving for a second term, this time as the 47th President of the United States. Following through with many of his proposals on trade, the new man in the White House set about proposing a long list of tariffs, including a 25% levy against goods from Mexico and Canada, a 10% tariff on Canadian energy imports, 20% on all Chinese goods and a 25% tax on all cars and car parts entering the US. While some measures were withdrawn or delayed, the tit-for-tat tariff war playing out with many of America's traditional trade partners only served to spook investors.
- Reflationary worries were also unleashed on domestic shores as the Labour Party's first Budget, announced last year, continually stoked fears into the new year that higher corporate National Insurance contributions and

an increased minimum wage would force companies to hike prices at the tills. In October, the UK government's official economic forecaster, the Office for Budget Responsibility, said that the government would be able to meet that rule with £9.9 billion to spare. However, an increase in government borrowing costs since then has meant that this headroom has all but disappeared.

- Moving in a different direction to most western economies, the Bank of Japan (BoJ) continued to tighten monetary policy, raising Japan's borrowing costs to 50 bps in response to rising wage pressures and services inflation. BoJ Governor Kazuo Ueda commented that "if such moves lead to broad-based inflation across the economy, we must respond by raising interest rates". Japan's core consumer inflation hit 3% in February.

Market commentary

During a quarter in which an abnormal number of deadlines were set and then either delayed or cancelled, usually concerning trade tariffs, for many Brits, there was only one countdown that really mattered.

There is nothing like leaving it to the last minute – a mantra exemplified by those 750,000 filling out their online tax returns on the last possible day (31st January). Data from HMRC also showed that 31,442 completed the forms with just mere seconds to go, while an estimated 1.1 million people missed the deadline altogether.

However, with US President Donald Trump moving into the White House in January, investors also had plenty of interest to declare this quarter. Rarely the self-depreciating type, Trump's 100 executive orders in his first 70 days in office characterised the turbulent start to the year for markets. The sheer unpredictability of tariff proposals, aimed not only at those who were targeted during Trump's last administration, such as China and Mexico, but also now at Canada and the Eurozone, repeatedly spooked investors.

Following through with many of his proposals on trade, an ever-increasing list of tariffs was drawn up, including a 25% levy on goods from Mexico and Canada, a 10% tariff on Canadian energy imports, 20% on all Chinese products and a 25% tax on all steel and aluminium, as well as cars and car parts entering the US. While some measures were withdrawn or delayed, the tit-for-tat tariff war had a profound impact on US markets especially.

Both consumer and investor sentiment started to sour with increased rhetoric over levies on goods entering the US and the potential price rises those policies could usher in. Surveys throughout the period increasingly mention anxiety over tariffs, with cost increases becoming a daily topic for some businesses. Indeed, even Trump was in the mood to make declarations (just not on his tax), commenting that he "couldn't care less" if carmakers raise prices after his 25% tariffs on foreign-made vehicles comes into effect. "People are gonna buy American-made cars, we have plenty," was very much his bottom line.

With worries that the spectre of inflation could rear its ugly head again, it was up to the US Federal Reserve (Fed) to allay fears that it would act if necessary. Refraining from lowering borrowing costs during the quarter, Fed Chair Jay Powell noted the risks to cutting rates too aggressively, saying "we know that reducing policy restraint too fast or too much could hinder progress on inflation".

Failing to mind the GAAP, the broadest measure of American stocks suffered its worst first quarter performance in three years, falling 5.75% in March alone, with big tech firms bearing the brunt of the sell-off. Despite several American stocks entering the year with valuations near multi-decade highs, late January's news that DeepSeek, a Chinese AI offering, that claimed to require significantly less computational resources to achieve results comparable to the more expensive ChatGPT, led to some pretty gross deductions in American equivalents.

On the news, the value of the world's largest company, chip maker Nvidia, fell by as much as 17%, wiping out $593 billion from its market capitalisation in a day – the largest one-day loss in history. The semiconductor sub-index also fell by 9.2%, suffering its biggest loss since March 2020. The fall set the tone for the sector, with the tech-heavy Nasdaq index falling into correction territory (defined as a fall of 10% from a recent high) during the quarter.

Balancing the books while US markets got off to a difficult start to 2025 were European markets, which picked up the slack. The much-overlooked region finally received some appreciation from investors. Attractive valuations coupled with an accommodative central bank that was able to cut rates in both January and March by a combined total of 0.5%, with space to move further if required throughout the rest of the year.

On the geopolitical front, the US applied pressure for Russia and Ukraine to come to the negotiation table. Further positive news on the continent came in March as Germany's new government agreed to loosen fiscal rules for defence spending. This decision will allow the creation of a special €500 billion fund to boost the country's defence capability as well as implement a number of infrastructure projects. With events in Washington overshadowing much of what was happening around the rest of the world, it is no exaggeration to view this this policy as monumental in nature.

Turning towards domestic shores, investor euphoria was more tempered, as the impact of Chancellor Rachel Reeves's October Budget continued to be felt by markets and the broader economy. Such proposed policies are likely to see prices rise as companies aim to offset rises in National Insurance contributions and minimum wage.

The result has been a rise in gilt yields, as inflation made its way above the Bank of England's (BoE) 2% target again, having briefly touched 1.7% in September last year. However, it must be noted that the final reading of the quarter saw inflation come in at 2.8%, below the 3% expected. Although inflation has proven stickier than first anticipated, the BoE has adopted a more 'wait and see' approach, embracing a monthly hold-cut tempo, allowing the bank to lower borrowing costs by 25 basis points during February, but hold in January and March.

Interestingly, the government's Spring Statement, delivered in March, struck a very different tone to the Autumn Budget, painting a more downbeat picture for UK finances. Back in the halcyon days of October, the government's official economic forecaster, the Office for Budget Responsibility said that the government would be able to meet its self-imposed finance rules with £9.9 billion to spare. However, an increase in government borrowing costs since then, has meant that this headroom has all but disappeared. It's an accrual world, as those in the Treasury are learning.

Portfolio commentary

The first quarter of 2025 was marked by heightened volatility and mixed performance across asset classes. Portfolio returns ranged from +0.75% for Risk 1 to -1.52% for Risk 5. Portfolios with a higher allocation to defensive assets provided stability as bonds gained a bid amid the risk aversion.

Regional diversification proved beneficial as equity market returns were differentiated. After the strong gains seen last year, US equities underperformed other major regions due to concerns over the valuations of the Magnificent Seven tech giants, economic growth and geopolitical risks related to Trump's aggressive tariff policies. Within Asian and emerging market equities, China was driven by the tech sector following the DeepSeek launch, whilst Japan struggled.

The market rotation from US exceptionalism and mega-cap tech saw value stocks outperform growth, having significantly underperformed in 2024. Infrastructure and UK equities fared well, alongside European stocks, helped by a significant spending push from Germany into defence and infrastructure. Global real estate investments trusts were a notable detractor amid interest rate volatility and economic uncertainty, which reduced the attractiveness of the asset class relative to other investments.

As investors sought safety from the volatility in risk assets, fixed income performance was positive amid strong demand for government and investment grade credit, particularly short-term paper. Inflation-linked bonds also performed well as investor anticipated stickier inflation and slower growth.

Given the uncertain global economic environment, we believe a well-diversified portfolio continues to be essential for navigating these challenging times.

Outlook

With tariffs and trade tensions taking up many of the column inches during the first quarter of 2025, if we learned anything during Donald Trump's last administration, it is that the self-proclaimed "Tariff man" will not lose interest in pursuing what he believes are economic injustices.

While geopolitical tensions could go on to characterise much of the year ahead, bringing bouts of heightened volatility, there are some bright spots emerging. An unintended consequence of Trump's tariffs is that it has led to more opportunities outside of the US for investors, with areas such as Europe and China showing signs of a renaissance. In the end, investing for the long term isn't too different from filling out your tax returns. Ultimately, it's all about finding that balance.

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Risks
All investments involve risk. The risks of some of the funds may be comparatively high. The risk descriptions at the end of this document correspond to the main risk factors for each fund within the model. "General Risks" mostly apply to all funds within the model. A fund could potentially be affected by risks beyond those listed described in this document, nor are these risk descriptions themselves intended as exhaustive. For full information and key risks, please refer to the end of this document.

Credit risk: The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

Interest rate risk: The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

Equity risk: The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

Emerging Markets risk: The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

Derivatives risk: The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

High Yield Credit risk: The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

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