

Multi Asset Q1 investment update

April 2025

Investment manager Felix Amoako-Kwarteng and investment specialist Steven Milne give an update on the Multi Asset, Diversified Growth, Defensive Growth and Diversified Return strategies covering Q1 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Steven Milne (SM): Hi, and welcome to this Multi Asset quarterly update. I'm Steven Milne, an investment specialist with the Multi Asset Client Team. Today I'm joined by Felix Amoako-Kwarteng. He's an Investment Manager and one of the key decision makers on the Multi Asset Strategy. Today we're going to be talking about the recent volatility. We're also going to be covering the positive performance that we saw during the quarter and also finishing up with the key drivers to growth for the strategy in future.

Felix, welcome.

Felix Amoako-Kwarteng (FAK): Hi.

SM: I think keeping with that market volatility point just now, we obviously did see quite a lot of equity volatility, that's for sure. Looking at global indices, they were down around about 9% at one point. I guess the question is, what's the investment team's view on this volatility and what factors are really affecting it and that are important for you?

FAK: The rise in market volatility can be attributed to two main developments. The first one is the AI breakthrough that was announced by a Chinese company, DeepSeek, in January. This has challenged the prevailing market assumption about the potential awareness of the AI evolution. Until now, few companies have benefited and have been rewarded in their share price. But the prospect of cheap AI deployment could undermine the competitive landscape of these companies. And therefore, it has been a source of market volatility.

The second point is the ongoing uncertainty around trade and tariffs, given US trade action against a number of countries, including China, Canada, and Mexico. And just yesterday, the US has extended these tariffs globally. These tariffs can undermine market confidence, because it can lead

to slower growth, or it can add to inflation. As we saw in 2018, during the first tariff escalation, global equity market sold off by 15%. So, the market is worried about the extent of escalation that **we could see in tariffs. And as is often said, markets don't like uncertainty.**

SM: Yes, well, I think that was quite clear when major equity markets responded quite negatively to that. But that leads us on to the portfolio. How did that respond during that time of volatility?

FAK: The Multi Asset portfolios demonstrated resilience, achieving a net gain of around 2%, even as global equities fell by 2%. And US equities were down by 5%. The strength of our portfolios lies in the diversifications across asset classes, regions, and investment ideas. During the quarter, the performance was driven by a range of asset classes, including commodities, with strong gains from copper and rare earths. In fixed income, our investment in short Japanese government bonds benefited from rising interest rates. We also saw positive returns from property, from alternative debts, such as structural finance and private credit, as well as insurance linked securities.

However, infrastructure stocks underperformed due to uncertainty around green infrastructure stocks. Equity performance was flat, with gains from China and value-orientated stocks offsetting losses from growth equities.

In this environment, diversification is key, and the diversification of our portfolio helped us to navigate the rising uncertainty in global markets. So looking forward, we believe that our portfolio position, given the diversification that we have, should provide strong returns and good growth outcomes, but be very resilient during periods where volatility is high.

SM: **It's obviously great to hear that it's done well in a period of volatility. That's the bread and butter** of the diversified strategies that we run here at Baillie Gifford. So, naturally, the performance side of things is in the past. Looking forward, what are the most likely economic scenarios that the team are forecasting just now?

FAK: The first thing to say is that our economic view remains broadly unchanged. Though we have changed the probability distribution, given heightened risk around stagflation and potential growth weakness. In our base case, we think that some tariffs will remain in place, but a full-scale global war will be avoided. This will likely lead to some weakness in the underlying growth momentum that we currently see, but not enough to lead to recession. Inflation will remain elevated, but manageable.

The most likely alternative scenario is that an external shock or further escalation in tariffs could move the global economy into a prolonged stagflation environment or even recession. In this environment, we think that investors have to remain diversified to navigate the risk that is emerging.

SM: **Okay, so preparing the portfolios for more than one scenario is what I'm hearing from that. But I** guess that leads on to the natural question of what are you doing in the portfolios to actually prepare them for those scenarios?

FAK: **Given our base case has remained largely unchanged, we didn't see the need to make substantial changes in the portfolio. Our Multi Asset portfolios are well-positioned to deliver good returns in our base case scenario but be defensive in the alternative scenario. So, we've not made a lot of changes.**

We did, however, make some minor changes, taking profit from asset classes that have delivered strong returns, but where future returns look less attractive, especially in commodities, where we reduce our exposure to copper and EU carbon credits. We reinvested this capital to alternative assets, adding to floating rates and high yield bonds.

We added to our position in Brightline, a US high yield bond, yielding 13%, and brought two new positions into the portfolio, Eagle Point and Blue Owl. These are two US loan funds. We believe that they provide exposure to attractive alternative credit in a liquid and cost-effective manner.

Elsewhere, we continue to add to our exposure to **insurance-linked securities, which shouldn't be affected by the ongoing economic uncertainty.** This is now around 13% of the Multi Asset strategies, and we believe that it adds a good balance to the portfolio.

SM: **Great. I've got time for one more question. So I think, finally, I'd like to finish with the team's investment outlook, if you can. So what are going to be the future drivers to growth for the portfolios?**

FAK: Diversification is key in navigating the current economic uncertainty and rising volatility. As **I've noted, stagflation is not our base case but investment in insurance-linked securities, in cash, the protection from credit default swaps, as well as our short position in Japanese government bonds are sufficient balance to the Multi Asset strategies.**

This allows us to maintain strong allocation to equities, to property infrastructure, and also to structured finance where returns are attractive in our base case. In terms of individual positions, we remain optimistic about infrastructure, despite recent underperformance. We believe that the long-term fundamentals are intact, with valuations now at their most attractive levels in the last five years. In core infrastructure and properties, we have shifted our allocation from US to Europe: similar kind of fundamentals, but more attractive valuation. We anticipate that this valuation gap will narrow, particularly as Europe is now focusing on growth-enhancing measures amid the ongoing trade tension.

Regarding Europe, we believe the region is poised for above-trend growth. The market seems to be appreciating the impact of the announced fiscal measures on defence and also infrastructure. We think that that has the potential to improve European growth over the next 10 years. We are looking at a number of opportunities to invest in this region.

In all, I will say that in the environment that we are in, with heightened risk around the economic environment and trade, we believe that we ought to have a diversified portfolio. For the first time in

a decade, US exceptionalism is not the only game in town. The investment landscape is quite favourable, with emerging opportunities in Europe and in China. We are positioning our portfolio to deliver attractive long-term returns with moderate volatility.

SM: **Brilliant. Thank you very much for answering my questions today, Felix. That is all we've got time for today, so thank you for joining us, and we look forward to seeing you again soon.**

Diversified Growth (representative of Multi Asset, Multi Asset Growth, Diversified Return, Defensive Growth)

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
Diversified Growth Composite	17.5	3.7	-8.8	2.7	5.8
Base rate +3.5%	3.6	3.7	5.8	8.6	8.5

Annualised returns to 31 March 2024 (net%)

	1 year	5 years	10 years
Diversified Growth Composite	5.8	3.8	2.3
Base rate +3.5%	8.5	6.0	5.0

Base rate: UK Bank of England.

Source: Revolution. Sterling. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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