TrinityBridge

Insight Matters

Spring 2025

While navigating uncertainty, perspective is key

In this edition of Insight Matters we cover

An uncertain start

We look back on the ups and downs of 2025's first quarter

Sector spotlight: obesity drugs

We explore the new frontier of weight loss drugs

Looking ahead

Perspective is key... what to expect in the unexpected?

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An uncertain start

Global growth to slow; uncertainty ahead

Geopolitics have dominated 2025 so far. President Trump's first 100 days have passed in a blizzard of activity and executive orders perhaps unparalleled in recent memory. US policymakers' chaotic and more protectionist approach to foreign trade jars discordantly with the largely dollar-dominated global financial system to which the US is still open.

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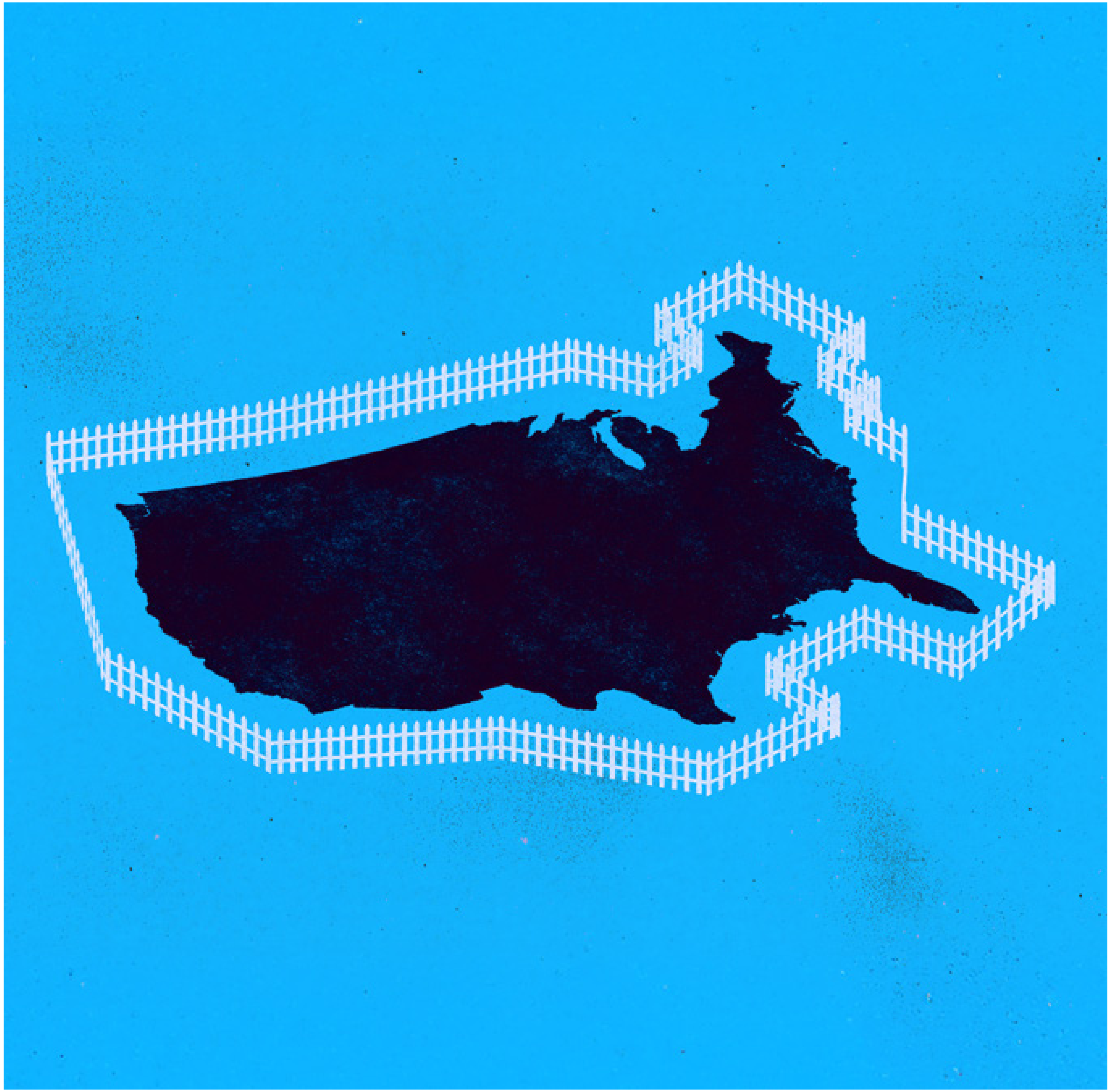
Trump no longer seems to view the stock market as a barometer of his success the way that he did during his first term in office. But given recent volatility has been comparable to the global financial crisis of 2008 or Covid-19 pandemic of 2020, it's apparent that bond markets can exert pressure on him. Trump believes that his mandate to Make America Great Again will be worth some short-term pain for US citizens. Whilst his administration's apparent shakedown of long-standing global norms will take time to play out, there appears to be an ideological fervour to its work. The outcomes for investors will be consequential but manageable.

The effective US trade tariff rates are now the highest for some 100 years and they will weaken global growth. The International Monetary Fund (IMF) now forecasts the global economy to grow by 2.8% this year and 3% next year – a cumulative downgrade of 0.8% compared to its January forecast – and the US to grow by 1.8% as a supply-shock hits and causes inflation to spike. Tariffs will cause a one-off jump in prices unless factors such as lower labour supply and higher wage demands stimulate a more pronounced wave of inflation.

Ironically, the IMF was founded in 1944 in part to promote a stable monetary system and promote economic growth.

For countries exporting goods to the US, demand may weaken, but forecasting is complicated by a range of factors. Despite the imposition of draconian tariffs on China, the IMF reckons that 4% GDP growth is still possible there. We agree with the IMF that under current scenarios the US – and therefore the world – will avoid recession this year but acknowledge this risk has increased. The world's economy is forecast to expand despite the tariffs, suggesting there is a pathway, albeit narrowed, for growth.

Elsewhere, countries such as the UK find themselves at a crossroads, having to work out which way to face internationally whilst juggling domestic issues. Dislocations in trade are prompting many governments to reassess their priorities, and in Germany's case embark on its most significant fiscal spending since World War II. Allocating more cash to defence or infrastructure may in the long run offset any reduction in foreign trade, but governments will have to spend wisely to create employment and grow their economies.



Liberation Day's 90-day pause

On 9 April, just one week after announcing reciprocal tariffs on global trading partners, Trump announced a 90-day pause expiring in July.

There will be intense public and private lobbying in the meantime as world leaders, diplomats and CEOs alike try to reason and curry favour with the US government. Otherwise highly efficient global supply chains are being disrupted and US companies are not immune. It's still unclear whether trading partners will eventually retaliate directly (if you do 20%, we'll do 20%) or indirectly by creating policy barriers to the export of intellectual property or preventing US companies from operating in certain fields altogether.

What to do if you're a CEO?

Good companies are adaptable. CEOs will be shoring-up supply chains and making sure their businesses are resilient as they did during the pandemic, given they too don't know the duration or magnitude of tariffs or whether they'll be reversed.

Companies have pricing power, can make productivity savings and look to onshore some operations. Many importers were stockpiling ahead of the imposition of new tariffs; how quickly this stock is sold may have a direct bearing on the turnover and transmission of inflation into the real economy. Polarised political views can be seen at national and company levels, with ardent rancour provoking a consumer backlash with some Canadians boycotting US products or sales of Tesla's EVs falling in Europe.

CEOs will need to play a deft hand to mitigate the impact of tariffs or even profit from a competitor's relative demise, with a mix of concrete action and signals of intent to governments and investors alike. The consequences of tariffs for companies will be complex, not binary, and company management teams have many levers they can pull to adapt to a shifting economic reality.

CEOs will be shoring-up supply chains and making sure their businesses are resilient.

No US recession, but a 'growth scare' is here

Trump's position on tariffs compounds three other key issues.

First, that US interest rates are restrictively high and causing a 'growth scare'.

The longer that rate-setters at the Federal Reserve (Fed) wait for data showing the impact of capricious tariff policies, the more pain that higher-for-longer interest rates cause, making debt interest payments on mortgages or car loans more expensive. Companies may defer or cancel their plans to invest amidst uncertainty, which in turn could derail growth. This jeopardises the market friendly 'soft-landing' scenario for the economy, whereby growth and inflation moderate without significant job losses, and consumers feel confident enough to keep spending.

We have seen evidence of a downturn in some sectors: Delta Air Lines profit-warned in March, and US housebuilders have been weak – both are sensitive to economic uncertainty. The impact of the Department for Government Efficiency's federal lay-offs may not begin to appear in unemployment statistics until September after redundancy packages end.

US immigration policy further complicates the picture. All things equal, a bigger population means more growth (if not greater growth-per-capita) and so effectively shutting the border with Mexico may cause a labour shortage stimulating inflation in a more sustained way than higher tariffs – which may prove to be a one-time jump in prices.

Artificial intelligence (AI) trades unwind

Second, investors are fretting about the enormous capital outlay of stocks including the so-called 'Magnificent 7' (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla) and who will seize the AI opportunity.

These US businesses are not immune from tariffs themselves, given that technology-focused firms generate so much of their revenues overseas. Some AI-related companies have therefore sold-off from lofty valuations.

The emergence of an open-source AI tool from China called DeepSeek has questioned the exceptionalism of American AI-related companies. Ultimately, more-widely available AI will arguably accelerate the adoption of novel technologies across different industries.

US sentiment is worse than reality

Third, sentiment has turned starkly bearish despite low US unemployment, cooler inflation and a still-resilient consumer.

Caution now stands in the way of those brazen animal spirits so evident after Trump's re-election. Sentiment-based surveys are typically skewed by political bias, with Democrat and Republican voters responding with polarised views. Yet even if 'bad' times don't materialise, fear of the future can be self-fulfilling. This may show up in hard data like employment figures or industrial production. For now, sentiment has deteriorated more than economic reality.

More defence, less offence!

As the US prods other countries to up their defence budgets, many countries have been spooked into paying up. The UK has committed to spend 2.5% of GDP on defence by April 2027 and aims for 3% in the next parliament. Labour wants to align security and economic priorities and create jobs nationwide by accelerating the adoption of cutting-edge military capabilities through its Defence Industrial Strategy manifesto pledge.

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Many economists now forecast growth to double in Germany from recessionary levels to ~2% within a couple of years.

Under new Chancellor Friedrich Merz, Germany has agreed to its biggest post-war increase in borrowing, eventually releasing around €1trn to fix decrepit infrastructure and bolster its army and defence capabilities. His coalition government will create a €500bn infrastructure fund over 12 years, with €100bn immediately available for a national Climate Transition Fund, and money for federal and local governments to modernise hospitals, schools and roads. Merz also wants to exempt defence spending above 1% of GDP from Germany's strict borrowing limit, or 'debt brake', enshrined in law since the Global Financial Crisis of 2008. Germany's current debt-to-GDP ratio of 63% (significantly lower than other G7 nations) will increase markedly in coming years, but it can afford to borrow more from bond markets. Many economists now forecast growth to double in Germany from recessionary levels to ~2% within a couple of years.

UK-EU reset?

The UK and US have recently sketched out a new trade deal but it'll take months to negotiate the details.

In the meantime, Chancellor Reeves is keen not to forsake UK-EU relations. Reeves and Prime Minister Starmer are looking for a Brexit reset at a key summit in May, and steering a deft course between the US and EU (or even being a bridge between the two) may be critical.

They know that the UK risks being between a rock and a hard place if trade tensions don't thaw between the US and EU. But if they play their hand right, Brexit may yet deliver an unexpected dividend if Trump eventually views the UK more favourably than the EU.

A reset would be broader than only trade and include areas such as defence and intelligence sharing, with reports that fishing rights in UK territorial waters may be a barrier to progress.

Talk of demise of the dollar overdone

The US dollar has been particularly weak this year with the Dollar Index (DXY), which measures the relative strength of a basket of currencies against the greenback, falling around 11% from its peak of 110 in January to 98 in April, marking its worst two-month streak since 2002.

The euro reached a three-year high of more than 1.15 versus the dollar in April, having strengthened by 12% since January, in part as investors bought German bunds. The Swiss Franc strengthened from ~0.91 to ~0.8 versus the dollar, as investors sought security buying Swiss government bonds which yield as little as 0.3% for 10-year maturities. Sterling has strengthened to ~1.33 per dollar, albeit to a level comparable to September 2024.

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Academic orthodoxy has it that a country imposing tariffs usually sees its currency strengthen, partially offsetting their cost as imports cheapen.

In the context of tariffs, dollar weakness is strange. US Secretary of State Bessent has said he wants a weaker – but still strong – dollar which would facilitate US exports. Academic orthodoxy has it that a country imposing tariffs usually sees its currency strengthen, partially offsetting their cost as imports cheapen. Recent dollar weakness is probably explained by asset allocation decisions, with investors selling dollar-denominated assets and then selling dollar proceeds too, rather than foreign holders of US treasuries selling them in an attempt to 'weaponise' their investments and harm US interests. Whether or not deeper foreign policy decisions are impacting dollar weakness, it's undoubtedly true that trust is at the heart of a financial system that confers *reserve currency status* on the US. But talk of the demise of the dollar is overblown.

Sector spotlight: obesity drugs

We explore the new frontier of the weight loss industry

The obesity drugs sector, forecast to be worth somewhere in the region of $150-200bn per year by 2035, has garnered an ever-increasing amount of attention in recent years. And as our understanding of the link between obesity and other health conditions has increased, so too has the demand for treatment using these drugs.

James Tulloch, Senior Investment Specialist, met with Jon Kirk, Senior Equity Analyst, to assess this fascinating and fast-evolving area and discuss how both the growing demand and the ongoing evolution of these drugs might shape the market in the future.

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James Tulloch (JT): Jon, would you explain the background and context here – what is the history of weight loss drugs, how have they come about and how long have they been in development?

Jon Kirk (JK): Weight loss drugs have been known about since around the mid-1980s. But it wasn't until the mid-1990s that the commercial pharmaceutical industry became involved, focusing initially on the treatment of diabetes. But in the past few decades it has become increasingly clear how effective these drugs can be in suppressing the appetite of patients, and that there were potentially even greater opportunities for the treatment of weight-related conditions such as obesity.

JT: What stage are we at now in terms of efficacy of these drugs? Are there any benefits that obesity drugs have in terms of weight loss, both in the current generation and the next generation of drugs?

JK: Historically, treatments for obesity have had limited efficacy with significant and sometimes unpleasant side effects – they've also been hard to administer. Treatment options have evolved over the last thirty years and we are now at a stage where the side-effects are reducing, and there is far greater choice on offer, meaning the consumer can better tailor treatment to their needs and lifestyle.

In the last four or five years we've seen the advent of well known injectable drugs, such as Wegovy, where weight loss expectations are somewhere in the region of 15-20% for the average patient, and with manageable side effects. The efficacy of the next generation of obesity drugs, which are set to become more readily available over the next 12-24 months, becomes more significant still. On these drugs, a patient can expect weight loss of greater than 20% on average, with a good tolerability profile – that is, side effects which are manageable.

The different ways and frequency at which the drugs can be administered have pros and cons and consumers will naturally have their own preferences depending on health and lifestyle factors. Injectable forms of the drug are most effective and are administered weekly. Pill forms of these drugs, which are orally administered, are now coming to the market – these are administered daily but tend to be less effective and can have more impactful side effects.

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More and more, there are a range of drugs and therapies being devised so that patients will have an increasing amount of choice as we go through the next decade.

The key point is that more and more, there are a range of drugs and therapies being devised so that patients will have an increasing amount of choice as we go through the next decade.

JT: One of the reasons there has been quite so much excitement around this sector has been the benefits that weight loss drugs can seemingly have across a range of comorbidities associated with diabetes and obesity – and it's not just the more obvious conditions, is it?

JK: That's absolutely right. At the moment it is early days, but we are beginning to see data to show that these drugs can have a positive impact on not only on diabetes and obesity, but on a wide range of conditions. For example, there are around 200 comorbidities associated with obesity that these drugs can potentially benefit such as Parkinsons and Alzheimer's, many types of cardiovascular disease, liver disease and kidney disease. Patients with sleep apnoea, ADHD and even alcoholism may also benefit from these drugs.

So, even though they are quite expensive at the moment the cost benefit equation starts to look much better if we take into consideration that these drugs can treat multiple conditions simultaneously. I can even see a situation where future iterations of these drugs could become a bit like the statins of today, whereby everyone is offered them, for example, once they reach a certain age, simply due to the long-term health and lifestyle benefits that they may bring.

JT: It would be remiss of us not to consider the risks associated with taking these medications. We know these types of weight loss drugs have been in development for a long time now, so some of the more serious or immediate side effects of the earlier iterations have perhaps been overcome. But I wonder, are the potential side effects of the latest generation of drugs – both short and long term – well enough understood?

JK: Yes, I think they are. Up until now a lot of the focus of the industry has largely been on the weight loss potential of these drugs. However, when you get up to around 20% weight loss the benefits to patient health are already very substantial. So, at this stage there will be even greater focus on minimising side effects, most commonly mild gastrointestinal issues and maximizing the quality of weight loss. At present, around one third of weight loss is lean muscle, so research is underway to develop therapies that shift the balance further towards fat loss

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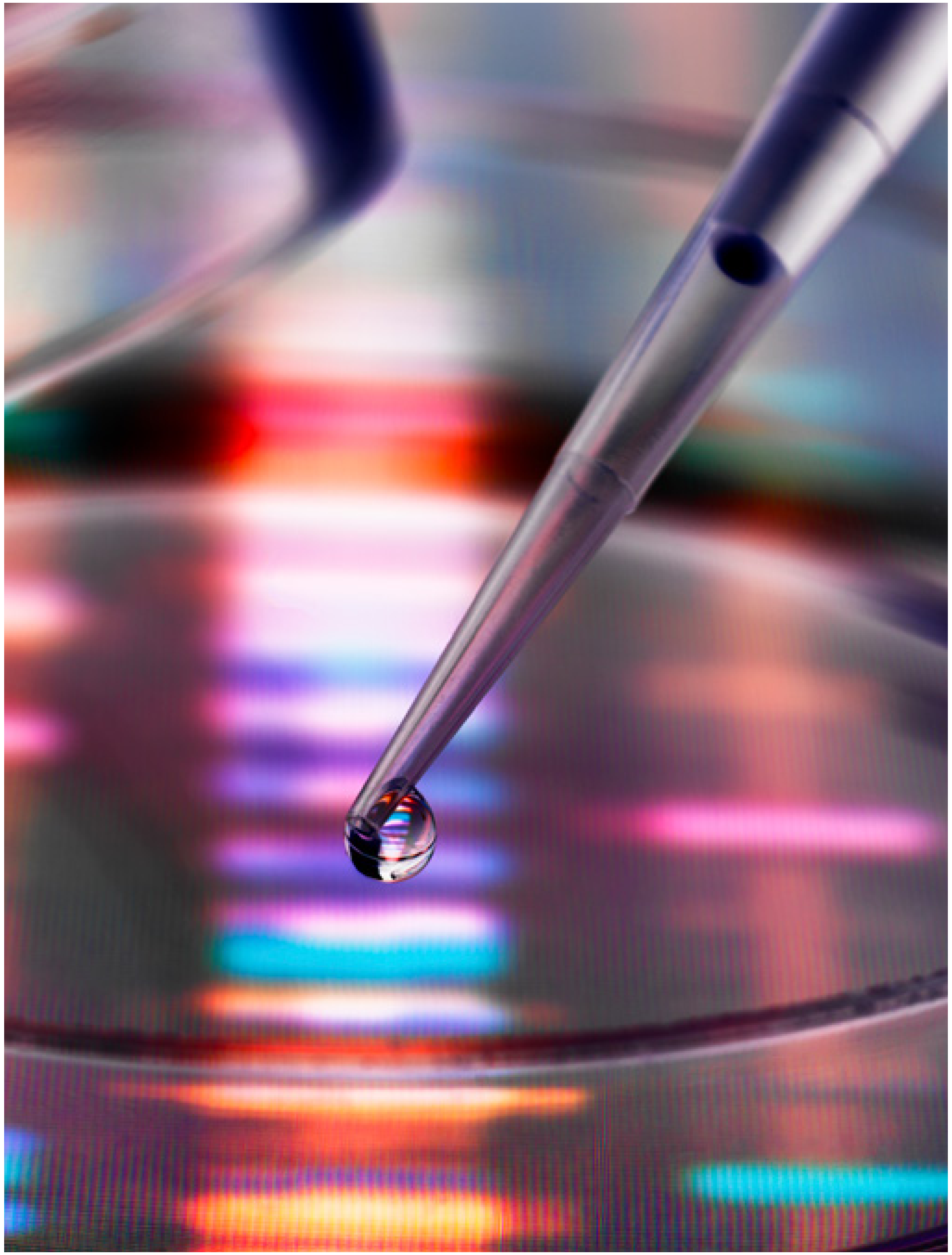


This is already a big market and it's going to become a very, very big market – expectations are that the sector will be worth somewhere in the region of $150-200bn per year by 2035.

JT: **What about the wider moral issues? Certainly, there is a difference between the medical need for these drugs and the cosmetic demand we are seeing. What are the key environmental social & governance (or ESG) considerations which you as an analyst would consider when looking into the pharmaceutical companies operating in this market?**

JK: There are a number of considerations. The first is that these drugs are expensive – we are talking hundreds of dollars per month. That will change throughout the next five to ten years as the current generation of drugs move out of patent and start to be produced in generic forms. At that stage they will become more affordable and more readily available to those who need them.

The second point is that yes, some people are using these medications for cosmetic purposes, which is not what they are designed for. Inevitably, even though these drugs are generally well regulated (you need a prescription to acquire the medication in the UK), consumers are finding ways around this to acquire them even where there is no medical need.

I do think cosmetic use is in the minority and I would stress that the companies that we invest in are developing these drugs for patients who have genuine medical conditions that require treatment.

JT: **Who are the major players in this market? How big could the market become, and do you think supply can keep up with demand?**

JK: Currently there are two dominant companies in the market – Novo Nordisk, a Danish company and Eli Lilly in the US. They effectively have a duopoly on the sector at the moment but it is important to remember that other large pharmaceutical companies are working hard to develop rival drugs. They are at earlier stages of clinical testing, meaning they are at least three to five years away from coming to market, but it is virtually inevitable that the range of drugs will broaden out and supply will increase over time.

One thing to mention on supply – this is already a big market and it's going to become a very, very big market – expectations are that the sector will be worth somewhere in the region of $150-200bn per year by 2035.

This will require tens of billions of capital expenditure in order to build the manufacturing and supply chains needed to satisfy that demand. In reality, then, it is likely that this market will be serviced by four or five global pharmaceutical companies over time.

JT: **Thinking about the prevailing backdrop, the actions of the current administration in the US looms over global markets right now. What does a Trump presidency mean for pharmaceutical industry?**

JK: At the moment there are two areas that the new US administration is focusing on. The first is a proposed tariff on imported pharmaceuticals. What this means in reality? The price of pharmaceuticals in the US will be pressured *upwards*.

The second proposed change is to reduce the premium that US patients pay for drugs compared to the rest of the world. That premium has been in place for a very long time, but if the Trump administration is successful, that could put *downward* pressure on pricing.

It is not clear which way this will go at the time of writing, but unfortunately, either or both policy changes may mean the reduction in availability of the best and cutting edge drugs to US patients.

Looking ahead

What do we need from here?

Markets and investors hate uncertainty, so several factors could improve our outlook. First, the US Fed could resume reducing interest rates sooner, easing credit conditions in the real economy; as the Fed sets the tone for rate-setting globally, this ought to help the Bank of England to deliver its own monetary mandate of stabilising employment and prices and promoting growth.

Second, Trump's administration could be less chaotic – so long as it were definitive, even a 'bad' tariff rate-card might be workable for companies planning and executing strategy with more certainty. Third, the US needs to avoid a recession, and in turn spare the global economy a more pronounced downturn.

Continue

Tariffs are being imposed by virtue of the International Emergency Economic Powers Act and this approach may be challenged in court.

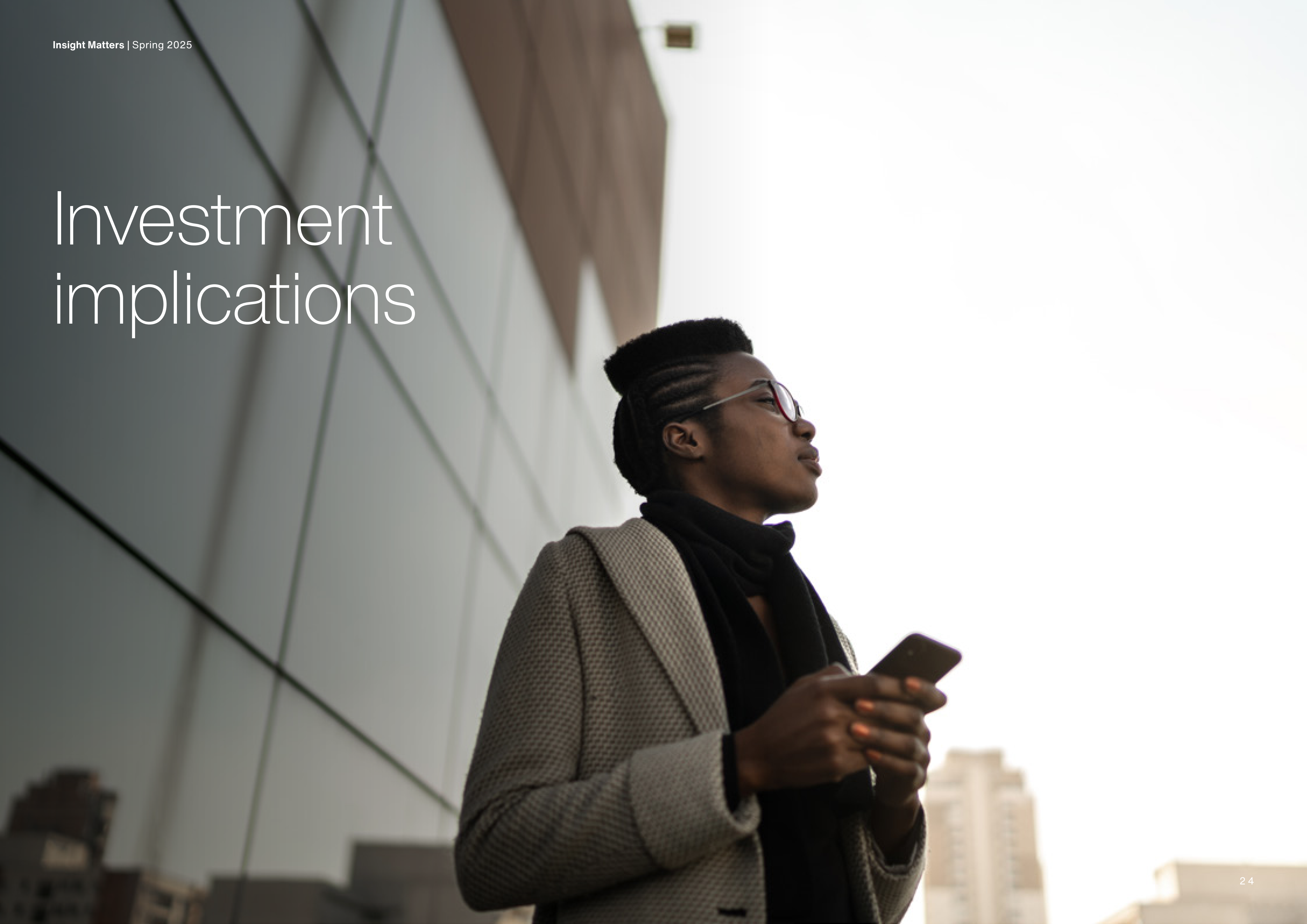
If we are indeed past the point of 'peak tariffs', we may see further walkdowns from here as bi-lateral deals are done, or a domestic backlash ensues against stock market declines and weaker economic growth in the US. Congress may seek to curb Trump's use of extraordinary executive orders. Tariffs are being imposed by virtue of the International Emergency Economic Powers Act and this approach may be challenged in court. Several states are suing the Trump administration arguing that the president is imposing tariffs illegally. American voters may yet check Republicans' progress but not until the mid-term elections in September 2026.

Fresh from an extraordinary election win in Canada, Mark Carney will chair the next G7 summit on home ground in Alberta in mid-June before Trump's tariff pause expires.

Might leaders find a landing strip of middle-ground in the country Trump wants as America's 51st state?

Lower commodity prices may also help ease friction. They are typically traded in dollars and a weaker dollar makes them cheaper to buy, a potential fillip for China – the world's largest manufacturer and importer of commodities – in the throes of a trade war. Low oil prices help to stimulate activity and offset costs elsewhere in the global economy. Oil supply is simultaneously increasing as the Organisation of the Petroleum Exporting Countries (OPEC) relaxes production restrictions with demand waning, and whilst low oil prices – around $60 per barrel at the time of writing – are not helpful for net exporters to balance their books, they are positive for net importers and buyers of crude.

Investment implications



On asset allocation

Equities
Given that by the end of 2024 there was arguably excessive ownership of a handful of tech titans in the US, broader equity ownership and less demanding valuations are no bad thing. After a severe sell-off on 2 April, many equity indices have ground back to where they were before *Liberation Day*. Investment managers are weighing short-term distractions against longer-term changes to structural growth opportunities, considering where to trim stocks which tend to exhibit greater sensitivity relative to broader index moves (higher 'beta'), as well as highly interest rate-sensitive stocks; where to move selectively into more defensive names; and where to stick with companies whose long-term thesis is still intact. From a valuation perspective more than a macro-economic one, there are some compelling opportunities in Europe, and to a lesser extent the UK, where indices have been relatively resilient as the US falters.

Continue

Bonds

This more defensive stance in equities is mirrored by our cautious positioning in bonds. Whilst it's still possible to get a decent yield from corporate bonds in excess of 6%, generally investors are not being sufficiently compensated to lend to companies rather than developed market governments, unless holdings mature in the near future. If these conditions were to revert to mean, over-exposed corporate bondholders could face considerable losses, particularly those holding sub-investment grade debt, where the default risk is higher. As a result, our corporate bond holdings are very short-dated and high quality (essentially 'cash+' holdings).

Government bonds still reward investors with good starting yields of around 4.5% and should cushion future volatility. Although a global recession is not our base case, if conditions deteriorate then yields on treasuries, gilts and bunds will fall (and prices rise), providing a good shock-absorber. Given increased uncertainty over global growth and inflation, we are generally sticking to shorter-dated (or 'low duration') maturities, but this differs by mandate. Notably, after yields on 10-year treasuries and gilts started 2025 at similar levels around 4.5%, they have decoupled slightly with the former around 4.16% and the latter at 4.47%, unusual given the pair historically have had a strong positive correlation.

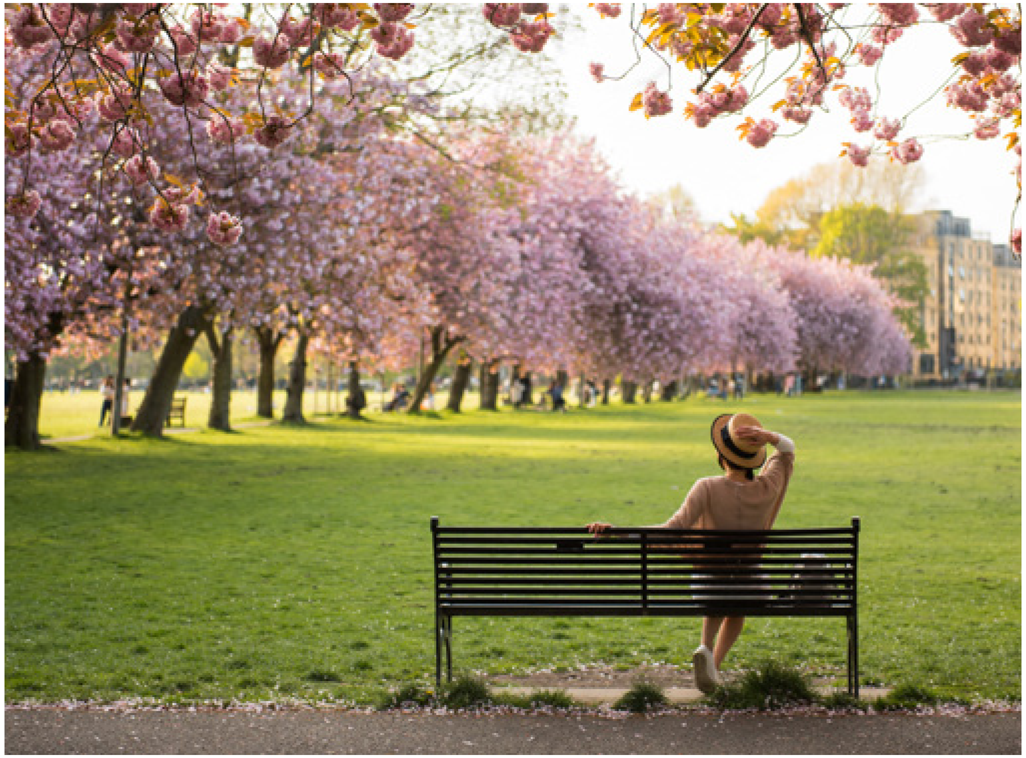
This additional yield may prove valuable in gilts. After big moves in March, German bunds are now a viable option for investors again, with investment managers also able to negate any currency risk on foreign bonds for negligible cost by hedging our holdings back to sterling.

Alternatives

Depending on investment strategy, some investment managers are complementing equities and bonds with a range of alternatives. Gold has reached new all-time-highs on geopolitical uncertainty, fears inflation will reassert itself, a weakening dollar, central bank buying and technical factors – including some investors preferring physical rather than synthetic holdings. In investment trusts, the discount opportunity continues and it's heartening to see that increasing corporate activity is validating reported net asset values. Where held, hedge funds are also providing diversification from equity and bond volatility, improving risk-adjusted returns.

Cash

Cash provides some optionality to act quickly and can be a buffer against downturns, but we are mindful that with inflation still relatively high, in real terms its value can quickly diminish. Yields will dwindle as central banks continue cutting interest rates. Beyond immediate or short-term needs, cash cannot deliver the growth, income and inflation protection our clients seek.



On patience and possible upgrades

We know that when investment managers speak of volatility, for our clients it's more about how they *feel* than a statistical measure. Market falls are not uncommon and it can be easy to lose sight of the bigger picture. Volatility allows us to buy quality companies on better valuations, offering an attractive entry point to gain a stake in their future growth. The lower the price an investor pays today for a given set of future cashflows, the higher the long-term returns they may expect. Volatility allows investment managers to judiciously reassess portfolios and the chance to reshuffle and upgrade the companies they own with names previously thought too expensive. Patience and the ability to wait for a company's share price to fall before owning it, rather than buying at irrational valuations, can reward the long-terminvestor.

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Signal or noise

Perspective is key. Discerning between signal and noise is difficult and requires a cool head. It is perhaps as hard today to see a way through market gyrations as it was during the pandemic of 2020, the eurozone debt crisis of 2012 and the global financial crisis of 2008. But with benefit of hindsight, there was a route to be found.

Our investment team follows an active, fundamental and disciplined approach when assessing risk and opportunity. We remain laser-focused on analysing economic and company data to select what we believe are optimal investments for our clients in various mandates. A powerful confluence of factors is at play, and we believe clients will be best served by doubling-down on tried and tested methods to navigate a way through: *time in the market, not timing the market*; diversification and sticking to a long-term plan.

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