CHARLOTTE SQUARE
INVESTMENT MANAGERS

A VIEW FROM THE SQUARE

March 2025

Defence dominates discussion

With President Trump firmly in tariff mode, the above headline could be referring to a few matters. Firstly, the public discussion between President Trump and President Zelensky at the start of the month showed that not only is the path to peace going to be somewhat tricky, but President Trump's withdrawal of support also led to European Defence companies reacting positively as pressure was placed for an increase in European spending. Sir Keir Starmer also announced the UK's largest increase to its defence budget since the Cold War, increasing spending by 0.2% of GDP, up to £60bn in total. While this is significant and will be funded by cuts to overseas aid rather than through extra borrowing or taxation, this is far off the transformational levels required. Actions like these have caught investors' attention. Look no further than the WisdomTree Europe Defence ETF, which was launched today on the London Stock Exchange as an example of this.

Secondly, Paul Bryant, former America Football coach, is often credited with coining the phrase, which stems from a longer quote attributed to him: "Offence sells tickets. Defence wins championships". Where is this in relation to portfolio management? For the last few years, the AI growth story has been the offence, with soaring returns driving US markets to all-time highs. More specifically, the Magnificent 7 stocks have been the stars of the show, the topic of many discussions and the reason that many retail investors have "bought a ticket" to the world of investing. While these stocks have done well, movements over the last couple of weeks have shown that despite their growth prospects over the coming years, they are not immune to market pressures. This is where the defence comes in. Assets like Gold, government bonds and certain non-technology stocks have shown their resilience over recent days while also providing growth opportunities. We see more investors looking at these areas going forward as protection against different market pressures.

So, what does this mean for portfolio positioning? As we have been positioned for a while now, reduced allocations to US shares seem rational. Last June in our insights, we argued that there is the potential for large price swings in these holdings when uncertainty grows, particularly in the US where the concentration of indices is historically high due to the recent growth of the Magnificent 7 stocks. Tariffs and trade wars have been the catalyst for this latest bout of volatility but not, in our opinion, the underlying reason for the sell off. US debt levels remain at record levels, combined with government spending needing to be tighter and more restrictive going forward, leads us to look outside the US for more reasonably priced stocks. Europe, the UK, and Pacific stocks fit the bill. Bonds outside the US also offer attractive returns relative to their risk profile (keeping maturity dates relatively short) and Gold, to us, remains a good diversifier.

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