

# March 2025 Update & Market Outlook

The Michele Carby Practice



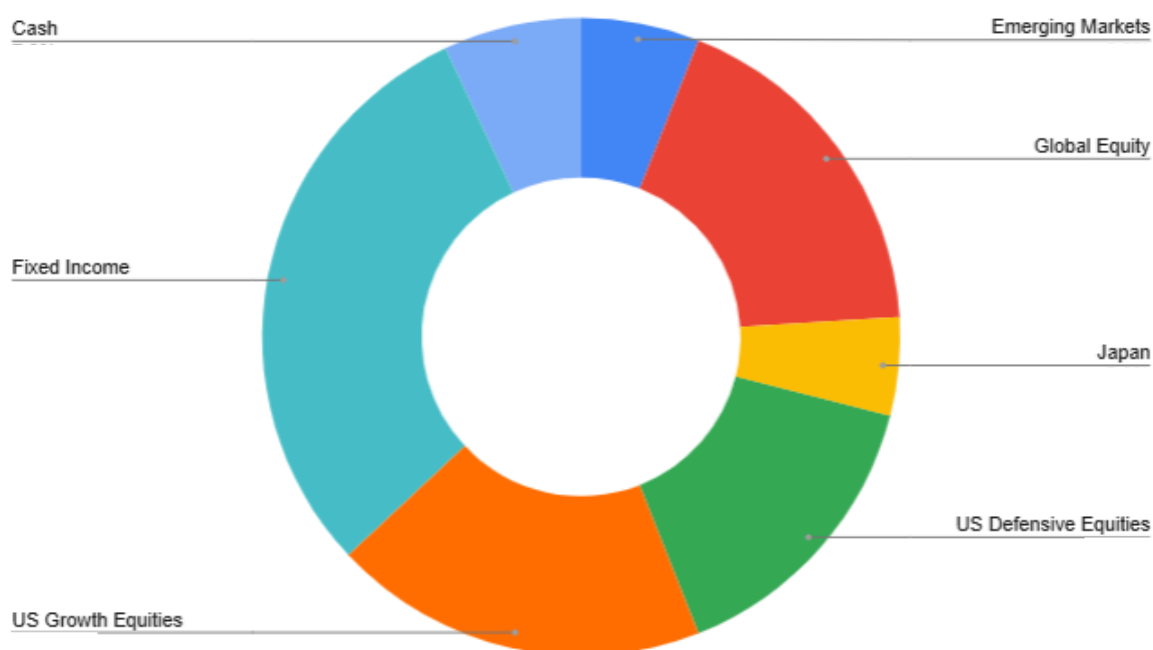
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## The Michele Carby Practice Update

With geopolitical tension rising and the imminent prospect of US tariffs causing a degree of market instability, our team of analysts have been working tirelessly to monitor the evolving markets. Over the last week, we have taken steps to rebalance our client's portfolios to ensure we are well-positioned over the coming weeks and months. Due to recent market updates, we have lowered our exposure in tech and Ai and increased weightage to global holdings. The chart below provides a general outline of our current portfolio allocation. At the moment, we favour maintaining a larger cash allocation in light of market volatility and political uncertainty.

Whilst we continue to maintain a position across major US ETFs, we have lowered our exposure to US Tech in light of tariff implications. We have increased our allocation in Global Developed equities (excluding U.S.) and continue to remain neutral in emerging markets such as India.



## New Team Members

At The Michele Carby practice, our commitment to providing you with timely, relevant, and insightful financial updates remains stronger than ever. To maintain our ability to deliver high-quality market insights, we have recently expanded our marketing team. This allows us to focus even more on keeping you informed with expert analysis, economic trends, and the investment opportunities that matter most to you. Staying financially aware empowers you to make informed decisions, adapt to market changes, and confidently plan for the future. From navigating market volatility, identifying growth opportunities, or understanding shifts in the economy, our goal is to provide you with the knowledge and resources needed to stay ahead. Keep an eye on our newsletters, reports, and updates as we continue to provide you with cutting-edge insights and resources.

## Introduction

As we step into March, financial markets remain highly dynamic, shaped by shifting U.S. trade policies, geopolitical tensions, and ongoing economic recalibrations. Investors are facing a rapidly evolving landscape, from newly imposed tariffs affecting global supply chains to significant workforce reductions in federal agencies, all of which contribute to market volatility. Meanwhile, energy markets are adjusting to policy changes under President Trump, and China's economic trajectory continues to spark debate among investors.

In this issue, we take a deep dive into the latest market trends, offering insights into how trade tensions, technological advancements, and global geopolitical shifts may impact investment strategies. Our team has been actively adjusting portfolios, emphasizing diversification and resilience in response to these developments.

We invite you to explore our analysis, which covers the latest tariff changes, China's market outlook, the energy sector's performance, and the broader geopolitical risks shaping global markets. As always, we are here to guide you through these complexities, ensuring that your investments remain aligned with both present realities and future opportunities.

## U.S. Market Outlook

### Navigating the Latest Tariff Changes: What Investors Need to Know

As financial markets digest the latest policy shifts, investors should be aware of the significant changes coming to U.S. trade tariffs. President Donald Trump recently announced that, effective March 4, a 25% tariff will be imposed on imports from Canada and Mexico. Additionally, imports from China will be subjected to an extra 10% tariff on the same date. These policy moves mark a firm

stance by the administration on border security and fentanyl-related concerns, adding another layer of complexity to global trade.

Earlier this year, the White House had initially postponed tariffs on Canada and Mexico, citing commitments from both countries to bolster border security and curb the influx of fentanyl into the U.S. However, Trump has now reiterated that without significant progress in these areas, the tariffs will proceed as planned. The administration remains steadfast in requiring measurable declines in fentanyl-related incidents before reconsidering the levies. This puts Canadian and Mexican officials in a difficult position, as achieving such rapid improvements in the short term appears highly unlikely.

The impact of these tariffs is already being felt across various sectors. Auto manufacturers, including Ford and General Motors, saw their stock prices decline following the announcement. Given that vehicle components frequently cross North American borders multiple times before final assembly, these tariffs could lead to significant cost increases, supply chain disruptions, and potential price hikes for consumers. Currency markets also reacted, with the U.S. dollar strengthening against the Canadian dollar and Mexican peso.

China is also facing new trade barriers, as Trump moves forward with an additional 10% tariff on imports from the country. This decision follows previous tariff increases earlier in the year, bringing the total duty rate on Chinese imports to approximately 24.5%. While China has yet to make a substantial offer to curb the export of fentanyl-related chemicals, the administration remains firm in its demands for stricter regulations and accountability. Retaliatory tariffs from Beijing are expected, further escalating trade tensions.

From an investment perspective, the implications of these tariffs are wide-ranging. Industries reliant on cross-border supply

chains, particularly the automotive, manufacturing, and retail sectors, may experience increased costs and potential operational challenges. Meanwhile, companies that can navigate or offset these tariffs—either through supply chain adjustments or price modifications—may gain a competitive edge.

As these policies continue to evolve, investors should stay informed and consider the potential risks and opportunities arising from shifting trade dynamics. Diversification and a cautious approach to industries directly affected by tariffs may be prudent strategies in the months ahead.

### Federal Firings

Recent weeks have seen a wave of layoffs across multiple federal agencies as the Department of Government Efficiency pushes for reductions in workforce and funding. While legal challenges are mounting, the overall trend suggests that these cuts will persist. Surprisingly, financial markets have largely shrugged off these developments. Unlike tariff-related policies that have previously triggered market volatility, investors have shown little concern over government downsizing.

While the long-term economic impact remains uncertain, these layoffs will eventually show up in employment data. According to Moody's Analytics Senior Director Dante DeAntonio, a sharp economic downturn doesn't appear imminent, at least in the near term. Currently, the federal workforce makes up approximately 1.9% of all U.S. payrolls, with about three million civilian employees. For context, Walmart—the largest private employer—has a workforce of 2.1 million. So far, 29,000 federal employees have been laid off, with many others accepting buyouts or being placed on administrative leave.

The initial impact of these layoffs will be reflected in the Unemployment Compensation Program for Federal Employees, reported

weekly alongside national unemployment claims. However, the February data won't fully capture the layoffs' impact; the March report, due in early April, should provide a clearer picture.

From an investment standpoint, economists remain largely unfazed. Stephen Stanley, an economist at Santander Bank, notes that while federal payrolls may shrink by 5,000 to 10,000 workers per month for a period, many of those individuals will likely transition into private-sector roles. Similarly, Piper Sandler's Nancy Lazar sees minimal overall economic disruption and emphasizes the potential benefits of labour shifting toward more productive private-sector employment. Historical precedent supports this view—during federal budget cuts from 2011 to 2014, while 146,000 government jobs were eliminated, the private sector added over seven million jobs.

However, government job losses are not just about statistics. Many essential public services rely on federal employees, from scientific research to environmental conservation and foreign aid. Certain roles, like those in forestry services, may not translate well into private-sector opportunities. For example, Emma Schultz, a forestry technician in Colorado, was among those laid off from the U.S. Forest Service. Her role involved managing timber sales to reduce wildfire risks and maintain forest health—tasks that private enterprises may not prioritize in the absence of federal support. (Schultz was later rehired, highlighting the unpredictable nature of government employment.)

Beyond job losses, the broader effects of government downsizing could introduce inefficiencies in key services such as mortgage processing, tax refunds, and lending operations. Peter Cappelli, director of the Human Resource Centre at the Wharton School, warns that even minor disruptions in federal processes can have widespread

consequences for businesses and consumers alike.

For investors, the key takeaway is to monitor how these cuts influence broader economic activity. While short-term effects may be muted, prolonged government downsizing could reshape certain industries and affect market stability. As always, diversification remains an essential strategy for navigating shifting economic landscapes. We will continue tracking developments to provide insights on their implications for your portfolio.

### Market Volatility and Portfolio Adjustments

Recent market fluctuations have raised concerns among investors, with the S&P 500 experiencing a modest decline from its record high. While a drop of just over 2% may not seem alarming, it reflects an evolving economic landscape that warrants a reassessment of investment strategies. As a result, some analysts, including Truist Wealth Management's Keith Lerner, have adjusted their market outlook to a more neutral stance, citing weakening economic trends and shifts in earnings growth.

A key factor influencing this market shift is the U.S. Citi Economic Surprise Index, which has reached its lowest level in six months. This signals that recent economic data has fallen short of expectations, raising questions about the trajectory of economic growth. Despite fourth-quarter GDP growth of 2.3%, consumers are exercising greater discretion in their spending due to persistently high interest rates. The housing market remains sluggish as affordability challenges deter potential buyers, and related industries, such as home goods and construction, are feeling the strain. Manufacturing activity, too, continues to face pressure.

Adding to economic uncertainty are the trade policies under President Donald Trump's administration. His proposed tariffs on

imports from China, Mexico, and Canada could introduce new costs for businesses, ultimately passing on price increases to consumers. This, in turn, could fuel inflation and make it more difficult for the Federal Reserve to lower interest rates this year. While economists estimate that these tariffs could have a mild impact on GDP—affecting 1% to 2% of the economy—the broader concern is how businesses respond. Some are scaling back capital expenditures in light of these uncertainties, with year-over-year growth in equipment investment slowing and investment in commercial structures stagnating.

Meanwhile, corporate earnings projections have started to reflect a more cautious outlook. Walmart's recent guidance suggests slower sales growth than previously anticipated, while TJX Companies issued conservative earnings expectations that fell below analysts' estimates. Many companies are tempering their profit expectations, leading analysts to trim their earnings forecasts for the S&P 500. With the index trading at 22 times projected earnings—a historically high valuation—there is a risk of further market corrections should earnings disappoint.

Given these uncertainties, investors may be wondering whether now is the right time to make new equity purchases. While long-term investors can weather short-term volatility, the market is at a point where patience and strategic reallocation may be more prudent than aggressive buying. Upcoming earnings reports, economic data releases, and official announcements regarding tariffs could serve as catalysts for further market movements.

That said, our investment team has been closely monitoring these developments and has proactively rebalanced portfolios to navigate these challenges. By maintaining a well-diversified approach and ensuring appropriate exposure to stable asset classes, we are positioned to manage risk while



seeking opportunities in resilient sectors. Rest assured, we will continue to evaluate market conditions and make necessary adjustments to safeguard your investments. As always, we remain committed to your long-term financial success and will keep you informed as the landscape evolves.

### Energy Markets Under Trump: What Investors Need to Know

Energy policy has taken centre stage in President Trump's second term, with a strong push for increased oil and gas production to combat inflation and strengthen trade negotiations. While this could drive down fuel costs, the stock market's reaction has been mixed, particularly with concerns over tariffs and potential changes to trade relationships.

Oil prices and energy stocks have seen volatility due to Trump's decision to impose tariffs on Canadian and Mexican energy imports, as well as speculation over easing sanctions on Russian oil. The Energy Select Sector ETF has underperformed relative to the broader market, reflecting uncertainty in the sector. However, natural gas remains a strong investment focus, driven by rising exports and increasing demand from AI data centres and industrial sectors.

Despite Trump's pro-energy stance, his emergency declaration has bypassed key renewable sources like wind and solar, limiting federal support for their expansion. Renewables remain the fastest-growing segment of the energy market, but industry leaders face uncertainty over potential rollbacks of tax credits that have been crucial for their growth.

Meanwhile, nuclear energy has gained momentum, with strong government and private-sector interest in advancing reactor technology. Companies involved in nuclear fuel production, such as Cameco and smaller uranium miners, stand to benefit as demand for clean energy grows.

Oil stocks face a more challenging outlook, as Trump's push for increased drilling could drive prices lower, discouraging new projects. At the same time, global production dynamics—including potential increases from OPEC—add another layer of uncertainty.

Despite the turbulence, opportunities exist in energy investments that align with structural demand drivers beyond federal policy shifts. Our team has strategically adjusted portfolios to maintain exposure to resilient sectors while mitigating risk. As always, we continue to monitor developments and will make necessary adjustments to safeguard long-term growth.

### China Market Outlook

#### China's Market Outlook: Cautious Optimism for Investors

After years of economic struggles, regulatory crackdowns, and declining foreign investment, China's markets are beginning to show signs of stabilization. While challenges remain, recent policy shifts and easing of worst-case scenarios have prompted a reassessment among investors, leading to an 18% gain in the MSCI China Index this year—significantly outperforming the S&P 500's 2% increase.

China's economic slowdown has been largely driven by an ongoing property sector crisis, dampened consumer confidence, and a declining labour force due to an aging population. Household debt remains high, reducing discretionary spending, while foreign direct investment has fallen sharply in recent years as global companies reassess their exposure to China. These factors have created uncertainty about long-term growth prospects, leading many investors to question the viability of the Chinese market.

Additionally, trade tensions with the U.S. continue to weigh on investor sentiment. With the Trump administration imposing new tariffs on Chinese imports and increasing scrutiny of

Chinese investments in strategic sectors, geopolitical risks remain a significant factor and uncertainty regarding future trade policies persists.

Despite these challenges, recent policy shifts in Beijing have provided a glimmer of hope. The Chinese government has begun implementing monetary and fiscal measures to support economic recovery, including stimulus initiatives aimed at stabilizing the real estate market and strengthening domestic consumption. Beijing has also sought to rebuild trust with the private sector by reducing regulatory pressures, particularly on technology companies that had previously been targeted in crackdowns.

A notable development has been the Chinese government's recent meetings with key industry leaders, including executives from artificial intelligence, electric vehicles, and major internet firms. The reemergence of Alibaba co-founder Jack Ma—who had faced regulatory scrutiny in past years—signals a more accommodating stance toward the private sector. These moves indicate that Beijing may be prioritizing economic stability over ideological control, making Chinese equities a more viable investment

### Volatility Amid Tariff Uncertainty

Despite the signs of stabilisation and positive trends in China's markets recently, Chinese equities saw a sharp pullback, with an index of mainland shares listed in Hong Kong declining by 3.6%, the largest drop since October, while the CSI 300 Index fell by 2%. Despite this, the yuan remained stable after the central bank set a stronger-than-expected daily reference rate, signalling support for the currency.

This market correction follows a strong rally driven by investor optimism about China's artificial intelligence sector and speculation that U.S. tariff threats were primarily a negotiation tactic. However, the latest round of levies announced by President Trump served as a reality check, prompting investors

to reassess their positions. The additional 10% tariff has added further uncertainty to trade relations, leaving markets fatigued and cautious about potential future escalations.

In response to these developments, China has indicated it will take necessary countermeasures to protect its economic interests. Additionally, investor focus is shifting toward the upcoming National People's Congress (NPC), where policymakers are expected to outline economic priorities and potentially announce increased government spending to counterbalance the effects of higher U.S. tariffs.

Despite the volatility, analysts believe that the recent market pullback is a healthy correction rather than a prolonged downturn. The AI sector, which has been a major driver of gains, remains largely insulated from immediate tariff impacts. Some strategists anticipate that trade negotiations may resume before additional tariffs are implemented, although Trump's latest move has introduced new uncertainties.

The yuan has remained steady, with the People's Bank of China maintaining a preference for stability in its daily currency fixings. While the potential for further tariffs could exert pressure on China's exports, analysts suggest that the overall revenue exposure of MSCI China-listed firms to the U.S. remains relatively low, limiting the fundamental impact on earnings.

Looking ahead, Chinese government bonds have seen increased demand as investors seek safe-haven assets amid trade tensions. While the broader economic impact of additional tariffs could be significant, the resilience of key sectors and potential policy support may provide opportunities for investors willing to navigate the volatility.

### Potential Response to U.S. Tariffs

Trade tensions between the U.S. and China have escalated once again, as China's Ministry of Commerce strongly opposed President

Trump's recent decision to impose an additional 10% tariff on Chinese imports starting March 4. This move follows a similar tariff increase earlier in February, which was justified by the U.S. administration as a response to China's role in the fentanyl trade.

China has signalled its readiness to retaliate, potentially increasing tariffs on select U.S. goods, restricting exports of critical minerals, and expanding its list of unreliable entities, which could impact American firms operating in China. However, analysts expect Beijing's response to remain measured, as President Xi Jinping may seek to maintain room for negotiations rather than further strain China's already slowing economy.

From an investment perspective, China's exports have remained a strong pillar of its economy despite broader economic challenges. The U.S. remains China's largest single-country trading partner, and any prolonged trade disruptions could have ripple effects across industries. While Beijing's response will likely target sectors critical to Trump's political base, it also aims to leave room for diplomatic engagement and potential tariff rollbacks in future negotiations.

China has already begun exerting pressure by increasing export controls on key minerals vital to U.S. industries. If Beijing were to take stronger measures, such as significantly restricting access to these materials, it could create supply chain disruptions in industries like technology and manufacturing, impacting companies reliant on these imports.

While the latest developments introduce additional uncertainty, China's measured stance suggests an effort to manage economic fallout while maintaining a firm negotiating position. For investors, this highlights the importance of staying informed about trade developments and potential market impacts.

Given the evolving situation, we continue to monitor these tensions closely and evaluate

their implications for global markets and investment strategies. Our approach remains focused on diversification and positioning portfolios to mitigate risks associated with geopolitical uncertainty. As always, we will make strategic adjustments as necessary to safeguard long-term investment objectives.

## U.S.-China Tech Rivalry

The ongoing technology dispute between the U.S. and China has escalated further, with the Trump administration intensifying efforts to curb China's access to advanced semiconductor technology. Recent reports indicate that the U.S. is strengthening restrictions on chip exports, while urging allies such as Japan and the Netherlands to implement similar measures. This move is part of a broader strategy to hinder China's ambitions in artificial intelligence (AI) and semiconductor manufacturing, a campaign that began under the Biden administration.

One of the key developments in this escalation is Washington's push to prevent engineers from maintaining high-end chipmaking equipment in China—an approach that mirrors restrictions placed on American firms. Additionally, new curbs are being explored to limit Nvidia's ability to sell AI-related semiconductors to China, further tightening control over critical technologies.

For President Xi Jinping, technological dominance remains a cornerstone of China's economic strategy. While the country has made significant strides in electric vehicles and AI, broader economic challenges persist, particularly within the property sector. Despite increasing pressure from the U.S., China continues to push forward with its own advancements. The rapid rise of DeepSeek in AI, Alibaba's multi-billion-dollar investment in cloud computing and AI infrastructure, and ByteDance's entrance into deep-reasoning AI models highlight China's determination to stay competitive.



However, challenges remain. While China has funnelled substantial government funding into semiconductor development, real technological breakthroughs have been limited. Overcapacity in certain segments and restrictions on critical equipment imports pose further obstacles to achieving self-sufficiency in high-end chip production. Additionally, enhanced U.S. scrutiny on the export of essential chipmaking machinery may further slow China's progress in next-generation semiconductor manufacturing.

For investors, the intensifying tech rivalry creates both risks and opportunities. The semiconductor industry remains a key focal point, with U.S. firms facing increased restrictions on exports and Chinese companies navigating government-backed efforts to develop domestic alternatives. AI, cloud computing, and electric vehicles continue to be strong growth sectors, but geopolitical tensions add volatility to the market outlook.

We are closely monitoring these developments and their potential impact on investment portfolios. Given the evolving regulatory landscape, strategic diversification remains crucial. As the situation unfolds, we will continue to assess risks and opportunities

## Tech & AI

### The Battle over Computer Chips

Semiconductors are the backbone of the modern digital economy, powering everything from artificial intelligence to electric vehicles. As global reliance on these advanced chips grows, the U.S.-China technology rivalry continues to escalate, with the Trump administration intensifying efforts to limit China's access to cutting-edge semiconductor technology. This geopolitical tension has significant implications for investors navigating an evolving market landscape.

Semiconductors are essential for processing the vast amounts of data that drive AI, cloud

computing, and automation. Logic chips, such as those used in AI accelerators, are particularly valuable, with companies like Nvidia producing specialized processors that have become critical to national security and corporate innovation. Even everyday consumer products, from smartphones to electric vehicles, rely on these chips for functionality and efficiency.

Although the U.S. leads in semiconductor design, Taiwan and South Korea dominate manufacturing. China, the world's largest consumer of chips, has been aggressively working to expand its domestic semiconductor industry. However, U.S. export restrictions and sanctions have significantly hindered China's progress, particularly in producing the most advanced chips. To counter this, the Chinese government has poured billions into its semiconductor sector, with mixed results.

The Trump administration is building on Biden-era policies by implementing additional restrictions on China's access to advanced semiconductor technology. Recent measures include discussions with Japan and the Netherlands to further restrict maintenance and servicing of high-end chipmaking equipment in China. Furthermore, Washington is exploring tighter controls on Nvidia's AI chips and limiting the volume of AI semiconductors exported globally. These efforts are designed to slow China's technological advancements, particularly in artificial intelligence and military applications.

Despite U.S. efforts, China remains committed to strengthening its semiconductor capabilities. Companies like Huawei are working to bypass sanctions by developing domestic chip fabrication facilities. Additionally, China's AI sector has made notable progress, with companies such as DeepSeek and Alibaba demonstrating competitive capabilities in AI development. However, challenges remain, including limited

access to critical manufacturing tools and an oversupply of lower-end chips.

Nations worldwide are investing heavily to secure their own semiconductor supply chains. The European Union has allocated \$46 billion to boost local chip production, Japan is expanding its semiconductor industry with multibillion-dollar investments, and India has approved \$15 billion in new chip fabrication plants. Meanwhile, Saudi Arabia and Germany are also making efforts to enter the chip market, though challenges such as political instability have hampered progress in some regions.

For investors, the semiconductor sector presents both risks and opportunities. While geopolitical tensions create market volatility, they also drive innovation and investment in alternative supply chains. Companies involved in chip design, foundry services, and AI computing are likely to see long-term growth, though short-term uncertainty remains high. Additionally, a potential conflict over Taiwan, home to semiconductor giant TSMC, remains one of the biggest risks to global chip production and supply chain stability.

As geopolitical competition over semiconductor dominance intensifies, investors should remain vigilant and diversified. While restrictions on China may create supply chain disruptions, they also present opportunities in emerging semiconductor markets. Our approach remains focused on balancing exposure to industry leaders while closely monitoring global policy shifts. We will continue to assess risks and opportunities to ensure our investment strategies align with the rapidly evolving technology landscape.

### AI Investment Costs Declining: What It Means for Investors

The introduction of low-cost generative artificial intelligence models is prompting discussions about whether the significant capital investments by major technology firms

in AI development remain justified. With the cost of computational power and AI training rapidly decreasing, these advancements may redefine the financial landscape of AI innovation.

According to Kim Posnett, global co-head of investment banking at Goldman Sachs, this shift is a positive development. Lower costs for AI computation and token processing mean that these technologies are becoming more cost-efficient, making AI more accessible across industries. As a result, businesses can integrate AI solutions at a fraction of previous costs, potentially improving profitability and driving widespread adoption.

George Lee, co-head of the Goldman Sachs Global Institute, emphasizes that lower-cost AI models could significantly optimize how AI is trained on large datasets. More efficient pre-training processes reduce the capital required for AI infrastructure, alleviating some of the financial burden previously associated with large-scale AI development. While this cost decline appears rapid, Lee notes that it aligns with historical trends in technological innovation—where breakthroughs consistently drive down expenses over time.

For investors, these cost efficiencies could have broad implications. Reduced spending requirements in AI development may enhance the profitability of companies leveraging AI, while firms heavily invested in expensive AI infrastructure may need to reassess their strategies. As the AI sector evolves, maintaining a diversified portfolio with exposure to both cost-effective AI applications and infrastructure advancements will be key to capturing growth while managing risks.

## Geopolitical Tensions

### Uncertainty in the Middle East

The temporary cease-fire between Israel and Hamas is set to expire soon, with no clear agreement in place for an extension. While

there was initial optimism that the six-week truce established in January could lead to a longer-term resolution, negotiations have stalled, and both sides remain at odds.

Israel and Hamas continue to exchange accusations of violating the terms of the cease-fire, complicating efforts for a renewal. Over the weekend, tensions escalated as Israel delayed the release of Palestinian prisoners, citing concerns over how hostages were handled during their return. As the March 1 deadline approaches, no formal discussions for an extension have begun, increasing the risk of renewed conflict.

The geopolitical landscape remains volatile, and diplomatic efforts are ongoing. U.S. Mideast envoy Steve Witkoff is set to return to the region, hoping to broker a short-term extension, though the prospect of a long-term truce remains uncertain. The primary challenge to a permanent agreement is the fundamental divide between Israel and Hamas on postwar governance in Gaza. While Israel maintains that Hamas must relinquish power entirely, Hamas has been unwilling to commit to full disarmament.

On the ground, Israel is preparing for a potential escalation. Reports indicate that military strategies are being developed to target Hamas leadership and infrastructure should hostilities resume. Meanwhile, political divisions within Israel add another layer of complexity. While some factions prioritize the return of hostages, others insist on the complete defeat of Hamas, pushing for a more aggressive stance.

The White House's stance remains fluid, with President Trump offering mixed signals on his preferred outcome. While his administration is actively working to extend the truce, previous statements have indicated varying levels of support for different strategies, including military action and forced evacuations. The latest diplomatic push suggests that Washington is aiming for a temporary

extension that could facilitate further negotiations.

For investors, the uncertainty surrounding the cease-fire presents risks to global markets, particularly in energy and defence sectors. A breakdown in negotiations could lead to heightened geopolitical instability, affecting oil prices and defence-related industries. However, a successful extension of the truce may help stabilize sentiment in the short term.

While there is still a chance for diplomatic resolution, the coming days will be crucial in determining the trajectory of the conflict.

### A Turning Point in Ukraine

The prospect of a cease-fire in Ukraine is gaining traction, as President Trump moves to negotiate an end to the nearly three-year conflict. In a recent meeting with British Prime Minister Keir Starmer, Trump expressed confidence that Russian President Vladimir Putin would uphold any peace agreement, despite lingering doubts from Western allies. Meanwhile, Trump has positioned Ukraine's vast mineral resources as a key bargaining chip, advocating for U.S. access to these assets in exchange for the extensive military and humanitarian aid provided over the past three years.

Trump's diplomatic approach marks a significant shift, as he works to bring Russia out of its diplomatic isolation while simultaneously engaging Ukrainian President Volodymyr Zelensky in peace talks. A cease-fire would have broad implications—not only for global stability but also for financial markets. Oil prices have already responded to the possibility of de-escalation, with Brent and West Texas Intermediate crude falling to nearly \$70 per barrel on expectations that sanctions on Russian oil could be lifted, increasing global supply.

Market analysts, including those at J.P. Morgan, predict that crude prices could decline further to the mid-\$60s range by the

end of the year, assuming a cease-fire is reached and demand remains soft. However, there are potential counterforces at play. The OPEC+ alliance may resist allowing prices to fall too far, maintaining production limits to support the market. Additionally, Trump's economic policies—including potential tax cuts and efforts to increase U.S. energy exports—could influence pricing dynamics, possibly leading to higher energy costs in the long term.

From an investor's standpoint, the evolving situation presents both opportunities and risks. The potential end to hostilities in Ukraine could ease inflationary pressures by reducing energy costs, providing relief to the Federal Reserve's battle against inflation. However, shifting geopolitical alliances and the uncertain implementation of Trump's policies may create volatility in commodity markets.

As negotiations unfold, we will continue to monitor the economic and market implications of these geopolitical shifts, adjusting our investment strategies accordingly to navigate risks and capitalize on emerging opportunities.

### China's Military Manoeuvres and U.S. Policy Uncertainty: Investment Implications

China's recent military exercises in the Pacific have signalled its growing influence in the region, a move that comes amid shifting U.S. defence priorities under the Trump administration. Over the past few weeks, China has conducted naval drills near Australia and Vietnam while increasing air activity around Taiwan. These actions highlight China's expanding military reach and serve as a strategic warning to neighbouring countries.

The timing of these manoeuvres is significant, coinciding with uncertainty surrounding U.S. commitments in the Asia-Pacific. While the Trump administration has expressed concerns over China's military ambitions, its broader

strategy remains unclear. The administration has suggested a focus on countering China, yet proposed budget cuts to military spending outside the region raise questions about the extent of U.S. involvement. Additionally, mixed signals on trade negotiations and diplomatic relations with China further complicate the geopolitical outlook.

Australia and Vietnam, both balancing strong trade ties with China and security alliances with the U.S., have responded cautiously. Australia was unsettled by the unannounced presence of Chinese naval vessels near its coast, leading to heightened concerns about Beijing's strategic intentions. Meanwhile, Taiwan, which has long relied on U.S. military support, remains in a precarious position as the Trump administration has been reluctant to explicitly reaffirm its defence commitments to the island.

From an investment perspective, these developments carry significant implications. Increased geopolitical tensions could contribute to market volatility, particularly in sectors such as defence, energy, and trade-sensitive industries. China's growing influence in the region may also lead to shifts in global supply chains and trade alliances, affecting companies with significant exposure to the Asia-Pacific market.

Investors should remain attentive to policy shifts and geopolitical developments, as uncertainty in U.S.-China relations could impact global economic stability. While military exercises alone may not drive immediate market reactions, broader diplomatic and economic decisions will shape long-term investment trends. As always, we will continue to monitor these dynamics closely and adjust our strategies to navigate the evolving global landscape.

## What This Means for Our Client's Portfolios

First and foremost, our client's portfolios are well-prepared for 2025. Our analysts work tirelessly to monitor the evolving markets so we can better position our portfolios. In recent weeks, in anticipation of a potential market dip due to global political instability, we have spent time re-balancing all client portfolios to ensure we are well-positioned. We will continue to monitor the global situation closely and make any necessary changes as the global situation unfolds.

*As always, if you have any questions about this, please contact us at [mcpractice@holbornassets.com](mailto:mcpractice@holbornassets.com).*