



MARKET PERSPECTIVE | MAY 2025

Trump II: FAQs



Foreword

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There are many moving parts in the global economy, but one is getting all the attention of late. In this Market Perspective we offer our answers to some of the investment questions being posed by the idiosyncratic 47th president of the United States.

As we write, country-specific ‘Liberation Day’ tariffs are on pause (ex-China), and/or subject to various ad hoc diminishments and augmentations. Negotiations are underway; ‘deals’ may be done, compromises reached – or not. Economic data are particularly hard to read: some transactions have been brought forward to avoid higher duties, while others have been deferred or cancelled for fear of them. More positively, a temporary ceasefire in Ukraine may be on the cards, and lower energy costs – and eventual tax cuts, as US tariffs are recycled – will offer some support to nervous consumers.

All this is happening, of course, after the US stock market had enjoyed a stellar two-year run, driven by expectations for AI-driven productivity gains which were starting to look premature, leaving it at rather elevated valuations, and with disinflation having seemingly run its course. From our top-down perspective we cooled on stocks generally back in November, but have not yet felt the need to advise a more substantial realignment of portfolios – in either direction.

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Global Investment Strategists

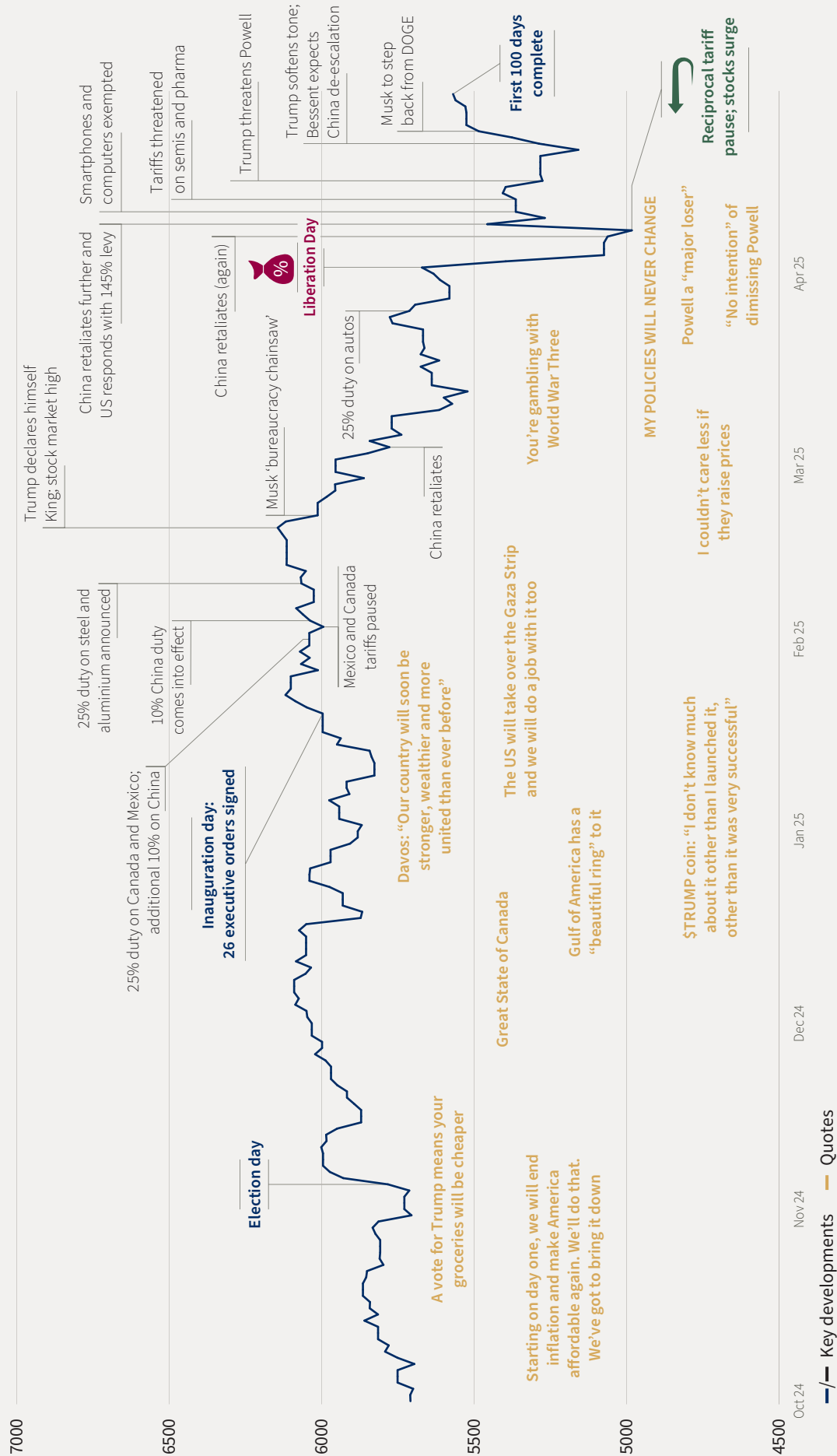
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FIGURE 1: TRUMP’S SECOND TERM
S&P 500 index



Source: Rothschild & Co, Bloomberg, NPR, The Guardian, WEF, Truth Social, NBC, CNN, X

Section 1: Is there a bigger picture?

“Things fall apart; the centre cannot hold ... Surely some revelation is at hand...”

– WB Yeats, The Second Coming

Q1: HAS THE OUTLOOK EVER BEEN THIS UNCERTAIN?

A: YES

Economists have been saying ‘These are particularly uncertain times’ for as long as we can remember, and it is human nature to think our experiences are unique. But this popular idea is mistaken. Today’s uncertainty was in the future yesterday, so yesterday’s outlook was also pretty uncertain – we just didn’t realise it. History is punctuated by many ‘crises’ of one sort or another: why should that process have ended?

In reality, the future is always profoundly unknowable, which may not sound like helpful investment advice. But while nobody can consistently forecast accurately, the prevailing wisdom which drives asset prices sometimes looks over-confident, one-sided, even illogical. If our perspective differs, it may be worthwhile to bet against that consensus. This is why we pay a lot of attention not just to ‘news’, but to how and why ‘news’ is produced. Surprisingly often, the overlooked scenarios are the more prosaic, ‘muddle through’ ones.

We think it is too soon to say that the world has changed permanently, that globalisation will reverse, or that geopolitical alliances are finished. How can anyone – including the protagonists – possibly know yet? We see parallels with the pandemic (and not just because then as now the global stock market peaked on 18 February). In 2020, an abrupt and dramatic economic setback was quickly followed by confident but mistaken assertions that ‘things will never be the same’. In just over a year we faced an old-fashioned inflation surge.

Q2: HOW CAN WE ENGAGE WITH TRUMP II?

A: WE CAN’T, AND WE SHOULDN’T SPEND MUCH TIME TRYING

There is little with which to engage (this is not a critical comment, just an observation). White House statements resemble Brownian motion. President Trump seems to relish attention, and often says things which are demonstrably inaccurate, provocative or even disrespectful in order to get it. He seems sometimes to use words not to communicate but as bargaining chips. The ‘Make America Great Again’ (MAGA) project is arguably less an ideology – see below – than an instinct.

This does not mean his administration has no motive or meaning: the instinct is understandable. He has some valid points: international trade has not been a level playing field, and US markets are more open than most; Europe has not paid fully for its own security for perhaps a century or so; the liberal worldview has no answer to economic migration; carbon-based energy cannot be switched off overnight; there does seem to be a widespread distrust of establishments and ‘experts’.

Nor does it mean that an alternative US administration would not have been seriously flawed too. The Democrats’ priorities and logic have looked pretty confused of late, and their pre-election tactics were arguably as questionable as some of Trump’s.



However, it does caution against taking the administration's gestures and even actions at face value. As we have suggested often since 2016, borrowing from US journalist Salena Zito on the Trump I campaign trail, Mr Trump should not always be taken literally. As we write, the most obvious apparent exception to this – the 'Liberation Day' tariff board – is looking instead more like a classic example of it. We hope Trump's apparent willingness to consider taking Greenland by force is another.

Q3: WILL TRUMP CHANGE THE INSTITUTIONAL ARCHITECTURE?

A: NOT AT HOME; AND MAYBE NOT ABROAD EITHER

The president may be brow-beating the Federal Reserve (Fed), considering a third term, re-labelling maps and reversing the Diversity, Equity and Inclusion (DEI) agenda, but we think America's institutional and constitutional architecture will remain largely intact. It may also be too soon to conclude that geopolitics has been permanently transformed.

Conceivably, he might be able to get the Fed Chair dismissed, whether 'for cause' or not – he has fired the heads of two other 'independent' agencies. He could even pass a law revising or removing the Fed's monetary mandate, but it would not be easy (somewhat ironically, Chair Jerome Powell is a Trump appointee from 2017). Even his most sycophantic advisers might argue against such moves, however. Financial chaos would follow.

Changing the constitution to run for a third term would require a Congressional majority of two-thirds, ratified by three-quarters of local state governments, which is likely to be beyond his legislative grasp. There is an untested loophole mooted in which he stands as Vice President (VP) to another candidate who is formally elected, but then resigns and cedes power to Trump. However, to stand as VP requires that he be eligible to assume the higher office – which he wouldn't be, having been elected twice already.

He may have better luck in changing the names on some maps, but if the new ones fail to resonate, he can't make people use them. He is however making more headway in reversing the US' already dilatory approach to environmental protection, and in counter-attacking established thinking in the so-called 'culture wars', but the commercial logic and momentum behind research into the energy transition at least may be irreversible.

Looking beyond America's boundaries, pundits assert that the geopolitical world has already been transformed, that the North Atlantic alliance is over and the world permanently destabilised – but again, how can they know?

We are just a few months into a capricious and mercurial second-term presidency. Extrapolating recent statements and actions into a new world order is great copy, but questionable investment advice.

An example we have used often is that of the Reagan presidency, when a seemingly reckless and belligerent president ended up making the world safer. US-EU relations have soured, but we can imagine rapprochement if/when Europe does indeed shoulder more of its responsibilities. US-China economic disarmament may seem unlikely today, but it is still one of the many potential outcomes of today's trade skirmishing. Not all scenarios are destructive ones.

Extrapolating recent statements and actions into a new world order is great copy, but questionable investment advice.



Section 2: What do tariffs mean for growth, inflation and rates?

Q4: IS A GLOBAL ECONOMIC SLUMP INEVITABLE?

A: NO, BUT TARIFFS ARE NONETHELESS BAD FOR GROWTH

Consumers will face higher prices and choices will be distorted. Companies' profit margins will likely fall, while any expansion-related plans may be placed on hold amid heightened uncertainty. If other countries follow China and introduce retaliatory tariffs, then that would also amplify the economic pain globally. As the International Monetary Fund's (IMF) latest GDP downgrades show (figure 2), there are likely no winners from a trade war – the US included.

However, those same estimates are not suggesting a downturn: near-term global GDP growth is expected to be somewhat close to its pre-pandemic trend rate. The IMF also note that elevated policy ambiguity means there are a range of growth trajectory possibilities from here. Positive outcomes are possible too. Trade deals to lower proposed tariffs could occur in the coming months – even with China. Companies may then have less need to relocate production to the States (unless that proves to be part of a proposed deal). Even with existing tariffs, it still may not make economic sense for them to do so. Moreover, any US tariff revenues may eventually be recycled as tax cuts, which could provide support for households' and corporations' spending power.

Meanwhile, tariffs are not the only driver of the global business cycle. Falling interest rates, lower energy costs and looser fiscal policies – particularly in Europe – will play a counter-cyclical role. Recent dollar weakness (see below) may be partly reflecting a narrowing in relative growth expectations.

FIGURE 2: IMF GDP GROWTH FORECASTS

Annual average (%)

	2025	Δ*	2026	Δ*	2014-19 trend
Global	2.8	-0.5	3.0	-0.3	3.4
US	1.8	-0.9	1.7	-0.4	2.5
Mexico	-0.3	-1.7	1.4	-0.6	1.7
Canada	1.4	-0.6	1.6	-0.4	2.0
Eurozone	0.8	-0.2	1.2	-0.2	1.9
UK	1.1	-0.5	1.4	-0.1	2.2
Japan	0.6	-0.5	0.6	-0.2	0.8
China	4.0	-0.6	4.0	-0.5	6.8
Emerging Asia	4.5	-0.6	4.6	-0.5	6.5

Source: Rothschild & Co, Bloomberg, IMF World Economic Outlook (April 2025)

Note: IMF GDP growth forecasts are as of 4 April, and so they will not capture the 90-day tariff pause.

* Denotes change in GDP forecasts since January's World Economic Outlook Update (percentage points)

Q5: ARE TARIFFS INFLATIONARY?

A: INFLATION IS AN ONGOING BROAD-BASED INCREASE IN PRICES, SO PROBABLY NOT

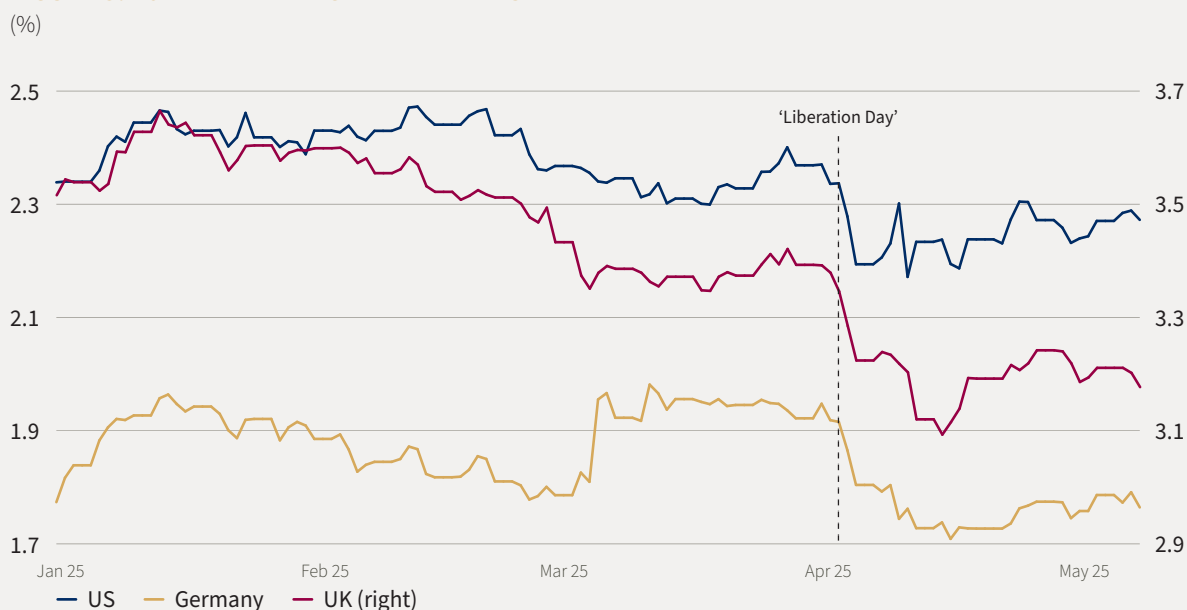
US consumer prices will certainly rise initially from higher tariffs, particularly for goods. The ex-ante (or proposed) US tariff rate is expected to increase to roughly 25% (a large chunk of that increase is due to the 145% China tariff), from around 2-3% today. This year's weaker dollar will also add to higher US import costs.

The effective (or actual) tariff rate is unlikely to be quite as high: trade can be re-routed through lower-tariffed nations, US firms may misreport the origins of their imports, and trade deals, as noted, are possible. Some of that rise in cost will also be absorbed by exporters and importers, so the overall cost will be shared with the final consumer. Nonetheless, the effect of 'Liberation Day' tariffs, if they come into force, could add around three percentage points to the US CPI.

On the other side of the Atlantic, a spike in consumer prices conversely seems unlikely. If Europe does not retaliate with its own tariffs, then imports may in fact be cheaper due to recent euro appreciation. What's more, China may dump its heavily tariffed imports in non-US nations given most exporters there face a massive levy from the States (while US importers face a 125% tariff in Beijing).

Either way, higher prices from tariffs will hurt demand and dampen business and consumer confidence. Therefore, after the initial spike in prices, tariffs are likely to have a disinflationary impact in the medium term. Indeed, the reaction in bond markets on 'Liberation Day' signalled just that: longer-dated inflation breakevens fell in the US, UK and Germany (figure 3). That said, given that economic growth is unlikely to collapse, talk of outright 'deflation' may also be misplaced – along with the 'worst-of-all-worlds' scenario popular with pundits, namely 'stagflation'.

FIGURE 3: 10-YEAR INFLATION BREAKEVENS



Source: Rothschild & Co, Bloomberg

Q6: WHAT WILL HAPPEN TO INTEREST RATES?

A: GIVEN THAT TARIFFS COULD RETARD GROWTH, INTEREST RATES ARE MORE LIKELY TO FALL ONCE IT BECOMES CLEAR THAT THE INITIAL SPIKE IN CONSUMER PRICES WILL NOT REVERBERATE FOR LONG

Most of the major central banks were reducing policy rates anyway prior to the ‘Liberation Day’ announcement, albeit at different paces. For example, the Fed and Bank of England (BoE) were lowering their respective policy rates in a more gradual manner than the European Central Bank (ECB) and Swiss National Bank (SNB), which appeared to be approaching the end of their respective easing cycles.

Several European policymakers have since flagged concerns over the domestic growth backdrop, with some explicitly mentioning that tariffs could have a disinflationary impact. Conversely, Fed Chair Powell has adopted a patient stance, avoiding any pre-emptive action. In the background, pressure from Trump to cut rates may have also raised the need to demonstrate Fed independence.

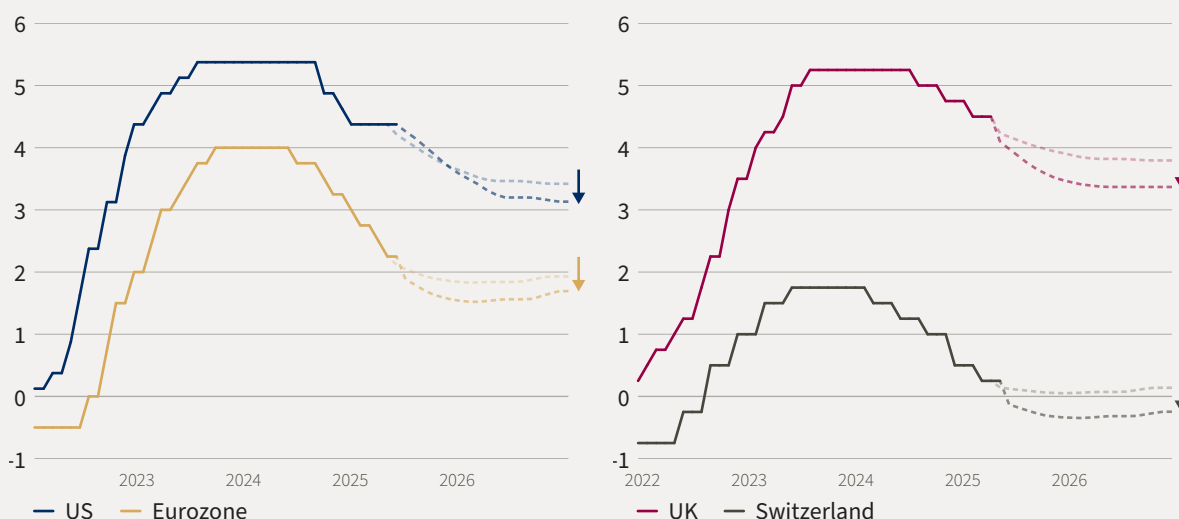
Nonetheless, since ‘Liberation Day’, money markets have adopted a more dovish expected trajectory for all four of these major central banks (figure 4). They are pricing-in three rate cuts from the Fed this year, two further cuts from the ECB, three/four further cuts from the BoE, and a negative rate for the SNB (again). This broad profile looks plausible, though we wonder – again – whether the actual path followed will be quite as sharp as markets expect, particularly if growth proves to be more resilient than anticipated.

... since ‘Liberation Day’, money markets have adopted a more dovish expected trajectory for all four of these major central banks



FIGURE 4: ACTUAL (BOLDED) AND MARKET-IMPLIED (DOTTED) CENTRAL BANK POLICY RATE EXPECTATIONS

Latest projections vs 1st April (%)



Source: Rothschild & Co, Bloomberg

Section 3: How might markets and portfolios respond?

Q7: HOW DOES THE STOCK MARKET SETBACK COMPARE TO OTHERS?

A: IT IS UNREMARKABLE IN DEPTH, BUT THE FALL – AND REBOUND TO DATE – WAS ONE OF THE QUICKEST

Markets have stabilised, and stocks have regained their post-‘Liberation Day’ losses (in US dollar terms), but it’s too soon to conclude that the volatility is behind us.

Falling stock prices are always unsettling. Yet the reality is that the recent 16% peak-to-trough drawdown in global stock prices wouldn’t even rank in the top 10 setbacks over the past half century. That said, while the post-‘Liberation Day’ setback may not have been that deep, in terms of speed it was one of the fastest declines on record – and was followed by a similarly fast rebound (figure 5). Global stocks fell by over a tenth over three trading days; meanwhile, Hong Kong’s Hang Seng index suffered its biggest single daily fall in over two decades. But it was short-lived: the tariff postponement less than a week later prompted a vigorous recovery, including the second biggest daily move on the Nasdaq. Such movements in such a short space of time are unusual.

FIGURE 5: GLOBAL STOCKS: 2025 YEAR-TO-DATE

Indexed (100 = 1st January, USD terms)



Source: Rothschild & Co, Bloomberg, MSCI

Stock market volatility usually overstates underlying economic volatility. Paul Samuelson famously quipped that “the stock market has predicted nine of the past five recessions”.¹ Recessions are not always (or even usually) associated with major financial crises, and the damage they do to corporate profits can be manageable. That said, the economic damage that might be done by a sustained trade war would be out of the ordinary, and likely to hit corporate profitability hard: the stock market’s recent volatility may have more economic justification than usual.

These are uncharted waters. Not only in terms of the scope of the policies, with US duties likely to rise to their highest level in a century. But also in terms of Trump’s indecision. Even with the country-specific duties postponed, we are not out of the tariff woods yet and damage has been done: uncertainty has hit confidence. Sentiment remains fragile.

Q8: HOW DID SAFE HAVENS FARE?

A: NOT AS WELL AS THEY COULD HAVE

In order to smooth the investment journey, we look for assets which can rise when stocks fall, and vice versa: such diversifying assets can provide defensive ballast.

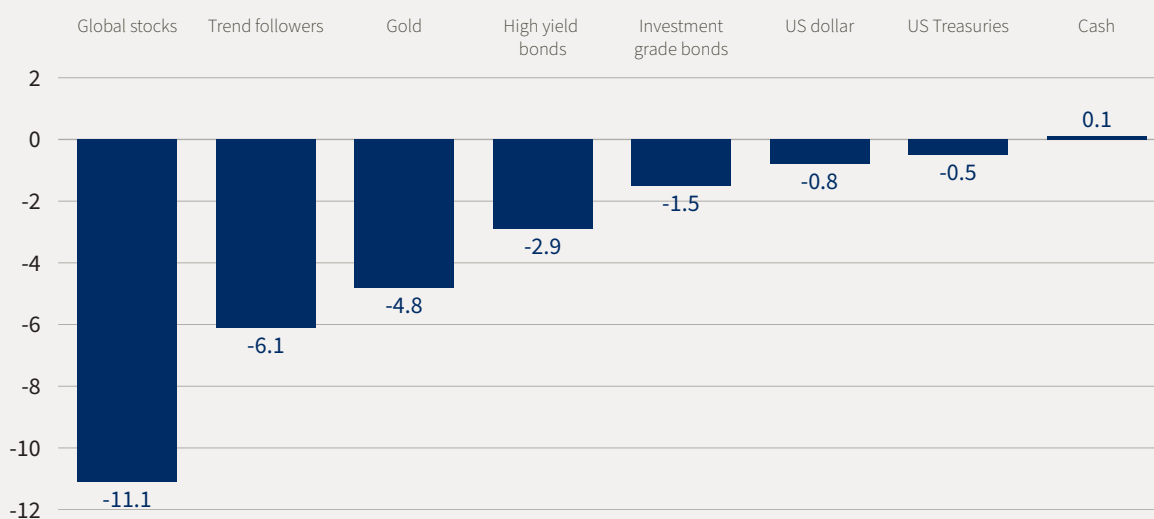
Traditional diversifiers include bonds, gold, and cash. Less conventional diversifiers might include funds and structures which are able to trade volatility directly; derivatives; and perhaps direct property investments. Currencies – which are not an asset in their own right, but a characteristic that assets have – can also play a role in amplifying or muting overall portfolio volatility, depending on how a particular exchange rate is correlated with stocks: the dollar for example often appreciates when uncertainty builds.

However, during the turbulent start to April, the different asset classes were unusually correlated. When stocks were at their weakest, some traditional safe havens – bonds, gold and the dollar – were also weak, and adding to portfolio risk (figure 6).

¹ In a 1966 Newsweek article, the eminent economist Paul Samuelson famously quipped that the stock market had predicted nine of the past five recessions

FIGURE 6: THE ‘LIBERATION DAY’ SETBACK: SELECTED ASSETS

2 April to 8 April (USD terms, %)



Source: Rothschild & Co, Bloomberg, MSCI, JP Morgan, SG Corporate & Investment Banking
Note: Fixed income returns are in USD, hedged terms. US dollar is the DXY index.

So which safe havens actually did their job? Humble cash at least did what it almost always does: maintained its nominal value. Derivative-based strategies involving put options – the most explicit stock hedge there is – surged as stocks fell.

Gold and bonds have been more stable through 2025 to date. Gold remains one of the best performing asset classes, up by more than a quarter in 2025 (similar to its 2024 return) – which is as it should be, given that its traditional investment appeal stems from being seen as a hedge against inflation, banking collapse, and/or a plunging dollar.

The weakness in bonds – notably, in longer-dated US and UK bonds – seems to have reflected the specific problems encountered by some big investors using complicated, leveraged strategies to boost returns, and not from any significant change in the perceived qualities of the assets themselves. In particular, talk of the emergence of a Truss-like premium on US Treasury yields looks misplaced. US creditworthiness is not being called into question, not yet anyway. And while Treasury and gilt volatility was unsettling, it was far from disorderly. With long-term inflation expectations likely lower, and current 10-year yields above 4%, both long-dated Treasuries and gilts we think offer not just credible diversification, but likely inflation-beating income as well.

Q9: ARE THERE ANY SIGNS OF ALTERED STOCK MARKET LEADERSHIP?

A: FEWER THAN WE MIGHT HAVE IMAGINED

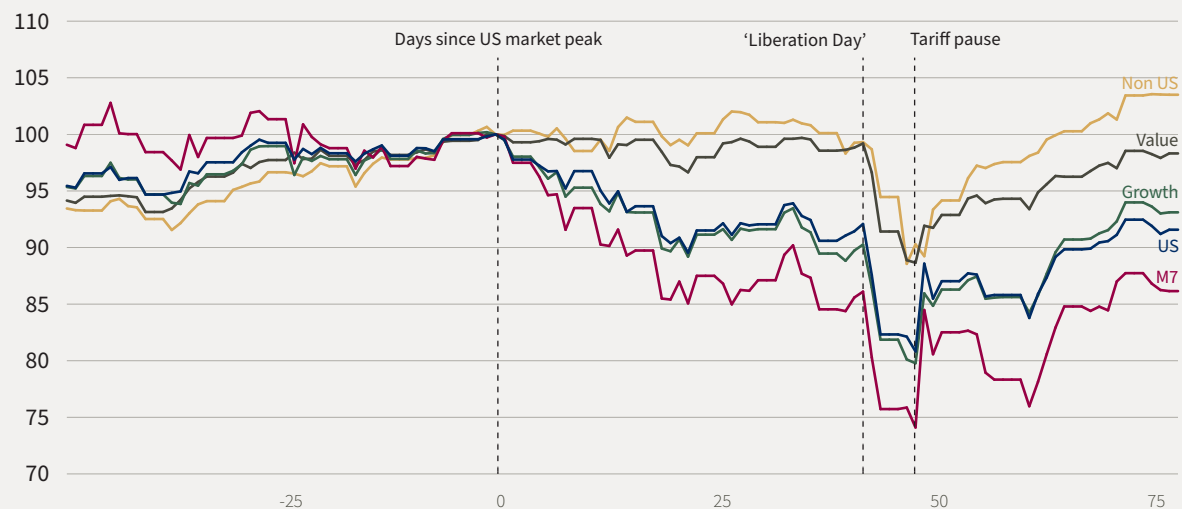
We have discussed often the relatively narrow nature of the last few years' stock market advance: US stocks, and particularly a small group of companies whose fortunes are closely tied to the Artificial Intelligence theme, have led the way higher and contributed disproportionately to the market's rise.

Prior to Trump's tariff turmoil, the consensus on US stocks was shifting (figure 7). The previous stock market darlings – the 'Magnificent Seven'² (M7) cohort – had ceded their leadership and were no longer looking like the only game in town. Meanwhile, European stocks were leading the market higher, establishing a twenty percentage point lead over their US counterparts – the biggest outperformance in decades.

² Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

FIGURE 7: TECH, TARIFFS AND THE TRUMP EFFECT – SELECTED STOCK INDICES

Indexed returns (rebased to 100 at US market peak, USD terms)



Source: Rothschild & Co, Bloomberg, MSCI

That rotation seems to have been put on hold through April. The ‘Liberation Day’ pause and the collective sigh of relief that followed has benefited those downtrodden cyclically-tilted technology stocks most visibly. However, that mega-cap technology cohort is still close to one-sixth below its December high-water mark.

Is this rotation a tactical or strategic consideration? US credibility has suffered and capital flight remains one obvious theme this year. And after years of underperformance and with the valuation gulf (once again) wide between the US and Europe, it’s possible that investors may still be reappraising the European opportunity set. The euro area was slowly benefiting from lower interest rates and Germany’s fiscal bazooka will likely mute the pending tariff pain.

One thing is still clear: US valuations appear stretched and corporate earnings estimates are likely still too optimistic. Ahead, revenues may slow as wider growth cools and the starting point of high margins suggest earnings may come under some pressure. That said, as noted above, growth is not yet that fragile, and at least one major contributor to a big collapse in earnings seems to be missing from this cycle – notably, the sort of balance sheet excesses that might require sharp write downs, as happened in 2001/2 and 2008/9.

It is likely that more earnings downgrades lie ahead, but whether they will have a dramatic market impact – and/or prompt a further rotation away from the US – remains to be seen.

Q10: IS THE DOLLAR DONE?

A: NO

After the election, the dollar was riding high, with many economists expecting additional tariffs to push it higher still. In the event it has fallen by around 10% against the other major currencies.

There have been many tentative reversals in the dollar in the last decade, but they proved short-lived. A bigger trade-weighted slide came after Trump’s first inauguration: it went on to last for just over a year before the dollar resumed its upward drift.

However, the focus on trade is bigger and louder now, and Trump and his circle have declared more clearly for a weaker dollar – even encouraging global investors to reconsider its reserve currency status. For their part, those investors have needed little encouragement to question the new administration’s credibility – again, more so than in 2017. Pundits are eager to talk (not for the first time) of the dollar’s demise, and of a new monetary world order.

MAGA may be misguided...

It is not clear how committed Trump is to a weaker dollar. The wider MAGA project seems intent on prescribing a whole host of misguided treatments for a misdiagnosed illness.

Manufacturing’s share of the US economy has fallen, and Mr Trump’s supporters have been disproportionately affected by the loss of heavy industrial and mining jobs. But countries reliant on low value-added manufacturing and commodities, and depreciating currencies, are usually poorer, not ‘great’. It is no coincidence that the best all-round economy in our recently-updated [scorecard](#), Switzerland, also has a strong currency.

The euro area was slowly benefiting from lower interest rates and Germany’s fiscal bazooka will likely mute the pending tariff pain.



The fact that America has led the shift towards intangible service-sector and digital output, and can consistently spend more than it makes, is arguably a mark of success, not failure.

Long-term competitiveness is not about selling things cheaply. There is real substance to the digital revolution which has led stock markets higher: it is not simply a financial confection. Bezos, Gates, Jobs, Musk, Zuckerberg et al delivered things which their customers valued.

There are surely easier ways to help left-behind communities than by trying to reverse the recent dematerialisation and deindustrialisation of the US economy. Tariffs don't deliver better products. Even if the revenues are recycled, they reduce consumer well-being by distorting choice. MAGA's inconsistencies and harmful side effects may eventually hurt Trump's poll ratings.

... and a lower dollar may not be easy to deliver

Even if Trump is committed to a lasting depreciation, it is not clear how best he can deliver it. There are two sides to a market, and the dollar will only stay down if both would-be sellers and buyers think it should do.

As noted above, he could, if really determined, seize control of the Federal Reserve, and flood the market with dollars, but the resultant financial mayhem would make 'Liberation Day' look like a stroll in the park. Otherwise, he has to rely on market forces – and talk – to bring about the weakness he seeks (again, assuming he really seeks it).

Those market forces working through the existing trade deficit are clearly not up the job, otherwise the dollar would have been trending lower, not higher, in recent years – and a smaller deficit would reduce net dollar sales, not add to them. So if markets are to do Mr Trump's job for him, it will be through the capital account: he must somehow discourage capital inflows, and encourage existing investors to sell their US assets – and there is still a hole in the bucket, Dear Liza: if America is going to be considered 'Great Again' (as we've noted elsewhere, in the world of finance it has never not been great) then the dollar may be bid higher, not offered lower.

If this all sounds muddled, that's because it is. Trade deficits are not necessarily a problem for a diversified, wealthy economy, and they are not usually caused by exchange rates to begin with. Similarly, presiding over the world's favourite reserve currency – and being able to borrow as yet unlimited amounts in your own currency, without having to pay punitive rates – may not be such a bad thing. Again, misguided treatments for a misdiagnosed problem.

The renminbi cannot replace it soon

Meanwhile, everyone's favourite candidate for the next reserve currency – China's renminbi – is unlikely to supplant the dollar any time soon. As we have noted often, this is largely a matter of logistics, not prediction.

For a currency to be a widely-held reserve asset requires that the rest of the world holds lots of it – but China has capital controls and a structural balance of payments surplus. Whatever the renminbi advocates say, more widespread invoicing in China's currency can do little in the face of these constraints. And if/when those remaining capital controls come off, we think we know in which direction the net flows will be heading, at least initially.

So is China's ring-fenced currency being manipulated, as Trump says? It is certainly cheap. To equalise prices in China's economy with those in the US – to reach 'purchasing power parity' – there would need to be just half as many renminbi to the dollar as there are currently, judging by IMF estimates. But 'manipulation' suggests a deliberate fine-tuning, rather than the natural result of allowing an underdeveloped and still largely closed economy to join the world trading system.

China is big, but even now still relatively poor on a per capita basis, and its catastrophic twentieth century experiences likely leave its government understandably cautious. That said, the commercial playing field is currently tilted in their favour – Trump has a point here, remember.

Most portfolio returns anyway are usually dominated by local stock prices, not exchange rates.



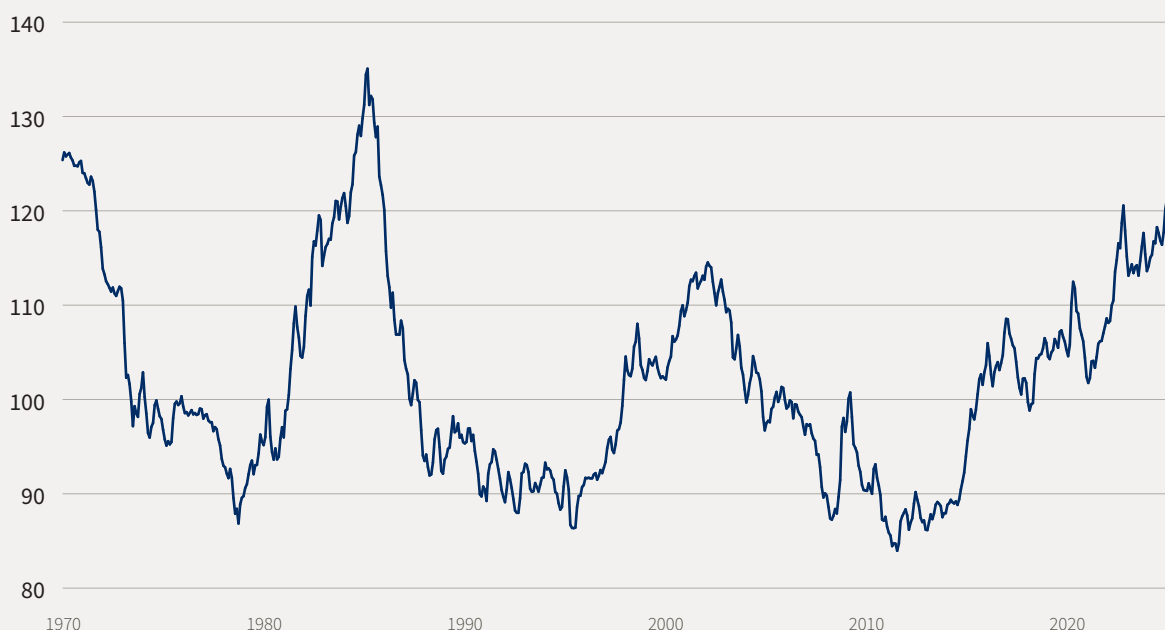
So where next? Currency calls have not recently been a big part of our investment process, though this could change. The problem is that conviction is scarce at the best of times (or it should be: exchange rates are among the most over-analysed prices in capital markets). Most portfolio returns anyway are usually dominated by local stock prices, not exchange rates.

The dollar looked dear (in real terms) in January, but not outlandishly so, and it is a little less expensive now (figure 8). Meanwhile, Europe in particular still has economic – and governance – issues of its own. As noted, we think there are many strategic loose ends in the current debate, and we can't quite believe that US financial credibility is permanently impaired (yet).

But we are no more than indifferent tactically. From our top-down perspective we no longer find US stocks more attractive than those elsewhere, and if we felt the dollar were suddenly about to rebound and surge anew we would likely be more positive there. The current show is not over, and while it's playing you don't heckle the man with the microphone.

FIGURE 8: THE DOLLAR HAS BEEN EXPENSIVE – BUT NOT CRAZILY SO

Broad trade-weighted, inflation-adjusted dollar index



Source: Rothschild & Co, Datastream, OECD

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