CHARLOTTE SQUARE
INVESTMENT MANAGERS

A VIEW FROM THE SQUARE

June 2025

Lower Interest Rates - A Cause for Optimism

Last month we wrote that there had been a notable recovery in equity assets following the 90 day pause implemented by President Trump on 9th of April. Positively, markets continued their rebound during May, gaining further momentum from the April lows we saw post Liberation Day. Investor sentiment was sustained by improving macroeconomic indicators, easing trade tensions, and a more balanced outlook on interest rate policy.

Although we may have seen easing in some tariff negotiations, Donald Trump has still been busy dominating the headlines as he continues to find new conflicts. A rift between Elon Musk and Trump erupted when Musk criticised one of Trump's key domestic policies. Meanwhile, US lawmakers are working to pass Trump's controversial so-called 'One Big Beautiful Bill,' which would add $2.4 trillion to the deficit over the next ten years. Trump has been battling with anyone who challenges the bill. Critics have been warning that rising bond yields could lead to unsustainable debt repayments, with potentially crippling economic consequences. Musk felt the consequence of mixing business and politics, with Tesla shares seeing their biggest one day drop on record as the spat between them unravelled on social media.

However, we take a positive approach at present, in particular towards UK interest sensitive investments. The Times last month carried an interesting article on the views of Larry Fink, the CEO of global asset manager BlackRock. His firm has been investing £billions in the UK, citing the scope the Bank of England had for interest rate cuts. BlackRock believe that the UK could justify a full 2% cut in interest rates - a higher level of scope than any other major economy. One particular sector that should benefit from this trend are closed end funds, often known as investment trusts. Two years ago, the crisis in US regional banks unsettled these stocks with the result that prices dropped even faster than the underlying value of assets in the trust. With share prices often 20% below the audited net asset value of the fund in question and interest rates now falling, corporate investors started buying aggressive shareholdings and often making an outright bid for the company in question.

We have already seen benefit from this trend but happily, value still exists and although rising prices have started to narrow discounts, yields of 5% to 8% are still available. Falling interest rates are good for these Alternative funds, but the positive vein continues in equities and often to a greater extent as growth companies are valued more highly in these conditions.

Finally, while BlackRock expect most interest rate benefit in the UK, the good news is that other central banks have good scope for reduction as well. We believe most clients prefer diversified portfolios and this permits geographical and industry selection to enhance returns on a wide range of opportunities. As always various threats exist, and we keep a close eye on inflation trends, but at least for now opportunity beckons across the globe.

William Forsyth
Executive Chairman & CIO
12th June 2025

Important Information

Opinions constitute our judgement as of this date and are subject to change without warning. Neither CS Managers Ltd, Charlotte Square Investment Managers nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon any information contained in this document. Charlotte Square Investment Managers is a trading name of CS Managers Ltd, 43 Charlotte Square, Edinburgh EH2 4HQ. CS Managers Ltd is authorised and regulated by the Financial Conduct Authority

CSFP20 0625

43 Charlotte Square
Edinburgh EH2 4HQ

T. 0131 624 7709
investments@csmanagers.com