

Monthly Market Commentary

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Volatility and a big, beautiful recovery

The last six months have been anything but boring for investors. The adage of “sell in May and go away” failed to apply this year as global equities have rallied 14% over the last three months. The recovery since 9 April, the fateful day of President Trump’s step down from tariffs, has been 23%. While tariffs haven’t really left the headlines, they have become less of a concern as the US economy has rebounded, and America’s trading partners have rushed to sign bilateral deals.

The EU, Japan, and South Korea secured a last minute 15% tariff deal for their auto heavy export sectors. The European Union also agreed to make \$600bn in US investments, \$750bn in energy purchases, and significant arms procurement commitments. Several smaller countries have failed to sign bilateral deals and now face exorbitant tariffs when selling to the world’s largest economy.

The overall impact is an increase in the average tariff rate to 15.2% from 2.3% in 2024 (Source: Bloomberg). The impact on inflation and GDP growth will depend on the extent of the pass through, the strength of the broader economy, and how consumers react. Delayed consumption can cause meaningful strain on consumer facing industries.

US GDP rose 3% in the second quarter after falling in the first. This reading confirms the equity market’s expectation of no immediate recession. Despite this, economic data, including measures of employment have shown some weakness of late. On the other side of the Atlantic, UK retail sales and GDP growth have disappointed over successive months. The Chancellor faces a fiscal tightrope as she tries to balance her books in the face of a slowing economy and high borrowing costs.

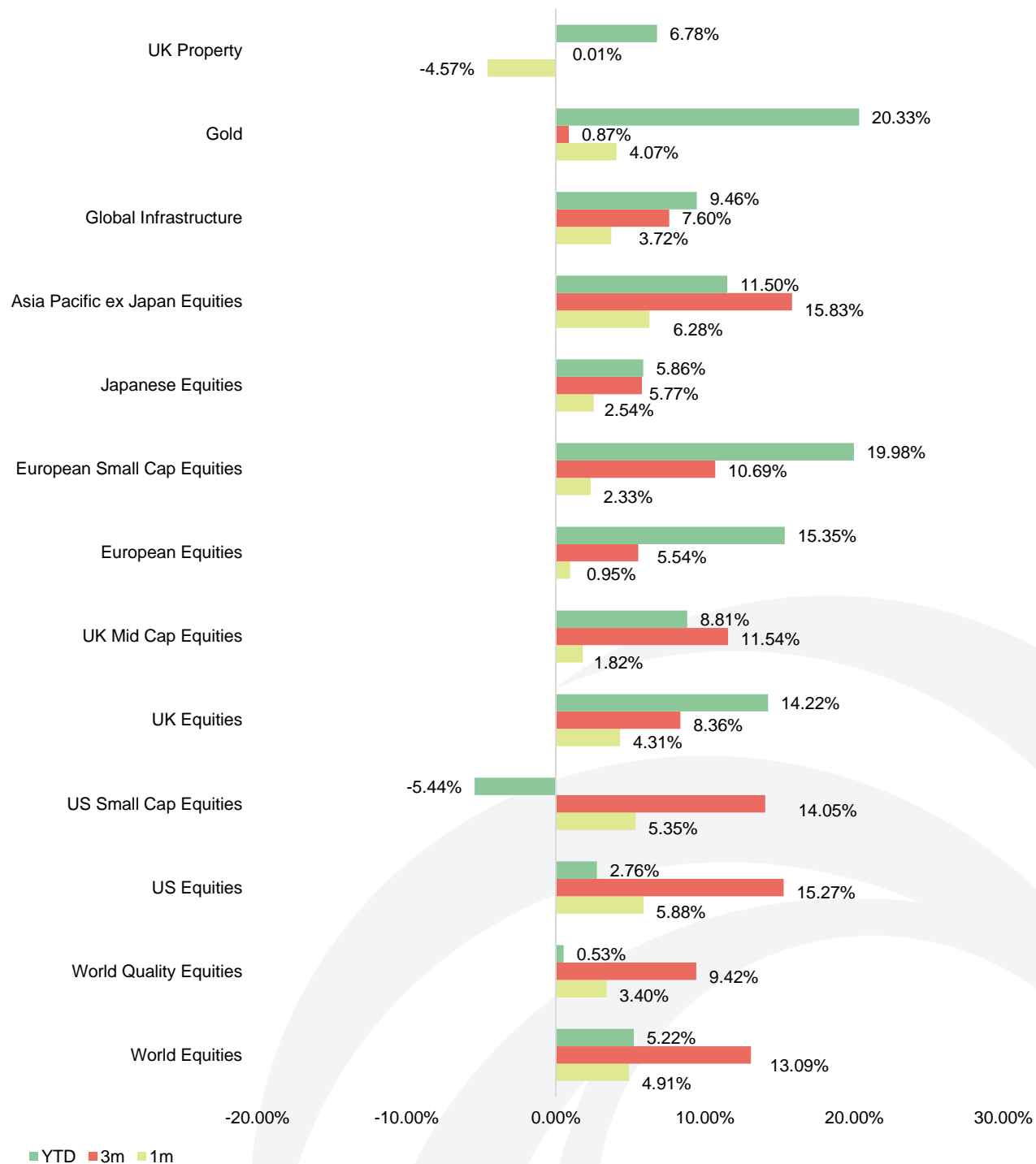
The Federal Reserve and Bank of England are now centre stage as the global economy deals with the impact of tariffs. In July, the Federal Reserve kept rates unchanged, choosing to wait for more inflation data. Investors expect the Bank of England to cut by a further 0.25% in August, due to the weakness in retail sales and the labour market. Both central banks face a challenging backdrop with weakening growth and an uncertain path for inflation. Like most investors, we anticipate a gradual reduction in policy rates in the second half of the year.

Two thirds of US companies have reported second quarter earnings, and 82% of them have exceeded analysts’ expectations which is higher than the five-year average. Profits have grown 10% year-on-year, led by Information Technology, Communication Services and Financials*. Profits are the life blood of asset prices and economic growth. The year-to-date recovery continues to provide a fundamental basis for continued optimism.

The shock of tariffs hasn’t caused a collapse in the global economy that many feared. Their implementation will, however, increase the risks to economic growth, and we will continue to monitor market and macroeconomic data for deterioration. For now, these risks appear to be manageable. We have increased exposure to high quality dividend payers and continue to favour larger capitalisation companies. We have retained exposure to neutral duration government debt for low and mid risk clients, which provides a ballast should a slowdown materialise.

*Source: FactSet Earnings Insights (01/08/2025)

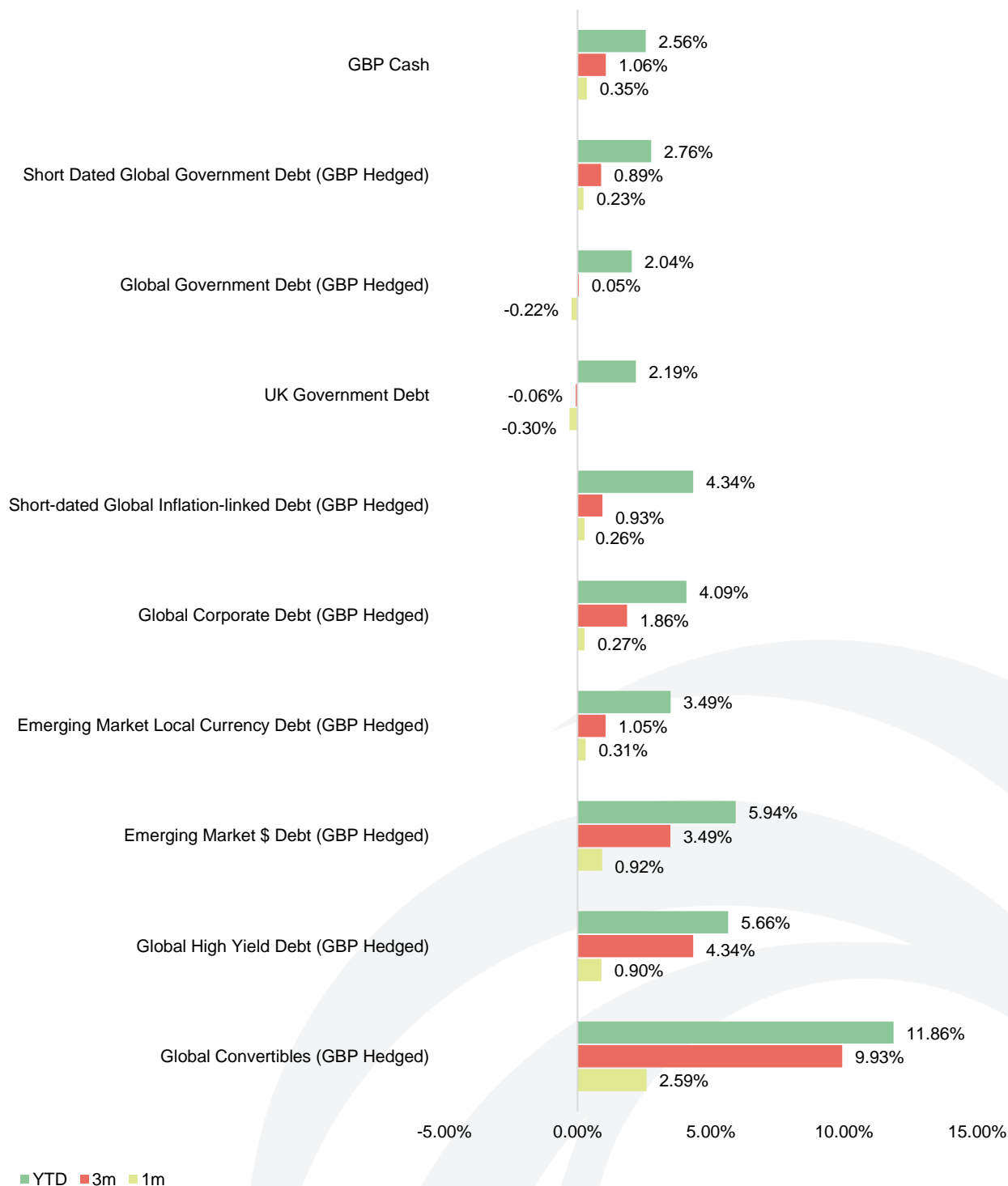
Asset Class Performance: Equities & Alternatives



Source: FactSet, data to 31/07/2025 in GBP

Past performance is not a guide to future performance

Bonds & Cash



Source: FactSet, data to 31/07/2025 in GBP

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