INVESTMENT UPDATE

JULY 2025

ROCKHOLD ASSET MANAGEMENT

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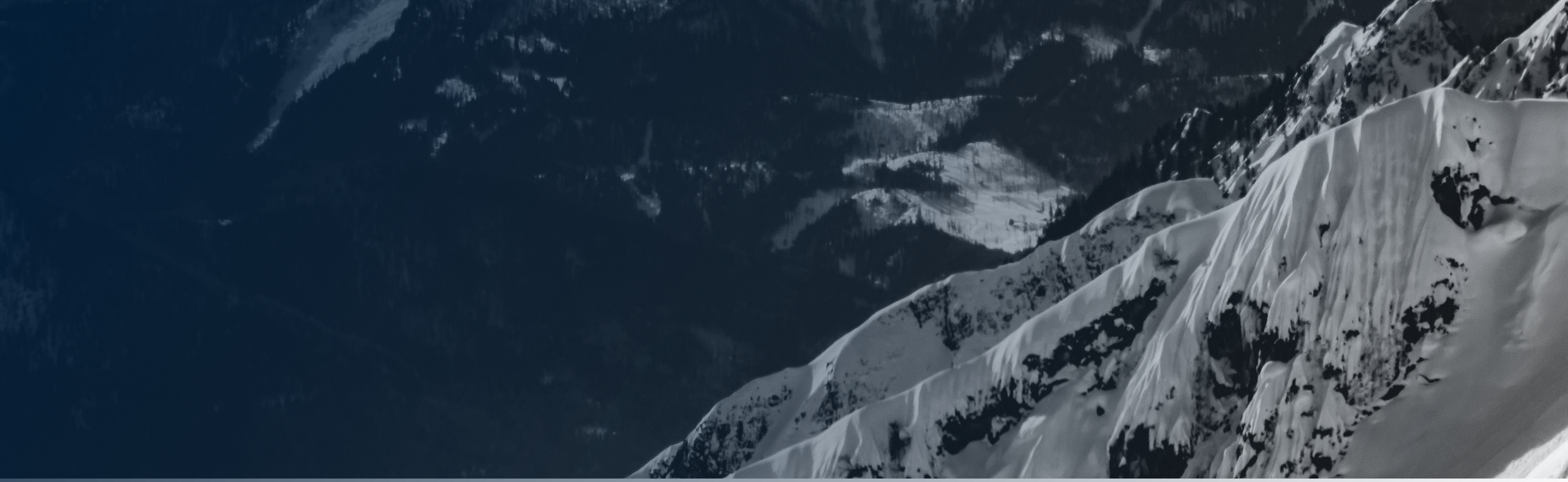

INVESTMENT UPDATE

JULY 25

Index	Level 31 May 2025	Level 30 June 2025	Change*
S&P 500	5912	620	+5.0%
FTSE 100	8772	8798	+0.3%
Euro Stoxx 600	548	541	-1.3%
Nikkei 225	37965	40487	+6.6%
Shanghai	3347	3444	+2.9%
US 10 Yr Treasury Yield	4.41%	4.22%	-0.19
UK 10 Yr Gilt Yield	4.63%	4.48%	-0.15
Bund 10 Yr	2.50%	2.59%	+0.09

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

Looking at the healthy portfolio returns during June, you might be forgiven for thinking that the month was fairly uneventful from a news flow perspective, and in terms of tariff news coming out of the US, relatively speaking, it was. This was most likely due to the fact that we are still within the 90-day hiatus on this front and negotiations are ongoing. However, it won't have escaped anyone's notice that tariff news was pushed out of the headlines to a certain extent, as Israel and Iran entered a full-blown war and, latterly, the US entered the fray by bombing a number of nuclear infrastructure sites within Iran. Historically, such events would have seen the oil price soaring and equity markets falling, but on this occasion, we saw a relatively muted rise in the oil price, which didn't even exceed the 12-month high set in 2024 and, conversely, the S&P 500 rose the day after the US bombing raids. Indeed, the US market ended the month setting new all-time highs, although the FTSE 100 also achieved this feat before falling as events in the Middle East developed.

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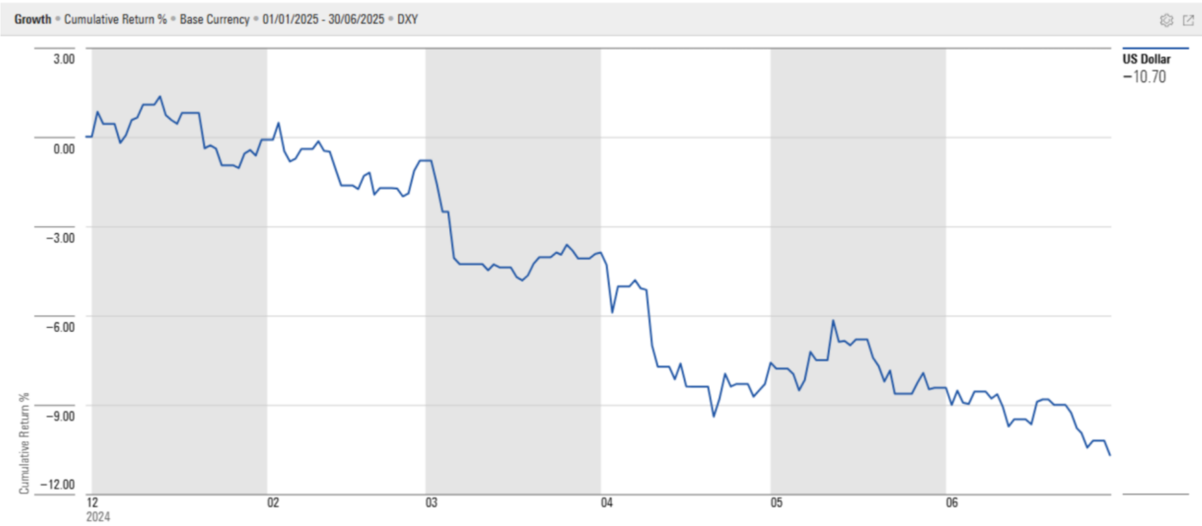
Other than a bullish sentiment supported by strong earnings growth, it is probably the fact that the US is relatively self-sufficient in crude that both oil and equity markets were apparently sanguine about the Middle East. It should also be remembered that, whilst there is a threat to oil supplies delivered through the Straits of Hormuz and the effect of any escalation that may disrupt that supply, one of Iran's biggest customers is China and oil is delivered to them via the Strait. Therefore, it's not in Iran's interest to disrupt freight there and thus supplies to a country that's also one of its few political allies too. Israel has also been careful, thus far, of not targeting Iran's oil infrastructure.

Bond markets also had a good month, even as President Trumps' potentially budget deficit enhancing 'Big Beautiful Bill' made some progress in the Senate. A lack of evidence of inflation increasing due to higher tariffs possibly helped bonds on this front though and yields fell significantly from their May highs. This and strong equity market performance combined to ensure all portfolios were, once again, in positive territory.

US

The 5% rise in the S&P 500 index followed on from the 6% return in May and marked the fastest recovery in history from a fall of over 15% for the index. As in May, the rally was led by technology firms, however, we did see returns broaden out into the wider market in June, with small companies returning over 4%. Returns from US markets were dampened once again for sterling-based investors, as the dollar continued to weaken. Indeed, it was the worst first half performance for the dollar against a basket of currencies since 1973. The geopolitical environment has created uncertainties around the currency's status as a safe haven and central bank has been building gold reserves as a consequence, given doubts over the US willingness in future to supply dollars in the event of a liquidity crisis.

US Dollar Index – Year to date



Source: Morningstar

As mentioned previously, the President's tax bill was a major focus of investor attention, as it made its way through the Senate. The Bill is highly divisive, which is reflective of US politics generally, as it reduces healthcare and welfare for many lower-income Americans, whilst cutting taxes for wealthier citizens. The Congressional Budget Office estimates it will add $3.2tn to the Federal budget deficit, but the President maintains that the increased economic growth it helps generate will more than compensate for this in revenues over time. Meanwhile, tariff receipts have soared, but these only represent a small fraction of Federal spending and the impact of the disruption they are likely to cause to global trade is currently unclear. However, we may get evidence of this as companies start to report second quarter earnings through July.

On the inflation front, we saw core CPI come in at a lower than expected 2.8%, which President Trump used to pile further pressure on Federal Reserve Chairman, Jerome Powel, to cut interest rates, citing the US' ever increasing interest bill. The Fed, however, maintained rates, as it continues a wait and see approach to the impact of tariffs on inflation and employment, although two members did vote for a cut, which buoyed sentiment.

UK

The mid-sized company orientated FTSE 250 index continued to outperform the larger company orientated FTSE 100, ending the quarter delivering an impressive 12% versus the latter's 3%. The companies that make up the mid cap index are generally beneficiaries of a stronger pound, as it reduced the costs of imported goods.

On the political front, we saw Sir Keir Starmer release his long-awaited industrial strategy, which targeted reducing energy costs and reducing skill shortages for certain industries, focussing on eight sectors seen as crucial to the growth of the UK economy. Energy costs for UK industry are considerably higher than those on the continent, so this is seen as a crucial step to increase competitiveness. However, the policy was criticised for excluding certain industries such as hospitality, the energy reductions taking two years to come into effect and the fact that there seemed to be no new funding for the proposed measures.

The Bank of England kept interest rates on hold, as inflation came in at 3.4%, which is still well above the Bank's target rate of 2%.

Europe

European markets were relatively subdued after a very decent quarter and, despite a flat June, have still managed to outperform US stocks since 1st April, aided by strong earnings growth numbers. Inflation numbers continue to support rate cutting by the European Central Bank (ECB), who again reduced rates in June – to a level of 2%, which means interest rates have now halved since their peak in 2022. Prior to the meeting, market participants were expecting perhaps three more cuts, but comments by ECB Chair Christine Lagarde seemed to suggest that they were near the end of the cycle of reductions.

Meanwhile, Trump's threats to apply blanket tariffs on the EU, if they do not agree a deal by the July 9th deadline, overhang the market and the European Commission is trying to balance competing interests within the EU, with regards to whether they should apply retaliatory tariffs on the US. A deal on increasing future NATO spending at least removed this matter as a potential negative influence on the negotiations.

Japan

Despite an apparent impasse on any US tariffs agreement, centred around rice and autos, Japanese equities had a decent month, with the Nikkei matching European equities in local currency terms over the quarter. However, bond markets continue to be at the centre of investor attention, following the volatility in May, caused by poorly supported government bond auctions. As experienced elsewhere in the world, 10-year bond yields fell, as the Bank of Japan (BOJ) announced that it would slow its reduction of government bond purchases and promised to support the market if yields were to rise rapidly. As the holder of around 50% of the Japanese bond market, the bank is still trying to tread a fine line between weaning the market off its support whilst continuing to provide liquidity to prevent volatility. Interest rates remained unchanged, as the BOJ attempts to keep a lid on rising inflation.

Asia and Emerging Markets

Asian and emerging markets generally had a very good month, fuelled by conciliatory words over tariffs between the US and China, the continued recovery of technology stocks globally and the election of a pro-stock market government in Korea. The latter's stock market rose over 13% during the month, as the new government brought with it the promise of corporate governance reform in a similar vein to recent changes in Japan.

The language being used between the US and China may help to stabilise relations between the two countries, but China still needs to address the issue of poor consumer demand domestically, caused by the continued slowdown in the property market. However, there was some good news on the consumption front as retail sales grew by a higher than anticipated 6.4%, although industrial production was slower than expected, providing mixed messages to investors.

Summary

July could be a pivotal month for markets, as the 9th July 90-day deadline for suspension of US tariffs expires and, at the time of writing, the country has only announced two agreements – with the UK and Vietnam. We will also be entering the second quarter earnings reporting season, which may give us an indication of any impact from tariffs at the corporate level. The US market has returned to a level pre-Liberation Day, when earnings growth expectations were set based on lower tariff levels, so is potentially vulnerable to any bad news on this front. As the US President's 'Big Beautiful Bill' passes the Senate, the impact on the fiscal side of the economy will also be under scrutiny, particularly by the bond markets. We would therefore expect potentially more volatility, but the behaviour of markets over the second quarter of this year has evidenced that remaining invested and as diversified globally as possible is a proven strategy at times of extreme uncertainty.

Rockhold Asset Management, with contributions from 7IM, Marlborough and LGT, July 2025

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