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Market Commentary

Equity markets made some progress overall in the month of June and many reached new highs against a background of conflict which prompted particular volatility in the oil price. Bond markets were stable in spite of concerns over the high levels of government debt. The broader outlook remains encouraging with modest growth and inflation and with company profits robust.

The tariff wars prompted by the April pronouncement of President Trump lingered, with the temporary reprieve for most countries that underpinned the market recovery due to expire on 8th July although that may be deferred. The US doubled its 25% levy on imports of aluminium and steel, although it was unchanged for the UK following its trade agreement. The US and China also reached an agreement of sorts after talks in London. There may be some further pressure on the pharmaceutical industry, whose executives are unpopular in the US (rating lower than estate agents) given the high price of drugs, which the Trump administration sought to make no more expensive than in other rich-world countries. The distortion to economic patterns was evident if likely to persist; for example, China increased substantially its exports to countries other than the US, to which its exports were down by 35% in May after the fall of a fifth in April.

Markets remained concerned over the high level of government debt, as well as the higher cost of servicing such debt, although yields were lower in the month. In the US the total rose by $316bn in May such that the total deficit for 2025 to date was up to $1.36tn. The Trump bill which might add $3.3 trillion to the total debt over ten years was debated in the Senate. The deteriorating appeal of American assets given policy changes and the threat of a high level of debt was reflected in the currency as the US$ suffered its weakest first half of the year since 1973, falling by 10.4% against a basket of currencies of its trading partners.

The economic outlook has seen the impact of trade disruption and softer consumer demand. The World Bank revised its level of projected growth to 2.3% from the 2.7% it anticipated in January. The OECD reduced its forecast for global growth to 2.9% in 2025 and again in 2026, under 3% for the first time since the pandemic in 2020; the US was expected to expand at a substantially lower level of 1.6% after the 2.8% in 2024. The US Federal Reserve reduced its own forecast for the US economy to growth of 1.4% and it anticipated an increase in unemployment from 4.2% to 4.5%. The payroll numbers suggested a softer jobs market.

In the UK retail sales were down by 2.7% in May, the weakest since 2023; the economy has struggled after the strong reported first quarter of the year, continuing a pattern in recent years.

In the US the consumer price index (CPI) rose slightly in May to 2.4% from the 2.3% in April, with the core rate unchanged at 2.8%; the key Personal Consumption Expenditure (PCE) price index rose at an annualised 2.3% in May after 2.2% in April, while the Federal Reserve estimated it would reach 3% in 2025. In the UK the CPI was at 3.4% in May given high food costs, little changed on the 3.5% in April, which was corrected over an error on vehicle excise duties. In the eurozone the rate of consumer price inflation in May was below the central bank target of 2% for the first time since September 2024, at 1.9% as against 2.2% in April.

The European Central Bank cut its interest rate by 25 basis points for the eighth time, although its president Christine Lagarde indicated that there was limited scope for further reductions, with markets anticipating a final such cut from 2% to 1.75%. The Bank of England committee voted by six votes to three to hold its interest rate at 4.25% rather than to cut again by 25 basis points as the minority wanted, with markets expecting that move to come in August given the indication of a softer jobs market and limited growth. The US Federal Reserve kept its policy on hold and provided few pointers to its future approach as it evaluated the uncertain outlook; its chairman Jay Powell remained under considerable pressure from the administration to cut rates faster and may yet be replaced. The Bank of Japan rate was unchanged after its latest meeting. The Bank of Switzerland reduced its rate by 25 basis points, taking it to zero once again, the first central bank to do so since the rise in rates in 2022; a notably strong currency has reduced the price of imports.

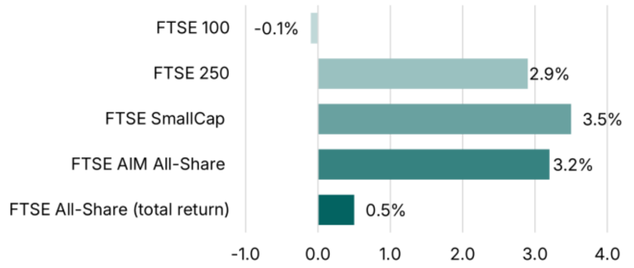
The oil price swung sharply, although its spike on the hostilities between Iran and Israel took it back to the level at the start of the year. NATO countries held a summit at which they committed to spend 5% of GDP on defence, including protecting infrastructure, by 2035. In Japan the ruling party performed poorly in local elections in Tokyo and might come under further pressure in the elections for the Upper House on 20th July. Ukraine made a bold attack on Russian airfields as peace talks proved short-lived.

Company profits remained robust, notably in the technology sector in the US, where businesses are expected to absorb much of the impact of higher tariffs rather than increasing prices to consumers.

United Kingdom

In the UK the FTSE 100 index was off by 0.1% in the month at 8761 if still up 7.2% in the first half of 2025. The FTSE 250 index of mid-sized companies and the FTSE SmallCap index were up by 2.9% and 3.5% respectively; the FTSE AIM All-Share index was 3.2% higher.

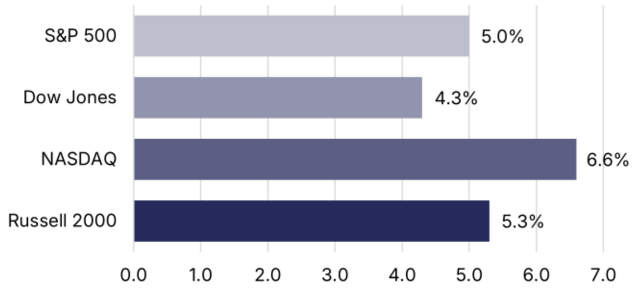
The total return for the FTSE All-Share index including income was 0.5% in the period.



United States

In the US the S&P 500 index was up by 5% in the month and the Dow Jones Industrials index was 4.3% higher, while the technology-oriented NASDAQ index again did well with a gain of 6.6%.

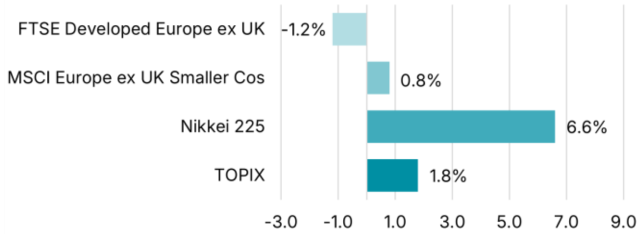
The Russell 2000 index of smaller companies was up by 5.3%.



Europe & Japan

In Europe the FTSE Developed Europe ex UK index (which we now reference in place of the Eurofirst 300) was down by 1.2% over the month, when all the major markets saw a small decline after a strong start to the year; the MSCI Europe ex UK Smaller Companies Index was up by 0.8% by contrast.

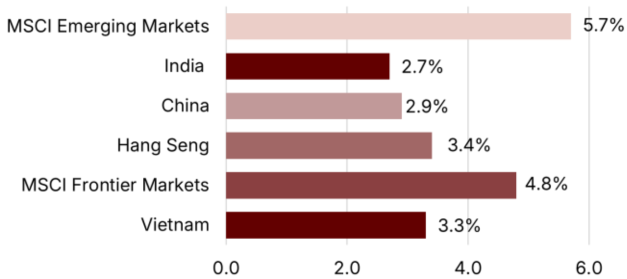
In Japan the Nikkei 225 index was up by 6.6% and the TOPIX index by a more modest 1.8%.



Emerging Markets

The MSCI Emerging Markets index in US$ rose by 5.7% in the month, helped by the further gain in the Korean market of 13.9% while the Indian market was 2.7% higher; the Shanghai index rose by 2.9% while the Hang Seng index in Hong Kong was up by 3.4%.

The MSCI Frontier Markets index was 4.8% higher and the Vietnamese market rose 3.3%.



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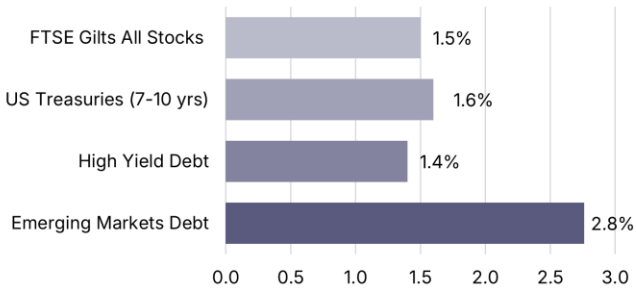
Bond Markets

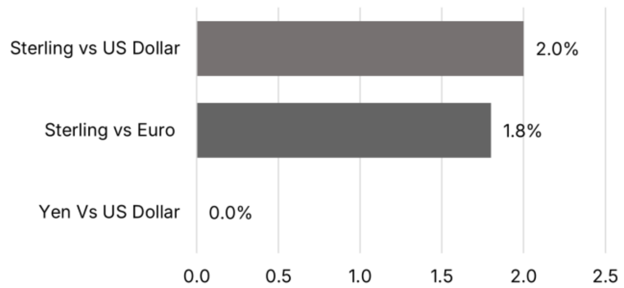
In bond markets the UK 10-year gilt yield fell from 4.65% to 4.49% and the total return for the FTSE Gilts All Stocks index in the month was 1.5%. In the US the ten-year yield dropped from 4.40% to 4.23% and in Germany the 10-year bund yield rose from 2.50% to 2.61%.

There were positive returns in the major bond markets aside from eurozone sovereign debt, with the best coming from emerging market local debt.



Currencies

Sterling was up by a further 2% against the weak US$ to close the month at a rate of $1.37:£, while against the euro Sterling softened by 1.8% in the month to end at a rate of €1.17:£. The Japanese yen was barely changed against the US$ at ¥144:$.



Commodities

The price of Brent crude oil ended the month 6.3% higher at a level of $68 per barrel. The gold price was up by a modest 0.4% at $3303 per troy ounce.

The prices of major metals were all higher in the month, notably platinum, with the bellwether copper up by 7.5%, while the main agricultural commodities were mostly lower, with wheat seeing a fall of 1.8%.