VINTAGE asset management

Market Commentary

Equity markets made further progress overall in July in what was a quieter month and several reached new highs, including the UK. Bond markets remained calm as concerns over the high levels of government debt faded even as the debt increased. The broader outlook remains encouraging with modest economic growth and inflation as well as some reassuringly resilient company profits, although markets are likely to consolidate and may be prone to bouts of volatility.

The tariff wars maintained their prominence. President Trump was some way short of his promised ninety deals in the ninety days following the pause of reciprocal tariffs, although the US did reach agreement, if not in detail, with the European Union, Japan and the UK as well as Indonesia, the Philippines and Vietnam. For those that did not do deals there was a risk of higher levies from 1st August. Yale University's Budget Lab estimated that the effective tariff rate for imports into the US was now 17.3%, the highest level since 1935. The EU deal was for a level of 15% which some found painful, although for now the details (including on wine, champagne and cognac, with a third of France's €12.1bn of alcoholic drinks exports going to the US) are not clear. For Japan the agreement was also for 15%, with a more challenging 50% on steel and aluminium and a reduced 12.5% rate on imports of cars. Trump announced a 25% tariff for India with the threat of an additional levy given the country's imports from Russia of arms and energy, although the position was confused as negotiations continued. For Brazil the decision was for 50%, complicated by Trump's perception of the trial of the former President Jair Bolsonaro, a Trump ally who was accused of orchestrating a coup attempt after losing the 2022 elections.

The economic outlook has remained broadly encouraging, in part as the impact of the trade wars may be lower than first feared. The softer US$, which in the first half of the year was down by 10.4% against a basket of currencies of its trading partners although it rallied in July, was a factor too in the IMF raising its estimate for global growth to 3% for 2025 from the 2.8% it expected in April when the overall tariff rate was estimated at 24%; growth had been 3.4% in 2024 and was 3.7% on average before the pandemic in 2020. The uncertainty and some persistent inflation have contributed to softer consumer demand, which the US Federal Reserve noted was the dominant factor on a slower US economy - the latest data showed it had grown at an annualised rate of 3% in the second quarter of the year after a contraction of 0.5% in the first, with the numbers distorted by the rush to import before potential tariffs, in the first quarter, followed by a drop in the second. For Japan the higher levies on exports to the US were forecast to reduce economic growth by 25 basis points.

In the US the consumer price index (CPI) rose in June to an annualised level of 2.7% from 2.4% in April, which was the highest level since February; the key Personal Consumption Expenditure (PCE) price index rose by 2.6% on the prior year, which was more than expected and up on the 2.3% for May. In the UK the CPI was up further to 3.6% for June from 3.4% in May given persistently high food costs, which the British Retail Consortium reported as being up 4%. In the eurozone the rate of consumer price inflation in June was at the central bank target of 2% as against 1.9% in May; the European Central Bank (ECB) forecast that inflation would average 1.6% in 2026 given the impact of a stronger euro and lower energy prices, while a surge in Chinese imports avoiding the US market might also force prices lower. In Japan the rate of inflation eased to 3.3% in June from 3.5% the previous month.

The US Federal Reserve kept its policy on hold in its meeting in the month, in spite of signs of a cooling economy and the considerable pressure from the administration on its chairman Jay Powell, which included a presidential visit to the disputed $2.5bn refurbishment of the bank's premises. Two Fed governors voted against the decision, which was the first such split since 1993. The ECB held its interest rate as expected following a sequence of cuts, with markets anticipating a final cut from 2% to 1.75%. The Bank of England interest rate has been at 4.25% with a high probability of a cut to come in August.

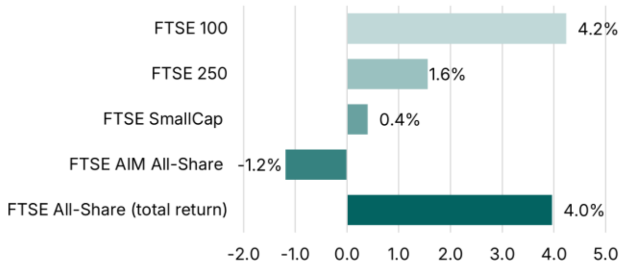
In Japan Shigeru Ishiba was expected to announce his resignation as prime minister by the end of August after the election on 20th July saw his party lose its majority in the upper house too. Russia came under pressure from the US to reach a ceasefire over Ukraine, as did Thailand and Cambodia after their military clash which followed a simmering dispute.

Company profits remained robust, including in the technology sector in the US where AI is a notable factor. Procter & Gamble indicated that it would put up prices rather than just absorb the impact of higher tariffs. Dividend payments have been strong in Continental Europe, with a 10% year-on-year increase, although the distributions from UK companies were down 1.4% in the second quarter of 2025; unfavourable exchange rate effects and a reduction in one-off special dividends have been factors. There might yet be pressure in the private sector, both for credit and equity; in the first half of the year private equity firms sold $41bn of assets from one of their funds to another, representing almost a fifth of total sales and for some up 60% on the prior year.

United Kingdom

The FTSE 100 index was up by 4.2% over the month to 9133. The FTSE 250 index of mid-sized companies and the FTSE SmallCap index were up by 1.6% and 0.4% respectively while the FTSE AIM All-Share index ended July down 1.2%.

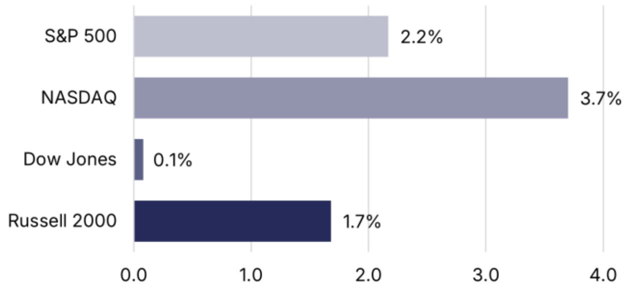
The total return for the FTSE All-Share index, including income, was 4% in the period.



United States

In the US the S&P 500 index was up by 2.2% in the month and the technology-oriented NASDAQ index did well with a gain of 3.7%, whilst the Dow Jones Industrials index only rose by 0.1%.

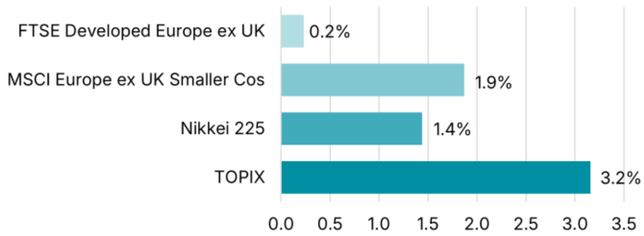
The Russell 2000 index of smaller companies was up by 1.7%.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 0.2% over the month, when the Italian and Spanish markets did better than those in France and Germany. The MSCI Europe ex UK Smaller Companies Index was up by 1.9%.

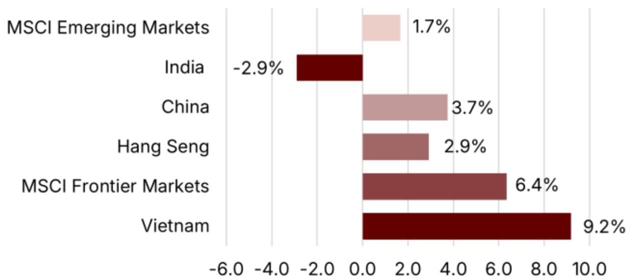
In Japan the Nikkei 225 index was up by 1.4% and the TOPIX index by a further 3.2% in the month.



Emerging Markets

The MSCI Emerging Markets index in US$ rose by 1.7% in the month, helped by further gains in the Korean market of 5.7% although the Brazilian and Indian markets were down 4.2% and 2.9% respectively; the Shanghai index rose by 3.7% while the Hang Seng index in Hong Kong was up by 2.9%.

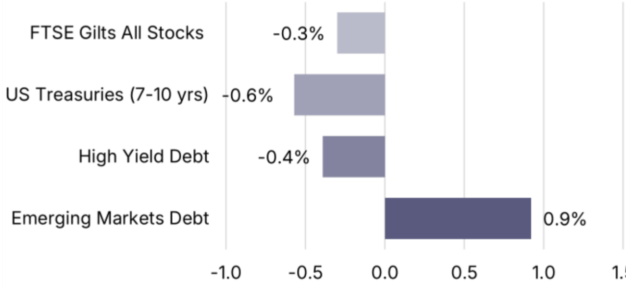
The MSCI Frontier Markets index was 6.4% higher and the Vietnamese market gained by 9.2%.



Bond Markets

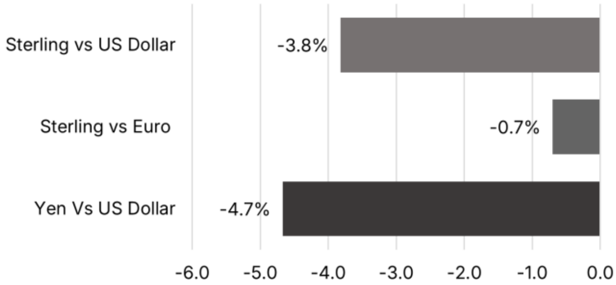
In bond markets the UK 10-year gilt yield rose from 4.49% to 4.57% and the total return for the FTSE Gilts All Stocks index in the month was -0.3%. In the US the ten-year yield was up from 4.23% to 4.37% and in Germany the 10-year bund yield rose from 2.61 % to 2.70%.

There were negative returns in the major bond markets aside from emerging market in US$ terms.



Currencies

Sterling was down by 3.8% against a stronger US$ in the month, ending at a rate of $1.32:£, while against the euro Sterling was 0.7% lower to end at a rate of €1.16:£. The US$ rose by 4.7% against the Japanese yen to a level of ¥151:$.



Commodities

The price of Brent crude oil ended the month up by 7% at a level of $73 per barrel. The price of gold was 0.4% lower at $3290 per troy ounce.

The main metals were mixed in the month, with the bellwether copper down 14.3%, and the main agricultural commodities were mostly lower, with wheat seeing a fall of 2.8%.