

# Investment Views July 2025



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# From Disbelief to Relief

Fixed Income:

# Tariff Shock Fades, Powell Holds the Line

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# Back On Track

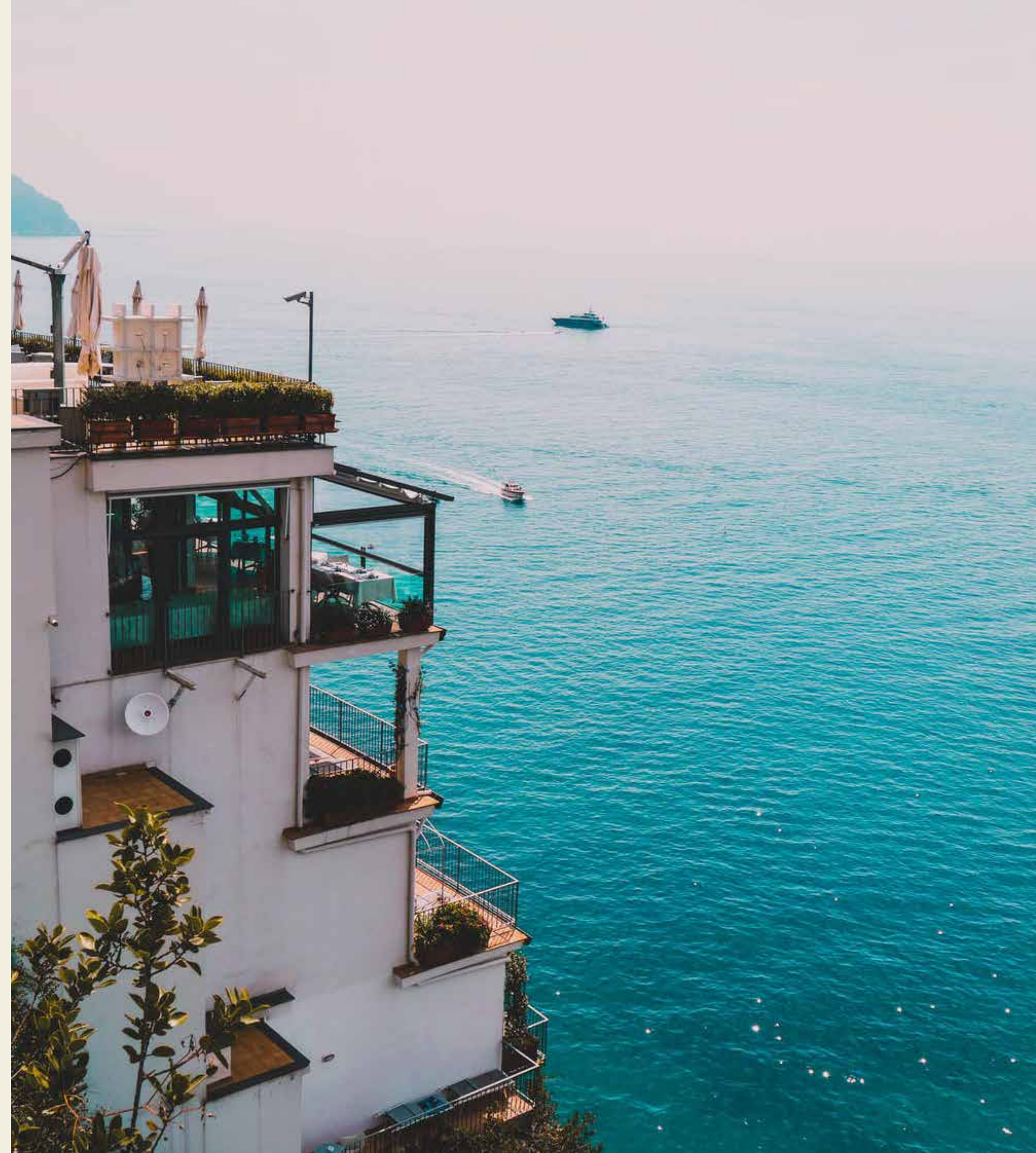


# From Disbelief to Relief

- Strong recovery from the tariff shock
- European equities benefit from German spending
- Corporate earnings resilient

The second quarter began in dramatic fashion. On a now infamous day coined Liberation Day, the US announced a range of tariffs on trading partners ranging from 10% to 54%. Financial markets were braced for tariffs to be imposed, but the scale was broader and higher than expected. Equity markets wasted no time reacting to the negative news, with the S&P 500 falling 11% in the two days following the announcement.

Trade tariffs can be thought of as a tax that is collected at the point of import and paid by the importer. However, there is a difference between who technically pays the tax and what economists refer to as the tax incidence, or who in practice pays the tax. This can include the exporter, the importer, other producers along the supply chain,





## STRATEGY

or the underlying consumer. The assumption made by US trade policy makers was that the costs of the tariffs would fall mainly on other countries. This is possible through US dollar appreciation or pressuring exporters to lower their prices, a combination that would insulate US businesses and consumers from higher costs. Markets were very sceptical of this assumption, and the sharp fall in US equities reflects that. Furthermore, US bond yields rose (prices fell) and the US dollar fell.

Investors have since been closely watching the incoming inflation data, but there is so far only limited evidence that tariff costs are being passed onto consumers. However, it may well be that these costs are yet to work their way through the system. This is a factor complicating the outlook for interest rates, which is a challenge for the Federal Reserve.

These sharp market moves prompted a rapid reconsideration from the US administration. One week after the initial announcement, President Trump announced that tariffs would be paused for 90 days. While tariffs were actually increased on China at this point, markets saw this as a catalyst for a swift recovery. The subsequent reduction in tariffs on China provided a further catalyst for equities.

While the trade war itself is a negative for global growth, all things are not equal when it comes to policy actions. With the US demanding Europe pays more for their own security by increasing defense spending, we have seen Europe respond decisively. After years of carefully managing government debt levels, Germany approved an amendment that excluded defence spending above 1% of GDP from their borrowing limit. They also announced an additional €500 billion for additional infrastructure spending.

Equity markets responded favourably to the announcement, with European industrials and utilities benefitting. Industrial companies are heavily exposed to global trade, so this provided a helpful offset to tariff risks. Whether higher government spending is good or







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bad for financial markets very much depends on the context and starting position. For Germany, they have the ability to borrow more given their comparatively low debt levels and the spending is seen as a positive for economic growth and consequently both European equities and the Euro rallied.

Strong first quarter corporate earnings were also a catalyst that helped equities to recover. This was especially the case for Technology companies, where investors had been questioning the sustainability of, and heavy spending, in Artificial Intelligence (AI). Markets were reassured that demand for AI-related computing power is strong and technology companies should therefore be able to convert their capital investments into profits relatively quickly. Stocks exposed to AI and the datacentre build-out theme recovered strongly.

Within Alternatives, gold continued its strong start to the year through the middle of April, before stabilising in May and June. Gold performed strongly during the tariff shock, then did not fall meaningfully when better tariff news arrived. Gold returned 5.8% in the second quarter and 25.9% for the first six months of the year. In May, we trimmed our exposure to gold given the strong performance, which had seen the precious metal drift above target allocations in portfolios with exposure to Alternative assets. The geopolitical backdrop remains supportive, and we have seen central banks step in and buy when the price falls. However, following such a strong period of performance, we trimmed our holding back to take some profits and manage risk.

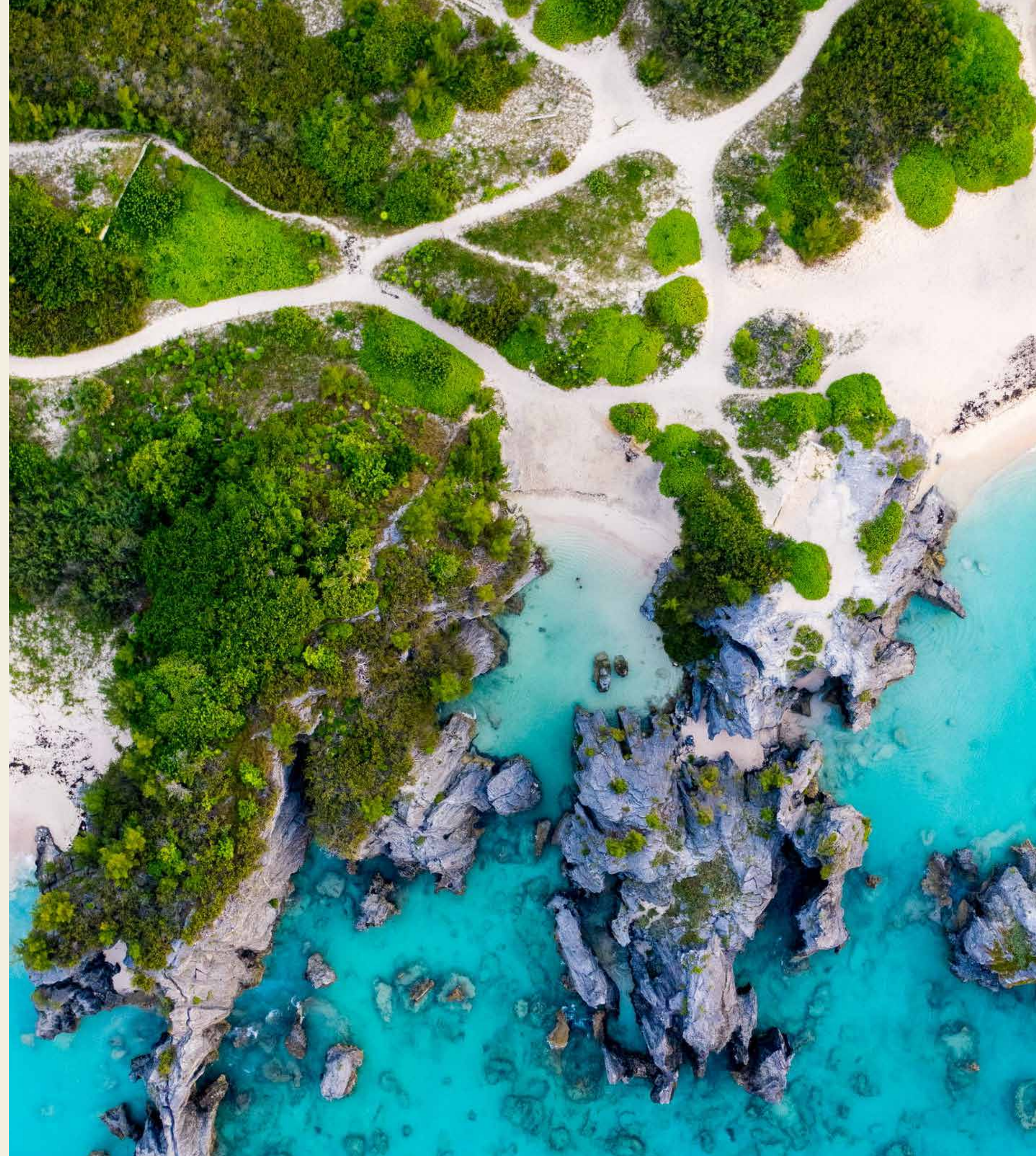


# Tariff Shock Fades, Powell Holds the Line

- Powell holds steady despite softer economic data
- Short-dated yields fall, long-dated held firm on supply fears
- Gold hits record on tensions, oil spike fades

The second quarter was marked by policy surprises, geopolitical tensions, and a volatile market backdrop. April opened with Washington's sudden "Liberation Day" tariff volley, an event that jarred confidence, flattened growth expectations and triggered an immediate flight to safety. Front-end Treasury yields fell, curves steepened, credit spreads widened, and haven currencies rallied. The geopolitical flare-up in mid-June, when Israel and Iran exchanged direct strikes, led to several tense sessions. Oil prices surged and gold set a fresh record high.

While front-end rates rallied, the long-end held steady as term premium (additional yield for taking duration risk), which had risen sharply in April, consolidated rather than retraced. Once a ceasefire was brokered and because energy shipping lanes





remained opened, risk appetite recovered quickly. Hedges were unwound, risk assets powered to new highs, volatility fell, and credit spreads tightened meaningfully into quarter end.

Throughout the drama, the Federal Reserve remained steady. Monetary policy was held unchanged, balance sheet runoff continued, and officials reiterated a data-dependent stance. Market pricing for two 25bps cuts, beginning in September, firmed modestly. Two-year Treasury yields ended the quarter 16bps lower at 3.72%, while the 30-year yield rose 20bps to 4.78%, as supply concerns and a pickup in the nominal growth outlook offset easing expectations. The US yield curve steepened materially, with the spread between the 2-year and 10-year bonds rising to its highest level in over three years. US inflation expectations eased, pulled lower by retreating commodity prices and softening global input costs.

Credit markets mirrored the volatility in equities and ended the quarter on firm footing. We entered the quarter underweight credit risk in our US dollar bond funds, which provided ballast during the April sell-off. However, as spreads widened and liquidity conditions reset in April, we opportunistically added exposure to investment-grade credit at more attractive levels. Late in June, we started to rotate some of that exposure into short-dated US high yield, where carry is compelling and duration risk limited, funded by trimming those earlier additions. As markets normalized and spreads retraced aggressively in May and June, we scaled back and returned to a neutral credit stance by quarter end. While the probability of an easier Fed path has increased and survey measures of US economic activity continue to improve, we believe less attractive valuations and deteriorating seasonal factors heading into the late summer period now balance those positives.

Commodities demonstrated how geopolitical shocks can burn hot and fade quickly. Despite the June oil spike, crude finished the quarter lower, alongside declines in natural gas. Gold, by contrast, held most of its gains and ended just below its record high, a reflection of both ongoing event risk and waning confidence in

# 16bps

The basis points that  
Two-year Treasury yields  
ended the quarter lower

fiat money stability. The broader commodity complex softened, suggesting that while risk sentiment improved, the rally has not spilled over into a full reflation theme. The continued slide in oil prices may be an early warning that global activity is less robust than markets imply, although it is undoubtedly welcome news for the US consumer and a further dampener on inflation pressures across both the US and Europe.

Currency markets reflected a deeper structural shift. The US dollar did not rally during the April or June risk-off episodes and instead posted its sixth consecutive monthly decline. This was an unusual outcome during periods of geopolitical stress, which have historically been positive for the US dollar. Market participants increasingly questioned the dollar's reserve status amid rising deficits and unilateral trade actions. The Swiss franc and Japanese yen outperformed on haven demand, while the euro and sterling advanced on stronger domestic data and shifting central bank expectations.

While a blend of fundamental, monetary, valuation, and sentiment signals keeps us at the higher end of our neutral risk tolerance - flexible enough to add to high-conviction views, yet still cautious heading into late-cycle seasonality and persistent geopolitical risk. Our US dollar bond funds continue to run a modest duration overweight, with longs in US, UK and Norwegian rates, where momentum and real yields remain favourable.

Looking ahead, the key question is whether the orderly yield curve steepening morphs into a disorderly long-end backup as fiscal concerns mount. If current inflation and economic trends continue to weaken, the Fed appears on track to follow market pricing and deliver two rate cuts in 2025. However, if fiscal stimulus and rapid trade agreements lift sentiment and brighten the growth outlook, then the Fed is likely to remain on hold. In that scenario, Chair Powell may complete his term under some intense political pressure. For now, our combination of a modest tactical duration overweight and neutral credit risk is designed to earn income efficiently while preserving some flexibility to take advantage of opportunities from shifting economic and policy risks.

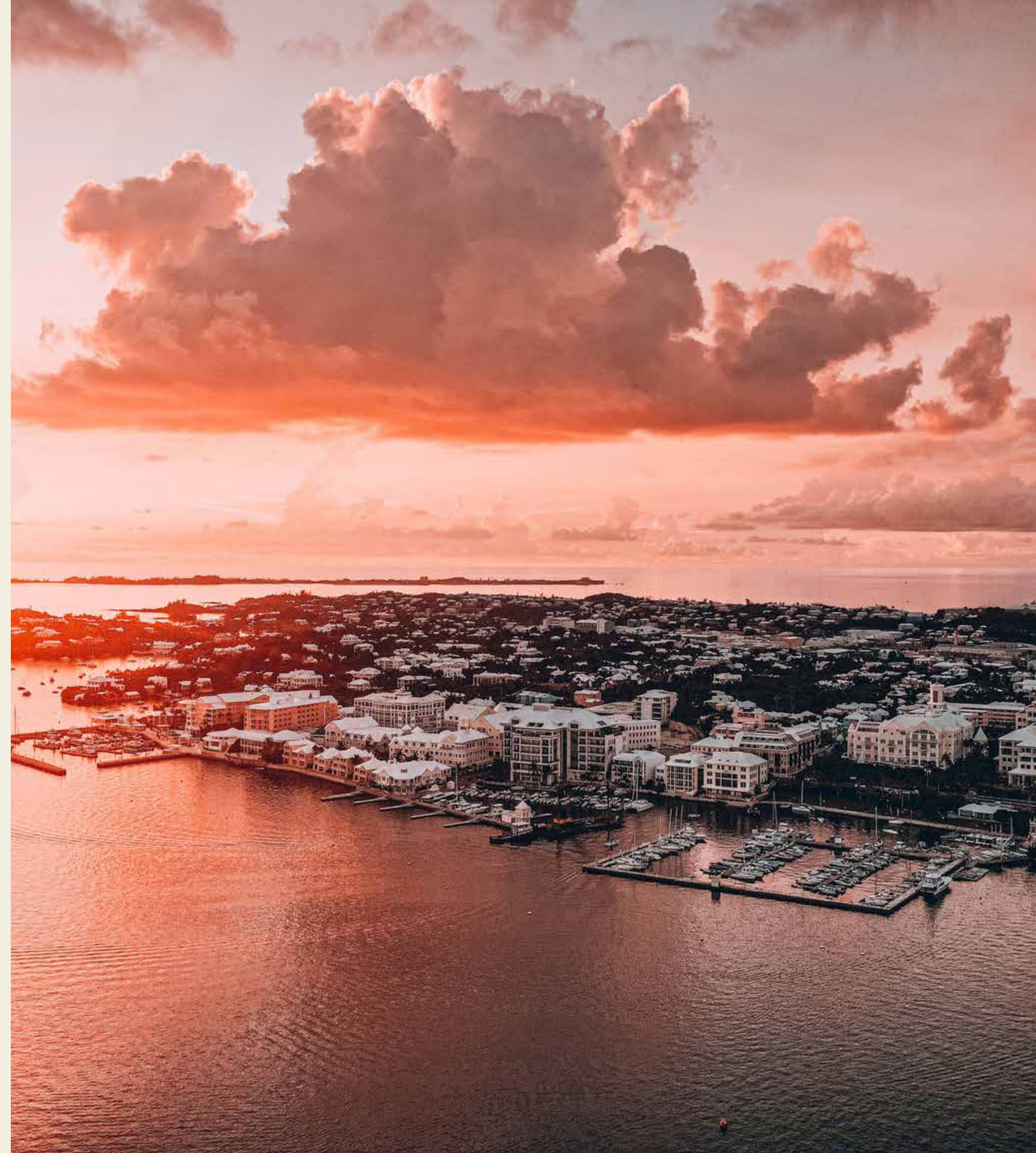


# Back On Track

- New highs for equity markets
- AI spending boom continues
- Technology sector driving earnings

The MSCI World Index had the best quarterly performance since December 2023, gaining 11.5% in US dollar terms. The best performing sector was Information Technology, returning 23.2%, after being the worst performing sector in the first quarter. Taking a step back, and thinking about the positive equity returns seen over the last two years led by technology stocks, it does feel that, despite the geopolitical uncertainty, equities are back on track.

In April, we saw a bout of elevated volatility. We experienced the fifth worst two-day percentage decline since World War II, followed by the highest one day return in nearly 17 years, followed by the longest winning streak in 20 years. Investors' mood turned sour post the tariffs announcement, with the equity markets selling off sharply. The US President then paused tariffs, sending the markets





shooting higher. Despite all the volatility, the MSCI World Index ended the month in the green and is now above pre “Liberation Day” levels and making new highs.

Interestingly, retail investors and hedge funds bought the dip, while long-only and macro fund managers remained cautious. Share buybacks rose markedly with companies pulling forward purchase plans to take advantage of the depressed share prices. Announced buybacks also rose sharply with the rolling three-month sum at a record high.

A key takeaway this quarter is that the AI/capital spending boom story is still intact. US technology stocks pulled back in the first quarter after the DeepSeek announcement caught investors off guard. Investors questioned whether the large sums of money invested in research and development really gave US companies an advantage in AI and whether that moat was durable or could AI be recreated at a fraction of the price. After much deliberation investors seems to have come to a consensus that there are no shortcuts.

Hyperscalers and large technology companies have reaffirmed their commitment to spending on AI and US technology stocks rebounded with Nvidia leading the pack and making new highs. Taking Meta as an example, the company recently increased its capex guidance for this year by 6-10% to \$64B-\$72B with most of it going towards AI. It is building out a 2+ gigawatt data centre in Louisiana, it has signed a 20-year deal with Constellation Energy, and has recently invested \$15 billion in Scale AI, a company that provides data-centric infrastructure to accelerate the development of AI applications.

The first quarter earnings season also demonstrated how these US technology companies are dominating the US equity markets. The seven largest names grew earnings by 28% in aggregate in the first quarter, far outstripping the 9% earnings growth achieved by the remaining 493 stocks in the S&P 500 index. Consensus forecasts

28%

The percentage that the seven largest names grew earnings by.

had suggested that the earnings growth gap should narrow as we head through the remainder of the year, however, the latest earnings revisions may indicate when it comes to AI the winner-takes-all theme continues.

Looking forward, we will keep a close eye on the second quarter US earnings season which starts mid-July. Earnings growth for the S&P 500 is expected to decelerate from the 12% in the first quarter to 4% in the second quarter, driven by an expected contraction in operating margins. As the effective US tariff rate moves higher, the earnings season should provide us with insight on how companies are dealing with the ever-changing tariff landscape. The companies with lower pricing power are more likely to swallow the cost of tariffs and are at higher risk of margin compression, however, surveys are pointing to more than 50% of companies passing through the additional costs to consumers. While earnings estimates have been revised downward, US companies have historically exceeded expectations. If this trend continues, it provides strong support for the equity market.





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# Global Asset Allocation

The chart below details our 6-12 month tactical investment strategy

	UNDERWEIGHT -	+ OVERWEIGHT
Asset Allocation	<div>EQUITIES (MODEST UNDERWEIGHT)\$</div>	<div>ALTERNATIVES (MODEST OVERWEIGHT)</div>
Fixed Income		<div>SHORT DURATION HIGH YIELD EMERGING MARKET DEBT INFLATION PROTECTION</div>
Equities Regional		<div>JAPAN EMERGING MARKETS EX CHINA</div>
Equities Sector	<div>CONSUMER DISCRETIONARY REAL ESTATE</div>	<div>UTILITIES</div>



