



INVESTMENT UPDATE

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Index	Level 30 June	Level 31 July	Change*
S&P 500	6205	6339	+2.2%
FTSE 100	8798	9132	+3.8%
Euro Stoxx 600	541	546	+0.9%
Nikkei 225	40487	41069	+1.4%
Shanghai	3444	3573	+3.8%
US 10 Yr Treasury Yield	4.22%	4.36%	+0.14
UK 10 Yr Gilt Yield	4.48%	4.57%	+0.09
Bund 10 Yr	2.59%	2.69%	+0.10

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

Overview

During July, we started to get some clarity about the level of tariffs that the rest of the world will be charged as countries scrambled to reach an agreement with the US government ahead of their 1st August deadline.

The US has now reached agreements with many of its significant trading partners and whilst significantly higher than pre-liberation day, the levels are often far lower than what was suggested by President Trump on 2 April. Ambiguities still exist, but this is something to be expected now under the new regime.

When deferring his tariff implementation, Trump had previously been dubbed a 'chicken', however, he may look more like a master negotiator now as Japan and Europe have since conceded to new deals, despite initial retaliation threats.



China is probably the one nation that can claim to have dug in, having quickly established that they had something the US badly needed: rare earth minerals. Indeed, the two countries are now embroiled in trade talks, with Trump sidelining Taiwan in order to ensure they go well.

The markets seem fairly sanguine about the impact of an effective US tariff rate of around 9% on the products they import and have breathed a sigh of relief that things aren't quite as bad as was originally suggested – the tariff glass is half full, rather than half empty.

In July, we saw decent returns from Asia and the US. The FTSE 100 also had a good month, perhaps as many recognise that the UK has gotten off relatively lightly on tariff levels. The softer pound also helped, improving returns for sterling investors by as much as 3%.

Bond markets were fairly quiet, but as longer-term yields continued to rise, shorter dated bonds and high yield corporates performed better.

Despite the different forces that are driving markets, the net result was another positive month for portfolios.

US

The S&P 500 continued to reach new highs, driven once again by large tech-related stocks, aided by strong earnings reports from the likes of Microsoft and Alphabet. Indeed, the so-called Magnificent 7 stocks, of which these companies are two, now represent over 35% of the index and this increases question marks around the concentration risk in the index.

Notwithstanding this, AI-related spending remains strong, and US companies are, for those which export at least, benefitting from the weaker dollar, improving earnings from overseas countries. Earnings continue to be strong generally, with no sign of a significant negative impact from the high level of tariffs now in place, although inventories may have been built up ahead of these, thus dampening the effect. This effect was also reflected in Q2 US GDP, which came in at 3% - well above its international peers.

Trump's One Big Beautiful Bill passed into legislation and, despite the unfunded tax cuts it presented, long term government bond yields, although elevated, have declined from their highs. Some commentators have suggested that should the AI boom lead to increased US productivity, the impact of the cuts on the federal deficit will be more limited. However, that is something that we'll only discover over the long-term.

The Federal Reserve once again risked Trump's ire, as they kept interest rates on hold due to the uncertainty around the impact of tariffs and this caused the dollar to rally over 3%, which lifted returns for sterling investors, as mentioned previously.

UK

The UK main market continued to set new highs, with the FTSE 100 surpassing the 9000 level for the first time. Despite a raft of data that suggested the UK economy is still sluggish, this reminds us that the FTSE 100 is full of international businesses, rather than domestic ones, with most of the constituent companies'



earnings coming from overseas activities. So, the relief over tariffs, and possibly the UK's low relative tariff rate and coupled with a weaker sterling, help to explain the index's strong performance of late.

UK business activity slowed as tax increases on employers took effect, which was reflected in hiring levels as companies made cuts due to higher labour costs. Inflation also remains 'sticky' at 3.6%, suggesting these higher costs were being passed onto consumers. This poses a problem for the Bank of England as it considers cutting interest rates. Current higher gilt yields, also create a problem for the Chancellor, as the higher funding costs increasingly create a hole in her budget based on her fiscal rules. It now looks increasingly likely that personal taxes will have to rise in the Autumn Statement.

Europe

Once again, European markets were subdued, as the European Union (EU) and the US announced a deal framework including a 15% tariff cap, plus commitments from the EU to boost US investment and energy purchases totalling around \$600 billion. The deal avoided any retaliatory action by the EU, although attracted much negative comment from manufacturing-heavy nations, as the deal suggested that the EU had given in to US demands and, as such, was a bad deal for the continent, particularly German industry.

The European Central Bank (ECB) also held rates steady, with President Christine Lagarde signalling that the 2% deposit rate reached in June may well mark the end of the easing cycle. The ECB may still cut later this year, but some economists expect the next move will be a hike in late 2026.

Japan

Japanese equities reacted positively to the tariff deal that was struck with the US, which lowered the headline tariff level from the threatened 25% to 'only' 15% - clearly a case of the glass being regarded as half full. As one of the country's biggest export markets, it is of little surprise that any deal with the US was considered better than none at all.

The Bank of Japan (BOJ) held rates steady, but its governor indicated that inflation would be higher than previously forecast, leading to expectations that interest rates may well go up. The yen had been weakening against the dollar until this point, reflecting the dollar's resurgence generally, but it rallied following the BOJ's governors' comments. One benefit of the higher inflationary environment is that tax revenue is increasing as a result of higher wages and prices, so the country's large fiscal deficit is being reduced as a consequence.

On the political front, higher inflation levels proved bad news for the ruling LDP party, as they faced a backlash against higher prices, losing control of the Upper House in the country's election. The resulting turmoil has led to speculation about the future for Prime Minister Shigeru Ishiba.

Asia and Emerging Markets

Broader Asian markets experienced another month of strong returns, following increasing relief over tariffs as well as the continuation of the AI spending boom. Taiwan, Korea, Hong Kong and all delivered returns in excess of 5% as a consequence. Thailand was the standout performer with a 'relief' rally of over 14%, as the



country saw a de-escalation of its conflict with neighbour Cambodia. However, this followed previously steep declines and the market is still in negative territory year to date.

China and the US continue to negotiate a trade deal (with the period for negotiation now extended until November). His rebuff of Taiwan's president, who was refused entry into the US, suggests that he is of a mind to ensure these negotiations go well.

Summary

Despite the decreased sensitivity of markets to tariff news now that many agreements are in place, we will be alert to any notable impact on global economies as time goes on. Companies will continue to report Q2 earnings throughout August. Investors will be watching closely to see if there is any impact from the recently implemented tariffs on earnings, although it is likely we will not see any for a few more months. Whilst the likes of Nvidia, Microsoft, Alphabet et al are priced to perfection, they are global companies whose products customers will continue to use, so their business models remain strong even in the face of tariffs. The question is more about whether valuation expansion in this sector will continue. Meanwhile, other sectors such as financials, continue to perform strongly, which suggests we won't always need to rely on a small number of stocks to deliver returns, so diversification remains important, even as these companies perform strongly once again.

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





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