

Hymans Robertson Investment Services (HRIS)

Market digest

July 2025

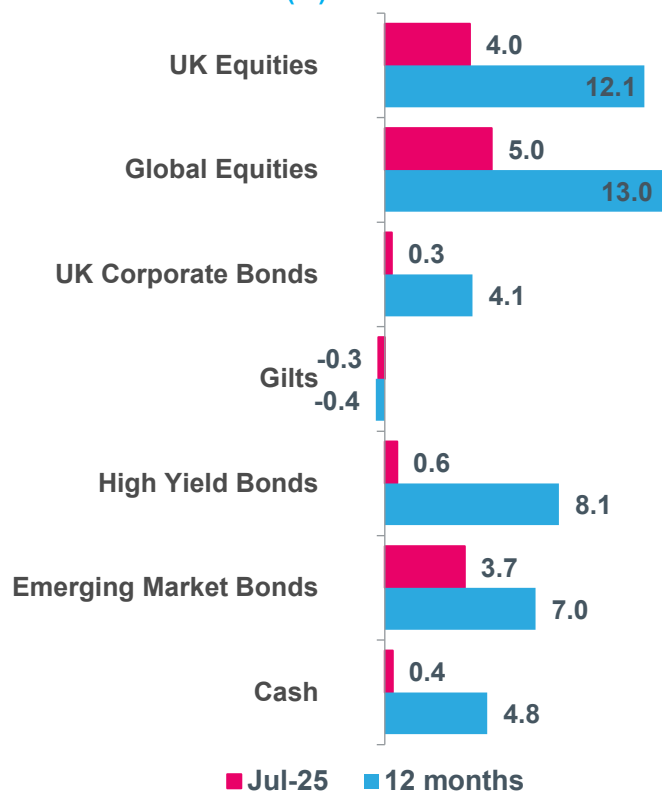
Monthly highlights

- Equity markets rebounded in July, supported by trade agreements and strong tech earnings.
- Bond markets were mixed, as fiscal concerns pushed yields higher, though emerging market bonds benefited from tariff clarity.
- On page 3 of this document, we provide market commentary to cover the 12 months to 30 June 2025.

Market summary

- Our model portfolios typically invest in a combination of the asset classes shown in the left-hand chart.
- Markets continued their recovery in July, rebounding further from the tariff-induced volatility seen in early April. Investor sentiment strengthened following the announcement of several trade agreements between the US and key global partners, which brought greater clarity over tariff policy and helped restore confidence (more on tariffs below).
- US equities posted strong gains, led by robust earnings from major tech firms as well as a stronger dollar. UK equities also performed well, thanks to gains from oil & gas companies.
- In contrast, bond markets were more subdued. The passing of Trump's "One Big Beautiful Bill" in the US, and a watering down of welfare reform in the UK, added to fiscal concerns on both sides of the Atlantic. This nudged bond yields higher (bond prices fall as yields rise).
- Emerging market bonds generated positive performance in July, owing partly to greater clarity on tariff positions.
- With equities outperforming bonds in July, higher risk portfolios typically performed better than lower risk portfolios, over the period.

Asset class returns (%)



Source: Morningstar. Figures to 31 July 2025. Returns in sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Outlook and topical market themes

- The Bank of England cut rates to 4.0% in August, but elevated inflation and stabilising growth may prompt the MPC to consider pausing further cuts.
- Four months after 'Liberation Day', the average effective tariff rate paid by U.S. importers has jumped from 3% to 19%, with further increases still possible. While the rate itself is becoming clearer, the broader macroeconomic impact remains uncertain.

The Bank of England may soon be considering a pause in interest rate cuts

The Bank of England's Monetary Policy Committee (MPC) chose to cut interest rates again in August, lowering the Bank Rate to 4.0%, the fifth reduction since August 2024. This move aligns with the MPC's stated approach of being "gradual and careful," as the UK economy continues to experience above-target inflation. After focusing this year so far on the pace of cuts, investors may now turn to the next question - when will the rate cutting process end?

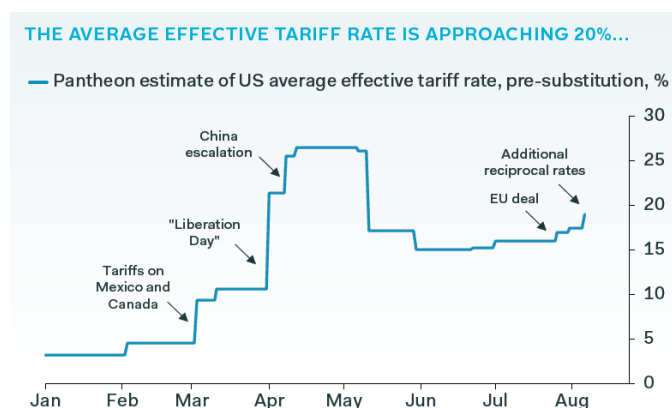
Inflation remains elevated, with consumer price inflation reaching 3.6% in June. As a result, household inflation expectations have risen sharply recently, according to a YouGov survey, which increases the risk of stronger wage demands reinforcing price rises. While tariff front-loading distorted Q2 economic growth figures, the broader economic picture for the year appears more stable. These factors may persuade some MPC members that the rate easing cycle is nearing its conclusion. However, others may argue for further cuts, citing a weakening labour market, potential Autumn tax hikes, and slowing global growth due to trade tensions. Regardless of the path forward, we believe our bond holdings will play an important role in our lower and medium risk portfolios given they provide a reliable income stream and should offer a degree of protection in the event of economic slowing/accelerated base rate cutting.

Are we nearing the end of tariff uncertainty?

Four months on from 'Liberation Day', we appear to finally be getting greater clarity on the tariff rates for many of the US's key trading partners. Investor confidence has improved, helped by the lack of retaliation or escalation into a broader trade war. However, the average effective tariff rate paid by US importers has surged by around 16 percentage points since the start of the year, according to Pantheon Macroeconomics, having risen from 3% to 19% (see chart below). There is also still a chance it increases further. While the rate itself is becoming clearer, the broader macroeconomic impact remains uncertain. Many businesses front-loaded imports in Q1 to avoid impending tariffs. There are also signs that firms have been absorbing tariffs within profit margins, possibly to avoid passing on what may be short-lived price increases. For now, markets seem to be over the initial shock that tariffs brought but the real impact on growth and inflation is yet to fully materialise. Being well diversified between and within assets classes (e.g. region and style) remains fundamental to our investment philosophy.

Chart of the month

US average effective tariff rate has climbed considerably despite trade agreements



Source: Pantheon Macroeconomics

The chart shows the US average effective tariff rate (AETR) i.e. the average actual tariff paid weighted by import. Although it has come down from the peak we saw in April, when China and the US kept escalating rates, it remains far higher than the level at the beginning of the year.

This chart doesn't include threats of further 'reciprocal' tariffs on the likes of Brazil, Switzerland and India so it may go higher still. On the other hand, over time, consumers and importers are likely to switch to lower tariff countries, which would lower the AETR.



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Annual market summary: covering the 12 months to 30 June 2025

The second half of 2024 focused more on the re-election of Donald Trump rather than how quickly central banks could and would cut rates. A close election was expected, but what we got was an emphatic victory for Trump. Markets quickly pivoted towards 'Trump trades' reflecting the expected winners and losers from Trump's expected policy agenda.

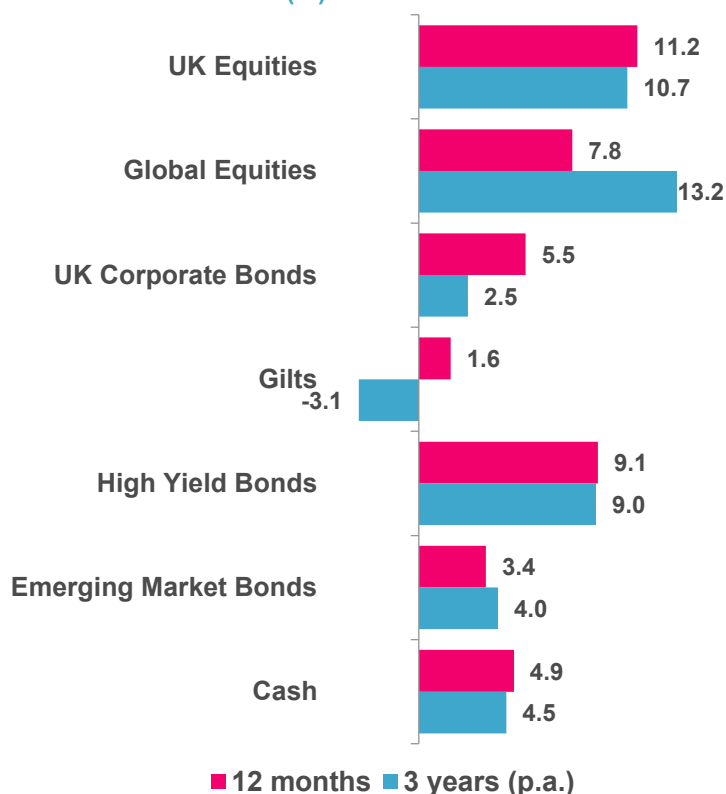
However, investors' early enthusiasm for President Trump's policy agenda started to wane in early 2025, and then completely evaporated, as Trump prioritised implementing heavy tariffs on trade partners, as opposed to working on the more market friendly policies such as tax cuts and deregulation. "Liberation Day" at the start of April further disrupted markets with no economy seemingly safe from Trump's tariffs. Postponement of the announced tariffs and indications of positive trade talks helped markets recover in May and June, but volatility persisted throughout the period.

Central banks started their path towards lower interest rates. The Bank of England cut by 1% over the period to 4.25%, as did the US Federal Reserve (to 4.5%). One difference is that the Federal Reserve stopped cutting rates after December and have adopted a more wait-and-see approach to assess the impact of tariffs, whereas the Bank of England has cut rates more steadily over the period.

Overall, the 12 months to June 2025 were positive for equity performance, despite the tariff driven volatility. The UK equity market ended the period as the top performing region, after the US market fell heavily in Q1 25.

Bond performance was strong across the different asset classes, buoyed by the falling interest rate environment. Heightened geopolitical uncertainty in June prompted investors to increase demand for safe-haven assets such as government bonds, increasing their price. Corporate bonds outperformed government bonds over the period with fundamentals still strong e.g. earnings growth forecasts. High yield bonds delivered even stronger 12 month returns as yields fell over the period (bond prices rose) and some emerging market bonds benefitted from a weakening of the US dollar.

Asset class returns (%)



Source: Morningstar. Figures to 30 June 2025. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.