

Hymans Robertson Investment Services (HRIS)

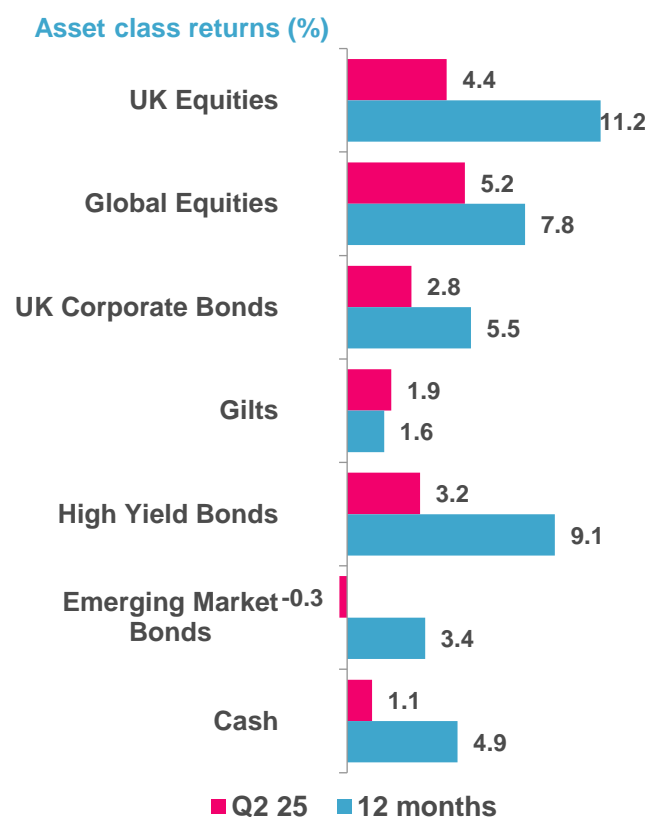
Market digest

June 2025

Quarterly highlights

- President Trump's tariff announcements shook equity and bond markets but postponements and trade negotiations led to a swift recovery
- Doubts over governments' abilities to manage increasing debt burdens exacerbated bond market volatility
- On page 3 of this document, we provide market commentary to cover the 12 months to 30 June 2025.

Market summary



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.

- Our model portfolios typically invest in a combination of the asset classes shown in the left-hand chart.
- Despite losses sustained in April, following President Trump's tariff announcements on "Liberation Day", equity markets recovered ending the quarter strongly. Postponement of the tariffs and trade negotiations led the equity market recovery.
- The Asia Pacific market was the best performing equity region over the quarter returning 11.8%, partly benefitting from increased exports as companies frontloaded in preparation for incoming tariffs. The UK and US equity markets underperformed the global market but still produced positive returns in a volatile quarter.
- Bonds also experienced a volatile quarter. Yields rose following "Liberation Day", but the later tariff postponements calmed investors and brought yields back down (bond prices rise as yields fall). However, concerns over US government borrowing crept up towards the end of the quarter by the narrow passing of Trump's "Big, Beautiful Bill" through Congress pushing US yields back higher.
- At a portfolio level, equities outperforming bonds resulted in higher risk portfolios performing better than lower risk portfolios, over the quarter.

Outlook and topical market themes

- Conflict in the Middle East escalated in June, impacting energy markets but the wider equity and bond markets had a subdued reaction.
- Markets are closely following the upcoming end to Jerome Powell's term as chair of the Federal Reserve, with speculation over when the successor will be announced, who it will be and what impact it will have on the Federal Reserve's credibility.

Middle East tensions rise, hitting oil markets

June saw an escalation of the conflict in the Middle East with Iran and Israel attacking each other as well as the direct involvement of the US, before a ceasefire on 24th June brought a degree of calm. Despite the clear humanitarian concerns of such conflict, reaction from broad equity and bond markets was muted. Markets focused on the uncertainty over how the conflict could affect global growth and inflation rather than direct exposure to Israel and Iran.

Energy markets were hit by the escalation, particularly Brent crude oil which rose to \$78 per barrel at its peak. This peak however came prior to the tensest moments of the conflict, demonstrating how it is often expectations of what could happen that drive markets. Investors kept a close eye on whether Iran would close the Strait of Hormuz which channels around 20% of the world's oil. If it had, a more severe market reaction could have ensued e.g. a more sustained increase in oil prices impacting inflation in countries such as the UK and US and their central bank's decision making. For now, there appears a modicum of calm, but this can change quickly.

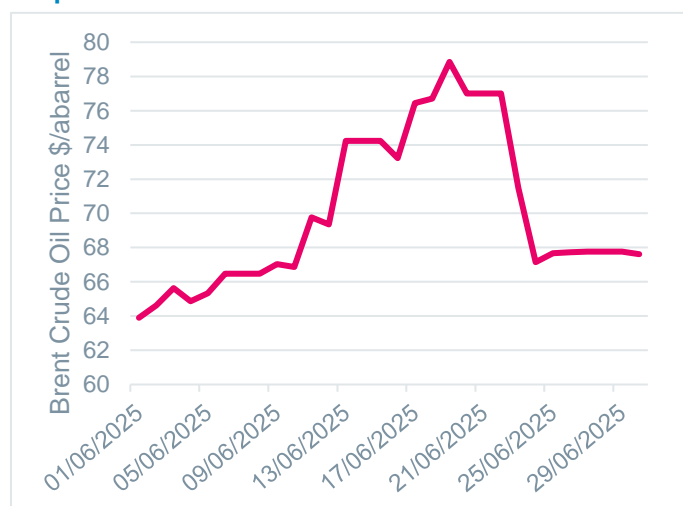
How long until the Federal Reserve becomes Powell-less?

Ongoing rumours over President Trump's desire to replace the chair of the Federal Reserve (Fed), Jerome Powell, have become louder over the past few weeks. In May, Trump fervently denied plans to remove Powell before his term ends in May 2026 but White House rhetoric and the President's social media posts since then have shown increased frustration at Powell and the Fed, which has held rates steady at the last four meetings.

It is unclear whether Trump could legally remove Powell as chair before May, but the idea of a "shadow" Fed chair has emerged. In this scenario the new Fed chair would be announced many months (rather than the standard 2 or 3) before they officially start which could cause investors to focus on any forward guidance given by the "shadow" Fed chair, rather than Powell. The Fed's credibility might be undermined if markets start following an individual who can provide their opinion on monetary policy with no limits, rather than the Fed itself.

Chart of the month

Oil prices react to escalation of Middle East tensions



The chart shows the price of a barrel of Brent Crude Oil over the month of June.

The oil price started to spike on 13th June when Israel launched air strikes on Iranian targets. It peaked at just over \$78 a barrel following fears of supply disruption and worries that the Strait of Hormuz might close. Although US involvement came later in the month the oil price remained stable at the time with markets seeing a lower probability of Iranian oil assets being targeted. Prices then fell back towards the end of June as optimism of a ceasefire agreement between Israel and Iran being reached grew.

Source: Morningstar



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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.

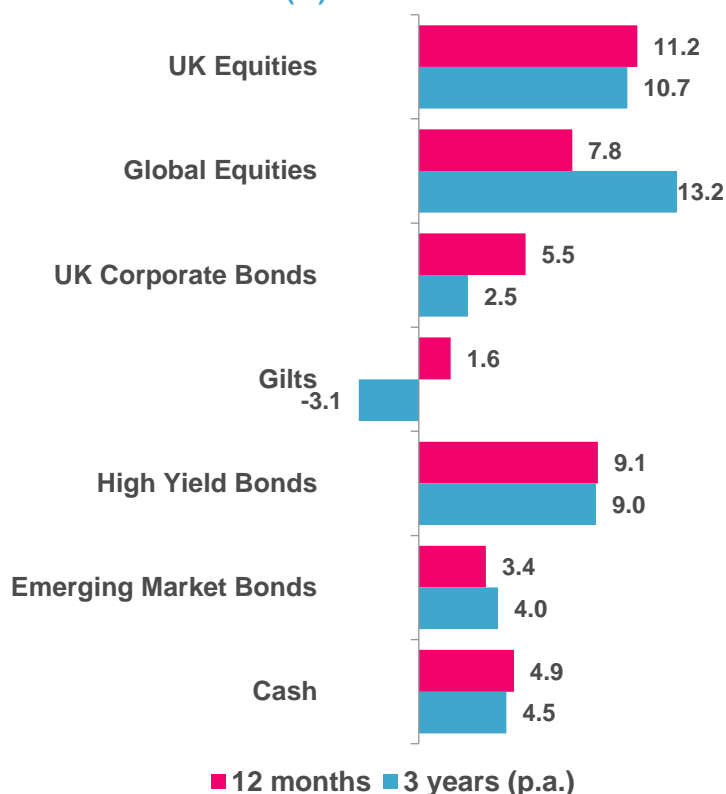
However, investors' early enthusiasm for President Trump's policy agenda started to wane in early 2025, and then completely evaporated, as Trump prioritised implementing heavy tariffs on trade partners, as opposed to working on the more market friendly policies such as tax cuts and deregulation. "Liberation 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.