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Accountants & Financial Advisors

# Market Commentary

## 2nd Quarter 2025

# QUARTERLY MARKET COMMENTARY

2nd Quarter 2025

## SNAPSHOT

- A volatile quarter, dominated by Trump tariffs and Middle East tensions.
- Equities struggled in April, but rallied over the following two months.
- US dollar had another difficult quarter and the worst start to the year since 1973.

All percentages below are quarterly returns unless indicated otherwise

## EQUITIES

### US MARKETS
Shrugged off tariff concerns

10.6%
US 500

### UK MARKETS
Mid-Caps rallied strongly

3.2%
UK ALL SHARE

### EMERGING MARKETS
Taiwan strong, China lagged India

11.0%
EM

## BOND MARKETS

### BONDS
Bonds rallied despite widening fiscal deficits

| | |
|---|---|
| UK GILTS | 1.9% |
| US TREASURIES | 0.9% |
| GLOBAL CORPORATE BONDS | -1.7% |
| GLOBAL HIGH YIELD BONDS | -1.3% |

*Values represent bond index returns

## CURRENCIES

### CURRENCIES
Sterling strong against US dollar, weakened vs euro

Pound vs Other Currencies

| GBP vs USD | GBP vs JPY | GBP vs EUR | GBP vs CNY |
|---|---|---|---|
| 6.3% | 2.2% | -2.3% | 4.9% |

## KEY INDICATORS

| GOLD – XAU/USD | OIL – BRENT CRUDE | COMMODITIES | INFLATION – UK CPI (YOY) |
|---|---|---|---|
| 5.2% | -9.5% | -8.5% | 3.4% |

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# GLOBAL MARKETS

Global equities fell sharply in April, reacting badly to Trump's tariff proposals. However, delays in their implementation allowed for a sustained rally through May and June.

## US MARKETS

### Up strongly on tariff delays

US markets reacted badly to 'Liberation Day', but a softening of the rhetoric, and delays in the implementation of his tariff proposals, laid the foundation for a sustained rally through May and June. Even the 12-day Israel-Iran war was unable to curtail investor enthusiasm. Technology led the way, with the NASDAQ hitting a new all-time high, but 'value' sectors lagged. Macro data was less clear, but the earnings season was seen as broadly positive. Underlying GDP for 1Q25 (ex-trade and inventory) was finally estimated at 1.9%, though 2Q25 GDP growth remains unclear, with conflicting data points.

**Up 10.6% (US 500)**

## UK MARKETS

### M&A activity helped markets

Despite a weakening economic outlook (accounting for the impact of trade and inventory moves, 1Q25 GDP was slightly negative on an underlying basis), deteriorating public finances, signs of weakness in the labour market, and several government spending U-turns, equity markets were positive over the quarter, particularly for mid and small caps. The mid cap index managed an 11% increase, buoyed by several large takeovers at significant bid premiums, e.g. Spectris.

**Up 3.2% (UK All Share)**

## EUROPEAN MARKETS

### Most impacted by tariff concerns

European equities were caught up in the April tariff-led sell off. At their worst (09/04/25), the Stoxx 600 was down -12%. It then rallied, but not to the same degree as other developed markets. This was particularly noticeable in June. The EU still faces difficult trade negotiations with the US, with President Trump particularly upset over current EU tariff and non-tariff barriers. The ECB continued its policy of rate cuts, but the economic situation remains unchanged, with modest growth and rising fiscal deficits.

**Up 1.8% (Euro 600 Index ex UK)**

## EMERGING MARKETS

### Strong on weak US dollar

Chinese data remains both opaque and depressed, with no sign of any bottom to the multi-year recession in the Chinese residential property market, with activity, prices, and sales still declining, the 5th year of contraction. Equity market sentiment was dominated by the ebb and flow of the trade talks between China and the US. Despite a lot of bad blood, and tit for tat tariff increases, the quarter ended with an outline framework agreement between the two countries.

**Up 11.0% (Emerging Markets Index)**

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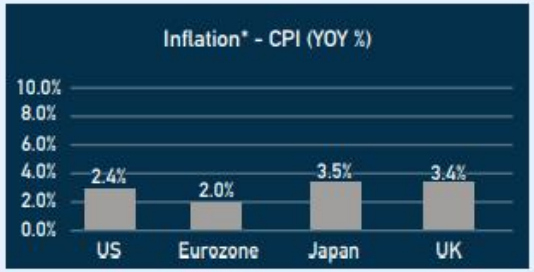
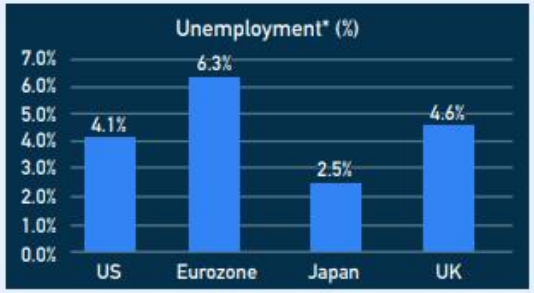
# THE WORLD AT A GLANCE

| | 2025 Q2 | Year to Date | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|---|---|
| UK Cash | 1.1 | 2.2 | 5.2 | 4.7 | 1.4 | 0.1 |
| US Dollar | -7.0 | -10.7 | 7.1 | -2.1 | 8.2 | 6.4 |
| UK Gilts | 1.9 | 2.5 | -3.3 | 3.7 | -23.8 | -5.2 |
| US Treasuries | 0.9 | 3.8 | 0.6 | 4.1 | -12.5 | -2.3 |
| Global Corporate Bonds | -1.7 | -2.0 | 2.8 | 4.0 | -6.8 | -1.9 |
| Global High Yield Bonds | -1.3 | -2.5 | 11.0 | 8.2 | -2.3 | 2.0 |
| US 500 | 10.6 | 5.5 | 23.3 | 24.2 | -19.4 | 26.9 |
| UK ALL SHARES INDEX | 3.2 | 6.8 | 5.6 | 3.9 | -3.2 | 14.6 |
| EURO 600 INDEX EX UK | 1.8 | 7.6 | 4.5 | 14.9 | -15.0 | 22.5 |
| JAPAN INDEX | 7.3 | 2.4 | 17.7 | 25.1 | -5.1 | 10.4 |
| Asia Ex Japan | 8.5 | 10.7 | 16.2 | 6.4 | -15.4 | -3.1 |
| Emerging Markets | 11.0 | 13.7 | 5.1 | 7.0 | -22.4 | -4.6 |
| Commodities | -8.5 | -6.8 | 11.2 | -9.7 | 41.9 | 41.7 |
| Gold | 5.2 | 24.4 | 26.6 | 12.8 | -0.7 | -4.3 |
| Hedge Funds | 1.4 | 1.8 | 5.3 | 2.7 | -4.4 | 3.0 |

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## Key Points

- It was all about tariffs, with a sharp, rapid, and negative market reaction to Trump's initial proposals. The rest of the quarter was characterised by reduced tensions on the issue, which contributed to a strong relief rally.
- Reports of the demise of the 'Magnificent Seven' were premature, with Nvidia significantly outperforming the FTSE World. A late June rally saw it overtake Microsoft to become the world's largest company.
- Growth stocks outperformed value, particularly in the US and Japan, whereas in the UK, the reverse was true.
- Sterling strengthened against both the US dollar and Japanese yen, meaning that returns for a sterling-based investor were depressed.

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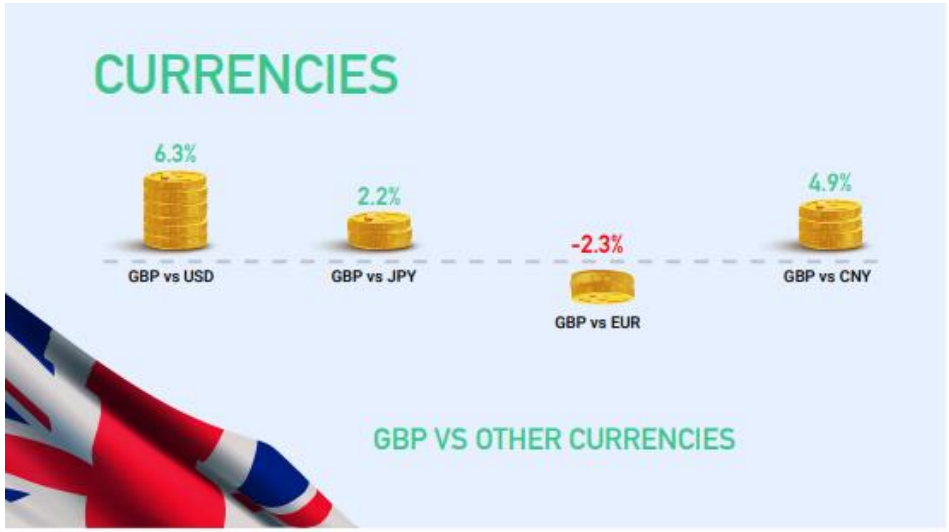


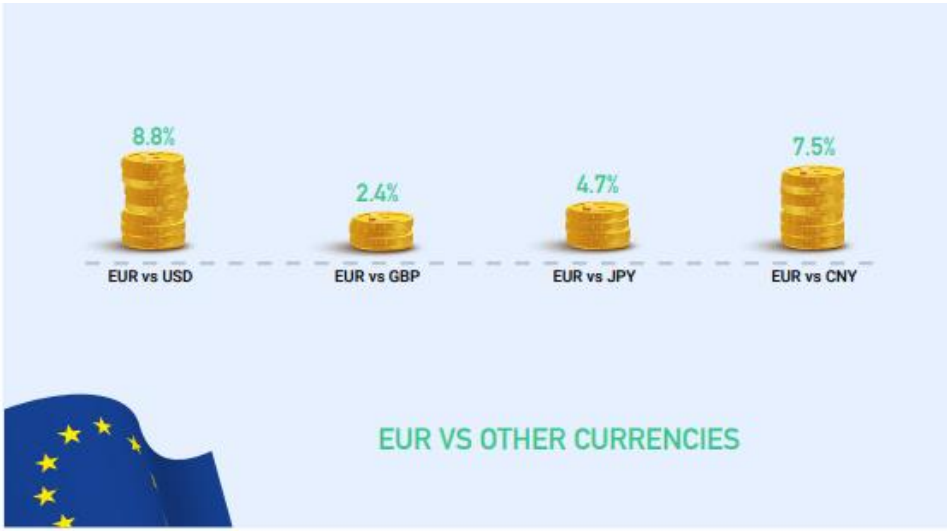


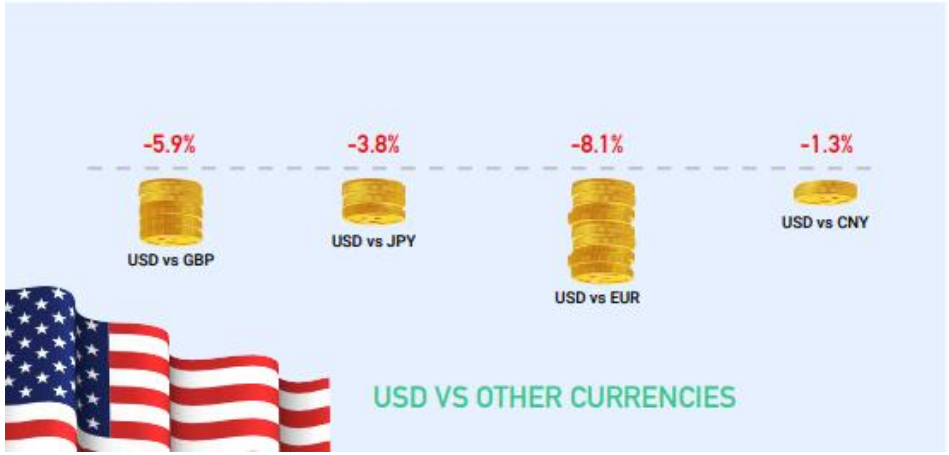


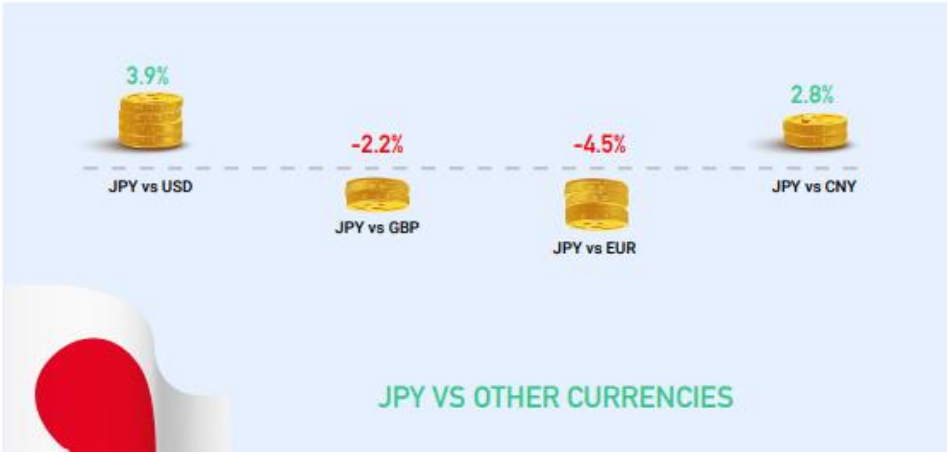


## Key Points

- The US dollar decline against major currencies continued, with the Dollar index falling by -7.2% over the quarter. Uncertainty over trade policy, and continued animosity from President Trump towards Fed Chairman Powell, did not help market sentiment.
- After a brief safe haven rally in early April, the yen was persistently weak over the remaining quarter.
- Sterling strength was more reflective of US dollar weakness. Sterling finished the quarter at U$1.370, the highest rate since 2021.
- The Taiwanese dollar surged on trade negotiation speculation, with Taiwan based insurance companies scrambling to hedge their dollar asset exposures.

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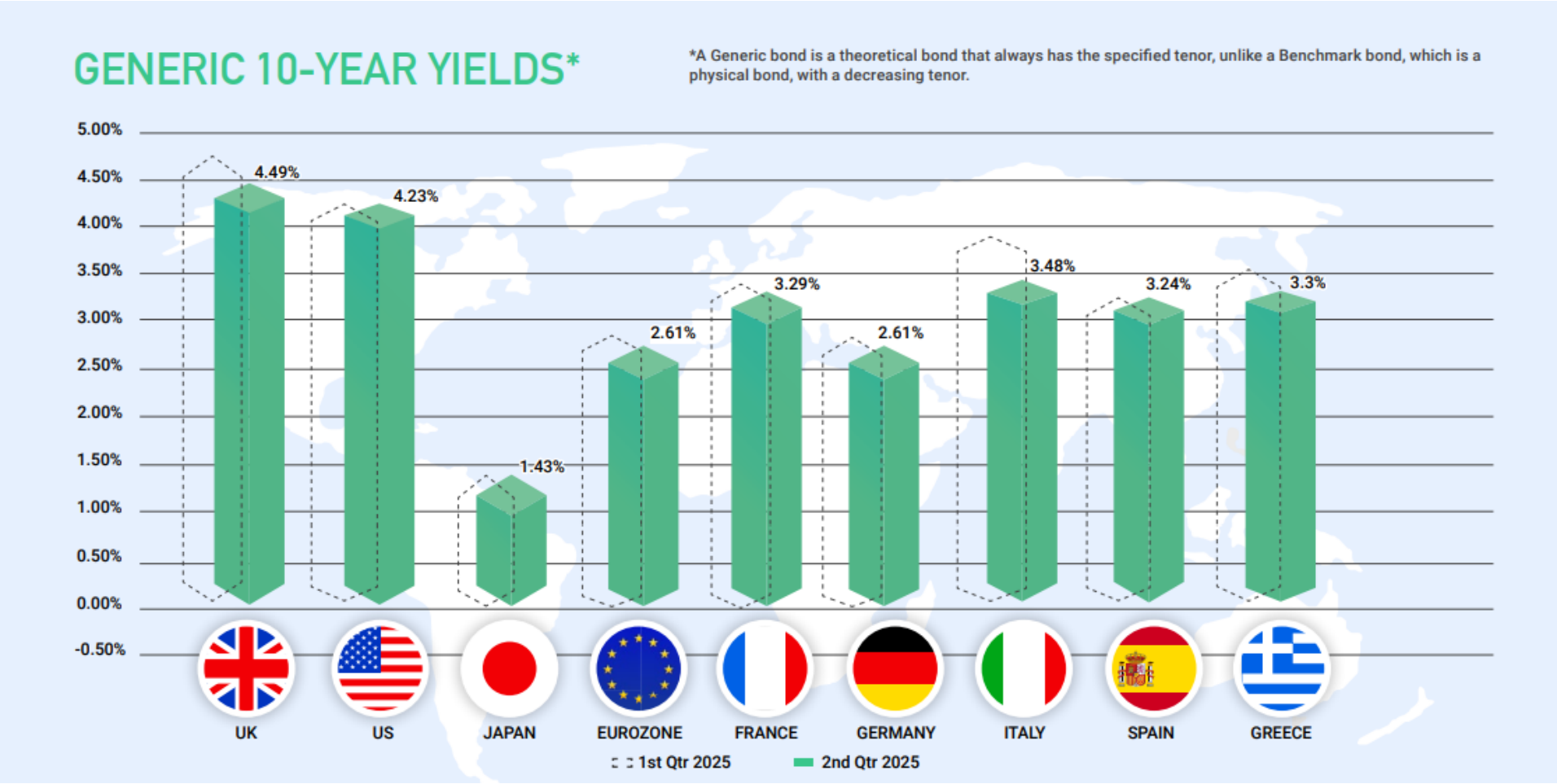


## Key Points

- Fixed Interest markets shrugged off both 'sticky' inflation data and a further deterioration in public finances. Most of the major areas of the bond markets had positive returns.
- Long duration government bond markets became more discerning in the wake of Trump's tariff announcements. US and Japan 30yr yields rose significantly, whilst Euro-based and Swiss yields fell.
- Despite poor fundamentals, gilts rallied over the quarter, with the market seemingly able to take the continued deterioration in UK public finances in its stride.
- The very long end of the Japanese bond market became a topic of conversation, with ultra long 40-year yields surging to 3.69% on 22/5/25 before falling back.
- Barclays Global Aggregate High Yield GBPH took its cue from the strong US equity market rally, rising 3.42% over the quarter.

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| | |
|---|---|
| **BoE** | Bank of England – central bank of the United Kingdom |
| **BoJ** | Bank of Japan – central bank of Japan |
| **Correlation** | The degree to which the returns of financial assets or instruments move in relation to each other |
| **CNY** | Chinese renminbi (yuan) – currency of the People's Republic of China |
| **CPI** | Consumer Price Index – a measure of inflation in which a basket of goods and services is calculated over different time periods |
| **Dovish** | The approach in which central banks are likely to keep monetary policy "loose" or accommodative |
| **ECB** | European Central Bank – the central bank of the European Union countries which have adopted the euro |
| **EUR** | Euro, the official currency of the European Union for the 20 of 27 member states that have adopted this currency. |
| **The 'Fed'** | or the US Federal Reserve System – the central banking system of the United States of America, which includes the Federal Reserve Board and the twelve regional Federal Reserve Banks. |
| **GBP** | British Pound – sometimes referred to as 'sterling' |

| | |
|---|---|
| **GDP** | Gross Domestic Product – a monetary measure of the market value of all goods and services produced in a specific time period by a country or countries |
| **Growth Stocks** | Stocks which display specific characteristics – high price-to-earnings (P/E), high price-to-book (P/B), low to no dividend yield – which typically demonstrate revenue growth and tend to reinvest earnings rather than distribute them as dividends. |
| **Hawkish** | The approach in which central banks are likely to keep monetary policy "tight" or restrictive |
| **JPY** | Japanese Yen – currency of Japan |
| **Macro** | or Macroeconomics – a branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole |
| **PMI** | Purchasing Managers' Index – an economic indicator used to measure the activity of the manufacturing/service sectors of the economy |
| **USD** | US Dollar – currency of the United States of America |
| **Value Stocks** | Stocks which may trade at lower prices relative to their intrinsic value, as defined by traditional fundamental analysis, and typically include evaluation metrics such as lower price-to-earnings (P/E) and price-to-book (P/B) ratios, and higher dividend yields, compared to Growth stocks. |
| **Yield Curve** | a graph (line) which depicts how the yields on debt instruments – such as bonds – vary as a function of their years remaining to maturity |
| **YoY** | Year over year |

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Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK.