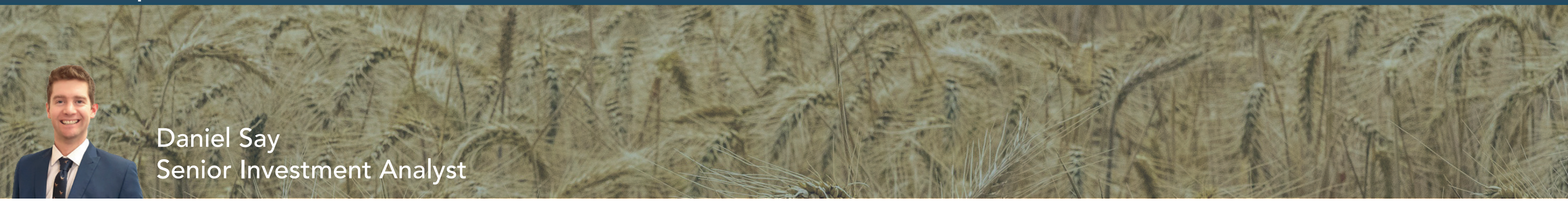
Market Commentary

July 2025

Telephone: 0117 452 1207
www.whitechurch.co.uk



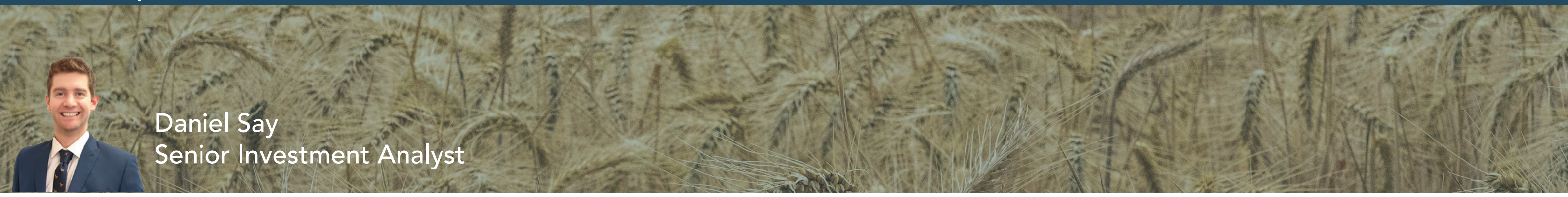
Daniel Say
Senior Investment Analyst

US trade tariffs continued to dominate headlines (and market sentiment) in July. While President Trump and his team fell spectacularly short of their promised '90 trade deals in 90 days' – the deadline for those deals was July 9th – the President can now at least point to significant progress. In early July, the US agreed a new trade deal with Vietnam, one which will leave tariffs at 20% (or 40% on 'trans-shipments', essentially covering goods that have been redirected through Vietnam from a third country on their way to the US). This was followed by deals with Japan and the European Union (EU), which left tariffs on most exports at 15%. The EU deal received a mixed reception from individual member states, but sectors including carmakers and pharmaceutical firms appear to have received particularly unfavorable terms, at least from a European perspective.

The other significant policy development was the passage of Trump's 'One Big Beautiful Bill Act' ('OBBBA'). Having passed the lower and upper chambers of US Congress (made possible due to Republican majorities in both the House and Senate – Democrats universally opposed the bill), the OBBBA was formally signed into law by Trump on the 4th of July. The President's landmark bill makes permanent the tax cuts that were introduced during his first term in office, as well as introducing various additional tax deductions and phasing out Biden-era tax credits for clean energy. While a major legislative victory for Trump, critics questioned the bill's impact on the Federal budget, with some estimates suggesting it could add $4.1 trillion to the US deficit over the next decade.

Only time will tell how tariffs affect demand and inflation dynamics, both in the US and abroad. To date, the world's largest economy has continued to demonstrate remarkable resilience; gross domestic product ('GDP') grew 3% annualized in Q2, bouncing back from a surprise 0.5% contraction in Q1. Trump stepped up criticism of Federal Reserve ('the Fed') chairman Jerome Powell through July, repeatedly calling for Powell to be fired (a power the President does not have) on account of his failure to cut interest rates. However, with inflation still north of the Fed's 2% target, and volatile tariff policy creating ongoing uncertainty, policymakers have so far resisted the President's demands for further cuts.

The Bank of England ('BoE') did not meet in July but is widely expected to cut rates again in August. The Monetary Policy Committee (the body responsible for setting interest rates) finds itself in a precarious position – the UK economy shrank by 0.1% in May, but the latest UK inflation reading of 3.6% is still well above the Bank's target. The BoE forecasts that inflation will abate again through the first half of 2026; until then, policymakers are likely to remain cautious. The gloomy fiscal backdrop threatens to further complicate the picture – according to economic think tank the National Institute of Economic and Social Research, the government is set to miss its self-imposed borrowing rules by over £41 billion, raising the prospect of additional



tax increases at the upcoming autumn budget.

The European Central Bank ('ECB') is some way ahead of the Fed and BoE. It has already cut rates eight times over the past year but held them steady in July, effectively signalling that it is coming to the end of the current easing cycle. While ECB President Christine Lagarde said that the central bank was in a 'good place' – July inflation remained at target for the second consecutive month in July – she acknowledged the difficulty in assessing how tariffs will affect price outlooks.

Turning to markets, where broadly speaking it was a strong month for risk assets. To date, investors appear to be playing little heed to political turbulence, with several major markets hitting new all-time highs over the month. While Liberation Day may have briefly knocked confidence in American exceptionalism, there was little sign of a more structural decline in July, with US equities (+5.7%, all returns in sterling) outperforming other developed markets. Gains were supported by second quarter earnings – amongst US large-cap equities that have reported at time of writing, nearly 80% beat consensus earnings and revenue growth expectations, significantly above the long-term average.

UK equities enjoyed strong returns (+2.3%) at the index level, but gains were largely concentrated in large-caps, which were propelled by the energy and materials sectors. Mid and small-cap returns were more muted as investors fretted about the health of the domestic economy. European equities gained +1.1%, while Japanese equities (+2.7%) leapt higher following the announcement of a trade deal with the US. Asian and emerging markets also enjoyed a strong month. Chinese equities rose more than 7% following a string of more promising economic indicators. First half GDP rose 5.3% year-on-year, above the 5% target, while industrial production also exceeded expectations.

For sterling investors, bond returns were more mixed. UK 10-year gilt yields rose (meaning prices fell) modestly over the month, finishing July at 4.57%. US Treasury and Japanese Government Bond yields also rose. Riskier segments of the sterling universe generally fared better; investment grade corporate bonds (+0.3%) outperformed gilts (-0.3%), while high yield outperformed both (+1.1%), as higher coupon payments more than offset capital losses.

Finally, to commodities, where the major mover was copper; prices for the red metal plunged 20% at month's end following an announcement from the US that it would be exempt from tariffs. Gold prices rose +3.5% but remained short of April's all-time highs, while Brent crude oil gained over 13% off the back of strong demand combined with US threats to increase tariffs on countries buying cheap Russian oil.

Whitechurch Investment Team
Issued August 2025