CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

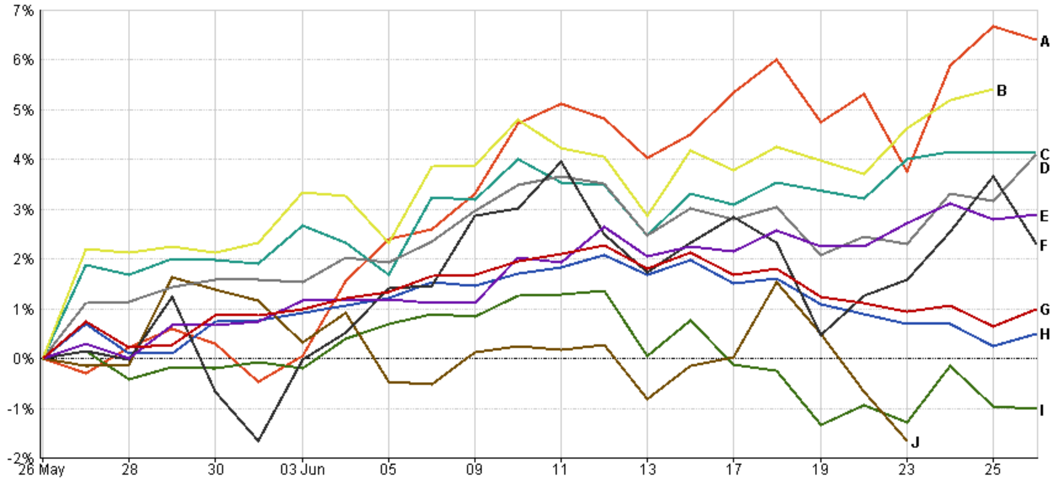
INVESTMENT COMMENTARY

26 JUNE 2025

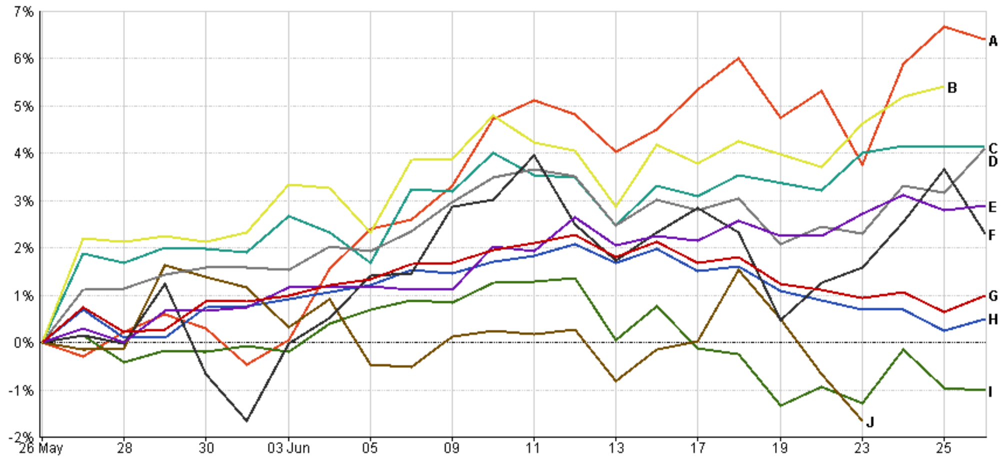
OVERVIEW

Despite the escalation of the Iran/Israel conflict, the uncertainty surrounding the fast-approaching expiry of the 90-day pause in elevated US tariffs on 8 July and indicators of a slowing global economy, investment markets over the last month have proved relatively resilient. The oil price did spike as a result of the various Iran/Israel attacks and US military action – and a higher oil price would send global inflation higher. The subsequent ceasefire has seen the oil price drop back, but it remains to be seen if the ceasefire will hold and if Iran's nuclear programme has been terminated or merely paused by US action. Continuing equity market volatility seems likely over the remainder of 2025.

ONE MONTH INVESTMENT MARKET TOTAL STERLING RETURNS



YEAR TO DATE INVESTMENT MARKET TOTAL STERLING RETURNS


A - FTSE World Asia Pacific ex Japan GTR in GB [6.41%]
B - Nasdaq 100 GTR in GB [5.41%]
C - S&P 500 GTR in GB [4.13%]
D - FTSE 250 TR in GB [4.12%]
E - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [2.89%]
F - MSCI China GTR in GB [2.31%]
G - FTSE All Share TR in GB [1.00%]
H - FTSE 100 TR in GB [0.50%]
I - FTSE World Europe ex UK GTR in GB [-1.00%]
J - TSE TOPIX GTR in GB [-1.66%]
26/05/2025 - 26/06/2025 Data from FE fundinfo2025

Notwithstanding the manifold concerns about the new US tariff policy since April, the US economy has remained relatively robust. The economy seems to be functioning normally but the effect of the higher tariffs has yet to really impact consumers, as companies increased their inventories prior to President Trump's 'Liberation Day' on 2 April. It is likely that companies will start to pass on higher tariff costs in the near future which will then feed into a higher inflation rate. Against this backdrop, the US Federal Reserve (Fed) kept interest rates unchanged at a range of 4.25%-4.50%. Jay Powell, Chair of the Fed, commented that the US economy was in a "solid position" with the labour market close to full employment. However, he did stress that uncertainty was "elevated" ahead of the expiry of the 90-day trade tariff pause. US inflation has remained stubbornly above the Fed's 2.0% inflation target. The US economy grew by 2.1% pa in the first quarter of 2025 but more recent data looks weaker. The White House has claimed that 75 countries are in trade negotiations, but to date only the UK has secured a deal, whilst outline agreement has been reached with China.

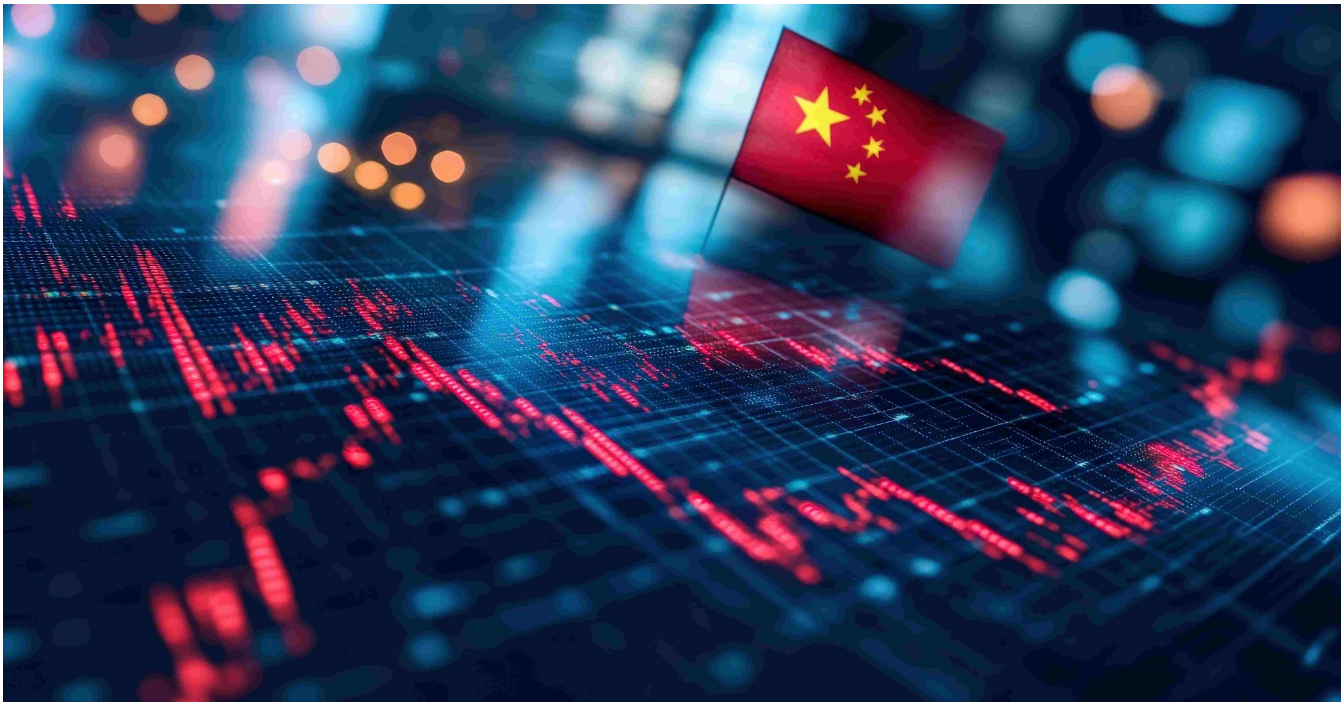
The US equity market has recovered the losses seen after the original tariff announcement on 2 April 2025. The technology sector has made a strong recovery due to many technology-related goods, such as mobile phones and semi conductor equipment, gaining exemptions from US tariffs. In addition, strong financial results from Microsoft and Nvidia underlined that AI adoption is gaining more traction.

One of the reasons President Trump rowed back on tariff levels was reaction in the US government bond market, as yields climbed in the aftermath of the original announcement. Yields came down when the 90 day pause was announced. However, the US government Bond market is still under pressure as "The One, Big, Beautiful Bill" goes through the Senate. It is estimated that once the provisions of the Bill pass into law, then $3 trn will be added to the US federal debt over the next ten years. If the proposed tax cuts proceed and spending cuts are not implemented, then the estimate soars to $5 trn. President Trump believes that the tax cuts will stimulate economic growth, so that total debt as a proportion of GDP does not increase. Rising yields and weakening demand seem to indicate that investors have some concerns about this view.

The European equity market over the last six months has made a strong return, although more recently performance has tailed off as trade terms with the US have yet to be reset. Investor confidence towards European equities has increased as the fiscal and monetary policies have eased. Government debt in the eurozone as a proportion of GDP has been relatively low in comparison to that of the US and the UK. Germany, the largest EU economy, amended its national fiscal rule, the “debt brake”. The change allowed increases in defence spending and the creation of a €500 bn infrastructure fund. On the monetary side, the ECB has gradually been cutting interest rates since June 2024, as inflation fell towards target and economic growth weakened. The latest cut in June 2025 saw the ECB deposit facility rate reduced by 0.25% to 2.0%. The combination of lower interest rates and increased government spending, should support consumer and corporate sentiment, so stimulating domestic demand in the region. Improving demand and a relatively inexpensive equity market in comparison to the US has seen greater investment flows into the European equity market. The ECB still has some capacity to reduce rates further if a trade deal with the US is delayed.

The Monetary Policy Committee of the Bank of England (BoE) kept Bank Rate at 4.25% at its June 2025 meeting, with the members voting 6 to 3 in favour of keeping rates on hold. The three members voting against preferred a cut of 0.25%. Andrew Bailey, the Governor of the BoE, commented that “interest rates remain on a gradual downward path”. The MPC is faced with persistently above target inflation – currently 3.4% - coupled with geo-political concerns, possibly leading to higher oil prices. A further interest rate cut seems increasingly likely at the next MPC meeting in August. Pay growth, a key driver of inflation, is slowing and UK economic growth is weak. The UK labour market is also softening, with a fall in the number of payrolled employees of 109000 in May 2025 as a result of higher employer national insurance contributions with hiring, working hours and pay all being cut. A weak employment market coupled with above target inflation has seen consumers squeezed, with retail sales dropping by the steepest amount in 18 months down 2.7% in May 2025.

The European and UK equity markets have been beneficiaries of investors seeking investment opportunities outside the US. Both markets offer real value in comparison to the US. With interest rates falling, investors are seeking income producing assets. The UK equity market and to a lesser extent, European markets, are home to companies capable of paying attractive and increasing dividends in the financials, pharmaceutical, tobacco, consumer cyclical and commodities sectors, for example.



China continues to face economic challenges. Chinese exports to the US have fallen by around 35% so far this year. The residential property market remains weak, changes in monetary policy seem not to have a significant impact on economic growth and consumer confidence remains lacklustre. Although there has been a truce in their trade war with the US, uncertainty around the relationship still prevails. China has looked to increase exports to other markets with the value of exports to the EU climbing by 12% in May and by 15% to South East Asian countries. After the US, the EU is China's largest export market, followed by Vietnam – from where many goods are re-exported - Japan and South Korea. The developments in the Chinese technology sector surrounding DeepSeek's AI model saw renewed interest in Chinese technology companies which supported the Chinese equity market earlier in the year. This sector still offers well priced opportunities

The Bank of Japan (BoJ) remains very cautious. Interest rates are being raised very gradually as wage growth remains firm, GDP expanded by 1.7% pa in the first quarter of 2025 and inflation is still above target at 3.5% pa in May 2025. The yen remains relatively weak, which has been supportive of its export-led economy. It had been expected that Japan and the US might move towards a trade deal at June's G7 meeting, but no agreement materialised. It appears that Japan is holding out for a better deal with the aim of the full removal of the 25% tariff imposed on Japanese cars, steel and aluminium. This ongoing uncertainty and the 8 July tariff deadline looming have weighed on sentiment.

Although central banks have been cutting interest rates, with the BoJ the notable exception, government bond yields look relatively attractive. These higher yields to some degree reflect normalisation of the markets as central banks continue to wind down their asset purchase programmes, put in place following market stresses including the Great Financial Crisis and the pandemic. However, the spectre of inflation still looms in the US and to a lesser extent in the UK. It seems that recessions in the major economies are unlikely, so earnings should remain resilient. In these circumstances, companies should be able to maintain to meet their bond interest payments particularly higher quality companies.

OUR VIEW

Compiled by Angela Cooper, MD - Investment Services.

Angela runs Cartlidge Morland's Investment Management team, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

Investment markets are likely to remain volatile throughout the remainder of 2025 as so much uncertainty surrounds both the macro-economic and the geo-political landscapes. Our portfolios are managed for the long term which means that we do not make knee-jerk reactions to heightened volatility. We remain calm and disciplined, managing portfolios with focus on clients' objectives and their attitudes to risk.

We are marginally increasing our European equity exposure as the macro-economic backdrop and valuations look more attractive. Equity exposure in other regional markets is being trimmed to cater for this increased allocation. Over the years, our UK equity exposure has been reduced, although in most portfolios we retain an overweight position as the majority of our clients are sterling investors. The large cap UK equity funds invest in companies with significant overseas earnings, so offer indirect international exposure. In addition, the UK stock market offers an attractive dividend which is an important component of total investment returns and/or provides an income stream for clients. We continue to include income funds investing in other regions for similar reasons and to increase diversification. We maintain exposure to the US equity market and to the technology sector specifically where portfolios' risk parameters permit. We still believe US/tech sectors offer attractive longer term growth opportunities. Fixed interest exposure has been rebuilt gradually in the last few years - where appropriate - as monetary policy has normalised around the world. Fixed interest assets offer diversification benefits and steady income streams. We currently favour higher quality assets including gilts and investment grade corporate bonds, the income from which is reliable. We continue to maintain fully diversified portfolios in line with our risk parameters and client objectives.

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