Investment Review – June 2025

Highlights

- War in Iran caused a brief spike in the price of oil before normal service was resumed with Brent trading in the mid-$60s.
- The US stock market finished the month at a new all-time high, while the US Dollar Index fell to its lowest level in over three years.
- The Bank of England and the Federal Reserve held rates unchanged, but the European Central Bank made a 0.25% cut and the Swiss National Bank returned to a zero policy rate.
- US, Japanese and UK government bond yields fell marginally, while European yields nudged upwards.
- For the first half of 2025, global equity performance in sterling terms, as measured by the MSCI ACWI, was 0.3% underwater. The fall was mainly due to the dominance of US equities in the index and the weak dollar.

As the world edged towards the end of the 90-day pause on Donald Trump's 'Liberation Day' tariffs on 9 July (now extended to 1 August), investment markets seemed mostly unconcerned. The US airstrikes against Iranian nuclear sites also fell out of the spotlight of media attention. The distinct lack of more than an immediate blip, following such generally monumental events, appears to bear out a view that world events can now pass with minimal impact on investment markets.

United States

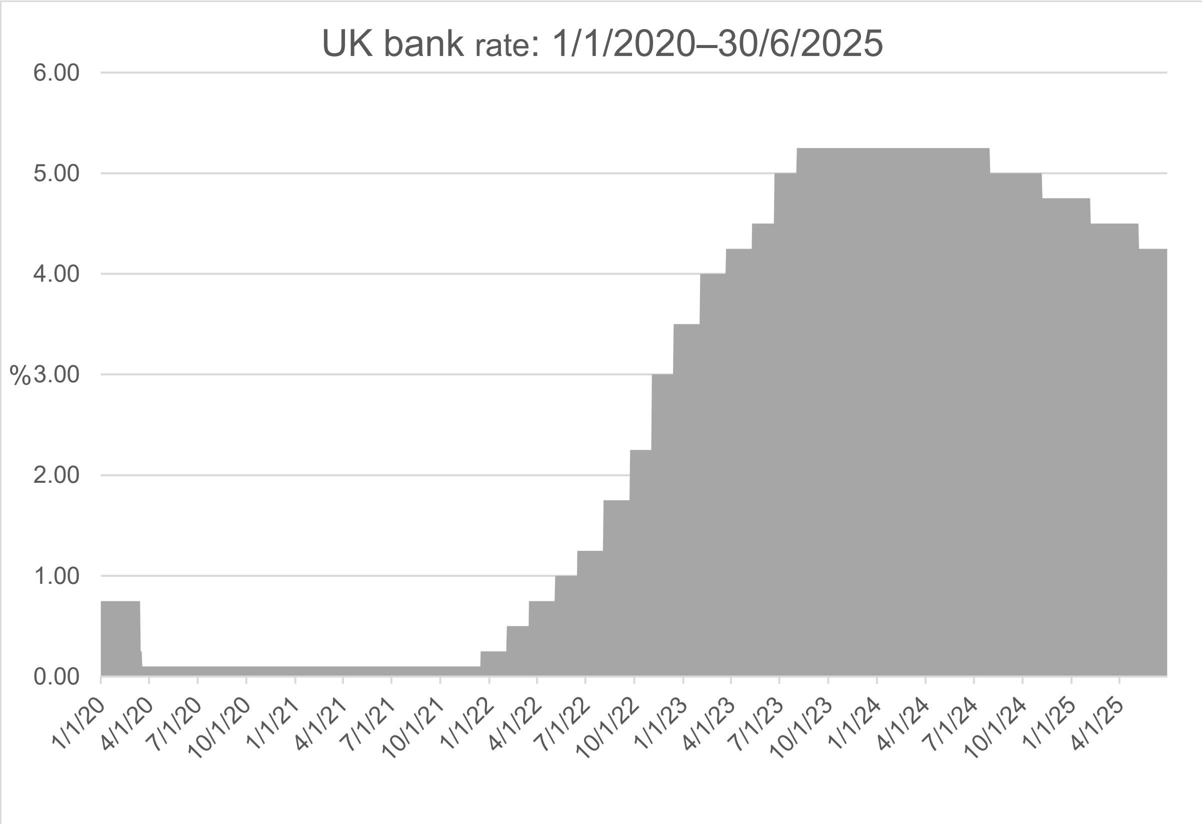
The tariffs that dominated US markets in April and May took a step back in June, with the only notable change to iron and aluminium levies which doubled by 50%. The S&P 500 declined temporarily after Israel bombed Iran, but remained steady following the US strikes against Iranian nuclear sites. Indeed, the market was driven higher. The end of the month saw the S&P 500 hitting an all-time high, again, as did the NASDAQ. The S&P 500's quarterly performance was the best since Q4 2023 and the NASDAQ's since Q2 2020. However, both indices' H1 2025 returns were a little above 5%, reflecting the poor start to the year for US markets.

Trump's One Big Beautiful Bill Act continued to work its way through Congress, seemingly immune to a projection from the nonpartisan Congressional Budget Office that the Act will add $3.3 trillion to US debt over the next ten years. US government bonds were equally sanguine, with yields dropping by 0.15%–0.20% across the range.

The drop in yield occurred despite the Federal Reserve holding the Fed Funds rate at 4.25%–4.5% for the fourth successive meeting. 'Wait-and-see' remains the Fed's mantra, because the impact of the tariffs on inflation and employment is not yet clear. One small sign that emerged after the rate announcement was a higher-than-expected 2.7% May reading for the Fed's preferred inflation measure, the Core PCE Price Index.

The lack of Fed rate cuts has continued to ire Donald Trump, who has suggested to the Fed chair, Jerome Powell, that the Fed rate should be just 1%. June ended with increased speculation that Trump will soon announce Powell's replacement for May 2026, aiming to turn Powell into a lame duck for his final year. Such a move could unsettle markets by calling into question the independence of the Fed – Trump has made a desire to cut rates a pre-requisite for any new chair.

United Kingdom



Source: Bank of England

Over June, the FTSE 100 was down 0.1%, taking the Q2 performance to +2.1%. Year-to-date FTSE 100 performance was 7.2%, which was better than the S&P 500 once the decline in the dollar is taken into account. The FTSE 250, less exposed to Trump's policies, outperformed the FTSE 100 in June, with a rise of 2.8%. Similarly, small caps did well, with the FTSE Small Cap index ahead of the Footsie so far into 2025.

Continuing its pattern of alternate meeting cuts, the Bank of England left Bank Rate unchanged at 4.25% in June. The minutes accompanying the meeting were seen as slightly hawkish, with a 6–3 vote in favour of the status quo. For now, a cut at August's meeting is still likely.

That downward outlook for base rates probably explains why gilt yields drifted down over June, with the 10-year yield falling 0.16% to 4.48%. Talk of the bond vigilantes reappearing has faded, despite government U-turns on the winter fuel allowance and disabled benefits costing about £4.25 billion a year. The scene is set for further tax increases in the Autumn Budget.

Europe

Whereas the US and UK central banks kept their rates on hold in June, the European Central Bank (ECB) made its eighth 0.25% cut in twelve months. The bank's deposit rate is now down to 2.00%, a level last seen in February 2023. The ECB's president, Christine Lagarde, said that the bank had "nearly concluded" the current rate cycle. Lagarde's steady rate retreat and its current level both provide ammunition for Trump in his attacks on Fed chair Powell, albeit inflation is lower in the EU (1.9% v 2.4%) and the economy weaker.

One European interest rate that Trump seems to have missed, but which caught the eyes of investors, was that of the Swiss National Bank (SNB). In June, the SNB cut its rate by 0.25% to 0.00%, the lowest level since late 2022. The safe-haven status of the Swiss Franc (aka 'Swissie') as an alternative to the dollar has been driving currency inflows. Against the US currency, the Swissie has risen by over 14% since the start of the year.

European markets were generally marginally down over the month and marginally up over the quarter, as measured by the Euro Stoxx 50 (-1.2% and +1.4% respectively). A first half return of 8.3% was due to the good Q1, before 'Liberation Day" arrived.

Asia

After May's trauma in its government bond market, Japan enjoyed a better June. The worrisome bond yields fell slightly over the month, although they remain well above the levels at the start of the year. The Bank of Japan's reaffirmation that it would steadily reduce its government bond purchases probably helped. Japanese equities, as measured by the Nikkei 225, had a good June, rising by 6.7% to above 40,000 once more as trade talks continued with the US.

Hong Kong's Hang Seng index also rose by 3.4%, continuing its recent strong performance. Hong Kong has benefited from a strong flow of initial public offerings – some of which might once have gone to the US – and record investor inflows from mainland China. The Taiwan stock market index rose 4.3% over the month.

Emerging Markets

The MSCI Emerging Markets Index was up 5.7% on the month in dollar terms, beating the S&P 500. The same is true over Q2 (+11.0%) and year-to-date (+13.7%). China's position dragged on overall emerging market performance in June and over Q2, but thanks to a strong Q1 had a small positive impact year-to-date. The Shanghai Composite was up 2.9% across June.

India's Nifty 50 rose by 3.1% in June and is now within striking distance of its peak of last September. Both Thailand (-5.2%) and Indonesia (-3.5%) suffered falls on concerns about Trump tariffs.

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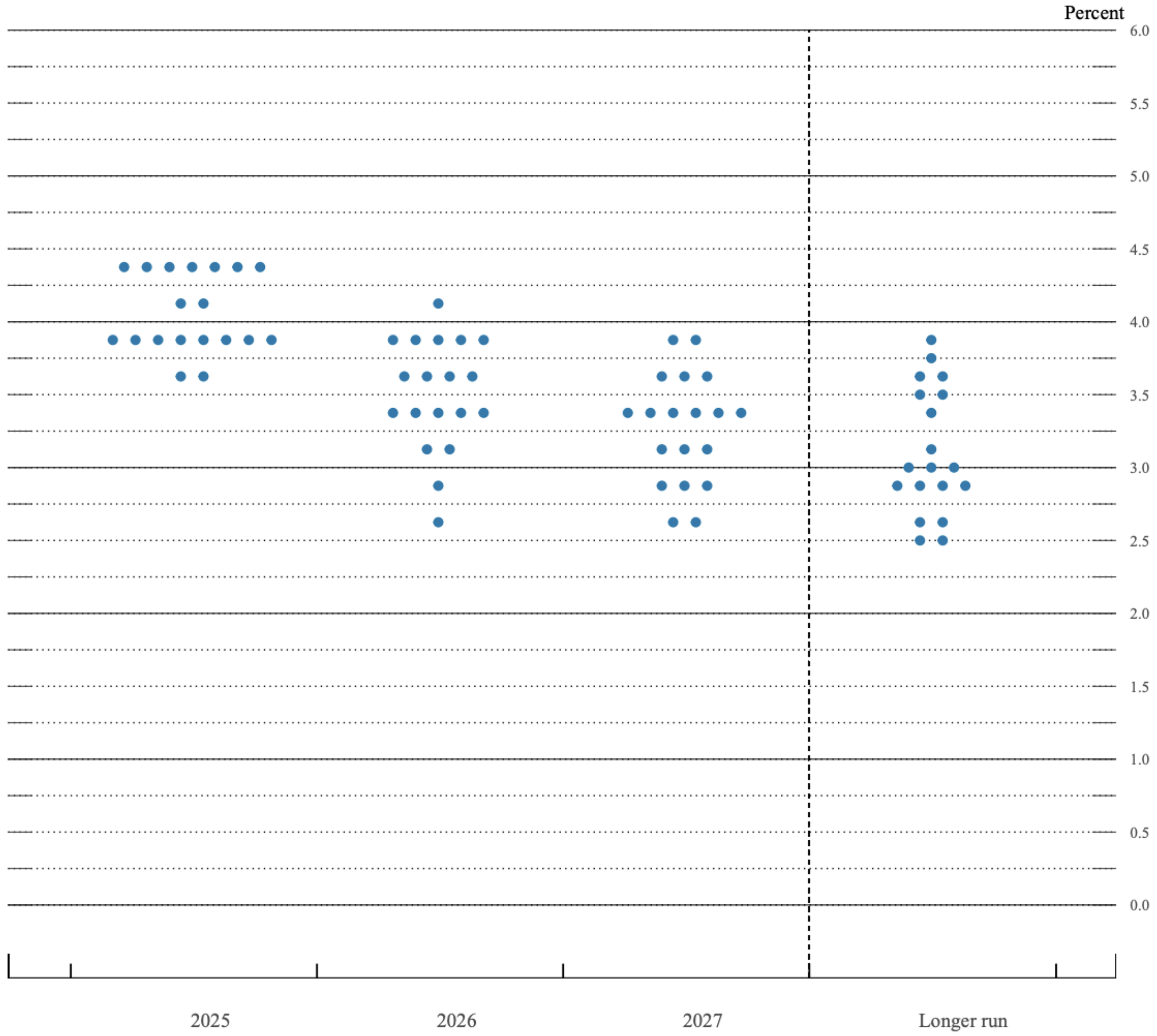

Source: [US Federal Reserve]

At every other meeting of the Federal Open Market Committee (FOMC) – roughly once each quarter – its nineteen members set out their "assessments of appropriate monetary policy" for the following three years and the longer term. The results are provided in a variety of formats, but the one that has gained iconic status among Fed-watchers is the 'dot plot'. June's dot plot, shown above, was seen as more significant than usual because it was the first to be issued after the 'Liberation Day' tariff announcement.

In comparison with the March dot plot, there was a slight move upwards, with seven votes predicting no rate change for the remainder of 2025 against only four previously. The June dots for 2026 and 2027 pointed to final rates 0.2% higher than in the March plot. Over the long term/run, there was a surprisingly wide divergence of views, ranging from 2.5% up to 3.9% with no great consensus.

The nudge up in rate forecasts is at odds with market forecasts, which at the end of the month had settled on a 3.0% rate by December 2026, against the median dot plot of 3.6% issued in mid-June. The wide gap may be a sign that investors expect Trump to get his way on rates once a new Fed chair is in place.[14]

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