Investment Review – July 2025

Highlights

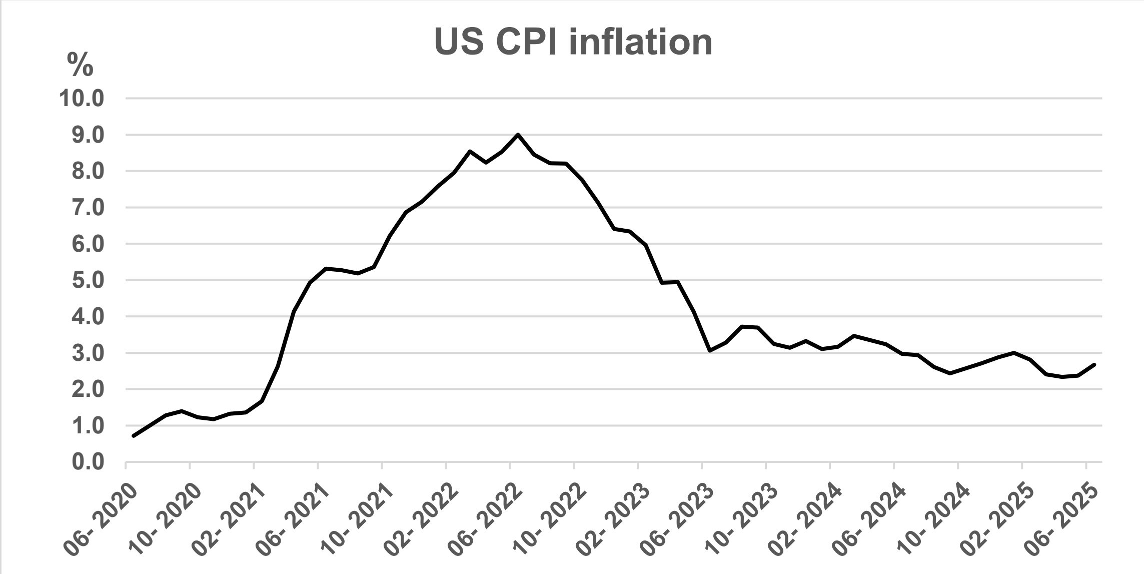
- Ahead of President Trump's latest 1 August deadline, the US announced 'trade deals' with Japan, the EU, South Korea and other nations, mainly involving 15% tariffs. However, the details are still up for negotiation.
- The Federal Reserve kept interest rates unchanged (4.25%–4.50%), despite great pressure from Donald Trump. The European Central Bank also chose to stay put (at 2%) in July.
- Mid-month, the FTSE 100 closed above the 9,000 level for the first time.
- The US stock market, as measured by the S&P 500, hit ten all-time highs in the month, before drifting down at the month end.
- The star of the Magnificent Seven, Nvidia, reached a valuation of over $4 trillion in the first half of July, followed briefly at the end of the month by Microsoft. Together, the duo now accounts for almost 15% of the S&P 500.[1]
- The US dollar strengthened over the month, marking a slight reversal of its 2025 downward trend.[2]

Global equity markets rose in July, as the drama surrounding Donald Trump's 'Liberation Day' tariffs gradually subsided, only to reprise at the month's end. The world has seemingly accepted that trading with the US will come with a 15% tariff price tag, amplified by a 7% decline[3] in the value of the dollar since the start of 2025. Government bond yields rose in July as the US, Japanese and European central banks all held their rates. Rising equity values and bond yields set the scene for an interesting season ahead. August and September are the S&P 500's worst-performing months of the year, according to a Bloomberg review of the past three decades.[4]

United States

Tariffs continued to dominate the market landscape, with signs of inflationary pressure first appearing in the June Consumer Price Index (CPI) figure of 2.7%, up from 2.4% in May.[5] On 7 July, two days before the initial 'Liberation Day' deadline, the cut-off date was extended to 1 August. Subsequently, hurried trade deals were reached between Japan, the EU and South Korea, with 15% tariffs generally applying. However, at the end of the month, Trump signed a raft of executive orders hitting countries that had not reached a settlement, such as Canada, India and Taiwan.

Trump's other focus remained on bending the Federal Reserve and its chair, Jay Powell, to his will. His demands for substantial interest rate cuts (to as low as 1%) fell on stony ground, with the Fed continuing its 2025 rate freeze at its meeting on 29–30 July. The US central bank remains unwilling to act until the impact of the tariffs on inflation is clearer, with expectations for a 0.25% cut at the next meeting in mid-September now in the balance after Powell's latest post rate-setting comments.



Source: US Bureau of Labor Statistics[7]

The US equity market, as measured by the S&P 500, was largely unfazed, reaching six consecutive new highs over six days in the second half of the month, before[8] trailing off as the 1 August deadline loomed. Reports on quarterly earnings buoyed the market, particularly from Nvidia, Microsoft and Meta, the most AI-focused of the Magnificent Seven. The S&P 500 ended the month up 2.2%, while the NASDAQ gained 3.9%.

Across the board, Treasury yields rose by about 0.2% over the month, not helped by the news from the Treasury Secretary, Scott Bessent, that he would be financing much of the ballooning US budget deficit with short-term borrowing. This approach, which Bessent criticised his predecessor for adopting, is cheaper in terms of servicing costs than long-term debt, but riskier as it means more frequent re-financing.

United Kingdom

Over July, the FTSE 100 put in a solid performance, rising by 4.24% after crossing the 9,000 threshold for the first time. A good set of half-year results from the banks, other than HSBC, formed part of a mostly upbeat crop of July company announcements. Rolls Royce was a fine example: a basket case forced into a £2bn rights issue[9] at 32p a share during the Covid era, the company saw its share price reach £10 per share, up over 80% since the start of the year.[10]

With a focus on the large cap stocks, the FTSE 250 underperformed the FTSE 100 this month, but still rose 1.6%. Small caps were little changed, with the FTSE Small Cap index up 0.4%, although the sector remains ahead of the FTSE 100 over the year to date.

The latest Dividend Monitor from Computershare showed Q2 UK dividend payments were down 1.4% year-on-year, a fall that the data provider attributed to a sharp drop in special dividends and the strength of sterling. Strip out these factors, and on a constant currency basis, underlying (regular) dividends were up 6.8% on Q2 2024.[11]

Gilt yields had a sudden jump at the beginning of July when pictures emerged from the House of Commons of the Chancellor in tears. The 30-year yield rose by over 0.2% to 5.43% on the day. Both bond markets and Rachel Reeves quickly regained their poise, but by the end of the month, the 30-year yield had returned to 5.38%.[12] The bond market's reaction was a warning that investors do not want the Chancellor to weaken her "iron-clad" fiscal commitments.

Europe

The European Central Bank (ECB) kept its rates on hold in July, breaking a run of seven consecutive 0.25% rate cuts. However, the Bank's press release stressed that it "is not pre-committing[13] to a particular rate path". The wording may reflect ECB concerns[14] that President Trump's trade war could see Eurozone inflation (on target at 2% in July)[15] driven down by Chinese imports, diverted from the US.

European markets spent much of the month worrying about whether the EU would successfully negotiate its way out of Trump's tariff proposals, which were ratcheted up to 30% mid-month. In the final days of July, Ursula von der Leyen settled for a 15% tariff rate following discussions at Trump's Turnberry golf resort. The 'deal' was not warmly received by the markets, not least because many elements remained unclear.

Over the month, the Euro Stoxx 50 edged up by 0.3%, with the best-performing markets being Spain and Portugal. The worst-performing European market in July was Denmark, which fell by 14%.[16] The reason? Novo Nordisk, maker of Ozempic and Wegovy weight loss drugs and about half the total Danish stock market capitalisation, issued a warning about the impact of generics that rapidly slimmed its share price.

Asia

Japanese government bond yields rose over the month, returning to their May levels, despite a 0.2% fall in annual inflation to 3.3%. The Japanese equity market was more concerned about US tariffs, which started the month with a threat of 25%, but then ended it at 15%, after a mid-month 'agreement'. A graph of the Japanese market follows that story, drifting down until a 3.5% jump on 23 July, when the tariff news broke.[17] Over the month, Japanese equities, as measured by the Nikkei 225, rose by 1.4%.

Hong Kong's Hang Seng index continued its strong run, adding another 2.9% as money continued to flow in from mainland China. The Taiwan stock market index rose 5.8% over July,[18] but that was before Trump announced a 20% tariff on the country at the end of the month.

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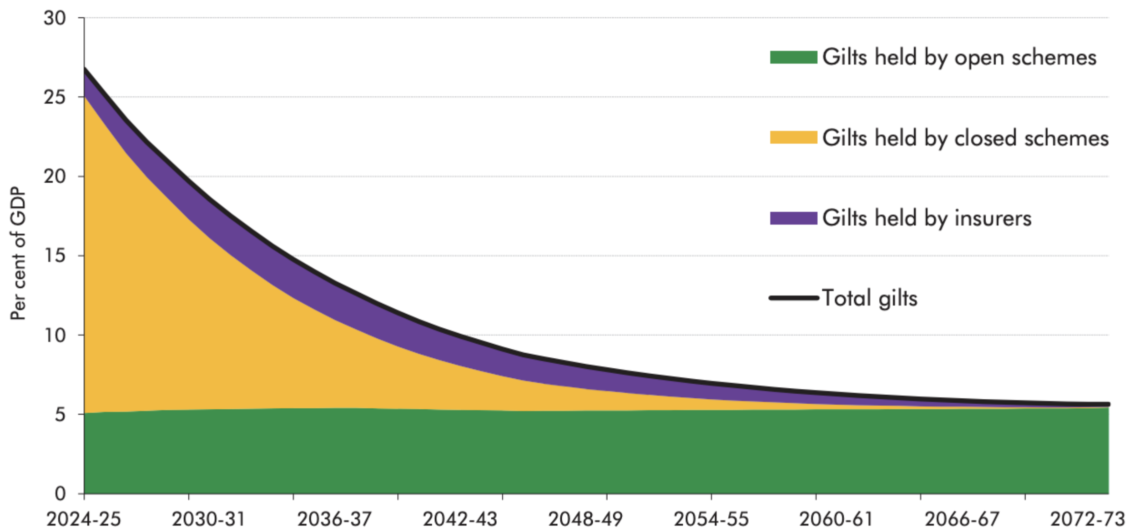
Emerging Markets

The MSCI Emerging Markets Index was up 1.7% on the month in dollar terms, despite tariff concerns, including a punitive 50% imposed on Brazil. China performed strongly, with the Shanghai Composite up 3.7%. Towards the end of the month, Bejing announced a continuation of its tariff war pause with the US, which had been due to end on 12 August. Scott Bessent, at the US Treasury, suggested that China had jumped the gun with the news, as Trump had not then, or yet, agreed to it.

News that the US would impose a 25% tariff on India, plus additional tariffs reflecting Russian oil imports, saw Nifty 50 drop by 2.9% in July.[19] Thailand, which negotiated a last-minute reduction in tariffs from 36% to 19%,[20] enjoyed a stock market rise of over 14%[21] across the month, while Indonesia, with the same 19% 'deal' gained 8%.[22]

And also…

OBR projection for defined benefit sector gilt holdings



Source: OBR FRSR 2025[23]

As if the short-term prospects for UK government finances were not bad enough, the Office for Budget Responsibility (OBR) has been considering the outlook over the next 50 years. Its latest *Fiscal Risks and Sustainability Review (FRSR)*[23] focuses on three main areas, one of which is the UK pension system. As might be expected, the OBR's review of the State system included criticism of the State pension triple lock, which it said had cost three times the expected amount.

Its take on the private sector pension market highlighted a concern which is already having an impact: pension schemes' appetite for gilts. The OBR projects that the gradual demise of private sector defined benefit (DB) schemes and their replacement by defined contribution (DC) schemes will significantly reduce pension scheme gilts ownership (just over half of private sector DB scheme assets were held in gilts at September 2024). The OBR notes that the broader pension sector (including insurers' annuity and buyout business) has had relatively stable gilt holdings over the past 25 years, despite a tripling of total gilt issuance. However, with many private sector DB schemes now closed, this once-reliable source of gilt purchases for the Treasury is uncertain, as the graph above illustrates.[23]

The OBR estimates that one result of falling pension scheme demand is that "the overall interest rate on UK government debt could rise around 0.8 percentage points". The word 'could' is important to note, as the OBR is unclear how much the gilt market has already priced in the trend, especially at longer maturities where demand has already fallen the most.

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