

## Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	3.9%	7.9%	5.2%	8.0%
Global Equities	4.9%	13.1%	0.2%	10.9%
UK Gilts	-0.2%	-2.3%	-0.5%	-4.4%
UK Property	0.2%	1.1%	2.5%	5.3%
Gold	3.9%	0.6%	10.1%	32.1%
Commodities	4.8%	5.9%	-5.7%	9.4%
Sterling	-1.6%	-0.8%	1.3%	0.7%

Returns to 31<sup>st</sup> July 2025. Source: Refinitiv

## Market Overview

July continued the strong recovery in stock markets that we have seen since President Trump's fateful 'Liberation Day' tariff announcement. A number of trade agreements being struck, generally benign economic data reports and a supportive start to companies Q2 earnings releases has helped. However, a range of tariffs are now due to be imposed in a week's time where no trade agreement has been signed. Currently a base level of 10-15% looks like the floor when the dust settles. That compares to roughly 2.5% average tariffs being in place prior to Trump's second term, a significant change.

Company reporting season has just started and has been generally well received. The big AI themed tech stocks are reporting very strong growth and continue to pour money into greater AI investment. Some companies have also benefitted from some demand pull-forward, ahead of tariffs. Others have started seeing negative impacts from tariffs, this is particularly true of car companies. The full impact of tariffs will not be known for some time, but it is a tax and if consumers don't bare all the cost, some of it will fall on companies.

Bond markets were relatively quiet in July, trying to read the economic tea leaves on whether growth or recession is the more likely outlook and how central banks are likely to react. Currently the Federal Reserve is holding policy interest rates, as is the European Central Bank, whilst the Bank of England may cut the base rate this month, despite inflation well above target, as growth is weak. Policy rates also have an impact on foreign exchange rates and the dollar jumped higher in July, following a very weak first half, on higher for longer interest rate expectations as trade agreements were being announced.

With stock markets reaching new highs at the end of July, it would be natural for them to take a summer pause, to digest what the impact of tariff implementation will be and also contemplate what the long-term return will be on the current, vast, AI spend. Whilst government finances may be in a parlous state, across much of the western world, consumer finances, particularly in the UK, look much healthier – we just need reason to be more confident.

OPEC+ continues to raise production quotas, with the price of oil currently settled around the high \$60s per barrel. The market looks well supplied into 2026, but is obviously sensitive to Middle East hostilities and sanctions on Russia. European gas prices have also eased helping the inflation outlook, of which energy is a large component. Industrial metal prices slumped on the introduction of US tariffs, with some distorting moves in copper. Gold having surged over the first half of the year, eased as the dollar rallied. Food prices might create some problems this year; notably in Japan the price of rice doubled in the first half of the year.

Global supply chains have improved significantly after a long period of disruption, but not back to the level of efficiency pre- Covid. The worry is that tariffs will again disrupt the global supply chain and lead to shortages of some critical components. China has become the dominant supplier in a number of crucial areas, such as rare earth metals where they control ~90% of global processed supply and have used that advantage to counter US trade restrictions.

A global interest rate cutting cycle (bar Japan) is still in place. Although there are different views on the pace and extent of cuts, they will help small companies' finances and households with mortgages. The yields on long bonds have declined, on economic growth concerns, but remain sensitive to the growing levels of government debt across the western world. Along with tariff uncertainty, this continues to act as an impediment against long term investment decision taking.

Property fund mergers in 2024 have been followed by a significant number of takeovers for property REITs as their large discounts to underlying asset value has attracted international interest. With rents continuing to rise and vacancy rates at low levels, property still looks attractive, if share price discounts remain. Listed infrastructure trusts also trade on wide discounts, renewable energy focused ones still face uncertainty on generation levels and prices, but new regulations should provide more certainty on long term power pricing. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

Political policy continues to be fluid, with plenty of U-turns both here and abroad, as well as recent election surprises in Poland, S Korea and Holland. The shift towards nationalist politics remains current, but markets are now more focused on fiscal policy and budgets. In the US Trump's 'Big, Beautiful Bill' passed into legislation, cementing significant deficits for the foreseeable future; unless tariffs generate significantly more revenue than expected.

Despite flirting with technical recessions (two successive quarters of economic contraction) in Europe a full-on recession has so far been avoided; the fabled 'soft-landing'. However, supporting economies through Covid and the energy price spike have a real cost and take away from future economic activity; meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. Softness is now beginning to emerge in the employment market, although real wages have grown after a long period of erosion and a rise in household savings means consumer finances are generally quite healthy.

Company results being announced for the second quarter of 2025 have held up well in general, with aggregate reported profits still advancing. This has been especially true for the dominant US tech companies driving the push of AI, but more mixed elsewhere. Some companies are already forecasting significant tariff costs, as rates start to be implemented. Consumers have been showing greater price sensitivity and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

Despite the current ceasefire between Israel and Iran, conflict continues to rage elsewhere, and lasting peace feels some way-away. This has led to a substantial policy shift in Europe, with recognition that there will need to be a significant increase in defence spending, to 'be prepared'. Some companies will be beneficiaries of this, but with spending cuts elsewhere needed to try and balance the books, there will also be losers. Looking through all the uncertainty we still see positive investment returns, but expect bumps along the way.

## Market Outlook

Equities	Stock markets have continued their strong run since President Trump's initial tariff announcements back in April. A number of announced trade agreements, continued economic resilience and company trading reports have helped calm nerves. With a series of US imposed tariff rates due to go into effect in a week's time, however, the market calm may be tested. As a tax, tariffs should have a negative impact on profits, growth or both and this looks at odds with markets at all time highs, although AI continues to generate strong growth.
Fixed Interest	Enthusiasm for interest rate cuts cooled in the US with the economic uncertainty and inflationary potential created by tariff proposals, and the Fed remains on hold. Meanwhile the Bank of England may cut the base rate this month, despite inflation remaining well above target, as growth remains sluggish and there are clear signs of a cooling labour market. Long term bonds (10 years +), however, have to contend with forecasts of rapidly rising government deficits, so steeper yield curves can be expected.
Commercial Property	There has been a marked pick-up in M&A activity in property trusts (REITs), as market stabilisation and steep discounts to quoted asset values have attracted takeover offers. This has probably been aided by a growing consensus that debt costs (one of the key factors in valuing property) have stabilised. Supply and demand have settled down and with limited new build, and higher energy standards required, the market looks to be well underpinned.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, some with attractive inflation linked contracts, and growth tied to improved connectivity and de-carbonising economies; although build costs are high. Debt costs, that weighed on the valuations of private equity and infrastructure trusts, remain an issue but de-gearing is taking place. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly.
Cash	The investment return on cash and cash like instruments has peaked and is expected to gradually decline through this year.

Thorntons Investments

1<sup>st</sup> August 2025

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