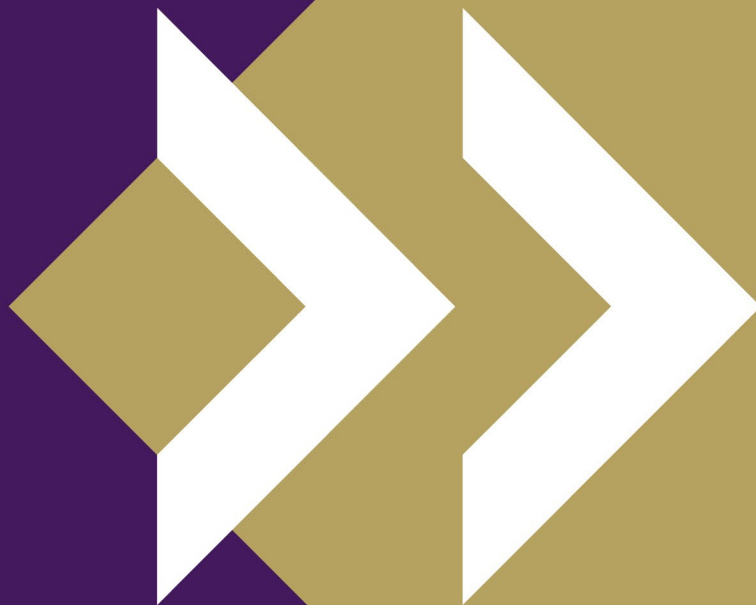




Quarterly Market Update: Q2

July 2025



Q2 Quarterly Market Update

The Macro

In summary, the second quarter of 2025 was defined by policy uncertainty: trade shocks, geopolitical risk, and cautious central banking. Growth was sluggish, inflation resilient, and markets volatile. The global economy avoided outright recession, but its trajectory remains fragile pending trade resolutions, energy stability, and cohesive policy responses.

No-one expected the advent of Trump 2.0 to be dull, but few could have predicted the chaos that has been inflicted on investors during his early days in office.

This came to a head at the beginning of April when the tariff announcements on Trump's 'Liberation Day' provided an unprecedented level of self-inflicted market turbulence. The tariff increases announced being significantly higher than markets had anticipated, with the imposition of a standard 10% (1) tariff and a wide range of more stringent measures announced.

The first week of April saw an indiscriminate sell off and heavy falls across global investment markets, with few places to hide. To put this turbulence into context, stock market volatility in the USA reached levels only previously witnessed at the peak of the Global Financial Crisis and the outbreak of Covid.

However, Trump was forced to make a U-turn on his tariff policies on 9th April, with a sharp sell-off in the US Government bond market the likely catalyst. He paused tariff implementation for 90 days (8th July) to help calm markets, which duly surged in the following days.

As if his tariff policies were not enough, Trump alarmed investors further during the month with comments threatening the future independence of the Federal Reserve, but once again he made a complete reversal later in the month - saying he had no intention of removing Governor Jay Powell.

The total unpredictability of Trump's policies started to weigh on the US economy which shrank by an annualised 0.3% (2) in the first quarter of 2025 (the first negative reading since 2022) although this was attributed to huge imports made before Liberation Day, whilst US consumer sentiment fell in April to levels not seen since the recession of 1990.

In the run up to early April both the UK and Europe had been showing some positive economic signs with the UK economy growing 0.5% (3) in February after January's fall, whilst Europe's GDP gained 0.4% (4) in the first quarter.

In May, Donald Trump announced negotiations with the EU weren't going particularly well and that 50% tariffs would be introduced from the start of June. As usual, a partial climbdown through an extension was quick to follow. Even more confusion was added to the equation at the end May when a panel of judges in the US ruled the tariffs illegal.

Trump's continual U-turns over trade policy is resulting in ongoing market volatility with tough talking leading to market falls, and subsequent backtracking leading to markets recovering.

The US and China resumed trade talks in London in June, sparking cautious optimism although no deal was reached at the time of writing this report.

In May, there was some more positive economic news flow with the UK agreeing trade deals with the US, India and the EU. UK GDP grew by 0.7%

(5) in the first three months of the year, partially driven by exports prior to the US tariffs being imposed. March's reading of 0.2% growth (6) was also better than expected and UK retail sales rose strongly in April by 1.2% (7).



The Bank of England (BoE) trimmed interest rates by 0.25% in May to 4.25% (8), whilst there was a further 0.25% (9) cut in Europe in June, meaning that European borrowing costs have halved to 2% (10) over the past year. The US Federal Reserve, European ECB, and the UK BoE have all recently signalled hesitant stances - balancing disinflation against the risk of renewed inflation from energy and tariffs.

In terms of growth the World Bank predicts 2025 global growth to be around 2.3% (11) - the slowest non-recession pace since 2008 - down from earlier forecasts. There is real regional divergence with some emerging economies continuing to flag whilst China and India are growing respectably. US growth is facing headwinds from tariff shocks and fiscal tightening and Q2 forecasts have fallen from over 2% to around 1.5% (12) per year. European growth was subdued at around 1% (13) but is expected to pick up on the back of rising fiscal and defence spending.

As we pivot into the second half of 2025, markets and policymakers will continue to closely monitor

progress on tariffs, inflation, the oil price and wider geopolitical uncertainty such as in the Middle East and Ukraine.

Bond Markets

In Q2 2025, global bond markets experienced significant volatility, driven by trade shocks, evolving fiscal dynamics, and geopolitical uncertainty.

Following the April 2nd US "Liberation Day" tariffs, investors initially fled to US Treasuries, pushing 10 year yields down to around 3.8% (14). But just days later, panic selling erupted and 10 year yields surged to 4.5% and 30 year yields jumped to 4.9% (15) in a three day sell-off. This panic was fuelled by fears of tariff-induced inflation, and diminished confidence in the US debt markets. General concerns around the US government's finances led Moody's to downgrade US sovereign credit and wobbly Treasury auctions further pressured yields and triggered May bond-market outflows.

The Moody's historic downgrade of the US credit rating means that US debt no longer has a AAA rating from any of the big three ratings agencies.

Similar stress hit Japan and the UK - Japanese 30 year Bonds hit 21 year highs, and UK yields reached their highest levels since 1998. Both central banks intervened to stem the chaos.

June saw bond yields pull back but remain at elevated levels. As tariff tensions began to ease and Fed meeting expectations softened, 10 year US Treasury yields partly retreated, settling around 4.4% (16) by mid-June.

In Europe, southern European bond yields in countries such as Italy, Spain & Greece narrowed slightly toward German Bund yields, thanks to improved fiscal signals related to government revenues, spending and financial policies.

Sticky inflation, government spending and geopolitical concerns have delayed expectations of rate cuts in the US. Market forecasts have now dwindled from two cuts to one cut in 2025.

In summary, the second quarter saw dramatic yield swings, from reactive bond buying to rapid sell offs, then partial retracement. There were signs of stress across markets reflecting fears over government finances and central bank credibility across major economies.

Investors remain cautious with global bonds offering relative safety but carrying elevated duration and fiscal risks. Covered and corporate bond issuance remained solid, yet spreads widened amid uncertainty.

Yet underlying investor demand for income and diversity continued to support fixed income markets and most bonds delivered positive returns of between 1 and 2.5% (17) across the quarter.

In the second half of 2025, the key influences which are being carefully watched by investors are a combination of tariff diplomacy, inflation trends, and fiscal discipline across nations.

Equity markets

Q2 2025 saw a technical bear-market triggered by shocks in trade policy, swiftly followed by a sharp rebound once investor fears eased.

However, heightened volatility persisted as geopolitical uncertainty and policy manoeuvres kept markets on edge. Regional equity performance diverged sharply - the UK, Europe, Asia and the Emerging Markets surged ahead, while US markets underperformed, prompting a trend dubbed 'sell America'.

The last three months have seen global stock markets experience a rollercoaster journey. On April 2, the US imposed sweeping 10% tariffs on nearly all imports, spurring an immediate global equity selloff. Stock markets plunged such as the

top 500 stocks in the US which fell over 15% (18), in one of its worst weeks in five years.



By April 9, the US paused further tariff hikes, triggering a rebound: major indices recovered much of their earlier losses, and by the middle of May the US stock market returned to year-to-date positive territory, although not when calculated in sterling due to this year's weakness of the US dollar.

Investor sentiment grew cautiously optimistic, over Q2 as some trade tensions eased, and markets began pricing in more constructive scenarios.

But volatility has remained high, as equity markets stayed jittery amid tariff risks and Middle East tensions.

A noticeable sector rotation occurred in the second quarter with both technology and many growth stocks weakened, while defensive sectors such as energy, health, and financials gained favour.

Despite the volatility, global equity markets overall ended Q2 with good gains and above the April lows, with emerging markets and international equities outpacing US benchmarks.

After a sharp April sell-off, global equity markets rebounded in H1 2025. US stocks regained footing, but international and value sectors led the recovery. With tariff uncertainty fading and

fundamentals intact, the prevailing view is cautiously optimistic.

Key drivers include tariff volatility, a weaker US dollar, regional fiscal stimulus, and AI-driven rotation. Analysts caution risk of renewed corrections but expect earnings growth and policy clarity to support a stable rebound in many equity markets for the rest of this year.

On the currency front, the pound has had a good run on stronger data and the dollar weakened after the US congress passed President Trump's tax and spending bill, or more accurately the 'add to the credit card bill' Bill.

Outlook

We expect that the heightened volatility experienced in the first half of the year is likely to persist. However, the markets should continue to play a crucial role in guiding the US administration towards more sensible policy.

The uncertainty of Trump and his policies in the USA will likely impact economic activity in the coming months and there is quite a lot of fear of where this may lead us to. The risk is that the uncertainty on US policy leads to both firms and consumers to pause their spending plans, waiting to see how things work out. Tariffs is one example of this policy uncertainty, with both the scale and scope that the US will impose on its trading partners still unknown.

The good news is that the global economy is sound and has defied fears of recession despite soaring inflation and interest rates, and thanks to healthy household and corporate finances.

In equities, we believe that unlike the last few years, investors will see better risk-adjusted returns from being well diversified regionally rather than simply having a big exposure to the US stock market. As well as being regionally diversified, both income-focused and the use of funds with different investment styles should help

guard against further wobbles in the equity markets.

Bonds are an important component of portfolios, providing both income and downside protection during those more volatile periods for the equity markets. Our fund managers think that UK gilts are well placed, given a relatively weak growth backdrop and a UK government that must act according to its own fiscal rules. In general, they prefer to invest in high quality credit and think that the income component is likely to be the key source of fixed income returns.

Alternative assets can provide an additional layer of diversification in portfolios, helping to capitalise on volatility, limit drawdowns and function as ballast during periods of market stress. They can help build more resilient portfolios in a world where inflation and growth risks are more evenly balanced than in the last decade.

We are also being mindful of currency exposure as the safe haven dollar may not be what it was. We believe that hedging our US dollar exposure within the bond element of the portfolios, constraining US equity exposure and being more broadly diversified across global markets should help mitigate any such dollar declines.

Elevated levels of uncertainty about the outlook for both trade and fiscal policy, and consequently growth and inflation, may make for a bumpy ride for markets in the second half of 2025, as investors react to Trump, and to new data on both growth and inflation. So, we think diversification will be increasingly important in such an environment.

All Information Sourced from: Financial Times (1, 14, 15), Trading Economics (5, 6, 7, 9 & 16), Bank of England (8), JP Morgan Chase & Co (2, 3, 4), LSEG Lipper (17, 18), Fairview Investing Ltd (10), Blackrock (11,12, 13) plus Square Mile (all rights reserved).



jcwealth.co.uk



This document has been prepared for information purposes only by Johnston Carmichael Wealth Limited. While all possible care is taken in the completion of this document, no responsibility for loss occasioned by any person acting or refraining from action as a result of the information contained herein can be accepted by the firm.

Johnston Carmichael Wealth Limited is authorised and regulated by the Financial Conduct Authority.

Registered office: Bishop's Court, 29 Albyn Place, Aberdeen, AB10 1YL. Registered in Scotland (SC081852). Phone number: 01224 212222.



jcwealth.co.uk



This document has been prepared for information purposes only by Johnston Carmichael Wealth Limited. While all possible care is taken in the completion of this document, no responsibility for loss occasioned by any person acting or refraining from action as a result of the information contained herein can be accepted by the firm.

Johnston Carmichael Wealth Limited is authorised and regulated by the Financial Conduct Authority.

Registered office: Bishop's Court, 29 Albyn Place, Aberdeen, AB10 1YL. Registered in Scotland (SC081852). Phone number: 01224 212222.