Investment Update – June 2025

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The first half of 2025 provided no shortage of incident in financial markets, and while it would be inaccurate to say that investors were totally unprepared for what was to come in April, the latest developments were sufficiently surprising to create extreme price volatility, both negative and positive.

On 2 April, US President Trump announced his much-heralded "reciprocal" tariffs on goods imports into the US. There had been much speculation about the outcome, but it still turned out a lot worse than expected. The production of giant cards with various countries' tariff rates might have been laughable, were the consequences not so serious. The average tariff rate on goods imports of around 24% was higher than expected – and higher than the previous average rate of around 2.7%. China's subsequent decision to impose its own reciprocal tariffs was met with an increased tariff of 145%..

In announcing these tariffs, President Trump was clearly testing the limits of both trading partners and investors. The market response suggests that he pushed too far, since investors then collectively tested the Trump administration's pain threshold for the value destruction of financial assets. This amounted to a 20% decline in US equities from their February peak and a sharp rise in bond yields, which threatened the US's already shaky fiscal position, and a fall in the dollar.

This quickly had the US leadership reaching for the pain killers, in the form of a 90-day pause on the tariffs (bar China), allowing time for negotiations. There have since been encouraging announcements of trade talks, first in the form of a 'trade deal' with the UK, and more recently news of a 90 day pause on tariffs with China, which sent stock markets higher with the S&P 500 now back above pre-liberation day levels, although remaining below it's February peak.

Our opinion is that tariffs are here to stay, but at levels that everyone will learn to live with. Even so, we cannot discount more disruptive announcements over the summer. Trump has a habit of disrupting things just before striking a deal. We also bear in mind that the clock is ticking down towards the mid-term congressional elections in November 2026 and that the Republicans will be wanting to promote good news ahead of those polls.

One feature of the recent market volatility is that it has coincided with a weaker dollar, driven largely by the US administration displaying a general disregard for the institutions that have enabled America's prosperity and apparent disdain for the Constitution itself. Another development weighing on the dollar has been the passage of the latest budget through Congress, called the 'One Big Beautiful Bill Act'. The bill extends tax cuts passed in 2017, increases defence spending, and cuts spending on programmes such as Medicaid, leading to some investors fearing the bill will add to the US deficit.

The probability of a US recession this year remains the largest driving factor on possible equity market returns, and will depend largely on the outcome, or even simply the time to reach an outcome, of the ongoing trade negotiations. We have already seen some distortions to the first quarter US GDP numbers owing to the strength of imports to get ahead of tariffs. There are inevitably going to be more distortions in the months ahead and so we will have to focus on the underlying situation rather than being distracted by the more volatile headline numbers. If we were to pick out one set of data to concentrate on, it would be employment data. We'll be looking at the number of job openings, the propensity of workers to quit their job, the trend of initial jobless claims and the important monthly payroll data for clues.

At the end of the day, though, equities can't make long-term progress without companies growing their earnings, and we saw enough in the recent first quarter reporting season to get a decent handle on that. Of course, those earnings were in the bag before 'Liberation Day' and so might not reflect what is to come. Even so, the good news is that they were fine, suggesting reasonable momentum into the tariff storm.

Oliver Whitlock
Investment Manager

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