Second quarter review and outlook

President Trump's tariff changes sparked global market turmoil and ongoing trade tensions. We also saw further conflict in the Middle East.

Q2 2025

Marketing material.

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The second quarter of 2025 was shaped by President Trump's "Liberation Day" tariffs, announced on April 2. The framework introduced a baseline tariff of 10%, rising to 50% for the highest rated country (Lesotho).

This triggered immediate market turbulence, with the S&P 500 recording its steepest single-day decline since March 2020 and falling more than 12% by the April 8 close. On April 9, President Trump announced a 90-day pause on nearly all tariffs, leaving the baseline 10% still in place for all nations other than China whose tariff rate was left at 145%. Market sentiment gradually improved as US-China negotiations progressed, culminating in an agreement that saw tariffs reduced to more moderate levels.

June saw attention turn to the Middle East, as Israel and the US conducted strikes om Iran's nuclear facilities. Crude oil prices spiked, before retreating following a measured Iranian response and eventual ceasefire agreement.

Equities

US

US equities were resilient, with the S&P 500 gaining 10.6% in the quarter. The tech-heavy NASDAQ outperformed with a 17.6% rise, driven by continued strength in the artificial intelligence theme. This was particularly evident in "Magnificent 7" names such as Microsoft and Meta, whose strong earnings underscored sustained AI-driven growth, despite Apple and Amazon expressing concerns about tariff impacts in their guidance. The Russell 2000 posted a gain of 8.1%, reflecting the broader market's preference for large-cap technology exposure.

UK

The FTSE All Share and FTSE 100 advanced 3.2% and 2.1% respectively, despite the volatility triggered by President Trump's "Liberation Day" tariff announcement. Small and mid-cap stocks performed better, with the FTSE 250 and AIM market posting returns of 11% and 13% respectively. UK stocks were helped by the announcement of the 'UK-US Economic Prosperity' deal, the first bilateral trade deal announced by the US post 'Liberation Day'.

Europe

The broad MSCI Europe ex UK index advanced 1.7% during the quarter. The DAX rose 7.9% to reach all-time highs, while the CAC 40 delivered a negative return of -1.6%.

The European economic landscape showed surprising resilience, with Germany set to benefit from new corporate tax breaks and the exclusion of defence from the debt brake.

The European Central Bank (ECB) was able to cut rates by another 25bps during the quarter as headline inflation moved back to target levels. That leaves the benchmark rate at an accommodative 2%, in contrast to the higher for longer narrative we are seeing in the US and UK.

About Cazenove Capital

- Owned by Schroders, a FTSE 100 company
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- Offices across the UK in Birmingham, Bristol, Chester, Edinburgh, London, Manchester and Oxford
- Founded 200 years ago and built on lifelong partnerships with our clients
- Discretionary fund management for advisers

[1]Correct as of December 2024.

Richard Gould
Portfolio Director

Richard Gould is a Portfolio Director within the DFM Team. Having joined in 2007, Richard began his career in the City working for an executive search agency focusing on asset management firms. He then moved to Morley Fund Management where he worked on the Corporate Bond team before moving to the Private Equity desk. Richard has completed the Chartered Securities and Investment Institute Masters in Wealth Management.

Performance figures are price return in local currency unless otherwise specified.

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Japan

Japanese equities emerged as one of the strongest performers globally, with the Nikkei 225 rising 13.7%, despite headwinds from weak economic data. The market's strength was particularly notable given the backdrop of rising domestic yields and persistent inflation concerns, with headline CPI remaining elevated at 3.5%.

Asia & Emerging Markets

Emerging markets demonstrated resilience with the MSCI Emerging Markets index rising 11.0%[1], despite Chinese markets underperforming amid disappointing economic data (the Hang Seng and Shanghai SE Composite rose 4.1% and 3.3% respectively), .

The quarter was marked by dramatic shifts in US-China relations, beginning with punitive tariffs but eventually leading to constructive dialogue, including a framework agreement on rare earth exports and potential compromises on technology restrictions.

Indian equities performed well, with the BSE Sensex gaining 8% in the quarter. Sentiment was helped by a bigger than expected cut of 50bps to the benchmark interest rate and a 1% cut to the cash reserve ratio, improving liquidity in the banking sector.

Bonds

UK government bonds[2] delivered positive returns over the quarter, rising 1.9% in sterling terms, outperforming global government bonds which rose 0.25%[3].

Yields in the UK initially rose during the quarter following hawkish minutes from a recent Bank of England (BOE) meeting, before retreating as BOE chief Andrew Bailey signaled that the central bank would slow the rate at which it was selling gilts.

US Treasuries underperformed falling -0.5%[4] through the quarter, as debt sustainability fears surrounding the OBBB emerged. Yields in the US oscillated through the quarter, with 10-year yields peaking at 4.58% in late May on a weak 20-year auction and the OBBB Tax Bill passing the House of Representatives, before retreating later in June as the Federal Reserve left two rate cuts in its dot plot for 2025.

European sovereign bonds[5] were muted in the quarter, with no gain in the quarter, despite the ECB's continued accommodative stance.

Global investment grade credit was up 0.7%[6] in Q2, with UK and Euro corporates helping drive returns whilst the US credit was marginally behind the index. Global high yield returned 1.4%[7] with all major developed markets positive contributors, whilst Emerging Market Debt was up 1.1%[8].

Outlook

We expect the US economy to continue expanding in 2025, but at a slower pace than in recent years. This resilient growth combined with supportive financial conditions should support equities, although the end of the tariff pause in July presents a risk, as does broader US policy uncertainty. US tax cuts and deregulation are positives but may not offset growth headwinds. Against this backdrop, we believe that a neutral allocation to equities remains appropriate, with overweight positions in Japan, Asian emerging markets and the UK. They offer a combination of reasonable earnings growth and attractive valuations and diversify our equity exposure away from the US, where valuations and policy risk are high.

We have taken advantage of the weakness in the long-dated bonds to slightly increase the duration of our bond exposure to a neutral position. While we are mindful of sovereign debt risk, long-dated bonds can help to protect portfolios in the event of an economic slowdown. Our preference for UK bonds (and limited long-dated US exposure) reflects a cautious view on the US fiscal position. We also continue to like gold, which could benefit further as central banks and others look to diversify away from the US dollar and US treasuries.

Performance figures are price return in local currency unless otherwise specified.
[1]Price return in USD. [2]ICE BofA UK Gilts All Stocks Index. [3]Bloomberg Global Government Index. [4]ICE BofA US Treasury Index, price return in USD. [5]ICE BofA Euro Government Index, price return in GBP. [6]ICE BofA Global Corporate Index, price return in Local Currency. [7]ICE BofA Global high Yield Index, price return in Local Currency. [8]ICE BofA Emerging Market Sovereign Bond Index, price return in Local Currency.

Cazenove Capital
1 London Wall Place, London EC2Y 5AU, United Kingdom
T +44 (0) 20 7658 6000
cazenovecapital.com

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