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6 August 2025

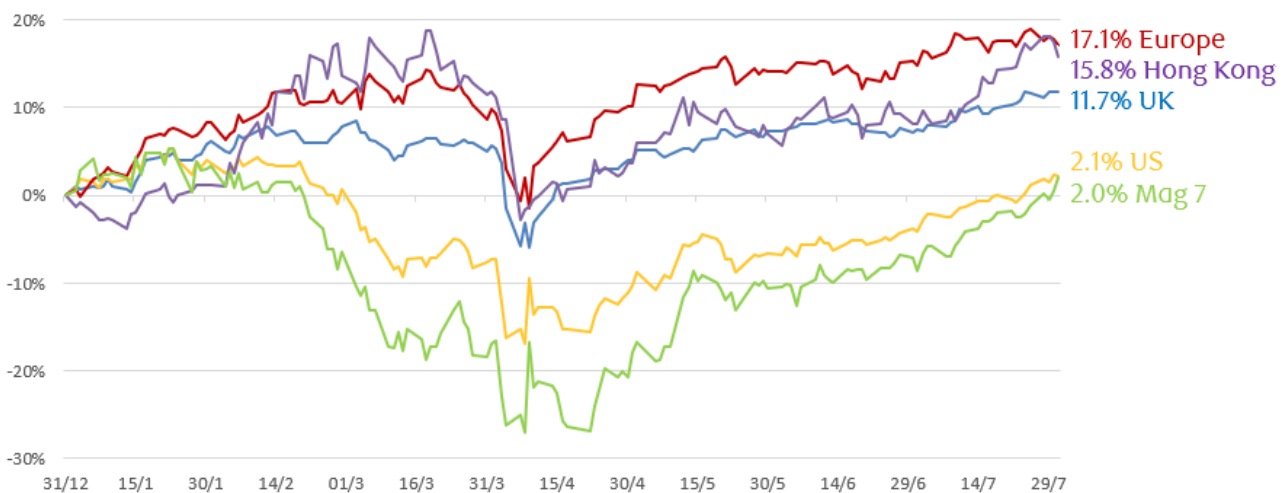
Market Update

Performance Summary

Overall, it has been a very pleasing start to the year from a performance perspective, with the market movements suiting how we have carefully prepared and positioned portfolios. Markets took a sharp downwards turn at the start of April following President Trump's Liberation Day then have rallied strongly since. Whilst it has been a volatile year so far, portfolios have fared well, delivering good positive returns net of charges. Importantly, portfolios protected capital very well during the large market declines in early April but have also taken part in the strong upside we have seen in May, June and July. This was due, in no small part, to our strategy to diversify our equity (stocks & shares) and currency exposure away from the US, with strong weightings in the UK, Europe and Asia.

To put this into context, you will see from the chart below the marked underperformance of the US market, with the S&P 500 only up around 2%, whilst in contrast, European, Asian and UK stock markets are up 17%, 16% and 12% respectively. Given the size of the US stock market, this has meant that global stocks are only up around 4% over the same period. Dollar weakness has been a key part of this, with the dollar down around 6% versus the pound since the start of the year, which highlights the benefits of retaining a good domestic and sterling weighting in your portfolio.

Global equity index performance to 31st July 2025 in £ (YTD)



Our performance has also been bolstered by our decision to diversify away from the 'Magnificent 7' (the largest 7 US technology stocks), particularly when they were selling off in the aftermath of Donald Trump's 'Liberation Day', falling around 25% as their worst point, as seen in the chart above. Whilst the tech companies are undoubtedly exposed to some of the risks that come with higher tariffs (Apple and Tesla in particular) we have also seen concern around the threat from Chinese competition in the AI space, together with concern around the high valuations that these companies have been sitting on.

Recent volatility has also suited our active approach, where we have been able to take advantage of the market weakness. After taking some profits at the end of January from US stocks in particular, we put these proceeds plus some cash to work in March and April, tactically adding to the UK and US stock market, with these investments already showing strong gains.

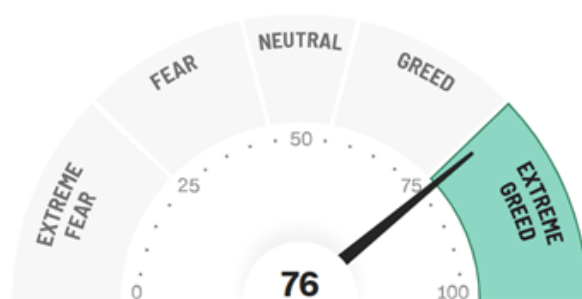


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Quarterly Recap

The phrase “climbing the wall of worry” captures the paradox that stocks can rise through challenges. In the second quarter of 2025, investors were confronted with a trio of “walls” – a trade war, a real war, and a tech arms race driven by AI. While these factors rattled market sentiment, the markets ultimately rose to new heights once again.

The Fear and Greed Index is published by CNN Business, it is used as a barometer of market sentiment, as it provides a visual representation of where we sit currently. It uses a number of metrics to provide a simple overview of those two basic motivators of investor behaviour, with markets tending to rise when investors feel greedy and fall when they fear fearful. So where do we sit at the moment?



This reading is in stark contrast to that seen in April, where this index was firmly in the ‘Extreme Fear’ zone. This highlights how short-term volatility is often just that – short term – and that things can turn surprisingly quickly. Fluctuations in share prices and sentiment are a normal and intrinsic part of the investment landscape and it best not to get too sucked into what can often be relatively temporary movements.

Why has sentiment changed? The initial falls were caused by the introduction of unilateral tariffs by the Trump administration, and the recovery by the ongoing negotiations that these tariffs have provoked. This is a game of negotiation from a President who loves a deal, starting with jaw-dropping levels and haggling down from there. In fact, it is questionable whether so many countries would be clambering to sign trade deals without the explicit threat of punitive tariffs. So, to that extent, the policy could be looked upon as a success – at least from a US perspective.

President Trump’s “One Big, Beautiful Bill” passed narrowly through both chambers of Congress, combining deep tax cuts, immigration crackdowns, military expansions and sweeping reductions to social welfare programs. By some reckoning, this could add trillions to the already burgeoning US deficit – i.e. the difference between what the US government spends and what it takes in from taxes and other revenue sources. This has led to a rise in US bond yields – what the US has to pay to borrow money – and a fall in the value of the US dollar. These are not necessarily problems for today but are likely to shift into focus in the years ahead.

In European markets, strong performance has been aided by plans to dramatically increase spending on infrastructure and defence, which should feed through into positive economic growth and company earnings. The UK is moving closer to Europe’s orbit – especially in matters of defence – and this works in the interests of all. Europe, particularly, welcomes the transatlantic contacts and expertise that the UK defence forces bring, while the UK would welcome inclusion in the European rearmament project both to bolster its own influence as well as to provide a stimulus to the economy.



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Looking Forward

As previously mentioned, we have long felt UK and European companies as well as some Asian/Emerging markets offer compelling investment opportunities and downside protection (given they trade at much lower valuations than their US peers) and have positioned portfolios accordingly. It has been pleasing to see this approach deliver returns for clients as investors have started to turn their attention towards these markets. The boom in M&A (mergers and acquisitions) of UK companies by - often overseas - investors at prices well in excess of where shares were previously trading, demonstrates the valuation opportunity in our domestic market.

The potential for AI to revolutionise many industries continues to dominate headlines as economists and market participants try to marry up potential investments returns with sometimes very lofty valuations within the sector. Estimates for 2025 are that global spending could reach \$360 billion, a rise of 60% year on year and, according to the consultants McKinsey, could hit \$6.7 trillion by 2030. Where the industrial revolution changed manufacturing processes, AI is likely to be more widespread than that, reducing human errors in digital tasks and automating data driven processes. Adding to this the ability to see, understand and translate spoken and written language, the potential benefits to business are vast in terms of potential cost savings - computers, after all, do not need holidays or pensions! This “always-on” ability is likely to transform operations and isn’t merely theoretical - it is already happening in some industries as anyone who has used a chatbot recently can see. The enhancements here over recent years has been remarkable.

Given these opportunities, we have good exposure to companies that can benefit from AI in portfolios. Whilst we selectively own some of the ‘Magnificent 7’ to achieve this, importantly, we also have more diversified exposure in other regions as, ultimately, many companies will benefit from this innovation. Not only do these companies have great growth prospects but they are trading on more reasonable valuations.

In summary, we see many exciting investment opportunities but at the same time pockets of rich valuations. Outside of equities, we continue to maintain a healthy weighting to government bonds and other defensive assets such as gold, which will help to protect the portfolio against further volatility, as it did earlier this year. We aim to steer a steady course around obstacles in the investment landscape in order to deliver steady, above inflation, long term returns for our clients.

The Winchester Investment Team