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INVESTOR INSIGHT

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A look at the markets by RSMR
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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

Tariff threats and conflict spook investors.

One factor that rose during the last quarter was investors' jitters due to President Trump's 'stop-start' trade tariffs and rising military tensions in the Middle East.

On his 'Liberation Day' in April, Trump announced huge tariff rises for many countries with which he claims that the US has a trade deficit, including punitive increases against China, its rival superpower. This shook investor confidence creating equity and bond market volatility. Stocks fell sharply before the President backed down and diluted his threats with tariff cuts, delays and prospective trade deals.

The excessive measures against China were the most threatening to global economic stability. China refused to back down and tariff rates between the two countries

soared, only to be deferred as talks started. By June it appeared an agreement had been reached, and global stock markets eventually recovered the sudden and sharp losses triggered by the 'Liberation Day' announcements.

Apart from the uncertainty about trade wars, the more alarming military wars between Russia and Ukraine and Israel and Gaza continued. Israel and the US also attacked Iran to destroy its nuclear weapons capability, sending oil prices upwards and heightening the international tensions which now top investor concerns.

As a result, global growth forecasts have been cut and it seems that, despite Trump's apparent reversal, US tariffs will eventually be imposed on most countries as the year progresses.

“The excessive measures against China were the most threatening to global economic stability.”



The asset classes – a quick round-up

EQUITY MARKETS

The wars in Ukraine and the Middle East, coupled with Trump's haphazard introduction of tariffs, sent shivers through global equity markets which have since made a significant recovery but remain sensitive.

There is a risk that investors may be complacent after the White House backtracked following the sell-off in both equity and bond markets after 'Liberation Day' and the current feeling is that President Trump's strategy won't lead to a trade war which will upset the global economy and lead to recession.

Despite these challenges, the UK stock market has performed well this year as has the US more recently where technology stocks have risen after recent struggles. Meanwhile, the UK economy shrank in April after a positive first quarter and inflation fell to 3.4% in May while European inflation fell to 1.9%.

Assessed against sterling, the value of several markets, including the US, is still falling but, in local currency terms, all key markets are in profit. Whether this continues depends on how US trade negotiations progress and their outcomes. Any escalation in tensions as a result of trade negotiations, or hostility in the Middle East, will cause markets to falter again.

FIXED INTEREST

Bond markets have been volatile for the same reasons as equities. This has created several buying opportunities as geopolitical tensions caused the gaps between the highest and lowest prices to widen but markets have adjusted quickly.

Fixed-income strategists expect further central bank rate cuts this year which would boost sovereign bonds in most advanced economies.

Deciding on a strategy for bond holdings remains tricky with the threat of falling interest rates. Shorter term assets have performed well and still offer a good balance between returns and protection from large and rapid shifts in rates.

Like last quarter, a strategy of holding a broad range of fixed interest bonds remains more attractive. Demand for government bonds still appears healthy although increasing US debt and the weakening of the US dollar has threatened demand for US treasuries (government debt).

We expect the trends prevailing so far this year to continue. Market volatility is set to persist, driven by an uncertain outlook for the US Federal Reserve (Fed) and the US economy, characterised by high interest rates, sticky inflation, mixed economic data, and concerns around trade and fiscal policy.

Further rate cuts are expected by the European Central Bank (ECB) and the Bank of England (BoE). The US outlook is more complex. We expect the Fed to cut rates in the autumn, but this could be disrupted if inflation rises due to higher tariffs.

ALTERNATIVE INVESTMENTS

In the current tricky conditions, investors are moving towards alternative assets for diversification, inflation protection, and reliable returns. Precious metals have benefited from this with significant investments in gold, silver and platinum which have rallied strongly. Many investors are using gold as 'a hedge' to balance the risk of further uncertainty and a fall in the US dollar's value. Gold's value has risen about 25% this year, nearing record highs above \$3,300–3,500 per ounce (Source FT July 2025).

The main trends confirm that infrastructure investments, particularly linked to digital and greenfield technologies, performed strongly. Infrastructure also offers a compelling mix of stable cash flows and growth, property presents income-rich opportunities in select regions, and precious metals continue to provide a protective ballast amid uncertainty. Commercial Real Estate Company's Q2 2025 report highlights a surge in capital investment into greenfield projects such as data centres and renewables.

Property markets, notably in the UK, where total returns reached a healthy 8.1% in the year to February 2025, rebounded thanks to strong returns in retail and industrial and cautious borrowing conditions. Even so, investor confidence remains sensitive to international trade upheavals and threats to global growth.

RSMR Global round-up

- The eurozone economy is expected to expand modestly, with real GDP growth forecasts rising from 0.9% in 2025 (source: ECB) to 1.1% in 2026.



- China's May retail sales figures were a welcome surprise showing +6.40% year-on-year.
- Japan's industrial output rose modestly to 0.5% in May but this was weaker than expected.

- South Korea was one of the best performing Asian stock markets.

- Malaysia's Gross Domestic Product (GDP) slowed to 4.4% from 5.1% (source S&P.com).
- The Bank of England cut interest rates to 4.25% in May.
- In June the US Fed held interest rates at 4.5 - 4.75%.
- India was among Asia's standout performers with its factory activity accelerating to a 14 month high.
- US GDP growth fell by 0.5% for the first time in three years.



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SO, WHAT'S NEXT?

The shock waves from Trump's attack on world trade are still reverberating across a wide range of countries and commercial sectors.

His tariffs strategy has entered a new phase after the US retreated on its initial threats and moved to negotiate with its trading partners. While this is good news, tariffs will still increase, creating more pressure on national economies and global inflation.

This means that the economic picture is more fragile than it appears. Most tariff negotiations are unresolved, creating persistent inflation and high interest rates, while international tensions have escalated, especially in the Middle East.

Central banks face a tricky balancing act of supporting growth without fuelling inflation, sustaining global trade amid protectionism, and safeguarding financial stability in an increasingly fragmented system.

Despite all that has happened, investors have reverted to a positive view of the US, ignoring the uncertainty of chaotic policy making.

Resolving concerns about trade and global supply chains would settle markets. Overall, global economic growth appears stable but slowing but there are no concerns about an imminent recession.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to

investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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