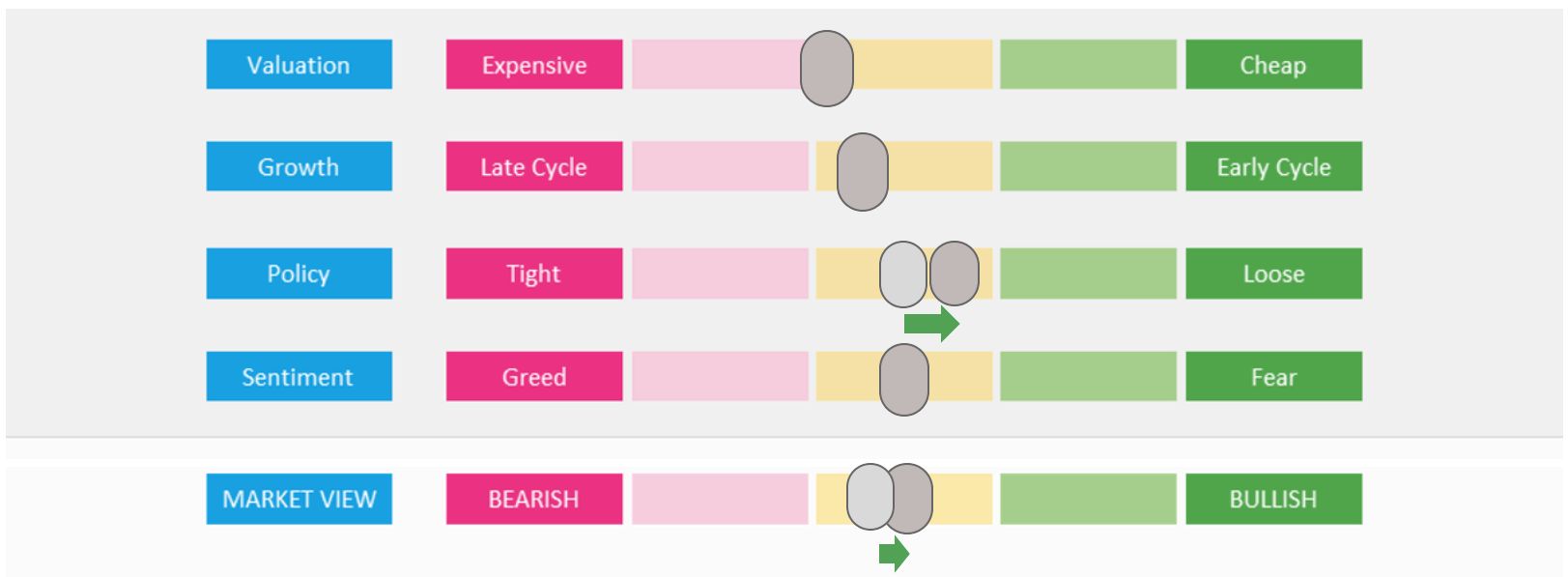


Market Barometer

Barometer



OBBBA + Tariffs = Corporate Gain + Consumer Pain

We are past the peak of policy uncertainty now that most tariff negotiations are complete and that's helpful. We can now estimate the combined impacts of 1) the One Big Beautiful Bill Act (the OBBBA) and 2) tariffs.

The net outcome for consumers is almost uniformly negative, but manageably so, from a whole economy perspective. That said, households at the bottom end of the income distribution are harshly punished with an estimated 6.5% fall in annual income after transfers and taxes. (Against this, the top decile of income receives a boost of 1.5% of income).

Leaving aside the **societal impact** of this regressive policy change, the **market impact** is likely to be **highly supportive**.

This is because the OBBBA cuts tax and increases the tax shield from investment and R&D, such that **the average S&P500 company's FCF will rise by 10%** this year.

In our **Charts of the Month** we look at:

- The **impact of OBBBA + tariffs** for consumers and corporates, relying on analysis by the Congressional Budget Office and the Yale Budget Lab.
- Where **tariff rates** are likely to settle. Currently estimated at 18%, up from 3% at the start of the year.
- The track record of **market level earnings estimates**, and why we focus on them so strongly
- The track record of **stock level earnings revisions**, showing what a consistent support positive revisions are for stock prices and vice versa. It's a momentum market, and that's not unusual.

In summary, **we have cut bond duration** further given the further deterioration in US budget deficits that is entailed by the OBBBA, but **we have raised equity exposure** more on this incrementally positive support for corporate cash flow.

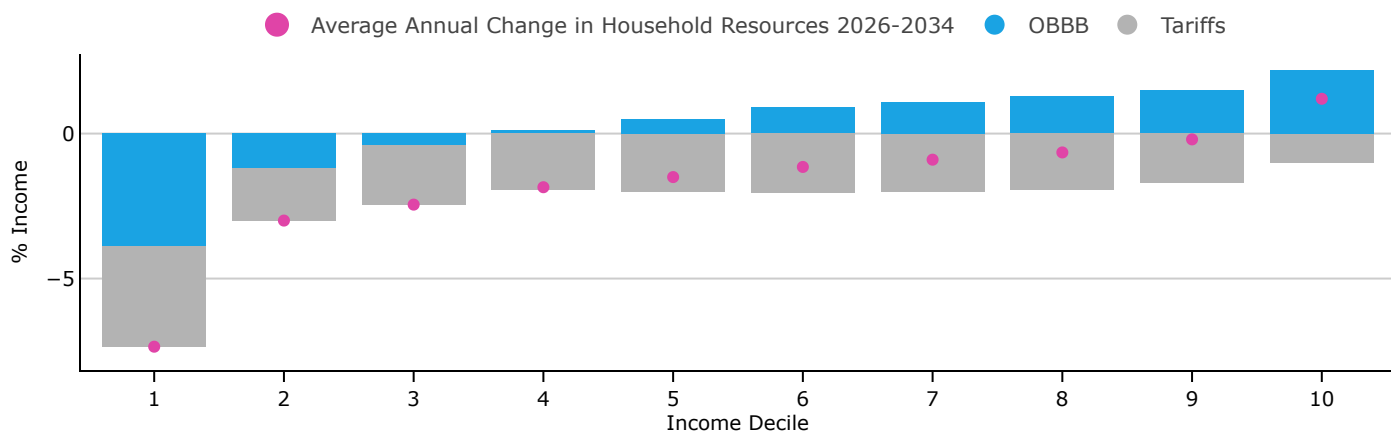
Contents

Market Barometer	1
Charts of the Month	4
Valuation	
Equities	8
Fixed Income	10
Alternatives	12
Property	13
Cash	14
Growth	15
Policy	20
Sentiment	21
Other Observations	
The Big Picture	22

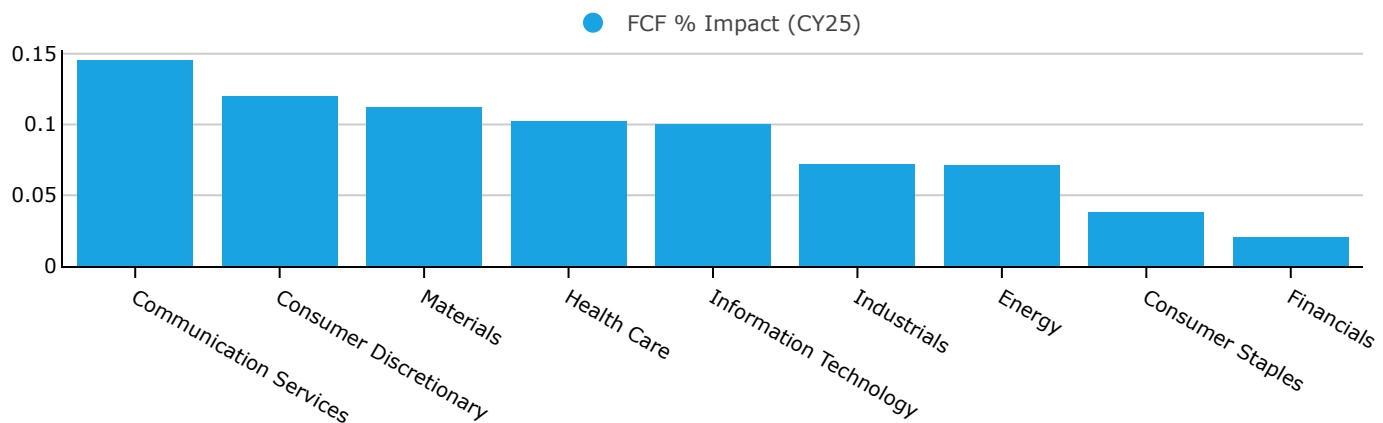
Charts of the Month (1 of 4)

Trump impact - bad for most consumers, great for corporates. The top chart couldn't be clearer - tariffs are a tax on consumers and reduce household net income. Moreover, they are deeply regressive - the lowest end of the income distribution is unduly harshly punished by tariffs because their consumption is dominated by (imported, thus tariffable) goods as opposed to the higher end whose consumption is dominated by (domestic) services. Also, the low end spends its income whereas the higher end saves it. The OBBBA (blue bars, top chart) cuts taxes disproportionately for the better off but also ends up penalising the low three deciles of income. All-in, the net impact of OBBBA + tariffs is a cut in household resources for all but the top decile of income, but fairly modestly for most. By contrast, the OBBBA allows companies bonus depreciation for equipment purchases; full expensing for R&D; and increased tax deductibility of interest expense. According to Evercore ISI estimates, **the net impact boosts free cash flow for the S&P500 by as much as 10% in both 2025 and 2026. Clearly this is very supportive of the equity market as long as consumption doesn't turn down too much.**

Trump impact on US consumers



Trump impact on US corporates

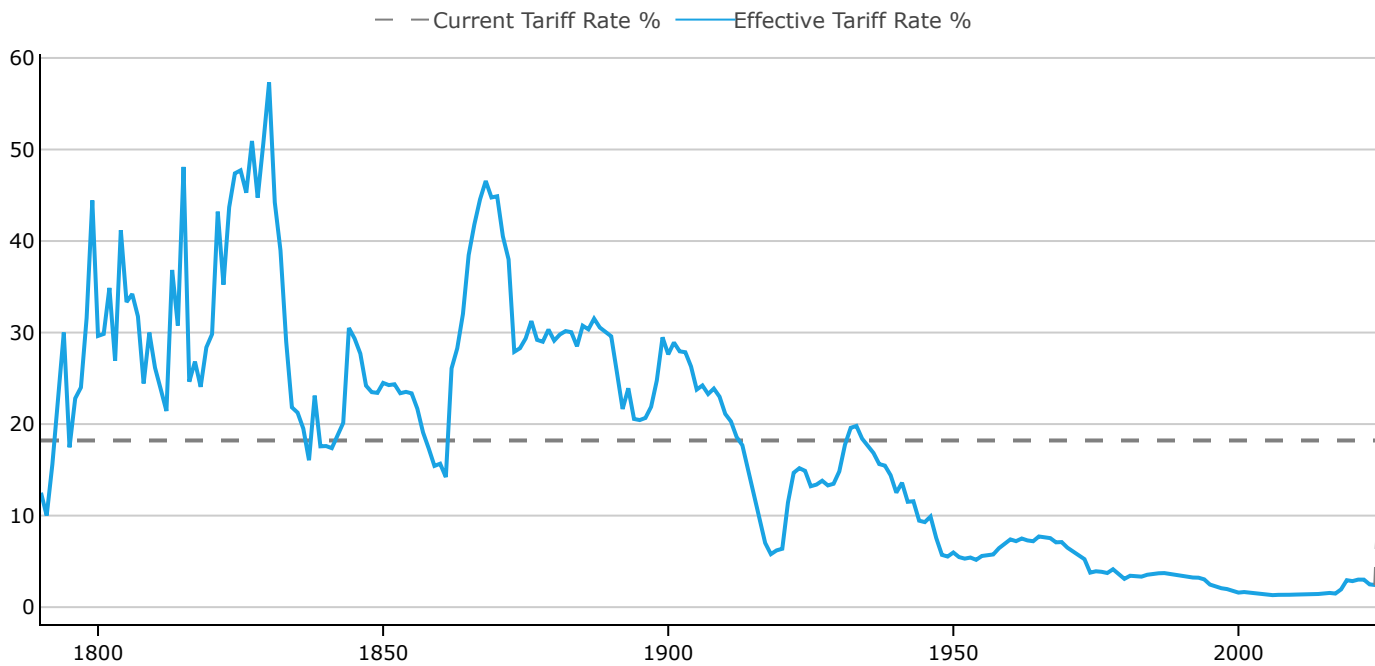


Charts of the Month (2 of 4)

The average US tariff rate is now estimated at 18.2%. This estimate from the Yale Budget Lab is lower than its peak Liberation Day level of nearly 30%, because Trump has "cut deals" that lowered the original levels - but it still represents a 15% point increase from the baseline start of year tariff. **Yale estimates that the net impacts on the economy are to cut GDP by 0.7%, raise the PCE price level by 1.8% and cut the average household income level by \$2,404 annually in today's money.**

Average US Tariff Rates (% , 1790 - 2025)

Consumer duty revenue as a percent of goods imports

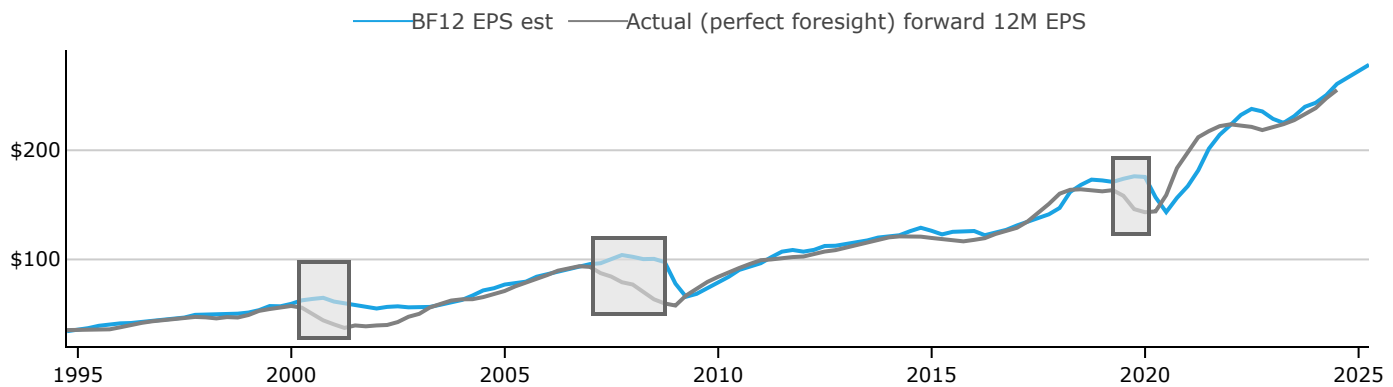


Charts of the Month (3 of 4)

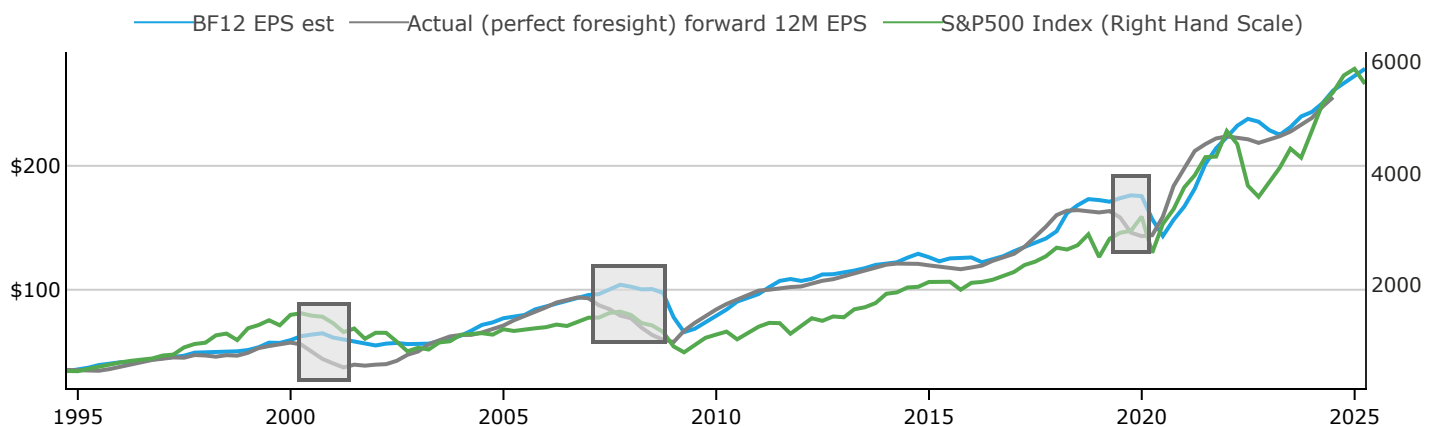
How useful are earnings forecasts? We closely watch the direction of travel of the 12 month forward EPS integer, and these charts show why. The upper chart compares that forecast (in blue) with what actually happened to EPS (in grey). We see that consensus does well when earnings are growing, but is late to spot declining earnings (see this divergence in the three shaded boxes). But interestingly, the lower chart shows that the stock market itself follows the forecast earnings integer rather than the outturn integer. This is probably because the outturn integer is what subsequently happens, but hasn't happened at the time of the observation (it's the sum of the following four quarters' earnings). So the green line (the market) overlaps more with the blue line (estimates) than the grey line (outturn). Hence, **we watch the consensus 12 month forward EPS integer like hawks.**

Hope vs Reality

Consensus S&P EPS integer vs Outturn Actual Integer



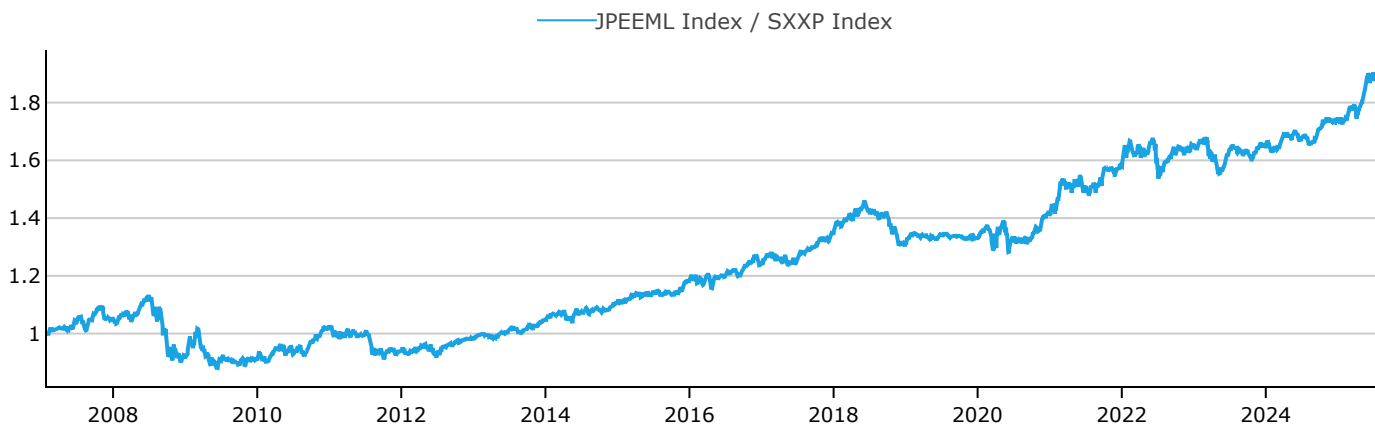
The S&P 500 Follows Consensus BF12 EPS More Closely Than Actual Perfect Foresight EPS



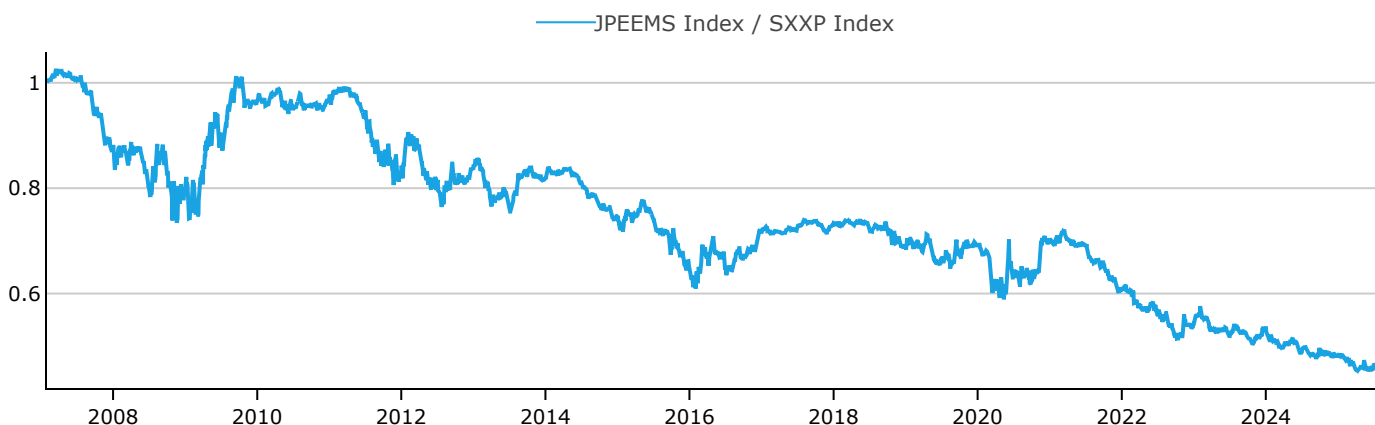
Charts of the Month (4 of 4)

The power of earnings momentum. The previous page illustrated the power of earnings momentum at the index level, but we can illustrate the same effect at the individual stock level too. These charts show the performance (relative to the market) of, in the upper chart, the stocks with the best one and three month revisions to their 12 month forward earnings integer, and, in the lower chart, those with the worst revisions. It is clear that earnings momentum remains a powerful factor in driving stock prices and that this effect has been persistent for many years. It's also notable that positive revisions have been a particularly strong factor in the last year and five years especially. **It's a momentum market, and it usually is.**

JPMorgan Earnings Momentum (Long) vs Eurostoxx 600



JPMorgan Earnings Momentum (Short) vs Eurostoxx 600



Equity | USA

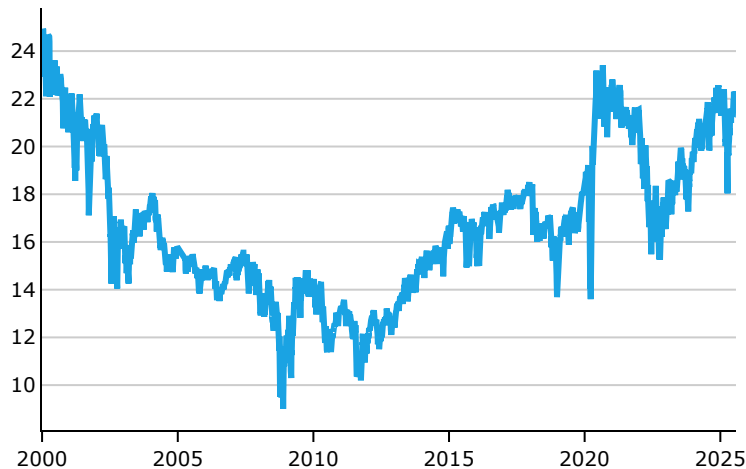
US equities remain resilient despite rising economic headwinds and tariff uncertainty. Since January, 2025 growth and inflation forecasts have deteriorated from 2.10% and 2.5% to 1.50% and 2.90%, respectively. Yet, the S&P 500 is up ~6% year-to-date.¹

Why the disconnect?: The stock market is not the economy. Policy affects GDP and equities in distinct ways:

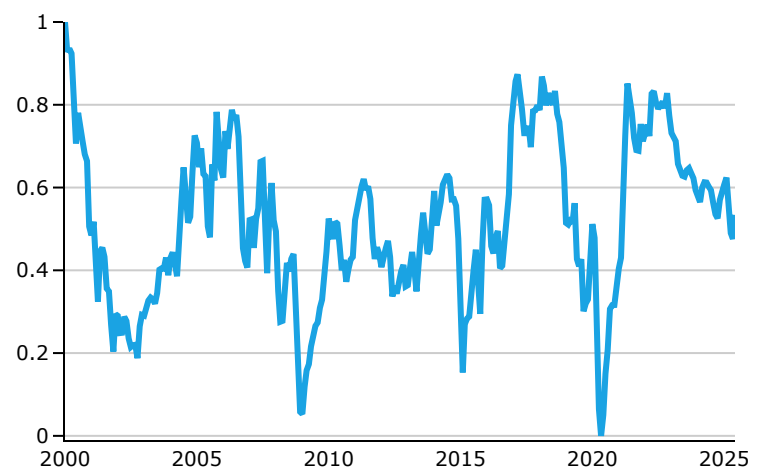
continued on next page...

S&P 500 Valuations

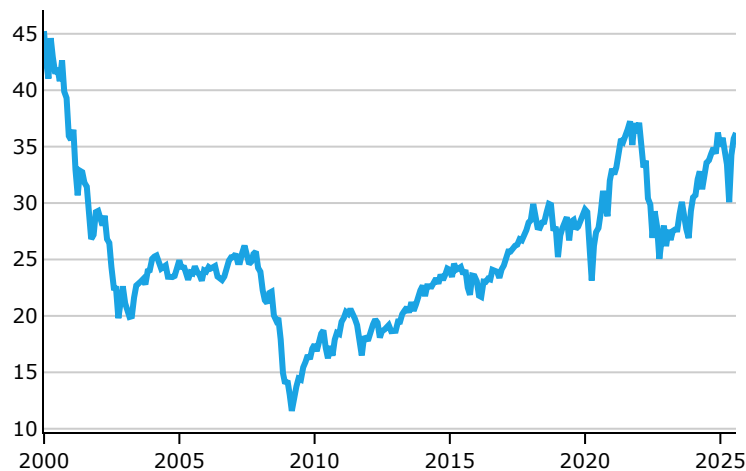
S&P 500 Forward PE



Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

Sources | S&P 500 PE: Bloomberg as at July 2025. CVI Model: CCLA as of July 2025, Shiller PE/CAPE: Morgan Stanley, Equity Risk Premium: CCLA as of June 2025.

¹ 16 July 2025.

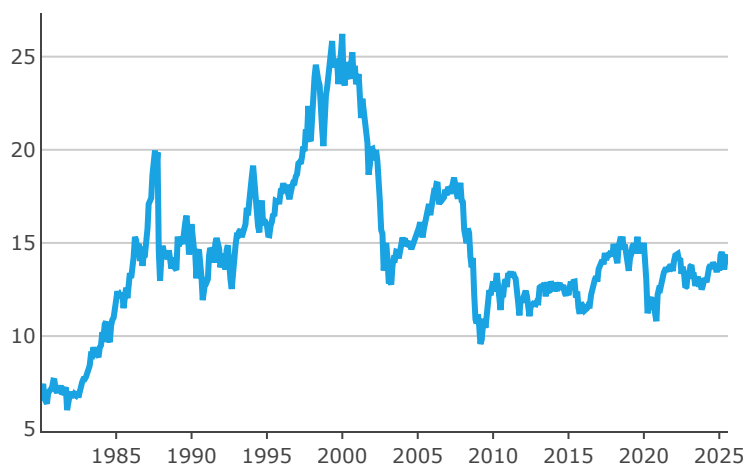
Equity | Regional

1. **Tariffs** may drag on GDP, but the market impact is uneven - some sectors in equities are more insulated.
2. **Dollar weakness** supports S&P's foreign earnings. ~40% of revenues are foreign vs. 12% of GDP from exports.¹
3. **Deregulation and tax cuts** support corporate margins and cash flow without materially boosting GDP.
4. **Earnings** are considered in nominal terms, while GDP in real. Modest inflation supports earnings but harm GDP.

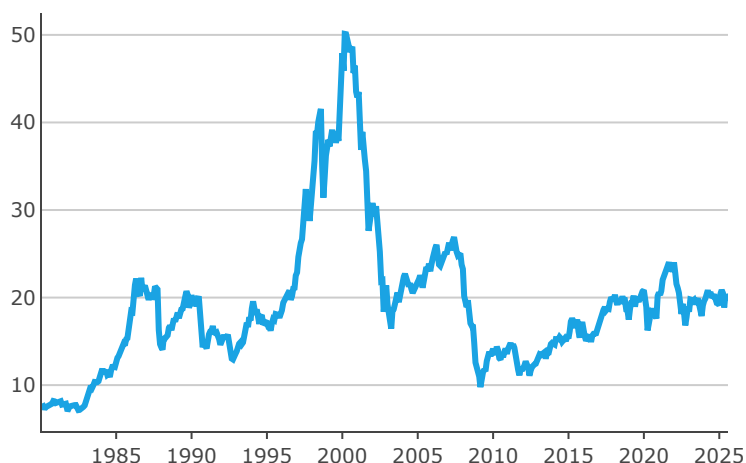
A recession would force repricing but for now, earnings remain stable, the labour market holds, wages outpace inflation, and US consumers, while softening, continue to spend.

Europe

UK | Shiller P/E

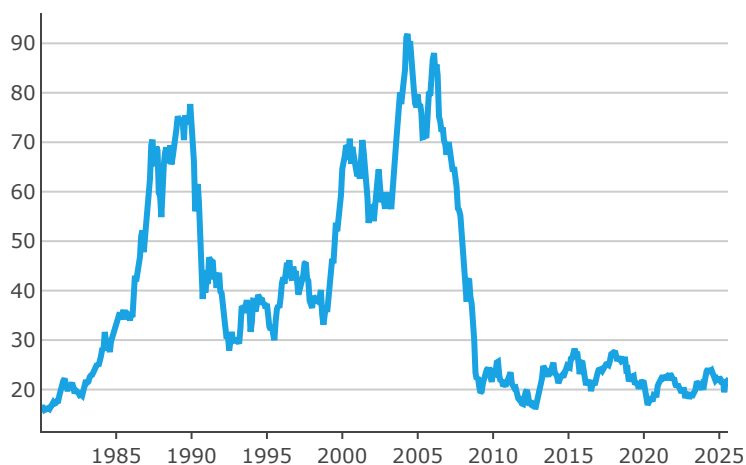


Europe (Ex-UK) | Shiller P/E

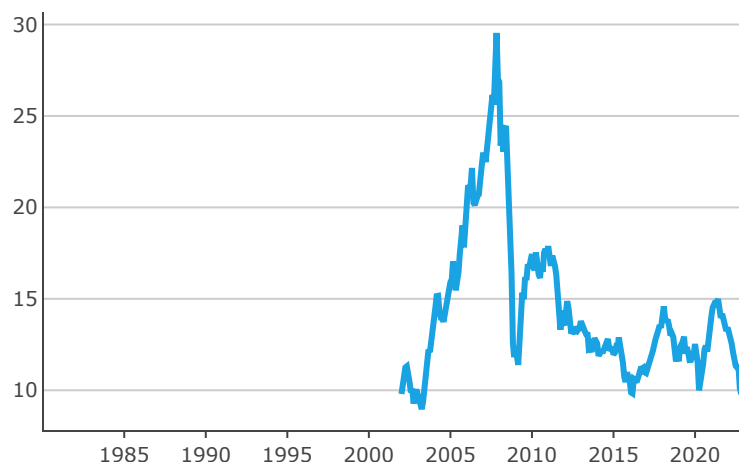


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of July 2025. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years.

¹ US GDP is ~\$30tr (FRED) 12%~\$3.6tr. S&P 500 Q1 '25 revenues are ~\$17.3tr.

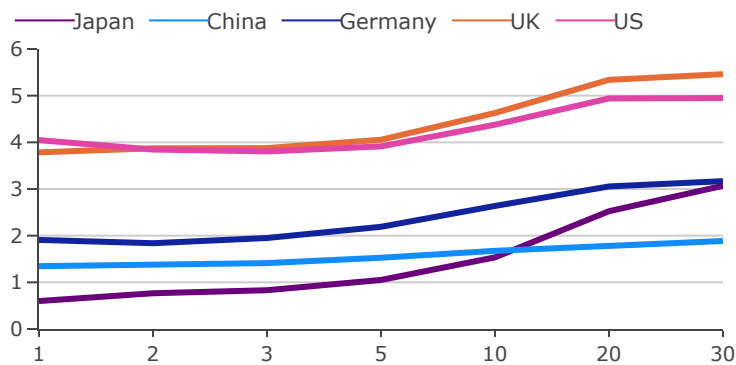
Bonds - Sovereigns

The US's "exorbitant privilege" is under strain. Once underpinned by global confidence in stable politics, rule of law, and deep investor-friendly markets, this foundation is being eroded by new Trump policies. Confidence in the US as a safe and reliable destination for capital has weakened, putting FDI¹- crucial for funding the current account (CA) deficit and supporting dollar markets - at risk.

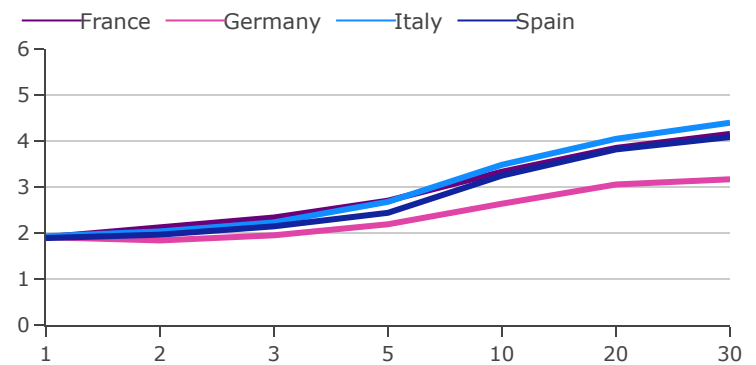
The risk is, as foreign capital becomes more selective, the cash needed to offset CA imbalances depletes. Demand for US bonds softens, term premia rise, yields climb, and the dollar weakens. **The result: the US's era of cheap global financing erodes and the economy shrinks.**

Global Government Yields

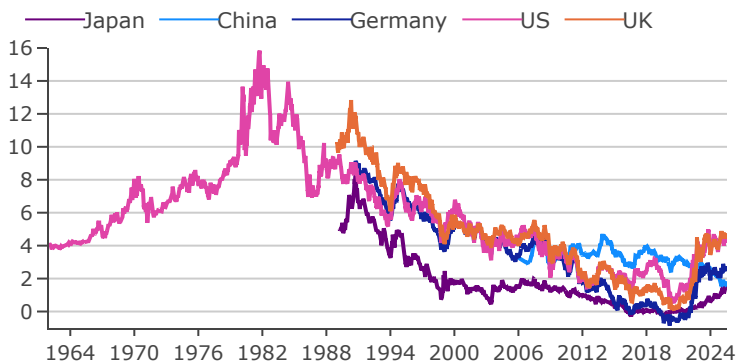
Global Treasury Yield Curves (Term vs %)



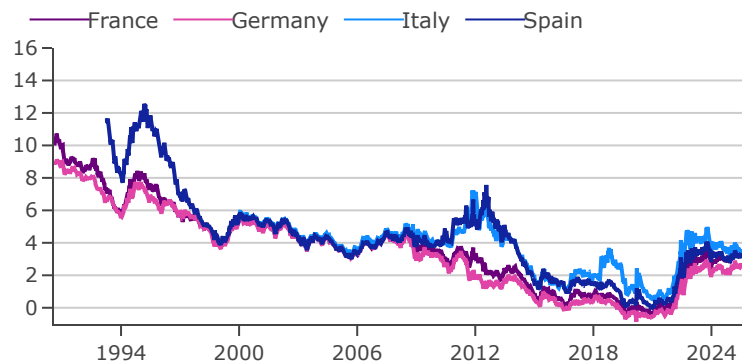
European Treasury Yield Curves (Term vs %)



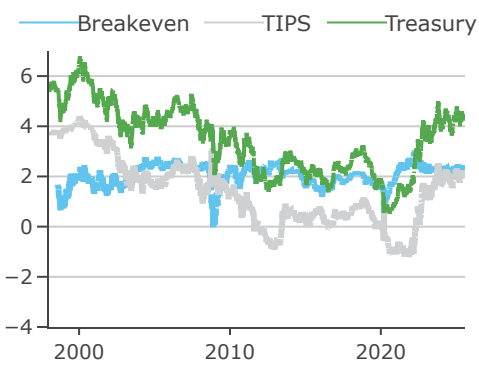
Global 10Y Yields %



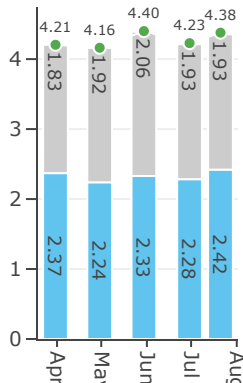
European 10Y Yields %



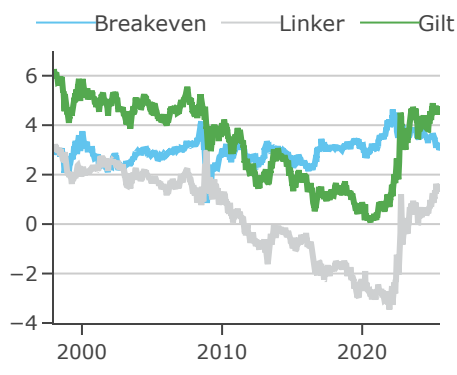
US 10Y Yields Breakdown %



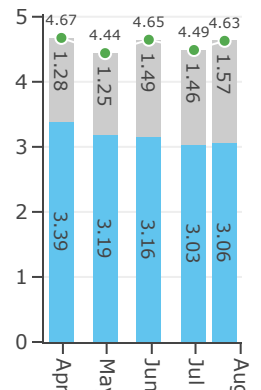
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



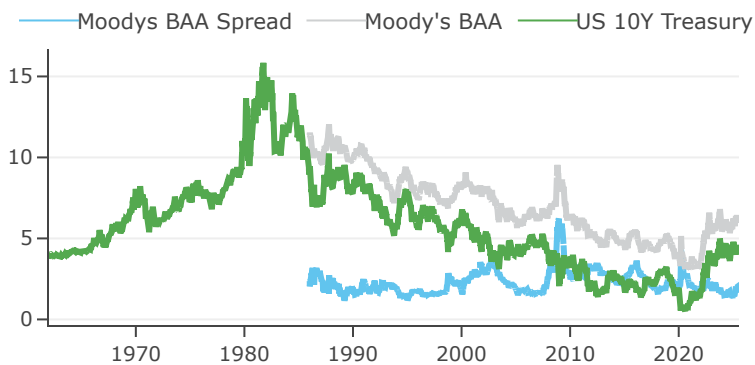
Bonds - Credit

Despite ongoing tariff concerns, US IG credit remains stable. Q1 2025 showed slowing revenue growth, but cost cuts kept EBITDA steady. As Q2 begins, markets expect more of the same. Balance sheets are stronger after deleveraging since 2021. Fundamentals are solid, and credit ratings are improving.

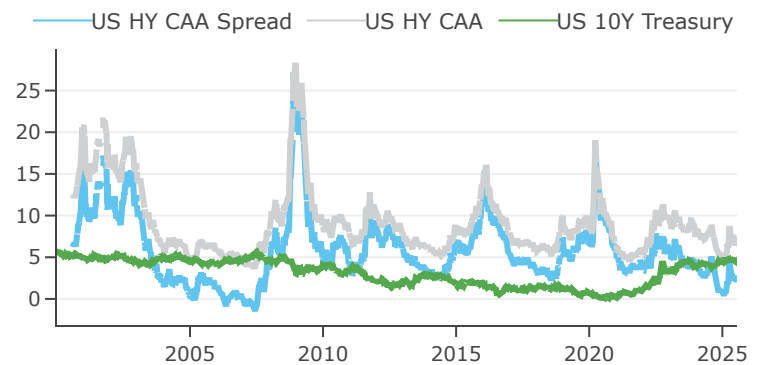
Valuations are stretched however, and spreads remain tight (80-90bps 15th percentile since 2020JPM). Yet, **all-in yields are attractive at over 5%, supported by strong technicals.** Yield compression is therefore left to the Fed. However, tariff policy and an uptick in inflation are likely to delay rate cuts.

Global Credit Yields

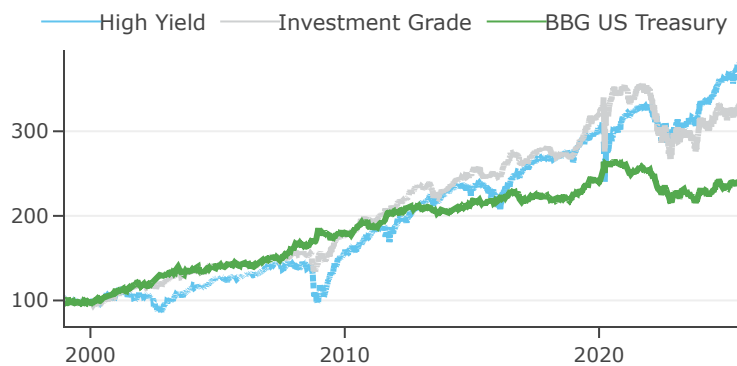
US Corporate Investment Grade Yield %



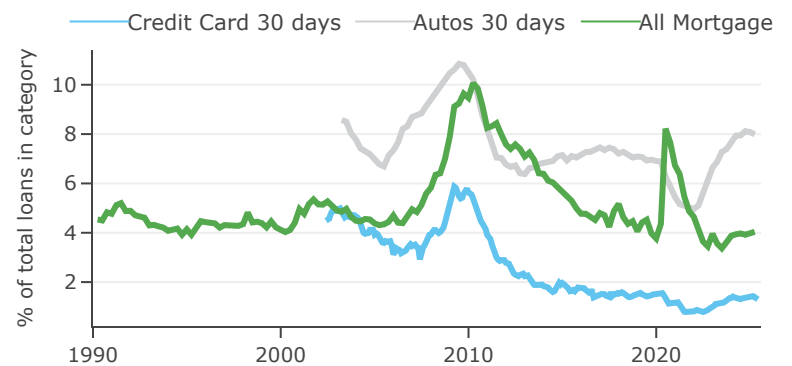
US Corporate Sub-Investment Grade Yield %



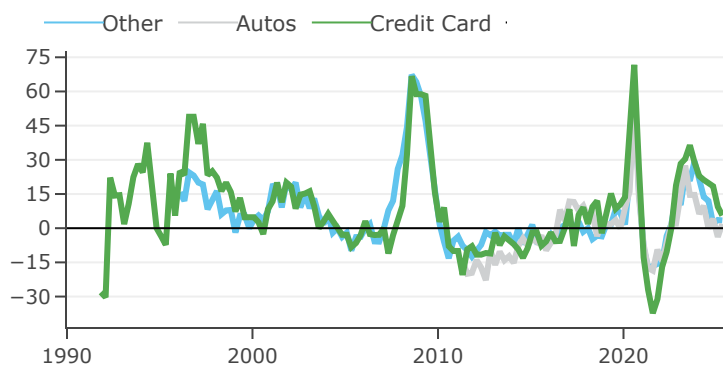
US Tr. vs IBoxx IG and HY Total Return \$ (100= 31 Dec '98)



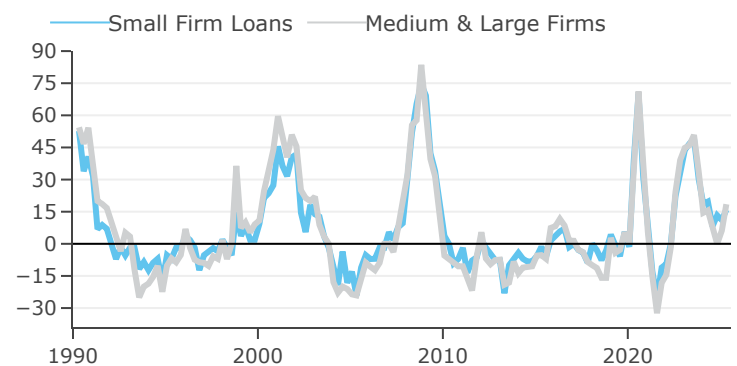
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Alternatives

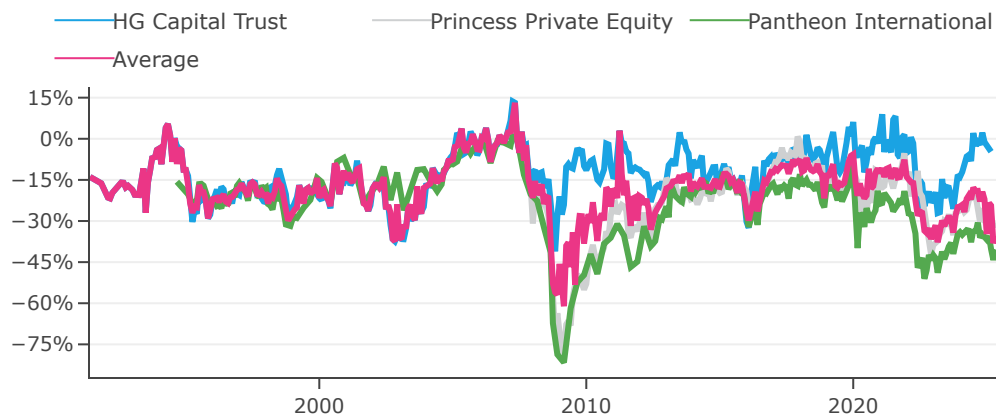
In our December 2024 edition, we highlighted supportive supply-demand dynamics for M&A activity. Yet six months in, the rebound has stalled. Why? As we warned, high interest rates have been a major drag.

Added pressures include trade uncertainty, wavering business confidence and changes to Hart-Scott-Rodino regulation. Global M&A deal value fell 18% between Q1 and Q2 2025¹ - the steepest drop in three years. **While deal chatter is building again, a true recovery depends on lower rates and follow-through on deregulatory reforms.**

Global Valuations

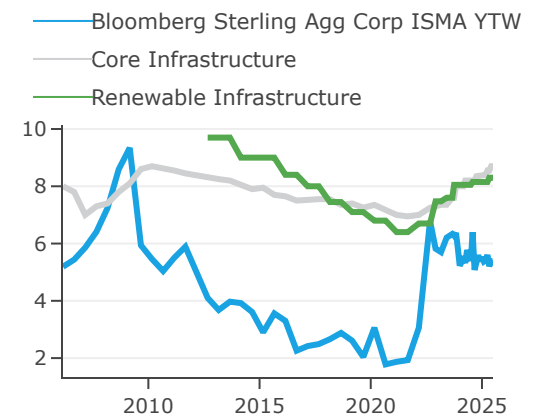
Listed Private Equity

Discount To NAVs



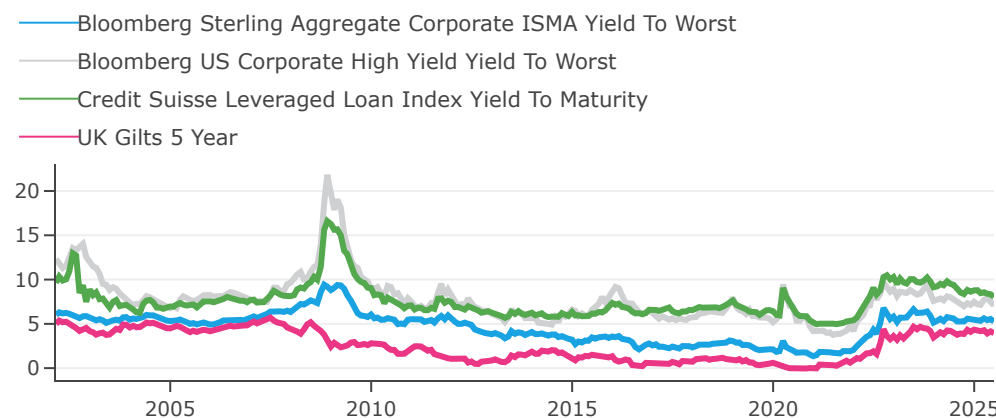
Infrastructure

Infra. Discount Rates vs Bond Yields



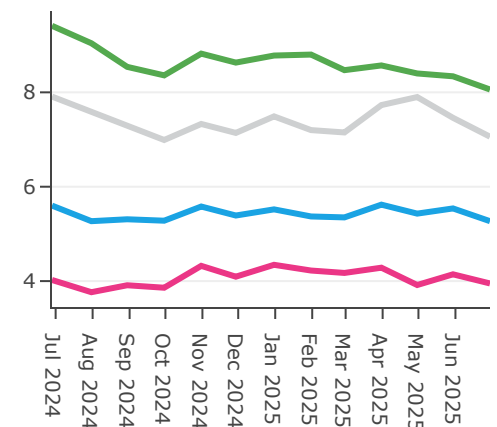
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Infrastructure: CCLA, Bloomberg; Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook; Contractual Income: Bloomberg, Pitchbook. Data as of July 2025. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation, data as of May 2025.

¹ A&O Shearman 'Global M&A Insights': 9 July 2025.

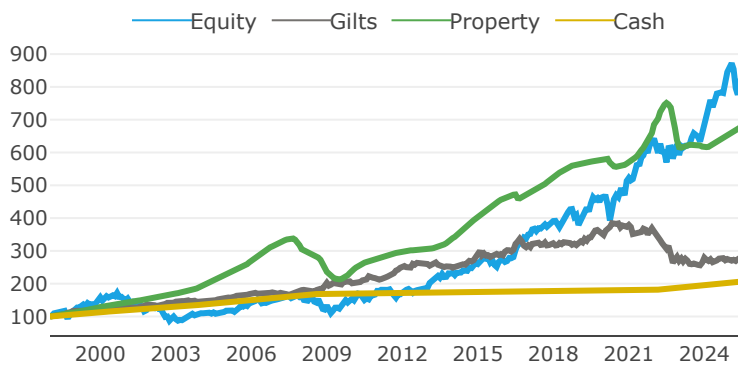
Property

Overall UK transaction volumes in H1 2025 were relatively resilient despite the macro uncertainty. Unlike broader European weakness, the UK showed positive trends in both industrial and retail (shopping centre) assets and a recovery in central London office deals.

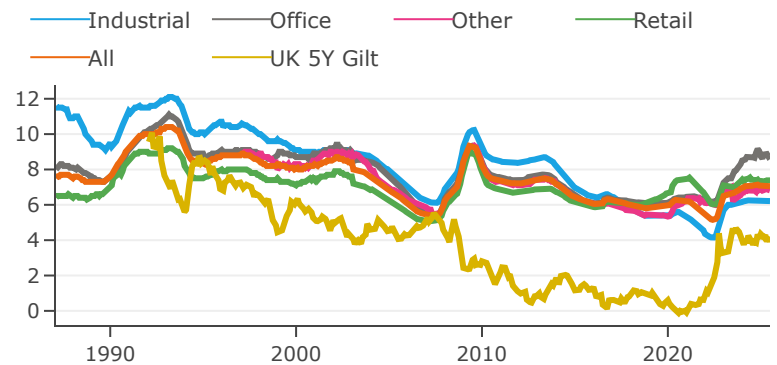
Investment volumes in the London office market was up 82% YoY in H1, partly due to weak base effects but also driven by high-profile transactions: Norges/Grosvenor and Norges' part-acquisition of Covent Garden estate.¹ Overall, **UK Property real forward 5 Year return looks troughed (see graph 3) and still offers ~4.5% effective real yield. The sector remains attractive.**

UK Commercial Property Market

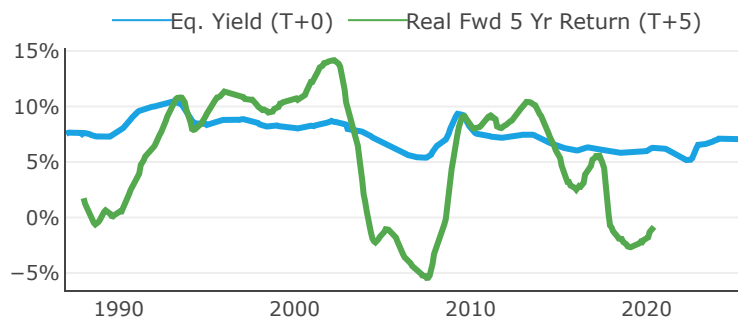
25 Years Of Return 1998=100



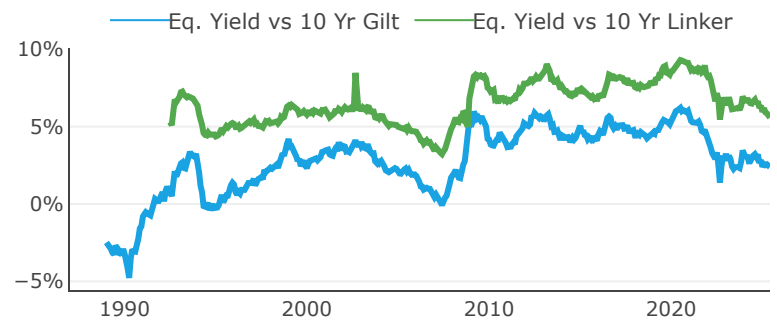
Equivalent Yields vs Gilt Yields %



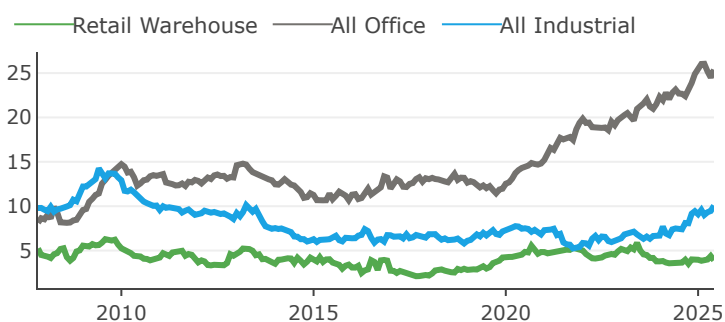
MSCI UK All Property Monthly TR Index %



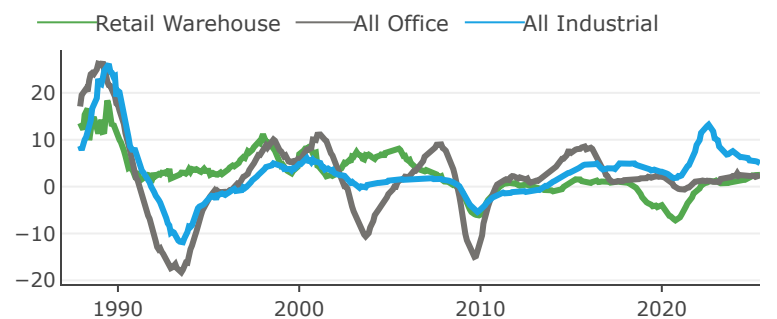
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



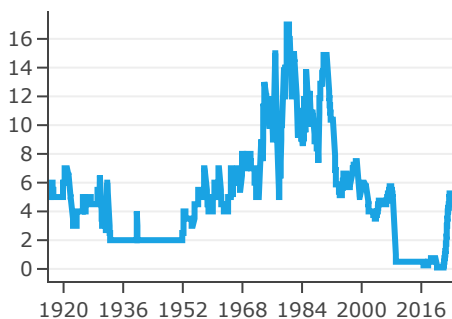
Cash

UK's GDP fell -0.1% in May, marking a second monthly decline. Industrial production dropped -0.9% m/m, likely pay-back from strong Q1 US exports. Services rose 0.1% m/m, showing growth in 10 out of 14 subsectors despite weak retail sales and consumer-facing services. Encouragingly, the strong June PMI supports a positive Q2 GDP. - Even if June's m/m GDP remain flat, Q2 growth is on path for ~0.3% annualised.¹

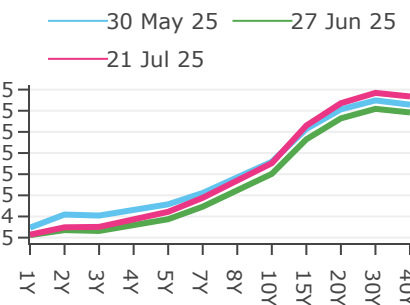
However, UK's longer-term trend growth outlook has dampened. The OBR's revisions mark down productivity and medium-term growth. Coupled with an increase in 5-year borrowing; **trend GDP is likely to be 0.1-0.2ppts lower, with ~£18bn off the fiscal headroom.**¹

UK Sterling Market

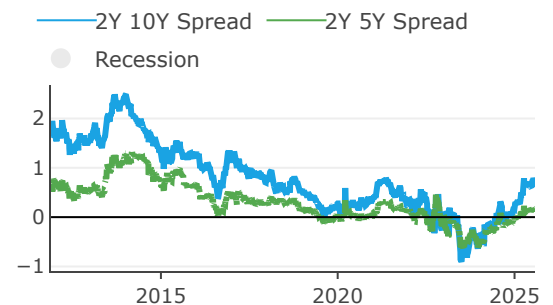
Official Bank Rate



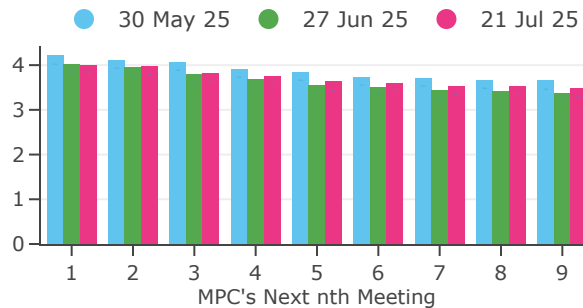
UK Gilt Curve



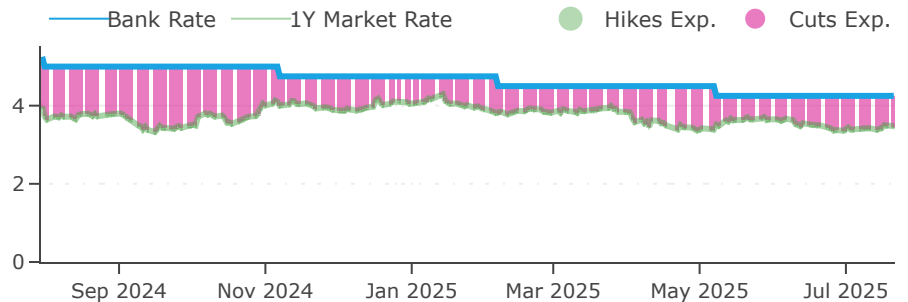
Gilt Spreads



Rate Expectations For Future MPC Meetings



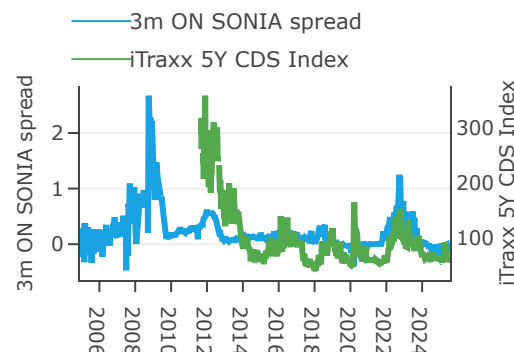
1Y Forward Market Rate Expectations



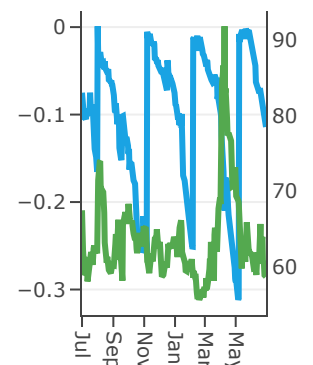
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2025				
	Feb...	Ma...	April	May	June
RPI	3.40	3.20	4.50	4.30	4.40
CPI	2.80	2.60	3.50	3.40	3.60
CPI Core	3.50	3.40	3.80	3.50	3.70
CPI Services	5.00	4.70	5.40	4.70	4.70
CPI Goods	0.80	0.60	1.70	2.00	2.40
Priv. Wages	5.80	4.90	4.90	4.80	

Market Stress



Last 12 Months



Sources | iTraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of July 2025.

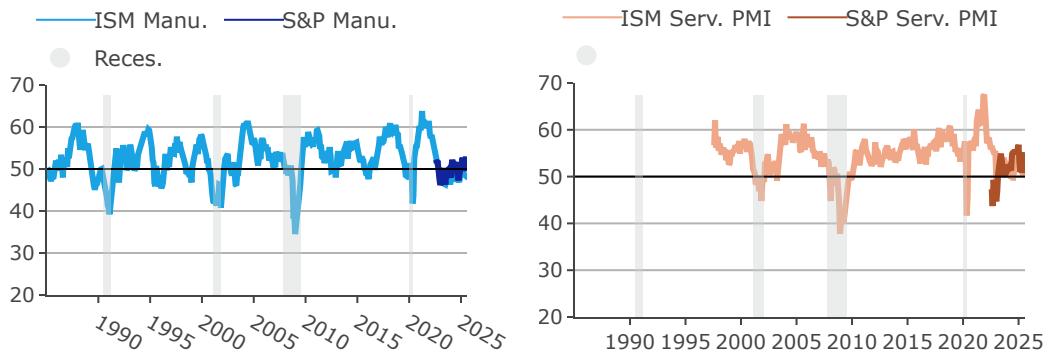
¹ JP Morgan: 'UK: OBR acknowledges forecast optimism' 1 July 2025.

Global PMIs

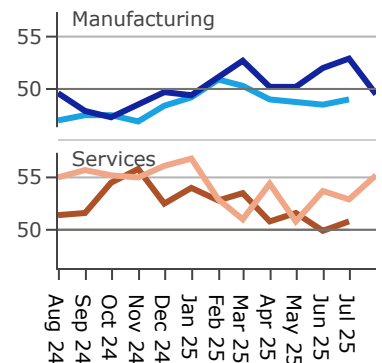
US: Consumption seems to be slowing. Final Consumption estimate for Q1 GDP was revised down from 1.8% to just **0.5%**¹. Services spending revised down from 2.4% to just **0.6%**¹. Discretionary service spending fell to -0.3%¹ YoY through May. While on aggregate consumption seems to be ticking along, it is worth noting the drop in pace.

UK: Hays, Page Group, Manpower, Adecco, Sthree - recruitment firms highly exposed to the UK labour market - all highlighting the UK as one of the most challenged markets. The former two firms have reduced their client-facing headcount by 30% since 2019 on the back of reduced work.² The REC survey also points to permanent staff appointments falling at their fastest pace in two years, while candidate supply at its highest in over four.

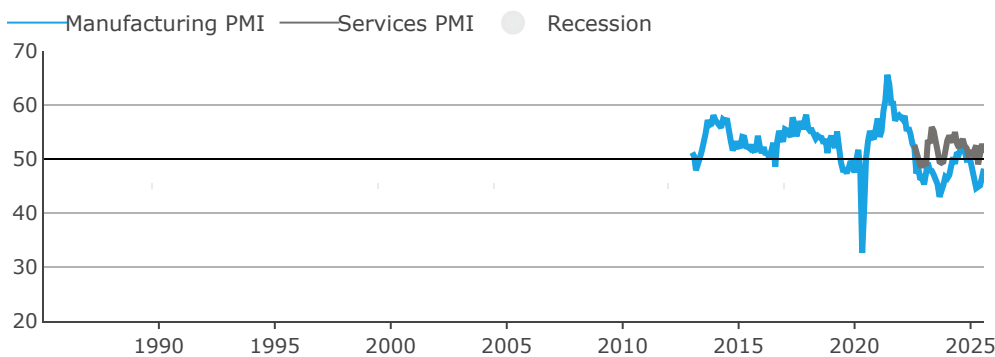
United States



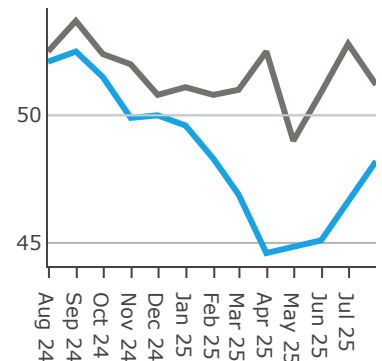
Last 12 Months



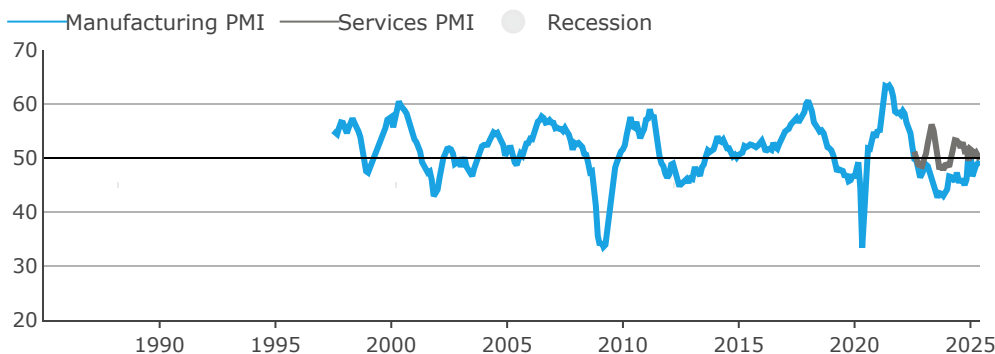
United Kingdom



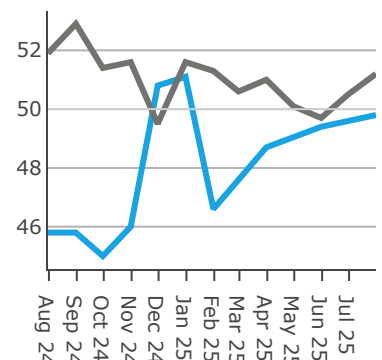
Last 12 Months



Eurozone



Last 12 Months

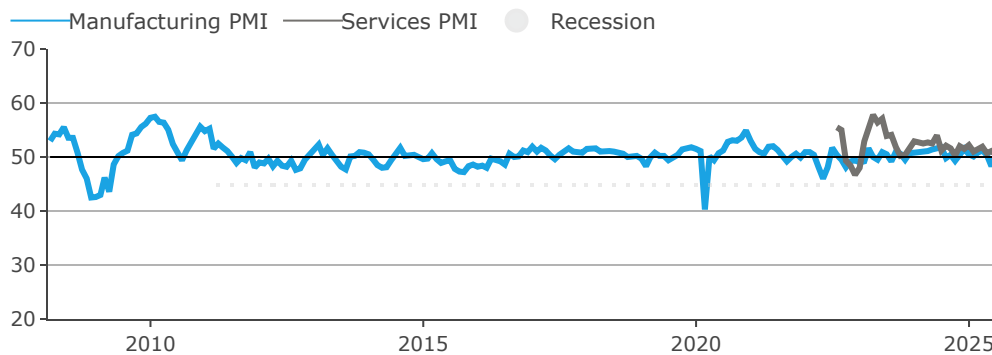


Global PMIs

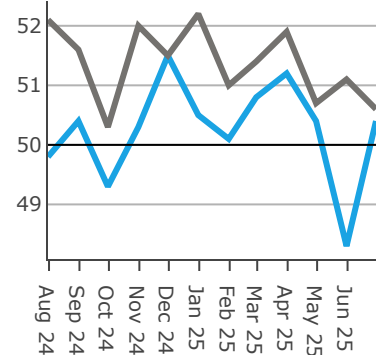
China Q2 GDP grew 5.2% YoY, just below Q1's 5.4%. Growth was buoyed by front-loaded exports and significant government stimulus. Consumption surged from ~29% in Q4 '24 to over 50% in Q1 and Q2 '25 due to recent stimulus measures. A further 7 trillion Yuan (\$976B) stimulus package in special bond issuance is expected in H2, which could sustain this growth.

Risks persist. China could fall into a “lower growth trap” similar to Japan’s lost decade. Challenges include persistent deflation, fading stimulus, weak consumer confidence, a sluggish property market, and export risks if global growth slows or trade tensions rise.

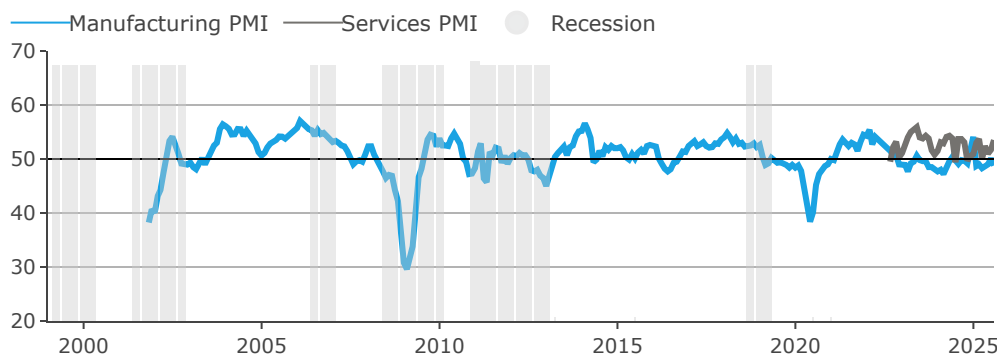
China



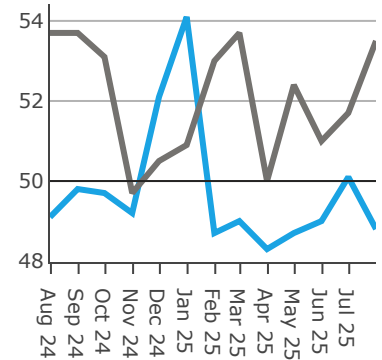
Last 12 Months



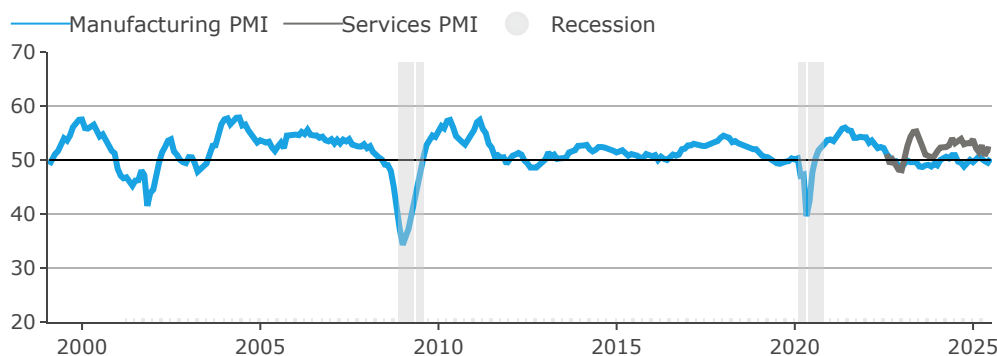
Japan



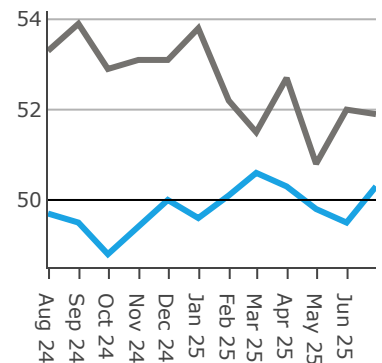
Last 12 Months



Global



Last 12 Months



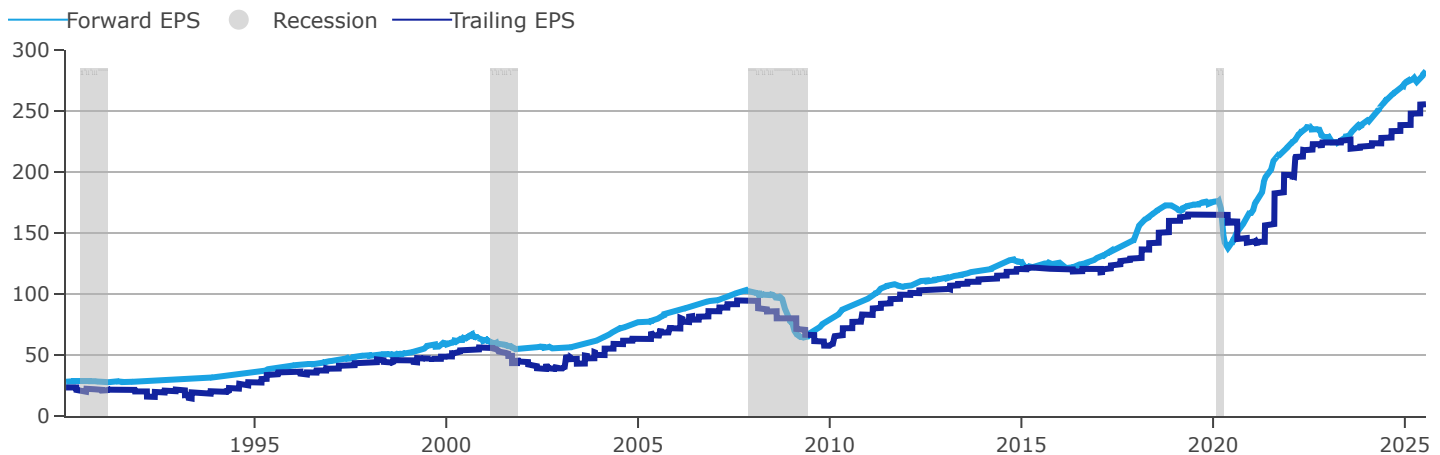
Earnings | USA

S&P 500 earnings growth for Q2 2025 is tracking at 6.4% - higher than the 4.9% estimate on 30 June - but weakest since Q1 2024. However, history suggests upside: actual results have topped estimates in 37 of the past 40 quarters.¹

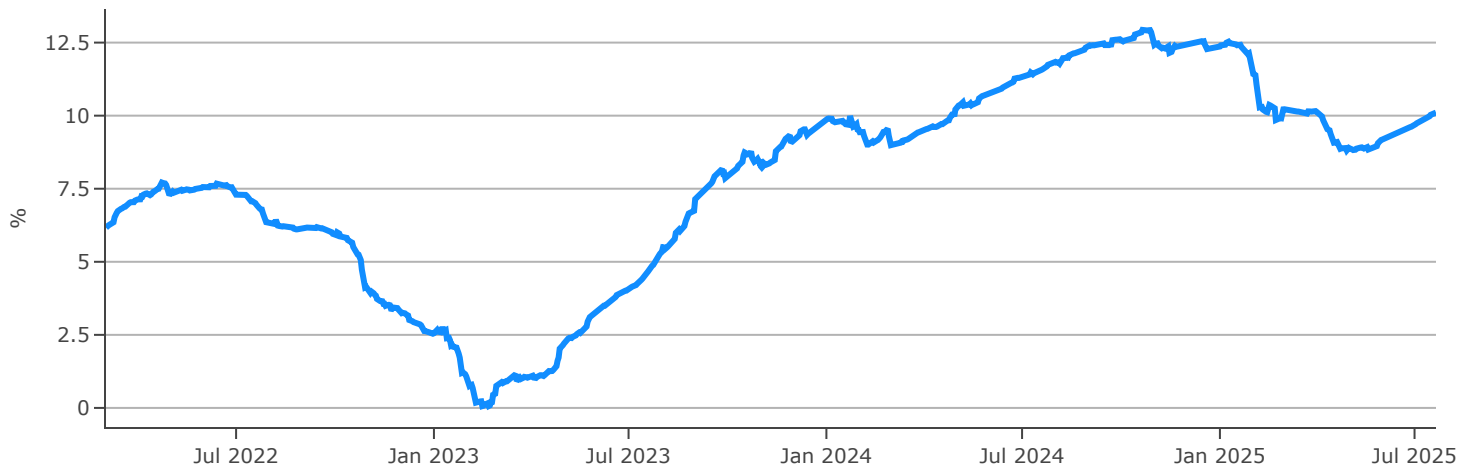
Based on this trend, final Q2 growth could land between 9.5% and 13.0%. Early signs are promising—80% of the 170 companies that have reported so far beat EPS forecasts, with earnings surpassing estimates by 8%.¹ **Full-year 2025 earnings growth forecast remains ~9.6% in line with long-term averages.**

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



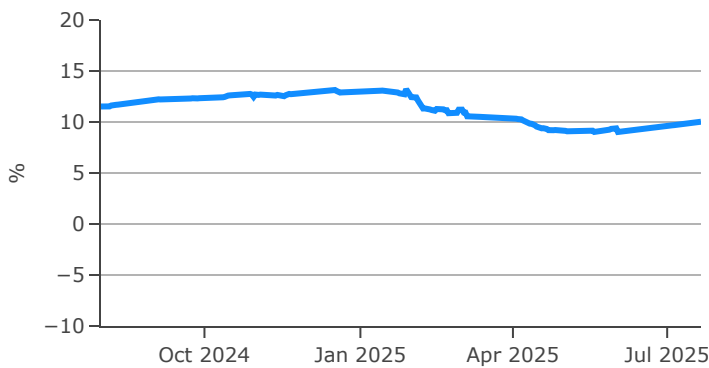
Earnings | Regional

Developed markets have seen a slow down in their forecasted blended 12M forward EPS growth rates. USA is now ~10%, falling from the January peak, with Europe (ex UK) and UK following a similar pattern.

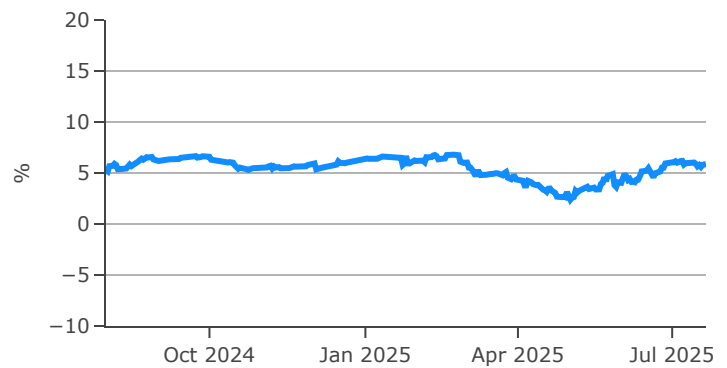
Emerging Markets are showing signs of improving with an EPS growth rate close to 15% - higher than any other region.

Regional Rolling 12M Blended Forward Earnings Growth

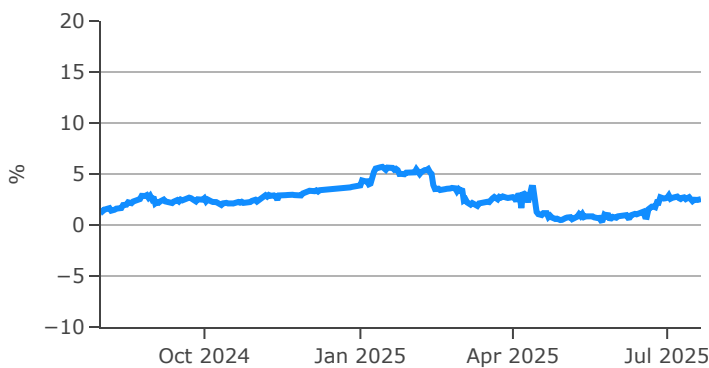
MSCI USA



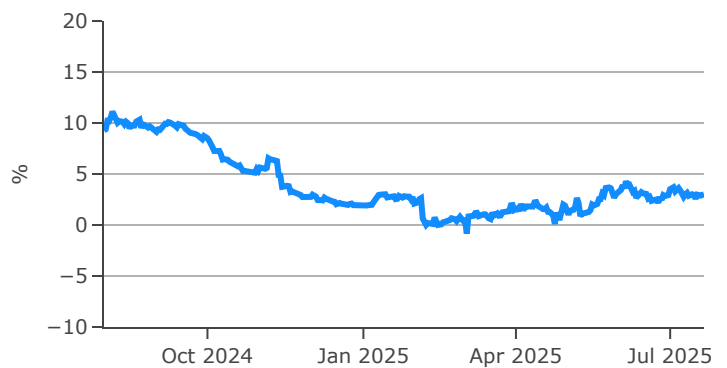
MSCI EU ex UK



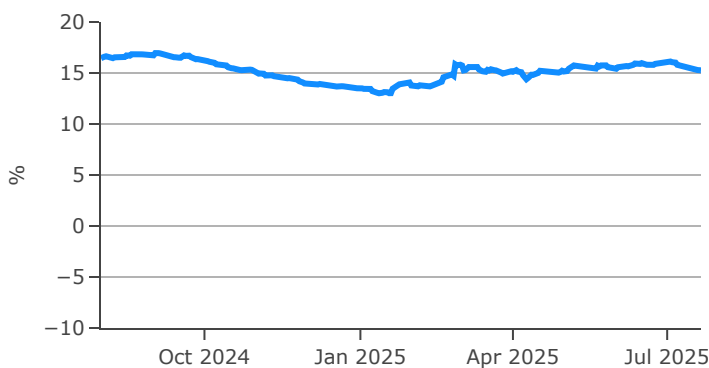
MSCI United Kingdom



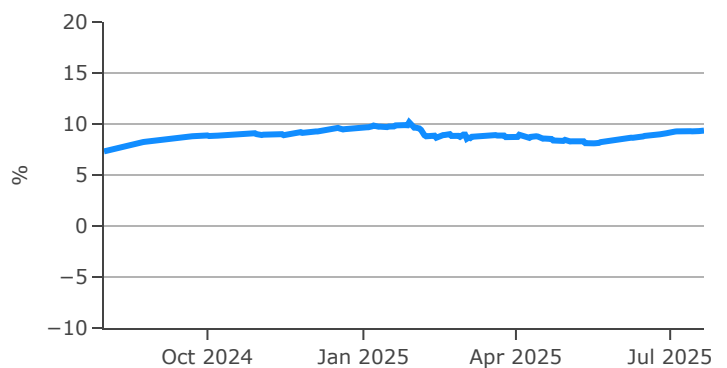
MSCI Japan



MSCI Emerging Markets



MSCI World



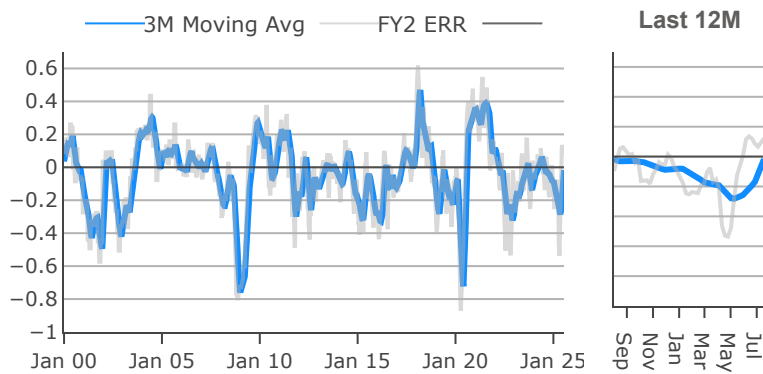
Earnings Revisions

These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

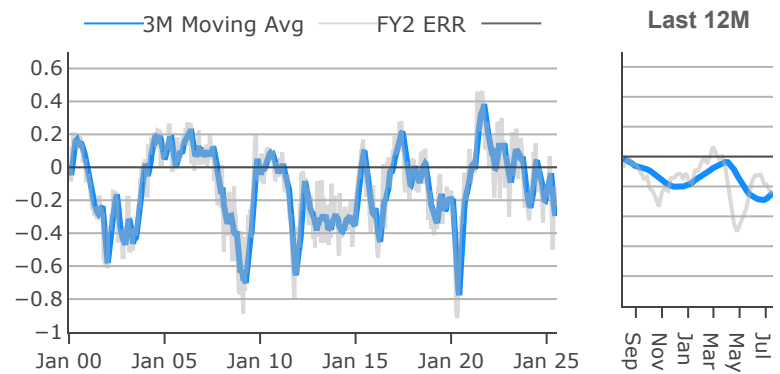
It is worth noting, the US' revisions have sharply inflected creating a local trough (grey line over last 12 months). While not as prominent, the Eurozone, UK and World are also showing early signs of inflection.

Global Earnings Revisions Ratios

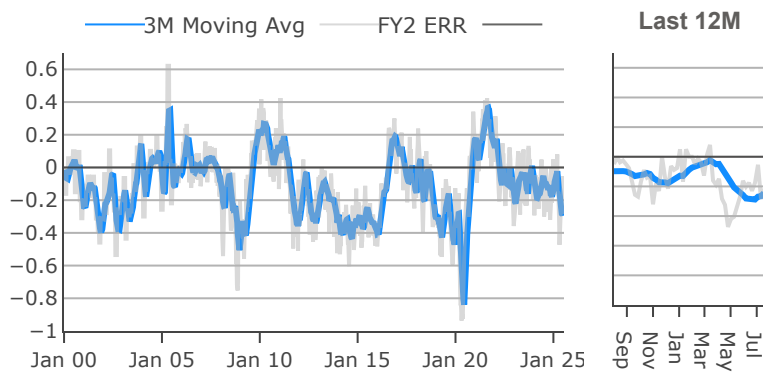
USA



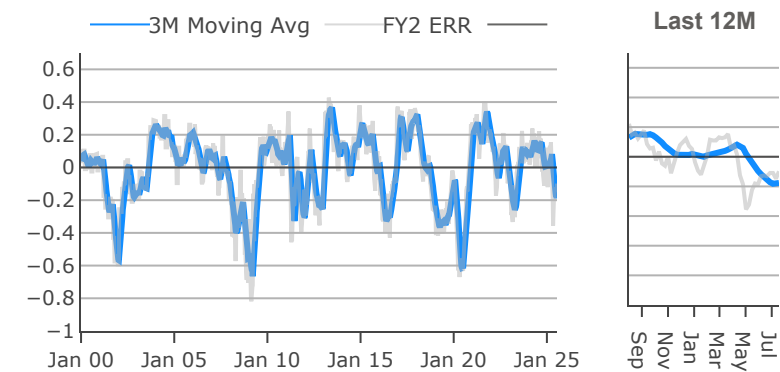
Eurozone



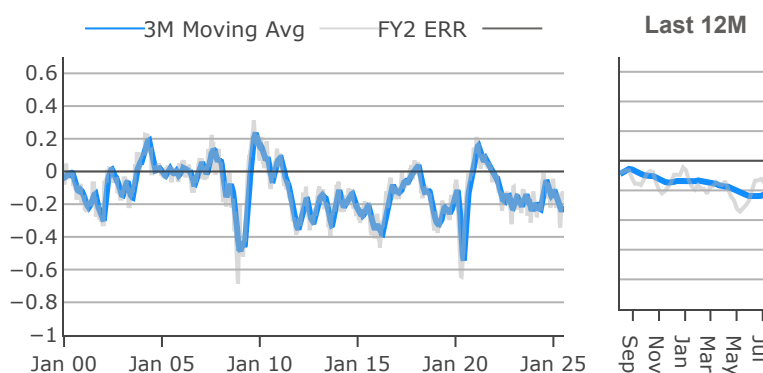
UK



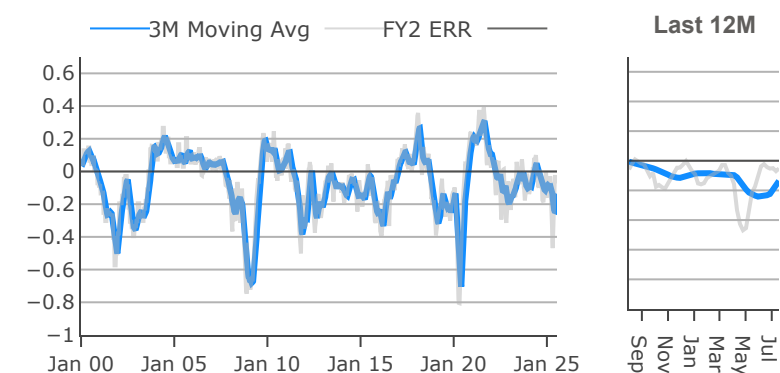
Japan



Emerging Markets



World

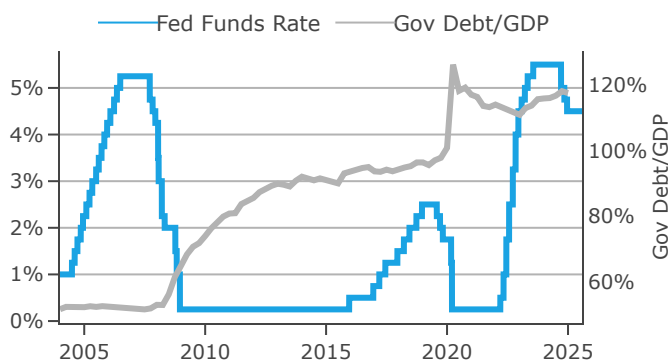


Interest Rates

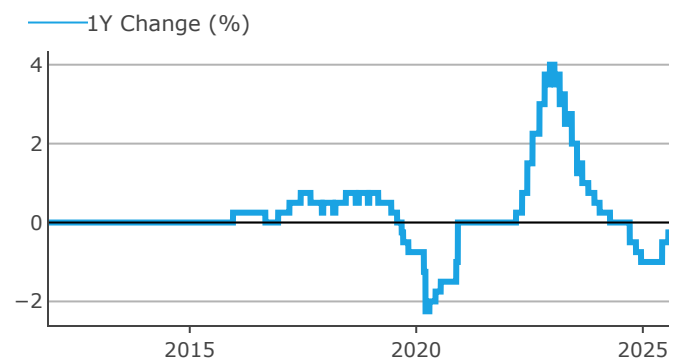
Despite political pressure, especially from Donald Trump, the Federal Reserve remains measured in its approach to rate cuts. Unemployment, at 4.1%, is still well below the Q4 projection of 4.5%, supporting a cautious stance.

Tariffs have yet to fully impact inflation with full pass-through likely lagged by ~4 months from imposition.¹ Inventory stocking strategies and front-loaded buying have prolonged any immediate price impacts. Granted, CPI has ticked up from 2.4% to 2.7% in June with some pass-through. However, the ultimate trajectory of tariff policy remains uncertain, adding to the Fed's hesitancy. Markets anticipate a 60% change of a rate cut in September.²

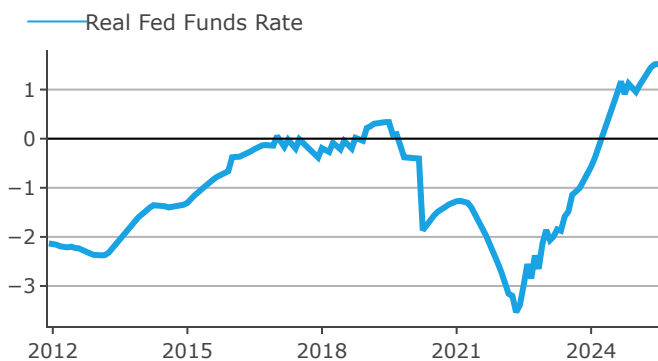
Fed Funds Rate



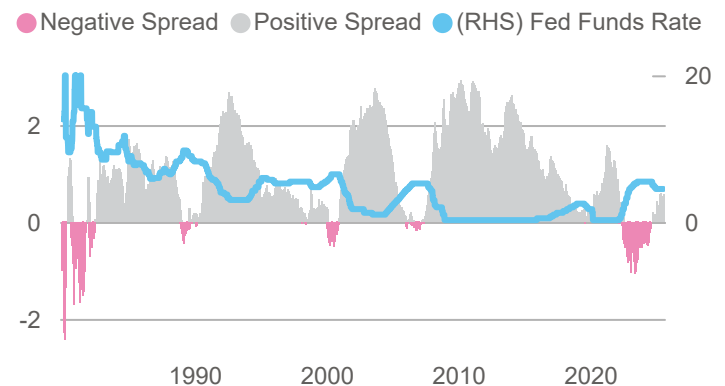
Change in Fed Funds Rate



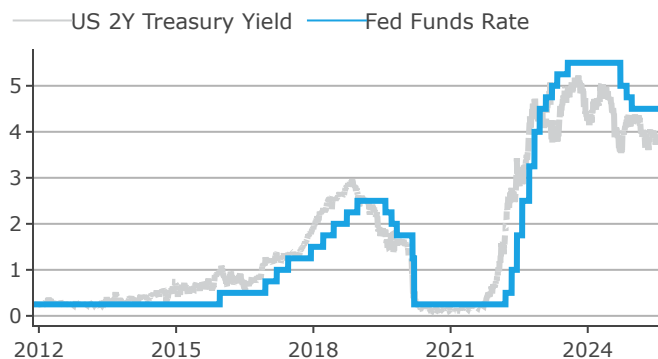
Real Fed Funds Rate (Using 2Y MA CPI)



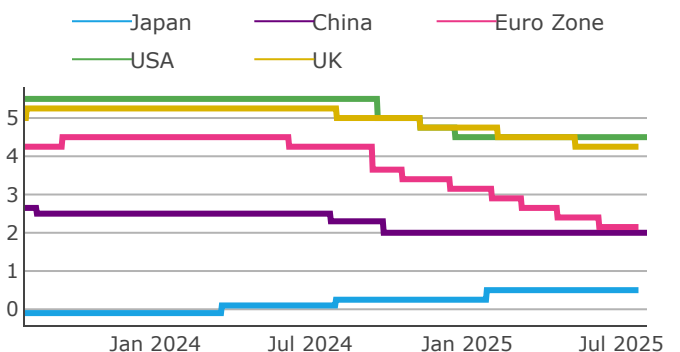
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison

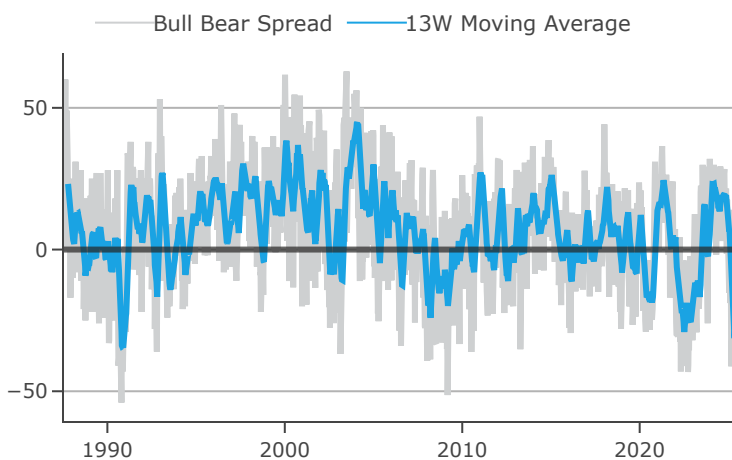


Sentiment

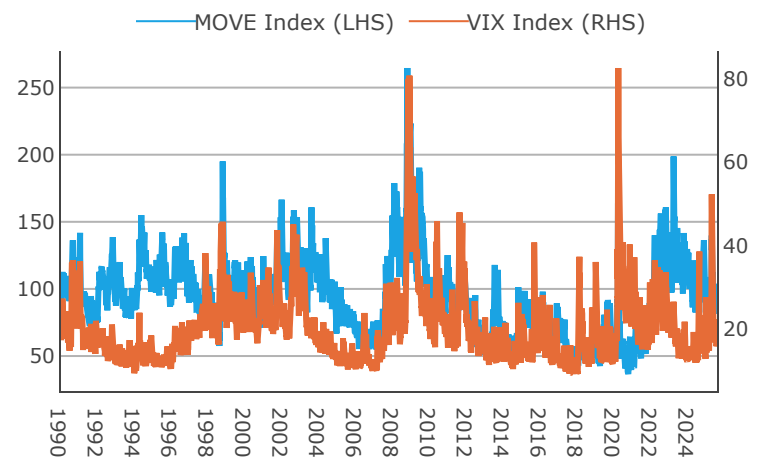
The BAML Hartnett Bull & Bear Indicator has risen again from 5.2 to 6.4, marking a four-month high. The increase can be attributed to strong flows in EM equity and HY bonds, strong global stock index breadth and strong credit market technicals. On the other hand, long-only and hedge fund flows remain subdued.

US Equity Indicators

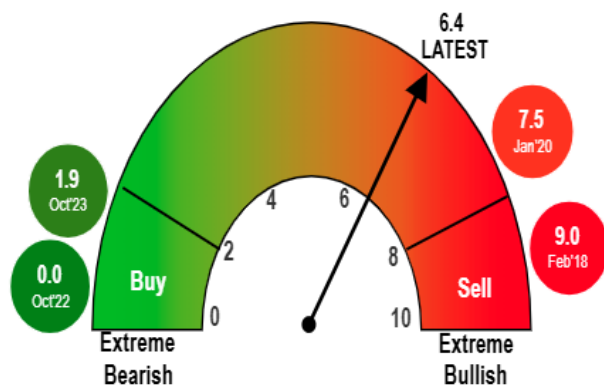
AAll Bull Bear Spread



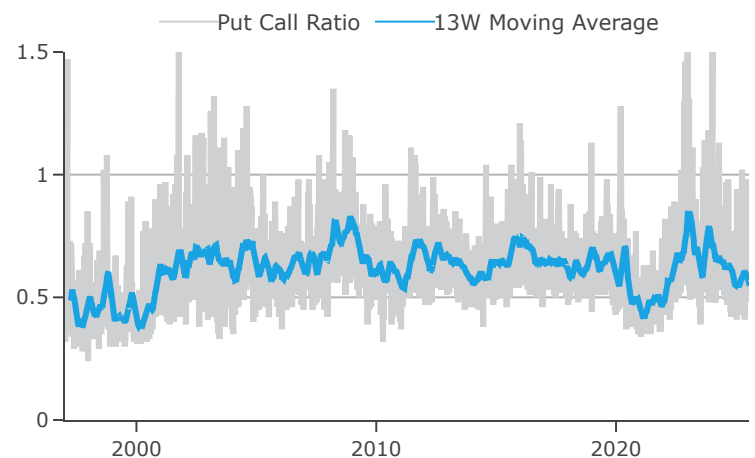
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio

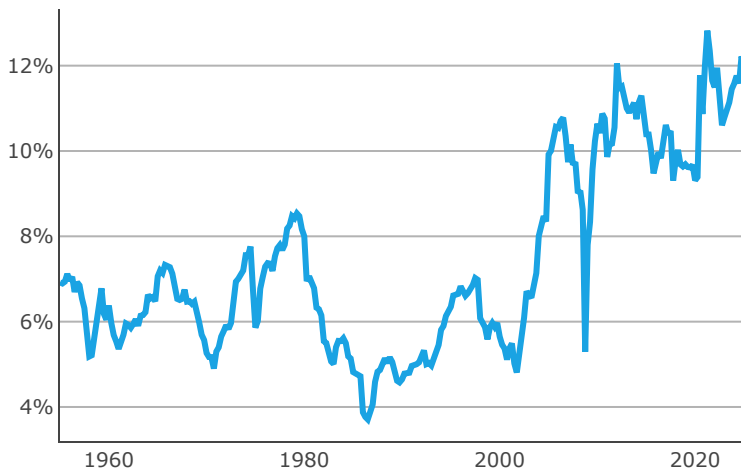


The Big Picture

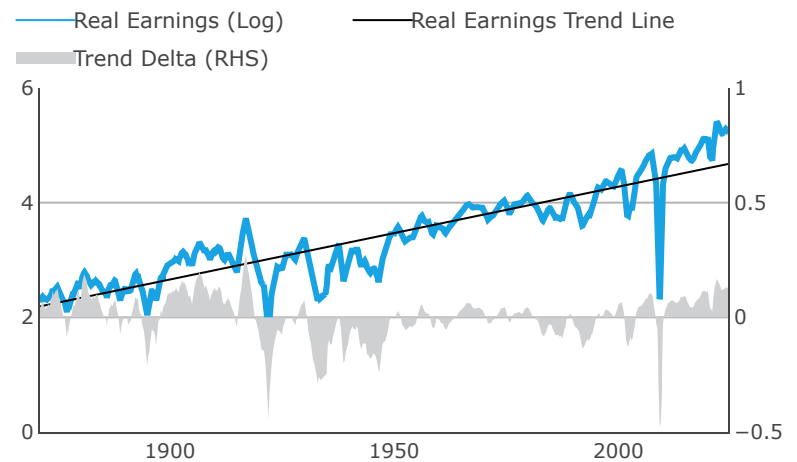
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, forward 10 year returns could be much lower than suggested by the ERPs.

Long-Term Imbalances

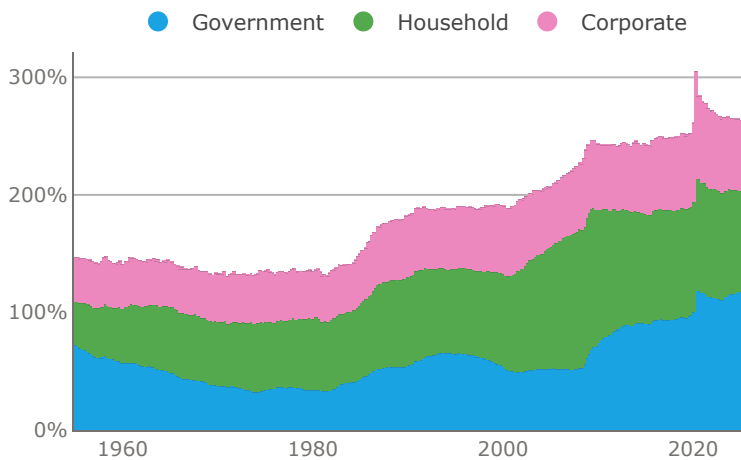
Profit Share of GDP



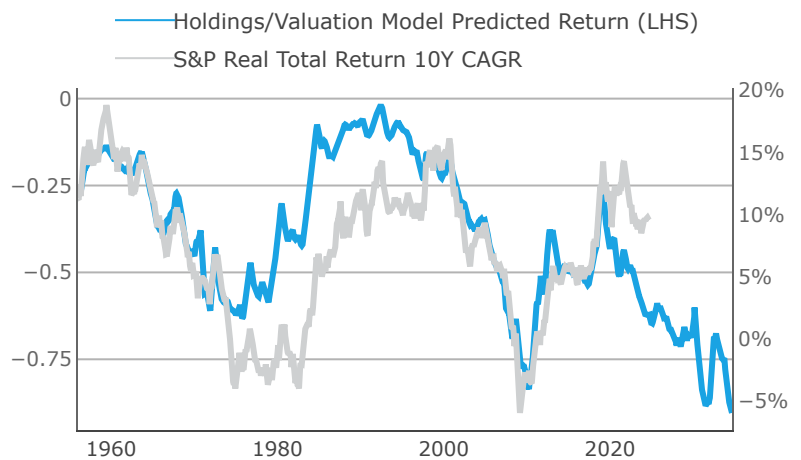
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Important information

This document is produced for professional investors and is also available on request.

This document is not intended for general retail public distribution and must NOT be distributed to other persons without CCLA's permission.

This document is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice and does not constitute an offer or invitation to make an investment in any financial instrument or in any CCLA product.

The market review and analysis contained in this document represent CCLA's house view and should not be relied upon to form the basis of any investment decisions.

Any forward-looking statements are based upon CCLA's current opinions, expectations and projections. Such opinions, expectations or projections may be subject to change at any time. CCLA undertakes no obligation to update or revise these. Actual results could differ materially from those anticipated.

Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money.

CCLA Investment Management Limited (registered in England and Wales, number 2183088) , whose registered address is: One Angel Lane, London, EC4R 3AB, is authorised and regulated by the Financial Conduct Authority.



www.ccla.co.uk

CCLA Investment Management Limited (registered in England & Wales, No. 2183088)
is authorised and regulated by the Financial Conduct Authority.
Registered address: One Angel Lane, London, EC4R 3AB.