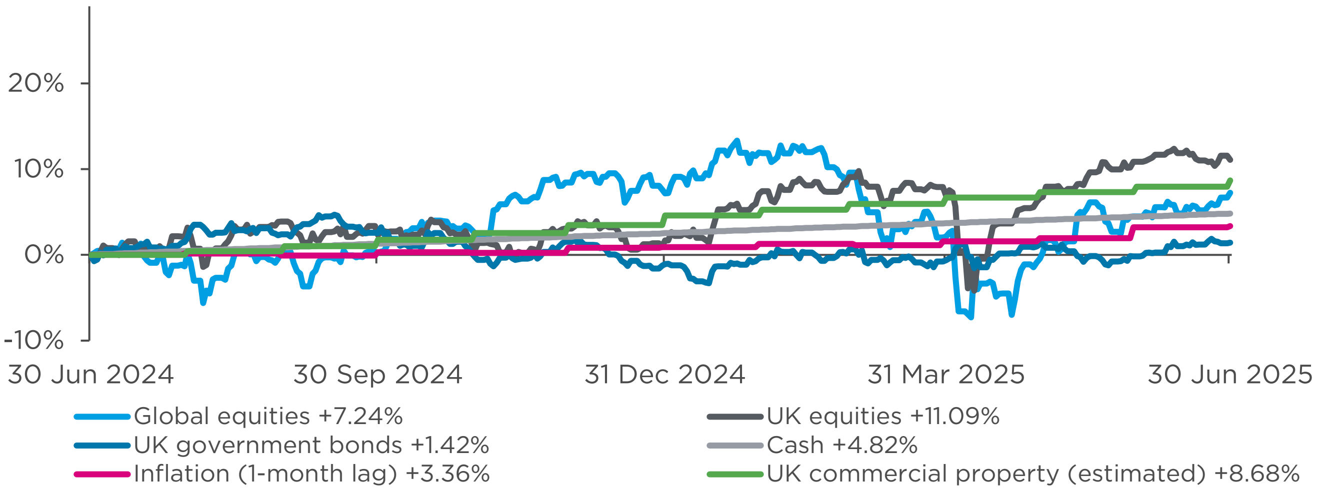
CCLA
GOOD INVESTMENT

Market report

The headlines

- **US share prices continued to recover during June, but UK and eurozone share prices were lacklustre.**
- **Bond prices firmed or remained stable in most regions, as economic uncertainty and the conflict in the Middle East weighed on the economic outlook.**
- **Looking ahead: corporate financial fundamentals look strong, and we may have left peak policy uncertainty behind us.**

Market returns: stock markets continued to recover from their price falls earlier this year



Sources: Bloomberg, all in pound sterling terms, as of 30 June 2025. Daily data, except for inflation and UK commercial property, which we show monthly. UK government bond returns as per the Markit iBoxx £ Gilts Index. UK inflation index (30 June 2024 =0%) as per the Office of National Statistics' Consumer Price Index, with a one-month lag. UK commercial property as per the MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per the Sterling Overnight Index Average (SONIA). Global and UK equity returns as per the MSCI World Index and the MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

'Crisis? What crisis?' In June, financial markets continued to recover from April's tariff saga, and shrugged off the conflict between Israel and Iran. The MSCI World Index of share prices(1) rose another 2.7% during the month, in pound sterling. US share prices rose 5.1%, but UK shares rose just 0.2% and eurozone share prices fell 0.7%, all in local currency.

Government bond yields fell in the UK and the US but rose marginally in the eurozone.(2) The US Federal Reserve (Fed) and the Bank of England (BoE) kept interest rates on hold during June, but the European Central Bank (ECB) cut its key interest rates by 0.25%.

The US dollar weakened during June, from $1.35 to $1.37 per pound sterling. The euro strengthened, from €1.19 to €1.17 per pound. For UK investors, these moves were a drag on returns from US-dollar assets but boosted returns from euro-denominated assets.

United States

US share prices rose 5.1% during June, in dollar terms. Firms in information technology and communications were the main contributors to performance during the month. By contrast, share prices fell in the consumer staples and real estate sectors.

Many US share price indices neared all-time highs in June, and valuations remained high. How did shares end up here, in less than three months after a sell-off?

Positive corporate news and progress on tariffs were the main reasons why share prices rose.

- The continuing boom in artificial intelligence (AI) boosted share prices during the month. For example: at the end of May, chipmaker NVIDIA announced a 69% revenue increase in the first quarter, yoy. Share repurchases, when companies buy their own shares with excess cash, also continued to boost prices.
- US Commerce Secretary Howard Lutnick suggested that a series of agreements would be signed before President Trump's 'tariff pause' runs out on 9 July.

For China, US tariffs will be paused until 12 August. But the US and China are already said to be close to a comprehensive trade agreement, which buoyed markets. Details so far include a deal for China to ship rare earth minerals to the US.

At the same time, US investors shrugged off concerns over international crises and domestic policies.

- Israel attacked Iranian nuclear facilities, nuclear scientists and regime officials. This caused a spike in oil prices, to $77 per barrel, and a pause in share prices. But oil prices fell and share prices rebounded after the US used 'bunker buster' munitions on three Iranian nuclear facilities, after which President Trump called for a ceasefire.
- The US Senate started discussing President Trump's budget bill. The bill would add trillions of dollars to the US national debt, but investors focused on the stimulus that it would inject into the US economy.
- The personal consumption expenditures (PCE) index, the Fed's preferred inflation gauge, rose from 2.2% in April to a modest 2.3% in May, year on year (yoy). The Fed kept interest rates on hold, but indicated that it might make two cuts later this year.

In the bond market, 10-year US Treasury yields fell from 4.41% at the end of May to 4.24% at the end of June. (Bond yields fall when bond prices rise.) Yields initially rose in early June, on fiscal concerns. But they fell after the conflict between Israel and Iran broke out, as investors bought safe-haven assets.

The US dollar continued to weaken in June, to a three-year low versus the pound. That's remarkable, because tariffs usually boost the currency of the country that imposes them. In theory, they reduce demand for foreign currency needed to buy goods abroad.

But the Trump administration appears willing, keen even, to depreciate the dollar. Some of its advisors have argued that a strong dollar is a burden on the US economy, because it makes US production expensive.

As a result, President Trump appears to care little for the dollar's standing. Internationally, he has paid little attention to relations with the country's G7 and NATO partners. Domestically, he has pressured the Fed to lower interest rates, which would weigh on the dollar. He has recently announced that he might name a new Fed Chair soon, which could undermine current chair Jay Powell, who has another 11 months left in the role.

United Kingdom

UK share prices rose just 0.2% in June, weighed down by corporate and economic news.

The UK stock market is rich in mining stocks. Some of those, such as Mexican precious metals group Fresnillo, benefited from higher metals prices. Defence shares such as Melrose and Rolls Royce also rose in price, as NATO's annual meeting lifted defence budgets to 5% of gross domestic product (GDP).

The poorest performers in the UK market during June included advertising firm WPP and consumer health care firm Haleon (Sensodyne, Panadol etc.), mainly for company-specific reasons.

Broader economic trends also weighed on UK shares. The UK economy shrank 0.3% in April, as national insurance rates rose and President Trump's tariffs created uncertainty. In May, the unemployment rate climbed to a four-year high of 4.6% and retail sales fell at their fastest rate since December 2023 (by volume). UK house prices fell by 0.4%, from April to May.

Investors also continued to scrutinise the government's finances: £17.7 billion of government borrowing in May was the highest on record for the month of May (ex-COVID times). At the same time, the government has announced a 10-year infrastructure strategy, to which it is committing £725 billion.

UK consumer price (CPI) inflation fell from 3.5% in April, yoy, to 3.4% in May, well above the BoE's 2% target. The BoE kept its Official Bank Rate unchanged during June, at 4.25%, mainly because it feared that oil prices might rise due to conflict in the Middle East. Further interest rate cuts are on the cards, however, and may resume as soon as August.

In the UK bond market, two-year government bond ('gilt') yields fell from 4.0% at the end of May to 3.8% at the end of June. Ten-year gilt yields fell from 4.6% to 4.5% during that time.

Other markets

Eurozone share prices fell 0.7% during June. Company-specific news aside, investors appeared worried about the European Union's negotiations about tariffs with the US, which could weigh on economic growth.

Eurozone inflation fell from 2.2% in April, yoy, to 1.9% in May, mainly because of lower prices for services and energy. The ECB cut its key interest rates by 0.25%

during the month, but many investors do not expect it to cut rates again this year.

Share prices in **China** rose 3.7% during June, helped by news that the Chinese and US governments are nearing a trade deal.

Domestically, China's economy showed unexpected signs of strength, as factory output and construction advanced, according to purchasing managers' indices (PMIs). But the Chinese consumer continues to appear weak, with poor jobs numbers in June.

Japanese share prices rose 1.8% during June, mainly because the high proportion of tech stocks in the Japanese index advanced. In addition, investors were hopeful that a trade deal would soon be signed with the US, Japan's biggest export market.

Japan's central bank kept interest rates on hold in June, because it considered above-target headline inflation to be transient and because it did not want to add economic uncertainty to tariff negotiations and the possibility of higher energy prices due to the Middle East conflict.

(1) Source: MSCI (net total return in local currency), except where stated
(2) Sources: US Federal Reserve, Bank of England, European Central Bank

Looking ahead

President Trump's 9 July deadline for tariff negotiations is the next big event on investors' calendars.

Ahead of that deadline, we have increased the equity percentage in our multi-asset portfolios. Why?

As always, we aim to 'look through' current events, to the underlying fundamentals of the assets in which we invest. Those fundamentals look solid.

- Forecasts indicate a slight slowdown in the earnings growth of companies in the S&P 500 share index this year. From 9.3%, yoy, in the first quarter of 2025, growth is expected to slow to 9.1%, yoy, by the fourth quarter. This growth rate is higher than the 10-year average and should, in our opinion, support the current c. 22x forward price-earnings (P/E) ratio of the index.
- In the first quarter of 2025, 78% of companies in the S&P 500 beat analysts' forecasts of their earnings per share. We expect that trend to continue.
- The percentage of earnings upgrades by research analysts, net of downgrades, as a percentage of total earnings estimates, continues to fall. Troughs in that ratio have historically been a buy signal for shares.
- After their recent underperformance, UK shares are now cheaper, on a P/E basis, than those in other developed markets. The Chancellor's June Spending Review appeared expansionary for the UK economy, and the UK government is increasing infrastructure investments. Both should boost UK stocks.

In addition, the geopolitical environment appears to have left peak uncertainty behind.

- A trade deal between the US and China has been rumoured. US Commerce Secretary Howard Lutnick has suggested that trade agreements with c.10 other countries are close to being signed.
- NATO appears solidified after its June meeting. Members have committed to spend 5% of GDP on defence and defence infrastructure. President Trump appeared re-committed to the alliance.
- OPEC+ (the Saudi-led Organization of the Petroleum Exporting Countries, plus countries like Russia) is hiking oil supplies, despite weak global demand. The US Energy Information Administration (EIA) expects oil prices to fall below $60 per barrel by 2026.

Market fundamentals are solid and risk from tariffs has receded somewhat. We have returned the equity percentage in our multi-asset portfolios to 73% and reduced exposure to infrastructure.

Glossary

Please refer to the glossary on our website (**www.ccla.co.uk/glossary**) for explanations of terms used in this communication. If you would like the information in an alternative format or have any queries, please call us on **0800 022 3505** or email us at **clientservices@ccla.co.uk**

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