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# MARKET INSIGHT

## The UK market at an all-time high

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### **In July, sentiment improved as political uncertainty reduced and investor focus turned to the second quarter earnings season.**

The 90-day tariff pause came and went, with some countries striking deals and an extended deadline of 1st August for the remainder. Although not ideal with tariff rates higher than previously expected and way above the pre-Trump era of 2.4%, the market has found solace in the fact that an agreement has been reached and there is reduced risk of escalating trade wars.

The passage of the One Big Beautiful Bill Act brought more clarity to the future policy path in the US, adding further fiscal stimulus and supporting growth optimism. The early part of July was dominated by policy, and the latter was focused on company earnings.

Equity markets responded by reaching new all-time highs, with developed markets rising 1.3% and emerging markets increasing by 2%. Regional returns were strong for the UK and US, whilst Fixed Interest was subdued in what became a risk-on month.

#### **Growth Assets**

The latter part of the month saw the start of earnings season, with the world's biggest companies announcing their most recent results.

Second-quarter earnings reports provided a tailwind for equity markets. In the US, close to 80% of companies which have reported thus far have beaten consensus earnings and revenue growth expectations, which is better than the long-term average. Strong earnings reports reinforced the view that the political turmoil of recent months has so far had only a muted impact on company earnings. Naturally, all eyes were firmly on the "Magnificent Seven" companies that delivered stronger earnings growth than peers.

**Equity markets responded by reaching new all-time highs with developed markets rising by 1.3%.**

Microsoft, Meta and Nvidia were standouts, with strong earnings tied to AI trends leading to strong share price gains.

European and UK equities diverged from each other, in local currency the UK's main market was the strongest over the month, delivering a 4% return with the commodity-heavy index helped by strong revisions to both the energy and materials sectors.

Wider Europe lagged due to warnings from some of its largest businesses about the possible impacts of tariffs. Asia and Emerging Markets have been supported by policy easing and trade realignment; these regions remain a key destination for diversification.

## Defensive Assets

Fixed interest had a poor month, delivering negative returns. For the Federal Reserve, the timeline for clarity on the effects of tariffs and other policy measures on the economy may be pushed back to the autumn. However, political pressure on the US central bank is rising as the administration pushes for low interest rates. Treasury yields moved higher in July, reflecting the improving growth outlook but also the growing uneasiness of markets with the fiscal situation.

In the UK, Gilt markets had to digest a relatively hot CPI print in June. Headline inflation unexpectedly increased, versus consensus expectations that it would stay flat. The increase at the headline level was predominantly driven by an acceleration in transport, clothing and recreation costs. Ten-year gilt yields increased to 4.6% over the month.

## Factor Performance

Turning to factor performance, cyclicals outperformed defensive stocks as investors favoured economically sensitive stocks as growth expectations rose. Small caps did well but the final week saw them overtaken by large caps. Large cap and Growth factors delivered due to the "Magnificent Seven" tech giants post earnings season. A run which saw the gains from quarter two extended. Value was the worst performing factor, delivering 0.79% compared to Growth which increased by 3.72%.

## Summary

In July, investor sentiment improved as political noise was toned down somewhat, with markets gaining more clarity regarding future US trade and fiscal policy. However, last month's rally extended equity valuations even further. We continue to be cautious and one of our main focuses is the potential for further increases in inflation.

Well-diversified portfolios are therefore essential to protect against both the risk that inflation resurges and pushes bond yields much higher, and the risk that the economy falls into recession.

**In local currency the UK's main market was the strongest over the month.**

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