

Investment Commentary

Designed to help you understand today's markets



July 2025

Trade optimism lifts markets as growth shows signs of slowing

Tariff truce supports markets

US trade deals with China and the UK have eased fears of a global trade war, raising hopes that more agreements will follow before President Donald Trump's 9 July deadline. At the same time, the US Senate has begun debating Trump's "Big, Beautiful Bill" of tax reforms and major cuts to healthcare and food aid.

UK exports have taken a hit from US tariffs, while the dollar slid to a three-year low in June, weighed down by shifting trade policy and growing speculation about US Federal Reserve (Fed) rate cuts. Although the US economy remains strong, recent data suggests it may be starting to slow. Crude oil prices also dropped, despite expectations of a spike, as signs that the ceasefire between Iran and Israel may limit supply disruptions.

Markets surge to record highs

Global stocks had another strong month, brushing off concerns about rising tensions in the Middle East. Markets stayed upbeat after Trump stepped back from tariff threats in May. The FTSE 100 hit a record high, while the pound rose to its strongest level against the dollar in over three years.

In the US, the S&P 500 and Nasdaq both ended the month at record highs, marking their best quarter in more than a year. Stocks had fallen in March and early April after Trump's tariff plans rattled investors, but they recovered those losses through May and June as hopes grew for trade deals and interest rate cuts.

Fed holds rates

The Fed held interest rates steady as it awaits more clarity on the impact of tariffs on the economy. The central bank expects inflation to worsen in the coming months and anticipates two interest rate cuts by the end of the year.

US inflation rose less than expected to 2.4% in May, up from 2.3% in April, suggesting the impact of Trump's tariffs has yet to fully hit consumer prices.

US manufacturing contracted for a third straight month in May, as imports tumbled to their lowest level since 2009. With ongoing uncertainty over tariffs, the labour market is slowing. The US economy added fewer jobs in May compared to the previous month, while the unemployment rate remained unchanged at 4.2%.



The US national debt currently sits at \$36 trillion (£26 trillion). Trump's "Big, Beautiful Bill", which runs to nearly 1,000-pages, proposes sweeping tax reforms and will add \$3.3 trillion to that debt if it is passed.¹



British exports to US suffer record hit

UK exports to the US fell by £2 billion in April as a result of Trump's tariffs. Meanwhile, inflation held steady at 3.4% in May — significantly above the Bank of England's 2% target and the highest rate for more than a year. With uncertainty weighing on the economy, the Bank held interest rates at 4.25%. Financial markets are predicting two further rate cuts this year.

UK economic growth has been uneven so far in 2025, after expanding strongly at the start of the year. Pressure is mounting on businesses, with firms hesitant to hire amid rising employer costs. The number of workers on company payrolls saw the biggest monthly fall since 2020, while wage growth slowed and unemployment ticked up.

ECB cuts rates

The European Central Bank (ECB) has cut interest rates for the eighth time in a row, lowering them to 2% to support the struggling eurozone economy after Trump's tariffs. This is half the rate seen in June 2024. Price rises are cooling faster than expected — eurozone inflation dropped to 1.9% in May, below the ECB's 2% target, helped by a stronger euro and lower energy costs.

Chancellor Rachel Reeves unveiled a £39 billion boost for social housing, £29 billion for the NHS and £11 billion for defence in the June 2025 Spending Review. She dismissed Tory warnings of a "cruel summer" of tax rises, insisting the plans would support families and rebuild public services.²

Public sector net borrowing fell to £17.7 billion in May, down from £20.2 billion in April. Despite the improvement, May's borrowing figure was £700 million higher than the same month last year, and there are fears the Chancellor will raise taxes in the autumn.³

The eurozone economy is now growing at its fastest pace since late 2022. Exports and imports have both increased. Still, tariff uncertainty may weigh on business investment. However, higher government spending on defence and infrastructure is likely to support long-term growth, raising hopes that the economy can keep improving despite global trade risks.

China and US agree trade framework

The US has agreed a trade framework with China aimed at increasing the supply of rare earth minerals and magnets for the automotive industry. As part of the deal, the US will raise overall tariffs on Chinese goods to 55%, while China will introduce a 10% tariff on US imports. China's exports to the US plunged 34.5% year-on-year in May — the sharpest drop since the pandemic.

China's factory output growth hit a six-month low in May, while the property sector remains weak. Consumer prices fell for a fourth consecutive month, with stimulus measures appearing insufficient to boost domestic consumption. There was some good news, however, with retail sales growing at their quickest pace in 17 months, boosted by holidays.

² www.theguardian.com/politics/2025/jun/11/spending-review-reeves-vows-to-renew-britain-with-big-rises-for-nhs-housing-and-defence

³ bmmagazine.co.uk/news/uk-borrowing-falls-in-may-after-higher-tax-on-businesses/



Looking ahead: US economy remains robust

The US economy remains resilient despite ongoing uncertainty. The job market is cooling, but unemployment is still low and employment levels are near their peak. The Fed and the Bank of England are expected to begin cutting interest rates in September, although some US officials have hinted at an earlier move in July.

UK economic growth is likely to be weaker than expected this year and next, with global trade still feeling the impact of tariffs introduced by Trump. The Bank of England forecasts just 0.25% growth for the second quarter. The OECD has downgraded growth forecasts for most major economies, including the UK, due to the ongoing effect of tariffs.

Thank you for reading and please look out for another update next month.

Ascot Lloyd Investment Team

All data in this article is correct as of 01/06/2025

What's coming up?



In the next edition of our newsletter we will be looking at sustainable investing and how you can protect your wealth from economic volatility in 2025

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