

Quarterly Commentary

Q2 2025

The second quarter of 2025 was at least as eventful as the first...

The second quarter of 2025 was no less eventful than the first. A major development came on 2nd April, dubbed 'Liberation Day', when the US administration declared a national emergency and announced broad-based tariff measures. These included a blanket 10% tariff on all US imports, with steeper rates for countries running trade surpluses with the US, notably 125% on imports from China, 20% from the EU, and 10% from the UK.

So what?

Markets typically react unfavourably to unexpected policy shifts, especially those with direct economic implications. The initial response was a sharp sell-off in risk assets, underlining the continued sensitivity of investor sentiment to geopolitical and trade developments.

Equity markets dropped noticeably in April as participants adjusted to the new tariff landscape. Later in the month, the US administration indicated it was open to discussions, which helped steady markets and contributed to a partial recovery. However, the volatility had already left a mark.

By the end of April and into May, equities regained ground, although the recovery was uneven across asset classes. US bond markets faced headwinds, with yields rising due to investor concerns about fiscal sustainability. The US dollar also experienced some pressure amid questions around the direction of future policy and governance risk.

So what?

The assumption that US assets, particularly the dollar and Treasuries, will always act as a safe haven is being tested. This highlights the importance of maintaining diversified exposure across geographies and asset types.

A new term emerged in financial commentary during the quarter: the “TACO” trade shorthand for ‘Trump Always Changes Outcome’. The phrase captured a belief that tough policy stances might be dialled back in response to market reactions, contributing to stabilisation in investor confidence.

Equities ended the quarter in positive territory across many developed and emerging markets. However, volatility remained a defining feature, particularly in April and market breadth was narrow, with gains still dominated by a small group of US technology firms, despite increased interest in global diversification.

So what?

While the US remains central to global market dynamics, investors are increasingly exploring opportunities elsewhere. High concentration in a few large stocks introduces additional risks. Reviewing sector and regional exposure is more relevant than ever.

Bond markets had a mixed quarter. US Treasuries lagged due to fiscal and inflation concerns, while European government bond, particularly from countries like France, Spain, and Italy, were relatively more stable. A credit rating downgrade for the US by Moody's added to the pressure.

So what?

Bond market volatility is a reminder that fixed income no longer provides automatic stability. Credibility of fiscal policy matters again. Investors should consider flexible strategies and broaden their view beyond US government debt when seeking defensive allocations.

In the UK, the Bank of England continues to walk a fine line. Inflation has eased but remains above target, with wage growth still strong. Markets have priced in potential rate cuts before year-end, but the Bank has been cautious in signalling any firm direction.

So what?

Investors should be wary of assuming imminent rate cuts. A higher-for-longer rate environment remains a possibility, reinforcing the case for well-diversified portfolios rather than making big bets on timing.

Sustainability themes continued to evolve during the quarter. The UK is moving toward clearer ESG standards, with the introduction of the Sustainability Disclosure Requirements (SDR). Meanwhile, varied performance among ESG-labelled funds has prompted a closer look at fund claims and positioning.

So what?

ESG investing is becoming more nuanced. Investors increasingly value transparency and genuine alignment with sustainability principles. The SDR framework will help with due diligence and advisers should be proactive in reviewing fund credentials.

In summary, Q2 2025 demonstrated once again that geopolitics, shifting policy, and investor sentiment all play significant roles in shaping market outcomes. Policy-related risk remains elevated, alongside familiar macroeconomic concerns like inflation, deficits, and yield pressures.

So what?

We remain in a market environment where narrative and sentiment can have as much impact as economic data. In this context, maintaining diversification, staying alert to risk, and keeping a long-term focus remain the most effective approaches.

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