Oxfordshire County Council Pension Fund

Quarterly Investment Report

Q2 2025

Contacts

John Arthur

Senior Advisor
+44 20 3327 9720
john.arthur@apexgroup-fs.com

Anita Bhatia

Senior Advisor

Anita.bhatia@apexgroup-fs.com

Key Indicators at a Glance

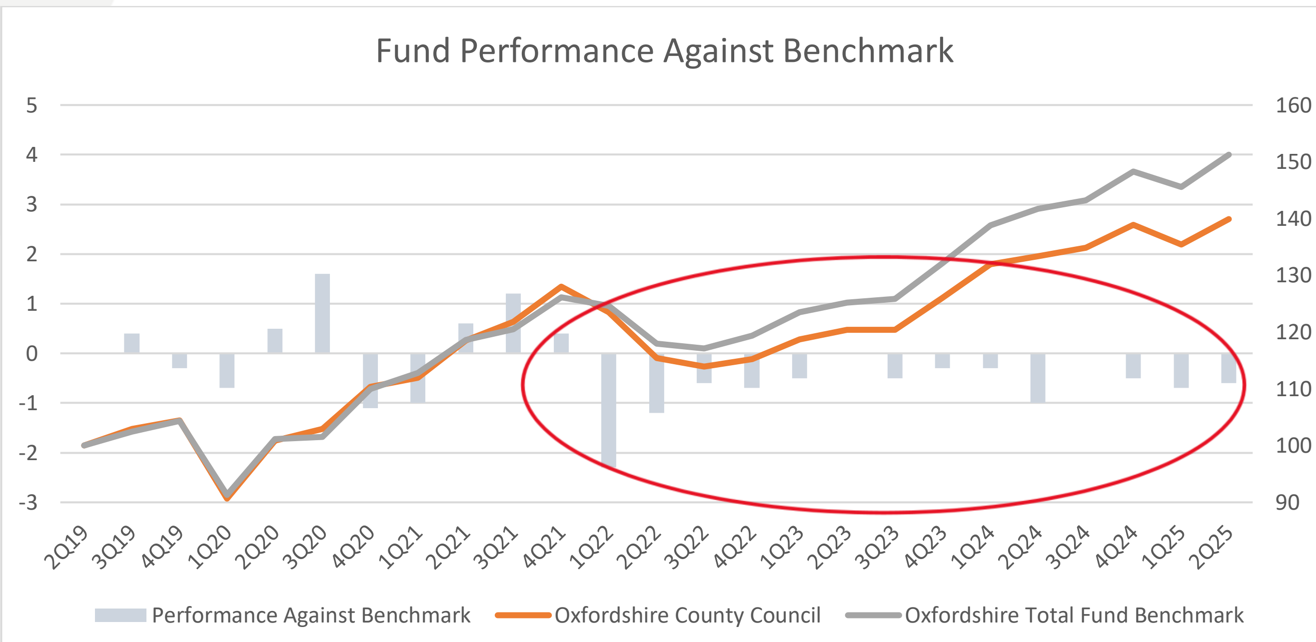
Index (Local Currency)		Q2	YTD
Equities		Total Return	
UK Large-Cap Equities	FTSE 100	3.17%	9.47%
UK All-Cap Equities	FTSE All-Share	4.39%	9.09%
US Equities	S&P 500	10.94%	6.20%
European Equities	EURO STOXX 50 Price EUR	2.66%	10.40%
Japanese Equities	Nikkei 225	13.87%	2.58%
EM Equities	MSCI Emerging Markets	11.99%	15.27%
Global Equities	MSCI World	11.47%	9.47%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	1.94%	2.50%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	1.35%	0.45%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	0.86%	-0.57%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	0.14%	-3.23%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	1.86%	0.51%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.85%	3.79%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	7.56%	11.97%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	3.33%	5.64%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	3.10%	3.58%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	1.68%	1.52%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	1.74%	2.30%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	1.82%	4.17%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	3.53%	4.57%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	-2.45%	-3.59%
GBP/USD	GBPUSD Exchange Rate	6.30%	9.72%
EUR/USD	EURUSD Exchange Rate	8.98%	13.84%
USD/JPY	USDJPY Exchange Rate	-3.95%	-8.38%
Dollar Index	Dollar Index Spot	-7.04%	-10.70%
USD/CNY	USDCNY Exchange Rate	-1.28%	-1.86%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	10.41%	15.52%
Private Equity	S&P Listed Private Equity Index	8.48%	2.68%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	-6.30%	-3.80%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	-0.97%	-2.31%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	-24.91%	-3.57%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-9.54%	-9.42%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	-16.10%	-4.87%
Gold	Generic 1st Gold, USD/toz	5.92%	25.24%
Copper	Generic 1st Copper, USD/lb	-0.08%	24.92%
Gold	Spot gold price quoted in USD per troy ounce	5.75%	25.86%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	-4.39%	-1.18%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	-17.92%	-19.63%
Arabica Coffee	Front-month ICE Coffee “C” Arabica futures contract	-19.22%	-4.07%
Sector Indices			
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	22.90%	13.34%
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	11.32%	-4.22%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	0.49%	5.09%
S&P 500 Health Care	S&P 500 Health Care sector	-7.62%	-2.01%
S&P 500 Financials	S&P 500 Financials sector	5.12%	8.39%
S&P 500 Energy	S&P 500 Energy sector	-9.37%	-0.94%
S&P 500 Industrials	S&P 500 Industrials sector	12.56%	11.96%
S&P 500 Utilities	S&P 500 Utilities sector	3.49%	7.75%
S&P 500 Communication Services	S&P 500 Communication Services sector	18.20%	10.62%
S&P 500 Real Estate	S&P 500 Real Estate sector	-0.99%	1.71%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested and in local currency.

Performance

The Fund rose by 3.3% in the second quarter of 2025 to a value of £3.744bn. The Fund underperformed its benchmark which rose by 3.9% driven by poor performance from the Global and Private equity portfolios managed by Brunel. The second quarter of 2025 saw a continuation of a more volatile investment environment as President Trump enacted his trade tariffs which destabilised financial markets in the US and globally. However, as President Trump repeatedly pulled back from initial announcements on trade and the US economy continued to show growth, equity and bond markets recovered strongly through the quarter led by the big 7 tech stocks in the US. The US Dollar continued to weaken against all major currencies which lowered the return of US assets to a Sterling based investor. Gold continued to perform strongly in this uncertain environment.

Chart 1: Oxfordshire Pension Fund Performance



The chart above shows the cumulative performance of the Total Fund against its Strategic Benchmark rebalanced to 100 (the lines) on the right-hand scale and the Fund's quarterly relative performance against its strategic benchmark (in blocks) on the left-hand scale. All the Fund's underperformance has occurred since the transfer of assets to Brunel and, in particular, since the Russian invasion of Ukraine in 2022 and the subsequent rise in inflation and then interest rates and it is this that has driven the poor performance of their selected managers, particularly within the main active equity portfolios. Because of this the Fund continues to lag its benchmark over the longer term, underperforming over 1 year (by-1.9%); over 3 years (by -1.7%); over 5 years (by -1.5%) and over 10 years (by -0.4%).

Over the last 3 years the performance of the underlying managers selected by Brunel has been disappointing with over half the total underperformance of -2.6% relative to the Strategic Benchmark coming from the poor performance of the main Equity portfolios, Sustainable and Global High Alpha and UK. However, I believe this to be heavily influenced by the strong environmental slant which is a core part of Brunel's ethos. I continue to support this environmentally focused slant for the longer-term, however, the poor performance is showing no signs of recovery at present and this was another disappointing quarter. Other LGPS Pools have also performed poorly across their equity mandates for much the same reason and 7 years after Pools started, we have no real proof that any of the Pools can add value through manager selection within quoted equity markets!

Returns of 7.2% per annum over the last 30 years, being above the Fund's actuarial discount rate assumption for future investment returns, will have helped improve the funding ratio between the triennial actuarial revaluations.

Asset Allocation

Table 1: The Fund's current asset allocation against the Strategic Benchmark

Asset class	Asset Allocation as at 31/12/24	Strategic Asset Allocation	Position against the SAA	Deviation in cash terms
UK Equities	11.2%	**10%**	+1.2%	-£45m
Global Equities ex UK	43.7%	**41%**	+2.7%	-£101m
Fixed Interest	8.4%	**9%**	-0.6%	+£22m
Index-Linked Gilts	5.5%	**7%**	-1.5%	+£56m
Property	6.3%	**8%**	-1.7%	+£64m
Private Equity	12.2%	**10%**	2.2%	-£82m
Secure Income	4.1%	**5%**	-0.9%	+£34m
Private Debt	2.4%	**5%**	-2.6%	+£97m
Infrastructure	4.0%	**5%**	-1.0%	+£37m
Cash	2.0%	**0%**	+2.0%	-£75m

These figures are taken from the State Street report. Figures may not add up due to rounding.

The current deviation from the Fund's SAA is within acceptable bounds although I would recommend taking the equity weighting back to the benchmark and reinvesting into short-dated UK Corporate Investment Grade Bonds or cash, particularly as this money has already been committed to invest into Alternative Asset Classes and is awaiting drawdown. This holding would be temporary as the money would be drawn down into the Alternative portfolios over time. I believe this has been done post quarter end.

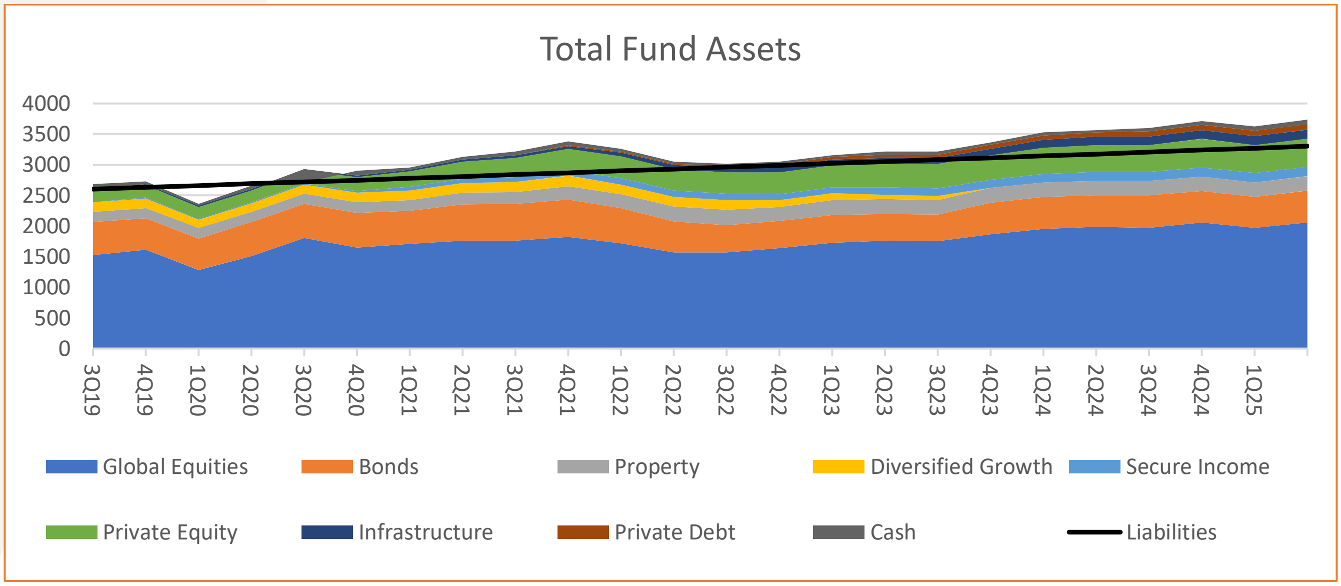
The recent work on Affordable/Social Housing resulted in MAN group being appointed to manage a £50m investment into Social and Affordable Housing working in the shared ownership, affordable rent and social rent space. A second report will be presented to this committee meeting by your officers regarding a second investment of £10m focusing more on achieving social impact within this sector. The investments can be financed from available cash balances and will bring the property weighting into line with the Strategic Benchmark.

I have written a comment on pooling options which will be included under a separate agenda item.

Chart 2, shows the assets of the Fund by asset class. I have also shown a black line which is the assumed valuation of the liabilities. Please treat this with some caution, the liabilities are valued by the actuary every three years. At this time, they calculate the value of all earnt pension benefits plus the expected value of all future pension entitlements by the existing membership. This future liability is discounted back to today's value using a discount rate which reflects market conditions on the day of the valuation so, in essence, a snapshot once every three years. At the time of the actuarial revaluation, the actuary also calculates the future investment return which gives them the required probability of maintaining full funding into the future. To create the line in the chart, I have compounded up the valuation of the liabilities on March 2022 by the required investment return for each quarter.

As bond yields have risen since the last actuarial revaluation it is likely that the actuary will use a higher discount rate to value future pension liabilities when they revalue the liabilities using 31/3/25 data. This will reduce the current valuation of future pensions in today's money and, thereby, reduce the value of the liabilities and increase the funding level of the Fund all else being equal; but, in addition, the actuary is likely to require a higher investment return going forward. There are also a number of other assumptions that the actuary makes when calculating the value of the pension liabilities including longevity and I have not made any estimation for these.

Chart 2: Oxfordshire Pension Fund Assets



Comment

The Wille-e-coyote moment – are we there yet? Has the US economy run off the edge of a cliff? The answer is no, but the data is deteriorating slowly and I would expect the speed of that deterioration to pick up over the coming months. However, it remains difficult to discern how severe this economic downturn will be. The central case is still an economic slowdown not a recession. Outside of the US, economies in the EU and Japan are stable but low growth and, in the EU in particular, inflation is subdued.

The outlook remains one of slowing growth and gently rising inflation, the question is whether the extent of these moves is enough to derail equity and bond markets? Earnings growth in the US is also slowing but a look beneath the surface shows a dichotomy between fast growing US mega cap tech stocks and the rest. As always, the canary in the coal mine will be the bond market. In the US, this has been remarkably stable with 2-year and 5-year Treasuries (US Government Debt) where they were in mid-April and 30-year Treasuries only 10 basis points higher. Why the stability? I see this as a pull between falling economic growth which should require lower interest rates to stimulate economic activity and rising inflation which requires rising interest rates to stop price rises becoming embedded into the US economy.

President Trump is walking a tightrope in pushing for interest rate cuts. He is correct that the US economy is slowing and rate cuts would stimulate economic growth but the reasons for the slowdown are self-inflicted through policy uncertainty lowering corporate investment rates and trade tariffs beginning to rise prices which will lower consumer demand. The question is, can the US Federal Reserve US Fed look through the inflation increase, see it as short-term and so cut rates anyway or will this uptick in inflation be more pervasive requiring the (US Fed) to hold rates higher for longer? If President Trump succeeds in forcing interest rate cuts to a level which investors do not believe will contain inflation, then longer duration bond yields will climb undermining economic growth in the US and thereby corporate earnings.

This is why watching US inflation is central to investment markets at the current time but investors are concentrating on each, individual, data point rather than trying to understand the underlying dynamics at play. The issue to me is that we are in a very different inflation environment than the one we experienced in the first two decades of the new millennium.

Inflation was very subdued during the first 20 years of the twenty-first century and had been on a downward trend since the early 1980's when Paul Volker was appointed chairman of the US Fed in 1979 with a remit to crush inflation. But, as I have written in past reports, the factors which were bearing down on inflation during that period are changing. It is important to recognise that it is not just the Russian invasion of Ukraine and the oppression in the Middle East forcing energy costs higher or President Trump's trade tariffs which are causing renewed inflationary pressure.

The passage below is an extract from my Q2 2023 report.

'There are a number of long-term trends which have held inflation down in the past, but which are now changing, as well as new inflationary factors to be considered.

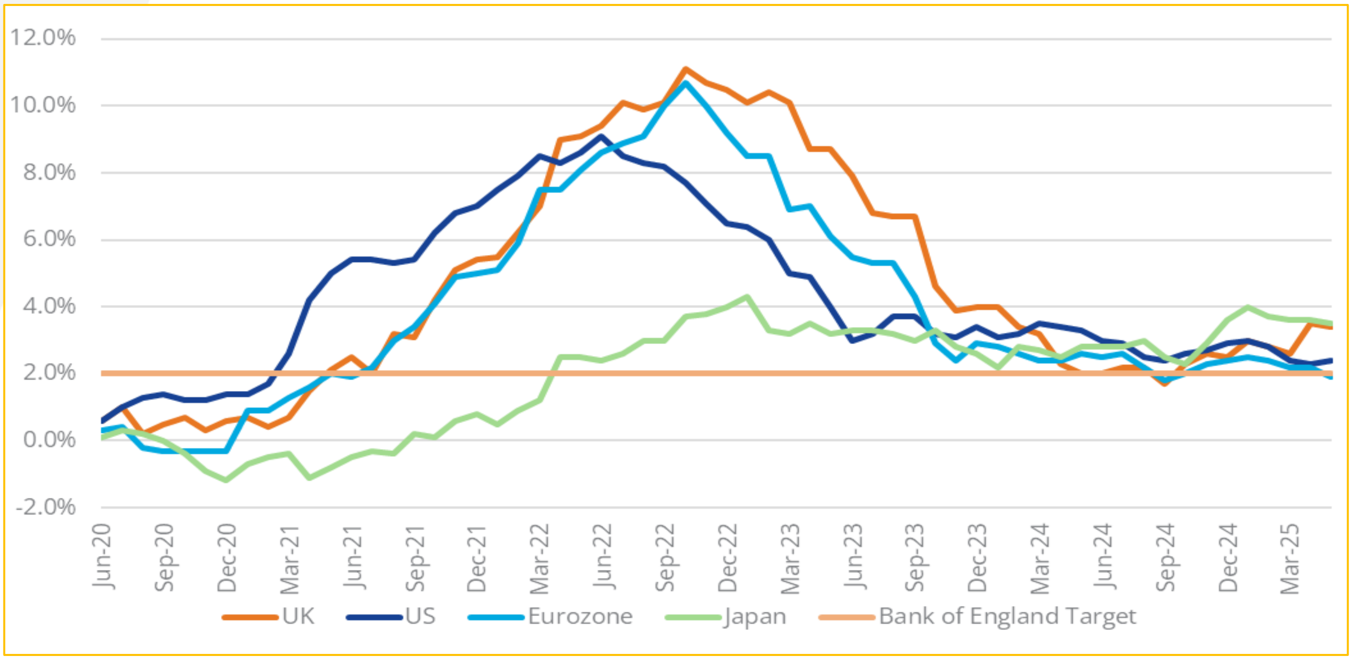
1) *Demographics –That the population is aging in most parts of the developed world is recognised, but, whereas over the past 40 years, an increasing percentage of the population in the developed world was of working age with more women entering the workforce due to a lower childcare burden, now the baby boomers are retiring and will need increased care in their old age, eventually removing both them and their future carers from the productive workforce. This will not just lower the available workforce but also reduce the level of savings in the economy as baby boomers draw on their savings to fund their retirement and later life care. This will lead to less money being available for investment, lowering potential economic growth (as seen in Japan). The economic solution to this could be to accept greater immigration but that seems to be politically unacceptable at present in many countries but, without this, the bargaining power of the remaining workforce increases forcing up wages and thus inflation and interest rates. China's own demographics are now also negative with a shrinking working age population.*
2) *Energy supply – The weaponization of energy supply is not new, the OPEC cartel was formed in the 1970's to force oil prices higher and redistribute economic wealth towards oil producing countries, mainly in the Middle East. President Putin has now followed the same playbook with Russian gas but, as the western world looks to switch away from carbon-based energy sources, it should be remembered that China produces over 50% of the world supply of car batteries and over 80% of solar panels as well as having a near monopoly on a number of metals vital to decarbonising the global economy. China's avowed intention to reunite Taiwan into the Chinese fold could again lead to the weaponization of critical energy supply chains even as the world moves to renewable energy.*
3) *Decarbonising the economy – The cost of moving towards a decarbonised economy will have to initially be borne by the consumer. Rethinking business methods may eventually lead to efficiency gains, but the initial cost will need to be passed through the system.*
4) *Globalisation of trade – undoubtedly in the 40 years to 2010 global trade expanded as companies took advantage of the opening of China and other markets with their cheap labour force to bear down on the cost of manufacture, but rising geopolitical tensions mean that globalisation, while not in retreat, has stalled; in 2022, exports were slightly lower, as a proportion of global GDP, than they were in 2008. The move from 'just in time', low-cost production, to 'just in case' production with multiple supply chains located in, hopefully, more stable areas of the world must mean a higher overall cost of production.*

The four points above have all worked to reduce inflation for a prolonged period but their long-term dynamic looks to have changed. However, going forward, there is one factor which continues to bear down on inflation and that is the speed of technological change. Artificial Intelligence (AI) is being touted as having similar potential to the introduction of the Internet to alter the way we live and how the corporate world works.'

Without these ultra long-term deflationary influences, restraining inflation will becoming harder. We have now seen the speed with which rising energy prices can push inflation higher and how long it takes to bring the inflation rate back under control. President Trump's desire to reorder the global trading system and to block immigration into the US, will both exacerbate the changes in the long-term deflationary factors mentioned above. I, therefore, continue to expect that inflation will pick up even as US economic growth slows. This will make US interest rate cuts difficult and they may not be enough to stop the US sliding into stagflation (high inflation and low economic growth).

In the 10 years post 2010, inflation was frequently below central banks' targets of 2%. Going forward, particularly in the US, I suspect that inflation will average 3-4% per annum given the policies of the current administration with the risk being to the upside. This will keep bond yields higher than over the last 20-years. If bond investors feel stimulating a US economy through lower interest rates when it is constrained by a reduced labour market will push higher inflation, they will push longer dated bond yields higher stifling corporate investment and future economic growth.

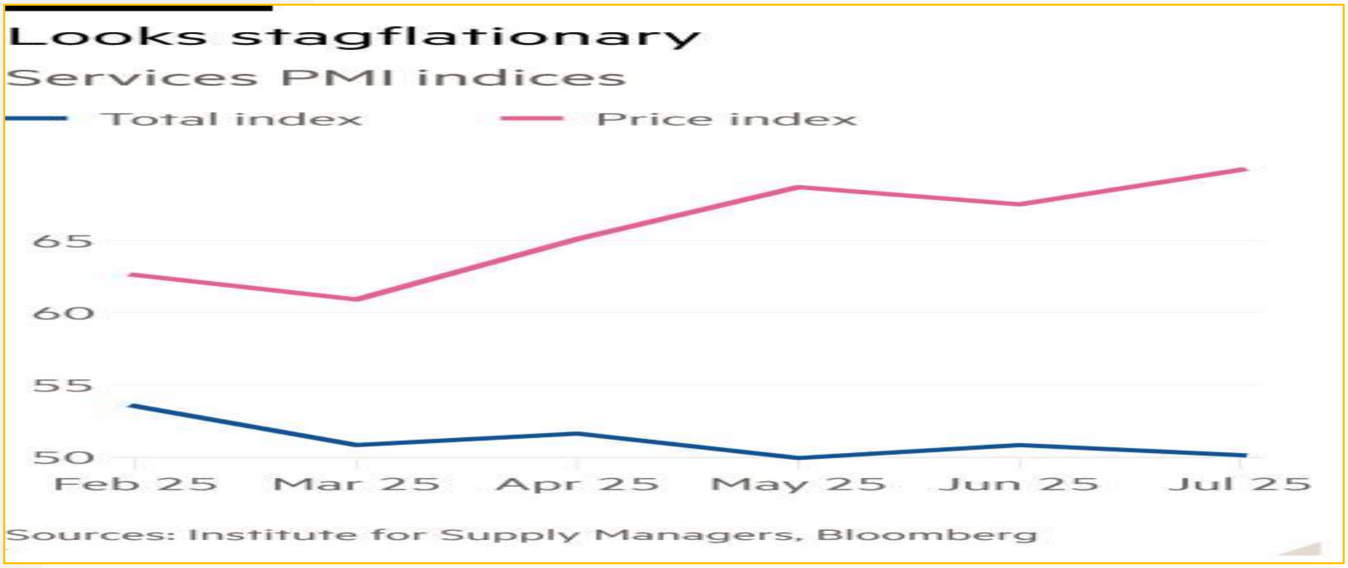
Chart 3: CPI – Annual rate of Inflation - Five Years to May 2025



The change to trading relationships forced by President Trump's view of the world is making the economic indicators hard to read at present. The US corporate sector did increase inventories ahead of potential trade tariffs and has been running these down through the second quarter, this has distorted the GDP figures for the last two quarters, but now the outlook on tariffs is more stable (perhaps) I would expect corporates to think through their pricing options for a higher tariff world and for much of these higher costs to be fed through to the consumer. Similarly, the push to reduce undocumented labour and crack down on immigration is reducing the labour pool just as the economy is slowing and so the jobs data, including the unemployment rate in the US, is holding steady as the demand for, and supply of, labour is diminishing at the same time.

If we look at the US Service sector, which should not be affected by tariffs, The Purchasing Managers Index (PMI) shows pricing pressures even as the sector is hardly growing. (PMI readings above 50 signal expansion, below 50 signal contraction). This is obviously only short-term data, but it does show more service companies raising prices (the red line) than not and yet this not leading to any sales growth (the blue line) suggesting a margin squeeze.

Chart 4: US Service Sector pricing and demand



If we look at corporate earnings growth in the US, this looks OK at the headline level but excluding mega tech, financials and energy stocks, there are signs of stable sales growth but slowing profits growth suggesting a cost issue, most likely tariffs.

Chart 5: US corporate profit growth

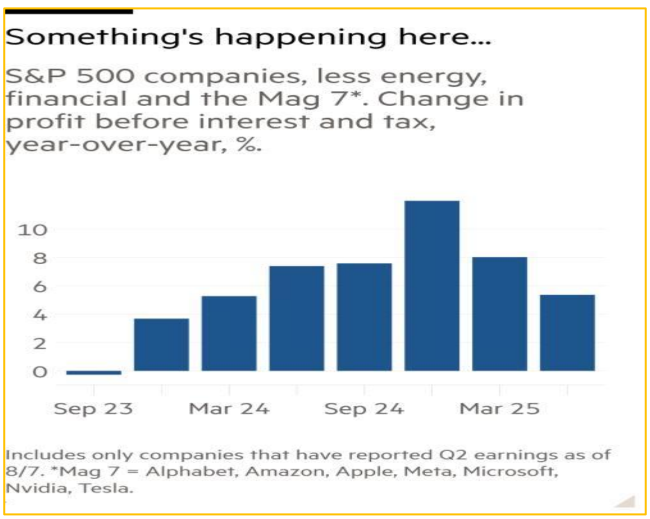
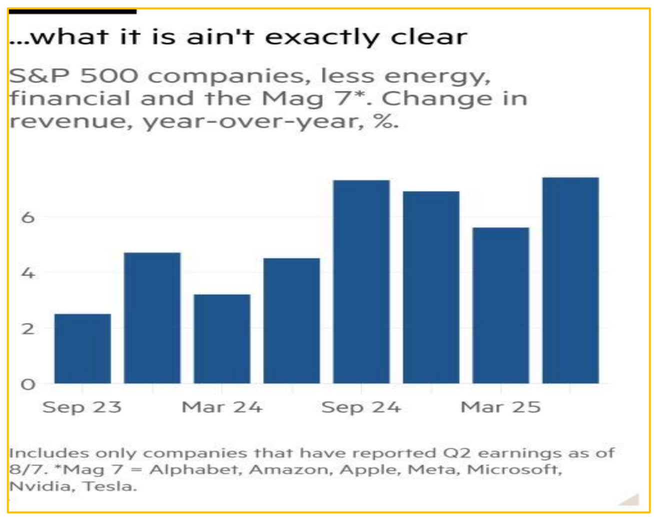


Chart 6: US corporate sales growth



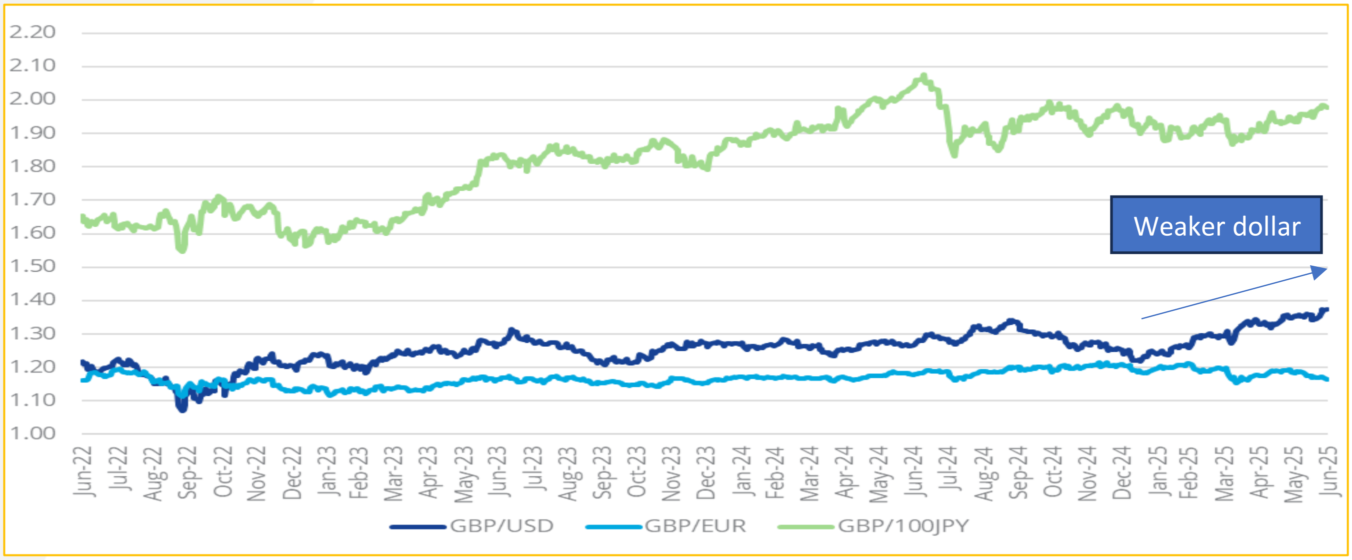
Source FT

This is supported by comments made in results statements for the second quarter with over 60% of the fall in profits at General Motors and Ford being attributed to trade tariffs.

What are the positives? Corporate tax cuts could offset the margin squeeze driven by higher costs; revenue from tariffs could balance the US budget and allow room for further tax cuts (although I suspect that tariff revenue will be outweighed by tax revenues coming in below expectations as growth slows); higher wages could support the domestic economy but are inflationary. Perhaps, most importantly, the mega US tech stocks could just keep on growing but this underlines just how reliant the US market is on these stocks.

Amongst all this, the US Dollar continues to weaken, falling another 6.3% against Sterling over the quarter.

Chart 7: Currencies against Sterling



Points for Consideration

1) **UK Active Equity mandate**. I understand that the decision to alter the focus of this portfolio towards mid and small cap stocks has now been delayed due to the need to move to a new pool. I continue to support the investment rationale for making this move and hope it can be resurrected post moving to a new pool.

2) **Appointing a new pooling partner.** See separate agenda item.

3) **Wessex Gardens** (the portfolio managed by Schroders Greencoat**).** A second successive poor quarter driven by the valuation raising the discount rate as 10-year bond yields rise. The valuation parameters used in valuing the assets in this portfolio need to stabilise for the underlying income generation to come through in returns.

Underlying Mandates

Rather than comment on each portfolio separately, duplicating the reporting from Brunel, the table below sets out each portfolio within the Fund with a note on my opinion of the management and performance using a traffic light system. Because of the transfer of assets to Brunel all the portfolios will have changed manager over the last four years. For this reason, I have rated some of the portfolio's amber purely because the performance history is too short to support an opinion.

We now have 3-year performance figures for both Private equity and Infrastructure and, whilst the initial drawdowns to these portfolios was slow and Brunel's speed of commitment was initially poor, this has now speeded up and performance figures do suggest that Brunel are achieving a reasonable level of return from these asset classes.

Table 2: Brunel portfolios

Portfolio	Benchmark	Inception	Performance	3-year rel p.a.	Comment
UK Equity	FT All-Share EX IT	09/18		+0.8%	Performance below benchmark over 5 years and since inception. Mandate/managers to be changed.

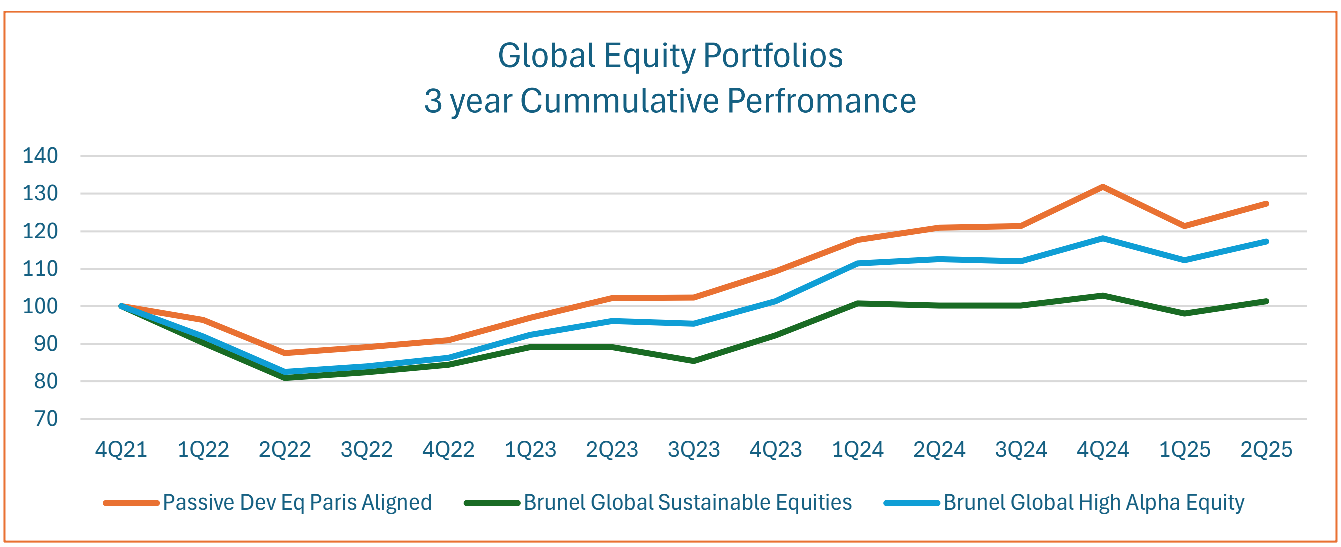
Global High Alpha	MSCI World Equity	11/19		-1.8%	Underperformance over five years of -1.9% p.a. but outperformance since inception.
Global Sustainable	MSCI All World Equity	10/20		-5.4%	Performance a major concern with the portfolio underperforming by over 5% p.a. since inception.
Global Paris Aligned	MSCI Paris Aligned	07/18		n/a	I do not see this as a particularly efficient way to adopt a more carbon neutral investment approach.
UK £ Corporate Bond	£ Non-Gilt Credit	11/21		+1.7%	Acceptable performance in a strong credit environment.
Passive Index-Linked	FTSE >5-Year Index-Linked			n/a	Passive portfolio and so will match the index on performance
Multi Asset Credit	Cash + 2%	11/21		+1.0%	Performance behind the benchmark since inception by -3.2% p.a. Portfolio construction heavily weighted to one, defensive manager which has impacted returns.
Property	Property benchmark	04/20		n/a	UK Performance has been good outperforming since inception, but international property has been very poor.
Secure Income	Cash + 4%	07/20		n/a	Noticeable performance issues.
Infrastructure	CPI	01/19		n/a	Drawdown has been slow; performance looks OK. Some concern over Wessex Gardens.
Private Equity	MSCI All World Equity	01/19		n/a	Drawdown has been slow; was noticeably poor this quarter undermining longer term returns. Direct Private Equity has been strong long-term.
Private Debt	Cash + 5%	08/17		n/a	Drawdown has been slow; performance looks good.

Portfolio Performance

From the table above it is noticeable how few of the Brunel managed portfolios are achieving their investment goals in performance terms. The charts below are an update of the performance of the main Global Equity portfolios from last quarter.

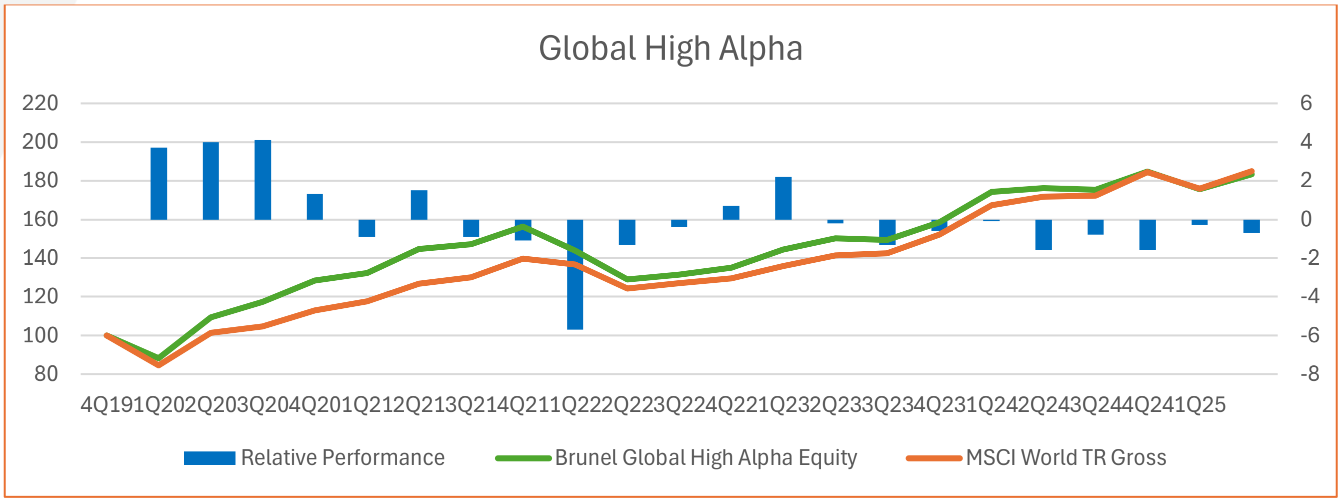
Global Equities

Chart 8: Global Equities



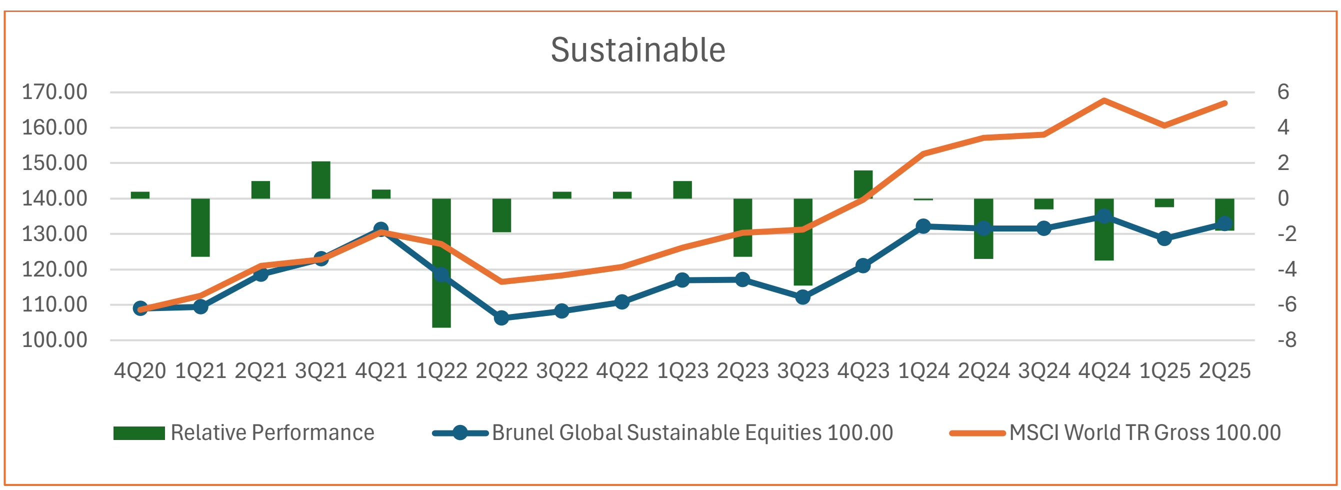
The chart on the previous page shows the cumulative performance of the Fund's three global equity portfolios over the last four years. Over that period, the financial effect of the underperformance of the two actively managed portfolios, Sustainable and Global High Alpha, against the performance of the Paris Aligned passive portfolio was over £150m. I.e. if the Fund had chosen to invest all its global equities into the Paris Aligned portfolio rather than across all three portfolios the Total Fund would now be approximately 4% larger. This underlines the scale of the underperformance by the managers appointed by Brunel to run the active Global Equity portfolios. Much of this has been driven by the surge in oil and gas company profits post the Russian invasion of Ukraine and then by the concentration of performance within the main equity indices of the 7 largest US technology stocks. It is very difficult for an active manager to be overweight a stock when it is already 5% of the benchmark as they are required to run diversified portfolios. Given that, I would expect these large US tech stocks to underperform during any market set back and that I see them as increasingly overvalued, I would expect the actively managed portfolios to outperform the passive Paris Aligned portfolio at some stage. In addition, I see the Paris Aligned portfolio as the least effective way of enacting the Committee's view of climate change as the two actively managed portfolios adopt a far stricter screen on carbon emissions than the Paris Aligned portfolio.

Chart 9: Global high Alpha portfolio



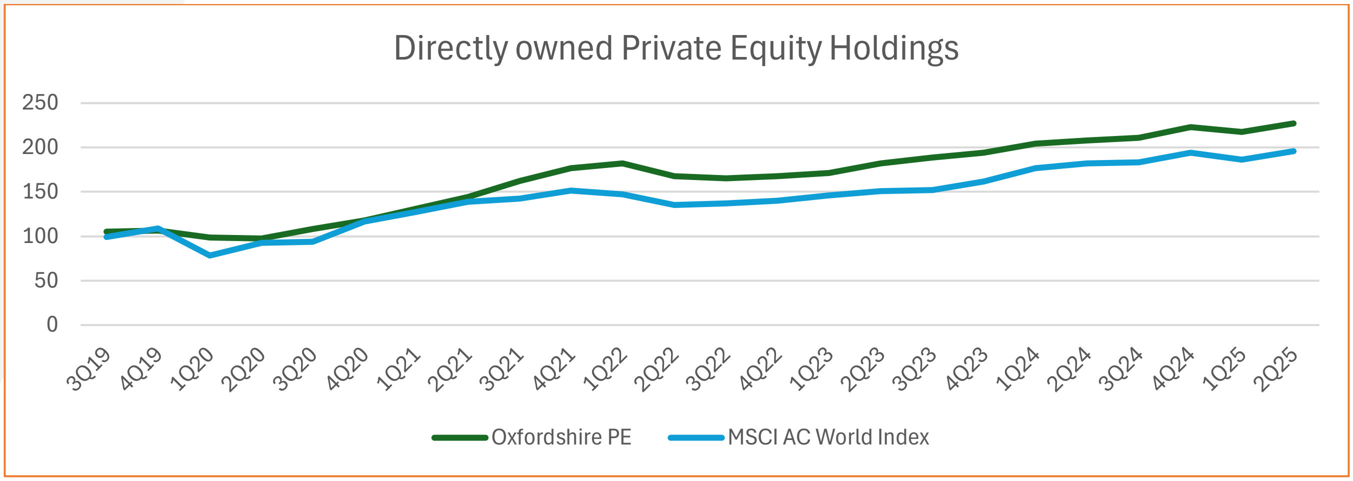
As can be seen from the above chart the initial performance of the Global High Alpha portfolio in 2020 was very strong but the Russian invasion of Ukraine, rising inflation and rising interest rates undermined the portfolio's performance against its benchmark and the portfolio is yet to show solid signs of recovery.

Chart 10: Sustainable Equity Portfolio



The Sustainable Equity portfolio was invested into a year after the Global High Alpha portfolio so missed out on the market conditions where a focus on innovative, smaller, fast-growing companies, was rewarded by investors. Instead, this portfolio has been held purely through a period when interest rates have been rising and companies with a strong environmental slant have been out of favour. Nonetheless, if you match the time periods between the two charts above and look at the bars (the quarterly relative performance) you will see a strong similarity. This is because Brunel's Responsible Investment and ESG mantra runs through all their manager selection briefs thereby giving all the portfolios they produce an overriding style bias which will have a dominant effect on each portfolio's performance against its benchmark.

Chart 11: Directly owned Private Equity



The chart above shows the performance of the Fund's directly owned Private Equity portfolio. This was valued at £300m as at 30/6/25 and comprises 8% of the Total Fund. The portfolio has been in existence for over two decades and has done well over the long-term returning 12.3% per annum since April 2005 against 7.5% per annum for listed global equities as measured by the MSCI AC World index. However, as can be seen from the chart above, the last bout of outperformance was during the recovery from the Covid pandemic with Private Equity performing approximately in line with quoted equity over the last 4½ years. This coincided with a period of rising interest rates which would have acted as a drag on financial performance for an industry which uses gearing to boost returns. I am not convinced that all of the issues with legacy portfolios post the advent of higher interest rates have been worked through and any economic slowdown and ensuing fall in quoted equity markets now may see further issues come to the surface.

Over the last 3-years the Fund's directly owned Private Equity portfolio has returned 10.6% per annum against the MSCI AC World index returning 13.3% per annum. Whilst this is below the return of the benchmark it is noticeably better than the return from the two Brunel Private Equity portfolios which have returned below 5% per annum in aggregate over this period although this may be a harsh comparison for Brunel as their funds would have incurred some startup costs and time weighted performance figures are not a particularly good measurement for illiquid funds during this period.

Market Summary

- Q2 2025 was dominated by volatility driven principally by rhetoric around US tariffs, concerns over the US fiscal deficit, and the Iran-Israel war, followed by a sustained recovery as tensions eased. "Liberation Day" triggered a >10% weekly decline across all major indices at the beginning of April, with the rebound thereafter occurring following tariff policy softening (possibly in response to market movements) leaving all major regions ending the quarter up (notably the US, Japan and EM). Growth stocks led the rally on the back of strong earnings and renewed optimism following weaker sentiment in Q1 (with the "Magnificent 7" up 21% in Q2 and c.5% YTD). Defence stocks also outperformed, driven by geopolitical tension, continued momentum from Germany's fiscal loosening and increased NATO commitments. Eurozone rates were cut by 25bps twice in the quarter and stand at 2%, by contrast, the US Fed Funds' rate is unchanged YTD at 4.25-4.5%, whereas the BoE made one 25bps cut to 4.25% in May. US CPI remained stable at 2.3-2.4% versus the UK, which saw 3.5% / 3.4% in April / May and the Eurozone averaging 2% through the quarter, with the latter helped by lower energy costs. The US Dollar index fell 7% (-11% YTD) mainly due to a deteriorating fiscal position, long-term strength and tariff concerns. Sterling fell 2.5% against the Euro, itself up 9% on the US Dollar amid its increasing attraction as a 'safe haven' alternative to the US Dollar. US Q1 GDP growth slowed to 2% on policy uncertainty, with the UK declining 0.2% to 1.3%, versus a 0.3% increase to 1.5% in the Eurozone. Japan grew 1.7% in Q1 compared to 1.3% in Q4. Composite PMIs improved outside the US, driven by manufacturing.

- Global equities experienced significant volatility in April, with all major indices falling by >10% in the aftermath of the "Liberation Day" tariff announcements. This was followed by a sharp rebound driven by tariff de-escalation, renewed enthusiasm for AI and Big Tech, strategic dip-buying, strong earnings (especially for the "Magnificent 7", with average earnings up 32% YoY). Global equities finished the quarter +11.5%, led by the Nikkei (+13.9%, +2.6% YTD), emerging markets (+12.0%, +15.3% YTD), and the US (+10.9%, +6.2% YTD). The UK and Europe had more modest gains (+3.2% and +2.7%) on the back of a stronger Q1. We note that as at the time of writing, tariff uncertainty remains, with the market pricing in a softer approach from the Trump administration reflective of previous climbdowns. European bonds outperformed in the quarter following rate cuts and concerns about the US's ability to deliver a balanced budget, notably amplified by Trump's "Big, Beautiful Bill" that has exacerbated concerns over US fiscal stability. Government bonds recovered from April weakness (although curves steepened) and ended the quarter in positive territory across all regions, most notably emerging markets (+3.3% in US Dollar terms) followed by the UK and Eurozone (+1.9% each). High yield outperformed, driven by the improving tariff outlook. Bitcoin finished +33% (+16% YTD).
- We highlight the following themes impacting investment markets:
- Trump's Tariffs: "Liberation Day" in early April delivered a blanket 10% tariff on all non-North American imports, a 25% levy on autos and 50% on steel / aluminium. This triggered a weekly >10% drop across all major indices and marked the largest recorded single-day point loss for the Nasdaq. The Trump Administration then froze country-specific "reciprocal" tariffs later in April and, in May, backtracked on headline rates for China from as high as c.135% to c.50%, thereafter starting a clemency period originally ending on the 9th of July (including 50% tariffs on EU imports). The backtracking catalysed a 25% rebound in the S&P 500 to quarter-end, led by growth stocks, Big Tech and cyclical sectors.
- Big Tech Recovers: After logging their worst quarter in over two years in Q1, the "Magnificent 7" rebounded strongly in Q2 with a price gain of 21.1%, outperforming the rest of the S&P 500 by 15%. There was early interest in dip-buying from retail investors, with institutional investors following suit later in the quarter. The "Magnificent 7" drove two-thirds of the S&P's gain. Earnings underpinned the surge, up 32% on average and well ahead of consensus estimates. The rally contrasted with Q1, when tariff uncertainty and valuation concerns left the "Magnificent 7" down c.15%, underpinning how quickly momentum can shift in these companies.
- Fiscal Spending and Budgetary Concerns: Momentum from Germany's March fiscal reform (including €500bn in new infrastructure spending and an exemption for defence spending from the debt brake) continued into Q2 and was supported by higher spending commitments from NATO which led to continued strong performance in European industrial / defence names. In the US, the Senate passed President Trump's "Big, Beautiful Bill" just after quarter-end (on 1st July), adding USD3.3tn to its deficit over ten years, raising further concerns over fiscal sustainability, steepening the bond curve, and likely continuing the steady erosion of US Dollar dominance. The UK Government continues to face fiscal pressure, with tax rises now more likely given concessions to Labour's proposed welfare reforms. Bond markets remain highly sensitive.
- Regional Commentary
- In the US, the S&P 500 total return was +10.9% in Q2 (+6.2% YTD), driven by cyclicals and particularly tech / growth names following a difficult Q1 (with the "Magnificent 7" finishing the quarter up 21%). Notable outperformers also

included communication services, industrials and consumer discretionary while energy and healthcare lagged on weaker commodity prices and policy uncertainty. Sentiment improved after government backtracking on tariff announcements following "Liberation Day" combined with strong earnings, particularly from tech. The US Fed held rates at 4.25-4.50%, with core inflation at 2.4% in May and unemployment easing to 4.1% by June. Recent payroll numbers point towards a large portion of jobs growth being driven by public sector hiring. Manufacturing PMI increased to 52.9 and services decreased to 52.9 in June (from 50.2 and 54.4 respectively in March). Credit markets performed well, led by high yield on the back of an improving macroeconomic backdrop. Q1 YoY GDP growth fell to 2.0%. The US Dollar index fell 7% (-10.7% YTD), -6.3% against Sterling and 9.0% against the Euro on regional rotation, fiscal and tariff concerns.

- In Europe, the Euro Stoxx 50 returned +2.7% (+10.4% YTD) following a strong Q1 as continued momentum around fiscal spending was tempered by softer consumer data and ongoing trade friction with the US. Financials, industrials and defence outperformed, partly due to solid earnings, infrastructure spending and geopolitical developments, while technology and consumer discretionary lagged. The ECB implemented two 25bps rate cuts, bringing its policy rate to 2%, with inflation averaging 2% during the quarter. Unemployment remained relatively stable at 6.3% in May. Service PMI showed a modest decline to 50.5, while manufacturing ended at 49.5, indicating a marked improvement on Q1 (47.6). Eurozone government bonds gained +1.9% with high yield advancing +1.7%. Q1 GDP grew by 1.5%, partly driven by higher exports ahead of potential tariffs.
- UK equities, tracked by the FTSE All-Share, posted a 4.4% total return (+9.1% YTD) with the FTSE 100 up 3.2% (9.5% YTD), benefiting from continued momentum from attractive valuations and investor repositioning outside of North America. Mid-caps outperformed, in part due to sector exposure, with the FTSE 250 up 11% (+4.4% YTD). The BoE implemented a second 25bps rate cut in May, taking the policy rate to 4.25%, despite sticky inflation (3.4% in May). Labour market data showed unemployment rising to 4.6% in April while job vacancies continued to fall. Business activity was mixed, with manufacturing PMI stuck below 50 at 47.7 but improving, while services expanded modestly to 52.8. UK gilts rose by 1.9%, although the curve steepened. Q1 GDP was 1.3%, broadly in line with previous quarters.
- Japan was the strongest performing developed world equity market in Q2, with the Nikkei advancing 13.9% (2.6% YTD), having underperformed materially in Q1. This was driven by growth stocks and improved sentiment around tariffs. The performance was supported by strong domestic demand on the back of high nominal wage growth, and the continuation of corporate governance reform initiatives (resulting in dividend increases and significant share buybacks). By contrast, 2025 earnings guidance was generally cautious. Inflation remained elevated at 3.5% in May. The manufacturing PMI increased to 50.1 and services fell slightly on Q1 to 51.7. The Bank of Japan kept rates at 0.5% following its January hike. Q1 GDP was 1.7%, up on Q4 (1.3%) but against a weak Q1 2024.
- Emerging market equities grew 12% in Q2 and are the strongest performing region YTD (+15.3%), driven by a weaker US Dollar, lower concerns around tariffs, dissipating belief in US exceptionalism resulting in investors looking to regions with lower valuations and higher growth. The MSCI EM index fell in line with developed markets in early April and thereafter experienced a significant recovery that continued through June. The China MSCI index rose 2.1%, on the back of c.15% increase in Q1, whereas the MSCI India was up +10.1% (+6.7% YTD) following a faster than expected rate cutting cycle in Q2 and despite high valuations. Elsewhere, Korea (KOSPI) was up 24%, supported by a strong tech sector and political stability following elections in June. Brazil (IBOVESPA) was up 6.6% (c.15% YTD) on the back of easing inflation and capital inflows into EM.
- In commodities, the S&P GSCI index was down 4.4% (YTD: -1.2%), with Brent crude ending down 9.5% (off 15% from quarterly highs of USD80 during the Iran-Israel war), and natural gas -16.1% (following a strong rally in the previous 6 months on the back of adverse weather). Both declines were due to high production and storage levels alongside weaker demand. Gold continued its rally, rising 5.8% (+25.9% YTD), whereas copper remained flat (YTD: +24.9%). Agriculture was also down but varied, with declines in sugar futures (-18%) and Arabica coffee (-19%) partially offset by increases in cocoa and livestock.
- Global real estate declined for a 3rd consecutive quarter, with the FTSE Nareit Index (GBP) down 1.0% in the quarter (YTD: -2.3%).

- UK house prices fell 0.8% MoM in June (+2.1% YoY) on weak demand after the stamp duty increase and economic uncertainty.
- The VIX index spiked from 17 to 52 in early April (levels not seen since COVID-19 and the GFC), before steadily receding to c.17 by mid-May, where it has remained stable since, ending the quarter at 16.7 (Q2: -24.9%) on the back of strong earnings, receding tariff concerns and overall market sentiment.