

Market report

The headlines

- ▶ Share prices mostly rose during July, as President Trump extended his tariff deadline and concluded trade agreements with Japan and the European Union.
- ▶ Another set of solid quarterly company results also helped shares. In the US, the 'One Big Beautiful Bill Act' is expected to boost company earnings.
- ▶ Above-target inflation and concerns about rising government debt resulted in rising bond yields in most developed nations.

Market returns: Share prices continued to recover in July, as Trump extended his tariff deadline.



Sources: Bloomberg, all in pound sterling terms, as of 31 July 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 (31 July 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

After months of uncertainty, several countries concluded trade agreements with the US during July. This boosted the MSCI World Index⁽¹⁾, which rose 2.0% during the month, in local currency. US share prices rose 2.3% and UK shares 3.9%, but eurozone share prices fell 0.2%.

After months of strength, the pound had a particularly weak July. As a result, the MSCI World share index rose 4.9%, in pound sterling terms.

Concerns over government budgets combined with the expectation that interest rates may stay higher for longer, especially in the US. Consequently, government bond yields rose in the US, the UK and the eurozone.⁽²⁾

The US Federal Reserve (the Fed) and the European Central Bank (ECB) kept interest rates on hold during July. The Bank of England (BoE) didn't meet in July, but is expected to cut interest rates on 7 August.

United States

US share prices rose 2.3% during July. Share prices rose for several reasons, including President Trump's One Big Beautiful Bill Act ('OBBBA'), an additional pause in tariffs beyond the original 9 July deadline, and companies' solid second-quarter earnings reports.

- On 4 July, President Trump signed his 'OBBBA' into force. We estimate that this measure will boost free cash flows for large US companies by c. 10% in both 2025 and 2026. (Free cash flow is the net incoming cash for a financial period, left over after a company funds its operations and investments.)
- In April, President Trump had announced that he would impose tariffs from 9 July. So it came as a relief to many investors when, in early July, he extended that deadline until 1 August. During the month, important trading partners such as the European Union, Japan, South Korea concluded trade deals or framework agreements with the US.
- Companies' earnings growth also supported higher share prices during July. 80% of the first 170 firms that reported results beat their earnings forecasts. We estimate that second-quarter earnings growth will lie between 9.5% and 13.0%, year on year (yoy), higher than the 4.9% consensus estimate on 30 June.

By sector, information technology (IT) companies, utilities and energy firms led the stock rally.

Within IT, semiconductor firms benefited after President Trump lifted a ban on technology exports to China. Utilities' and energy firms' shares benefited from the expectation that more artificial intelligence (AI) and more computing power will require more electricity. In addition, the oil price rose from \$67 per barrel at the end of June to \$72 at the end of July, as President Trump pressured Russia over its war in Ukraine.

US gross domestic product (GDP) grew at an annualised 3% in the second quarter of 2025. Many commentators assert that falling imports boosted the GDP number. But in fact, domestic economic activity in the US increased significantly during the second quarter, mainly because consumers spent more.

Personal consumption expenditure (PCE) inflation also rose, from 2.4% in May to 2.6% in June. Nevertheless, President Trump continued to put significant pressure on Fed Chair Jay Powell to cut interest rates.

However, at its 30 July meeting, the Fed kept rates unchanged. Jay Powell outlined, again, that the Fed first wanted to better understand how President Trump's tariffs and other policies would affect inflation and employment.

His comments led investors to lower the chance they see of a September interest rate cut by the Fed to less than 50%. Likewise, two-year US Treasury (government bond) yields rose from 3.72% to 3.94% during July.

In addition to investors' views of the Fed, the long-term trend in US government debt influences yields on long-dated US Treasury bonds. President Trump's OBBBA

law is set to increase US government debt by trillions of dollars. That expected increase contributed to a rise in 10-year US Treasury yields from 4.24% to 4.37% during July.

United Kingdom

UK share prices rose 3.9% in July, mainly because of good corporate results.

Strong performance at British American Tobacco, Standard Chartered and telecoms-and-mobile-money firm Airtel Africa led the market higher. By contrast, retail consortium B&M European Value Retail, advertising conglomerate WPP and builders Barratt Redrow held back returns.

The weaker pound sterling helped, too, as many UK shares rely on international revenues. In addition, UK consumer price (CPI) inflation rose from 3.4% in May to 3.6% in June. Unlike the Fed or the ECB, however, the BoE is expected to continue to cut rates, possibly as soon as 7 August.

Meanwhile, news about the UK economy remained subdued, with reports of an unexpected 0.1% fall in GDP in May. And concerns about the UK's national debt continued to weigh on UK government bonds ('gilts'). The UK government borrowed a higher-than-expected £20.7 billion in June.

Together with Chancellor Rachel Reeves' fiscal rules and weak economic growth, higher financing needs raise the possibility of tax rises in the government's Autumn Budget at the end of October.

Yields on two-year gilts (UK government bonds) rose marginally, from 3.67% at the end of June to 3.70% at the end of July. Ten-year gilt yields rose from 4.51% to 4.60% over that time.

UK property showed positive trends in both industrial and retail assets in the first half of 2025. During July, central London office property prices continued to recover as well.

Other markets

Eurozone share prices fell 0.2% in July, in euros. Share prices initially rose, after President Trump extended his tariff deadline. And on 27 July, European Commission President von der Leyen and US President Trump concluded terms of reference, which included a 15% tariff on US imports from the EU.

But the terms agreed still implied a substantial rise in tariffs for EU exporters, from the low single-digit tariff on EU imports before Trump became president. Investors therefore saw them as a capitulation to US pressure, and share prices fell.

Eurozone inflation remained at the ECB's 2% target for the second month in a row in July. This makes it more likely that the ECB might keep interest rates on hold for the rest of 2025. Ten-year German Bund (government bond) yields rose from 2.58% to 2.69% over July.

Share prices in **China** rose 4.9% during July, after the Chinese government promised to curb competition and overcapacity in industries such as solar panels, steel and electric vehicles. Such measures would be helpful to Chinese corporations.

On the international front, China's trade talks with the US continued. The pause on US-China tariffs is due to expire on 12 August, but may well be extended to allow for further negotiations. US Treasury Secretary Scott Bessent called the latest meetings between the US and Chinese delegations 'constructive'.

Japan concluded a trade agreement with the US on 23 July. This helped Japanese share prices post a 2.7% rise during the month. The agreement is said to ensure that Japanese exports of microchips and pharmaceuticals to the US will always benefit from the lowest tariff that the US charges any country for these products.

Japan's central bank kept its short-term policy interest rate at 0.5% during July, as expected. But it raised its year-end outlook for core consumer inflation to 2.7% and for GDP growth to 0.6%. This makes a hike in interest rates later this year more likely.

⁽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

In March, we had reduced the percentage of shares that our multi-asset portfolios hold. In June, we had raised that percentage again, after uncertainty about President Trump's policies had subsided.

In July, we increased our exposure to shares again, mainly because we expect that President Trump's OBBBA ('One Big Beautiful Bill Act') will raise companies' free cash flows by c. 10% this year and next.

In addition, S&P 500 companies' earnings are expected to grow 9.6%, yoy, by the end of the fourth quarter. That growth rate is high enough, in many investors' eyes, to support the current, c. 22x forward price-earnings ratio (P/E) of the index. Moreover, we expect a weaker dollar, deregulation and modest inflation to support US corporate earnings.

Nevertheless, let's bear in mind that US economic growth is slowing. Annualised growth fell from 2.8% in the second half of 2024 to 1.2% in the first half of 2025. And the tariffs that President Trump announced on 1 August may raise the average tariff rate beyond the average 18% where we thought his tariffs would take us.

It's also important that we point out the societal impact of Trump's tariffs and his OBBBA.

- On average, tariffs will cut households' after-tax income by \$2,404 per year, out of average gross household earnings of c. \$120,000.
- Tariffs also mean a cut in household resources for all but the 10% highest-earning households. This effect is worse for poorer households, who consume more goods, as opposed to richer households, who consume more services.
- Finally, the OBBBA will penalise the 30% of households with the lowest incomes, who consume most of their income, as opposed to higher-earning households, who save more.

To fund our increased holdings of shares, we reduced our exposure to bonds and cut our position in cash.

Reducing our bond holdings is compatible with the higher risk premia due to higher US budget deficits and rising US government debt as a result of President Trump's OBBBA.

In summary, the OBBBA is good for corporations but less good for consumers. Hints of a slowdown, including weaker employment numbers, could force a decline in stock markets. So, despite our higher allocation to shares, we are keeping a close eye on the broader economy.

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

CCLA
One Angel Lane
London EC4R 3AB

CCLA
BECAUSE GOOD IS BETTER

Freephone **0800 022 3505**
clientservices@ccla.co.uk
www.ccla.co.uk

Important information

This document is issued for information only. It does not provide financial, investment or other professional advice. We strongly recommend you get independent professional advice before investing. The market review, analysis, and any projections in this document represent CCLA's house view and you should not rely on them when making any investment decisions. Actual results could be significantly different than expected. We do not have to update or amend these. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise. You may not get back the amount you originally invested and may lose money. For information about how we obtain and use your personal data please see our privacy notice at www.ccla.co.uk/privacy-notice. We, CCLA Investment Management Limited (registered in England & Wales, No. 2183088 at One Angel Lane, London EC4R 3AB), are authorised and regulated by the Financial Conduct Authority.

