

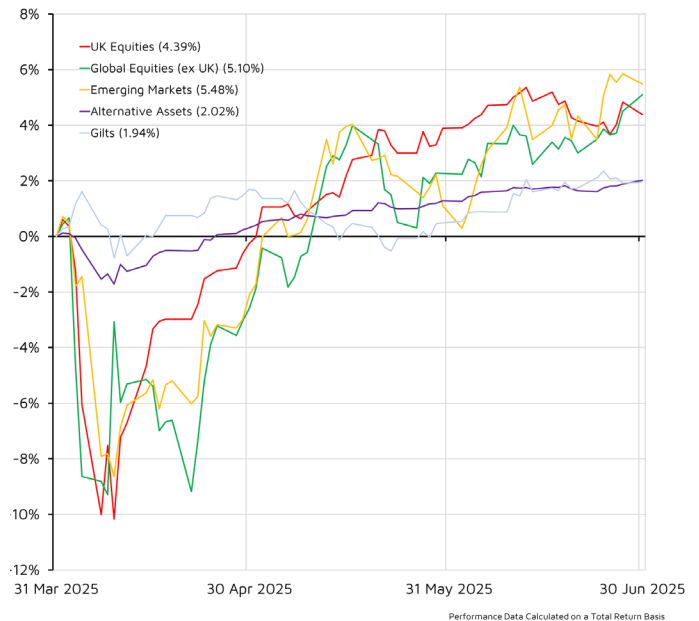
REVIEW OF THE PAST QUARTER:

Equity markets shrugged off the sell-off caused by US president Donald Trump's extreme US tariffs. The liberation day tariffs announced in early April generated fears of recession and triggered selling in US and global equity markets. There was also volatility in global bond markets. However, the most damaging tariffs were suspended and signs of negotiations major trade partners relieved markets. The relief rally continued into June, with some markets, including the US, clocking record highs.

Eurozone equities gained slightly on the back of more defence and more infrastructure spending. In addition, investors have been diversifying away from the US, spooked by the White House's erratic policy making. UK stocks were comparatively steady, owing to the defensive nature of the market. Japanese equities experienced high volatility, owing to Japan's significant exports and strong trade ties with the US.

Emerging markets gained as a weaker dollar allowed central banks to cut rates. Latin America and Asia-Pacific markets gained the most and Indian stocks reversed first quarter losses. China lagged as concerns about trade and a weak property market offset better domestic consumption.

Government bonds performed well as risks from government policy and geopolitics increased their appeal. The Bank of England lowered rates as it walked a fine line between supporting a cooling jobs market and high but slowing inflation. Corporate bonds remained insulated from the turmoil and performed well with less volatility than government bonds.



ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Alternative Assets
+0.82%	+1.94%	+0.86%	+2.70%	+4.39%	+5.10%	+5.48%	+2.02%

THE ACTUARIAL VIEW:

The likelihood of recession has eased slightly as there appears to be limits to the Trump administration's willingness to endure a full-blown trade war. The most punitive tariffs have been suspended, though the shadow of more tariffs still lingers. Even so, US tariffs are still at their highest in 100 years, bringing the potential to act as a damper on global growth. Meanwhile the US Federal Reserve is likely to remain cautious as the US economy is showing its resilience, whilst the Bank of England may continue to cut rates as UK growth is weak and the jobs market shows signs of cooling.

Sentiment has soured towards the US and international investors are increasingly opting to diversify by putting asset to work in the EU, welcoming increased German fiscal spending and policy stability. Equities continue to have a better outlook compared to bonds, where the narrative around unsustainable fiscal spending and high government debt continues to outweigh high investor demand. Cash is likely to prove attractive for more cautious investors in this environment as its returns continue to outstrip sticky but falling inflation.

WHAT TO LOOK FOR IN THE NEXT QUARTER:

- UK:** The Monetary Policy Committee (MPC) interest rate decisions are due on 7 August and 18 September. Preliminary GDP growth for Q1 2025 will be available on 14 August. July wage growth and employment data is to be published on 17 July. UK inflation for June is released on 16 July.
- US:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) on 30 July and 17 September. Minutes will be published three weeks after each decision. GDP growth for Q2 is to be released on 30 July. Monthly Nonfarm payrolls employment data is released on 3 July. The core and CPI inflation rate is due on 15 July.
- Eurozone:** Q2 GDP first estimate is set to be published on 30 July. A European Central Bank monetary policy meeting is scheduled for 24 July. June inflation for the Eurozone is published on 1 July.
- Other Data:** The Bank of Japan monetary policy meeting is on 31 July, and the Swiss National Bank rate decision is due on 25 September. The inflation rate for China is due on 9 July. The Chinese trade data is scheduled for 12 July; and GDP growth rate, retail sales and house price data are due on 15 July.

ASSET CLASS SCENARIOS:



UK EQUITY

Most Likely: Inflation remains high as the Bank of England cuts interest rates slowly. The economy shows signs of improvement, but consumer confidence is low and businesses feel the effect of US tariffs. Banks and growth stocks benefit from falling interest rates. There is less of a performance gap between small and large companies. Housebuilders and other rate-sensitive sectors should benefit from rate cuts.

Worst Case: Further fighting between Iran and Israel disrupts the supply of oil from the Middle East. Energy prices spike, fuelling a re-ignition of double-digit inflation. Donald Trump's policies worsen trade, further devalue the dollar, and add to and inflationary pressures. Monetary tightening pushes markets into recession as stocks and bonds plummet. UK equities may be more defensive than other regions.

Best Case: Inflation slows and interest rates fall without harming unemployment and growth. The UK outperforms other markets as sustained growth returns. The end of war in Ukraine and Gaza helps keep inflation low. A more consistent approach to US tariffs and the UK and Europe's new trade deal help with a more bullish sentiment. Money flows into UK equities with smaller companies benefiting the most.



GLOBAL EQUITY

Most Likely: The Federal Reserve leaves rates unchanged. US mega-cap tech stocks continue strong earnings growth, but high valuations curb further gains. The European Central Bank leaves rates unchanged, but a softer euro and government spending support industrial and luxury exporters. Japan draws investment due to yen weakness, rising wages and ongoing corporate reforms as global equities grind higher.

Worst case: Geopolitical tension and steep US tariffs fracture supply chains and push US inflation higher and leads to speculation of a US rate hike. The tech sector has little valuation cushion and a pull-back would likely drag broader indices lower. Europe remains sensitive to external demand and input costs and sees profits erode and stocks fall sharply. Japan would face softer global orders despite a weak yen.

Best case: US inflation falls faster than expected allowing a symbolic rate cut. If supported by better economic data the rally broadens, allowing overlooked companies to gain without further stretching already rich mega-cap valuations. A weaker euro boosts European exports, and unexpected Chinese demand lifts Japanese stocks.



EMERGING MARKET EQUITY

Most Likely: Emerging markets benefit from greater clarity around US monetary policy. India remains resilient, with strong domestic demand and continued reform. Taiwan and South Korea benefit from semiconductor demand and global supply chain shifts. Easing inflation in Latin America is supportive for central banks and low valuations, particularly in Brazil and Mexico, provide a constructive backdrop.

Worst Case: High US inflation forces the Federal Reserve to keep interest rates high, triggering capital outflows from emerging markets. Chinese stimulus fails to restore domestic demand, eroding investor confidence. US-China tensions spark additional tech export restrictions, disrupting Taiwan and South Korea's semiconductor industries. Strong inflation in India dampens equity market sentiment.

Best Case: The Federal Reserve to cut rates earlier than anticipated, easing global financial conditions. Chinese stimulus improves consumer confidence and drives a rebound in equities. A recovery in global demand benefits export-driven markets such as Taiwan and South Korea, particularly if AI-related investment accelerates.

Data Sourced from FE Analytics, and MSCI Barra

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CASH

Most likely: Money market yields remain steady or decline only slightly as the Bank of England continues to adopt a cautious approach. Moderate rate cuts are anticipated as inflation gradually eases and the economic environment remains stable. Money market instruments remain attractive for investors seeking stability and modest returns.

Worst case: If economic indicators signal a significant slowdown, the Bank of England may aggressively cut interest rates. This would lower yields on money market funds and make government bonds more attractive, reducing the appeal of cash, impacting overall demand for money market instruments.

Best case: The Bank of England holds rates steady or cuts only cautiously, with inflation proving stubborn but gradually falling. In this scenario, a 'Goldilocks' regime takes hold – improved productivity drives higher real growth (higher nominal growth combined with lower inflation), prompting the Bank of England to adjust its estimate of the neutral policy rate higher. Money market instruments are a favourable option for investors seeking both safety and reasonable returns.



FIXED INCOME

Most likely: The Federal Reserve makes a small cut or pauses cuts this year, as it waits US government policy to feed through to growth and inflation. The Bank of England makes two cuts, but the pace remains cautious. Government bond prices are very sentiment-driven. High-quality corporate bonds are less affected by the level of interest rates and are likely to perform best, especially companies with stable profits.

Worst Case: US tariffs mean negative inflationary and growth surprises and cause the Fed to hold rates. There is a similar reaction in the UK as central bankers seek to limit price rises. Some issuers struggle to refinance and investors may suffer capital losses in riskier markets. US-centric geopolitical risk pushes down government bonds, despite fundamentally slowing global growth.

Best case: Inflation rises modestly as the Fed cuts once this quarter and emphasises a dovish stance for the remainder of the year, with the UK following suit. Disinflation resumes, allowing government bond yields to fall in the short term while longer term costs stabilise. Defaults in quality corporate bonds and high yield credit remain minimal.



ALTERNATIVES ASSETS

Most likely: Inflation slows, with only modest upward Trump administration policies. Commodities and global natural resources are supported by their dual role as inflation hedges and beneficiaries of economic growth. The growth of AI supports energy and power infrastructure. Precious metals, especially gold, retain their appeal as both haven assets and portfolio diversifiers.

Worst Case: Equity returns are concentrated in a small number of sectors, limiting opportunities for hedge funds. Commodities face headwinds from slowing growth as well as increased supply. A breakdown in correlation between bonds and equities undermines performance across real asset and absolute return strategies.

Best Case: Geopolitical tensions intensify and trigger supply chain disruptions and heightened market volatility. Commodities (including oil and gold) surge as investors seek both inflation protection and a safe haven. Lower inflation allows central banks to cut rates which boosts property stocks, and supports infrastructure as demand for data centres supports further opportunity in digital infrastructure.