Fiske

Investment Commentary

Q2
2025

Overview

When we last reported, we had just witnessed ‘Liberation Day’ à la President Trump and markets were in freefall. This reaction clearly had an impact on a market-minded leader, who soon rowed back with a 90-day moratorium. Negotiations, as far as tariffs are concerned, have been the order of the day as countries around the world try to position ahead of the July 9th deadline. Other events have also impacted markets, with geopolitics to the fore. The war in Gaza continues, while the Russians have intensified their efforts in Ukraine. However, the big event was Trump’s decision to join with Israel in an attack on Iran’s nuclear facilities. A nominal response from Iran was followed by peace, which currently seems to be holding after the ‘12-day war’.

It is too early to see what the impact of these events will be on economies. However, while resilient, if anything, the numbers are trending lower. In the US first-quarter GDP fell by 0.5%, while in the UK a rise of 0.7% suggests some pre-tariff stimulus. The eurozone economy grew by 0.6%, China by 1.2% and India by 2.0%. Manufacturing purchasing managers indices have shown contraction – except for the US, which recorded 50.2 in June. In the UK the reading was 44.9 and in the eurozone 48.6. The larger Services sector has continued to expand, with the readings for June being 52.5 in the US, 52.5 in the UK and 51.0 in the eurozone – comfortably above the 50.0 level that separates growth from contraction.

In the US, while tariff uncertainties persist, investors must now work out the impact of Trump’s ‘One Big Beautiful Bill’ legislation. Tax cuts will be a positive, but spending cuts will not. The net situation will be a further hike in US borrowing. An increase of some $3tn will not be paid for by increased tariffs. The one clearly visible impact of Trump’s politicking is a sharp fall in the US dollar – down nearly 10% against sterling this year, which could have inflationary implications. Faced as well with a relatively tight employment market, the Federal Reserve Bank seems in no hurry to lower interest rates.

In the UK, one year on from the landslide Labour victory on the back of a growth mandate, it is difficult to see much evidence of growth coming through. Indeed, higher minimum wages and increases to employers’ national insurance have hit smaller businesses. The Chancellor is trying to stick to her fiscal rules, but pulling back from reforms in areas such as the winter fuel allowance and the welfare state are not helping her cause. The recent wobble in the government bond market emphasises concerns about the state’s finances. Being hemmed in as she is, it looks as if the Autumn Budget will herald further tax rises. An increase in capital gains tax rates, in line with income tax, is one possibility.

Despite all the global uncertainties, equities – i.e. ‘risk assets’ – have performed surprisingly well, with many markets either at or close to all-time highs.

The following table sets out the market movements for the second quarter.

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Index	31/03/2025	30/06/2025	Q2 Change
CBOE UK 100	856	875	2.1%
CBOE UK All Companies	14,849	15,317	3.2%
CBOE UK 250	16,962	19,153	12.9%
MSCI Private Balanced	1,908	1,974	3.5%
MSCI Private Growth	2,178	2,262	3.9%

Markets

In the UK the leading indices saw only modest gains over the quarter, although they were up by around 17% from their April lows. An 11% fall in the oil price, despite events in the Middle East, left Shell down 10% and BP down 16%, reversing good performance in the first quarter. Additionally, AstraZeneca (-10%) and GSK (-5%) took the pharmaceutical sector down 8% overall. These four stocks are significant contributors to the index. However, banks (+6%) and utilities (+8%) performed well, while telecoms (+10%) came out of a long spell in the doldrums, with BT +17% and Vodafone +7%. Within the top 100 stocks, the breadth of the market gain was shown by 53 stocks outperforming the index by 5% or more, while only 17 stocks underperformed by the same margin. It has been good to see strong outperformance from the other sectors of the market, with mid-cap (+13%), small-cap (+10%) and AIM (+13%) all helped by continued takeover activity.

Elsewhere, major technology stocks once again drove the American market. Nvidia recovered by half and Microsoft by a third, while Meta was up 30%. Even Tesla (+27%) bounced back, despite the very public bust-up between Trump and Elon Musk. Many European markets reached new highs as Germany's government passed a massive spending package. In particular, commitments by NATO countries to significantly increase defence spending pushed this sector higher. Japan also staged a strong recovery, although returns to sterling investors continue to be pared back by the weakness of the yen.

Outlook

These market movements seem to be looking through the considerable short-term uncertainties ahead. What is going to happen after July 9th, when Trump's tariff suspension ostensibly comes to an end? Current tariff rates are up to levels last seen nearly a century ago, and worse could come. Will corporates themselves suffer most from the impact of these tariffs or will they push higher costs on to consumers, with the inevitable inflationary impact? What other messages might come out of the White House which can, as we have seen in the first half, have a sudden and rapid impact on markets? Can the tax cuts in the One Big Beautiful Bill legislation counter the negative impact of tariffs on the US economy?

Last time we wrote, with markets in freefall, we advocated holding one's nerve and sticking with portfolios of quality companies for the long term. Our view on this has not changed. However, given all the uncertainties mentioned above, we do expect the level of volatility to remain elevated as we navigate the summer months.

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Contact us

+44 (0)20 7448 4700

+44 (0)20 7256 5365

support@fiskeplc.com

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