



Five things you need to know *from July*



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As we move into the second half of the year, markets are pushing higher, global trade dynamics are shifting, and inflation remains stubborn - all while central banks weigh up their next moves. Here are five key developments from July.

1 Markets hit new highs

Several major indices have hit all time highs in July - including the FTSE 100. The UK market has had a strong 2025 so far, leading the way across the Eurozone.

Sectors like mining and defence have been performing well, led higher by expectations of greater NATO spending in this area.

More broadly, markets have continued to rise over the last few months, with investors seeming to shrug off the potential risks of higher tariffs on economic growth. As new data starts to capture the effects of changes in global trade, we'll see whether this positive market momentum can hold up.

2 New trade deals with EU and Japan

Late July saw the US strike new trade agreements with both the EU and Japan. A 15% tariff was agreed for goods entering the US and both regions have committed to major investment into the American economy.

For the EU, this includes \$600bn of investment and increased purchases of US energy and defence equipment. Japan's agreement is similar in scale with \$550bn pledged.

That all sounds very one sided - because it is. There appears to be little in terms of sector concessions. US and EU activity accounts for a third of global trade, so there is positivity in the certainty that an agreement brings, even if the rate is higher than one might hope.

India, meanwhile, agreed a 25% rate, with their use of Russian energy used as a factor for the higher level. A deal with China remains out of reach for now, and the current tariff truce may continue until such an agreement is found.

3 Fed holds again – but not everyone agrees

The US Federal Reserve held US interest rates steady again in July, defying calls from Donald Trump to bring them down and keeping the current 4.25-4.5% range.

The Fed's position is clear. There is still too much uncertainty around the impact of tariffs on the economy to make any informed decision to change interest rates. While Trump refers to economic growth and helping the housing market, the reason he wants lower rates is to help with debt financing. The US is running a big budget deficit and interest payments make up a lot of their outlay at present.

What stood out in July was dissent from within. Two of the eleven voting Fed governors called for a 0.25% rate cut this month – both appointees of Trump. It’s the first time in 30 years that there have been two dissenters for a single decision.

We’re not seeing significant evidence of US assets being sold - but there’s a notable trend of new money being more globally diversified.

4 Inflation edges higher

US inflation increased in July, rising from 2.4% to 2.7%, year-on-year. A key driver was the costs of goods (excluding food) increasing – this is where we would expect to see the impact of tariffs come through. This will be watched closely, as a sign of how much costs are being passed through to consumers.

In the UK, inflation is even higher. The annual figure to June was 3.6% and the expectation is the path down to the 2% target will be a slow one. Services and wage inflation remains high. This makes it hard for the Bank of England to take any meaningful steps to reduce interest rates.

5 US economy bounces back

The US economy returned to growth in Q2, with GDP rising at an annualised rate of 3% - a sharp turnaround from the negative growth in Q1.

This was higher than expected and, on the face of it, feels positive. By digging a little deeper, we see the figure is being driven by the sharp drop in imports – and since GDP includes the net difference between exports and imports, the figure very likely overstates the health of the US economy.

Looking at the bigger picture, the economy grew by 1.2% in the first half of the year. Slowing growth is expected to limit growth to around 1.5% for the whole of 2025. If that happens, it would be roughly half the growth rate of 2024.

Markets are in a strong place, but the momentum behind them is being tested by rising tariffs, sticky inflation, and slower economic growth. As always, diversification, discipline, and a clear investment objective remain key - especially in a year that’s proving as politically and economically eventful as 2025.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	-0.30	-0.06	2.19	-0.42	-11.52
ICE BofA Global Corporate	0.31	1.86	4.07	5.16	10.07
ICE BofA Global High Yield	0.81	3.98	5.23	8.98	26.27
FTSE All Share	3.96	8.79	13.41	12.06	34.99
FTSE USA	5.82	15.34	2.91	13.28	46.91
FTSE World Europe ex UK	1.35	5.99	15.80	11.30	43.82
FTSE Japan	2.40	5.65	5.04	3.77	30.44
FTSE Asia Pacific ex Japan	5.86	14.32	9.77	13.90	24.21
FTSE Emerging	5.40	11.70	7.93	14.15	25.66

Source: FE Analytics, GBP total return (%) to last month end

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