

The *Monthly* *Edit* / July 2025

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.





Market headlines

Global equities notch up fresh record US dollar highs in July. The MSCI All Country World Index in US dollar terms notched up new all-time highs during July. While the US dollar rallied during the month, weakness earlier this year left the index below its January high in sterling terms.

Trade deals arrive, but so do higher tariff costs. The US agrees major trade deals with Japan and the European Union (EU), but while trade uncertainty falls, much higher tariff friction costs are now in place, risking headwinds for both economic growth and inflation.

Solid corporate results but too early to sound the all-clear. While not yet complete, the latest calendar second-quarter corporate earnings season is so far seeing companies in aggregate outperforming expectations by more than average but arguably trade tariff headwinds have yet to arrive.

An uncertain inflation outlook stays central banks' hands. Both the European Central Bank and the US Federal Reserve chose to leave interest rates unchanged at their latest meetings in July, with policy makers balancing the risks that tariffs could push prices higher.

The big topics

Markets get welcome tariff certainty with trade deals, but higher costs are still on the way.

The US-EU and US-Japan trade deals announced in July have averted an all-out trade war, but the good news probably ends there.

The 15% tariff rates that now apply to most EU and Japan trade going into the US is significantly higher than what was in place before US President Trump's second term – according to World Bank data, the average trade-weighted pre-existing US tariff rate on imports from the EU and Japan had both been under 2%.

As such, it is arguably only a question of when, not if, before those greater trade tariff headwinds ultimately reach businesses and consumers.

Mega-cap concentration risks in equity indices remains a double-edged sword.

US mega-capitalised technology stocks continued to dominate US and global equity indices in July.

With the euphoria around Artificial Intelligence (AI) showing little signs of abating, at one point in mid-July, over 50% of the performance of the US S&P500 equity index so far in 2025 could be explained by the gains from just three US giant AI-themed companies: Microsoft, Facebook-parent Meta and Nvidia.

The 'Magnificent Seven' group of US technology-focused companies (adding in Google-parent Alphabet, Amazon, Apple and Tesla) in July accounted for approximately one-third of the S&P500's total weight. But such stock concentration risk can work both ways, leaving equity indices vulnerable.





Troubling takeaways from the latest inflation data keeps central banks on their toes.

July saw both US and UK Consumer Price Index (CPI) inflation data land higher than expected.

In the US, core goods prices (excluding used cars and trucks) saw the biggest monthly gain in over two years. Meanwhile, UK annual goods inflation reached its highest rate since October 2023, in particular from clothing and footwear.

The risk is that as tariff costs continue to weigh on economic growth and inflation, this latest data could be the thin edge of the wedge. Tariff risks were a key factor behind a cautious shift within our asset allocation model guidance earlier this year.

A question of central bank independence causes a very brief hiatus in markets.

On the afternoon of Wednesday 16 July, if only for about an hour, investors got a glimpse of how markets might react if the head of the world's most important central bank, the US Federal Reserve (Fed) might be fired from post.

While the rumours were quickly quashed, there was an important lesson for investors to take away: should we get a change of Fed Chair who lowers rates, that is likely to lower short-term borrowing costs.

However, if the markets lose confidence in the Fed's independence, that could leave longer-term borrowing costs, over which central banks have much less control, a lot higher.

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