

Investment Views August 2025

Strategy:

One Big Beautiful Bet

Fixed Income:

When Patience Meets Politics

Equities:

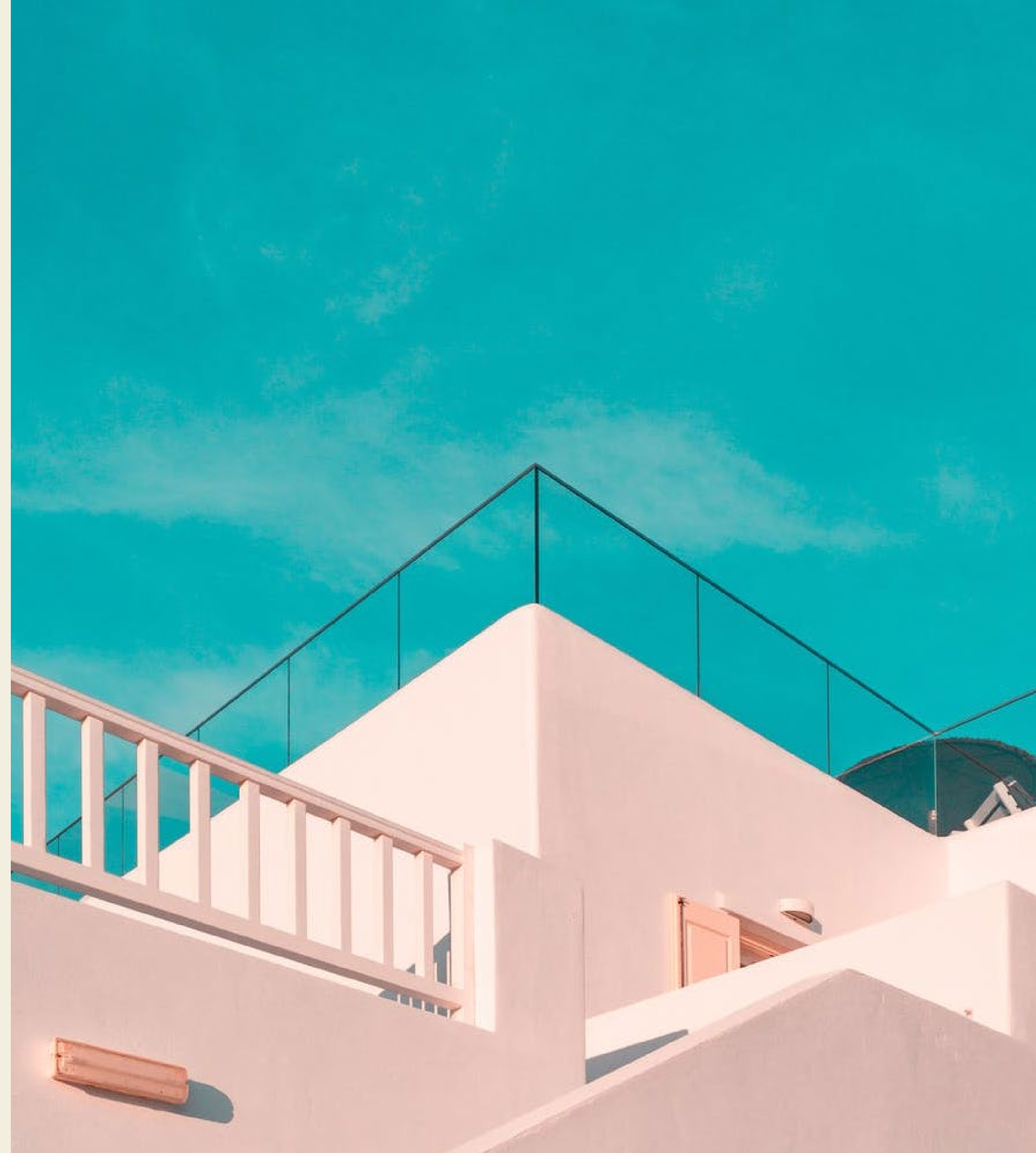
A Better-Than-Expected Earnings Season

One Big Beautiful Bet

- US passes a major tax and spending bill
- Tariffs are a tax and are generating revenue
- Re-shoring manufacturing is possible, but inflationary

The pace of new legislation from the US administration has continued at breakneck speed this summer. Trade policy was an early focus and continues to evolve, and Congress moved quickly to pass President Trump's signature tax and spending legislation. There was some debate as to whether this would be passed as one bill or two bills. Trump decided that it should be the One Big Beautiful Bill Act (OBBBA).

One key point of the bill, which is over 1,000 pages long, extends the tax cuts for businesses and individuals passed back in 2017. From an economic perspective, this is not a new stimulus for economic growth, but it does provide clarity around tax rates, which is good for sentiment. There were also some additional tax cuts for households and businesses. Campaign promises to cut taxes on tips, overtime,



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auto loans, and for seniors were enacted to varying degrees. Furthermore, there was additional funding for defense, border security and immigration initiatives. In total, this was a sizeable package of tax cuts and government spending, which also raised the debt ceiling by \$5 trillion.

Global bond markets have been particularly attentive to levels of government spending in recent years, and the 30-year US treasury yield broke above 5% in May. A policy focus earlier in the year had been on reducing government spending through efficiency initiatives. As is often the case, cutting government spending is a contentious initiative. Elon Musk was tasked with running a new “Department of Government Efficiency” (DOGE), but a subsequent falling out means that he is no longer involved. However, the new legislation did also contain measures to reduce government spending. Cuts were made to Medicaid and food stamp programs, together with removal of some subsidies to the renewable energy industry.

Coming into the year, the consensus was that the new fiscal package would produce a boost of around 1% to economic growth. Now that the bill has been passed, estimates are closer to 0.6%. This has helped US government bond yields, which have fallen from their highs. The move lower in yields has been more concentrated in short dated bonds, as they are more closely tethered to interest rates, which are expected to be cut later this year. Long dated bond yields remain somewhat elevated.

While it is tempting to think of taxation, spending, and tariff policies individually, it is helpful to step back and think about the bigger picture. President Trump has actually provided a helpful framework for this. During the election campaign, and subsequently, Trump has spoken about the period from 1870 to 1913 as being a particularly prosperous time for America. In 1913 the 16th Amendment created the federal income tax. Up until that point, the US government was largely funded by customs duties. Referring to this period, Trump has said “that was our richest because we collected tariffs from foreign countries that came in

0.6%

The estimated boost the new US fiscal package has produced.





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and took our jobs and took our money” further noting that “you could maybe not even have an income tax system when this thing [tariff revenue] works out... in the old days that’s what happened”.

Tariff revenue has already started accruing to the US Treasury; with almost \$30 billion collected in July. This is expected to increase further given the additional tariffs which came into effect in August. Tariffs are not legislated through Congress, so the Congressional Budget Office does not include this revenue in their calculations of the budget deficit. Tariffs are effectively a tax, so raise revenue for the government. Calculations by BCA Research suggest that when tariffs revenue is included, the budget deficit improves from around -6.8% to -6.1% of GDP. This is still a high number, but better than feared earlier in the year.

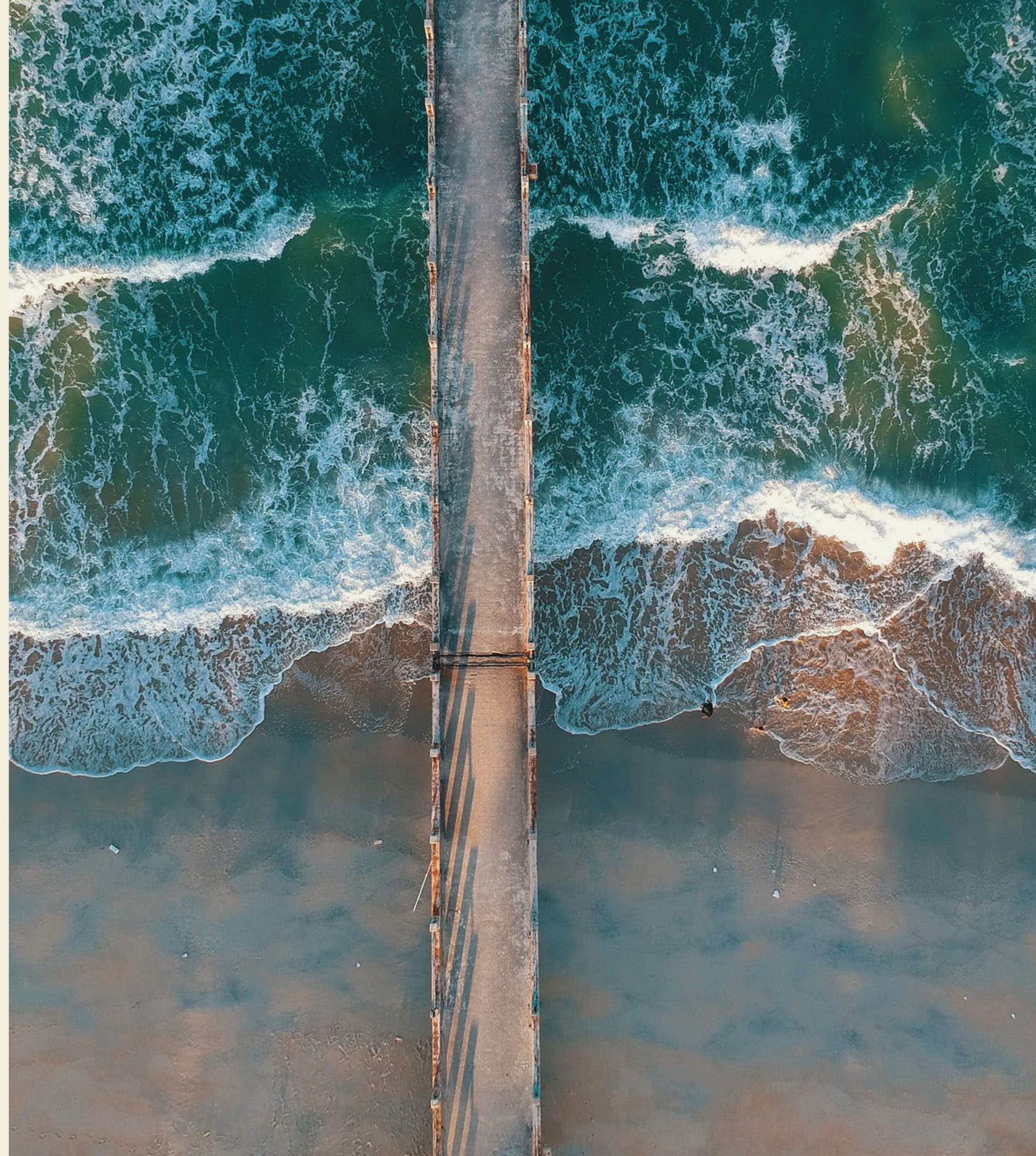
The effective bet that the administration is taking with the OBBBA is that tariffs will reduce imports and lower domestic taxes will incentivise businesses to produce more in the US. This in theory would boost economic growth and particularly for manufacturing industries that suffered from globalisation. The global economy is far more interconnected than the late 19th century, and financial markets are also far more global. There is anecdotal evidence that some companies will increase US production; for example, Apple has announced a new American Manufacturing Program, which expands work with 10 American-based component manufacturers. This will create jobs, but also put upward pressure on production costs, which Apple will likely pass on to consumers to maintain their profit margins.

Large-scale reshoring is a challenge due to the higher costs involved when producing in the US. Tariffs have been slow to feed into US inflation, but this is something to watch closely in coming months. The acute phase of the trade war risk for markets has passed, but our working assumption at this point is that the combination of tariffs and tax cuts will mean slightly less growth and slightly more inflation than otherwise would have been the case. Time will tell whether the bet will pay off.

When Patience Meets Politics

- Fed holds steady amid rising political pressure
- Tariff uncertainty adds to inflation risks
- US data surprises to the upside

July gave investors a chance to pause and reassess following the sharp rebound in risk sentiment since April, as focus shifted to the expiration of the new US tariff deadline in August. Resilient economic data challenged the soft-landing narrative, while inflation remained uncomfortably high, reinforced by fresh tariff-driven price pressures. At the same time, political interference cast a long shadow over monetary policy, with rising tensions between the White House and the Fed drawing market attention. Global central banks stood still, but underlying growth and inflation dynamics diverged. Stronger US data kept rate cuts on hold for now, but weakening labour market momentum suggest policy trade-offs are becoming more complex.



Economic data improved across most major economies in July. In the US, manufacturing, retail sales, job openings, and business sentiment all exceeded expectations, while consumer inflation expectations continued to ease. Europe and Japan also saw modest upside surprises, reinforcing a broadly resilient global backdrop. In contrast, China’s recovery lost momentum and the UK showed signs of slowing. US inflation remains above target with YoY core PCE in June rising to 2.8%; tariffs are lifting goods prices, while service inflation moderates. Employment trends remain mixed, with underlying slack emerging beneath stable headlines. This is driven in part by a shrinking US labour pool due to tighter immigration. Adjusted for this reduced labour force, the true US unemployment rate is already above 4.5% and rising. Overall, global growth remained intact but uneven, keeping central banks cautious.

The Federal Reserve held its policy rate steady at 4.25–4.50% in July, offering little guidance on the path ahead. While the decision was widely expected, it came amid escalating political pressure. President Trump made an unusual late-month visit to the Fed, intensifying calls for rate cuts and fuelling debate over central bank independence. Markets are now pricing just a 40% probability of a US cut in September. In the UK, the Bank of England cut interest rates from 4.25% to 4.0% at the August meeting. Economic growth in the UK is weak, while inflation has been picking up again. This puts the BoE in a difficult position and there continues to be considerable debate between committee members. Meanwhile, the ECB is seen as having reached its terminal rate for this cycle, with no further changes anticipated in 2025.

July saw the US dollar reassert its dominance, rising as stronger domestic data and sticky inflation reduced the urgency for

4.0%

The interest rate announced at the Bank of England’s August meeting

Fed rate cuts. While other central banks have already eased substantially, the Fed’s reluctance is providing some support to the dollar. The Japanese yen and British pound both weakened notably, with Japan’s dovish stance and the UK’s softening growth outlook leaving their currencies vulnerable. Commodities told a mixed story. Oil prices climbed on tightening supply and improving near term growth, raising fresh questions about global inflation persistence. Meanwhile, the imposition of tariffs on imported materials like copper and steel created headline pressure, before prompting a correction when exemptions and legal uncertainty emerged.

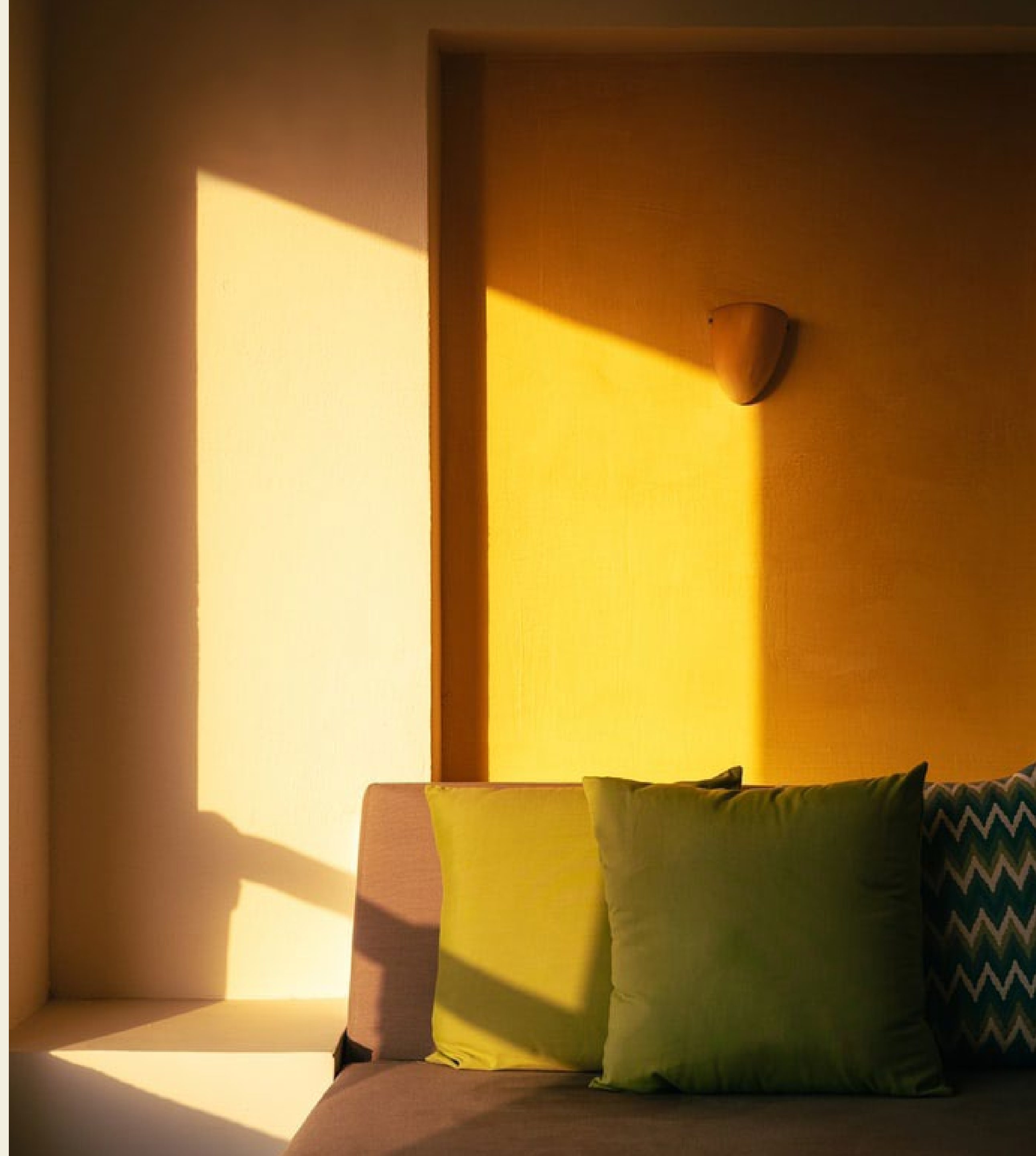
Looking ahead, we maintain a neutral stance on US duration with a tactical bias toward overweight. This reflects elevated real yields, a slowing US economy, and an incoming dovish Fed chair; conditions that markets have embraced, with 100bps of cuts now fully priced in over the next 12 months. Outside the US, UK government bond markets are supported by downside risks to growth.

Overall, our risk allocation remains neutral but near the lower end of our tolerance range. Weak seasonality, moderating growth, and rich valuations are counterbalanced by dovish Fed expectations and healthier technical (supply and demand) factors, with the market having traded sideways and worked off some excess. US inflation will remain in focus and upside readings may pose a challenge for risk assets.

A Better-Than-Expected Earnings Season

- Technology leads the way in equity markets
- Earnings were strong, weakness was punished
- US dollar weakness helped US multi-nationals

The equity markets paused for a breather in July after posting strong gains in May and June. Despite the better-than-expected earnings season, the MSCI World Index rose a modest 1.3% in July. A sign, possibly, that valuations are keeping a lid on stock prices. The S&P 500 index is trading at 22.2x blended forward earnings, an 11% premium to its five-year average and a 19% premium to its ten-year average. In fact, stocks that missed on earnings were unduly punished, especially if it was an AI-related miss. Take Amazon as an example. The company beat on most numbers but posted slightly disappointing numbers for Amazon Web Services (AWS) after strong numbers from its peers. The stock plunged 8.3% the following day, wiping out nearly \$200B from its market capitalisation.



Information Technology (IT) was the best performing sector for the third month in a row, driving the markets higher. IT is the largest sector in the MSCI World Index at 27% and contains some of the largest stocks in the index such as Nvidia, which has a market capitalisation of \$4.4T and is 5.7% of the index. Technology, which was lagging significantly earlier this year, is now one of the best performing sectors year-to-date. Large market capitalisation technology companies are committing more capital to AI, which is supporting other segments such as Industrials and Utilities and pushing the overall markets higher. A good example of a company which was seen initially as laggard in the AI space but that is now firing on all cylinders is Meta. The company posted stellar numbers and popped 11% the following day, adding \$190B to its market capitalisation. More importantly the company increased capital expenditure guidance for 2025 supporting the AI infrastructure market.

A sector that continues to disappoint is Healthcare. The sector has underperformed for a number of years and is now trading on 15.6x blended forward earnings, a valuation not seen since the lows in 2022. Until recently we were overweight the sector, which was a consensus view given the attractive valuations and structural tailwinds. The possibility of AI benefitting biotech was supposed to be the icing on the cake. Despite these expectations, the sector continues to lag, with the GLP-1 tailwind encountering hurdles and the US administration's recent focus on drug prices creating uncertainty.

A key theme this earnings season is the tailwind from the weakening US dollar. In the second quarter the US Dollar depreciated by 7% vs a basket of major world currencies, boosting profits for US companies with international sales. International sales account for 45% of Nasdaq 100 revenues, 28% of S&P 500 revenues, and 20% of Russell 2000 revenues. So far, about 90% of S&P 500 companies have reported. The expectations were for 4% year-on-year EPS growth as consensus estimates for the second

\$190B

The amount Meta has added to its market capitalisation.

quarter plunged in April, driven by expected margin compression from tariffs. EPS growth for the quarter is tracking at a much higher than expected 10% year-on-year, as the US Dollar weakness benefitted companies and tariffs have yet to show up in earnings.

The AI theme continues to deliver, benefitting the overall market and peak tariff uncertainty appears to be overcome. Expectations are that the effects of higher tariffs will be felt in the next few earnings seasons, but at the moment investors are looking through this and focusing on the rosy earnings outlook for 2026.



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Global Asset Allocation

The chart below details our 6-12 month tactical investment strategy

	UNDERWEIGHT -	+ OVERWEIGHT
Asset Allocation	CASH (MODEST UNDERWEIGHT) \$	 ALTERNATIVES (MODEST OVERWEIGHT)
Fixed Income		 SHORT DURATION HIGH YIELD EMERGING MARKET DEBT INFLATION PROTECTION
Equities Regional		 JAPAN EMERGING MARKETS EX CHINA
Equities Sector	CONSUMER DISCRETIONARY REAL ESTATE 	 UTILITIES

