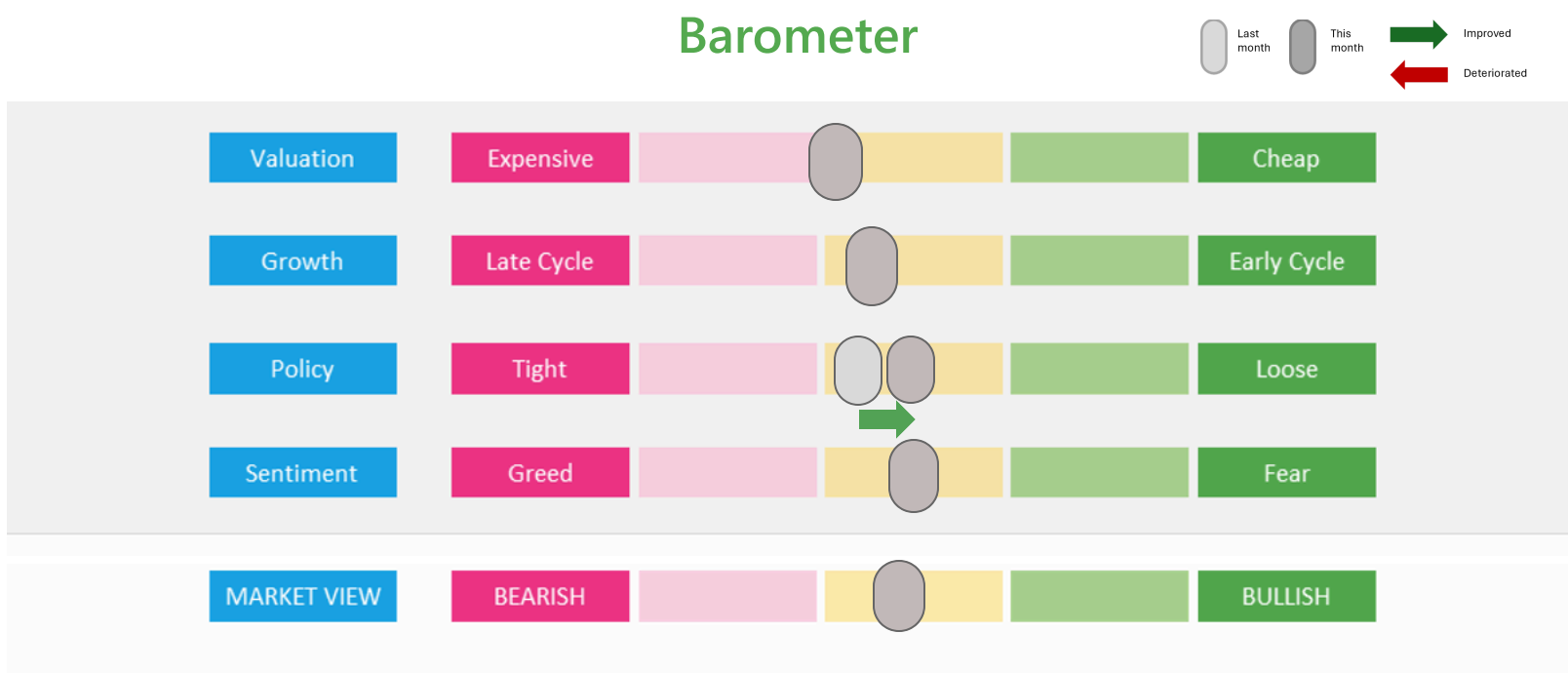


Market Barometer



Past peak uncertainty

We may have **passed the point of peak uncertainty** regarding tariffs, trade wars, and possibly (hopefully) even geopolitical risk.

As ever, all this can turn on a pin, but for now we have:

- A rumoured **trade deal between the US and China** (per Bloomberg)
- Possibly **ten other trade deals** with major US trading partners waiting to be signed (per Howard Lutnick)
- A **NATO summit** which delivered commitments to raise defence spending to 3.5% of GDP by 2035 and a further 1.5% of GDP in defence infrastructure

In these volatile political times, this can all change, especially with **8 July approaching** - the date that the 90 day tariff moratorium rolls off. Despite that risk we are more persuaded by the general direction of policy, which is best characterised as **a thawing of relations**.

In our **Charts of the Month** we look at:

- The relationship between **policy uncertainty** and gold - if uncertainty falls, might gold follow?
- The case for **CoCos** (Convertible Contingent Bonds) - subordinated bank debt looks attractive
- The **UK equity market** - what could be going right?
- How **defence stocks** are faring

Market fundamentals look solid. Government bond yields are range bound (p10). Credit spreads are narrowing (p11). The EPS integer for the US market at least is growing at nearly a 10% annual rate again, having dipped in Q1 (p17). Sentiment is neutral, not stretched (p21).

We are at 73% equity, we have cut infrastructure from 10% to 6% and our bond book duration is 7 years, slightly below neutral.

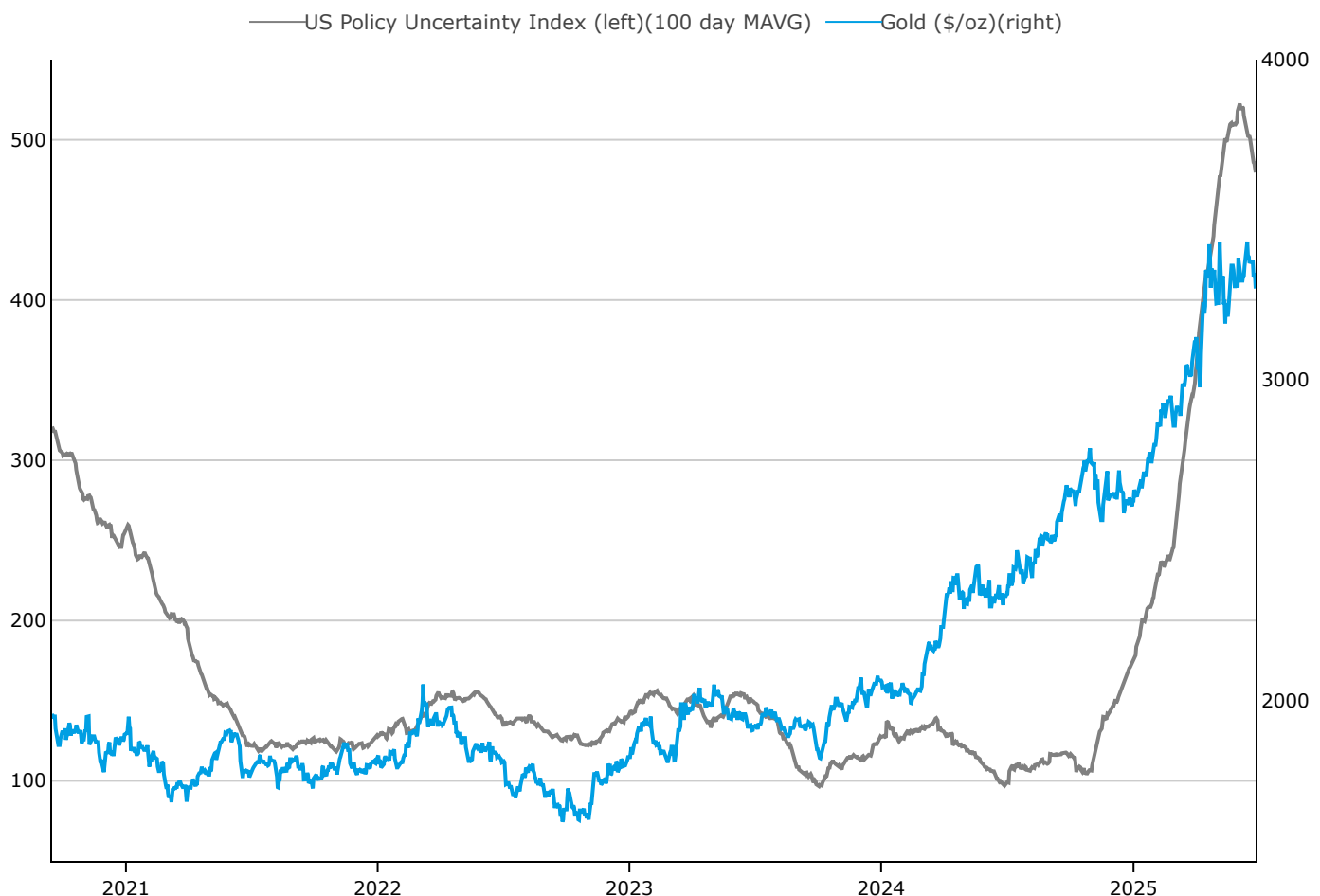
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Charts of the Month (1 of 4)

Past the peak of policy uncertainty. The main reason we added equity risk back in May and June having cut in March was that tariff and trade war risk appeared to be easing. The Policy Uncertainty index below captures this effect. As we go to print it is reported by Bloomberg that the US and China have reached a trade deal, and US Commerce Secretary, Howard Lutnick, says there are 10 further deals with major trading partners waiting to be signed. The NATO summit is a further reason to think that President Trump may be less willing to upset trading partners among the NATO cohort. Given the positive relationship between uncertainty and gold, illustrated below, **it will be interesting to see how risk-off assets such as gold perform, should the trade freeze continue to thaw.**

US Economic Policy Uncertainty Index vs Price of Gold

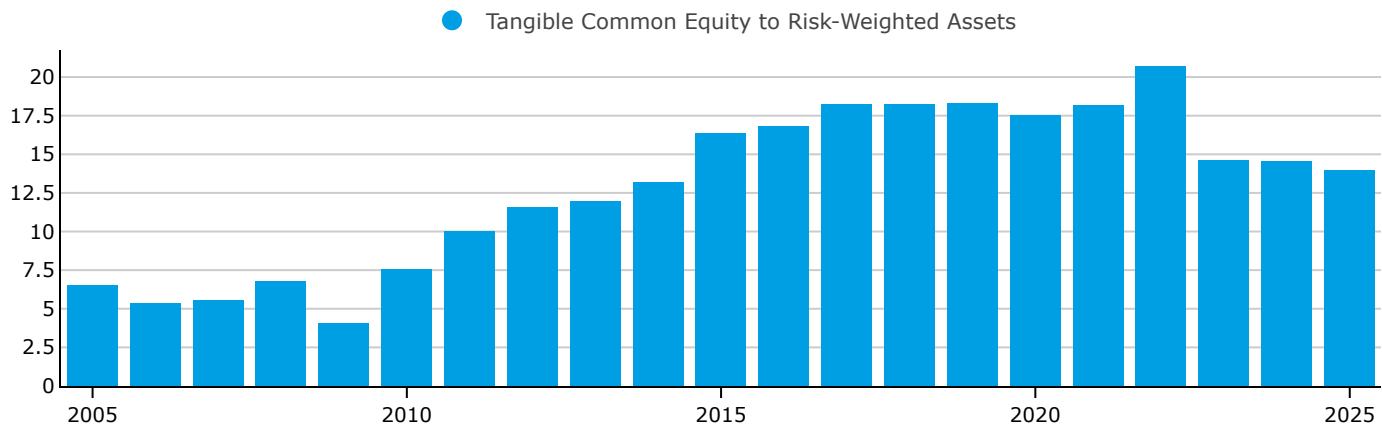


Charts of the Month (2 of 4)

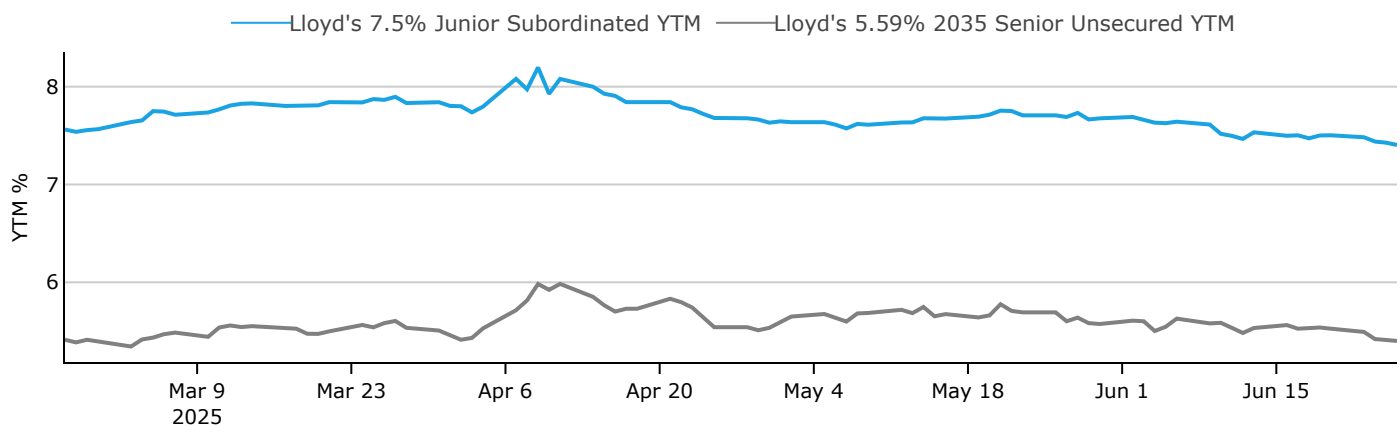
Convertible Contingent Bonds (CoCos) issued by banks as additional Tier 1 capital are attractive to us.

CoCos sit beneath unsecured debt but above equity in the capital stack. They convert to equity when the core equity tier 1 capital ratio falls to a trigger level, and because of this risk they offer a substantial yield pick-up relative to the senior unsecured debt. In the case of Lloyd's Bank, the conversion trigger is set at 7%, but, as the top chart shows, the current CET1 ratio is 14%. In our view the yield premium (207bps, per the lower chart) of the CoCo vs the senior more than compensates for the risk of equity conversion. **We have bought a book of CoCos for some income focused accounts.**

Lloyd's Banking Group (CET1 / Risk Weighted Assets, %)



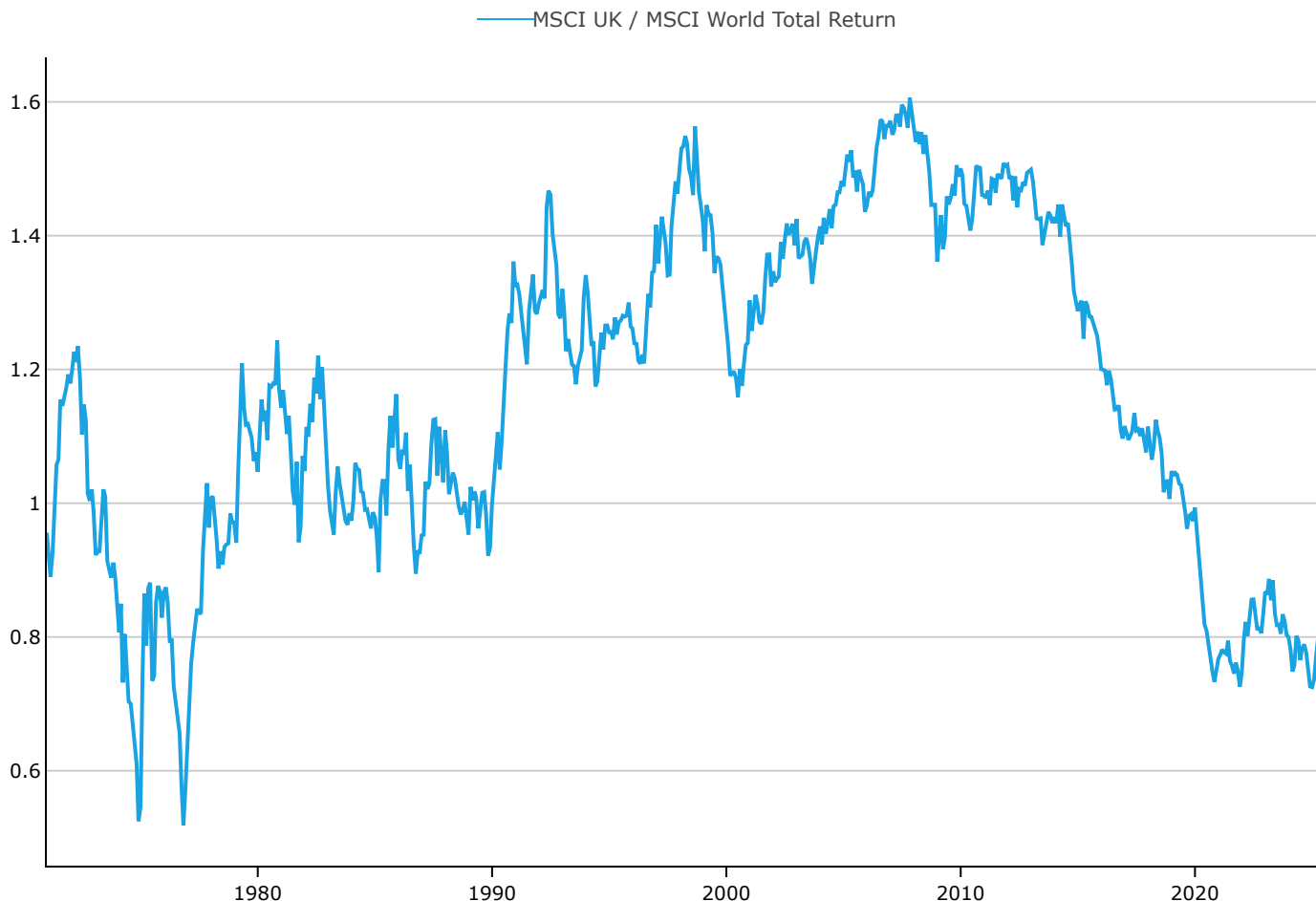
Lloyd's Banking Group (Bond Yield to Maturity, %)



Charts of the Month (3 of 4)

The UK equity market looks attractive to us, both top-down and bottom-up, meaning both our asset allocation team and the stock-pickers in our investment team see things they like. The Barometer is written by our asset allocation team. Apart from the fact that the market is cheaper than all other regions bar EM (see p9), our view is that this government is quietly raising gross fixed capital formation which can raise potential growth over time. Thus, it has approved: HS2 between London and Birmingham; the Midlands Rail Hub; East-West rail between Oxford and Cambridge; completion of Sizewell C, the first new nuclear power station for decades. It is restructuring the NHS, attacking the benefits bill, improving relations with Europe and appears to have navigated Trump successfully. **The stock market may be starting to notice, as the chart below illustrates.**

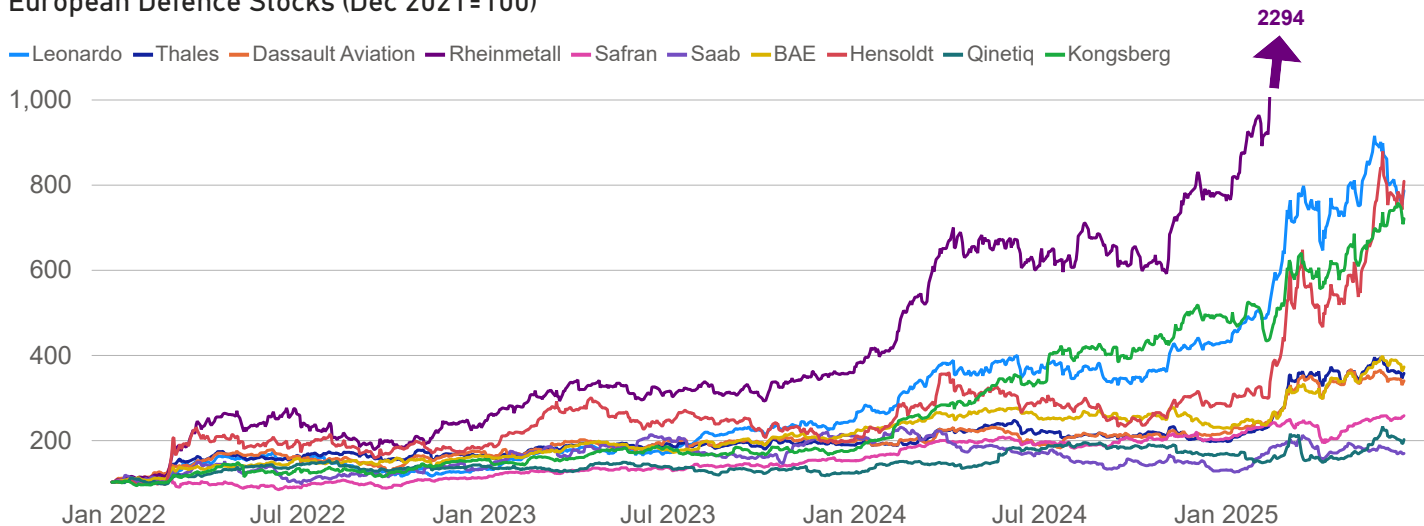
MSCI UK relative to MSCI World (Total Return, \$ terms)



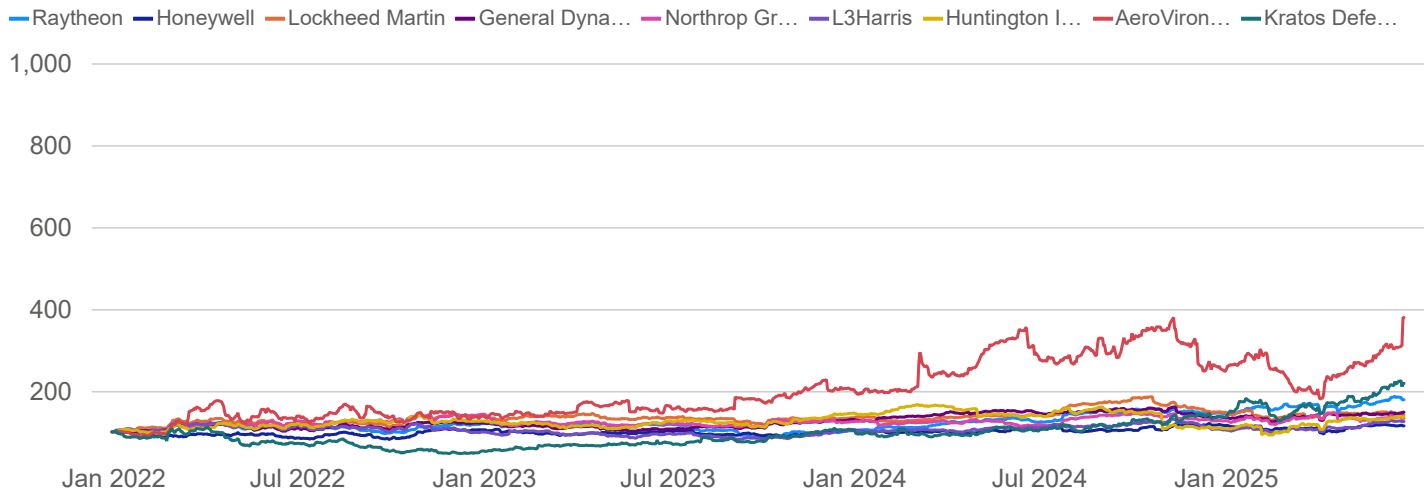
Charts of the Month (4 of 4)

The defence industry has become a major talking point for our church and charity clients ever since Russia's invasion of Ukraine in 2022 and even more so after the Trump/Vance/Zelensky Oval Office melt-down of February this year. Some of our funds can take exposure to arms manufacturers, most cannot, according to the funds' various investment restrictions. Even though the sector is small as a share of MSCI World at 2.4%, it is interesting to see how it is performing recently. The top chart shows European defence stocks are up between 100-700% over the last 3.5 years, while the US names (bottom chart, on the same scale for ease of comparison) have fared less well, up 25-270%, but still outperformed MSCI World (+28% in that period). **The stand-out is Rheinmetall, up 23x since 2021, off the scale of the chart.**

European Defence Stocks (Dec 2021=100)



US Defence Stocks (Dec 2021=100)



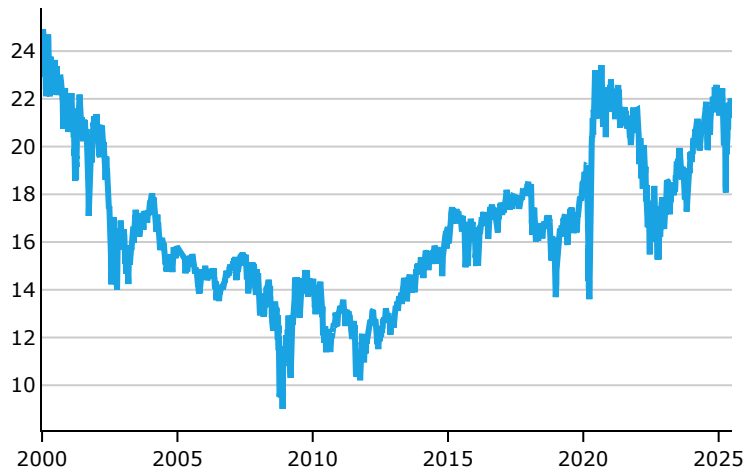
Equity | USA

The US administration appears committed to maintaining a minimum 10% tariff rate, with further sector-specific tariffs likely via Section 232—targeting autos, steel, semiconductors, pharma, and more¹. Section 899 adds an additional tax on countries deemed uncooperative.

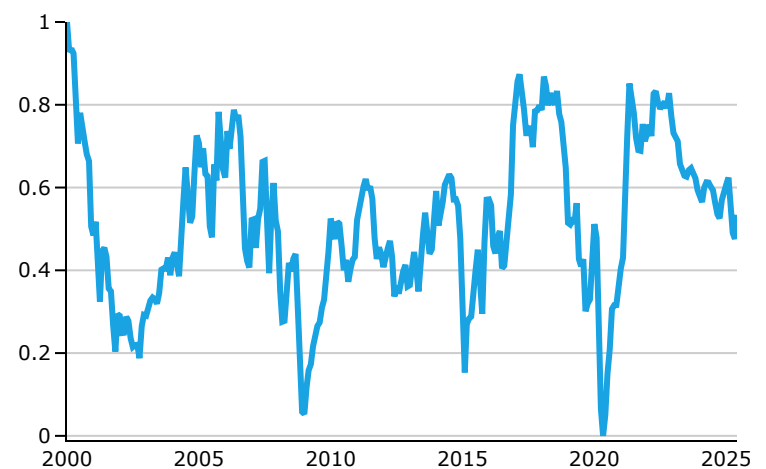
While on paper these measures challenge the US exceptionalism narrative, in practice equity markets remain resilient: the S&P 500 is up ~4% YTD and the Magnificent 7 have nearly erased losses (-0.3% YTD). Despite a rich 18x forward PE, equity strength continues. Instead, signs of US “un-exceptionalism” continue to play out in FX and bond markets, not equities.

S&P 500 Valuations

S&P 500 Forward PE



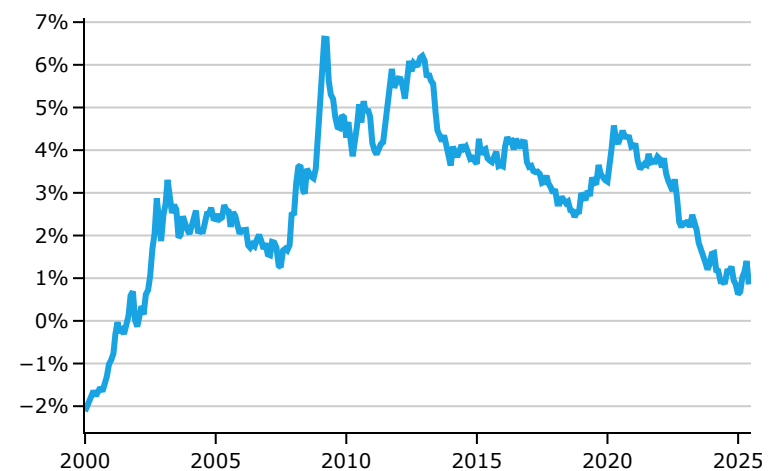
Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

Sources | S&P 500 PE: Bloomberg as at June 2025. CVI Model: CCLA as of May 2025, Shiller PE/CAPE: Morgan Stanley, Equity Risk Premium: CCLA as of May 2025.

1.JP Morgan: 'Equity strategy: Thematic tilts in light of potential tariff and tax changes': 16 June 2025.

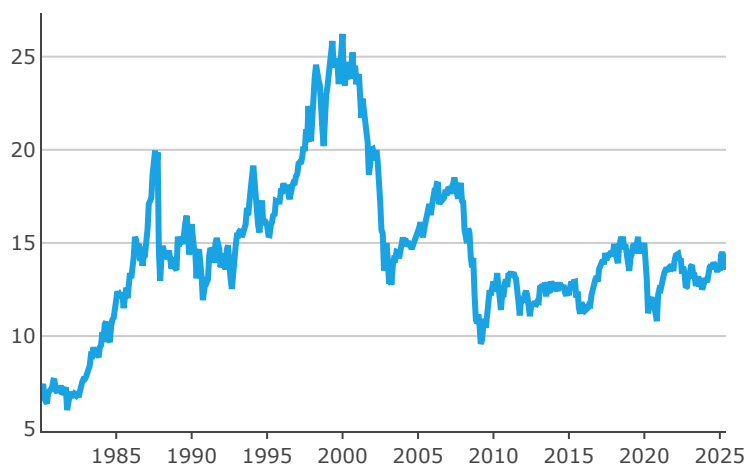
Equity | Regional

“Never before has the US faced a geopolitical adversary with which it is so economically interconnected” — warned the House Select Committee report (12 Dec 2023)², highlighting America’s overreliance on China for critical mineral refining. China controls ~70% of global production and ~90% of processing - key for autos, robotics, and defence.

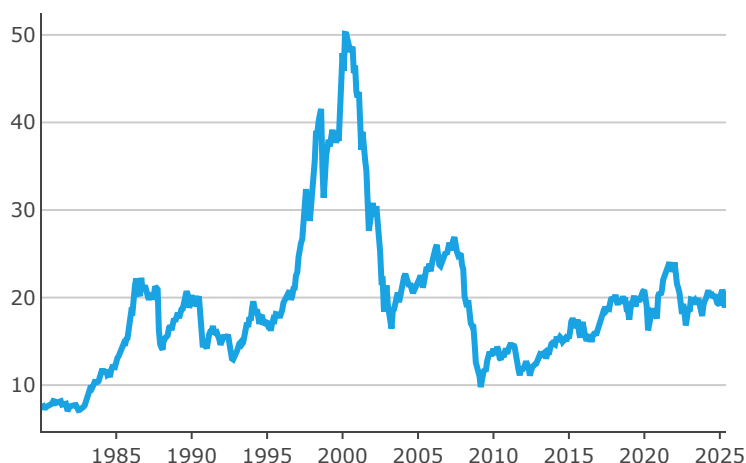
Recent tensions have tightened export licence access, disrupting supply chains. While London talks brought hope for increased exports of dysprosium and terbium (used in cars), China remains firm on withholding key military minerals like samarium. A 90-day tariff pause is likely to be agreed to allow further negotiations.

Europe

UK | Shiller P/E

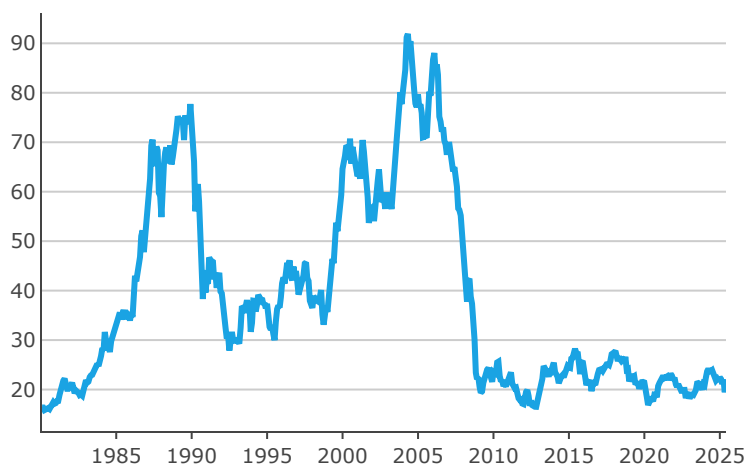


Europe (Ex-UK) | Shiller P/E

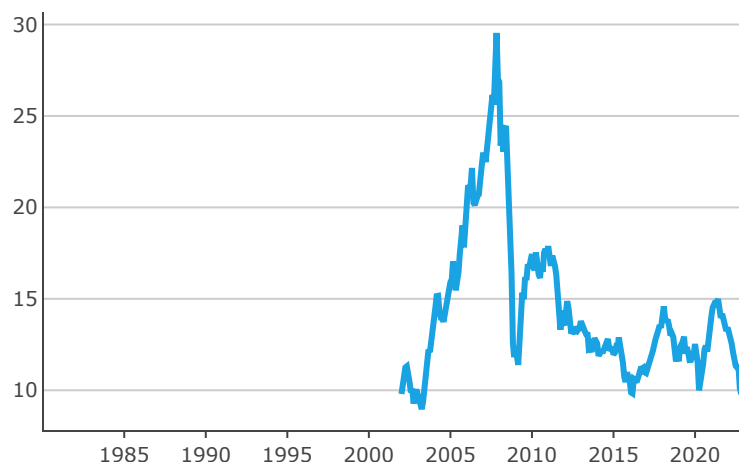


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of June 2025. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. 1. Information for this commentary was taken primarily from Yardeni Quicktakes: 'Deep Dive: Essential Rare Earth Minerals' 8 June 2025. 2. docs.house.gov

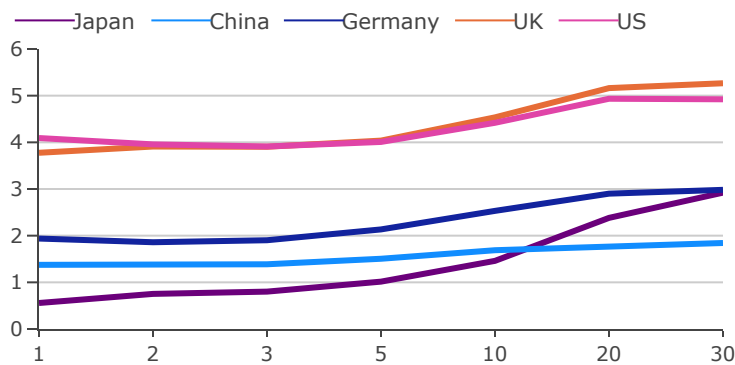
Bonds - Sovereigns

The US Treasury market has largely reversed its Q1 gains in Q2, dragged down by concerns over fiscal expansion and policy uncertainty under “Trump 2.0.” In May, Moody’s downgraded the US credit rating from AAA to Aa1, joining Fitch and S&P- market reaction was subdued.

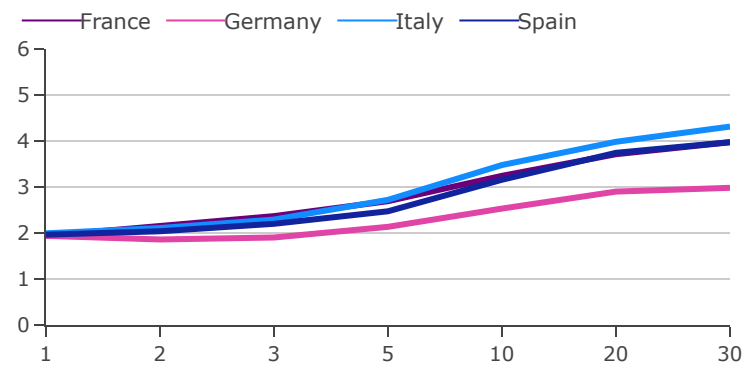
Japan’s Rating & Investment Information Inc. now stands as the only agency maintaining a top-tier rating. A potential downgrade could prompt Hong Kong’s US\$166 billion pension funds to cut exposure. While unlikely to cause a broad sell-off, that shift could spark rebalancing across global benchmarks - like the MPF World Government Bond Index - and influence other regional pension portfolios.

Global Government Yields

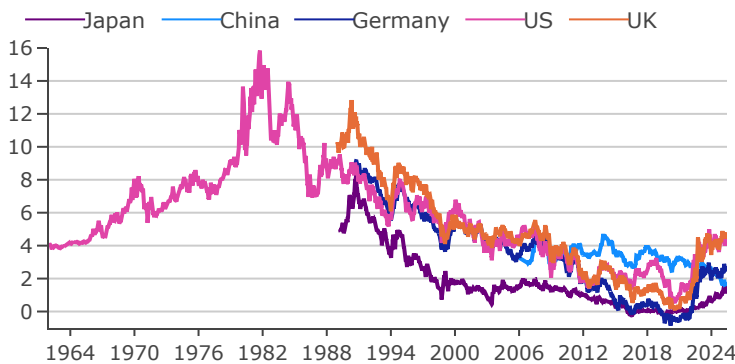
Global Treasury Yield Curves (Term vs %)



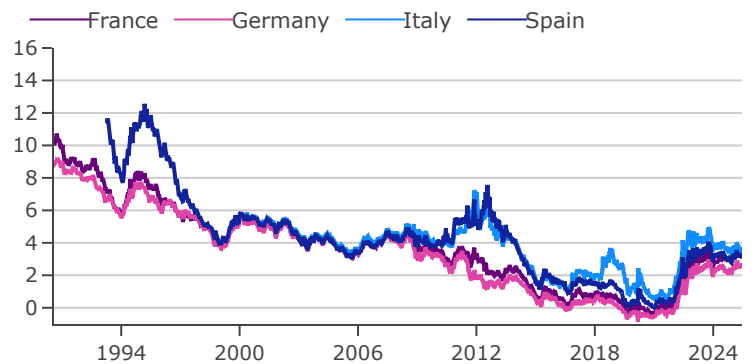
European Treasury Yield Curves (Term vs %)



Global 10Y Yields %

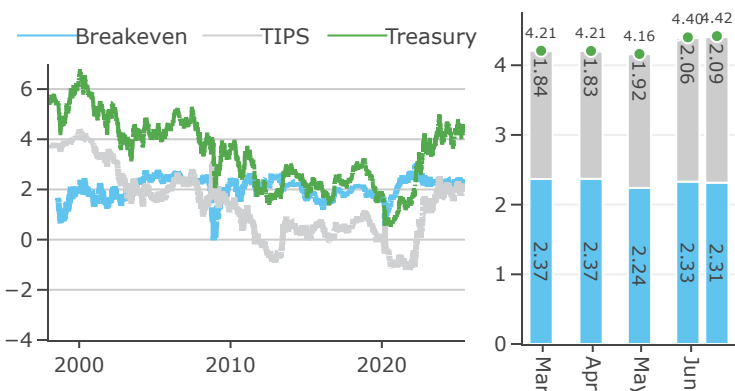


European 10Y Yields %



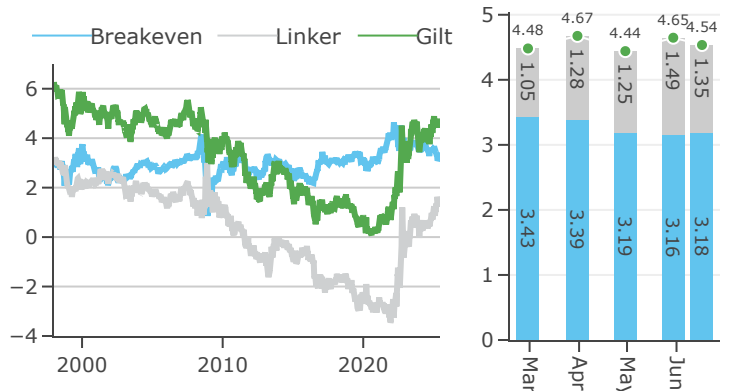
US 10Y Yields Breakdown %

Last 6 Months



UK 10Y Yields Breakdown %

Last 6 Months



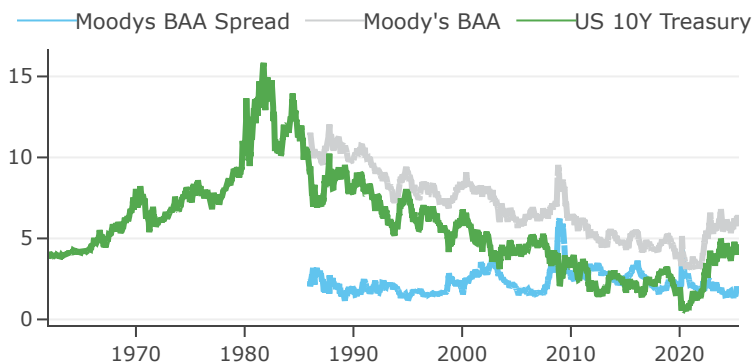
Bonds - Credit

Low-income US households remain under pressure despite easing inflation. Prices are still well above pre-pandemic levels, and elevated borrowing costs, tighter credit standards, and student loan repayments continue to strain budgets. Access to credit has become highly selective - subprime borrowers face falling loan approvals, particularly in auto and revolving credit. **Many are also disproportionately impacted by cuts to public services and the tariff regime.**

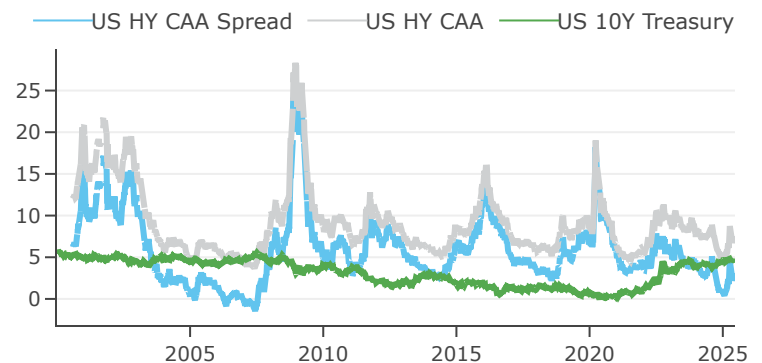
If passed, the One Big Beautiful Bill Act is likely to provide some reprieve. But until then, the US consumer is looking more K-shaped.

Global Credit Yields

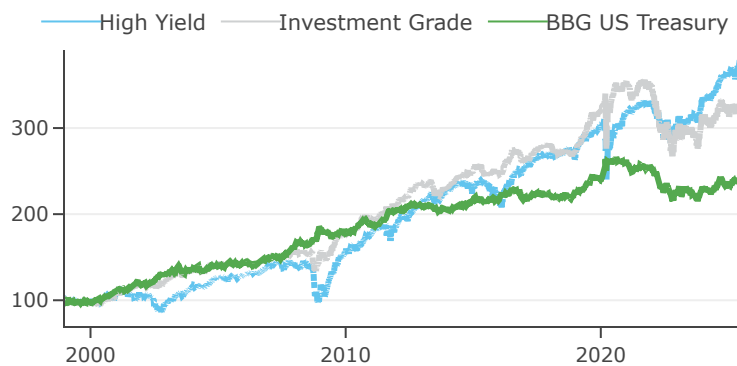
US Corporate Investment Grade Yield %



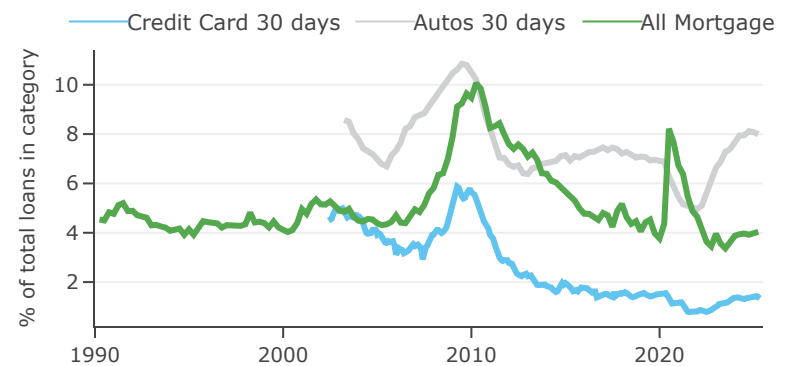
US Corporate Sub-Investment Grade Yield %



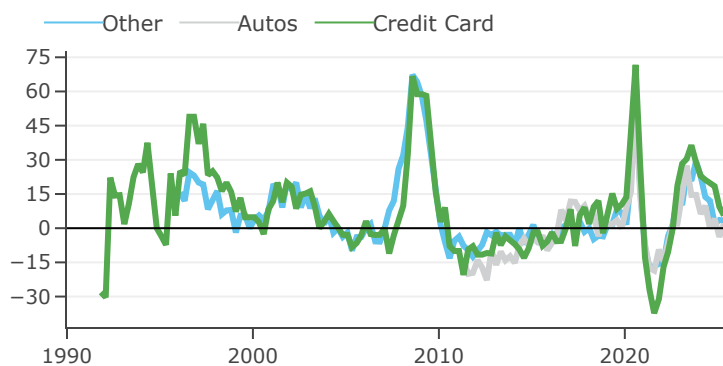
US Tr. vs IBoxx IG and HY Total Return \$ (100= 31 Dec '98)



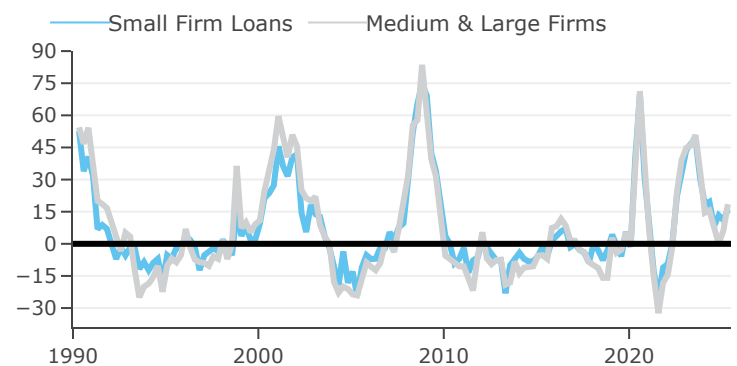
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Alternatives

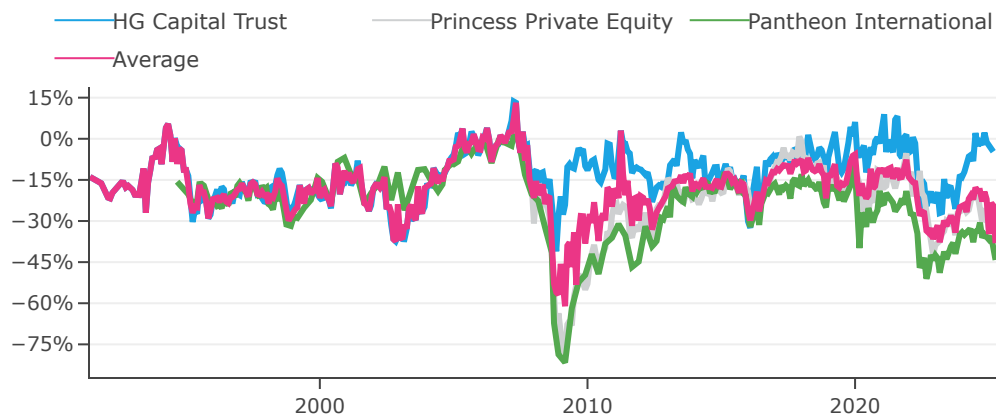
US oil production is set to decline for the first time since the pandemic, with the EIA* forecasting output to fall from 13.5mn to 13.3mn b/d by 2026, challenging Trump's election pledge to revive drilling. S&P projects a sharper drop of 640,000 b/d due to lower oil prices, fewer rigs, and constrained drilling. **Tariffs are another hurdle given steel accounts for 10-20% of rig input costs¹. Rig counts are down 50 YoY¹, as firms focus on capital preserving margins.**

WTI crude is down 17% YTD to \$64.98/bbl, below breakeven for many shale producers. EIA expects prices to dip under \$60/bbl by 2026. OPEC+ (lead by Saudi) continues to hike supply despite weak global demand.

Global Valuations

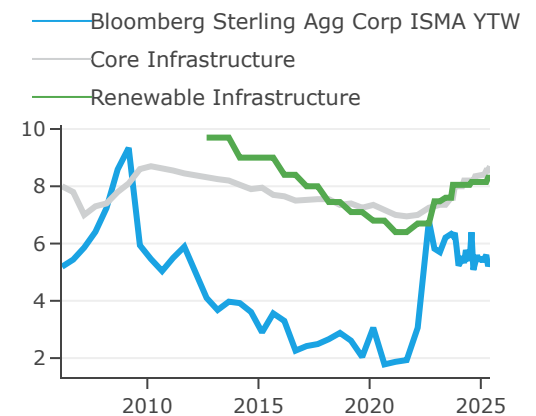
Listed Private Equity

Discount To NAVs



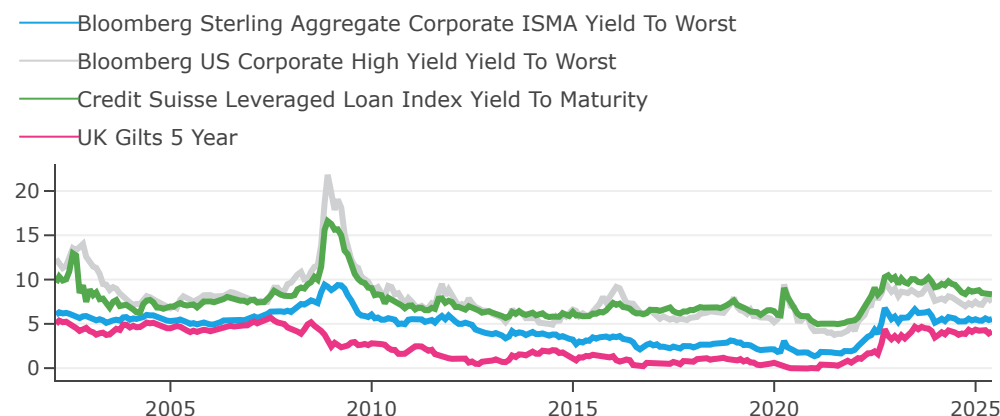
Infrastructure

Infra. Discount Rates vs Bond Yields



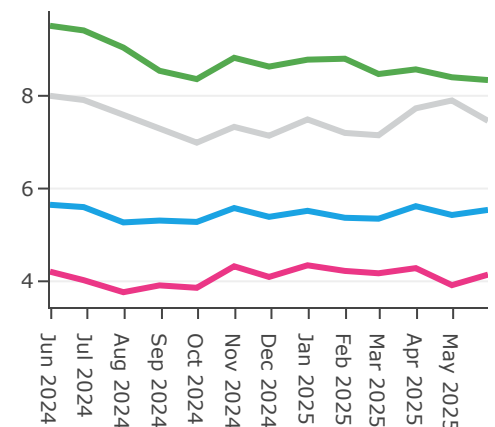
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Infrastructure: CCLA, Bloomberg; Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook; Contractual Income: Bloomberg, Pitchbook. As of May 2025. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation. *Energy Information Administration.

1.FT: 'US oil output set for first annual drop since pandemic' 10 June 2025

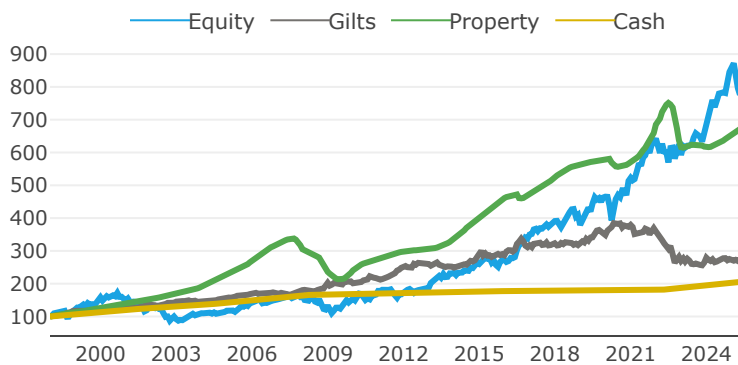
Property

The UK's ageing demographic is accelerating pressure on elderly care infrastructure. With 12.7 million residents aged 65+ in 2022 - 19%¹ of the population - the ONS projects a further 20% rise over the next 15 years. Yet care home capacity is failing to keep pace. Despite a need for 144,000 additional beds by 2035, just 86 were added in 2024². Development has slowed amid rising labour and material costs, intensifying a sector-wide supply-demand imbalance.

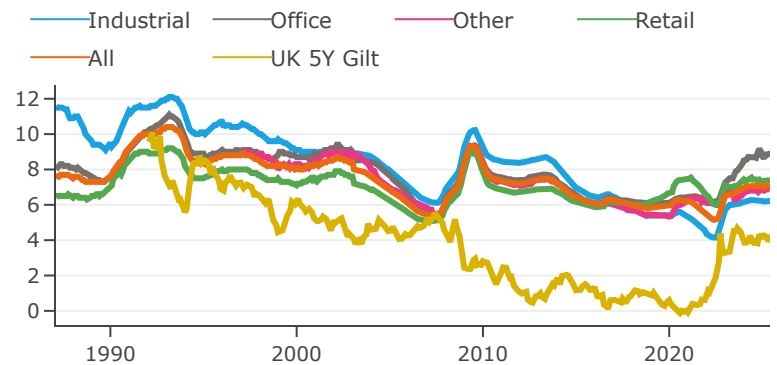
These trends have attracted US investors, including CareTrust's acquisition of Care REIT, KKR/Stonepeak's bid for Assura, and Welltower's takeover of Care UK. Separately, structural shifts are also underway, with a pivot toward purpose-built, luxury facilities integrating AI and smart care technology, particularly in the affluent SE England.

UK Commercial Property Market

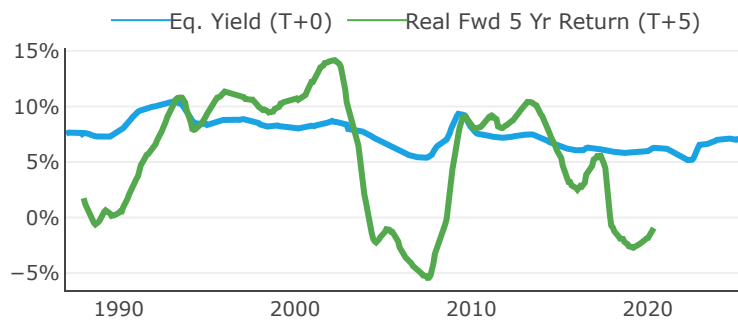
25 Years Of Return 1998=100



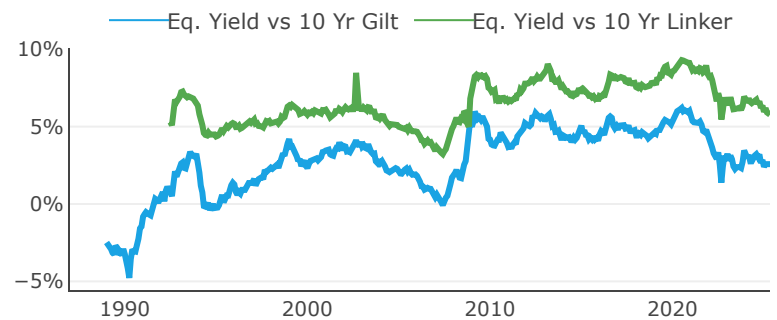
Equivalent Yields vs Gilt Yields %



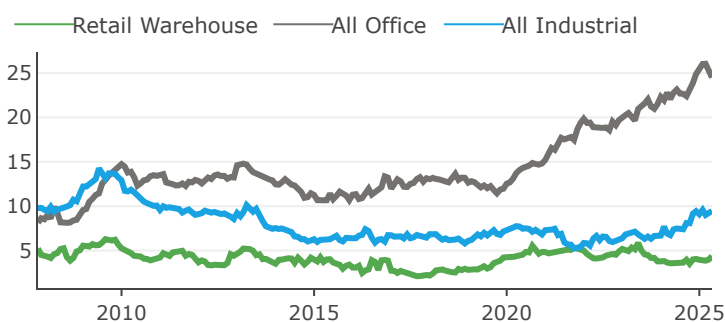
MSCI UK All Property Monthly TR Index %



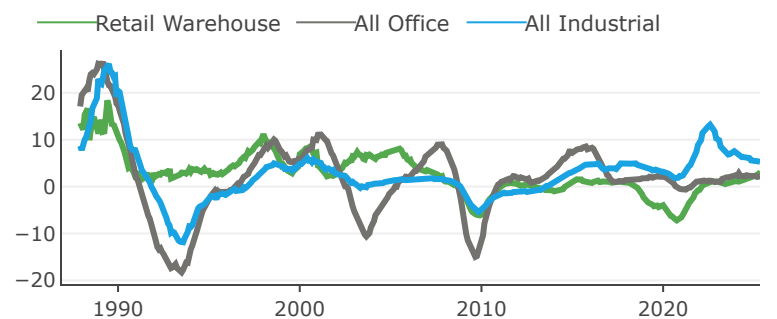
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



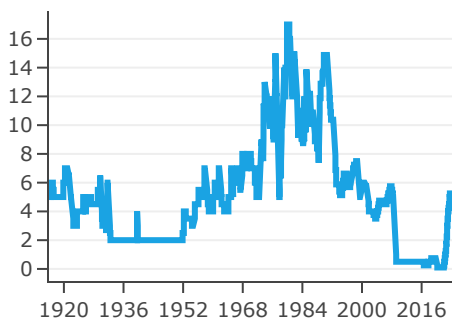
Cash

Chancellor Rachel Reeves' Spending Review proved expansionary while maintaining fiscal rules. Annual departmental spending is to rise by 2.3% until 2028–29. Increases include 3% for NHS funding and £39bn for affordable housing, while defence (plus intelligence) spending reaches 2.6% of GDP. A £30bn investment supports energy projects, with almost half dedicated to nuclear energy. £4.5bn aids schools, and police budgets see growth.

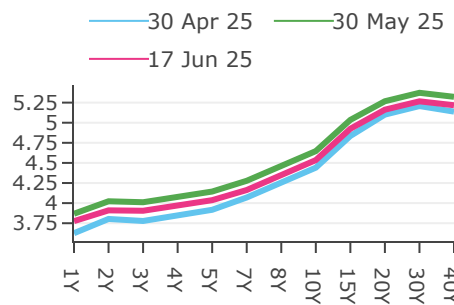
To fund this cuts were made to unprotected areas, particularly the Foreign Office – 6.9% drop in real terms. Overall reaction from equity and bond markets was flat. Homebuilders spiked again, taking their recent run to ~11%*

UK Sterling Market

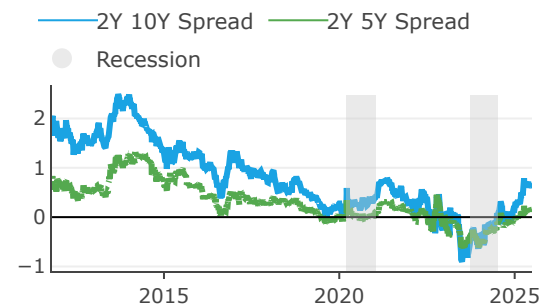
Official Bank Rate



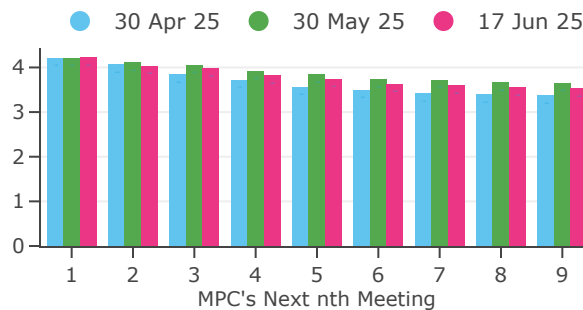
UK Gilt Curve



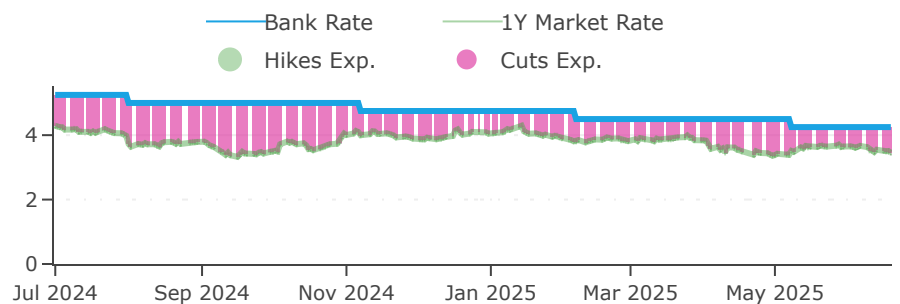
Gilt Spreads



Rate Expectations For Future MPC Meetings



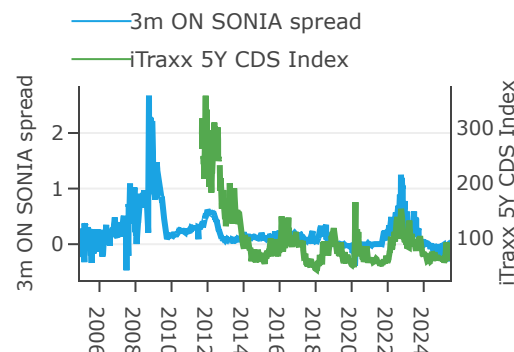
1Y Forward Market Rate Expectations



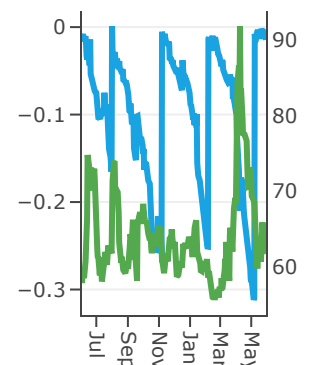
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2025				
	Jan...	Feb...	Ma...	April	May
RPI	3.60	3.40	3.20	4.50	4.30
CPI	3.00	2.80	2.60	3.50	3.40
CPI Core	3.70	3.50	3.40	3.80	3.50
CPI Services	5.00	5.00	4.70	5.40	4.70
CPI Goods	1.00	0.80	0.60	1.70	2.00
Priv. Wages	5.90	5.80	4.90	4.80	

Market Stress



Last 12 Months

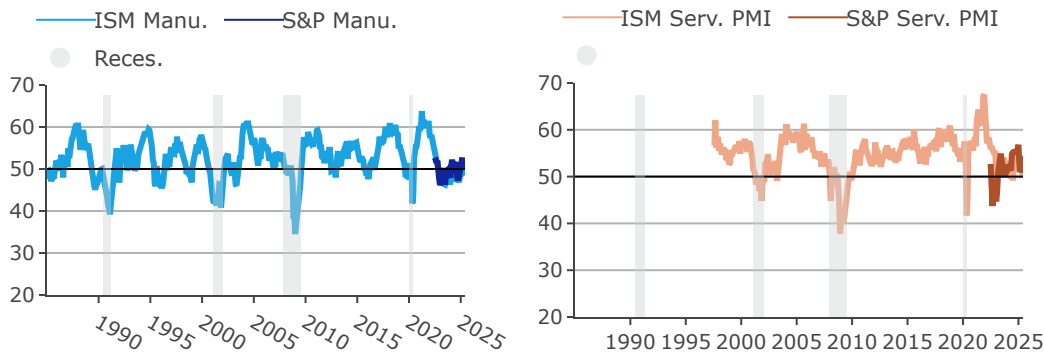


Global PMIs

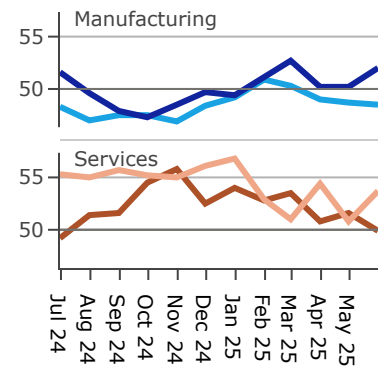
US: Flash readings highlight business activity weakened, with the Composite Index falling slightly to 52.8 (May 53.0). Services hit 53.1 while manufacturing rose to 51.5.

UK: The KMPG/REC report highlighted a sharp drop in permanent placements over costs around outlook concerns. Meanwhile labour availability continued to increase amid redundancies and fewer open opportunities. YoY pay growth strengthened for new joiners - firms highlighted firmer competition for appropriately skilled staff.

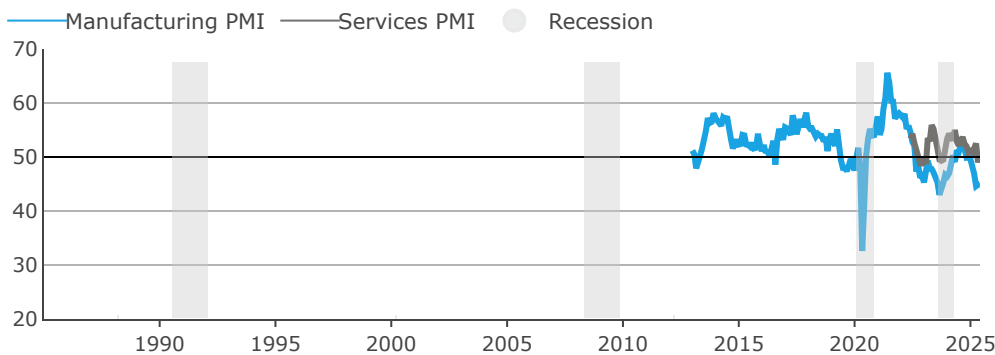
United States



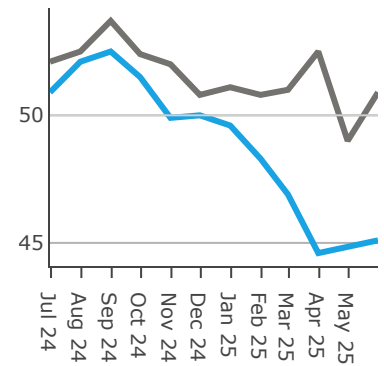
Last 12 Months



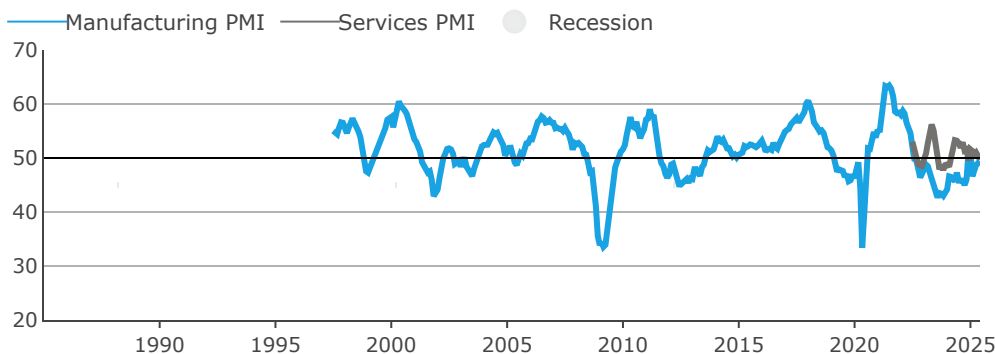
United Kingdom



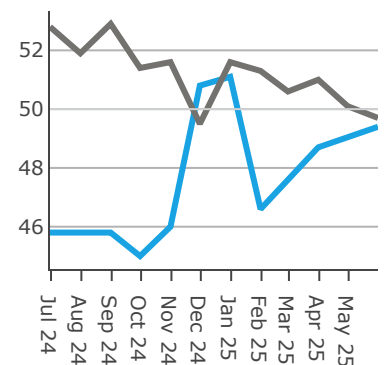
Last 12 Months



Eurozone



Last 12 Months

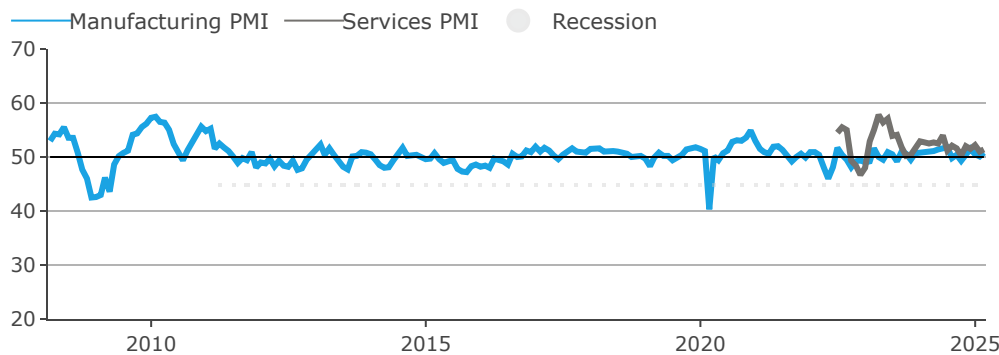


Global PMIs

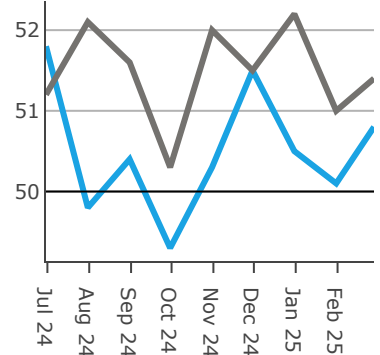
China's Q1 annualised GDP has been comfortably above the 5% target at 5.4%, Q2 is expected to head in a similar direction. This shifts the impetus away from another stimulus package.

Nonetheless, the drivers behind the recent performance could wane. 1) Exports have accounted for 40% of GDP, much of this was tariff front-running. 2) Consumption has been pulled forward thanks to government subsidies, autos is already showing signs of fading. 3) The housing market rebound has faded again

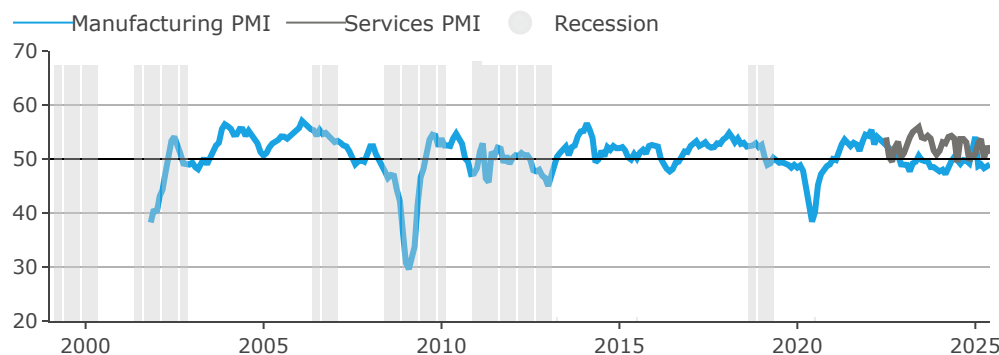
China



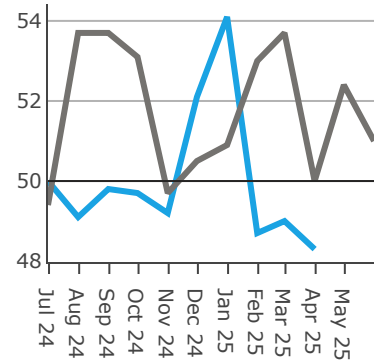
Last 12 Months



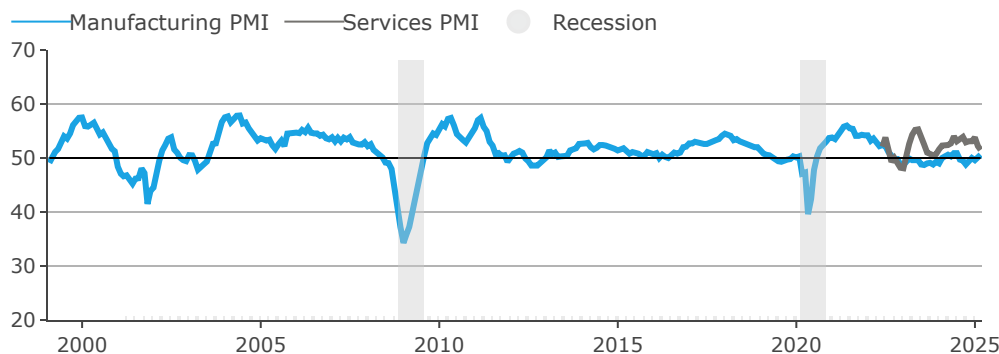
Japan



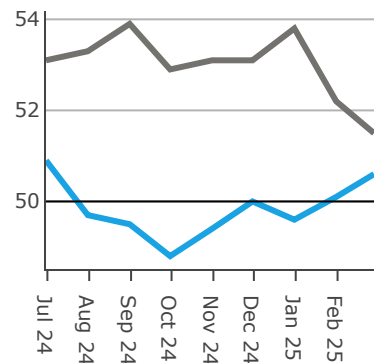
Last 12 Months



Global



Last 12 Months



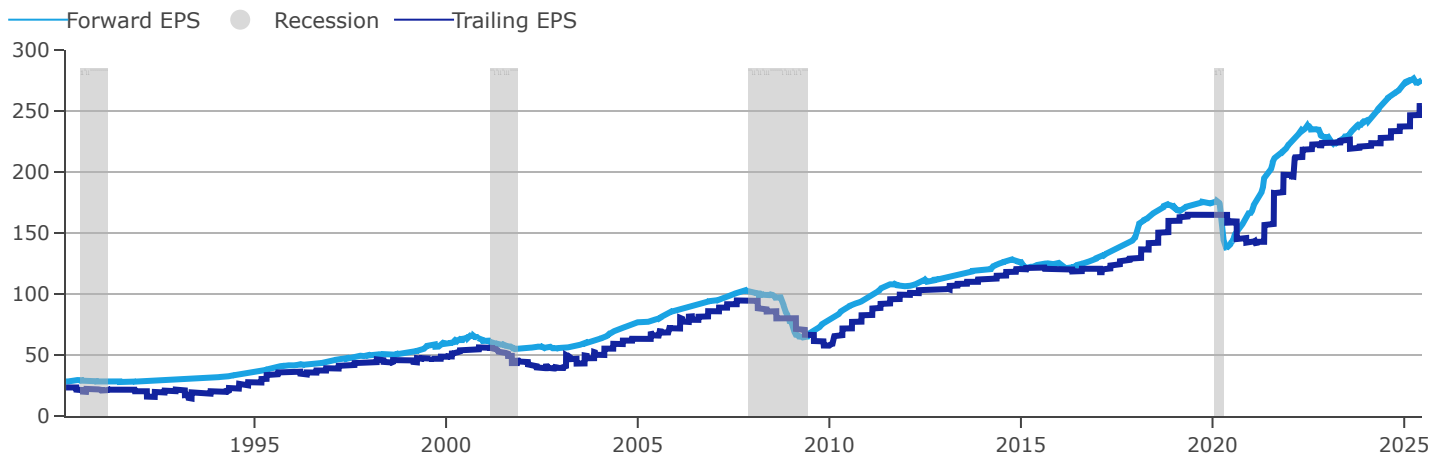
Earnings | USA

Q1 earnings season closed with 78% of S&P 500 companies beating EPS estimates and 64% exceeding revenue forecasts. However, Q2 outlooks are softening: EPS growth expectations have fallen from 9.3% at the end of March to 5.2% as of 13 June, below the 10-year average of 8.9%. Revenue growth forecasts have also slipped from 4.7% to 3.8% during the same period. Q3 and Q4 forecasts share a similar story.

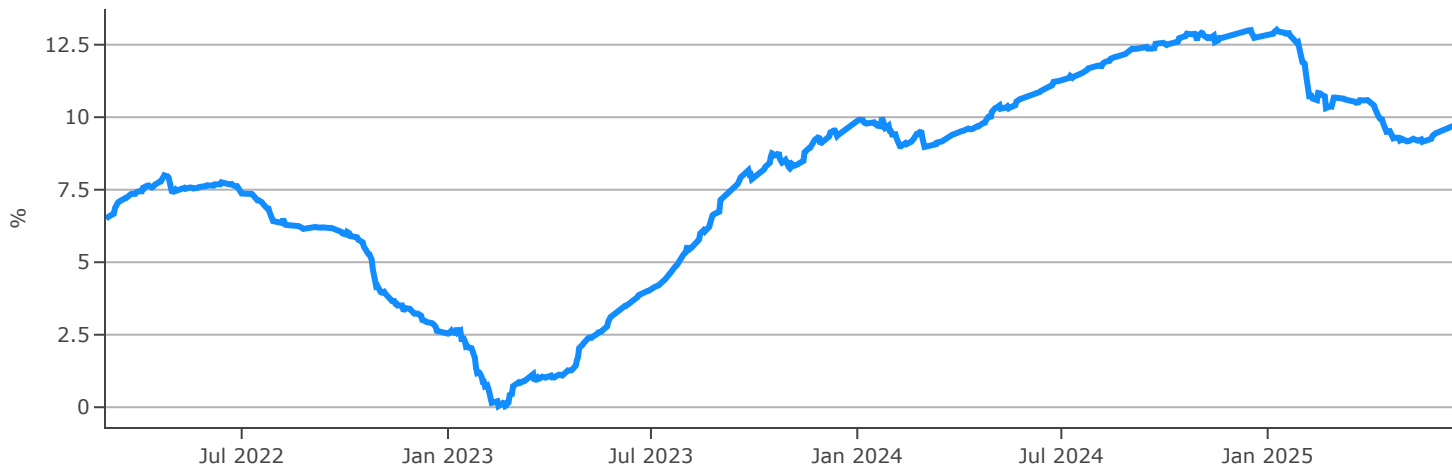
7 of 11 sectors are expected to maintain or post year-on-year growth in Q2, led by Communication Services and IT. Energy leads the 4 lagging sectors. **Despite softening, full-year 2025 projections remain healthy, with analysts forecasting 4.9% revenue growth and 9.1% EPS growth, broadly in line with historical trends.**

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



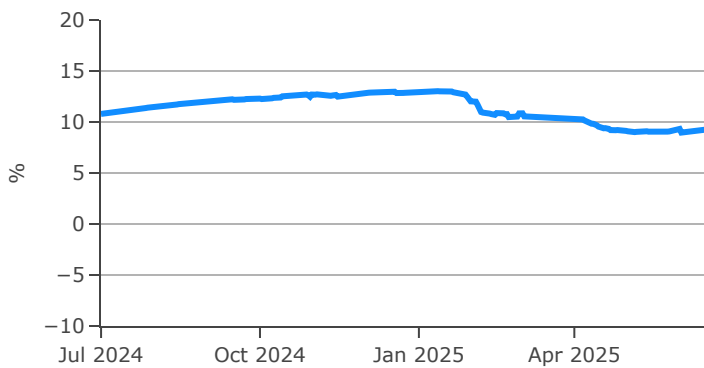
Earnings | Regional

Developed markets have seen a slow down in their forecasted blended 12M forward EPS growth rates. USA is now ~9%, falling from the January peak, with Europe (ex UK) and UK following a similar pattern.

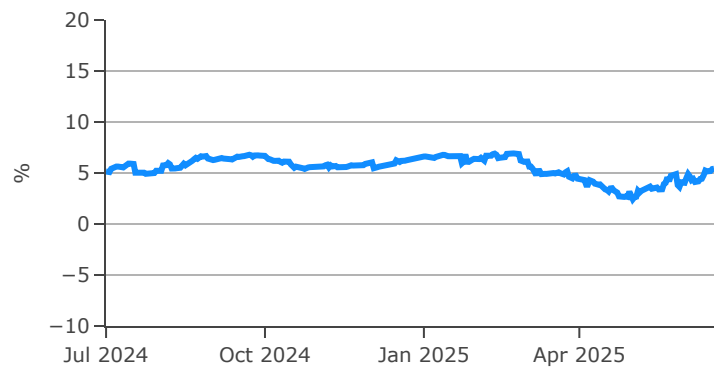
Emerging Markets are showing signs of improving with an EPS growth rate close to 15% - higher than any other region.

Regional Rolling 12M Blended Forward Earnings Growth

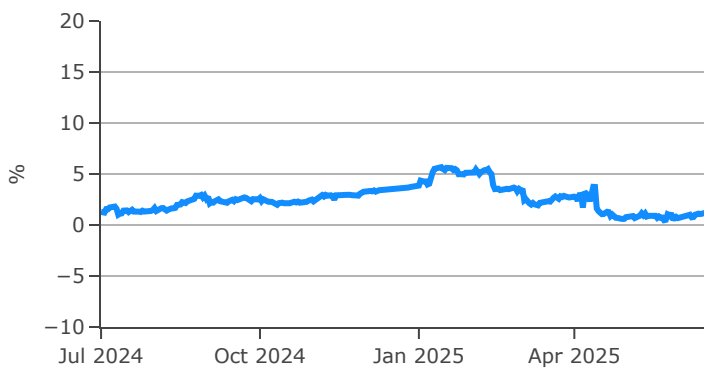
MSCI USA



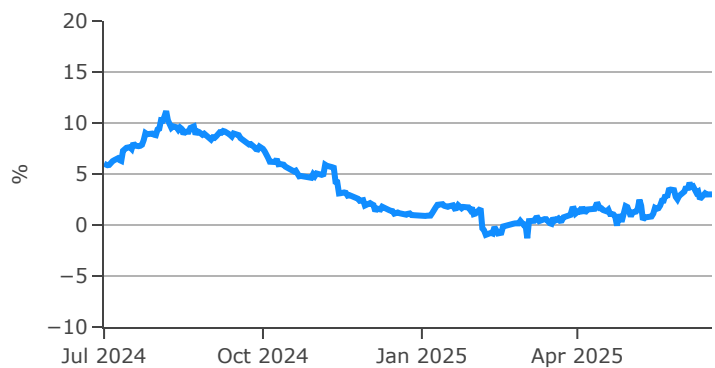
MSCI EU ex UK



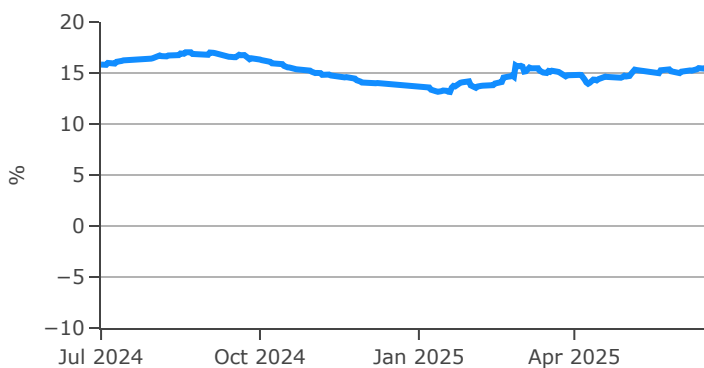
MSCI United Kingdom



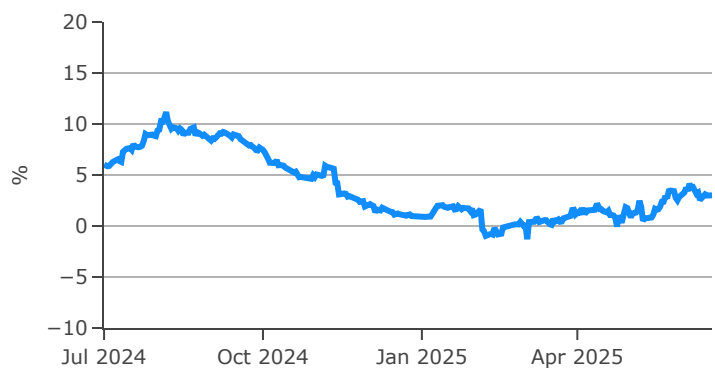
MSCI Japan



MSCI Emerging Markets



MSCI World

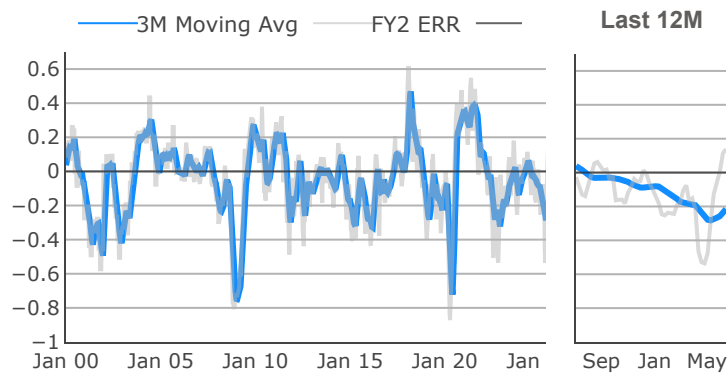


Earnings Revisions

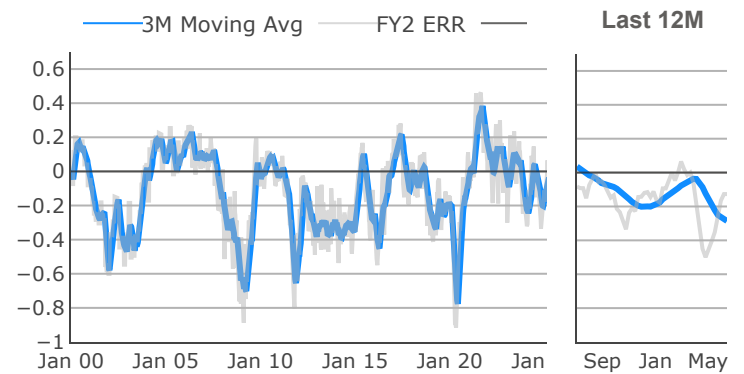
These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

Global Earnings Revisions Ratios

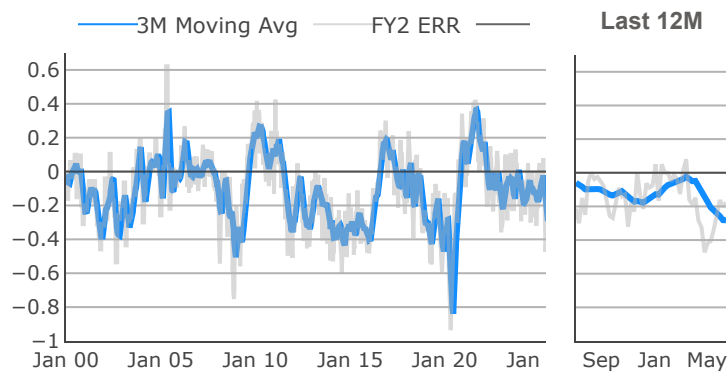
USA



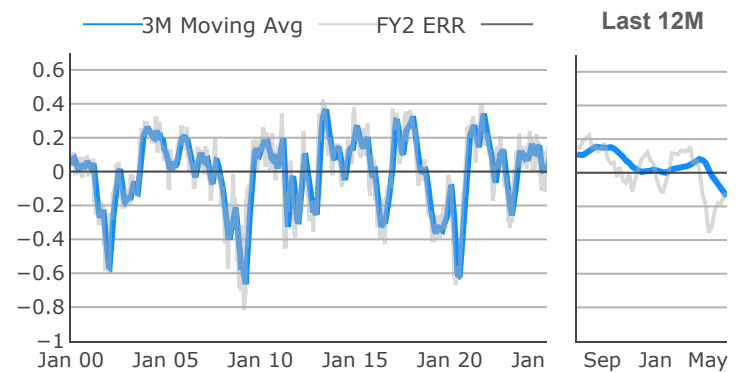
Eurozone



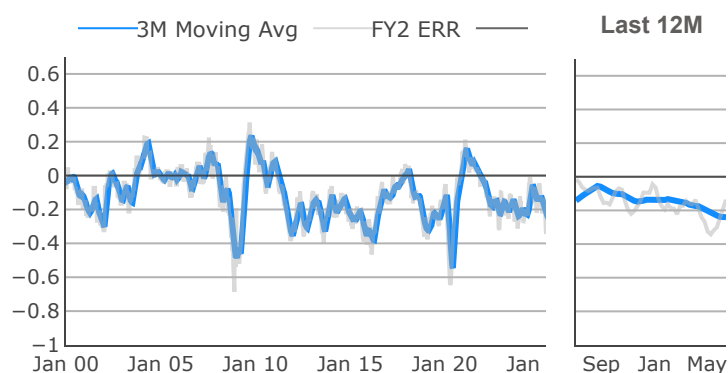
UK



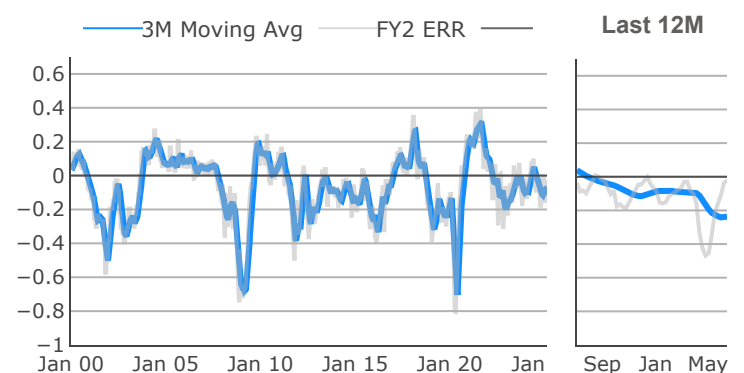
Japan



Emerging Markets



World

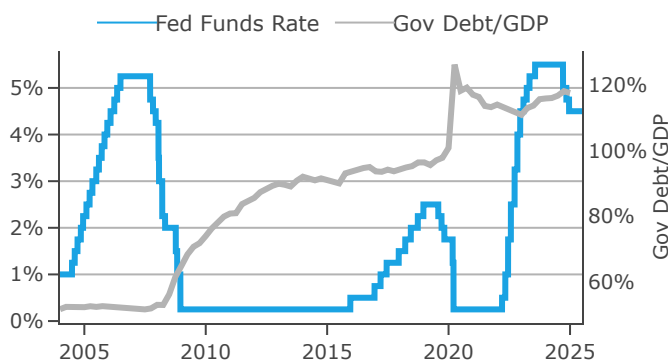


Interest Rates

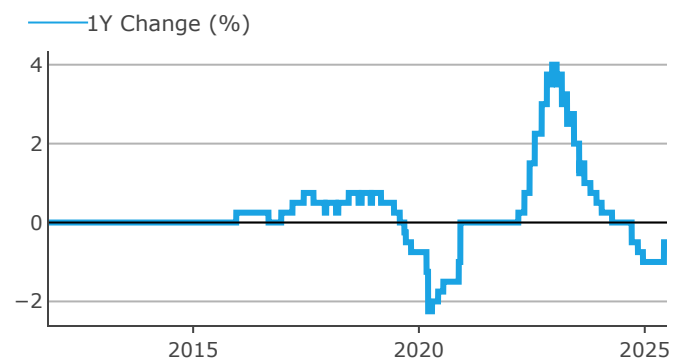
US CPI edged up just 0.1% MoM in May, falling short of the 0.2% consensus. Core CPI followed suit rising 0.1% vs. 0.3%. Unfortunately, inflation pressures are likely to reaccelerate as Q1 inventory buffers unwind and higher tariff-related costs pull through. Markets expect core CPI to reach toward 3.5% YoY by late summer/Q3.

The resilient labour market, bolstered by gains in non-tariff-sensitive sectors (health and education), has scaled back market expectations to only two further rate cuts in 2025. Similarly, strong labour market and tariff-induced inflation risks have lead to a cautious "wait and see" stance by the Fed.

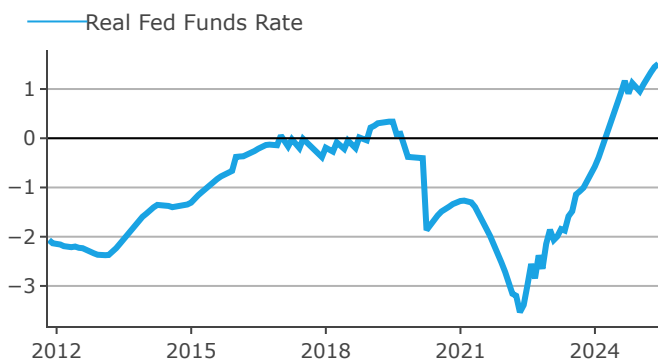
Fed Funds Rate



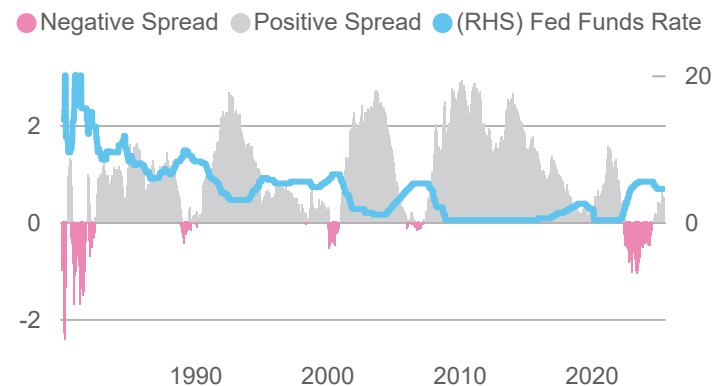
Change in Fed Funds Rate



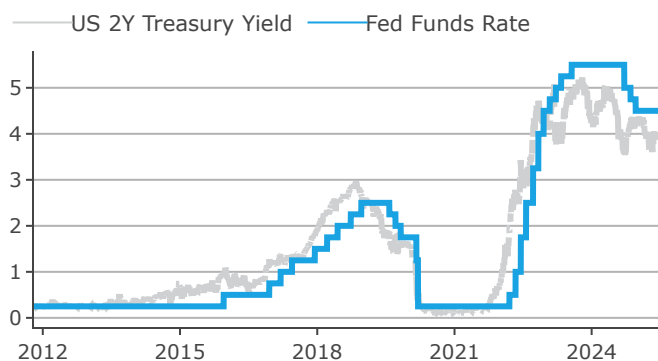
Real Fed Funds Rate (Using 2Y MA CPI)



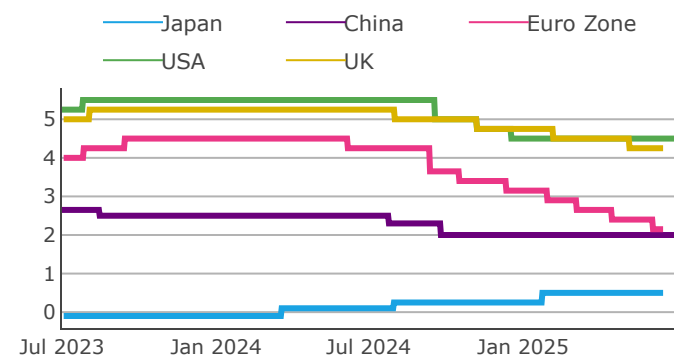
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison

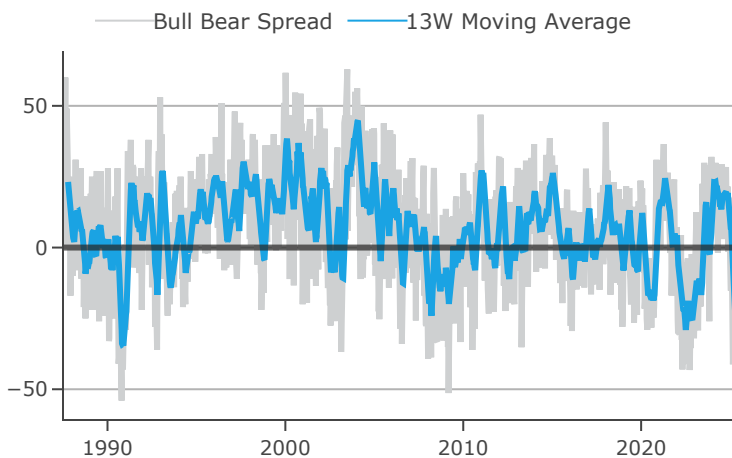


Sentiment

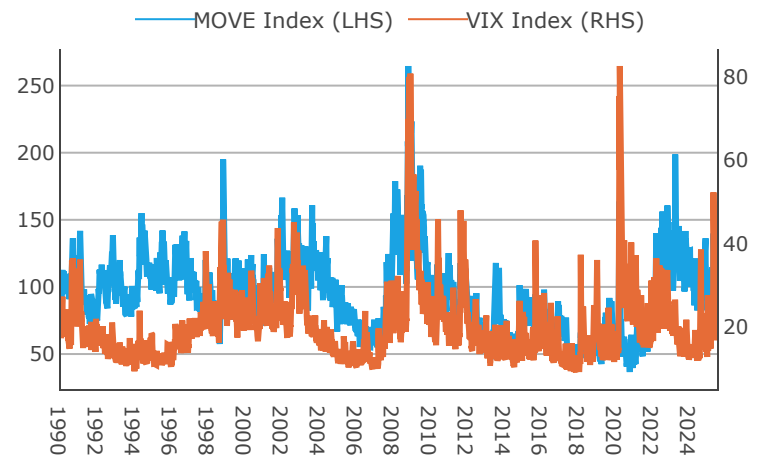
The BAML Hartnett Bull & Bear Indicator has risen again from 4.2 to 5.2, marking a three-month high. The increase can be attributed to strong flows in EM equity and HY bonds, strong global stock index breadth and strong credit market technicals. On the other hand, long-only and hedge fund flows remain subdued.

US Equity Indicators

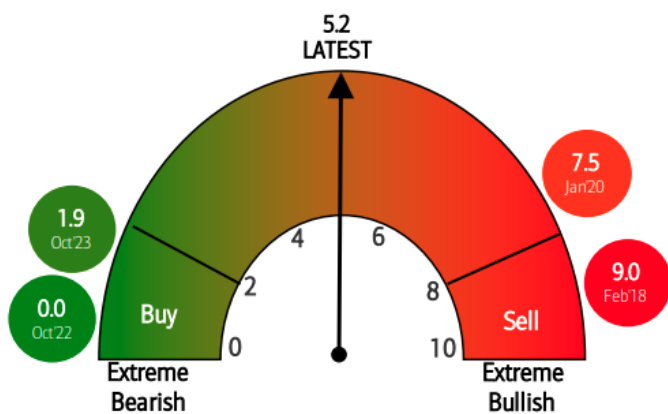
AAll Bull Bear Spread



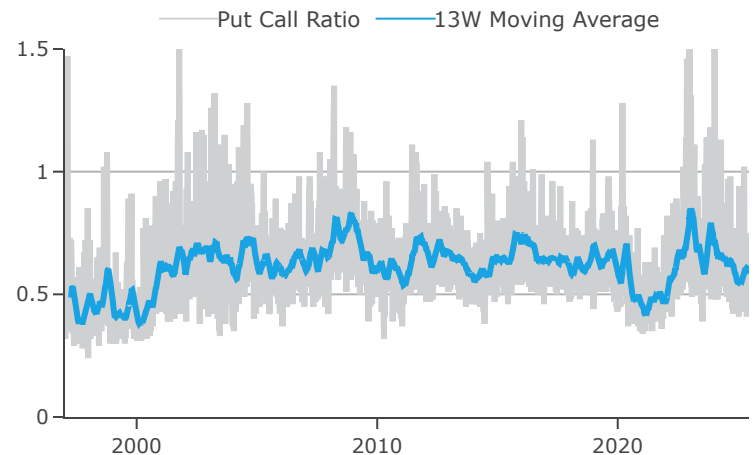
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio

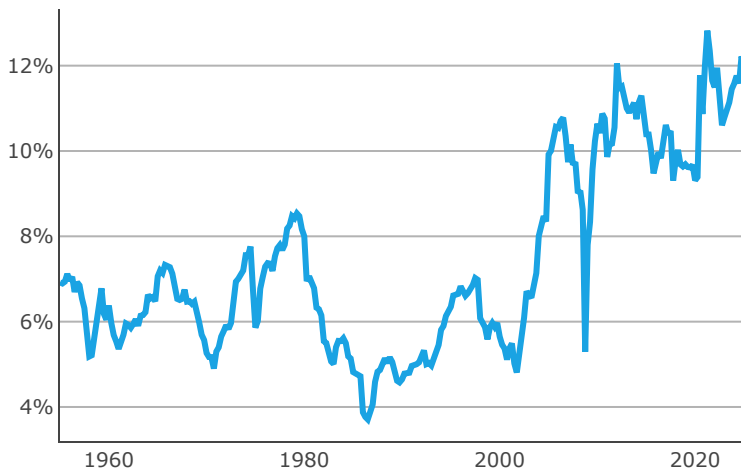


The Big Picture

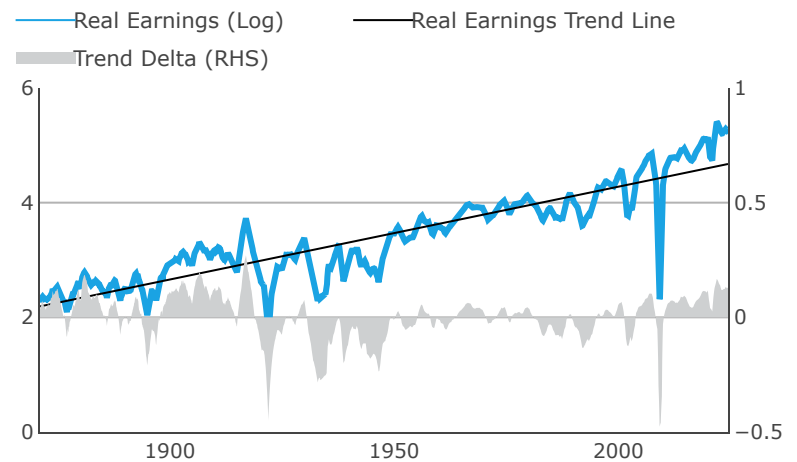
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, forward 10 year returns could be much lower than suggested by the ERPs.

Long Term Imbalances

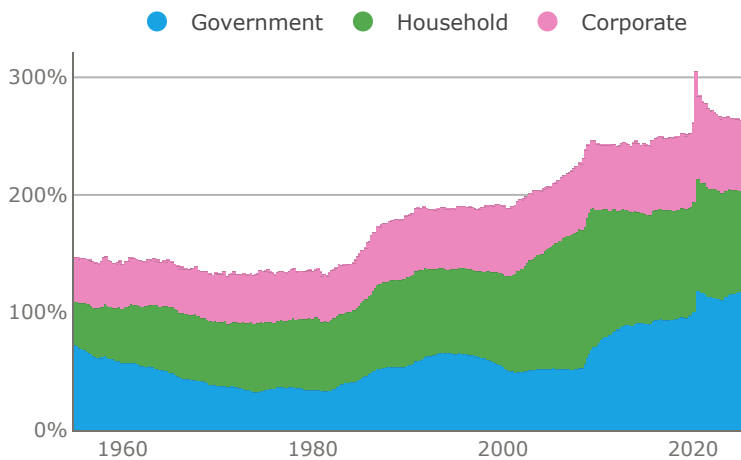
Profit Share of GDP



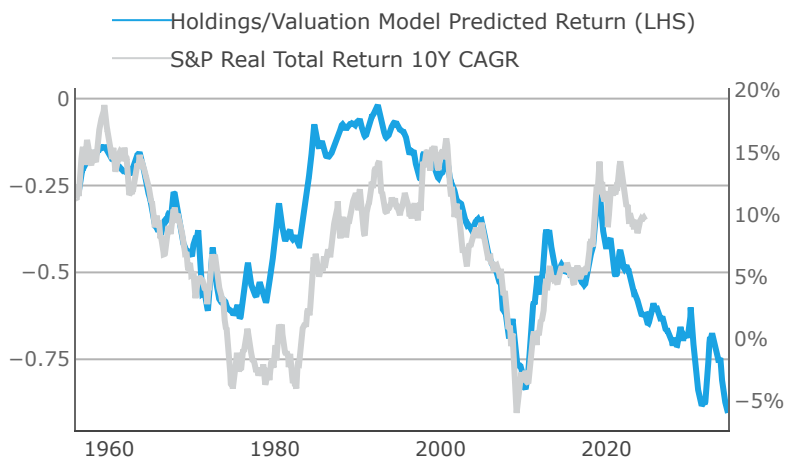
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



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