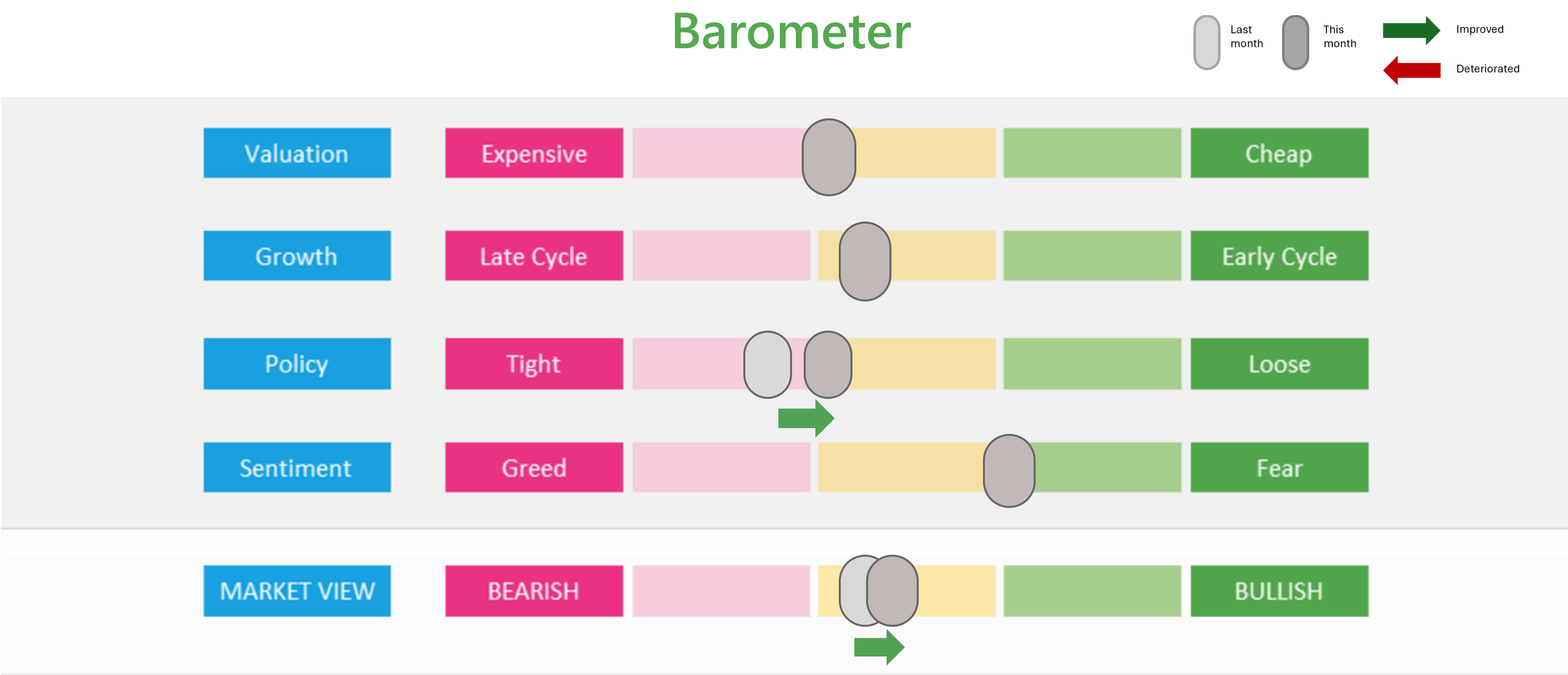
JUNE 2025

Market Barometer



Moderating our Risk Off Stance

We have moderated our risk off equity weighting in our multi-asset funds by adding back 3% points from 68% to 71% in our multi-asset funds. This is in line with our check-list where we said we needed to see some or many of the following to add risk back.

- **Policy change from Trump**, or a significant watering down of the announced tariffs
- **Capitulation from the Fed**, prioritising rate cuts over fighting inflation
- **Capitulation of sentiment**, for example with the Hartnett Bull-Bear indicator at risk averse levels
- **Capitulation of analysts**, with EPS revisions breadth at trough levels.

From the above, we think that although it won't be uncomplicated, Trump has essentially signalled that he is willing to water down the announced tariffs. We have not had ticks from the other three categories, however.

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

- The **cyclical weakness in the USD**, and ask whether it is or might be structural.
- **What might cause structural dollar weakness?** Answer - the debt and deficit dynamics
- The troubling **rise in real bond yields**
- Which is prompting **weakness in other alternative assets**

Probably the worst of the Trump-induced tariff pain is behind us, but now the budget comes into focus. The 10 year TIPS yield at 2% is not far off fair value in most scenarios, we think, but there can be more noise as the market assesses the risk of run away deficits. Eventually we would expect the Fed to step in and reverse its policy of running off the excess reserves (just as the Bank of England did during the Truss debacle), and we don't see a viable alternative reserve currency than the dollar.

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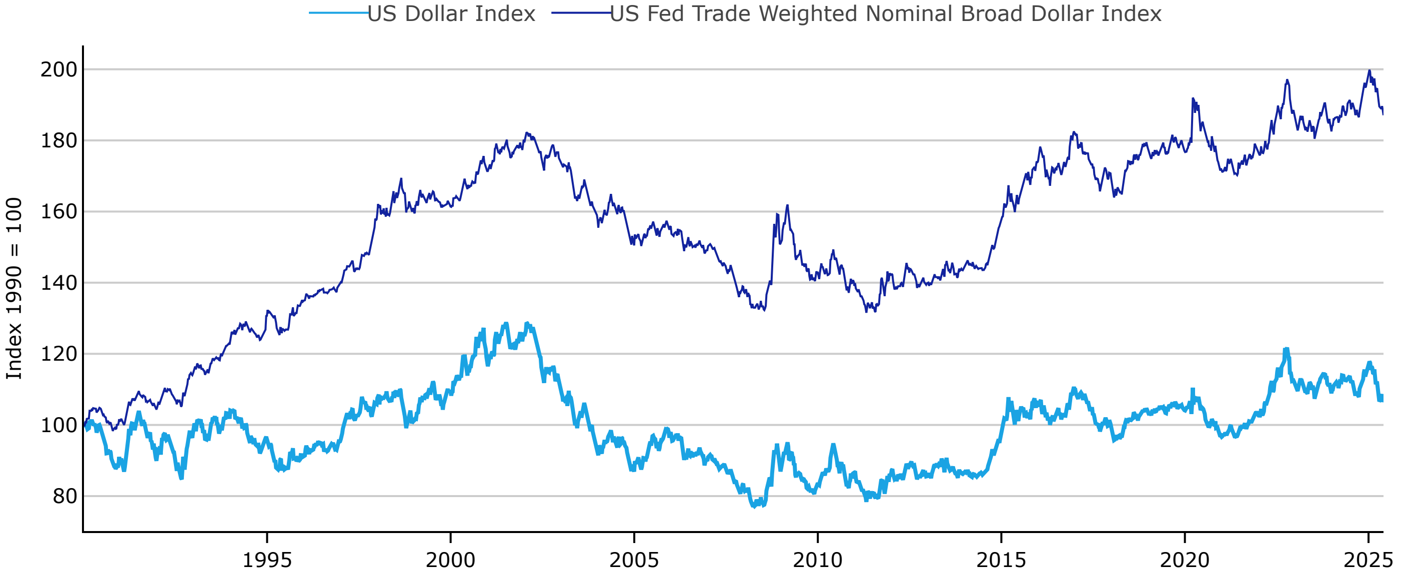
TOP OF MIND

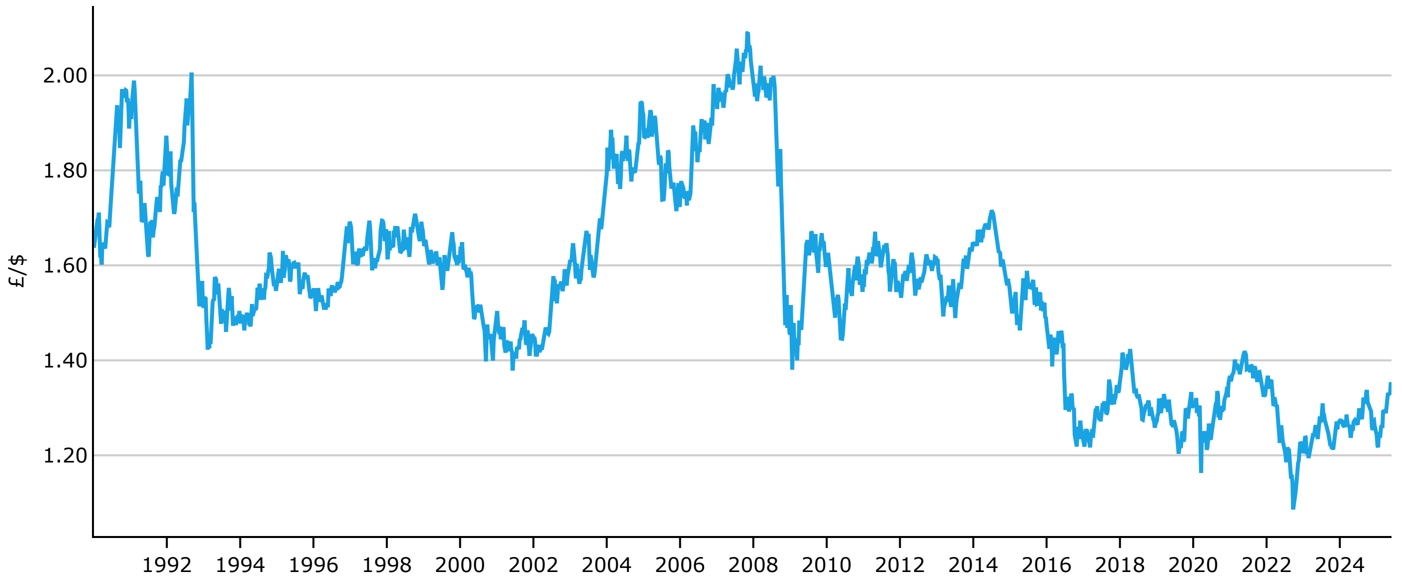
Charts of the Month (1 of 4)

Is the US dollar at a major inflection point? Below are three ways to look at the US dollar. The US Dollar Index (light blue, top chart) is the US currency compared with a basket of its biggest financial market counterparties (Euro, Yen, Sterling mainly). The Fed Trade-Weighted index is broader. And in the lower chart, the currency pair USD per GBP (so in this chart the higher the line goes, the weaker is USD). All show that the strong dollar that we have got used to since the GFC of 2008-2009 is wobbling. **UK endowments have historically only hedged their USD asset exposure at extremes. This policy may have to change if President Trump looks like succeeding in weakening the dollar via a Mar-a-Lago Accord.**

DXY vs Trade Weighted USD



USD-GBP FX Rate



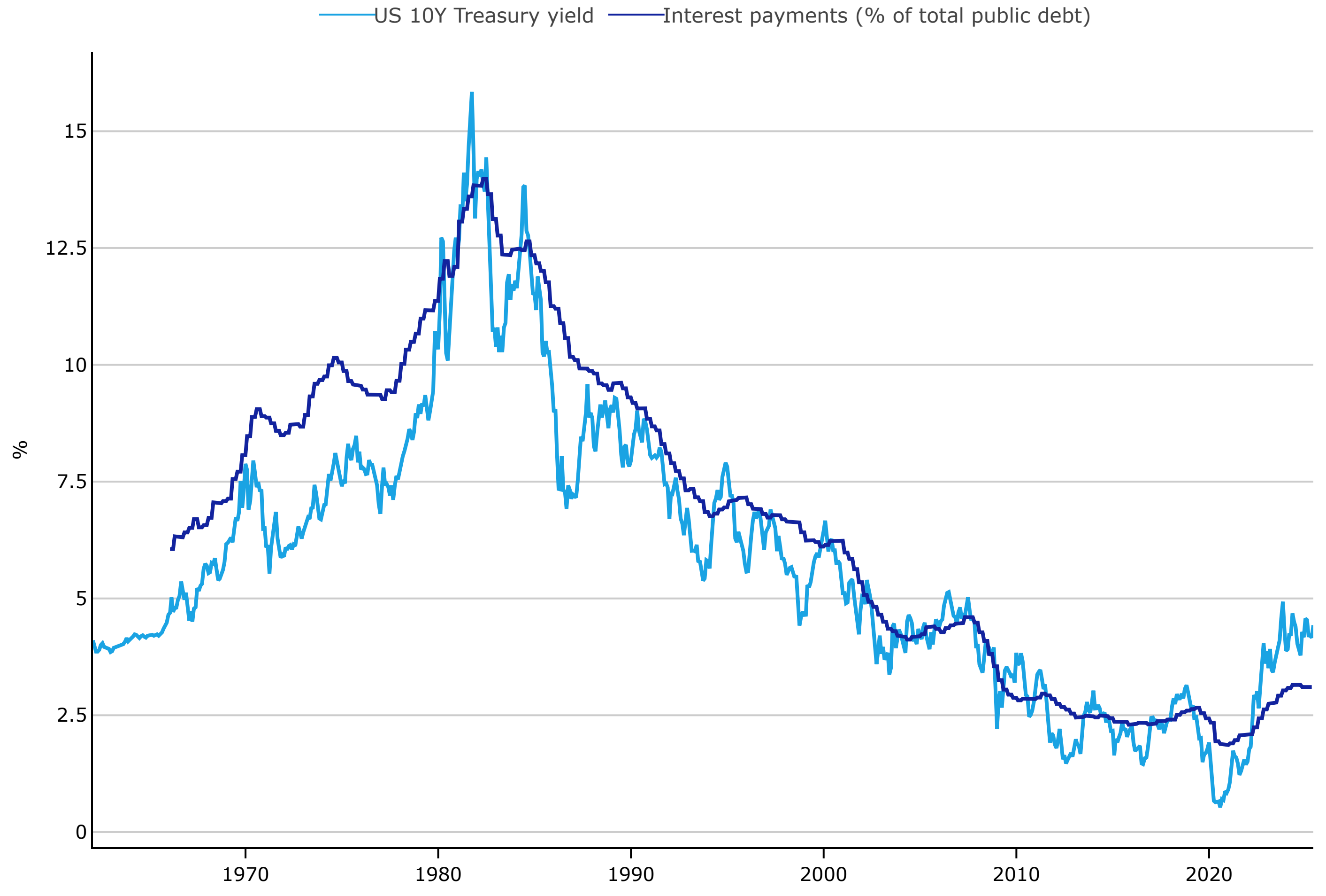
Sources | CCLA, Bloomberg as at May 2025

TOP OF MIND

Charts of the Month (2 of 4)

What might cause __secular__ (rather than __cyclical__) dollar weakness? Answer - the fiscal deficit. The One Big Beautiful Bill Act, as it is officially called, increases the deficit by $5 trillion over ten years, according to our own calculations. If we net this off against possible savings from the current budget, potential cuts to the Inflation Reduction Act and possible tariff receipts, that could fall to $1.7trn, we estimate, or $170bn per year. In almost any case we think it will add to not subtract from the fiscal deficit, which was $2trn in the last twelve months. **This seems to be a fiscal policy that is almost designed to weaken the USD.**

Average Rate Paid on US Debt vs 10Y Bond Yields



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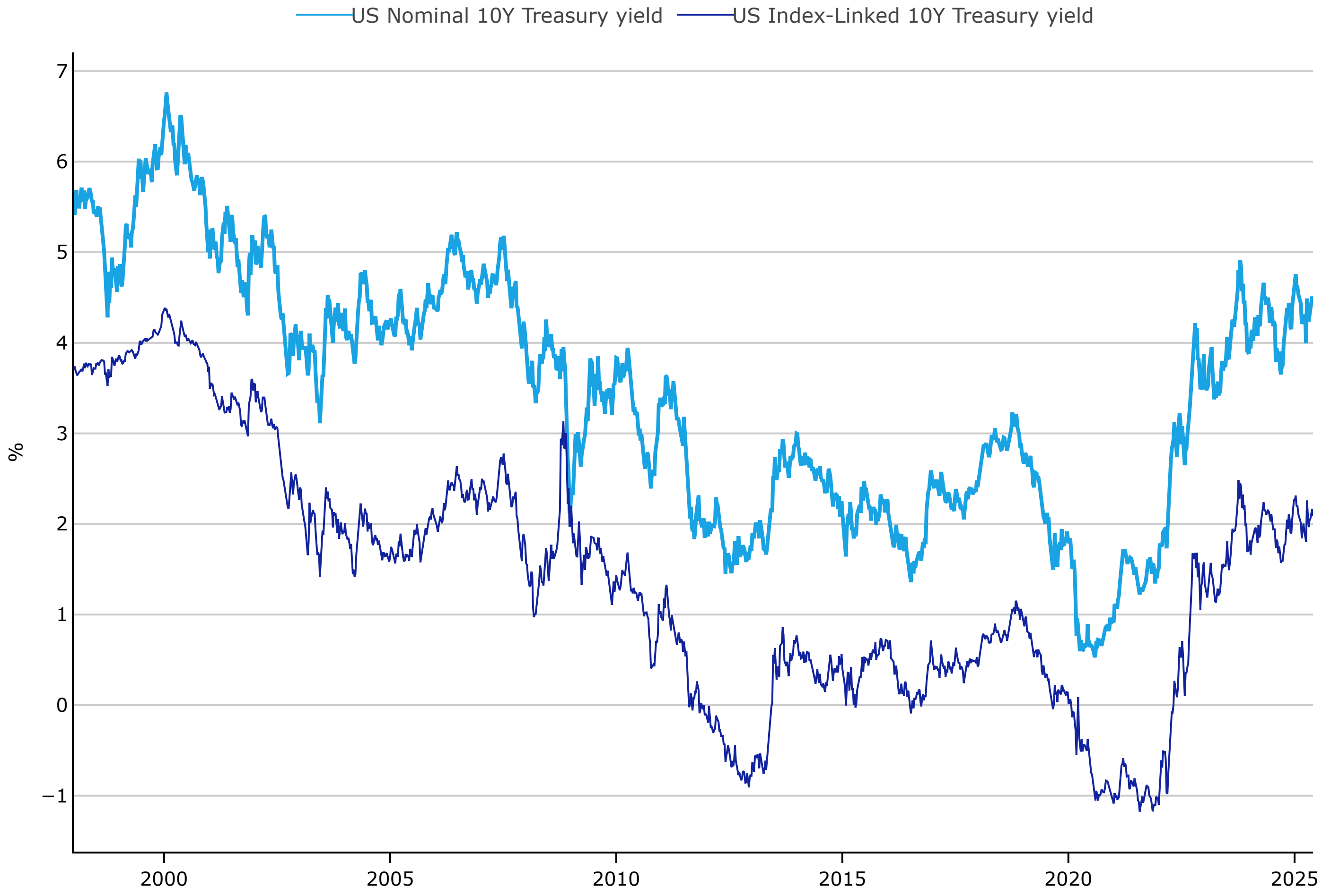
Charts of the Month (3 of 4)

We have pointed out many times that the re-set higher in bond yields has been through rising real yields. Why is this important? It's important because the real bond yield is the true cost of capital. The dark blue line is the yield on the index linked bond, so the inflation-adjusted bond yield. At its current 2% it approximates the trend real growth rate of the US economy but doesn't allow a term premium. **If the US administration doesn't find ways to offset its generous (to the rich) tax giveaways, the term premium should grow and real bond yields rise further.**

US Nominal vs Real Bond Yields



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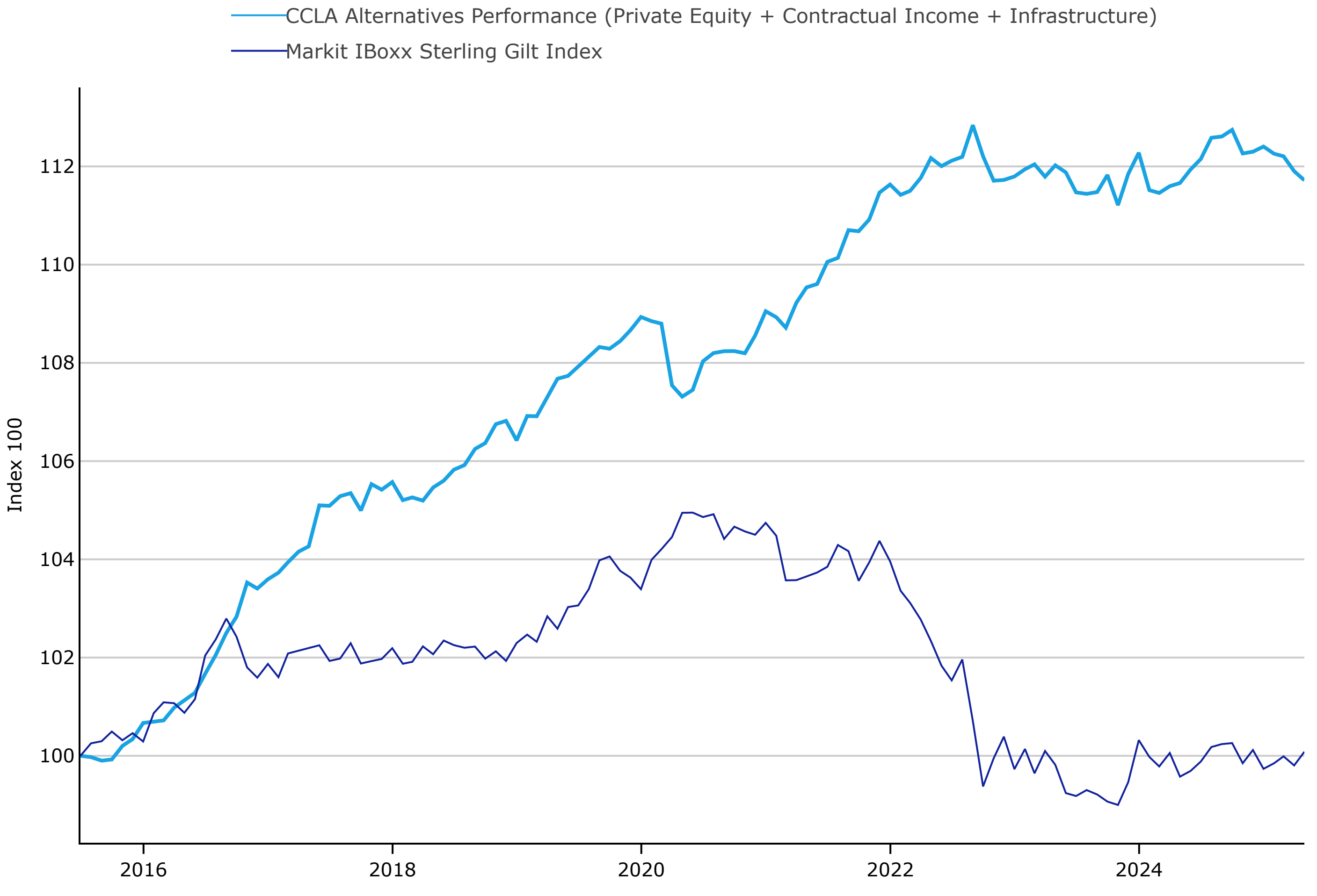
Charts of the Month (4 of 4)

This higher real bond yield / higher cost of capital has put a lid on the performance of many alternative assets. The challenge is to find alternatives that can diversify equity books while also providing a positive return.

CCLA Alternatives vs Markit IBoxx Sterling Gilt Index



Sources | CCLA as at May 2025.

VALUATION

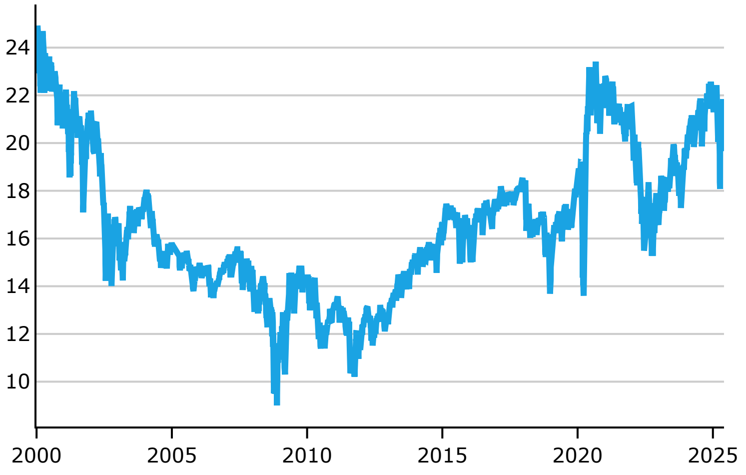
Equity | USA

Tariff tensions eased in May with positive signals between the US and China, EU, UK and Ukraine, sparking a rally in risk assets. Moreover, the US Court of International Trade decided that it was illegal for the administration to set worldwide tariffs without a national emergency, giving them a 10-day deadline to repeal *all* Liberation Day policies. This further boosted sentiment, US equities saw a ~1% increase on the day[1].

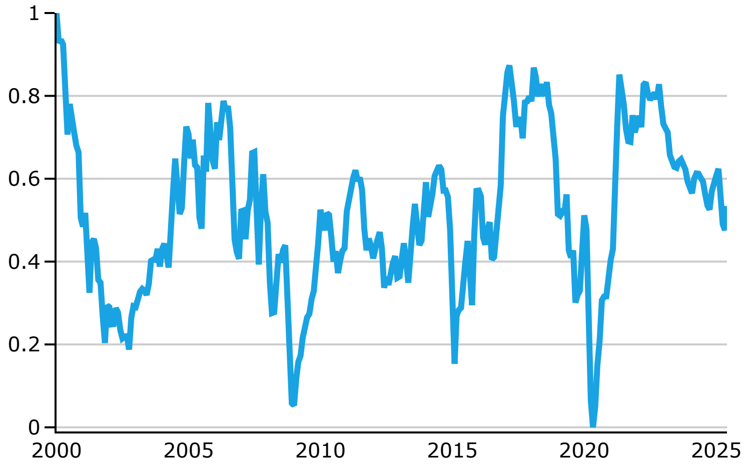
However, this move may be premature as the administration is set to appeal or take the ruling to the Republican-favouring Supreme Court. Despite the optimism, US equities remain expensive, with Shiller PE and forward PE rising to 34.3 and 21.5x, respectively.

S&P 500 Valuations

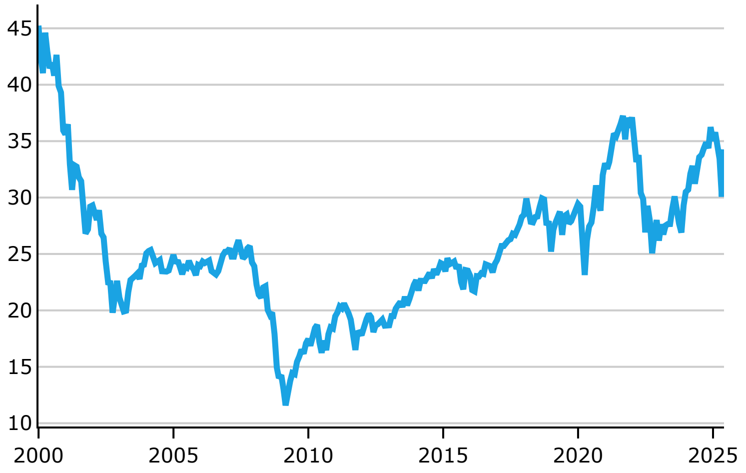
S&P 500 Forward PE



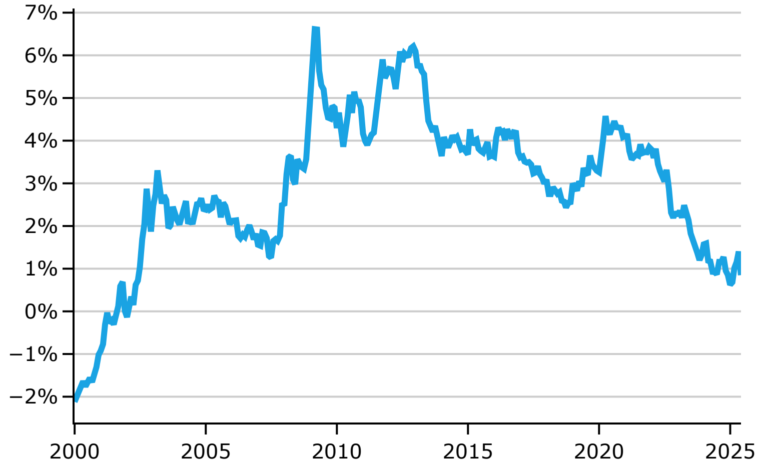
Composite Value Indicator Model



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. 1:29 May 2025.

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

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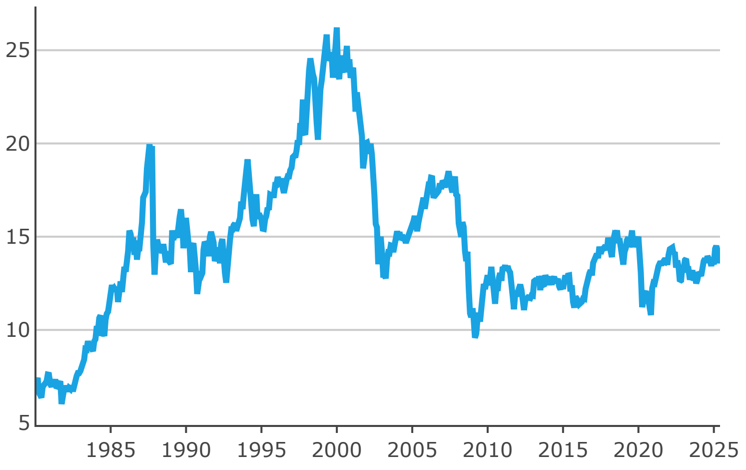
Equity | Regional

Germany's shift to a more flexible fiscal policy is a structural boost for Europe. JP Morgan economists expect the new policy permits four types of additional spending: a €500bn Infrastructure and Climate Fund, defence spending above 1% of GDP (target is 3.5%), a cyclical deficit allowance worth 0.6-0.8% of GDP, and the use of past reserves. **This could take Germany's Debt/GDP from ~60% to 80-90% over the next 4-7 years.**[1]

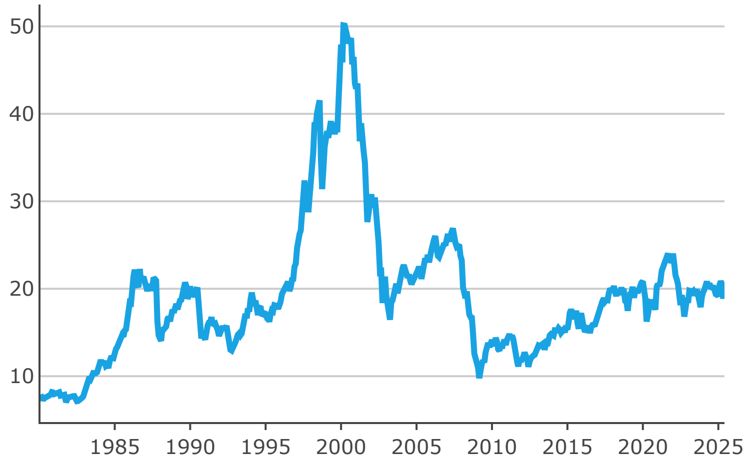
Europe has been the top-performing DM* YTD, with Defence, Financials, Utilities, Telcos, Industrials, and Construction sectors leading the way.

Europe

UK | Shiller P/E

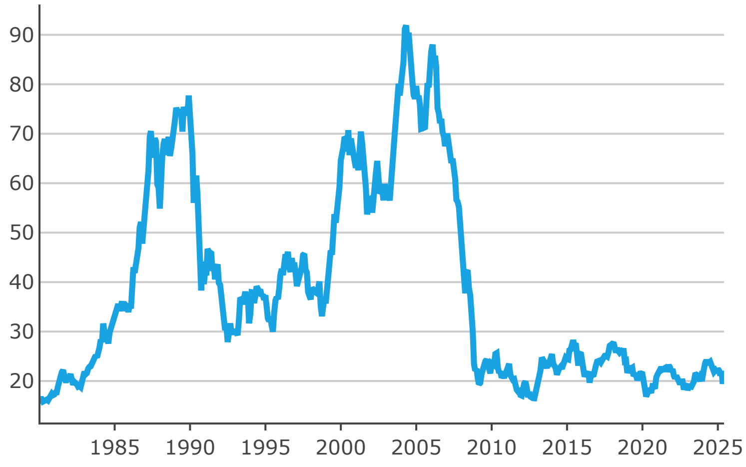


Europe (Ex-UK) | Shiller P/E

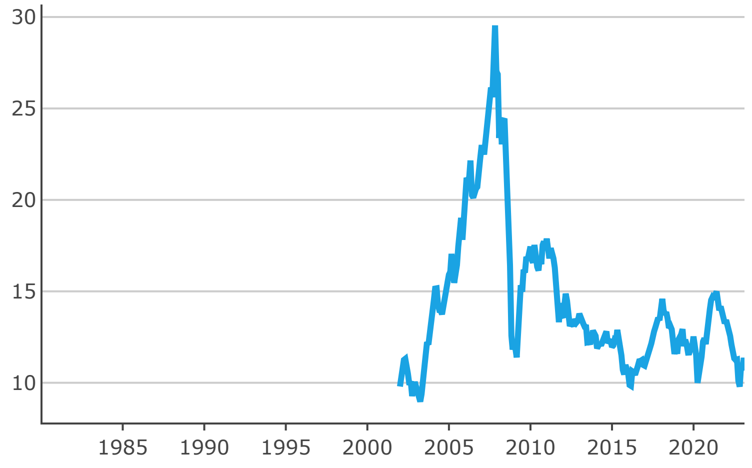


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of May 2025. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. 1. JP Morgan 27 May 'European Equity Strategy'. *DM: Developed market

VALUATION

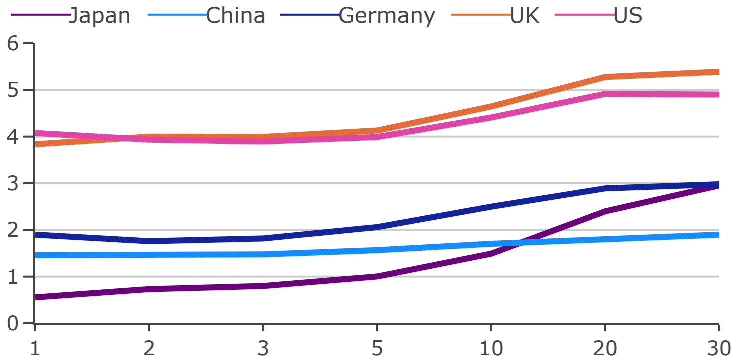
Bonds - Sovereigns

The 10-year Treasury yield near 4.45% challenges the Treasury Secretary, as the average rate on US debt is only ~3.3%[1]. Issuing short-dated Bills is cheaper but drew criticism from Scott Bessent during Yellen's term.

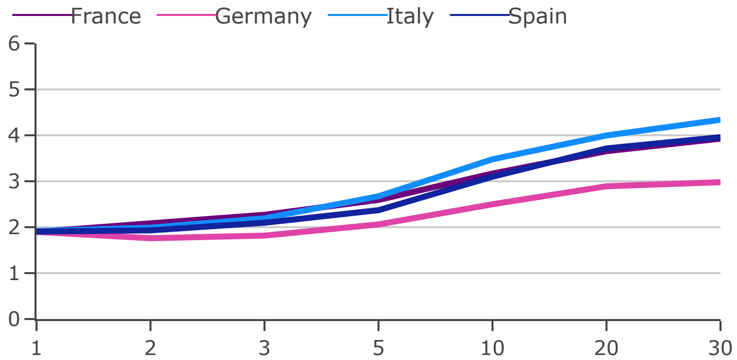
With QE no longer suppressing long yields, Bessent suggests an innovative Fed-free workaround: limit 10Y issuance, ease leverage rules for banks to hold more Treasuries, and conduct buybacks to reduce 10Y supply. This delays 'terming-out' until inflation and term premiums fall, at which point long-dated issuance becomes more attractive. Such bold and unconventional strategies are part-and-parcel of this administration, albeit not without their risks.

Global Government Yields

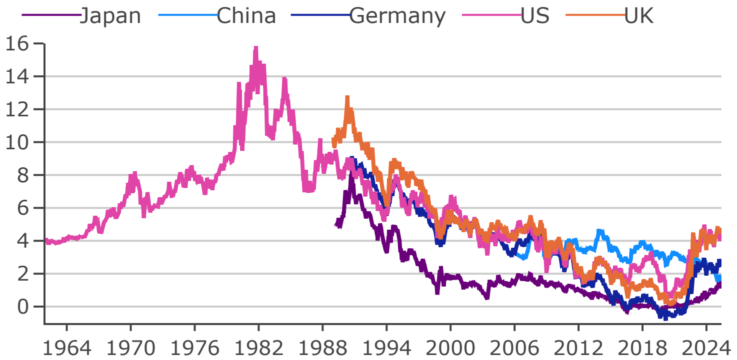
Global Treasury Yield Curves (Term vs %)



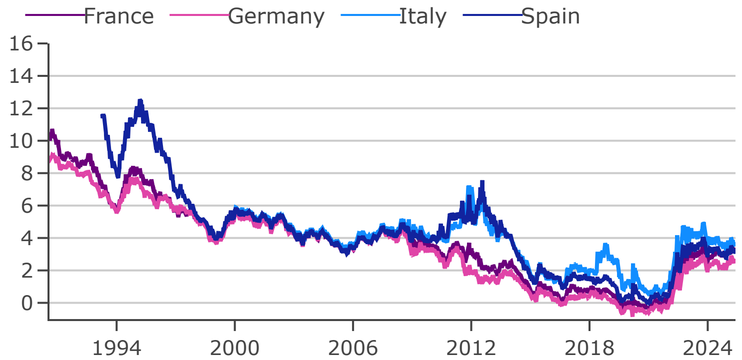
European Treasury Yield Curves (Term vs %)



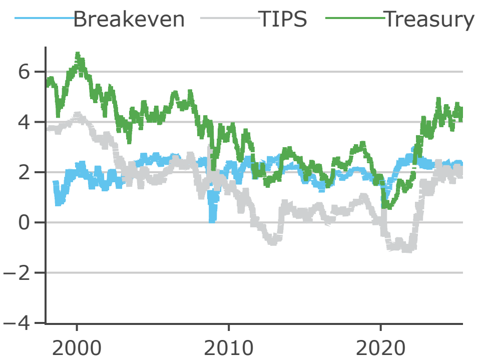
Global 10Y Yields %



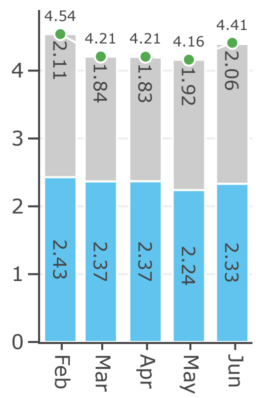
European 10Y Yields %



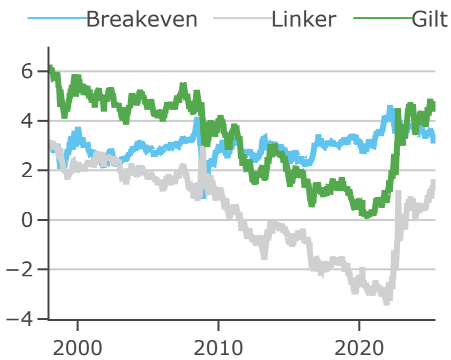
US 10Y Yields Breakdown %



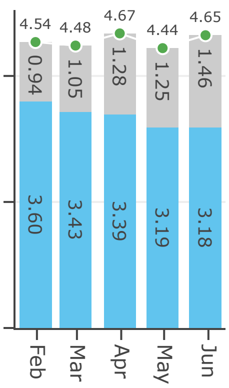
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



Sources | CCLA, Bloomberg as at May 2025. 1: www.fiscaldata.treasury.gov

VALUATION

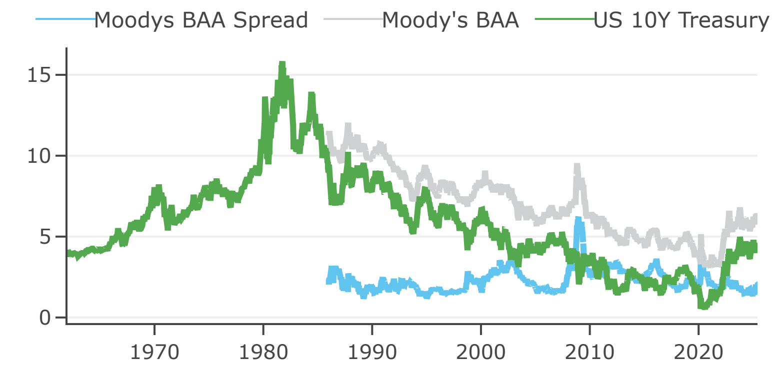
Bonds - Credit

The Taiwanese dollar (TWD) surged 7% against the USD in just two days—an unprecedented move well outside historical norms. While no single trigger is clear, a Taiwanese tech equity rally, exporter flows, and negative USD sentiment contributed. This sparked fears of forced selling by Taiwanese life insurers (“lifers”), who hold large volumes of unhedged, long-dated US IG bonds.

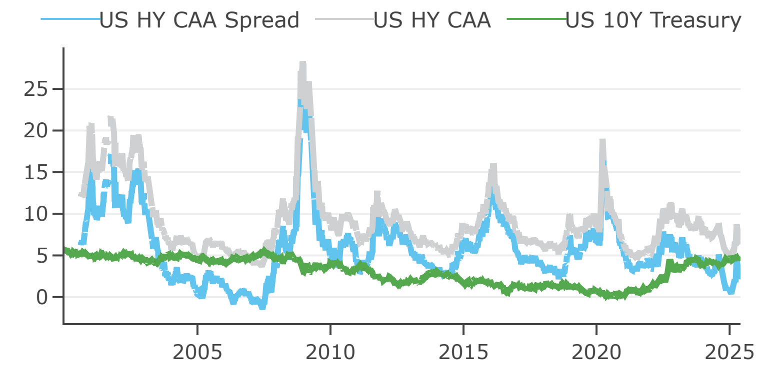
Despite expected losses of their unhedged positions, lifers avoided mass redemptions, containing market impact. But with FX reserves likely exhausted, they remain exposed to further shocks - making continued TWD undervaluation critical, though this remains a key sticking point in US-Taiwan trade talks.

Global Credit Yields

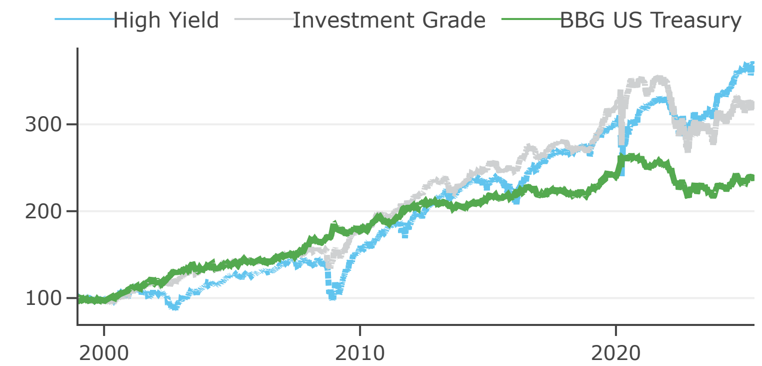
US Corporate Investment Grade Yield %



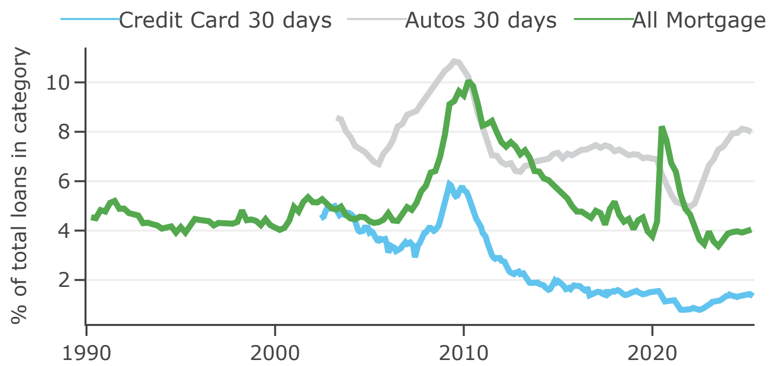
US Corporate Sub-Investment Grade Yield %



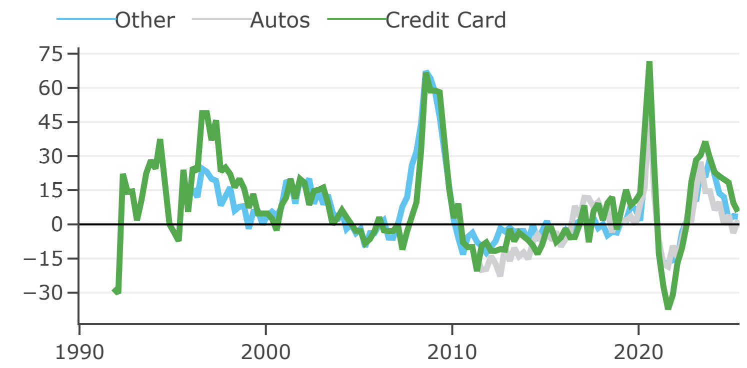
US Tr. vs IBoxx IG and HY Total Return $ (100= 31 Dec '98)



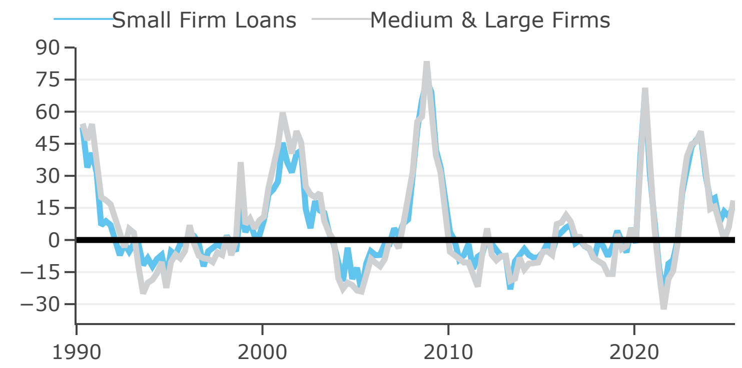
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Sources | Federal Reserve, Senior Loans Officers Survey, CCLA, Bloomberg as at May 2025. 1:60% of assets in FX and 80% of liabilities local, Bank of America May 2025.

Alternatives

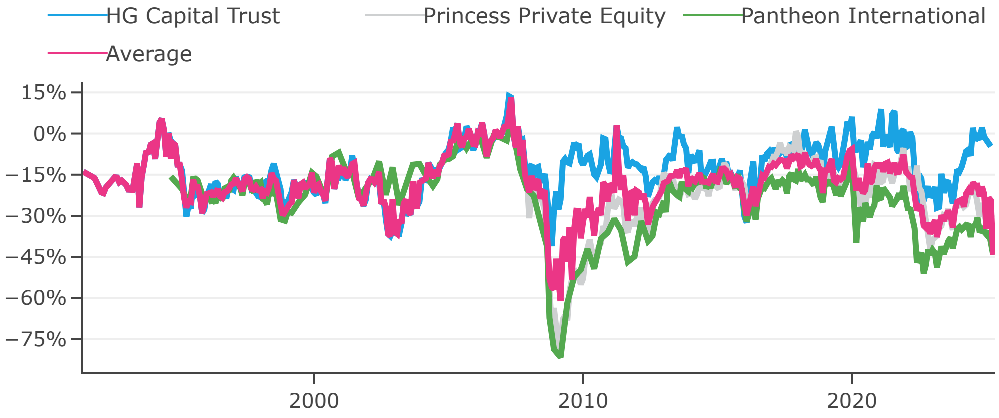
The recent "Mansion House Accord" marks a significant shift for UK pensions. Major providers pledge to invest at least 10% of their DC funds into private markets by 2030, with half directed to the UK. The key concern for investors has been the light pipeline of UK infrastructure projects. The government believes its 10-year Infrastructure Strategy can solve this.

The Accord is poised to unlock a potential £25bn for infrastructure, clean energy, property and high-growth ventures, though investments must maximize returns for pensioners for funds to take actual positions.

Global Valuations

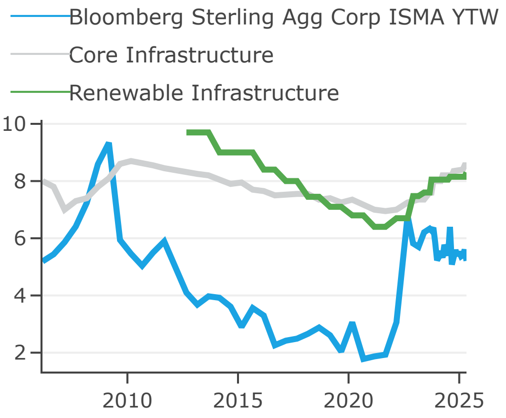
Listed Private Equity

Discount To NAVs



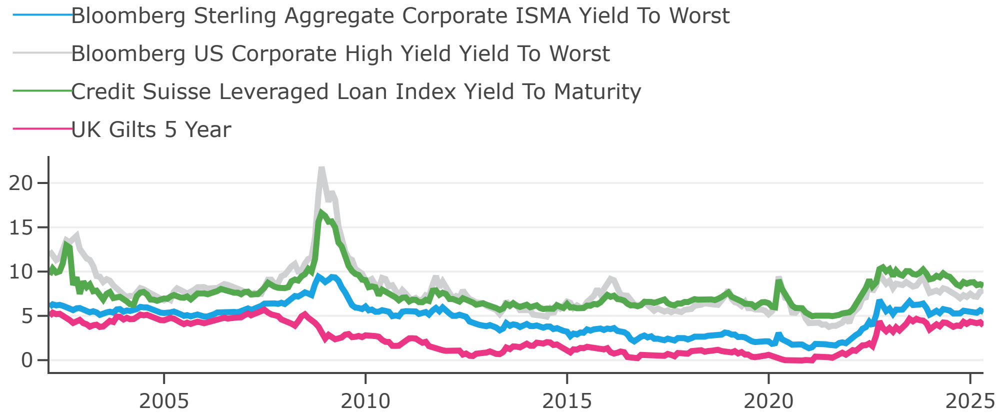
Infrastructure

Infra. Discount Rates vs Bond Yields



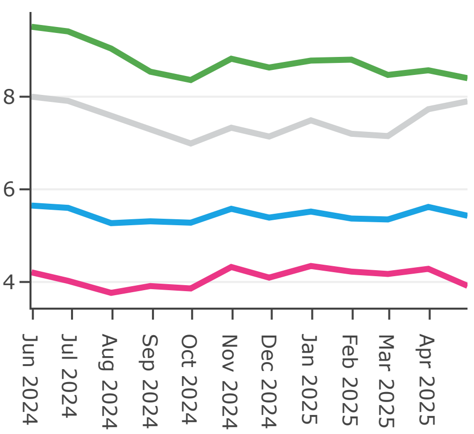
Contractual Income

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 Apr 2025. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation.

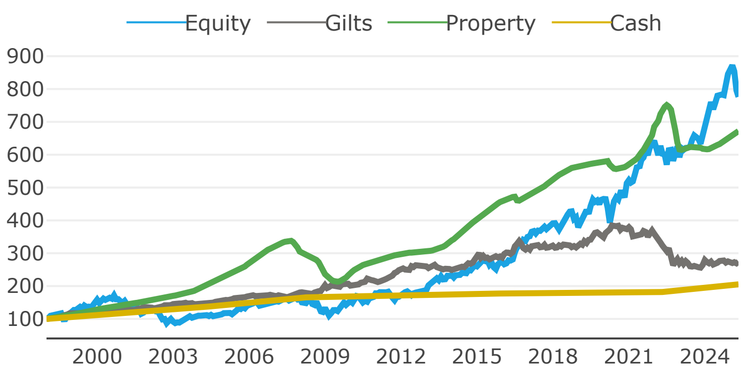
Property

The UK property sector has remained largely unaffected by recent US tariff developments, with the FTSE NAREIT UK index gaining ~5% since Liberation Day[1], outpacing the FTSE 100's ~1% rise. Despite this, yield compression across commercial real estate has been limited, with all-property yields stabilising ~7%. Returns are being driven predominantly by rental growth, led by continued outperformance in the residential and industrial segments, while non-prime office assets remain under pressure.

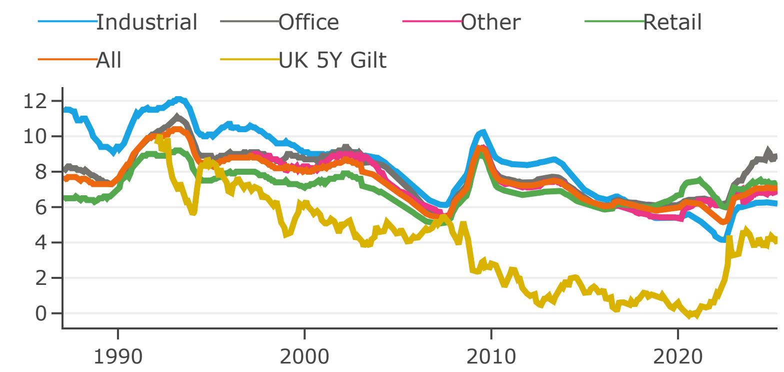
Meanwhile, credit conditions have improved, as banks ease commercial lending standards, and expectations for further Bank of England rate cuts are adding support to the sector.

UK Commercial Property Market

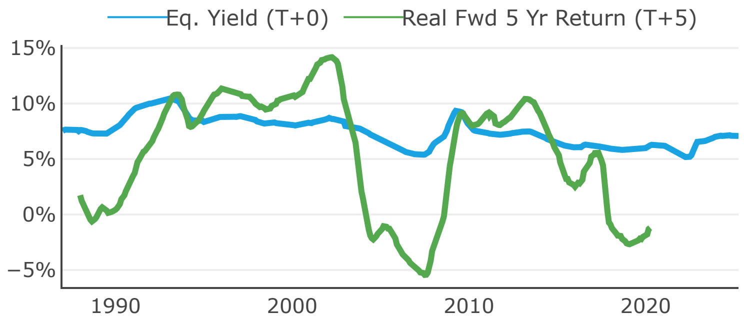
25 Years Of Return 1998=100



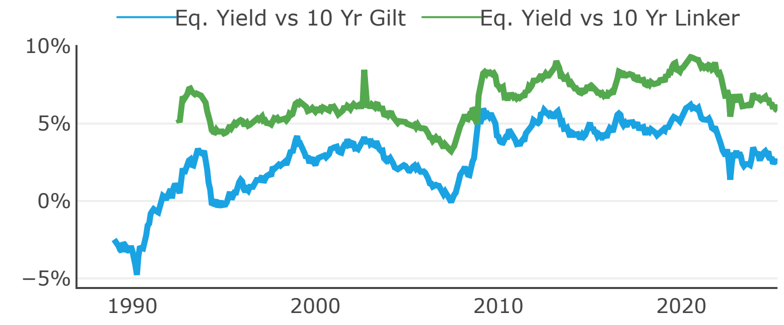
Equivalent Yields vs Gilt Yields %



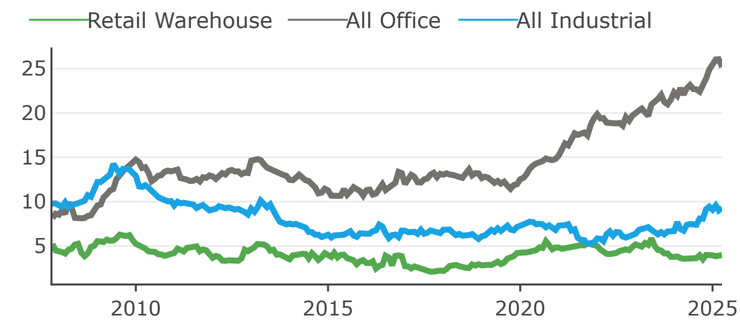
MSCI UK All Property Monthly TR Index %



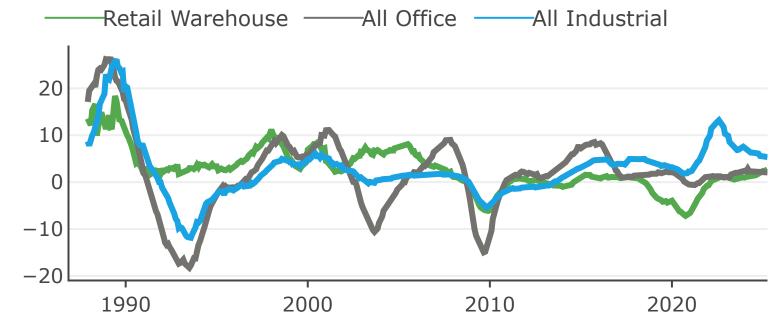
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at Apr 2025. 25 Years of Return, All Property Monthly TR Index as at Apr 2025. 1: 2 April - 28 May 2025.

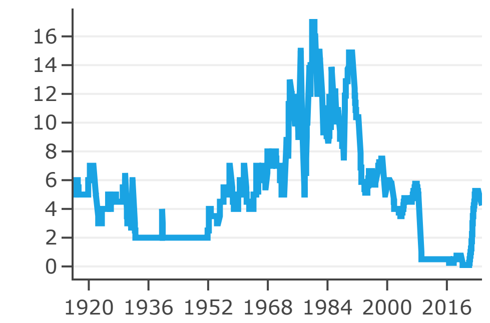
Cash

Don't call it a trade deal just yet! The US-UK pact is more outline than agreement, but enough for each side to claim a win. UK car exports (capped at 100k) get a 10% tariff, neatly matching last year's 97k exports to the US. Steel and aluminium duties drop from 25% to 0% - a headline boost, though metals are just ~1% of UK exports.

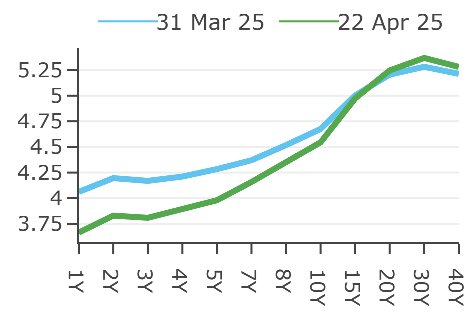
In return, the UK grants tariff-free access for 13k tonnes of US beef, fast-tracks US goods at the border, and commits to buying 30 Boeing 787s. Pharma talks continue and the UK keeps its digital tax. **Meanwhile, UK GDP rose 0.7% in Q1 - BoE* sees Q2 slowing to 0.1%. Markets expect rates at 3.75% by Y/E**.**

UK Sterling Market

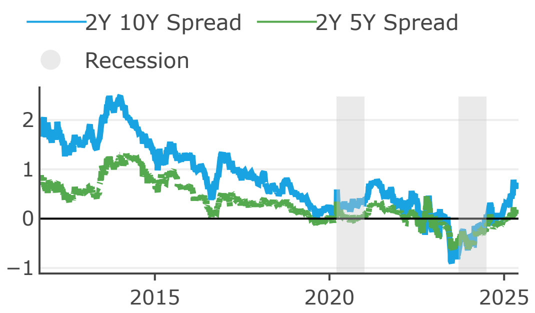
Official Bank Rate



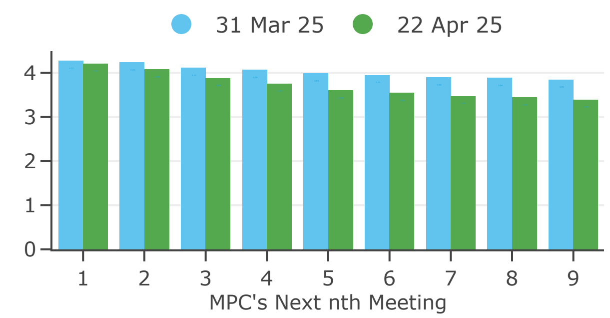
UK Gilt Curve



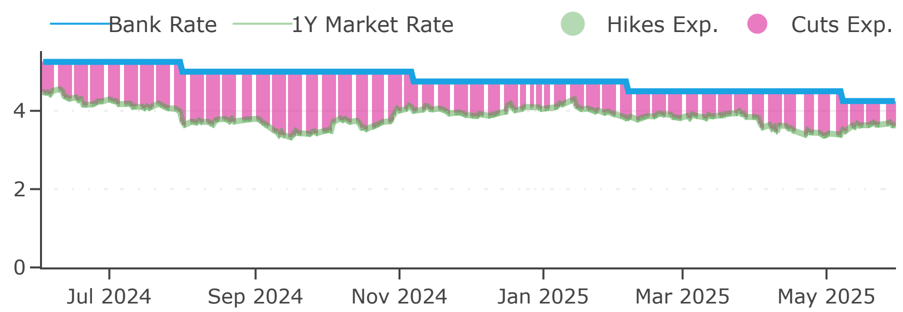
Gilt Spreads



Rate Expectations For Future MPC Meetings



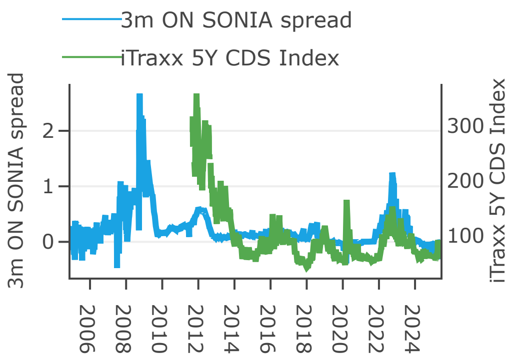
1Y Forward Market Rate Expectations



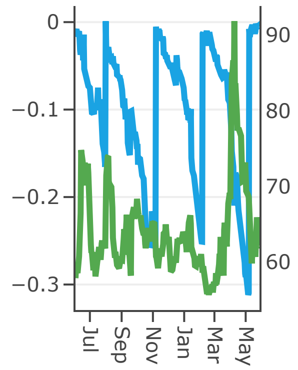
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2024	2025			
	Dec…	Jan…	Feb…	Ma…	April
RPI	3.50	3.60	3.40	3.20	4.50
CPI	2.50	3.00	2.80	2.60	3.50
CPI Core	3.20	3.70	3.50	3.40	3.80
CPI Services	4.40	5.00	5.00	4.70	5.40
CPI Goods	0.70	1.00	0.80	0.60	1.70
Priv. Wages	6.00	5.90	5.80	5.00	

Market Stress



Last 12 Months



Sources | ITraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of May 2025. *Bank of England. **year-end

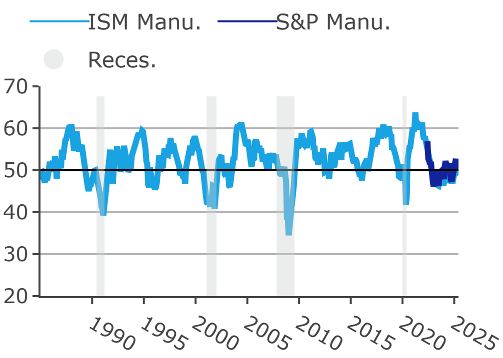
CCLA

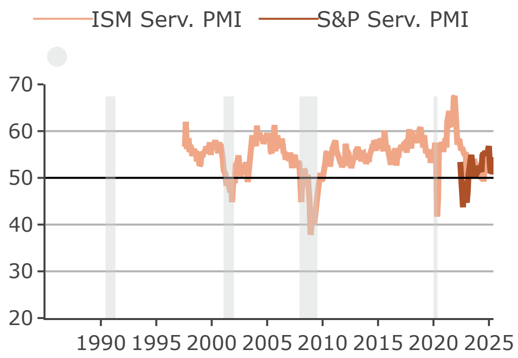
Global PMIs

US: Business activity strengthened, with the Composite Index rising to 52.1. Services led the expansion (52.3), and manufacturing hit its highest level since June 2022 (52.3). **New orders rose, especially in manufacturing, though export demand fell and prices surged due to tariffs.**

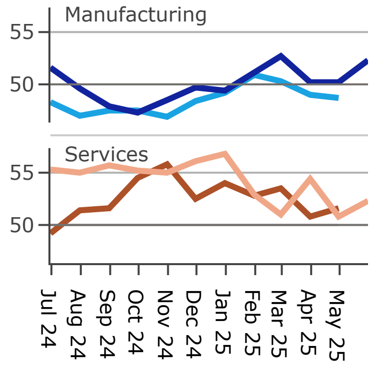
UK: The economy remained weak in May, with the Composite Output Index at 49.4, signalling contraction. New orders weakened for both industries.

United States

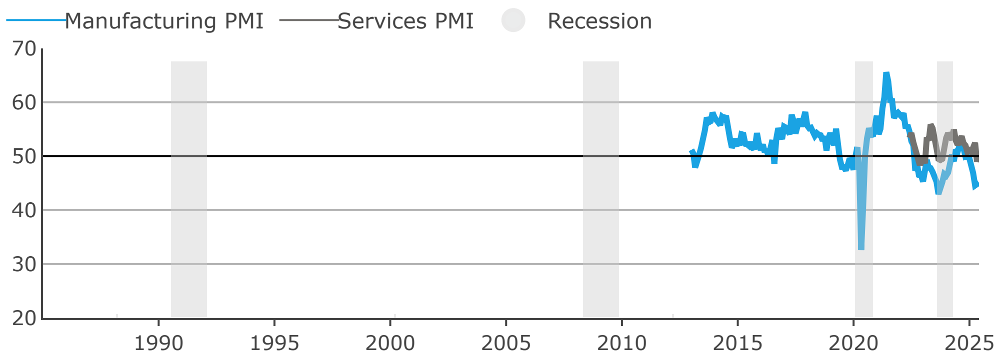




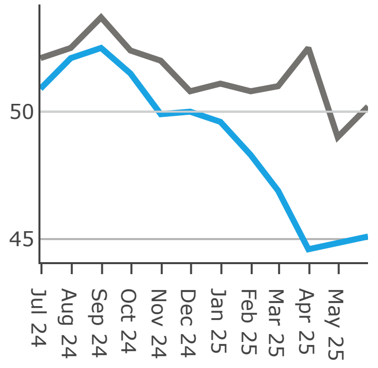
Last 12 Months



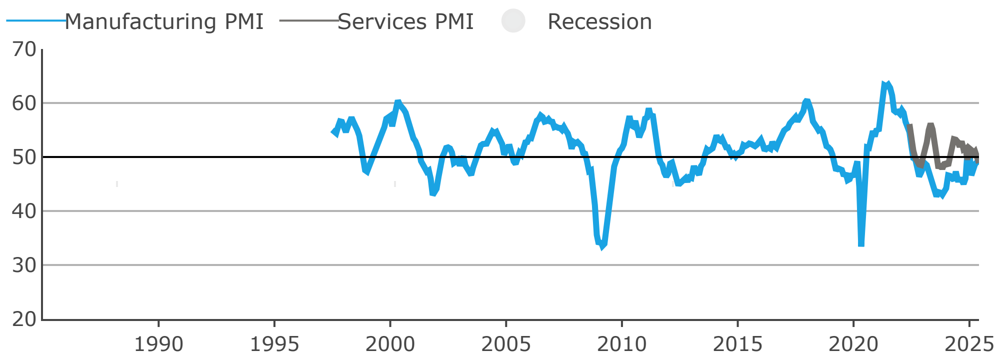
United Kingdom



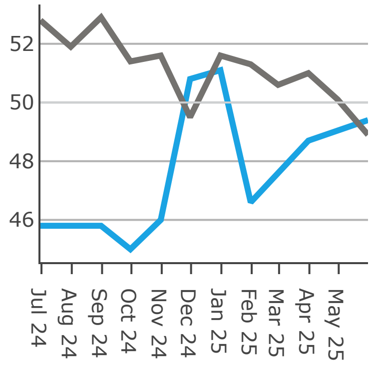
Last 12 Months



Eurozone



Last 12 Months



Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of May 2025. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP

GROWTH

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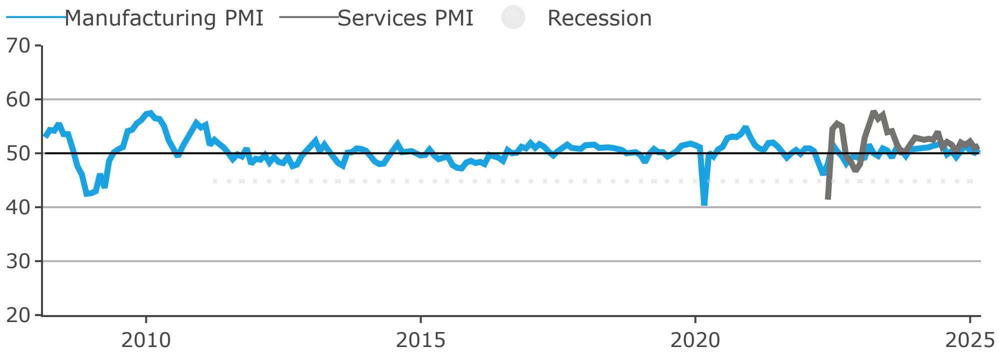
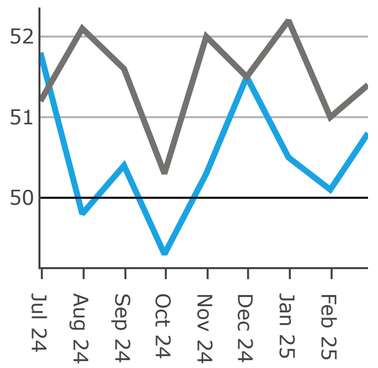
Global PMIs

Japan's private sector slipped back into contraction in May, driven by falling manufacturing output and softer services growth. New business declined for the first time in nearly a year, and foreign demand weakened. Cost pressures stayed high but showed signs of easing. Business confidence dropped to its second-lowest level since early COVID, reflecting trade uncertainty.

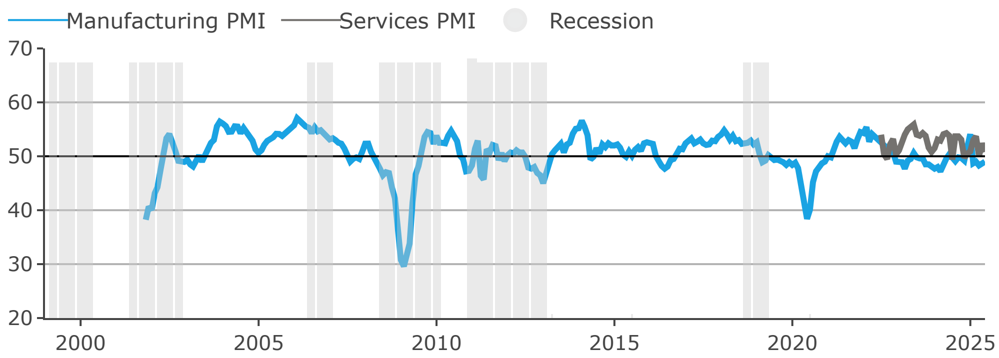
China



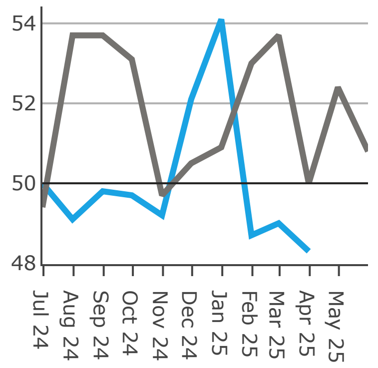
Last 12 Months



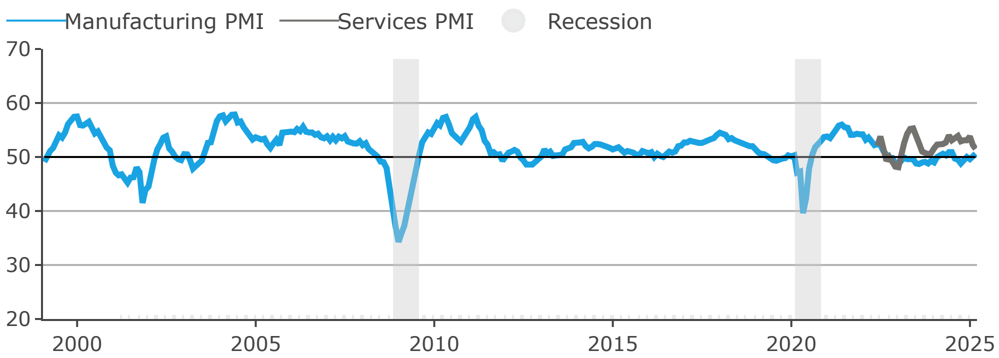
Japan



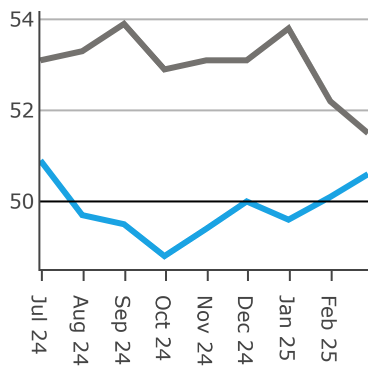
Last 12 Months



Global



Last 12 Months



Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of May 2025. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP. 1. Rest of world (world ex US).

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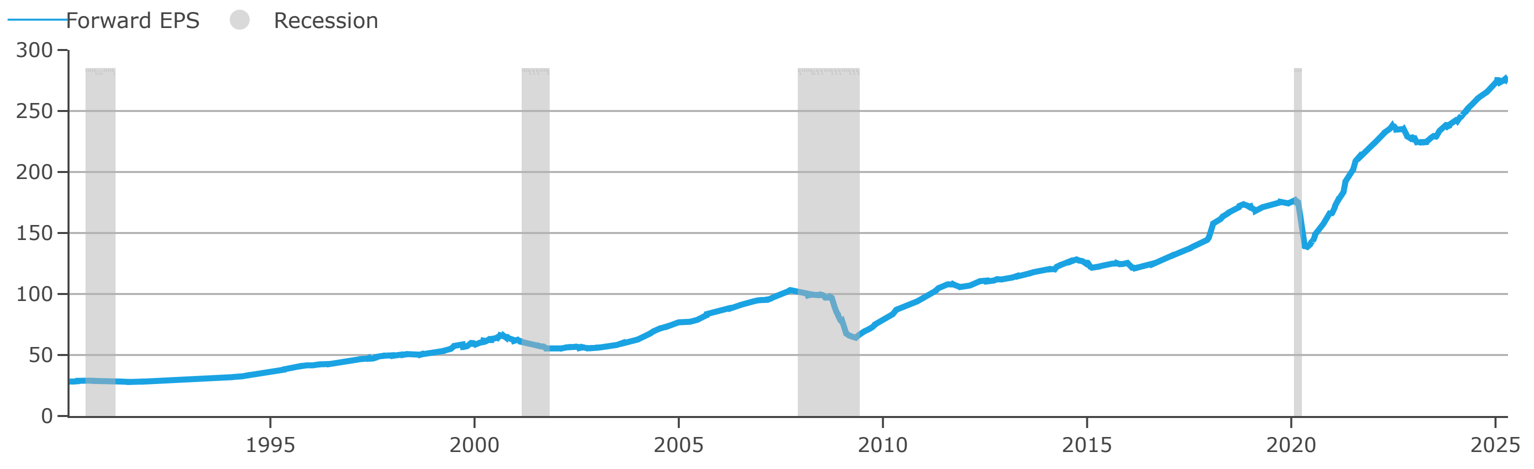
Earnings | USA

At the time of writing*, nearly 90% of S&P 500 and EuroStoxx 600 companies have reported Q1 earnings. **In the US, 77% beat EPS estimates with +12% y/y EPS growth and +4% sales growth.** Europe lagged, with 62% beating EPS and growth at -2% y/y—heavily dragged by Energy and Discretionary. Excluding these, EPS rose +5%. Sales growth stood at +3% with broad sector participation.

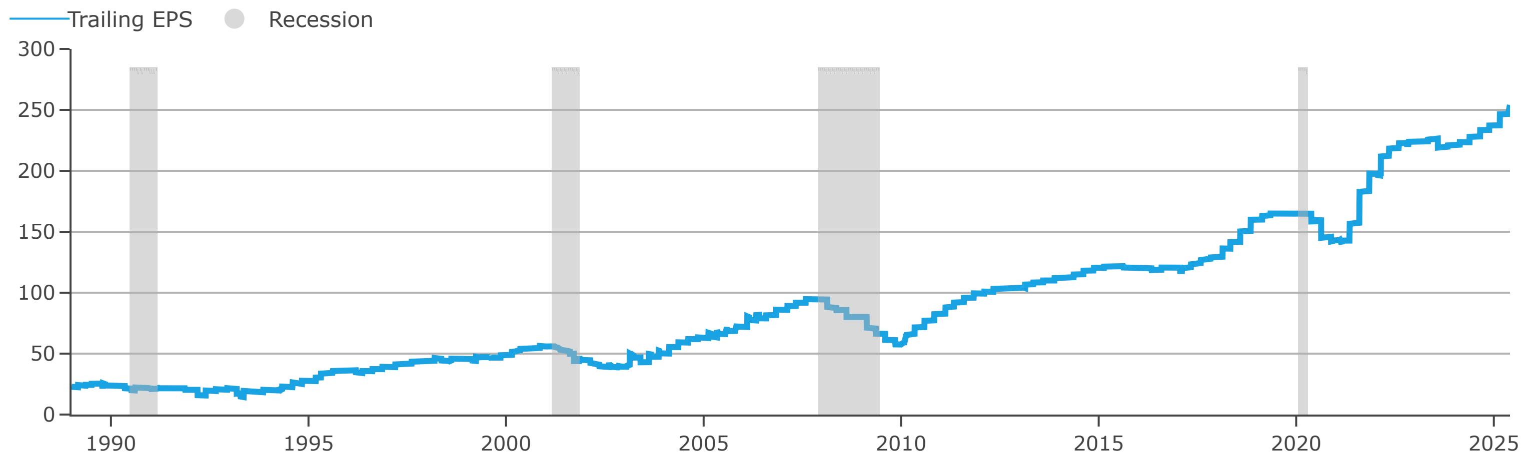
Despite broadly solid results in the US, market reactions were muted: misses were punished more than usual, and beats saw limited upside. This likely reflects investor caution, with the share of US companies raising EPS guidance falling for a third straight quarter. Most companies maintained current guidance.

S&P 500

Bloomberg Est. EPS



12M Trailing EPS



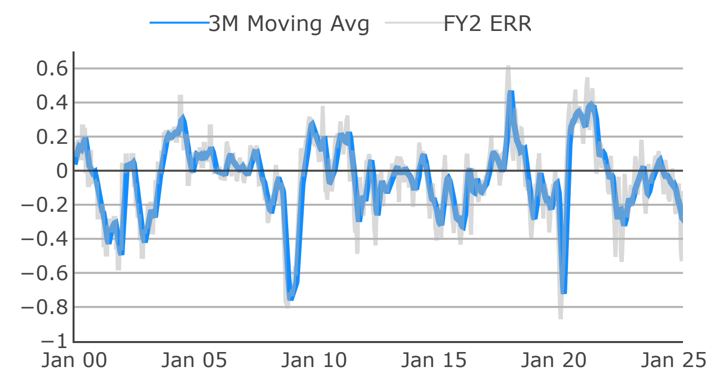
Sources | S&P500 12M Forward EPS using Bloomberg BF transformation, 12M Trailing EPS from Bloomberg as at May 2025. *16 May 2025.

Earnings

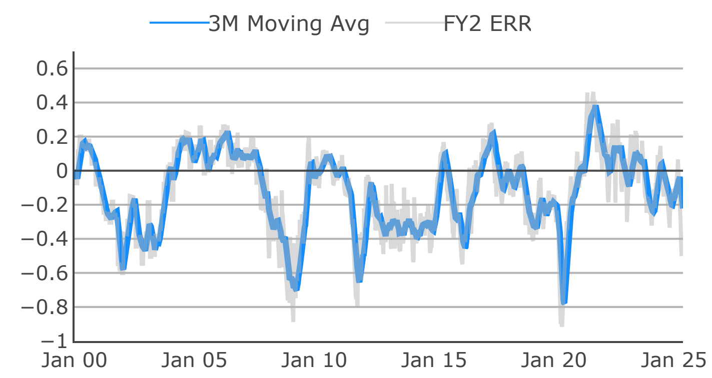
These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

Global Earnings Revisions Ratios

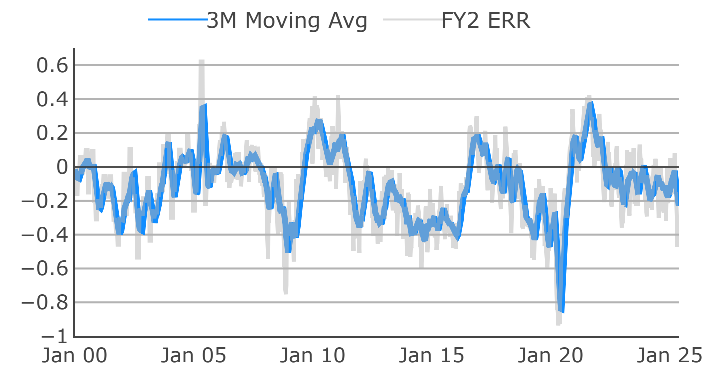
USA



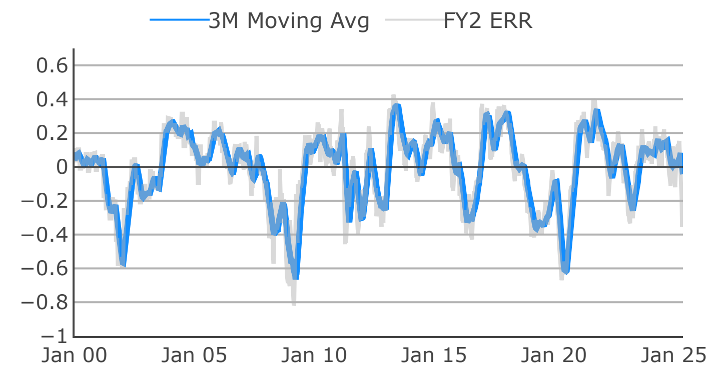
Eurozone



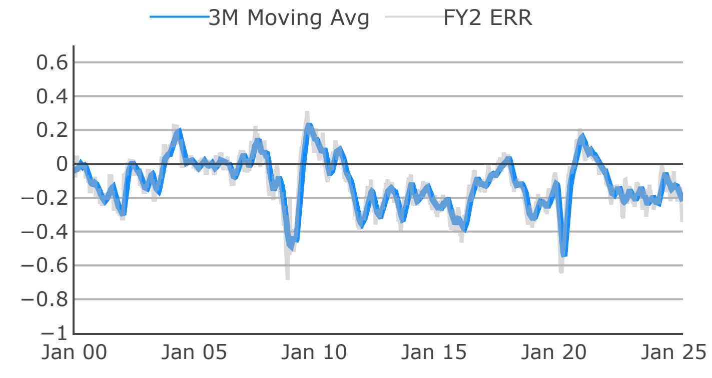
UK



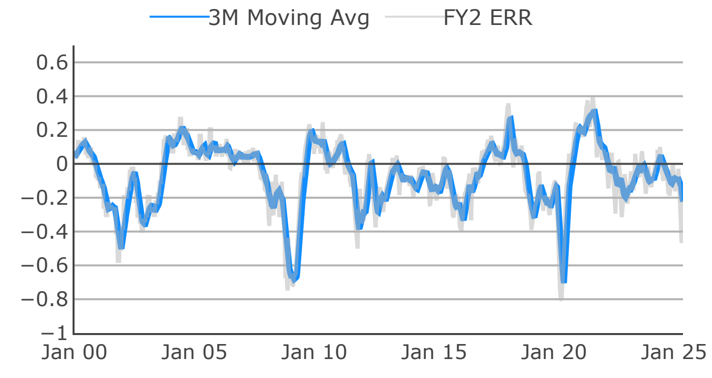
Japan



Emerging Markets



World



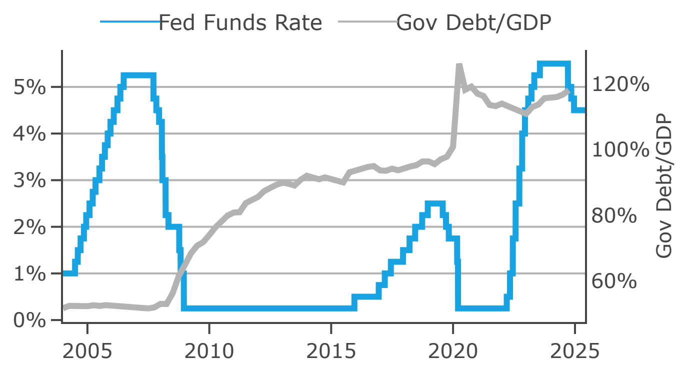
Sources | Eikon, the MSCI index has been used for each respective region, as at May 2025.

Interest Rates

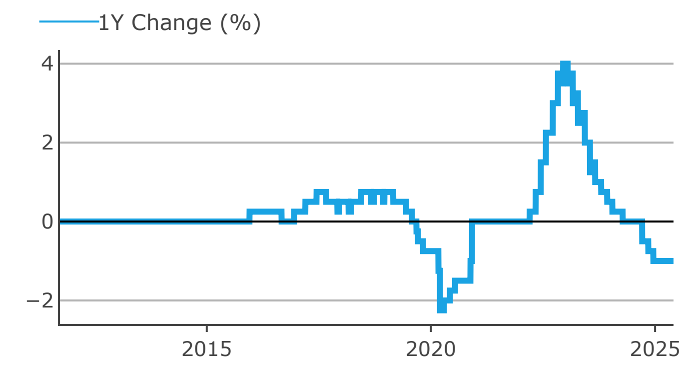
Atlanta Fed President Bostic expects US growth to slow to 0.5-1.0% in 2025—below the 1.4% market consensus—but not tip into recession. He anticipates just one more rate cut to 4.0% by year-end and flags consumer resilience as key. Encouragingly, wages and labour markets remain strong, and Republican-backed fiscal measures could further support household income.

The Reconciliation Bill proposes tax relief for low-to-middle earners (e.g., tip and overtime exemptions) and a higher SALT cap for higher earners, all growth-positive. For businesses, revived 2017 TCJA incentives should aid domestic manufacturing. Combined, these factors, and sensible trade-agreements may keep the US consumer —and economy—more stable than feared.

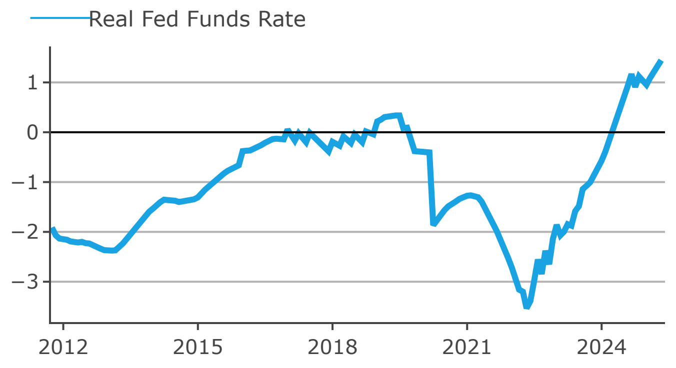
Fed Funds Rate



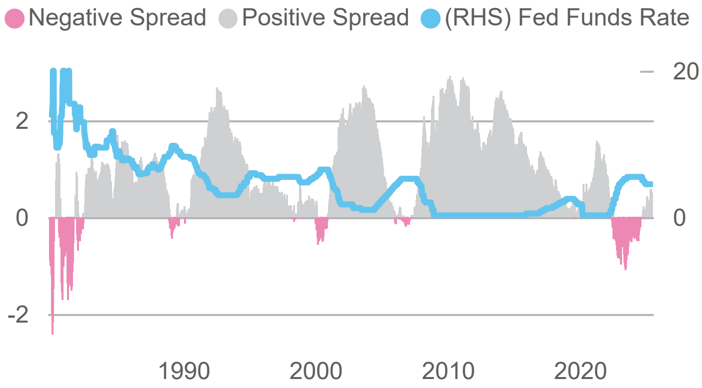
Change in Fed Funds Rate



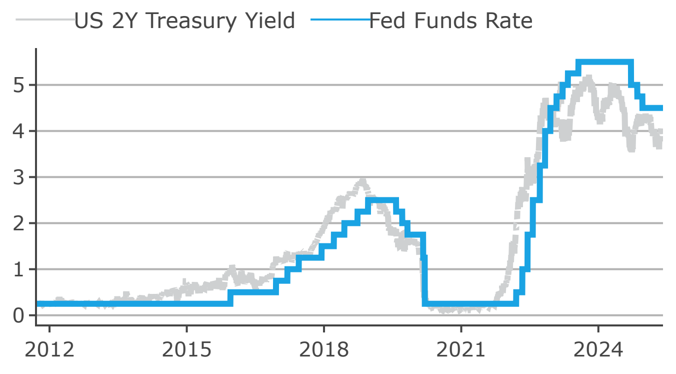
Real Fed Funds Rate (Using 2Y MA CPI)



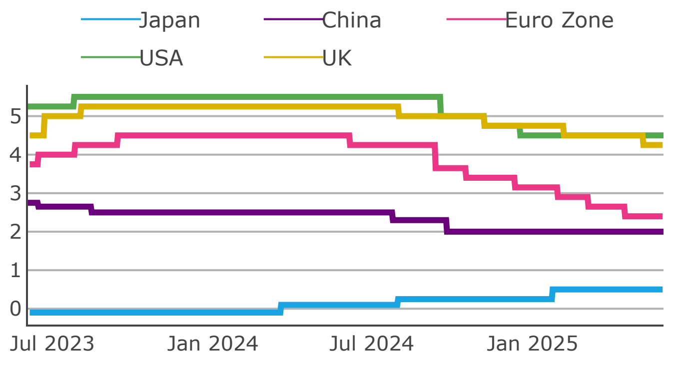
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



Sources | Bloomberg for all charts, as of May 2025. 1.Quantitative tightening

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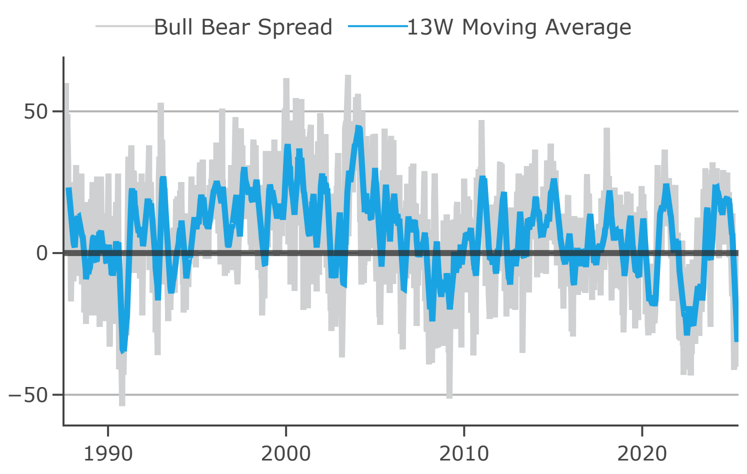
Sentiment

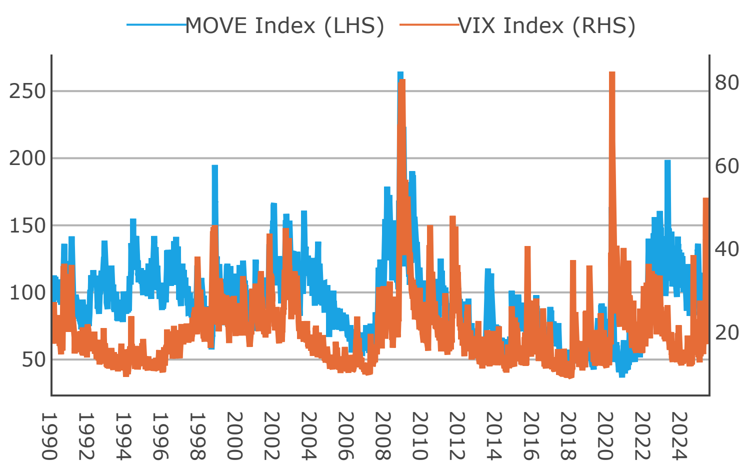
It is no surprise that the recent market volatility has curbed enthusiasm. The BAML Hartnett Bull & Bear Indicator has risen from 3.9 to 4.2. The increase can be attributed to continued equity market breadth and strong EM/HY flows. On the other hand, long-only and hedge fund flows remain subdued.

US Equity Indicators

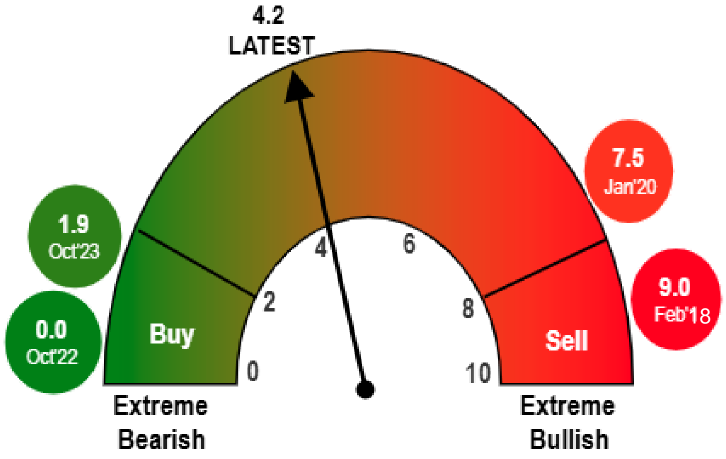
AAII Bull Bear Spread



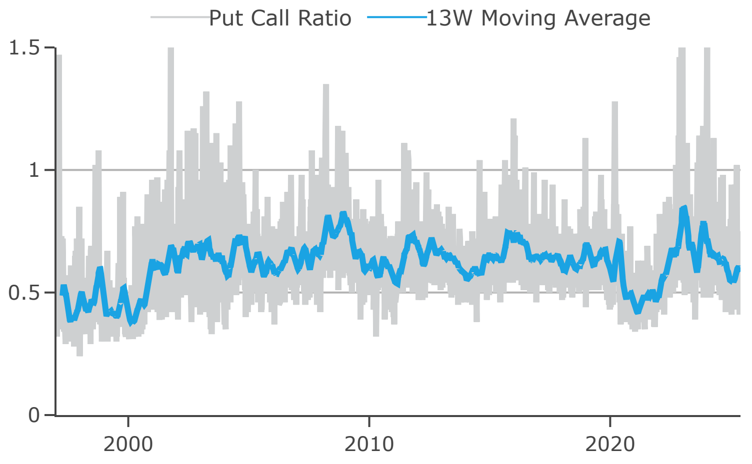
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio



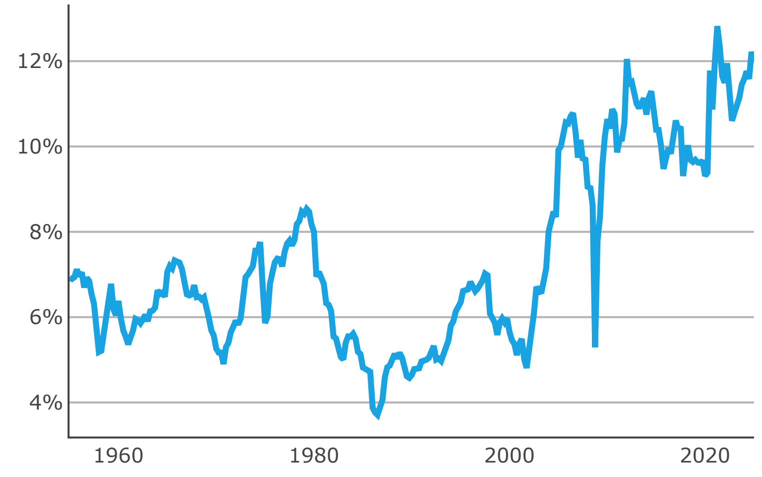
Sources | Bull Bear Spread, VIX and Equity Put Call Ratio: Bloomberg. Michael Hartnett's Bull & Bear indicator by kind permission from Bank of America, as of May 2025

The Big Picture

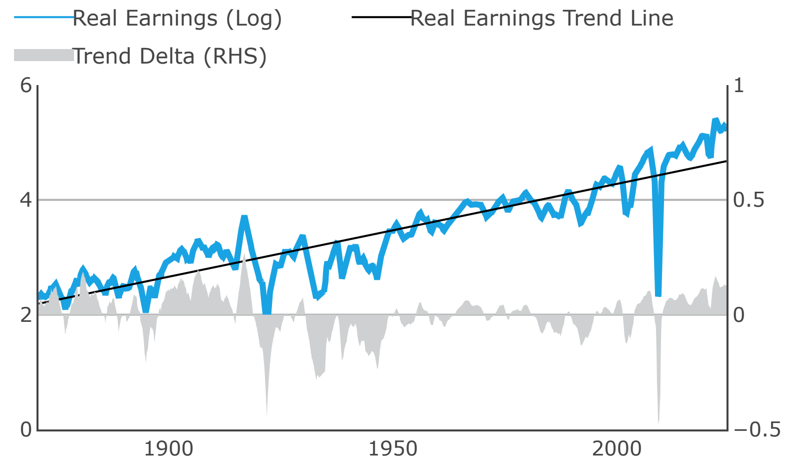
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that 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 Inbalances

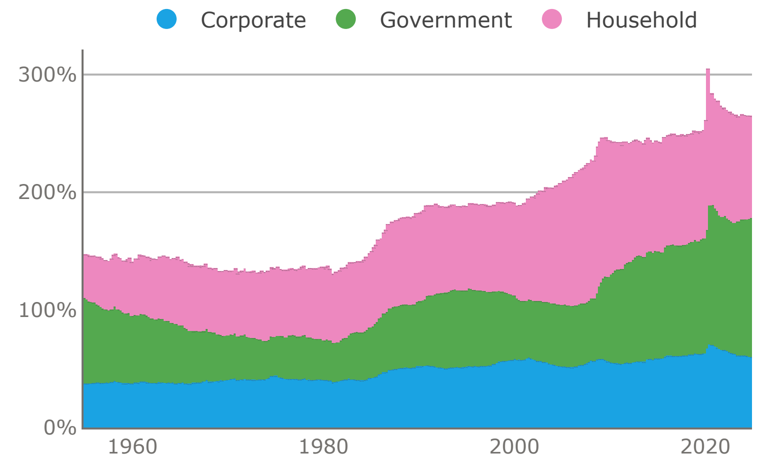
Profit Share of GDP



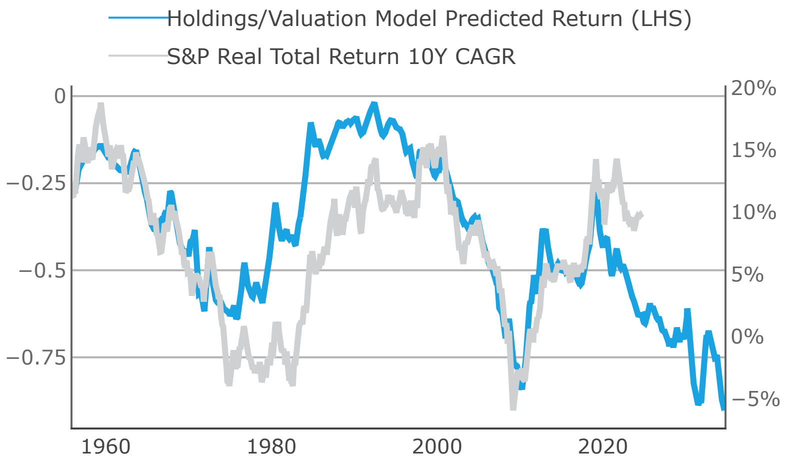
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Sources | Profit Share of GDP, and Non Financial Debt as Share of GDP: Federal Reserve Economic Data (FRED); Earnings Deviation From Trend: CCLA using Shiller CAPE data from Yale.edu; S&P 500 10Y Forward Returns: Holdings/Valuation Model uses three inputs: Tobin's Q, Shiller CAPE and Household Equity Holdings to predict 10Y forward returns. All data refreshed as at May 2025.

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