



Introduction

Global equities posted strong gains in July, rebounding from the steep February-April correction. The S&P 500 surged from its April low, while the Nasdaq soared even more, driven by strength in AI-linked stocks and the "Magnificent 7" tech giants.

Investor sentiment improved as political uncertainty eased, and the Trump administration announced new trade deals with Vietnam, Japan, and the EU. These agreements, despite higher tariffs, reduced fears of escalation and supported risk appetite.

Emerging markets outperformed developed peers, aided by a weaker dollar and optimism in Korea and Brazil. Bond yields rose globally amid fiscal concerns in advanced economies. Commodities were mixed, with oil pressured by oversupply and precious metals gaining on safe-haven demand.

Overall, July marked a dramatic turnaround in market confidence and positioning.

Markets

July was a month of renewed optimism across global markets, driven by a blend of macroeconomic resilience and policy clarity.

The passage of the final version of the One Big Beautiful Bill Act (OBBBA) in the US, more expansionary than expected, boosted growth expectations and lifted small caps early in the month. As July progressed, strong earnings from US mega-caps and a steady Federal Reserve policy stance shifted momentum back to large caps.

Emerging markets outperformed, led by Greater China, Korea, and Taiwan, where AI enthusiasm and improving liquidity supported gains.

Commodities were mixed, with iron ore and steel rising, while copper faced pressure from new US tariffs.

Portfolio & Market Update

July 2025

Bond markets struggled amid rising yields and US dollar strength, with global G7 bonds down 0.42%. Elevated equity valuations suggest markets are pricing in near-perfect conditions—leaving little room for error as autumn approaches.

Reversing a few months of dollar underperformance, the month of July saw the US dollar appreciating against the GBP.

US

The US equity market ended July on a high note, with the S&P 500 delivering a standout return of 5.85% in GBP terms. This performance was underpinned by robust corporate earnings, particularly from technology and industrial sectors, where nearly 80% of reporting companies beat expectations.

President Trump's administration provided greater clarity on trade policy, securing tariff agreements with Japan, Indonesia, and the Philippines, while the House approved the expansive "Big Beautiful Bill" fiscal package.

Information technology stocks rebounded sharply, fuelled by optimism around artificial intelligence and renewed access to Chinese markets for advanced semiconductors.

Despite inflation rising to 2.7%, the Federal Reserve held rates steady at 4.25–4.50%, maintaining a cautious stance. Growth outpaced value, and large caps led the rally, reflecting investor preference for scale and resilience.



UK equities delivered strong gains in July, with the FTSE 100 rising by 4.31%. Large caps outperformed mid-caps, as the FTSE 250 lagged amid sector rotation and cautious domestic sentiment.

Top-performing sectors included energy, healthcare, consumer staples, and telecommunications. Healthcare was buoyed by strong earnings from major pharmaceutical firms, while real estate and technology underperformed.

UK Chancellor Rachel Reeves announced modest reforms in her *Mansion House* speech aimed at boosting retail investment and strengthening the financial sector.

Inflation (including housing costs) edged up to 4.1% year-on-year in June, while government borrowing exceeded expectations at £20.7 billion due to rising debt costs.

Despite these headwinds, business confidence surged, with the Lloyds Business Barometer hitting its highest level since 2015, supported by upbeat banking sector earnings and signs of underlying loan growth momentum.

Europe

Continental European equities extended their year-to-date gains in July, with the MSCI Europe ex UK rising by 0.87% in GBP terms.

Investor sentiment was supported by relief over trade tariffs, as the EU avoided a threatened 30% levy from the US, settling instead on a 15% rate with exemptions for key sectors such as aircraft parts. Positive earnings from healthcare and financials helped lift the market, while real estate and utilities lagged due to interest rate sensitivity.

The European Central Bank (ECB) held rates steady at 2.0%. In addition, eurozone GDP

Portfolio & Market Update

July 2025

grew 0.1% in Q2, inflation held at 2.0%, and unemployment remained low at 6.2%. Despite sector-specific headwinds and trade uncertainties, the region's resilience and improving sentiment support a cautiously constructive outlook.

Japan

Japanese equities posted solid gains in July, with the MSCI Japan index rising by 2.44% in GBP terms.

Market momentum accelerated toward month-end, supported by a favourable US-Japan trade agreement and strong demand expectations for AI data centres, which lifted shares of optical cable and component providers.

Exporters and global cyclicals led the rally, while political uncertainty surrounding the Upper House election earlier in the month proved less disruptive than feared.

The Bank of Japan held its benchmark short-term interest rate steady at 0.5%, the highest level since 2008, reflecting a cautious approach to policy normalisation.

The central bank raised its FY 2025 core inflation forecast to 2.7% and nudged GDP growth expectations to 0.6%, citing reduced trade uncertainty following the US deal.

Bond markets struggled, with 10-year yields hitting 1.6%. Domestic indicators were mixed, but the economic outlook index reached a six-month high, signalling cautious optimism for Japan's recovery.



Asian equities delivered strong gains in July, with the MSCI Asia ex Japan index rising 6.2% in GBP terms, outperforming most global peers.

Tariff deals with the US were generally better-than-feared, helping to stabilise trade outlooks across the region.

July marked the first visible impact of China's anti-involution policy, as the government began actively curbing industrial overcapacity to combat deflation and stabilise prices.

Emerging market equities also advanced, with the MSCI Emerging Markets index gaining 5.57% in GBP terms. Korea, China, and Taiwan outperformed, while India and Brazil lagged due to new US tariff penalties.

Despite dollar strength acting as a headwind, foreign inflows and sector-specific resilience supported Emerging Markets performance. We maintain a selective stance, as short-term momentum is offset by structural and geopolitical risks.

Fixed Income

Bond markets faced headwinds in July as rising inflation and renewed fiscal concerns pushed global government bond yields higher. Political pressure on central banks, particularly the Federal Reserve and Bank of Japan, added to volatility.

UK gilts sold off sharply following a surprise jump in inflation to 3.6%, driving 10-year yields to 4.6%. Meanwhile, the ECB and Bank of Japan held rates steady but struck hawkish tones, fuelling speculation over future hikes.

Despite these challenges, corporate bonds outperformed government debt, supported by strong earnings and improving sentiment. US investment grade and high-yield bonds posted solid gains, while euro-denominated corporates saw broad-based

strength. Emerging market bonds were July's standout performers, returning 4.03% in GBP terms, benefiting from resilient fundamentals and attractive valuations.

Commodities

Commodity performance was mixed in July, with the S&P GSCI Index posting a modest gain. Energy led the advance, while industrial metals declined. Gold's rally paused, and copper came under pressure following President Trump's announcement of a 50% tariff—later partially offset by exemptions for refined metals. Within industrials, zinc outperformed, while sugar was a bright spot in agriculture.

Overall, market dynamics reflected shifting trade policies and selective sector resilience.

Outlook

As we move into late summer, markets remain cautiously optimistic, but elevated valuations and fiscal uncertainty leave little room for complacency.

At Flying Colours, we have long maintained a prudent view on sovereign bonds—assets traditionally seen as risk-free. Despite more attractive valuations, the growing volume of debt issuance is straining market absorption, reinforcing our decision to maintain a lower allocation to sovereign bonds than in the past. Instead, we favour higher-quality sovereign debt from selective countries with strong fiscal discipline.



Our fixed income exposure remains diversified, with selective positions in emerging market debt where fundamentals and valuations remain attractive. We also maintain exposure to alternative strategies, which we believe offer more effective diversification in an environment of rising yields, policy uncertainty, and stretched equity valuations. With macro risks still in play, we continue to favour a balanced, globally diversified approach across asset classes and geographies.

We continue to follow our long-term investment philosophy, focusing on managing risk over time. Our goal remains the same: to deliver well-managed, risk-adjusted returns in the best interests of our clients.

Glossary

S&P 500: A stock market trading index that tracks the performance of 500 leading companies listed on the US stock exchange.

Nasdaq: A global electronic marketplace where holdings are bought and sold.

“Magnificent 7”: A group of seven high-performing, influential stocks in the technology sector. Currently this includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Broadcom.

Tarrieff: A tax imposed by one country on imported goods and services from another.

One Big Beautiful Bill Act (OBBBA): A U.S. federal statute passed by the 119th United States Congress containing tax and spending policies forming the core of President Trump's second-term agenda.

Federal Reserve: Central bank of the United States.

Global G7 bond: Government bond issued by a G7 member country.

GBP: Pound sterling.

Portfolio & Market Update

July 2025

FTSE

100: UK stock index. The FTSE 100 tracks large-cap companies.

FTSE 250: UK stock index. The FTSE 250 tracks mid-cap companies.

Lloyds Business Barometer: A survey of 1,200 companies, highlighting confidence levels among UK businesses.

MSCI Indexes: Stock indexes that track the performance of the stocks included in them. Often additional context is added in e.g. MSCI Europe ex-UK index covers Europe but excludes the UK.

Levy: A levy is the legal seizure of property to satisfy an outstanding debt.

European Central Bank (ECB): The central bank for the euro. Its main task is to maintain the euro's purchasing power.

Upper House: The House of Councillors of Japan.

Bank of Japan: The central bank for Japan, often called the Nichigin for short, who seek to maintain price stability.

Anti-involution: A push back against intense or destructive competition.

S&P GSCI Index: A benchmark for investment in the commodity markets and a measure of commodity performance over time.