

A photograph of a young man and woman smiling and laughing together at an outdoor market. The man is wearing glasses and a denim jacket over a red shirt. The woman is wearing a yellow jacket over an orange shirt and has a black bag slung over her shoulder. They are looking at a clear plastic container filled with red tomatoes. In the background, there are other market stalls and a red plastic bag hanging from a stall.

Window on the World

AUGUST 2025



It has been anything but an uneventful year, and most investors will no doubt be hoping for a calmer month in August as they set off for their annual summer holidays. Unfortunately, August can sometimes be a month of higher volatility (often blamed on the idea that lower trading volumes – because everyone is away – amplify price movements), and history shows that it has been one of the weakest months of the year too. This year, as investors head off to the beach, they do so in the knowledge that global trade policy is still pretty unsettled, albeit the uncertainty is much lower than it was, and the impact on the U.S. economy is slowly becoming clearer.

Capital Market Returns July 2025

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	4.3	8.3	13.2	14.2
US Equities	2.2	14.2	16.3	8.6
European Equities	0.5	4.7	12.7	11.6
Japanese Equities	3.2	10.5	8.0	7.1
Emerging Market Equities	2.0	12.9	17.8	17.9
UK Gilts	-0.3	-0.2	-0.9	2.1
UK Corporate Bonds	0.3	2.0	3.9	3.7
UK High Yield Bonds	1.7	3.6	10.9	6.2
US Corporate Bonds	0.2	1.9	4.7	4.4
US High Yield Bonds	0.4	4.0	8.6	5.0

Source: Bloomberg, Verso Investment Management, as of end July 2025

Along with the sun, equities continued to shine in July, building further on the momentum and sharp recovery seen since mid-April, while fixed income markets moved sideways and were broadly flat or slightly higher. The read across from this is that investors have been prepared to look through the uncertainty created by President Trump's tariff policies so far, which have caused considerable concern as they have evolved through knee-jerk reactions. Of the trade deals announced this month, the most notable look to have been the ones with Japan and Europe, although it can't be said there was broad agreement across Europe that a favourable deal was achieved. Yet, that is the nature of European politics; it's hard to satisfy everyone, but suffice to say, markets seem to think the outcome was as good as could be expected.

However, by the end of the month, there were still a lot of nations that had failed to secure trade deals ahead of the President's 90-day deadline, which expires at the beginning of August. Negotiations with China are ongoing, and there is always the risk that higher U.S.-China tariffs are reinstated in mid-August. Globally, it is estimated that the effective tariff rate on U.S. imports will be somewhere between 15% and 18%, the highest level for 100 years.

Investors have been waiting for the broadening out of equity markets for a while now, and during the month, there was evidence that this might be starting. It was a reversal of what was seen in the second quarter of 2025 (where U.S. technology companies drove a narrow rally in U.S. stocks), signalling that investors are looking beyond the U.S. and moving assets away.

The U.K. equity market reached another high and was the standout performer, rising by over 4% on the month. Catalysts for this rally came from the broadly defensive nature of the U.K. market, which has proved to be attractive to investors during this period of uncertainty. Additionally, speculation is mounting that the Bank of England will cut interest rates in August, providing further support to equities and hopefully a boost to the economy.

Japanese equities also performed well, up over 3%, benefiting from trade resolution with the U.S. and a softer yen. In Europe, equities were also higher over the month, but lost steam towards the end as investors assessed the likely impact of tariffs on European exporters. And in emerging markets, equities gained ground too, helped by momentum in Chinese equities and a supportive macro backdrop.

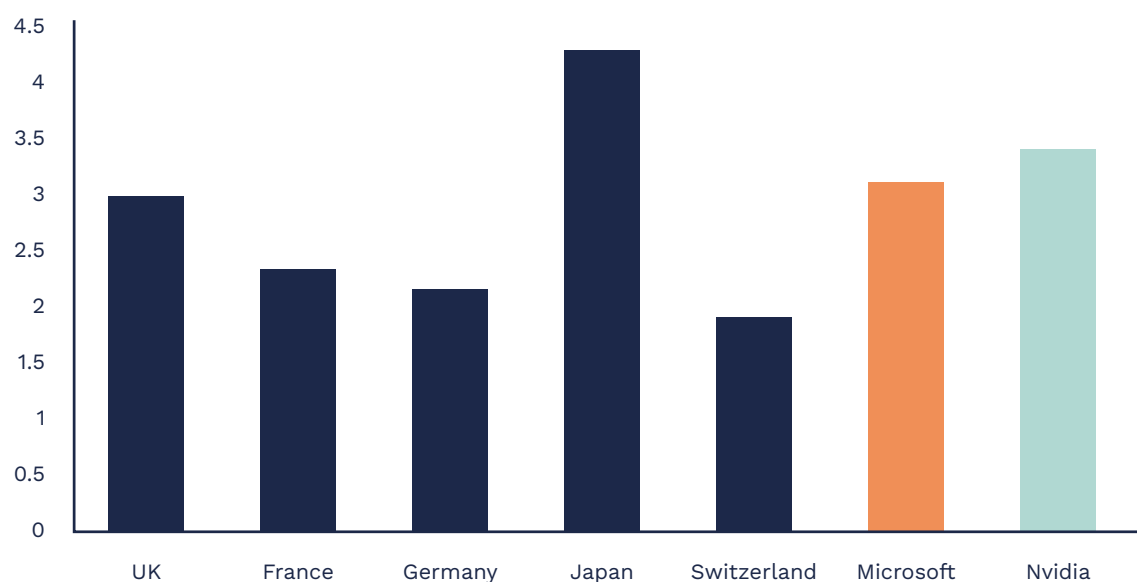




The U.S. corporate earnings season was in full swing, and to date, the key takeaway has been that earnings have been outperforming expectations. Earnings growth for the broad index was expected to be around 5.8%, and results so far indicate it is running closer to 7.7%. Those companies which beat expectations have performed well – and notably Microsoft became the second U.S. company (after Nvidia) to reach a market capitalisation in excess of \$4 trillion (circa £3.07 trillion). For the month as a whole, U.S. equities rose by over 2% in USD terms, which was boosted further when translated into sterling, thanks to dollar strength.

THE MARKET CAPITALISATION OF BOTH MICROSOFT AND NVIDIA EXCEED THAT OF THE U.K., FRENCH AND GERMAN LISTED PUBLIC MARKETS

Market Capitalisation (£trn)



Source: Bloomberg, 31st July 2025.



What next for interest rates

The Bank of England started cutting interest rates 12 months ago from a peak of 5.25%, and has cut on four occasions, bringing interest rates down to 4.25%. This pace of easing mirrors that of the U.S. Federal Reserve, which has also cut interest rates by 1%. In Europe, the European Central Bank has been more aggressive, cutting rates by a combined 2% over 15 months, and interest rates now stand at 2%.

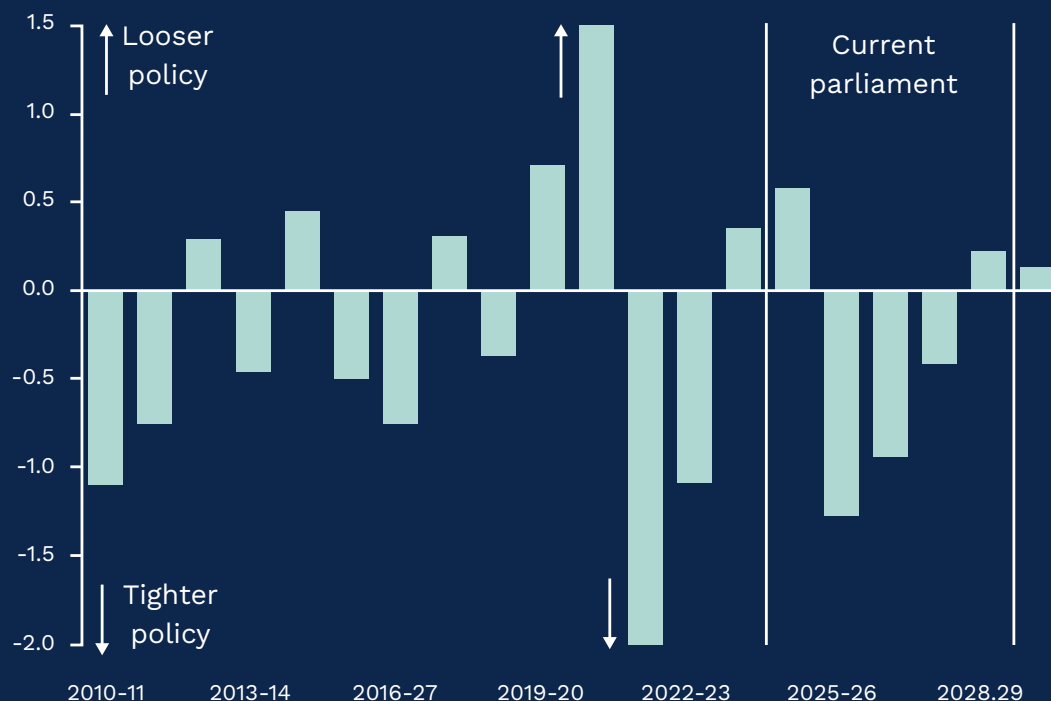
Looking to the future, investors anticipate that both the Federal Reserve and the Bank of England will continue to ease monetary policy further through the rest of this year and into 2026. For the U.K., investors expect two more cuts this year, and one further cut by the summer of 2026. In the case of the U.S., investors expect the Federal Reserve to be more cautious with just one cut this year, and two cuts in the first half of 2026. The Federal Reserve continues to point towards the stability of the economy and concerns over the inflationary impact of tariffs as reasons to keep rates on hold, much to the disappointment of President Trump, who continues to publicly lambast Chairman Powell. While the market would like to see a U.S. rate cut, prudential management of the economy is critical to maintain stability.

In our view, it seems likely that the U.K. economy could soften in the coming months, following the steady flow of better-than-expected economic data relative to forecasts. But with the fiscal stimulus from last autumn's budget now fading, it will start to act as a fiscal drag going forward, principally through tax rises. The Government's fiscal headroom is also limited, and with public finances remaining constrained, additional tightening in the form of taxes could be on the cards in the autumn, adding to this drag.

FISCAL POLICY IS EXPECTED TO TIGHTEN OVER THE NEXT THREE YEARS

UK: Fiscal impulse

% of potential GDP



Source: Oxford Economics, July 2025

Balancing the books is never easy, and measures from the Autumn Budget, namely the increase in employers' National Insurance contributions, could now weigh on wage growth and hiring intentions if companies look to cut costs, potentially leading to higher unemployment and slower real income growth. In addition, homeowners who are refinancing cheap fixed-rate mortgage deals taken out before mid-2022 are facing new mortgage rates which are at least 2% higher. However, this macro backdrop, coupled with inflation continuing to edge lower, will give the Bank of England plenty of scope to continue easing policy, and we think it is likely that they will cut rates more aggressively and further than the market is currently forecasting. This will ultimately act as a catalyst for corporates (where rate cuts pass through relatively quickly) and individuals, and act as an offset should there be an impact from tighter fiscal policy.

Compared with the U.S., we expect the pace of rate cuts in the U.K. to be faster, and this remains a key reason behind our preference for U.K. government bonds (Gilts) over U.S. Treasuries in our fixed income and multi-asset portfolios.



Positioning and Outlook

Despite the furore caused by President Trump's tariffs, the global backdrop remains one of moderated yet sustained economic growth, declining interest rates, and a more measured U.S. policy than initially anticipated; consequently, the macroeconomic environment remains broadly constructive as we progress into the latter half of summer and autumn. Lower energy prices remain intact – provided Middle Eastern tensions don't disrupt oil supplies – which will help to mitigate inflationary pressures stemming from increased tariffs. Nevertheless, several near-term risks to this central outlook persist, such as the potential for greater-than-expected economic weakness due to tariffs, the possibility of further rises in long-dated bond yields if inflation is stubborn, escalating geopolitical tensions, and any return to a more aggressive U.S. trade policy.

For portfolios, we continue to favour equities in the U.K., Japan, Europe, and emerging markets over those in the U.S., where valuations are generally more attractive and, in several instances, supported by region-specific catalysts that could drive outperformance. While U.S. equity valuations remain elevated by historical standards and may persist at these levels should U.S. economic resilience continue, there is a risk that they have over-reached in the near-term, and some downside cannot be ruled out. Beyond equities, our fixed income allocations across portfolios remain concentrated on shorter-duration government bonds (both conventional and index-linked) and high-quality investment-grade credit, which we expect to benefit from reducing interest rates in due course.



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