ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

June 2025

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/06/2025	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	211.04	+1.1%	+1.7%	+4.0%	+10.0%	+11.5%
ARC Balanced	Medium Risk	265.78	+1.4%	+2.3%	+3.9%	+14.6%	+19.8%
ARC Steady Growth	Medium High Risk	322.78	+1.7%	+3.0%	+3.8%	+18.3%	+26.7%
ARC Equity Risk	High Risk	382.71	+1.9%	+4.0%	+3.6%	+21.7%	+33.3%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/06/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8760.96	-0.1%	2.1%	7.3%	22.2%	42.0%
UK All Share	UK	4772.78	0.3%	3.2%	7.2%	21.1%	39.9%
Dow Jones Ind Avg	US	44094.77	4.3%	5.0%	12.7%	43.3%	70.8%
S&P 500 Index	US	6204.95	5.0%	10.6%	13.6%	63.9%	100.1%
Nikkei 225	Japan	40487.39	6.6%	13.7%	2.3%	53.4%	81.7%
MSCI Europe Ex UK	Europe	215.38	-1.2%	1.7%	5.2%	36.1%	50.4%
MSCI Asia Ex Japan	Asia	796.62	5.7%	11.6%	14.4%	22.0%	22.8%
MSCI Emg Mkts (£)	Emg Mkts	721.09	4.3%	5.5%	6.3%	17.0%	25.3%
MSCI World Index (£)	Global	4026.44	4.2%	11.0%	14.7%	58.1%	82.9%
UK Conventional	Gilts	3101.12	1.5%	1.9%	1.6%	-8.9%	-26.2%
UK Index-linked	Gilts	3680.30	2.7%	0.9%	-5.2%	-21.6%	-37.0%
UK Real Estate Investment Trusts	Property	1978.73	0.6%	7.9%	-3.9%	-19.6%	-11.6%
WTI Crude ($/Barrel)	Oil	65.11	7.1%	-8.9%	-20.1%	-38.4%	65.8%
Gold Spot $/Oz	Commodities	3303.14	0.4%	5.7%	42.0%	82.8%	85.5%
£1 = US$	Currencies	1.3732	2.0%	6.3%	8.6%	12.8%	10.7%
£1 = €	Currencies	1.1651	-1.8%	-2.5%	-1.3%	0.3%	5.5%
£1 = Yen	Currencies	197.81	2.0%	2.1%	-2.7%	19.7%	47.8%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	30/06/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,856.50	3.5%	7.7%	4.4%	12.7%	20.2%
Latest Weighted Average Discount	-13.8%						
12 Month Weighted Average Discount	-15.1%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

Most markets experienced yet another strong month in June, as investor confidence picked up across the board. European and UK stocks were the exceptions, posting modest price declines on average. Meanwhile, the S&P 500 hit yet another all-time high.

The pound continued to appreciate against the dollar, reaching levels not seen in over three years. This means that the performance of US stocks is weaker to a UK investor than to a US one, so the aforementioned all-time high is certainly not the case for everyone, and US stocks remain cheaper to UK buyers than they were earlier this year (more on this below).

UK listed investment companies also had a good month as discounts narrowed across the board. An uptick in corporate activity, a lower interest rate environment, and improved investor confidence could all be noted as helping contribute to this.

UK Commentary

The UK economy is grappling with persistent inflation, which remained at 3.4% in May, well above the Bank of England's (BoE) target. Despite this, the BoE held interest rates at 4.25%, signalling a cautious approach, though signs of slowing price increases from businesses may support a future fall in inflation and thus future rate reductions.

According to the ONS, government borrowing in May hit the second highest level for that month since monthly records began in 1993. This came as Chancellor Rachel Reeves outlined a borrowing-fuelled spending spree on capital projects, including £113 billion of extra cash over the current parliament. This includes commitments such as a 3 per cent funding increase for the National Health Service (NHS), boosting defence-related expenditure to 2.6 per cent of GDP from 2027, and a £39 billion investment for "affordable" homes over 10 years, alongside an additional £10 billion to attract private sector investment in housebuilding and a significant increase in spending on nuclear power projects. We are now a year into this government's term, and their approach seems firmly set on increasing both taxes and government spending.

Meanwhile, fintech Wise's decision to pursue a primary listing in New York was seen as a blow to the London market. In contrast, Visma, a private equity-backed software group, has chosen London over Amsterdam for its planned initial public offering (IPO) next year. British buyout firm Hg has owned Visma, which provides accounting and payroll software for small to medium-sized businesses, since 2006. Visma features prominently in the portfolio of Hg Capital, the London-listed investment trust run by Hg, and indeed in other similar vehicles. While there have been plenty of stories similar to that of Wise with execs seeming to prefer other listing venues, the Visma decision is a good reminder of London's prominence on the global stage.

North America Commentary

President Donald Trump continues to heavily influence the economic landscape. He publicly called for the Federal Reserve to cut rates, though the Fed held steady, signalling future cuts amidst projections of slower growth.

The dollar weakened to a three-year low due to trade and geopolitical concerns, as well as the possibility that Trump may try to impose his preferred chair at the Fed sooner than currently planned. Incumbent Jay Powell's term is not set to expire until May 2026.

Discount retailer Dollar Tree reported strong first-quarter same-store sales growth of 5.4%, surpassing expectations, and reaffirmed its full-year outlook. This performance, powered by increased customer traffic and average ticket size, supports the belief that many North American consumers are increasingly seeking greater value, with many trading down to cheaper alternatives. Commentators suggest this phenomenon applies most to those towards lower end of the income scale, while the higher earners remain resilient and continue to spend freely.

Apple's rollout of artificial intelligence services in China, in partnership with Alibaba, is being held up by a Beijing regulator, in a development which seems related to Trump's tariff threats. Multiple AI products co-developed by Apple and Alibaba have been submitted for approval to China's internet authority this year, but these now appear to be delayed while trade tensions are elevated.

Europe Commentary

The Eurozone has seen positive developments on inflation, with annual inflation falling to 1.9% in May, below the European Central Bank's (ECB) 2% target for the first time in seven months. This drop led the ECB to cut its benchmark interest rate by a quarter point to 2%, marking the eighth such cut in a year and halving borrowing costs from a peak of 4% since June 2024. ECB President Christine Lagarde indicated that the central bank is "nearly concluded" its rate-cutting cycle.

Similarly, Switzerland's inflation has dipped into negative territory for the first time in four years, reaching minus 0.1% in May. In response, the Swiss National Bank cut its interest rate by a quarter point to zero, though it did not go into negative territory. This move aims to stimulate prices and counteract a surging Swiss franc, which has gained 14% against the dollar this year as a haven currency amidst Trump's trade war.

Asia Pacific Commentary

Japan's corporate landscape is set for a major shake-up as Toyota Motor's largest subsidiary, Toyota Industries, has received a ¥4.7 trillion ($33 billion) take-private proposal from its parent companies. This significant deal aims to reshape Japan's largest business empire by unwinding one of the Toyota Group's largest cross-shareholdings, an ownership model that has faced pressure for corporate governance reform.

In Japanese domestic politics, the ruling Liberal Democratic Party suffered its worst result in local assembly elections in Tokyo, securing only 22 seats out of 127. This outcome reflected voter dissatisfaction over soaring food prices and stagnant wage growth, indicating a potential challenge for Prime Minister Shigeru Ishiba in the upcoming upper house national parliamentary elections.

Emerging Market Commentary.

China's economic data for May showed mixed trends. Industrial output growth slowed to 5.8% year-on-year, its slowest pace this year. However, consumer spending picked up significantly, with retail sales growing 6.4%, marking the fastest expansion since December 2023. Boosting consumer demand remains a key priority for President Xi Jinping's government as the economy grapples with deflation and a prolonged slowdown in the property sector.

In related news, India has taken aggressive monetary policy action, cutting its benchmark interest rate by 50 basis points and reducing the reserve ratio by 100 basis points to free up more bank lending.

The Middle East has been plunged into a new war following a devastating, large-scale attack by Israel against Iran. This escalation immediately impacted global oil markets, with Brent crude and West Texas Intermediate surging by over 5% on fears of supply disruptions in the region. Despite the continued hostilities, a US-brokered ceasefire was eventually agreed upon by Israel and Iran, aiming to end almost two weeks of conflict. However, minutes after Israel confirmed its agreement, it stated Iran had violated the truce and vowed retaliation. Adding to the regional tensions, Donald Trump raised the possibility of "regime change" in Iran following the US bombing of its nuclear facilities, publicly defying his administration's stated goal of limited objectives for the operation. The picture remains uncertain, but markets seem to be taking these risks in their stride for now.

Chart(s) of the month – S&P 500 Returns in USD & GBP

The above chart from Bloomberg shows the year-to-date total returns of the S&P 500 indices in both US dollar (black) and British pound (orange) terms. The difference highlights the degree to which the dollar has weakened against the pound, as it also has against other major global peers.

To a US investor, the S&P 500 marked a new all-time high as it passed through 6,200 points at the end of the month. However, for a UK-based investor whose base currency is pounds, the index is still now significantly cheaper to buy than it was earlier this year.

In sterling terms, the index is down 3.1% this year, while it is up 6.2% in dollar terms. This major divergence speaks to the severity of the currency impact and offers a good reminder to investors that investing overseas is not always straightforward. Strong business performance overseas does not always translate to good investment performance for a foreign investor.

Investment Profile – Blackrock American Income Trust (BRAI)

The board of this investment trust recently put forward a motion to shareholders for the investment strategy to be handed to Blackrock’s Systematic Active Equity team. Shareholders approved the change and the trust’s portfolio has since been rebalanced.

The new strategy involves using vast data sets to create a portfolio which aims to outperform the Russell 1000 Value index, and “is believed to be the first and only way to access a Systematic Active Equity strategy in a closed-ended investment trust structure in the UK.” In essence, the portfolio will contain the stocks from that index which the portfolio managers and Blackrock’s algorithms believe will be best suited to help the trust outperform that index in the short to medium term.

As new manager Muzo Kayacan put it to us in a recent meeting; if the index is up 10%, it is extremely likely that the strategy would be up between nine and eleven percent. Therefore, the aim is to broadly capture all the returns the index offers while also attempting to modestly outperform.

Investment Team's thoughts

Markets were very strong in March, and shrugged off what are not insignificant geopolitical and macroeconomic risks as a result of elevated tensions between Iran and Israel. The potential impacts on the oil price, and the effects of this elsewhere, are significant. Investors, however, remained very positive on risk assets.

There are signs that investors are far more willing to take on risk today than they were a few months ago. Many markets hitting all-time highs recently speak to this and represent a major contrast to when Trump's tariffs were first announced.

This is an excellent reminder of how fast things can change, and of the fact that it is incredibly difficult to predict how markets will react to various developments. This is why we endeavour to stick to what we know and invest client assets into high quality cash flows at affordable prices rather than try to second guess global events and what impacts they may or may not have on asset prices. Despite elevated valuations in certain pockets, we still see many areas where we see attractive opportunities to do this.