

Quarterly Rebalance Commentary

JUNE 2025

Overview

The main focal point for financial markets over the last quarter has still been global trade. The panic which immediately followed April 2nd ("Liberation Day") subsided once investors realised that the announcement of tariffs was simply the opening bell for negotiations to begin between the US and the rest of the world. Trump's hardline tariff policy has softened since then – whether due to specific domestic pleas (automakers, Apple), appropriate concessions by trading partners (the UK and China), or due to internal legal challenges.

It's still unclear how long-lasting any tariff policy will be; most US businesses (55%) are indicating that their initial response to tariffs will be to raise prices, rather than reshore. If inflation begins to tick up in the US, there may be more concessions to come. Equally, if prices stay low enough – and the low oil price is helping there – trade frictions could well resurface.

But it's worth remembering that, despite the noise, all major markets, *including* the US S&P 500, are now showing green for the year. Pleasingly, we've seen strong performance from the UK and European markets, as sentiment is starting to shift away from the defining market dynamic of the last ten years – money pouring across the Atlantic to the US.

For the first time in a long time, the marginal investment dollar or euro or pound is looking beyond America. Japan is reforming into a more investor friendly destination. Europe's industrial base is waking up. And Emerging Markets like India, Mexico and Brazil are continuing to deliver strong growth. Even the UK is getting a bit of love.

Economically, the global picture is nowhere *near* as bad as headlines would have you believe. Our economic models are suggesting that there's at least as much to be happy about as sad. Consumer confidence isn't high, but retail sales remain robust and manufacturers are seeing a steady increase in orders. And, if there *is* a period of sluggish growth, households and companies have some of the highest cash balances this century, *and* the lowest debt service costs.

There are some lingering concerns in the market about the weakness of the US dollar. We're not too concerned. The US Dollar ain't going anywhere. It's the global currency of last resort. It might get a little weaker as investors look for opportunities elsewhere, but that doesn't mean an imploding economy (remember in the mid-2000's when the US was THE destination for cheap shopping?!). From an investment perspective, it's simply one of many good reasons to be happy with a diversified portfolio.

7IM portfolios have done quite nicely so far this year – getting paid our income on our bond allocations, and having some significant non-US equity holdings which have benefitted from the rotation so far. We're not seeing lots of glaring threats, nor any particularly juicy opportunities, which is just fine! We'll stay patient, stay watchful and let markets work for us.

Core investment views

Whisper it, but we might be heading back to a more conventional world for economic cycles. As manufacturing restarts thanks to reshoring and defence spending, the established patterns of growth and demand should reassert themselves.

And in those patterns, the economic world spends most of the time between extremes. There will be a mixture of good and bad data, and policy responses; but only rarely will these result in large market shifts.

Over the next 12 months, we expect:

Economic growth to be positive but slowing as rate rises and political uncertainty weigh on confidence. We wouldn't be surprised to see US GDP growth at 2%, rather than 2.8%, for example. But 2% is a number the rest of the developed world would be envious of.

We'd also expect to see investors re-engage with businesses outside the tech sector – which probably means looking further afield than the United States.

So how should we invest for a world which isn't at extremes, and where diversification is rewarded?

Happily, that's what our portfolios are built for. Letting market forces do the work. Spreading our allocations widely *before* there's a reason to do so – because by then, it will be too late. So, despite the scary headlines, we've seen no reason to aggressively cut equity allocations – below neutral's just fine. And we haven't felt the need to suddenly sell all of our US tech stocks, because we've been diversifying away from them for some time. The first half of 2025 has made us look like smart short-term asset allocators – but really, this is a long-term process that's just starting to play out.

In an increasingly uncertain world, with various regions starting to decouple and go their own way, diversification is the best (only?!) answer. We've been doing it for more than two decades, and we absolutely believe it will deliver.

Tactical Asset Allocation

| Macro | Headline risk allocations, reflecting 6-12 month macro outlook |
|------------------------|---|
| Equity | Small underweight: Economic data is going to get noisy in the short-term; the headlines around tariffs may have subsided, but the impact will reverberate over the next few months. Given that equity markets are now mostly positive on the year, our signals suggest there's no need to reach for risk. A small underweight to overall equity, in the context of broad diversification should be fine for the summer. |
| Government Bonds | Small overweight: In uncertain times, defensive assets can prove useful – even if it's not obvious exactly when. And, given the attractive yields available, our signals suggest adding a little bit of bonds. Getting paid for protective assets is never a bad idea – even if disaster doesn't happen. Important to note that we hedge the currency of all of our quality fixed income back into Sterling. |
| Diversifiers | Evidence-based diversifiers, which outperform through multiple market cycles |
| US Equal-weight | A diversifying strategy with a higher expected return than market-cap weighting over the long term, with recent underperformance accelerating the likelihood of that outperformance being frontloaded. A sensible, simple way to maintain exposure to the US, without over-exposure to the huge tech stocks, which are starting to be the most volatile parts of the index. |
| Put-Selling | Another diversifying strategy focused on generating income through selling put options on the S&P 500 Index, as a means of earning premiums, aiming for stable returns with reduced exposure to equity volatility. |
| Alternatives | Diversified basket of strategies which aren't correlated to bonds or equities. Continuing to deliver cash-plus returns while markets are stable but will tend to perform best during dislocations. |
| Tactical Opportunities | Mispriced areas of the market with the potential to deliver meaningful excess returns |
| Global Financials | Investors and analysts are finally getting re-interested in financial companies (European banks have beaten big tech over the last two years!). And why wouldn't they? Banks and insurers have rock-solid balance sheets, and there's a LOT of money sloshing around in the financial system. Despite the recent good performance, there's still a decades-worth of lost ground to make up on the wider market. |
| Communication Services | Demand for connection and content isn't going anywhere – and should continue to grow alongside the global economy. Lots of the big businesses are well run, with low-debt and solid cashflows, and they'll be the businesses who benefit from AI, without necessarily spending billions to develop it. |
| Utilities | This quarter we've added a position in Utilities. Investors are looking for safe-havens with minimal exposure to trade tariffs. Utilities fit the bill. Government spending on essentials will only be increasing; as will specific deals with large tech providers. Power needs suppliers and the utilities (National Grid, Nextera, Iberdrola) are the ones with the infrastructure to deliver. |

Asset allocation changes

At the June model rebalance, 7IM has undertaken the following changes to portfolios:

- Small reduction to equities
- Closed out the Credit underweight
- Initiated an overweight position in Global Utilities companies.

Manager changes

This quarter, the following holdings have been introduced to portfolios:

- Added the **Xtracker MSCI World Utilities Sector ETF** to implement the new allocation to this global equity sector.

The past performance of investments is not a guide to future performance. The value of investments can go down as well as up and you may get back less than you originally invested. Any reference to specific investments are included for information purposes only and are not intended to provide stock recommendation or investment recommendations to individual investors.

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