

## MONTHLY REVIEW – JULY 2025

Dear Clients, Colleagues and Partners

### OUR PERSPECTIVE

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**“It is when we are most lost that we sometimes find our truest friends.” ~ The Grimm Brothers**

Europe is navigating choppy waters. Investors are nervously watching Germany, the continent's economic powerhouse, where stagnation and mounting credit risks are creating the most challenging business conditions since the creation of the monetary bloc. Yet for the shrewd and patient, periods of uncertainty often also birth opportunity. Especially for those with insight into Germany's fabled Mittelstand and the broader European periphery.

Germany finds itself at a crossroads. For a third consecutive year, Europe's largest economy has flirted with recession. The manufacturing engine, facing global demand headwinds, are now being pushed further into the corner by a US-trade deal that has no benefits to the region. Banks, responding to a sharp rise in corporate defaults and distressed real estate assets, have tightened lending standards. Indeed, the German Mittelstand are more vulnerable than ever to rising costs and restricted credit flows. Across the corporate sector, especially in real estate and export-driven businesses, non-performing loans and insolvencies are climbing, with pundits fearful that a tipping point could spark wider instability.

With pressures mounting, calls are growing for Berlin to abandon fiscal orthodoxy. If Germany opts to stimulate its way out of potential crisis by boosting infrastructure spending, providing SME relief, and increasing its commitment to European defence, it could mark the end of austerity's dominance. Already, geopolitical shifts and security concerns are making a defence budget expansion inevitable despite “debt brake” limitations.

**The Mittelstand** refers to Germany's highly innovative, often family-owned small and medium-sized enterprises, forming the backbone of its industrial economy.

We believe that such a pivot would almost certainly bring a new dynamism. Fiscal stimulus could break the stagnation cycle, revitalize domestic demand, and drive major investment, especially if channelled into innovation, technology, and digital infrastructure.

For the Mittelstand, new public investment and defence procurement could open doors, offering the chance to pivot toward new, higher-value sectors. Companies agile enough to tap into defence, cybersecurity, and infrastructure supply chains could thrive, strengthening Germany's long-term competitiveness. Meanwhile, a weaker euro, the likely side effect of looser fiscal policy and higher deficits, would bolster exports and make European goods more attractive globally, offering a rare tailwind for both Germany and its European neighbours.

Peripheral European countries, already profiting from a tourism boom, would also benefit. Should Germany's growth engine restart, demand for imports from Central, Eastern, and Southern Europe will likely rise, stimulating job creation and economic convergence in the region.

Rising downside risks in Germany and Europe are real and warrant a thoughtful approach. But if policymakers embrace the opportunity, especially with an eye toward innovation and infrastructure, investors should remain engaged.

## MARKET REVIEW

Global equity markets delivered mixed results in July. The Bloomberg World Equity Index rose 1.43%, supported by strong performance out of the U.S., driven by a strong reporting season, and China, which were up almost 5% on the month, driven by renewed optimism around a trade deal and local stimulus measures.

Generally, growth stocks led the rally as value lagged. Europe ex-UK and Japanese equities lagged as the US Dollar rose significantly in July following material weakness in the first half of 2025.

Emerging markets advanced c. 2%, maintaining strong momentum year-to-date YTD. The UK also remained robust, with the UK Equity market deliver solid returns over the course of the month, leaving it up almost 15% YTD.

Fixed income saw mostly negative returns in July. The Global Agg fell -1.5%, weighed down by higher yields and

a rallying U.S. dollar (USD Trade Weighted Index up 3.09%). U.S. Treasuries dipped -0.39%, while euro- and sterling-denominated government bonds also slipped. Corporate bonds fared better, as spreads remain tight.

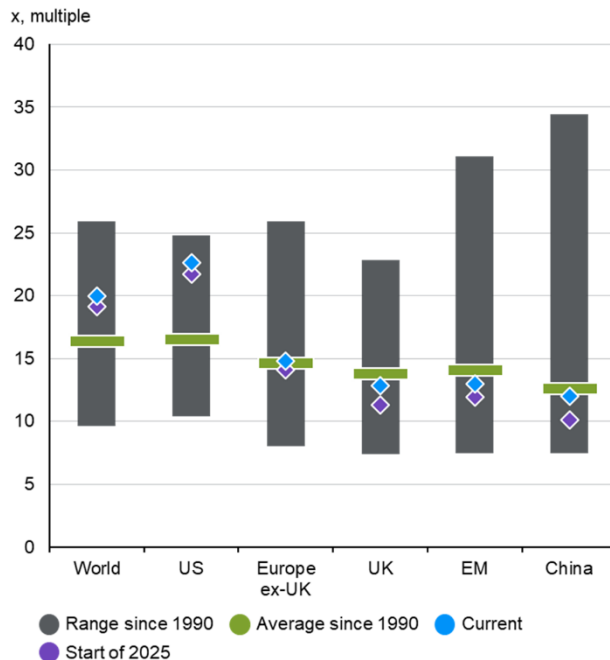
In currency markets, the U.S. dollar strengthened, while the euro and pound declined. Gold was flat, but stayed near all-time highs, up c. 30% YTD in USD terms. Oil surged 7.28%, reversing prior softness, while copper slumped almost -5%. Bitcoin was a notable winner, rallying 8.26% in July, almost double the value it was a year ago.

Overall, July's market narrative reflected selective equity strength, commodity volatility, and bond market headwinds. A reflection of the current market narratives and persistence in macro and policy uncertainty.

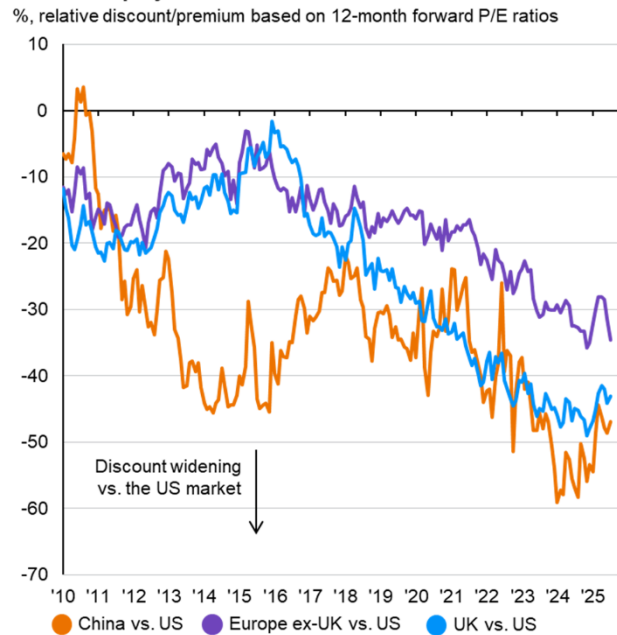
The importance of diversification cannot be overstated.

**Exhibit 1: Valuations continue to favour non-US equity markets. Whilst profit growth in the US remains robust, there is a sense that narratives are changing.**

**Global forward P/E ratios**



**Relative equity valuations**



**Source:** [JP Morgan – Guide to the Markets, 31/07/2025](#)

## ASSET ALLOCATION

The below tables set out our current tactical asset allocation views and the investment thesis behind these.

	Positioning	Investment Thesis
<b>FIXED INCOME</b>		
<b>DM – Government Bonds</b>	<b>NEUTRAL</b>	<p>Whilst yields in the U.S. Treasury markets are attractive, we note the risks from supply-demand mismatch, inflation and term-premia for longer duration U.S. Treasuries. We find short-dated TIPS especially attractive with high real rates relative to history.</p> <p>Duration in the U.K. Gilt market look more attractive as we believe long-term growth and inflation expectations remain too high.</p>
<b>DM – Corporate Bonds</b>	<b>UNDERWEIGHT</b>	The risk-reward profile remains unattractive given tight credit spreads and macroeconomic risks.
<b>EMD – Government Bonds</b>	<b>NEUTRAL</b>	The weaker US Dollar and attractive yields have boosted EM Govt bonds in H1 2025. Whilst we believe the current administration will ensure a weaker US Dollar prevail, the US Dollar looks to be breaking out of its weakening trend.
<b>EMD – Corporate Bonds</b>	<b>NEUTRAL</b>	<p>Risks include negative economic shock, FX-mismatch.</p> <p>Attractive security specific / RV opportunities, where we prefer high quality, short-duration and hard-currency credit, which offers attractive yields with lower relative risk.</p>
<b>ALTERNATIVES</b>		
<b>Property &amp; Infrastructure</b>	<b>NEUTRAL</b>	<p>We retain conviction behind infrastructure, especially in digital infrastructure and electrification where attractive and sustainable tailwinds persist. We believe infrastructure that provides long-term CF's and inflation protection offer attractive opportunities at current levels.</p> <p>Property markets remain uncertain and less attractive. Whilst there are perhaps niche / specific property assets with attractive characteristics, cap rates and valuations broadly do not reflect a higher interest rate regime we entered post-pandemic.</p>
<b>Commodities</b>	<b>OVERWEIGHT</b>	<p>We remain positive on precious metals, in particular gold, as geopolitical and economic uncertainty remains high, with optionality driven by policy missteps.</p> <p>Whilst sustainability of near-term demand remains uncertain, energy security, climate change, Asian growth, and the long-term demand characteristics, could provide attractive opportunities to increase exposure to the energy complex, Natural Gas in particular.</p>
<b>Private Equity</b>	<b>UNDERWEIGHT</b>	<p>Listed PE is always vulnerable to liquidity risks during periods of increased market dislocations. Furthermore, the risks from rising cost-of-capital and difficulties in refinancing is a risk we believe not fully reflected in private markets.</p> <p>We remain Underweight. On a selective basis, attractive discounts have opened up, which warrants attention.</p>
<b>Alternative Strategies</b>	<b>OVERWEIGHT</b>	<p>Uncertainty behind inflation and economic growth drive the opportunity for uncorrelated investment propositions, e.g. Hedge Funds. However, investors should consider the absolute opportunity relative to T-Bills.</p> <p>Attractive strategy specific opportunities exist with i) lower volatility, ii) uncorrelated profiles, iii) attractive risk-adjusted return expectations, and iv) long-volatility pay-off profile.</p> <p>We are especially bullish on CTA's and trend-following Managed Futures.</p>

	Positioning	Investment Thesis
<b>DEVELOPED MARKET EQUITY</b>		
<b>North America</b>	<b>UNDERWEIGHT</b>	<p>US equity market outperformance over the last 15 years has been significantly supported by multiple expansion, and valuations remain elevated on both absolute and relative levels. Despite the longer-term benefits from the AI revolution, we believe risks to profit margins remain significant.</p> <p>Whilst valuations in small and midcaps looks marginally more attractive, policy uncertainty and weakening sentiment we believe are major headwinds to U.S. small and midcaps.</p>
<b>UK</b>	<b>NEUTRAL</b>	<p>Whilst equity valuations, especially in the small and midcap market are attractive, political uncertainty, deteriorating economic outlook and inflation risks remain material. We retain a preference for high quality and stability and note the opportunity in small and midcap companies.</p>
<b>Europe ex-UK</b>	<b>NEUTRAL</b>	<p>Whilst FX and Stagflation risks remain material, we belief the changing European fiscal regime represents a major macroeconomic and policy shift in European policy. Valuations remain relatively attractive; however, we note a preference for quality and pricing power.</p>
<b>Japan</b>	<b>OVERWEIGHT</b>	<p>Attractive valuation, macroeconomic tailwinds and ongoing market reform all underpin the opportunity in Japan. Corporate Japan's strong balance sheet and low valuations make for attractive risk-reward profile.</p> <p>We believe the Japanese Yen is significantly undervalued, and exposure to Japan should not be hedged.</p>
<b>EMERGING MARKET EQUITY</b>		
<b>Asia ex-Japan &amp; China</b>	<b>OVERWEIGHT</b>	<p>We retain a preference for Asian emerging economies over non-Asian EM, driven by better fundamentals and lower reliance on externalities. However, we note the risks of contagion as China embark on a local deleveraging cycle and economic growth slows.</p> <p>India remains one of our highest conviction opportunities in the region, but valuations are stretched.</p>
<b>China</b>	<b>OVERWEIGHT</b>	<p>Overly pessimistic outlook and sentiment towards China are reflected in valuations. Whilst question marks with regards to demographics, real estate, debt, policy and alignment remain, sentiment is showing signs of turning less negative. The risk-reward remain very attractive, and selectively attractive long-term opportunities have emerged.</p>
<b>Latin America</b>	<b>OVERWEIGHT</b>	<p>The changing political and macroeconomic environment, specifically the benefits from the 'near-shoring' of supply chains and the consequences of deteriorating China-US relations, creates attractive opportunities in Central and South America.</p> <p>Some uncertainty remains in the near term from US-policy and the outlook for global growth.</p>
<b>EMEA</b>	<b>UNDERWEIGHT</b>	Preference for Asia & Latin America.

*“Qui Curat Vincit”*

## CONTACT US

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For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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