

Equity markets show resilience in a turbulent quarter



Quarter in brief

Equity markets rebounded after a tough start to the quarter

Oil markets saw significant volatility driven by tensions in the Middle East

The Bank of England and European Central Bank cuts lending rates whilst the Federal Reserve held steady

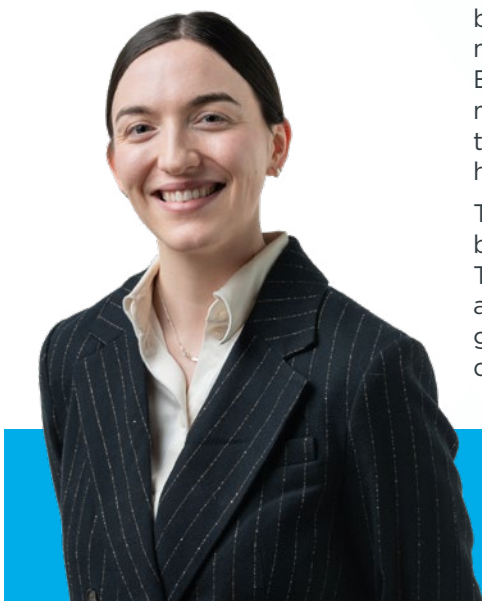
Long term gilt yields remain at persistently high levels

Global equity markets recovered strongly to finish 5% up over the quarter. Markets were able to recoup losses suffered in the aftermath of President Trump's 'Liberation Day'. Meanwhile growing tensions in the Middle East saw a temporary spike in oil prices despite increased supply from OPEC+ members.

The news headlines of the second quarter of 2025 were dominated by heightened global tensions, economically and militarily. In early April, the Trump administration announced sweeping tariffs against all US trading partners and "reciprocal" tariffs against those with whom the US incurred a trade deficit. The aggressive stance on trade from Trump in the event dubbed "Liberation Day" led to a third consecutive month of negative performance for global equities in April. However, global markets recouped those losses over May and June and finished in positive territory over the quarter. The S&P 500 index finished the quarter up by 11%, equating to 27% growth since its lowest intraday point in the aftermath of Liberation Day. A combination of better-than-expected US inflation figures, a softening of the US trade position and a return to form for the NVIDIA share price as it became the world's most valuable stock once again, ensured that US equities outpaced their European counterparts in the second quarter. The FTSE 100 and Stoxx 600 indices finished the quarter up just 2% and 1% respectively.

Oil prices sank to a 4-year low in May as Brent Crude slumped to just above \$60 per barrel. This was owing to a dramatic effort from OPEC+ members to increase supply to the market which had squeezed profits for US oil producers. However, the United States' involvement in the conflict between Iran and Israel caused investors to speculate on an increase in military confrontation which could threaten oil production in the Middle East. As the situation intensified, Brent Crude surged to \$77 per barrel in mid-June. Prices later stabilised at \$67 per barrel following the ceasefire tentatively held under the close watch of President Trump, following what he called "the 12 day war".

The Bank of England (BOE) cut its bank rate by 0.25% to 4.25% in May but chose to hold rates steady in their most recent meeting in June. The BOE continues to walk a tightrope of balancing reducing inflation against stagnating economic growth. Pressure is mounting for the UK government to increase taxes in the Autumn budget following a watering down of the welfare reform bill at the start of July which had previously



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sought to save £5bn through cuts in welfare spending. Inflation over the 12-months to May was well above the 2% target at 3.4%, however GDP fell by 0.3% in April, its biggest monthly drop since October 2023, although monthly fluctuations of this magnitude are a fairly common occurrence.

The European Central Bank (ECB) also voted to cut its lending rate by a quarter percentage point to 2% in June, as new data shows that inflation fell in May to just below the ECB's medium-term target of 2%. European markets are still pricing in just one more quarter point rate cut this year. In contrast, The Federal Reserve (Fed) has been facing sustained pressure from President Trump to cut their main lending rate, but the Fed's Chair, Jerome Powell, has held interest rates unchanged since December. The Fed has now cut their economic growth forecast and boosted their outlook for inflation, fearing the uncertain impact of Trump's tariff policy on its home economy.

Emerging markets have shown resilience against global trade tensions and escalating conflict to begin something of a quiet comeback. As the dollar sank to a 3-year low in June, investors were increasingly drawn to emerging market local currency debt which has gained circa 10% year to date. UK credit spreads widened in early April before a sharp tightening over May and June which saw UK corporate bonds

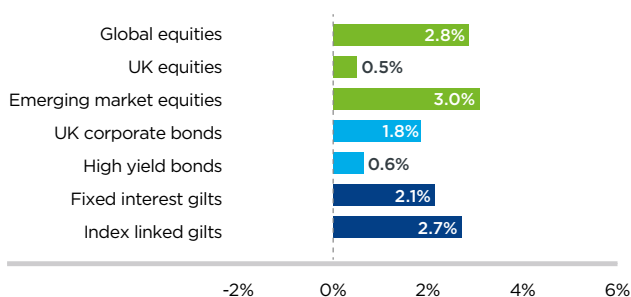
outperform the global bond market and deliver positive performance over the quarter. UK investment grade spreads remain at exceptionally tight levels by historic comparison.

Long dated government bond yields surged in early April to their highest level since 1998, triggered by ongoing geopolitical uncertainty, peaking at 5.6% for the 20-year gilt, dipping and then again marginally surpassing April's levels in May. Yields then fell back by the end of June, ending the quarter slightly higher than they started. Throughout the quarter, yields remained elevated due to continued global sell offs in the bond market. Long-term borrowing costs in the UK still exceed 5%, which is the highest of the G7 countries. The BOE now faces growing calls from investors to scale down its quantitative tightening programme which has contributed to rising yields over the past few years in conjunction with other factors that have affected global bond yields. Long-term inflation expectations declined modestly over the quarter, benefiting real yields. A combination of rising real gilt yields and positive performance from growth assets is expected to have been positive for the funding levels of UK DB pension schemes. Low dependency funding levels for aggregate UK DB schemes is estimated to have increased from 119% to 120% over the quarter.

Market returns

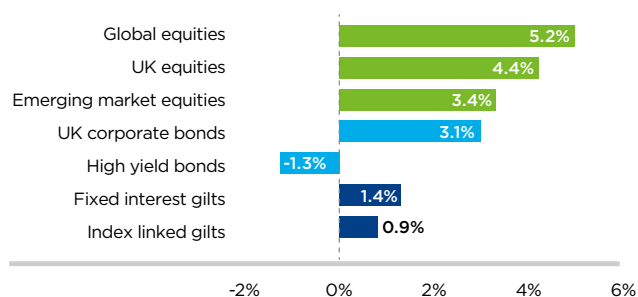
Global equities were the strongest performer over the quarter.

1 month to 30 June 2025



Source: Refinitiv

3 months to 30 June 2025



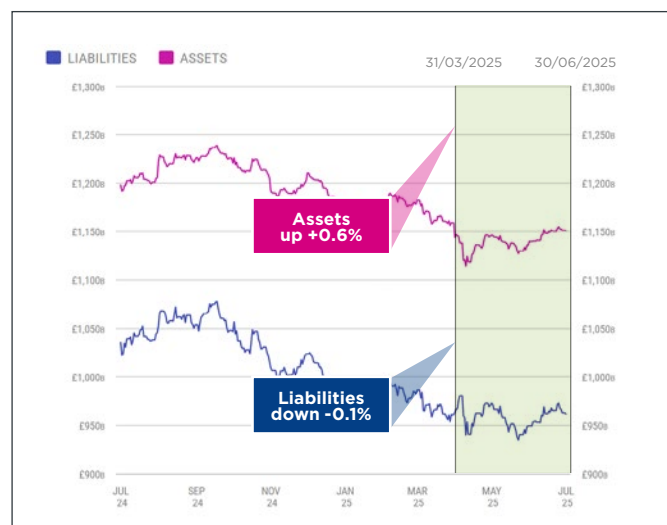
Source: Refinitiv



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Simeon Willis
Chief Investment Officer

Asset and liability progression for the DB:UK universe



Funding level progression for the DB:UK universe



Source: XPS DB:UK | www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 15.5% equities, 24.4% credit, 4.5% multi-asset, 5.9% property and 49.7% in liability driven investment (LDI) with the LDI overlay providing an 85% hedge on inflation and interest rates.

XPS Investment asset class views

Asset class	Favourable	Neutral	Unfavourable	Movement
UK Equity		●		
Developed Market Equity		●		↑
Emerging Market Equity		●		
Investment Grade Credit			●	
High Yield Credit			●	
Senior Secured Direct Lending		●		
Balanced Property	●			
Long Lease Property			●	
Private Equity		●		
Infrastructure		●		
Equity Protection Strategies	●			
Buy-in		●		
Cash		●		

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Find out more

To discuss any of the issues covered in this edition, please get in touch with **Simeon Willis** or **Emma Coleman**. Alternatively, please speak to your usual XPS contact.



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