

Global equities continue to recover despite a tough economic backdrop



Month in brief

Global equities delivered a third consecutive month of positive performance

The Federal Reserve held rates steady for a fifth consecutive meeting

The EU and US finalised a long awaited trade deal

UK gilts yields rose marginally and inflation expectations rose

Developed and Emerging Market equities both posted strong performance over the month to begin the second half of the year strongly. Despite even more pressure from President Trump, the Federal Reserve continued to hold borrowing costs in the US steady. However, the Bank of England voted on a quarter percentage rate cut in August as expectations for growth in the UK slowed.

The FTSE 100 index reached a record high in July and surpassed 9,000 points for the first time in history. UK equities were up 4%, outperforming the US and European stock markets which delivered 2% and 1% respectively. Emerging Market equities also came to the fore, bolstered by a weakening Dollar and investors tilting away from the US stock market.

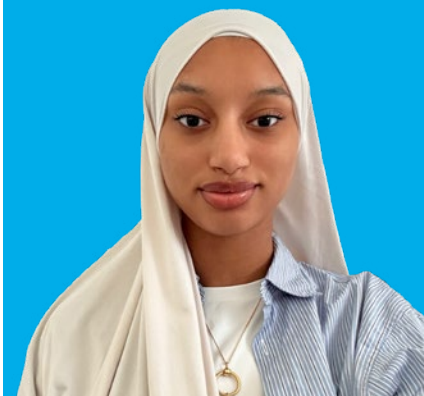
Federal Reserve ('Fed') Chair Jay Powell continues to come under pressure from President Trump to cut rates. So far, the Fed has remained hawkish with five consecutive rate pauses but July's meeting was the first time since 1993 that two committee members opposed the overall decision. The US labour statistics agency subsequently announced sluggish growth in the jobs market to put further downward pressure on the Dollar and offset much of the strengthening that had occurred earlier the month. The Dollar fell back by 1% against a basket of other currencies soon after the announcement as pressure continues to mount on the Fed to cut borrowing costs.

The European Central Bank ('ECB') also voted to keep their main lending rates steady in July, as inflation across the Eurozone is in line with their 2% target. The decision was taken in the context of ongoing



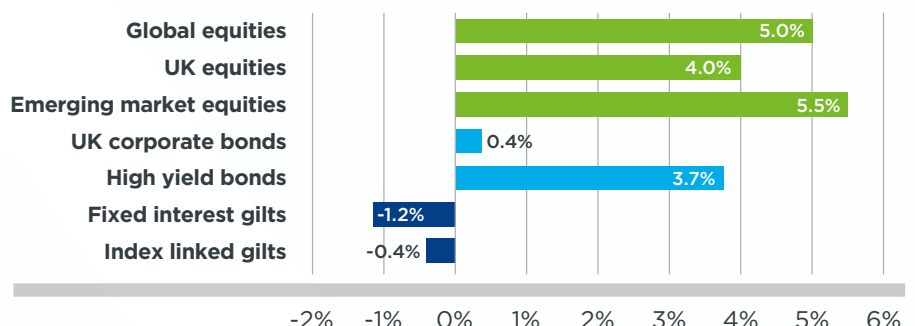
Click to watch Souadou's two-minute video.

Souadou Bah
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Both developed and emerging market equities performed well over July

One Month to 31 July 2025



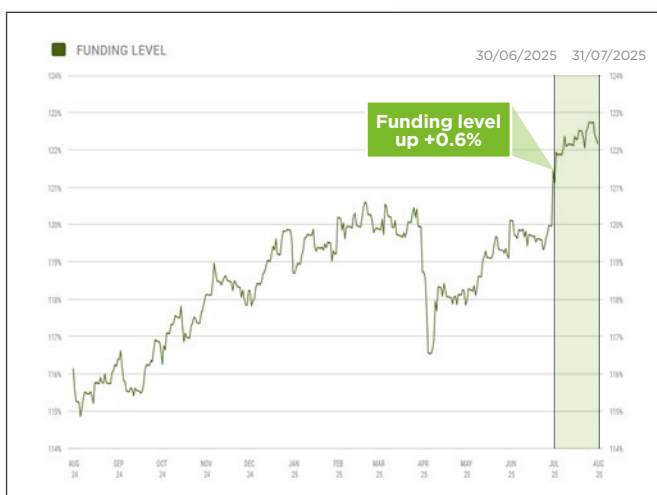
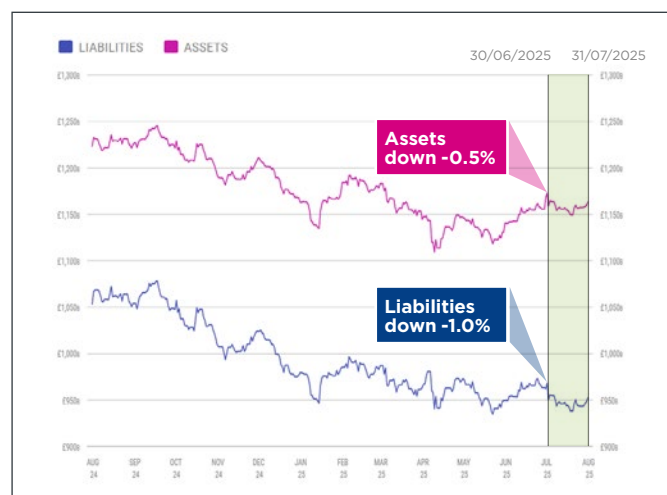
uncertainty surrounding the EU-US trade negotiations which were finalised ahead of the August deadline. Both parties eventually settled on a 15% levy on most European imports into the US. The outcome could create significant headwinds for European economic growth – particularly for its largest economy, Germany, which relies heavily on car exports to the US.

On the other hand, the Bank of England ('BOE') opted to cut rates by 0.25% in early August to 4.0% as it battles with slowing expectations for growth in the UK.

Inflationary pressures have persisted in the UK as CPI rose by 0.2% in June to an 18-month high of 3.6% and food inflation rose for the sixth consecutive month.

Speculation over the future of Chancellor Rachel Reeves caused volatility in the gilt market in early July with the 30-year gilt yield ending the month at 5.4%, up 0.2% from where it started the month. Index linked gilts outperformed their fixed interest counterparts, supported by rising future inflation expectations at longer maturities. UK investment grade corporate bond spreads remain close to historically tight levels, whereas high yield bonds have continued their run of strong performance.

The combination of a modest rise in gilt yields and positive returns for major growth asset classes has boosted aggregate UK DB pension scheme funding on a low risk basis over July.

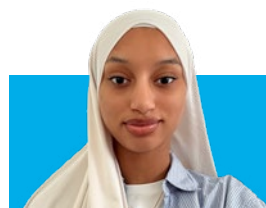


Source: XPS DB:UK www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

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 16.9% equities, 20.0% corporate bonds, 6.9% multi-asset, 5.1% property, 3.8% private markets and 47.3% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates.

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Souadou Bah**. Alternatively, please speak to your usual XPS contact.



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