Tariffs, trade wars and tensions in the Middle East

2025 Q2 review by Jake Winterton, Assistant Fund Manager, and Jasper Jogi, Multi Asset Analyst

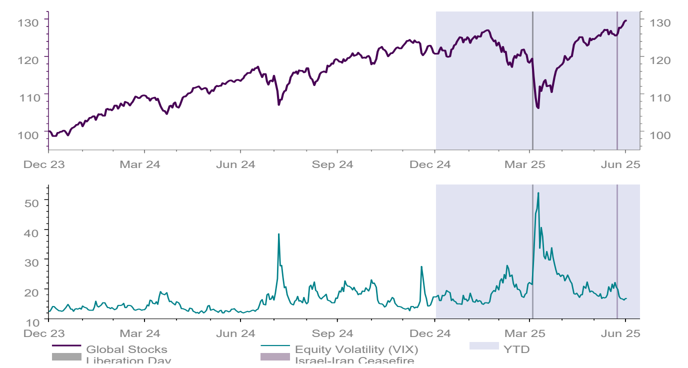
The quarter began with a sharp decline in risk assets, as the April 2 'Liberation Day' tariffs announced by US President Donald Trump saw equity market volatility spike to levels last seen during the Covid-19 sell-off (Chart 1). The S&P 500 index recorded its fifth-worst 2-day decline since World War II and even moved into bear market territory over the month (down 20% from its highs). However, since mid-April, stocks have been climbing the wall of worry and rising steadily higher, supported by a 90-day pause to reciprocal tariffs and a US-China trade deal that eased fears of a trade embargo between the world's two largest economies.

Geopolitical tensions were also a central theme over the quarter; Israel in June launched an air strike campaign on Iran, targeting nuclear and military facilities. Oil prices surged, with brent recording its largest daily jump since 2022 and gold reached new all-time highs on safe haven demand. Fortunately, the conflict was short-lived, and after a US strike on Iranian nuclear facilities, a ceasefire shortly followed (Chart 2). Commodity prices eased back to pre-escalation levels and risk appetite improved across the board, taking global equities to fresh highs.

On a tactical level, we covered our US underweight to neutral over first half of the period and have moved overweight more recently as earnings expectations have improved significantly amid easing recession fears. We remain overweight emerging market stocks which continue to outperform amid US dollar weakness. We are close to neutral in global equities and broad commodities, noting a risk of a slowdown in the global economy. Our Investment Clock is between Stagflation and Reflation, indicating a below-trend growth backdrop.

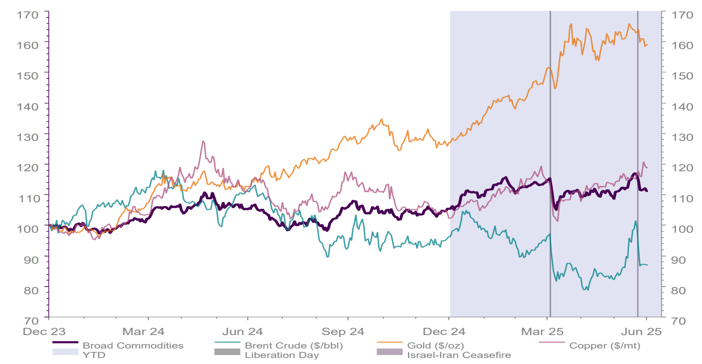
Please see the Investment Clock blog for our latest views.

Chart 1: Global equities have bounced back strongly



Source: Refinitiv Datastream as at 30/06/2025.

Chart 2: Gold remains near highs, oil near recent lows



Source: LSEG Datastream as at 30/06/2025.

Table 1: Sterling-based annual returns from major asset classes 2018 – Q2 2025

Year	2018	2019	2020	2021	2022	2023	2024	YTD
1	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +20.2%	UK Stocks +9.1%
2	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +7.9%	EM Stocks +14.8%	Property +3.2%
3	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	**Multi Asset +7.0%**	UK Stocks +9.5%	**Multi Asset +2.9%**
4	**Multi Asset -1.5%**	**Multi Asset +10.0%**	**Multi Asset +5.2%**	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%	**Multi Asset +7.8%**	EM Stocks +2.6%
5	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	**Multi Asset +8.4%**	**Multi Asset -7.4%**	Gilts +3.7%	Commodities +7.3%	Gilts +2.5%
6	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Property +7.0%	Cash +2.3%
7	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Cash +5.3%	Global Stocks +0.8%
8	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -3.3%	Commodities -3.6%

Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at June 2025; property as at May 2025. 'Multi Asset' returns are based on the benchmark weights of Royal London GMAP Balanced Fund. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index

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Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: US tech leads the post-Liberation Day rebound

- Global equities quickly recouped heavy Liberation Day losses to hit fresh highs as the 90-day pause to reciprocal tariffs and a US-China trade deal eased recession fears and revived demand for risk assets.
- North American stocks outperformed in local currency terms, driven by a 20%+ rally in the tech sector. Defensive sectors and the energy sector lagged in the rebound. European equities underperformed, alongside the defensive UK market, as optimism around fiscal policy support faded over the quarter.
- The ECB cut interest rates by another 50bps to 2.00% and BoE cut 25bps to 4.25%. The Fed held steady amid tariff-driven upside risks to inflation. Yields fell in the UK and Europe; were broadly unchanged in the US.
- Broad commodities fell, led by the energy complex. Oil drifted lower as OPEC+ added further supply to the market. Middle East tensions briefly lifted prices before a US-brokered ceasefire reversed gains.
- US dollar recorded its worst H1 since 1973 as demand for the greenback remained weak given elevated policy uncertainty. Swiss franc held onto most of its Liberation Day gains on haven demand.

FX	1 GBP buys	%chg Q2 (vs GBP)	%chg 2025 (vs GBP)
USD	1.37	-5.9	-8.7
EUR	1.17	2.4	3.8
CHF	1.09	4.8	4.3
JPY	197.8	-2.2	-0.4
AUD	2.09	-0.9	-3.0
CAD	1.87	-0.7	-3.6

CB rates	Rate (%)	chg in Q2 (%)	chg 2025 (%)
Fed	4.50	0.00	0.00
BoE	4.25	-0.25	-0.50
ECB	2.00	-0.50	-1.00
BoJ	0.48	0.00	0.25

Bond Yield	Yield (%)	chg in Q2 (bps)	chg 2025 (bps)
US 10 Year	4.23	2	-34
UK 10 Year	4.49	-19	-8
EU 10 Year	2.61	-13	24
JP 10 Year	1.43	-4	34

	Local Currency		GBP	
Multi Asset	Q2	2025	Q2	2025
UK Stocks	4.4	9.1	4.4	9.1
Global ex UK Stocks	9.7	7.3	5.3	0.8
Gilts	1.9	2.5	1.9	2.5
UK Cash	1.1	2.3	1.1	2.3
UK Property	1.2	3.2	1.2	3.2
Commodities	-3.1	5.5	-8.7	-3.6

	Local Currency		GBP	
Equity Regions	Q2	2025	Q2	2025
UK	4.4	9.1	4.4	9.1
North America	11.3	6.7	5.0	-2.3
Europe ex UK	3.7	10.3	6.2	14.3
Japan	7.6	3.4	4.9	2.8
Pacific ex Japan	11.2	6.7	13.1	5.2
Emerging Markets	6.7	8.9	3.4	2.6

Global	Local Currency		GBP	
Equity Sectors	Q2	2025	Q2	2025
Consumer Discretionary	7.3	-1.7	2.5	-8.1
Industrials	12.4	13.0	8.8	8.0
Financials	7.9	13.4	4.3	7.4
Consumer Staples	1.2	5.9	-2.3	0.3
Utilities	5.8	11.7	2.1	5.7
Healthcare	-5.6	-1.7	-9.2	-7.3
Energy	-5.5	2.5	-9.1	-3.5
Materials	2.8	6.4	0.3	2.0
Communication Services	3.7	15.7	0.8	11.1
Technology	21.6	7.2	16.2	-0.3

	Local Currency		GBP	
Bonds	Q2	2025	Q2	2025
Conventional Gilts	1.9	2.5	1.9	2.5
Index Linked Gilts	0.9	-0.6	0.9	-0.6
GBP Credit	2.8	3.5	2.8	3.5
Global High Yield	3.0	4.3	3.1	4.5

	Local Currency		GBP	
Commodities	Q2	2025	Q2	2025
Energy	-10.9	-1.2	-16.1	-9.7
Agriculture	-4.0	-2.1	-9.6	-10.5
Industrial Metals	-0.4	8.1	-6.2	-1.2
Precious Metals	4.9	24.1	-1.2	13.4

Note: Standard indices sourced from DataStream and Bloomberg as at 30 June 2025; property data as at May 2025.

Jake Winterton is the assistant fund manager, and Jasper Jogi is the analyst within Royal London Asset Management's multi asset team. The team manages portfolios including the Governed Range pension portfolios, the Global Multi Asset Portfolios (GMAPs), Multi Asset Strategies Fund (MAST) which is available on third party platforms and the euro based multi asset funds that form the core of the Royal London Irish pensions offering.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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Issued in July 2025 by Royal London Asset Management Limited, 80 Fenchurch Street, London, EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

Our ref: AL RLAM PD 0203