



# June 2025 Quarter in Review

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# FAST-MOVING US TARIFF POLICY CONTINUES TO DRIVE MARKET MOVEMENTS



The Trump administration's relaxation of some of the aggressive "Liberation Day" tariffs announced in April helped ease global growth concerns, with trade relations between the US and China improving over the quarter. Global equities recovered from heavy losses as trade tensions and recession fears receded.

Germany's draft budget for 2025 suggested more spending than anticipated. Other developed nations are also set to raise defence spending in the coming years, and are likely to increase debt issuance.

Government bond returns were also positive due to falling bond yields, with the European Central Bank (ECB) reducing rates further in Q2.

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## US

"Liberation Day" saw President Trump announce more aggressive and far-reaching tariffs than expected, with an across-the-board 10% tariff on all imports and varied "reciprocal" tariff levels using a formula based on the foreign country's trade deficit with the US. The reciprocal tariffs implied a 20% rate for the European Union and 34% for China, with other countries set to pay even higher levies. The 10% tariffs were imposed, but the following week Trump announced a 90-day delay to allow for negotiations with trading partners. However, with China not seeking to negotiate, the trade war escalated with tit-for-tat tariff increases culminating in America announcing a 145% tariff on Chinese imports while China raised its tax on US imports to 125%. US-China trade talks were eventually held, and resulted in an agreement that US tariffs would be reduced to 30% and China tariffs to 10%. Increased exports of rare earths from China to the US were also agreed.

The credibility of Trump's tariff threats was called into question when the US Court of International Trade ruled in May that those announced on "Liberation Day" were illegal since the president's use of emergency economic powers, which underpins his ability to impose the import taxes, was not justified. However, the tariffs can remain in place pending an appeal with the federal court that the Trump administration launched, with arguments scheduled for 31st July.

Against this backdrop, hard data in the US has remained resilient. The employment report showed 139,000 non-farm jobs were added in May, which was higher than expected and pointed to a still-strong labour market. By contrast, some sentiment indicators deteriorated due to the impact of tariff-related uncertainty. ISM manufacturing unexpectedly declined in May mainly due to lower export orders, falling to the lowest level in five years. However, other components including new orders, production and employment rose from April.

America's Q1 GDP contracted for the first time since 2022, falling by 0.5% q/q annualised. Imports rose sharply in anticipation of tariff implementation, resulting in net exports subtracting 4.6% from the headline figure. Consumer spending also slowed to 0.5% from 4.0% in Q4. By contrast, business fixed investment expanded by 7.6%, supported by a surge in information processing equipment.

Consumer prices have thus far experienced minimal upward pressure from tariffs, though the impact is expected to come

through in the second half of 2025. Headline prices rose by 2.4% y/y in May and core prices were up by 2.8%. The uncertain impact of tariffs meant that the Federal Reserve kept its key rate unchanged at its June policy meeting. Policymaker projections show that two rate cuts are still expected in 2025, but growth forecasts for the year were reduced to 1.4%. Inflation expectations rose to 3.1%. There was some suggestion that the Fed could cut rates over the summer, but Chair Powell said that the central bank would wait and see how the data evolved "before considering any adjustments" to the policy stance.

Meanwhile, stimulus measures were announced as part of the budget reconciliation bill that was passed by the House of Representatives – the so-called "One Big Beautiful Bill Act" – which reached the Senate at the end of Q2. The bill included an extension of the 2017 tax cuts for individuals while also reducing the tax burden in certain areas. Spending on defence and immigration enforcement is set to rise, but the plan also involves discretionary expenditure cuts. Overall, the bill is expected to widen the US budget deficit, and was one of the factors that led Moody's to downgrade America's sovereign debt rating to Aa1 in May.

## Europe

Eurozone Q1 GDP rose by more than forecast with a 0.6% q/q increase, up from 0.3% in Q4. This was driven by strong growth in Ireland (+9.7%) and a healthy expansion in Spain (+0.6%). Output rebounded in Germany (+0.4%) over the period after a 0.2% contraction in Q4.

Consumer price inflation in the Eurozone in May was below the ECB's 2% target at 1.9% y/y at the headline level, which was lower than market expectations and down from 2.2% in April. Core inflation and services inflation also decelerated to 2.3% and 3.2%, respectively. This supported the case for further ECB rate cuts, with the central bank reducing its deposit rate by 50bps to 2.0% during Q2, though President Lagarde also stated after the June meeting that the current monetary easing cycle had "nearly concluded".

Germany's draft budget revealed bigger spending plans than expected, with a budget deficit of 3.4% of GDP projected for 2025 and 3.7% in 2026, up from 1.2% in 2024. This is being driven by a substantial increase in defence spending. Relatedly, Nato's 32 members agreed to spend 5% of GDP on defence by 2035, which could result in a substantial rise in fiscal spending in Europe.

# MARKET ROUND-UP

## Equities

Global equities, as represented by the MSCI All Country World Index (ACWI) recovered from heavy losses following the “Liberation Day” shock and rallied by 9.5% (2.8% in euro terms) in Q2.

US stocks were supported by reduced recessionary risks, improving news flow on tariffs and stabilising earnings revisions, which helped push the MSCI USA to a new historical high and a gain of 11.4% (2.5% in euro terms) over the period. The MSCI Europe ex-UK rose by 3.6% (3.7% in euro terms).

## Bonds

The ICE BofA 5+ Year Euro Government bond index returned 2.3% as 10-year German Bund yields fell by 10bps to 2.60% amid further monetary easing by the ECB during the quarter.

European investment-grade (IG) corporate bonds returned 1.7%, with yields falling by 18bps to 3.16% while spreads narrowed by 4bps to 90bps over the period. Global high-yield bonds returned 3.1% in Q2, also supported by a decline in yield of 48bps to 6.26%. Spreads narrowed by 46bps to 232bps.

Emerging market local debt returned -0.5% in Q2, with weaker EM currencies against the euro outweighing the capital gains from the fall in yields over the period by 28bps to 6.07%. EM hard debt returned 2.6% as the asset class was supported by a weaker US dollar, which reduces debt repayments in local currency terms, as well as a 20bps fall in yields over the period to 6.73%.

Meanwhile, peripheral Eurozone bond spreads narrowed as German yields fell by less than those elsewhere in the region partly due to the large increase in government debt expected from Germany’s fiscal package. Italian 10-year spreads over equivalent German Bunds fell by 26bps to 88bps, while spreads for Spanish government bonds were unchanged at 63bps. French spreads fell by 5bps in Q2 to 68bps.



## CHARTS OF THE MONTH

Global equities



Source: ILIM, FactSet. Data is accurate as at 30 June 2025.

Bonds – German 10-year yield



Source: ILIM, FactSet. Data is accurate as at 30 June 2025.

# MARKET SNAPSHOT

## Market returns (EUR)



Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	7.6	20.0	22.8
MSCI United Kingdom	0.0	5.2	14.7
MSCI Europe ex UK	3.7	10.3	7.7
MSCI North America	2.6	-5.9	32.9
MSCI Japan	2.5	-1.2	15.9
MSCI EM (Emerging Markets)	3.2	1.9	15.3
MSCI AC World	2.8	-2.7	25.9
10-Year Yields	Yield last month	2024 Yield (%)	2023 Yield (%)
US	4.23	4.57	3.88
Germany	2.60	2.35	2.02
UK	4.49	4.56	3.54
Japan	1.44	1.09	0.61
Ireland	2.90	2.63	2.38
Italy	3.47	3.51	3.69
Greece	3.26	3.23	3.06
Portugal	3.04	2.84	2.66
Spain	3.17	3.04	2.99
FX Rates	End last month	2024 Rates	2023 Rates
U.S. Dollar per Euro	1.17	1.04	1.10
British Pounds per Euro	0.86	0.83	0.87
U.S. Dollar per British Pounds	1.37	1.25	1.27
Commodities (USD)	QTD Return (%)	YTD Return (%)	2024 Return (%)
Oil (Brent)	-9.5	-9.4	-3.1
Gold (Oz)	5.5	25.3	27.1
S&P Goldman Sachs Commodity Index	-2.8	1.9	9.2

Source: ILIM, Bloomberg. Data is accurate as at 1 July 2025.

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## THE ILM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The eventual expected agreement of trade deals, avoidance of a recession, positive earnings growth, strong consumer balance sheets, ongoing disinflation in Europe, rate cuts and a corporate-friendly stance from the US government should mean a favourable environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 18.6x against a long-term average of 16.2x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 22.3x against a long-term average of 16.5x. Equities outside the US offer better relative value. Europe ex-UK equities trade at a multiple of 15.1x against a long-term average 13.4x; Japanese equities trade at 14.8x versus a long-term average of 15.1x; UK equities trade at 12.7x against a long-term average of 12.5x; and emerging markets are trading at 12.9x against a long-term average of 11.4x. Equities remain expensive against both bonds and cash given the high yields currently available on these assets.

Despite equities appearing fully valued, the outlook on a 12-month view is constructive. With growth expected to remain positive and US corporates eventually set to benefit from growth-friendly policies from the Trump administration later in 2025, earnings are forecast to rise over the next 1-2 years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly, central banks can cut rates further through 2025, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.60% and 4.23% to 2.25% and 3.75%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.



# THE MONTH AHEAD

## JULY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				<p><b>04</b></p> <p>Japan Household Spending MoM, YoY Germany Factory Orders MoM UK S&amp;P Global Construction PMI</p>
<p><b>07</b></p> <p>Germany Industrial Production MoM UK Halifax House Price Index MoM, YoY</p>	<p><b>08</b></p> <p>Japan Current Account Australia RBA Interest Rate Decision Germany Balance of Trade, Exports MoM, Imports MoM France Balance of Trade Canada Ivey PMI</p>	<p><b>09</b></p> <p>China Inflation Rate YoY, MoM US MBA 30-Year Mortgage Rate, FOMC Minutes Mexico Inflation Rate MoM, YoY</p>	<p><b>10</b></p> <p>Korea Interest Rate Decision UK RICS House Price Balance Brazil Inflation Rate MoM, YoY US Initial Jobless Claims</p>	<p><b>11</b></p> <p>UK GDP MoM, Goods Trade Balance, Industrial Production MoM, Manufacturing Production MoM Canada Unemployment Rate Brazil Business Confidence Russia Inflation Rate MoM, YoY US Monthly Budget Statement</p>
<p><b>14</b></p> <p>Japan Machinery Orders MoM, YoY India Inflation Rate YoY</p>	<p><b>15</b></p> <p>China GDP Growth Rate YoY, Industrial Production YoY, Retail Sales YoY Germany Wholesale Prices MoM, YoY Euro Area ZEW Economic Sentiment Index Germany ZEW Economic Sentiment Index Canada Inflation Rate YoY, Core Inflation Rate YoY US Core Inflation Rate MoM, YoY; Inflation Rate MoM, YoY</p>	<p><b>16</b></p> <p>UK Inflation Rate YoY, MoM; Core Inflation Rate YoY, MoM Euro Area Balance of Trade US PPI MoM, Core PPI MoM, Industrial Production MoM</p>	<p><b>17</b></p> <p>Japan Balance of Trade UK Unemployment Rate US Retail Sales MoM, Export Prices MoM, Import Prices MoM, Initial Jobless Claims</p>	<p><b>18</b></p> <p>Japan Inflation Rate YoY Germany PPI YoY Spain Balance of Trade US Building Permits (Prel), Housing Starts, Michigan Consumer Sentiment (Prel)</p>
	<p><b>22</b></p> <p>Korea Consumer Confidence</p>	<p><b>23</b></p> <p>Euro Area Consumer Confidence Flash US Existing Home Sales</p>	<p><b>24</b></p> <p>Japan, India, Germany, Euro Area, UK, US Composite PMI Flash, Manufacturing PMI Flash, Services PMI Flash Germany GfK Consumer Confidence Euro Area Interest Rate Decision</p>	<p><b>25</b></p> <p>UK GfK Consumer Confidence, Retail Sales MoM, CBI Business Optimism Index, CBI Industrial Trends Orders France Consumer Confidence Germany Ifo Business Climate US Durable Goods Orders MoM</p>
<p><b>28</b></p> <p>India Industrial Production YoY, Manufacturing Production YoY US Dallas Fed Manufacturing Index</p>	<p><b>29</b></p> <p>Spain GDP Growth Rate QoQ Flash, YoY Flash UK BoE Consumer Credit, Mortgage Approvals, Mortgage Lending US Goods Trade Balance Adv, JOLT's Job Openings, CB Consumer Confidence</p>	<p><b>30</b></p> <p>France GDP Growth Rate QoQ Prel, YoY Prel Germany Retail Sales MoM, YoY, GDP Growth Rate QoQ Flash, YoY Flash Euro Area GDP Growth Rate QoQ Flash</p>		

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