ILIM

Life \ Pensions \ **Investments**

July 2025
Market Pulse

more **INVESTED**

US STRIKES RANGE OF TRADE DEALS, LEADING TO IMPROVED SENTIMENT

Tariff-related tensions continued to ease in July, with the US agreeing deals with numerous trading partners including the EU, Japan and Vietnam.

Global economic data remains robust, with a growth shock from tariffs yet to materialise, though July employment data in the US indicated weaker conditions.

Global stock markets rallied during the month, supported by improving trade relations, healthy economic activity and a positive Q2 earnings season. This backdrop reduced the likelihood of further monetary easing from the Federal Reserve and the European Central Bank (ECB), which helped push up bond yields.

The US dollar rose against the euro as the outlook improved for American assets due to a softer stance on tariffs and fiscal stimulus measures.

Lenny McLoughlin

Chief Investment Strategist, Irish Life Investment Managers Limited (ILIM)

US

Tariff-related developments were generally constructive in July. The US and EU struck a trade deal with a 15% tariff rate being agreed on most goods and a zero-for-zero deal on selected items. Japan agreed with the US that Japanese imports to America would be taxed at 15%, which was 10% lower than the rate initially threatened by President Trump. Finally, the US and Vietnam reached an agreement whereby the latter's exports would have a tariff of 20%, down from the 46% announced on "Liberation Day", while American exports to Vietnam will have no tariffs applied to them. By contrast, the US escalated tensions in other areas as Trump announced a 50% tariff on copper imports, excluding those that are refined, and the same rate for all imports from Brazil.

Early in the month, the One Big Beautiful Bill Act was passed by the House and signed into law by President Trump. The Act should support growth, as it will result in an estimated net $3.4 trillion of fiscal stimulus over the next 10 years, equivalent to some 1.2% of GDP annually. Tariffs, however, will act as a partial offset and are estimated to raise $2.8tn for the US government over the next 10 years. The debt ceiling was also raised by $5tn, which means that the limit is not likely to be reached until 2027.

Meanwhile, economic data was resilient in July. Overall activity rebounded in Q2, with GDP expanding by 3.0% q/q annualised from -0.5% in Q1, supported by a 1.4% rise in consumer spending and net exports reversing most of the drag in Q1 that had been caused by import frontloading ahead of tariff implementation. June employment data was firm, with 147K non-farm jobs added against 144K in May and 158K in April. The unemployment rate unexpectedly fell to 4.1%, while average hourly earnings rose by 3.7%, all of which suggest a healthy labour market. This backdrop was likely supportive of consumption, with June retail sales expanding by 0.6% m/m, comfortably above expectations and rebounding from a 0.9% fall in May.

However, in early August there were concerns around slowing activity as July employment data was lower than expected and previous months' data were revised sharply lower. Only 73K jobs were added in July, while the figures for May and June were reduced by a cumulative 258K. This led the Trump administration to fire the Chief of the Bureau of Labour Statistics (BLS), leading to concerns over the future impartiality of economic data releases.

Consumer-price inflation accelerated in June, with headline consumer prices rising by 2.7% y/y while the core measure (which excludes volatile items like food and energy) was up by 2.9%. The underlying details suggested that tariffs were pushing up prices, with household appliance prices increasing at the fastest pace on record (1.9% m/m). The Fed left its policy rate unchanged at a target range of 4.25-4.50%. While the Federal Open Market Committee viewed the economy as healthy, Chair Powell highlighted that the labour market faces "downside risks", thereby leaving open the possibility of a September rate cut. Following the weak non-farm payroll data in early August, the market was almost fully discounting a 25 bp rate cut in September.

Europe

Q2 GDP in the Eurozone rose by 0.1% q/q, decelerating from 0.6% in Q1. The outturn was above consensus expectations, driven by upside surprises in France (0.3% q/q) and Spain (0.7%) with both countries supported by improved household consumption.

The ECB left its deposit rate unchanged at 2.0% at its July meeting, in line with market forecasts, and President Lagarde stated that the central bank was now "in a wait-and-watch situation". Interest-rate markets subsequently priced in a lower probability of rate cuts for the rest of 2025. July consumer-price inflation was unchanged from June at both the headline (2.0% y/y) and core (2.3%) levels.

MARKET ROUND-UP

Equities

Global stock markets continued to rally in July, supported by easing trade tensions, resilient economic data and supportive Q2 earnings announcements and guidance.

The MSCI All Country World index ended the month up by 2.2% (4.0% in euros), with the MSCI USA rising by 2.3% (4.9% in euros) to new historical highs, supported by improving news flow on tariffs.

Easing trade tensions and healthy economic data from China helped push up the MSCI Emerging Markets (EM) index by 3.4% (4.6% in euros). European stocks underperformed the US for a third consecutive month, with the MSCI Europe ex-UK lower by -0.2% (0.0% in euros) in July.

Bonds

Eurozone government bond returns were negative as capital losses from increased bond yields offset carry. The 10-year German Bund yield rose by 10bps in July to 2.70%; the German government announced larger than expected fiscal deficits in coming years as it attempted to front-load stimulus measures. The ICE BofA 5+ Year Euro Government bond index returned -0.4%.

CHARTS OF THE MONTH

Global equities

Source: ILIM, FactSet. Data is accurate as at 31 July 2025.

Bonds – German 10-year yield

Source: ILIM, FactSet. Data is accurate as at 31 July 2025.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	-1.0	18.7	22.8
MSCI United Kingdom	3.4	8.8	14.7
MSCI Europe ex UK	0.0	10.3	7.7
MSCI North America	4.8	-1.3	32.9
MSCI Japan	1.1	-0.1	15.9
MSCI EM (Emerging Markets)	4.6	6.7	15.3
MSCI AC World	4.0	1.2	25.9

10-Year Yields	Yield last month	2024 Yield (%)	2023 Yield (%)
US	4.36	4.57	3.88
Germany	2.70	2.35	2.02
UK	4.57	4.56	3.54
Japan	1.56	1.09	0.61
Ireland	2.90	2.63	2.38
Italy	3.52	3.51	3.69
Greece	3.36	3.23	3.06
Portugal	3.10	2.84	2.66
Spain	3.22	3.04	2.99

FX Rates	End last month	2024 Rates	2023 Rates
U.S. Dollar per Euro	1.14	1.04	1.10
British Pounds per Euro	0.86	0.83	0.87
U.S. Dollar per British Pounds	1.32	1.25	1.27

Commodities (USD)	MTD Return (%)	YTD Return (%)	2024 Return (%)
Oil (Brent)	7.3	-2.8	-3.1
Gold (Oz)	0.0	25.3	27.1
S&P Goldman Sachs Commodity Index	3.6	5.6	9.2

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

THE ILIM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The agreement of trade deals provides clarity and helps remove uncertainty. While tariffs are higher than at the start of the year, they are at levels which should avoid a recession. Earnings forecasts have stabilised and show positive growth, consumer balance sheets are strong, ongoing disinflation is evident in Europe and expected Fed rate cuts and a corporate-friendly stance from the US government all 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 are set to remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 18.9x 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 22.5x against a long-term average of 16.5x. Equities outside the US offer somewhat better relative value. Europe ex-UK equities trade at a multiple of 15.0x against a long-term average 13.4x; Japanese equities trade at 15.2x versus a long-term average of 15.1x; UK equities trade at 12.9x against a long-term average of 12.5x; and emerging markets are trading at 13.2x 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 new administration later in 2025, earnings are forecast to rise over the next one to two 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 to 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 2.70% and 4.36% 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

AUGUST

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				08 Japan Household Spending MoM, YoY France Unemployment Rate Canada Unemployment Rate
	12 Australia RBA Interest Rate Decision UK Unemployment Rate Germany ZEW Economic Sentiment Index Brazil Inflation Rate MoM, YoY US Core Inflation Rate MoM, YoY; Inflation Rate MoM, YoY; CPI	13 US MBA 30-Year Mortgage Rate	14 Korea Unemployment Rate Australia Unemployment Rate UK GDP Growth Rate QoQ, YoY Prel, GDP MoM Euro Area Employment Change QoQ, YoY Prel, Industrial Production MoM US PPI MoM, Core PPI MoM	15 Japan GDP Growth Rate QoQ, Annualised Prel China House Price Index YoY, Industrial Production YoY, Retail Sales YoY Germany Wholesale Prices MoM, YoY UK Goods Trade Balance, Industrial Production MoM, Manufacturing Production MoM US Retail Sales MoM, Export Prices MoM, Import Prices MoM, Industrial Production MoM, Michigan Consumer Sentiment Prel
18 Spain Balance of Trade Euro Area Balance of Trade Canada Housing Starts US NAHB Housing Market Index	19 Australia Westpac Consumer Confidence Change Canada Inflation Rate YoY, Core Inflation Rate YoY, Inflation Rate MoM US Building Permits Prel, Housing Starts	20 Japan Balance of Trade, Exports YoY China Loan Prime Rate 1Y, 5Y Germany PPI YoY, MoM UK Inflation Rate YoY, MoM; Core Inflation Rate YoY, MoM US FOMC Minutes	21 S&P Global PMIs for Australia, Japan, UK, US India HSBC PMI HCOB PMIs for Germany, Euro Area Euro Area Consumer Confidence Flash US Existing Home Sales	22 UK GfK Consumer Confidence; Retail Sales MoM, YoY; CBI Industrial Trends Orders Japan Inflation Rate YoY; Core Inflation Rate YoY Canada Retail Sales MoM Prel, Final
25 Germany Ifo Business Climate US Chicago Fed National Activity Index, New Home Sales, Dallas Fed Manufacturing Index	26 Australia RBA Meeting Minutes France Consumer Confidence US Durable Goods Orders MoM, S&P/Case-Shiller Home Price MoM, CB Consumer Confidence	27 Germany GfK Consumer Confidence France Unemployment Benefit Claims UK CBI Distributive Trades US MBA 30-year Mortgage Rate Russia Unemployment Rate	28 EU New Car Registrations YoY Euro Area Economic Sentiment India Industrial Production YoY, Manufacturing Production YoY Canada Current Account Mexico Unemployment Rate US GDP Growth Rate QoQ (second estimate), Corporate Profits QoQ Prel, GDP Price Index QoQ (second estimate), Initial Jobless Claims, Pending Home Sales	29 Japan Unemployment Rate, Industrial Production MoM Prel, Consumer Confidence

Source: tradingeconomics.com

Contact us

Phone (01) 704 1200
Fax 01 704 1918
Website www.ilim.com
Write to Irish Life Investment Managers, Beresford Court, Beresford Place, Dublin 1