MARKET UPDATE
June 2025

The Minster Partnership

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Following the market turbulence of the two previous years, 2024 proved to be a much stronger period for markets, with most portfolios generating attractive returns and the acceptance of greater risk generally being rewarded with higher returns.

From late 2023 we saw markets recover from an uncertain economic environment due to high inflation and threats of a global recession resulting from an unprecedented period of aggressive interest rate hikes. Inflation has fallen to more manageable levels across the world, and we have largely avoided a recession in major economies thus far. However, inflation continues to be a threat, particularly with the re-election of President Trump last year.

Whatever your views on Trump and the election outcome, US stock markets gathered pace and hit new highs after his victory, buoyed by the conclusive election outcome and the welcome of a more business-friendly administration. With the Republican party now controlling both houses of the US government, Trump's decisive victory meant decisions could be made and his policies widely implemented.

Trump's policies on imposing tariffs are undoubtedly inflationary and he initially introduced these much more aggressively than many expected. Similarly, the UK government's policies on raising National Insurance, increasing the minimum wage, and adding VAT to school fees, are also likely to contribute to higher inflation on home shores.

The Consumer Prices Index (CPI) latest data shows the annual rate of inflation in the UK was 3.5% over the year to April 2025. Despite being above the Bank of England's 2.0% target, this remains well below the peak of over 11.0% during the last few years and is broadly expected to come down later this year and continue this trajectory next year.

In recent months, Trump's tariff announcements caused huge ripples in stock markets due to concerns over the impact on inflation, the global economy, and the prospect of a full-blown trade war. China retaliated with a like-for-like tariff on US goods, resulting in tariffs well over 100%. In a fast-changing environment, the US paused "reciprocal" tariffs for 90 days for all countries except China, leading to a welcome rally across most global markets, and in the last month a similar pause has been agreed between the US and China, further buoying stock markets.

These inflationary pressures mean that cuts to interest rates may be slower than previously expected in most regions, as central banks aim to perform a 'balancing act' between keeping inflation under control and maintaining economic growth and avoiding a recession. In the UK, economic growth has faltered since the Labour government took power and with inflation being a concern, the Bank of England is likely to be wary of cutting interest rates too quickly and further fuelling inflation.

Our broad expectation for 2025 is that we will see further global interest rate cuts, but these may not be as aggressive as policymakers would ideally like, due to being hamstrung by inflation numbers. Whilst the first few months of this year have been a roller coaster ride for stock markets, many have already regained the losses suffered in the aftermath of ‘Liberation Day’ following Trump’s pause on tariffs. Bond markets should also be supported by cuts to interest rates this year.

Markets are likely to remain volatile for the foreseeable future, and we feel this will be best navigated by holding a suitably diversified portfolio. Volatility is always the price paid for the prospect of higher long-term returns and this year is likely to be no different as returns on cash/savings are likely to continue to fall as interest rates are cut.

Despite the intense uncertainty and disruption over the last few years, and the recent shock to global equities, performance over the longer-term remain attractive for most investors, with the acceptance of risk providing superior returns to cash over the medium to long term. This shows that patient long-term investors are generally rewarded over time, and we expect this to continue to be the case moving forwards.