

# Monthly Markets Update

31 July 2025



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- US equities reach new highs
- Interest Rates steady
- Sterling under pressure



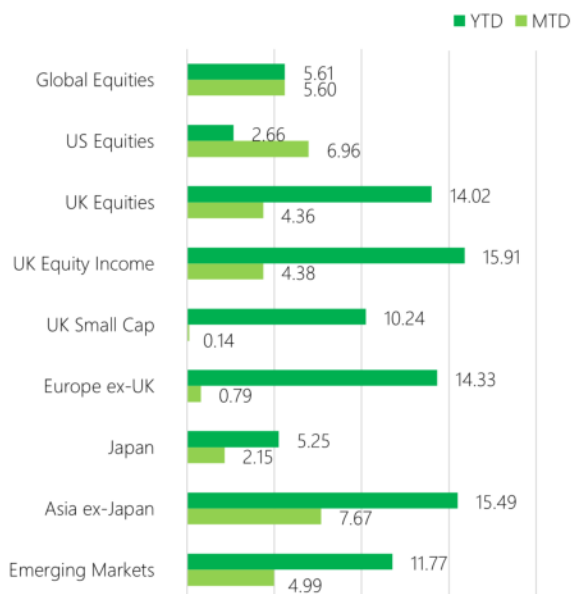
## Key points

1. US equities reached new, driven by strong demand for artificial intelligence (AI), and a boost from changes in the tax regime.
2. The Fed and Bank of England held rates steady while signalling future cuts.
3. Sterling came under pressure this month with currency exchange rate volatility being a key swing factor this year.

## Equities

Global Equities closed the month +5.60% MTD. US equities rose +6.96% MTD, UK equities were up +4.36% MTD, and European equities were up +0.79% MTD, all in GBP terms.

Equities performance (GBP) as at 31-Jul-25

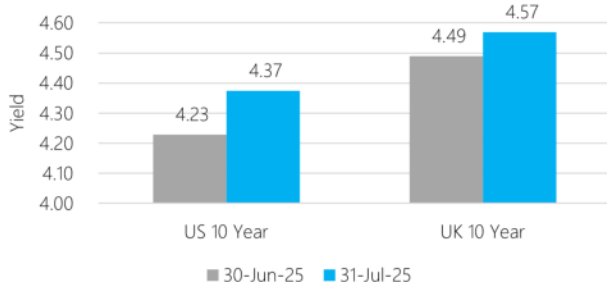


\*Elston Indices

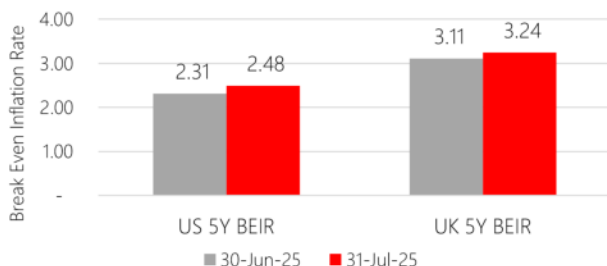
## Bonds

UK 10-year Gilt yields increased from 4.49% to 4.57%. US 10-year Treasury yields increased from 4.23% to 4.37%. 5Y UK BEIR increased from 3.11% to 3.24%. Within bonds, EM USD Debt and Global Aggregate Bonds were top performers, returning 4.84% and 2.14% MTD respectively.

US & UK 10Y Govt Bond Yields

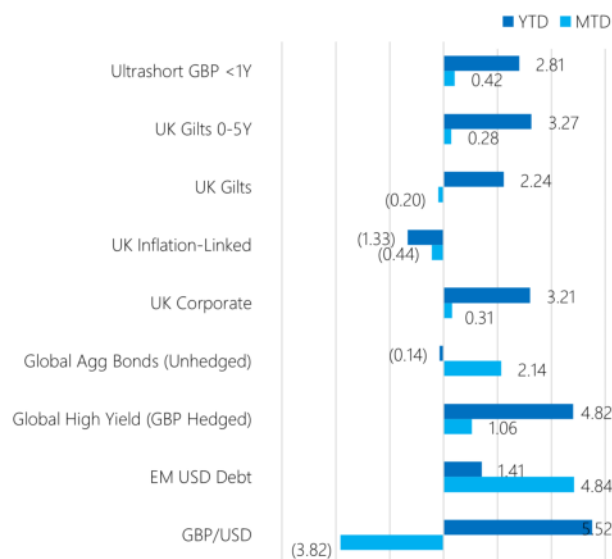


US & UK 5Y Breakeven Inflation Rates



Source: Elston research, Bloomberg data

Bonds performance (GBP) as at 31-Jul-25

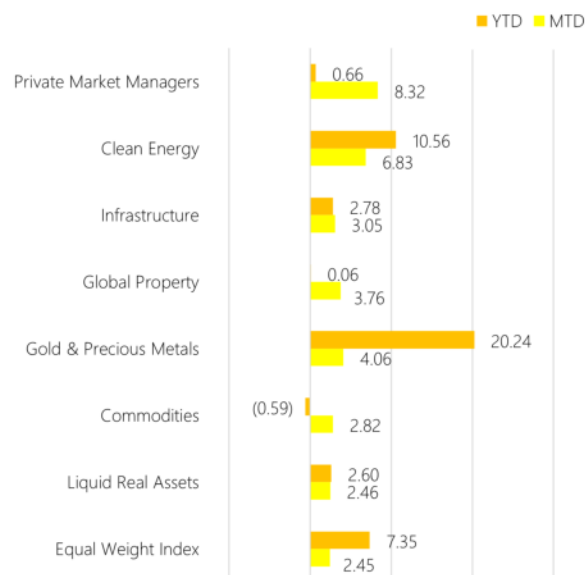


## Alternatives

**Alternative Assets:** Gold and precious metals increased +4.06% MTD. Commodities were up +2.82%. Private Market Managers increased +8.32%, and global property securities increased +3.76%.

**Alternative Strategies,** an Equal Weight 4-asset index strategy was up 2.45% for the month.

Alternatives performance (GBP) as at 31-Jul-25



\*Elston Indices

## Currency

Sterling weakened against the Dollar (-3.82% MTD). £1 buys \$1.3200.



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## Month in review

We summarise key drivers and data points in the last month for markets, the economy and geopolitics.

### Markets

#### EQUITIES

##### Global Equities

Global equity markets continued to advance in July gaining 5.60% supported by strength in the US equity market.

##### US Equities

US equities reached another high during the month and closed the month +6.96% in GBP terms. Gains continued to be driven by the technology sector which benefits from the rapid growth in artificial intelligence (AI). The US equity market rallied more broadly following Trump's "Big Beautiful Bill" which allows companies to expense Research & Experimentation costs thereby reducing their taxable income and continued strength in US economic growth. A weaker pound boosted US gains in GBP terms.

##### UK Equities

UK equities were +4.36% MTD. The FTSE 100 also touched a new high driven by the performance of Defence companies as military spending commitments increase and by banks which are benefiting from the Bank of England Bank Rate remaining relatively high at 4.25%.

#### BONDS

##### UK Bonds

UK 10-year gilt yields increased during the month, closing at 4.57% on growing fiscal spending concerns. The Bank of England held its base rate steady at 4.25%, but the possibility of a rate cut in August remains owing to weaker growth and a softening in the labour market.

The 5-year UK Break-Even Inflation Rate (BEIR) — a market-based measure of expected inflation — rose to 3.24% by month-end.

##### Global Bonds

The Global Bonds (unhedged) also increased 2.14% as global bond yields fell during the month.

#### ALTERNATIVES

Gold prices were down at \$3,289.83/oz, retreating from all-time highs due to easing geopolitical tensions. In GBP terms, Gold and Precious Metals finished the month up +4.06%.

#### CURRENCIES

Sterling weakened sharply to \$1.3200 against the US dollar on the deteriorating economic outlook, concerns around the balance between government's fiscal (borrowing, tax and spending) position and signs of weakness in tax receipts and risk of capital flight. Whilst the USD has also been under pressure in the first half of the year - predominantly from massive currency hedging activity by global investors - the outlook for the Dollar is favourable (relative to Sterling) on tariff receipts, foreign direct investment, the re-shoring of US businesses and its continued reserve currency status.

## Economy

### Growth

The US economy grew by +3.00%yy in 2q25 which was better than +2.4%yy expectation. The expansion reflected a reversal of the 1q25 distortions of stockpiling and reduced government spending. Whilst a normalisation was expected, the figures were ahead of estimates supported by resilient consumer demand.

On a monthly basis, the UK economy decelerated from +1.1%yy in April to +0.7%yy in May, in line with estimates, and representing the lowest growth rate since June 2024. On a quarterly basis, the UK economy grew +0.7%yy in 1q25 and the Bank of England expects this to decelerate to +0.25% in 2q25.

### Inflation

US inflation (CPI) increased from +2.4%yy to +2.7%yy, in line with estimates, with Fed Chair Powell citing the tariffs as a potential driver. US Core PCE (the Fed's preferred inflation measure) was steady at +2.8%yy, but ahead of +2.7%yy estimates.

UK inflation (CPI) increased from +3.4%yy in May to +3.6%yy in June, ahead of estimates, driven by transport and fuel costs. Overall the persistency of "sticky" inflation level complicates the Bank of England's monetary policy outlook, with growing concerns around stagnating growth and persistent inflation ("stagflation").

### Rates

Both the Federal Reserve and the Bank of England held policy rates steady at 4.5% and 4.25%, respectively. Market expectations are pricing in now just 1 further rate cut of 25bp for the US and 2 cuts of 25bp for the UK by year end. In the long run, interest rate differentials drive currency movements.

## Geopolitics

**US:** The US and China confirmed the framework of a trade agreement, formalizing key terms previously outlined during negotiations and signalling progress in de-escalating trade tensions.

**UK:** The UK's fiscal framework is under pressure with limited "headroom" to maintain the balance between borrowing, spending and taxation. The non-dom policy and rising tax burden has triggered an outflow of capital and of high earners which puts the concentrated tax base at risk. The concern is that any Government u-turn on these policies could come too late. The deteriorating fiscal outlook led to a sharp decline in Sterling and a spike in UK Government Bond yields.

**EU:** The EU agreed a baseline tariff rate on its exports to the US of 15% (above the 10% it was aiming for) with a commitment to buy more US energy and defence exports. Steel exports remain under a 50% tariff rate.

**Russia/Ukraine:** The US agreed to restart weapons supplies to Ukraine if funded by NATO's European partners. Russian and Ukrainian delegations met briefly in Istanbul to discuss swaps of PoWs and return respective dead. Trump is urging for a rapid peace deal.

**Middle East:** France and the UK intend to recognise Palestine as a state amidst growing outrage at the humanitarian crisis unfolding in Gaza. Israel's blockade in its war against Hamas is causing a severe civilian hunger crisis with risk of imminent famine.



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## Bottom Line

July 2025 marked continued performance of risk assets. Global equities delivered strong gains, led by the US. Longer-dated bonds remained volatile on slowing growth and sticky inflation. Currency exchange rate volatility has been a key factor in 2025 and may continue to remain so. Geopolitical risks—particularly in the Middle East and Russia/Ukraine—remain a key concern, but market focus has shifted now that the economic impact from these crises has subsided.

## What does this mean for portfolios?

While portfolios should have clear long-run strategic allocation to match a given risk profile, adapting portfolios to align to changing market and economic conditions can help mitigate near- to medium-term risks and help navigate the markets.

## Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

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