GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - July 2025

FTSE 100	**8,822**	S&P 500	6,279
Resistance	8,900	Gold	$3,313
Support	8,712	GBP/EUR	1.1579
VIX	17%	GBP/USD	1.3620

Introduction:

Interest rates may stay higher for longer. The Bank of England's monetary policy committee (MPC) held borrowing costs at 4.25% at its June meeting. Interest rates have fallen 1% since the first cut in August last year, yet the MPC is in no hurry to cut as it waits to assess the impact of oil-price volatility and higher taxes on employers. Markets are pricing in two more quarter-point cuts this year, but the MPC is taking a *"gradual and careful approach"*. With annual UK inflation still at 3.4% in May, UK rate cuts have been much slower than in the eurozone, where they are already down to 2%. The MPC is stuck is a quandary. While a weakening in the jobs market should allow for a couple more cuts during the rest of the year, rising inflationary pressures will deter the committee from easing policy any quicker than that.

Market Outlook:

Over the long term *(since 1962), the FTSE All-Share has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at equalweight. Summer has not typically been a busy time in the stock market, with little net gain over the *"Wall Street summer"* timeframe of June to September. When stocks do make a big move in the third quarter, they are slightly more likely to move to the downside than to the upside as reduced liquidity leads to higher volatility.

Of course, calendar-based performance is not much of a forward indicator. Every year holds its own set of geopolitical and macroeconomic challenges. And this summer could be more volatile than usual.

The new White House administration has been aggressive in rolling out policies (particularly those surrounding tariffs) that represent a pivot of 180-degrees from those of the prior administration. The market response to its policies is still formulating. Yet tariffs are just one topic vying for attention. The flash feud between the President Trump and Elon Musk is showing no signs of moderating. The *"One Big Beautiful Bill"* has brought deficits into focus and sent bond yields higher. The Iran-Israeli war and the US bombing of Iran's nuclear sites has increased geopolitical tensions and sent the oil price soaring.

The stock market rally across May and June has brought stocks to new all-time highs. Remember, all-time highs are bullish…except for the last one in a bull cycle. But few investors anticipate a smooth ride higher from here.

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Market Outlook (cont):

That said, our caution is not the type that leads us to panic sell. Rather, it is based on the logic that stocks don't go up forever and eventually pull back to some degree. Stocks have to pull back before going on to make further gains. That should lead us nicely into the strongest quarter of the year - October to December. Investors abhor uncertainty, but they have shown they can live with it.

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Recommended Investment:

Artemis UK Future Leaders plc
Historically, UK smaller companies have substantially outperformed larger stocks by between 3% and 4% per year. Formerly known as Invesco Perpetual UK Smaller Companies IT plc, Artemis UK Future Leaders plc (AFL) is an investment trust listed on the London Stock Exchange. It seeks to invest in UK smaller companies which the managers believe can establish market-leading positions in the future.

Market leaders tend to have better pricing power than the number two, three and four, which gives them the ability to cover inflation, thereby protecting the underlying profit of the business. New managers Mark Niznik and William Tamworth have a proven track record of investing in UK smaller companies and, importantly, both have backed the trust with their own money. They are excited by the opportunities they are seeing in the undervalued UK stock market, especially at the inefficient micro-cap end of the spectrum, and have the ability to use the trust's gearing to turbo-charge returns. When confidence in UK begins to recover this should drive a strong re-rating of small cap share prices and narrow the 14% discount to NAV, delivering a powerful double-whammy.

In terms of their stockpicking process, Niznik and Tamworth use a disciplined approach to analysing the value of companies and the strength of their cash flows and profitability. A key tenet of their approach is a strong valuation discipline, which helps them avoid over-hyped companies and deliver better long-term returns. The portfolio is trading on a 11 times P/E multiple and the average company has zero debt.

"We are seeing lots of takeovers at the moment, and lots of opportunities to reinvest in similarly attractive undervalued companies which have the traits we are looking for", says Tamworth, while Niznik observes an *"unprecedented"* level of small-cap share buybacks underway, which is a result of attractive valuations, strong balance sheets and management team's confident outlooks.

The fund has an enhanced dividend policy, paying quarterly dividends distributing 100% of portfolio income enhanced by contributions from capital reserves. The dividend for the year is calculated to give a yield of 4% per annum based on the year end share price.

The portfolio is well diversified with 60 holdings, and the ten largest holdings accounting for 25% of assets. The largest sector allocations are Consumer Discretionary (33%), Industrials (28%), and Technology (14%). Top 5 holdings include Alpha Group, Serco, Mears, Mony and Chemring.

The fund managers have a good performance record, ranking top-quartile in their sector over one, three and five years. The TER is a reasonable 0.95% with no performance fee. Furthermore, the trust is trading at a 14% discount to NAV. Given the fund's enhanced dividend, which currently offers a prospective yield of 4%, we see no reason why AFL's shares should not trade on a premium once again.

Gibraltar Asset Management

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Post of the Month:

At the start of the year, markets were too relaxed about the threat posed by tariffs. There then came a brief period in which fear truly took hold, soon tempered by the news that tariffs would be scaled back considerably. Have we now moved on again, from relief to exuberance?

Many fear as much, pointing to the fact that the S&P 500 is at record highs - despite the fact that tariffs have not gone away entirely, the US economy is still at risk of a second-half slowdown, and the geopolitical situation is increasingly fragile. Investors are ignoring the bad news and celebrating the good.

There are alternative opinions. The latest Bank of America fund manager survey, a closely watched barometer of sentiment, doesn't indicate *"worryingly bullish"* views. Credit spreads have improved, US Treasury yields have fallen back, and the dollar has resumed its downwards move. These shifts all help improve financial conditions in the US.

All the same, there's no denying the world's largest economy is starting to underwhelm: the Citi Economic Surprise index, which ranks data relative to economists' expectations, is at its lowest level for almost a year. Earnings estimates are also starting to retreat. The S&P has actually underperformed other markets over the past six months. Investors may be discounting a lot of political risk, but they're not disregarding it entirely. They are also no longer ignoring relative valuations to the same degree. Europe, the UK and emerging markets have all benefited as a result. Interestingly, since the start of April, it is the UK Small Cap index that has beaten all other major markets, large or small.

It would stretch credibility to suggest global allocators are shifting away from US large caps to UK smaller companies. Fund flow data suggests that UK investors have merely cut back on their collective selling of domestic assets, rather than turning net buyers. Even so, improved performance is a necessary first step for all those who wish to see a healthier UK market.

The good news is that valuations in the UK are still attractive. That's both relative to history and relative to where they were at the start of the year. The junior market is home to plenty of attractive companies.

While we may continue to bemoan the takeovers that are gradually limiting the opportunity set, it is partly this rationale - good companies going cheap - that is spurring all the activity. The second half of the year could well prove as tricky to navigate as the first. But that doesn't automatically spell doom and gloom for those who know where to look.

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Quote of the Month:

"You can't predict, but you can prepare" - Howard Marks

With the S&P 500 at record highs, largely driven by enthusiasm around AI and a narrow set of mega-cap stocks, markets are assuming strong earnings growth, falling interest rates, and no major geopolitical disruptions. That's a highly optimistic baseline, and anything short of perfection could spark volatility. Instead of trying to guess where the market goes next, smart investors prepare for multiple scenarios by reducing exposure to frothy sectors, increasing cash & defensive holdings and diversifying geographically and across asset classes. By preparing for a range of outcomes - rather than betting on one - investors can be positioned to withstand drawdowns and capitalise on dislocations (if markets fall sharply, you have dry powder to buy quality at a discount).

Economics:

Bank of England policymaker Alan Taylor recently said at a ECB summit in Portugal *"Previously, I had seen a UK soft landing on the cards, with some remaining upside risks to inflation from the bump in 2025. Now I see that soft landing as being at risk, and greater probability of a downside scenario in 2026 pushing us off track, as demand weakness and trade disruptions build. After some shocks and noise clouded my view of the economy and global developments in the first quarter, my reading of the deteriorating outlook suggested to me that we needed to be on a lower rate path, needing five cuts in 2025 rather than the market-implied quarterly pace of four"*. The BoE held interest rates at 4.25% last month, and investors are betting on the central bank to reduce borrowing costs in two further quarter-point moves to 3.75% by the end of the year.

The eurozone economy shows signs of cautious stabilisation. Inflation has eased to the European Central Bank's 2% target, thanks to declining energy prices and a stronger euro. The ECB views this as a success, signalling no immediate need for further rate cuts after its initial June easing. However, growth remains modest. First-quarter GDP rose 0.6%—its best pace in over two years—but full-year growth is still forecast at just 0.9%–1.0%. A key headwind is the euro's sharp appreciation (up around 14% against the dollar), which is aiding disinflation but hurting export competitiveness, especially in Germany. ECB policymakers now see inflation risks as tilted to the downside and argue for policy caution. Labour markets remain resilient, but investment and manufacturing are still weak. Overall, the ECB is shifting from inflation-fighting mode to managing a fragile recovery, amid ongoing global uncertainty.

The US job market continues to chug along despite heightened uncertainty about the economy and how President Donald Trump's tariffs could shake out. The economy added a stronger-than-expected 147,000 jobs in June, and the unemployment rate ticked down to 4.1% from 4.2%. Considering the breakeven employment growth level (amount of jobs needed to keep pace with labour force and population growth) is around 100,000 jobs per month, the 147,000 jobs added might actually be inflationary. And if the unemployment rate stays low or keeps falling and inflation stays high - especially as tariffs make their way through the supply chain - the Fed might be pushed to keep rates higher for longer.

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Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

The January Barometer 🙂
Historically, the returns in January have signalled the returns for the rest of the year. If they are positive, the returns for the whole year tend to be positive and vice versa. First mentioned by Yale Hirsch in the Stock Trader's Almanac in 1972, a variant has it that returns for the whole year can be predicted by the direction of the market in just the first 5 days of the year. Judging by the first 5 days, 2025 is likely to be a positive year for the stock market.

July 🙂
July has risen on average 59% of all the years since 1984, with an average return of 1%. So, after a usually disappointing May and June, shares tend to perform a bit better this month. In an average July, the start of the month tends to be strong - the first week of the month is among the top ten strongest weeks in the year. After that, the market has a propensity to drift lower for a couple of weeks until finishing strongly in the final week.

Third Quarter 🙂
The FTSE 100 has risen 26 of the 41 years (63%) between 1984 and 2024, posting an average gain of 0.6%.

Sell in May and go away; don't come back till St Leger Day ☹
Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

First-Year US Presidential Cycle ☹
The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Snake ☹
Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *In Chinese astrology, the Snake symbolises wisdom, caution, and strategic thinking. These traits might culturally inspire investors to adopt a more analytical or conservative approach. Interestingly, this is the Wood Snake Year, which comes about every 60 years. Wood represents expansion, innovation, and flexibility. This could favour industries like tech, renewable energy, and AI, which thrive on evolution.*

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Investment Calendar:

10th July	Full Moon (markets tend to reach a low point around this time)
16th July	UK CPI Inflation
18th July	Options Expiry Day
24th July	ECB Meeting. ECB expected to pause policy decisions, awaiting economic data
	New Moon (markets tend to reach a high point around this time)
30th July	FED Meeting. Critical data points released in mid-July (CPI, PMIs) will shape expectations

Technical Analysis:

The FTSE 100 fell just 15 points (0.17%) last month so is still trading close to its all-time high of 8,908.82 reached in March. Yet we are still cautious. Not only are we in the weakest half of the year, we have now entered the weakest quarter. The RSI has unwound its overbought level of 70% but has fallen below the 50% level, a bearish sign for the stock market. The ADX at 9% indicates the market is trendless with resistance lying at the upper Bollinger band (8,900) and support lying at the lower Bollinger band (8,712). That suggests a potential range of just 188 points. We are not so sure. Summer brings reduced volumes and with it increased volatility. Traders should prepare themselves accordingly.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
50 day moving average	(signifies the medium-term direction of the security)
200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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