GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - June 2025

FTSE 100	**8,837**	S&P 500	6,000
Resistance	8,880	Gold	$3,317
Support	8,560	GBP/EUR	1.1879
VIX	18%	GBP/USD	1.3564

Introduction:

Prospect Theory proposes that investors feel the pain of losses more intensely than the pleasure of equivalent gains. That can lead to irrational decision-making, particularly when the market is tanking. The problem with giving in to fear is that it leads to selling out of the market at exactly the wrong time. Its's bad enough that you've suffered the losses; now you are not positioned to benefit from the recovery, which can be as rapid to the upside as it was to the downside. A study from JPMorgan Asset Management surveyed the first two decades of this century and showed that if you were out of the market on the 10 best stock market days over that period, your returns would have been cut in half. In short, trying to market-time your way to stock-market outperformance rarely works and is more likely to hurt your long-term total return.

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. Amid a range of economic and geopolitical cross-currents, the driving force in the stock market this year has been tariffs and, even more so, tariff talk. As the US administration softened its tone on tariffs, the stock market rallied.

The recovery has taken some panic out the market. Since the third week of April stocks seem to be on autopilot as good news is good, neutral news is good, and bad news is neutral or good. We are now seeing selling days that do not turn into routs.

Yet investors are not celebrating just yet. The market bravado of 2024 appears to be gone. Whilst the major stock indices are above year-opening levels, few investors anticipate a smooth ride higher from here, given the uncertainty across the economy, the interest-rate environment and the earnings outlook.

The downside of such a strong short-term rally is that it has created some near-term technical imbalances. The five-day put-call ratio is at its most over-heated level since July 2023, just before a July-through-August pullback. The RSI (Relative Strength Index), a widely used technical analysis indicator, is flashing overbought. The latest consumer-sentiment survey from University of Michigan shows many participants believing that stocks will move lower again. Still, getting the market back above water for the year resets investor perceptions and expectations while dispelling some of the gloom.

Market Commentary

Market Outlook (cont):

Investors abhor uncertainty, but they have shown they can live with it. The third quarter is typically a relatively quiet time for stocks, but investors expecting a languid summer do so at their own risk.

Market Commentary

Recommended Investment:

Belong 7.5% 07/07/2030

Established in 1991, Belong Limited is a registered charity that aims to provide high quality, person-centred care, accommodation and ancillary services to older people. The vision of the Charity is to create village communities enabling older people to live the lives they choose and, in particular, to enable people living with dementia to retain choice and independence over as many areas of their lives as possible. The Charity regularly wins multiple awards for its contribution to the care industry.

The Belong villages provide a full spectrum of care, from respite care to end of life care, enabling the Charity to support older people as their needs change. This includes 24-hour support, specialist day care, gyms equipped with state-of-the-art technology and personal instructors, restaurants, beauty salons as well as a programme of events and activities. All its regulated services are rated 'Good' or 'Outstanding'. It currently operates eight care villages in Atherton, Chester, Crewe, Didsbury, Macclesfield, Newcastle, Wigan and Warrington.

The principal source of income of the Charity is the fees paid by its customers (65% of which are privately funded) in return for the accommodation and services. These fees (which average £1,396 per week) cover daily living support, including nursing or dementia care when applicable, accommodation, food and drink, and activities. These fees are benchmarked annually and reviewed in line with services, investment and inflation. Its current average occupancy rate is 96.8%.

In our view, Belong is a safe credit. The issue is unsecured, but the bond does contain financial covenants whereby the Charity must ensure that as at each testing date, its net asset value is at least 130% of the total unsecured debt of the group.

The bonds will trade on the London Stock Exchange in multiples of just £100 and pay its 7.5% coupon in two semi-annual instalments in arrears on 7th January and 7th July every year up to their maturity in 2030. Considering the issue is being issued at a discount to par (98%), the real return is 8% per annum if held to maturity. The bond is currently in the offer period and is available to buy through your stockbroker, with the books set to close on 20th June.

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STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Post of the Month:

Two months on from 'liberation day', Donald Trump's budget bill attempts to extend his administration's attack on overseas investors. Section 899 seeks to impose additional taxes on both companies and individuals based in countries deemed to have punitive tax policies

Those policies are thought likely to include digital services taxes, which means the UK is squarely within its grasp. Taxes on US dividends received by overseas investors, for example, would rise by 5 percentage points a year, up to a maximum of 20%. The current rate for individual UK investors is 15%, halved from the usual 30%, thanks to the UK-US double tax treaty.

The proposal could yet be watered down or amended much as trade tariffs have been. While that dilution could well come via Congress rather than the president, the catalyst (investor nerves) might be much the same.

Stock markets, however, are evidently not as nervy as they were earlier in the spring. It's no surprise that threats are now treated with a sense of mistrust when you consider the rapidity with which U-turns have been performed over recent weeks. To take just one recent example, the 50% tariff slapped on the EU on the eve of the May bank holiday weekend was postponed before that long weekend had even concluded.

But equity investors' relaxed attitude should not be mistaken for a belief that none of this will ultimately matter. The most severe tariffs may prove temporary, but even at current levels, there is enough evidence to suggest they are hurting. The ISM Manufacturing index for May has shown contraction.

Bond and currency markets are also striking a cautious tone. The US dollar index is down 9% this year. Thirty-year Treasury yields have risen from 4.5% to 5% since the start of April. The rise in long-term yields is not solely a US issue, given the way in which bond markets in Japan, Europe and the UK have seen similar increases in recent weeks. Still, the fact that the world's reserve currency issuer is caught up in the storm is notable enough. Combined with the dollar's performance, the conclusion may be that overseas institutional investors are losing at least some of their previously unshakeable faith in the global hegemon.

Section 899 may be just as pertinent in this regard as the trade war. One concern is that overseas holdings of Treasuries will be affected by the same kind of tax rises as planned for dividends. Taxes on corporate earnings, as well as on passive income such as dividends and interest income, are also scheduled to rise by 5 percentage points a year as part of the bill, which if enacted, would have an impact on UK companies with large US exposures, ranging from Compass to National Grid.

The bark may again be worse than the bite, even if we have to wait until the end of the year for certainty to emerge (as the bill makes its way through the Senate and into law). In the meantime, the end of US exceptionalism is becoming increasingly evident everywhere but the stock market.

Market Commentary

Quote of the Month:

"If you're trying to create a company, it's like baking a cake. You have to have all the ingredients in the right proportion" - Elon Musk

Musk compares building a company to baking a cake, highlighting the necessity of balancing various elements-such as talent, capital, product development, and market strategy-to achieve success. Musk should have added diplomacy to that list. His recent rants against President Trump, suggesting he should be impeached, his name appears in unreleased Jeffrey Epstein files and his Bill was a "disgusting abomination", have not done him any favours. Following Musk's public criticisms, Tesla's stock experienced a significant drop, with a 14% decrease wiping out $152 billion in market value. Trump suggested he had *"lost his mind"*. Tesla shareholders may be inclined to agree.

Economics:

Confidence in the strength of the UK economy has fallen from 45% in May 2015 to 28% today following a cost-of-living crisis, Brexit, Covid and geopolitical upheaval, according to the Barclays "10 Years of Spend" report. The study, based on billions of transactions and more than 200,000 consumer confidence surveys, found that 66% of consumers pay more attention to their budget than they did a decade ago. Karen Johnson, head of retail at Barclays, said: *"The last decade has brought unprecedented levels of disruption. Amid all the highs and lows, consumers have continued to rebalance their budgets and find savvy ways to manage their money"*. British Retail Consortium chief executive Helen Dickinson said: *"Since the cost-of-living crisis began, many consumers have adjusted their spending habits to save money. More consumers are shopping around, holding off on big-ticket purchases, and are switching to own-brand ranges or cheaper brands. For food specifically, many customers are swapping out fresh products for frozen and buying cheaper cuts of meat"*

The eurozone economy posted a stronger-than-expected performance (+0.6%) in Q1, with growth largely driven by investments and exports, reinforcing expectations that the European Central Bank (ECB) will adopt a more cautious approach to further rate reductions. The stronger economic performance was released just one day after the ECB announced its eighth rate cut in the current cycle, lowering the deposit facility rate by 25 basis points to 2%. The ECB's macroeconomic projections remained largely unchanged from March. Real GDP is expected to expand by 0.9% in 2025, 1.1% in 2026 and 1.3% in 2027. Meanwhile, headline inflation is forecast to average 2.0% in 2025, dip to 1.6% in 2026, and return to 2.0% in 2027. Economists and market analysts reacted swiftly to the signals from the stronger-than-expected GDP figures. *"We no longer expect a July cut,"* said Goldman Sachs economist Sven Jari Stehn. BBVA echoed the sentiment, concluding: *"We now consider the rate-cutting cycle to be finished at the current level. The ECB appears comfortable pausing from here unless financial conditions deteriorate"*

The United States added 139,000 jobs in May, more than the 120,000 expected. President Donald Trump cheered the numbers, posting on his Truth Social platform Friday morning: *"AMERICA IS HOT! SIX MONTHS AGO IT WAS COLD AS ICE! BORDER IS CLOSED, PRICES ARE DOWN. WAGES ARE UP!"*. In reality, the jobs number marked a decline from the 147,000 jobs added in April. The unemployment rate held steady at 4.2%, remaining near historic lows. However, the ratio of employed workers to the total population fell to 59.7%, its lowest since the pandemic. Analysts at Capital Economics called the May jobs report *"not as good as it looks. Still, it shows that tariffs are having little negative impact"* and added that the Federal Reserve is likely to continue holding interest rates steady *"while it assesses the effects of policy changes on the economy."*

Market Commentary

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.

June

June is the 2nd worst performing month, rising just 44% of all the years in June, with an average return of -0.5%. There is only one month since 1984 where the market has an average return of below zero - the month of September. In an average June the market starts strong, hitting its month high on the second or third trading day, but prices then drift down steadily for the rest of the month, although the market ends the month on a positive note - the last trading day is the second strongest in the year.

Second Quarter

The FTSE 100 has risen 25 of the 41 years (63%) between 1984 and 2024, posting an average gain of 1.3%.

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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Market Commentary

Investment Calendar:

9th June	High-level trade talks between the US and China are scheduled in London, aiming to ease tensions in their economic relationship
11th June	Full Moon (markets tend to reach a low point around this time) Chancellor Rachel Reeves is set to deliver the UK's first spending review since 2021, focusing on over £100 billion in capital investment and departmental spending allocations
17th June	FED Meeting. The Fed is expected to hold rates steady
19th June	BoE Meeting. TheMPC will likely hold the Bank Rate steady at 4.25%
20th June	Options Expiry Day
25th June	New Moon (markets tend to reach a high point around this time)

Technical Analysis:

The FTSE 100 has risen 241 points (2.8%) over the last month, approaching its all-time high of 8,908 reached in March. With the market at such an elevated level, we feel investors should prepare themselves for a pullback. The RSI is 70%, suggesting the FTSE 100 is overbought. Meanwhile, the ADX is 13, suggesting the market is not in any trend. Therefore, we look to the upper Bollinger band for resistance (8,880 or just 43 points away) whilst support lies at the lower Bollinger band (8,560 or 277 points away). In addition, we are in the second worst performing month of the year as well as have just entered what is historically the weakest half of the year. All the stars appear to be aligning and it does not look good for equities.

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

Chart Legend:

red dashed line	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
red line	50 day moving average	(signifies the medium-term direction of the security)
thick red line	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
blue line		(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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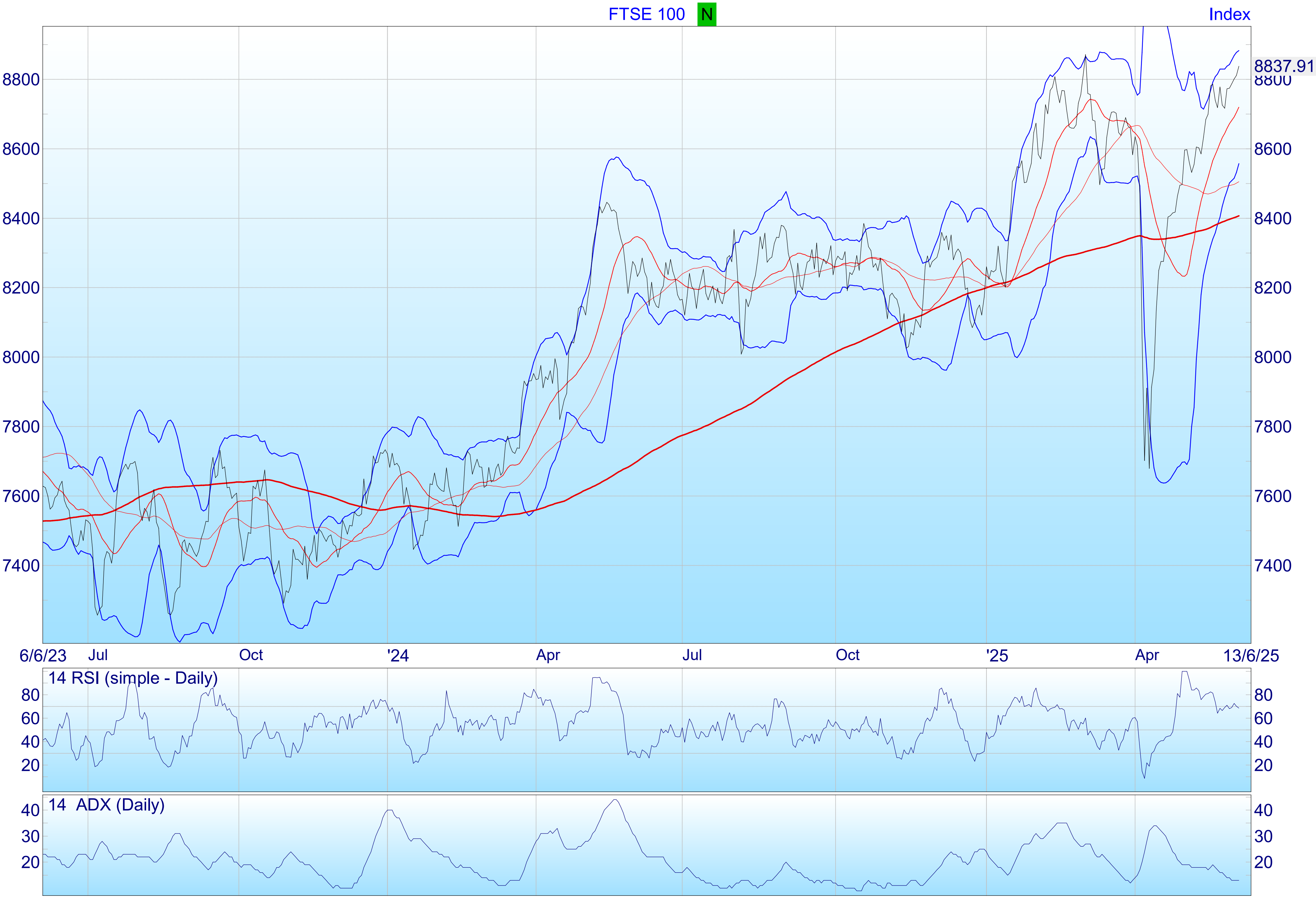
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