CAIM CROWN AGENTS INVESTMENT MANAGEMENT

AUGUST 2025

CAPITAL MARKETS MONTHLY

FIXED INCOME

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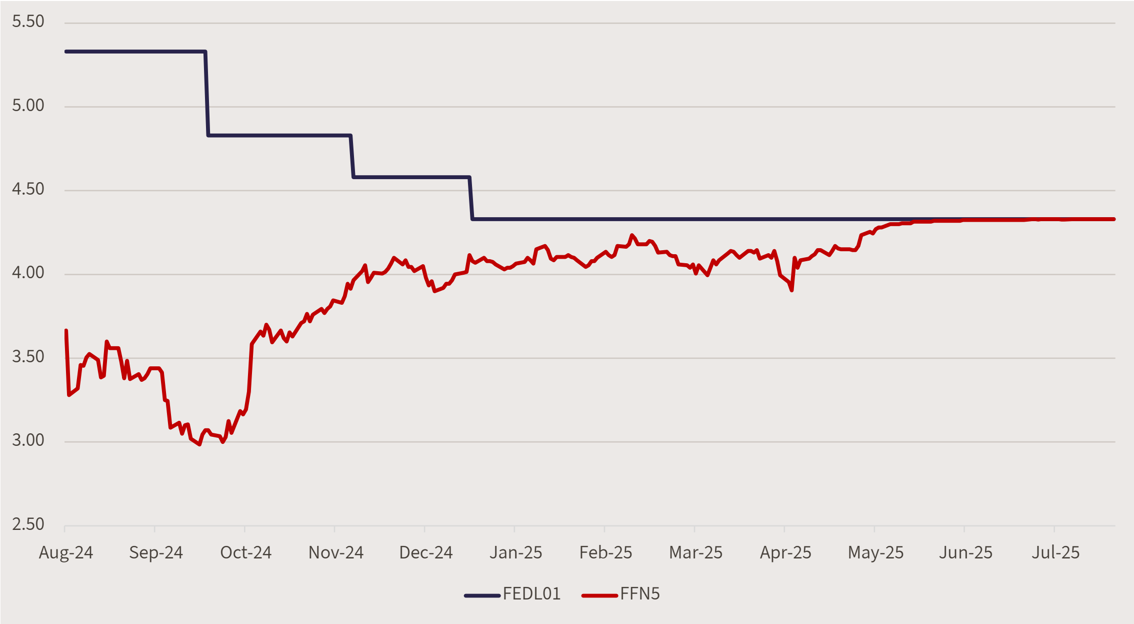
HEAD OF PORTFOLIO MANAGEMENT

No rate cut from the Federal Reserve in July. September meeting is a possibility.

US Treasuries had a somewhat disappointing month as yields moved moderately higher. Initially, a strong employment report from the Bureau of Labour Statistics showed solid payroll growth of +147k, which was materially higher than consensus estimates. By mid-month treasury yields at the intermediate part of the curve had risen by around 25 basis points with the 5-year note hitting a level of 4.05% immediately after a relatively high consumer price index reading of 2.7% for the headline measure and 2.9% for core CPI, excluding volatile food and energy prices. A moderate recovery occurred in the second half of July following PPI data which may indicate a decline in the core PCE deflator inflation measure. This may prove significant for the Federal Reserve. However, repeated attacks on Chairman Powell by President Trump might paradoxically pressure the Fed to assert its independence and refrain from near-term monetary policy easing, particularly when inflation remains above the target of 2%. A September rate cut was previously fully discounted but recent developments have resulted in a lower probability of a 25 basis point cut at the September FOMC meeting.

It should be noted that rate cut expectation can evolve significantly over time. A prescient example of this can be seen in the July Fed funds future contract. In October last year financial markets had discounted a rate of 3% for Fed funds by July 2025 (this is shown in the red line in the chart below). It now appears almost certain that this expectation was 130 basis points too low and has converged to the current effective Fed funds rate of 4.33%.

The chart below shows the significant pricing-out of aggressive rate cuts over the past three quarters.



Source: Bloomberg Finance L.P., 31 July 2025.

During July 2025 there were only three Sovereign, Supranational and Agency issues in USD with amount outstanding of at least USD 500m, credit rating at least A- and maturity between 1 and 10 years. The IADB and JFM transactions performed well as secondary spreads tightened. The World Bank bond was a callable structure with a call date on 18th October 2025 at 100, thus having substantial negative convexity.

Issuer	Maturity	Issue Spread	Rating
Inter-American Development Bank	16/07/2035	UST + 8bp	AAA
International Bank for Reconstruction & Development	18/07/2028	Yield 4.625%	AAA
Japan Finance Organization for Municipalities	30/07/2030	UST + 36bp	A+

Source: Bloomberg Finance L.P., 31 July 2025.

FOREIGN EXCHANGE

SLAWOMIR SOROCZYNSKI

HEAD OF FIXED INCOME

US Dollar Bears Couldn't Withstand the Summer Heat

Aside from geopolitical risks—which markets now seem to have largely adapted to—U.S. economic data surprised on the upside, leaving the Federal Reserve with little choice but to maintain a neutral stance. Strong GDP growth, coupled with surprisingly robust employment figures, dashed market hopes for a Fed interest rate cut in July. Investor risk appetite remained buoyant, pushing equities to new highs, with the S&P 500 marking an all-time peak, while credit spreads remained tight.

It's no surprise that in such an environment, government bond yields rose, providing additional support to the U.S. dollar, which turned out to be one of the best-performing currencies. In fact, the greenback was the top performer among G10 currencies, particularly strong against the Japanese yen—a cross closely monitored by those tracking the U.S. Dollar Index (DXY).

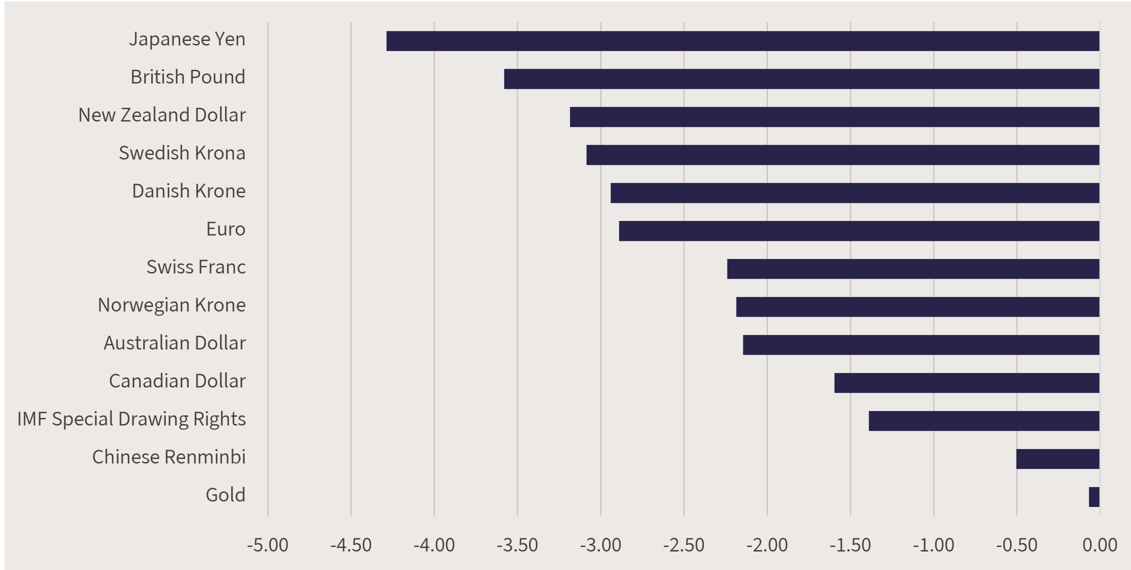
In our previous report, we identified USD/JPY as a key pair to watch in relation to the DXY's movements. We also noted that the main cross, EUR/USD, had reached its medium-term target around the 1.1800 level and appeared vulnerable to correction, similar to GBP/USD. Indeed, EUR/USD attempted multiple times to break through the key resistance zone between 1.1820 and 1.1850 but was met with sharp selling pressure each time. These failed attempts fuelled a downward move in the final sessions of the month.

EUR/USD fell over three figures, closing July at 1.1425, which pushed the DXY above 100.00. The DXY's rise was further supported by USD/JPY price action, which re-tested the 150.00 level. USD/JPY was the worst-performing G10 pair, with the yen depreciating by over 4%. Meanwhile, GBP/USD declined by 3.5%, and the New Zealand dollar lost 3.2%. Earlier positioning combined with the summer holiday season—typically a period of thinner liquidity—exacerbated these moves. The aggressive price action reflects the involvement of fast-money investors.

Other G10 currencies saw losses ranging from one to two percent. The Chinese renminbi experienced a modest 0.5% retracement, supported by international inflows, while the price of gold remained largely unchanged (see the detailed G10 performance table below). Looking ahead, in August these same factors are likely to continue shaping financial markets amid poorer liquidity conditions. However, we view the strong US dollar gains observed during the last week of July as a correction. We expect that slow but steady global capital flows will continue to favour diversification away from the dollar over time.

We will be closely watching September and October, historically months when risk appetite tends to decline, favouring safe-haven assets. Unlike previous episodes, we anticipate the US dollar will weaken, with recent price ranges being tested again—and ultimately broken—for EUR/USD at 1.1850, GBP/USD at 1.3600, and USD/JPY at 140.00.

July performance vs. USD (%)



Source: CAIM, 31 July 2025.

EQUITIES

SIMON PRICE

SENIOR EQUITY FUND MANAGER

United States

Headline positives outweigh negative undercurrents for now

In July U.S. equities advanced in July, supported by strong Q2 GDP, admittedly a rebound from the negative tariff impacts of the 1Q, retail sales, and labour data, highlighting consumer resilience. The $3.4 trillion "Big Beautiful Bill" and easing tariff tensions lifted sentiment, while solid demand in Treasury auctions helped calm bond market volatility. Corporate earnings have so far beaten expectations, albeit downgraded expectations. Nvidia became the first company to reach a $4 trillion market cap, with AI continuing to drive optimism around U.S. economic leadership. Concerns over Fed independence persisted, but confidence grew that Chair Powell would remain in place following recent political noise.

Regarding monetary policy, the Fed held rates steady at 4.00–4.25%, but several themes emerged. While the official statement slightly downgraded growth language, Chair Powell struck a more hawkish tone in his press conference, citing a balanced labour market and solid economic momentum. Debate over Fed independence intensified, particularly around Powell's role under President Trump. There was also discussion on whether tariff effects would be transitory or more persistent. Notably, Fed Governors Waller and Bowman, both Trump appointees, dissented, advocating a 25bps cut, highlighting internal divisions over the current policy stance.

Turning to the macro environment, markets have struggled to move on from the debate as to how inflationary the US tariff policy will be. The latest US CPI provided something for everyone on this topic, with headline inflation inline while core was comparatively softer. However, there were some concerning signs under the surface, and household appliances saw their biggest monthly price jump in records back to 1999.Turning to employment, the nonfarm payrolls in June was stronger than expected and there were modest upward revisions to the April and May prints, whilst the unemployment rate unexpectedly fell to 4.1%. Given the resilience in the jobs report, investors immediately dialled back their expectations for rate cuts anytime soon.

Earnings season has exceeded expectations, with strong beats in both revenue and profit. Large-cap banks reported solid net interest income and modest loan growth, while JPM, GS, and Citi also saw strength in trading and investment banking. Capital ratios remained robust, and buybacks were well received, though price reactions were muted given high expectations. In tech, Alphabet rose on an AI-driven revenue beat and increased 2025 capex. Meta rallied on strong Q3 guidance, and Microsoft gained on better-than-expected Azure growth and a $30bn AI data center investment. Apple advanced on strong iPhone sales and China growth. Conversely, Amazon fell on weak Q3 profit guidance and slower cloud growth, while Tesla declined after missing earnings and warning of challenging quarters ahead.

U.S. equities posted mixed results in July, with large caps outperforming small caps. Sector performance narrowed, with only half ending the month higher. Tech led gains, followed by utilities, industrials, energy, discretionary, and communications. Five sectors declined, with health care underperforming due to concerns over potential tariffs and pricing pressures.

Europe

Lack of short-term positive catalysts hinder progress

European stocks made modest gains in July, reflecting a slowdown from Q1 growth, though still better than expected. The ECB struck a slightly hawkish tone, offering no clear rate path. President Lagarde noted they were "in a good place to hold and watch," fuelling doubts over further rate cuts in the near term.

The U.S. and EU reached a trade agreement setting a general tariff rate of 15%, higher than the 10% Liberation Day pause, but half the previously threatened 30%. Crucially, this rate applies to cars and car parts, cutting the sector-specific tariff from 25%. To support the deal, the EU made non-binding commitments to increase energy purchases and invest at least $600bn in the U.S. over the coming years.

Earnings numbers in Europe remain modestly below long-term averages but show signs of stabilisation. Cyclicals (excluding financials) underperformed defensives, with FX headwinds cited as a drag on earnings. Tariff impacts were mixed, though most firms viewed them as manageable.

In terms of sector performance, Financials led gains on strong earnings commentary, while pharmaceuticals performed steadily amid limited tariff developments. Novo Nordisk saw a sharp intraday drop of 30% after cutting its sales growth forecast due to slowing Wegovy demand and announcing a new CEO. In contrast to the U.S., technology and media were the weakest sectors, weighed down by high-profile earnings misses.

Developed Asia

Constructive trade talks aid momentum in the region

Asian markets extended gains in July. Hong Kong benefited from stronger China domestic data and progress in U.S.–China trade talks. Japanese equities rose in local currency, supported by a U.S.–Japan trade deal ahead of the August 1 tariff deadline, setting a 15% rate, lower than the previously threatened 25% and likely to apply to autos and parts.

Political speculation intensified following the ruling coalition's loss in Japan's Upper House election, with potential candidates for the new LDP leadership seen as market friendly. Meanwhile, the BoJ held rates at 0.5% but revised inflation forecasts upward, hinting at a potential rate hike. Financials outperformed on this hawkish shift.

Emerging markets

Emerging market equities saw positive monthly performance in July, narrowly outperforming Developed markets aggregate indices. While in early July, we saw the effective date of reciprocal tariffs pushed out by three weeks to 1 August, things escalated quickly as tariff talks stalled by the end of the month and tariffs were announced on swathes of US trading partners.

Regionally, in USD terms, EM Asia and CEEMEA posted small gains while LatAm saw a sell-off with Brazil the worst-performing market after the US announced a 50% tariff on Brazil exports, which was later confirmed but with an extensive list of carve-outs.

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