CAIM CROWN AGENTS INVESTMENT MANAGEMENT

JULY 2025

CAPITAL MARKETS MONTHLY

FIXED INCOME

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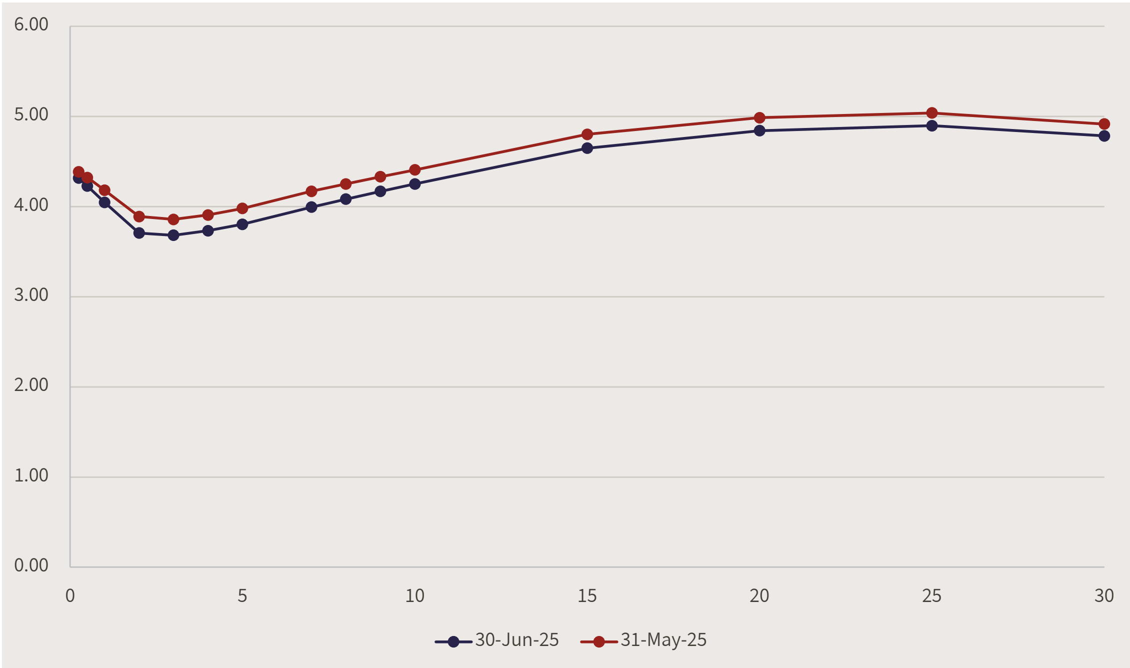
HEAD OF PORTFOLIO MANAGEMENT

US Treasuries rally as the yield curve flattens

US Treasuries performed strongly over the past month as yields declined across the entire yield curve. This translated into a solid total return of 1.29% for the US Treasury index in June, taking the year-to-date performance to 3.79% (7.73% annualised). Economic developments were generally supportive of bond valuations. Initially, weaker PMI data together with a softer ADP employment report pushed yields lower, then the monthly employment report from the Bureau of Labour Statistics reversed this price action with a stronger Nonfarm Payroll change of +139k and firmer average hourly earnings data. However, a combination of lower core inflation readings and geopolitical events in the Middle East set up a firm downward trajectory to bond yields throughout the second half of June.

The case is now building for a rate cut by the Federal Reserve. A 25 basis point cut by the September meeting now appears very likely, and we now think that the probability of an earlier move at the late July FOMC meeting is considerably higher than the 20% probability implied by Fed funds futures contracts. Consequently, we anticipate further downward pressure on US Treasury yields, which would be consistent with above-coupon index returns.

The chart below shows the change in the US Treasury yield curve last month.



Source: Bloomberg Finance L.P., 30 June 2025.

During June 2025 there were 22 Sovereign, Supranational and Agency issues in USD with amount outstanding of at least USD 500m, credit rating at least BBB- and maturity between 1 and 10 years. Generally, spreads versus US Treasuries narrowed, particularly with the investment grade EM Mexico and Hungary issues. The tier1 SSAs also narrowed marginally despite aggressive issuance levels. The worst performing issues were JBIC and PSP.

Issuer	Maturity	Issue Spread	Rating
African Development Bank	12/06/2028	UST + 8bp	AAA
African Development Bank	12/06/2035	UST + 12bp	AAA
BNG Bank	17/03/2028	SOFR + 36bp	AAA
Corp Andina de Fomento	30/06/2028	UST + 44bp	AA
CPPIB Capital	10/06/2030	UST + 20bp	AAA
CPPIB Capital	12/06/2028	SOFR + 40bp	AAA
European Investment Bank	16/08/2032	UST + 7bp	AAA
Export Development Canada	20/06/2030	UST + 8bp	AAA
Hong Kong Government International Bond	10/06/2030	UST + 12bp	AA+
Hungary Government International Bond	26/09/2035	UST + 175bp	BBB-
Hungary Government International Bond	26/09/2030	UST + 145bp	BBB-
International Development Association	11/06/2030	UST + 13bp	AAA
Islamic Development Bank	25/06/2030	UST + 22bp	AAA
Japan Bank for International Cooperation	03/07/2028	UST + 18bp	A+
Kommunalbanken	25/06/2027	SOFR + 32bp	AAA
Kommuninvest	29/11/2028	UST + 12bp	AAA
Kreditanstalt fuer Wiederaufbau	28/06/2027	UST + 4bp	AAA
Mexico Government International Bond	02/07/2032	UST + 175bp	BBB
Province of British Columbia Canada	11/06/2035	UST + 43bp	A+
Province of Ontario Canada	11/06/2035	UST + 43bp	AA-
PSP Capital	01/12/2027	UST + 35bp	AAA
Svensk Exportkredit	04/08/2027	UST + 13bp	AA+

Source: Bloomberg Finance L.P., 30 June 2025.

FOREIGN EXCHANGE

SLAWOMIR SOROCZYNSKI

HEAD OF FIXED INCOME

The US Dollar under friendly fire

June was not a good month for the US Dollar. It ended as the second worst-performing currency on the G10 table. The US Dollar Index (DXY) opened the month just below the psychological 100.00 level and was unable to gain enough strength to recover. Initially, it traded within a narrow 0.75-point range between 98.50 and 99.25, with geopolitics likely being the dominant factor closely monitored by investors.

During the first few days, the war in the Middle East pushed the dollar lower toward a key support level at 98.00. This level had previously halted the dollar's slide in April, leading many to hope it would provide strong support again. Indeed, the DXY tested 98.00 several times but repeatedly bounced back.

At first, news of direct US involvement in the Israel-Iran conflict gave the greenback solid support. The surge in risk associated with the conflict pushed the DXY higher, testing 99.40. However, this effect faded as quickly as the noise of the warplanes, and without this support, the only direction for the US Dollar was down. It closed the month at 96.80 — a level not seen in three years.

With this decline, the index moved closer to its key technical support around the 95.00 level, which we believe may be tested during the summer holiday season. It's worth noting that between 96.80 and 95.00, there are numerous local support levels. Still, for the index to move below 95.00, a fresh catalyst will likely be needed. In our view, a possible 25 basis point rate cut by the Fed alone would not suffice; other factors may need to come into play. Additionally, the DXY's technical structure suggests that prolonged weakness would require all major contributing currency pairs to break important technical support levels against the US Dollar.

In June, we saw EUR/USD break through key resistance around 1.1520-1.1550. The next targets are 1.1850 and, ultimately, 1.20. A similar technical picture has emerged for GBP/USD, which comfortably established a base above 1.3600. However, USD/JPY — the second largest component of the index — still trades well above its key technical support at 140.00. The Japanese Yen was the worst-performing G10 currency, closing the month at 144.23. In our opinion, the performance of this pair will be crucial for the DXY's trajectory in the coming weeks.

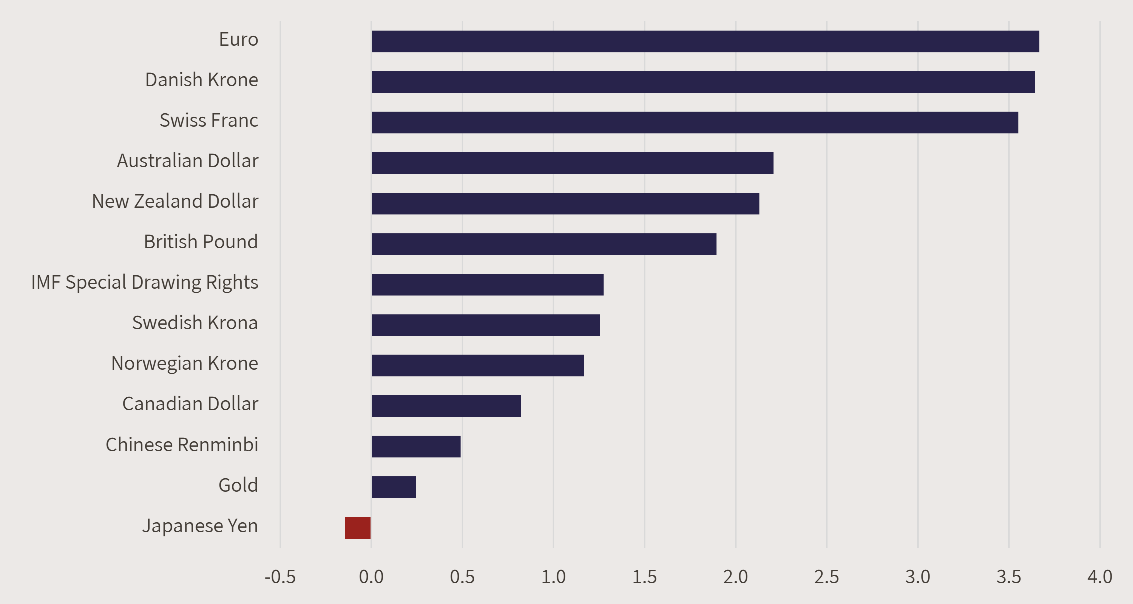
Among other G10 crosses, the Swiss Franc deserves mention as it hit an all-time high valuation against the greenback despite the Swiss National Bank lowering interest rates to zero.

(Please see detailed performance data for G10 FX crosses overleaf.)

Regarding the Renminbi, it managed to regain some ground against the US Dollar, closing the month just below an important technical support at 7.1700.

Looking ahead, diversification away from the US Dollar will likely remain the key investment theme for global capital flows, which—for now—favour size over quality.

June performance vs. USD (%)



Source: CAIM, 30 June 2025.

EQUITIES

SIMON PRICE

SENIOR EQUITY FUND MANAGER

United States

Positive developments on the macro themes aid markets for now

In June, US equity markets experienced growth due to several favourable macroeconomic developments. The global economy remained supportive, with minimal signs of tariffs affecting inflation. On the trade front, an agreement with China led to a relaxation of export restrictions, and there were discussions about forming trade deals with ten major partners. Additionally, the US Treasury Department's request to remove Section 899 (the "revenge tax") from the bill, following an agreement with G7 leaders to exempt US companies from certain taxes, was well-received. Market sentiment was further bolstered by expectations of more rate cuts from the Federal Reserve, driven by softer inflation data, which benefited long-duration equities. On the fiscal side, the momentum behind the "Big Beautiful Bill," which includes tax cut extensions, was seen as a positive development. Despite geopolitical tensions arising from Israel's attacks on Iran's nuclear facilities, the lack of further escalation helped maintain market confidence.

Regarding monetary policy, the Federal Reserve maintained the federal funds rate at 4.25-4.50%, as anticipated. The updated Summary of Economic Projections (SEP) indicated that the median forecast still anticipates 50 basis points of cuts by the end of the year. However, there was a hawkish shift in the distribution, with seven officials now predicting no cuts this year, up from four in March. Fed Chair Jerome Powell noted that while uncertainty remains historically high, it has lessened since the early May meeting. He also pointed out the potential for tariffs to have a more persistent impact on inflation, although he acknowledged the positive development of slowing services inflation.

Turning to the macro environment, the latest inflation report revealed that both headline and core CPI increased less than anticipated. Notably, the core CPI figure was below all economists' estimates on Bloomberg, marking an unexpected downside surprise. Investors were reassured by the absence of a clear tariff impact, leading some to anticipate additional rate cuts from the Federal Reserve. Regarding employment, the May headline and private payrolls slightly exceeded consensus expectations. However, significant downward revisions to the previous two months' data tempered the positive surprise.

On the corporate earnings front, the past reporting season was a significant support for equities, with companies delivering 1Q results with strong earnings surprises and a much better-than-expected forward guidance quarter. The slight worry is some of this was related to pull-forward of demand and inventory stocking related to tariffs and so we will be watching out for second quarter numbers which start in a couple of weeks.

In terms of performance, gains were largely driven by technology and communication service, with semiconductors the best performing industry. The rally in semiconductors was driven by encouraging single name earnings from Nvidia, Micron Technology and Oracle, together with positioning and the easing tariff stance. Broader sector performance was generally positive with only Staples and Real Estate sectors ending lower.

Europe

US tech buying plus ECB commentary see markets lower

European equity markets declined in June as investors shifted away from the year's earlier winners. This occurred despite generally resilient domestic macroeconomic data and an increased focus on fiscal policy.

A potential downside was the European Central Bank's (ECB) indication that interest rates might have reached an appropriate level. The ECB cut rates by 25 basis points as expected, bringing the deposit rate down to 2%. However, President Christine Lagarde suggested that the easing cycle was "nearly concluded," implying that further rate reductions were unlikely. She also indicated a lack of urgency to cut rates further, stating that the current level positioned them well to navigate upcoming uncertainties.

In terms of sector performance, both Banks and Defence stocks pulled back from their highs due to recent position crowding. Despite ongoing challenges in EU/US trade talks, the Domestics vs. Exporters trade reversed in June, with Exporters slightly outperforming. However, key tariff-exposed sectors such as Autos and Luxury continued to underperform. The US-led rally in Semiconductors also extended to European Semis. Energy emerged as the best-performing sector in Europe, benefiting from the escalation of conflict in the Middle East. Defence stocks saw gains following the NATO Summit, where defence spending targets were increased to 5% by 2035.

Developed Asia

Constructive China/US trade talks aid momentum

Developed Asia markets continued their upward trend, fuelled by optimism over high-level trade discussions between China and the United States, as well as improved Chinese retail sales, which grew at their fastest pace since late 2023.

Japanese equity markets also advanced, supported by an upward revision of 1Q GDP and an increase in Composite PMIs for May. The risk of yen appreciation diminished after the US and Japanese central banks postponed policy changes. The Bank of Japan maintained short-term interest rates at 0.5%, as expected, in a unanimous vote following a two-day policy meeting. More significantly, the Bank announced plans to slow the pace of its bond purchase reductions next year, aiming to minimize market disruptions while still providing sufficient support for the Japanese economy amid uncertainties stemming from US trade policies. In terms of performance, markets mirrored the US-led technology rally and the AI recovery trend.

Emerging markets

Emerging market equities outperformed their global developed counterparts, recording its sixth month of positive returns in June. Post a mid-month risk-off from the geopolitical conflict between Israel and Iran, markets calmed down after a ceasefire was brokered by the US. Markets garnered support from news that the US and China agreed upon a tariff framework, while the USD finished lower as market expectations of a Fed cut increased following softer inflation prints in the US.

Regionally, EM Asia extended its leadership into June even as LatAm and CEEMEA also recorded fairly strong performances, in USD terms.

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