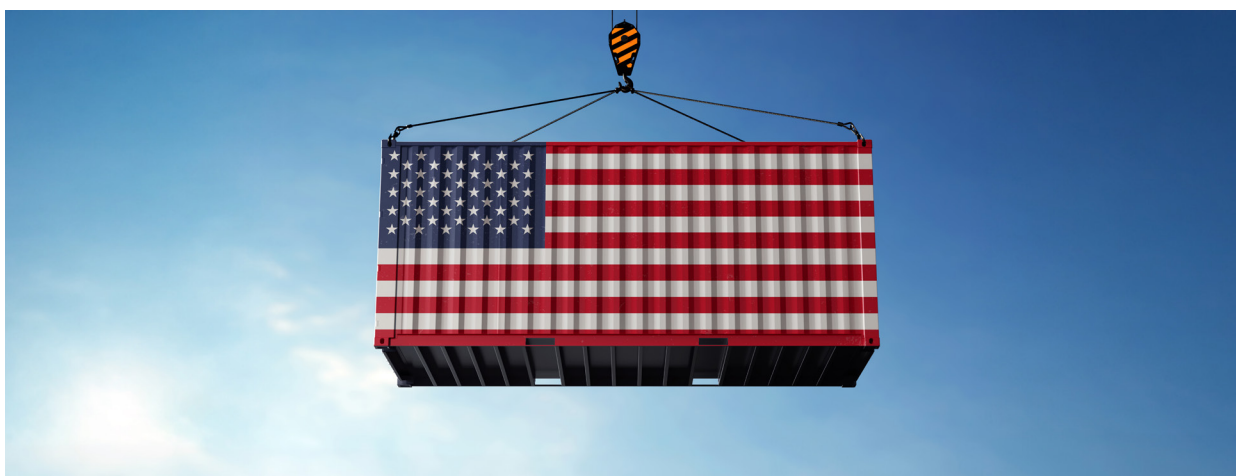


Market review: A quarter of uncertainty and resilience



The second quarter of 2025 illustrated just how quickly sentiment in financial markets can pivot. Investors entered April on relatively steady footing, only to be jolted by President Trump's unexpected announcement of sweeping new tariffs. Dubbed "Liberation Day," the announcement triggered a market correction of nearly 10% as fears of a global trade war surged. The random nature and scale of the proposed tariffs led many to predict an inflationary spiral, global retaliation, and an entrenched era of trade disruption.

Bond yields spiked, particularly at the longer end, and yield curves steepened. Amid the turbulence, political pressure began to mount in the United States. Trump, in response, delayed the implementation of the tariffs by several months, allowing countries the opportunity to negotiate alternative arrangements. Markets interpreted this as confirmation that the original announcement was more a negotiation tactic than settled policy. Investor anxiety eased, and equity markets began to recover.

This shift was reinforced when US-China negotiations concluded with a provisional agreement that leaned heavily in China's favour. The reversal fed a broader perception of inconsistency in US policy, encapsulated by the emergence of the "TACO" label – Trump Always Chickens Out.

Despite the volatility, equity markets in sterling terms delivered positive returns of approximately 5% over the quarter. Currency movements added a tailwind

for USD-based investors. Growth equities once again outpaced value, bolstered by renewed optimism in artificial intelligence and the reduced threat of immediate trade disruption.

Government bond performance was mixed. UK and European bonds outperformed US counterparts, although returns remained modest. High-yield credit underperformed investment-grade bonds, as tight credit spreads offered limited compensation for risk. Commodity markets reflected inflation concerns. Gold prices surged, while oil spiked briefly in response to geopolitical developments before retreating on OPEC+ supply commitments.

Elsewhere, significant policy shifts took shape. The European Central Bank cut interest rates twice, signalling the likely end of its rate-cutting cycle. In Germany, the new chancellor committed to increased defence spending, a potential structural shift for both Germany and Europe. Meanwhile, in Japan, bond yields climbed due to rising inflation and concerns about fiscal looseness. In the UK, the Labour government faced pressure to reconsider spending cuts. Internal party dynamics have increased the importance of Chancellor Rachel Reeves' forthcoming October budget.

Outlook:

Navigating complexity with conviction

The second quarter ended with markets cautiously optimistic but increasingly attuned to structural risks. While Trump's reputation for retreating on bold declarations temporarily calmed fears, the passage of the "Big Beautiful Bill" (BBB) introduced longer-term uncertainty.

The BBB extended tax cuts, reduced funding for social services and Medicaid, and rolled back green energy and EV subsidies. Most significantly, it increased the US debt ceiling by \$5 trillion, enabling



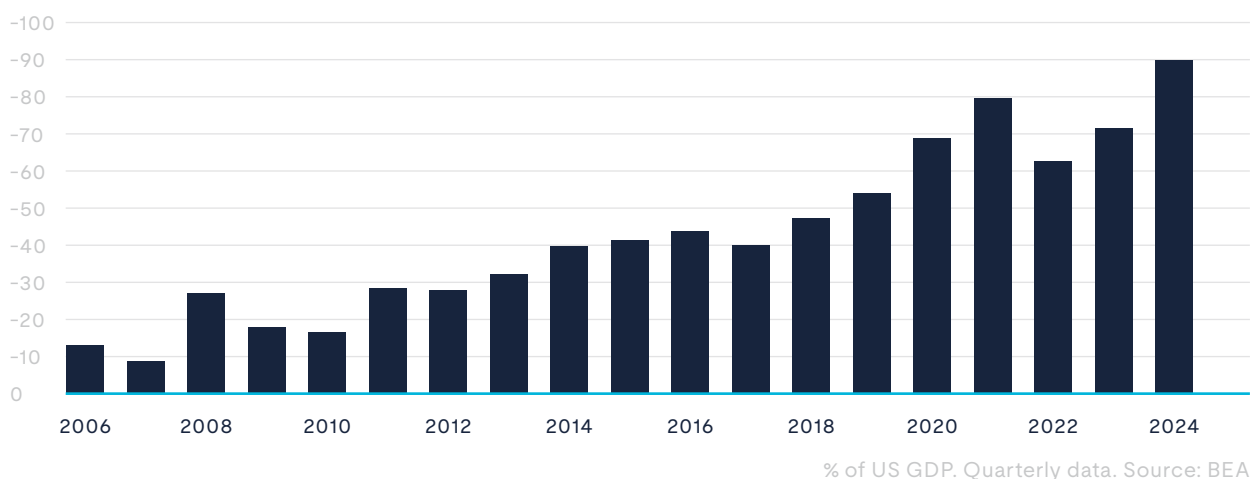
the Treasury to resume debt issuance. Since the debt ceiling was reached in January 2025, Treasury Secretary Scott Bessent had been relying on "extraordinary measures" to manage cash flows. The return to regular issuance could result in a notable increase in Treasury auctions in the coming months.

Much will depend on where along the maturity curve the Treasury chooses to issue. Recent issuance has skewed toward the short end, and this is expected to continue. However, if investor demand for long-duration bonds remains weak – as current trends suggest – any poorly received auction could shake confidence in the US bond market and apply downward pressure on the US dollar.

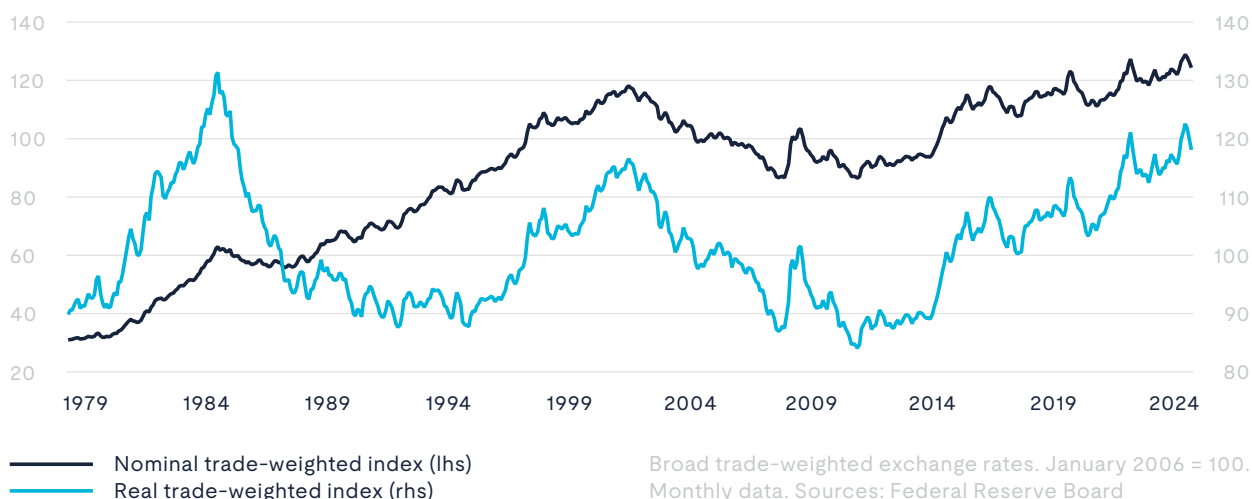
US government debt now approaches levels last seen during World War II, with the deficit nearing 7% of GDP and total debt expected to hit 130% by 2030. The US's position as issuer of the global reserve currency provides some insulation, but as history has shown, such status depends on global confidence and trust – both of which can erode.

The below chart demonstrates how strongly inflows into the US have been since the global financial crisis and the support which these investment flows have lent to the trade weighted US Dollar index in both nominal and real terms.

US net-international investment



US dollar trade-weighted indexes



Heligan continues to see US inflation remaining higher than desired, particularly given tariff pressures, loose fiscal policy, and a potentially weakening dollar.

HELIGAN INTELLIGENCE

This backdrop raises important questions for investors. Heligan continues to see US inflation remaining higher than desired, particularly given tariff pressures, loose fiscal policy, and a potentially weakening dollar. Consequently, we expect interest rates to remain elevated for longer, and the yield curve to steepen. Long-dated US Treasuries remain unattractive in our view.

The quarter also included a flare-up in Middle Eastern tensions. Israel's military campaign against Iranian nuclear facilities briefly spiked oil prices. The US quickly offered support to Israel with joint airstrikes, but broader conflict was averted, and oil markets stabilised following OPEC+'s announcement of increased supply.

Despite the headlines, market participants are increasingly learning to look through geopolitical noise. Investors have begun to treat policy unpredictability as background risk, maintaining exposure on the assumption that long-term fundamentals remain intact.

Looking ahead, we expect the themes of Q2 to persist through the second half of 2025. Tariffs, geopolitics, and the US fiscal path will remain key variables. We also anticipate continued focus on interest rate trajectories and their implications for asset allocation.

We believe resilience is the foundation of long-term success. Through thoughtful diversification, strategic flexibility, and an unflinching focus on outcomes, we aim to help our clients stay ahead of complexity – with confidence.



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