



*This is the latest One Four Nine Portfolio Management (OFNPM) portfolio review providing investors, clients and advisers with an easy to digest overview of what's happening in the markets globally, alongside comparisons of OFNPM's portfolio performance each quarter and throughout the year.*



## PORTFOLIO REVIEW QUARTER TO JUNE 2025

The second quarter of 2025 has proved to have been a tumultuous one with significant market volatility in equity markets. This was driven by the announcement of the US government in April of tariffs that every country in the world would face from the US followed swiftly by either changes to those rates or delays in their introduction, generating significant uncertainty around the scale, timing and their effect on economic growth and company earnings. Markets abhor uncertainty and acted exactly how you would expect by selling off sharply and then rebounding almost as sharply. With more clarity as the quarter moved on, markets

calmed down and resumed their upward march.

Inflation still remains a threat to growth. Central banks have seen inflation fall back towards their targets, yet remain wary of it reigniting. In the UK, inflation stood at 3.6% in June, well above the 2% target. Therefore, the Bank of England (BOE) has had little room to cut rates and did so only once over the quarter to 4.25%. The US Federal Reserve (FED) is in a similar position where inflation is at 2.7% and they offered no cuts to interest rates over the quarter despite protestations from the White House. The FED's target rate upper band stands at 4.5% today. Only the European Central Bank (ECB) has actively pursued a rate-cutting agenda, cutting twice over the quarter to 2.15% from 2.65%. This is because they see less inflationary pressures,

and the current inflation rate for the eurozone stands at 2.3%, much closer to target.

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## MARKET PERFORMANCE

Sterling bond markets provided good returns over the quarter, with Gilts up 2.0% while Sterling corporate bonds added 2.9% as credit spreads tightened. Yields in the UK were down across the board, with the ten-year yield falling from 4.68% to 4.49% and the 2 year yield falling from 4.20% to 3.82%. This steepening of the yield curve occurred in the US as well, but the ten-year yield remained static while the 2 year yield dropped. This steepening reflects an increase in inflation expectations in the longer term, both here in the UK and in the US. This steepening increased duration risk in bonds but has not been to the detriment of our portfolios as our duration is shorter than that of the market average. Investment-grade and high-yield credit spreads widened after Donald Trump's Liberation Day tariffs announcement on 2 April across both the US and the UK, but have since fallen back down to March 2025 levels as the market seems to be unfazed by future tariffs and ongoing geopolitical issues.

After a strong start to 2025, with Europe and the UK outperforming the US in Q1, global equity markets experienced significant turbulence in Q2. As with the bond markets, Trump's Liberation Day which sent shockwaves through equity markets as well. The S&P 500 fell 12% between the 2<sup>nd</sup> and 8<sup>th</sup> of April, only to rebound dramatically with a 9.5% gain on 9 April. Europe, the UK, and other major economies also felt the impact, as investors viewed the tariffs as a signal of deglobalisation, likely to slow global trade due to higher costs.

Since that sharp drop, markets staged an impressive recovery to outperform bonds. By the end of June, the S&P 500 had surged 25%

in USD from its low point in April to reach all-time highs, fuelled by renewed optimism in the US and global economies. Expectations of lower tariffs and brighter growth prospects have driven this rally. By the end of the Quarter, we saw the MSCI World Index up 5%, propelled by a strong showing from Growth stocks, which surged 10.8%, while Value stocks lagged, declining -0.7%.

Regionally, Europe and Asia slightly outperformed, each gaining approximately 6%, reflecting resilient investor sentiment. Sector performance was led by Information Technology (+16.0%), Aerospace & Defence (+14.9%), and Industrials (+8.2%), underpinned by continued growth in the AI sector and increased defence spending, whereas Healthcare and Energy sectors continued to underperform.

Staying fully invested within our models during this period and maintaining our equity allocation has meant that we have recovered with the market and still generated good returns on an absolute basis where any lags in performance have been down to fund selection as opposed to our asset allocation. Furthermore, this rollercoaster quarter highlights a crucial lesson for investors: staying invested, even during volatile times, is essential. Market recoveries can happen quickly, and those who sell in panic risk missing out on significant gains.

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## CAN THIS MARKET RECOVERY CONTINUE?

Gains in productivity from the use of Artificial Intelligence (AI) is a major factor in the optimism shown by markets. Many fund managers we've spoken to are prioritising AI, seeing it as a cornerstone of their investment strategies. However, strong consumer demand is vital for any industry's growth, including AI. The current economic

environment sends mixed signals about consumer strength and business prospects. While we don't base our investment decisions solely on economic trends, understanding the broader picture is important, especially when long-term shifts could affect future returns.

In the long-term we remain optimistic about the prospects of the US economy as we believe that it is still by far the most exceptional economic force in the world. However there are many reasons to be cautious about US equity, bond and currency markets over the near to medium term.

US stock market valuations are at historic highs relative to their National GDP, making investments more expensive than ever. This underscores the importance of paying a fair price for companies and focusing on high-quality businesses, those with strong fundamentals at reasonable valuations.

The US economy is in a potentially fragile state, despite the AI-driven enthusiasm pushing stock prices to record levels as interest rates have remained at 4.5% since December 2024, with inflation stuck at 2.7%, still above the Federal Reserve's 2% target. Unemployment has risen steadily while job openings have also declined,

These trends—rising unemployment, fewer job opportunities, and high interest rates are putting pressure on consumers and businesses through higher debt costs. Yet, the US stock market continues to hit all-time highs. Has the economy achieved the hoped-for soft landing, ready to grow faster once interest rates fall? Or are consumers losing momentum, potentially leading to weaker growth in the coming years? The answer remains unclear. Despite these challenges, we're optimistic about the US economy's long-term potential. However, we're ensuring our fund managers focus on fairly priced, high-quality businesses to reduce the risks of

a potential recession impacting overvalued companies.

The UK stock market started 2025 strongly but was hit hard by April's tariff announcement, underperforming the US this quarter in sterling terms. Despite this, the UK's economic backdrop differs in important ways. GDP growth improved to 0.7% in Q1 2025. Interest rates were cut to 4.25% in May, even though inflation remained high at 3.5% in April and 3.4% in May, driven largely by sharp rises in household utility bills. Like the US, the UK has seen rising unemployment since December 2023 and falling job openings.

The UK government is addressing these challenges through its 2025 Spending Review, which prioritises investment in infrastructure, nuclear energy, the NHS, and more to stimulate the economy and create jobs. However, this ambitious spending carries risks. Inflation may remain sticky due to increased government expenditure, and large-scale projects in the UK often face delays or inefficiencies, a common issue historically.

We remain optimistic about the UK economy and the opportunities in certain industries. Valuations in the UK are significantly lower than in the US, offering a greater margin of safety for investors. However, we're mindful of the challenges ahead and are closely monitoring developments.

Europe in 2025 has outperformed both the US and the UK. This is largely due to increased fiscal spending, particularly in defence, driven by ongoing conflicts in the Middle East and Ukraine along with the prospect of the US backing away from EU defence commitments as they now consider a future where they must rely on themselves more. For instance, Germany's €500 billion infrastructure fund, announced in March, signals a significant shift in budgetary priorities that could benefit the broader

European economy, especially in a looser monetary environment compared to the UK and the US.

The ECB has continued to cut interest rates, now at 2.15% (down from 2.65% in March), though this leaves less room for further reductions compared to other major economies. GDP growth has been robust, reaching 1.5% year-over-year, driven by

strong performances in Ireland and Germany. So far, lower interest rates have not triggered significant inflation; however, the full impact of rate changes typically takes 12–18 months to appear in inflation data.

The table below shows returns in local currency terms of the main developed equity markets and the source of those returns to end of June 2025.

RETURNS 2025	UK	US	JAPAN	EUROPE excl UK
TOTAL RETURN	9.00%	6.13%	2.69%	9.39%
DIVIDEND YIELD	2.18%	0.47%	1.08%	1.99%
INFLATION	2.75%	0.94%	1.08%	1.57%
REAL CAPITAL RETURN	3.82%	4.66%	0.49%	5.61%
PE CHANGE	3.78%	-1.11%	9.88%	8.53%
REAL EPS GROWTH	0.04%	5.83%	-8.55%	-2.69%
EPS GROWTH	2.80%	6.83%	-7.55%	-1.16%
DIVIDEND GROWTH	-0.98%	3.72%	5.54%	1.76%

The UK and Europe ex UK led with total returns of 9.00% and 9.39%, respectively, underpinned by significant price appreciation from re-rating, with PE changes of 3.78% and 8.53%. This suggests investor optimism has lifted valuations, particularly in Europe, despite modest or negative real EPS growth (0.04% for the UK and -2.69% for Europe ex UK), indicating that returns were less reliant on earnings growth and more on sentiment-driven revaluation. Conversely, the US market, with a total return of 6.13%, derived its gains primarily from robust real EPS growth of 5.83%, supported by an EPS growth of 6.83%, while experiencing a PE contraction of -1.11%, suggesting the market

has become relatively cheaper despite perceptions of overvaluation. Japan, with a modest 2.69% total return, saw significant PE expansion of 9.88%, but this was offset by a sharp decline in real EPS growth (-8.55%), highlighting a re-rating-driven rally amid weakening fundamentals. Comparing regions, Europe's strong performance and high PE changes may fuel perceptions that its companies are outperforming, while the US is viewed as expensive and underperforming. However, the data challenges this narrative: the US market's PE decline indicates it has derated, becoming more attractively valued, whereas Europe and Japan's PE increases suggest their

markets may be overstretched. We will see whether investors apparent expectation of a better future for the UK and Europe relative to the US is justified in the months and years to come, or if it is possibly another oversight of US exceptionalism continuing to play out as they look to dominate the AI and Tech industry with huge investments into the industries.

Finally, while near-term weakness in the US economy has not been reflected in returns from either equity or bond markets, the one market where it is manifesting itself is in the currency market. Year to date, the US Dollar has depreciated 10.7% on a trade-weighted basis and depreciated 7.0% in Q2. Sterling has benefited, gaining 6.3% against the dollar in Q2 and 9.7% in 2025. This has been a significant drag on the performance of US assets in sterling portfolios, turning a positive US equity return into a negative one for sterling investors over the course of the year so far.

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## PORTFOLIO PERFORMANCE OVER Q2

Equities provided significantly higher returns than both Gilts and Sterling corporate bonds over the three months to 30 June 2025. Our active equity funds underperformed their passive equivalents over the quarter. Our active non-equities (cash, bonds and multi-asset funds) returned 1.78%, while their passive equivalents returned 1.79%. Our active equities returned 4.41% over the three months while their passive equivalents returned 5.58%. In a volatile quarter there were significant differences in the drawdowns that different risk profiles experienced, driven primarily by the equity allocation. Our active non-equities experienced a drawdown of just -1.6%, while our active equities and passive equities realised much higher drawdowns of -8.7% and -10.5% respectively. Our active equities offered some protection during the sell-off in April, but did not participate fully in the subsequent rebound in the short term.

## DEFENSIVE PORTFOLIOS

3 MONTHS TO 30 JUNE 2025	RETURN	MAXIMUM DRAWDOWN
ACTIVE	2.08%	-1.97%
BLENDED	2.20%	-2.12%
PASSIVE	2.33%	-2.28%
SUSTAINABLE	2.31%	-1.72%

All portfolios delivered good returns over the quarter, with good performance of bond markets providing a good base for returns. Passive portfolios benefited from the outperformance of passive equities over actives, although the differences were small due to a low equity weight overall. Sustainable portfolios had a slight edge due to sustainable equity funds outperforming more general equity funds. Drawdowns were much lower than more risky portfolios due to a lower equity weight and active and sustainable portfolios offered further protection over passive portfolios.

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## CAUTIOUS PORTFOLIOS

3 MONTHS TO 30 JUNE 2025	RETURN	MAXIMUM DRAWDOWN
ACTIVE	2.47%	-3.17%
BLENDED	2.73%	-3.57%
PASSIVE	2.99%	-3.96%
SUSTAINABLE	2.85%	-2.90%
IA 0-35% SHARES	2.30%	-2.91%

All portfolios delivered good returns over the quarter, with good performance of bond markets providing a good base for returns. Passive portfolios benefited from the outperformance of passive equities over actives, although the differences were small due to a low equity weight overall. Sustainable portfolios had a slight edge due to sustainable equity funds outperforming more general equity funds. All portfolios outperformed their relative IA sector. Drawdowns were much lower than more risky portfolios due to a lower equity weight and active and sustainable portfolios offered further protection over passive portfolios.

## BALANCED PORTFOLIOS

3 MONTHS TO 30 JUNE 2025	RETURN	MAXIMUM DRAWDOWN
ACTIVE	3.16%	-4.85%
BLENDED	3.51%	-5.39%
PASSIVE	3.86%	-6.09%
SUSTAINABLE	3.74%	-4.79%
IA 20-60% SHARES	3.15%	-4.43%

All portfolios delivered strong returns over the quarter as both bond and equity markets delivered good returns. Passive portfolios benefited from the outperformance of passive equities over actives. Sustainable portfolios had a slight edge due to sustainable equity funds outperforming more general equity funds. All portfolios slightly outperformed their relative IA sector. Active and sustainable portfolios offered more protection than passive portfolios, experiencing lower drawdowns.

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## GROWTH PORTFOLIOS

3 MONTHS TO 30 JUNE 2025	RETURN	MAXIMUM DRAWDOWN
ACTIVE	3.65%	-6.42%
BLENDED	4.10%	-7.06%
PASSIVE	4.55%	-7.87%
SUSTAINABLE	4.50%	-6.43%
IA 40-85% SHARES	3.89%	-6.16%

All portfolios delivered strong returns over the quarter as equity markets delivered strong returns. Passive portfolios benefited from the outperformance of passive equities over actives. Sustainable portfolios had a slight edge due to sustainable equity funds outperforming more general equity funds. Most portfolios outperformed their relative IA sector. Drawdowns were higher than lower risk portfolios, and active and sustainable portfolios offered more protection than passive portfolios.



## ADVENTUROUS PORTFOLIOS

3 MONTHS TO 30 JUNE 2025	RETURN	MAXIMUM DRAWDOWN
ACTIVE	4.09%	-8.10%
BLENDED	4.66%	-8.92%
PASSIVE	5.23%	-9.79%
SUSTAINABLE	5.20%	-8.23%

All portfolios delivered strong returns over the quarter as equity markets delivered strong returns. Passive portfolios benefited from the outperformance of passive equities over actives. Sustainable portfolios had better returns due to sustainable equity funds outperforming more general equity funds and their passive equivalents. Active and sustainable portfolios delivered lower drawdowns over the quarter than their passive equivalents and in line with world equities, which had a drawdown of 9.82%.

## OUTLOOK

As long-term investors, we focus on the bigger picture, looking beyond short-term market fluctuations. Historically, global equities have delivered positive returns over the long term, and we expect this trend to continue. However, staying informed about emerging trends across countries and industries is essential, as they could signal longer-term shifts.

Currently, the world's largest companies are reporting strong earnings and increasing capital expenditure, particularly in AI. Companies like Amazon, Meta, and Microsoft are investing heavily, which is unusual during economic slowdowns. Yet, warning signs remain: inflation may stay elevated, consumer spending and labour markets could continue to weaken, and home builders are increasingly pessimistic about future growth.

These signals don't guarantee a downturn—home builders and other indicators can be wrong—but they remind us to stay vigilant. By focusing on high-quality businesses at

reasonable prices, we aim to balance opportunity with risk, preserving your capital while positioning for long-term growth. As always, we're committed to navigating these uncertainties with care, ensuring your investments are well-placed for the future.

Bevan Blair, Rosie Cook CFA and Ben Chambers.

London July 2025

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All data is at 30 June 2025. One Four Nine Models are benchmarked against UK CPI and any other benchmark has been displayed for comparative purposes only and is not a benchmark for the Models. Performance figures are net of underlying fund fees and



include One Four Nine Portfolio Management's Management Fee of 0.20%. All model portfolio performance data is sourced from One Four Nine Portfolio Management. All other data is from Bloomberg and Morningstar.

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