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With Profits Growth Fund

Q2 2025 Review

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Market Review and Outlook

Markets surge to record highs despite tariff uncertainty

Despite tariff uncertainty and increased tensions in the Middle East, it was a strong quarter for markets, with indexes surging to record highs. The US economy is cooling, but the labour market remains robust for now. Expected price hikes from US tariffs have not yet been reflected in inflation data, but analysts believe they could begin feeding through soon.

In this update, we'll reflect on this and take a look at some of the highlights and lowlights of the quarter and provide our usual funds' view and outlook from our Investments team.

Global market overview

Global markets were shaken by President Donald Trump's Liberation Day tariffs in early April, causing stocks to fall sharply and US Treasury yields to rise. However, markets bounced back after he paused tariffs for most countries except China. Trump's sudden shift in tariff strategy came as bond yields surged amid worries of a recession. By the end of April, stock markets had recovered and bond markets stabilised, but the dollar remained lower.

Global markets rose in May after the US and China agreed to pause tariffs for 90 days, easing worries about an

economic slowdown. US stocks gained as stronger-than-expected economic data boosted investor confidence, and a rebound in consumer sentiment added support. A strong company earnings season also helped, with most firms beating first-quarter forecasts. Doubts persist regarding the future impact of US tariffs.

The FTSE 100 hit a two-month high, helped by strong company results and better-than-expected growth. UK stocks also rose after the US said it would not apply new tariffs on British steel and aluminium, easing trade worries and boosting investor confidence. European stocks made solid gains over the period, driven by strong earnings performance and renewed hopes for trade. They were also supported by Trump's move to delay 50% tariffs on EU imports until 9 July.

Asian shares rose after Chinese and US negotiators reached a framework for a trade deal. They were also boosted after China's central bank cut interest rates to support the economy. Stock indexes dipped slightly towards the end of the period as tensions flared in the Middle East but remained steady.

Global markets were mostly calm throughout June, despite rising tensions in the Middle East. US equities

performed strongly, surging to record highs following news of a ceasefire, raising hopes for an end to the conflict between Israel and Iran. Contrary to market expectations of a sharp spike, crude oil prices fell amid signs the ceasefire will reduce oil supply disruptions.

Long-term bond yields surge

Long-term borrowing costs for major world economies rose after investors questioned the ability of governments to handle large budget deficits. Yields on long-term US government bonds rose (when yields go up, prices fall) after investors expressed concerns about the cost of Trump's proposed tax cuts. In Japan, long-term bond yields hit record highs as demand fell from usual buyers like life insurers and global worries grew over rising debt levels.

Interest rates and inflation

The US Federal Reserve (Fed) left rates unchanged over the quarter, holding them between 4.25% and 4.5% amid expectations of higher inflation and lower economic growth. Fed Chair Jerome Powell has increasingly come under pressure from Trump to lower interest rates. Often the attacks have been personal, with his calls for Powell's resignation weighing on US stocks. The pace of US

inflation unexpectedly slowed to 2.3% in April but edged back up to 2.4% in May.

The Bank of England lowered interest rates to 4.25% from 4.5% in May and then kept them unchanged at its meeting in June. In a setback for the UK government, inflation picked up again over the quarter, putting the readiness of the Bank to cut rates into doubt. UK inflation rose more than expected in April to 3.4% and remained unchanged in May. Financial markets are now expecting two interest rate cuts by the end of the year.

The European Central Bank (ECB) cut interest rates to 2.25% from 2.50% in April, citing concerns over economic growth amid rising trade tensions from Trump's aggressive tariff agenda. The central bank lowered interest rates further in June to 2% to help support slowing growth. Eurozone inflation was unchanged in April at 2.2%. It fell below the ECB's target of 2% in May, hitting a cooler-than-expected 1.9%.

US economy remains robust amid tariff uncertainty

Trump rolled back most of the tariffs he announced in early April, unveiling trade deals with the UK and China. However, imports from China still faced a 30% levy and 10% on most other US imports. Economists have warned


that most of the impact from import duty hikes is still to come. Consumer sentiment also fell sharply in April and inflation expectations increased. Despite the tariff issues and federal job cuts, the US labour market held up well. Employers added 177,000 jobs in April, and the unemployment rate stayed at 4.2%.

US tariffs hit British exports hard, with April seeing a record £2 billion monthly drop in goods sent to America. The UK job market weakened, with unemployment rising to 4.5% in the three months to March, a four-year high, while vacancies fell and wage growth slowed. However, the UK has signed new trade deals with the US, EU and India. While the economy expanded by 0.7% in the first quarter, there are concerns that growth could slow later in the year as Trump's tariff plans weigh on trade and new tax rises for employers add pressure on businesses.

Trump delayed the rollout of 50% tariffs on the EU until July. The eurozone economy performed better than expected at the start of the year as firms rushed to get ahead of Trump's tariffs. However, further tariff announcements have since weakened the outlook for the region. Despite this, rising government spending on defence and infrastructure is expected to support growth more over time. The eurozone economy grew by 0.6% in

the first quarter, the strongest pace of growth since late 2022. Exports also rebounded, increasing by 1.9% in the eurozone, while imports rose by 1.4%.

China and the US struck a deal to boost US access to Chinese rare earth minerals and magnets for cars. As part of the deal, the US raised overall tariffs on Chinese goods to 55%, while China kept its tariffs on US imports at 10%. China's economy slowed in April, with retail sales, property and investment all hit by the trade war. Deflation also continues to be a problem, with consumer prices falling for a fourth straight month in April. As tariffs continue to affect the economy, policymakers announced new measures in May to help stimulate growth, including interest rate cuts and a major liquidity injection.



Please note that past performance is not a reliable guide to future performance and the value of your investment, and any income can go down as well as up, so you could get back less than you invested.

If you have any queries or would like more detail about Wesleyan's With Profits Growth Fund please speak to your adviser.

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