

Market update

July 2025

July 2025: financial markets immune to trade tensions

July promised to be an exciting month for financial markets, but in the end they proved to be virtually immune to the ongoing geopolitical and trade tensions. Stock prices rose, and capital market rates rose slightly. Uncertainty, however, increased by the end of the month, with the approaching deadline set by US President Trump for trade deals on 1 August.

The best performing stock market over the month was the US, closely followed by emerging markets, with monthly returns of 4.7% for the MSCI North America index and 4.5% for the MSCI Emerging Markets index. In the US, the S&P 500 index rose to a new record high above 6,400 points towards the end of July, although this important measure ultimately failed to maintain this level. US price gains were also mainly driven by technology stocks, while for investors in euros, the appreciation of the US dollar against the euro added to the return on US equities. The US dollar is actually still around 10% lower against the euro than at the beginning of the year, which is also the most important explanation for the difference in return between US and European equities since the beginning of 2025: also around 10% in favour of European equities.



European equities were not really been able to continue their positive price movement since the beginning of the year in July, with a limited positive monthly return of 0.7% for the MSCI Europe index. In July, the European stock market underperformed other equity markets, returning -4.0% for the month. Asian equity markets, however, performed significantly better, returning +3.6% for the MSCI Asia Pacific index in July. As a result, the region performed in line with the MSCI World Developed Markets index (+3.8% in July). The world index measured in euros has achieved a return of 0% (rounded off) year-to-date in 2025.

Bond markets had a rather mixed month, with on balance slightly negative returns on European government bonds (-0.2%) due to a modest increase in capital market rates. European corporate bonds on the other hand delivered slightly positive returns, with the riskier high-yield bonds outperforming relatively safe investment grade corporate bonds (+1.2% and +0.5% respectively).

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	July	Q3	2025	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	-0.2%	-0.2%	0.3%	1.9%
Bloomberg Barclays Euro Bedrijfsobligaties	0.5%	0.5%	2.3%	4.8%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	1.2%	1.2%	3.9%	8.0%
FTSE/EPRA Europe Onroerend Goed	-4.0%	-4.0%	2.1%	-2.7%
MSCI Europe Aandelen	0.7%	0.7%	9.3%	7.6%
MSCI North America Aandelen	4.7%	4.7%	-1.0%	10.5%
MSCI Asia Pacific Aandelen	3.6%	3.6%	4.3%	8.1%
MSCI World Developed Markets Aandelen	3.8%	3.8%	0.1%	8.1%
MSCI Emerging Markets Aandelen	4.5%	4.5%	7.0%	11.0%
EUR/USD	-2.4%	-2.4%	9.9%	5.6%

Source: Bloomberg

US: Economy outperforms expectations, but that's no guarantee for the future

The US economy recorded an unexpectedly high growth rate of 3% (quarterly, annualised) over the past quarter. This is a somewhat distorted picture, as the growth is largely a bounce back after the 0.5% contraction in the first quarter. That was mainly driven by strong growth in US imports from US companies towards the end of the first quarter, ahead of President Trump's 'Liberation Day' trade tariff announcements at the beginning of the second quarter. Imports to the US fell sharply again in the course of the second quarter, which was the main driver of the positive growth rate.

From a broader perspective, the picture remains that the US economy is not in great shape, at least not as good as suggested by the growth rate over the past quarter. On balance, economic growth in the first half of the year is significantly lower than the average growth in 2023 and 2024. The consensus forecast for the whole of 2025 is still that US economic growth will be half that seen in the previous two years, with a reduction of around 1.5%. Meanwhile, the IMF has now become slightly more positive about the growth outlook for the US economy in 2025 and (in particular) 2026 than it was a quarter ago, but it also continues to point to ongoing uncertainty about US trade policy and geopolitical risks.

US trade policy will harm the global economy, and especially the US itself...

As far as US trade policy is concerned, the outlook has hardly become less uncertain since 'Liberation Day' on 2 April. The US has indeed in the meantime concluded trade deals with countries or blocs including the European Union, the United Kingdom and Japan, it has not made deals with many other countries. Shortly before the August 1 deadline, President Trump signed a decree imposing highly variable trade tariffs on many countries that had not yet reached a deal with the US based on often unclear grounds, and that also did not make clear in all cases which sectors would be affected and what the effects would be. Indeed, this also applies to countries with which trade deals had already been concluded. These are in fact more like vague 'framework agreements' rather than detailed trade agreements, so that it remains unclear exactly how the trade tariffs will operate for these countries as well.

In other words, uncertainty about US trade policy and its impact on the global economy is as high as ever, and it does not look as though this will change much in the short term. What is clear, however, is that US trade tariffs are now higher than at any time since at least the early 1930s. What is also clear is that trade tariff revenue will in principle benefit the US Treasury, but will likely be at the expense of US consumers in the form of higher consumer prices, corporate profits of US (and foreign) companies, and the innovation capacity of US businesses. All in all, there still looks to be little upside from US trade policy under President Trump.

...but is not yet visible in growth figures, including in Europe and China

The damage from US trade policy is not yet fully reflected in the economic growth figures. Not only not in the US itself, but also not in Europe and China, for example. While the eurozone economy grew at a meagre 0.1% quarter-on-quarter in the second quarter, this was still slightly better than the consensus forecast of 0% growth. Year-on-year, GDP growth has remained broadly unchanged at 1.4%, but is expected to decline to less than 1% in the remaining quarters of 2025. For China, economic growth in the second quarter was slightly better than estimated at 1.1% quarter-on-quarter. Year-on-year growth thus remained above 5%, but here as well it is expected to decline further in the second half of 2025, towards 4%.

What may play a role in the relatively small impact that Trump's trade tariffs have had on the global economy so far is that they primarily affect industry rather than services, which for many countries now account for a significantly larger share of their economies. This can also be seen in indicators for producer confidence. For both the US and the eurozone as well as China, industry sub-indicators have been below the 50-point neutral level for some time now, while the levels for services are still above it. On balance, the impact of trade tariffs on the global economy appears to be limited for the time being, but the question is whether this will continue to be the case. In particular, ongoing uncertainty about the further course of US trade policy may lead entrepreneurs to delay (or adjust) investment decisions, which may ultimately have an impact on the global economy.



Inflation in Europe is stable, but US inflation pressures threaten to rise again

US trade policy is also expected to have an impact on the development of inflation. In fact, the same applies as to the effects on economic growth: so far, the effects have been limited, but the question is whether this will continue. The initial effects may now be visible in US inflation data. US consumer prices rose 2.7% year-on-year in June, up from 2.4% a month earlier. The steady decline in US core inflation (excluding volatile food and energy prices) also looks to have come to an end in June. Core inflation had fallen to 2.8% from a peak of 6.6% year-on-year in September 2022, but then rose slightly to 2.9% in June. The consensus forecast is that inflation in the US will rise further in the coming months.

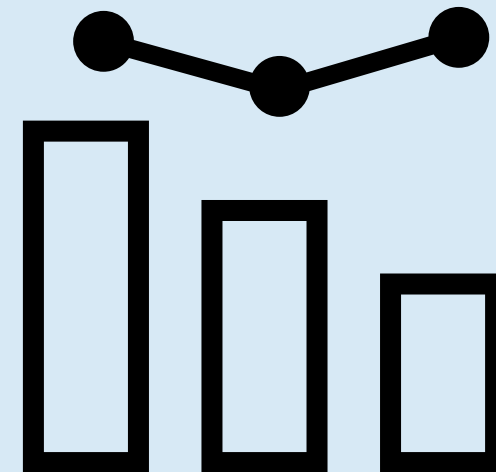
The inflation outlook in Europe is more favourable, where the rise in consumer prices in July was limited to 2.0% year-on-year for the second consecutive month, in line with the ECB's inflation target. Core inflation is still slightly higher, but remained unchanged at 2.3% year-on-year in July. The consensus forecast is that inflationary pressures in the eurozone are likely to ease somewhat further in the coming period rather than increase again. Meanwhile, China continues to hover on the brink of a Japan-style deflation. Inflation returned to just above 0% in July for the first time since the beginning of the year, and the consensus forecast is for no significant change in the near future.

ECB is in a fairly comfortable position, but the Fed is not

For the ECB, the combination of modest economic growth and inflation outlook means that the European base rate is likely to remain unchanged for the time being, apart of course from any unexpected developments. The US central bank, the Fed, has a more difficult task on its hands. The inconsistency of the Trump administration's trade policies alone makes forecasts for both economic growth and inflation uncertain, and, moreover, it looks likely that growth and inflation will move in opposite directions: growth down, inflationary pressures up. That makes it difficult to pursue an effective interest-rate policy, and President Trump's continued political pressure on the Fed's administration, and more specifically on Fed Chair Jerome Powell, doesn't really help either. At the most recent Fed meeting at the end of July, it was decided to leave the US base rate unchanged at 4.5%, but it was striking that two Fed board members called for a rate cut, in line with President Trump's wishes. That is quite unusual: the last time two Fed board members publicly expressed dissent from their colleagues was in 1993.

Financial markets outlook not entirely favourable

For the financial markets, there is still the question of how long the recent favourable price developments can continue, given the inconsistency in the Trump administration's trade policies alone. For now, technology stocks are benefiting from continued optimism about growth opportunities from artificial intelligence and are fairly immune to trade tariffs, but this does not apply to the broader stock market. Trade tariff revenues will be a windfall for the US Treasury, but the One Big Beautiful Bill Act passed by Congress in July in itself was enough to further worsen the long-term outlook for US government debt. Vulnerable public finances may lead to higher capital market rates in the long term, not only in the US, but also in Europe, for example, although in the short term this will be offset by the deteriorating economic growth outlook. On balance, we do not expect the favourable price development since the beginning of the year for both equities and bonds to continue unabated in the coming months.



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