



Wealth  
Management US

# Quarterly report

Q2 2025 market review



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**Cover image**  
Bauer brothers, Hortus Botanicus, detail from  
"Lilium," 1776/1804  
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The tariff rollback combined with a robust set of first quarter corporate earnings in the US helped reverse many of April's losses.

Sanjay Rijhsinghani, Chief Investment Officer

## Summary: Q2 2025

Gains in global equities over the second quarter masked the extreme volatility experienced in early April when President Donald Trump unveiled his sweeping tariffs on so-called Liberation Day. The tariffs prompted sharp declines across global equity and bond markets, although a combination of Trump's subsequent backtrack on tariffs along with strong first quarter corporate earnings helped stocks and bonds recover. The dollar was the real victim of the quarter as unpredictable policymaking from the US administration eroded confidence in the greenback.

### At a glance

- Tariffs roil equity, bond and currency markets in April
- Rollbacks in tariffs spurred broad based recovery for equities and bonds
- Investors question the dollar's status as the world's reserve currency
- Geopolitical tensions in the Middle East sent oil up briefly
- BoE and ECB cut rates while the Fed holds firm

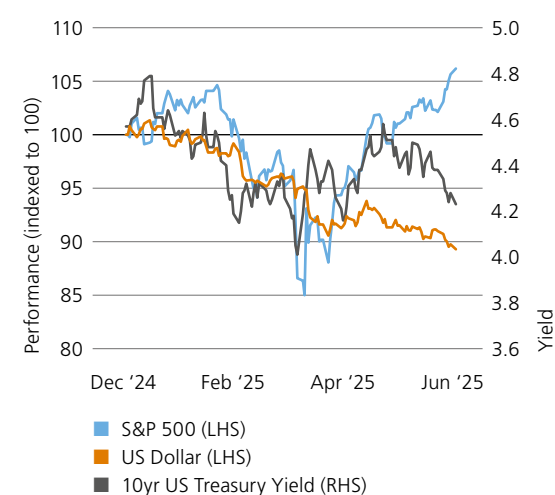


# Macro summary

## Tariffs roil markets

Trump's sweeping tariffs, which included a base-line tariff of 10% on all countries and higher rates for certain regions, elicited strong reactions both domestically and internationally. Equities experienced a sharp risk-off response, with the S&P 500 posting its fifth largest two-day decline since World War II.<sup>1</sup> The equity market sell-off in April led investors to seek safety in gold as recession concerns mounted. The surprise Liberation Day tariffs triggered fears of higher inflation and economic disruption, rattling investor confidence in US Treasuries—normally a safe haven. Yields on 10- and 30-year Treasuries rose by as much as 0.3% in a matter of days, even as equity markets sold off. This led Trump to make a U-turn and announce a 90-day pause on most tariffs.

S&P 500 vs the dollar vs 10-year Treasuries YTD



Source: Bloomberg

## Rapid recovery following tariff rollback

The recovery in bond markets soon spread to equity markets. The tariff rollback combined with a robust set of first quarter corporate earnings in the US helped reverse many of April's losses. The S&P 500 rose 6.3% in May and 5.1% in June, ultimately ending the quarter up 10.9%,<sup>2</sup> although given currency headwinds, the total return was 4.4% for sterling investors.

Stronger-than-expected macro data both in the US and Europe helped improve sentiment and alleviated concerns that the US was facing an imminent recession. Stocks pushed higher as news of potential trade deals between various countries filtered through, including frameworks between the US and the UK and the US and China. The deal between China and the US, which includes an agreement for Beijing to speed up exports of rare earth minerals, may help stabilise relations between the two countries following an escalating trade war where both sides placed sky-high tariffs on each other's goods.<sup>3</sup>

Following Germany's pledges to boost defence spending, NATO allies promised to raise defence spending to 5% of GDP by 2035,<sup>4</sup> which sent European equities higher. Germany's DAX Index rose 7.9% in the second quarter and the Stoxx Europe 600 Index gained 3.3%. Performance in these markets is even more impressive in US dollar terms.

Asian equities saw significant declines due to April's tariffs, but experienced strong rebounds once the tariffs were paused. Hong Kong's Hang Seng rose 5.8%, China's Shanghai Composite gained 4.2% and Japan's Topix returned 7.4% in the quarter.

<sup>1</sup> Deutsche Bank, Bloomberg

<sup>2</sup> Deutsche Bank, Bloomberg

<sup>3</sup> NY Times: [www.nytimes.com/2025/06/27/world/asia/us-china-trade.html](https://www.nytimes.com/2025/06/27/world/asia/us-china-trade.html)

<sup>4</sup> NATO: [www.nato.int/cps/en/natohq/topics\\_49198.htm](https://www.nato.int/cps/en/natohq/topics_49198.htm)



## Geopolitical tensions persist

After Trump's initial bold claims that he would broker a deal between Russia and Ukraine in just one day, this looks as unlikely as ever more than five months into his second term. Both Russia and Ukraine remain firmly entrenched in their positions on territorial disputes and sovereignty.<sup>5</sup> Meanwhile Israel's attacks on three key Iranian nuclear facilities and subsequent twelve-day war led to a short-lived rise in oil prices in June, although Brent finished the quarter 10% lower at USD 67 a barrel.

## Central banks

The divergence in central banks' paths continued as they embark on the challenging task of assessing tariff-induced shocks on growth and inflation. The Federal Reserve (Fed) held rates steady at its meetings in May and June, sticking to a wait-and-see approach as officials prepare for how tariffs will impact prices. Fed Chairman Jerome Powell insisted he is not in a hurry to lower rates, saying in May that the Fed is "well positioned to respond in a timely way to potential economic developments".<sup>6</sup>

The Bank of England (BoE) meanwhile lowered rates to 4.25% in May, carrying on with its 0.25% reduction every quarter since it began lowering rates last year. Although the latest cut was widely expected, policymakers were split, as concerns mount over how

Trump's tariffs will affect UK growth. Two out of the nine Monetary Policy Committee (MPC) members favoured a larger 0.50% cut, while two others voted to keep rates unchanged in May. Markets expect the BoE to maintain the current pace of one cut per quarter for the rest of the year.

The European Central Bank (ECB) cut rates twice in the quarter by 0.25% at each meeting, reducing its rates by half since peaking at 4% last year. While the rate cuts were anticipated by markets, the pace of future cuts is likely to slow down as rising trade tensions and the impact on global prices increasingly divides members on the path forward.

## Is the dollar's dominance over?

Trump's aggressive trade and foreign policy rhetoric have further heightened global tensions and had a tremendous impact on the US dollar's safe haven status. As a result, investors have been diverting as-

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Sanjay Rijhsinghani, Chief Investment Officer

<sup>5</sup> NPR: [www.npr.org/2025/06/02/nx-s1-5414522/ukraine-peace-talks-russia-trump-putin-istanbul](https://www.npr.org/2025/06/02/nx-s1-5414522/ukraine-peace-talks-russia-trump-putin-istanbul)

<sup>6</sup> Federal Reserve: [www.federalreserve.gov/mediacenter/files/fomcpresconf20250507.pdf](https://www.federalreserve.gov/mediacenter/files/fomcpresconf20250507.pdf)





# Fixed income

sets from the dollar—seen as the world’s reserve currency—to other currencies and gold. This sent the dollar down 7% in the second quarter and down 10.7% so far this year, with the dollar index now having its worst first half performance since 1973.<sup>7</sup> In the second quarter, the dollar lost ground against every other major G10 currency.<sup>8</sup>

## Bonds struggle over concerns of mounting US debt

Investors are pricing in rate cuts in the second half of 2025, leading to global yield curves steepening as investors grapple with mounting debt supply. Adding to these concerns is Trump’s so-called “big, beautiful bill”. This bill, which would extend Trump’s tax cuts from his first term, is projected to put the US on a path of even larger debt and deficits. This pushed 30-year Treasury yields 0.2% higher to 4.77%, while five-year Treasury yields declined by 0.15% to 3.8%.<sup>9</sup> Overall, developed market government bonds delivered moderately positive returns over the quarter, as the income component remains a powerful driver of returns.

## Conclusion

While equity markets ultimately ended the quarter in positive territory, the journey was anything but smooth. The sharp swings triggered by Trump’s tariff policy—and his subsequent reversal—highlight how vulnerable global markets remain to unpredictable policymaking. Although investor confidence rebounded on the back of strong corporate earnings and resilient macro data, this quarter served as a reminder of how challenging forecasting has become.

Yet despite the volatility, markets proved resilient. It has been a turbulent start to the year, but staying invested meant clients benefited from rising markets overall. With geopolitical risks unresolved and the US debt trajectory bringing increasing scrutiny, uncertainty remains. As this quarter has shown, maintaining a long-term outlook and a well-diversified portfolio continues to serve investors well, even as markets experience short-term shocks.

The global benchmark for government debt—the ten-year US Treasury bond—ended the quarter largely unchanged, although the broader yield curve saw significant shifts. Looking back, while the fiscal savings that the so-called Department of Government Efficiency (DOGE) could deliver was the theme in the first quarter, it was all about tariff policy and expansionary fiscal policy in the second quarter.

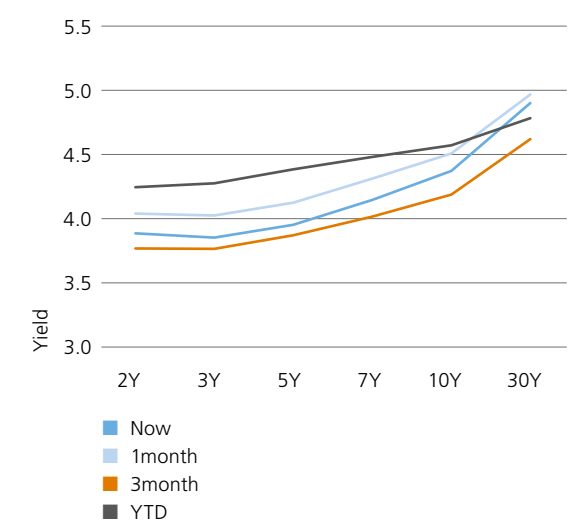
Given US debt worries have been bubbling in the background for some time, the announcement of the so-called “reciprocal tariffs” raised concerns that the US would cause greater damage to its economy than the potential tariff proceeds. As equity markets sold off, fears mounted of a sharp decline in global growth paired with higher inflation in the US. Furthermore, the perception of the US as a home for savings deteriorated. Consequently, US government bonds did not offer investors protection and the rise in borrowing costs led the US administration to rethink their newly set tariffs, the highest levels of tariffs since the 1930s.

## A tough case for central banks

The volatility caused by the Trump administration’s new fiscal approach did not make the job any easier for the Fed. Its dual mandate, focused on stable prices and maximum employment, faces opposing forces given the tariffs. This is because rising import costs driven by tariffs are likely to result in higher prices for US businesses and consumers. At the same time, should growth soften, this could lead to an increase in job losses. The uncertain outlook prompted Fed Chair Powell to shy away from commitments and delay rate cuts until a clearer picture emerges.

Investors expect the Fed to lower interest rates two more times by the end of the year, which supports shorter dated US Treasuries. However, yields on longer-term bonds are increasing as concerns grow around how much debt the US is taking on, especially with the new government tax and spending bill passing Congress. As a result, investors are demanding higher yields for holding long-term bonds instead of short-term bonds (known as the “term premium”). The difference between 2- and 30-year Treasuries has increased by 0.36% over the quarter. This rise isn’t driven by inflation concerns—as bonds that adjust for inflation have seen similar moves—but rather by concerns over the US fiscal situation and uncertainty over the future Fed leadership. Trump’s continued criticism of the Fed has eroded confidence, with Chair Powell’s term ending in May 2026. Usually, higher inflation-adjusted yields would strengthen the US dollar, but that hasn’t happened yet.

US yield curve (3 month and current, YTD)



Source: Bloomberg

<sup>7</sup> Deutsche Bank, Bloomberg

<sup>8</sup> NPR: <https://www.npr.org/2025/06/02/nx-s1-5414522/ukraine-peace-talks-russia-trump-putin-istanbul>

<sup>9</sup> Federal Reserve: <https://www.federalreserve.gov/mediacenter/files/fomcpresconf20250507.pdf>





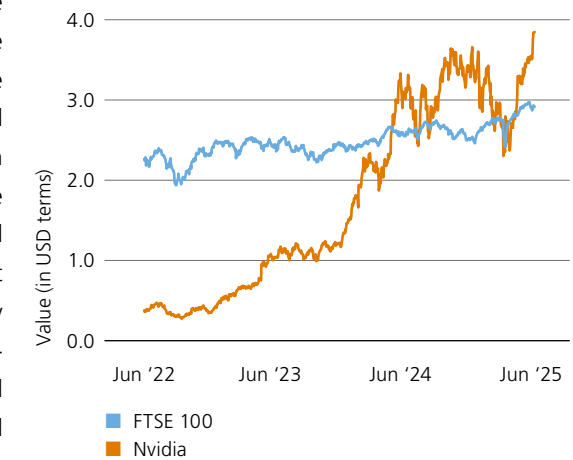
# Equities

## International equities

Anyone looking at stock market returns over the course of the last 18 months would struggle to see any lasting evidence of the very real daily turmoil the markets experienced as a result of Trump's so-called Liberation Day and on-again, off-again tariffs. Given that at the time of writing, he is at least 88 trade deals short of the 90 he expected to conclude ahead of his self-imposed 9 July deadline, who knows what the rest of 2025 might bring to markets. If many thought the first quarter marked the end of American exceptionalism with markets across the world rising as the US fell, then they no doubt wondered by the end of the second quarter if it was all just a dream.

Not only did the S&P 500 rise a huge 11% over the quarter, but the tech-heavy Nasdaq rose an astonishing 18%. To make it even more a season 2024 repeat, 60% of the S&P's total return came from the so-called Magnificent 7 big tech stocks. Some 23% came from Artificial Intelligence (AI) chip behemoth and once again largest company in the world, Nvidia. Another 17% came from one of their biggest customers, and the former largest company in the world, Microsoft. Nvidia and Microsoft rose 46% and 33% in the second quarter, remarkable figures. Indeed, the USD 1.2 trillion increase in Nvidia's market cap over the quarter would buy you 40% of the UK's FTSE 100.

Nvidia market cap vs FTSE 100 market cap (3 years)



Source: Bloomberg

After a 36% decline in the first quarter, Tesla gained 23% in the second quarter, but this masks the drama behind the scenes. At the time of writing, Musk and Trump, previously inseparable, are back to name calling and Musk is now contemplating forming a new US political party. With Tesla global vehicles sales down 14% annually in Q2, this is a distraction shareholders could really do without.

The energy sector in the US fell 9% as the boost to oil prices that followed the escalating conflict between Israel and Iran quickly reversed, with Brent crude ending the quarter 10% lower. The healthcare sector fell 7% as Trump said tariffs in the sector are still to come. Meanwhile, the US earnings juggernaut continued, with S&P 500 earnings 13% higher on a 5% increase in revenue.

By contrast, European central banks continued to embark on their rate cutting cycles. The ECB cut its deposit rate to 2% with two further 0.25% cuts over the quarter. This means rates have halved since their peak and been cut by 1% this year. With both core and headline inflation trending lower over the quarter, with the latter falling to 1.9% for May and just below the 2% target, this gave the ECB further room to cut. Eurozone growth has remained soft so far, and most expect the ECB to make further rate cuts this year, but the timing and extent depends on how the tariff outlook evolves and whether the growth recovery takes hold. While German fiscal stimulus and defence spending will likely boost output, tariffs are likely to be a deflationary and growth shock.

Meanwhile, the BoE has continued to embark on its slow and steady approach towards rate cuts with a 0.25% cut per quarter, taking rates to 4.25%. So far, rates have been cut by 1% since they reached their peak in August 2023. While most expect the BoE to continue down this path, the MPC have become more divided in recent meetings. Growth has been lacklustre but fiscal policy changes may result in higher prices resulting in a lively debate for the MPC.

In a move that is the envy of most governments, and particularly Trump, the Swiss National Bank reduced rates to zero as a strong currency means inflation is running below target and hovering close to zero. Given the Swiss Franc's safe haven status and ongoing strength which weighs on exporters, there is an ongoing debate on whether they will move rates back into negative territory over coming quarters.

While corporate bonds sold off materially in the aftermath of tariffs, they quickly recovered in line with equity markets. Investor sought to quickly take advantage of the higher yields on offer resulting in a quick reversal.

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Jeremy Sterngold, Deputy Chief Investment Officer

The US may have led the world, but some global equities experienced strong quarters as well. The DAX index in Germany rose 8% in Q2 and its 20% return over the first half of 2025 was only bettered by Hong Kong's Hang Seng index (6% in Q2 and 23% in H1). Siemens Energy surged 82% in the quarter, as electricity demand was robust and spurred on by AI data centre usage. Tank maker Rheinmetall rose another 36% as Germany and NATO committed to spending 5% of GDP on defence. By contrast, the CAC index in France rose just 1%, weighed down by luxury leader LVMH losing another fifth of its market cap.

The Topix index in Japan rose 7% even as the weaker dollar made the country's exports less competitive, while China's Shanghai Composite rose 4% in Q2.

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The US may have led the world, but some global equities experienced strong quarters as well.

Russell Harrop, Head of Equities



UK equities

In the first six months of 2025, the FTSE 100 Index rose by 9.5%, its best start to the year since 2021. Investors were encouraged by easing tariff concerns, which were at the front of everyone's mind at the end of the first quarter, and a spate of takeover bids for UK groups across different sectors. Sentiment was also boosted by the short-lived nature of the Israel-Iran war and the lack of any blockade in the Straits of Hormuz which brought relief to oil markets.

Spectris, a maker of precision and testing equipment, was the recipient of a GBP 3.7 billion approach from Advent, a US buyout firm, subsequently topped by a GBP 4.1 billion cash bid from rival US-based private equity house KKR in early July. Nasdaq-listed Qualcomm, the world's largest wireless chip vendor, tabled an agreed bid for the small UK semiconductor firm Alphawave IP Group. Deliveroo agreed to be gobbled up for GBP 2.9 billion by US food delivery business DoorDash, while US private equity firm Blackstone bid for Warehouse REIT.

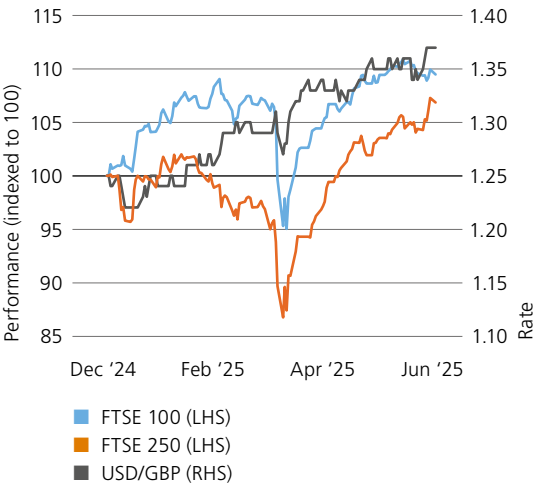
We have written before about global investors turning away from the UK stock market, a trend which began in earnest after Brexit and accelerated as investors focused on higher growth stocks in the US. It is telling that the bids mentioned have emerged after a sustained exodus out of UK-focused equity funds. The high number of US-led bids may indicate that offers for UK-listed stocks have only been coming from across the pond, but this is not the case.

During this period, Belgium's largest insurer, Ageas, came in with horns blaring to bid GBP 1.3 billion for the motor insurer Esure. The Japanese giant, Dai-ichi Life, also decided to cement a long-term strategic deal with M&G, one of Europe's largest private asset

investors, by announcing plans to acquire a 15% stake. There were also several UK-to-UK deals, with Mitie, an outsourcing specialist, snapping up smaller rival Marlowe, and student landlord specialist Unite electing to add to its room total with a bid for Empiric Student Property. Shell meanwhile denied reports it had been contemplating a takeover of sector peer BP.

Weakness in the dollar during the quarter led to sustained strength in sterling, and this weighed on UK stocks such as Diageo that have large North American operations. We also saw stocks like drug maker AstraZeneca held back by tariff and tax uncertainty, but there were strong moves in leading financial stocks like Phoenix, Prudential, and M&G. We are encouraged by the outlook of these companies in the sector. By contrast, we are cautious on insurers like Aviva that are focused on property and the casualty market, where prices are beginning to soften and may result in weaker returns going forward.

FTSE 100 vs FTSE 250 vs pound YTD



Source: Bloomberg





We continue to advocate caution on the more domestically orientated FTSE 250 names, as a combination of poor economic growth, a string of political U-turns and an increase in employers’ national insurance contributions has made for a challenging backdrop for these businesses.

While the UK has seen some solid returns so far this year, the lack of technology companies and broader growth industries continues to hamper growth. UK equities remain under owned, which has led to some takeover interest from international investors. This emphasises the need for a selective approach when investing in UK equities.

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James Follows, Head of UK Equities

# Key market data

Key market data (as at 30 June 2025)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
FTSE All-Share (GBP)	10815	0.48	4.39	9.09	11.16	35.50	67.27	9.09
S&P 500 (USD)	12739	5.09	10.94	6.20	15.16	71.55	115.89	6.20
Euro Stoxx 50 (EUR)	5303	-1.10	3.15	11.05	11.78	69.00	91.54	11.05
Nikkei 225 (JPY)	40487	6.82	13.87	2.58	4.29	62.93	99.91	2.58
MSCI World (USD)	3106	3.81	9.67	6.86	14.23	65.47	103.21	6.86
MSCI AC Asia Pacific ex Japan (USD)	756	4.76	8.70	10.06	14.46	36.24	50.16	10.06
MSCI Emerging Markets (USD)	74347	5.01	8.13	11.09	13.58	36.66	49.45	11.09
10 year bond yields **								
UK	4.49	-0.15	-0.18	-0.07	0.34	2.18	4.34	-0.07
US	4.23	-0.16	0.02	-0.34	-0.14	1.25	3.57	-0.34
Germany	2.60	0.08	-0.10	0.23	0.13	1.22	3.07	0.23
Japan	1.44	-0.06	-0.08	0.35	0.38	1.22	1.42	0.35
Commodities (USD)								
Gold	3294.40	0.17	5.50	25.30	41.53	82.61	83.74	25.30
Oil	67.61	5.81	-9.54	-9.42	-21.76	-41.11	64.30	-9.42
Currency								
GBP-USD	1.37	1.62	6.17	9.42	8.41	12.84	10.91	9.42
GBP-EUR	1.17	-1.72	-2.30	-3.48	-1.02	0.49	6.12	-3.48
EUR-USD	1.17	3.40	8.67	13.36	9.53	12.28	4.51	13.36
USD-JPY	144.45	0.10	-3.41	-8.09	-10.20	6.32	33.89	-8.09

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor’s, Stoxx Tokyo Stock Exchange

\* Performance is given on total return indices, but the levels are for the main indices.

\*\* Displayed as absolute changes in yields, rather than percentages.



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Investors expect the Fed to  
lower interest rates two more  
times by the end of the year,  
which supports shorter dated  
US Treasuries.

Jeremy Sterngold, Deputy Chief Investment Officer

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