



## Review

Global equity markets were broadly positive in June, with ongoing strength in US and Asian markets alongside more modest performances in areas such as the Eurozone. The UK equity market was similarly subdued, and the iShares UK Equity Index tracker managed a marginal gain of +0.28%.

Whilst the ongoing uncertainty surrounding the eventual landing point for US trade tariffs was never far from the headlines, it was geopolitics that took centre stage during June, with Israel launching full scale air strikes on Iranian nuclear and military facilities. Initial market reaction focussed primarily on a surge in the oil price and increased risk aversion, as fears over a protracted conflict, and the possibility of Iran closing the Strait of Hormuz – a strategically important global shipping lane, grew.

After several days of missile exchanges between Israel and Iran, the US launched its own air strikes on Iranian nuclear sites. Whilst this had the capacity to escalate the situation, after a modest, well flagged, retaliatory attack on US assets in Qatar, tensions cooled rapidly, and a ceasefire quickly followed. The corresponding fall in the oil price was as swift as the initial spike had been.

Elsewhere, there were broadly encouraging global economic data points during June with activity levels remaining resilient and, importantly, no indication that recent changes in trade tariffs are having a material impact on the inflation outlook – at least not yet. Meanwhile, the US government continues to try and secure the passing of the ‘Big Beautiful Bill’ and markets continue to exhibit a degree of unease towards the fiscal consequences should the bill pass. This is highlighted most strikingly, perhaps, by the continued weakness in the US Dollar which, by the end of June, had suffered its worst first half performance for a year since 1973.

Here in the UK, economic data points, whilst not uniformly robust, remained generally solid in June. This was likely a key reason the Bank of England voted (6-3) to leave interest rates unchanged at 4.25% at their latest meeting. Although, with 3 members now voting to cut rates, expectations for further easing in the second half of the year continue to build. Meanwhile, unease surrounding the UK’s fiscal position is gradually increasing, particularly as the labour government has recently performed several U-turns in areas such as cutting winter fuel payments and major welfare reforms.

## Fund performance / Activity

Pleasingly, our fund performed strongly again during June, benefiting significantly from the relative outperformance of mid-cap compared to large-cap companies, where we have significant exposure. As such, our fund gained +3.46% (share class A GBP Net Accumulation), materially outperforming the iShares UK Equity Index tracker gain of +0.28% and the peer group average gain of +1.29%.

There were a variety of individual positive contributors to performance in June including Kier, Entain, Burberry, IWG, Vesuvius and Polar Capital. Not owning index heavyweights AstraZeneca and Unilever also proved beneficial as their share prices underperformed. There were also several individual negative contributors during the month including Breedon, Just Group, EasyJet and Telecom Plus. Not owning oil majors Shell and BP also proved detrimental as their share prices outperformed.

We were more active in the portfolio during June, adding two completely new holdings, Atalaya Mining and Rosebank Industries, and making one complete disposal of industrial business Weir Group.



We added to holdings such as Breedon, PageGroup, Victrex and Anglo American and we took profits in positions such as Kier, OSB Group, Prudential and Burberry.

## Market Outlook

The positivity continues in equity markets generally, notwithstanding ongoing trade tensions and a significant increase in geopolitical conflict particularly in the Middle East. Whilst we welcome this improvement in investor sentiment, we are mindful that volatility could flare up again at any time, especially given the proximity of the US deadline for numerous trade deals to be agreed by July 9<sup>th</sup>.

In our view a key reason for the improvement in sentiment has been the resilience of global economic data points in the face of the potentially highly disruptive environment currently being created, primarily through US policy uncertainty. We too are encouraged, but not totally surprised, by this resilience and we remain optimistic that it will continue and potentially improve should the policy outlook become clearer and more certain during the next few months.

Our lack of surprise at the extent of underlying resilience is a function of our positive assessment of the fundamental health of private sector corporate and consumer balance sheets and cash flows. This, allied to fiscal expansion in many geographies, most recently in Germany for example, and gradually falling interest rates, keeps us more optimistic than most on the economic outlook. As mentioned above, this outlook could become significantly brighter still in the months ahead with some much-needed clarity on the trade policy front.

Given our comments above it should hopefully not come as a surprise that we look forward to the balance of the year with optimism, whilst cognisant that there exists the potential for short-term volatility spikes at any time. As we regularly remind readers, we consider it essential to focus on the medium-term potential of our investments when building our portfolio. At present valuations our enthusiasm for the medium-term potential of our current portfolio is substantial.

**Simon Murphy, Fund Manager**  
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Data source (unless otherwise stated): Bloomberg, FE Analytics

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