

Global Market Strategy – July 2025

Equities' advance higher is expected to continue

(Individual stock mentions here are observations and not recommendations to buy.)

Individual stock purchases are highly speculative and strict 15% stop-loss limits should be observed.)

Buoyed by amenable and largely successful NATO talks and Trump's apparent (momentary?) success in stopping Iran developing a nuclear weapon, equity markets continued to appreciate in June.

On 'liberation day' (April 8th) when Trump announced tariffs across the world for products entering the United States from overseas, the S&P500 fell 12.1% the day after and the FTSE100 fell 10.8% as investors panicked at the thought tariffs would cripple the global economy. Since then equity markets have looked through the noise, believing more in 'TACO' (Trump Always Chickens Out) than in the announced rates actually coming into effect. Since April 8th, the S&P500 is up 28% and the Nasdaq up 34% as US indices have hit new all-time highs, aided by a 10% fall in the dollar which will boost earnings from US operations overseas.

By contrast the FTSE100 is up 14.6% since April 9th and the FTSE All-Share 16.6%, having fallen 14.7% and 14.4% respectively from their earlier year highs in the wake of the tariff announcements.

Even though US stocks have inched to record highs, international stocks are themselves showing impressive performance year to date (YTD). The DAX is up 28%, Mexico is up 27% and Hong Kong stocks are up 20%. International stocks ex-US are up 15%. For the quarter just ended, the Nasdaq gained 17.6% versus the Eurostoxx 600 which gained 1.8%. Anti-Americanism has reversed and an early preference for European and UK equities over the US appears to have been momentary.

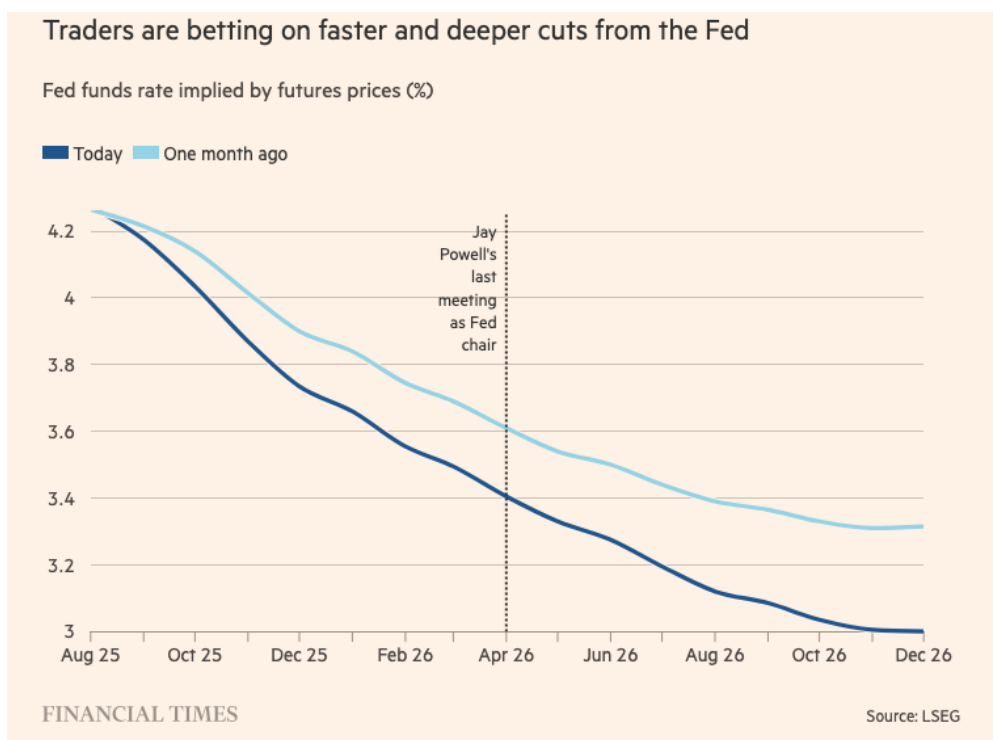
What hasn't worked for the US are small caps. The Russell 2000 small cap index is down 1.76% YTD. Increasing US inflation has not helped but the principal reason is the tariffs. Small businesses are least able to absorb the higher cost of raw materials imported from overseas manufacturers and are least able to shift manufacturing to the US to eliminate them. US interest rates are still relatively high at 4.25%-4.50% despite inflation at 2.3% (edged up in May from 2.2% in April year on year (y/y)). Additionally, consumer confidence has weakened due to job stability worries. Neither of these two factors are helping the small cap sector and both add weight to Trump's argument for interest rate cuts sooner rather than later.

Commodities-wise, gold is up 26% YTD, silver is up 24%, copper is up 26%, oil is down more than 8%.

Early year anti-American sentiment was one of the main reasons for precious metals' advance as was the dollar's 10% decline this year to date. By his constant jibing through the press of Fed chief Jerome Powell - calling him a week ago a "moron" and a "numbskull" on his Truth Social page (see link: <https://truthsocial.com/@realDonaldTrump/posts/114717929371967424>) for not lowering interest rates, Trump undermined the office of the chairman and caused international money to be pulled out of the US. (Trump's persistent harassment of Jerome Powell is nothing compared to Lyndon Johnson's 1965 summoning of then Fed chair Bill Martin to his ranch in Texas and, acceding to US activist Ron Paul, physically shoving him around the room because of his tight monetary stance, saying "Boys are dying in Vietnam, and Bill Martin doesn't care" <https://mises.org/mises-wire/when-lbj-assaulted-fed-chairman>.)

Morgan Stanley (MS) expects the dollar to decline a further 10% during the next 12-18 months. It anticipates the Fed will back off making any cuts this year but as the US economy begins to struggle later in 2025, MS foresees 175 basis point (bp) interest rate cuts (ie 1.75%) during the course of 2026 as the Federal Reserve rushes to catch up with economic deterioration. Oil prices are down 20% y/y, falling 12% in the two days following Trump's brokering of the Iran/Israel ceasefire, which on its own virtually nullifies the risk of recession anywhere. If oil were to rise suddenly, this would give support to the dollar given oil's dollar pricing but it would also bring to a halt rising sentiment toward investment in Asia and emerging markets.

Presently, markets are preoccupied with the 'Big Beautiful Bill', a series of proposals President Trump is attempting to drive through the Senate with a deadline of July 9th. The bill is wide-ranging, from eliminating taxes on social security benefits for disabled people, to stricter qualifying requirements for the claiming of the Medicaid programme relied upon by millions of America's elderly, disabled and low income families, to raising of basic income thresholds before tax is paid, to the elimination of tax on tips and overtime payments, to an extension to tax credits for companies building wind and solar farms unless they have ties to a 'foreign entity of concern' (China). The fundamental objection to the bill is the cost to the country and the greater impact on the fiscal deficit but it seems now that the bill will pass, giving Trump a one, two, three run of successes in a very short space of time.



Despite US stocks on the S&P500 trading at 22x forward earnings, US equities should continue to perform in the second half of the year. Deepseek spooked the US equity market for eight weeks from mid-February when it was thought the US's AI companies were heading for virtual bankruptcy at the rate they were investing in models which would be usurped by the Chinese. Yet first quarter earnings were surprisingly good for US tech stocks. Indeed, companies in the AI sector re-emphasised their intentions to continue to invest in AI and specifically in data centres which would be needed to support AI. The US economy appears resilient despite a guarded consumer and a circumspect institutional investment community. It is estimated a total of \$7 trillion is held currently in cash or equivalent accounts. US second quarter earnings begin to be announced in a few days and if, as expected, they surprise on the upside, the valuation multiple will healthily expand and money currently held in cash will begin to flow into the market on FOMO (fear of missing out) and YOLO (you only live once).

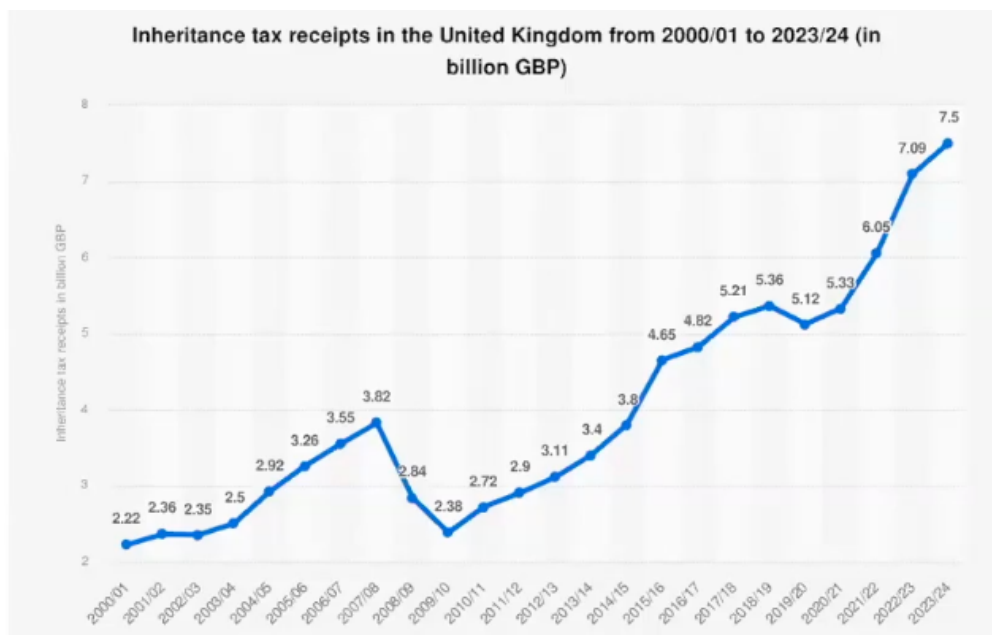
Adjacent to AI is the defence sector. The likes of Rheinmetal (RHM), Rolls Royce (RR), BAE Systems (BA), have all performed spectacularly in Europe and the UK over the last few months since Trump 2.0 but so have others listed on the Nasdaq such as Kratos Defense (KTOS) and Archer Aviation (ACHR).

Profitability		S&P 500 52-Week Change ³	12.75%
Profit Margin	1.68%	52 Week High ³	46.97
Operating Margin (ttm)	2.18%	52 Week Low ³	17.91
Management Effectiveness		50-Day Moving Average ³	37.20
Return on Assets (ttm)	1.04%	200-Day Moving Average ³	30.00
Return on Equity (ttm)	1.44%	Share Statistics	
Income Statement		Avg Vol (3 month) ³	2.77M
Revenue (ttm)	1.16B	Avg Vol (10 day) ³	6.1M
Revenue Per Share (ttm)	7.61	Shares Outstanding ⁵	153.44M
Quarterly Revenue Growth (yoy)	9.20%	Implied Shares Outstanding ⁶	153.44M
Gross Profit (ttm)	289.8M	Float ⁸	149.94M
EBITDA	73.9M	% Held by Insiders ¹	2.09%
Net Income Avi to Common (ttm)	19.5M	% Held by Institutions ¹	105.14%
Diluted EPS (ttm)	0.13	Shares Short (6/13/2025) ⁴	10.44M
Quarterly Earnings Growth (yoy)	246.20%	Short Ratio (6/13/2025) ⁴	4.89
Balance Sheet		Short % of Float (6/13/2025) ⁴	6.97%
Total Cash (mrq)	263.7M	Short % of Shares Outstanding (6/13/2025) ⁴	6.80%
Total Cash Per Share (mrq)	1.72	Shares Short (prior month 5/15/2025) ⁴	9.29M
Total Debt (mrq)	293.2M	Dividends & Splits	
Total Debt/Equity (mrq)	21.13%	Forward Annual Dividend Rate ⁴	--
Current Ratio (mrq)	2.84	Forward Annual Dividend Yield ⁴	--

Kratos vital statistics (Source: finance.yahoo.com)

In the UK, with interest rates held at 4.25% during June by the BoE, inflation is steadily climbing. It reached the BoE's target of 2% in mid-2024 but has worryingly climbed since, registering 3.4% for June y/y and leaving the BoE hoping for some regression, otherwise it will be forced to begin raising rates again. There is some hope for the Bank however, as taxes in the UK are the highest they have been for 70 years. Income and capital gains tax thresholds being reduced and allowances fixed without compensation for inflation are squeezing Brits' capacity to consume. Plans for pensions to be subject to inheritance tax (IHT) from 2027 will further bolster income for the Treasury. The Office for Budget Responsibility (OBR) estimates Treasury revenue from IHT will increase by 78% between 25/26 and 28/29.

There are four ways to mitigate IHT in the UK: gift, insure, spend, [use] exemptions (GISE). Each of these carries its own degree of risk (investment risk and life expectancy) but for those intending to pass on their pension fund wealth, they have two avenues open to them: spend or gift the tax free lump sum (with or without a trust, both ideally before age 75, remembering tax free cash within a pension cannot be inherited by a spouse) and/or use a percentage of the pension taxable income to insure. The problem with the latter is that unlike 10 years ago when age-related health knocks and bumps were largely ignored by insurers, now, due to the increased interest in whole of life insurance, life companies have become much stricter and apply heavy, even exaggerated, loading to their quoted rates for those who have or have had health issues. For many therefore, the solution is to self-insure even if this means paying 40% income tax on their pension income. Regular monthly transferring of taxable income from a pension fund into a tax-efficient (non income-producing) trust for future generations gets money out of the estate using the 'normal expenditure out of income' exemption, and in a win compared to the whole of life policy of the insurance company, can be invested more adventurously with a long term beneficial interest in mind. Equally importantly, it stops the pension fund growing within the estate, resulting in even greater revenue for the Treasury. On the downside, compared to a life assurance policy, there is no immediate comfort of knowing that if death occurs early, the amount payable to beneficiaries will be relatively small, although if structured to be affordable for a surviving spouse, self-assurance could ultimately still win out.



Tax take from IHT more than doubled since 2017/18 despite introduction of Residence Nil Rate Band

Major	Price	Day	%	Weekly	Monthly	YTD	YoY	Date
US500	6196.12	▼ 8.83	-0.14%	1.71%	4.39%	5.36%	12.48%	08:37
US30	44075	▼ 20	-0.05%	2.30%	4.20%	3.61%	12.07%	08:37
US100	22658	▼ 21	-0.09%	2.15%	5.47%	7.88%	13.27%	08:37
JP225	39805	▼ 682	-1.69%	2.62%	6.23%	-0.22%	-0.67%	08:37
GB100	8777	▲ 16	0.18%	0.22%	0.03%	7.39%	7.47%	08:37
DE40	23886	▼ 24	-0.10%	1.04%	-0.18%	19.98%	31.50%	08:37
FR40	7648	▼ 18	-0.23%	0.44%	-1.14%	3.64%	1.47%	08:37
IT40	39525	▼ 267	-0.67%	0.10%	-1.17%	15.59%	18.02%	08:37
ES35	14009	▲ 17	0.12%	-0.23%	-1.41%	20.76%	28.31%	08:37
ASX200	8520	▼ 23	-0.26%	-0.42%	1.26%	4.42%	10.39%	Jul/01
SHANGHAI	3459	▲ 15	0.42%	1.12%	2.89%	3.20%	15.42%	Jul/01
SENSEX	83718	▲ 111	0.13%	2.03%	2.88%	7.14%	5.39%	08:37
TSX	26857	▲ 165	0.62%	0.93%	1.77%	8.61%	22.33%	Jun/30
MOEX	2850	▲ 3	0.09%	3.27%	0.72%	-1.15%	-10.54%	Jul/01
IBOVESPA	138855	▲ 1,989	1.45%	1.69%	1.51%	15.44%	11.34%	Jul/01

Current favoured investment plays (in **Bold** immediate, Non-bold long term)

Cautious risk: Cash / National Savings Premium Bonds

Balanced risk: **Managed / Multi-asset funds**

Market risk: **Multi-asset funds**, UK equity

Adventurous risk: **Asia**, Europe, **US equity**

Speculative risk: **Technology**, **Healthcare/Biotech**, New Energy, **Emerging Markets**, **China**, India, US smaller companies, **Gold & Silver**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (all US, including fintech, cybersecurity & defence) 50%, Green Energy 3%, Crypto 6%, Pharmaceuticals (US) 1%, Global Multi-Asset 9%, UK Equity 4%, China 12%, Gold/Silver 15%

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McLaren Wealth Management UK Limited
Telephone 0125 279 3334 Email: info@mclarenwealthmanagement.com

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