CREDO

Macroeconomic Commentary[1]

Markets experienced notable volatility in the second quarter of 2025, driven in part by uncertainty surrounding US President Trump's proposed "Liberation Day" plans, which initially dampened investor sentiment. However, the Administration's swift decision to pause the associated tariffs helped stabilise confidence, allowing equity markets to rebound and ultimately deliver positive returns for the quarter. The S&P 500, Euro STOXX 50, and the FTSE 100 all produced positive returns of 10.9%, 3.2% and 3.2%, respectively, and measured in their local currencies. In fixed income, bond yields remained relatively stable. US 10-year yields rose slightly by 2 basis points, while UK yields dropped by 19 basis points, reflecting market adjustments and resilience to US fiscal policy uncertainties and stable central bank policies after the European Central Bank (ECB) and the Bank of England (BoE) both cut rates by 25 basis points. Commodities saw mixed returns. Brent crude oil fell by 7.7%, despite Israel attacks on Iran. In currency markets, the pound increased by 6.3% against the US dollar, driven by broad dollar weakness stemming from a combination of the Federal Reserve Bank's dovish stance and deteriorating fiscal confidence from unpredictable tariffs and rising debt concerns. Against the euro, sterling weakened by 2.5%.

Fund Commentary

During the second quarter of 2025, the Credo Global Equity Fund (CGEF) increased by 3.6%, underperforming the MSCI World Index by 1.3% in GBP terms[2].

Q2 2025 was another volatile period for debt, equity and currency markets. Although we had a taste of trade wars in February, when the US government imposed tariffs on Canada and Mexico, this was nothing compared to the proposed tariff levies across the rest of the US trading partners in US President Trump's "Liberation Day" announcement on the 2nd of April. World equity markets sold off sharply. The US dollar continued losing ground and the US 10- and 30-Year bond yields spiked. On the 9th of April, Trump suspended the tariffs for ninety days subject to negotiation with each individual trading country. The market took this news well. However, on the 12th of June Israel attacked Iran, and for the next twelve days, we saw significant tension in the Middle East, culminating in the US joining Israel in the attacks. The war lasted for twelve days, resulting in a ceasefire. The oil price sustained massive volatility during this period but ultimately retracted back by 7.7% during the quarter. Although we sustained significant volatility during the period, remarkedly markets made back most of the losses that were sustained on the back of the tariff announcements. "Risk on" sentiment was back towards the end of the quarter. The MSCI Growth Index was up 10.8% during the quarter versus the Value Index, which was down by 0.8%.

The main positive contributors to the CGEF included Ryanair, MTU Aero Engines, Admiral Group, Flutter Entertainment, and Entain plc. The detractors from the portfolio included Progressive Corp, Barry Callebaut, Shell plc, and Arch Capital Group.

There were no material buys or sales during the quarter, but we did sell out of our position in Frontdoor.

(1) Source: Bloomberg.
(2) Performance of the Credo Global Equity Fund Class A Retail Shares over the period 31/03/2025 to 30/06/2025.

Looking Forward

Going into Q3, investors seem to be taking any potential bad news in their stride. Risk appetite has increased, and equity investors appear to be bullish. Company earnings have been robust, and thus far the tariff debacle has not stalled investor enthusiasm. We, however, are slightly uncomfortable with the valuation of certain pockets of the market, as valuations are near to those levels that we saw at the beginning of the year. We still fear that, until there is complete certainty regarding the tariff regime across the US and its main trading partners, we could see some volatility return to the markets. Inflation, interest rates and the real impact of tariffs may not be properly priced into the equity markets, and thus, we could see a difficult second half of 2025. As such, we remain defensive, and very comfortable with the positioning of the portfolio, particularly given the valuations of the stocks we own in the CGEF.

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