

Six Minute Strategy

Navigating frothy markets – why quality should be the compass

August 2025

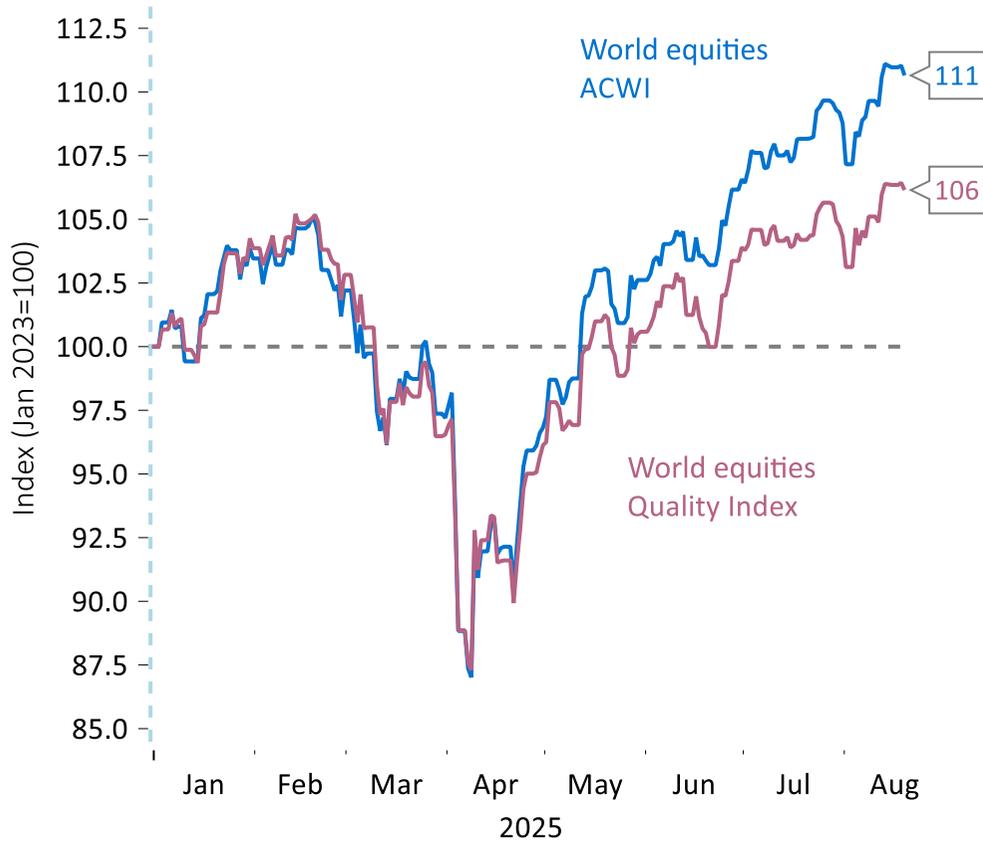


Global equity sell-off and recovery

Quality* style lagged in post-‘Liberation Day’ rally, but valuations now look attractive



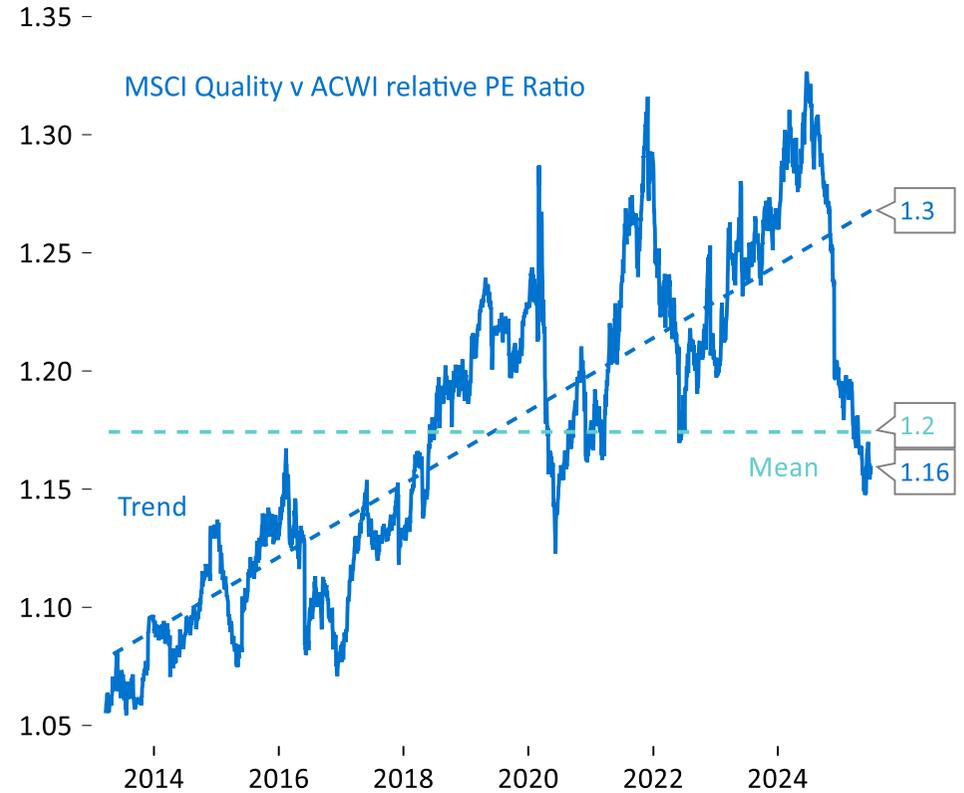
Equities rally from ‘Liberation Day’



Source: Macrobond, 20.08.25



Quality stocks now look fairly priced



Source: Macrobond, 20.08.25

* MSCI Quality definition: high return on equity (ROE), stable year-on-year earnings growth, and low financial leverage

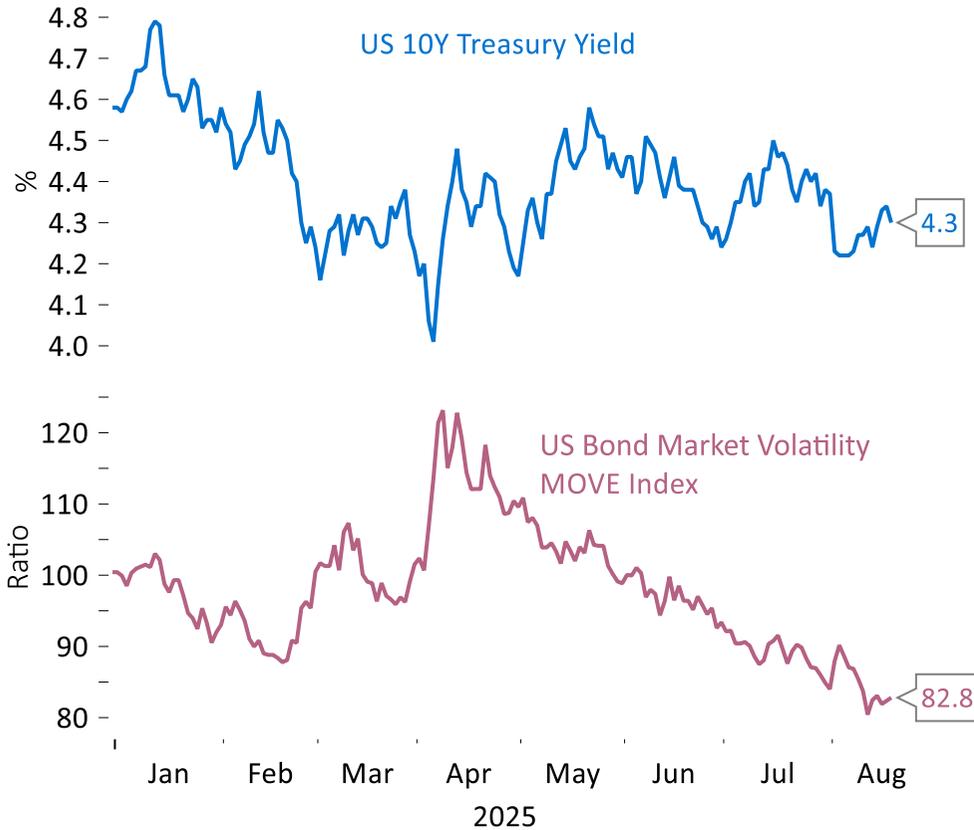
Past performance is not a reliable indicator of future results and may not be repeated.

Other assets

US bond yields flat line. Volatility remains low. Dollar stabilises. Oil falls



US bond yields and volatility

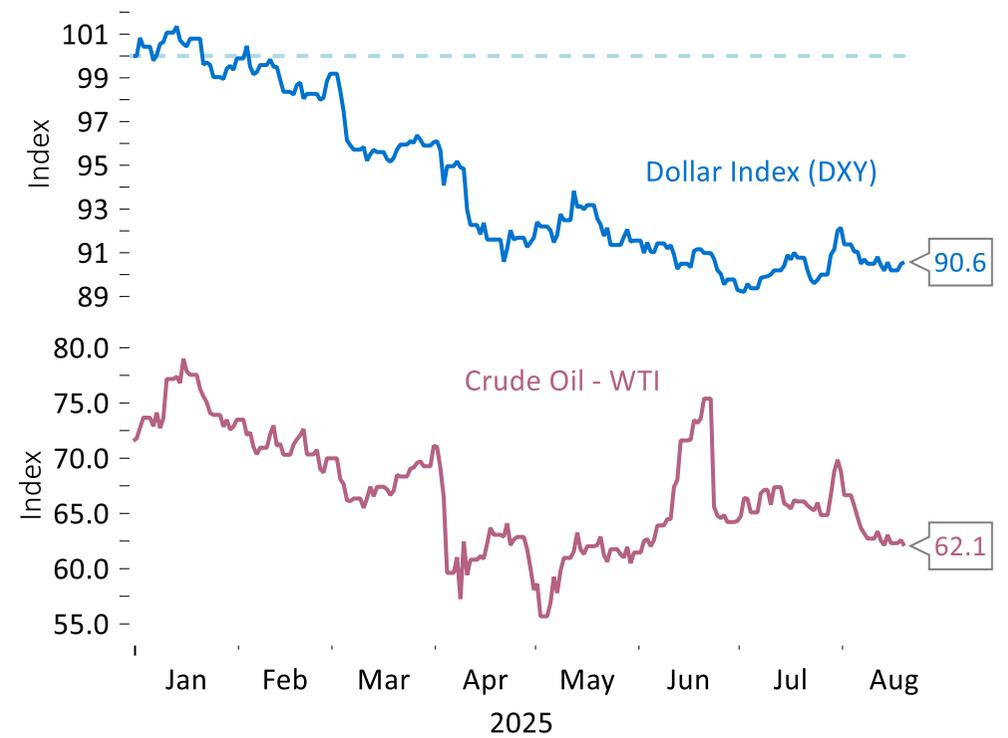


Source: Macrobond, 20.08.25



Dollar index and oil

YTD asset class performance
31.12.24 = 100 for DXY



Source: Macrobond, 20.08.25

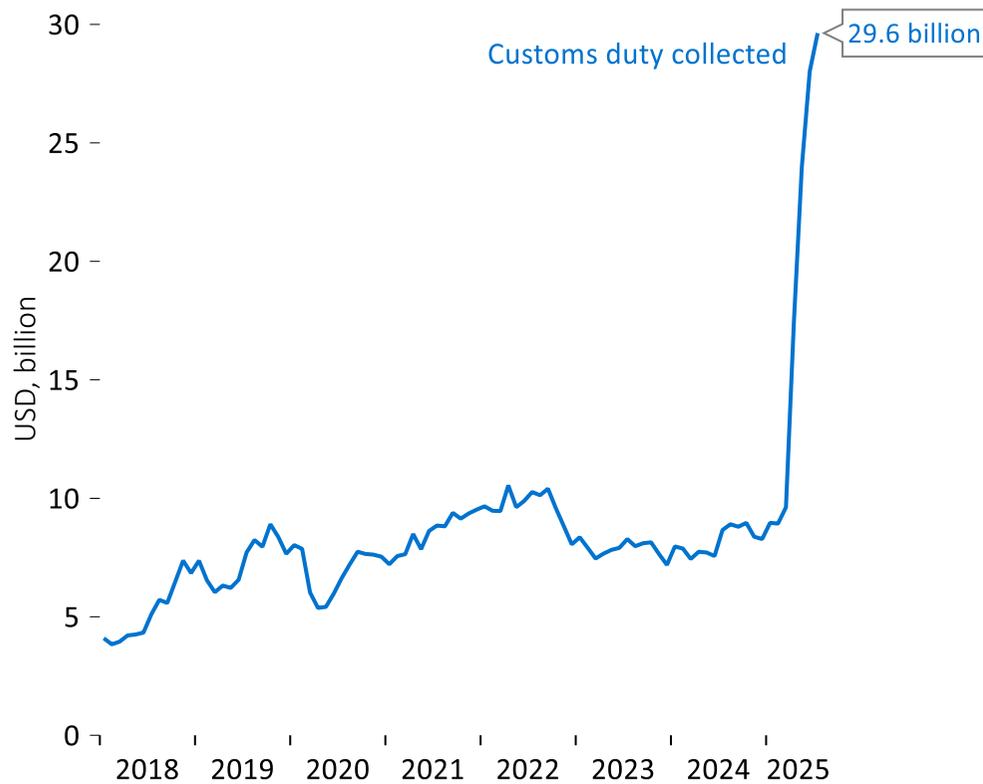
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President Trump's MAGA policies gaining traction



Tariff revenues climb

US customs duty collected monthly



Source: Macrobond, 20.08.25



White House's tariff agenda falls into place

- Global baseline tariff: 15%
- Average effective tariff rate: ~17.5%
- Tariff raise ~\$340bn per year, rising to \$500bn next year
- Agreements announced for substantial foreign investment into the US, though delivery is uncertain
- Economic impact of tariffs expected to be felt from Q3 onwards

S&P affirms US 'AA+' credit rating

'We expect meaningful tariff revenue to generally offset weaker fiscal outcomes.'

S&P/Reuters August 2025

Nationwide encounters are individual interactions with illegal immigrants by US Customs & Border protection.

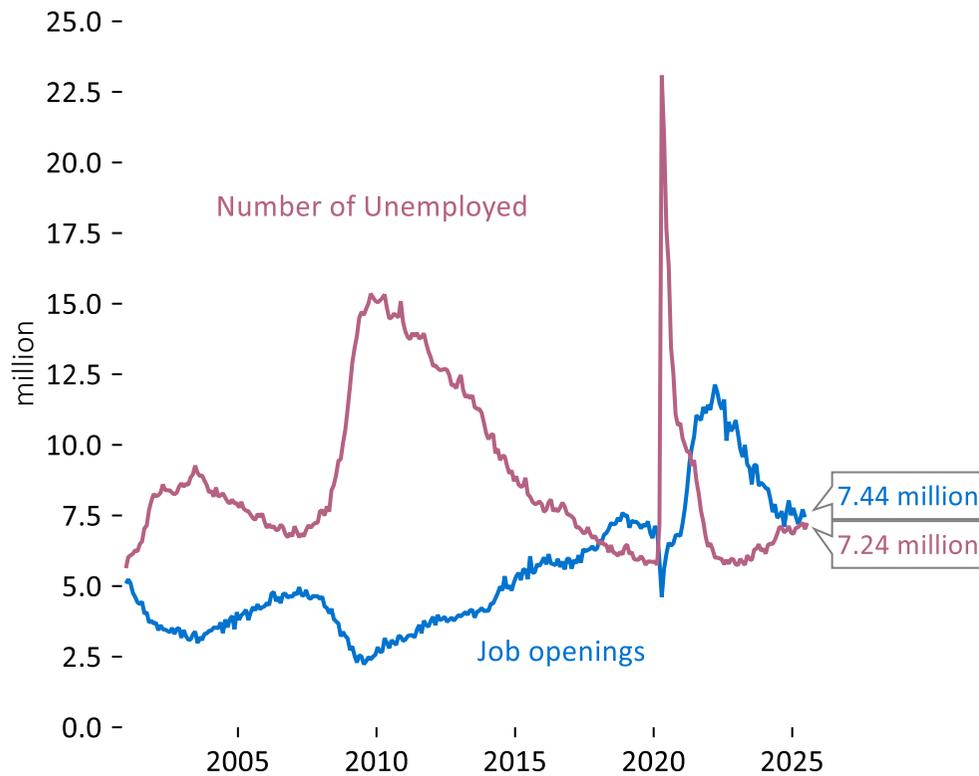
US economy slowing

Labour market softens while tariff impact is showing up in prices



US labour demand and supply moves onto balance

US Labour Markets

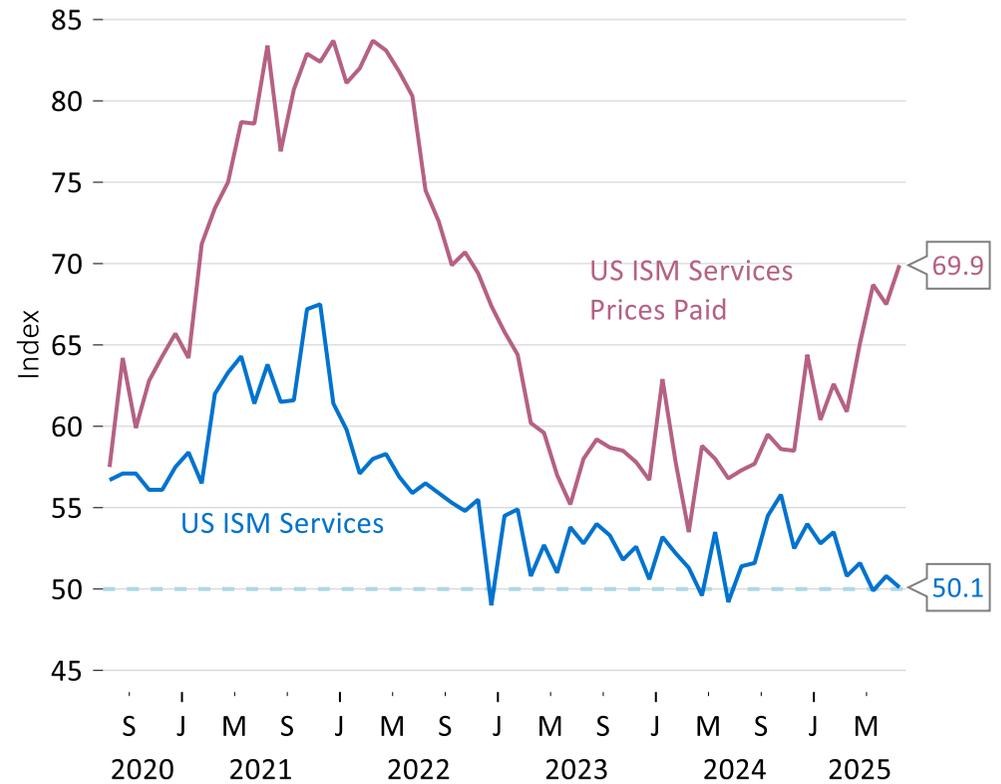


Source: Macrobond, 20.08.25



Business sentiment fades while prices climb

US ISM Services Business Survey



Source: Macrobond, 20.08.25

UK inflation sticky

Gilt market 'vigilantes' keep watch – UK economy growing with government spend

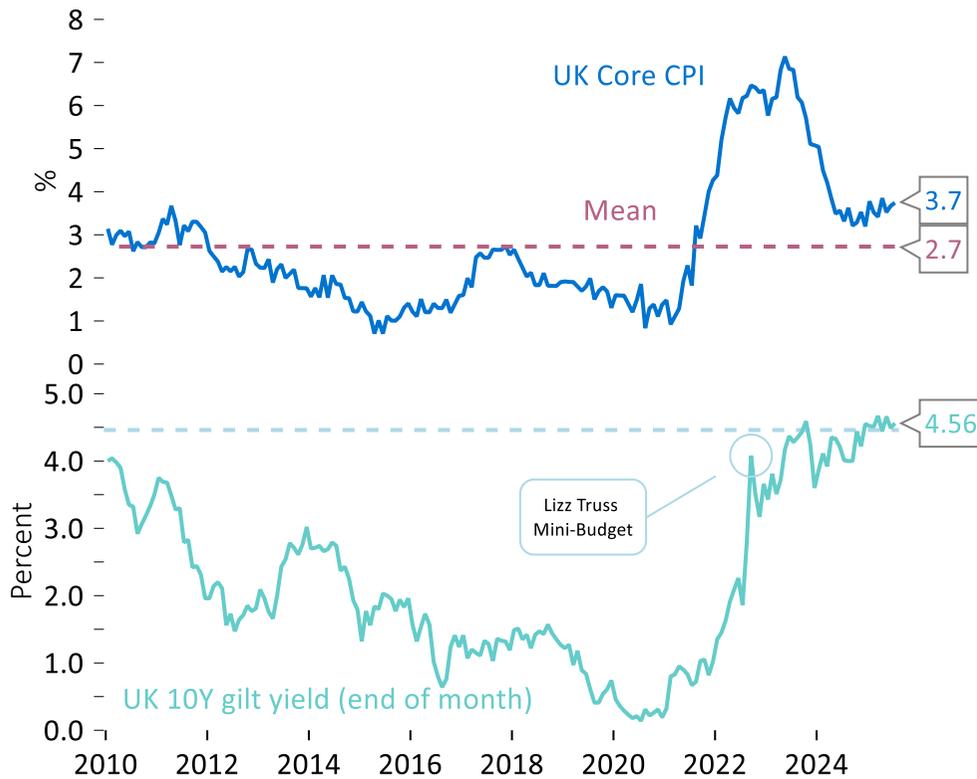


UK core inflation sticky – gilts still trade above 'Truss' high



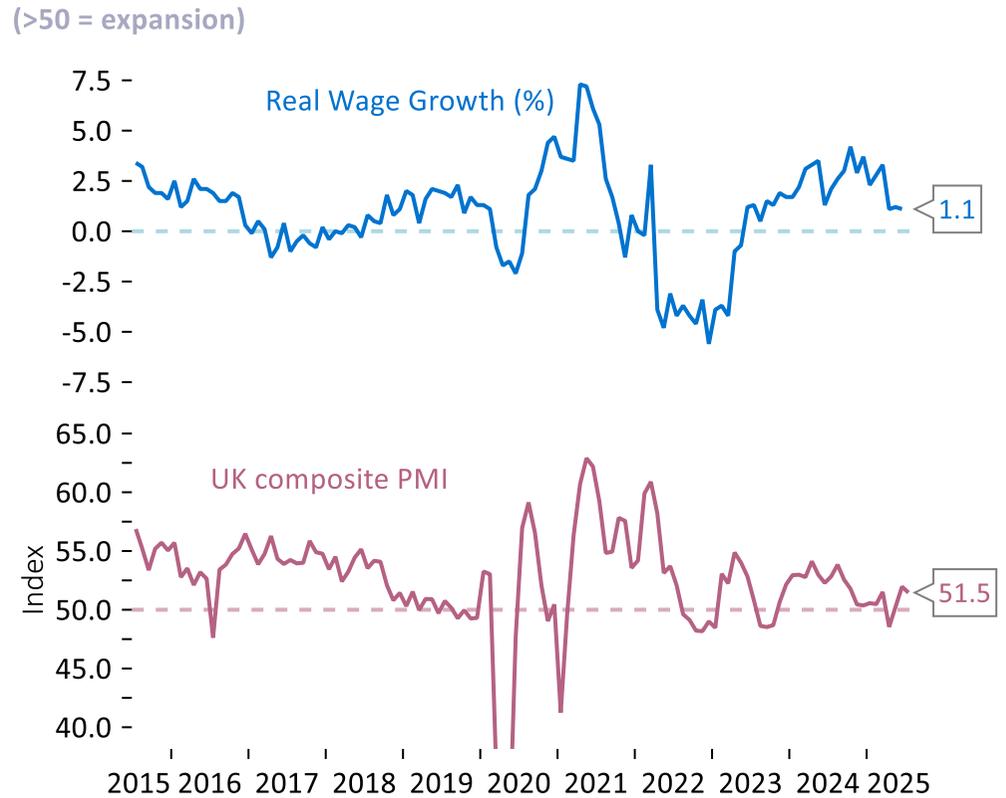
Real wages strong – business surveys still expansionary

UK inflation and unemployment



Source: Macrobond, 20.08.25

UK real wage growth & business sentiment (>50 = expansion)



Source: Macrobond, 20.08.25

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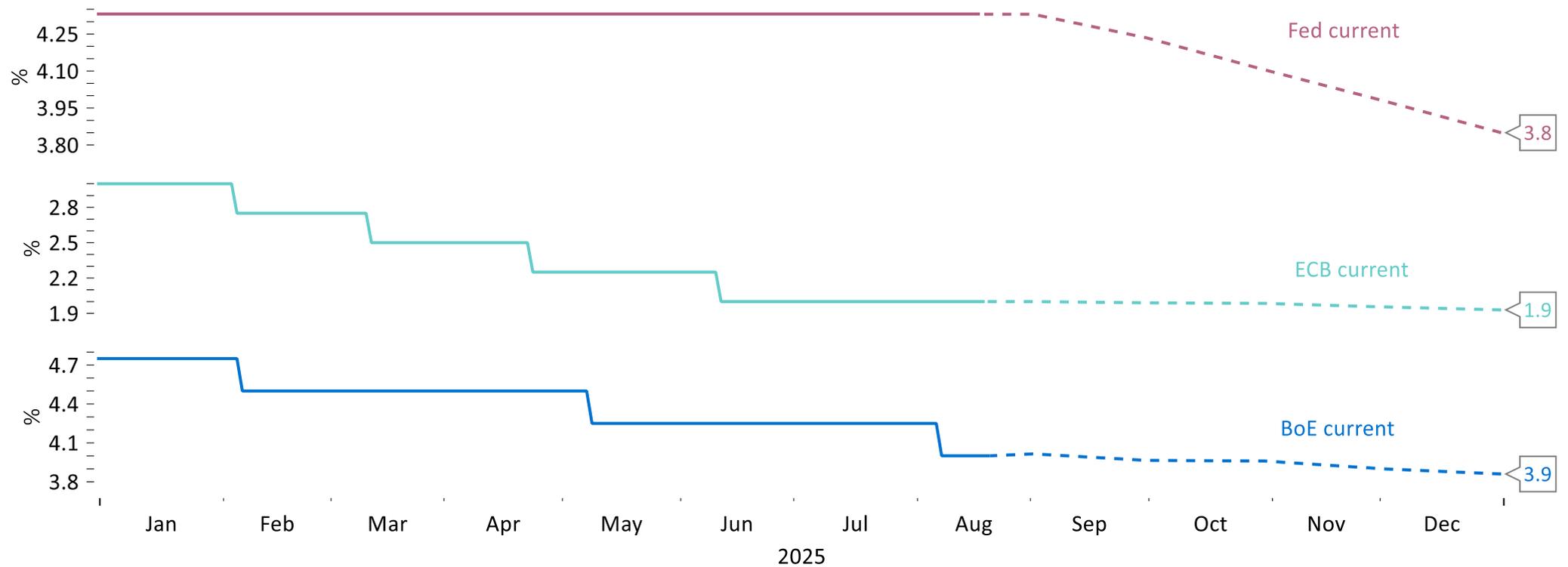
Source: The Economist, October 2024

Interest rates

'There's a very good chance of a 50bps cut in September' Treasury Sec. Scott Bessent, Aug 2025

Forward curve suggests two more US rate cuts and possibly one UK cut in 2025

Central Bank market implied policy rates



Source: Macrobond, 20.08.25

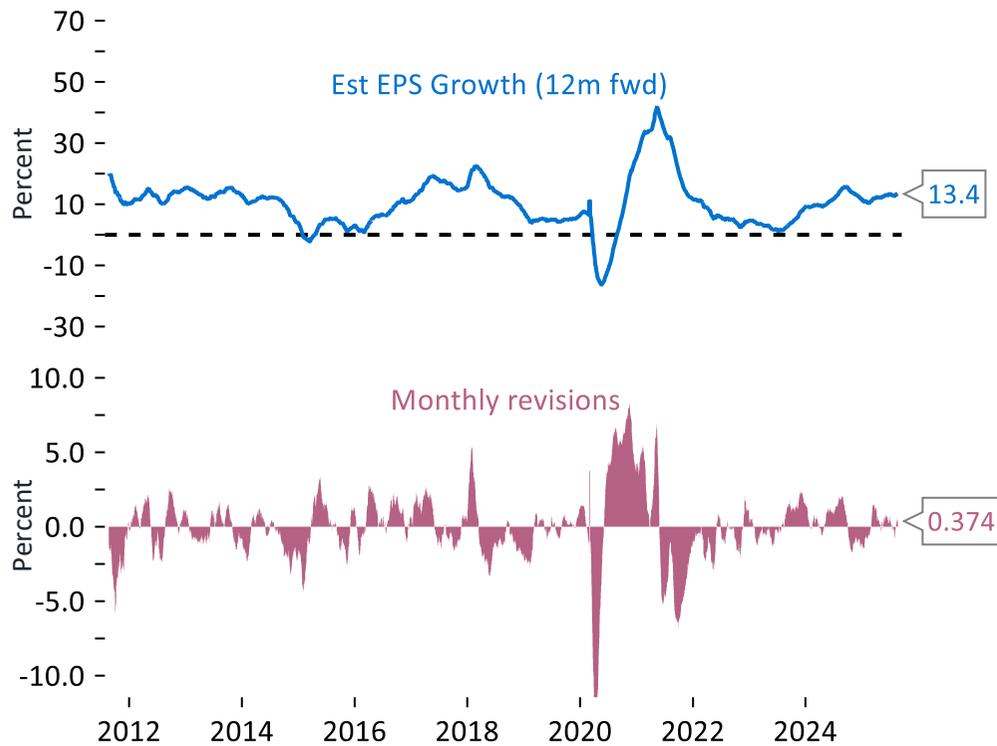
Global earnings and valuation

With tariff impact yet to appear, US valuations are high – quality looks attractive



Global earnings growth still robust

World equities (MSCI ACWI)
Bloomberg forward estimates

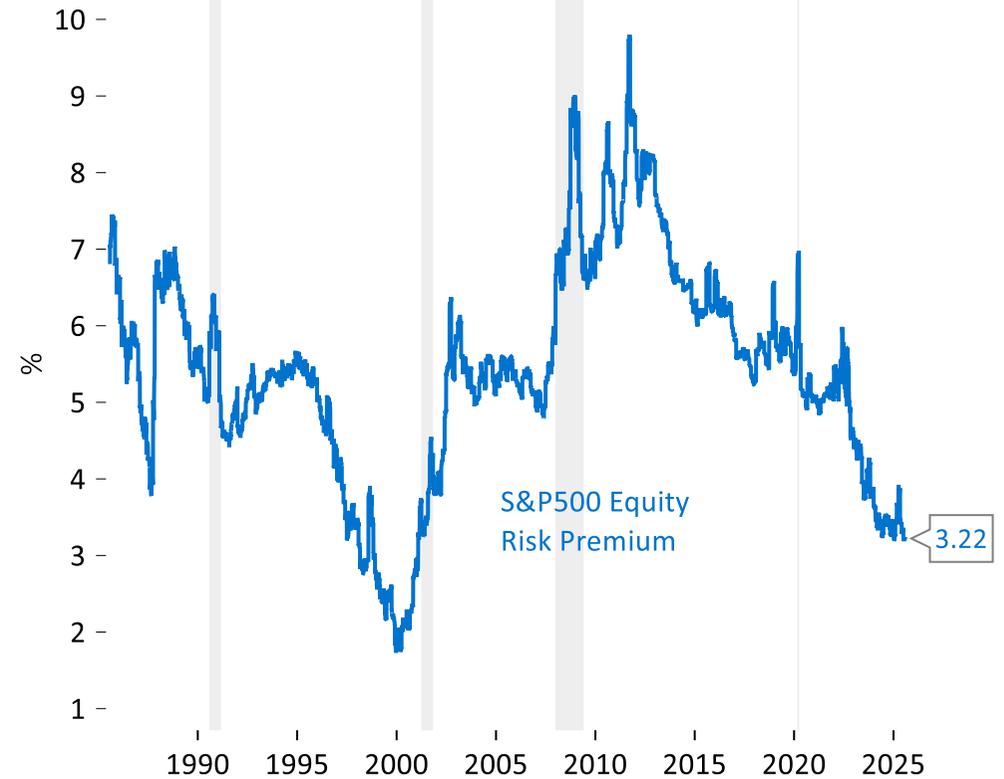


Source: Macrobond, 20.08.25



Equity valuations high

S&P500 Forward Earnings Real Equity Risk Premium



Source: Macrobond, 20.08.25

Equity Risk Premium: 12-month forward earnings yield on S&P500 minus the real yield on 10 year bonds

Shaded area are US recession

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