

Monthly view as at 31 July 2025

Overview

Global financial markets spent July waiting on the outcomes of Trump's tariff announcements. The month could be characterised as a tug of war between tariff announcements and US corporate earnings updates. During the month Trump announced tariffs on scores of nations that came into effect on the 7th of August.

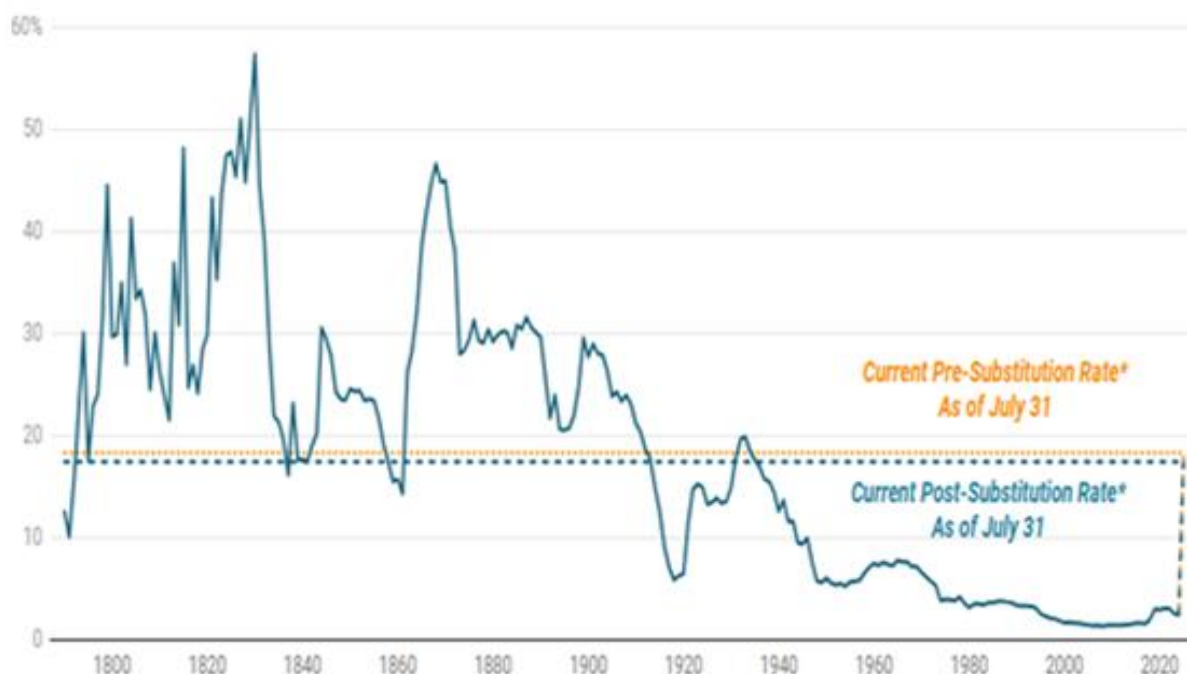
Although some tariffs came in better than expected, there were mixed results for individual countries and a lack of detail. These include 15% tariffs on the European Union, Japan and South Korea, 19% for Indonesia and the Philippines, 20% for Vietnam, and 10% for Australia.

A feature of the announcements is that goods with Chinese content, the amount unspecified, would attract a 40% tariff. This rule will be implemented later. Meanwhile, US – China trade negotiations continue.

New Zealand's exports to the US will incur a 15% tariff. This is a disappointing outcome and is set with no rhyme or reason. This disappointment is partially offset by tariffs on key trading partners being lower than feared in April. The indirect cost of slower global economic growth amongst our trading partners from excessively high tariffs was a key risk for the domestic economy.

Based on Trump's tariff announcements to date, Yale's Budget lab estimates the average effective US tariff rate is 18.3%. This is the highest average tariff rate since 1934.

US average effective tariff rate



Source: The Budget Lab

The Yale Budget Lab estimates, based on announcements to date, tariffs will raise US prices by 1.8% in the short term. Clothing, textiles, shoes, and apparel prices will be the hardest hit.

The Budget Lab also note that the impact of tariffs on US prices is the equivalent of an average per household income loss of \$2,400, will negatively impact US economic growth by 0.5% in 2025 and 2026, and result in an increase in unemployment.

International shares

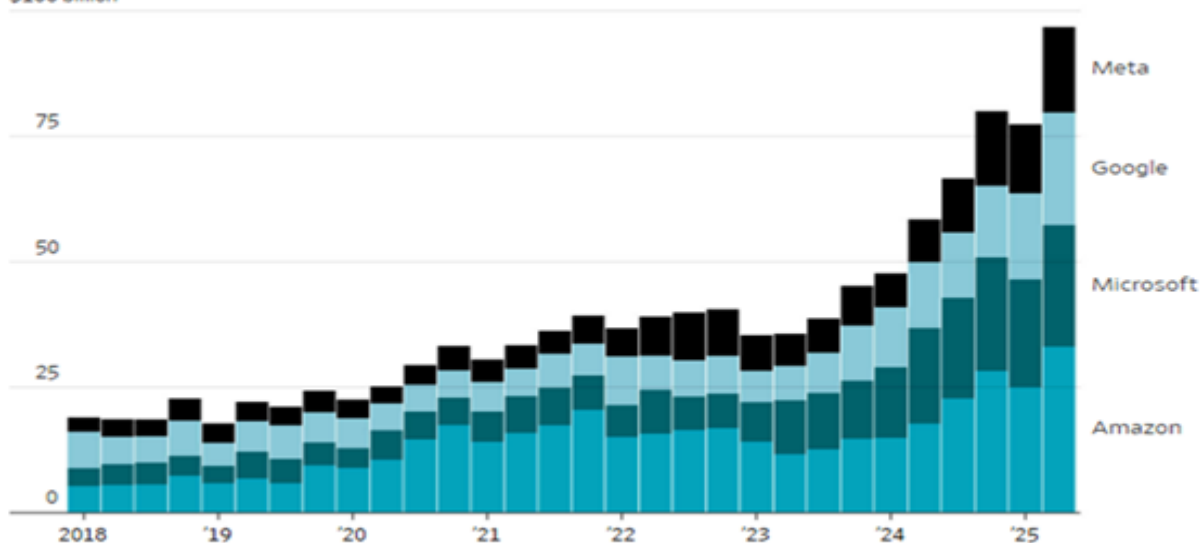
Global sharemarkets rose 2.2% in July. US markets led the way on favourable corporate earnings updates. During the month the US S&P 500 index reached new highs, and the Nasdaq went above 21,000 for the first time.

Helping to boost US indices was better than expected profit updates from the technology giants Microsoft, Apple, Alphabet, and Meta. Microsoft's value rose to over US\$4 trillion following its profit update. Apple reported strong revenue growth, helped by consumers rushing to buy iPhones ahead of tariff deadlines.

A dominate feature of the large technology companies' earnings updates was the expected level of investment they plan in the years ahead. Alphabet, Microsoft, Amazon, and Meta Platforms are set to spend nearly \$400 billion this year on capital expenditures alone, largely to build their artificial-intelligence infrastructure such as data centres. To put this into context, this is more than the European Union spent on defence last year.

Capital expenditures, quarterly

\$100 billion



Note: Data are for calendar quarters and include finance leases.
 Source: the companies

Source: WSJ

The US earnings season started with solid results from the major banks, such as Citigroup, Bank of America, and Morgan Stanley. Outside of the financials and technology sectors profit results have been mixed. Non-tech earnings expectations have been more challenged, and analysts remain cautious due to the potential negative impact from tariffs. For example, General Motors fell after it reported a 32% drop in second quarter profits to US\$3 billion, citing US\$1.1 billion in estimated tariff-related costs.

By and large, profit results announced across Europe have been better than anticipated. For example, Swiss pharmaceutical giant Novartis exceeded second quarter profit expectations. Net income grew 26% to \$4.0bn, surpassing the \$3.7bn forecasted by analysts.

However, there have also been some notable disappointments. Novo Nordisk, one of the two big players in the GLP-1 space (a drug developed for diabetes but has also been used for weight loss), downgraded profit guidance due to the influx of cheaper analogous drugs (drugs that are made to be similar but differ chemically from the compounds with the proven drug effect).

Australasian shares

New Zealand's sharemarket rose 1.8% in July. Domestic listed property continued its outperformance of the broader market returning 5.7% over the month and 16.0% over the last three months.

Ryman Healthcare was amongst the better performing companies over the month, gaining 11.6% after providing a corporate update that was positively received. Infratil and Kiwi Property Group also performed strongly, gaining 9.7% and 9.6% respectively.

Mainfreight declined -10.3% in July, the share price fell following a business update at the AGM which outlined how tariff uncertainty had negatively impacted the company in the prior months. There were mixed results amongst New Zealand retailers, the Warehouse fell -11.9% and Kathmandu -7.3%, highlighting the challenging retail environment in New Zealand. Meanwhile, Briscoe Group gained 13.8% after it provided an update displaying resilience in its business in the current environment.

The Australian sharemarket increased +2.4%. Although the Australian market was largely driven by global events, it also received a boost on the prospect of the Reserve Bank of Australia re-commencing interest rate reductions after favourable inflation data. There was little corporate news in July in the lead up to the August corporate reporting season. Resmed, who reports earnings on a quarterly basis, provided a strong update in July, reporting 23% uplift in earnings over the last twelve months.

Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) fell 0.2% in July on rising US longer-term interest rates following Trump's One Big Beautiful Bill came into law. The Act is estimated to add \$3.4 trillion to US budget deficits over the next 10 years, relative to the status quo. The US 10-year government bond yield rose 15 basis points (0.15%) to 4.38% over the month. Global bond markets are being battered by the cross winds of tariff announcements, increased government spending, and elevated US inflation (which place upward pressure on longer-term interest rates) and growing evidence the US economy is slowing (which places downward pressure on interest rates).

US core inflation (which excludes food & energy) rose 0.2% in June, resulting in annual core inflation of 2.9%. Although these outcomes were close to expectations, US inflation remains elevated relative to the US Federal Reserve's (Fed) 2.0% inflation target.

For items where tariffs have been imposed, there were visible signs of higher inflation, including toys, household furnishings, sports equipment and appliances all inflating at multi-year highs. Core goods prices, which excludes autos, rose by 0.55% over the month, the most since November 2021.

The Fed has held interest rates steady in the current environment of economic policy uncertainty and elevated inflation. The Fed's stance has come in for considerable criticism from President Trump. Trump has called for lower interest rates and the sacking of Fed Chair Jerome Powell.

The weakness in July's employment report (73k jobs were created versus expectations of 104k and there was a 258k downward revisions over the prior two months) may push the Fed toward lowering interest rates in September.

New Zealand's fixed income market rose 0.5% over the month on a better-than-expected inflation outcome and continued weakness in domestic business activity surveys.

The Reserve Bank of New Zealand (RBNZ) left the Official Cash Rate (OCR) at 3.25% in July. This follows a continuous series of interest rate reductions since August 2024, resulting in the OCR declining 225 basis points (2.25%) over the period.

New Zealand's official cash rate



The RBNZ left the door open for further cuts to the OCR, subject to inflation pressures easing. Following the RBNZ's meeting, inflation for the June quarter was released. Prices increased 0.5% over the quarter, taking annual inflation to 2.7%.

There was some softness in the inflation data which may ease the RBNZ's inflation concerns. This outcome, along with the continued weakness in domestic business activity surveys, raises the potential for further OCR reductions in the months ahead and the prospect the OCR falls below 3.0%. This will place further downward pressure on term deposit rates.

Summary

Although more certainty has emerged around US economic policy in July, details are lacking and the economic outcomes are to a degree unknown. The impacts of tariffs to US inflation and economic growth globally are likely to be spread over time. In addition, because the size, breadth, and timing of tariffs have constantly changed and are unclear, the range of possible economic and policy outcomes (e.g. growth, inflation and central bank actions) is much broader than normal.

As the year progresses, greater certainty around US policy will continue to emerge as the Trump administration focusses more on their pro-growth policies, such as deregulation, in the run up to the mid-term elections scheduled for 2026.

Against this backdrop, although slowing global economic growth and uncertainty over US inflation outcomes will linger, a more constructive investment environment characterised by low short-term interest rates may develop, notwithstanding current high US valuations.

In this environment we continue to prefer domestic assets. The New Zealand and Australian economies are well placed relative to the rest of the world in the current uncertain global economic environment, and the local fixed income market is less sensitive to rising global longer-term interest rates. However, returns from cash like investments are likely to trend lower over the remainder of this year as the Reserve Bank of New Zealand undertakes further interest rate reductions.

At times of market volatility, we encourage investors to continue to focus on their longer-term goals, look through the short-term volatility, and maintain a portfolio commensurate with their objective and risk profile.

Indices for Key Markets

As at 31 July 2025	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	1.8%	7.8%	-1.0%	4.1%	4.6%	2.6%
S&P/ASX 200 Index (AUD)	2.4%	8.2%	4.2%	11.8%	12.3%	12.3%
MSCI ACWI Index (Local Currency)	2.2%	12.1%	5.9%	14.8%	15.1%	13.5%
MSCI ACWI Index (NZD)	4.7%	12.7%	3.9%	16.8%	17.6%	15.5%
S&P/NZX 90 Day bank bill Total Return	0.3%	0.9%	1.9%	4.5%	4.9%	3.31%

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