

Monthly View – July 2025

Global financial markets have had a lot to contend with over the first six months of the year.

June witnessed increased geo-political tensions after Israel attacked Iran. Israel focused not only on destroying Iran's nuclear weapons but also on weakening the country politically and militarily. Thankfully the conflict ended quickly. This occurred following involvement from the US, both militarily, in precision bombing of three Iranian nuclear facilities, and politically in helping to broker (demanding) a peace deal.

As a result, US trade policy and the government spending bill were relegated to the sideline.

As highlighted in the graph below, Trump's tariff announcements have driven financial market volatility this year. Of note is the large market fall following Liberation Day on the 2nd of April. On this day Trump announced imposing a 10% base line tariff on imports from nearly all countries and higher rates on countries with which the US carries a large trading deficit. The graph also highlights the recovery in the US S&P 500 index since the 9th of April when Trump paused the tariff increases for 90 days to allow time for negotiations.



Source: Schroder

Against this backdrop, US S&P 500 and Nasdaq Composite indices ended June at all-time highs. The S&P 500 finished June at 6,200, up 5.0% for the month.

International Equities

Global share markets^[1] rose 3.9% in June. Along with the US markets, emerging markets also performed well, with the MSCI Emerging Markets index returning 4.9% over the month. Conversely, markets across Europe were weaker after strong outcomes in May. A stronger New Zealand dollar, which gained 2.2% against the US dollar in June, detracted from global equity returns in the month.

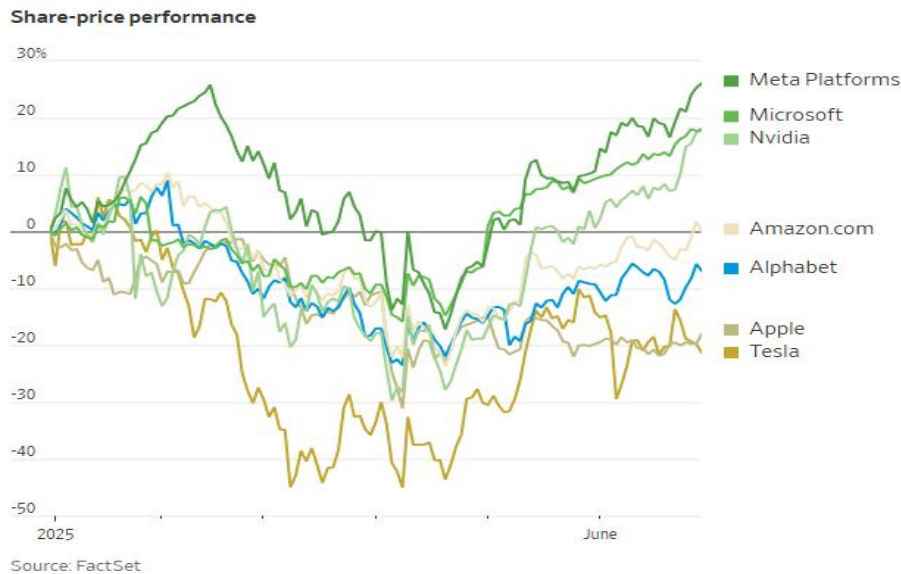
With little in the way of corporate news, economic and geo-political news flow drove global share markets in June. A calming of trade tensions between the US and China, a quick resolution to the Israel – Iran conflict, and the prospect of the US Federal Reserve (Fed) cutting interest rates drove markets higher.

There are signs of more companies moving higher over the year. For example, the US utilities sector has outperformed the broader market over the first six months of 2025 and European markets have outperformed the US.

US technology companies have dominated recently. Known as the Magnificent 7 (including Amazon, Alphabet, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla), they have been a key factor in driving the markets higher since the 9th of April.

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However, as highlighted in the graph below, there has been a divergence in performance amongst the Magnificent 7 since the beginning of the year. Nvidia has climbed 18% so far this year, Meta Platforms has gained 26%, and Microsoft has added 18%. These stocks have clearly outperformed the other Magnificent 7 companies year to date.



Australasian Equities

New Zealand's share market^[2] rose 1.5% in June. Domestic listed property continued its outperformance of the broader market returning 2.7% over the month.

Corporate news flow was slow in June following updated profit announcements in May. Those companies that did provide updates highlighted the weakness in New Zealand's retail and construction sectors. KMD Brands, owner of Kathmandu, delivered a soft trading update and weak guidance. Fletcher Building (FBU) also provided a disappointing update, lowering their earnings guidance and continued suspension of dividends. Construction loses and a delay in the cyclical recovery of the domestic economy are weighing on FBU's profitability. KMD Brands and Fletcher Building fell -9.8% and -8.0% respectively over the month.

Corporate activity was a theme for June. Motor home operator Tourism Holdings (THL) was subject to a takeover offer during the month from a consortium comprising private equity firm BHG Capital and the Troughet family (previous owners of Apollo Tourism which was acquired by THL). THL shares rose +63.0% over June.

The Australian share market^[3] increased +1.4%. Like New Zealand, company news was light and corporate activity dominated. Oil and gas operator Santos received an offer from a consortium with associations to Abu Dhabi companies and PE firm Carlye Group. Johns Lyng, an Australian building company focussed on insurance building repairs, received a bid from Pacific Equity Partners. Elsewhere Xero announced the acquisition of Melio a US small and medium business bill payments platform. The purchase price was US\$2.5bn (A\$3.9bn). The transaction was funded through a placement of US\$1.5bn in new equity and US\$1.0bn of cash and debt.

Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) rose 0.9% in June as US longer-term interest rates fell on softer than expected economic data, favourable inflation data, and increasing odds the US Federal Reserve will reduce interest rates in July.

US inflation data was weaker than expected for May. Core CPI (ex-food and energy) rose 0.1% compared to the consensus estimate of 0.3%. Annual core CPI was steady at 2.8%.

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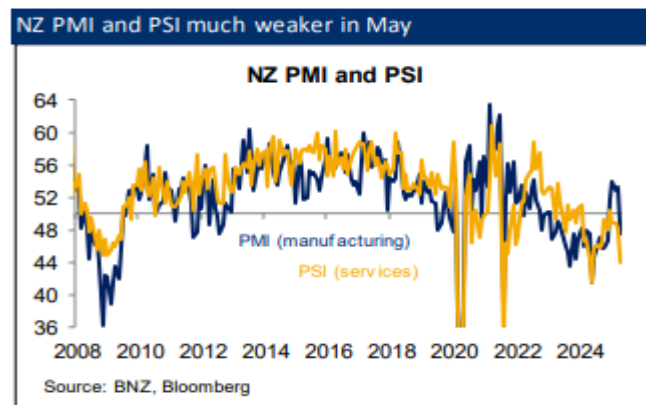
There was significant interest in US inflation to see if Trump's tariffs policies had fed into higher consumer prices. Historically it has taken US businesses around three months to pass through price increases. May's inflation data suggests this has not been the case.

There are several theories on how tariffs will impact on US consumer prices, from those who believe they will have limited impact to other explanations that economic demand will slow such that businesses will not be able to push price increases to customers. There is also the likelihood that because businesses loaded up on inventories ahead of anticipated tariff increases, they will wait until later in the year to test the ability of customers to accept higher prices.

It is probably too early to assess the likely impacts of Trump's policies on not only inflation, but also economic activity. This is the firm view of the US Federal Reserve (Fed). The Fed left interest rates unchanged for a fourth straight meeting in June.

New Zealand's fixed income market^[4] rose 0.7% over the month on lower US longer-term interest rates and weak domestic business activity surveys.

Leading indicators of activity in the June quarter point to a softening of economic activity. By way of example both the manufacturing and services sectors survey of activity fell sharply in May.



Source: BNZ

Meanwhile, monthly sectorial price indices point to rising inflation pressure, particularly through higher prices for fruit and vegetables, meat, and energy costs.

The more recent softer economic data and excess capacity within the economy supports further interest rate reductions. However, the inflation outcomes support a cautious approach by the RBNZ in adjusting interest rates, particularly given an increasingly uncertain global backdrop and an awareness that the impacts of interest rate reductions undertaken to date have not fully flowed through the economy.

Conclusion

US trade policy is set to dominate global financial markets in the weeks ahead as the 90 days pause period in negotiations on tariffs ends in early July. Encouragingly, global equity markets have become less sensitive to tariff headlines. That said, tariff negotiations have the potential to be unsettling for markets, and they will ebb and flow on the potential and actual outcomes.

As the year progresses US policy uncertainty will likely diminish 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.

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.

1 MSCI ACWI Index in local currencies

2 S&P NZX 50 gross index

3 S&P ASX 200 total return Index

4 Bloomberg NZ Bond Composite 0+ Yr Index

Indices for Key Markets

As at 30 June 2025	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	1.5%	2.8%	-3.6%	8.3%	5.9%	2.7%
S&P/ASX 200 Index (AUD)	1.4%	9.5%	6.4%	13.8%	13.6%	11.8%
MSCI ACWI Index (Local Currency)	3.9%	9.3%	7.0%	13.6%	16.9%	13.9%
MSCI ACWI Index (NZD)	2.3%	3.8%	1.1%	16.3%	18.4%	14.9%
S&P/NZX 90 Day bank bill Total Return	0.3%	0.9%	2.0%	4.7%	4.9%	3.1%

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