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Prospects

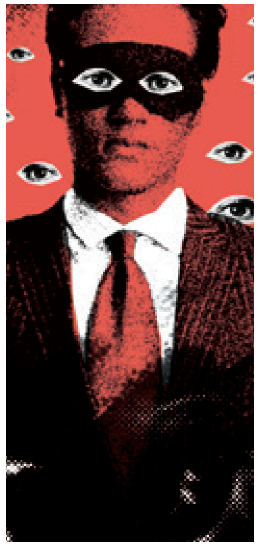
The JM Finn Quarterly Periodical

Gold rush
Its role through the ages

Bond vigilantes
Their political influence

Equity release
The pros and cons

No.51
Summer 2025


Contents

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Welcome

During the chaos of the past few months with changes to proposed Trump (and reciprocal) tariffs often hard to keep up with, equity and bond markets alike reacted negatively – and investors sought refuge in alternative assets.

Gold, the subject of the Prospects editorial on page 4, has recently experienced a surge in value per troy ounce that surpassed even prices seen during the pandemic. Willam McCubbin explains why after millennia of use as an asset class, demand for gold among investors as a portfolio hedge is stronger than ever. Speaking of haven assets, the previously close correlation between the dollar and US bond yields has unravelled since the initial unveiling of US tariffs on April 2nd. Could this be a sign that bond markets are playing a role in curbing the more erratic side of US foreign policy? On page 26, Sir John Royden argues that 'vigilante' bond investors wield the ultimate power in keeping government actions in check by drawing a metaphorical line in the sand, beyond which they will no longer buy government bonds.

As investors have veered away from US equities amid the Trump tariff drama creating possible trade barriers, other markets are coming to the fore as alternatives. After years in the wilderness, Japanese equities are having their moment in the spotlight thanks to a series of factors including corporate governance reforms – more on this in our Collectives Commentary on page 24.

Did you know that a staggering one in eight people globally now find themselves exposed to conflict? As the relative stability of the past century appears to be dissipating, clear strategic planning is vital for governments and organisations alike, according to Major General Felix Gedney. Bringing the benefit of a nearly 40-year Army career at the helm of national security and strategic leadership to our guest editorial on page 10, he gives his viewpoint on the current state of global political affairs and explains why a defined strategy is the most effective tool to cut through bureaucracy and inertia.

As life expectancies and home values are both rising, equity release products have once again come into the spotlight as a possible source of retirement funding. While lending on equity release mortgages has grown recently, these products can come with sizeable caveats including high costs and erosion of value that is passed on to loved ones: Wealth Planner Charles Barrow explores the merits, drawbacks and possible alternatives on page 18.

Also linked to the subject of succession planning, outright lifetime gifts (potentially exempt transfers) provide an increasingly popular way to try to circumvent or reduce liability for inheritance tax. A potential sticking point with this approach however is that wealth gifted to children could form part of a divorce settlement in the event of a relationship breakdown. Law firm Boodle Hatfield identify prudent measures to mitigate against this risk in our Independent View on page 28.

Planning to bolster the UK's current lacklustre GDP growth is a focus for the UK government – and it is considering the role that the finance industry can play in driving the economy forward. As part of this, it has appointed industry body PIMFA to actively engage with wealth managers, including JM Finn, to hear their views on how the sector can best support the growth agenda. In his new quarterly Perspectives column on page 8, JM Finn CEO Hugo Bedford discusses his recent involvement in the consultation to ensure that our clients' interests are represented.

Lastly, I hope you enjoy reading this issue of Prospects. If you have any questions or comments, please feel free to get in touch.

Carrie Lennard
Editor

Editorial

Gold rush

William McCubbin
Research Analyst

William McCubbin explores the timeless allure of gold, from ancient times to today – and why its appeal to investors as a safe haven asset is stronger than ever.

Gold has recently surged past $3,000 per troy ounce—an impressive feat after only just breaching $2,000 during the pandemic. This sharp rise highlights its enduring role as a portfolio hedge against stagflation, recession risk, currency debasement, and policy uncertainty. Despite offering no yield or cashflow, gold has captivated human civilisation for over six millennia. From Ancient Egyptian trade to modern central bank reserves, its story is deeply intertwined with ours. In today's era of digital disruption and uncertainty, its relevance is once again being reaffirmed by investors and institutions seeking a safe haven.

Currency's golden age

From its initial use as mere ornamentation in modern-day Eastern Europe around 4000 BC, gold's journey into a pivotal medium of exchange began around 1500 BC. The ancient Egyptian empire, leveraging the mineral-rich lands of Nubia, pioneered this transition by producing electrum, a naturally occurring alloy of roughly two-thirds gold and one-third silver. This marked the inception of an official currency for international trade.

The Romans further solidified gold's monetary role with the minting of the first pure gold coin, the Aureus, in 50 BC – its name directly derived from the Latin 'Aurum', meaning gold. Over a millennium later, William the Conqueror's introduction of a coin-based system in England laid the groundwork for the familiar pounds and pence. By 1284, Great Britain issued its own gold coin, the Florin. Meanwhile, on the European continent, the Republic of Florence introduced the gold Ducat, a coin that would rise to become the dominant international gold currency for the next five centuries.

The 18th and 19th centuries marked a dramatic rise in the importance of gold, spurred by major discoveries in California and South America that triggered widespread gold rushes. This period also saw the increasing formalisation of gold's role in global monetary systems, through the implementation of the Gold Standard, which England had informally operated since 1717. By the early 20th century, the majority of nations had followed suit, embedding gold at the heart of global finance.

> The 18th and 19th centuries marked a dramatic rise in the importance of gold, spurred by major discoveries in California and South America that triggered gold rushes.

However, the inherent limitations of the Gold Standard became apparent with the outbreak of World War I. The direct tie between the money supply and gold reserves made it increasingly challenging for governments to finance escalating military expenditures through printing currency. Consequently, nations were compelled to suspend the convertibility of their currencies into gold. The post-war landscape, characterised by substantial debt and significant inflationary pressures, eroded confidence in the Gold Standard.

The onset of the Great Depression in 1929 delivered a further blow to the already fragile system. Widespread distrust in banks and paper money led to extensive gold hoarding, exacerbating the economic crisis. This ultimately forced numerous countries to abandon the Gold Standard throughout the 1930s, leaving only France and the United States clinging to the system.

In a move to stabilise the US money supply amidst the economic turmoil, President Franklin D. Roosevelt enacted the Gold Reserve Act of 1934. This transferred ownership of all privately held gold and gold certificates to the United States Treasury. This pivotal action allowed the US to accumulate the world's largest gold reserves, a factor that significantly contributed to the US dollar's ascendance as the de facto global currency. The 1944 Bretton Woods Agreement further cemented this order, with 44 nations pegging their currencies to the US dollar, which was itself pegged to gold at a fixed rate of $35 per ounce.

The eventual decoupling of gold and the dollar in the following decades was spurred by rising inflation in the 1960s, a consequence of expansionary monetary policies aimed at reducing unemployment, coupled with soaring national debt incurred by the Vietnam War. This led to a depreciation of the US dollar in the 1970s, consequently driving up the price of gold. The definitive break came in 1971 when President Richard Nixon unilaterally altered the price of gold and terminated the Federal Reserve's commitment to exchange dollars for gold – an event widely known as the "Nixon Shock". While this action effectively ended the Gold Standard in practice, it wasn't until 1976 that the system was officially abandoned.

The 'Initial Public Offering' of gold

The year 1971 represents a pivotal moment for gold, as the end to the dollar being pegged to gold meant gold could then be freely traded – akin to an Initial Public Offering. This marked a significant transition, propelling gold from its historic role to a mainstream investment vehicle. This accessibility was further amplified by the introduction of the first US gold-backed Exchange Traded Fund in November 2004, providing investors with a cost-efficient form of ownership.

Since the metaphorical IPO, gold has lived through two distinct price regimes. From the 1970s until the 1990s, its primary function for investors was as an inflation hedge. It rallied during the inflationary decade of the 1970s, subsequently followed by a period of decline during the Volcker era of disinflation in the 1980s, capitulating to falling long-term inflation expectations. From the period spanning 2000s to the early 2020s, long-term expectations remained subdued. The primary first order effect appears to have shifted towards US real yields. This relationship can be understood through the lens of opportunity: the balance between holding default risk-free yield-generating US Treasuries and the default risk-free, non-yield-bearing asset that is gold.

Its role no longer purely represents a hedge against inflation, or a monetary relic, but a unique asset class. While sharing fungibility and scarcity with other commodities, its price action is often related to currency movements, resulting in low correlation with the broader commodities complex. Furthermore, it holds significant liquidity, and a lack of counterparty risk, due to international standardisation of bar quality, whilst also being tangible.

Beyond finance, consistent demand from jewellery, medicine, technology, and industrial applications provides intrinsic value that can be supported during periods of economic growth. This diverse demand dynamic separates it from other similarly perceived asset classes.

The era of uncertainty

Since the early 2020s, rising geopolitical uncertainties have galvanised a broad spectrum of gold buyers. Notably, central banks have been increasing allocations, accumulating over one thousand tonnes of gold annually for the past three years, as reserves diversify away from the US dollar. This trend has been amplified by rising barriers to trade and higher tariffs, particularly those introduced by the US presidency of Donald Trump, alongside straining geopolitical alliances. This has supported increasing allocations to gold. IMF data reveals that by 2024, global gold reserve holdings reached 36,200 tonnes, constituting 20% of official reserves, a notable increase from 15% the year prior. Reflecting historical accumulation under the Bretton Woods System era, a significant concentration of gold reserves remains with the US, Germany, France, and Italy, collectively representing over half of the global reserve total.

> The end to the dollar being pegged to gold meant gold could then be freely traded – akin to an Initial Public Offering.

Beyond official institutions, global investors have been increasing allocations, purchasing 1,180 tonnes in bars and coins throughout 2024, with the trend continuing into 2025, supported by market volatility and unusual risk-off movements in US yields, as foreign nations sell Treasuries in response to policy. As US debt is seeing its safe haven status tested, gold has stepped up as an alternative strategic asset that mitigates stagflation, recession risk, currency debasement, and policy uncertainty.

Investors are increasingly incorporating gold into their strategic asset allocations, driven by the strong returns it has delivered over the past couple of years, the diversification benefits previously discussed, and its robust liquidity dynamics. Furthermore, access to gold has never been greater—whether through physical holdings or gold-backed instruments such as shares, unit trusts, and exchange-traded funds. Gold continues to be an important tool for managers seeking to optimise portfolio efficiency.

In summary, from its early applications in trade, to now underpinning central bank reserves and offering a strategic asset for investors, the use of gold as an asset class has continued to morph throughout history. This underscores its importance to the global financial system: despite its absence of yield, gold is assuming an increasingly vital role in this uncertain era.

Please read the important notice on page 1.

PERSPECTIVES

Hugo Bedford
CEO, JM Finn

Wealth management firmly on the agenda for UK growth

CEO Hugo Bedford unpicks key issues that cross his desk, in this new column that reflects on the evolving landscape of all that affects JM Finn and our clients. Here he discusses the UK government's growth agenda and the industry's role to play in keeping UK plc moving forward.

Comprising 9% of the UK's total economic output, the finance industry is an important part of the UK economy and is a key driver of growth. The financial and insurance services sector generated £208 billion into the UK economy in 2023, making it the UK's fourth largest industry.

In recognition of the contribution the wealth management industry makes to the UK economy and the benefits that investing and wealth planning can bring for individuals' long-term financial stability, the government has made it clear that it wants to support growth in the UK finance sector and in particular private banking, wealth management and retail investing as part of its wider growth agenda.

It tasked industry body PIMFA with speaking to wealth managers to better understand our thoughts on how the industry can drive economic growth. I met with PIMFA in recent weeks as part of the consultation to ensure our firm's and, above all, our clients' voices were heard. As further government discussions take place, I have and will continue to take a proactive approach in representing our collective interests at the highest possible level.

> The financial and insurance services sector generated **£208 billion** into the UK economy in 2023

The wealth management sector plays an integral role in helping individuals to protect their wealth, make it work as hard as possible for them and to help it last through the generations. I feel strongly that access to top quality wealth management should not be the preserve of the super-rich: our recent further development and strengthening of our multi-asset Investment Management Service proposition alongside an award-winning wealth planning service means we are able to provide a consistent level of service to all clients regardless of their investment size.

Harnessing new technology to support good client outcomes has been identified as a key way for the industry to boost growth – and a conversation around AI adoption is inevitably part of this. As our firm keeps pace with the speed of change in technology, both from a productivity and security perspective, we will make sure that technological adoption never compromises the personal level of human service for which we've been known throughout our 75+ year history – after all, who hasn't been on the receiving end of an infuriating call to a company call centre automated system or website chatbot, trying in vain to speak to a real person?

The other three areas of focus PIMFA identified for growth are the need for a simplified regulatory environment, certainty around tax policies that encourage long-term saving and wealth building – and lastly improved financial literacy and education in the UK. To play our part in this latter area, we have recently created our Wealth in Women's Hands report and are running regular events to highlight the UK's gender investing gap, while a new financial education report aimed at young people will also be released in the near future.

What does growth mean to JM Finn as a firm? I feel very proud that our growth is founded largely on referrals from existing clients – so very simply, the key priority is to continue listening to our clients and be responsive to their needs across their financial lives. Put our clients first, and growth for us, and UK plc, should follow.

Guest editorial

Extraordinary times

The value of strategy in an uncertain world

Major General Felix Gedney

Following a distinguished career in the armed forces at the helm of strategy and national security decision making, Major General Felix Gedney applies his unique perspective to the current rising global tensions and explains why forming a proper strategy is crucial for leaders.

We live in an interesting era. The relative peace and stability of the late 20th century and the steady growth of prosperity, fuelled by technological advances and globalisation, is under increasing threat. A fast changing, dangerous and unpredictable world has emerged. Large scale war has returned to Europe, the Levant and the Red Sea. More recently the tense India/Pakistan relationship reignited into conflict. Detailed understanding, expert analysis, clear decision making and a long view are more important than ever. Now is the time for proper strategy.

> “One in eight people worldwide are now exposed to conflict.

At the Royal College of Defence Studies, we teach strategy to senior leaders from around the world. Today this is more important than ever, yet the concept of strategy is frequently misunderstood and often absent. This extends well beyond defence and government; it is equally relevant to financial institutions. In both sectors, we face volatility, complexity and accelerated change. The ability to think and act strategically is what distinguishes reactive organisations from resilient ones.

World stability is under significant strain. The optimism of the post-Cold War period has dissolved into geopolitical tension, economic uncertainty and insecurity. The rules-based international order, which provided the framework for nations after the chaos and horrors of two world wars, has eroded. The UN is emasculated, and the US has stepped away from its role as 'Global Policeman'.

The new normal

Norms of behaviour and interaction have been disrupted; interests trump values. A harsher, more aggressive world is emerging, where hard power is the primary lever of international relations. Nations flout the rules when it is in their national interest, with nothing to check bad behaviour: a Thucydidean reality, where the strong do what they can, and the weak suffer what they must.

The number and intensity of active conflicts globally has now reached a record high. Political violence has increased dramatically, rising 25% last year compared to 2023. One in eight people worldwide are now exposed to conflict. Global military spending has surged amid rising tensions and insecurity. European nations, who took (and spent) their 'peace dividend' over the years of discretionary wars after the fall of the Berlin Wall, have been caught with their trousers down.

In the UK, years of wishful groupthink, underinvestment (as well as the occasional profligate use of national wealth to improve living standards for political gain) has left Britain's defence in a parlous state. The frog has boiled; we are now playing catch-up after years of underinvestment in national security.

Thanks to the peace and stability of the late 20th and early 21st centuries, few people in the world's largest economies have witnessed the real impact of war. For most affluent nations, including the UK, war has been a thing of distant lands with modest investment of national treasure. Indeed, notwithstanding the bravery and sacrifice of those we lost in recent conflicts, and the tragedy for their friends and families, the impact on society has been low. A descent into conflict between the world's major powers would be unimaginably catastrophic.

> A focus on short and medium-term risks has reduced the emphasis on the key existential threat to humanity and the planet – climate change.

A doubtful outlook for global development

Despite this, democratic nations find it difficult to implement the types of policies required to address contemporary security challenges. The level of investment now needed to put things right may represent an unpalatable impact for the electorate. The rise of populist leaders, endorsed by populations manipulated by information campaigns unconstrained by truth and values, presents an additional challenge. Furthermore, a focus on short and medium-term risks has reduced the emphasis on the key existential threat to humanity and the planet – climate change.

The global outlook for prosperity and development is increasingly uncertain. The IMF's most recent analysis indicates a slowdown in growth and increase in risks. Economic security, food security and human security all rely on global trade. While the rules-based international order weakens, the interconnection of supply chains and communications has not, creating new dependencies and risks, as well as opportunities.

Defining strategy

In such a challenging environment, a strategic approach is critical. It is important to understand what this means: strategy can be all things to all people, so the meaning can be somewhat ethereal. The word 'strategy' is often used as a label, without the intellectual foundation that the concept requires.

There are many definitions of strategy. Most share a few key characteristics: a clear, long-term plan for success, an idea of how it will be achieved and stated objectives that can be met with the levers and resources available. Strategy is about creating value and charting a path to success. The objectives are clear and can be achieved within the means at the organisation's disposal. Furthermore, doing so is affordable within the resources available.

The best methods for strategy making all share some important steps. At the planning stage — to gain an expert understanding, develop a creative process to determine options for the way forward and then conduct critical analysis to test and assess the strategic options. Once a decision has been made, clear communication and monitoring are needed to ensure successful implementation. Lastly, a review should be conducted to assess key learning points for the future.

Poor strategy can be traced back to a failure in one of these areas. Ignorance, hubris and overconfidence are tempting substitutes for deep and expert understanding. The creative process can be constrained through committees, bias and preconception. Sometimes it is skipped entirely if the senior leader 'knows the way forward' already. A thorough critical analysis may be seen as a luxury when time is short, or a route to inconvenient truths when fixed on a particular course of action. Poor critical analysis means that both the strategy and the process are likely to be flawed. Sometimes there is a lack of clarity on what has been decided, or no decision at all (rather than a conscious decision to do nothing). Communication can be ineffective or confusing, leaving the organisation unclear on what must be done.

The first line of defence

A good strategy is designed with the ability to measure progress towards the objectives. Without this, it is very difficult to assess whether you are on track, and it is easy to be spoofed by positivity bias. And environmental velocity – the speed of situational change – is increasing. Strategy has an ever-decreasing half-life and can quickly send organisations the wrong way if there is not a routine review process. Yesterday's good idea may be today's risk. Good strategy is achievable, affordable, and also adaptable as and when required.

> Now is not the time for improvisation: it is the time for intelligent design.

In an era defined by volatility, complexity and rapid change, the need for coherent, effective strategy has never been greater. Yet too often, both governments and financial institutions fall short—one hampered by political cycles and bureaucratic inertia, the other by short-termism and market pressure. Strategic success demands more than labels or lofty ambitions: it requires discipline, deep understanding, critical thinking and the courage to make hard choices. Whether managing a nation's security or stewarding capital in a fragile world, we must rediscover the art—and the urgency—of proper strategy. Now is not the time for improvisation: it is the time for intelligent design.

As a military officer, I do not pretend to be a financial expert. But I do recognise when an organisation (whether political, a military formation or an asset manager) is prepared for adversity. The characteristics are the same: clear direction, strong leadership, adaptable planning, and a culture of continuous learning. Financial institutions today face a world as unpredictable as any battlefield. Those who succeed will be those who understand that strategy is not a luxury – it is their first line of defence.

Major General Felix Gedney has been in the Army for 39 years. He has spent most of his time overseas on operations and working with allies, particularly in the US and Middle East. His career has involved team, organisational and strategic leadership, and his last jobs have been focused on strategy and national security. Felix retired from the regular Army in 2024, but has continued to serve part time as one of the Senior Directing Staff at the Royal College of Defence Studies in London. He also works as a consultant, teaching strategy and advising technology companies.

In focus

Markets In Focus

Jon Cunliffe
Head of Investment Office

Global equities had a strong start to the year, reaching all-time highs in February as strong economic growth momentum was carried over from 2024 and US corporate earnings were healthy. However, market volatility rose markedly following a much more aggressive stance on tariffs from the Trump administration than was expected. With the focus on tax cuts and deregulation pushed back to later in the year, trade and immigration policy – the more growth negative aspects of Trump's policy agenda – took centre stage.

US equities sold off sharply after President Trump's April 2nd announcement of reciprocal tariffs which, if implemented, would bring the overall effective rate to 25% on US imports. Moreover, the parallel tit for tat trade war with China delivered tariff levels which, if sustained, would make trade between the two largest economies all but unfeasible.

Whilst investors are concerned that these tariffs will create a major supply side shock to the US economy, raising prices, damaging supply chains and depressing business and consumer confidence, the Trump administration has several goals it wishes to achieve via its trade policy. It wants to strike better trade deals with its trading partners and recalibrate its unbalanced trading relationship with China. Elsewhere, Trump wants businesses to relocate their activities to the US, lower prices and generate additional revenue to support tax cuts. Clearly some of these objectives are inconsistent, but at their heart is the desire to boost the domestic economy in a way which aligns with the aspirations of blue-collar workers.

> "German equities have been the standout performer this year, rallying strongly on an unprecedented German commitment to boost defence and infrastructure spending.

However, following President Trump's subsequent comments that he was minded to replace the US Federal Reserve's Chairman, Jerome Powell, this attack on the US central bank's independence caused a slide in US government bond prices and a sharp correction in the US dollar, prompting Trump to announce a 90-day pause on the reciprocal tariffs to buy more time to begin negotiating trade deals with the US's major trading partners. Whether these negotiations will bear fruit is an open question, with the elephant in the room being whether China will join the US in trade discussions.

With the US economy now expected to slow markedly in the months ahead, European and UK equities have generally fared better than their US counterparts. In addition, the defence sector has been a significant beneficiary of the Trump administration putting pressure on NATO members to increase their spending in this area.

German equities have been the standout performer this year, rallying strongly on an unprecedented German commitment to boost defence and infrastructure spending by more than EUR1trn in the years ahead, as European leaders faced the prospect of a future with a reduced US military umbrella. In addition, the EU Commission proposed that member states could significantly increase defence spending without breaching the EU's deficit rules.

Despite delivering strong earnings growth, the major US technology companies are still suffering from a combination of reduced investor enthusiasm for the hitherto dominant theme of 'US exceptionalism' and fallout from the news earlier in the year that Chinese group DeepSeek had developed an artificial intelligence (AI) application arguably as good as those made in the West, but at a fraction of the cost. This latter point has raised concerns that Amazon, Alphabet, Meta and Microsoft were overspending on AI capital expenditure.

The UK economy continues to be very much in 'muddle through' territory as the effects of last Autumn's employer National Insurance (NI) hike takes effect. The upcoming rise in inflation due to higher utility bills and the passthrough of higher NI costs are well anticipated by the market, and allowed the Bank of England to reduce its base rate by 0.25% at its February and May meetings whilst guiding the market to anticipate further reductions in the quarters ahead.

As we look ahead to the rest of 2025, the prospects of a damaging tit for tat trade conflict and fiscal consolidation driven by The Department of Government Efficiency suggest that the Trump administration is 'throwing the kitchen sink' at the US economy by delivering radical supply side reform well ahead of the 2026 midterm elections.

In this scenario, a period of weak growth would draw the US Federal Reserve into a rate cutting cycle and lower the cost of government borrowing, paving the way for tax cuts later in the year. Both of these measures should ultimately provide a boost to equity markets and improve Trump's chances of maintaining control of Congress.

With the US economy likely to be an underperformer this year and investors keen to rebalance their equity weightings away from the US, we expect returns to continue to broaden out by region and sector and this should provide a good environment for our investment managers' approach to active stock selection.

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Please read the important notice on page 1.

Company Meetings

A spotlight on three of the companies we've met during the past quarter.

We met or spoke with the companies below and you can learn more on any of these by contacting the person at JM Finn with whom you usually deal.

Sir John Royden, *Head of Research*
William McCubbin, *Research Analyst*
Henry Birt, *Research Analyst*

CONSUMER DISCRETIONARY
Amazon

CONSUMER STAPLES
Unilever
Diageo

ENERGY
Shell

HEALTH CARE
Genus
GSK

INDUSTRIALS
RELX
Croda International
Experian
Intertek
IMI
Spirax Group
Melrose
DiscoverIE

MATERIALS
Rio Tinto

1.

IMI

Equity market cap (M) £ 4,997

Industrials
Ed Hann, Head of Investor Relations

IMI's divisions share a focus on fluid and motion control and yet, each serves an often-distinct range of customers and industries. It therefore made sense to discuss each segment individually with Ed and we began with the largest segment: Process Automation. Here IMI produces very large valves which operate under a range of temperatures and pressures. The oil and gas industry accounts for a sizable amount of demand but nuclear and power production are also notable contributors. Ed was keen to stress that exposure to new capital spending from the oil and gas end market is mitigated by the well-protected aftermarket revenues it receives for servicing these valves over their lifespan.

The other automation business is Industrial Automation where much of IMI's kit is used for automating warehouses. Here IMI is more exposed to the traditional industrial cycle and so performance has been subdued over the last year.

Away from automation, the Life Science & Fluid Control segment provides small valves for analytical instruments and ventilators whilst also providing the valves for a diverse range of manufacturing devices such as the machines that print dates on eggs. The life science industry has been sluggish post-COVID and so this segment awaits a recovery here. Finally, we discussed the Climate Control business where IMI provides solutions for ventilation and air conditioning. This business continues to grow well, and IMI expect good performance to continue.

Whilst parts of IMI's business are not performing perfectly, it is because of its diversity that no one cycle drives the business. IMI continues to expect mid-single-digit revenue growth over the medium term and its exposure to multiple cycles helps deliver broad-based industrial coverage.

2.

Rio Tinto

Equity market cap (M) £ 74,801

Materials
Peter Cunningham, CFO

Peter started by highlighting the diverse portfolio and his pride in the strong operational performance of aluminium and copper, which had abated the impact of lower iron ore prices. Costs remained flat between 2023 and 2024 due to productivity improvements, driven by instant feedback from the miners at the mine face.

Rio Tinto's Simandou project, a joint venture with China's Chalco Iron Ore Holdings (CIOH) and the government of Guinea under the Simfer joint venture, is on track to extract high-grade iron ore from one of the world's largest previously untapped deposits in West Africa. This entails transporting the iron ore 670 km by rail to a loading port. The first production is expected by the end of 2025, with full ramp-up of production by early 2027. Total investment stood at $20 billion, with Rio contributing $6.2 billion.

With China still taking close to 50% of the world's metal production, Peter said that China's demand for commodities remained stable, due to ongoing investment in the energy transition, a new national grid, infrastructure, and manufacturing. While Chinese steel demand has peaked, other countries including India were picking up the demand for steel. Growth in aluminium and copper demand has continued.

Some shareholders are agitating for a single listing on the Australian Securities Exchange (with the other currently on the London Stock Exchange). Peter reiterated the company line that the Rio board unanimously opposed the resolution to collapse the dual listings into Sydney, citing substantial costs ($5 billion) and long-term risks without significant benefits.

Rio is monitoring the impact of high US tariffs on commodities but, as things stood at the meeting, Rio's assessment was that tariffs won't significantly affect overall volumes.

3.

Unilever

Equity market cap (M) £ 116,868

Consumer Staples
Ana Raquel Alonso, Global Investor Relations Director
Keerat Tatla, Investor Relations Analyst

Unilever, established in the 1930s through the merger of a Dutch margarine producer and a British soap maker, has evolved into one of the world's leading consumer goods companies. With a portfolio of over 400 brands sold in 190 countries, its products are used by an estimated 3.4 billion people every day. Unilever operates in a highly competitive global market, going head-to-head with other major players such as Nestlé and Procter & Gamble.

Today, 75% of Unilever's revenue comes from 30 'power brands', which are central to its strategy of driving faster growth, improving productivity, and simplifying operations. This strategy remains unchanged, as confirmed in our recent meeting.

In February 2025, Unilever replaced CEO Hein Schumacher with Chief Financial Officer Fernando Fernandez, following board concerns over the slow pace of Schumacher's turnaround efforts. Despite overseeing significant restructuring—including 7,500 job cuts, the planned spin-off of the Ice Cream division, and a renewed focus on core brands—investor pressure and underwhelming performance led to the leadership change. Fernandez, a nearly 40-year Unilever veteran known for his decisive leadership and success in beauty and emerging markets, is expected to accelerate execution. Under his leadership, Unilever is continuing its shift from a matrix-led to a category-led structure, with supply chain and sales in the top 24 markets now reporting directly to business groups—aiming to improve accountability and better align innovation with execution.

Unilever continues to see significant growth potential in key international markets, particularly India and China. In India, the company is leaning into premiumisation and digitalisation, supported by strategic partnerships and a pipeline of new product launches. The US and India also remain short-term priorities for mergers and acquisitions.

Please read the important notice on page 1.

Wealth planning

Equity release: a double-edged sword?

Charles Barrow
Wealth Planner

Lending for equity release mortgages is up 32% compared to 2024, driven by older generations seeking to fund retirement. While using these products can avoid the need to sell your home, they can also come with risks – including rising costs and erosion of estate value. Charles Barrow explores the pros, cons and possible alternatives to equity release mortgages.

What is an equity release mortgage?

Equity release is a financial product designed to help homeowners aged 55 and over access the equity (the value of the home minus any outstanding mortgage) in their property. While they offer a way to supplement retirement income or fund home improvements, equity release mortgages come with important considerations that potential borrowers should fully understand before committing.

There are typically two types of equity release products: (i) lifetime mortgages or (ii) home reversion plans.

The most common type of equity release product is the lifetime mortgage, which is essentially a loan secured against the property. The homeowner borrows a lump sum or chooses a drawdown facility where they can release funds as needed. The loan, plus interest, is typically repaid when the homeowner passes away or moves into long-term care. The main appeal of equity release is that borrowers are not required to make monthly repayments, as the loan is repaid from the proceeds of the sale of the property when the homeowner dies or leaves the home permanently.

The other type of mortgage is the home reversion plan, whereby the homeowner sells a percentage (or all) of their home to a reversion provider in exchange for a lump sum or regular payments. The homeowner can continue living in the property, but the reversion provider owns the share of the home sold. When the homeowner passes away or moves into a care facility, the reversion company sells the property and receives the agreed-upon percentage of the sale price.

> Generally, the older the homeowner, the more equity they can release. This is because older individuals are less likely to live for an extended period, and the lender is taking on less risk.

How does an equity release mortgage work?

Equity release mortgages are based on the value of the homeowner's property, the homeowner's age, and sometimes their health. Generally, the older the homeowner, the more equity they can release. This is because older individuals are less likely to live for an extended period, and the lender is taking on less risk.

The equity release company will first conduct an independent valuation of the property. The homeowner can then choose how they wish to access the funds, either as a lump sum or through a drawdown plan that allows them to access smaller amounts as needed.

Interest is charged on the loan, but it's not paid monthly. Instead, the interest is compounded and added to the total loan amount. This means that over time, the loan can grow significantly. The debt is repaid when the homeowner passes away or moves into a care home. If the value of the property at that point exceeds the loan amount, any remaining equity is passed on to the homeowner's heirs. If the property sells for less than the loan, most equity release plans offer a 'no negative equity guarantee', ensuring that the homeowner or their estate will not owe more than the property is worth.

> Equity release requires thorough consideration of the long-term impact on the homeowner's financial legacy.

Advantages of equity release mortgages

Access to tax-free cash: One of the biggest draws of equity release is that homeowners can access significant sums of tax-free cash that can be used for anything, from enhancing their quality of life in retirement to funding home improvements or medical expenses.

No monthly repayments required: Unlike traditional mortgages, repayment is typically deferred until death or entry into long term care. This is a significant advantage for retirees who may have a limited income and do not want the burden of regular payments.

Remain in your home: The homeowner retains full ownership of the property and can continue living there for as long as they wish, with no threat of eviction.

Flexible repayment options: Many equity release schemes allow for flexible repayment terms. For example, some policies allow for partial repayments, which can reduce the amount of interest accrued over time.

Disadvantages of equity release mortgages

Compounding interest accumulation: While homeowners can live in their property for as long as they wish, the amount of equity remaining in the home for inheritance purposes will be reduced as the loan and interest compound over time.

High initial costs: There are fees associated with setting up an equity release mortgage, including valuations, legal fees and arrangement fees. These costs can be substantial, depending on the terms and lender.

Potential impact on benefits: Equity release can affect eligibility for means-tested benefits, such as pension credit or local authority care funding. If the cash released is not used wisely, it could reduce the financial assistance the homeowner is entitled to.

Not suitable for everyone: Equity release is generally not a suitable option for younger homeowners, or for those who plan to move in the near future. The more time the homeowner spends in the property, the more likely the loan balance will grow significantly.

Reduced flexibility: Early repayment can incur significant penalties, and moving home may be complicated.

Interest rate risk: Rising interest rates can increase the cost of borrowing over time.

Is equity release right for you?

Equity release mortgages are not suitable for everyone. It is essential to ensure that equity release is the right solution for the homeowner's circumstances. There are alternatives to consider, as detailed on the next page.

EQUITY RELEASE ALTERNATIVES	PROS	CONS
Downsizing Sell your current home and buy a smaller, cheaper one.	You can free up a significant lump sum; no interest or debt involved.	Emotional attachment to your home; costs/stress of moving.
Retirement interest-only mortgages An interest-only mortgage for homeowners aged 55+. Interest is paid monthly, and the loan is repaid when you die or sell the home.	Keeps debt under control; more flexible than traditional mortgages.	You must prove you can afford the interest payments.
Standard interest-only or repayment mortgages Depending on your age, income, and credit, you might still qualify for a regular mortgage.	More familiar and transparent.	Harder to qualify for in later life.
Family assistance Borrowing money from family, or gifting home ownership in exchange for support.	Avoid interest and fees; keep wealth in the family.	Can complicate family dynamics; legal agreements advised.
Renting out part of your home Get a lodger or rent out a section of your house.	Regular income stream; no debt involved.	Loss of privacy; landlord responsibilities
State benefits Ensure you're receiving all government support you're entitled to.	Free capital.	Might not be enough.

Equity release: a last resort

Equity release can provide a source of tax-free cash for homeowners in later life, but it is not a decision to be taken lightly. The long-term financial implications—particularly the erosion of estate value—mean it should typically be considered only after all other options have been explored and exhausted. If equity release is still on the table after assessing alternatives, it is vital to proceed with full understanding of the risks, costs, and irreversible nature of the product.

The information provided in this article is of a general nature and is not a substitute for specific advice with regard to your own circumstances. You are recommended to obtain specific advice from a qualified professional before you take any action or refrain from action.

Stock in focus

Amazon

Henry Birt,
Research Analyst

Amazon needs no introduction. Whether through brown cardboard packages arriving on your doorstep, Amazon originals streamed into your living room, or cloud-based solutions built on Amazon Web Services (AWS), Amazon touches most of our lives daily.

We are not short of information on Amazon, with multiple books detailing its operations, yet there is often no substitute for seeing it with one's own eyes and so, as part of our regular company meetings, your author visited the LCY3 Amazon Fulfilment Centre (FC) in Dartford. Entering the FC a sign greets fellow 'Amazonians' and reminds them 'it's still day one': a reference to a saying used by Jeff Bezos to convey the continued culture of innovation that he tries to sustain at the ecommerce behemoth.

A product begins its journey through the FC once it has come in off a truck and been delivered onto a conveyor belt. The belt delivers the product to an Amazon worker where the 'stocking' stage begins. There is a mix of automation and human-driven processes within the five-story FC, however stocking still requires a human in the loop. The products are scanned into yellow boxes called 'totes'. Whilst the process still requires a human touch, the categorising is automated and here the product is registered for the first time. The stocking process continues as the yellow tote is whisked away on a conveyer belt to one of the four floors above used solely for storing inventory. Each floor is the size of seven football pitches, a scale fairly hard to comprehend from inside.

> It is hard to imagine anything but the most sophisticated competitors being able to challenge Amazon's logistics prowess.

Equity market capitalisation (m)
$ 2,176,458

52 week high-low
$ 242.52 - £ 151.61

Net dividend yield
0.0%

Price/earnings ratio
33.1

Up we walked to the second floor, watching the totes follow a 20-mile-long series of conveyer belts. The totes are delivered to an Amazon worker on the second floor where each product is loaded into a tall and thin yellow tower, under which a small orange robot sits, lifting and transporting the tower around the floor. The orange robots are made by Amazon Robotics LLC – formerly Kiva, a company Amazon acquired. To my untrained eye, they looked strangely similar to those robotic vacuum cleaners often found buzzing autonomously around suburban houses. These little orange warriors are the engine of the Amazon inventory system and can lift up to 770kg. The worker scans the product and then waits for the yellow tower to make its way over to them for filling. The correct space in the tower is lit up by a spotlight and another camera watches over to ensure this process is done correctly. The tower then departs and the stocking process is complete.

The next process starts once you click buy on Amazon's website. The 'picking' process involves another Amazon worker standing at the other side of the inventory floor waiting for the arrival of the yellow tower containing your new toothbrush. There is no walking involved and instead, the product is brought to the worker to increase efficiency. The product is removed from the tower before it whizzes away to either another picker or is loaded up with another product in the stocking phase. Once the product is scanned it is placed in yet another yellow tote. Again, a spotlight and camera system makes sure no mistakes are made here either and on the conveyor belt system the tote goes.

Downstairs we go, following our package on its journey to the 'packing' stage. Another Amazon worker awaits the delivery of the tote. Out come the products one by one. First scanned, then packaged into the iconic Amazon cardboard boxes – complete with recycled brown paper to prevent damage. Before being boxed, the item is scanned by the worker, with the screen telling them which box or bag size to use. Amazon's philosophy is all about incremental improvement and it's easy to see how every process has been optimised. A barcode is attached and the product is placed back on a conveyer belt for a final time. The packaged product's barcode is scanned and weighed as a final quality control before entering Amazon's last-mile delivery network, ready to be delivered to your door.

It is easy enough to read about Amazon's logistics prowess but seeing it in the flesh really does cement the complexity of the system they have created. As processes continue to be developed, it is hard to imagine anything but the most sophisticated competitors being able to challenge it. But this technology does not come cheap, and Amazon's international e-commerce business is still barely profit-making. Competitive advantages abound, yet the question remains how profitable logistics at this scale can ever become.

Please read the important notice on page 1.

Collectives Commentary

Japan: a bright spot in equities

Nicholas Weindling
Managing Director and portfolio manager of JP Morgan Japanese Investment Trust plc

The previously unloved Asian equity market is having its day in the sun. Corporates are rowing back on ownership of other firms, resulting in a less complex investment environment and greater investor appeal, writes JP Morgan's Nicholas Weindling.

Japanese equities offer a compelling investment proposition, driven by the robust momentum of corporate governance reforms. Despite the challenges posed by tariffs and potential economic recessions, these reforms are progressing at a brisk pace, reshaping the investment landscape in Japan.

Corporate governance reform: a catalyst for change

The ongoing corporate governance reform in Japan is a key structural driver for investing in Japanese equities. This reform is not only accelerating share buybacks, which have surged by approximately 50% year-on-year in 2025, but also spurring corporate restructurings, mergers and acquisitions, privatisations and spin-offs. These changes are pressuring management teams to enhance return on capital, creating a unique investment case for Japanese equities.

One of the most significant aspects of this reform is the rapid unwinding of 'cross-shareholdings' (where companies hold shares in other firms). A recent example is the potential privatisation of Toyota Industries, as reported by Nikkei on April 26th. Toyota Motor Chairman Akio Toyoda is considering a joint bid for Toyota Industries, leveraging their existing 38% stake. This move could be financially advantageous and tax-efficient, addressing significant cross-shareholdings within the Toyota group. Investors have criticised Toyota Industries for poor capital allocation, highlighting the need for reform. In our opinion, the core business, a global leader in forklifts, is undervalued compared to its German competitor KION, emphasising the importance, and potential, of corporate governance reform in Japan.

Momentum in share buybacks: a positive indicator

The momentum in corporate share buybacks is another positive indicator. In April 2025 alone, JPY3 trillion in share buybacks were announced, a significant increase from JPY1.25 trillion last year. Even conservative companies like Shin-Etsu Chemical, a global leader in silicon wafers and PVC, have announced buybacks of up to 10% of shares outstanding. This trend reflects a growing commitment to improving shareholder value.

Corporate restructuring is also underway, with Sony considering a spin-off of their semiconductor unit, as reported by Bloomberg on April 29th. This unit, which predominantly makes CMOS sensors for high-end mobile phones, is capital-intensive compared to Sony's other businesses. The spin-off could lower Sony's sum-of-the-parts valuation discount, following the soon-to-be spun-off Sony Financial business. If the rumours are true, this move could significantly enhance Sony's market valuation.

The backdrop for investing in Japan has undoubtedly improved, offering a multi-year opportunity for investors. However, foreign investors often grapple with the best way to gain exposure to the market. Global and Asia Pacific regional managers remain broadly underweight Japan, focusing predominantly on larger market segments. Yet, the breadth and depth of the Japanese market offer a wealth of opportunities beyond the usual large index names.

The Japanese equity market remains one of the most under-covered developed markets, creating inefficiencies that offer fertile opportunities for active managers. Those with the focus and resources to delve deeper into the Japanese universe of companies can uncover hidden gems, making Japanese equities a promising investment opportunity amidst ongoing corporate governance reforms.

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Bond focus

Beware of the bond vigilantes

Sir John Royden
Head of Research

Sir John Royden explains how the threat of a Truss-style bond investor revolt is helping to keeping Trump's erratic foreign policy in check.

Can you remember what caused Liz Truss's brief tenure as Prime Minster to collapse? It was because she crossed the line in the sand which defines the point at which investors stop buying government bonds. We all know that 'the line' exists, but nobody knows where it is until you cross it. Liz Truss went for investment in growth with tax cuts without considering when investors would stop buying gilts to finance the plan. The chaos ended her short stint as Prime Minister but immortalised her with the phrase "the Liz Truss moment."

We were left with the conviction that adverse reactions from the equity and bond markets would always constrain politicians. So-called 'bond vigilantes' enforce discipline by selling bonds in response to reckless fiscal policies, so driving up yields and borrowing costs. It's not just votes that drive democracy.

On April 2nd, 2025, the Trump administration announced sweeping "reciprocal" tariffs to address trade deficits designated as a national emergency. On April 5th, 2025, the US imposed reciprocal tariffs of at least 10% on imports from countries with significant trade deficits. Trump specifically targeted China on April 9th, 2025, with a 125% tariff, escalating the existing US-China trade war. Planned tariff increases for other countries were paused for 90 days when Trump was warned of a potential failure of the US Treasury Bond market. The US stock market, the US Dollar and the prices of longer-dated US Treasury Bonds started falling simultaneously. That was perhaps the day when Trump sensed a Liz Truss moment coming towards him. When equities fall, bonds are meant to go up, but both markets fell, showing investors selling risky equities found the government bond market unattractive, presumably doubting the ability of the US government to finance its spending with bond sales.

> It is the bond market rather than the equity market which wields the ultimate power.

On April 10th, 2025, China responded by raising tariffs on American goods to 125%, up from the existing 84%. China stated that further US tariffs would be ignored as the Chinese market could no longer accept US imports at the current tariff levels.

This negative bond market sentiment flowed across to the Bank of England. On April 10th, falls in longer-dated gilts drove the Bank of England to drop plans to sell long-dated gilts, instead selling shorter maturity gilts.

Governments and corporate borrowers like issuing longer-dated bonds because it allows them to lock in debt finance without the worry of refinancing in a few years in a market that might have less appetite to lend them any money. The event central banks dread is a buyers' strike for their bonds, likely causing severe economic stress. The Bank of England said it had made the decision in light of recent market volatility and that it intended to reschedule the long-maturity auction to the following quarter to reduce the bonds held in its asset purchase facility as evenly as possible across maturity sectors.

The conclusion of all this is clear – it is the bond market rather than the equity market which wields the ultimate power.

Trump's behaviour gives us confidence that the hypothetical feedback loop of investors constraining the behaviour of politicians is still intact, showing a market-driven constraint on the damage politicians can inflict. This is how it's meant to work, and it gives us confidence for the future.

Please read the important notice on page 1.

Independent view

William Rollin, *Family Partner* and
Laura Cullinane, *Private Client Senior Associate*

Potentially exempt transfers to children are a viable route for many to gift wealth to children – yet come at the risk of diverting family assets to spouses in the event of a divorce. Law firm Boodle Hatfield explain how to mitigate against this.

The significant changes to inheritance tax (IHT) announced in the Autumn Budget 2024 mean that while headline IHT rates remain unchanged, the scope of reliefs will reduce, increasing potential tax exposure.

Outright lifetime gifts – potentially exempt transfers (PETs) – continue to offer an effective IHT mitigation strategy, with incremental tax relief if the donor survives three years from date of transfer and full relief provided the donor survives seven years from the date of transfer. This article focuses on a critical consideration in such gifting and how legal mechanisms like nuptial agreements can help safeguard gifted assets.

Divorce risk

One of the principal concerns around lifetime gifting is the possibility that gifted assets may be lost upon a future divorce if the recipient child separates from their spouse.

In family law, a couple's wealth is typically assessed in terms of 'marital' and 'non-marital' assets. While gifts and inheritances are usually classified as non-marital, they are still at risk from claims. The court may allow a financially weaker spouse to access non-marital assets to meet their 'needs'—which are generously interpreted—especially where the couple has enjoyed a high standard of living.

> “In family law, a couple's wealth is typically assessed in terms of 'marital' and 'non-marital' assets.

For example, if the couple's marital assets total £1 million and the child's non-marital assets stand at £3 million, a court might award a spouse £2 million, effectively deriving that sum from the non-marital asset—a deeply concerning prospect for parents who gifted the non-marital asset. Given the court's generous interpretation of 'needs', case law suggests that the bigger the non-marital asset base, the bigger the needs claim that may be advanced by the spouse.

Mitigating divorce risk

To counter this threat, we often recommend nuptial agreements—either pre-nuptial (before marriage) or post-nuptial (after marriage). In formulating a nuptial agreement, the couple agree in advance on how assets (especially gifted or inherited wealth) would be treated in the event of divorce.

Since the landmark Radmacher case in 2010, courts generally uphold nuptial agreements, provided they are entered into freely, with full understanding, and the outcome is fair. They can thus offer powerful protection for family gifts—especially when the gift forms part of a broader estate planning strategy.

Parents making substantial gifts should consider making the signing of a nuptial agreement a pre-condition before effecting the transfer. Whilst this is a conversation to handle sensitively, the precaution reflects prudent planning rather than a lack of trust, and it can ultimately shield family wealth from unintended redistribution.

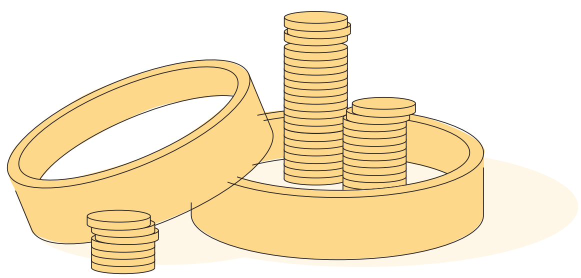
Planning

When contemplating PETs or other potentially chargeable transfers to IHT, professional tax advice is critical in determining which assets to give and to consider timings. Once an asset is identified, parents (or their solicitor) should explain the rationale of the gift to child and all parties should understand the tax implications — along with the importance of securing a nuptial agreement.

The terms of such agreements should be tailored based on: the nature and value of the gift, the financial position of child and spouse, as well as any involvement of the business (if relevant).

For instance, in cases involving shares in a family business, the nuptial agreement could include protective clauses such as:

- Preventing transfer of shares to spouse
- Restricting spouse's access to dividends or business income
- Requiring spouse to resign any directorship or employment
- Ensuring spouse vacates business premises and surrenders business property
- Maintaining business confidentiality and goodwill post-divorce



> Parents making substantial gifts should consider making the signing of a nuptial agreement a pre-condition before effecting the transfer.

Final thoughts

The 2024 Budget signalled a tighter future IHT landscape, especially for families with trading businesses or large estates. While outright giving may remain viable for reducing IHT, the wider succession planning and matrimonial implications should be carefully managed. Nuptial agreements can serve as a strategic tool to preserve wealth within the family—ensuring that gifts intended for the next generation are not inadvertently redirected by family breakdown.

With timely legal and tax advice, families can implement gifting plans that are both tax-efficient and resilient in the face of personal risk, such as divorce.

About Boodle Hatfield

Boodle Hatfield is a London law firm which has partnered with individuals, families, property owners and businesses for over three centuries. Find out more: www.boodlehatfield.com

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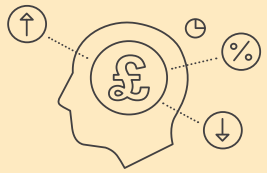
Understanding finance



Unpicking tariff exposure

Jack Summers
Assistant Research Analyst

Trump's announcement of 'reciprocal tariffs' with an effective rate of c.25% triggered a broad-based negative reaction from stock indices globally. The tariffs being proposed would be applied to the cost of the imported goods using the disclosed financial information for a company. We can use the Cost of Goods Sold (COGS) found in the income statement to approximate the cost to which the tariff is applied.

For example, if a company makes its product solely in the EU for €60/unit and exports them to the US, to be sold at a US dollar equivalent of €100/unit, the 25% tariff due to be applied on imports from the EU would be applied to the €60/unit COGS value, taking the total COGS to €75/unit. The company can either hike prices to cover this additional cost or make a lower profit per unit.

When analysing tariff exposure, we first have to estimate what percentage of COGS in America comes from outside the US. The higher the percentage of COGS that are made or sourced within the US, the less significant the exposure to tariffs.

We then focus on pricing power, or the extent that a company can increase the prices charged to customers without impacting volumes. Referring to the example above, if the company had no pricing power and had to absorb the cost of tariffs to protect its volumes, its gross margin would contract from 40% to 25%. In contrast, if it could successfully pass all of the tariff charges onto its customers, its gross margin would be maintained. Additionally, high initial gross margins are preferred as any tariff impact is likely to result in a smaller percentage change in gross margin than those with lower relative gross margins.

Glossary of key terms

Bond maturity – The date on which a bond is scheduled to be repaid. Bonds can be classified as short-term (up to 5 years), medium-term (5–12 years), or long-term (more than 12 years).

Counterparty risk – The risk that the other party in a financial contract may not fulfil their contractual obligations, potentially leading to financial loss.

Disinflation – A reduction in the rate of inflation, meaning that prices are still increasing but at a slower pace.

Fungibility – The property of an asset whereby individual units are interchangeable and indistinguishable from one another in terms of value and function.

Marginal cost of production – The cost incurred when producing one additional unit of a product. It helps businesses determine the optimal level of production and pricing.

Risk-on, risk-off environment – An investment setting where asset prices are influenced by changes in investor risk tolerance. In a risk-on environment, investors seek higher-risk investments, while in a risk-off environment, they prefer safer assets.

Underweight/overweight – Terms used to describe the allocation of assets in a portfolio relative to a benchmark. Underweight means holding less of an asset than the benchmark, while overweight means holding more.

Unhedged investors – Investors who do not use financial instruments to reduce the risk associated with their positions, leaving them exposed to market fluctuations.

Asset allocation and sector focus

As part of our focus on providing a high quality, personalised investment service, our Investment Office look to support our investment managers in their decision making when it comes to constructing client portfolios.

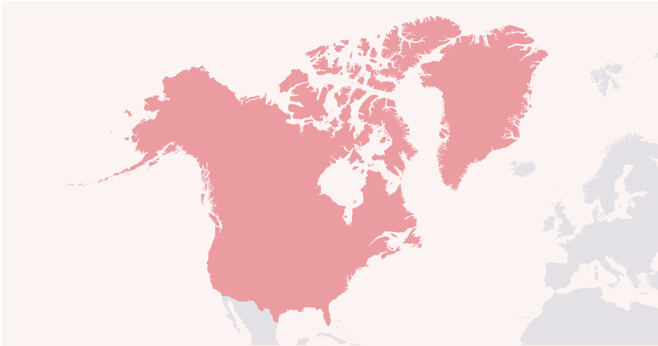
Our asset allocation committee is one example of this, via their monthly output showcasing their views on a global basis; this is then complemented by a sectoral view from the stock selection committee. The combination of these top down and bottom up opinions is an important resource for our investment managers to validate their own investment theses or to generate new investment ideas.

These committees, which form an important element of our Investment Office, consist of research analysts and a number of investment managers. The output of the monthly meetings remains a suggested stance and it is important to note that the views expressed are those of the committees and may not necessarily be those of your individual investment manager.

Here we present a snapshot of the current views from the Investment Office.

Asset Allocation

Overweight · Neutral · Underweight



North America

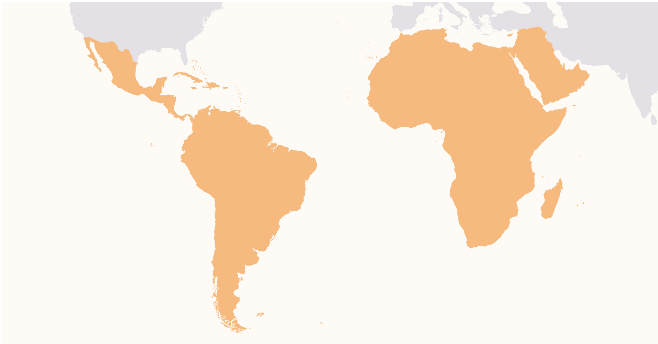
The US economy is experiencing solid growth, but isolationist policies have introduced potential trade barriers and created uncertainty regarding the growth outlook. We continue to anticipate a risk-on, risk-off environment characterised by heightened volatility due to uncertain policies. We foresee a scenario where tariff risks could lead to increased inflation, but heightened trade risks might also elevate the risk of recession. Given these factors and the premium valuations of US companies, we remain underweight.

UK

The UK economy has maintained minimal GDP growth, which aligns with the generally subdued expectations. Attention remains on the Bank of England and the path of the interest rate cutting cycle, where the Bank must balance the upside risk to inflation against the downside risk to growth over the coming years. Valuations are still appealing compared to the US, and with signs of expanding corporate earnings, a more proactive Bank of England, and a weaker sterling, the UK stock market is likely to be supported.

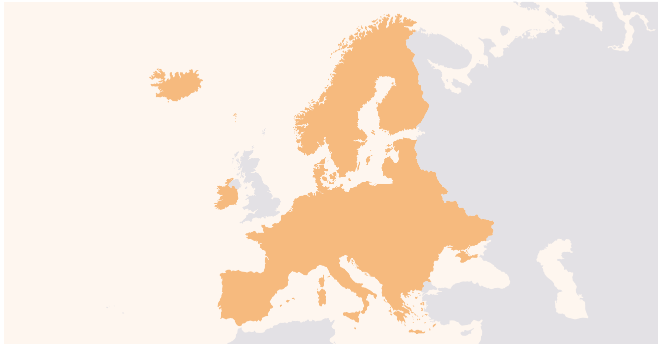
Japan

This year, a weakening yen has counterbalanced the improving domestic fundamentals for unhedged investors. We anticipate Japan will maintain a robust cyclical upswing throughout 2025. This will be fuelled by positive real wage growth, the definitive end to corrosive disinflation, and ongoing corporate sector reforms. These factors provide clear tailwinds to the growth outlook. Unlike other major central banks, we expect the Bank of Japan to moderately raise interest rates over the year. Given these tailwinds we remain overweight.



Emerging Markets

In the aftermath of recent tariff developments, the dollar's unexpected weakness caught many off guard. While a softer dollar often provides relief to emerging markets with dollar-denominated debt, the current environment is clouded by uncertainty. This is particularly evident in Latin America, where economic momentum is being weighed down by geopolitical tensions, tighter financial conditions, and the disruptive impact of US trade policies. Given these crosscurrents and the lack of clarity on the dollar's path, we believe it is prudent to maintain a neutral stance on emerging markets for now.



Europe

The European Central Bank (ECB) has persisted with monetary policy easing due to the continued disappointing activity data. The notable decline in Chinese demand has posed a significant challenge for the export sector, and domestic vehicle production has encountered considerable headwinds from Chinese competition. The potential for comprehensive US tariffs on all imports is a substantial concern for investors. However, the favourable equity valuations observed in Europe provide support to our neutral rating.

Asia Pacific

Policy easing by the People's Bank of China, along with liquidity support for highly indebted local authorities, have led to a strong upswing in economic activity heading into 2025. However, the persistent threat of tariffs poses a significant potential headwind for China's export and industrial sectors. In contrast, elsewhere in the Asia Pacific region, with solid regional growth and the potential for central banks to ease policy from currently restrictive levels, we are more optimistic about the growth and earnings outlook outside of China and remain overweight.

Please read the important notice on page 1.

Sector Focus

Overweight | Neutral | Underweight

Communications

The communications services sector has a large weighting to companies which will likely be beneficiaries of AI and, as a result, valuations have begun to reflect this. Whilst we believe AI will be a key driver of the sector, expectations are high and valuations looks stretched. The telecoms sector is a smaller part of the sector and therefore the more reasonable valuations in this area are not enough to make the sector more attractive. We continue to like the sector from a structural perspective but remain underweight on valuation grounds.

Consumer Discretionary

Global inflation has been easing, while the sector's performance is expected to be influenced by economic data and ongoing policy uncertainty. Given the non-essential nature of its products and services, the sector remains highly sensitive to economic cycles. However, we continue to see attractive valuations across the sector, which underpins our decision to maintain an overweight position in the sector.

Consumer Staples

The sector continues to grapple with elevated input costs, which are weighing on profitability as pricing remains high. After a prolonged period of inflation, margin compression appears increasingly likely. We're also seeing a clear split emerging among brands—those that can successfully drive volume growth are pulling ahead. With consumers staying cautious about spending, there's limited room for further price hikes, making volume performance a key differentiator going forward.

Energy

The oil price has declined so far this year and now sits at a level we believe is close to some producers' marginal cost of production. The falling oil price is indicative to some extent of fears over the economy. The Trump administration's encouragement of oil production is somewhat stymied by the current low oil price, which disincentivises producers. Given the level of uncertainty caused by the tariff regime, we remain neutral until we have more conviction on the direction of the oil price.

Financials - Banks

Financials delivered strong returns in 2024, leading to a rise in valuations. While we now anticipate a slower pace of rate cuts than previously expected, banks typically benefit from the spread between short- and long-term interest rates. However, with no major steepening of the yield curve on the horizon and current valuations already elevated, we maintain a neutral stance on the sector.

Health Care

The health care sector was initially relatively unscathed by the tariff announcements however the Trump administration has since initiated a series of investigations into the sector with the aim of lowering drug prices. Whilst this poses a risk to the sector, we believe share prices have now more than baked in the worst-case scenario. Given how unsuccessful historical drug price regulation has been, and given where valuations sit, we are happy to remain overweight the sector.

Industrials

As we had feared previously, the imposition of tariffs in April proved disruptive for the performance of industrial equities. Whilst reductions in tariffs mitigate some of the headwind, the impact on global growth may prove more difficult to unwind. Cognisant of this, and with valuations of industrial companies continuing to appear quite rich, we retain our neutral position.

Information Technology

The tech sector has seen volatile share price performance recently with hardware companies being especially exposed to tariffs. Much of the sector is concentrated in software names though, which have limited exposure to tariffs. AI is likely to be a key driver of the sector's performance, however this is reflected in the high valuations in the sector. AI is also likely to require significant increases in capital expenditure. Whilst we continue to like the long-term structural drivers in the sector, we are underweight on valuation grounds.

Materials

The materials sector is exposed to the commodity cycle, much of which is driven by the performance of China. The Chinese economy has received some stimulus, but the crucial area of commodity demand is the property sector – and we do not have high conviction in a recovery here. We are cognisant of the structural lack of supply in commodities like copper however in the short term we expect the macro economy to dominate the performance of this sector. We therefore have limited conviction and remain neutral.

Real Estate

The real estate sector faced significant headwinds in 2024, marked by persistent inflation and interest rates at their highest in 15 years. Elevated borrowing costs led to a sharp decline in commercial property transactions and downward pressure on valuations. However, recent rate cuts are beginning to revive market activity and investors are re-entering the market. Despite ongoing fragility, we believe the sector is poised for a rebound, supported by attractive valuations.

Utilities

Performance of utilities has moderated in 2025 having been strong in late 2024, particularly in the US. Whilst we appreciate the defensive qualities of utilities amid a period of heightened global uncertainty, recent performance and positioning in the regulatory cycle appear to limit the potential for further positive catalysts in the sector, we remain neutral on utilities with preference for power over water.

Please read the important notice on page 1.

Meet the manager

James Godrich

Fund Manager, London

Lives Colliers Wood, SW London

Family Recently married

Started at JM Finn 2014

Hobby/pastime Long distance events – not good for the hips and knees

Favourite holiday Skiing, and everything that goes with it

Favourite film The Intouchables

If you weren't a Fund Manager The job of a sports analyst sounds fascinating

Favourite sporting moment 2005 Ashes at Edgbaston

Preferred music Acoustic-Folk

Favourite book Antifragile: Things That Gain from Disorder by Nassim Taleb

How has your career developed since you've been at JM Finn?

I started out on the Trade Support team in 2014 placing unit trust orders and FX trades. I quickly moved into the Research function covering UK and International equities where I completed my CFA qualification. And since then, I've been running our centralised multi-asset funds which are now part of the Investment Management Service.

Learning about different roles in the business and the industry has definitely helped to give a rounded understanding of the challenges that each area faces.

As Co-Fund Manager of JM Finn's Investment Management Service, could you explain its key benefits?

The Investment Management Service is a pooled offering which allows investors of all sizes to benefit from a diversified, cost-effective, one-stop-shop portfolio with differing levels of risk available. The funds invest in equities, fixed income, diversifiers and cash through a clear and robust process supported by our Investment Office.

Through the Investment Management Service, clients benefit from a dedicated Investment Manager, full portfolio look-through, our online portal and app and access to our wealth planning team.

What do you think the rest of 2025 may hold for investors?

Markets have been volatile so far in 2025 and further volatility looks set to be a theme for the rest of the year. Whilst challenging, choppy markets can provide opportunities to generate active returns which we see as a positive dynamic.

We think the macroeconomic environment is oscillating between being reflationary and stagflationary – the common denominator in both of those is consistent inflation. Protecting and growing capital against this remains a key theme that we are building portfolios and allocations around.

What are your top three goals?

In work to be disciplined, to learn and to always get better. In relationships to be kind, to be empathetic and to be positive. In life to have fun and to enjoy the ride!

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