



Investment Outlook

A monthly round-up of global
markets and trends

July 2025

In this issue

Investment outlook
Who let the doves out?

Please read the important information section

evelyn
PARTNERS

Investment outlook



Daniel Casali
Chief Investment Strategist

Who let the doves out?

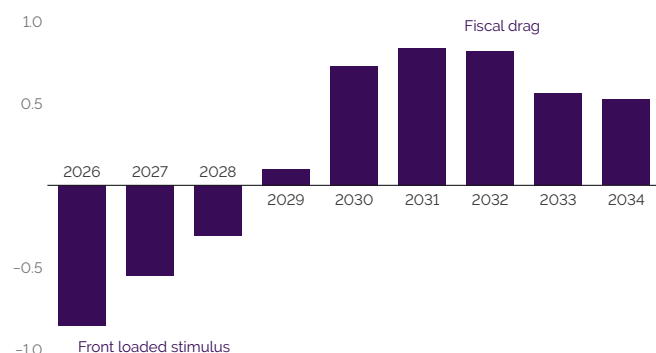
Equity markets are rising on a wave of US fiscal easing, a weaker US dollar and possible relaxation of US banking regulatory rules. Retail investors are buying into the equity rally, led by this dovish (more accommodative) policy shift, as well as solid company earnings. Trade and valuation risks remain. Nevertheless, optimism is building for stocks despite the headline fears.

US fiscal easing

To paraphrase a hit song from Bahamian pop act in 2000, Baha Men, it really is a question of who let the doves out? Investors are searching for the next catalyst to propel markets higher, and it may well come from a more dovish stance on both the fiscal and monetary front, coupled with softer US banking regulation.

The change in US fiscal policy intensified, symbolically and substantively, on 4 July 2025 – Independence Day. President Donald Trump signed the 'One Big Beautiful Bill Act' (OBBBA) into law, solidifying a new wave of front-loaded stimulus worth nearly 1% of GDP in 2026, 0.6% in 2027 and 0.3% in 2028.¹

Impact of One Big Beautiful Bill Act on US budget balance (% of GDP)*



Source: LSEG Datastream / Evelyn Partners. *Estimates from Penn Wharton budget model excluding the extension of the Tax Cuts and Jobs Act.

Though the stimulus will not fully take effect on the economy for a couple more years, it is already having an impact on investors:

First, investors saw the bill as a clear signal: Republican voices that favoured fiscal restraint have been overshadowed by the populist surge of the Make America Great Again movement. Investors are pricing upside to company earnings into stocks from a period of policy loosening.

Second, the OBBBA expanded targeted tax credits for middle-class households and small businesses. For instance, the bill implemented provisional tax breaks for tips and overtime earnings, enhancing take-home pay and supporting the consumer-driven economy.

Third, within the legislation was a new tax-exempt savings account for eligible children born between 2025-2028.

These so-called "Trump accounts" provide a \$1,000 government-funded seed deposit, which can be topped up by families (up to \$5,000 per year) and employers (up to \$2,500 per year).² Funds are designed to invest in US stocks that track a "qualified index", like the S&P 500. Essentially, the US government is investing taxpayer-funded seed money into stocks on behalf of newborns and creates a new source of market demand.

A dovish Fed should support a weaker US dollar

Where fiscal stimulus sets the stage, the Federal Reserve (Fed) could become increasingly more dovish in the future. Trump's increasingly public criticism of Fed Chair Jerome Powell has made headlines for months. Powell's term expires in May 2026. [Insiders suggest Trump could announce a successor this summer](#), potentially someone more open to cutting interest rates. Powell could even resign before his term is up.

Trump's efforts to undermine the independence of the Fed has spilled over into currency markets. So far this year, the US dollar trade-weighted index (DXY) has fallen by over 10% so far this year, marking one of the sharpest depreciations in five decades.³

A dovish Fed should support a weaker US dollar



Source: LSEG Datastream / Evelyn Partners as at 24th July

A weaker dollar typically signals looser global financial conditions, as it implies there is plenty of money circulating around the financial system and reduced demand for risk-averse cash, like the greenback.

Central banks are also cutting interest rates. For instance, traders in the futures market have priced in a full percentage point cut in the US base interest rate to bring it down to 3.2% by end 2026.⁴

Tweaks to bank regulation

While interest rate policy remains on a gradual downward path, regulatory tweaks are set to deliver tangible stimulus to the US financial system. In June 2025, the Fed announced a proposal to ease restrictions on the enhanced Supplementary Leverage Ratio (SLR) for banks—a key rule introduced in the aftermath of the 2008 Global Financial Crisis. The SLR was designed to curb excessive risk-taking by setting minimum capital requirements based on total leverage rather than risk-weighted assets.

By loosening the SLR, regulators have unlocked billions in fresh lending capacity. Banks are now able to expand their balance sheets, extending credit more freely to households and businesses. Moreover, the easing also means that banks are no longer required to hold as much capital against low-risk assets, like US treasuries. This incentivises banks to participate more actively in treasury markets, enhancing flows and stabilising prices.

While not as newsworthy as interest rate cut, this regulatory shift could prove just as potent in fuelling economic growth and equity markets.

Follow the flow (of money)

Given the switch to more policy easing in the US and indeed globally, there is room for equity valuations to move higher. Potentially, a key source of net money inflows could well come from the retail sector. In a recent piece, J.P. Morgan (JPM) notes that individual investors were unperturbed by the trade protectionism risks in early April and stepped-up purchases of both levered and unlevered equity Exchange Traded Funds.

Looking forward, JPM reckons that retail investors will inject a net \$360 billion into equity funds for the second half of the year, following \$270 billion in the first half.⁵ If hedge funds, pension and insurance companies and quant funds are included, then JPM expects \$500 billion in overall net equity investments for the rest of 2025 to lift US stocks by 5-10% by year-end.⁶

Risky business

Stretched valuations could be a potential risk. The S&P 500 price-to-earnings ratio is trading at a relatively high level of 22 times 12-month forward earnings.⁷ The Magnificent Seven stocks are even higher at 30 times earnings.⁸

Although valuations can offer insight, they tend to be weak indicators of short-term market performance. Our calculations find that the S&P 500 price-to-earnings ratio has shown little correlation with returns over a year. That said, valuations may hold more predictive power over longer horizons.

Another risk for investors to monitor are trade tensions, especially around rare earths, the critical metals used in tech and defence. China, which produces about 69% of the world's supply and dominates refining, has hinted at restricting US access, raising fears over supply chain disruption and strategic vulnerabilities.⁹ The good news is that US-China trade discussions are progressing, potentially setting the stage for a Trump-Xi summit later this year.

Outside of Sino-US relations, [Trump and European Commission President Ursula von der Leyen](#) agreed an EU-US trade deal in principle at the end of July. If agreed by EU member states and the European Parliament, then one of the key tail risks — the prospect of escalating tariffs between two of the world's largest economies — now appears to be off the table.

Despite concerns on trade protectionism, firms continue to demonstrate a remarkable level of corporate Darwinism, which at its core is about adaptability. Companies have used this adaptability to preserve earnings and shareholder value in a volatile trade environment.

Moreover, Deutsche Bank estimates that 75% of S&P 500 company earnings are from industries that are unaffected by concentrated tariffs.¹⁰ It is probably no surprise then that US companies are on track to beat already low expectations by a sizeable amount during the second quarter reporting season.

On balance, the risk for investors is that by focusing on the seemingly, sensational media headlines they miss out on a policy easing and earnings driven equity rally.

Sources:

1. *BCA, The US Economy Is Holding Up...For Now*, Peter Berezin, 6 June 2025
2. *Forbes, White House Unveils \$1,000 'Trump Savings Accounts' Baby Bonuses: What To Know*, 9 June 2025
- 3,4,7,8. *LSEG, Evelyn Partners*
- 5,6. *JPM, Which flows could support equities into H2? Nikolaos Panigirtzoglou*, 9 July 2025
9. *Mining Technology, China currently controls over 69% of global rare earth production*, 18 January 2015
10. *Deutsche Bank, Q2 Earnings: Looking For A Slight Deceleration Amidst Tariff Fog*, Binky Chadra, 7 July 2025

Authors and contributors:

Daniel Casali, Nathaniel Casey, David Goebel, **For further information:**

Adrian Lowcock and Rob Clarry

E: contact@evelyn.com | **T:** 020 3131 5203

Evelyn Partners Investment Management LLP is authorised and regulated by the Financial Conduct Authority.
© Evelyn Partners Group Limited 2025.

evelyn
PARTNERS