Market Review

Quarterly Report

Q2 2025

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Key Indicators at a Glance

Index (Local Currency)		Q2	YTD
Equities		Total Return	
UK Large-Cap Equities	FTSE 100	3.17%	9.47%
UK All-Cap Equities	FTSE All-Share	4.39%	9.09%
US Equities	S&P 500	10.94%	6.20%
European Equities	EURO STOXX 50 Price EUR	2.66%	10.40%
Japanese Equities	Nikkei 225	13.87%	2.58%
EM Equities	MSCI Emerging Markets	11.99%	15.27%
Global Equities	MSCI World	11.47%	9.47%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	1.94%	2.50%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	1.35%	0.45%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	0.86%	-0.57%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	0.14%	-3.23%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	1.86%	0.51%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.85%	3.79%
EM Gov Bonds (Local)	JP. Morgan Government Bond Index Emerging Markets Core Index	7.56%	11.97%
EM Gov Bonds (Hard/USD)	JP. Morgan Emerging Markets Global Diversified Index	3.33%	5.64%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	3.10%	3.58%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	1.68%	1.52%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	1.74%	2.30%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	1.82%	4.17%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	3.53%	4.57%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	-2.45%	-3.59%
GBP/USD	GBPUSD Exchange Rate	6.30%	9.72%
EUR/USD	EURUSD Exchange Rate	8.98%	13.84%
USD/JPY	USDJPY Exchange Rate	-3.95%	-8.38%
Dollar Index	Dollar Index Spot	-7.04%	-10.70%
USD/CNY	USDCNY Exchange Rate	-1.28%	-1.86%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	10.41%	15.52%
Private Equity	S&P Listed Private Equity Index	8.48%	2.68%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	-6.30%	-3.80%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	-0.97%	-2.31%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	-24.91%	-3.57%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-9.54%	-9.42%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	-16.10%	-4.87%
Gold	Generic 1st Gold, USD/toz	5.92%	25.24%
Copper	Generic 1st Copper, USD/lb	-0.08%	24.92%
Gold	Spot gold price quoted in USD per troy ounce	5.75%	25.86%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	-4.39%	-1.18%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	-17.92%	-19.63%
Arabica Coffee	Front-month ICE Coffee "C" Arabica futures contract	-19.22%	-4.07%
Sector Indices			
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	22.90%	13.34%
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	11.32%	-4.22%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	0.49%	5.09%
S&P 500 Health Care	S&P 500 Health Care sector	-7.62%	-2.01%
S&P 500 Financials	S&P 500 Financials sector	5.12%	8.39%
S&P 500 Energy	S&P 500 Energy sector	-9.37%	-0.94%
S&P 500 Industrials	S&P 500 Industrials sector	12.56%	11.96%
S&P 500 Utilities	S&P 500 Utilities sector	3.49%	7.75%
S&P 500 Communication Services	S&P 500 Communication Services sector	18.20%	10.62%
S&P 500 Real Estate	S&P 500 Real Estate sector	-0.99%	1.71%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested.

Executive Summary

- Dorset performance in the quarter was **in line with benchmark** at +3.6% (versus +3.7%) and over the longer time periods lags by 1-2 percentage points but are respectably above the discount rate of 5%. It is not uncommon for many funds to be behind benchmarks over recent years and indeed, Dorset's ranking in the PIRC LGPS Universe (data recently available for March 2025) places the fund in the best quartile over 1 year and around average over 3 years.
- **Unquestionably the focus of Dorset's attention currently is the application to join a new Pool** in the wake of the Government's decision to force both Brunel and Access clients to merge into one of the remaining Pools. This **decision will be the Committee's most important for years to come**, and is the subject of other reports for this meeting, and a great deal of hard work by officers and Pools over the summer months.
- Consequently this report is shorter than usual, as the Committee's focus should be elsewhere.
- That said, there is a great deal happening in World Markets, so it is worth being mindful of the change in geopolitical forces and what they might mean. At the point of writing in August, Trump has sacked and replaced the head of the Bureau of Labour Statistics – it seems the employment and inflation news did not please the President. **Worryingly, the Fed's independence is under threat** as Chairman Jay Powell nears the end of his term in 2026. Trade policy is chaotic. Yet the US stock market hits new highs driven by good corporate profits, and the tech sector is in an AI frenzy. We should be extremely cautious about these developments.
- What does this mean for Dorset? Expect volatility at some point in the next 12 months, trust our existing Pool and new Pool and their fund managers to navigate the treacherous waters with due care and attention.
- The Low Volatility Fund lagged the main capitalisation indices during Q2. This is not surprising and will outperform when the technology sector stumbles.

Market Commentary on Q2

- Q2 2025 was dominated by volatility driven principally by rhetoric around US tariffs, concerns over the US fiscal deficit, and the Iran-Israel war, followed by a sustained recovery as tensions eased. "Liberation Day" triggered a >10% weekly decline across all major indices at the beginning of April, with the rebound thereafter occurring following tariff policy softening (possibly in response to market movements) leaving all major regions ending the quarter up (notably the US, Japan, and EM). Growth stocks led the rally on the back of strong earnings and renewed optimism following weaker sentiment in Q1 (with the "Magnificent 7" up 21% in Q2 and c.5% YTD). Defence stocks also outperformed, driven by geopolitical tension, continued momentum from Germany's fiscal loosening, and increased NATO commitments. Eurozone rates were cut by 25bps twice in the quarter and stand at 2%, by contrast, the Fed Funds rate is unchanged YTD at 4.25-4.5%, whereas the BoE made one 25bps cut to 4.25% in May. US CPI remained stable at 2.3-2.4% versus the UK, which saw 3.5% / 3.4% in April / May and the Eurozone averaging 2% through the quarter, with the latter helped by lower energy costs. The dollar index fell 7% (-11% YTD) mainly due to a deteriorating fiscal position, long-term strength and tariff concerns. The pound fell 2.5% against the euro, itself up 9% on the dollar amid its increasing attraction as a 'safe haven' alternative to the dollar. US Q1 GDP growth slowed to 2% on policy uncertainty, with the UK declining 0.2% to 1.3%, versus a 0.3% increase to 1.5% in the Eurozone. Japan grew 1.7% in Q1 compared to 1.3% in Q4. Composite PMIs improved outside the US), driven by manufacturing.

- Global equities experienced significant volatility in April, with all major indices falling by >10% in the aftermath of the "Liberation Day" tariff announcements. This was followed by a sharp rebound driven by tariff de-escalation, renewed enthusiasm for AI and Big Tech, strategic dip-buying, strong earnings (especially for the "Magnificent 7", with average earnings up 32% YoY). Global equities finished the quarter +11.5%, led by the Nikkei (+13.9%, +2.6% YTD), emerging markets (+12.0%, +15.3% YTD), and the US (+10.9%, +6.2% YTD). The UK and Europe had more modest gains (+3.2% and +2.7%) on the back of a stronger Q1. We note that as at the time of writing, tariff uncertainty remains, with the market pricing in a softer approach from the Trump administration reflective of previous climbdowns. European bonds outperformed in the quarter following rate cuts and concerns about the US's ability to deliver a balanced budget, notably amplified by Trump's "Big, Beautiful Bill" that has exacerbated concerns over US fiscal stability. Government bonds recovered from April weakness (although curves steepened) and ended the quarter in positive territory across all regions, most notably emerging markets (+3.3% in dollar terms) followed by the UK and Eurozone (+1.9% each). High yield outperformed, driven by the improving tariff outlook. Bitcoin finished +33% (+16% YTD).

We highlight the following themes impacting investment markets:

- **Trump's Tariffs:** "Liberation Day" in early April delivered a blanket 10% tariff on all non-North American imports, a 25% levy on autos and 50% on steel / aluminium. This triggered a weekly >10% drop across all major indices and marked the largest recorded single-day point loss for the Nasdaq. The Trump Administration then froze country-specific "reciprocal" tariffs later in April and, in May, backtracked on headline rates for China from as high as c.135% to c.50%, thereafter starting a clemency period originally ending on the 9th of July (including 50% tariffs on EU imports). The backtracking catalysed a 25% rebound in the S&P 500 to quarter-end, led by growth stocks, Big Tech and cyclical sectors.
- **Big Tech Recovers:** After logging their worst quarter in over two years in Q1, the "Magnificent 7" rebounded strongly in Q2 with a price gain of 21.1%, outperforming the rest of the S&P 500 by 15%. There was early interest in dip-buying from retail investors, with institutional investors following suit later in the quarter. The "Magnificent 7" drove two-thirds of the S&P's gain. Earnings underpinned the

surge, up 32% on average and well ahead of consensus estimates. The rally contrasted with Q1, when tariff uncertainty and valuation concerns left the "Magnificent 7" down c.15%, underpinning how quickly momentum can shift in these companies.

- **Fiscal Spending and Budgetary Concerns:** Momentum from Germany's March fiscal reform (including €500bn in new infrastructure spending and an exemption for defence spending from the debt brake) continued into Q2 and was supported by higher spending commitments from NATO which led to continued strong performance in European industrial / defence names. In the US, the Senate passed President Trump's "Big, Beautiful Bill" just after quarter-end (on 1st July), adding $3.3tn to its deficit over ten years, raising further concerns over fiscal sustainability, steepening the bond curve, and likely continuing the steady erosion of dollar dominance. The UK government continues to face fiscal pressure, with tax rises now more likely given concessions to Labour's proposed welfare reforms. Bond markets remain highly sensitive.

Charts and Data

Economic Indicators

Table 1: Quarterly Real GDP Growth and Monthly CPI

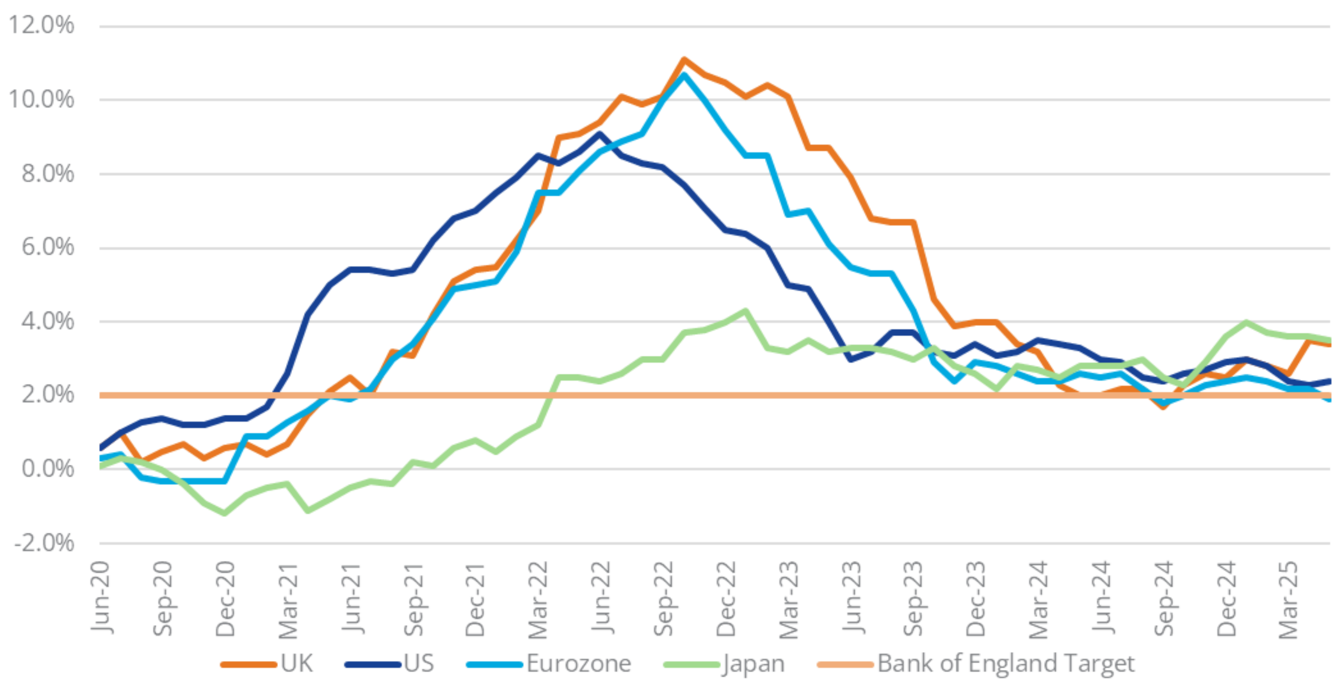
%	GDP		CPI		
	Q1 2025	**Q2 2025**	Apr	May	June
UK	0.7	-	3.5	3.4	-
US	-0.1	-	2.3	2.4	-
Eurozone	0.6	-	2.2	1.9	2.0
Japan	0	-	3.6	3.5	-

Source: Bloomberg; Trading Economics.

CPI: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

GDP: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGDP)

Chart 1: CPI – Annual rate of Inflation - Five Years to May 2025

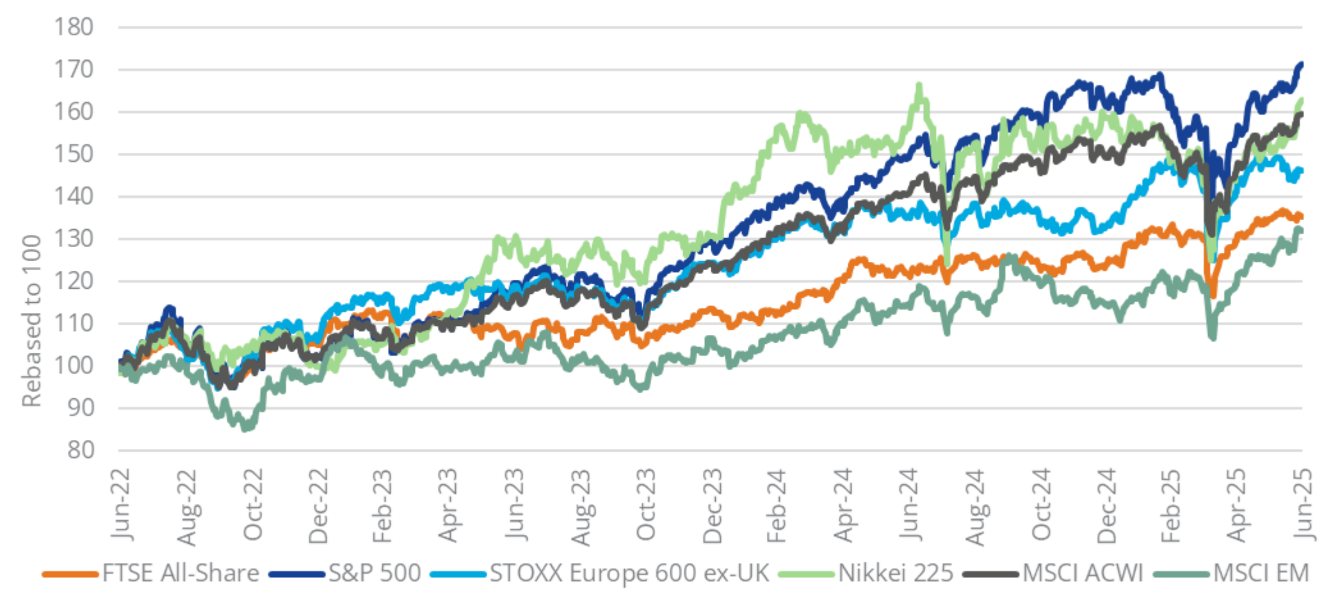


Source: Bloomberg

Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

Equities

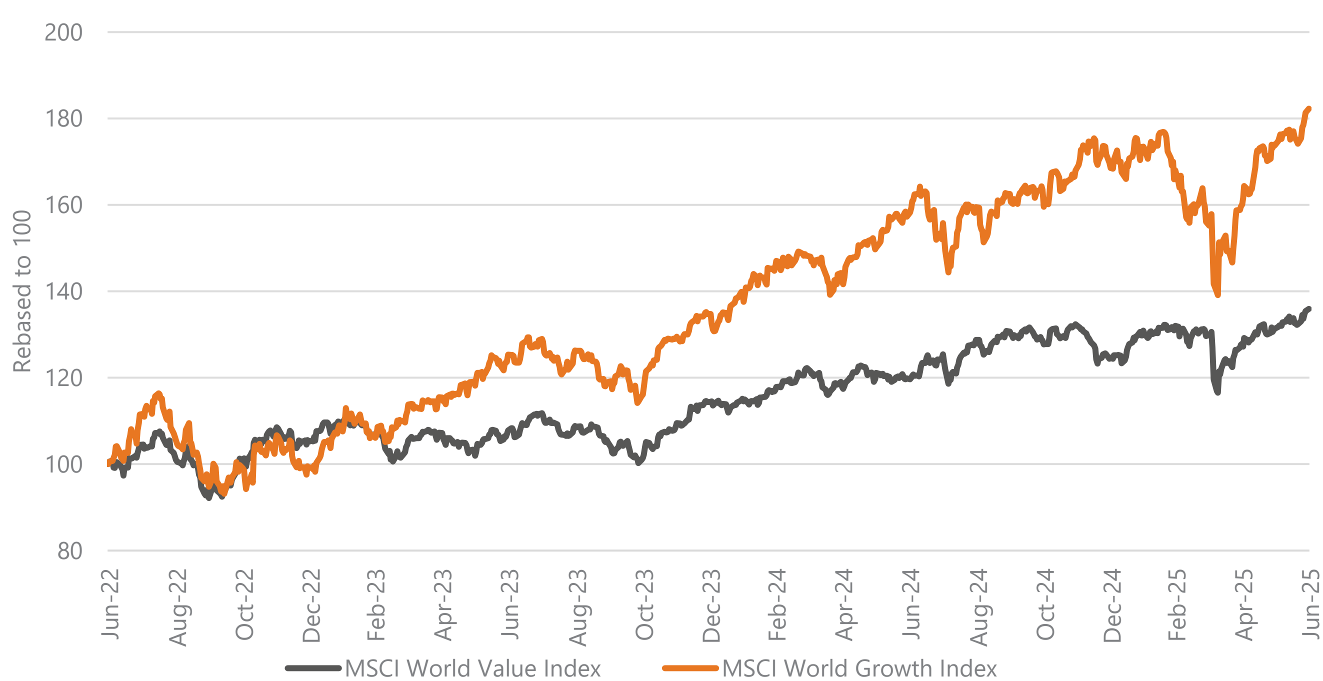
Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currencies

Notes: FTSE All-Share Index (Ticker: ASXTR Index); S&P 500 Index (Ticker: SPXT Index); STOXX Europe 600 (Ticker: SXXG Index); Nikkei 225 Index (Ticker: NKYTR Index); MSCI World Index (Ticker: DLEACWF Index); MSCI Emerging Markets (Ticker: M1EF Index)

Chart 3: Global Equity Markets, Growth vs Value



Source: Bloomberg

Notes: MSCI World Value Index (Ticker: MXWO000V Index); MSCI World Growth Index (Ticker: MXWO000G Index)

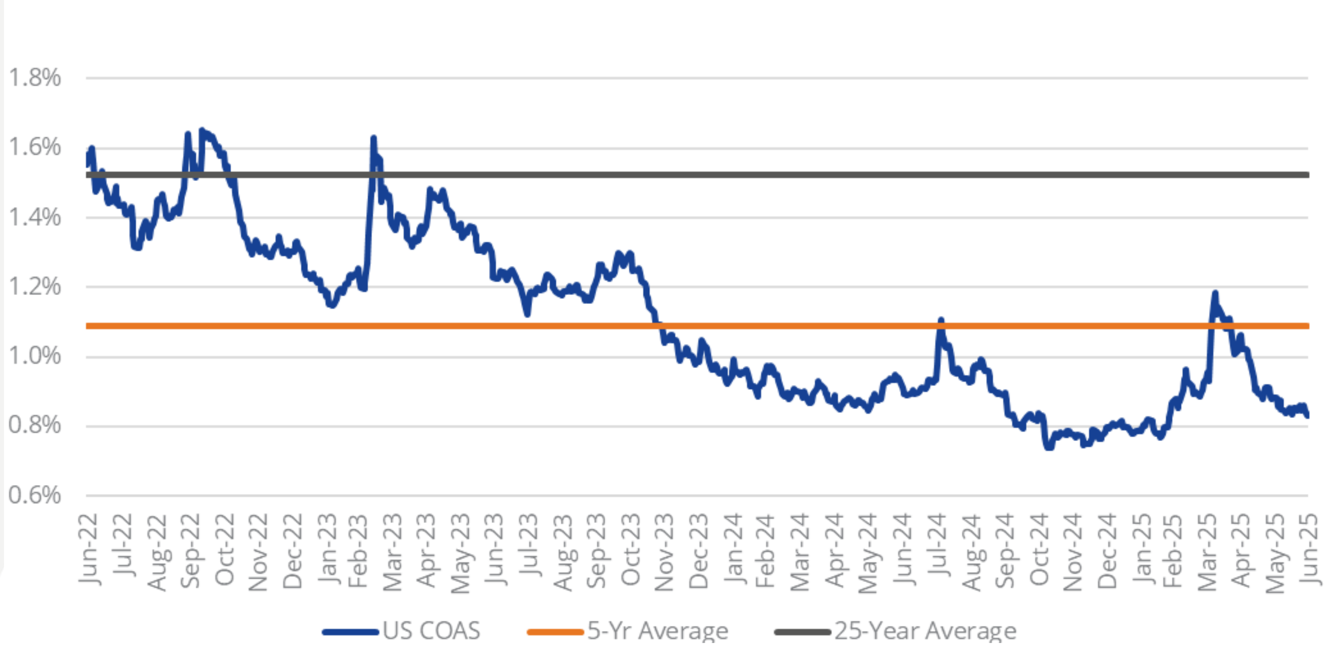
Table 2: MSCI ACWI Composition

Region	Q1 2025 (%)	Q2 2025 (%)
US	63.7	64.7
UK	3.6	3.3
Europe (ex-UK)	12.1	11.7
Japan	5.1	4.9
Developed Asia-Pacific	2.5	2.5
Emerging Markets	10.1	9.8
Other	3.0	3.1

Source: iShares MSCI ACWI ETF

Fixed Income

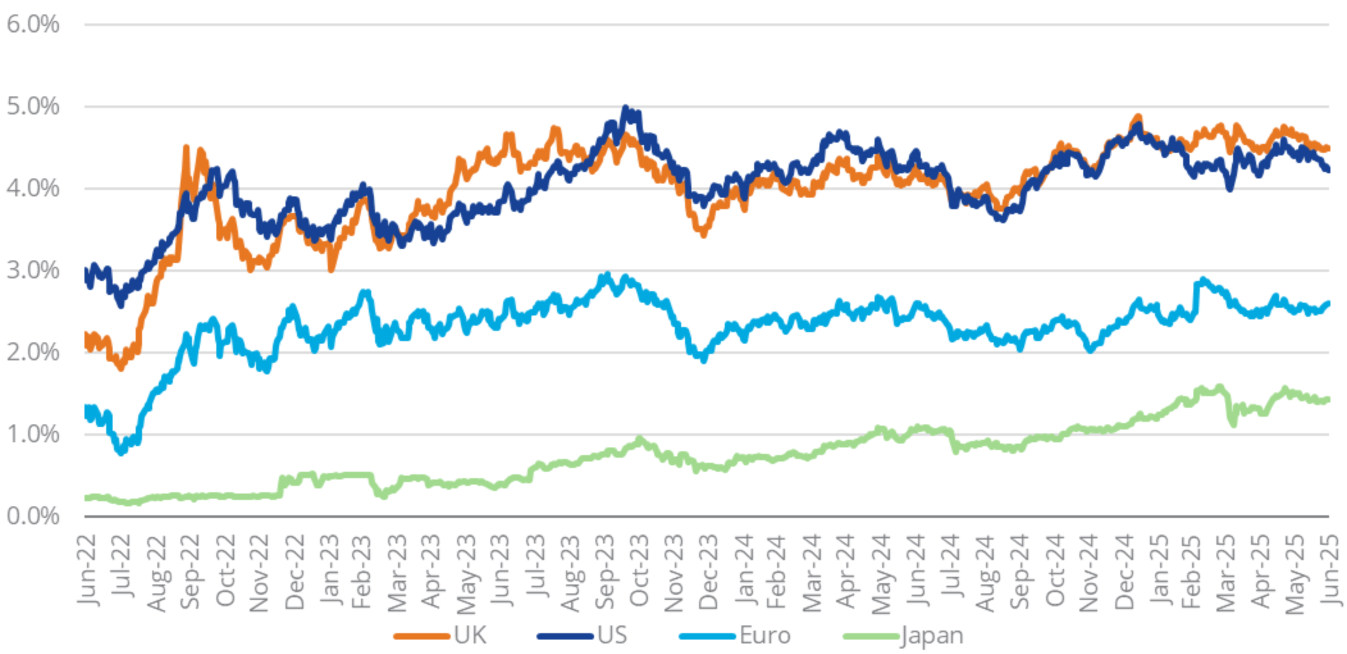
Chart 4: US Corporate Bond Spreads



Source: Bloomberg

Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

Chart 5: Government Bond Yields

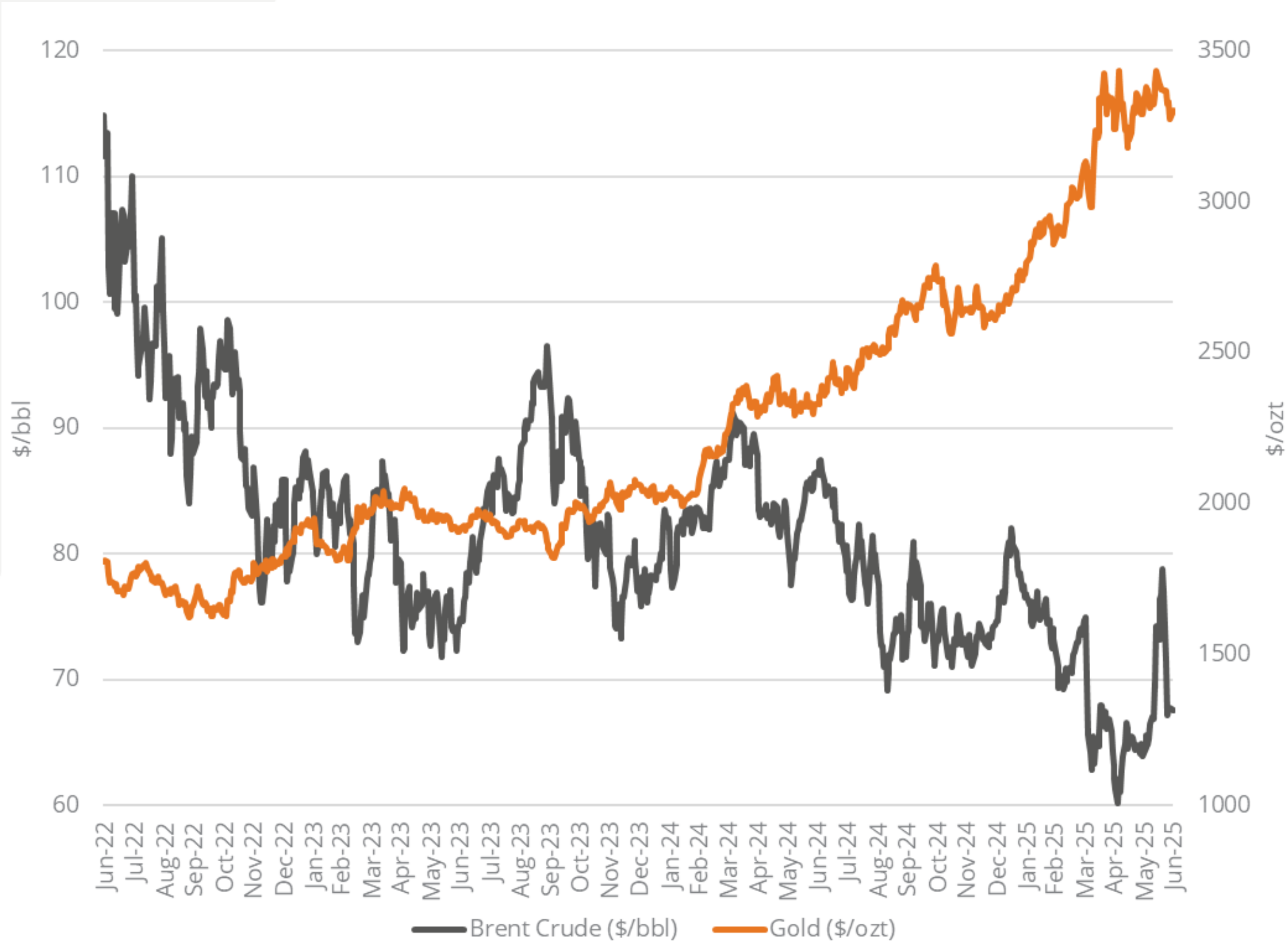


Source: Bloomberg

Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index); Japan Generic Govt Bond 10 Year Yield (Ticker: GJGB10 Index)

Commodities

Chart 6: Gold and Brent Crude Oil Prices

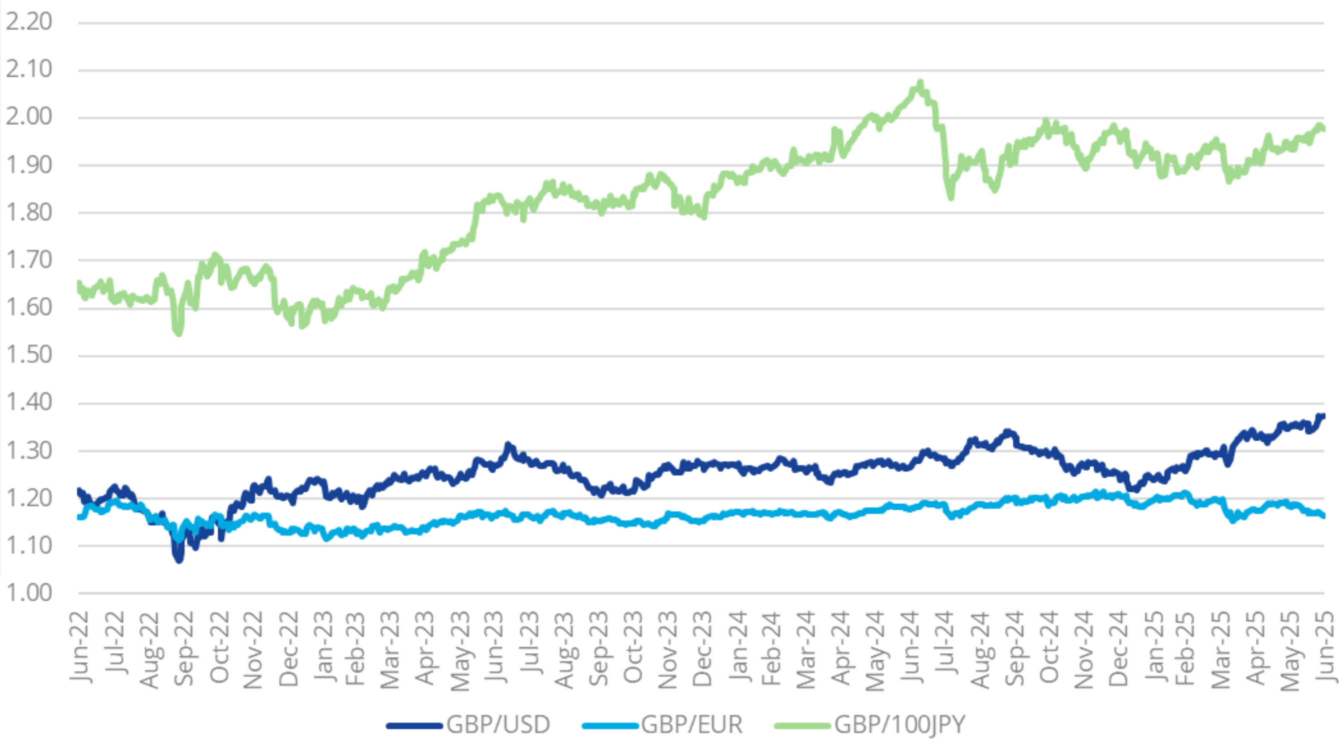


Source: Bloomberg

Notes: Gold USD Spot (Ticker: XAU Currency); Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

Currencies

Chart 7: Three-Year Currency Rates of Major Currencies vs Pound Sterling



Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); GBPJPY Spot Exchange Rate (Ticker: GBPJPY Currency)

Table 3: Currency Rates as of 30 June 2025

Pair	Q2 Value	% Change Over Quarter
GBP/EUR	1.1651	-2.45%
GBP/USD	1.3732	6.30%
EUR/USD	1.1787	8.98%
USD/JPY	144.03	-3.95%

Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); EURUSD Spot Exchange Rate (Ticker: EURUSD Currency); USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)