



Melville Douglas

Focused

Quarterly Commentary

/ Q2 2025

Navigating beyond peak volatility: A more constructive outlook amid residual uncertainty

At the start of the year, we positioned client portfolios with a more cautious tilt, anticipating heightened levels of uncertainty and volatility under the leadership of President Trump, who has often emphasised the strategic value of unpredictability. While we expected a turbulent environment, the scale and nature of geopolitical developments and trade tensions that have unfolded since were difficult to foresee.

Despite persistent eye-catching headlines and market noise, underlying economic fundamentals have remained relatively stable. The divergence between soft data (such as subjective sentiment surveys and leading indicators) and hard data (actual economic performance) has widened, yet investors have increasingly focused on a more constructive outlook for the coming year. This optimism is underpinned by a supportive monetary and fiscal policy environment globally.

Global equity markets reached new highs by the end of the second quarter, completing a notable rebound from the sharp sell-off triggered by the initial 'Liberation Day' announcement of US tariffs on April 2nd. Since hitting a 17-month low on April 8th, the MSCI All Country World Index (ACWI) has risen by 24%, regaining all the lost ground and more.



Bernard Drotschie
/ Chief Investment Officer



Trump's 'reciprocal tariff' announcements initially generated significant market volatility

GLOBAL EQUITY MARKETS REBOUND POST THEIR APRIL LOWS



Source: Bloomberg

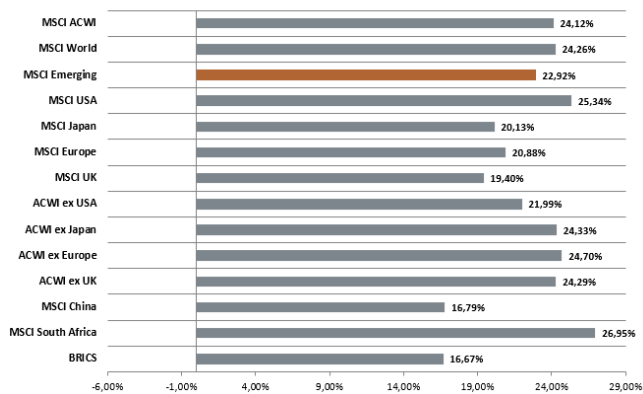
Trump's 'reciprocal tariff' announcements initially generated significant market volatility and prompted many economists to rapidly revise global growth forecasts downward. The revisions were largely driven by expectations of higher inflation, which was anticipated to erode consumers' disposable income and dampen spending on discretionary goods such as vehicles, travel, and leisure activities.

However, after a string of policy reversals and delays in tariff implementation, combined with resilient 'hard' economic data, investor confidence was quickly restored. The equity market rebound has stood in contrast to continued pressure on the US dollar, which has fallen to a three-year low amid growing concerns over the sustainability of US fiscal metrics and decelerating growth momentum. Measures of US consumer and business sentiment have also been affected by the unpredictability of trade policy, particularly tariffs on metals, semiconductors, automobiles, and consumer goods. Nevertheless, equity markets have found support in strong corporate earnings, particularly among large-cap Technology companies. Moreover, fears that aggressive trade policy shifts would reignite inflation or disrupt the labour market have not yet materialised. The administration's landmark tax reform is also expected to provide a tailwind to economic growth and corporate profitability.

Technology stocks, which experienced a sharp correction earlier in the year, have led the recent recovery—rising over 40% since the tariff policy reversal on April 9th. The narrative has since shifted back towards innovation and growth, particularly in areas such as artificial intelligence. US equities have outperformed both developed and emerging markets over this period, highlighting investor confidence in the resilience of the US economy and corporate sector.

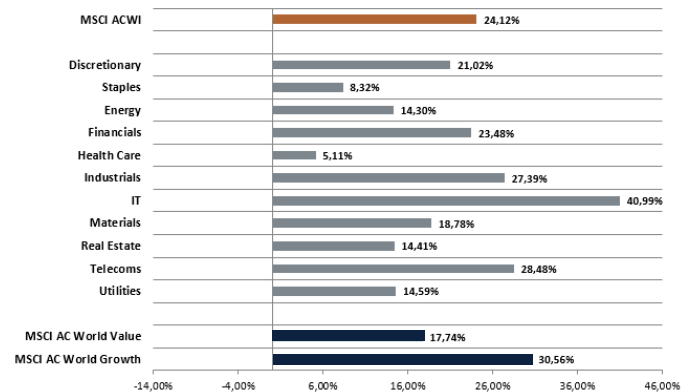


MSCI REGIONS - SINCE 9TH APRIL



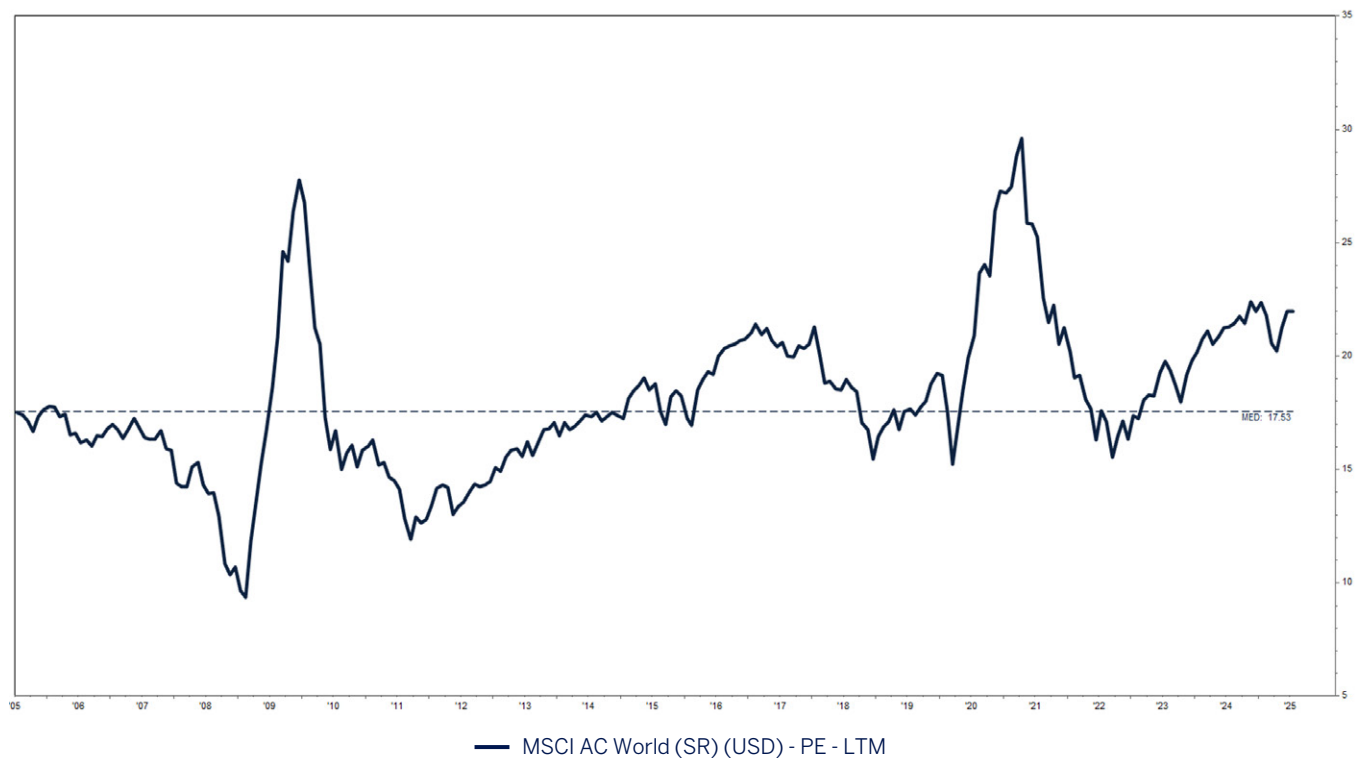
Source: FactSet

MSCI ACWI & SECTORS - SINCE 9TH APRIL



However, current market pricing reflects a highly optimistic outlook, offering limited margin of safety given the ongoing uncertainties around elevated and growing sovereign debt levels, global trade and geopolitical tensions.

GLOBAL EQUITY VALUATIONS REMAIN ELEVATED



Source: FactSet



Conclusion

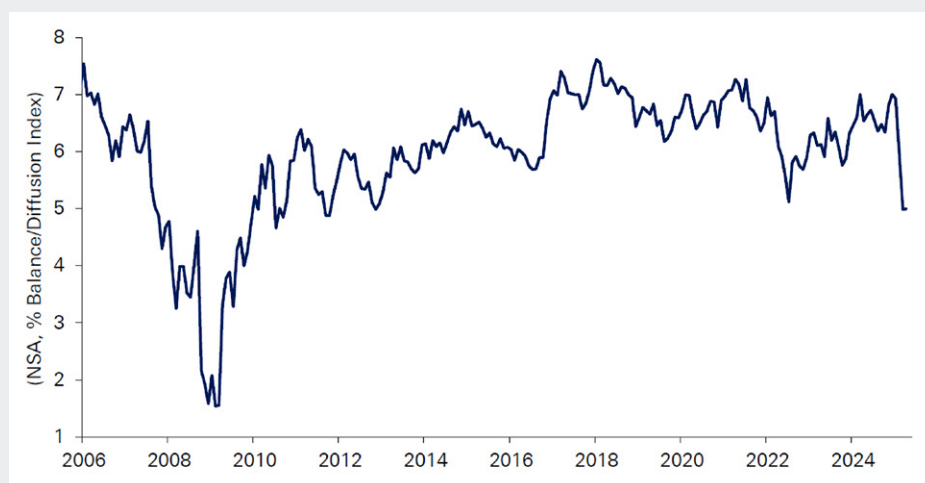
The Chairman of the US Federal Reserve Jerome Powell perhaps captured the current sentiment best at the latest FOMC meeting when he remarked, 'Uncertainty about the economic outlook has diminished, but remains elevated.'

The global economic landscape is currently shaped by a complex mix of conflicting signals and broader macro themes. While shipping volumes have improved, suggesting a rebound in global trade, this is offset by declining capital expenditure and weakening business confidence. Major consulting firms like Accenture are reporting a slowdown in their order books, hinting at growing corporate caution. At the same time, macroeconomic data is taking a back seat to more dominant narratives, particularly the erratic flow of news around global tariffs and escalating geopolitical tensions, especially in the Middle East. Despite the uncertainty, there are signs of progress in global trade negotiations. The 90-day tariff extension periods are being interpreted as evidence that the US administration has a threshold for economic (and market) pain, raising hopes for more balanced trade deals. This has significantly reduced the perceived risk of a US or global recession. Although growth forecasts have been revised lower, they remain far from signalling a contraction.

Risk markets have responded positively, with corporate bond spreads tightening and equity markets rebounding from earlier volatility. This recovery supports the wealth effect and reduces the likelihood of a self-fulfilling economic downturn. Hard data, particularly in the labour market, remains resilient – unemployment is low, and wage growth is outpacing inflation. Even soft data, such as consumer confidence, is showing signs of stabilisation.

Looking ahead, some slowdown is expected as businesses and consumers adopt a cautious stance ahead of potential tariff changes. However, this is unlikely to prompt aggressive monetary easing. The US Federal Reserve is expected to maintain a “wait and see” approach, with only two rate cuts forecast for the second half of the year. Inflation may edge above 3% in the coming six months due to tariff effects, justifying a “higher for longer” stance on interest rates. Ultimately, while the outlook remains uncertain, the base case points to slower growth, sticky inflation, and narrower profit margins. A more definitive resolution on tariffs will be key to shaping market direction and policy responses in the months ahead.

US CEO CONFIDENCE IN THE ECONOMY 1 YEAR FROM NOW



Source: Bloomberg Finance LP, Deutsche Bank

Despite recent market strength, current pricing of risk assets such as equities and credit reflects a notably optimistic outlook, leaving limited margin for error amid persistent uncertainties surrounding global trade and geopolitical tensions. In light of these risks, we maintained a cautious stance throughout the second quarter, with an underweight allocation to Equities, a neutral allocation to Fixed Income and an overweight Cash Plus position. However, with the temporary freeze on reciprocal tariffs set to expire shortly, a positive resolution could warrant an increased allocation to Global Equities.



...actions we have taken will position our equity strategy to again deliver favourable index relative returns

Investment performance

After many years of favourable absolute and relative returns, our equity strategy, represented by the Melville Douglas Global Equity Fund in most client portfolios, has seen a marked deterioration in relative returns, underperforming both benchmark and peer group over the past year. This short-term underperformance has impacted both equity and multi-asset client portfolios for the quarter, particularly USD mandates. Despite the highly disruptive economic and geopolitical environment over the period, and the concentration of equity market returns (Magnificent 7), this outcome has prompted us to take a thorough and honest interrogation of all our investment decisions, which has resulted in increased activity.

Since its inception in March 2012, the Melville Douglas Global Equity Fund has delivered very attractive absolute returns and has broadly kept pace with the MSCI ACWI, while outperforming peers over the long-term, and we have navigated similar periods of short-term underperformance in the past. In each case, we made necessary adjustments where the facts changed, while remaining anchored to our core philosophy: investing in global companies, that are high-quality compounders, at reasonable valuations.

We are confident that the actions we have taken will position our equity strategy to again deliver favourable index-relative returns going forward.

Our fixed income strategies and weightings within multi-asset client portfolios again delivered positive returns in the quarter, broadly in line or above their respective benchmarks. Overall, duration and investment grade corporate exposure remain broadly neutral to benchmark as we wait for further clarity on the tariff impact on both the US and global economy.

Asset classes

Equities	Underweight
Fixed Income	Neutral
Cash Plus	Overweight



Bernard Drotschie
/ Chief Investment Officer

Global Asset Allocation

Global Equity - Underweight

- / Monetary policy is expected to remain supportive, with interest rates likely to ease further in the 2nd half of the year.
- / Although earnings revisions have turned negative in 2025, corporate earnings growth is projected to regain momentum and broaden across sectors in 2026 and 2027. This recovery is expected to be driven by favourable base effects, lower interest rates, and continued fiscal support.
- / Equity markets have already delivered strong performance this year, with the MSCI ACWI and MSCI ACWI ex-US rising by 10% and 18%, respectively —largely due to valuation re-rating.
- / However, current market pricing reflects a highly optimistic outlook, offering limited margin of safety given the ongoing uncertainties around global trade and geopolitical tensions.
- / We are closely monitoring the outcome of trade negotiations, particularly as the temporary freeze on reciprocal tariffs is set to expire in July. A constructive resolution could warrant an increased allocation to global equities

Sector views

Consumer Discretionary	Underweight
Consumer Staples	Underweight
Energy	Underweight
Financials	Overweight
Healthcare	Underweight
Industrials	Underweight
Information Technology	Overweight
Materials	Underweight
Communications Services	Overweight
Utilities	Underweight
Real Estate	Underweight



Justin Maloney
/ Head: Global Equities



Derinia Mathura
/ Fund Manager





Global Fixed Income – Neutral

G7 Government	Underweight
Investment Grade - Supranational	Overweight
Investment Grade - Corporate	Neutral
High Yield - Corporate	Overweight

Karl Holden

/ Head: International
Fixed Interest and
Currency Strategy



- / We anticipate yields to stay rangebound in the near term, with increased daily volatility due to heightened and erratic news flow.
- / Given the prevailing tariff uncertainty and the lack of a clear economic outlook, we are comfortable maintaining a neutral weighting to fixed income in multi-asset portfolios.
- / The interest rate easing cycle is likely to conclude sooner than expected, with terminal interest rates in the US projected to settle in the 3% to 3.5% range.
- / Longer-dated bond yields are expected to remain elevated, offering a real yield around 2%, aligned with current inflation data.
- / The bond market is anticipated to deliver positive returns in 2025, though it is uncertain whether these will outperform cash rates.
- / In the meantime, any further rises in yields should be viewed as medium to long-term buying opportunities, something we intend to exploit in the coming months as volatility persists.

Cash Plus – Overweight

- / Real, after inflation, returns are being achieved as we await increased conviction of better investment opportunities.
- / A prudent split between Enhanced Income, Liquidity and Absolute Return funds is being deployed. Weightings dependent on base currency of portfolio





Market performance / as at 30 June 2025

EQUITIES	JUNE	YTD	12
Global			
Bloomberg World Large & Mid Cap NR (Sterling)	2.78%	0.38%	7.08%
Bloomberg World Large & Mid Cap NR (US dollar)	4.44%	9.81%	16.08%
UK			
Bloomberg UK Large, Mid & Small Cap NR	0.46%	9.35%	11.99%
US			
Bloomberg US Large Cap NR	5.22%	6.33%	15.40%
Europe			
Bloomberg Europe DM ex UK Large & Mid Cap NR	-1.26%	9.24%	7.12%

FIXED INCOME	JUNE	YTD	12
Bloomberg Barclays Series-E UK Govt 1-10 Yr Bond Index	1.16%	3.55%	4.57%
Bloomberg Barclays Series-E US Govt 1-10 Yr Bond Index	0.95%	3.98%	6.27%
Bloomberg Global Agg Treasuries TR Unhedged (GBP)	0.15%	-1.72%	0.53%
Bloomberg Global Agg Treasuries TR Unhedged (USD)	1.77%	7.54%	8.99%
Bloomberg Sterling Corporate TR Unhedged (GBP)	1.88%	3.47%	5.60%
Bloomberg US Corporate TR Unhedged (USD)	1.87%	4.17%	6.91%

CURRENCY vs. STERLING	JUNE	YTD	12
US Dollar	-1.99%	-8.86%	-7.92%
Euro	1.79%	3.73%	1.30%
Yen	-2.00%	-0.55%	2.87%

CURRENCY vs. US DOLLAR	JUNE	YTD	12
Euro	3.88%	13.84%	10.03%
Yen	0.00%	9.15%	11.70%

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg's licensors approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.



Melville Douglas

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