



FOUNDED IN

1988

EMPLOYEES

80+

LOCATED IN

10+
COUNTRIES

ASSETS DIRECTLY
UNDER MANAGEMENT

US\$1.2
BILLION

ASSETS HELD BY INVESTEE
& AFFILIATED COMPANIES

US\$37.9
BILLION



ICM Monthly Outlook

JULY 2025

Market Review

There were numerous times in H1 2025 when the notion of new highs for U.S. equities seemed unimaginable. First, in late January/early February, there was DeepSeek – the Chinese artificial intelligence company – that spooked investors and negatively impacted the value of Big Tech companies due to the prospect of cheaper AI. Next, in April, investors endured the on/off, then on again, then off again tariffs pantomime. Lastly, the Middle East military escalation frayed investors' nerves once again.

One might reasonably expect any and all of these events to have a longer, deeper impact than they did. Nope, the S&P 500 has reached an all-time high of 6,377 at the time of writing.

For H1 2025, the S&P 500 returned 6.2%, a far cry from the 12.1% decline in just four trading sessions in early April, or the 18.9% peak-to-trough fall from February to April. From its low point on April 8, the S&P 500 has surged 27.5% to new all-time highs. The rally is borne out of investors' experience with President Trump's backtracking, and the prospect of stimulus from the "One Big Beautiful Bill Act" passing into law. This bill reduces taxes and includes other business-friendly provisions. Investors are also pricing in rate cuts in the coming months.

Just as in 2023 and 2024, H1 2025 most favoured investors who went long and stayed long risk assets.

U.S. dollar review and outlook

In our letter last month, we mentioned that we would discuss the value of the U.S. dollar this month.

While the S&P 500 has been roaring higher, up c. 8.45% year to date, in U.S. dollar terms, it is down c. 4.5%¹ year to date for investors in Euro terms. The USD has lost 9.5%^[i] versus its basket of international trading partners and maintains a trajectory of continuing to lose value since President Trump took office.

We believe the devaluation of the USD is a prime example – probably the best example - of investors' mistrust of President Trump's economic policies in the longer term.

In the short term, the President can influence equity markets through tariff u-turns and stimulus Bills. Backsliding has given investors greater certainty about the impact of tariffs, assuming a 10% to 15% across-the-board rate, which they can incorporate in valuations.

However, over the longer term, the President cannot influence currency markets as easily.

The value of the USD reacted negatively to the tariffs and has not recovered since.

In the coming year or two, we will start to see the impact of the provision of the Beautiful Bill - tax cuts - which we expect will increase the U.S. budget deficit and government indebtedness. The President has no intention of backtracking on stimulus policies, unlike his tariff policies. America-first, remember.

The U.S. government appears to be pleased about the weaker dollar, although it publicly supports a strong U.S. dollar. A weaker U.S. dollar makes U.S. manufacturing more competitive. U.S. dollar products are cheaper for foreign buyers.

But there is a downside. The U.S. government borrows USD 4 trillion from foreign investors annually. The more the dollar devalues, the higher the losses for existing investors on previous investments. The more the dollar depreciates, the less inclined investors are to lend money over an extended period. America's USD 4 trillion annual financing requirement will become significantly more expensive if even 10% of investors do not refinance their investments.

Investors could become hesitant to lend money if they believe the U.S. will continue to devalue its currency. The more the dollar falls, the more investors lose when they convert back into their domestic currency.

Not all investors will repatriate their funds. Many investors will simply roll over their investment due to inertia and a lack of alternatives. However, if even 10% of the investors stop rolling over their debt, it will increase the cost of borrowing for the U.S. government, which they would not want. It is easy to service a large debt pile if the interest rate is low. It is hard to service a small debt pile if the interest rate is high. The U.S. is walking a tightrope in this regard.

A weakening US dollar, growing deficit, and growing debt pile could create a vicious circle, forcing investors to repatriate their money. We are not suggesting this will happen imminently, and we believe the U.S. will straighten out its finances, but it could be an arduous journey. Social degradation and civil unrest are common consequences of such journeys. Again, we are not suggesting anything imminent.

Is it any wonder that President Trump is starting to look frazzled? Again and again, the President is haranguing the U.S. Federal Reserve to cut rates. For the time being, the market is rubbishing the notion of President Trump firing Chairman Powell. However, more recently, Treasury Secretary Scott Bessent and other administration officials have become increasingly antagonistic toward the Federal Reserve President. So far, the market has taken solace in the fact that Mr. Bessent has the upper hand in the argument with President Trump, so as not to undermine Federal Reserve independence, which could increase U.S. borrowing costs. Now, even Mr. Bessent is questioning Chairman Powell's authority based on cost overruns of a construction project on the U.S. Federal Reserve Bank. The U.S. government is implying malfeasance by the Federal Reserve Chairman in the management of a federal construction project. (They're clutching.) Chairman Powell can sleep easily knowing that the market has his back; guess who'll chicken out first. As we have said ad nauseam, the 5,000-pound gorilla bond market focuses the President's mind when his petulance gets too wayward. However, this sorry episode suggests that the entire U.S. government is getting a little frazzled.

Anecdotally, military spending is an area that is expected to contribute to an increase in the U.S. budget deficit. Consider the cost of the war in Ukraine, for example. Recently, Ukraine asked the U.S. for another patriot missile defence system. One patriot missile costs c. USD 4 million. One Russian drone costs between \$30,000 and \$100,000. Russia's bombardment of Ukraine with drones is as much about inflicting financial damage as it is physical damage. Russia is fighting both Ukraine and the U.S. in the same war, one militarily, one financially.

Over the medium term, we expect a structurally weaker dollar, which helps explain the resilience in the gold price. Cryptocurrency is another beneficiary of the dollar's weakness. Recently, global Crypto assets reached new all-time highs, over USD 4 trillion for the first time. In part, the recent surge is due to new, crypto-friendly legislation in the U.S., which is expected to attract more institutional investors to the asset class.

Outlook

We remain bullish. In our January letter, we wrote, "We expect 2025 to be another positive year for financial markets, albeit it is unlikely to be another 20%+ year." And this remains our central case. That said, from now on, we expect the rate of gain to slow.

We believe there are fewer catalysts for the rest of 2025. We believe the market has largely factored in the impact of tariffs. We believe investors have factored in the One Big, Beautiful Bill and other legislation.

So far, the tariffs have not had a significant impact on inflation, although we are keeping a close eye on the situation, like everyone else. The bond market is still pricing two 25-basis-point cuts this year. We'll go with two cuts, too, based on disinflation. Between December 2024 and May 2025, the U.S. CPI fell from 2.9 to 2.4. Part of the U.S. dollar's devaluation incorporates Federal Reserve cuts.

We expect the long end of the U.S. yield curve to remain around the current rate, as investors require a risk premium to lend for longer, given the backdrop that President Trump's policies may destabilise the government's balance sheet. We explained already why the devaluation of the U.S. dollar will force the U.S. government to pay more for longer-dated borrowing if it continues, and investors continue to lose confidence.

The macroeconomic foundations appear sturdy at present as well. The global growth forecast remains positive, albeit not as high as it was in the last few years. The Global Manufacturing PMI edged up 0.8 points in June to 50.3, while the Global Services PMI stayed firmly in expansionary territory with a reading of 51.9. All told, the global composite PMI increased 0.5 points to 51.7, near its average over the last few years. The one errant figure is the US input prices PMI, which jumped five points on the month to 69.7, the highest reading in three years, suggesting that tariff-induced price hikes may be in the pipeline.

The U.S. consumer remains a bulwark of the U.S. economy. Time and again, the U.S. consumer has underpinned the U.S. economic outlook, and that remains true today, as it has done over the past three years, except for some softness during the election campaign this time last year. The latest unemployment data was solid, also.

The current economic data supports a steady-as-she-goes rally. Risk assets should remain well bid. We maintain our 4.25 – 4.75% range on the U.S. 10-year yield.

The risks to the downside are familiar

President Trump reignited his tariff threats and rhetoric ahead of August 1st. This is a speed bump rather than something that would derail the rally. From here on, we expect the tariff announcements to be broadly positive. Our view on tariffs remains unchanged, as mentioned earlier, with an average rate of 10-15%, except in a few unfortunate cases.

We believe there is less value in valuations now compared to the peak tariff tantrum. Today, the Shiller Cape² price-to-earnings ratio³ is back up to 39. This number was 37+ in February before the tech sell-off, compared to 32 in the aftermath of the Trump tantrum. Markets can stay at a 38 for a long time, but don't tend to go much higher for too long.

It is worth noting that the gains in the S&P 500 are disproportionately concentrated in nine stocks, which we'll discuss in more detail in the coming months.

We'll also discuss the UK in greater detail in the coming months. The UK has seen several negative headlines on the fiscal front lately, replete with its own parliamentary pantomime.

Briefly, we are forming a negative view on the growth and fiscal picture in the UK, which will likely remain challenged in the coming years. We expect the UK government will be forced to increase taxes. We expect the Bank of England to deliver more rate cuts than the three 25-basis-point cuts currently priced in.

And finally

Back to the U.S. dollar. Another undesirable element to the devaluation of the U.S. dollar is President Trump's undermining of the organs of the State for his own benefit, not to mention his vindictive retaliation against anyone who opposes him. President Trump is devaluing the rule of law as well as the U.S. dollar. For example, in April 2025, an International Organisation of Judges wrote an open letter expressing their "serious concern" about the threats to judicial independence and the rule of law in the United States. The President of the International Association of Judges (IAJ) referenced an increase in criticism, threats, and even violence towards judges. Typically, the International Association of Judges defend the rule of law in frontier economies.⁴ The IAJ, with a membership of ninety-two judicial associations, "stands firmly against efforts to weaken the judiciary or turn it into a political instrument." It said: "Such intimidation must end." The American Bar Association has also "raised alarm over recent calls by senior officials to impeach judges whose rulings conflict with Government positions, often without any evidence of wrongdoing," the IAJ said.

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President Trump does not limit his vindictive behaviour to domestic foes. The U.S. Secretary of State revoked a visa for a Brazilian Supreme Court judge who is prosecuting former Brazilian President Bolsonaro. In addition, President Trump threatened Brazil with 50% tariffs if it continues to prosecute the former Brazilian President, Jair Bolsonaro. Brazil is a country where the U.S. has a significant surplus, so the motivation to impose tariffs is purely political.

Kind regards,

Conor Spencer

28 July, 2025

Source Data: ICM, Bloomberg as of 30 June, 2025.

[1] Bloomberg DXY function. The U.S. Dollar Index (USDIX) indicates the general int'l value of the USD. The USDIX does this by averaging the exchange rates between the USD and major world currencies.

[2] <https://www.multpl.com/shiller-pe>

[3] The price-to-earnings (P/E) ratio is a key financial metric that compares a company's current share price to its earnings per share (EPS), helping investors assess the stock's valuation. It is worth noting that the gains in the S&P 500 are disproportionately concentrated in nine stocks, which we'll discuss in more detail in the coming months.

[4] Countries where the despotic Strong Man typically has a million Kalashnikovs backing him up.

Risk Warning

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