Market Commentary 7th of July 2025

Global markets saw a strong rebound in June as investor sentiment improved thanks to easing trade tensions and solid corporate earnings. U.S. equity markets led the way, with the S&P 500 advancing by approximately 5%, ending the month at record highs. The tech-heavy Nasdaq Composite outpaced broader markets, gaining 6.6%, supported by strong momentum in large-cap tech and AI-focused companies.

In Europe, after delivering a strong performance in the previous month, the key indices remained flat. The UK's FTSE 100 followed a similar path. In Asia, Japan's Nikkei 225 rose by 6.64%, benefiting from a declining dollar and improved global risk appetite.

Turning to fixed income, the Bloomberg Global Aggregate Bond Index posted a gain of +1.89%, as investors responded to escalating tensions in the Middle East.

Currency markets saw notable moves as the U.S. dollar index (DXY) weakened further, losing 2.47%. Meanwhile, Bitcoin extended its upward trend, closing at $107,606, representing a 2.64% gain — in line with the broader risk-on environment.

In commodities, gold remained in positive territory, edging up 0.42% as geopolitical risks supported safe-haven demand. Oil prices surged by 7%, driven by renewed conflict in the Middle East, particularly Israeli airstrikes on Iran, which intensified concerns about potential supply disruptions from the region.

As we enter July and the second half of the year, markets have proven remarkably resilient, even as geopolitical tensions rise. Notably, the U.S. airstrikes on Iranian nuclear facilities during the weekend of June 21–22 added a serious layer of uncertainty and risk to the global outlook.

Yet, equity markets have continued to advance, highlighting the complexity of the current investment climate. From the threat of armed conflict to trade policies, inflation volatility, central bank decisions, AI-driven enthusiasm, and shifting capital flows, these elements are shaping a market environment full of contradictions. Navigating this backdrop requires investing in high quality securities and having a disciplined approach in our investment strategies.

Why we are bullish on AI

No matter how hard one tries, it is impossible to avoid any mention of AI on a daily basis. There are still many who question if all the massive spending on AI by corporations will ever pay back and whether we are heading to the bursting of a massive bubble down the line, as real monetization proves elusive.

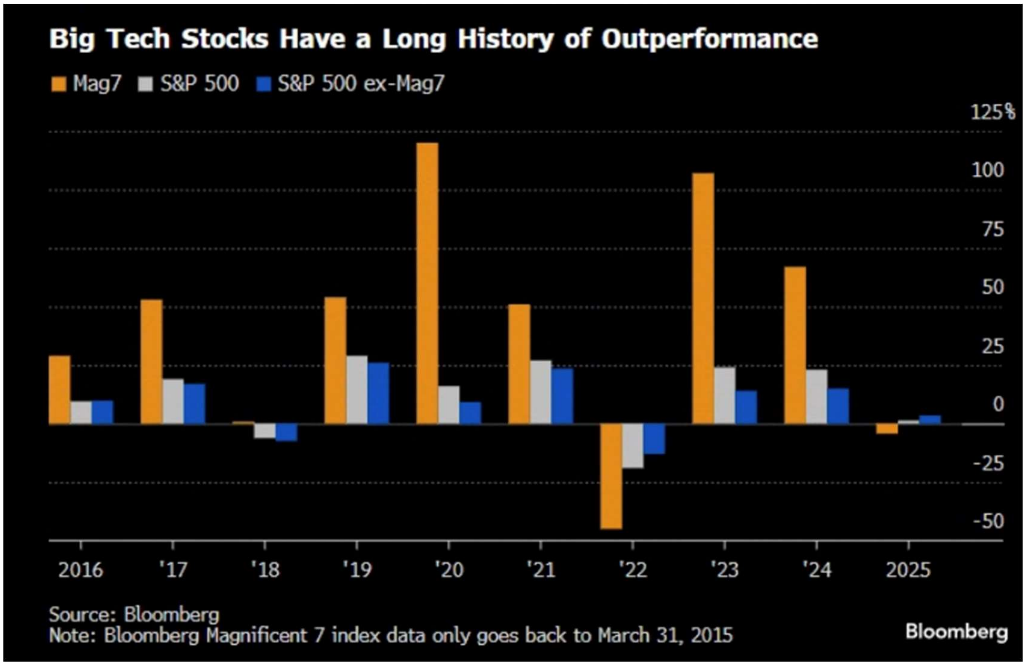
We disagree, and have already seen many practical examples of big gains in productivity in multiple industries:

- ServiceNow estimates that AI agents deployed in various parts of the business have bolstered worker productivity by 20%, resulting in USD 325M in annualized value.
- An MIT study of 2,310 marketing professionals found that individuals placed on teams with AI agents were 60% more productive.
- Progressive Insurance leverages AI for dynamic pricing, risk assessment, telematics programs, personalized audio ads and customer service enhancements. All this is driving meaningful value.
- AI is helping Amazon improve customer experience, drive innovation and optimise operations. Amazon expects to "significantly reduce" its massive workforce because of AI.

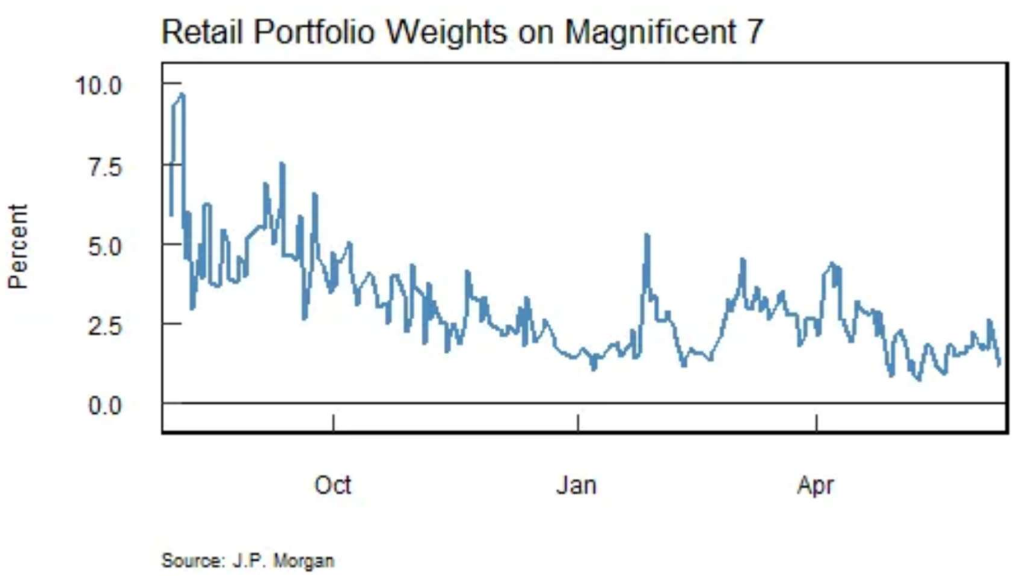
Practically, overall IT spending is expected to increase from about $5.3 trillion in 2025 to $8 trillion by 2030, for an (impressive) annual growth rate of 8%. This is multiple times larger than trend GDP growth. Still, this rate pales in comparison to AI data center spending which is expected to grow from $256B to $823B in the same time period, **for a hugely impressive annual growth of 26%!**

At Elgin, we are constantly analysing which companies will benefit from AI at a faster pace than their peers. You will not be surprised to know that most of the companies we like are already quite expensive valuation-wise, but we still believe they should easily outperform their "cheaper-seeming" peers in the medium and long term.

Even the Magnificent 7 (we are exposed to 6 of them) still have a long runway. They have proven time and again that they are winners, and we do not see any reason why that will change in the next few years:



Ironically, retail investors, who are now a big force in the markets, carrying almost as big a weighting as institutions, have recently joined the chorus of doubters, and remain relatively under-exposed to the Mag 7:

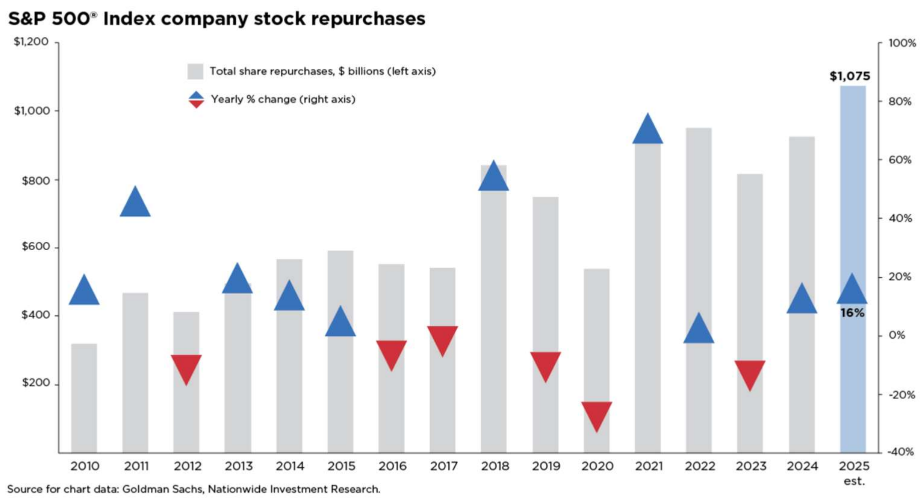


Investors should think twice before being underweight tech at their own risk…

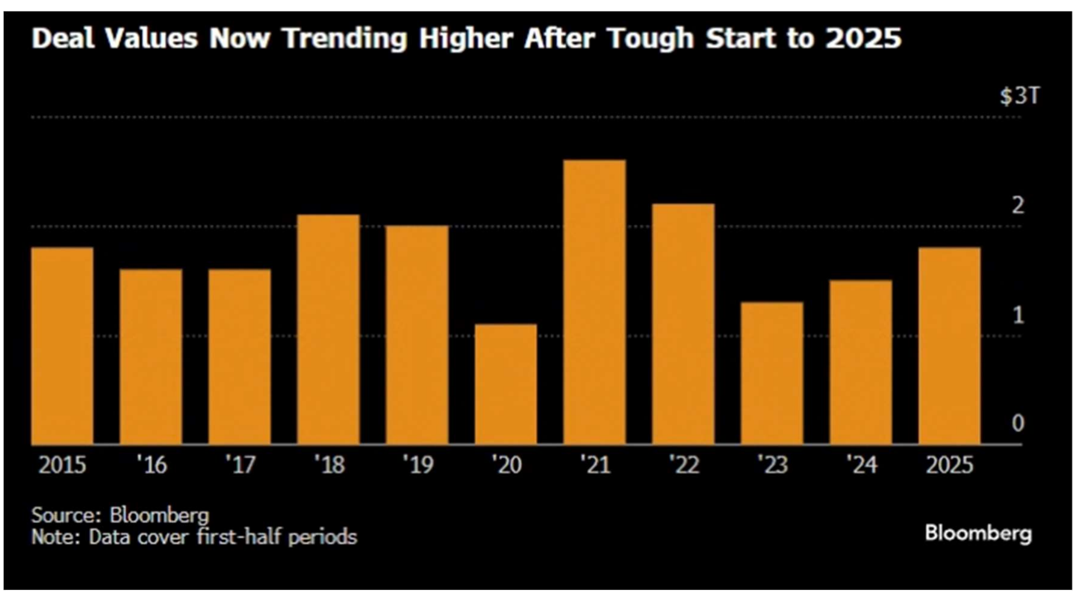
More reasons to be bullish long-term

Markets have recovered significantly since the April lows, reaching new highs. This has led to multiple financial commentators and analysts to sound the alarm that the rally is unsustainable due to the host of serious issues that will pose tailwinds to the markets. We do not necessarily disagree, as anything may happen short term. Yet, some developments, illustrated quite graphically below, point to medium and long-term continuing strength.

For one, buybacks, by which corporations buy back their own stock, are on pace for a record year:



Another noteworthy development is how mergers and acquisitions (M&A) have bounced back from a slow start to the year, and are also on pace for a very strong year:



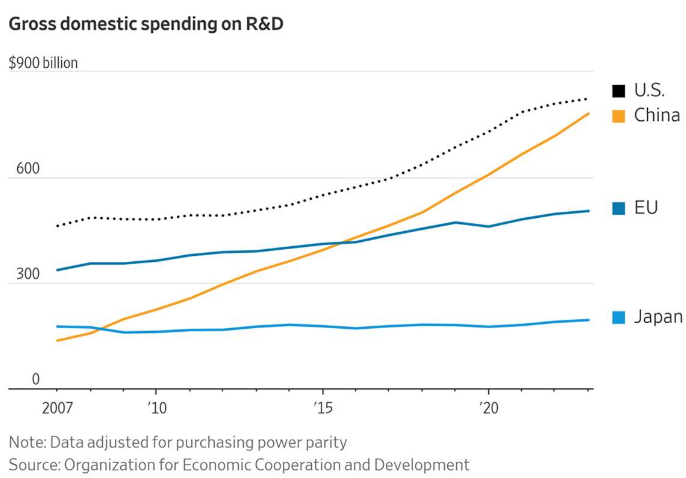
As for many investors proclaiming the "death of US exceptionalism", we differ. It might be slowing down, but it is still quite a bit more exceptional than other economies. Below is a statistic from Bloomberg that shows the return on equity of the large developed markets:

Developed Markets	2024-26 RoE %
DAX INDEX	10.0
NKY INDEX	10.0
SPTSX INDEX	11.6
SPX INDEX	18.7
CAC INDEX	11.4
UKX INDEX	13.0
SMI INDEX	19.0
AS51 INDEX	9.9
Median	11.5

Source: Bloomberg Intelligence

With the exception of Switzerland, which does indeed have very high productivity (but is however a small market), US markets have shown superior performance on return-on-equity.

Finally, even though R&D spending in China is catching up, the US is still the leader:

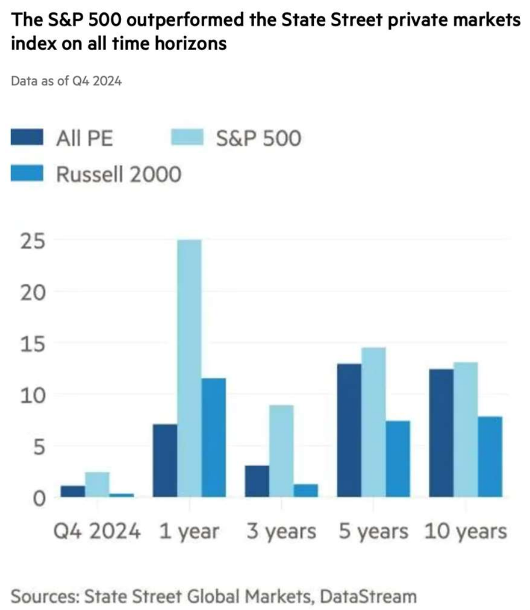


All of the above give us comfort that the US markets are still poised to lead.

Private vs public markets

It is a widely accepted that private markets have outperformed public markets for a very long time. With retail investors being mostly unable to access private markets, institutions have benefitted from this exposure, and portfolios of many endowments, pension funds and family offices have large exposure to private markets.

Yet, a recent study by State Street seems to challenge this belief:



You may draw your own conclusions.

The Elgin Analysts Team

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