Garry White, Chief Investment Commentator, Charles Stanley

Market Snapshot

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The S&P 500 and Nasdaq Composite indexes both hit fresh record highs, as a delicate ceasefire between Israel and Iran seemed to be holding and optimism around the forthcoming trade agreements with the US mounted. UK bond yields spiked sharply before easing back as Labour scaled back key welfare reforms that were expected to save £4.8bn. Investors interpreted the U-turn as a sign that the government may struggle to meet its fiscal rules without resorting to higher borrowing or tax hikes.

US President Donald Trump will hold a signing ceremony at the White House on Friday – Independence Day – for his sweeping "Big Beautiful Bill". The president's flagship tax and spending bill passed both houses of Congress this week by narrow margins. "I think I have more power now, I do," Trump said on Thursday evening.

The FTSE 100 was -0.1% over the week by mid-session on Friday, with the more UK-focused FTSE 250 trading 0.8%.

UK bond yields

UK bond yields spiked sharply, with 10-year gilt yields jumping as much as 22 basis points to 4.68% – the steepest one-day rise since the 2022 mini-budget crisis when Liz Truss was prime minister. The cause was market anxiety over Chancellor Rachel Reeves' fiscal credibility and political standing. The selloff was triggered by a dramatic moment in parliament, where Ms Reeves appeared visibly distressed during Prime Minister's Questions, just as Labour scaled back key welfare reforms that were expected to save £4.8bn. Investors interpreted the U-turn as a sign that the government may struggle to meet its fiscal rules without resorting to higher borrowing or tax hikes, reigniting fears of "fiscal slippage". Speculation over Ms Reeves' future intensified after Prime Minister Keir Starmer declined to confirm her job security, further rattling markets. Sir Keir then reversed course, supporting Ms Reeves and reassuring markets that wanted to see the fiscal rules maintained.

Morgan Stanley economist Bruna Skarica thinks the UK government is more likely to raise taxes in the autumn budget than attempt spending cuts. Mr Skarica wrote that the UK could potentially face a £30bn miss versus their fiscal framework in the autumn – £1bn from U-turning on winter fuel payments, £5bn from the delay to welfare reform, plus a potential £20bn hit if the Office for Budget Responsibility lowers its growth forecasts. The government is now faced with three choices:

- Find alternative spending cuts.
- Raise taxes.
- Alter the fiscal rules.

The rising risks of altering the fiscal rules is what drove the adverse market action on Wednesday. Bond market participants were worried the prospect of Reeves' departure had raised the spectre that the government's fiscal rules could be ditched in favour of higher borrowing. It is looking more and more likely that tax rises will be introduced in the autumn Budget, scheduled for 30 October.

Donald Trump

US President Donald Trump will hold a signing ceremony at the White House on Friday for his sweeping "Big Beautiful Bill". The president's flagship tax and spending bill, a sweeping overhaul of US tax, healthcare, immigration, and energy policy, passed narrowly in both chambers of Congress. Vice President JD Vance cast the tie-breaking Senate vote for the nearly 900 pages of legislation, which delivers $4.5 trillion in tax cuts, including permanent extensions of Trump's 2017 tax reforms and new deductions aimed at middle-income families. The bill also imposes strict work requirements and eligibility checks on Medicaid, potentially leaving nearly 12 million Americans without coverage. Immigration enforcement receives a $350 billion boost, while environmental regulations face significant rollbacks. Critics warn of deep social impacts and ballooning deficits, but Trump hailed the bill as a cornerstone of his second-term agenda, calling it "the most beautiful law America's ever seen". The legislation is seen as Trump's signature legislative achievement of his second term, though critics warn it could add over $3 trillion to the deficit over the next decade.

Mr Trump's hardline negotiating tactics appear to be bearing fruit. Canada officially withdrew its planned 3% digital services tax on major US technology companies just hours before it was set to take effect, in a strategic move to restart stalled trade negotiations with the US. The tax, introduced in 2020 as a stopgap while awaiting a global digital tax framework, had become a flashpoint in bilateral relations, prompting the US to suspend trade talks. Prime Minister Mark Carney and Finance Minister François-Philippe Champagne announced the repeal to pave the way for a new economic and security agreement, with a target deadline of 21 July.

This agreement with Canada came just days before a 9 July deadline, when President Trump's 90-day pause on sweeping reciprocal tariffs is set to expire and potentially trigger a new wave of global trade disruption. Mr Trump has imposed a baseline 10% tariff on nearly all imports and threatened to reinstate tariffs as high as 50% on countries that fail to strike bilateral deals.

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A surprise trade deal with Vietnam was unveiled by Mr Trump, which granted the US zero-tariff access to Vietnamese markets in exchange for steep 20% tariffs on Vietnamese imports and 40% on trans-shipped goods. So far, only two trade deals have been signed – this one with Vietnam and the other with the United Kingdom (UK). Talks with South Korea, the European Union (EU), and Canada remain unresolved. However, White House officials have suggested the deadline could pass without tariffs being imposed, at least for some countries. Trade issues could be "wrapped up by Labor Day," Treasury Secretary Scott Bessent said in an interview. He had previously said the US would postpone the deadline for countries negotiating in good faith while talks continued.

Japan has been targeted by President Trump ahead of the tariff deadline, as he threatened to impose tariffs of up to 35% on the country's US imports if a bilateral trade deal is not reached. The proposed tariffs – significantly higher than the 24% rate initially floated in April – target key sectors including autos, a cornerstone of Japan's economy. Mr Trump publicly criticised Japan for its "unfair" trade practices – particularly its reluctance to import US rice – and accused Tokyo of being "spoiled" in its trade relationship with Washington. Japan, which has so far taken a firm but diplomatic stance, insists that any deal must eliminate both reciprocal and sector-specific tariffs, including those on steel and aluminium. With Prime Minister Shigeru Ishiba facing a domestic election later this month, Tokyo is under pressure to avoid a bad deal, even as markets brace for potential fallout if talks collapse.

The US and China reached a pivotal agreement to ease restrictions on rare earth metals – a breakthrough aimed at stabilising strained trade relations and safeguarding critical supply chains. Under the deal, China will accelerate approvals for rare earth export licenses – particularly for magnets essential to defence, electric vehicles, and technology manufacturing - while the US will roll back a series of restrictive measures, including technology sanctions and visa revocations. The agreement builds on the Geneva and London trade frameworks. With China controlling more than 80% of global rare earth production, the pact is seen as a strategic win for both sides, reducing the risk of supply shocks and is a rare example of cooperation amid the broader geopolitical rivalry between Washington and Beijing.

Economics

The Bank of England's Alan Taylor called for three more interest rate cuts this year, warning that the UK's soft landing was now at risk. Mr Taylor is one of the Monetary Policy Committee's (MPC's) most dovish members. The UK central bank has so far cut rates twice this year, by 25 basis points in both February and May, to 4.25%. Mr Taylor backed the February reduction but wanted a bigger 50bp cut in May and a 25bp cut in June. The MPC opted to leave rates on hold last month in response to a spike in inflation to 3.4%.

Nevertheless, there was some good news for the UK economy. The UK service sector rebounded modestly in June, a highly regarded survey showed, boosted by a pick-up in consumer and business sentiment. The final S&P Global UK services PMI business activity index was 52.8, up from 50.9 in May and the highest since August. It was also ahead of the preliminary print of 51.3. A reading below the neutral 50.0 benchmark indicates contraction, while one above it suggests growth. The downturn in UK manufacturing eased slightly in June as rates of decline in output, new orders and employment all slowed, while business optimism rose. The UK manufacturing purchasing managers' index increased to 47.7 last month, in line with the flash reading released a week earlier and the highest print in five months. As a result, the UK PMI composite output index rose nearly two points, to 52.0 from 50.3 in May. The composite index is a weighted average of the manufacturing output index and services business activity index.

US non-farm payrolls rose by 147,000 in June, surpassing expectations and indicating continued resilience in the labour market despite broader economic uncertainties. The unemployment rate held steady at 4.1%, while government hiring – particularly in state and local education – led job gains with 73,000 new positions. However, the labour force participation rate dipped to 62.3%, the lowest since 2022, as more Americans exited the workforce. The stronger-than-expected job growth looks likely to have taken a July rate cut off the table, as markets interpreted the data as a sign of economic stability that doesn't warrant immediate monetary easing.

Geopolitics

The 2025 Paris Artificial Intelligence (AI) Action Summit concluded with a series of landmark initiatives aimed at shaping the global future of AI through ethical governance, sustainability, and international cooperation. Attended by leaders from nearly 100 countries, the summit produced the Joint Declaration on Inclusive and Sustainable AI, which was signed by 58 nations. These included India, China, and the EU – though notably not the US or UK – committing to human-centric AI development that protects rights and reduces inequality. A major highlight was the launch of Current AI, a $400m public-interest AI initiative backed by the French government and tech leaders such as Google and Salesforce, focused on open, transparent, and socially beneficial AI systems. The summit also unveiled the first International AI Safety Report, a scientific assessment of general-purpose AI risks and capabilities, and introduced a new environmental coalition to address AI's carbon footprint. These outcomes reflect a growing global consensus on the need for inclusive, accountable AI governance, although geopolitical divides remain evident in the differing levels of regulatory enthusiasm.

Ukraine's air force said Russia launched 550 drones and missiles at the country overnight, the largest attack of the war so far. It comes as Donald Trump said he's disappointed in Russia president Vladimir Putin after a lengthy call. Mr Trump said that a phone call with President Putin of Russia had not resulted in any movement towards? ending the war in Ukraine, adding that he was “not happy” with the conflict grinding on. “I didn't make any progress with him at all,” Mr Trump told reporters.

Companies

J Sainsbury delivered a robust first-quarter performance, with total retail sales (excluding fuel) up 4.9% and grocery sales rising 5% year-on-year for the 16 weeks to 21 June. The supermarket achieved its highest market share since 2016, driven by strong momentum in food, improved pricing against competitors, and the expansion of its Aldi Price Match to 800 products. Its premium "Taste the Difference" range saw fresh food sales jump 20%, buoyed by warm spring weather and new seasonal offerings. Chief executive Simon Roberts highlighted continued customer growth and reaffirmed full-year guidance, targeting around £1bn in retail operating profit and more than £500m in free cash flow, with profit delivery expected to be weighted towards the second half of the year.

High street baker **Greggs** warned that its full-year operating profit is likely to fall slightly below 2024 levels after an unseasonably hot June dented footfall and demand for its core hot food offerings. Despite a 6.9% rise in total sales to £1.3bn in the first half of 2025 and a 2.6% increase in like-for-like sales, the bakery chain saw momentum stall last month as the UK experienced its second-hottest June on record. The heatwave led to a drop in customer visits, particularly affecting sales of hot bakes, even as cold drink sales rose.

Currys reported a strong performance in its latest trading update, with adjusted pre-tax profits rising more than 35% to about £162m, driven by a 2% increase in like-for-like sales for the year to April. The retailer confirmed plans to resume dividend payments, reflecting growing confidence in its financial position. This comes after Currys rebuffed a takeover bid from activist investor Elliott earlier in the year, with its shares now trading well above the rejected offer price. The company's turnaround strategy, focused on cost control and digital transformation, appears to be gaining traction as it navigates a competitive retail landscape.

Topps Tiles reported strong third-quarter momentum, with group adjusted sales up 10.1% year-on-year for the 39 weeks to 28 June, accelerating from 4.1% growth in the first half. Like-for-like sales in its core Topps Tiles brand rose 7.3% in the third quarter, driven by a 12% increase in active trade customers and rising online sales, which now account for 21.9% of adjusted revenue. Despite a challenging cost environment due to higher National Insurance and Living Wage rates, the company expects operating costs to grow more slowly than gross profits, supported by improving margins.