ISSUE 45 — THIRD QUARTER 2025

INVESTMENT INSIGHTS

RESHAPING THE WORLD THROUGH US TARIFFS

Rising trade barriers signal a turning point in US policy, with significant consequences for global growth, inflation and investor positioning

RATHBONES

FOREWORD

Welcome to the latest edition of *Investment Insights*. This quarter, we focus on one of the most significant developments for global markets in recent years: the abrupt return of tariffs to the heart of US policy. The new wave of trade barriers marks a break from decades of globalisation and raises many important questions for investors.

We begin on page 4 with a historical perspective on tariffs, drawing parallels between today's policy shift and previous protectionist episodes in US history. While the full impact is still unfolding, we explore how this new direction could affect growth, inflation and company earnings, and what it means for asset allocation.

On page 6, we consider the potential limits to presidential power. Legal challenges, financial markets and Congress may yet constrain Trump's tariff agenda. Understanding where these checks might come from, and how markets could respond, is crucial in managing risk during this period of rapidly shifting policy.

Meanwhile, page 8 takes a closer look at the fast-evolving world of cybersecurity. With digital threats escalating and spending on protection surging, we highlight the investment opportunities emerging in this critical sector.

The focus shifts to currency on page 10, where we examine whether the US dollar's long-standing role as a global haven is under threat. Despite short-term fluctuations and political shocks, we explain why we expect the dollar to remain central to the world's financial system and how that matters for portfolio positioning.

To close, page 12 explores how insights from behavioural science are helping us refine our investment process. By recognising common decision-making pitfalls and building in defences against them, we aim to strengthen our ability to navigate uncertainty with greater discipline and clarity.

We hope you enjoy this quarter's edition. As ever, please don't hesitate to get in touch with your usual Rathbones contact if you'd like to discuss any of the themes in more detail.

E. Savage.

Liz Savage and Ed Smith
Co-chief investment officers

A brief history of tariffs

THE INVESTMENT IMPLICATIONS OF A MORE PROTECTIONIST WORLD

Over the course of economic history, free trade has been more the exception than the rule. Though they have come back with a vengeance this year, tariffs on trade are nothing new. This sudden rise in tariffs does have important implications for our clients' global portfolios, but a bit of historical context can help us filter out the myriad of headlines predicting doom for investors.

Tariffs go back a long way. They were a relatively straightforward way for governments to raise revenues, compared to the complex and difficult task of tracking sales or incomes on a large scale for tax purposes. For centuries, protectionist tariffs have shielded domestic producers from foreign competition.

The concept of free trade stretches back at least to the publication in 1776 of *The Wealth of Nations* by Adam Smith, a Scot seen by many as the 'father' of economics and capitalism. Free trade was at its most widespread during the recent decades of globalisation. That's unravelled since the 2018 US-China trade war initiated during President Trump's first term. Very slowly at first – imports were largely rerouted rather than reshored – but rather more quickly lately. Figure 1 shows how – before the big increases in Trump's second term – US tariff rates since the 1980s had been exceptionally low by historical standards.

The Trump tariffs have been compared to two periods in US history in particular when protectionist tariffs were substantially increased. The first came in the late 19th century under President William McKinley. The second was the arrival of Smoot-Hawley Tariffs of the 1930s, during the Great Depression. In both cases, they relied on Acts of Congress, as opposed to executive orders made by the President.

The McKinley Tariff Act of 1890 increased tariffs across a wide range of goods. Trump seems to have drawn inspiration from McKinley's example, calling the late 19th to early 20th century a time when "we were at our richest… when we were a tariff country." America's rapid expansion into a major industrial power did coincide with a period of high protectionist tariffs, both before and after McKinley (figure 1). But most economic historians believe that America's rapid economic growth in the late 19th to early 20th centuries owes more to its openness to people and ideas, combined with its abundance of resources and its sheer size, than to tariffs.

The Smoot–Hawley Tariff Act, which takes its name from its sponsors, Republican Senators Reed Smoot and Willis Hawley, increased already high US tariff rates in an attempt to protect US farmers and businesses. This was in response to the aftermath of the stock market crash of 1929. Following Liberation Day on 2 April, lots of commentators invoked the Smoot–Hawley tariffs as a precedent for today. But those tariffs occurred during arguably the greatest banking crisis the world has ever seen. Ultimately, the evidence is quite clear: the Smoot–Hawley tariffs didn't cause the Great Depression, they simply made it a little bit worse.

What about today?

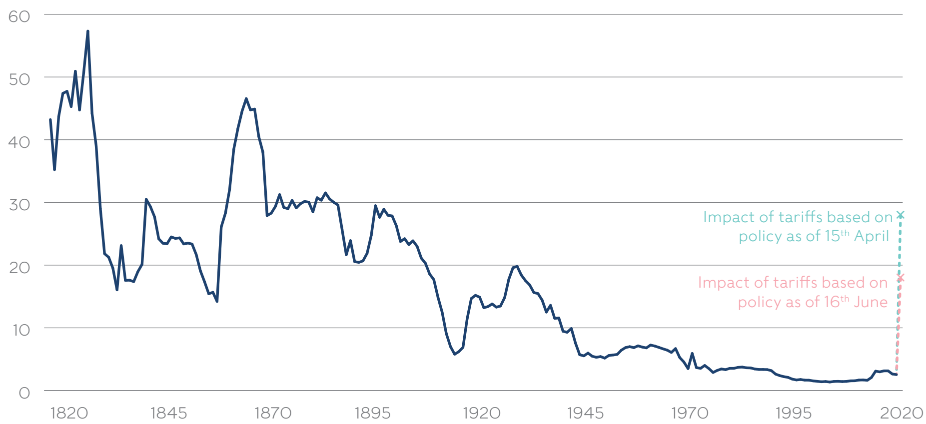
Whether or not the new US tariffs will remain in force for a sustained length of time – and at what rates – is still anyone's guess. The most important thing to emphasise is that we are operating under extreme uncertainty, which is unlikely to go away after the 8 July deadline for President Trump's tariff pause.

Even if we had certainty on tariff rates, estimating the *effective* US tariff rate – the average rate on the average US goods import – is not an exact science. Apart from the on-again, off-again nature of Trump's trade policy, it will depend on how the composition of trade changes and how other countries respond, among other things. The key takeaway is that unless there's a full U-turn on Trump's tariffs, we've witnessed a structural break in US trade policy. Figure 1 shows a range of possible outcomes, all of which would take tariffs to levels not seen since before the Second World War and equate to the sharpest increase in tariffs since the 1860s, when the government was raising money to fight the Civil War.

Above all, the tariffs are a tax hike. But like many taxes, the ultimate cost could be borne by several parties. Broadly speaking we see three groups: foreign exporters, US businesses and US consumers. In practice, whatever tariffs we end up with

Figure 1: US tariff rates through time (%)

Tariffs have surged under President Trump, reversing a long-term trend of trade liberalisation since the 1940s.
Source: LSEG, US Census Bureau, FRED Database, Rathbones



will probably result in some combination of costs for all three groups. But the share of the burden will vary for each impacted product and each bilateral trading relationship between the US and each country, depending on factors specific to each market. This makes the overall impact tough to forecast.

US growth to take a hit

There's a strong consensus that the increase in tariffs will hit US GDP growth in the near term, but the magnitude is highly uncertain. Tariffs will reduce real (inflation-adjusted) incomes and profits, and therefore real spending. US exports may weaken as other countries retaliate. Costly reconfiguring of supply chains will likely be required. There may be some offsetting shift from imports to domestic production, but this effect is expected to be limited and will take time to play out.

The uncertainty created could also take a toll on investment, as we saw in the UK during the years it took to settle trade relations with the EU after the 2016 vote to leave. Surveys of firms' investment intentions in the US fell sharply after Trump's 2 April announcement (figure 2), although it's encouraging that they have recovered somewhat as the most extreme initial tariff proposals have been ruled out.

Tariffs aren't the only factor at play either. The overall trajectory of the US economy will also depend heavily on the final shape of the Republicans' budget bill currently in Congress. While tariffs effectively represent a tax increase, the budget contains some significant offsetting tax cuts. These would extend and expand measures first passed under Trump in 2017, fulfilling campaign pledges to exempt qualifying tips and overtime pay from tax, and introducing more favourable treatment of certain types of business investment.

This will hurt the US more than it hurts us

Regardless of where tariffs end up, they have introduced extra uncertainty about the outlook for US economic growth and company earnings. Greater economic certainty was one of the factors which made US equities 'exceptional' over the last few years. At the margin, trade policy makes us hold less US equity than would otherwise be the case. But they're still an important part of our portfolios. That's because the US remains home to an outsized proportion of global sector leaders — firms that are consistently highly profitable, invest efficiently and have very strong balance sheets. These characteristics help firms weather volatility, and they are associated with strong long-term performance.

Market moves since the reciprocal tariffs were announced demonstrate the dangers for investors of relying on long-dated bonds as shock absorbers when equity markets sell off. Tariffs that are currently in place will still be inflationary, and the escalation in the tariff war between the US and China raises the risk that global economic fracturing continues, adding a structural source of upward pressure on inflation. That's why we favour shorter-dated bonds, which are less sensitive to this risk.

We also think funds that specialise in producing positive returns through all market conditions, such as so-called trend-following and macro funds, are well suited to this period of higher uncertainty and volatility. Indices tracking these strategies have historically performed well during periods of elevated uncertainty and economic turbulence. Since continued uncertainty seems to be one of the most reasonable assumptions to make about the future of Trump policy, these strategies could prove to be useful diversifiers.

In some important ways, President Trump's second term is reinforcing structural shifts in the global economy and markets that were already underway. Shifts that we believe will take us back to something like the more volatile 'norm' that existed before the era of rock-bottom inflation and interest rates ushered in by the 2008 Global Financial Crisis.

You can read more about how we're approaching these structural shifts in our report on *Investing for the Next Decade* at www.rathbones.com/investment-management/investing-for-the-next-decade

Figure 2: US investment intentions under pressure

This chart shows the average of five regional US capital expenditure intentions surveys. The net percentage of firms planning to increase capital spending fell sharply after the 2 April tariff shock, though some recovery has followed.
Source: LSEG, Rathbones

US INSTITUTIONS AND MARKETS MIGHT REIN IN TRUMP'S TARIFFS

The wave of tariffs that Donald Trump imposed on his self-proclaimed 2 April 'Liberation Day' sowed confusion in global trade and came as a shock to the world's financial markets. A series of other tariff announcements both preceded and followed it.

How, some people have asked, was all this allowed to happen? And will it be stopped before more lasting damage is done? The answer to the first question is relatively simple, at least at first glance. The US Constitution delegates taxing power to Congress, but Congress has in turn delegated some of this authority back to the executive branch.

For the broad range of tariffs announced – albeit in many cases paused – since April, Trump has relied on the International Emergency Economic Powers Act of 1977. This legislation enables the President to take executive action in the face of an "unusual and extraordinary threat".

Presidents have used these powers repeatedly over the past 50 years, but typically to penalise hostile regimes. Jimmy Carter sanctioned Iran after the 1979 revolution and the taking of American hostages. Barack Obama sanctioned Libya and Gaddafi's regime in 2011. Joe Biden imposed sanctions on Putin and his oligarchs following the full-scale invasion of Ukraine. Trump, by contrast, has used these powers to pursue broader economic policy goals. So, what can be done about it?

Legal challenges and market pressure

One possible check is legal. Several cases are already under way, with plaintiffs arguing that Trump fabricated an economic emergency to activate his delegated powers, then exceeded his authority in imposing tariffs.

In the first ruling to emerge, a US trade court found that he had overstepped his legal bounds on most of the tariffs. The White House immediately appealed, so the case now looks set to reach the Supreme Court. In the meantime, the tariffs will remain in force.

Recent Supreme Court rulings (with six Republican-appointed justices out of nine) have often found that executive agencies overreached their powers without clear congressional backing. Republicans have generally welcomed these decisions. It remains to be seen whether the Court will take a consistent view when the case concerns the President himself.

Another constraint could come from financial markets. While the US remains the world's dominant economy, recent behaviour in the government bond market suggests growing unease (figure 3 shows the spike in 10-year US Treasury yields following Liberation Day). Historically, when share prices fall, money tends to flow into US Treasuries, driving up prices and pushing down yields. However, in the initial reaction to Liberation Day investors sold both US shares and government bonds.

Several factors are at play, but rising Treasury yields create problems for the administration. The US is projected to run a federal deficit of $1.9trn in the 2025 fiscal year. Higher yields increase the cost of servicing that debt. Treasury Secretary Scott Bessent has repeatedly emphasised the administration's desire to bring yields down, highlighting how closely policy is now tied to market sentiment.

Political routes and obstacles

A third potential check lies in Congress. In April, four Republican senators joined the Democrats in passing a non-binding Senate resolution aimed at reversing Trump's tariffs on Canadian goods. The Republican-led House of Representatives was never expected to take it up, and wider bipartisan opposition to the tariffs remains unlikely for now.

This political picture could shift. The 2026 midterm elections are just 18 months away, and Republican lawmakers could face a backlash if voters associate them with rising prices. Although the Democrats are unlikely to retake the Senate – with only Maine and North Carolina offering possible pick-ups – current polling suggests they may reclaim the House.

Ultimately, none of these mechanisms may prove effective in restraining the President's tariff agenda. So far, the bond market has been the most powerful source of pressure. Once the current 90-day 'pause' expires, Trump may simply declare victory and announce a string of new trade deals. Whether those agreements contain real substance remains to be seen. Based on the UK's experience, a minimum universal tariff of 10% could remain in place until a future administration decides to reverse it.

For more on what increased tariffs could mean for your investments, see our lead article on pages 4 and 5.

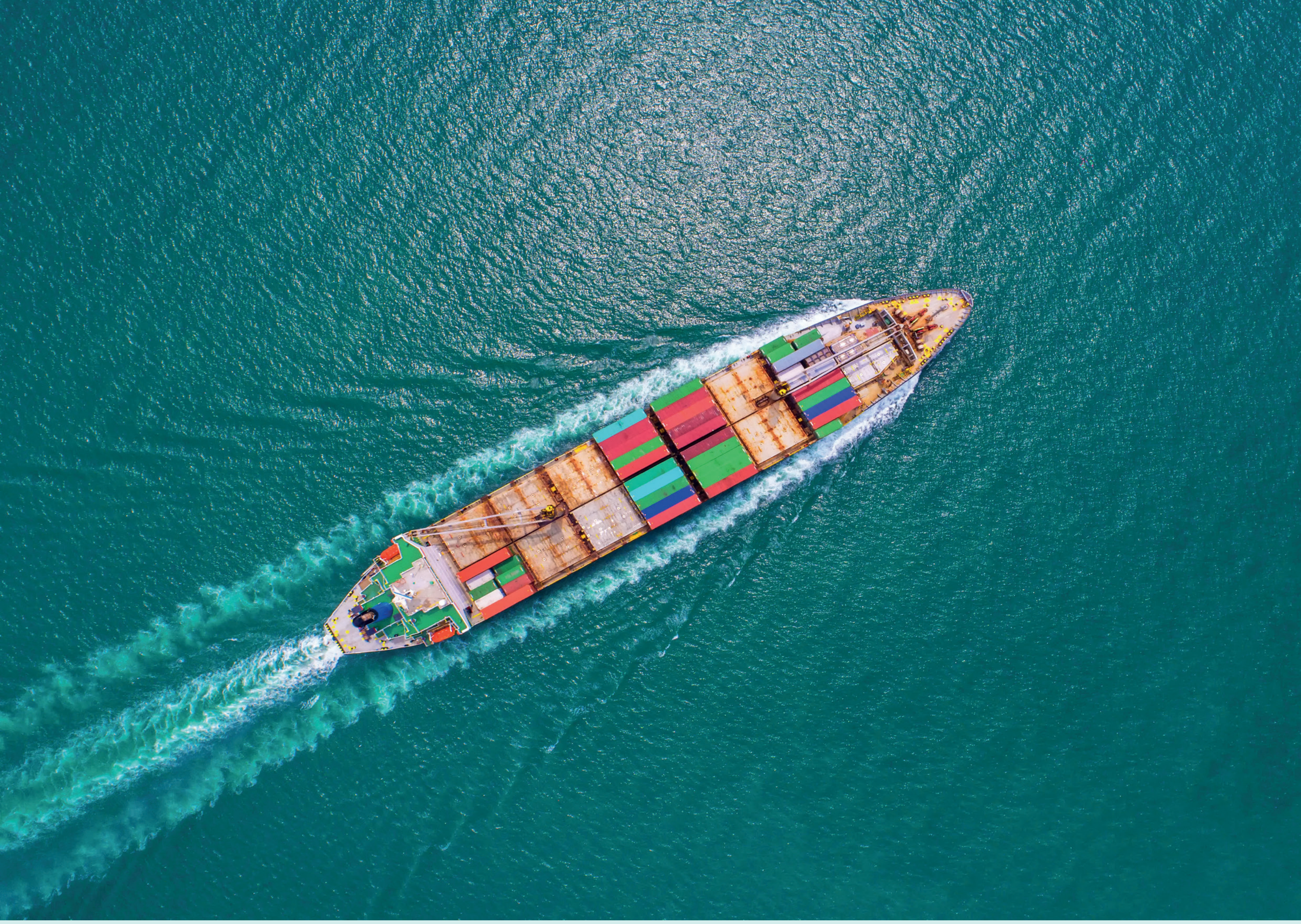
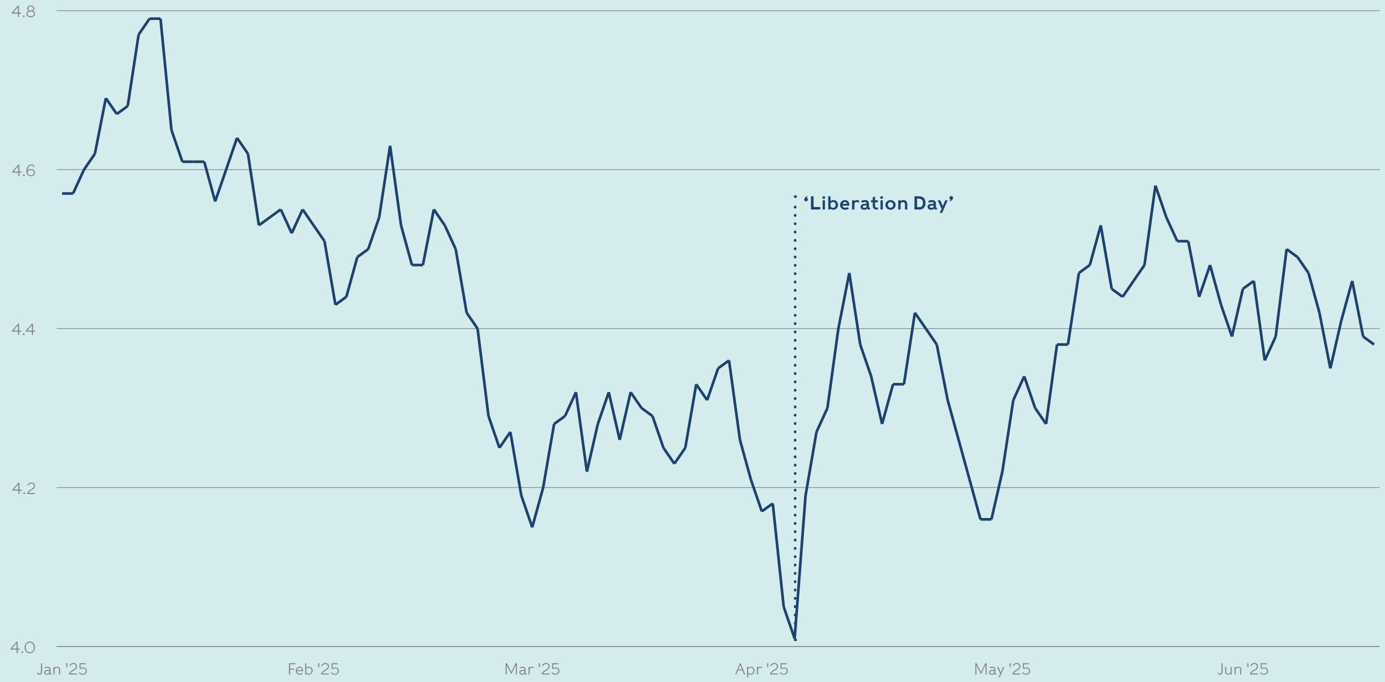


Figure 3: Moving higher again
10 -year US Treasury yields have risen following President Trump's Liberation Day on 2 April.
Source: Factset, Rathbones



WHY IT MAKES SENSE TO INVEST IN THE CYBER COPS

You know the war against cyber criminals has become serious when even the companies hired to prevent attacks are being hacked. In the ultimate embarrassment, Okta, a company that helps other businesses control who can access their systems, admitted to its own breach in 2023.

On 23 April 2025, it was the turn of the well-known British retailer Marks & Spencer. A cyberattack left its food shelves sparsely stocked and customers unable to order their summer clothing online. It also wiped £500mn off the company's market capitalisation.

Breaches because of cyberattacks – unauthorised actions against computer systems that compromise the confidentiality, integrity or availability of their content – are becoming more frequent, complex and costly. The average total cost of a data breach worldwide rose to $4.9mn in 2024, up from $3.9mn in 2018, according to a survey of more than 600 organisations by tech firm IBM and the Ponemon Institute, a think tank specialising in information security and privacy (figure 4). But even that high average hides the cost of some individual attacks. For example, the 2024 WannaCry ransomware attack on US healthcare company UnitedHealth cost it $3bn.

A key driver of cyberattacks is growing digitisation. This trend includes more remote working and the proliferation of the 'internet of things' – networks of physical objects embedded with technology that allows them to connect and exchange data online. This has created new avenues of attack for cyber criminals.

Generative artificial intelligence (AI) – software that can create text, images and computer code at a level comparable to humans – is also contributing to the rise in large-scale cyberattacks. Gartner, a research and consulting firm, predicts that by 2027, 17% of total cyberattacks and data leaks will involve generative AI.

The cybersecurity industry grows

The rising frequency and severity of cyberattacks is fuelling growth in cybersecurity: the products and services that protect individuals, companies and governments from having their data, systems and intellectual property stolen or compromised. Gartner expects the global cybersecurity market to grow from $168bn in 2023 to $304bn by 2028.

Software plays a key role. At the moment, just 2% of total IT spending is on cybersecurity software, but that proportion is expected to rise. Many companies are redeploying savings from shifting their IT infrastructure to the cloud – a network of remote servers accessed over the internet – to strengthen their cyber defences. We expect this to trigger a shift within total cybersecurity spending towards automated, cloud-based solutions.

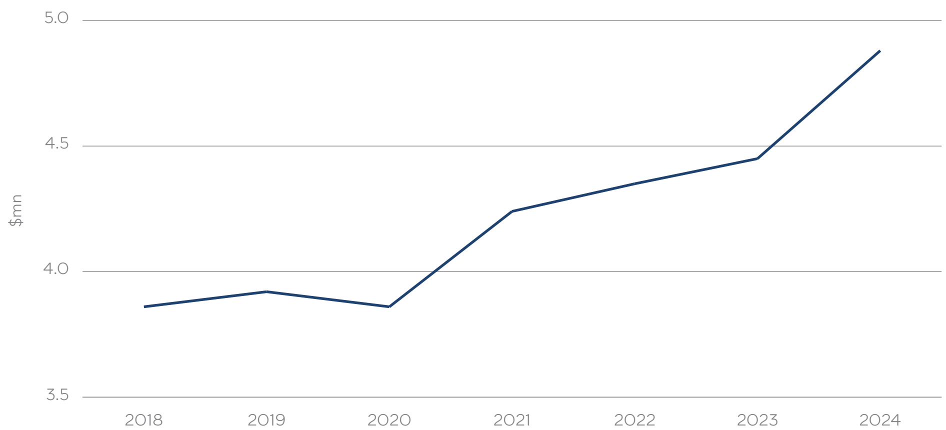
Cybersecurity is now a top priority for organisations, particularly those that manage large volumes of sensitive data. That makes banks, credit bureaux, payment providers and healthcare companies especially vulnerable. At the most diligent firms, cybersecurity is a board-level agenda item at every meeting.

How to invest

As investors, we believe it's impossible to predict which companies will be targeted. Instead, we seek to protect portfolios by investing in leading cybersecurity companies. While attacks remain a constant threat to businesses – including those we invest in – the other side of the coin is that cybersecurity providers can grow as demand for protection increases.

One of the great attractions of this theme is that cybersecurity spending is among the most non-discretionary business costs – it can't be delayed just because of a downturn. This was particularly evident during the economic weakness of 2022 and the tariff turbulence of early 2025. These periods confirmed our

Figure 4: Cyberattacks are getting costlier
The global average total cost of a data breach has been increasing steadily over the past few years.
Source: IBM and Ponemon Institute



belief that cybersecurity is one of the last expenses companies are willing to cut. This makes revenues resilient.

How can investors access the opportunities?
By our definition, there are seven publicly traded 'pure play' cybersecurity companies worth over $10bn – firms whose sole focus is cybersecurity.

However, there are many indirect ways to gain exposure too. For instance, insurers offer cybersecurity indemnity. Major tech firms like Microsoft, Broadcom and Cisco each generate around 5% to 10% of their revenues from cybersecurity solutions. Consultancies such as Accenture and Booz Allen Hamilton earn between 15% and 25% of their revenues from cybersecurity-related services.

There are also large and growing private companies, well backed by venture capital. A notable example is Israel's Wiz, a cloud security specialist acquired by Alphabet for $32bn in March 2025.

Different specialisms
The pure play vendors tend to focus on different segments of the market, such as network security, endpoint security and identity access management (figure 5). Network security uses firewalls that scan internet traffic flowing in and out of a company's systems; in a way, they're like airport metal detectors. Traditional firewalls are hardware devices connected to servers, but software-based versions are now common too. The market is worth $38bn, accounting for 35-40% of total cybersecurity spending, and is growing by low to mid-teens percentages annually.

Endpoint security – worth around $26bn or 25% of the total market – protects the data and workflows of individual devices such as desktops, laptops and mobile phones. It's expanding at a similar pace.

Identity access management (IAM) is valued at $18bn, or about 15% of the market, with growth of roughly 12% a year. IAM tools ensure that only authorised users can access digital resources, which is critical given that half of external breaches are caused by stolen credentials.

Platformisation, please
Market leadership in cybersecurity changes quickly as new technologies emerge. It's also a fragmented market: many companies use well above ten different vendors, creating unnecessary complexity and inefficiency.

This situation makes the case for 'platformisation' – the shift away from niche solutions towards integrated platforms that offer a connected suite of tools. By consolidating their vendors, companies can cut costs and reduce complexity. We also see value in consultancies that can implement whichever is currently the most advanced solution.

The growing threat of cyberattacks presents a compelling and durable investment opportunity. But navigating this fast-moving, fragmented market requires careful analysis. Technology evolves quickly, and leadership in the sector can shift overnight. That's why we believe it's important to identify the businesses best placed to deliver resilient growth, avoid those falling behind and ensure portfolios benefit from the rising demand for digital protection.

Figure 5: Where the money goes
This breakdown shows how global cyber-security spending is distributed across the key segments.
Source: Rathbones

Network security
35—40%
($38bn)
Protects systems by monitoring and filtering internet traffic

Endpoint security
25%
($26bn)
Secures individual devices like laptops and mobiles from threats

Identity access management
15%
($18bn)
Ensures only authorised users can access digital systems

Unfounded dollar doubts

WHY IT'S STILL THE WORLD'S DOMINANT CURRENCY

The US dollar's weakness this year, which worsened after President Trump's 2 April tariff surprise, has reopened a debate about whether its days as a safe haven for investors are coming to an end. This question is important for our clients as global investors, since a large share of global financial assets is denominated in dollars. Fortunately, we see good reason to remain confident that the dollar's leading position in global finance will survive US policy shocks under President Trump.

This confidence boils down to one key point, in our view: the dollar acts as a haven because of its entrenched status as the dominant currency used for funding international lending and trade. However, there are notable risks to this status in the future. Before we go any further, it's important to distinguish between the level of the dollar and its behaviour as a haven – a place of stability that investors turn to in times of market turmoil. This simply means that it typically rises in value when investors' appetite for risk is falling. It doesn't imply anything about whether the dollar is overvalued or undervalued against other currencies.

To illustrate this, the dollar retained its haven status – strengthening periodically when equities sold off – for years after the 1985 Plaza Accord, when major economies agreed to devalue the dollar against their own currencies. It did so during the next period of general dollar weakness in the mid-2000s as well.

When things go wrong, the dollar goes up
As figure 6 shows, most international debt securities, international loans, international banking claims, and global trade financing and invoicing are denominated in dollars. Trade and investment in other currencies are also routinely financed in dollars. As a result, when things go wrong in the global economy and firms or investors must meet their liabilities quickly, demand for dollars typically increases, regardless of the cause of the problem.

The global role of the dollar today is primarily a product of the liquidity (ease of buying and selling) and depth of US financial markets, rather than the economic weight of the US. This creates a self- reinforcing dynamic: high liquidity attracts more users, and more users increase liquidity – a virtuous circle that makes the dollar difficult to displace. It's striking that the dollar's share in the categories above has been virtually unchanged for decades, even though the US share of the global economy has been trending lower.

The dollar is also the world's primary reserve currency, accounting for 58% of global central bank reserves reported by the International Monetary Fund (based on reserves where data is available). However, it is the dollar's role as a global funding currency that sustains its use in official reserves, not the other way around.

The modern era of floating exchange rates began with the so-called 'Nixon shock' in 1971, against an eerily familiar backdrop of dollar overvaluation, trade protectionism and a desire to reduce military spending in Europe. As well as ending the dollar's convertibility to gold, US President Richard Nixon announced a 10% tariff on imports and controls on wages and prices – arguably a more radical policy package than Trump's. "Other countries don't like it. So what?" said then-Treasury Secretary John Connally.

The Nixon shock was widely criticised by economists, yet the dollar has retained its preeminent role in global funding markets – and continued to function as a haven – in the five decades since. The strength of the network effects underpinning its dominance has long been underestimated.

Threats to the dollar haven
The biggest dangers to the dollar's haven status are not events that are bad for the US economy or politics in general, but specific threats to its use as a funding and invoicing currency. In practice, this means anything that imperils either the liquidity of dollar funding markets or the reliability of dollar-denominated debt contracts. This could include capital controls or measures that undermine the Federal Reserve's ability to provide emergency dollar liquidity to markets outside the US.

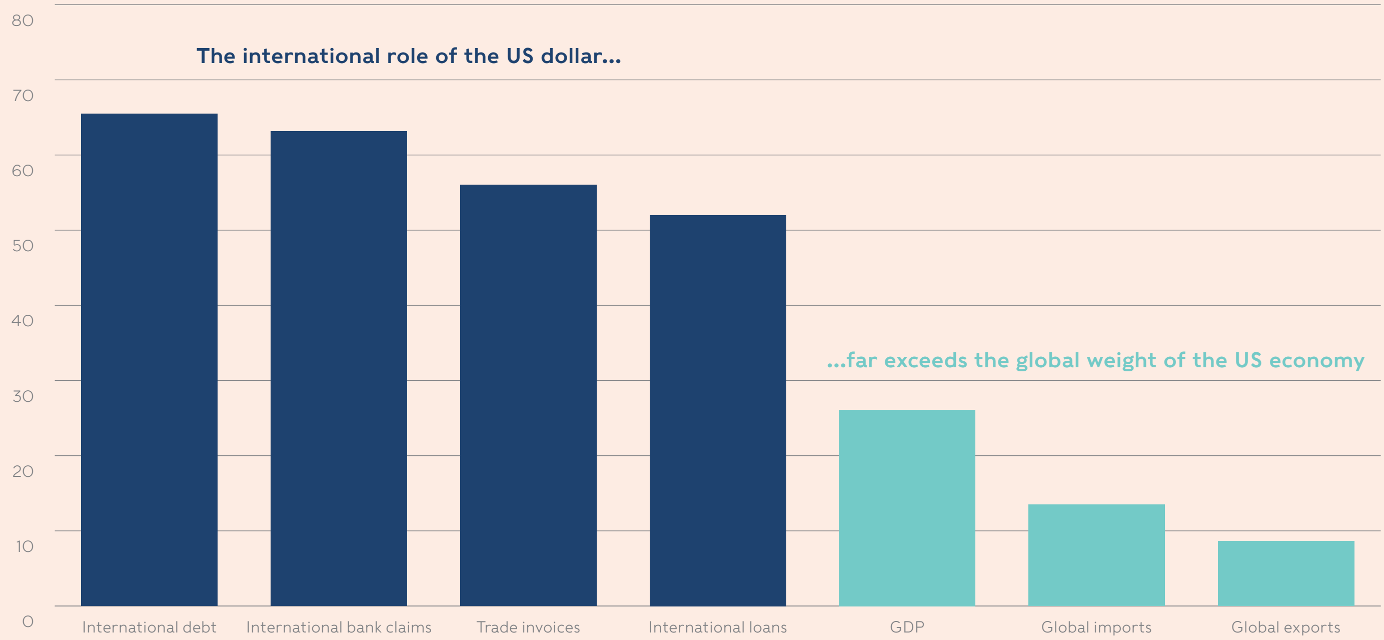
Potential withholding taxes were included in a section of the tax and spending bill now making its way through Congress. This could have marginally reduced foreign appetite for dollars, although this section has been withdrawn from the latest version of the bill.

In our judgement, it would take far more than US tariffs and erratic policymaking to undermine the dollar's role as a haven. Only very specific changes that directly damage the function and liquidity of dollar funding markets are likely to trigger such as shift. These changes still appear unlikely, so we continue to expect the dollar to behave as a haven in times of stock market turmoil.

For client portfolios, the dollar's haven status matters because it influences how different assets behave during periods of market stress. If the dollar continues to strengthen when risk aversion rises, it can provide a source of stability and diversification, particularly for global investors with exposure to dollar-denominated assets. Any sustained shift in the dollar's role would have broad implications for currency markets, bond yields and capital flows, all of which are key considerations when managing risk and seeking long-term returns.

Figure 6: Dollar dominance

This chart shows the share of the US dollar and US economy as a proportion of global totals. It highlights the dollar's outsized role in global finance.
Sources: BIS, Brookings, LSEG, Rathbones



HOW THE SCIENCE OF DECISION MAKING HELPS US INVEST BETTER

"To err is human", said the early Christian sage Saint Augustine, "but to persist in error is diabolical." More recently, modern-day psychologists have catalogued the flaws in human judgement that can cause us to err when investing.

We're hard-wired to take cognitive shortcuts that serve us poorly in complex environments, such as financial markets. For example, we tend to seek out only evidence confirming existing views – confirmation bias. We identify non-existent patterns or stories from random fluctuations – narrative fallacy. But fortunately, we need not persist in error. We can take practical steps to combat such biases. Inspired by the science of decision-making, Rathbones has built these steps into its investment process.

The psychology behind poor decisions

The study of how humans make sometimes flawed decisions has come a long way since the pioneering work of two psychologists, Nobel laureate Daniel Kahneman and Amos Tversky, some five decades ago. In that growing literature, six bad habits stand out. We've already described two. That leaves:

- Anchoring. The tendency to rely too heavily on the first piece of information we see.
- Base-rate neglect. Ignoring the general probability of a particular event (such as the chance of a recession in the next year, because recessions always happen from time to time) by overweighting the specifics of a particular situation. In other words, always thinking "this time is different."
- Scope insensitivity. Failing to adjust estimates or alter decisions adequately when quantities change. For example, if people think there's a one-in-ten chance of a particular market-moving event over the next year, they might not take account for the fact that over five years, the chance is five times greater.
- Lastly, and perhaps most pernicious of all, the foible of overconfidence.

> **Good decisions start with recognising the behavioural habits that can lead us astray — and putting a disciplined, evidence-based process in place to overcome them**

Embedding better habits in the investment process

We've designed our investment process to combat these bad habits. For instance, when making every major strategy decision – like the balance of bonds and equities in our portfolios – we're guided by a checklist of key factors that we must consult each time.

This approach, informed by practices in medicine and aviation, helps combat confirmation bias, narrative fallacy and anchoring. It compels us to consider a broad range of relevant information, rather than focusing too much on emotive headlines, the latest provocative presidential pronouncement or information that supports what we're already doing.

Each time we consider strategy changes, we evaluate how such changes would have fared in the past and over different lengths of time. This approach builds in awareness of base-rate neglect and scope insensitivity.

We also seek opposing views to fight overconfidence and confirmation bias. Every quarter, our asset allocation committee hears from two independent external experts, who challenge our strategy and identify potential blind spots. We even use specialist artificial intelligence to challenge our thinking.

We scrutinise ourselves too, reviewing strategy decisions annually to identify parts of our process to upgrade. In 2023, for example, we revamped our framework for dealing with major geopolitical risks.

Lastly, we've refined several other small but consequential features of our decision-making framework. In this, we're supported by experts at the Good Judgement Project, which has studied the traits and habits of effective forecasters in real-life settings. We've altered the structure of our investment meetings to reduce anchoring; we've broken down complex questions about the investment outlook into constituent parts; and we've imitated the most successful forecasters by starting continuous tracking of our assessment of the probability of key economic events.

Taken together, these measures contribute to a disciplined, systematic investment process designed to protect the value of our clients' portfolios by avoiding common decision-making errors. Saint Augustine would be proud.

Figure 7: Six bad habits

These cognitive biases are common but our investment process is designed to guard against them.

Sources: Rathbones

Anchoring
Placing too much weight on the first piece of information we see

Confirmation bias
Only seeking information that supports what we already believe

Narrative fallacy
Finding patterns or stories in random data that don't really exist

Base-rate neglect
Ignoring general probabilities in favour of the specifics of the moment

Scope insensitivity
Failing to adjust decisions properly when scale or time changes

Overconfidence
Having too much faith in our own judgement or predictions

FINANCIAL MARKETS

The second quarter of 2025 was dominated by trade and tariff drama, with markets lurching in response to President Trump's sweeping 'Liberation Day' announcements in early April. Global stocks and bonds sold off sharply at first, but sentiment recovered after Trump partially rolled back the measures and hinted at potential trade deals. US equities rebounded, supported by solid economic data and a strong earnings season, though uncertainty over long-term tariff policy kept investors cautious.

Volatility in the bond market remained high. Treasury yields initially spiked on recession fears before stabilising, but climbed again in June as concerns grew over persistent inflation and Trump's proposed tax cuts. The Federal Reserve kept interest rates on hold, though its projections signalled potential cuts later this year.

Regional resilience

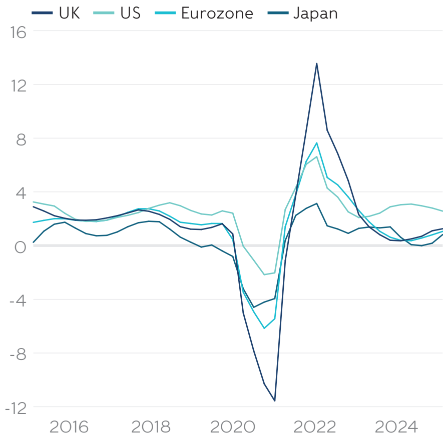
Elsewhere, UK equities hit record highs, boosted by resilient growth and easing trade concerns, while eurozone markets rallied on strong corporate results and signs of stimulus. In Asia, Chinese stocks gained after policymakers stepped in to support demand and cushion the impact of falling exports.

Geopolitical risks added further complexity. Conflict in the Middle East escalated late in the quarter, pushing oil prices higher. Gold surged to record levels, as investors sought safety amid economic and political turbulence.

Despite a turbulent start, markets finished the quarter on firmer footing. However, the path ahead remains uncertain as the full effects of US trade policy and global realignments continue to unfold. Investors are bracing for the possibility of further turbulence, driven by policy changes in the months ahead.

GDP growth

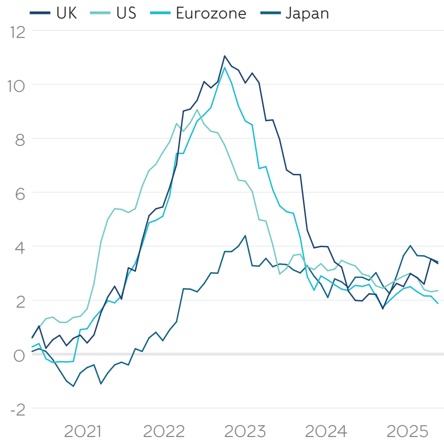
Annual change (%)



Source: Factset and Rathbones

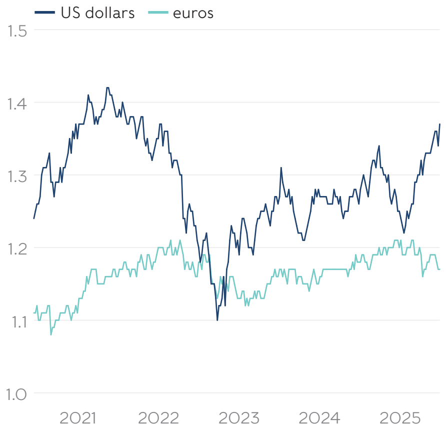
Inflation

Annual change (%)



Source: Factset and Rathbones

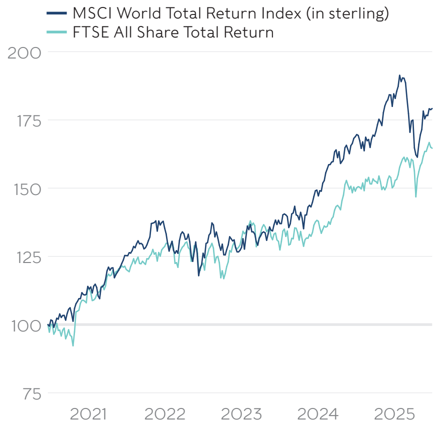
Sterling



Source: Factset and Rathbones

Equities

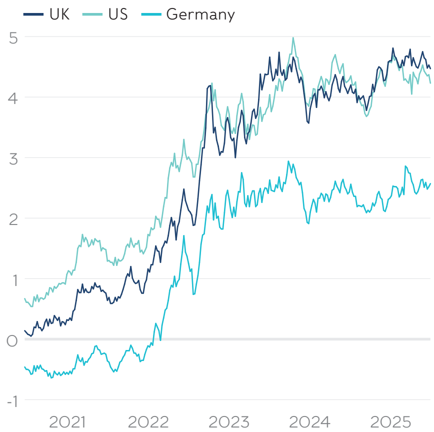
July 2020 = 100



Source: Factset and Rathbones

Government bonds

10-year yields (%)



Source: Factset and Rathbones

Gold

US dollars per troy ounce

Source: Factset and Rathbones

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance is not a reliable indicator of future performance.

ADDITIONAL INFORMATION

Call
For contact details of your nearest office please visit
rathbones.com/about-us/our-offices

Visit
rathbones.com

Email
enquiries@rathbones.com

For specialist ethical, sustainable and impact investment services
Greenbank Investments
0117 930 3000
enquiries@greenbankinvestments.com
greenbankinvestments.com

For offshore investment management services
Rathbones Investment Management International
01534 740 500
rathboneimi.com

@RathbonesPlc

@rathbonesgroup

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