



**meridian**  
ASSET MANAGEMENT (C.I.) LIMITED

## INVESTMENT MEMORANDUM

The quarter has featured a strong performance from international equities as markets continued to recover from the 2<sup>nd</sup> April tariff shocks, even as the economic and geopolitical background remained very uncertain. Bonds did not fare so well in the face of concern about the fiscal position of various countries. Currency movements were not significant.

The tables below detail relevant movements in markets :

### International Equities 30.05.25 - 29.08.25

Total Return Performances ( % )				
Country	Local Currency	£	US\$	€
Australia	+6.3	+7.9	+8.1	+4.9
Finland	+2.5	+5.5	+5.7	+2.5
France	-0.5	+2.4	+2.5	-0.5
Germany	-1.2	+1.7	+1.8	-1.2
Hong Kong	+13.3	+13.8	+14.0	+10.5
Italy	+5.8	+8.9	+9.1	+5.8
Japan	+9.9	+7.8	+8.0	+4.7
Netherlands	-2.1	+0.8	+1.0	-2.1
Spain	+7.4	+10.6	+10.8	+7.4
Switzerland	+0.1	+2.8	+3.0	-0.1
UK	+5.6	+5.6	+5.8	+2.6
USA	+9.6	+9.4	+9.6	+6.3
All World Europe ex UK	+0.6	+3.3	+3.5	+0.4
All World Asia Pacific ex Japan	+10.6	+9.8	+10.0	+6.7
All World Asia Pacific	+10.3	+9.1	+9.3	+6.0
All World Latin America	+3.3	+7.7	+7.9	+4.7
All World Emerging Markets	+9.3	+8.7	+8.9	+5.6
All World	+8.4	+8.4	+8.6	+5.4

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : +0.2%

## International Bonds - Benchmark Ten Year Government Bond Yields (%)

	30.05.25	29.08.25
Sterling	4.64	4.72
US Dollar	4.40	4.23
Yen	1.48	1.60
Germany (Euro)	2.50	2.72

## Sterling's performance during the quarter ending 29.08.25 (%)

	Quarter Ending 29.08.25
US Dollar	+0.4
Canadian Dollar	+0.5
Yen	+2.5
Euro	-2.4
Swiss Franc	-2.1
Australian Dollar	-1.1

## Other currency movements during the quarter ending 29.08.25 (%)

	Quarter Ending 29.08.25
US Dollar / Canadian Dollar	N/C
US Dollar / Yen	+2.1
US Dollar / Euro	-2.9
Swiss Franc / Euro	-0.2
Euro / Yen	+5.2

## Significant Commodities (US dollar terms) 30.05.25 - 29.08.25 (%)

	Quarter Ending 29.08.25
Oil	+7.5
Gold	+2.9

## MARKETS

- A strong quarterly international equity performance.
- In local currency terms, outperformances from Hong Kong, Asia Pacific ex Japan, Asia Pacific, Japan, the USA and Emerging Markets. Underperformances, although still positive returns, from Europe ex UK, Latin America, the UK and Australia. Much the same position for sterling returns except that Japan became an underperformer.
- In the ten year government bond markets, yields in our table drifted higher except in the USA where the gross redemption yield fell by 17 basis points to 4.23%.
- In the foreign exchange markets, the feature was the weakness of the yen and the strength of the euro and Swiss Franc.
- In the commodity markets, oil and gold both firmed in price.

## ECONOMICS

Not everyone will agree but progress is very subjective. The oldest verified living person in the world, Ethel Caterham from Hampshire (aged 116), has lived through more change than almost anyone else in history. The Wright Brothers' first flight took off just six years before her birth, supersonic flight happened before her fortieth birthday, the moon landing as she celebrated turning 60 and a man made craft, Voyager 1, left the solar system just after Ethel turned 100. Yet, we hear flying is now a major contributor to global pollution and some argue that there is an unequal distribution of benefits and harms from flying as the top 1% of the population may cause over half of the world's CO<sub>2</sub> aviation emissions and try building a new runway at an airport and see what the reaction is. When Ethel was a babe in arms, the most important companies in the world produced steel and coal or owned ships or ran steam trains and today, the company that we value the most highly, in money terms, doesn't make anything, it merely designs silicon chips. Following Nvidia, is Microsoft whose products exist in a virtual world that is barely understood by most, yet, both, we are confidently informed, carry us forward and introduce efficiencies that drive, and will drive, much needed economic growth.

Information and connectivity are where we are in 2025 and Microsoft and Nvidia, to name just two, facilitate these, well, facilitators. Information and connectivity allow humans to better understand, they democratise knowledge and create opportunity. The contribution to the age offered by this tsunami of information and connectivity is, however, subjective with concerns around the dangers of the internet to young minds and its sponsorship of consumerism. AI will introduce efficiencies and amplify progress in medical research and weather forecasting to name just two, but, right now, it means that there is a question mark in one's mind around any image or video on the internet. Is it an incredible image that one sees or is it, just, incredible?

Going back to Ethel's incredible life span, and not knowing how much time she spends on the internet, there is now no effort and negligible cost to finding out about a border skirmish between Thailand and Cambodia, where the Kardashians are being seen tonight or what the pre-market trading price of Rolls-Royce shares is. Then there is after the fact. Who is providing the news about the tensions in South East Asia? Where are you led on the web pages that feed the Hollywood media circus and how do you pick through the views presented on the news surrounding Rolls-Royce's plan to move into the narrow body jet engine market? Information has become a free and unregulated market and that means one thing – competition is high. Too high. The headline is the hook with plain and factual losing out to big and brassy and in the art of being informed, objective information is becoming more of a challenge. The reader's views can be formed from the words of influencers, bots and information sources that await your first click, based purely on their skill in appearing high in your Facebook feed or Google search and not on the veracity and balance offered by their submissions. Knowledge is now for free but, as has been said before, if you are given something for free, you are the product.

At this stage in the memorandum, it's worth trying to move a little closer to the point, which is how the events of the world are reported to us and how, counterintuitively or perhaps not, the world's equity markets are at, or near, all time highs. For ease, let us start in America where President Trump is easy fodder for the headline writers. He is the first convicted felon to be in the White House, he refuses to charm and, most importantly, he refuses to concede any ground to the other forces of government in the United States or elsewhere for that matter. On that basis, he is easy to vilify and a collection of his ugliest quotes does not make for pretty reading and, more than that, his actions towards opponents, where the definition of opponent is anyone who does not do what he wants, appear to be getting more extreme. In August, we have seen his 'flood the zone' attacks on, firstly, the independent and respected Chairman of the Federal Reserve, Jay Powell, and then a colleague, Lisa Cook, and, unbelievably, the sacking of the head of the equivalent of the Office for National Statistics for collating poor employment figures and the sense of the word 'poor' here is quantitative not qualitative. One effect of such sackings is that it encourages a curious type of loyalty.

Having someone who can introduce an element of chaos in the White House is not something anyone is used to, and even Trump's first term looks relatively sedate in comparison with the first half of 2025, yet power and chaos are a sobering combination. The two questions here are whether the reporting of what Trump says and does, in sum, paints an inaccurate picture of where the country is going and whether markets are right or wrong to disregard this new management style and the risks seemingly posed by it.

We have highlighted in previous months the need to see the facts and ignore the noise generated by the media and social media. There is a need to focus on raw data and likely outcomes from political decisions. Most importantly, there is a need to attempt to understand how next year's earnings will look compared with this and recent years'. Again, it feels like going over old ground, but the journalistic shorthand for equity markets is often 'casino' where stellar returns or, even better, sharp collapses in prices are headlines that write themselves; it's one or the other. Most investors experience of balanced equity investing centres on taking the medium to long term view and to enjoy returns that beat inflation, cash and most other mainstream asset classes by a handful of percentage points over time. The global equity markets, it must be said, are very unsentimental places and a border skirmish between Cambodia and Thailand does not move the dial in the slightest. As the war in Ukraine moves deeper into its fourth year, and you could argue that a long war is more serious than a short one, markets are now comfortable discounting it as a regional issue whose short term impact on energy markets and inflation has almost entirely faded away. The same can be said around the truly awful scenes reported from the Middle East. Several countries have been severely affected by the conflict, including the bombing of Tehran, but significant escalation, right now, does not feel likely. Markets cannot function on the basis that World War Three *could* break out but work on the belief that it won't unless there is compelling evidence to the contrary.

It is often said that investing cannot be delayed until such a time as there is an absence of risk. It always has to be that the wisdom of choosing to invest is based on the balance of risks and that is something else that is very subjective. Some people are just not equity investors and there are a number of reasons why that might be the case. Bad personal experience, bad reported experience, discomfort with sitting on losses or scepticism around the nature of the asset class are probably four common reasons and it is these people who are likely to react most strongly to negative market related news as it is most human to focus on news stories that reinforce existing beliefs. For those who are invested in the stock market, such as clients of Meridian, a degree of measure in response to inflated news stories is much more likely and, we would suggest, more appropriate and markets are where they are because of there being sufficient investors who share this view. The US companies' reporting season for the second quarter of the year has finished and whilst adjusting to the climate change of tariffs featured heavily in the financial reporting there was enough earnings growth to maintain momentum in the markets and, not surprisingly, expectations were lower as we approached the period. Growth stocks outperformed value stocks, a reversal of the first quarter and on the surface, the 'beats' were good, driven by very strong results from the technology giants. Overall, the performance of diversified portfolios was more uneven as certain sectors lagged others, for example energy and healthcare.

Whilst financial markets are most likely to generate a headline whose narrative is 'equity markets soar further into uncharted territory/markets teeter on the precipice' or '£x billion wiped off the value of shares (where x is a large number)', it is possible that the largest area of risk in financial markets is, in fact, under reported - though it is well covered in this column(!) This is the source of funding for governments and companies - the bond market. This is a market facing pressures it has not experienced before and so we do truly find ourselves in uncharted waters. Comparing equity and bond markets, one difference is that 'crises' in equity markets, where falls can be sharp and painful, are rare but episodic, but what history shows us a period of recovery follows but bond markets have, historically, been considered lower risk and crisis events in lower risk markets are far more troubling than ones in higher risk ones. Bond markets seem to attract less attention because they are more technical and there is not a recognisable FTSE100-type measure to explain how it has moved over time. Has there ever been a headline '£x billion wiped off the value of bonds?'. The closest we get is when a particular borrower sees a spike in the cost of any new borrowing reflected in the falling value of its existing borrowing. This happened most recently in April when yields on 30 year US bonds spiked reminding President Trump that the market may be an opponent, but it will react how it chooses and not be swayed by him or anyone else. Bond market participants do not look at things subjectively but rationally.

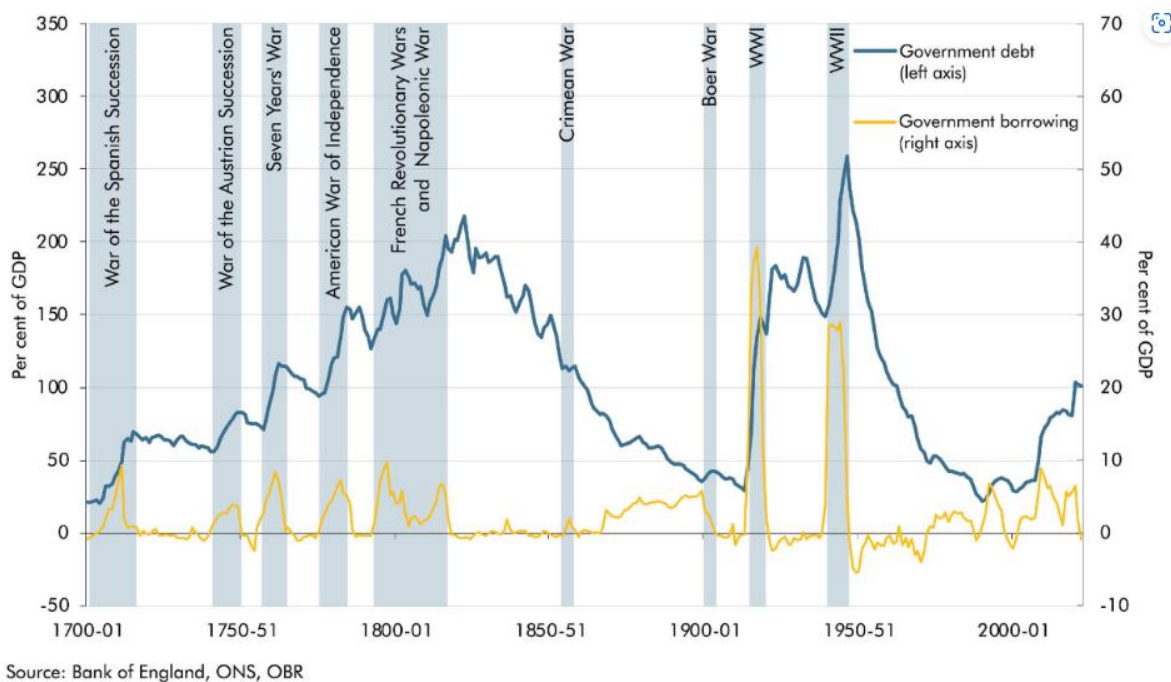
Looking at European debt markets a strange thing has been happening within the euro area. As national issuers share a currency then when comparing bonds from this neighbourhood, the variables of inflation and interest rates are removed, giving greater weight to issuer risk. Credit ratings and history establish a hierarchy of financial strength. Germany has always been at the top with the Netherlands and Denmark could be included as the Danish krone is closely tied to the euro. France would not be far behind then come Italy and Spain and the smaller countries. Ireland has the distinction of having moved from as credit worthy as Germany to almost defaulting and, back again to one of the lowest credit risks. This assessment is based purely on the market's view that the lowest yield corresponds to the lowest risk. Furthermore, other countries that we heard a lot about in the Global Financial Crisis, Spain, Greece and Portugal now all show yields less than France. Italy's improvement in the eyes of investors, is reflected in its bonds outperforming Germany's and France's for the fourth straight year in a row, on a total return basis.

Whilst there is a danger in over-simplifying it appears that the changing picture favouring some countries is being shaped not by credit ratings and history but by the effectiveness of government and economic growth. At the top table, Germany has released its so-called debt brake allowing the government to increase its relatively low levels of borrowings to stimulate the economy through

infrastructure spending and to meet new international commitments to defence. This is going to mean a lot more bonds for sale. France, perhaps the country in Europe which is the hardest to govern and which cannot find a government that suits a majority, has a very large deficit and large stock of existing debt. The debt of countries which are being favoured at present are those, purely and simply, where the government is making progress and the most highly valued measure of that is economic growth. Italy can currently borrow money for 10 years at a slightly higher cost than France but the extra cost is the smallest in two decades and Spain's economy is forecast to grow at 2.5% in 2025.

The United Kingdom also finds itself in an uncomfortable position of indebtedness as debt has been the solution to many different crises. When the world's banks got into a spin in 2008, governments acted in a similar way. In the UK, for example, depositors' money was guaranteed and money was injected into the banking system through loans and capital support. Northern Rock and Bradford & Bingley were fully nationalised and Royal Bank of Scotland and Lloyds Banking Group were part nationalised and this came at significant cost to the public purse. More recent in the memory is COVID, which led to an even more significant increase in the national debt. What will happen if the next crisis is a debt crisis? You can't borrow money to resolve a debt crisis and the actions that follow a debt crisis are all pretty unpalatable. That is not to say that there is any sense of inevitability of there being a debt crisis but the Chancellor cannot ignore the fact the cost of servicing a Gilt issued for repayment in 2055 is, at the time of writing, 5.68%, the highest rate this century. A graph, at this point, is helpful.

### Government borrowing and debt since 1700



This graph compresses over 300 years of UK history into one image. What is striking is how over this long period it is war which has driven spikes in borrowing levels and peacetime has allowed levels to fall, but this has changed since 1990 when debt has spiked despite the country spending relatively little on defence (or attack for that matter). The government has only achieved 11 budget surpluses in the post-war period and only 4 since 1971/72. Whilst this representation doesn't show the current position, the Government's Public Sector Net Borrowing requirement (its overspend) in 2024/25 is very high, at 4.8% of GDP. The Office for Budget Responsibility continues to provide long term fiscal projections going as far as 50 years hence and in its 152 page 'Fiscal risks and sustainability report - July 2025' politely suggests that "dealing with an ageing population, climate change, weak

productivity growth, high public debt, rising interest rates, and growing geopolitical tensions will further reshape the public finances in the years ahead.” That’s a lot to deal with.

The mood of this time is towards populism. Newspapers are outcompeted in bringing the daily news by the internet and have become collections of opinion pieces. Bloggers, podcasters and influencers lead with their subjective views and the public is receptive to a message which appears fresh and connected to the wishes of the people. More of the same from the same political parties is looking stale and the result is that the political landscape in almost every country looks quite different from the preceding fifty years. Pretty much central to all of the issues of being in government, is the level of debt. If the United Kingdom had half as much debt as it has today it would have at least £75 billion more to spend this year on support for the needy, the provision of public services and inward investment in the economy, given the cost of servicing the debt pile of around £2.8 trillion, but there is no real value in making this hypothesis. The United Kingdom, like others, will find it increasingly expensive to borrow more money without healthy economic growth and, ideally, will seek to rein in spending, stimulate the economy and avoid damaging increases in taxation that dent consumption. The skill of government is converting those words into reality whilst there is no skill in merely writing them here. The next year or two is likely to yield some significant political change given the tight spot governments of, for example, France and the United Kingdom find themselves in. Here at Meridian, we continue to favour equities as companies grow their income whilst constantly adapting to the threat of tariffs, legislation and opportunistic taxes such as windfall taxes and we are more cautious than ever on bonds. Given that we are not alone in that view, equities are more expensive than their historic averages and markets will be subject to periods of heightened volatility, reflecting the turbulent politics of the world in these debt-laden times.

What must Ethel think of all this...

Meridian Asset Management (C.I.) Limited is regulated by the Jersey Financial Services Commission, under the Financial Services (Jersey) Law 1998, to carry on investment business. “Meridian” refers to Meridian Asset Management (C.I.) Limited. This document is provided for interest only. Any opinion expressed in this document is a matter of judgement at the time of writing and may be subject to change without notice. No representation or warranty, express or implied is made nor responsibility of any kind accepted as to the accuracy, completeness or correctness of the information stated herein or that material facts have been omitted. The information contained in this document is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product or service by Meridian. Various products or services referred to in this document are subject to legal and regulatory requirements in applicable jurisdictions. They may not be available in all jurisdictions. Meridian makes no representations about the suitability of the information published in this document for any purpose. It does not constitute investment advice. No information contained or referred to in this document should be construed as such. A professional adviser should be consulted with respect to your particular situation. The value of investments and the income derived from them may fluctuate and you may not receive back the amount originally invested. Past performance is no guarantee of future performance. Currency movements may also affect the value of investments. The investments and services referred to in this document may not be suitable for all investors.