

Managed Portfolio Service

Quarterly report – Q2 2025



Brewin
Dolphin

Introduction

Welcome to the RBC Brewin Dolphin Managed Portfolio Service (MPS) investment review. In this report, we cover information and events that influenced performance during the second quarter of 2025.

During the second quarter of 2025, markets demonstrated remarkable resilience, reaching new highs despite navigating three significant challenges. This phenomenon, often described as “climbing a wall of worry,” highlights the market’s ability to adapt and thrive even amid uncertainty.

Key events shaping the quarter

Trade wars and tacos: President Trump’s announcement of reciprocal tariffs caused global stocks to decline sharply. However, subsequent U-turns and softened rhetoric led to market stabilisation. This pattern, dubbed ‘TACO’ (Trump Always Chickens Out), suggests the president’s threats may be more bark than bite. While some viewed this as a negotiation tactic designed to escalate and then de-escalate tensions, the swift recovery underscored the market’s capacity to look beyond short-term disruptions.

Real war: A tense but brief ‘12-day war’ between Israel and Iran caused a temporary spike in oil prices. However, the impact on markets was contained, thanks to the stabilising influence of U.S. oil production, which continues to reduce global dependence on OPEC. The conflict followed a familiar pattern of geopolitical escalation followed by de-escalation, reaffirming the tendency for such risks to fade after initial shocks.

The AI arms race: The private sector maintained its aggressive AI investment, confirming its status as a transformative force rather than a passing trend. Meanwhile, despite reciprocal semiconductor export restrictions between the U.S. and China, the quarter concluded with progress toward an improved trade framework between the two superpowers.

Looking ahead

The outlook remains cautiously optimistic. Inflation is showing signs of improvement, and central banks are positioning for potential rate cuts. Against this backdrop, a modestly pro-risk stance is recommended, with an emphasis on diversified quality equities and high-quality sovereign bonds.

Market overview Q2 2025

- The second quarter of 2025 delivered robust performance across most asset classes, reflecting a renewed appetite for risk among investors despite ongoing political uncertainties.
- Equities led the way, with several regions outperforming the broader market. Developed Asia ex Japan and Developed Europe ex UK posted impressive returns of 6% and 5.7%, respectively, outpacing the global equity market's overall return of 4.9%. Japan and North America performed in line with the broader market, while the UK saw a solid 4.4% gain.
- In the bond market, UK corporate bonds stood out with a return of 2.9%. Global corporate bonds and UK gilts each delivered returns of 1.9%, while global inflation-linked bonds provided a more modest return of 0.9%.
- Performance in alternative asset classes was varied. Absolute Return strategies gained 1.3%, gold saw a slight decline, returning -0.3%, while commercial property faced headwinds, declining by -3.3%.
- Cash delivered positive returns, supported by the higher interest rate environment.

MPS performance

MPS performance												
	Q2	2025 YTD	1yr	2yr	3yr	4yr	5yr	2024	2023	2022	2021	2020
Cautious Portfolio	1.8	2.6	5.9	15.8	16.1	7.1	16.0	6.9	6.8	-10.1	3.7	6.7
Cautious Higher Equity Portfolio	2.3	2.3	6.1	17.1	18.6	9.3	20.6	8.2	7.4	-9.9	5.5	6.5
Income Portfolio	2.7	2.3	6.3	18.1	20.8	11.4	26.0	9.2	7.7	-9.5	6.8	6.8
Income Higher Equity Portfolio	3.5	2.1	6.5	19.6	24.0	14.6	32.2	10.7	8.3	-8.8	8.4	6.8
Balanced Portfolio	4.2	2.0	6.5	20.6	26.6	16.0	38.1	11.8	8.8	-9.0	10.8	7.6
Growth Portfolio	4.9	1.8	6.5	21.9	30.1	18.4	47.4	13.6	9.1	-9.2	13.8	9.9
Global Equity Portfolio	6.0	1.6	6.7	23.9	34.9	22.3	57.6	15.8	9.8	-8.9	16.3	9.7

All figures shown above are calculated to 30 June 2025.

Performance Calculation: All income is reinvested. Performance is shown inclusive of underlying fund charges but gross of RBC Brewin Dolphin's investment management charge. Deduction of this charge will have the result of reducing the illustrated performance. Neither simulated nor actual past performance are reliable indicators of future performance.

MPS performance highlights Q2 2025



Asset Allocation

What worked and why?

The portfolios benefited from their overweight position in equities, which delivered robust performance during the second quarter. While we remain mindful of the challenges in the current environment, we are cautiously optimistic about the outlook for riskier assets.

Fund Selection

What worked and why?

In the U.S., growth-exposed strategies within the MI Select Managers North America portfolio delivered exceptional outperformance during the second quarter. Notable contributors included the DWS US Quality Growth, Brown Advisory US Sustainable Growth, and Baillie Gifford North American strategies, all of which generated strong returns during the period.



What didn't work and why?

As higher bond yields persist in the UK, the overweight position in UK sovereign bonds acted as a drag on performance during the second quarter.

What didn't work and why?

Value-exposed strategies within the MI Select Managers North America portfolio faced challenges during the second quarter. The DWS US Value passive tracker and the BNY Mellon US Equity Income strategy underperformed relative to other holdings. While these strategies lagged during the quarter, they can play a defensive role in portfolios, as they did earlier this year when markets sold off.

The value of investments can fall and you may get back less than you invested.

MPS portfolio changes Q2 2025

Asset Allocation

In April, the Committee reduced the overweight position in U.S. equities by 1% and increased our cash holdings, taking advantage of the partial market rebound to keep cash available to capitalise on future opportunities.

In May, the U.S. equity overweight position was further reduced to neutral. At the same time, a 0.5% overweight position was introduced in Europe ex UK equities.

Within fixed income, the Committee increased the overweight position in UK gilts by 1%. This adjustment was funded by reducing allocations to global sovereign and index-linked bonds.

In June, the Committee made no additional tactical changes.

Fund Selection

In April, the allocation to the BlackRock Sterling Liquidity fund was increased across all ranges. This move was aimed at reducing risk and ensuring liquidity was available to deploy as opportunities arise in the market. For the reduction in North America equities, we have reduced the allocation to the MI Select Managers North American fund within the MPS.

In May, the MI Select Managers North American fund was further reduced in MPS due to concerns about U.S. growth prospects and potential dollar weakness. Within lower-risk models, the allocation to BlackRock Continental European Income was increased. In higher-risk models, the allocation shifted to the growth-oriented BlackRock European Dynamic fund, aligning with the objective of capturing growth opportunities in Europe.

Bond allocation adjustments

Adjustments to bond holdings were made within the MI Select Managers Bond fund. The allocation to UK gilts was increased at the expense of a reduction in global sovereign bonds.

In June, further changes were made within the MI Select Managers Bond fund. The DWS Index Linked bond strategy was transitioned from a pure U.S. TIPS strategy to one following a Global Index-Linked benchmark. This adjustment broadens the diversification of bond holdings, a prudent move in light of anticipated U.S. tax cuts.

MI Select Manager fund weights

MISM fund weights			
Date	MISM Fund	Mandate	Weight (%)
30/06/2025	MI Select Managers Bond Instl Inc	Man GLG Sterling Corporate Bond	14
		DWS US TIPS	16
		Robeco Global Credit	19
		Colchester Global Sovereign	21
		Insight Government UK	30
30/06/2025	MI Select Managers NA Equity Instl Inc	Baillie Gifford American	5
		DWS US Value	20
		BNY Mellon US Equity Income	20
		Brown Advisory US Sust Growth	24
		DWS US Quality Growth	31
30/06/2025	MI Select Managers UK Eq Inc Instl Inc	CT UK Equity Income	24
		Man GLG UK Equity Income	38
		Ninety One UK Equity Income	38
30/06/2025	MI Select Managers UK Equity Instl Inc	Teviot UK Smaller Companies	10
		Lindsell Train UK Equity	29
		Redwheel UK Equity Income	29
		JPM UK Core	32
30/06/2025	MI Select Managers Alternatives	Absolute Return funds	15
		Muzinich Global Tactical Credit	14
		Schroder Global Cities	22
		Commodities and other alternatives	49

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Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.



Cash

We maintain a small overweight position in cash within the portfolio. This allocation provides flexibility and liquidity, ensuring we are well-positioned to deploy capital when the market outlook for other typically higher-yielding asset classes becomes more favourable.



Bonds

Our base case is that safe-haven bond yields will trade within a range in the coming quarters, which largely explains our neutral position in the bonds asset class. Within bonds, we hold an overweight position in government bonds and an underweight position in corporate bonds.

The yield spread between corporate and government bonds remains narrow, but it would likely widen if economic growth were to deteriorate. Recessions are often unpredictable—five of the eight U.S. recessions since 1970 were triggered by shocks. In such scenarios, government bonds would likely outperform corporate bonds.

Given the tight spreads and our preference to maintain a small equity overweight, our bond positioning serves as a partial hedge against risk.



Global Equities

We expect the global economy to continue expanding, albeit at a slower pace, which aligns with expectations for rising corporate profits. We also see potential for AI-driven themes to boost economy-wide productivity and deliver solid profit growth, particularly among the “picks and shovels” plays supporting the AI ecosystem.

That said, we believe a small equity overweight remains appropriate. One reason is the limited scope for cyclical economic growth. Most economies are near full employment, and labour force participation rates are high. Additionally, U.S. immigration restrictions are likely to constrain labour force growth, which in turn limits potential job creation and aggregate demand expansion.

Moreover, U.S. equity valuation multiples, concentration risks, elevated growth expectations for AI-related stocks, and ongoing trade uncertainty all suggest a cautious approach is warranted.



Alternatives

We maintain a small overweight position in gold. We expect central banks to continue diversifying their reserve holdings away from the dollar and other developed-world currencies. Gold is also likely to serve as an effective hedge against several risks. First, in the event of a full-scale global trade war, real yields would likely decline while inflation rises—an environment that historically favours gold. Second, there are longer-term structural risks to consider. De-globalisation, demographic shifts leading to fewer workers relative to consumers (driving wage growth), and persistently high government deficits could result in inflation running higher than central banks’ targets. As a real asset with a limited supply, gold would likely perform well in such conditions.

UK Equities

UK relative performance is likely to remain closely tied to the global value versus growth style performance. In our view, some diversification into the value-oriented sectors, where the UK has significant exposure, makes sense at this stage.

While the domestic economic outlook is less critical for UK equity relative performance—given the high international exposure of the companies within the index—it still plays a role. Notably, there is a positive correlation between the relative performance of UK equities versus global equities and UK GDP versus global GDP.

We continue to believe that the pessimism surrounding the UK economy, compared to others, is overstated. Additionally, the UK equity market trades at very undemanding valuation multiples.

U.S. Equities

The U.S. is expected to maintain its productivity growth advantage over the rest of the developed world. Additionally, the U.S. equity market benefits from significant exposure to strong demand for AI-related goods and services. However, we hold a tactical neutral position on U.S. equities for several reasons.

While the megacap digital companies are trading at relatively high valuation multiples, this is less concerning if they can continue to deliver outsized profit growth. That said, sustaining such growth will be challenging given the sheer size of these companies. Notably, the S&P 500, excluding the “Magnificent 7” stocks, still trades at a significant price-to-earnings premium relative to the world ex-U.S. market.

Although the dollar appears oversold in the short term, we believe it has room to decline further over the medium to long term. A weaker dollar could weigh on U.S. equity performance when measured in common currency terms.

Additionally, U.S. trade policies could put pressure on corporate profit margins. Reshoring of manufacturing is likely to lead to higher labour costs, while tariffs will increase import expenses for businesses. Retaliatory tariffs and a potential decline in international consumer sentiment towards U.S. products could further reduce corporate sales abroad. Given the impact of operating leverage, these factors could weigh on profit margins.

Europe ex UK Equities

We maintain a modest overweight position in Europe ex UK. The region’s valuation metrics remain significantly less demanding than those of the U.S. Additionally, the euro is undervalued based on estimates of the purchasing power parity conversion rate, even after its recent rally, suggesting potential for long-term appreciation.

While we anticipate only modest corporate profit growth due to subdued economic growth prospects in Europe, increased German defence and infrastructure spending is expected to provide a meaningful boost. This should help narrow the growth gap between Europe and the U.S. to some extent.

Japan Equities

Japan has introduced shareholder-friendly reforms, which could support further expansion in its relatively low price-to-book multiples. The country is also experiencing a healthy level of inflation, accompanied by strengthening wage growth. Notably, inflation expectations have risen as well.

However, demographics remain a significant structural headwind for the relative performance of Japanese equities. Additionally, with unemployment at low levels and labour force participation already high, Japan has limited capacity to utilise idle economic resources to drive cyclical growth.

Asia ex Japan Equities

China continues to face multiple structural headwinds, but productivity remains a notable bright spot. Additionally, the policy focus is shifting from containing the private sector to actively supporting it. Recent data releases are also encouraging, suggesting that the economy may be turning a corner.

Beyond China, there are structural strengths within the Asia ex Japan equity index. India stands out with its robust economic growth prospects, while Taiwan benefits from its significant exposure to the semiconductor industry.

Emerging Markets ex Asia Equities

Saudi Arabia, Brazil, South Africa, Mexico, and the UAE hold the highest market cap weightings in the EM ex Asia equity index, resulting in significant exposure to commodities. While we don't anticipate substantial upside in commodity prices, EM ex Asia remains attractively valued.



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