



Falco Private Wealth Limited

33 Eastcheap, London, EC3M 1DE

Stabilising the Unstable

21st July 2025

- Markets seem to be stuck in some sort of a holding pattern as investors navigate tariff-induced uncertainty.
- US growth at hand surprises to the upside, but inflation remains a concern.
- Fed's Beige Book paints a sober picture of the US economy amid concerns of trade-driven price pressures.
- Japan's upper house elections deliver an uncertain outcome for markets.
- Stablecoin to destabilise the dollar? US Genius Act pushes crypto closer to mainstream.



Markets remain broadly constructive, though stuck in a holding pattern as they await the next act in the tariff drama. The push-pull over trade policy has left investors perplexed, even as they navigate solid global growth data and inflation signals that remain ambiguous at best. While US retail sales beat expectations last week, the strength signalled some pre-emptive buying ahead of expected price hikes—a tariff front-load disguised as demand strength. That's the growth part of the story.

On inflation, consumer prices showed hints of tariff pass-through, particularly in goods like furniture and electronics, but a surprise dip in producer prices suggests upstream pressures remain contained. For now, it's a mixed picture that investors seem content to interpret as resilience. Already weary of geopolitical developments, they appear more willing to take the data at face value.

Global economic data had been outpacing the US, but strong retail numbers and a bounce in manufacturing helped narrow that gap and propelled the Citigroup US Economic Surprise Index (CESI) into positive territory again. The tone has brightened, just in time for the next policy twist.

Chart 1: Citigroup US Economic Surprise Index on the Rise Index



Source: Bloomberg

The Fed Draws a Sober Picture

The Fed's latest Beige Book offered a more sober take on the US economy, highlighting modest, uneven growth across its 12 regions. Consumer spending held up, but business activity appeared to be plateauing. Labour markets remained tight, though hiring eased slightly, and wage growth was moderate. Inflation pressures persisted, especially in tariff-affected goods like metals and electronics, though not all firms could pass on higher costs to consumers. The overall tone was cautiously watchful: demand remains resilient, but concerns are rising that trade-driven price pressures could resurface by late summer.



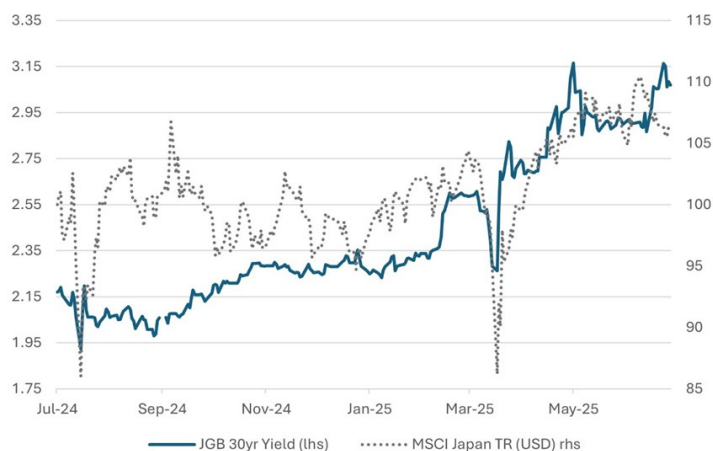
Japan's Uneasy Politics – Compromising Asset Markets?

Japanese equities have benefited from steady growth, transparent corporate reform, and a global shift away from US markets, but politics has clouded the picture. Sunday's Upper House election results have not brought an emphatic rejection of the current government but have certainly stirred matters up. Japan's PM Ishiba has lost his majority in the Upper House but by only a handful of seats. The results are not the emphatic rejection of the current government that some polls had suggested. To be sure, the results still inject risk into fiscal policy, trade talks, and central bank autonomy.

Markets had already responded to the political risk. JGB yields spiked to 16-year highs, with the 30-year nearing 3.21%. Bond traders have pricing in instability and populist tax pledges, at odds with Japan's 250% debt-to-GDP burden. Opposition calls for sweeping tax cuts have stirred fears of a ratings downgrade, JGBs currently hover in single-A territory.

Japanese financial markets are closed today but the JPY has initially rebounded, only after it had tumbled more than 3% in July, making it the worst-performing major currency this month. Far from a haven, it now reflects doubts over fiscal credibility and fears of vote-driven stimulus. USD/JPY is testing 149. Intervention talk is muted; credibility is the deeper issue.

Chart 2: Japanese Assets React to Political Muddle



Source: Bloomberg

The outlook for equities is muddled; however, we still believe that corporate restructuring is too well established to see any serious downside risk. A relatively cheap valuation and ongoing commitments to enhancing shareholder value should protect the market from marked downside risk. The recent weaker currency should aid exporters, but the Nikkei reaction will likely remain tentative. The country's auto sector faces a double threat - from domestic uncertainty and looming Trump tariffs, possibly hitting as early as 1 August. Trade talks have slowed, and a weakened government may lack capacity to respond.

Mainstream Crypto

Last week, Congress approved three bills that propel cryptocurrency emphatically into the mainstream:

1. **GENIUS Act**

Guiding and Establishing National Innovation for US Stablecoins Act

Creating the first US federal framework for payment stablecoins, requiring full asset backing (e.g., USD, Treasuries), regular audits, and clear issuer qualifications.

2. **CLARITY Act**

(aka the Digital Asset Market Clarity Act of 2025)

Aims to define regulatory jurisdiction over digital assets - clearing whether the SEC or the Commodity Futures Trading Commission has authority—while establishing governance for trading platforms and intermediaries.

3. **Anti-CBDC Surveillance State Act**

Prohibits the Federal Reserve from issuing a retail central bank digital currency (CBDC) directly to Americans, because of concerns about privacy and surveillance.

The passage of the GENIUS Act in our view marks a seminal moment in financial history—when crypto, long relegated to the fringes of finance, was formally welcomed into the regulatory and institutional mainstream. By creating a legal framework for stablecoins, the Act effectively acknowledges them as a parallel and potentially superior—form of digital cash. Yet, with this acceptance comes a paradox: not all dollars will be equal. As regulated, fully reserved stablecoins become tradable across financial systems, they may command a premium over both physical dollars and lesser stablecoins, reflecting perceived safety, liquidity, and legal clarity. Conversely, unregulated or offshore - issued tokens could trade at discounts, penalised by market distrust or limited usability. This new landscape blurs the once sacrosanct 1:1 peg, and in doing so, challenges the very notion of money as a uniform unit of account. For the first time since Bretton Woods in 1944, we are witnessing a market-driven repricing of trust in the dollar, one token at a time.

Chart 3: Stablecoins have not always been stable
USD Circle stablecoin to USD



Source: Bloomberg



Bill O'Neill

NON-EXECUTIVE DIRECTOR &
INVESTMENT COMMITTEE
CHAIRMAN



Gary Dugan

INVESTMENT COMMITTEE
MEMBER

The information contained within is for educational and informational purposes ONLY. It is not intended nor should it be considered an invitation or inducement to buy or sell a security or securities noted within nor should it be viewed as a communication intended to persuade or incite you to buy or sell security or securities noted within. Any commentary provided is the opinion of the author and should not be considered a personalised recommendation. The information contained within should not be a person's sole basis for making an investment decision. Please contact your financial professional at Falco Private Wealth before making an investment decision. Falco Private Wealth are Authorised and Regulated by the Financial Conduct Authority. Registered in England: 11073543 at Millhouse, 32-38 East Street, Rochford, Essex SS4 1DB.

Falco Model Performance (as of 30 June)

Falco Models	1 Month	2025 YTD	2024	2023	2022	2021	2020	2019	IRR Since Inc
FPW Cautious	+1.32%	+2.20%	+6.89%	+6.86%	-10.14%	+3.44%	+10.80%	+12.30%	+4.73%
FPW Balanced	+1.43%	+2.71%	+9.56%	+6.51%	-9.75%	+5.10%	+11.10%	+14.90%	+5.90%
FPW Speculative	+2.13%	+4.52%	+11.72%	+7.88%	-10.06%	+9.42%	13.60%	+18.50%	+8.20%
FPW 100% Equity	+2.38%	+2.58%	+15.74%	+15.82%	-7.19%	+18.05%	+9.36%	+21.34%	+11.25%

Low-Coupon Gilt Summary

Holding	Coupon	Maturity Date	Price	Yield to Maturity
0.125% Treasury Gilt 2026 (T26)	0.125%	30/01/2026	£98.37	3.28%
0.125% Treasury Gilt 2028 (TN28)	0.125%	31/01/2028	£91.41	3.72%
0.25% Treasury Gilt 2031 (TG31)	0.25%	31/07/2031	£79.65	4.09%
0.375% Treasury Gilt 2026 (T26A)	0.375%	22/10/2026	£96.02	3.65%
0.375% Treasury Gilt 2030 (TG30)	0.375%	22/10/2030	£82.96	4.00%
0.50% Treasury Gilt 2029 (TG29)	0.50%	31/01/2029	£88.96	3.88%
0.50% Treasury Gilt 2061 (TG61)	0.50%	22/10/2061	£24.83	5.03%

Example Cash Deposits

Holding	Interest Rate	Max Deposit	FSCS Protection
Instant Access Deposit	4.25%	£1,000,000	Yes
95 Day Notice Account	4.08%	£2,000,000	Yes
1 Year Fixed Term Deposit	4.40%	£2,000,000	Yes
2 Year Fixed Term Deposit	4.01%	£2,000,000	Yes
5 Year Term Deposit	4.25%	£2,000,000	Yes

Yield Enhancement Examples

Holding	Structure	Liquidity	Average Maturity	Yield to Maturity
GBP Liquidity Fund	UK OEIC	Daily	40 days	4.13%
USD Liquidity Fund	Lux SICAV	Daily	44 days	4.27%
Example Short Duration Investment Grade ETF	ETF	Intra-day	2.4 years	4.47%
Example Short Duration High Yield ETF	ETF	Intra-day	2.4 years	6.29%
Example Fixed Income ETF Portfolio	ETF	Intra-day	6 years	5.60%
Asset-Backed Mortgage Bond (GBP and USD)	Bond	Daily	2 years	10.5%

Past performance is not a reliable indicator of future performance. The value of investments can go down as well as up, and you may get back less than you invested. Investment returns are not guaranteed, and all investments carry a degree of risk.