

DIAMOND HILL

INVESTED IN THE LONG RUN

Around the World in 90 Days: Trade Shifts, Policy Moves and Market Momentum

Jun 2025

International equity markets delivered a strong performance in Q2 2025, with the MSCI ACWI ex-US Index advancing 12%. This performance came despite notable volatility stemming from geopolitical tensions and shifting global trade dynamics. Liberation Day, marked by President Trump's sweeping tariff announcement, initially sent global markets reeling. However, much of the anxiety quickly reversed as many of the proposed tariffs were softened or delayed, allowing equity markets outside the US to recover swiftly and ultimately deliver solid gains.

Resilience amid geopolitical headwinds

Geopolitical concerns cast a long shadow over markets throughout the quarter. Most prominently, the Israel-Iran conflict briefly escalated into open conflict before a US-brokered ceasefire halted hostilities in late June. Oil prices spiked sharply during the height of tensions but settled as the truce took hold and diplomatic efforts resumed. The war in Ukraine also persisted with no clear path to resolution, reinforcing the increasingly complex geopolitical environment investors must navigate. While the direct market reaction to these conflicts was relatively contained, the broader uncertainty contributed to market volatility across regions.

Despite these challenges, several international markets showed notable resilience. Europe led the benchmark higher, buoyed by falling inflation expectations and a second consecutive rate cut from the European Central Bank (ECB). ECB President Christine Lagarde signaled that further easing may be off the table for now, as inflation has fallen below the bank's 1.9% target. Alongside monetary policy, fiscal policy has taken center stage: NATO's collective commitment to raise defense spending to 5% of GDP and new UK infrastructure plans injected fresh optimism, particularly in sectors related to industrials and construction. Still, aging infrastructure remains a concern, with grid disruptions in Spain a recent reminder of the need for sustained investment.

Asia: governance reform and mixed growth

In Japan, the story continues to be one of measured progress on corporate reform. A growing number of companies are increasing share buybacks and moving to consolidate parent-child share listings, steps that reflect ongoing improvements in shareholder alignment. However, investors remain mindful of persistent questions surrounding the country's long-term growth trajectory. Economic indicators suggest that while the recovery is intact, the pace of expansion remains modest and demographic headwinds continue to challenge Japan's structural outlook.

China's equity market remained flat for the quarter, weighed down by continued uncertainty regarding consumer demand and macroeconomic policy. While the US and China agreed in May to a 90-day mutual tariff reduction, hopes for a broader breakthrough have since stalled. Market participants appear to be taking a wait-and-see approach amid a complex economic and corporate environment that presents both opportunities and uncertainties in equal measure. In contrast, South Korean equities rallied following the conclusion of the presidential election, which ushered in a period of relative political stability and improved investor sentiment.

Latin America: steady gains, supported by policy and valuations

In Latin America, several markets benefited from dovish central bank actions and favorable currency movements. Mexican equities gained on the back of interest rate cuts and a stronger peso, while Brazilian stocks were lifted by a combination of attractive valuations and renewed fiscal discipline. These developments enabled Latin America to make a meaningful contribution to the overall positive performance in emerging markets.

Global trade developments drive market sentiment

The global trade landscape was a dominant driver of sentiment throughout the quarter. President Trump's Liberation Day tariffs sent shockwaves through markets initially, but as headlines cooled and details emerged, it became evident that many of the most punitive measures would be walked back or renegotiated. Several nations – including the UK, China and India – moved quickly to pursue new bilateral trade agreements. The US and China implemented temporary tariff reductions, though broader talks appear to have stalled. Meanwhile, the UK and EU agreed to reset post-Brexit trade negotiations, offering a potential pathway toward greater certainty in the years ahead.

Tariff policy remains a significant source of uncertainty for both international companies and investors. While the rapid shifts in policy present near-term volatility, they also create dislocations that can reveal attractive entry points for disciplined, long-term investors. These events underscore the importance of active management and a steady hand when navigating the complexities of global politics and economics.

Attractive valuations and a disciplined approach

International stocks have delivered strong year-to-date returns, yet they continue to offer compelling relative valuations versus US equities. Importantly, there is no single unifying theme across global markets. Instead, a mosaic of region- and country-specific developments is unfolding, each offering distinct opportunities and risks. Europe's focus on fiscal expansion, Japan's steady corporate governance reforms and efforts across Latin America to balance growth and policy credibility each contribute to a diverse global investment landscape.

Economic data have taken a backseat to headlines in terms of market impact this year, but we remain mindful of fundamentals. Despite the noise, many international companies continue to execute well, and structural shifts in policy and corporate behavior are creating fertile ground for future gains. In this environment, we remain grounded in our disciplined investment philosophy – one that emphasizes identifying businesses where a gap exists between intrinsic value and current market price.

Outlook

Looking ahead, we anticipate that global markets will remain sensitive to further developments in trade negotiations and geopolitical risks. While the pace of headlines may not slow, we believe that by staying nimble and focused on bottom-up fundamentals, we can continue to uncover attractive investment opportunities across international markets. We will maintain a measured and opportunistic approach, seeking to deliver sustainable, long-term value for our clients, regardless of how turbulent the journey may be.

MSCI ACWI ex USA Index measures the performance of large- and mid-cap stocks in developed (excluding the US) and emerging markets. The index is unmanaged, market capitalization weighted, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is not available for direct investment. Index data source: MSCI, Inc. See [diamond-hill.com/disclosures](https://www.diamond-hill.com/disclosures) for a full copy of the disclaimer.

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