Monthly Markets Update

31 May 2025

Walden Capital

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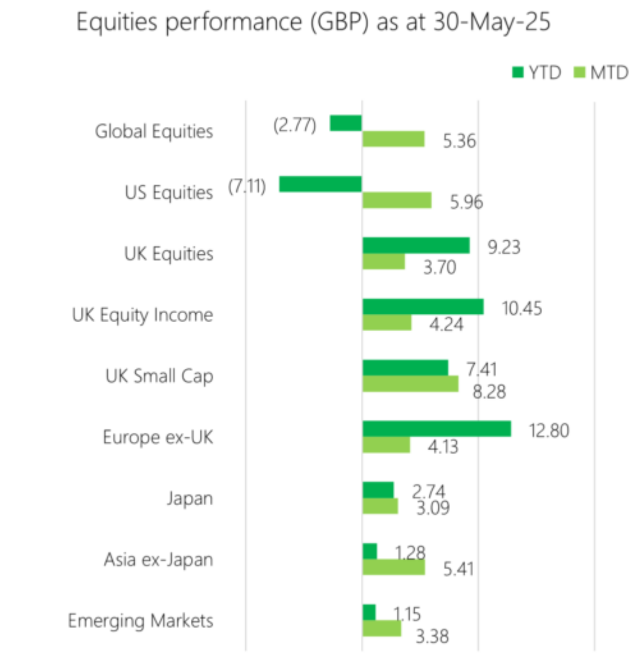
- Markets rebound, but risk persists
- Trade policy whiplash
- Tax cuts and deregulation fuel momentum

Key points

1. Technology sector led the equity rally driven by tariff truce and strong quarterly earnings.
2. Temporary US-China tariff relief lifted sentiment, but fresh threats toward the EU reignited uncertainty.
3. Anticipated tax cuts and deregulation offer support, but questions around fiscal discipline and debt sustainability remain.

Equities

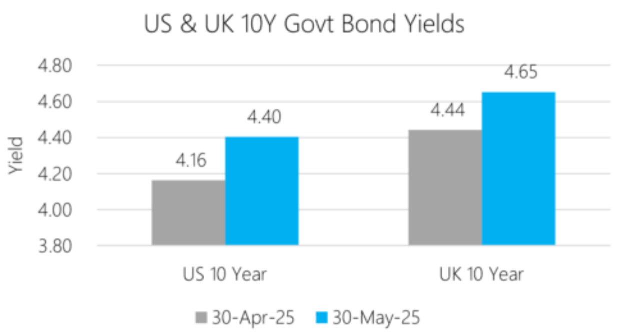
Global Equities closed the month +5.36% MTD. US equities rose +5.96% MTD, UK equities were up +3.70% MTD, and European equities were up +4.13% MTD, all in GBP terms.

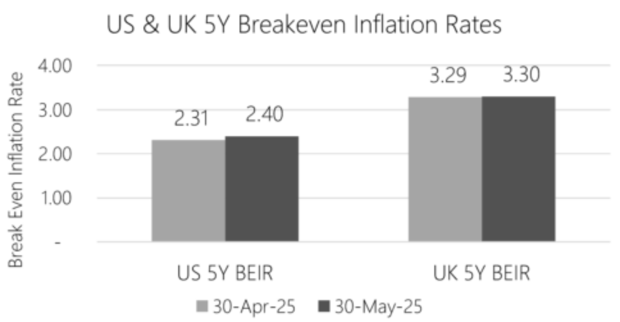


*Elston Indices

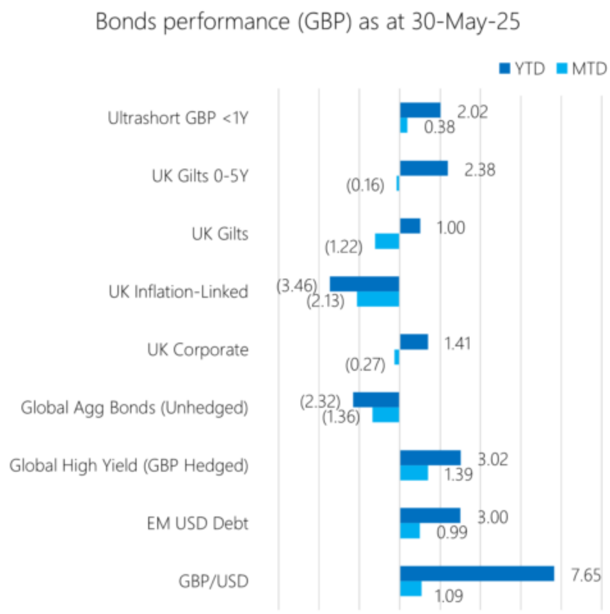
Bonds

UK 10-year Gilt yields increased from 4.44% to 4.65%. US 10-year Treasury yields increased from 4.16% to 4.40%. 5Y UK BEIR increased from 3.29% to 3.30%. Within bonds, Global High Yield and EM USD Debt were top performers, returning 1.39% and 0.99% MTD respectively.



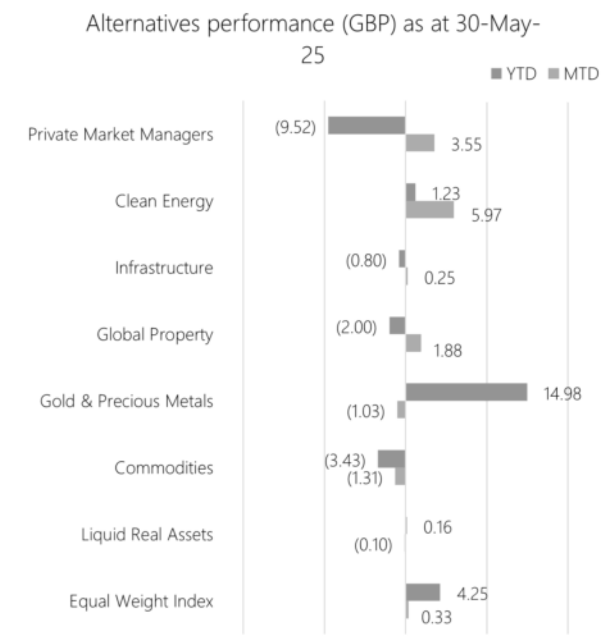


Source: Elston research, Bloomberg data



Alternatives

Alternative Assets: Gold and precious metals dropped -1.03% MTD. Commodities were down -1.31%. Private Market Managers increased +3.55%, and global property securities gained +1.88%. **Alternative Strategies,** an Equal Weight 4-asset index strategy was up 0.33% for the month.



*Elston Indices

Currency

Sterling strengthened against the Dollar (+1.09% MTD). £1 buys $1.3510.

Month in review

We summarise key drivers and data points in the last month for markets, the economy and geopolitics.

Markets

EQUITIES

Global Equities

In May 2025, global equity markets experienced a robust rebound, marking the strongest monthly performance since November 2023. Easing trade tensions between the US and China and positive tech earnings propelled the market higher. The US-China agreement to temporarily reduce tariffs for 90 days buoyed investor sentiment, helping to reverse some of the earlier caution. However, volatility re-emerged late in the month as Trump threatened new tariffs on the EU and Apple, and as US courts oscillated on the legality of existing tariffs.

US Equities

The S&P 500 closed the month at 5,935.9, up +5.96% MTD, supported by tech sector strength, notably Nvidia's earnings beat, and optimism around trade deals. A softer inflation print and hopes for rate cuts fuelled a strong mid-month rally, although markets wavered toward the end of May on renewed trade tensions and concern over fiscal sustainability.

UK Equities

The FTSE 100 closed at 8,769.1, up +3.70% MTD, with sentiment boosted by a surprisingly strong Q1 GDP data and the US trade agreement. However, lingering concerns over inflation and global growth weighed on large caps. A stronger pound also dampened returns for international earners.

BONDS

UK Bonds

The Bank of England cut its policy rate to 4.25% following softer inflation data and concerns over the pace of domestic growth. UK 10-year gilt yields ranged between 4.76% and 4.44%, closing at 4.65%.

5-year UK Break-Even Inflation Rates (BEIRs, a market-derived measure of expected inflation) ranged between 3.36% to 3.23%, closing at 3.30%.

Global Bonds

The Global Aggregate Bond Index (unhedged) declined -1.36% MTD as yields rose following Moody's downgrade of US debt from AAA to Aa1, citing rising deficits and unclear funding for proposed tax cuts.

ALTERNATIVES

The Gold price surged to a further high of $3,432/oz on 6 May, driven by renewed US-China trade disputes, a weakening dollar and concerns over a potential economic downturn. GBP terms, gold & precious metals finished the month down -1.03%.

CURRENCIES

Sterling strengthened to $1.3510. The US dollar weakened against a trade-weighted basket of currencies owing to trade uncertainties and slowdown concerns.

Economy

Growth

The US economy contracted by -0.2% yy in the first quarter marking its first decline in three years. This was primarily driven by a significant surge in imports as businesses accelerated purchases ahead of anticipated tariff increases. Despite the headline contraction, domestic demand remained resilient. Consumer spending increased by 1.8%, and business investment in equipment surged by 22.5%, indicating underlying economic strength.

The UK economy grew 1.3% yy in Q1, outperforming estimates. The services sector and improved trade flows contributed meaningfully, suggesting that some business activity may have been accelerated in anticipation of global trade headwinds.

Inflation

US inflation moderated further in April, with CPI falling to 2.3% yy. However, policymakers remain cautious, noting that much of the tariff-related inflation impact has yet to materialise. Core PCE, the Fed's preferred inflation measure, remained elevated at 2.5%.

UK inflation rose to 3.5% yy in April, above expectations. Higher energy and travel costs were key drivers, raising questions over the BoE's rate path despite recent growth concerns.

Rates

The US Fed policy rate remains unchanged at 4.50%, with Chair Powell reiterating independence from political pressure amid repeated calls by President Trump for rate cuts. Inflation data helped support market hopes for easing later this year.

The BoE cut its policy rate by 25 bps to 4.25%, citing weaker inflation data from March and worries over growth momentum. However, elevated April inflation could limit further easing in the near term.

Geopolitics

US: Towards the start of the month, trade talks between the US and China made tentative progress in Switzerland. A temporary tariff reduction of 115% each (to 30% and 10% respectively) was agreed, though tensions flared again late in the month with US visa restrictions for Chinese students, tech export curbs, and warnings that negotiations are "stalled" without direct leadership involvement.

UK: The UK signed a new trade deal with the US, focused on cutting tariffs for steel and car exports. The deal marks a breakthrough in Trump's trade war and was touted by UK officials as a major win, potentially paving the way for future agreements.

EU: Relations with the US deteriorated after President Trump threatened the EU with 50% tariffs, citing frustration over stalled negotiations. The EU has not yet responded formally, but the risk of further escalation remains present.

Russia/Ukraine: The Russia-Ukraine conflict showed both glimmers of diplomacy and continued violence throughout May. In a major development, Russia and Ukraine conducted their largest prisoner exchange since the war began, trading nearly 800 individuals and reaffirming their commitment to a full "1,000 for 1,000" exchange agreement. This marked a rare instance of direct cooperation, raising tentative hopes for further humanitarian gestures. However, progress toward a broader peace deal remains elusive. President Trump's call with Vladimir Putin was described as constructive, but it yielded no tangible breakthrough, with Trump acknowledging that "a lot of negotiation" would still be needed to end the war. Meanwhile, the Kremlin escalated its assault on Kyiv in late May, launching deadly missile strikes that killed at least 13 civilians.

Bottom Line

The U.S. continues to dictate the tone for global equity markets, with investor sentiment swinging sharply on the back of increasingly unpredictable trade and regulatory developments. President Trump's "America First" agenda remains a key driver of market volatility, with May marked by abrupt policy shifts—first easing, then re-escalating trade tensions with China and the EU. While the temporary 90-day tariff reduction deal with China offered near-term relief, renewed threats against the EU and large corporates like Apple have reinforced the fragility of the current environment.

As in previous tariff cycles, corporate investment plans are on hold, with many businesses hesitant to commit to long-term capex amid such erratic policy signals. This uncertainty is feeding into the economic data, distorting near-term readings on growth, inflation, and trade flows—making it harder for investors and policymakers to gauge the underlying strength of the economy.

Investors are also digesting the potential impact of proposed tax cuts and deregulation, which the administration argues will be financed by tariff revenues—a strategy reminiscent of 2018. While these policies could support equity markets, they also raise questions about long-term fiscal sustainability and inflationary pressures.

In this environment, staying invested remains essential to capturing long-term gains, especially with equity markets rallying sharply in May. However, elevated volatility and policy uncertainty reinforce the need for adaptable, well-diversified portfolios. Risk management through allocation discipline—across geographies, sectors, and asset classes—remains a vital tool for navigating an increasingly unpredictable macro and geopolitical backdrop.

What does this mean for portfolios?

While portfolios should have clear long-run strategic allocation to match a given risk profile, adapting portfolios to align to changing market and economic conditions can help mitigate near- to medium-term risks and help navigate the markets.

Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

Contact us

For more information, please contact your financial adviser.

NOTICE
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