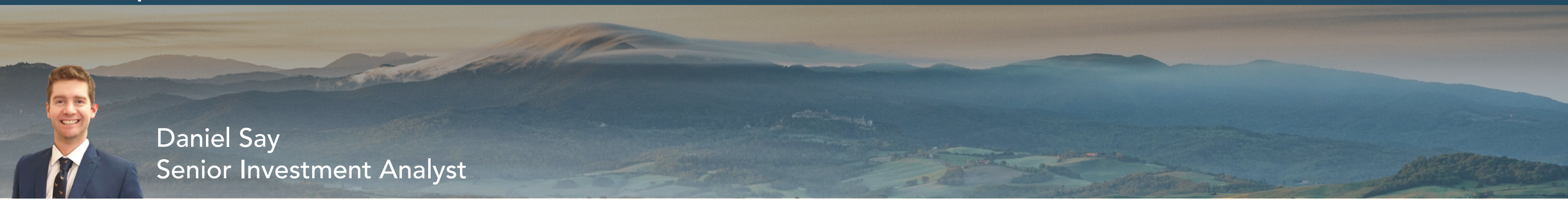
Market Commentary

May 2025

Telephone: 0117 452 1207 www.whitechurch.co.uk



Daniel Say
Senior Investment Analyst

May was another month dominated by the seemingly endless twists and turns of Trump's tariff saga. After a spectacularly volatile April, when Trump's 'Liberation Day' announcement prompted a near 10% fall in global equity markets before a series of climbdowns sparked a rally towards month end, May saw an extension of the nascent market recovery.

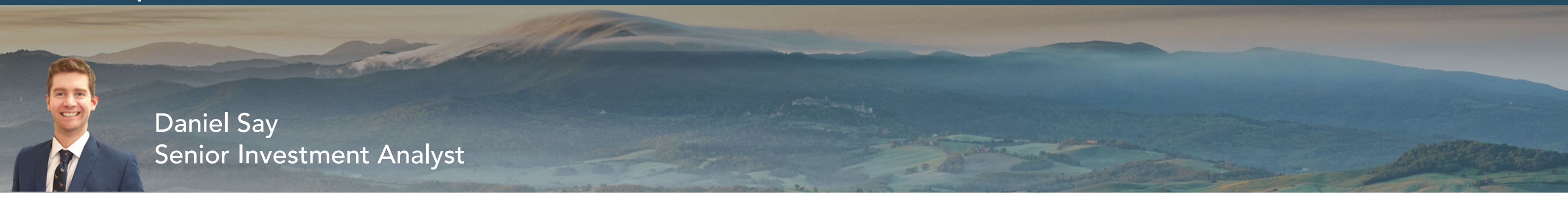
The main catalyst was a series of apparent tariff-related row backs from the White House, most notably in relation to China. On May 14th, US officials announced that they would be reducing 'reciprocal' tariffs on Chinese imports to 10% (previously as high as 145%), with China announcing a similar reduction, ending a month of tit-for-tat tariff rises that essentially amounted to an all-out trade embargo between the world's two largest economies.

Later in the month there was further tariff-related drama, with Trump threatening iPhone manufacturer Apple with a 25% import tax on any phone not manufactured in the United States. The European Union then found itself in the crosshairs, subject to a 50% tariff on all goods imported into the US from the 1st June. As usual, this was swiftly followed by a partial climbdown, with an announcement that the implementation of tariffs would be delayed until July 9th to allow more time for the negotiation of a trade deal. There was further confusion towards month end, as the US Court of International Trade ruled that roughly half of the Liberation Day tariffs, applied via presidential executive order, were illegal. Tariffs will still be collected while the White House appeals the ruling; if it is upheld, it would represent a major blow for a President already irritated by the new Wall Street trade acronym, TACO ('Trump Always Chickens Out').

While the prospect of further tariff-driven uncertainty is widely expected to become a drag on growth, in the short term the US economy has continued to show resilience, with modest inflation and a relatively strong labour market. Company earnings also remained strong – of the 97% of US large-cap companies that have reported first quarter earnings, 77% beat analyst expectations. Nvidia was once again the pick of the bunch, with 12-month sales reaching $150 billion at a profit margin of almost 50%.

Back at home, the economic picture was mixed. Positive news flow came in the form of trade deals announced with the US, India and the European Union, as well as GDP growth of 0.7% for the first three months of the year (though this was partially driven by companies front-running US exports ahead of tariffs being imposed). Retail sales also rose more strongly than expected in April, helped by sunny weather. Conversely, UK inflation rose sharply to 3.4% and exceeded economists' expectations, as the initial impact of a rise in household bills, notably energy and water, became apparent. While the Bank of England cut rates by 0.25% in May, the mixed inflation and labour market outlook are likely to temper appetite for more cuts in the immediate future.

Telephone: 0117 452 1207 www.whitechurch.co.uk



On the other side of the English Channel, Eurozone inflation remained steady at 2.2%, leaving the door open for the European Central Bank to continue cutting rates – it has already cut seven times from a peak in May 2024. In contrast, Japanese core inflation (which strips out volatile components like energy) rose to a two-year high in May, keeping the Bank of Japan under pressure to keep raising rates.

Markets

Moving on to markets, where aforementioned tariff row backs and their read-through to the economic outlook saw equities outperform other major asset classes. The US was the best performing region (+5.3%, all returns in sterling), supported by Trump's softening stance on tariffs and another strong earnings season. Despite the recovery, the US remains the worst performing major region year-to-date. The UK (+5.1%), Europe (+4.5%) and Japan (+3.5%) all posted solid gains in May. In the UK, positive economic momentum saw more domestically focussed mid and small caps outperform their large cap peers. Asian and emerging markets saw similar gains to developed markets. Chinese equities (+2.4%) benefited from tariff relaxation, but enthusiasm began to wane later in the month as concerns about low consumer confidence persisted. India (+1.1%), meanwhile, posted a more muted gain as Indian equities continued their recovery from a trough in early March. The Indian economy grew by 7.4% in the first quarter of 2025, significantly beating economists' expectations.

Bond markets underperformed equities in May, as sticky inflation and rising fiscal concerns saw yields rise (i.e., prices fall). Government bonds in particular suffered, with UK gilts and US Treasury bonds down 1.3% and 1.7%, respectively. In a largely symbolic move, Moody's became the last of the three major credit rating agencies to downgrade the US' credit rating, from Aaa (the highest available), to Aa1 (one notch lower), citing ballooning deficits and interest costs. Corporate bonds fared somewhat better than government issuance; easing recession fears saw credit spreads (the difference in yield between a corporate bond and the 'risk free' government equivalent) tighten. The effect was most pronounced for high yield, the best performing sub-sector over the month.

Finally, to alternatives, where listed property (+1.9%) and infrastructure (+1.2%) made gains, while gold (-1.6%) fell as 'risk on' investor appetite resulted in lower demand for safe-haven assets. The precious metal remains one of the best performing asset classes year-to-date, up 15.4%.

Whitechurch Investment Team
Issued June 2025