VINTAGE asset management

Market Commentary

Equity markets saw some considerable gains in May on the expectation that the Trump administration would moderate its approach on the reciprocal tariffs it had announced in April, although there remained some uncertainty on the outlook. Company profit announcements were broadly encouraging while the yields in various bond markets reflected concerns over the high level of government debt.

The likely severity of the tariffs announced on 2nd April by President Trump faded further, while the courts also challenged the legality of his approach. Japan was the first country to negotiate a new agreement with the US which also agreed with China substantial cuts in the level of threatened tariffs over a ninety-day period, from 145% to 30% for Chinese goods and from 125% to 10% on American products. Tariffs are still likely to be higher than before, with the average effective rate calculated to be 12%; the reduction from a possible 25% will reduce the impact on the economy and on the rate of inflation, which might yet be nearly 1% higher over a two- to three-year period. The US announced a trade deal with the UK, allowing British manufacturers to export up to 100,000 cars (almost the amount of recent volumes) at a tariff of 10% rather than 25% and 13,000 tonnes of beef with no duty, while the UK will reduce or abolish its 2% tax on digital services, as well as aligning its tariffs on steel and aluminium with US rates – which would have made it easier to waive them if Trump had not shifted the rhetoric again. The UK also announced a trade deal with India and re-set its relations with the European Union.

The trade dispute has had an immediate impact although there has been a distortion to traditional patterns; for example, Chinese exports to the US fell by 21% in April on the prior year. Company results for the first quarter were nonetheless broadly reassuring in the US, notably from Nvidia which reported a 69% increase in revenue on the prior year, although the oil sector saw a drop in reported profits. In Europe some 60% of companies beat analyst estimates but forecasts for the year saw significant cuts. In the US there has also been a record rate of share buyback announcements, already in the order of $700bn for 2025 to date.

Markets became more concerned on the rising level of government debt. In the US Trump's tax bill, which passed the House of Representatives by one vote, might add $3.3 trillion to the total debt over ten years when its ratio to GDP would rise from 98% to 125%, the highest since the Second World War. The numbers could change, if the administration is able to reduce the budget deficit from 6.4% to 3% by the end of its term given its projections on expected growth or to cut government spending, even as Elon Musk stood down from his role at the Department of Government Efficiency. Tariffs in the order of 12-14% would generate $250-300bn in revenues, equivalent to about 1% of GDP. Moody's downgraded its debt rating for the US to Aa1, which meant that for the first time America did not hold the highest AAA rating from any of the three major agencies. The yield on 30-year bonds moved over 5% while that on Japanese 40-year government bonds rose by 100 basis points to 3.60%, the highest level for decades given that inflation was now more entrenched and that public debt was close to 240% of GDP.

In the US the early purchasing manager data for May saw an encouraging rise, with the manufacturing index rising to 52.3 from 50.2 and the services index recovering to 52.3 from April's seventeen-month low of 50.8. The University of Michigan recorded a subdued level of US consumer sentiment in May, with the index reading of 50.8 being the second lowest ever. The EU Commission cut its forecast for growth in 2025 for the eurozone to 0.9% from 1.3%, although it expected an improvement to 1.4% in 2026; business activity unexpectedly contracted in May, while consumer confidence improved. Britain's economy grew by 0.7% in the first quarter of the year, compared with the previous three months which was slightly more than expected.

In the US the consumer price index (CPI) was down to 2.3% in April from 2.4% in March, which was the lowest level since February 2021; the Personal Consumption Expenditure (PCE) price index was up just 0.1% in April after being unchanged in March and for the twelve months the rate was down from 2.3% to 2.1%. In the UK the CPI rose from 2.6% in March to 3.5% in April, higher than expected with services inflation a factor at 5.4%. In the eurozone the rate of consumer price inflation was at 2.2% in April, the same as in March. In Japan the overall inflation rate in April was steady at 3.6% while the 3.2% for the core rate was the highest since January 2023.

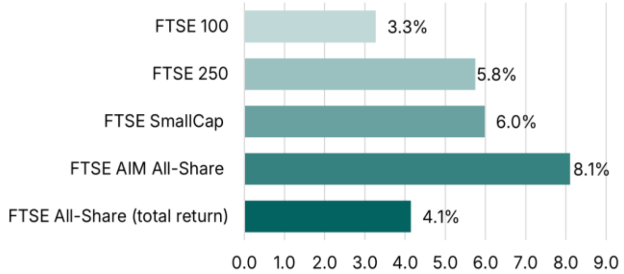
The Bank of England committee voted by five votes to four to cut the interest rate by 25 basis points to 4.25%, as expected – of those dissenting two members preferred a greater reduction to 4%, while two favoured no change from 4.5%. The US Federal Reserve kept its policy on hold and provided few pointers to its future approach as it evaluated the uncertain outlook. The Bank of Japan and the European Central Bank rates were unchanged. The People's Bank of China reduced its main interest rate from 1.5% to 1.4%.

In the Romanian presidential election the mayor of Bucharest, Nicosur Dan, beat his right-wing populist rival in the run-off vote while in Australia the Labor party won an increased majority in the general election, having trailed in opinion polls earlier in the year in a similar pattern to the Liberal party in Canada. Russia increased its attacks on Ukraine, where peace looked elusive as it did in the Middle East, although an unsteady ceasefire held between India and Pakistan over Kashmir.

United Kingdom

In the UK the FTSE 100 index was up by 3.3% in the month to 8772 while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index were up by 5.8% and 6% respectively; the FTSE AIM All-Share index was 8.1% higher.

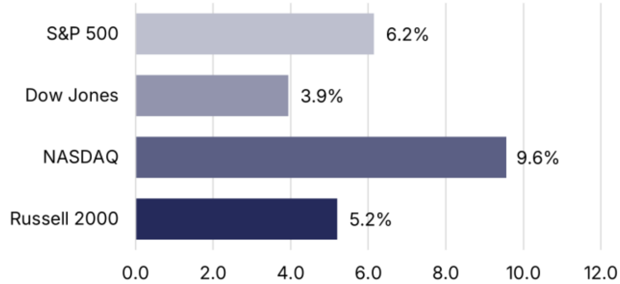
The total return for the FTSE All-Share index including income was 4.1% in the period.



United States

In the US the S&P 500 index was up by 6.2% in the month and the Dow Jones Industrials index was 3.9% higher, while the technology-oriented NASDAQ index gained a striking 9.6%.

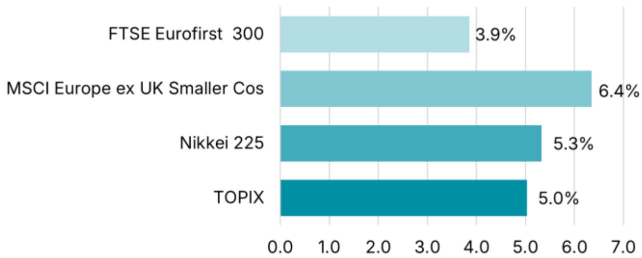
The Russell 2000 index of smaller companies was up 5.2%.



Europe & Japan

In Europe the FTSE Eurofirst 300 index was up by 3.9% over the month, when the market in France lagged the strong returns in Germany, Italy and Spain; the MSCI Europe ex UK Smaller Companies Index gained 6.4%.

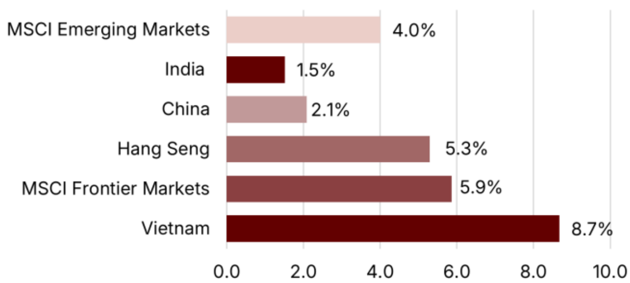
In Japan the Nikkei 225 index was up by 5.3% and the TOPIX index by 5%.



Emerging Markets

The MSCI Emerging Markets index in US$ rose by 4% in the month, helped by the gain of 5.5% in the Korean market while the Indian market was 1.5% higher; the Shanghai index was 2.1% higher while the Hang Seng index in Hong Kong was up by 5.3%.

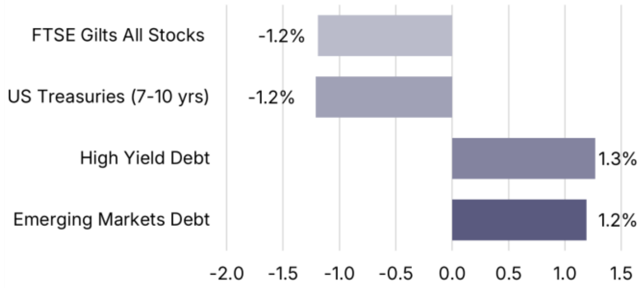
The MSCI Frontier Markets index was 5.9% higher and the Vietnamese market gained 8.7%.



Bond Markets

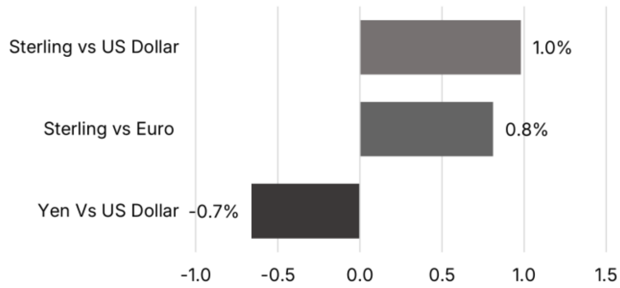
In bond markets the UK 10-year gilt yield rose from 4.44% to 4.65% and the total return for the FTSE Gilts All Stocks index in the month was -1.2%. In the US the ten-year yield rose to 4.40% from 4.16% and in Germany the 10-year bund yield rose from 2.44% to 2.50%.

There were mixed returns in the major bond markets, with the best coming from high yield and emerging market debt.



Currencies

Sterling was up by a further 1% against the US$ to close the month at a rate of $1.35:£, while against the euro Sterling rallied by 0.8% in the month to end at a rate of €1.19:£. The Japanese yen softened by 0.7% against the US$ to close at ¥144:$.



Commodities

The price of Brent crude oil recovered a little by 1.1% over the month to a level of $64 per barrel. The gold price was largely unchanged at $3289 per troy ounce, after its strong run.

The prices of major metals were all higher in the month, with the bellwether copper up by 1.5%, while the main agricultural commodities were mostly lower, with wheat seeing the only gain at 0.6%.