HYMANS ROBERTSON

Monthly Market Brief

May 2025

- Market volatility surged following President Trump's 2 April 'Liberation Day' tariff announcements. Markets fell sharply but rebounded following a 90-day postponement of reciprocal tariffs. The market recovery was extended as the US government issued a range of exemptions from the steep tariffs applied to China, and suggested it was open to trade talks.
- Despite the early-April sell-off, The FTSE All World Total Return Index ended the month down just 0.3%. Europe ex-UK and North America underperformed, while Developed Asia Pacific and Japan outperformed.
- Sovereign bond yields experienced significant volatility but ended the month lower, while credit spreads rose amid concerns about the impact of tariffs on global growth.

APRIL HIGHLIGHTS

- Initial estimates suggest the US economy contracted 0.3% in the first quarter (Q1). However, a sharp rise in imports ahead of the imposition of tariffs exaggerated the extent of the slowdown: domestic spending and investment remained resilient in Q1. Nonetheless, PMI data suggest that rising trade tensions are weakening the economic outlook.
- Headline inflation fell more than expected to 2.4%, 2.6% and 2.2% in the US, UK and eurozone, respectively. Given progress on inflation and a deteriorating growth outlook, the European Central Bank (ECB) cut rates by 0.25% pa to 2.25% pa. Despite expectations that inflation will temporarily rise in the coming months, markets also moved to price in more rate cuts from the US Federal Reserve (Fed) and the Bank of England (BoE) in 2025.
- The trade-weighted US dollar fell 2.5% as sentiment towards US assets soured, while the equivalent euro and yen measures both rose around 3.0%. Gold has been the main beneficiary of Trump's trade war, as prices rose a further 5.9% to reach new real-term highs during the month. Oil fell 14.0%.

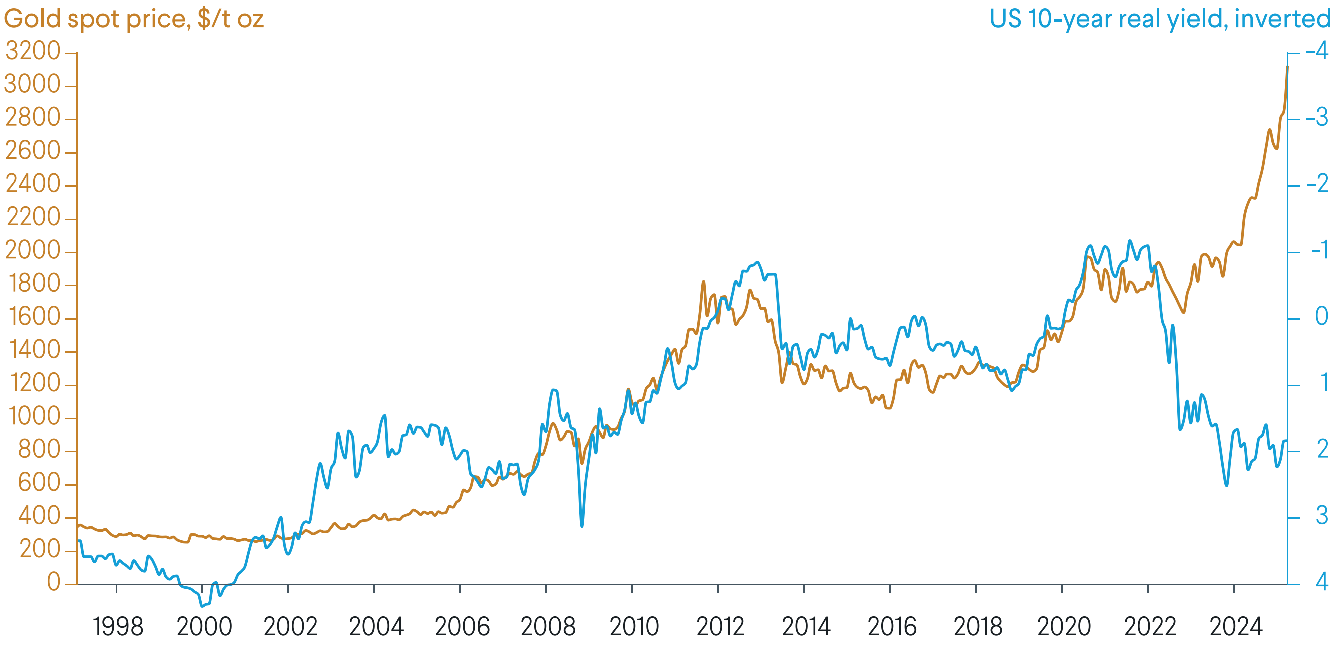
Market performance to end April 2025

UK	Apr 25	Q1 25	2025
EQUITIES	-0.3	4.5	4.3
BONDS			
Conventional gilts	1.7	0.6	2.3
Index-linked gilts	0.1	-1.4	-1.3
Credit	1.4	0.7	2.1
PROPERTY**	n/a	2.0	2.0
STERLING			
v US dollar	3.5	3.1	6.7
v euro	-1.7	-1.2	-2.9
v Japanese yen	-1.3	-1.9	-3.2

GLOBAL	Apr 25	Q1 25	2025
EQUITIES	-0.3	-1.9	-2.2
North America	-0.4	-4.1	-4.5
Europe ex UK	-0.4	6.4	5.9
Japan	0.4	-3.9	-3.6
Dev. Asia ex Japan	1.6	0.7	2.4
Emerging Markets	-0.4	2.0	1.6
GOVERNMENT BONDS	2.9	2.6	5.6
High Yield	0.0	0.9	1.0
Gold	5.9	19.0	26.0
Oil	-14.0	0.1	-13.9

Percentage returns in local currency ($ for gold and oil). All returns to 30/04/2025, *apart from property 31/03/2025
Source: DataStream and Bloomberg. FTSE Indices shown: All Share, All World, North America, AW Developed Europe ex-UK, Japan, Developed Asia Pacific ex-Japan, Emerging, Fixed Gilts All Stocks, Index-Linked Gilts All Maturities, iBoxx Non-Gilts, Crude Oil BFO, ICE BofA US High Yield, Gold Bullion LBM, MSCI UK Monthly Property and BBG Aggregate Government Total Return.

Chart of the month - a decoupling of the relationship between gold and real yields?



Source: DataStream and Bloomberg

Gold has once again demonstrated its value as a safe haven from economic and geopolitical uncertainty – especially as the traditional safe-haven issuer (the US) is a source of that uncertainty. The prices of gold and US treasuries have moved together over the last 20 years, but in the last few years we've seen them decouple. Does this signal a change in the longer-term relationship between gold and US treasuries? Or do gold prices distinguish between rising interest-rate expectations and yield increases caused by worries over government debt? We'll be monitoring this in the months to come, and will update you in due course.

Fixed income markets

Bond yields fell after a volatile month as longer-term inflation expectations fell

US 10-year yields experienced significant volatility but, after rising as high as 4.6% pa, ended the month slightly lower, at 4.2% pa. Yields initially fell following the tariff announcements, but the rise in broader market volatility and the forced selling of collateral by highly leveraged investors seem to have contributed to the rise in yields in the week following the tariff announcements. Yields fell as market volatility subsided and as markets moved to price in more rate cuts from the Fed, and other major central banks, in 2025.

UK 10-year yields were also whipsawed by the volatility in the US bond market: they rose as high as 4.8% pa, but ultimately ended the month 0.2% pa lower, at 4.4% pa. European yields fell further, with German 10-year bund yields falling 0.3% pa, to 2.4% pa, while Japanese 10-year yields fell 0.2% pa to 1.3% pa.

Ten-year implied inflation (as measured by the difference between nominal and inflation-linked bond yields) fell 0.2% pa in the UK and US, to 3.2% pa and 2.2% pa, respectively. German implied inflation fell 0.1% pa, to 1.8% pa.

Credit spreads rose and investment-grade credit outperformed

Credit spreads rose sharply in early April as markets digested the potential negative growth impact of tariffs. Despite retracing much of their move wider, sterling investment-grade credit spreads ended the month 0.1% pa wider, at 1.2% pa. Similar moves were seen in equivalent US and European investment-grade credit markets.

Speculative-grade credit spreads rose more significantly. Global speculative-grade credit spreads rose by 0.4% pa to 3.9% pa, taking their year-to-date rise to 0.9% pa. US speculative-grade spreads increased by 0.4% pa to 3.9% pa, while equivalent European spreads rose by 0.3% pa, to 3.6% pa.

Spreads in both investment- and speculative-grade credit markets began their ascent from historically low levels and remain relatively low versus history, despite the widening seen in April.

Lower yields and dollar weakness supported emerging market debt

Hard-currency emerging market debt, as measured by the J.P. Morgan EMBI Global Diversified Index, fell 0.2% in dollar terms as a 0.3% pa rise in spreads more than offset a modest fall in US treasury yields. Local-currency emerging market debt, as measured by the J.P. Morgan GBI-EM Global Diversified Traded Index, delivered a 3.2% return in dollar terms, as yields fell 0.2% pa to 6.1% pa, and index currencies, in aggregate, strengthened against the US dollar.

Global equities

Europe ex-UK and North America underperformed

Despite the sell-off at the beginning of the month, the FTSE All World total return index ended the month down just 0.3% local-currency terms. Given US dollar weakness, the return to an unhedged sterling-based investor was -2.3%.

Equity markets fell sharply following President Trump's announcement of 'Liberation Day' tariffs. However, markets recovered much of their losses as the US administration softened its initial stance. The President announced a 90-day pause on the proposed reciprocal tariffs on all imports, before issuing a range of exemptions to the steep (and immediately effective) 145% tariff rate levied on Chinese goods. Markets extended their recovery as the US opened the door to trade talks with China, easing some of the worst fears over trade tensions. The VIX measure of implied volatility hit its highest level since the COVID-19 pandemic in early April before settling down towards the end of the month as sentiment improved.

Europe ex-UK was the largest underperformer, having been the best-performing region globally in Q1. North American equities continued their year-to-date underperformance, despite trimming some losses towards the end of the month, as concerns about the impact of tariffs on growth weighed on the market.

Asia Pacific ex Japan, Japanese and UK stocks outperformed

Developed Asia ex Japan and Japan were the top-performing regions and the only two regions to deliver a positive return. The UK FTSE All Share generally performed in line with global benchmarks, but the narrower FTSE 100 underperformed, given its above-average exposure to the notably underperforming energy sector.

Growth outperformed value, while energy notably underperformed

Growth stocks produced positive returns, while value stocks fell, in a reversal of the trend seen year to date. Energy was the worst-performing sector, falling 11.3% as energy prices fell on concerns over slowing global growth and oversupply. Health care also underperformed, followed by basic materials, telecoms, financials and industrials. Utilities were the best-performing sector, followed by consumer discretionary, consumer staples and technology.

Currencies and commodities

The US trade-weighted dollar fell 2.5% to a three-year low, as concerns over US trade policy weakened sentiment towards US assets. The equivalent euro and yen measures, meanwhile, both rose around 3.0%. Sterling rose 3.5% versus the dollar to $1.34, but was up only 0.5% in trade-weighted terms.

Gold has been the main beneficiary of heightened economic uncertainty and US dollar weakness prompted by President Trump's trade war, rising 5.9% to reach fresh real-term highs (see chart of the month). Oil fell 14.0% as trade tensions weighed on the demand outlook while OPEC members also announced larger-than-expected supply increases from May.

The global economy

Initial estimates suggest the US economy contracted at an annualised pace of 0.3% in Q1, lower than the anticipated growth of 0.2%, and a significant decrease from Q4's GDP growth of 2.4%. However, the extent of the slowdown was exaggerated by a large increase in imports ahead of the imposition of tariffs. So-called 'core GDP', which includes consumer spending, business and residential investment (while excluding government spending, inventories and international trade), suggests domestic economic activity was resilient in Q1. Nonetheless, optimism about the US outlook waned, as the flash US composite PMI indicated that business activity growth hit a 16-month low in April. Manufacturing output increased marginally, while service sector growth slowed sharply, amid uncertainty surrounding the economy and tariffs.

The UK economy grew 0.5% month on month in February, which suggests economic growth was recovering after Q4's budget-induced soft patch before Trump's 'Liberation Day' tariffs. However, the UK's flash PMI data suggest a renewed downturn in private sector output in April, with the largest fall in new export orders since May 2020. Weaker international demand is weighing on both the manufacturing and service sectors, with the prospect of US tariffs weakening business activity for the year. The eurozone economy grew faster than expected in Q1, expanding 0.4% quarter on quarter. However, the eurozone flash PMI data also suggest growth slowed in April, with private sector activity barely expanding as service sector activity contracted.

Year-on-year headline CPI inflation in the US, UK, and eurozone fell to 2.4%, 2.6%, and 2.2%, respectively, in March. Core inflation, which excludes volatile energy and food prices, remains above headline inflation across the three regions, at 2.8%, 3.4%, and 2.4% in the US, UK, and eurozone, respectively, highlighting some persistence in inflation pressures. Indeed, inflation is forecast to temporarily rise towards 4% in the US and UK in 2025.

Given continued progress on inflation and the deteriorating growth outlook, the ECB cut rates by 0.25% pa to 2.25% pa. Markets expect two or three more rate cuts from the ECB in 2025. Given the greater downside risks to growth and longer-term inflation, US implied interest rates continued to fall. At the start of the year, markets were pricing in between one and two 0.25% pa rate cuts from the Fed in 2025; by the end of April, they were pricing in around four. Markets expect the BoE to deliver four further 0.25% pa cuts in 2025, two more than they anticipated at the start of the year.

For and on behalf of Hymans Robertson LLP

Chris Arcari
Head of Capital Markets
chris.arcari@hymans.co.uk

Ross Rausch
Investment Research Analyst
ross.rausch@hymans.co.uk

Important information

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. It contains confidential information belonging to Hymans Robertson LLP (HR) and should not be disclosed to any third party without prior consent from HR, except as required by law.

HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party.

Please note the value of investments, and income from them, may fall as well as rise. This includes but is not limited to equities, government or corporate bonds, derivatives, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of investments. As a result, an investor may not get back the full amount of the original investment. Past performance is not necessarily a guide to future performance.

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk