INVESTMENT UPDATE

JUNE 2025

ROCKHOLD ASSET MANAGEMENT

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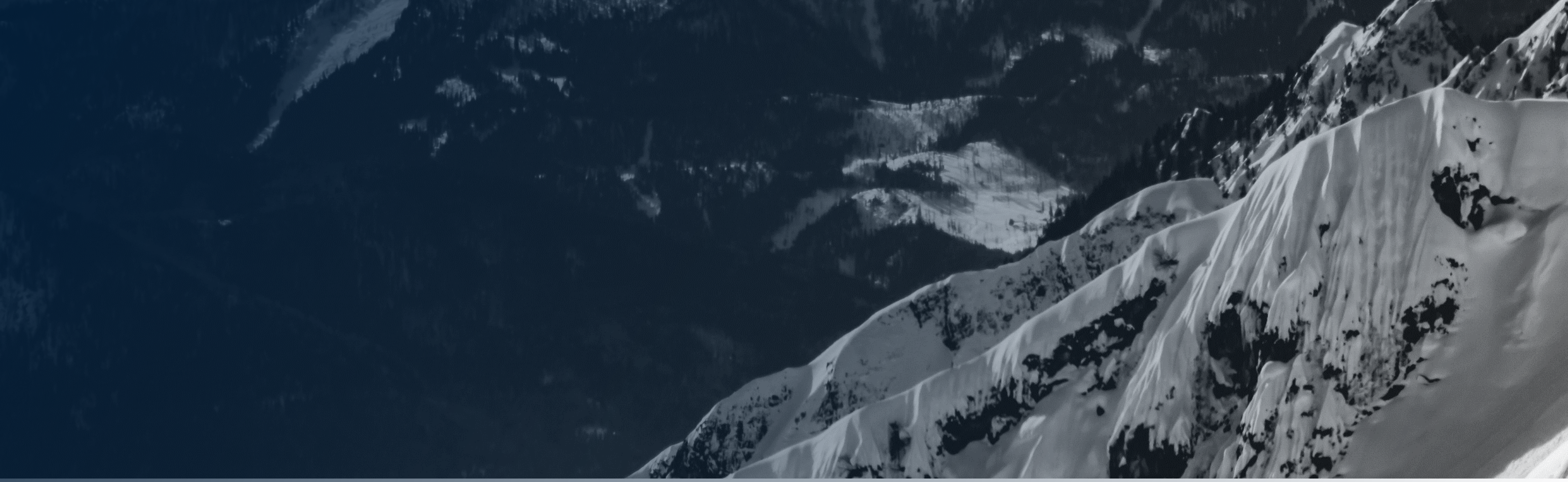

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Index	Level 30 Apr 2025	Level 31 May 2025	Change*
S&P 500	5569	5912	+6.1%
FTSE 100	8494	8772	+3.3%
Euro Stoxx 600	527	548	+4.0%
Nikkei 225	36045	37965	+5.3%
Shanghai	3279	3347	+2.1%
US 10 Yr Treasury Yield	4.17%	4.41%	+0.24
UK 10 Yr Gilt Yield	4.42%	4.63%	+0.21
Bund 10 Yr	2.44%	2.50%	+0.06

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

At the risk of sounding repetitive to regular readers, President Trump's decision on tariffs continued to have a major influence on markets during May.

Strong returns were seen across equity markets globally, continuing the trend from mid-April, as he conceded on the level of tariffs applicable to China. These were put on hold for 90 days while negotiations in this area continued, with the effective tariff level now at a 'mere' 45%. This was reciprocated by China, who also reduced tariffs on US goods. The waters were muddied somewhat towards the end of the month, as the US Court of International Trade ruled that the majority of the tariffs were outside the President's power to apply, although they remain in place while the administration appeals.

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Early in the month, a trade deal with the UK was trumpeted by the US administration as an example of a positive impact from the tariff policy. It should be observed that the UK is one of the few countries in the world that has a trade deficit with the US, so how much importance should be placed on this is debatable and a late May decision by Trump to increase global tariffs on Steel to 50%, brought into question how genuine it might be.

Although the changes in yield on the bonds in the table above suggest only minimal activity in the bond market, the opposite was true in terms of media coverage and larger upward moves in longer-term government borrowing rates in many major economies.

As an example, the US 30yr bond yield climbed from 4.68% to over 5% at one point during May. This was attributed to concerns over many governments' ability to fund fiscal deficits, particularly in the US, and the fact that interest payments are becoming an increasingly higher proportion of those governments' spending.

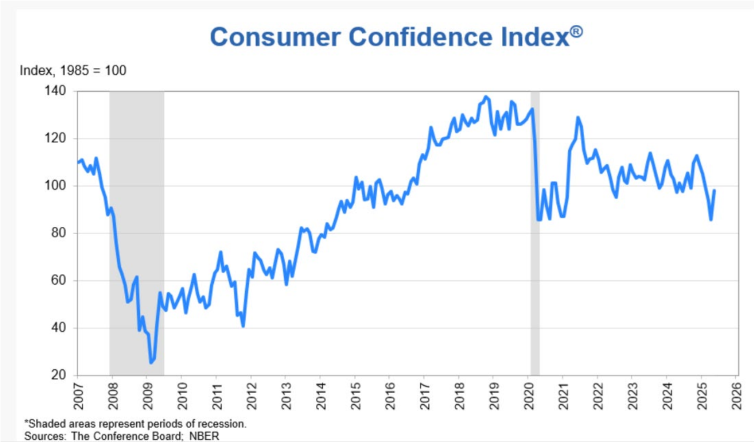
However, it can also be attributable to the current high level of uncertainty surrounding the global economy and, thus, interest rate backdrop. Governments are having to rely less on selling long term (20yr+) debt due to lack of investor appetite, as those investors are reluctant to lock in rates during this period of uncertainty. This is also going on when many governments are increasing the supply in the market by unwinding quantitative easing (selling or not rolling over expired bonds), which means they are no longer the buyer of last resort. Yet this should be kept in perspective, as US rates were this high as recently as 2023. Furthermore, this dislocation does mean that there are some now very attractive yields available for the patient investor.

Despite the volatility at the longer end of the bond market, the recovery in markets meant we saw positive returns from all portfolios during May.

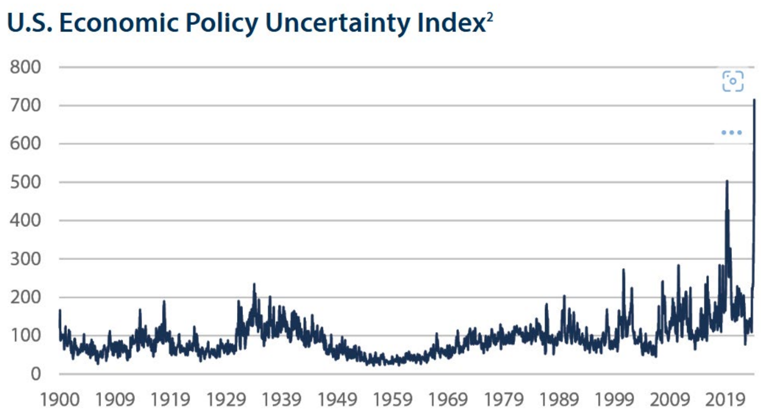
US

The bounce back in the S&P 500 was led by those stocks that have been hit hardest on the downside more recently, such as the Magnificent 7. This cohort was helped by some strong earnings numbers from Nvidia that suggested that the AI theme was still very much in play and helped lead to the index's best performance in May since 1990. Whilst the highest returns were seen in the broad index, both Mid and Small cap indices delivered returns of over 5% percent.

On the economy front, the Federal Reserve continued its policy of pausing on interest rate cuts while they sought more clarity on any inflationary impacts of tariffs, much to the ire of the President, but two cuts are still being priced in by the market at some point this year. Unsurprisingly, consumer sentiment has reflected both the shock and relief over tariffs; the Conference Board Consumer Confidence Index increased by 12.3 points in May to 98.0, up from 85.7, having declined sharply in April.



US GDP declined by 0.2% in Q1, and perhaps to reaffirm the whipsaw effect in sentiment caused by the 50 or so tariff announcements since April and their potential impact on the US economy, a US Economic Uncertainty Index (comprised of media coverage, tax provisions and economists' forecasts), reflected similar volatility as that evidenced in markets in April:



(2) Source: Baker, Bloom, & Davis, First Trust Advisors. Monthly data 1/1900 – 4/2025.

The US Tax and Spending Bill managed to pass through Congress. Before passing to the Senate. It was perhaps the perceived imbalance between tax cuts and spending and the impact on the US fiscal deficit that helped to contribute to US bond market volatility.

Yet a clause contained within the bill, particularly concerned foreign investors and possibly helped contribute to the continued weakness of the dollar, as it implied that foreign investors could in the future be singled out for increased taxation on their US bond and equity investments based on a subjective view of their own tax policies.

UK
As mentioned earlier, the UK and US struck a trade deal, which meant that the UK was still stuck with the minimum10% tariff, but there were concessions made in relation to tariffs on steel and car exports to the US. However, the consensus was that there wasn't that much detail to latch on to, apart from the fact that China was upset by the fact it seemed to suggest us colluding against them.

On the economic front, the Bank of England cut interest rates by 0.25%, bringing them down to 4.25%. Following that, the April headline core inflation figures showed a steep increase to 3.53%, from 2.6% in March, which might suggest limited further progress on the rate cuts front.

However, these figures include the significant increases in water, gas and electricity bills, which were widely expected to adversely impact the overall level. The level of inflation for Services was 5.4%, which could well reflect price rises as a result of the increase in employers' national insurance contributions. Core Goods inflation, in contrast, was only 1%. It is, therefore, likely that the BOE will discount the exceptions and monitor the underlying level of inflation moving forward in relation to their target level of 2%.

At an index level, the FTSE mid 250 index rose by over 6%, and this has now returned around 3 times the level of the large cap 100 index over the last couple of months, reflecting the strength in sterling, which reduces imported input costs.

Europe
European markets responded to movements on tariffs in a similar vein to elsewhere. This was despite a threat by President Trump to apply an almost immediate blanket tariff rate of 50% on EU goods, as he became frustrated with the slow progress on the tariff negotiations. The announcement initially caused a sharp sell off in equity markets, but this soon reversed, perhaps as investors began to doubt the sincerity of the threat.

Regardless, it was enough to stimulate immediate action from European Commission president Ursula von Leyen, who managed to delay the threat to July 9th following a call with Trump. Despite the threat from tariffs, unlike the US, the EU area seems to be stabilising, with some growth forecasts for the region back to where they were prior to the US election and Germany is expected to receive a boost to industry from defence and industrial policy across the region.

Japan
As a significant exporter to the US, Japan's equity market rallied as with elsewhere. However, it was the country's government bond market that was the centre of attention globally. As mentioned in relation to elsewhere in the world, long dated bond yields have risen significantly recently and there has been low take up of new long dated bond issuance.

This causes a problem for the Bank of Japan, since government debt is over 200% of GDP, following decades of supporting the domestic bond market in order to suppress yields to combat deflation. Now, this is being reversed; they are faced with the dilemma of stimulating a weak economy while inflation rises. Raising interest rates to slow inflation will weaken demand further and, at the same time, further increase the already increasing interest payments for the country.

One side effect of the higher bond yields is that it makes Japanese assets more attractive to domestic investors and there is speculation that there will be further repatriation of overseas assets, most notably the US which at the same time is not doing much to endear itself to overseas investors. It will, however, be stimulatory for Japanese asset prices.

Asia and Emerging Markets

Hong Kong, Taiwan and Korea were among the strongest performers during the month, with the first up nearly 10%. Many of the companies which will be beneficiaries of lower tariff rates on Chinese goods are listed here, so were exhibiting a clear reaction to the deferring of the higher rates.

Taiwan and Korea are both linked to the rebound in technology related stocks and have also allowed their currencies to appreciate against the dollar in an attempt to deflect any criticism from the US about abusing weak currencies to flood the US market (and thus help their case in negotiating tariffs).

China, it should be remembered, is still susceptible to weaker overseas demand for its products, with a weak property market overhanging domestic demand. The key issue for the authorities here is to see if they can stimulate the domestic economy to the extent that it can pick up some of the slack. Latin American markets were more subdued than elsewhere, as they had previously escaped much of the volatility associated with tariffs in April.

Summary

The continual flip-flopping over tariff levels is leading investors to be increasingly sanguine over the potential impact of any headline statements made by the US President: note the subdued market reaction to the imposition of a ‘non-negotiable’ 50% tariff on EU goods at the end of the month.

Nonetheless, the fact remains that with higher tariffs in place, we have a lower probability of company earnings expectations that were in place pre-‘Liberation Day’ being met, and a US market that is at a higher level with an equally high valuation.

So, we still need to be cautious over the prospects here. Fortunately, markets outside the US seem to be latching on to new dynamics that may reduce their reliance on the US and as a globally diversified investment manager, our clients’ reliance on that too. Additionally, whilst bond markets may seem volatile at times, we should remember that higher yields mean that there will be higher returns in the future; we just need to be mindful of navigating that volatility.

Rockhold Asset Management, with contribution from 7IM, Marlborough and LGT, June 2025

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