Five things you need to know *from May*

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1 Markets continue to march upwards

May was a strong month for equity markets, with all major indices producing positive returns as the 'post liberation day' recovery continued. Given the uncertainty around trade policy, it's hard to call the direction of markets in the near term. Sentiment, rather than fundamentals, is driving things at the moment, and that's prone to change at short notice - particularly with the current US administration.

2 Tired of Tariffs: the President who cried wolf

The constant announcements and revisions around tariffs and trade policy seems never ending. Before you've even considered the impact of any change, it's changed again and the markets are getting tired of it.

Last month's 50% blanket tariff announcement on the EU is a prime example – yes, markets fell, but not by much. Shortly after, they were back where they started, with the deadline pushed from June to July. Why? Because no one now expects it to actually happen. This pattern of threatening and then backing down has been coined the TACO trading strategy: Trump Always Chickens Out. Essentially, markets assume he'll go back on whatever he announces, and position accordingly.

Last week's decision by a US trade court that most of Trump's tariffs are illegal adds another layer of uncertainty. The use of emergency powers to push through tariffs was the issue, with the court ordering a 10-day limit to halt proceedings. This has been put on ice by the Court of Appeal, while the president and his team push back.

3 Trump's Big, Beautiful Bill

Turning to domestic policy, a package dubbed as "big and beautifu" is currently making its way through the House and Senate approval process. It extends previous tax cuts and introduces some new tax relief measures, cutting spending on Medicaid, and increasing spending on defence and border security.

The stimulative benefits of tax cuts won't be felt immediately, so for now, the bill will likely add more pressure to the current fiscal deficit. The level of any tariff revenue is unclear and DOGE (The Department of Government Efficiency) related cost savings seem to be constantly revised down. It's hard to see how any of these measures will help shore things up.

❹ US Debt is downgraded

Moody's have lowered the rating of US government debt from AAA to AA1, the last of the major rating agencies to do so.

Does it mean the US is any more likely to default on its debt obligations? Not really.

But it is a signal that the current situation – ever-increasing debt relative to GDP and continuing to run with a big fiscal deficit – is not good. The US spends a lot of money servicing its debt – money that ideally would be spent on more useful things – and could act as a headwind to growth. A lower credit rating won't help with that. Be prepared for the situation to get worse before it gets better.

❺ UK rates down… but inflation up

The Bank of England cut the base rate of interest by 0.25%, bringing it to down 4.25%. We lagged other major Central Banks in this drop, opting for a more cautious route amid an uncertain inflation backdrop. This caution was reinforced by an annual inflation figure of 3.5%, a bit above expectation and a lot above the 2% target level.

Last month's figure accounted for various hikes in household bills, so was always going to be elevated. Wage inflation is still high and could add fuel to the fire. Without a serious growth shock, it's hard to see many more interest rate cuts this year.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	-1.19	-0.53	1.04	1.43	-11.86
ICE BofA Global Corporate	0.21	0.15	2.38	6.41	8.82
ICE BofA Global High Yield	1.55	0.62	2.77	9.25	20.37
FTSE All Share	4.14	1.55	8.57	9.35	26.79
FTSE USA	5.37	-6.84	-5.99	7.59	39.23
FTSE World Europe ex UK	3.88	2.72	13.50	7.37	37.61
FTSE Japan	2.91	2.61	2.31	5.36	28.52
FTSE Asia Pacific ex Japan	3.99	-0.70	-0.15	6.72	10.30
FTSE Emerging	2.93	-1.17	-0.55	8.14	12.59

Source: FE Analytics, GBP total return (%) to last month end

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