The Monthly Edit / May 2025

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.

Market headlines

Equity markets notch up a decent month, as the continued tariff pause spurs relief rally. May saw equity markets continue their post mid-April tariff pause relief rally, with US megacap technology stocks leading global equity indices higher. For the US S&P500 equity index, May was the index's best month in 18 months, and the largest May gain since 1990.

US sovereign credit downgrade revives fiscal deficit and debt sustainability concerns. A US debt downgrade from Moody's during May added to upward pressure on government bond yields in the US and elsewhere, leaving bonds to underperform equities over the month. The rise in bond yields was notable for longer-dated maturities, risking wider risk asset sentiment.

Tariff uncertainty takes on a new dimension as policy validity is challenged in the courts. May saw the US Court of International Trade determine that US President Trump did not have the authority to impose most of the tariffs announced. While the ruling was appealed and put on hold, this latest saga looks far from over, injecting another layer of unwelcome uncertainty.

A relatively resilient company results season keeps recession fears at bay for now. Despite Trump's tariff policy uncertainty driving increasing numbers of companies to withdraw guidance for the year ahead, nonetheless, results for the latest calendar quarter (Q1) showed a resilient pre-April tariff 'Liberation Day' picture, albeit a backward-looking one.

The big topics

Mega-cap tech resilience offers some relief for US investment outlook

This year has so far seen investors appear to increasingly question whether the age of US exceptionalism might be over.

This is the idea that US economic growth, and with it the performance of US risk assets, might no-longer be exceptional relative to the rest of the world. Indeed, with Trump's tariff policy uncertainty driving unwelcome market volatility, in recent weeks there have been times where both US government bond prices and the US dollar have fallen, indicating possible retrenchment from US assets within a global asset allocation context.

Against this backdrop, the latest round of megacap tech results were even more important than usual – that they beat expectations in aggregate, with Artificial Intelligence (AI)-posterchild Nvidia a particular standout, has been crucial to support investor sentiment.

Markets are not out of the tariff woods

Trump's trade tariff policies continued to sow confusion and uncertainty in markets during May.

With much of the world, and even China, currently in the middle of 90-day tariff 'pauses' through to early-July and mid-August respectively, Trump in late May turned his ire on the European Union (EU). Trump signalled 50% tariffs on EU imports into the US, only to reverse course just days later, with a pause through to early July.

While markets have been able to weather the latest tariff headlines, it is a timely reminder that tariff risks have largely been paused not cancelled. Furthermore, although the UK and the US reached an outline trade deal during the month, negotiations involving other major countries are still ongoing and market-friendly outcomes cannot be guaranteed.

Trump announces a "big, beautiful bill" as debt fears rise

May saw the US Trump administration attempt to pivot markets' attention away from tariffs.

The administration aimed towards a bill to extend the tax cuts that Trump put in place during his first presidential term in 2017, as well as introduce some fresh tax cut measures as well. While it was narrowly voted through in the House of Representatives, it has yet to pass the Senate, where any revision to the bill could see the bill sent back to the House for a second vote.

While Trump called his proposed tax and spending cuts a "big, beautiful bill", it helped drive up government bond yields during the month, both in the US and elsewhere, and especially for longer-dated maturities, as investors appeared to worry again about longer-term US debt sustainability.

Inflation concerns challenge hopes for interest rate reductions

We finish our Monthly Edit close to home, with a look at the latest UK inflation picture.

The month saw the latest all-items annual Consumer Price Index running at +3.5% in April, up from March, above market expectations and the highest reading since January last year. Within the mix, of particular concern was the services inflation number which accelerated to +5.4% in April, the highest reading since last August.

Even though a pick-up in inflation had been broadly anticipated – given the April price rises kicking in, including the higher energy price cap for consumers as well as the national insurance tax hike for employers – this reading was still much hotter than expected. That is likely to challenge hopes for the Bank of England to continue cutting interest rates as quickly as some market-watchers may have been hoping for.

Important information

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