Market View
Post-Liberation Day rebound: confidence returns to the markets

from Sanjay Rijhsinghani Partner, Chief Investment Officer | Management Board

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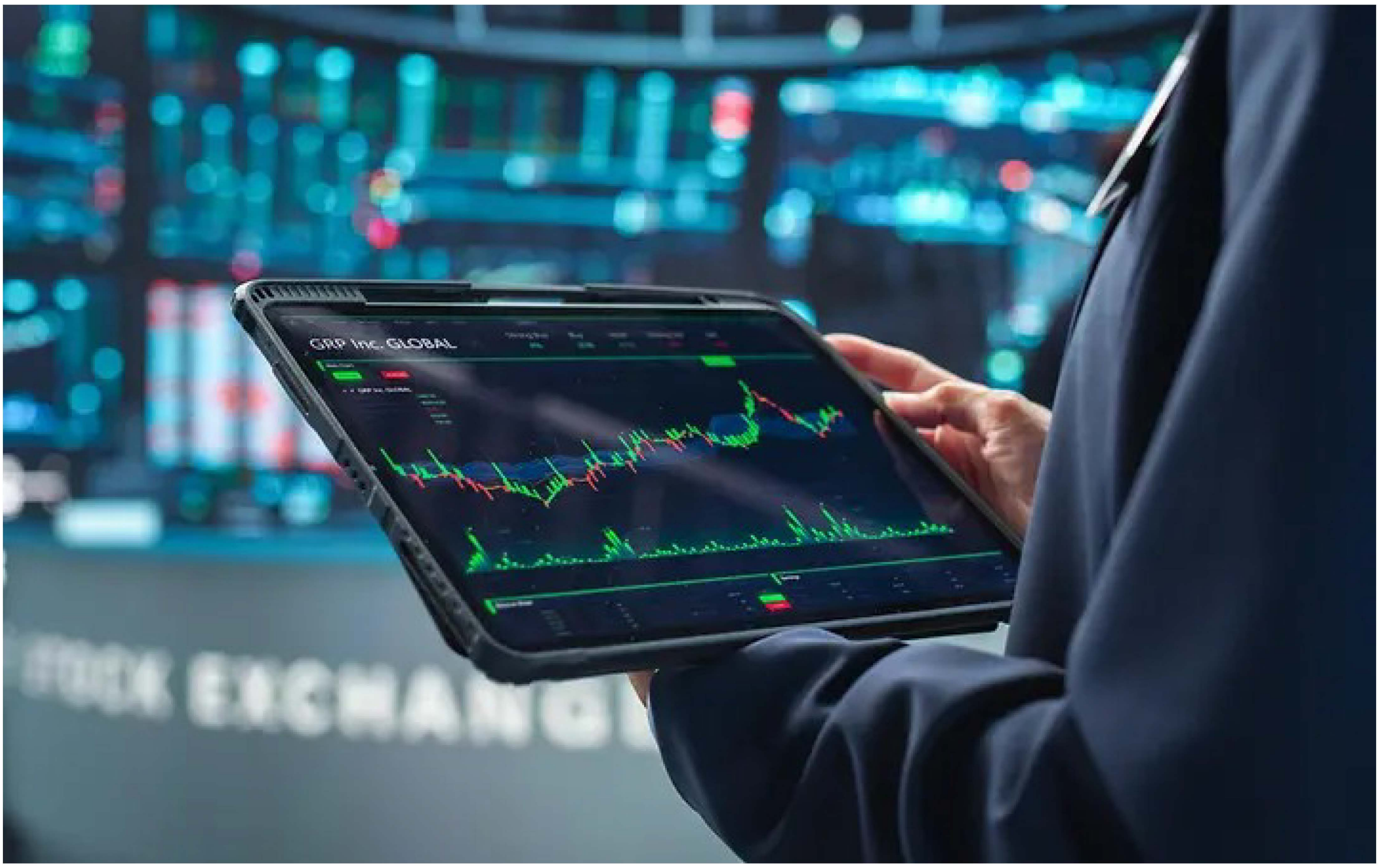

At a glance

- Equities staged a recovery in May following April's sell-off
- Macro resilience, progress on trade deals and robust earnings buoyed stocks
- Tariff uncertainties and geopolitical risks remain, so volatility is likely

Following the sharp sell-off in global equity markets around Liberation Day, we've witnessed a robust and broad-based recovery in global equities that has surprised many investors. While the volatility in late April and early May reflected real concerns – ranging from trade wars following the tariff announcements, to geopolitical tensions to tighter financial conditions amid rising bond yields – the rebound that followed was driven by a combination of macroeconomic resilience, shifts in policy expectations as Trump softened his stance on tariffs, and a robust earnings season in both Europe and the US. We wanted to share our perspective on some of the key drivers behind this bounce.

Short-term shock rather than a structural break

Trump was forced to soften his stance on tariffs, as Congress and CEOs of large US companies aired their concerns around the damage his aggressive approach may do to the US economy and the consumer. These concerns mounted when US Treasury yields rose sharply meaning borrowing costs were rising. Markets realised his pain threshold was lower than initially thought, and the motive of his so-called Liberation Day was to instigate trade negotiations with other nations. Subsequently, he was forced to back down on tariffs for 90-days. He also back tracked on his plans to fire Jerome Powell after mentioning on social media the chairman of the Federal Reserve would be gone "real fast" if he wanted him out. This low pain threshold signalled to investors that Trump has limits as to how far he will go.

Along with Trump's change in rhetoric, May also saw some stronger-than-expected macro data both in the US and Europe. US labour data showed the US economy remains resilient as companies are still hiring and consumers are still spending, while in Europe manufacturing and services data came in better than expected. This helped sentiment and addressed some concerns that the tariffs will result in a US recession.

Progress on trade deals

Stocks also benefited from tariff developments as news of potential trade deals between countries filtered through, including a deal framework between the US and the UK and an announcement between the US and China that the two countries would cut tariffs for 90 days and pare back tariffs significantly.[1] Then, in further developments towards the end of the month, after Trump declared higher tariffs on the European Union because discussions "are going nowhere", these have been delayed after a phone call with EU President Ursula von der Leyen. While the reprieve for stocks was welcome, uncertainty around tariffs remains.

Central bank signals

Another significant catalyst for the rebound was the pivot in central bank rhetoric. While the Federal Reserve (Fed) held rates steady at its May meeting, Chair Powell's tone softened noticeably, with a greater emphasis on downside risks to growth and a renewed focus on data dependency. Markets interpreted this as an early signal that the Fed is preparing to ease policy later this year, especially in the face of growth uncertainty caused by higher tariffs, the caveat being that the Fed will only ease rates if inflation comes closer to their target. Similarly, the European Central Bank and the Bank of Canada both hinted at rate cuts by the third quarter, underscoring that the tightening cycle is either at or near the end. This shift in tone provided the support risk assets needed, particularly in rate-sensitive sectors such as real estate, technology, and small caps.

Dollar devaluing

With all the uncertainty around Trump's style of policy making, the market has got nervous around the dollar. Whilst there is no reason to believe it will lose its reserve currency status, recalibration around asset allocation has weighed on the dollar as investors seek and divert assets to other currencies and gold. As a result, the dollar index is down around 8% so far this year. We wrote a piece on the dollar a few weeks ago addressing the recent devaluation in detail. The impact of a weakening dollar tends to benefit emerging markets. A strong dollar was one of the headwinds preventing asset allocators adding emerging market exposure. More recently, as emerging market currencies have strengthened versus the dollar, we have seen emerging market assets perform too, contributing to the rally we have seen since the start of May.

Uncertainty over the US economy, slower growth forecasts and the Republican spending bill with significant tax cuts have also made investors wary of US government bonds. This puts even more pressure on the dollar, which hit a three-year low as global investors question the dollar's reserve currency status. But a weaker dollar can also benefit stocks – many large US companies earn a significant portion of their revenue oversees, and when the dollar weakens, their products and services become cheaper and more competitive. It also increases the value of foreign earnings, since US international companies report their earnings in dollars, and when foreign currencies strengthen against the dollar, the value of earnings generated abroad rises when converted back into dollars.

Strong earnings

The first quarter corporate earnings season delivered one of its strongest upside surprises in recent quarters. Over 70% of US S&P 500 companies beat consensus expectations, with AI-linked semiconductors, financial services, and travel sectors reporting particularly strong earnings. Importantly, forward guidance was also more constructive, with many management teams citing stabilizing supply chains, improving input costs, and healthier consumer demand.

This earnings resilience helped validate equity valuations, which had been under pressure following the correction in April. Investors recalibrated their expectations, leading to a rotation back into risk assets and a recovery in previously oversold segments of the market.

Technical factors and sentiment shift

Markets also benefited from technical support. The April sell-off triggered several forced de-risking flows from systematic strategies and retail capitulation. As markets stabilized, buy-the-dip behaviour returned, especially from institutional investors sitting on high levels of cash.

Sentiment improved as volatility fell. The VIX index, which measures expected market volatility, declined back below 14 in late May, and credit spreads tightened, signalling that fears of a broader credit or liquidity event had not materialized. Flows into equities, particularly into US and Asia ex-Japan ETFs, turned positive for the first time in weeks.

High cash on sidelines

Data showed that cash on sidelines waiting to be invested was at an all-time high in April. History shows this is a good indicator that markets will be well supported. In terms of the US consumer, new data shows that Americans are saving more, following a post-pandemic spending splurge. The personal savings rate – the percentage of people's disposable income they save – increased to 4.9% in April from 4.1% in January, according to the Bureau of Economic Analysis.2 This data shows Americans are buckling down after years of high inflation and tariff uncertainty. This increased liquidity means there is more potential capital that could be invested in stock markets, as consumers with extra cash may choose to invest in equities, driving demand and potentially lifting stock prices.

Conclusion

The strong market rebound after the so-called Liberation Day reflects a combination of solid economic data, easing trade tensions, resilient corporate earnings and higher consumer liquidity. These factors have helped restore some investor confidence and may continue to support equities near term. However, uncertainties around tariffs and geopolitical risks remain, so we expect volatility for the foreseeable future.

[1] NYTimes: https://www.nytimes.com/2025/03/13/business/economy/trump-tariff-timeline.html

[2] Bureau of Economic Analysis: https://www.bea.gov/data/income-saving/personal-saving-rate

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Sanjay is a founding Partner of LGT and is Chief Investment Officer. With over 30 years' of investment experience, he is responsible for the implementation of the firm's investment process through oversight of the investment research and asset allocation positioning decisions. Sanjay chairs the Investment Committee and is a leading spokesperson for LGT Wealth Management.

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