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May 2025

Market Spotlight Around the world

- In mid-May, a 90-day US-China tariff truce was agreed to lower trade tensions. But since then, tensions between US and China have resurfaced with China accusing US of violating the trade war truce, leading to renewed concerns over global trade stability.
- The US-UK trade agreement eased tariff burdens, providing a boost to UK exports. Markets responded positively, with the British pound strengthening - reflecting investor optimism amid ongoing global trade uncertainty.
- In its May meeting, the Federal Reserve opted to keep interest rates steady, citing concerns over inflation and the economic impact of recent trade policies. While some officials remain open to rate cuts later in the year, the current stance reflects a cautious approach amid ongoing uncertainties.
- As the tariff tantrum continues, there has been growing speculation around the capital expenditure plans of the big hyperscalers. Not only did they not reduce, but AI capex has been revised upwards to \$323bn for the year from \$317.5bn.
- In April, US nonfarm payroll employment increased by 177,000, aligning with the average monthly gain over the prior 12 months. Employment continued to rise in health care, transportation, and warehousing, while federal government employment declined.
- In May, the Taiwanese dollar (TWD) experienced its most significant appreciation in decades, driven by a combination of geopolitical developments, investor sentiment shifts, and domestic financial dynamics.

5.1%

30-year yield

Long-term US Treasury yields rose above 5%, driven by fiscal concerns.

6.3%

S&P 500 Return

US equities rebounded in May, boosted by positive developments on the trade front.

\$600bn

Saudi Arabia investment

Saudia Arabia announced a \$600bn investment into the US which signalled stronger economic ties.

Market snapshot

Global equities posted solid gains in May, with US stocks leading the way. The rally was largely driven by strong performance in the technology sector, which delivered an impressive earnings season.

In contrast, the bond market remained highly volatile due to the persistent inflation pressures and growing fiscal concerns. US long-term yields spiked mid-month following the downgrade of the US sovereign credit outlook .

Precious metals lagged this month but remain the best performing asset YTD.

Performance of global asset classes

	1 Month	YTD
US Tech	9.2%	1.5%
US Equities	6.3%	1.1%
World Equities	5.7%	5.3%
European Equities	5.7%	14.3%
Japanese Equities	5.3%	-4.0%
Emerging Market Equities	4.3%	8.7%
UK Equities	3.8%	9.4%
Chinese Equities	1.8%	-2.4%
Global High Yield Bonds	1.6%	4.4%
Global Corporate Bonds	0.2%	5.0%
Global Government Bonds	-0.4%	5.3%
Precious Metals	-0.6%	19.5%
Commodities	-0.9%	1.2%

Source: Bloomberg, Returns are in local currency, as at 31 May 2025.



What is the data telling us?

The Global Manufacturing PMI weakened further in May. The US continues to see ongoing manufacturing challenges, particularly in export orders. China PMI declined notably into contraction amid trade tensions.

In contrast, the Global Services PMI rose further, boosted by business confidence. The US Services PMI weakened reflecting a slowdown in new business growth amid rising costs. The UK Services PMI rebounded, driven by renewed domestic demand. Japan’s Services PMI dipped, which was attributed to softer overseas demand despite steady domestic activity.

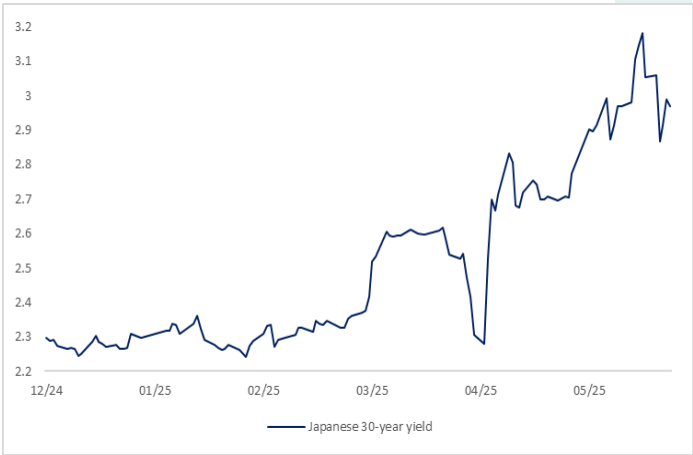
Purchasing Managers Index

Manufacturing													2025				
2024													6	7	8	9	10
Global	50.9	49.7	49.5	48.8	49.4	50	49.6	50.1	50.6	50.3	49.8	49.6	50.9	49.7	49.5	48.8	49.4
US	48.5	46.8	47.2	47.2	46.5	48.4	49.3	50.9	50.3	49	48.7	48.5	48.5	46.8	47.2	47.2	46.5
EU	45.8	45.8	45.8	45	46	45.2	45.1	46.6	47.6	48.6	49	49.4	45.8	45.8	45.8	45	46
UK	50.9	52.1	52.5	51.5	49.9	48	47	48.3	46.9	44.9	45.4	46.4	50.9	52.1	52.5	51.5	49.9
China	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4	48.3	51.8	49.8	50.4	49.3	50.3
Japan	50	49.1	49.8	49.7	49.2	49	49.6	48.7	49	48.4	48.7	49.4	50	49.1	49.8	49.7	49.2

Service													2025				
2024													6	7	8	9	10
Global	53.1	53.3	53.8	52.9	53.1	53.1	53.8	52.2	51.5	52.7	50.8	52	53.1	53.3	53.8	52.9	53.1
US	48.8	51.4	51.5	54.9	56	52.1	54.1	52.8	53.5	50.8	51.6	49.9	48.8	51.4	51.5	54.9	56
EU	52.8	51.9	52.9	51.4	51.6	49.5	51.6	51.3	50.6	51	50.1	49.7	52.8	51.9	52.9	51.4	51.6
UK	52.1	52.5	53.7	52.4	52	50.8	51.1	50.8	51	52.5	49	50.9	52.1	52.5	53.7	52.4	52
China	51.2	52.1	51.6	50.3	52	51.5	52.2	51	51.4	51.9	50.7	51.1	51.2	52.1	51.6	50.3	52
Japan	49.4	53.7	53.7	53.1	49.7	50.5	50.9	53	53.7	50	52.2	51	49.4	53.7	53.7	53.1	49.7

Source: JP Morgan, ISM30 April Institute, HCOB, S&P Global/CIPS, Caixin, au Jibun Bank, from 30 June 2024 to 31 May 2025.

Long-term yields in Japan spiked in early May



Source: Bloomberg

Chart of the month

Japanese long-term bond yields have surged to multi-decade highs amid weak auction demand and rising fiscal concerns. In response, the Ministry of Finance may cut super-long bond issuance, while the Bank of Japan signals a pause in inflation - but recent data challenges that view.

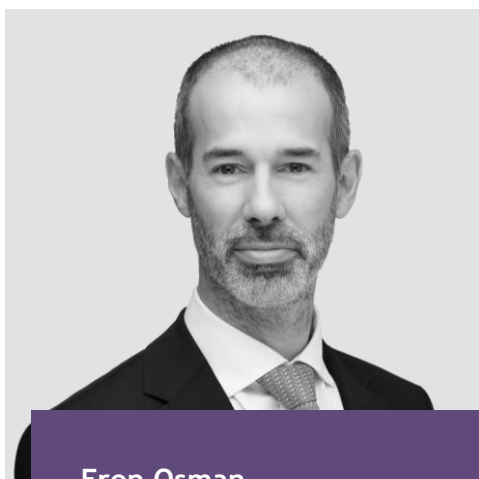
Tokyo core inflation rose to 3.6% year-over-year in May, exceeding expectations. Price pressures are broadening across goods and services, likely paving the way for a resumption of rate hikes. Meanwhile, economic activity remains resilient despite trade uncertainties. These dynamics point to higher inflation and consequently tighter monetary policy going forward.

Looking ahead

May provided a dose of encouragement for investors, with markets reacting positively to easing trade tensions and resilient company performance. However, the global economic trajectory is still uncertain commensurate with global tariff uncertainty. This uncertainty includes persistent, though perhaps moderating, inflation and ongoing geopolitical uncertainties. Global growth forecasts remain a mixed bag with some international organisations such as the IMF suggesting that overall economic growth might be a bit slower this year than previously hoped, partly due to the ongoing effects of trade tensions.

As we move into the summer months, investors are likely to remain vigilant, closely monitoring central bank communications for any shifts in monetary policy. Economic data releases - such as employment figures - will also play a critical role in shaping market sentiment and expectations. But most importantly, developments in international trade relations will shape the global economic outlook. Diversification and a focus on long-term trends remain sensible approaches in this evolving environment.

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