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Global Matters | Monthly

Market review & outlook

June 2025

BLUESTAR AMG

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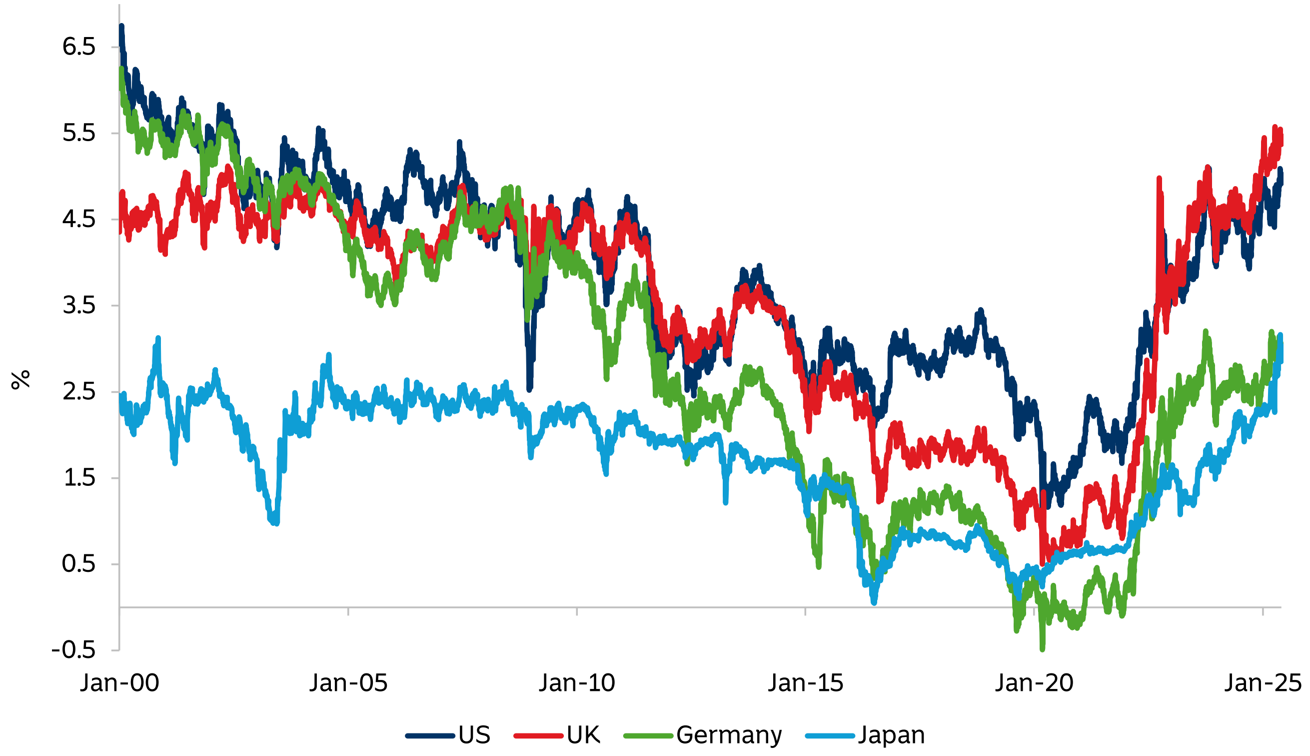
Contents

Global market review & outlook

The topsy-turvy tariff saga again dominated markets, but increasingly with a 'TACO' theme: Trump Always Chickens Out. De-escalation of tariff concerns along with a stream of positive AI related news underpinned risk assets in May, despite a mid-month wobble as debt sustainability concerns triggered a rise in bond yields, especially at longer maturities. Led by megacap tech stocks (Nvidia +24%, Magnificent 7 +14%), US equities returned 6.3% in May, global developed equities 5.9%, and emerging markets 4.3%, whereas bonds struggled, with US Treasuries -1.0% and global government bonds -0.9%. The 30Y US Treasury bond yield rose by 25bps over the month to 4.93%, having moved over 5% mid-month, levels last reached pre-GFC. A similar pattern was seen in other bond markets, with UK 30Y yields reaching the highest since 1998 and Japanese 30Y yields mid-month over 3%, the highest since the maturity was issued in 1999.

Long dated bond yields rise sharply:
30Y government bond yields



Source: Bloomberg Finance L.P., as at 30 May 2025.

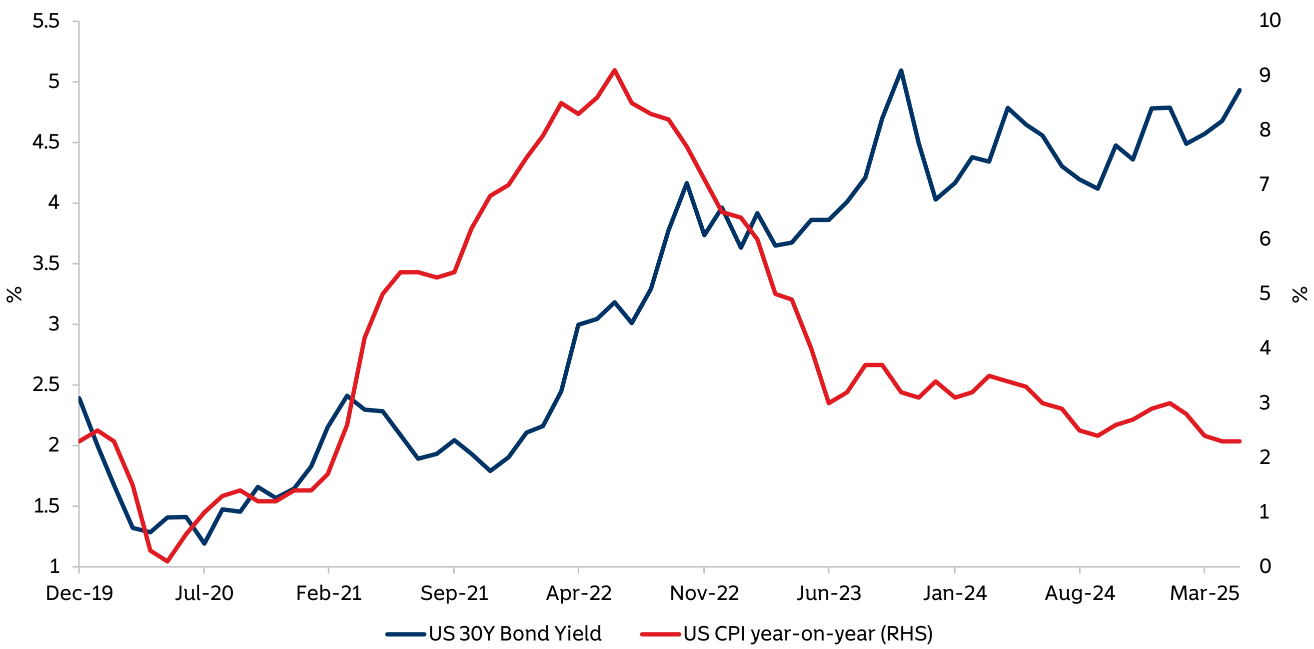
Amidst the flip-flopping on tariffs and the inevitable legal challenge (and equally inevitable response from Trump), the most significant development was the agreement mid-month between the US and China, the world's key trading relationship, for a 90-day pause for negotiations during which each side will cut tariffs on the others' goods by 115% to 30% and 10% respectively, potentially setting a base line for the ultimate outcome. Also helping later in the month was Trump's removal of his threat to impose a 50% tariff on EU goods, extending the deadline for negotiations to 9th July. The message inferred from these and other step-backs from worst case scenarios was that the risk of a recession triggered by trade wars has reduced significantly. Concerns remain about the impact of tariffs on the economy, particularly from the intense uncertainty and damage to consumer and business confidence, but the labour market remains resilient and leading indicators to date, especially in the services sector, are holding up better than expected.

Sentiment was helped by earnings resilience in the corporate sector, with average EPS growth in the US in Q1 close to 13%, and by substantial investment commitments with the US, many AI-related, by Saudi Arabia, Qatar and the UAE - while headline figures of up to $2tn are likely to prove optimistic, the deals are a timely reminder that AI is a secular shift requiring huge infrastructure investment and presenting extraordinary opportunities for the corporate sector, with little doubt that it will be led by the US.

Concerns around the sustainability of government debt have been rumbling for some time but were brought into the spotlight in May. Moody's downgraded its US sovereign credit rating to Aa1, one notch below triple A. While hardly a surprise - the two other major credit rating agencies had downgraded US debt years earlier - and with no material practical effect, it nevertheless focussed attention on the huge Federal deficit, just as Trump's 'Big Beautiful Bill Act' was passed by the House of Representatives. The Congressional Budget Office has estimated the bill's tax and spending commitments will increase the aggregate Federal deficit by $2.2tn by 2029 and $3.8tn by 2034. Given the fine margin (of one) by which the House passed the bill it seems certain that it will face obstacles and changes before being passed by the Senate, but with the fiscal deficit forecast to reach $1.9tn this year, 6.3% of GDP, Federal debt at $36tn, 120% of GDP, and few signs of significant cuts in major areas of spending, there is increasing concern that the fiscal trajectory is becoming unsustainable, and a structural premium to borrowing costs will be demanded by investors.

At the same time the Fed, which kept rates on hold at its May meeting, has become cautious about further cuts in the face of deep uncertainty around the impact of tariffs, the resilient labour market, and inflation still above target. Over the past month, market expectations for rate cuts for the remainder of this year have fallen from 4 cuts, 1% in total, to just 2 cuts of 25bps each, which would leave the Fed Funds rate at around 4% by year end, well above current CPI inflation of 2.3%.

Bond yields rise as inflation falls:
real yields up significantly



Source: Bloomberg Finance L.P., as at 30 May 2025.

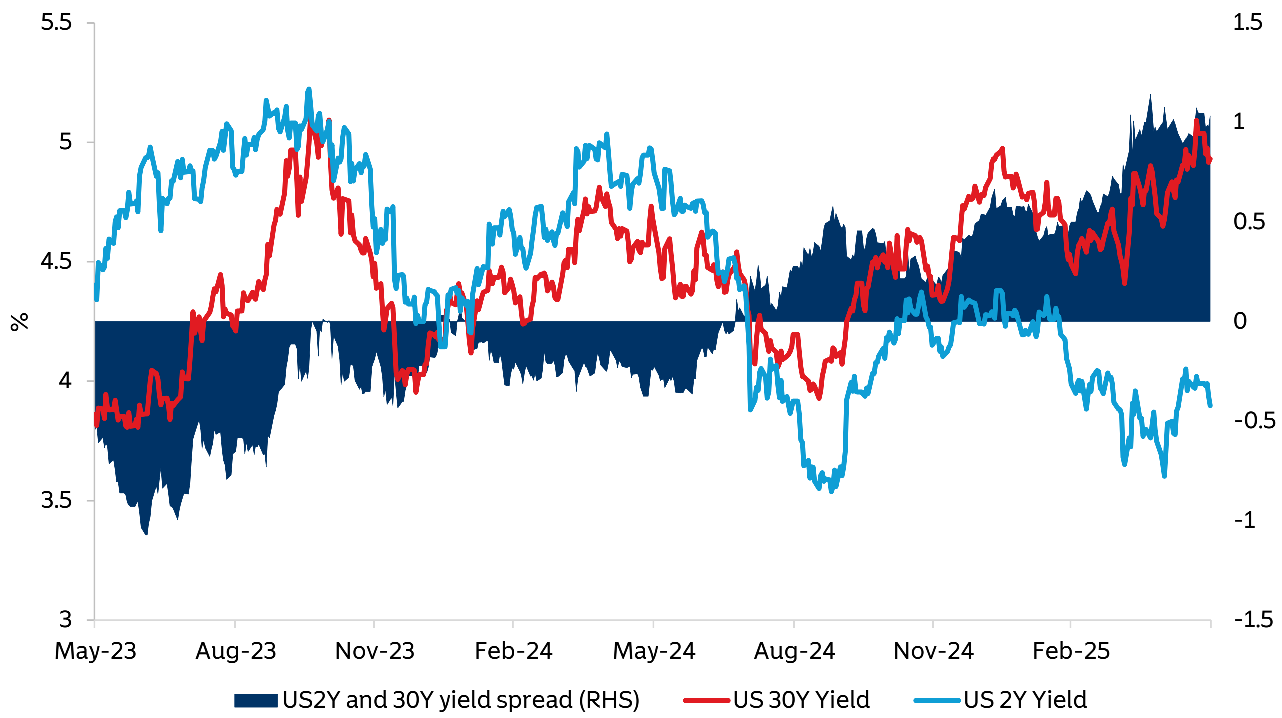
The US is not the only country facing debt sustainability worries (although the dollar's status as the world's reserve currency makes it far and away the most important). The UK has equally challenging problems and is ill-equipped to handle them. CPI disappointed in April at 3.5% while the economy was more resilient than expected with Q1 GDP growth of 0.7%. The government's ambitious spending plans, notably in protected areas such as health, education, defence, and swathes of welfare entitlements, are facing the reality of sluggish growth, self-imposed fiscal rules and high borrowing costs when government debt:GDP is already 100%. The Bank of England's 25bps rate cut in May was accompanied by a somewhat hawkish statement and the prospects for further cuts have been pushed out. 'Higher for longer' rates have supported sterling, up by 1% versus the USD in May, taking its rise this year to 7.5%. However, this is much more a case of dollar weakness, which has to date been one of the biggest casualties of the tariff chaos, down by 8.5% on a trade weighted basis this year.

After decades of minimal growth and huge debt-funded stimulus packages, Japan has an even bigger government debt pile, at 260% of GDP. As the country exits its long period of deflation, with inflation at 3.6% and above the 2% Bank of Japan (BoJ) target for over three years, the BoJ is tightening policy. This is proving to be tricky without triggering potentially disruptive moves in the yen and bond yields, as we saw in mid 2024. Government bond yields have risen very sharply from near zero in 2020 to 3% in May on 30Y bonds, making the refinancing of maturing debt more expensive, undermining the yen carry trade and potentially leading to a wave of repatriation of funds from higher yielding currencies. A clumsily handled auction of government bonds in May created considerable short-term volatility in yields, a sign of the tight-rope that central banks are walking in this return to the old normal of structurally higher and positive real rates. Prime Minister Ishiba's comments that Japan's fiscal situation was 'worse than Greece' did little to help.

While the worst fears around tariffs can now be discounted, considerable uncertainties remain. Looming ahead is Trump's 9th July deadline imposed to reach negotiated trade agreements, many of which, including the EU, are outstanding. The eventual outcome is unpredictable, and the impact of the damage already done to confidence and supply chains will only become clearer over time. While much reduced, the risk remains that tariffs will deliver a supply shock that raises prices and damages growth.

On top of that is the impact of much higher bond yields in recent months, particularly at longer maturities. After a lengthy and highly unusual period of inverted yield curves, when 30Y Treasury bonds were yielding less than 2Y bonds, the 30Y yield is now 1% higher than the 2Y, offering the higher return that the maturity risk requires. Since mid 2023 real yields on the 30Y bond have moved from deeply negative to meaningfully positive, offering a real yield now of 2.6% at which level some reasonable value has returned, compensating for the risks around current uncertainties and longer-term debt sustainability.

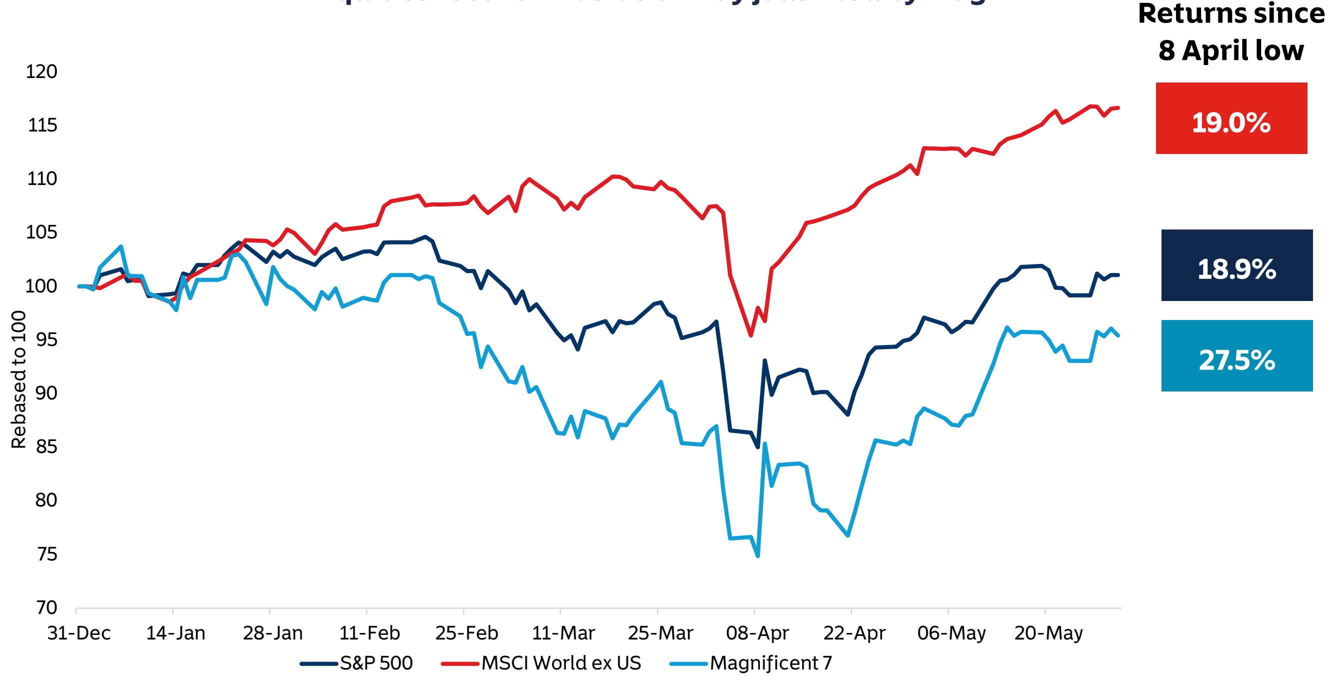
Yield curves normalise



Source: Bloomberg Finance L.P., as at 30 May 2025.

Improved valuations in bonds mean equities face the hurdle of a higher discount rate. Markets have recovered the ground lost in the aftermath of Liberation Day and are leaving little room for further disappointments or shocks on tariffs. Some consolidation is due, and a degree of caution is called for shorter term. But the tariff issues should be largely resolved in coming months, and the economic damage clearer. Companies will adapt and work around the challenges created by the levies, and, importantly, the corporate sector is in strong shape financially, as are households and banks. The prospect of further cuts in interest rates in the US and Europe, together with the rapidly evolving impact of AI on productivity, point to a more encouraging backdrop as the year progresses.

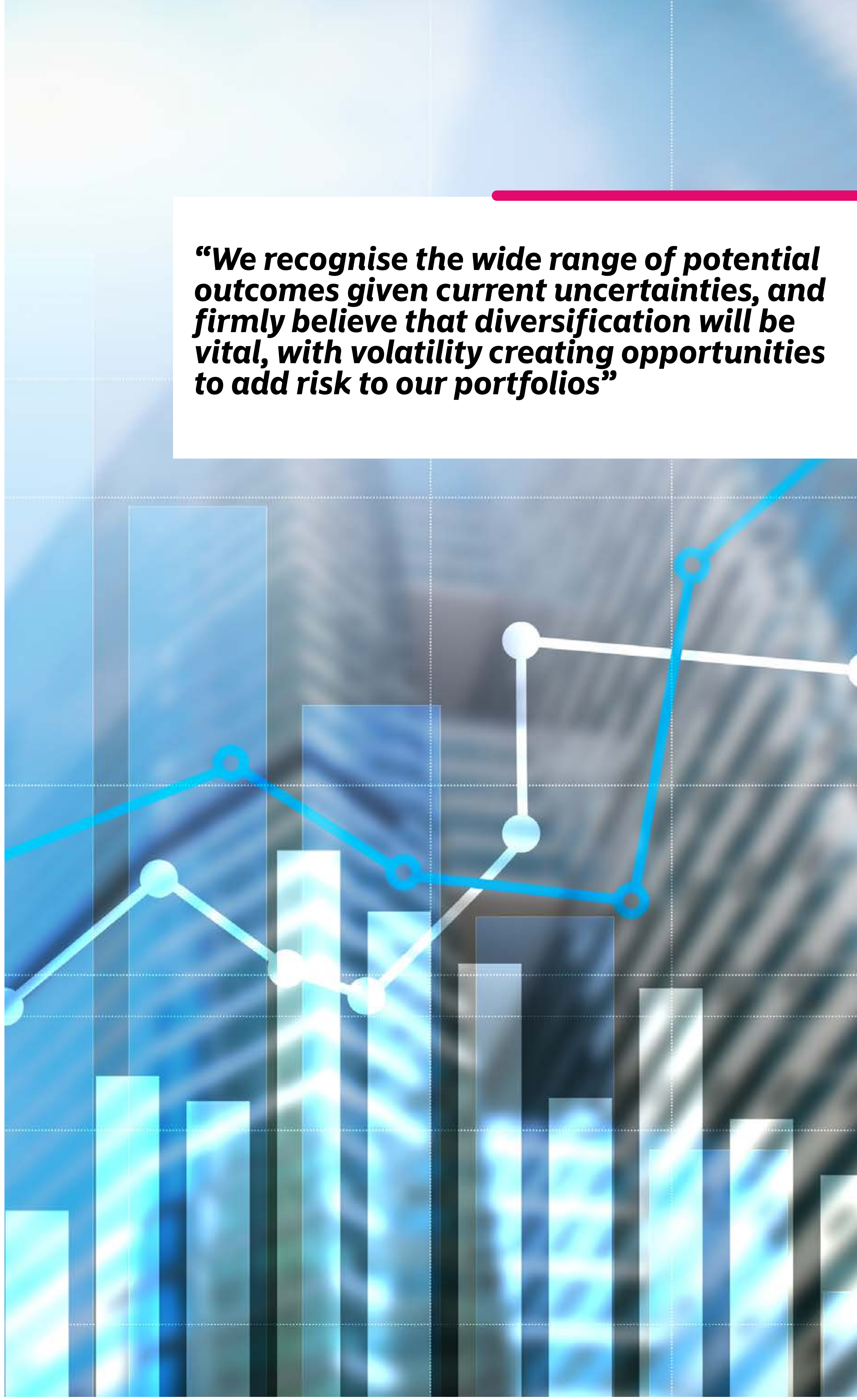
Equities recover Liberation Day falls – led by Mag 7



Source: Bloomberg Finance L.P., as at 30 May 2025.

We recognise the wide range of potential outcomes given current uncertainties, and firmly believe that diversification will be vital, but volatility will create opportunities to add to risk in our portfolios, albeit with caution and patience in the short term.

"We recognise the wide range of potential outcomes given current uncertainties, and firmly believe that diversification will be vital, with volatility creating opportunities to add risk to our portfolios"



Market performance - Global as at 30 May 2025 (local currency terms)

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	6.3%	-0.5%	0.9%	13.1%
United Kingdom	MSCI UK NR	GBP	3.5%	1.0%	9.4%	9.9%
Continental Europe	MSCI Europe ex UK NR	EUR	4.7%	-0.1%	10.8%	7.6%
Japan	Topix TR	JPY	5.1%	5.7%	1.8%*	3.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	5.1%	6.3%	8.0%	13.9%
Global	MSCI World NR	USD	5.9%	2.1%	4.9%	13.7%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	6.3%	-0.5%	0.9%	13.1%
Emerging Asia	MSCI EM Asia NR	USD	3.5%	1.0%	9.4%	9.9%
Emerging Latin America	MSCI EM Latin America NR	USD	4.7%	-0.1%	10.8%	7.6%
BRICs	MSCI BRIC NR	USD	5.1%	5.7%	1.8%	3.6%
China	MSCI China NR	USD	5.1%	6.3%	8.0%	13.9%
Global emerging markets	MSCI Emerging Markets NR	USD	5.9%	2.1%	4.9%	13.7%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.0%	-0.2%	2.4%	4.9%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-0.6%	0.0%	3.6%	5.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.0%	-0.3%	2.3%	5.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.7%	0.6%	2.7%	9.3%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-1.3%	-0.7%	1.0%	1.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.3%	0.2%	1.8%	4.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.1%	0.2%	0.8%	4.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.5%	0.5%	1.5%	6.5%
Euro High Yield	BBgBarc European HY 3% Constrained TR	EUR	1.4%	0.6%	2.3%	8.0%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.3%	-1.9%	-3.3%	-2.9%
Australian Government	JP Morgan Australia GBI TR	AUD	0.0%	1.9%	3.0%	6.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.9%	3.0%	5.3%	6.3%
Global Bonds	ICE BofAML Global Broad Market	USD	-0.6%	2.9%	5.3%	6.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	3.6%	4.1%	6.7%	14.9%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	0.8%	0.7%	3.6%	9.5%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	2.0%	-4.4%	0.1%	11.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	5.0%	6.1%	3.5%	8.5%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.3%	8.5%	12.4%	10.8%
Global Property Securities	S&P Global Property USD TR	USD	2.4%	1.8%	5.3%	12.1%
Currencies						
Euro		USD	0.2%	9.4%	9.6%	4.6%
UK Pound Sterling		USD	1.0%	7.0%	7.5%	5.6%
Japanese Yen		USD	-0.7%	4.6%	9.1%	9.2%
Australian Dollar		USD	0.5%	3.6%	3.9%	-3.3%
South African Rand		USD	3.3%	3.8%	4.7%	4.4%
Commodities & Alternatives						
Commodities	RICI TR	USD	1.0%	-4.4%	-2.0%	-3.9%
Agricultural Commodities	RICI Agriculture TR	USD	-1.2%	-1.8%	-2.1%	-5.3%
Oil	Brent Crude Oil	USD	1.2%	-12.7%	-14.4%	-21.7%
Gold	Gold Spot	USD	0.0%	15.1%	25.3%	41.3%

Interest Rates	Current Rate
United States	4.50%
United Kingdom	4.25%
Eurozone	2.40%
Japan	0.50%
Australia	3.85%
South Africa	7.25%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
**estimated figures.*

Market performance - UK as at 30 May 2025 (all returns GBP)

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	3.5%	1.0%	9.4%	9.9%
UK - Large Cap	MSCI UK Large Cap NR	GBP	3.3%	0.6%	10.0%	10.6%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	3.8%	0.6%	3.7%	1.4%
UK - Small Cap	MSCI Small Cap NR	GBP	7.7%	7.5%	7.6%	7.1%
United States	S&P 500 NR	USD	5.4%	-6.9%	-6.2%	6.9%
Continental Europe	MSCI Europe ex UK NR	EUR	3.8%	2.0%	13.0%	6.5%
Japan	Topix TR	JPY	3.3%	3.3%	3.6%*	7.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	4.2%	-0.6%	0.4%	7.7%
Global developed markets	MSCI World NR	USD	5.0%	-4.5%	-2.4%	7.5%
Global emerging markets	MSCI Emerging Markets NR	USD	3.4%	-0.6%	1.1%	6.9%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-1.4%	-0.7%	0.9%	1.0%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.2%	1.1%	2.3%	5.1%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-1.3%	0.1%	1.8%	2.5%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-2.5%	-3.6%	-1.7%	-4.5%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-2.0%	-4.1%	-3.4%	-7.6%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-1.8%	-2.3%	-1.3%	-3.1%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-2.9%	-7.3%	-7.0%	-14.8%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.3%	0.2%	1.8%	4.5%
US Treasuries	JP Morgan US Government Bond TR	USD	-2.0%	-6.8%	-4.9%	-0.9%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.0%	-6.9%	-5.0%	-0.3%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	1.7%	0.6%	2.7%	9.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.1%	0.2%	0.8%	4.9%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.5%	0.5%	1.5%	6.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	1.4%	0.6%	2.3%	8.0%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.8%	-3.7%	-2.1%	0.5%
Global Bonds	ICE BofAML Global Broad Market	GBP	-0.6%	2.9%	5.3%	6.8%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	3.6%	4.1%	6.7%	14.9%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-0.1%	-5.8%	-3.6%	3.6%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	1.6%	-4.8%	-2.1%	6.0%
Currencies						
Euro		GBP	-0.8%	2.2%	1.9%	-1.0%
US Dollar		GBP	-1.0%	-6.6%	-7.0%	-5.3%
Japanese Yen		GBP	-1.6%	-2.3%	1.5%	3.4%
Commodities & Alternatives						
Commodities	Rogers International Commodity (RICI) TR	GBP	0.2%	-10.6%	-8.9%	-9.1%
Agricultural Commodities	Rogers International Commodity (RICI) Agriculture TR	GBP	-2.1%	-8.2%	-8.9%	-10.4%
Oil	Brent Crude Oil	GBP	0.4%	-18.3%	-20.4%	-26.0%
Gold	Gold Spot	GBP	-0.8%	7.6%	16.6%	33.7%
Interest Rates				Current Rate		
United Kingdom				4.25%		

*Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.*estimated figures.*

Asset allocation views

Score	---	--	-	/	+	++	+++

Score	Change	---	--	-	/	+	++	+++
MAIN ASSET CLASSES	▲/▼/–							
Equities	–			■				
Fixed Income	–				■			
Alternatives	–					■		
Cash	–				■			

Score	Change	---	--	-	/	+	++	+++
EQUITIES	▲/▼/–							
Developed Equities	–			■				
UK Equities	–				■			
European Equities	▲				■			
US Equities	–		■					
Japanese Equities	▼				■			
Emerging Market Equities	–				■			

Score	Change	---	--	-	/	+	++	+++
SPECIALIST ASSETS/ALTERNATIVES	▲/▼/–							
Global Listed Property	–				■			
Global Listed Infrastructure	–			■				
Specialist Assets	–						■	
Liquid Alternatives	–		■					
Gold	–				■			

Score	Change	---	--	-	/	+	++	+++
FIXED INCOME	▲/▼/–							
Government	▲					■		
Index-Linked	▲					■		
Investment Grade Corporate	–				■			
High Yield Corporate	–				■			
Emerging Market Debt	▲					■		

Score	Change	---	--	-	/	+	++	+++
CURRENCIES vs. USD	▲/▼/–							
GBP	–					■		
EUR	–				■			
JPY	–					■		

The asset allocation views are updated at the end of each quarter unless otherwise stated.

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