Monthly market commentary

The May-hem continues

United States

Tariffs continued to dominate headlines and move markets this month.

Early in the month, both the S&P 500 and the Dow Jones erased all their losses for the year due to investor optimism about a potential de-escalation in trade tensions between the world's two biggest economies. The Nasdaq remained a hair in the red. The very next day what had been the S&P 500's longest winning streak since 2004 was broken after trade talks between China and the US appeared to have stalled. In mid-May US and Chinese delegates met in Geneva, where both parties agreed to a partial pause in tariffs.

A ruling by the US Court of International Trade last week gave brief hope to investors that all of Trump's Liberation Day tariffs would be halted or at least further delayed. But these hopes quickly faded when a federal appeals court temporarily reinstated the tariffs to consider the Trump administration's appeal, a day after the US trade court had ruled that Trump had exceeded his authority in imposing the duties. The plaintiffs in the case and the government have been ordered to respond by early June. Uncertainty around tariff policy direction thus remains high.

Trump upped the uncertainty last Friday, when he announced tariffs on imported steel would double to 50%, effective as early as this Wednesday, and also blasted China for allegedly violating parts of the partial tariff pause. The market reaction to this latest announcement was muted, as investors have begun talking about TACO (Trump Always Chickens Out) trades – pointing to Trump's policy reversals or tariff pauses as reason to believe that these tariffs would not have any lasting impact.

Tariffs remained top-of-mind for the Federal Reserve as well. The FOMC met this month and chose to hold rates steady, warning of the growing economic risks. Fed Chair Jerome Powell said during the press conference, "If the large increases in tariffs that have been announced are sustained, they are likely to generate a rise in inflation, a slowdown in economic growth, and an increase in unemployment."

At Trump's request, Powell met with him last week, where he was reportedly "scolded" by the President for not lowering borrowing costs. This was the first meeting between the two during Trump' second term. Afterward the Fed released a statement that the FOMC will "set monetary policy, as required by law, to support maximum employment and stable prices and will make those decisions based solely on careful, objective, and non-political analysis".

In other news, Trump's One, Big Beautiful tax and spending bill, inspired by many of the president's campaign promises passed in the House of Representatives and is now headed to the Senate which will have the chance to approve or change provisions of the bill. Several Republicans in the Senate have expressed scepticism about aspects of the bill for what they view as inadequate spending cuts.

The legislation extends soon-to-expire tax cuts passed during his first administration in 2017, as well as provides an influx of money for defence spending and to fund the president's mass deportations. It is estimated that should the bill pass in its current form it would add over $5 trillion to US debt and increase the country's budget deficit by $600 billion for the next fiscal year. This month, credit rating agency, Moody's, downgraded the US's rating (its last AAA rating) amidst concerns for the US's widening budget deficit and fiscal trajectory.

Despite all the uncertainty, May was a good month for the US market. As of the end of the month, both the S&P 500 and the Dow Jones had edged back into the green year-to-date, with total returns of 1.06% and 0.08% respectively. The Nasdaq Index, meanwhile, despite a 9.65% return for May, remained in the red year-to-date at -0.73%.

Europe

European stocks have continued to outperform their US peers. The pan-European Stoxx 600 Index is up 10.75% year-to-date, while a Bloomberg analysis shows that eight of the world's top ten best-performing stock markets year-to-date are located in Europe.

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This top ten list includes the German DAX Index, which is up 19.84%, despite some political uncertainty this year. The latest political upheaval came in the beginning of May, when the German conservative leader Friedrich Merz and his alliance with the centre-left Social Democrats failed to secure enough parliamentary votes to become chancellor, although he secured enough votes in a second round of voting. Merz's failure to win parliamentary backing at the first time of asking was a first for post-war Germany.

Tariffs were also a major talking point for the European region, as the EU struggled to reach a trade deal with the US. At one point, President Trump threatened the bloc with an additional 50% tariff. He then agreed to extend the deadline for trade talks until the 9th of July, after a phone call with European Commission President Ursula von der Leyen.

Moving across the English Channel, the United Kingdom was more successful than the EU, securing the first trade "deal" with the US, although actual details are scant. The island nation also finalised a free trade agreement with India this past month. This agreement, the result of over three years of negotiations, is expected to increase bilateral trade between the countries by $34 billion a year from 2040 according to data from the World Economic Forum.

The UK's FTSE 100 Index is up 9.40% year-to-date.

Asia-pacific

Despite the potential for further US tariffs, possible sanctions, and export controls remaining a large source of uncertainty, particularly for China's tech sector, the Hang Seng Index has achieved a total return of 18.01% year-to-date, with Chinese markets rallying on hopes of de-escalation in the trade tensions.

Japanese longer-dated bonds have been a particular focus for fixed income markets this month, with Japan's 40-year government bonds yields hitting an all-time high of 3.689% at one point and hovered around record-highs two weeks ago.

While part of the jump in yields can be explained by a global sell-off, other country-specific factors have added to the selling pressure in Japan. One significant driver has been demographic changes, as Japan's population has aged, they no longer need invest for the very long-term. In addition, life insurance companies are no longer the dependable source of demand they have been. Under regulatory pressure, they raised their allocations to very long-dated bonds last year. However, that process appears to have run its course.

Many believe that higher yields and the stronger yen will impact domestic appetite to invest abroad as well as spark a carry trade unwind. Elevated yields also spell trouble for global markets in general as they translate to increased borrowing costs.

Last week, Japanese longer-dated bonds rallied after the government took the rare step of canvassing market participants for their views on issuance, raising speculation it may scale back supply. The move by the Japanese finance ministry appeared designed to restore calm to a bond market that has been racked by volatility in recent weeks.

South Africa

In South Africa, all eyes were on the SARB's MPC meeting. The repo rate was cut by 25 basis points, as largely expected, the SARB still stressed that Trump's trade war and elevated uncertainty were likely to weaken the world economy, but the tone was less hawkish than the previous MPC meeting with all members voting for a rate cut (one favoured a larger 50 basis points cut). More importantly the SARB explicitly acknowledged that it would like to see inflation expectations moving toward the bottom of the target range. The finance minister would need to sign off on changing the bank's inflation target, but discussions are at an advanced stage, Governor Lesetja Kganyago said.

The JSE All-Share Index has been a strong performer thus far in 2025, with a year-to-date total return of 14.04%.

Quote of the month:

"We demand rigidly defined areas of doubt and uncertainty!"
- Douglas Adams, *The Hitchhiker's Guide to the Galaxy*

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