# Newsletter May 2025

## Optimism or Overreach: What’s Really Driving the Rally?

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# Key Take-Aways



- In May, President Trump imposed 25% steel and 10% aluminum tariffs, then reversed earlier levies, creating policy whiplash. Concurrent legal challenges to his tariff authority and debate over Section 899—aimed at taxing foreign income—further heightened market uncertainty.
- May CPI readings in Germany, Italy, Spain, and France matched or undershot forecasts, confirming eurozone disinflation. At the same time, euro area PMIs slipped into contraction. Against this backdrop, the ECB cut rates by 25 basis points and is likely to cut two more times this year.
- The House Reconciliation Bill is expected to increase the US deficit until FY 2027 by $ 600bn or 1.8% of GDP. The deficit would rise by one-third from currently $ 1.7tr to $ 2.3tr and this is bad news for Treasuries. Yields have therefore trended upwards in May despite relatively soft inflation data.
- Uncertainties stemming from Trump's trade policies and their impact on inflation and the US business cycle weigh on USD bonds. A possible alternative are Emerging Market bonds where yields are falling. **For local investors, EM local currency bonds represent and increasingly interesting alternative** to US Treasuries without the currency risk of a potentially depreciating dollar.
- Global markets rebounded strongly in May 2025, driven by easing inflation, dovish central bank signals, better-than-expected corporate earnings (especially from US tech giants), and a temporary US-China trade truce. The S&P 500 rose 6.2%, Nasdaq 9.6%, and Euro STOXX 600 by 4.4%.
- US markets led the rally, fueled by strong tech sector performance and AI enthusiasm, while Asia saw more modest gains due to weaker domestic growth—particularly in China—and currency headwinds in Japan. Despite the optimism, risks remain from potential trade tensions and shifting monetary policy.
- Safe-haven currencies, including the Swiss franc, Japanese yen, gold, and silver, are gaining momentum following uncertainty on U.S.-China trade tensions, rising U.S. jobless claims, and diverging central bank policies weigh on the U.S. dollar and fuel risk aversion.
- Key currency pairs are approaching critical technical levels: EUR/USD flirts with resistance, USD/JPY faces downward pressure, and GBP remains supported by relative economic stability, all within a market shaped by volatility, inflation dynamics, and shifting rate expectations.

# Review

## May 2025

| Equity % Change | Price | 1 day | 5 days | MTD | QTD | YTD | EST P/E |
|---|---|---|---|---|---|---|---|
| S&P 500 | 5'912 | 0.00 | 1.90 | 6.29 | 14.26 | 1.06 | 20 |
| Nasdaq | 19'114 | -0.32 | 2.02 | 9.65 | 17.68 | -0.73 | 25 |
| Russell 2000 | 2'066 | -0.39 | 1.32 | 5.34 | -1.23 | -6.85 | 19 |
| Euro Stoxx 50 | 5'367 | -0.08 | 0.79 | 5.42 | 11.27 | 12.31 | 14 |
| Stoxx 600 EUR | 549 | 0.15 | 0.77 | 5.07 | 12.57 | 10.75 | 14 |
| FTSE 100 | 8'772 | 0.64 | 0.73 | 3.79 | 15.31 | 9.40 | 12 |
| SMI | 12'227 | 0.33 | 0.23 | 1.26 | 9.39 | 8.60 | 16 |
| NIKKEI 225 | 37'965 | -1.22 | 2.17 | 5.33 | -4.14 | -3.93 | 18 |
| CSI 300 China | 3'840 | -0.46 | -1.05 | 2.02 | 12.52 | -1.88 | 12 |
| MSCI EM Index | 1'157 | -1.07 | -1.11 | 4.30 | 14.75 | 8.86 | 11 |

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|---|---|---|---|---|---|---|---|
| S&P 500 | 5'912 | 0.00 | 1.90 | 6.29 | 14.26 | 1.06 | 20 |
| UTILITIES | 414 | 1.08 | 1.15 | 3.83 | 28.74 | 9.07 | 17 |
| ENERGY | 619 | -0.68 | -0.43 | 0.99 | -10.62 | -3.88 | 13 |
| TELECOM | 353 | 0.50 | 2.12 | 9.63 | 25.42 | 3.59 | 18 |
| CONS STAPLES | 917 | 1.18 | 1.80 | 1.81 | 15.87 | 8.45 | 22 |
| REAL ESTATE | 262 | 0.15 | 2.74 | 0.99 | 9.35 | 3.35 | 19 |
| CONS DISCRET | 1'717 | -0.57 | 1.71 | 9.44 | 16.57 | -5.96 | 25 |
| MATERIALS | 545 | 0.18 | 0.90 | 3.03 | -4.92 | 3.62 | 19 |
| HEALTH CARE | 1'543 | 0.26 | 1.88 | -5.55 | -8.68 | -3.10 | 15 |
| INFO TECH | 4'524 | -0.43 | 2.36 | 10.89 | 19.33 | -1.57 | 25 |
| FINANCIALS | 846 | 0.22 | 1.80 | 4.42 | 22.80 | 5.81 | 16 |
| INDUSTRIALS | 1'207 | 0.14 | 1.49 | 8.83 | 15.04 | 8.83 | 22 |

| Currency % Change | Price | 1 day | 5 days | MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| DXY | 99.329 | 0.05 | 0.22 | -0.14 | -4.94 | -8.44 |
| EUR-USD | 1.1347 | -0.20 | -0.13 | 0.17 | 5.16 | 9.59 |
| USD-JPY | 144.02 | -0.13 | 1.02 | 0.66 | -4.84 | -8.38 |
| USD-CHF | 0.8224 | -0.07 | 0.16 | -0.41 | -8.76 | -9.37 |
| EUR-CHF | 0.9333 | -0.20 | 0.02 | -0.29 | -4.09 | -0.73 |
| GBP-USD | 1.3459 | -0.24 | -0.58 | 0.98 | 6.62 | 7.53 |
| EUR-GBP | 0.8432 | 0.09 | 0.43 | -0.81 | -1.37 | 1.90 |
| JP EM FX Index | 45.56 | -0.30 | -0.40 | 0.84 | -2.05 | 6.44 |

| Fixed Income - % Change | Price | 5 days | MTD | QTD | YTD |
|---|---|---|---|---|---|
| BBG Global Agg Treasuries TR Index UNH $ | 206 | 0.40 | -0.61 | 4.93 | 5.68 |
| BBG Global Aggregate TR Index Value $ | 488 | 0.52 | -0.36 | 5.70 | 5.28 |
| BBG Global Aggregate Corporate TR $ | 301 | 0.86 | 0.21 | 6.02 | 2.35 |
| BBG Global High Yield $ | 1'735 | 0.60 | 1.65 | 11.63 | 4.41 |
| BBG US Treasury TR Unhedged $ | 2'348 | 0.76 | -1.03 | 4.09 | 2.51 |
| BBG US Corporate TR Unhedged $ | 3'364 | 1.11 | -0.01 | 4.85 | 2.26 |
| BBG EuroAgg Government TR Index UNH € | 245 | 0.59 | 0.10 | 3.39 | 0.79 |
| BBG EuroAgg Corporate TR Index UNH € | 262 | 0.40 | 0.54 | 5.85 | 1.53 |

| Commodity % Change | Price | 1 day | 5 days | MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| BBG Commo Index | 100.0 | -0.85 | -2.64 | -0.93 | 0.50 | 1.24 |
| Gold Spot $/OZ | 3'289.3 | -0.86 | -2.03 | 0.02 | 47.51 | 25.33 |
| Crude Oil WTI | 60.8 | -0.25 | -2.24 | 4.43 | -26.91 | -15.24 |

| Volatility | Price | 1 day | 5 days | MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| VIX | 18.6 | -0.61 | -3.72 | -6.13 | 42.74 | 1.22 |

Source: Bloomberg 31/05/2025



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# Macro & Rates

## Tariff Turmoil Meets Disinflation: US Yields Spike as Eurozone Prices Cool

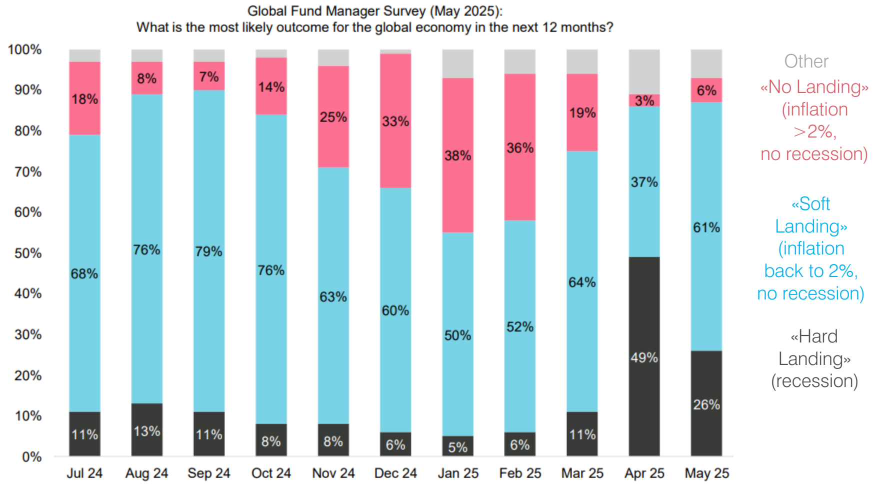
*US Inflation Eases amid Policy Uncertainty; Euro Area CPI Confirms Ongoing Disinflation*

Latest Personal Consumption Expenditures (PCE) numbers which were published in the United States for April declined to a level of 2.5 percent year-on-year, marking a further easing of price pressures. Services inflation excluding housing was flat month-on-month, suggesting service-sector price momentum has stalled. At the same time, modest price increases appeared in categories heavily exposed to Chinese imports, reflecting the initial inflationary impact of recent tariff disruptions. Real PCE rose by just 0.1 percent in April, indicating weak household spending - this muted consumption might be directly linked to "self-inflicted policy uncertainty," as businesses and consumers grapple with abrupt tariff reversals and shifting fiscal signals.

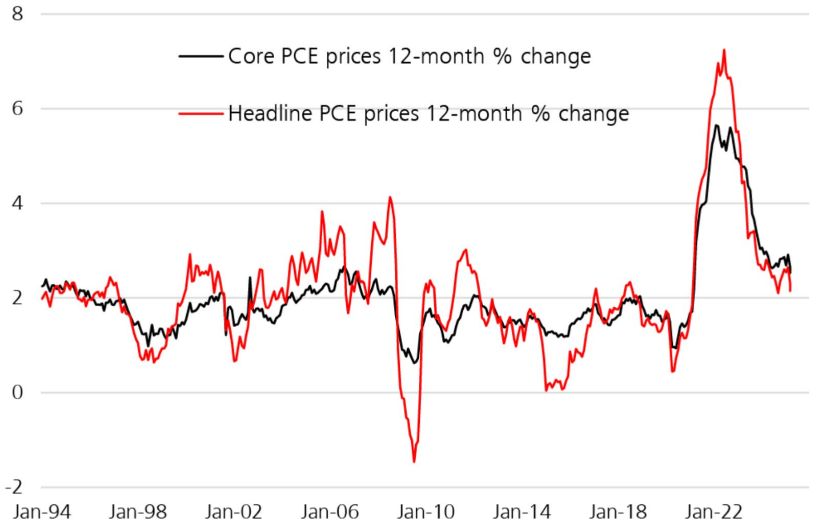
In May, President Trump announced new steel and aluminum tariffs—25 percent on steel and 10 percent on aluminum—citing national-security concerns. These measures re-escalated trade tensions, prompting immediate price spikes in commodity futures and heightening supply-chain uncertainty for U.S. manufacturers. Earlier that month, the administration partially reversed its earlier tariffs in an event dubbed "Liberation Day." Although that rollback eased some fears, it underscored U.S. trade policy's volatility. Concurrently, a legal challenge to the President's authority to impose unilateral tariffs remained active, adding uncertainty about the new duties.

Shortly thereafter, President Trump's "Big Beautiful Bill" was passed, increasing the projected U.S. fiscal deficit and pushing long-term Treasury yields higher (10-year US Treasury Bond yields around 4.6%). Section 899 of the draft U.S. budget bill would tax foreigners' income from U.S. assets in retaliation for digital services taxes and perceived undertaxation abroad—targeting U.S. allies including Europe, the U.K., Canada, Australia, and potentially Japan—and elevating political risk for foreign investment in U.S. financial markets.

Preliminary May CPI readings for Germany, Italy, Spain, and France were in line with or below expectations, confirming ongoing disinflation across the eurozone. This allowed the ECB to cut rates by 25bps on 5 June. Two further cuts are expected before year-end in light of the continued deceleration in euro-area inflation. Eurozone PMIs unexpectedly dropped into contraction territory, with manufacturing outpacing services for the first time since the pandemic. In the U.K., headline inflation rose from 2.6 percent in March to 3.5 percent in April due to base effects, even as the Bank of England's preferred services measure fell.




Source: BofA Global Fund Manager Survey (May), Vontobel




Source: BEA, Haver, UBS

# Fixed Income

## Big Beautiful Bill?

On May 7th the Fed kept interest rates unchanged at 4.5%. The Fed must balance inflationary pressures potentially building up in the US on one hand and the risks of an economic slowdown due to the new administration's erratic trade policy on the other hand. The FOMC therefore decided to remain in a "wait and see" mode. The market is now pricing two cuts in 2025, the first one in September and another one in December.

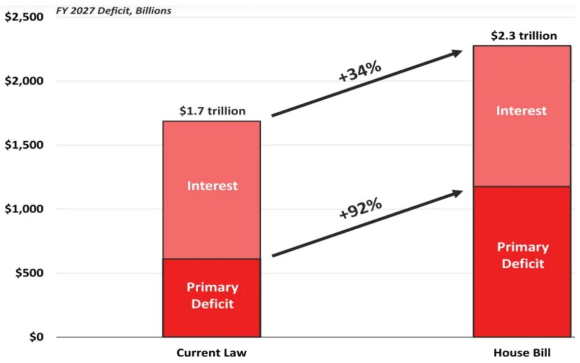
Meanwhile, the House Reconciliation Bill, also called "big beautiful bill" by President Trump, is expected to massively increase the US deficit over the coming years. According to estimates from the Committee for a Responsible Federal Budget, the House bill would boost the FY 2027 deficit by nearly $ 600bn, or 1.8% of GDP. That's the net effect of roughly $ 770bn of new borrowing and only $ 180bn of offsets. The deficit would rise by one-third from $1.7tr to 2.3tr. The primary (non-interest) deficit would roughly double under these assumptions.

This is bad news for Treasuries, and especially the longer end of the Treasury yield curve has moved upwards over the month by more than 15bps. The bear steepening was even more surprising as inflation data in May was rather soft: April CPI MoM was 0.2% vs. 0.3% expected, CPI YoY 2.3% vs. 2.4% expected and PPI Final Demand MoM surprised on the downside with -0.5% vs. 0.2% expected (YoY 2.4% vs. 2.5% expected). It seems that bond markets, too, are torn between the potential weakening of the US economy and the worsening path of US public finances – with for now a bias towards playing the role of "bond vigilantes" by putting a larger concern on the growing US budget deficit. Forecasts by economists of lower Treasury yields in 2Q25 (4.24%) have been proven wrong throughout May as the 10-year yield spiked to 4.62% and is now trading at 4.35%.

The main uncertainty weighing on the US (and global) economy is the future path of US trade policies. The OECD has calculated the impact of a 10% tariff imposed by the US on its main trading partners. In terms of additional inflation in the first three years and lower GDP in the third year, the US is among the countries most impacted negatively. Signs of a slowing economy are already appearing. As of writing, the ISM Manufacturing Index fell to 48.5 vs. 49.5 expected and the ADP Employment Change came in at 37k which is well below the expected 114k and 60k in the last reading. If the US economy should continue to weaken or eventually even pivot into recession, then the Fed is likely to accelerate its cutting cycle. The impact on (longer) USD bond yields is uncertain considering the deteriorating fiscal situation. It is, however, another reason to expect the dollar to continue to weaken. In this light, Treasuries and USD fixed income become increasingly unattractive especially for international investors.

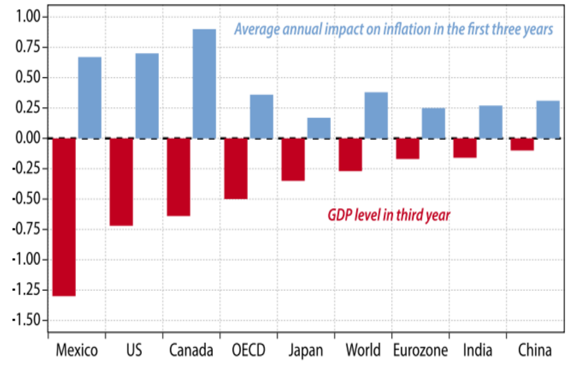
Alternatives are thus becoming more attractive once again. Savers from Emerging Markets may well turn away from the USD bond market, as they are discounting both, lower asset prices and a falling currency. Local EM yields have been falling over the last months thereby leading to rising bond prices without currency risk for local investors. Asian investors seem already moving into this direction as the strong recent appreciations in the Taiwan dollar, South Korean won and Singapore dollar vs. the USD show.

US FY 2027 Deficit under new House Bill



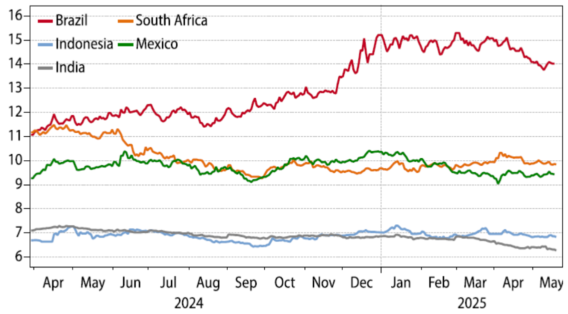

Source: CRFB.org

OECD Simulation of 10% Tariffs




Source: OECD, Gavekal Research/Macrobond

10 yr. Government Bond Yields of Major EM




Source: Gavekal

# Equity

## A Renewed Surge in Market Optimism

May 2025 was marked by a notable resurgence of optimism across global financial markets, despite an environment that remains uncertain. Investors were buoyed by several encouraging signals: better-than-expected corporate earnings, easing inflation in major economies, more dovish tones from central banks, and a temporary de-escalation in trade tensions.

This renewed confidence fueled strong performances across major equity indices, particularly in the United States and Europe. In Asia, the recovery was more subdued, with fragile domestic growth drivers—especially in China—limiting momentum.

*Strong leadership of US technology stocks, combined with growing hopes of a monetary policy pivot, helped drive markets higher.*

US markets were the main beneficiaries of this positive shift. The **S&P 500** surged by **6.2%,** its best monthly performance since November 2023. The **Nasdaq**, heavily weighted toward technology stocks, soared by **9.6%,** driven by stellar quarterly results from giants such as Apple, Nvidia, and Microsoft. Investor enthusiasm around artificial intelligence, cloud infrastructure, and semiconductors continued to power the sector higher. The **Dow Jones**, more exposed to industrial and financial names, gained **3.9%**, as bank stocks rebounded on the back of improved rate curve visibility and resilient credit demand.

In Europe, the **STOXX Europe 600** advanced by **4.4%,** supported by a slightly more accommodative macroeconomic environment and renewed capital inflows into eurozone risk assets.

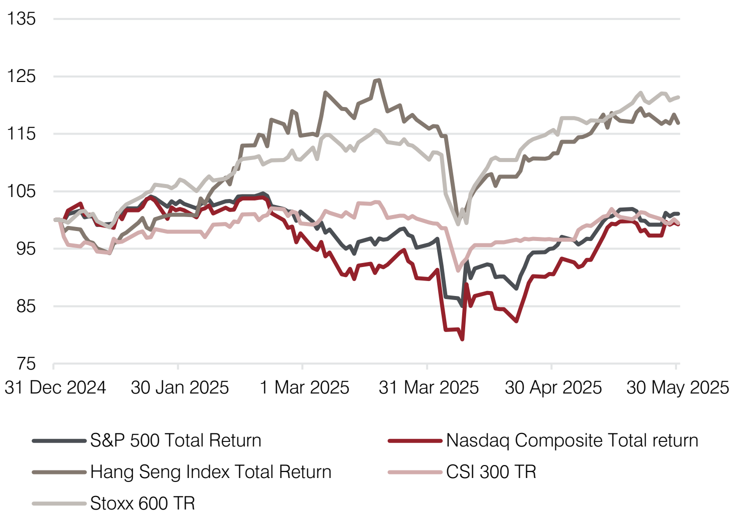
Asian markets delivered more mixed results. Hong Kong's **Hang Seng** rose by **1.4%**, helped by a rebound in Chinese tech names and an influx of foreign capital. The month ended with eight consecutive days of gains—the longest winning streak since 2022. Mainland indices, the **CSI 300** and **Shanghai Composite**, rose by **1.1%** and **0.9%**, respectively. These modest gains masked underlying economic fragilities. Japan's **Nikkei 225** remained largely flat, held back by a stronger yen.

Several macroeconomic developments underpinned the rally. Most notably, the **90-day temporary trade truce between the US and China**, which suspended any new tariff increases, eased pressure on export-oriented businesses and improved overall market sentiment. However, volatility returned at month-end after President Trump hinted at the possibility of new tariffs on Chinese imports.

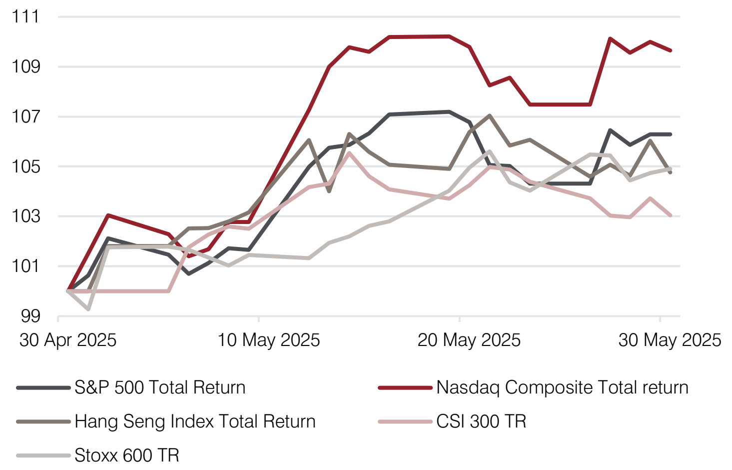
On the monetary policy front, the **Federal Reserve** signaled that a rate cut could be on the table in the second half of the year—provided inflationary pressures continue to subside.

May 2025 marked a clear return of **risk appetite**, supported by a temporary alignment of favorable macroeconomic drivers. However, caution remains warranted: the **S&P 500** and **Euro Stoxx 50** are approaching their previous all-time highs and may encounter psychological resistance levels. Looking ahead to June, markets will have to navigate a possible resurgence in trade tensions, ongoing monetary policy shifts, and persistent geopolitical uncertainty.

YTD Performance - Main Indexes (USD)




May Performance - Main Indexes (USD)



# Forex & Commodities

## Will Trade Tensions Reshape FX Trends?

*The U.S. dollar remains under pressure as June unfolds, weighed down notably by escalating U.S.-China trade tensions, particularly the doubling of tariffs on steel and aluminum. Rising jobless claims and the growing likelihood of Federal Reserve rate cuts in the second half of 2025 further cloud the USD's outlook.*

Technically, EUR/USD is trading above 1.14 and stands at a pivotal juncture. A break below 1.1200 would signal a bearish shift, while psychological resistance at 1.15 continues to cap the upside. The euro's outlook remains mixed: although the European Central Bank cut rates by 25 basis points, the Eurozone economy has shown surprising resilience. Seasonal bullish tailwinds for EUR/USD provide some lift, but volatility persists. A decisive breakout above 1.15 could trigger further upside momentum, while the 50-day moving average, currently around 1.1250, serves as key support.

Meanwhile, the Swiss franc continues to shine as a safe-haven asset, buoyed by Switzerland's economic stability and low correlation with other markets. The USD/CHF pair has been confined to a tight 150-pip range, suggesting an imminent breakout. A drop below 0.8200 could open the door to further CHF strength, making long CHF positions, particularly against USD or EUR, attractive for investors seeking safety amid heightened uncertainty.

Similarly, the Japanese yen is gaining ground, supported by global trade concerns and an anticipated 25-basis-point rate hike by the Bank of Japan in June, underpinned by rising inflation and wage growth. USD/JPY, currently trading below 145.00, faces resistance near the 50-day moving average. Short-term support lies at 142.00. As risk aversion grows, investors are increasingly turning to the yen, reinforcing its appeal as a compelling safe-haven play.

Turning to the British pound, GBP is expected to remain resilient. GBP/USD is forecast to rise toward 1.37 by month-end, driven by a weakening USD and a cautious Bank of England, which has slowed its pace of rate cuts due to persistent inflation risks and strong wage growth. While the BoE has matched the Fed in total rate cuts since mid-2024, it has eased less aggressively than the ECB. Against the euro, GBP is likely to remain stable between 1.18 and 1.19, despite volatility linked to trade tensions.

In commodities, gold remains a long-term bullish standout, supported by central bank purchases and geopolitical risks. However, June's outlook is less clear following a recent buy-side fakeout, with prices fluctuating between $3,200 support and $3,500 resistance. Silver, by contrast, is showing robust momentum. A 9.8% price increase is projected for June, with prices starting at $33 and potentially reaching $38.70. Industrial demand, particularly from green technologies, and ongoing supply constraints are fueling this rally.

In summary, several key forces are shaping the broader market landscape. U.S.-China trade tensions are bolstering demand for safe-haven assets such as the CHF, JPY, and gold while pressuring the USD. Diverging central bank policies — ECB easing, BOJ tightening, and potential Fed cuts—are setting the tone for currency markets. Meanwhile, rising U.S. jobless claims, Eurozone resilience, and Japan's inflation add layers of complexity. Silver stands out, driven by strong industrial demand and supply risks. Nevertheless, significant risks remain: unexpected policy shifts, escalating geopolitical disputes, or surprising economic data could all trigger sharp market volatility.

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