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QUARTERLY MARKET COMMENTARY

JUNE 2025

Quarterly Market Commentary June 2025

Navigating a world shaped by a complex interplay of policy decisions, trade tensions, and fluctuating market conditions

Welcome to the June 2025 issue of *Quarterly Market Commentary* from Kellands Financial Planning**.**

This commentary covers the significant challenges faced by the global economy during March, April, and May 2025, shaped by a complex interplay of policy decisions, trade tensions, and fluctuating market conditions. A major influence during this period was President Trump's sweeping tariff measures, which disrupted global trade relations by imposing considerable pressure on export-reliant industries. These tariffs not only altered supply chains but also intensified inflationary pressures in certain markets, compelling businesses to reassess their strategies for maintaining competitiveness amidst rising costs and reduced demand.

Monetary policy played a crucial stabilising role throughout this period, with central banks adopting measured strategies to address evolving economic uncertainties. The Federal Reserve maintained its data-driven focus, refraining from immediate rate cuts in light of mixed signals from the economy. Similarly, the European Central Bank implemented accommodative measures, including a 25-basis-point rate reduction in April, to mitigate the impact of trade disruptions.

Meanwhile, the Bank of England cut interest rates from 4.5% to 4.25%, the lowest rate since May 2023, cautiously assessing the lingering effects of inflation and tariff-related pressures on the domestic economy.

Global equity markets reflected the diverse economic landscape, presenting a blend of resilience and vulnerability. Technology and defensive sectors, such as consumer staples and utilities, emerged as standout performers, bolstered by stable demand and innovation. Conversely, the energy and industrial sectors faced challenges due to weaker commodity prices and disrupted supply chains. The FTSE 250 index in the UK demonstrated relative strength, sustained by robust domestic demand, while the broader FTSE 100 index encountered headwinds from trade-dependent multinationals.

The economic outlook during these three months was cautiously optimistic but tempered by significant challenges. The easing of headline inflation, driven by stabilising energy and food prices, provided some relief; yet, persistent core inflation and ongoing geopolitical tensions continued to cast shadows over global growth prospects. Emerging markets presented a mixed picture, with Southeast Asia and India maintaining robust growth trajectories, while China and Turkey grappled with trade-induced pressures and domestic imbalances.

This market commentary provides an overview of the latest developments shaping global markets during this critical period, highlighting the implications of trade policies, sector-specific performance dynamics, and central bank strategies. Its aim is to equip readers with the insights necessary to understand the interconnected forces driving market trends and to identify opportunities within a volatile economic landscape.

For policymakers, investors, and business leaders alike, the period from March to May 2025 highlighted the necessity for adaptability and foresight. By examining the most pressing economic themes and their implications, this commentary serves as a valuable resource for navigating a world characterised by constant change and complexity.

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Quarterly Market Review

The complex interplay of policy decisions, trade tensions, and fluctuating market conditions

UK

Economic resilience amid easing inflation

The UK economy displayed remarkable resilience during spring 2025, navigating a landscape of domestic challenges and rising geopolitical uncertainties. Inflationary pressures began to ease, providing fragile yet promising relief to households and businesses. The Consumer Price Inflation (CPI) rate was 2.6% in March and rose to 3.5% in April 2025. However, some progress was aided by falling energy prices and stabilising food costs, supported by significant advancements in global supply chain efficiencies. In April, core inflation, which excludes volatile items like food and energy, stood at 3.8%, up from 3.4% in March 2025, highlighting persistent price pressures in the service sector, particularly in transportation, hospitality, and personal services.

Despite these improvements, the risks of inflationary persistence remain significant. Rising wages and high input costs continue to exert pressure, particularly in labour-intensive industries. Alongside these inflationary threats, new trade headwinds have posed challenges to the broader economic landscape.

Impact of President Trump's tariffs

Adding complexity to the economic environment, a series of tariff announcements by President Trump in April and May 2025 reignited trade tensions with targeted measures against British exports. The 10% baseline tariffs were specifically imposed on automotive components, steel products, and agricultural goods, significantly disrupting trade dynamics. Although the UK secured a preliminary trade agreement with the United States during a temporary 90-day pause on broader tariffs, the existing levies on steel and aluminium imports from the UK remained at 25%, with no reduction anticipated before 9 July.

The initial wave severely impacted UK car manufacturers, cutting into profit margins and competitiveness in the key US market. Automotive exporters, who rely heavily on American buyers, struggled with reduced demand and inflated costs. The April tariffs broadened the scope to include steel products, intensifying pressure on an industry already grappling with overcapacity and mounting raw material costs. The third tranche in May focused on agricultural exports and unsettling rural economies and raised questions about the viability of trade strategies in the US market.

These tariffs introduced a twofold challenge for affected UK industries. Firstly, businesses most reliant on US markets had to decide whether to absorb rising costs or pass them on to international buyers, risking market share losses. Secondly, production costs across key sectors rose, adding upward pressure on core inflation. Together, these factors compounded existing economic uncertainties, requiring immediate responses from businesses and policymakers alike.

Bank of England's monetary policy

The Bank of England (BoE) adopted a cautious and measured approach amidst these complex challenges. During its May Monetary Policy Committee meeting on 8 May, the BoE reduced interest rates from 4.5% to 4.25%, the lowest rate since May 2023. The Bank acknowledged advancements in controlling headline inflation but remarked on persistent core price pressures and the complications posed by the US trade measures.

Q1 2025 GDP data offered a glimmer of optimism, with growth revised upward to 0.3%, surpassing the initial projection of 0.1%. This resilience reflected the economy's ability to withstand tightening financial conditions. However, the combination of tariff-driven sectoral disruptions and ongoing inflationary pressures dampened overall confidence, particularly in export-led industries.

Equity markets and sectoral performance

Equity markets exhibited mixed performance throughout the quarter, reflecting the interplay of global uncertainties and

The geopolitical dynamics of UK and US trade relations will likely necessitate strategic government intervention, particularly in sectors disproportionately affected by tariffs.

domestic factors. The FTSE 100 index, dominated by large-cap multinational businesses, recorded a 0.7% decline between March and May. Energy-sector stocks underperformed due to stabilising oil prices, while financial services encountered subdued investor sentiment, further dampening the broader market.

Mid-cap stocks within the FTSE 250 index fared better, benefiting from their domestic focus and the UK's economic resilience. Stronger GDP data, coupled with Sterling trading near six-month highs against the euro, bolstered businesses with limited export exposure. However, trade-dependent UK sectors bore the brunt of the newly imposed tariffs. Automotive and steel manufacturers faced immediate headwinds as higher costs eroded profitability, while agricultural exporters grappled with reduced competitiveness in the US market.

Public borrowing and fiscal challenges

Fiscal dynamics also came under strain during the period. Revised figures from the Office for National Statistics revealed public borrowing remained £14.6 billion above expectations for the year ending March 2025. Elevated government expenditure was directed towards energy subsidies, public services, and short-term tariff mitigation efforts. This additional spending coincided with slower-than-expected tax revenue growth, compounding debt sustainability challenges.

The growing fiscal deficit placed increased pressure on the UK government to balance immediate economic support with its long-term fiscal strategy. Rising bond yields further complicated this equation, as higher financing costs limited fiscal manoeuvrability. Industries impacted by the tariffs, such as manufacturing and agriculture, called for targeted fiscal interventions, adding to the government's to-do list as it navigates macroeconomic and trade pressures.

Economic outlook

The remainder of 2025 presents a cautiously optimistic yet uncertain path forward for the UK. While easing headline inflation offers much-needed respite, stubborn core inflation and US-imposed tariffs represent significant headwinds. The spotlight will remain on the Bank of England's monetary policies, particularly its ability to balance inflation containment with maintaining economic momentum in an environment fraught with trade uncertainty.

The geopolitical dynamics of UK and US trade relations will likely necessitate strategic government intervention, particularly in sectors disproportionately affected by tariffs. Businesses, meanwhile, are expected to pivot towards cost efficiency, greater automation, and diversification of export markets to offset ongoing trade barriers.

The second half of 2025 will be pivotal in determining the trajectory of the UK economy. Policymakers and businesses will face mounting pressure to adapt to macroeconomic shifts and redefine trade strategies amidst an evolving global environment. Flexibility, innovation, and proactive trade negotiations will be essential in charting a stable and sustainable economic course forward.

EUROZONE

Stabilising growth and managing inflation

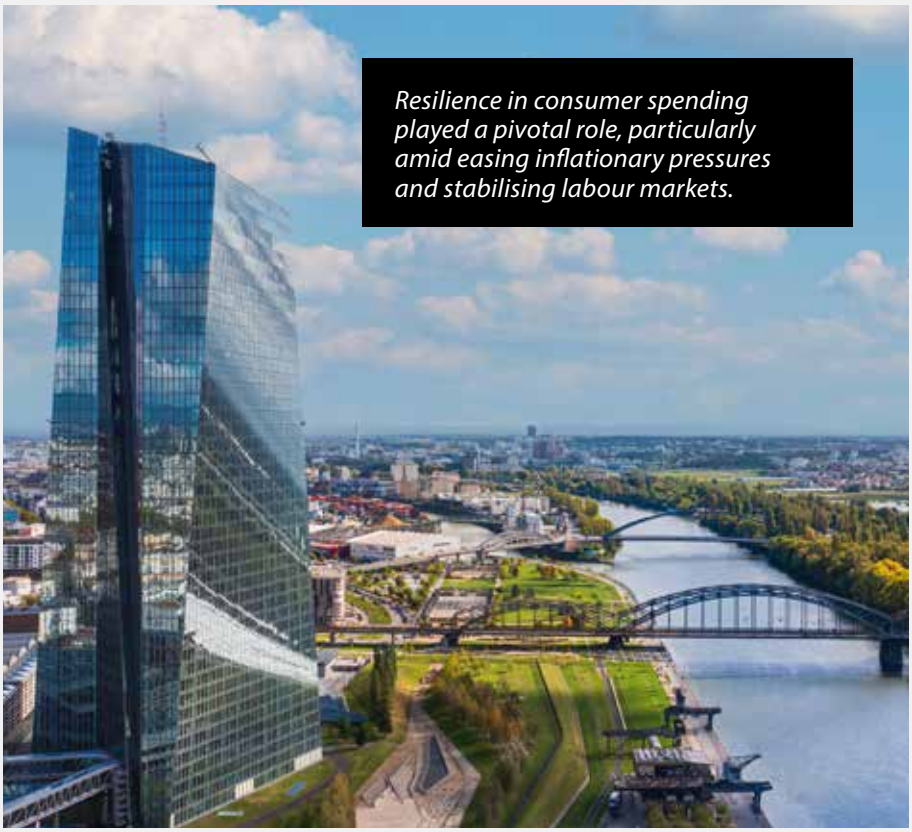
Eurozone shares were slightly positive in April. As in the US, the energy sector was the weakest performer. Defensive areas of the market, including consumer staples and utilities, outperformed their counterparts. The eurozone economy expanded by 0.4% quarter-on-quarter in Q1, according to an estimate from Eurostat. The European Central Bank lowered interest rates by 25 basis points (bps) and indicated that the outlook for growth had deteriorated following the US tariff announcement.

In Germany, incoming Chancellor Friedrich Merz has struck a deal to form a coalition government with the Social Democrats (SPD). The German Ifo business climate index rose slightly in April to 86.9, up from 86.7 in March.

Eurozone shares recorded a slightly positive performance in April 2025, reflecting a resilient but cautious sentiment as markets navigated a complex backdrop of economic and geopolitical developments. Defensive sectors, including consumer staples and utilities, delivered robust gains, underpinned by their perceived stability in volatile conditions. Conversely, the energy sector lagged, mirroring global trends as commodity prices softened. Overall, the broader equity market retained a steady trajectory, supported by modest economic growth and the European Central Bank's (ECB) accommodating monetary policies.

Economic growth and resilience

Resilience in consumer spending played a pivotal role, particularly amid easing inflationary pressures and stabilising labour markets. However, economic momentum was tempered by new challenges, notably the implementation of trade tariffs by the US. Many export-dependent economies within the Eurozone faced heightened uncertainty, raising concerns about the impact of disrupted trade flows on industrial performance.



Resilience in consumer spending played a pivotal role, particularly amid easing inflationary pressures and stabilising labour markets.

Germany remained the region's economic powerhouse and exhibited signs of recovery. The German Ifo business climate index, which gauges economic sentiment, recorded a slight improvement, rising to 86.9 in April from 86.7 in March, indicating cautious optimism among businesses regarding future conditions. However, the broader implications of escalating trade tensions continued to be a concern.

Impact of President Trump's tariffs

President Trump's tariff measures announced during the quarter presented significant challenges for the Eurozone, particularly for industries dependent on US trade. In April, new tariffs were introduced targeting automotive parts, with additional levies expanding to include steel products and agricultural goods. These protectionist policies aimed to reduce trade imbalances but created immediate obstacles for Europe's export-reliant industrial base.

For the Eurozone, these tariffs posed both economic and inflationary pressures. Elevated export costs led to margin compression for automotive and industrial manufacturers. The agricultural sector, which has long relied on transatlantic trade, encountered increased competitiveness challenges, as producers contemplated realigning supply chains or diversifying into alternative markets.

The tariffs not only weighed on industrial sentiment but also influenced corporates' pricing decisions, exacerbating inflationary pressures in certain markets. This compelled many businesses to seek cost reductions through automation or by passing on costs to end consumers, creating ripple effects within domestic markets.

Monetary Policy and the European Central Bank

Faced with these mounting challenges, the European Central Bank took decisive action to support economic stability. It cut interest rates by 25 basis points (bps) in May 2025, aiming to counteract a deteriorating trade environment and bolster domestic demand. President Christine Lagarde highlighted concerns regarding the sufficiency of demand within the bloc to absorb external economic shocks, particularly those arising from US trade policies.

The rate cut also reflected the ECB's strategic effort to manage inflation. While headline inflation eased from its peaks, core inflation remained robust, driven by elevated input costs and price pressures in the service sector. The ECB's commitment to an accommodative monetary policy signals ongoing support for achieving economic balance in an uncertain global trade environment.

Equity markets and sectoral performance

The Eurozone equity markets displayed sectoral divergence during the quarter, with defensive sectors eclipsing weaker performance in energy and trade-dependent industries. Consumer staples and utilities excelled, as investors preferred businesses with robust earnings stability amidst uncertainty. These sectors thrived on steady demand and resilience against global trade shocks.

Energy stocks underperformed overall, reflecting declining commodity prices and subdued expectations for future demand growth. This mirrored similar trends seen in the US markets. Industrials were particularly affected by President Trump's tariffs. Export-oriented firms especially encountered increasing input costs and tightening margins, leading some to consider supply chain diversification or alternative markets. Nevertheless, the uncertainty dampened overall investor sentiment towards this sector.

Germany's successful coalition agreement under Chancellor Friedrich Merz added a layer of stability, promising ongoing investments in green technologies and infrastructural transformation. This political backdrop has helped to partially offset the pessimism surrounding sectoral headwinds.

Public borrowing and fiscal challenges

The fiscal landscape in the Eurozone faced increasing challenges, worsened by trade-related uncertainties and sluggish economic momentum. Governments increasingly resorted to fiscal interventions to mitigate the negative impacts of tariffs and declining global trade. Countries with high public debt burdens, such as Italy and Spain, encountered heightened pressure amid rising bond yields, which elevated borrowing costs.

Policymakers recognised the need for careful calibration of fiscal spending, striving to find a balance between stimulating growth and maintaining debt sustainability. Tariff-affected sectors, particularly agriculture and industrial manufacturing, may require targeted subsidies or support frameworks in the coming quarters, further testing government budgets.

Economic outlook

The outlook for the Eurozone economy in the second half of 2025 depends on several key variables. While the region continues to demonstrate resilience, particularly through strong domestic consumption, external risks pose significant challenges. The implementation of further US tariffs, alongside the general slowdown in global trade volumes, could disproportionately affect industrially driven economies such as Germany, France, and Italy.

The ECB remains committed to stabilising growth and managing inflation but is likely to act cautiously due to uncertain global conditions. Should economic deterioration accelerate, further rate adjustments may be considered. Growth-oriented fiscal policies, closely monitored by investors, must balance immediate relief with long-term sustainability, particularly for peripheral economies facing higher sovereign debt levels.

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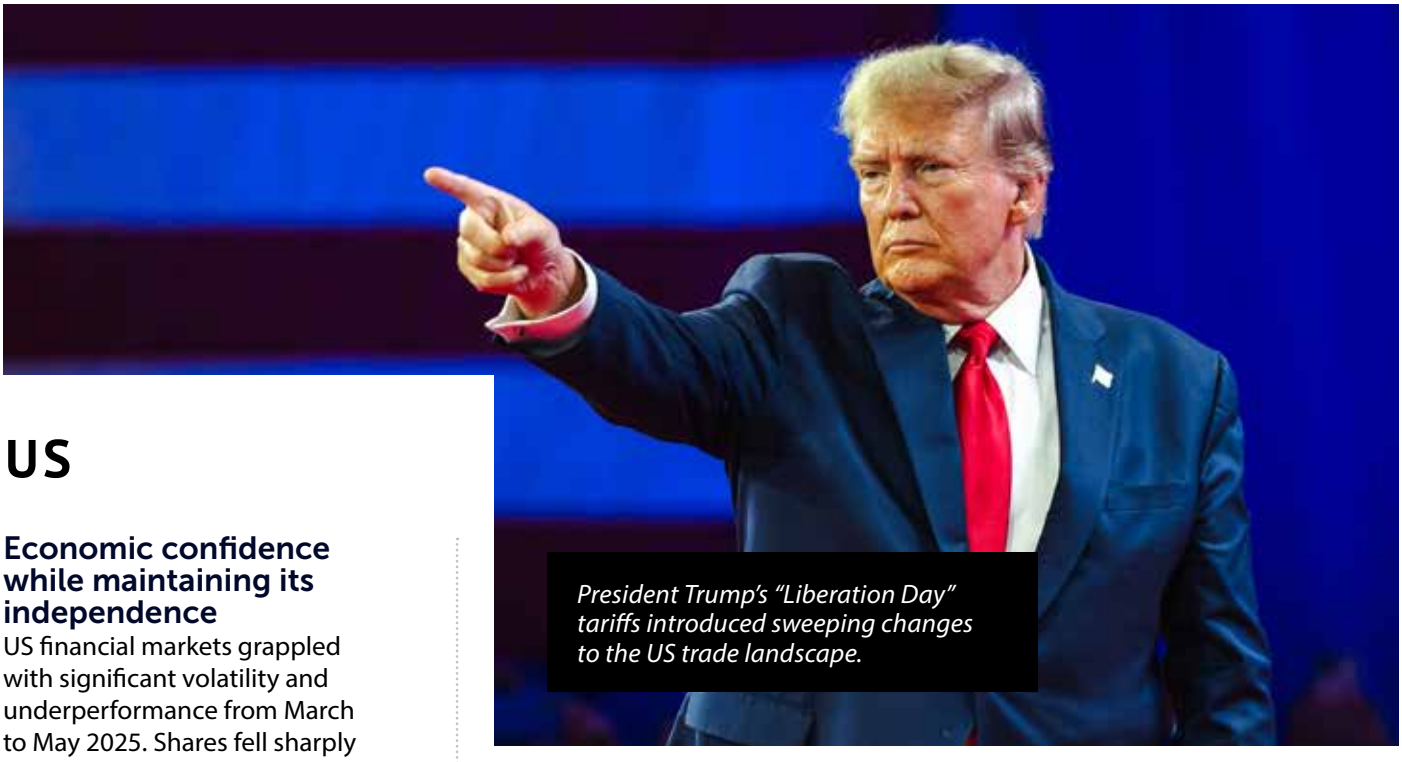


President Trump's "Liberation Day" tariffs introduced sweeping changes to the US trade landscape.

US

Economic confidence while maintaining its independence

US financial markets grappled with significant volatility and underperformance from March to May 2025. Shares fell sharply in April, lagging behind most other regions, as markets digested President Trump's announcement of wide-ranging tariffs on 2 April, branded "Liberation Day."

Trump announced a minimum 10% tariff on all US imports, effective 5 April, and higher tariffs on imports from 57 countries. The announcement of these controversially named "reciprocal tariffs" prompted retaliation from trade partners, sending immediate shockwaves across industries and triggering investor risk aversion. Although a late-quarter rally helped to mitigate losses partially, the uncertainty surrounding trade conflicts, coupled with concerns over domestic monetary policy, kept sentiment subdued.

Defensive sectors such as consumer staples and information technology outperformed during this turbulent period, supported by their resilience and growth potential. Conversely, sectors more vulnerable to global trade and fluctuations in commodity prices, including energy, healthcare, and materials, underperformed. Notably, the energy sector was the weakest performer, significantly affected by declining crude oil prices and worsening demand expectations.

Economic growth

The US economy contracted by 0.2% in Q2 2025. This contraction follows a period of growth in the previous quarter, where GDP increased by 2.4% in Q4 2024. The contraction was primarily driven by a surge in imports and a decrease in government spending. It reflected diminished consumer sentiment and reduced industrial output, stemming from the cumulative impact of rising interest rates, prolonged uncertainty over trade tariff policies, and external demand pressures.

Inflation, however, exhibited signs of moderation, with the consumer price index (CPI) decreasing to 2.4% in March, down from 2.8% in February. Key drivers behind this decline included falling energy prices and stabilising food costs, which provided some relief to households. Nonetheless, core inflation metrics, which exclude more volatile components, remained elevated, reflecting ongoing price pressure in the service sector and other non-energy-related industries.

The economic slowdown revealed vulnerabilities in sectors such as manufacturing and construction, both of which have faced weak demand amid higher borrowing costs. Retail activity also declined, as consumers became cautious about discretionary spending due to economic uncertainty.

Impact of President Trump's tariffs

President Trump's "Liberation Day" tariffs introduced sweeping changes to the US trade landscape. The initial tariff announcement encompassed a 10% blanket levy on all imports, escalating to "reciprocal" and higher tariffs on goods from countries identified as maintaining significant trade imbalances with the US. Following fierce global pushback, the administration suspended the tariffs for 90 days for most countries, thereby allowing room for diplomatic negotiation.

The immediate impact of these tariffs was felt across industries reliant on imported goods. The manufacturing, automotive, and consumer goods sectors bore the brunt of rising input costs, with many businesses unable to fully pass on the additional costs to consumers. Profit margins came under pressure, prompting companies to explore cost-cutting measures, including diversifying their supply chains.

Export-oriented sectors also faced difficulties as retaliatory trade barriers emerged as a potential threat to US-made goods. Agricultural producers, susceptible to changes in global demand, expressed concerns about losing access to crucial overseas markets. While the suspension of tariffs offered some temporary relief, ongoing trade disputes left market participants cautious and uncertain.

Monetary policy and Federal Reserve independence

The Federal Reserve faced increased scrutiny amid concerns regarding its independence, following speculative reports that President Trump intended to replace Chair Jay Powell. While Trump later clarified in mid-April that he had "no intention" of making such a move, the initial reports contributed to the turbulence of already-volatile markets.

The Fed maintained its policy stance during this period, focusing on sustaining economic recovery without exacerbating inflationary pressures. The central bank emphasised its data-driven approach to determining policy shifts, although the uncertainty created by US tariffs complicated its ability to forecast macroeconomic trends accurately. Investors assessed the Fed's response carefully, particularly key indicators of positioning in the face of weakening growth. Speculation has emerged regarding potential rate cuts later in the year should economic contraction persist.

Equity markets and sectoral performance

US equity markets mirrored broader economic apprehensions, with the turbulence of April indicative of investor anxiety over trade, monetary policy, and global macroeconomic conditions. Consumer staples and information technology were the standout performers, benefiting from their ability to deliver consistent returns amidst broader volatility.

Technology stocks, in particular, showed resilience as demand for software and automation solutions sustained growth across the sector. Consumer staples also gained as investors sought safety in recession-resistant industries.

Energy was the weakest-performing sector, as crude oil prices declined significantly due to a combination of fears about oversupply and softer global demand forecasts. Integrated producers and shale oil operators struggled to maintain profitability amid falling margins. Both the healthcare and materials sectors underperformed, driven by risk-off sentiment and rising costs linked to tariff-related disruptions. Investors in these sectors assessed the long-term implications of higher input prices and regulatory uncertainty.

Despite the challenges faced by equity markets, businesses that can adapt through cost management and adjustments to their supply chains are better positioned for long-term recovery. The Dow Jones Industrial Average declined by 3.8% in April, following substantial selling in response to the tariff announcement. By the end of May, a measure of recovery enabled the Dow to record an overall quarter-to-quarter decline of 1.7%.

The S&P 500 mirrored the turbulence of the Dow but exhibited slightly greater resilience, falling by 2.9% during April and recovering more robustly in May, supported by gains in defensive sectors. The Nasdaq Composite demonstrated the most resilience among the major US indices, benefiting from the relative outperformance of technology stocks. The index experienced a decline of 2.2% in April, reflecting broader market jitters, but rallied strongly in May, bolstered by sustained demand for innovation-driven solutions and robust performance among key tech giants.

Public borrowing and fiscal challenges

The trade tensions and slowing economy exerted significant pressure on US public finances. Tax revenues declined as corporate earnings weakened, particularly in sectors affected by tariffs and reduced consumer spending. At the same time, government expenditure rose to finance support programmes for impacted sectors and infrastructure investments aimed at mitigating the trade disruption.

With rising bond issuance necessary to cover budget shortfalls, public borrowing costs began to climb. Sovereign bond yields reflected investor concerns about long-term debt sustainability, placing significant strain on the federal budget. Policymakers face the dual challenge of maintaining fiscal discipline while stimulating growth through targeted interventions.

Economic outlook

Looking ahead, the US economy faces a challenging and uncertain environment. The ongoing tariff negotiations will play a crucial role in shaping economic conditions in the second half of 2025. While the suspension of tariffs has provided a temporary reprieve for businesses reliant on imports, unresolved disputes threaten to further disrupt trade relationships and escalate input costs.

Inflationary trends will continue to be monitored closely, as declining energy prices offer some relief, but core inflation metrics suggest underlying pressures, particularly in service-related industries. The capacity of businesses to adapt, through automation and supply chain diversification, will likely influence recovery trajectories.

Monetary policy will continue to be a focal point, with the Federal Reserve balancing the need to bolster economic confidence while maintaining its independence. Labour market conditions, although relatively stable at present, will remain crucial for sustaining consumer spending growth.

JAPAN

Balancing near-term fiscal stimulus with long-term sustainability

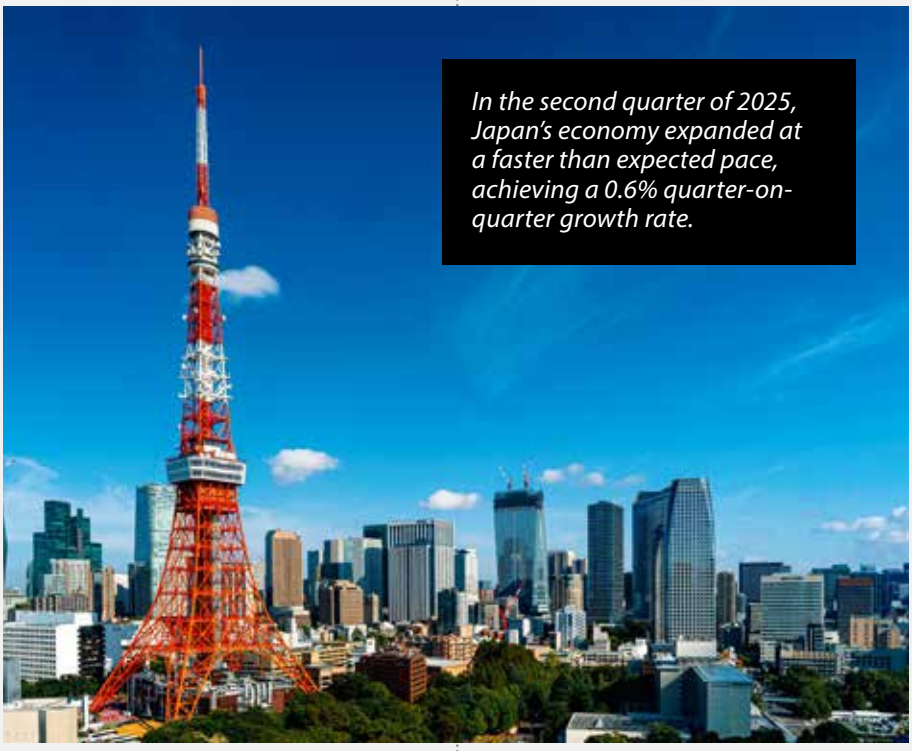
Japanese equity markets demonstrated resilience amid a turbulent global backdrop from March to May 2025. The Topix index recorded a modest positive return in yen terms, while the Nikkei 225 slightly outperformed, gaining 1.2% over the period. This performance underscored Japan's relative stability despite challenges arising from slowing global economic growth and increased volatility following President Trump's sweeping tariff announcement on "Liberation Day" in April.

Japan's prioritisation in US tariff negotiations provided temporary reassurance to the markets; however, the lack of a formalised deal by the end of May left sentiment subdued. Corporate activity also gave an additional boost to equity performance, with numerous firms announcing strong full-year earnings and offering optimistic guidance. A notable trend during this period was the significant rise in share buybacks, which surpassed the record levels set the previous year, underscoring corporate confidence and a strategic focus on shareholder value, even amid broader external uncertainties.

Economy

In the second quarter of 2025, Japan's economy expanded at a faster-than-expected pace, achieving a 0.6% quarter-on-quarter growth rate. This growth was primarily supported by stable domestic demand, reinforced by government initiatives aimed at sustaining consumer spending and business investment. However, external trade pressures hindered economic activity, as exports fell due to weaker demand from key trading partners and the broader uncertainties created by US tariff policies.

Inflation remained subdued over the period. Core inflation averaged 1.5% during March, April, and May, slightly below the Bank of Japan's 2% target. Declining energy prices, driven by global oversupply and lower demand projections, contributed to this moderation. Nonetheless, consistent domestic consumption provided a foundation for stability in price levels across goods and services.



In the second quarter of 2025, Japan's economy expanded at a faster than expected pace, achieving a 0.6% quarter-on-quarter growth rate.

Impact of President Trump's tariffs

The sweeping tariff measures announced by the US on 2 April, which imposed a 10% levy on all imports and higher reciprocal tariffs on countries with trade surpluses against the US, introduced significant risks for Japan. Japanese exporters, including key players in the automotive and electronics industries, faced the prospect of increased trade barriers.

To mitigate these risks, Japan secured priority negotiations with the US, a move that underscored its strategic significance to the American economy. While these discussions indicated progress, no resolution had been reached by the end of May, leaving companies and investors preparing for potential disruptions.

Efforts to strengthen alternative trade partnerships gained further momentum, as Japan deepened ties with the European Union and key nations in the CPTPP. This diversification strategy offered some insulation from the immediate impacts of US trade policies, although broader uncertainties remained a credible threat.

Monetary policy

The Bank of Japan (BoJ) maintained its ultra-accommodative monetary stance during this period. Its key policy rate remained steady at -0.1%, supported by its yield curve control measures to keep 10-year government bond yields close to zero. BoJ Governor Kazuo Ueda emphasised the institution's commitment to ensuring price stability and sustaining economic growth amid external volatility.

Additionally, the BoJ injected liquidity into financial markets to counter external trade pressures. This intervention not only stabilised yields on Japanese government bonds but also reassured businesses and consumers of a plentiful supply of credit. These measures underscored

the central bank's efforts to protect the domestic economy from global turbulence.

Equity markets and sectoral performance

The consumer staples sector demonstrated stability and resilience, outperforming broader indices during a turbulent period for global markets. The sector benefited from consistent domestic demand and a backdrop of moderating inflation, which supported household purchasing power. Consumer staples stocks in the Topix index rose by 2.4% throughout the period, highlighting their safe-haven appeal.

The technology sector flourished due to robust global demand for semiconductors and advanced electronic components. The Nikkei 225's technology segment rose by 3.1%, with semiconductor companies posting particularly strong gains. Companies benefiting from diversified geographic market exposure especially stood out, as they weathered the impact of President Trump's tariffs better than their peers reliant on the US market. Innovative product launches and investments in R&D further underscored the sector's long-term growth potential, despite near-term global trade uncertainties.

Export-oriented industries such as automotive manufacturing encountered a challenging environment due to rising input costs and the impending effects of US trade tariffs. Overall, automotive exports to the US during the three-month period decreased by approximately 8%, while domestic EV sales increased by 12% compared to the previous year.

The energy sector exhibited subdued performance, reflecting broader global trends in the crude oil market. Energy stocks in the Topix index declined by 3.7% during the period, positioning it as one of the weaker-performing segments. Falling crude oil prices, which decreased nearly 10% between March and May, heavily impacted energy-related equities.

Materials firms struggled to gain traction amid ongoing trade uncertainties. The materials sub-index within the Topix declined by 2.9% over the past three months. Persistent disruptions to global supply chains, worsened by tariffs and escalating costs for raw materials, impeded profitability.

Public borrowing and fiscal challenges

Japan's fiscal landscape remained challenging during the spring months. Increased government expenditure, aimed at bolstering demand and supporting industries affected by trade, widened the fiscal deficit. Stable tax revenues proved inadequate to offset rising social welfare costs and the infrastructure investments necessary to sustain economic momentum.

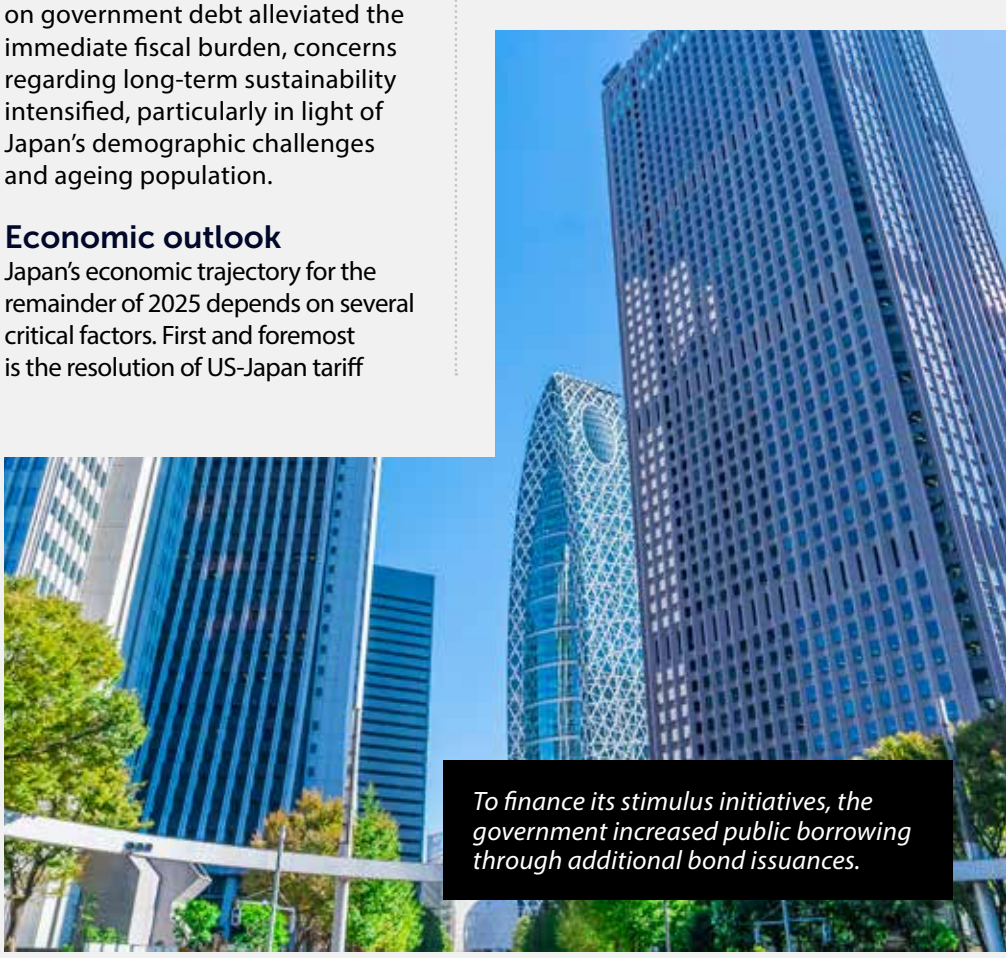
To finance its stimulus initiatives, the government increased public borrowing through additional bond issuances. While low yields on government debt alleviated the immediate fiscal burden, concerns regarding long-term sustainability intensified, particularly in light of Japan's demographic challenges and ageing population.

Economic outlook

Japan's economic trajectory for the remainder of 2025 depends on several critical factors. First and foremost is the resolution of US-Japan tariff negotiations. A favourable outcome would relieve near-term pressures on export-reliant industries, restoring corporate confidence and potentially bolstering market sentiment.

Monetary policy is anticipated to maintain its accommodative stance, as the BoJ remains focused on achieving its inflation target while addressing external risks. Meanwhile, the government faces the delicate task of balancing near-term fiscal stimulus with long-term sustainability amidst structural demographic challenges.

Given their resilience and stable earnings outlook, key sectors such as information technology and consumer staples are anticipated to retain their appeal to investors. However, sectors affected by trade disruptions, such as materials and industrials, may continue to face scrutiny unless supply chain adjustments yield positive results.



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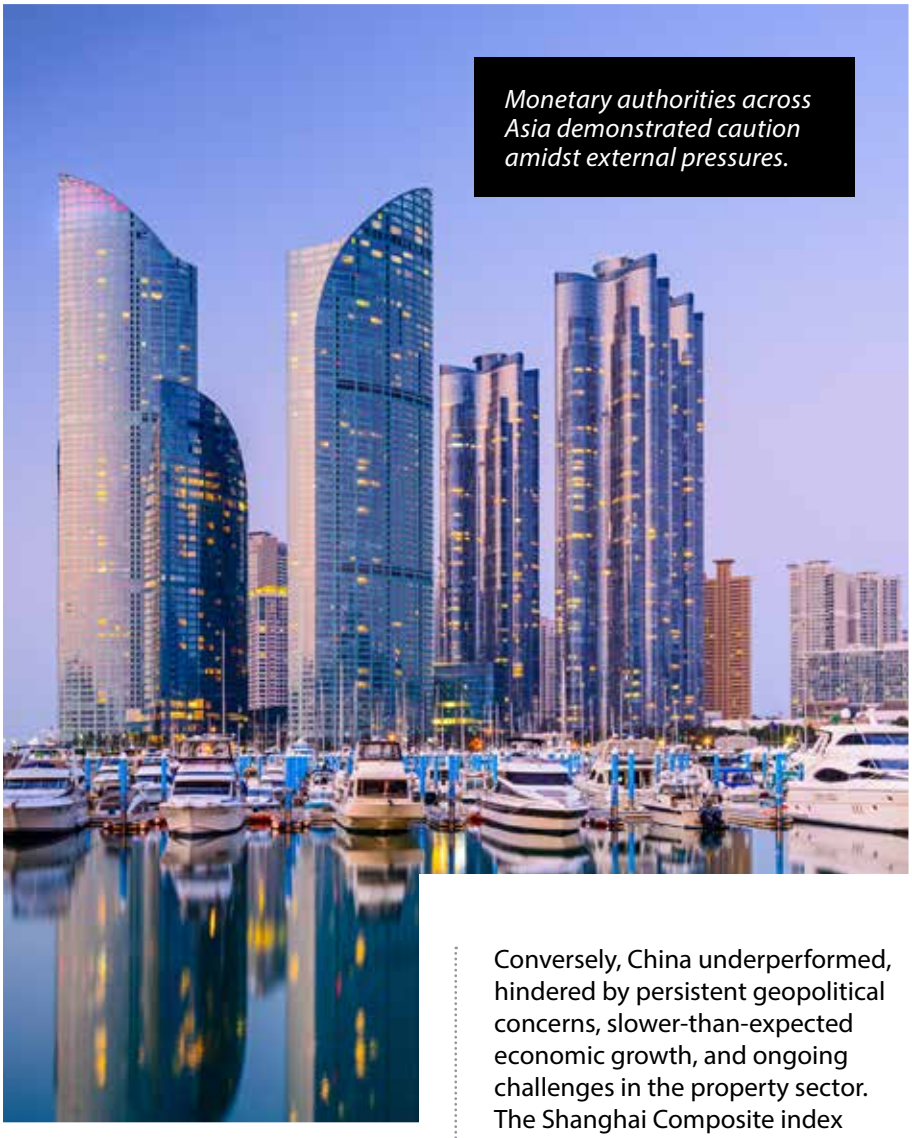
ASIA (EX JAPAN)



Monetary authorities across Asia demonstrated caution amidst external pressures.

Driving diversification beyond US-centric export markets

The MSCI Asia ex-Japan index demonstrated strong performance in April, highlighting the region's resilience amid a challenging global economic landscape. The top-performing markets included Thailand and the Philippines, where robust domestic demand, government-backed infrastructure investment, and improved business sentiment propelled equity markets. For instance, the Philippines' benchmark index advanced by 4.2% in April, outpacing its regional counterparts.

Conversely, China underperformed, hindered by persistent geopolitical concerns, slower-than-expected economic growth, and ongoing challenges in the property sector. The Shanghai Composite index fell by 2.5% over the three-month period, reflecting investor caution amid weaker export data and deflationary risks. Among sectors, consumer staples and utilities emerged as strong performers, benefiting from their defensive nature during uncertain times, whilst consumer discretionary and materials lagged, constrained by rising costs and weaker demand.

Economy

Regional economic performance provided mixed signals between March and May. Southeast Asia led the way, with Thailand and the Philippines achieving steady growth, buoyed by accelerated infrastructure projects and improving consumer sentiment. The Philippines posted a GDP growth of 5.8% year-on-year for Q1 2025, while Thailand's economy expanded by 3.4% during the same period, supported by a recovery in tourism and domestic investment.

China, however, revealed vulnerabilities. Declining exports, a persistent downturn in property markets, and increasing trade friction with the US presented growth-related headwinds. Deflation emerged as a concern in specific industry segments, highlighting challenges in sustaining recovery momentum. Meanwhile, moderating energy prices offered relief to inflation in countries such as India and Indonesia, contributing to stable headline inflation figures averaging 4.5% and 3.8%, respectively, for the period.

Impact of President Trump's tariffs

On 2 April, President Trump's sweeping tariff measures introduced significant disruptions to trade across the Asian region. The electronics, automotive, and materials sectors were most affected by higher costs and rerouted supply chains. China bore the brunt of the measures, with exports contracting by 7% year-on-year by May. Prominent declines were recorded in shipments of electronics and machinery to the US market, forcing businesses to explore diversification strategies that prioritise intra-regional trade and European markets.

Notably, Southeast Asian economies such as Vietnam, Malaysia, and the Philippines capitalised on these disruptions as global manufacturers shifted production bases to bypass tariffs. Vietnam reported a 6.1% rise in exports during the period, largely driven by increased electronics orders, which underlines the positive impact of realigned trade flows on smaller economies.

Monetary policy

Monetary authorities across Asia demonstrated caution amidst external pressures. The central banks of Thailand and the Philippines kept policy rates unchanged at 2.25%

and 6.25%, respectively, prioritising domestic demand by maintaining liquidity at accommodative levels. India upheld a neutral stance, carefully balancing steady GDP growth with the need for exchange rate stability.

The People's Bank of China implemented supportive measures aimed at economic stabilisation by cutting the reserve requirement ratio by 50 basis points in May, marking its third adjustment within 12 months. This liquidity boost sought to offset weak credit demand and address fiscal strain associated with the country's slowing property sector recovery.

Equity markets and sectoral performance

The consumer staples sector emerged as a bastion of stability, delivering a 2.6% gain across the MSCI Asia ex Japan index. Resilient demand and steady revenue growth in Thailand and Indonesia offset weaker performances in South Korea. Indonesia's consumer stocks rose by 3% as households benefitted from moderating inflation. Utilities were equally robust, gaining 2.8%, driven by increased infrastructure spending across Southeast Asia. The Philippine utilities index alone increased by 3.4% in April, reflecting rising investment flows.

Consumer discretionary equities continued to face challenges, declining by 1.7%, with Malaysia and China underperforming as elevated costs and subdued consumer demand weighed on the sector. The materials sector contracted by 2.2%, as metal producers struggled with tariff-driven supply chain disruptions and weaker margins. Copper prices averaged £8,200 per tonne during the period, down 6% from the previous quarter, impacting profitability.

The technology sector's moderate growth continued, with the MSCI Asia ex Japan technology index increasing by 1.8%. Taiwan and South Korea made significant contributions to these gains, supported by strong semiconductor demand. Taiwan Semiconductor Manufacturing Company (TSMC), for example, reported an 8% rise in export revenues year-on-year by May. Industrials benefited from government infrastructure initiatives, recording gains of 2.5% in Thailand and 2.9% in the Philippines. Such projects emphasised the crucial role domestic fiscal expansion plays in alleviating external trade challenges.

Public borrowing and fiscal challenges

Fiscal activity intensified across many Asian markets as governments sought to counterbalance external trade headwinds. Public borrowing in Southeast Asia rose substantially, with the Philippines increasing bond issuance by 15% during Q2. Although these efforts bolstered infrastructure activity and near-term growth, they raised long-term fiscal sustainability concerns amid widening deficits.

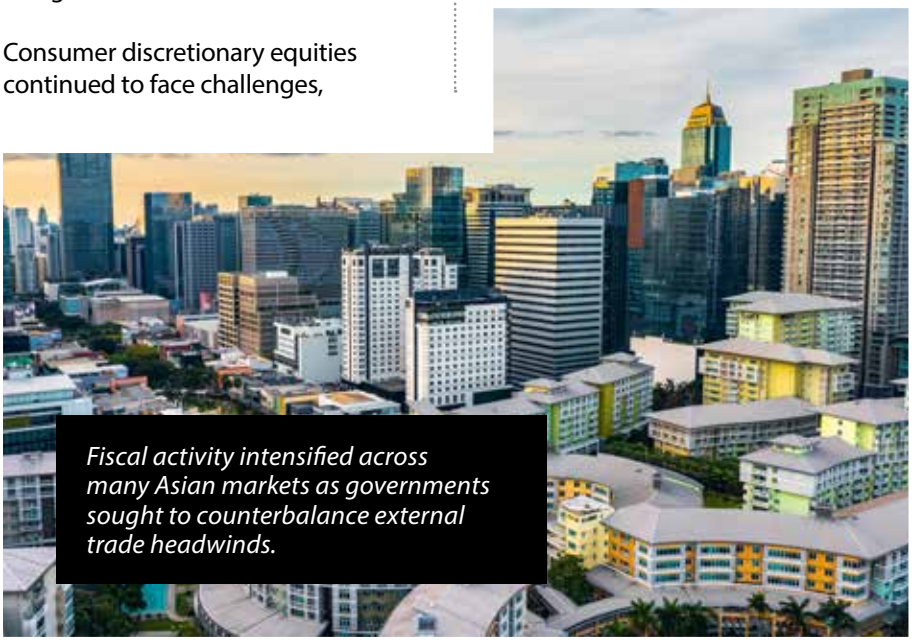
China's fiscal environment exhibited similar strains, with rising debt burdens associated with stabilisation policies in its ailing property sector. Diminished revenue intake heightened risks to local government funding channels, further amplifying systemic vulnerabilities.

Economic outlook

Asia's recovery trajectory for 2025 remains contingent on resolving geopolitical uncertainties, stabilising trade relations, and driving diversification beyond US-centric export markets. For Southeast Asia, expanding investment, trade realignments, and reinvigorated infrastructure projects present an optimistic outlook. Thailand and the Philippines are set to maintain their growth leadership, propelled by robust domestic demand and government initiatives.

China, on the other hand, faces ongoing challenges from unresolved trade negotiations, a sluggish property sector recovery, and limited growth in domestic consumption. Coordinated monetary and fiscal policies will remain essential for sustaining growth momentum, particularly if deflationary trends re-emerge.

Sectors such as technology and consumer staples are expected to maintain leadership within equity markets, while vulnerable segments like materials and consumer discretionary equities may need further adjustment to regain momentum. Investors will likely continue to prioritise defensive and high-growth sectors amidst ongoing global uncertainty.



Fiscal activity intensified across many Asian markets as governments sought to counterbalance external trade headwinds.

EMERGING MARKETS

Balancing external pressures from geopolitical tensions and tariff policies

The MSCI Emerging Markets (EM) index recorded a modest positive return in April, outperforming developed markets due to a weaker US dollar, which enhanced risk appetite for emerging market equities. Countries unaffected by new trade measures on "Liberation Day" emerged as notable outperformers. Mexico led the MSCI EM index, bolstered by its exclusion from the latest tariff announcements, which reassured investors and contributed to strong equity gains.

Brazil distinguished itself with a strong performance, bolstered by the strength of its local currency and positive market sentiment regarding structural economic reforms. Meanwhile, India's markets recorded steady growth, supported by improved inflation metrics, a dovish Reserve Bank of India (RBI) rate cut, and sustained tailwinds from a softer US dollar. South African equities posted gains as gold prices reached record highs, boosting investor sentiment in mining-linked assets.

Conversely, China underperformed, recording the second-largest losses within the MSCI EM index as it grappled with retaliatory trade measures, weaker economic growth, and a depressed currency. Turkey experienced the sharpest declines in US dollar terms, driven by inflationary pressures, an unexpected interest rate increase, and a depreciation of its currency.

Economy

Brazil's economic prospects brightened with GDP expected to expand by 3.6% in Q2 2025, up from 3.2% in Q1. This improvement was driven by a 5% quarter-on-quarter increase in key commodity exports, including iron ore and soybeans, bolstered by rising global prices. Fiscal reforms targeting sustainable public finances further supported economic stability, contributing to a 0.9% appreciation in the Brazilian real against the US dollar during the period. Inflation moderated to 4.3%, enhancing purchasing power and private sector confidence.

Turkey faced ongoing economic challenges due to a volatile Turkish lira, which depreciated by 8.5% against the US dollar by the end of May.

India continued to exhibit robust economic momentum. Easing inflation, which fell to 4.1%, significantly boosted household consumption and improved business sentiment. The Reserve Bank of India's (RBI) 25 basis point interest rate cut to 6.25% reinforced this growth trajectory, providing greater liquidity to equity markets and supporting a 3.5% increase in the Nifty 50 index over the three-month period.

China, however, grappled with mounting pressures that threatened its economic recovery. Trade volumes were down 7% compared to the same period in 2024, mainly due to heightened US tariffs that disrupted key exports. Deflation persisted in critical sectors such as housing and construction materials, with property prices declining by 2.4% quarter-on-quarter. Consumer Price Index (CPI) inflation also fell into negative territory at -0.3% in May, marking the third consecutive month of deflationary pressure.

Turkey faced ongoing economic challenges due to a volatile Turkish lira, which depreciated by 8.5% against the US dollar by the end of May. Inflation soared to a staggering 45.2% year-on-year, driven by rising food and energy prices, alongside import costs worsened by currency depreciation. The central bank's unexpected 200 basis points interest rate hike to 21% in mid-May aimed to contain inflation but also raised concerns regarding its impact on domestic consumption and investment.

South Africa showed signs of resilience, driven by record-high gold prices, which surged to $2,100 per ounce in April. The mining sector contributed significantly to GDP growth. Despite inflation averaging 6.8%, South Africa benefited from stable commodity export revenues, with gold and platinum shipments rising 8% and 6% respectively during the quarter.

Impact of President Trump's tariffs

The "Liberation Day" tariffs announced on 2 April dealt a significant blow to export-heavy economies, particularly China. The broad levies introduced on Chinese goods were met by an increase in baseline tariffs on Chinese imports to 145%. Chinese exports to the US fell by 7% year-on-year, while companies increasingly sought alternative routes in Europe and intra-Asia trade networks to mitigate losses.

In stark contrast, Mexico emerged unscathed due to its exclusion from the tariffs. President Claudia Sheinbaum announced Mexico had signed a free-trade agreement. This stabilised its economic outlook, particularly its pivotal automotive and machinery sectors, which rely heavily on US markets. Southeast Asian exporters, such as Vietnam and Malaysia, observed incremental benefits, capturing production shifts as companies sought to bypass US tariffs on China.

Turkey experienced the most significant losses in the EM index due to a combination of domestic and global factors. New trade barriers and inflationary pressures heightened vulnerabilities, with the Turkish lira depreciating by 8.5% against the US dollar by May 2025.

Monetary policy

Emerging markets displayed various monetary strategies, highlighting different priorities. India led with an RBI interest rate cut to 6.25%, aimed at stimulating growth and aligning inflation expectations. The softer rate environment, supported by external tailwinds such as a weakening US dollar, bolstered the country's stable economic momentum.

South Africa's central bank retained its benchmark interest rate at 7.75%, balancing inflation risks against pressures to maintain growth. Brazil's monetary authorities carefully navigated exchange rate fluctuations, leveraging fiscal improvements to enhance investor confidence.

Contrastingly, Turkey's central bank resorted to unexpected rate hikes in response to persistent inflationary spikes, which inched towards 45% by mid-May. This aggravated concerns over the country's economic sustainability, undermining short-term stability in financial markets.

Equity markets and sectoral performance

The consumer staples sector emerged as one of the strongest performers in the MSCI EM index during the period, supported by robust demand in India and Brazil. Indian staples companies recorded a 3.3% gain, driven by easing inflation and increased consumption. Brazil's food and beverage manufacturers also benefited from export-driven demand and rising commodity prices.

Meanwhile, the materials sector showed mixed results. South American miners benefitted from rising gold prices, with South African-listed miners achieving a 5% increase during April. However, broader declines in base metal demand, particularly in China, caused the materials sub-index to fall by 1.8% over the three months.

Technology stocks sustained moderate gains, particularly in India, which recorded a 2.5% increase in its related equity sub-index. Higher overseas IT service contracts bolstered sentiment, although China's tech sector remained stagnant amid weaker export demand attributed to tariff-induced pressures. In contrast, consumer discretionary sectors underperformed globally, with Turkey and China experiencing sharper declines of 6% and 3%, respectively. Rising input costs and decreased consumer spending across various markets exerted sustained pressure on the sector.

Financial equities posted mixed outcomes. Brazil's financial sector grew by 2.2%, driven by optimism regarding reforms and currency stability, while Turkey's financial stocks sank amid worries about the effects of inflation on profitability. The energy sector generally underperformed, although specific markets like Brazil saw modest gains attributed to oil price stability and a resource-driven recovery.

Public borrowing and fiscal challenges

Fiscal investment characterised emerging markets during the review period as governments sought to cushion trade-related adversities and stimulate economic activity. Mexico exhibited fiscal prudence as stability in trade policies minimised the need to expand government borrowing. Brazil utilised fiscal reform efforts to support infrastructure. In contrast, China increased public expenditure to offset weak property market growth, further straining local government finances.

Turkey struggled with fiscal imbalances during the spring months, as inflation and interest rate pressures expanded fiscal deficits, creating further policy challenges. South Africa showed modest progress in revenue stability, yet long-term structural issues remain unresolved.

Economic outlook

Emerging markets continue to navigate a complex landscape, balancing external pressures from geopolitical tensions and tariff policies with opportunities arising from intra-regional trade realignments. While Mexico, Brazil, and India demonstrate promising trajectories due to robust policy frameworks and resilient demand conditions, challenges persist for Turkey and China.

India is expected to maintain its leadership in growth across the emerging market bloc, thanks to an accommodative monetary stance and robust consumer segments. Brazil's improving fiscal position may enhance its growth potential, while Mexico is likely to enjoy sustained stability due to its exclusion from tariff volatility.

However, China's economic recovery remains precarious, heavily reliant on policy support and diversification into non-US trade markets. For Turkey, significant policy adjustments will be necessary to stabilise inflation and promote investment recovery. Investors will likely favour defensive plays and growth-oriented sectors in resilient emerging economies while exercising caution in regions facing acute challenges.

GLOBAL BONDS

Dovish monetary policy and geopolitical headwinds

US Treasury Market

The US Treasury market exhibited significant yield curve steepening during the spring months of 2025. Shorter maturities experienced declines, with the 2-year Treasury yield falling by 20 basis points (bps) from March to May, ending at 4.05% by the close of May. This decline was driven by soft economic survey data indicating slowing growth and a persistent narrative of enduring inflation. In contrast, longer-dated maturities, such as the 10-year Treasury yield, increased by 16 bps, closing at 3.89%. This divergence reflected market concerns regarding the dual challenge of elevated inflation and sluggish economic recovery.

Treasury Inflation-Protected Securities (TIPS) underperformed in March but made a modest recovery in May, with the breakeven inflation rate remaining steady at 2.4%, emphasising market expectations of ongoing inflationary pressures.

European Bond Markets

Eurozone bond yields retreated across all key markets, reflecting the European Central Bank's (ECB) ongoing dovish stance. Over the past three months, the ECB cut rates by 25 bps in April, lowering the deposit rate to 2.25%. German 10-year Bund yields fell by 12 bps to 1.82% in May, while French yields decreased by 10 bps. Italian yields also compressed, dropping 15 bps to 4.09%, bolstered by strong domestic demand for sovereign paper.

The ECB reaffirmed that disinflation "remains on track" despite growth uncertainties linked to global trade disruptions. This reassured markets and contributed to broad-based demand for eurozone bonds.

Similarly, UK gilts continued this downward trend, with the 10-year gilt yield falling by 18 bps over the three months to 3.46% by May. This reflected increasing speculation regarding a potential Bank of England (BoE) rate cut in the second quarter, driven by weak survey data and fiscal challenges, such as higher tax burdens.

The US Treasury market exhibited significant yield curve steepening during the spring months of 2025.

Asian bond markets

Asian bond markets reflected the yield declines observed in Europe, bolstered by the dovish monetary policies of regional central banks. Chinese government bond yields decreased during the period, with the 10-year yield dropping by 8 basis points to 2.62% amid worsening economic data. The Chinese Manufacturing Purchasing Managers' Index (PMI) consistently remained below the breakeven level of 50, slipping to 47.8 in May, signalling ongoing contraction exacerbated by Sino-US trade tensions. Japanese bond yields also fell amid soft economic conditions, as the 10-year JGB yield retreated by 5 basis points to settle near 0.35%.

Credit markets
US credit markets

US credit markets demonstrated significant volatility in response to shifting geopolitical and economic conditions. Investment-grade (IG) spreads widened sharply by more than 25 basis points in March, peaking at 165 basis points over Treasuries following the announcement of additional US tariffs. Spreads narrowed slightly to 150 basis points by May as political headlines softened; however, total returns for IG bonds remained muted, finishing the three-month period up by just 0.2%.

High-yield (HY) credit showed a more pronounced recovery. After reaching a peak in March, HY spreads narrowed by 75 bps from their widest point of 540 bps, closing May at 465 bps. Although they widened early on, HY total returns for the period remained positive, increasing by 1.1%, as investor demand stabilised. The energy sector within HY was a significant underperformer, declining by 0.5% over the period owing to persistent weakness in oil prices, which fell by 11% from March to May, settling at $70 per barrel in May.

European and sterling credit markets

European and sterling-denominated credit followed a similar trajectory to their US counterparts. IG spreads in euro credit widened to 125 bps mid-period but then retraced to 115 bps by May, while sterling IG spreads narrowed from 143 bps in March to 138 bps in May. The high-yield markets experienced comparable volatility, but with strong investor appetite, total returns for euro and sterling HY ultimately reached 1.4% and 1.3%, respectively, outperforming US HY returns.

Currency markets
US dollar and G10 trends

The US dollar weakened significantly against its G10 peers throughout the spring. The Dollar Index (DXY) declined by 2.3% from March to May, as uncertainty surrounding new tariffs and softening economic indicators heavily influenced sentiment.

The Swiss franc emerged as the strongest G10 currency during the period, appreciating by 2.7% against the dollar due to its safe-haven appeal amid volatility in equity and credit markets. The Japanese yen also gained, rising 2% in March as risk-off sentiment prompted a flight to safety. However, expectations of a Bank of Japan (BoJ) pause in rate hikes constrained further strength of the yen in May.

Emerging market currencies

Emerging market (EM) currencies showed mixed results. The Brazilian real appreciated by 1.1% during the period, supported by strong export demand for essential commodities such as soybeans and iron ore. India's rupee strengthened by 0.8%, aided by improving inflation rates and proactive monetary easing from the Reserve Bank of India (RBI).

In contrast, the Turkish lira faced significant challenges, depreciating by 10.3% due to soaring inflation, which reached 46% year-on-year in May. The lira's decline was exacerbated by weak investor confidence and uncertainty surrounding policy following a substantial and unexpected interest rate hike to 21%.

Outlook

The global bond landscape remains influenced by dovish monetary policy and geopolitical headwinds, particularly the uncertainty surrounding US tariffs. Eurozone and Asian bond markets are expected to maintain downward yield trajectories as central banks prioritise support for growth. However, investor focus will continue to centre on inflation expectations, particularly in the US, where the steepening yield curve signals sustained long-term inflationary fears.

Credit markets may continue to exhibit sensitivity to geopolitical developments and fluctuations in commodity prices, with higher beta sectors such as energy remaining under close scrutiny. A stabilisation of risk sentiment could further strengthen high yield markets, particularly in Europe.

Currency markets are likely to remain sensitive to policy and trade developments. The strength of safe-haven currencies, such as the Swiss franc and yen, highlights their sustained attractiveness in uncertain market conditions. Meanwhile, the divergence among emerging market (EM) currencies may continue, reflecting structural economic performance and monetary responsiveness.

Investors should adopt a vigilant approach, focusing on diversification and risk-adjusted opportunities in a time characterised by uncertainty.

Summary

Economic landscape underscored significant challenges

Across global markets, geopolitical tensions, trade shifts, and monetary policy continue to influence sentiment and performance.

In conclusion, the global economic landscape from March to May 2025 underscored significant challenges. The UK displayed adaptability, navigating easing inflation and persistent trade pressures. President Trump's tariffs disrupted key industries, placing additional strain on an economy already grappling with rising costs. The Bank of England maintained a cautious stance, balancing inflation control with support for growth, as both policymakers and businesses faced increasing uncertainty.

The Eurozone demonstrated modest growth, bolstered by consumer resilience and supportive policies from the European Central Bank. However, the implementation of US tariffs undermined industrial sentiment and heightened inflationary worries, particularly in sectors reliant on exports. Defensive industries outperformed amidst market volatility, while governments grappled with fiscal imbalances worsened by increasing public debt.

The United States faced notable challenges, with a contraction in economic activity driven by tariff announcements and declining consumer sentiment. While inflation eased, persistent structural pressures weighed on critical sectors such as manufacturing and energy. Equity markets reflected heightened investor caution, although defensive and technology sectors provided pockets of stability. Monetary policy remained a focal point amid debates over Federal Reserve independence.

Japan experienced steady growth, driven by domestic demand and strong performance in technology, even as export-reliant industries faced challenges from trade uncertainties. The Bank of Japan's accommodative stance alleviated economic instability, while sector performance underscored resilience in strategically diversified companies.

Emerging markets presented a mixed narrative, with Brazil, Mexico, and India flourishing due to robust policy frameworks, while China and Turkey faced considerable challenges from deflation, inflation, and trade pressures. Diversification strategies and fiscal interventions characterised the region's response to changing global dynamics, with sectors such as technology and consumer staples providing consistent returns.

Across global markets, geopolitical tensions, trade shifts, and monetary policy continue to influence sentiment and performance. Investors are encouraged to focus on diversification, resilience, and adaptability, whilst policymakers remain under pressure to balance short-term growth with long-term sustainability. The second half of 2025 will be pivotal in shaping economic trajectories, necessitating collective action, strategic foresight, and proactive adaptation to the uncertainties ahead.

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