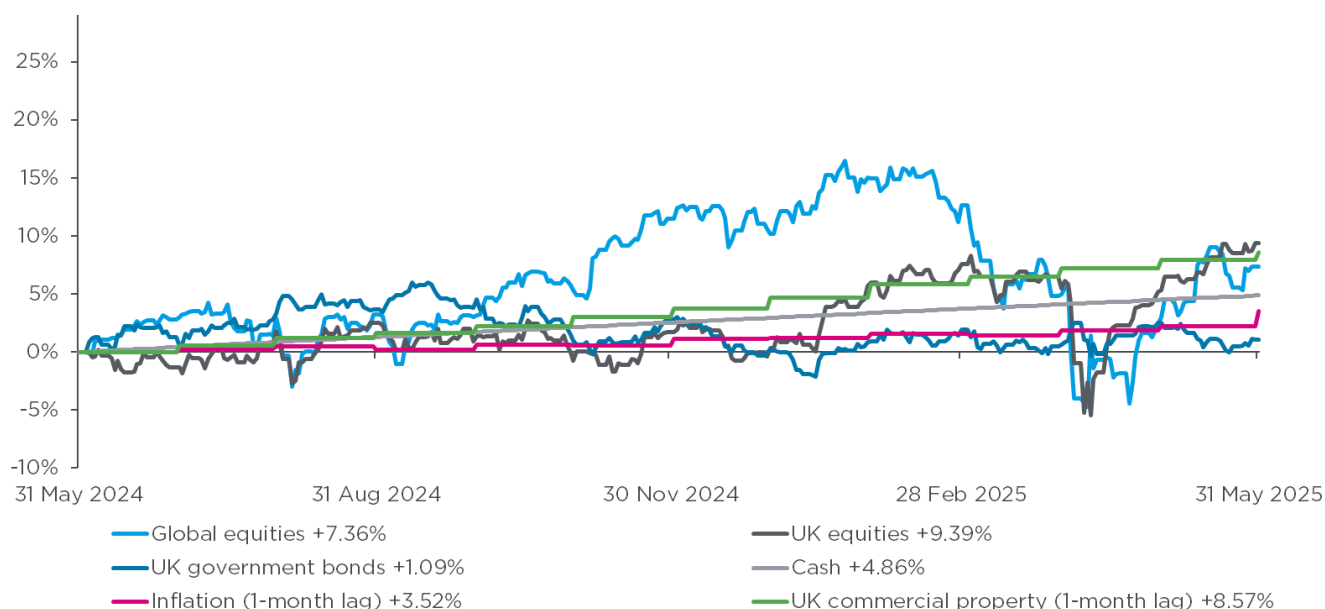


# Market report

## The headlines

- ▶ **Share prices continued to recover in May, as President Trump watered down his April tariff threats.**
- ▶ **We increased the percentage of shares in our multi-asset portfolios.**
- ▶ **Bond yields rose, mainly because investors worried about growing US budget deficits and rising inflation.**

## Market returns



Sources: Bloomberg, all in pound sterling terms, as of 30 May 2025. Daily data, except for inflation and UK commercial property, which we show monthly. UK government bond returns as per the Markit iBoxx £ Gilts Index. UK inflation index (31 May 2024 =0%) as per the Office of National Statistics' Consumer Price Index, with a one-month lag. UK commercial property as per the MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per the Sterling Overnight Index Average (SONIA). Global and UK equity returns as per the MSCI World Index and the MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

## Economics and market news

The stock market's recovery continued in May. The MSCI World index of share prices<sup>(1)</sup> rose 5.7% during the month. US share prices rose 6.4%, European shares 5.6% and UK shares 4.0%.

Short-dated and long-dated government bond yields rose, in the UK, US and the eurozone.<sup>(2)</sup> The US Federal Reserve (Fed) kept interest rates on hold for a third consecutive meeting, but the Bank of England (BoE) cut interest rates 0.25%. The European Central Bank (ECB) only held a non-monetary policy meeting

in May. The pound sterling strengthened slightly over the month, from \$1.33 to \$1.35.

### United States

US share prices rose 6.4% during May. Progress was broad, across sectors, and only the health care segment retreated during the month. After falls in previous months, prices rebounded most among IT firms (e.g. accounting software firm Intuit), communication stocks (e.g. Warner Bros. Discovery) and consumer discretionary companies (e.g. Tesla).

President Trump's rhetoric about tariffs continued to be an important market driver. On 12 May, the US and China agreed a truce on trade sanctions, which boosted share prices. That agreement reduced US tariffs on most Chinese goods to 30%, and China's tariffs on most US goods to 10%. On 23 May, President Trump announced a 50% import tax on European Union goods, which, a week later, he delayed until 9 July. Nearer the end of the month, the US Court of International Trade ruled that President Trump did not have the constitutional authority to put in place these tariffs to begin with, which boosted shares as well.

As always, however, we like to 'see through' day-to-day or political fluctuations, to the underlying picture. This showed a positive picture during May:

- Inflation fell from 2.4% in April, year on year (yoy), to 2.3% in May. US gross domestic product (GDP) was confirmed to have shrunk in the first quarter, by 0.2% (annualised), but mainly due to higher imports and lower government spending.
- Nonfarm payrolls increased by 177,000 jobs in April, more than the expected 138,000. The unemployment rate remained at 4.2%. Consumer confidence rose over the month, as consumers welcomed Trump pausing most of his tariff plans.
- Business activity strengthened. The US Purchasing Managers Index (PMI) composite rose from 50.6 in April to 52.1 in May. 90% of S&P500 companies having reported for the first quarter, average sales growth was 4% yoy and earnings growth 12% yoy.
- The Fed kept interest rates on hold for a third meeting in a row during May. But at its May meeting, it foresaw a dilemma in coming months: tariffs could raise inflation, which it combats with higher interest rates. But tariffs could also raise unemployment, which it usually fights with lower interest rates.

As the month wore on, the US budget came to the fore. On 22 May, the lower chamber of the US Congress passed President Trump's 'one big, beautiful' tax proposal. If the US Senate also passes the bill, that would extend President Trump's 2017 Tax Cut and Jobs Act. Personal taxes would fall for most US taxpayers. But Medicaid (a health care programme for low income earners) would become harder to access. And the US government's \$36 trillion debt would rise by an estimated \$4-5 trillion over the next decade.

Ten-year US Treasury yields rose from 4.17% at the start of the month to 4.58% after news that the House of Representatives approved Trump's tax proposals. By the end of May, however, they had fallen back to 4.41%. Two-year US Treasury yields rose from 3.60% to 3.89% over the month.

Rating agency Moody's downgraded the US government's credit rating, from its top tier, AAA, to Aa1, one notch lower. This downgrade had little effect on financial markets – for now.

## United Kingdom

UK share prices advanced 4.0% in May, led by British Airways owner IAG, industrials conglomerate Diploma and commodities house Glencore. Tobacco firm Imperial Brands, car marketplace AutoTrader and DIY conglomerate Kingfisher (B&Q, Screwfix etc.) were important laggards for the month.

Share prices rose in early May, as the UK and US governments announced a trade agreement. But rather than the 'full and comprehensive deal' that President Trump announced, the agreement merely reversed or blunted some of the tariffs that he had announced in April. For example, it reduced tariffs on UK car exports to the US to 10%, scrapped a 25% tariff on UK steel and aluminium exports and scrapped the 20% tariff on US beef exports to the UK. Later during May, the UK signed trade agreements with India and the EU.

Also in early May, the BoE cut interest rates from 4.50% to 4.25%, its fourth cut since last August. In the BoE's analysis, gross domestic product (GDP) growth is slowing and above-2% inflation will last until 2027.

Later during the month, it was announced that, indeed, UK consumer price (CPI) inflation jumped from 2.6% yoy in March to 3.5% yoy in April, its highest level in 12 months. This increase was due to higher utility bills, council tax rises and cost pressure caused by higher employer national insurance contributions.

UK gilt (government bond) yields rose during the month. (Bond yields move in the opposite direction of bond prices.) Ten-year gilt yields rose from 4.45% at the end of April to 4.67% at the end of May. Two-year gilt yields rose from 3.60% at the end of April to 3.85% at the end of May.

Why did bond yields rise as the BoE cut rates? Rising inflation, and the possibility that the pace of rate cuts might be slowing, were part of the explanation. The limited fiscal headroom in Chancellor Rachel Reeves' budget was another reason. And again, global factors were at play, including increased uncertainty in the United States.

UK property has been less affected by President Trump's tariffs than other asset classes. The FTSE NAREIT UK index, which tracks real estate companies and UK-listed real estate investment trusts, was up c. 5% between 2 April and the end of May.

## Other markets

**Eurozone** share prices advanced 5.6% during May, boosted by defence firms such as Germany's Hensoldt and Rheinmetall, as well as shares in the utility and energy sectors.

Eurozone inflation remained stable in April, at 2.2% yoy. Preliminary figures for May show that headline inflation cooled across the eurozone, steady at 2.1% yoy in Germany and falling to 1.9% yoy in Spain and 1.7% yoy in Italy. For this reason, the ECB may cut

interest rates again soon, which would be its fourth rate cut this year.

Share prices in **China** rose 3.5% during May. Economic activity had slowed right after President Trump's April tariff announcement, and share prices had fallen. Early May's trade truce reversed some of those impacts.

In April, the International Monetary Fund had slashed its outlook for China's gross domestic product (GDP) growth in 2025 to 4.0%. China's main domestic policy reaction to slower growth has been to cut banks' reserve requirement ratio, to boost liquidity. The Chinese government continues to try to stabilise the property market, which accounts for around one third of GDP. However, property sales and investment continue to flounder.

**Japanese** share prices were up 5.3% for the month. Apart from a pause in US trade tariffs, the Japanese market was buoyed by recent improvements in corporate governance, the stability of the yen and attractive valuations in Japan, relative to other markets.

Japan's central bank last raised interest rates in January, to bring them closer to other developed nations. That process may remain on hold as long as international markets continue to be volatile. Tokyo CPI inflation (often looked at as representative for the whole of Japan) remained at 3.4%, yoy, during May.

<sup>(1)</sup> Source of share prices: MSCI (net total return in local currency), except where stated

<sup>(2)</sup> Sources of bond yields: US Federal Reserve, Bank of England, European Central Bank

## Looking ahead

In April, we reduced the percentage of shares in our multi-asset portfolios, because President Trump's tariffs, in our analysis, would raise inflation expectations and lower GDP growth.

In May, however, we decided to increase the percentage of shares in our multi-asset portfolios, for the following reasons:

- President Trump significantly watered down the tariffs he had announced in April. The US and

China agreed a truce on trade tariffs. President Trump halved tariffs on most EU goods, from 20% to 10%, while negotiations are ongoing. He even announced a trade agreement with the UK. In our analysis, these were bullish signals for share prices.

- A second indicator contributed to our decision, to a lesser degree: the percentage of upward revisions by research analysts (net of downwards revisions) as a proportion of total revisions of US companies' expected earnings. This number fell to a recent low in May. A low number means that there are many downward revisions, which suggests pessimism among research analysts and can lead to share prices being undervalued.
- Two other indicators remained neutral: the Fed continued to prioritise the fight against inflation. And sentiment indicators have generally remained at neutral levels.

In line with these indicators, we increased the percentage of shares in our multi-asset portfolios by three percentage points, from 68% to 71%.

US shares remain expensive, however, with a one-year forward price-to-earnings ratio of 21.5 at the end of May. In addition, the US dollar may be on a structural decline, as the US government's budget deficit is increasing. Finally, in Europe, Germany's new fiscal stance could raise the country's debt-to-GDP ratio from c. 60% now to 80-90% in four to seven years' time.

As a result, our (bottom-up) selection of US versus European stocks, within our equity holdings, has remained unchanged.

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