It proved to be a positive month for growth assets in May, as consumer sentiment improved and trade tensions subsided.

Equities were lifted by developments in the US & European Union (EU) trade discussions, with a pause to planned tariff hikes and this reduced fears over a global recession. Defensive assets in comparison were impacted by the US losing its last highest credit rating, as influential ratings firm Moody's expressed concern over the government's ability to pay back its debt. In lowering the US rating from 'AAA' to 'Aa1', the credit agency noted that successive US administrations had failed to reverse expanding deficits and interest costs.

In May, some of the implications from ‘Liberation Day’ became clearer. The first is that global trade, (manufacturing and consumer activity), looks set to experience a stop start cycle this year. Imports into the USA surged in March as companies tried to stockpile goods, then collapsed in April once Chinese tariffs reached 145%, then recovered in May once they were reduced to 30%. The second aspect is that US tariffs are likely to remain at historically high levels. Despite the recent China pull back, US tariffs look to be about 15% versus 2.5% at the end of the Biden Administration. This will have serious effects on many consumers, retailers and manufacturers. It helps explain why US/EU/China GDP forecasts have all been lowered moderately for 2025, even if recession is less likely. Lastly, ‘Liberation Day’ will affect trade between China and other countries. The World Bank has cautioned about $400bn of Chinese manufacturing goods seeking new markets.

Despite the recent China pull back, US tariffs look to be about 15% versus 2.5% at the end of the Biden Administration

Higher tariffs will obviously affect global trade flows. EU industrial production was strong in Q1, as companies rushed to beat the tariff announcement, but unsurprisingly the Council of Economic Experts now expects the German economy to stagnate this year. Inbound cargo shipments from China to the United States plunged by as much as 60% in early April.

The UK economy is being supported by the easier fiscal policy (in effect tax increases on companies are supporting public spending and public sector wage increases). UK statistics are not robust at present - consensus estimates are still for GDP growth closer to 1%.

UK headline inflation jumped in April largely due to a series of administered prices. There are signs that it should fall back into the autumn, helped by more moderate wages growth. Hence, the latest Bank of England forecast is that inflation is likely to be higher until September, before dipping back to its 2% target by 2027. The ECB will be wary of the upturn in inflation expectations even before the tariff announcements took effect. However, it still expects headline inflation to fall below its target next year reflecting the slowdown in growth.

Turning to growth assets the US reversed its recent trend and led global equity markets in May. The information technology sector outperformed, and the overall market performance was supported by a healthy first quarter earnings season. With the majority of companies reporting, the blended year over year earnings growth rate was 12.4% and 63% exceeded revenue expectations.

Q2 EPS are provisionally expected to fall by c.3%, led by energy and consumer cyclicals

Looking ahead, however, Q2 EPS are provisionally expected to fall by c.3%, led by energy and consumer cyclicals. Some strategists warn about a disconnect between solid backward-looking results and deteriorating forward guidance, adding fragility to the recent equity rebound.

European equities also performed strongly as advancements in US–EU trade talks helped to alleviate fears of recession, whilst the UK was the weakest developed market, as consumer staples, healthcare and utilities were notable laggards given concerns over tariffs, inflation and rising UK bond yields.

Turning to factor performance, the momentum and growth factors led the way in returns. The value factor was the relative laggard over the month but also made positive returns.

Bond markets were volatile in May, caught between competing risks from persistent inflation, growing fiscal concerns and decelerating growth. Yields moved higher mid-month following the downgrade of the US credit rating, which prompted a sell-off in longer-dated Treasuries.

Sovereign yields rose across many countries with weaker fiscal positions. However, credit markets told a more optimistic story. High yield outperformed investment grade and sovereign bonds, buoyed by an improving risk appetite, as investors grew more confident that the worst-case growth scenarios may be avoided – despite inflation and fiscal risks remaining.

Is summary, May saw investors move back into risk assets. It was another month where there was high levels of market noise, and as a result, we continue to be an advocate for well-diversified portfolios, that exhibit a broadening of returns approach across various regions and asset classes.

Find out more here:

theprogenygroup.com ◆ @theprogenygroup ◆ +44 344 225 0660