

Month Overview

Equity markets rallied sharply in May, supported by a temporary easing of international trade tensions. However, persistent uncertainty around trade policy and the potential resurgence of inflation continue to pose risks to market stability, calling for a cautious approach. This environment may help explain the increasing investor preference for money market instruments, as many steer away from long-term government bonds. Concerns over widening deficits and loose fiscal policies are contributing to this trend, particularly as rising interest rates heighten the cost of servicing growing public debt. In this context, maintaining a balanced and flexible investment strategy remains essential as the macroeconomic landscape continues to shift.

Economic Environment

At present, there are no clear signs of a global economic downturn. However, central banks are proactively easing monetary policy where it is possible, to help prevent or soften a potential slowdown. This precautionary approach aims to support growth and maintain stability amid ongoing trade-related uncertainties. Major central banks are adjusting their policies based on the specific challenges they face.

The Federal Reserve, navigating unpredictable trade policies and their unclear economic impact, has adopted a cautious stance. As expected, it held the federal funds rate steady this month, citing inflation concerns tied to erratic trade measures. Nevertheless, recent data point to solid economic activity and a stable labor market. The Fed is expected to keep rates unchanged at its June meeting. The European Central Bank is balancing growth support with inflation control amid the risk of new U.S. tariffs. Although inflation has stabilized, it remains above 2% in key eurozone economies. While Germany posted positive Q1 GDP growth, the need for monetary support persists. The ECB is expected to cut rates again in June, following its April reduction. Switzerland is likely to follow, potentially returning rates to zero. The Bank of England has already made its first cut of the year, supported by easing inflation, despite a rise in unemployment.

In China, the People's Bank of China continues to adopt an accommodative stance, cutting key interest rates and the reserve requirement ratio to stimulate domestic demand. The aim is to boost consumption and maintain financial stability amid both internal and external pressures. Japan remains in a more complex position, facing sluggish growth and rising inflation. Higher long-term bond yields have raised concerns, prompting the Bank of Japan to consider maintaining or slowing its bond tapering beyond FY2026. The BOJ continues to tread cautiously given these challenges.

Equity

Global equity markets rebounded strongly, shaking off earlier volatility driven by trade tensions and broader economic uncertainty.

In the U.S., the S&P 500 climbed 6.3%, while the Nasdaq Composite surged 9.7%, marking one of its strongest monthly performances in recent years. The rally was largely fueled by a temporary pause in tariff implementation, which boosted investor confidence. In Europe, equities also advanced, with Germany's DAX index rising 6.7% and reaching a new all-time high. Gains were supported by easing trade tensions and strong performance in defense-related stocks, driven by increased government spending and geopolitical developments. Asian markets delivered mixed results. India attracted renewed interest from foreign investors, lifting the Nifty 50 by 1.9%. Meanwhile, Japan's Nikkei 225 rose 5.3%, showing resilience despite global trade uncertainties and domestic economic headwinds.

Despite May's rally, equity analysts remain cautious. Persistent trade policy uncertainty and the risk of renewed inflation pressures could weigh on market momentum in the months ahead.

Fixed Income

Government bond markets came under pressure this month as long-term issuances in both Japan and the U.S. faced unexpectedly weak demand. This triggered a steepening of the long end of the yield curves in those markets, with ripple effects lifting yields across other regions. Investor concerns were driven by the dual threat of persistent inflation and the mounting cost of debt servicing, which is increasingly straining government budgets. These dynamics have raised expectations that central banks may need to step in to stabilize bond markets and contain borrowing costs. However, such interventions—effectively monetizing public debt—could put additional downward pressure on domestic currencies, further complicating the policy landscape.

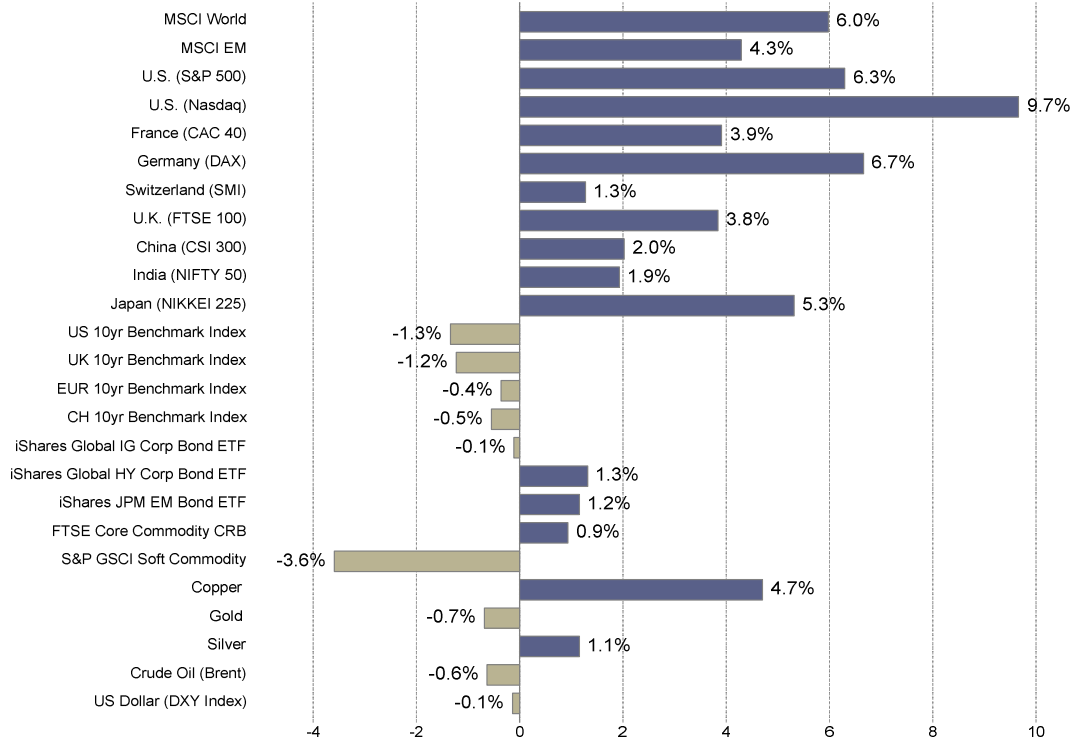
Commodity

Gold ended the month slightly higher, overcoming mid-month volatility amid a weakening U.S. dollar. Prices initially declined due to reduced safe-haven demand, as easing U.S.-China trade tensions and solid U.S. data tempered investor caution. However, sentiment shifted later in the month, with renewed concerns over U.S. fiscal imbalances and continued central bank buying supporting a modest rebound.

Currency

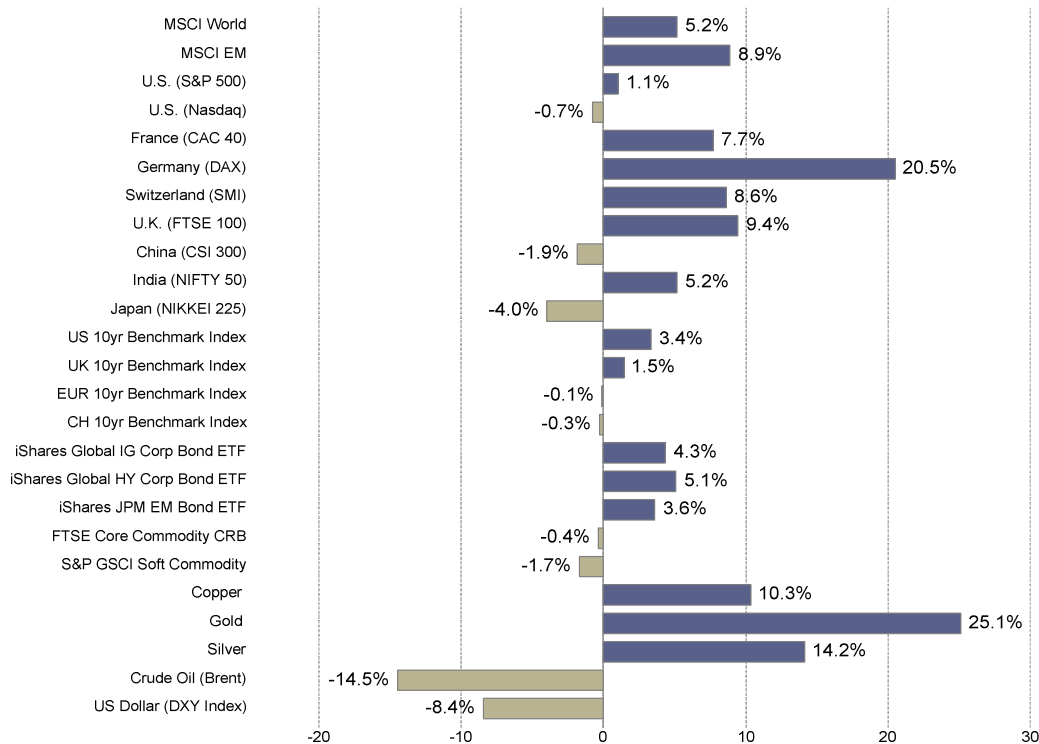
The U.S. Dollar Index (DXY) initially rose but later reversed course, ending the month with a negative performance. Since the beginning of the year, the dollar's decline has been largely driven by growing fiscal concerns and unpredictable trade policies. Investor sentiment has been further dampened by proposed tax cuts and increased government spending, which have amplified worries about the U.S. fiscal deficit. Meanwhile, the reintroduction of tariffs and the potential for retaliatory measures from key trading partners have added to the overall market uncertainty.

May 2025 Performance



Source: LSEG Datastream, Anarosa Asset Management AG

Year-To-Date Performance (until 31.05.2025)



Source: LSEG Datastream, Anarosa Asset Management AG

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