JUN 2025 INVESTMENT UPDATE

HIGHLIGHTS

Market Review

- The US and China agreed to a temporary 90-day trade truce, easing fears of an escalating tariff war. This fueled investor confidence alongside the *TACO* ('Trump Always Chickens Out') trade, driving equities higher.
- Some of the positive sentiment faded in the second half of the month as fiscal fears, as well as a court ruling challenging the legality of Trump's tariffs, injected fresh uncertainty.
- While US soft data (e.g. surveys) rebounded amid shifting tariff expectations, the hard data (e.g. jobless claims) is showing signs of early stress.
- Expect the soft and hard data to eventually converge at a level consistent with subdued US growth.

End of US Exceptionalism?

- Market sentiment has flipped in just a few months - King Dollar has weakened, the S&P 500 has lagged global peers, and U.S. Treasuries have come under pressure.
- Trump's unpredictable policies have undoubtedly shaken confidence in the U.S. as a safe haven, but other factors are also in play.
- While stronger economic growth and corporate earnings had supported the case of US exceptionalism before, there are signs of increasing headwinds.
- Ironically, one key takeaway from Trump 2.0 is that investors should look beyond just passively investing in the S&P 500 in this new era.

Changing Face of Income

- US Treasury bonds, long considered the world's safest assets, experienced notable price volatility in May, fueled by fiscal concerns and a credit rating downgrade by Moody's.
- Some investors have likened US Treasuries to Emerging Market Debt (EMD), while EMD is shedding its 'risky' label.
- Volatility has flipped: Once driven by EM politics and central banks, bond market volatility now stems from U.S. unpredictability.
- Striking the right balance: while treasuries still play a role in the portfolio in cushioning growth shocks, select credit markets can offer better risk-adjusted income.

Outlook: Cautious Optimism

For now, the road ahead is likely to be less bumpy than April's turbulence…but volatility is far from over:

- May's rally restored animal spirits, but risks remain as we approach the end of the reciprocal tariff pause between the US and the rest of the world. The US fiscal trajectory and elevated bond yields could also continue to weigh on markets.
- Equity: Moderately positive, but with hedges and defensive assets in place within more flexible portfolios.
- Fixed income: Preference for select Investment Grade credits that can provide good income while being more resilient.

Read the full commentary [here]

Finexis Asset Management