M&G Insights

Market Overview – May 2025

June 2025

M&G Investments

Market overview

May erased all the tariff-related uncertainty as global equity markets showed stellar performance to recover from any remaining April losses. The US was the best-performing region where equity markets rallied strongly, but the bond market was left behind as yields on US treasuries continued to sell-off.

News on Trump's global tariff policy was the main driver of market-moving events for May. The first was the mid-month announcement that the US and China agreed to put reciprocal tariffs on hold for 90 days, in line with the tariff pause between the US and other countries. The second was the month-end announcement that the Court of International Trade in the US declared Trump's reciprocal tariffs as illegal. The equity market reacted strongly on the upside to the tariff pause, but the market seemed to take the latter news in its stride given the unlikelihood that the ruling will have a major impact on what is enacted.

During the month, we also saw Moody's downgrade the credit rating for the US from Aaa to Aa1. As this moved their rating in line with the other two rating agencies (Fitch and S&P), the reaction within the equity market was fairly muted. US treasury yields did sell off gradually following this announcement as it forced the US fiscal position to be front of mind for investors.

In global equity markets, the MSCI All Country World Index added 5.7% (in US$). Emerging market equities returned slightly less but still had a good outcome at 4.3% (in US$). The US markets led the charge with the Nasdaq adding 9.6% and the S&P with over 6% for the month. Other global equity markets weren't too far behind as the DAX (6.5%), FTSE100 (4.8%), Hang Seng (4.7%) and the Nikkei (4.1%) also came to the party (all in US$).

Global bonds, as measured by the Bloomberg Global Aggregate Bond Index, fell 0.4% in US$ for the month. The biggest trend was the steepening of yield curves, as we saw long-dated bonds for markets, such as the US, UK and especially Japan, selling off more than the short-end of the curve during the middle part of the month. Some of these curve steepening moves were removed by month-end, but the intra-day moves during the month presented opportunities as well as cause for concern.

Closer to home, SA equity delivered a 3% return for the month, with positive performance across all sectors: industrials (3.9%); property (3.1%) and financials (2.5%). Looking at the FTSE/JSE All Bond Index, the SA bond market also showed strong performance, adding 2.7% for the month and bucking the trend seen across global developed bond markets. The local market also saw a bull curve flattening position during the month as the long end of the curve reacted very favourably to the SA-specific headlines.

SA inflation-linked bonds showed more muted monthly returns, adding 0.4%. Similar to nominal bonds, this curve also flatted during the month due to the sharper sell-off witnessed in the short-end part of the curve during the latter part of the month.

The biggest driver for the SA bond market during the month was chatter around the possibility of the inflation target

Source: M&G Investments, Bloomberg, data to 31 May 2025 being adjusted. The first headline around this was on the back of comments by Deputy Finance Minister, David Masondo, at a RMB conference in the middle of the month. The local bond market and rand immediately reacted to these headlines with both assets moving stronger on the back of it and continuing that trend for the rest of the month. We also had the SARB coming out with a 25bps rate cut in line with market expectations, which added to a stronger move in the bond market.

Cash, as measured by the Short-Term Fixed Interest (SteFI) composite returned 0.6% for the month.

The rand strengthened to most of the major currencies during the month gaining 2.9% to the US, 3.1% to the Euro and 2% to the Pound. The USD$ stalled the sell-off we have witnessed during every other month this year to end basically flat against a basket of currencies.

Source: M&G Investments, Bloomberg, data to 31 May 2025