



Weekly Investment Update

23rd May 2025

News Headlines

US Credit Rating Downgraded – Moody's Ratings has cut the US credit rating from Aaa to Aa1, stripping it of its top-tier status, following other major credit rating agencies such as Fitch and S&P (Standard & Poor's). The downgrade highlights worries over a rising federal deficit and national debt surpassing the economy's size. Rising interest rates are inflating debt servicing costs, with the CBO (Congressional Budget Office) predicting that the US will see a record high Debt to GDP ratio by 2029. Treasury yields climbed early this week following the announcement.

UK Inflation – UK inflation surged to 3.5% in April, the highest in 15 months, driven by rising energy, water, and council tax costs, the ONS (Office for National Statistics) has reported. Exceeding the Bank of England's 3.4% forecast, the jump led traders to scale back expectations for interest rate cuts, with the pound also hitting a three-year high against the US dollar. Services inflation also rose to 5.4%, and core inflation hit 3.8%. The Bank of England expects inflation to peak at 3.7% this year, increasing cost-of-living pressures for households.

Trump's Tax Bill – President Trump's tax bill has narrowly passed the US House with a 215-214 vote, however it will now require Senate approval to become law. The legislation, extending 2017 tax cuts and introducing relief such as a \$40,000 state and local tax deduction cap, adds \$4 trillion to the debt ceiling. The package is set to add hundreds of billions annually to the deficit, pushing the debt-to-GDP ratio higher. The bill's passage also coincides with rising 30-year Treasury yields, raising fears of higher borrowing costs.

Market Summary

Global Equities – Global equity markets experienced volatility this week, largely driven by increased concerns over US fiscal sustainability. Moody's downgrade of the US credit rating and the House's passage of Trump's tax bill led to declines in the S&P 500. A soft 20-year Treasury auction also intensified selling pressure, leading to a sharp mid-week decline, though markets later stabilised, with the S&P 500 index falling -1.93% over the week. Europe's STOXX 600 index showed resilience early on, with Germany's DAX index seeing record highs, but disappointing May flash PMIs (Purchasing Managers Index) signalling contraction which dampened sentiment, resulting in a late-week pullback (+0.42%). In the UK, the FTSE 100 mirrored Europe, initially bolstered by a post-Brexit trade deal with the EU, however, higher-than-expected CPI inflation data curbed gains (+0.67%). In Asia, Chinese equities benefitted from central bank rate cuts which lead to modest gains in Hong Kong's Hang Seng index (+0.92%). Meanwhile in Japan, the Nikkei 225 index faced pressure from rising yields and a surprise trade deficit, ending the week lower (-2.03%).

Commodities – Global commodity markets faced volatility this week driven by fiscal and geopolitical uncertainties. Oil prices rose mid-week on Middle East tensions, but later fell due to potential OPEC+ production increases, leading to a weekly decline. Gold prices gained significantly versus the US dollar, bolstered by safe-haven demand amid US debt sustainability concerns.

Fixed Income – Government bond yields rose this week, driven by fiscal sustainability concerns. US Treasury markets saw volatility, with 30-year Treasury yields peaking above 5% after Moody's downgrade and a \$4tn debt ceiling increase in a narrowly passed tax bill, though yields later eased. UK gilts underperformed, with 10-year yields hitting the highest level since early April following higher-than-expected CPI inflation data. Japan's 30-year JGB yields also surged, reaching a 25-year high, signalling broader debt worries.

Source: Bloomberg Terminal – Global Equities. Data reflects total returns in local currency as of market close on Thursday 22nd May, for the following indices: S&P 500 (USD), STOXX 600 (EUR), FTSE 100 (GBP), Hang Seng (HKD), Nikkei 225 (JPY)

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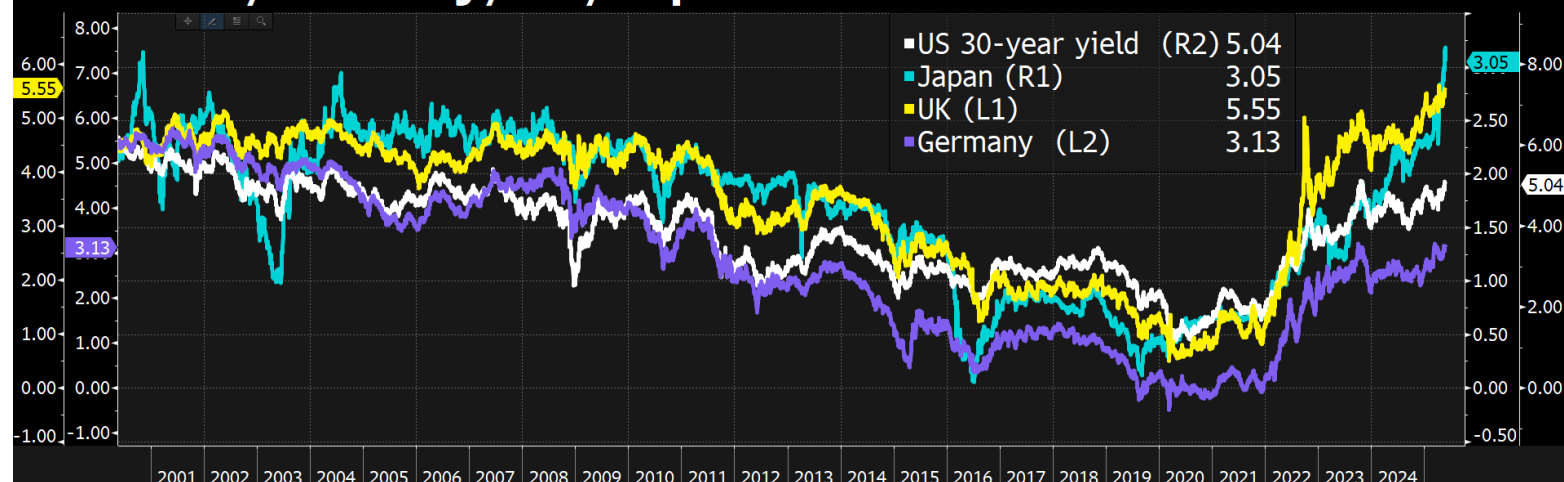


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Chart of the Week

Global 30-Year Yields on the Rise Across US, Germany, UK, Japan



Source: Bloomberg – Global 30-Year Yields on the Rise

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	- RBNZ Interest Rate Decision	- US FOMC Meeting Minutes	- US GDP (QoQ) - US Initial Jobless Claims	- German CPI (MoM) - US Core PCE Price Index (MoM, YoY)

Market Performance – 23/05/2025

Global Equity Market Indices	2025 YTD %*	2024 %*	2023 %*	2022 %*	2021 %*	2020 %*
FTSE 100	8.87%	8.89%	7.68%	4.57%	18.40%	-11.44%
S&P 500	-0.16%	25.52%	26.26%	-18.13%	28.68%	18.39%
STOXX 600	10.90%	9.03%	16.63%	-9.88%	25.82%	-1.44%
Nikkei 225	-6.41%	21.27%	31.01%	-7.35%	6.66%	18.28%
Hang Seng	19.03%	22.79%	-10.46%	-11.48%	-12.64%	-1.00%
Fixed Income		Yield %				
UK 10 Year Gilt		4.75%				
US 10 Year Treasury		4.53%				
Commodities	2025 YTD %**	2024 %**	2023 %**	2022 %**	2021 %**	2020 %**
Gold	25.53%	26.35%	13.10%	-0.28%	-3.64%	25.12%
Currency						
GBP/USD		1.34 (23/05/2025)				
GBP/EUR		1.19 (23/05/2025)				

Source: FE Analytics/ Bloomberg

*Total Return/Local currency **Spot Return USD

Past Performance is no guide to future performance and the value of investment and income from them can fall as well as rise

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