CAIM | CROWN AGENTS INVESTMENT MANAGEMENT

JUNE 2025

CAPITAL MARKETS MONTHLY

FIXED INCOME

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HEAD OF PORTFOLIO MANAGEMENT

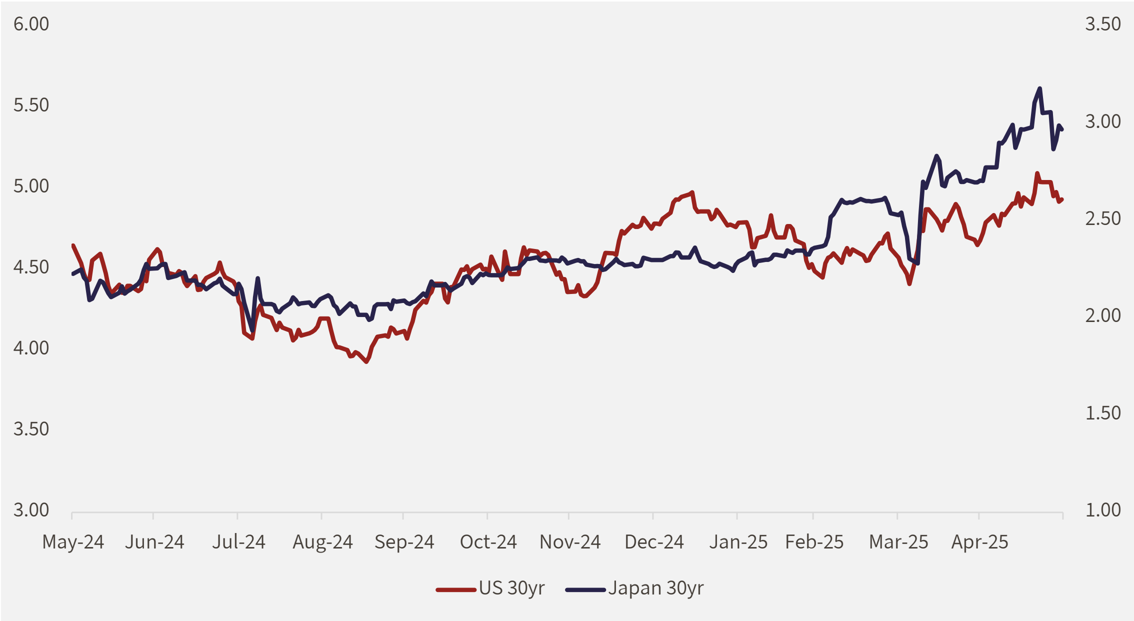
Long bond yields rise globally as yield curves steepen

A persistent theme in recent weeks has been the rise in long-dated government bond yields, despite expectations of further rate cuts throughout the remainder of 2025 (with the notable exception of Japan). During May 2025, the yield to maturity on the US Treasury long bond (30-year maturity) increased from 4.68% to 4.93%. On the 22 May the long bond yield peaked at 5.15%. It is interesting to recall that the long bond yield traded below 1% during the Covid-19 pandemic. There is evidence of global central banks reducing their reserves allocation to US dollars which may explain the recent rise in the long bond yield. This would be consistent with the rise in the 30-year real yield, from around 2.5% to 2.8%, while breakeven inflation rates at the 30-year point rose only marginally. US macroeconomic data last month was somewhat mixed. The employment report included a rise of 177,000 in Non-Farm Payrolls, which was above consensus forecasts. The Conference Board Consumer Confidence index surged from 86 to 98, which was significantly above expectations, while inflation data, as measure by the consumer price index, was slightly lower than expected, taking the annual CPI from 2.4% to 2.3%.

The rise in long-dated Japanese government bonds was even more dramatic last month as yields reached 3.2%, representing a full 100 basis point rise since early April. Domestic inflation remains high in Japan at 3.6%, and further monetary policy tightening by the Bank of Japan is expected throughout the remainder of 2025.

The chart below shows the rise in long-dated government bond yields in the United States and Japan.

US Treasury Long Bond and Japan 30-year JGB Yields



Source: Bloomberg Finance L.P., 31 May 2025.

During May 2025 there were seven Sovereign, Supranational and Agency issues in USD with amount outstanding of at least USD 500m, credit rating at least A- and maturity between 1 and 10 years. The widening of US dollar swap spreads resulted in very narrow US treasury spreads at issue. For example, the USD 1bn AIIB 10-year transaction was priced at SOFR MS + 61 basis points, which was equivalent to a US treasury spread of just 8 basis points. The JICA and BNG arguably offered the best value but there was very limited spread tightening in secondary trading. The USD 4bn Asian Development Bank 5-year was priced at just US treasuries + 6.1 bp, which was remarkably expensive offering little prospect for generating added value versus treasury benchmarks.

Issuer	Maturity	Issue Spread	Rating
Asian Infrastructure Investment Bank	21/05/2035	UST + 8bp	AAA
Japan International Cooperation Agency	22/05/2030	UST + 28bp	A+
Landwirtschaftliche Rentenbank	28/05/2030	UST + 7bp	AAA
Asian Development Bank	30/05/2030	UST + 6bp	AAA
Kommunalbanken	29/08/2030	UST + 14bp	AAA
Oesterreichische Kontrollbank	28/05/2028	UST + 7bp	AA+
BNG Bank	04/06/2035	UST + 17bp	AAA

Source: Bloomberg Finance L.P., 31 May 2025.

FOREIGN EXCHANGE

SLAWOMIR SOROCZYNSKI

HEAD OF FIXED INCOME

US Dollar ‘bears’ take a technical break in May

May proved to be another disappointing trading month for the US Dollar. However, those expecting a sharp new leg lower were left somewhat disappointed. Two key factors likely provided the US Dollar with a lifeline.

The first came from Washington, where President Trump announced a 90-day tariff pause for the summer. This break should give US importers enough time to complete Christmas orders and ensure goods start arriving on schedule. Recent news from Maersk, one of the world’s largest shipping companies, appears to confirm this development.

The second important factor was technical. In our April report, we anticipated a slowdown in US Dollar depreciation’s ‘gamma’ — and that is exactly what happened. The US Dollar Index (DXY) opened May at 100.00 and initially continued to rise with strong upward momentum price observed. The DXY climbed 4 big figures from 98.00 on April 22 to test 102.00 on May 13. However, once the index hit 102.00 — a level aligned with the 50-day moving average — the upward momentum vanished as quickly as it had appeared, and the index resumed its decline, closing the month at 99.30.

Looking at G10 currencies, the tariff relief helped risk appetite recover to some extent, which was reflected in the market. Traditional safe-haven currencies slightly underperformed against the US Dollar: the Japanese Yen depreciated by 0.9%, making it the worst-performing G10 currency, while the Swiss Franc remained largely unchanged. Gold prices fell by 0.65%. On the winners’ side, the Norwegian Krone gained nearly 2%, making it the best-performing G10 currency. The Chinese Renminbi also had a strong month, advancing 1%. (Please see the detailed performance table below.)

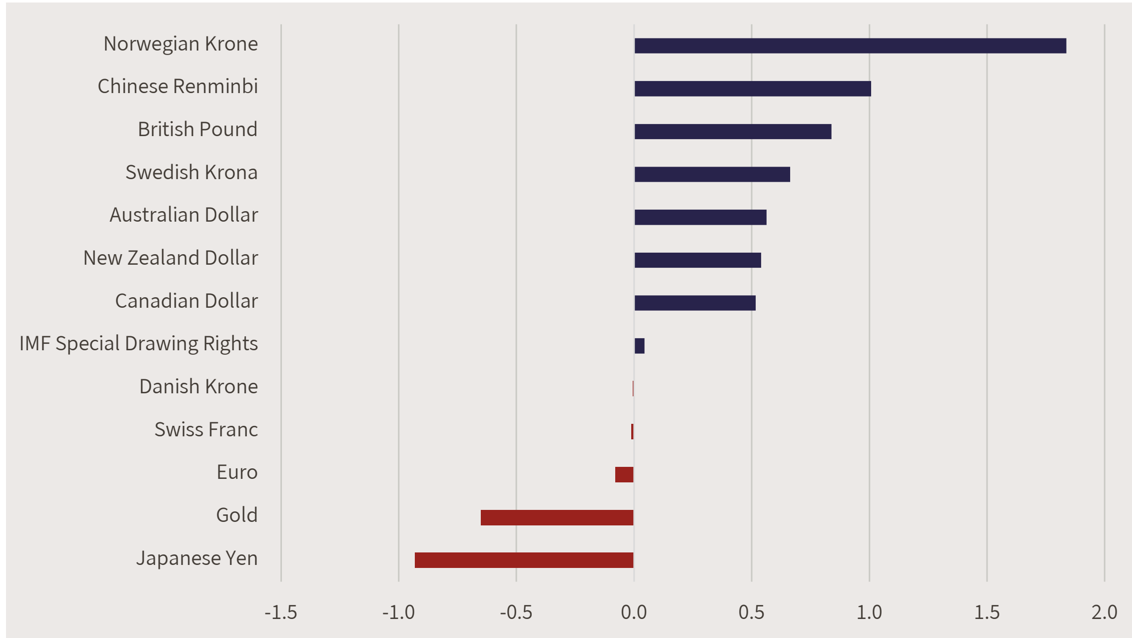
Looking ahead, we do not anticipate any major shifts in the geopolitical landscape. As a result, we expect the US Dollar to weaken further. The time is an open question. Will it be during the summer holiday season, which historically sees dramatic moves, or in the final quarter of the year, when risk assets typically undergo technical repricing due to year-end flows?

The volatility surface offers valuable insights and, along with key technical levels, should be closely monitored. Important technical levels to watch include:

- EUR/USD resistance at 1.1520 – 1.1550
- USD/JPY support at 140.00
- GBP/USD resistance at 1.3550 – 1.3590
- USD/CAD support at 1.3500
- USD/CNY support at 7.0700

Break of the above-mentioned levels should fuel price momentum sending US Dollar valuations substantially lower.

May performance vs. USD (%)



Source: CAIM, 31 May 2025.

EQUITIES

SIMON PRICE

SENIOR EQUITY FUND MANAGER

United States

Proposed tariff reductions paint a rosier picture, for now

US equity markets experienced their strongest monthly gains in 18 months, driven by improved economic data, including a weaker CPI for April and reduced US-China tariffs. These factors led investors to discount the likelihood of a global downturn. The significant reduction in proposed tariffs between the US and China, even if temporary for 90 days, fostered a belief that the worst of the trade war has passed and that the trend is now towards de-escalation. However, the US fiscal situation and debt sustainability continued to create market uncertainty, especially following a credit rating downgrade from Moody's. This downgrade, though largely symbolic, coincided with heightened attention on the tax bill currently moving through Congress. Additionally, the rise in long-dated yields posed challenges for equity valuations.

Regarding monetary policy, the FOMC maintained the fed funds rate at 4.25-4.50% for the third consecutive meeting, adopting a patient stance amid increased uncertainty. The prepared statement highlighted that uncertainty had "increased further," with risks of both "higher unemployment and higher inflation" rising. During the press conference, Chair Powell acknowledged the conflicting pressures on the Fed's dual mandate due to larger-than-expected tariffs and provided little guidance on future policy. Powell emphasised the elevated uncertainty but noted the economy's resilience, reiterating that policy is well-positioned to respond while dismissing the notion of pre-emptive rate cuts.

Regarding the macro environment, the ongoing rally was bolstered by the US April CPI report, which was weaker than expected, with both headline and core CPI coming in lower than predicted. From a market perspective, the main relief was that tariffs were not significantly impacting consumer prices, despite the inclusion of the 10% universal baseline tariffs and higher tariffs on China in April. The April employment report showed a stronger-than-expected rise in nonfarm payrolls, while the unemployment rate remained steady at 4.2%. Although revisions for the previous two months slightly dampened the headline figures, the overall print defied fears that volatility following Trump's Liberation Day announcements would negatively affect the labour market.

On the corporate earnings front, most companies have reported, with the depth of the EPS surprise well above the long-term trend, and the breadth of the EPS surprise also impressive for the most part. The technology sector was generally positive, with Nvidia delivering a modest revenue beat for Q1 but projecting $45 billion in revenue for Q2, meeting analyst expectations despite forecasting an $8 billion loss in sales due to restrictions on AI chip shipments to China. Amazon's Q1 performance slightly exceeded expectations, but the company provided weaker-than-expected guidance for the current quarter due to tariffs. Apple reported a modest beat in both revenue and earnings, but weaker revenue in China raised concerns about potential trade war challenges. Despite the strong Q1 earnings, stock price reactions to beats were more muted. Additionally, corporate guidance for the 2025 profit outlook is relatively subdued, with fewer companies raising EPS guidance this quarter. Concerns over inflation and tariffs have led analysts to lower EPS estimates for this quarter more than usual. Walmart's stock declined after their earnings report, as they warned that prices would increase due to the potential impact of tariffs.

In terms of performance, the US rally was led by Cyclicals and Technology sectors. Technology benefited from easing trade tensions, including Trump's plans to rescind AI chip curbs, Middle East AI deals, and strong earnings from Nvidia. Gains in Consumer Discretionary and Banks were driven by improving sentiment and macroeconomic recovery. On the other hand, Defensives were weighed down by Healthcare, following Trump's healthcare reforms, which included potential changes to Medicaid/Obamacare and the negative impact of a 'most favoured nation' executive order. Energy was the other sector to close down for the month, declining by 2.3%, in line with underlying pricing.

Europe

Softening in tariff stances, but domestic signals promote concerns

European equity markets rose in May, aligning with the global equity rally. Despite a general softening in tariff stances, EU/US trade tensions remain high, with slow progress towards a deal and Trump threatening 50% tariffs on European imports late in the month. While Euro Area Q1 GDP remained steady at 1.2% year-on-year, May PMIs declined, with the EA Composite entering contractionary territory for the first time since December.

In terms of sector performance, all sectors closed higher, with cyclicals outperforming defensives, continuing their year-to-date trend. The defense sector was the best performer, benefiting from ongoing discussions about increased spending and escalating tensions between Russia and Ukraine. Tariff-exposed sectors rebounded as the broader rhetoric softened, while the luxury sector also saw gains, driven by a resurgence in US consumer spending.

Developed Asia

Upward momentum for now

Developed Asia markets continued their upward momentum from early April lows, driven by moderating tariff concerns, reduced US recession risks, and renewed optimism around AI capital expenditures. Hong Kong markets were also bolstered by China's central bank cutting key lending rates for the first time since October, reinforcing expectations of looser monetary policy to support the economy.

Japanese equity markets advanced despite a larger-than-expected contraction in Q1 GDP and higher CPI. Concerns over Japanese interest rates persisted, with notable selling in the super-long end due to weak long-end auctions. In terms of sector performance, banks were the best performers, benefiting from high JGB yields, while the rally in semiconductors was driven by US actions.

Emerging markets

Emerging market equities continued to rise in May but underperformed developed markets after three months of outperformance. The gains were largely driven by the potential de-escalation of trade tensions. However, trade uncertainty resurfaced at the end of the month due to legal complexities around tariff implementation and reports of US-China trade talks stalling.

Regionally, EM Asia led the gains, while Latin America and CEEMEA consolidated over the month.

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