Monthly market review – May highlights

To 31 May 2025

May highlights

- Global equities rose as US courts cast doubt on the legality of most “Liberation Day” tariffs
- The US struck trade deals with the UK and approved Nippon Steel’s takeover of US Steel
- Corporate bonds outperformed while sovereign bonds fell after inflation surprises and a US credit rating downgrade

Equities

Renewed optimism for world trade supported gains in major global equity indices in May. Stocks rose in the US, Europe, the UK, Japan and emerging markets. The MSCI World Index returned 5.99% in May (total return in US dollars).

Markets rose in May as US President Donald Trump’s administration struck deals with major trading partners. Investors were encouraged by the prospect of stabilising economic conditions and bought stocks after a court ruling declared the broad “Liberation Day” tariffs unlawful, although this decision was promptly paused by an appeals court. US stocks advanced even as Republicans negotiated a comprehensive tax and spending bill that could add $3.3 trillion to the country’s budget deficit over the next decade. The technology-focused Nasdaq Composite Index outperformed the broad S&P 500 Index. Investor confidence in major technology firms returned, bolstered by positive earnings – including a strong revenue report from NVIDIA – despite restrictions on China-related business.

The UK became the first country to sign a trade deal with the US, lowering tariffs on British cars and increasing access for US agriculture. UK equities rose, with the FTSE 250 Index outperforming the FTSE 100 Index. European indices also advanced, including Germany, France, Spain, Italy and Switzerland, as US tariffs were suspended pending talks. Japanese shares gained as the government approved emergency stimulus. Late in the month, the US approved Nippon Steel’s acquisition of US Steel. Chinese markets rose as US tariffs were reduced, even though they were later reinstated. Indian, Brazilian and broad emerging-market benchmarks also finished the month higher.

Commodities rose in aggregate as traders were optimistic about recovering global economic activity. This prompted some selling of precious metals, including gold. Energy prices rose in the month, although the OPEC+ organisation of petrostates agreed to increase oil output late in the month, after trading had closed.

Bonds and economics

Investors sold US Treasuries after a credit rating downgrade from Moody’s, and Gilts as UK inflation data was higher than predicted. Corporate bonds performed better as economic conditions looked less uncertain.

US yields rose in a volatile May. Moody’s downgraded the United States’ long-term credit rating from Aaa to Aa1, the first time since 1917 the US had lost its top-tier rating from all three major agencies. The Federal Reserve (Fed) kept the target range for the federal funds rate unchanged at 4.25%–4.50%, citing modest growth and inflation slightly above target. The Fed’s preferred inflation measure, the core Personal Consumption Expenditures Price Index, rose 2.5% year on year (yoy) in April, in line with expectations and down from 2.7% in March. Headline consumer price index inflation (CPI) slowed from 2.4% to 2.3%, the lowest since 2021. Corporate bonds outperformed US Treasuries, as trade developments improved the outlook for corporate borrowers.

In the UK, gilt yields rose after a surprise jump in inflation. Annual CPI rose 3.5% yoy in April, above the expected 3.3% and up from 2.6% in March. The Bank of England cut the Bank Rate by 0.25% to 4.25% in May, a widely expected move. However, two voting members voted for a larger cut, while two preferred no change. The Bank expects inflation to peak at 3.7% this summer, noting the impact of US trade uncertainty. In the euro area, annual inflation was stable at 2.2% in April. Eurozone seasonally adjusted GDP increased by 0.3% in the first quarter of 2025. Polls indicate the European Central Bank is likely to cut its deposit rate by another 0.25% in June. European sovereign bond yields finished the month slightly higher, while euro corporate bonds outperformed.

Real Estate

According to the MSCI Monthly Index, total returns for April (the latest data available) were 0.6%, down from 0.7% in March. The residential and industrial sectors outperformed, each returning 0.7%, while the office and hotel sectors lagged with returns of 0.2% apiece.

The Build-to-Rent (BTR) sector in the UK continues to grow at pace, with over 130,000 units completed by the first quarter of 2025. Investment reached a record £5.2 billion in 2024, and forecasts suggest even stronger inflows in 2025. Single Family Housing (SFH) is driving much of this, accounting for 50% of BTR investment in the first quarter, as investor interest intensifies. Despite wider market quietness, Blackstone’s £225 million SFH portfolio sale provided a useful benchmark for stabilised pricing. Meanwhile, Purpose-Built Student Accommodation has been included in Scotland’s proposed housing bill, signalling increased political scrutiny of the sector ahead.

The office sector continues to show steady improvement, with positive trends across occupancy, capital values and investor sentiment. According to the RICS Commercial Property Monitor for the first quarter, occupier demand, expectations for rents and capital values, and investment enquiries are all rising. While polarisation remains, demand for quality space is clear. This is reflected in a tightening supply pipeline and strong levels of pre-letting. Cushman & Wakefield reported that 61% of office space due to complete in 2025 is already pre-let, and market participants broadly share the view that momentum is improving across the better-specified end of the market.