



Review

Global equity markets were strong across the board in May, driven by increased optimism that the worst of the tariff threats may not come to pass. The impact was most notable in the US, with the technology heavy Nasdaq Index up c.10% and the S&P 500 gaining c.6%. The UK equity market, whilst not as strong, still posted solid gains and the iShares UK Equity Index tracker rose +4.98%.

Key to the more positive tone was the truce between the US and China, with a reduction in extra tariffs of 115% agreed by both sides for 90 days. Other positive trade news included an agreement between the US and the UK. As seems to be the way with the new US administration though, it was not all plain sailing with a surprise move to increase tariffs on most EU goods to 50% announced late in the month. Once more however, this has now been deferred until early July to allow time for further negotiations.

Away from tariff news, economic data continued to remain generally resilient and similarly with the latest corporate earnings season, where strength from the largest technology companies in the US was once again a standout feature. Against this backdrop it was no surprise that the US Federal Reserve decided to keep interest rates on hold at their latest meeting.

Notwithstanding the buoyant market mood, concerns continue to build over the extent of US fiscal deficits, and the associated rise in government bond yields, not helped by the tax cutting bill currently making its way through Congress – the so called ‘One Big Beautiful Bill.’ As it currently stands there will be no meaningful deficit reduction in the foreseeable future and that, coupled with the loss of the last ‘triple A’ credit rating from Moody’s, has the US government bond market on edge again.

Here in the UK, consumer related activity continued to surprise positively, and the decision by the Bank of England to reduce interest rates by 0.25% at its latest meeting will hopefully help continue that trend. Meanwhile, in local elections across England the ‘insurgent’ party that is Reform UK made huge progress at the expense of both Labour and particularly the Conservative party. Just what that means for the evolving political situation remains to be seen in due course.

Fund performance / Activity

Pleasingly, our fund performed very strongly in May, benefiting from the positive market mood and the consequent outperformance of more cyclical sectors, where we have significant exposure. As such, our fund gained +8.95% (share class A GBP Net Accumulation), materially outperforming the iShares UK Equity Index tracker gain of +4.98% and the peer group average gain of +4.88%.

There were numerous individual positive contributors to performance in May including Burberry, Bodycote, Kier, Wickes, DFS Furniture, EasyJet, WH Smith and Entain. There were limited individual negative contributors although Victrex and Marshalls did modestly underperform. The more significant detractors came from large companies that we do not own, where share prices performed well, including HSBC, Barclays and Shell.

Activity was modest during May, adding no completely new holdings and making no complete disposals. We added to holdings such as Bodycote, Vesuvius, JD Sports and RS Group and these were funded by profit taking in holdings such as Wickes, Kier, OSB Group, Weir and DFS Furniture.



Market Outlook

The extreme volatility and negativity that dominated markets for much of April has recently been replaced by a greater level of optimism that the worst impacts of potential trade wars will not come to pass, and that has clearly been reflected in the gains made in equity markets during May.

Whilst we welcome this development, there remains a high degree of uncertainty as to the extent of disruption already in train, and indeed the prospect of further disruption given the highly unpredictable nature in which the current US administration is approaching international relations. As such, a high level of cautiousness prevails amongst investors regarding the near-term outlook.

We understand the rationale for such caution, although we are minded to take a somewhat more optimistic view than most. We believe we are most likely past the peak uncertainty phase of the tariff headlines, albeit there may well be several more twists and turns still to come. We have been pleasantly surprised by the resilience of economic data during this turbulent period, and the resilience of the latest corporate earnings releases has been similarly reassuring. Meanwhile, in the UK at least, the strength of recent consumer related data has been particularly pleasing, and we are optimistic that this will continue given good levels of wage growth, falling interest rates and high savings rates.

Whilst a degree of calmness has returned to markets, there remain plenty of issues that could cause further upset in the near term. Tariff headlines will remain at the forefront of investors' minds for some time to come and economic data releases will be closely scrutinised for any signs of a potential downturn. Meanwhile, the scale of US government deficits, and the continuing rise in government bond yields, have the potential to cause significant disruption to government bond markets globally with knock-on effects to equity markets in due course. In short, volatility could reemerge at any time.

Notwithstanding this short-term uncertainty, as we are prone to repeat, we consider it essential to focus on the medium-term potential of our investments when building our portfolio. At present valuations our enthusiasm for the medium-term potential of our current portfolio is substantial.

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