

Discovery Market Review

31 May 2025

Market background

May saw a revival in risk appetite, supported by easing trade tensions and resilient US economic data. Global equities rallied, credit markets posted broad gains, and some commodities—including copper and oil—benefitted. Still, rising developed market yields and the US Treasury downgrade stirred fiscal concerns and weighed on sovereign bonds.

United States

US equities regained their rhythm, with the S&P 500 climbing 6.2%, its strongest monthly gain since late 2022 and its best May since 1990. The Nasdaq outperformed, jumping 9.6%, while the Dow Jones rose a more modest 3.9%. The rally, which began in late April, was fuelled by resilient economic data and a temporary easing of US-China trade tensions. A 90-day tariff rollback cut US rates on Chinese goods from 145% to 30%, easing fears of a global slowdown and lifting market sentiment.

Economic indicators added to the positive tone. April's core Personal Consumption Expenditures (PCE) index, the Federal Reserve's (Fed's) preferred inflation gauge, rose 2.5% year-over-year (y/y), its lowest since March 2021. But while inflation moderated, Fed officials pushed back on the idea of near-term rate cuts. Minutes from the May meeting showed broad agreement to hold steady through the summer, citing strong growth, a tight labour market and uncertainty over the inflationary impact of President Donald Trump's sweeping economic agenda – including tariffs, immigration restrictions and the so-called "big, beautiful" tax bill, which passed the House of Representatives in late May and is now headed for the Senate.

Tech stocks once again led the charge. Nvidia's first-quarter results beat expectations, with revenue up 69% y/y to US\$44.1 billion on continued AI demand. OpenAI's US\$6.5 billion acquisition of Jony Ive's hardware startup, io, also drew investor attention as a bold pivot toward AI-integrated consumer devices.

The rally lost steam late in the month as fiscal concerns resurfaced. Moody's downgraded the US credit rating to Aa1, citing rising deficits and the likely impact of the tax bill. That triggered a sell-off in long-dated Treasuries, with 30-year yields briefly breaching 5.15%. Still, equities ended the month firmly higher, reflecting investor confidence in the economy's underlying momentum.

South Africa

South African capital markets ended May broadly firmer, with the JSE All Share Index reaching new record highs during intra-month trading. Investor sentiment was buoyed by two key developments: a landmark diplomatic engagement with the US and a reduction in domestic political uncertainty following the successful passage of the national budget.

In response to President Trump's claims of white minority persecution in South Africa and the threat of potential sanctions, President Ramaphosa led a high-level delegation to the White House to reaffirm bilateral trade ties. The visit resulted in an agreement to initiate formal discussions on cooperation in the critical minerals sector – a strategic area for South Africa's long-term growth.



Domestically, the Government of National Unity's successful adoption of the 2025 national budget sent a stabilising signal to markets. The revised budget, presented by Finance Minister Enoch Godongwana, omitted the contentious proposed VAT hike and underscored the administration's commitment to fiscal discipline. On the macroeconomic front, headline inflation held steady at 2.8% y/y in April, while core inflation eased to 3.0% y/y – its lowest level since mid-2021.

The South African Reserve Bank (SARB) revised its 2025 inflation forecast downward to 3.2%, prompting policymakers to cut interest rates by 25 basis points (bps) as widely expected. The central bank, however, noted domestic growth remained a concern, lowering its 2025 GDP growth forecast to 1.2%. The bond market rebounded after a period of volatility, supported by easing inflationary pressures and a broad political consensus on the budget.

Europe and the United Kingdom

European equities rallied in May with their strongest monthly performance since January, driven by strength in the IT, industrial and financial sectors. This positive momentum was supported by the delay in the imposition of US tariffs on EU imports, which alleviated fears of a trade war and boosted market confidence. Expectations of another European Central Bank (ECB) rate cut in June also boosted sentiment, as did the stronger euro, meaning that imports have become cheaper for European consumers, which could slow down inflation.

UK equities were also positive, delivering their first monthly advance since February. Calmer conditions after the tariff turmoil in early April helped lift the FTSE 100 back within sight of its record high set in early March. The macro picture was also encouraging. First-quarter GDP rose by 0.7%, the fastest growth rate in a year and the highest in the G7. Trade deals announced with the US, India and the European Union during the month also helped improve sentiment. The International Monetary Fund raised the UK's 2025 GDP growth forecast from 1.1% to 1.2%, citing the robust Q1 performance.

Markets reacted positively to Bank of England (BoE) governor Andrew Bailey calling on the government to mitigate the adverse effects of Brexit by pursuing closer alignment with the EU. Bailey made the case for non-tariff barriers to be reduced, particularly in the financial services industry, saying that less red tape would boost trade and economic growth. His comments came after Prime Minister Starmer unveiled the UK's "reset" deal with the EU, which includes plans to cut barriers to trade in areas including foodstuffs and electricity.

China

Chinese equities closed the month on a volatile note, reflecting a mixed economic outlook, renewed trade tensions, and shifting investor sentiment. Economic data also painted a complex picture. China's industrial production grew 4.7% y/y in April, slightly below expectations, while retail sales rose just 3.1%, pointing to subdued domestic demand. Inflation, measured by CPI, edged up to 1.4%, driven largely by food prices, but remained well below the government's target. The People's Bank of China maintained a supportive stance, with a moderate reduction to the required reserve ratio for financial institutions and reverse repo rate in May, signalling a continued focus on stabilisation.

Trade tensions remain fluid, with mounting pressure in the early half of the month, followed by the US announcing a sudden truce on tariffs to allow further negotiations to take place. Sector-specific tariff increases and export controls attracted more attention, leading investors to remain cautious in export-oriented sectors like manufacturing and technology.

Investor sentiment remained fragile. Foreign inflows into mainland equities slowed, as reflected by reduced turnover data from the northbound Stock Connect programme, as global funds reassessed exposure amid geopolitical uncertainty. Within China, retail investors displayed cautious optimism, rotating into domestically oriented sectors such as healthcare and financials.

Looking ahead, markets will closely watch for signs of stimulus from Beijing, particularly in the form of fiscal support. While valuations in Chinese equities remain relatively attractive, sustained upside will likely depend on an improved macroeconomic outlook and de-escalation of trade tensions. The MSCI All China climbed 2.7%.



Global equities

Global equities staged a strong rebound in May, buoyed by easing trade tensions and firm US economic data. The S&P 500 rallied sharply, reflecting renewed investor confidence and improving sentiment toward risk assets. The FTSE 100 also posted solid gains, supported by resilient corporate earnings and a firmer macro backdrop.

While equities benefitted from a stronger tone overall, central banks signalled caution, and markets dialled back expectations for rate cuts, particularly in the US and UK, as inflation concerns persisted. The rally was not without pause: a late-month downgrade of the US sovereign credit rating revived worries over fiscal sustainability, slightly tempering optimism. Still, market conditions were notably more constructive than in April, with investors selectively rotating into cyclical and growth-sensitive sectors. Emerging market equities also gained, supported by improving fund flows and recovering commodity prices, particularly in energy and industrial metals.

Indices	May 2025 net return (USD)
S&P 500	6.3%
Nasdaq Composite	9.6%
MSCI ACWI	5.8%
Nikkei 225	5.3%
EuroStoxx 600	4.0%
FTSE 100	3.8%
Hang Seng Index	5.9%
SSE Composite	2.1%

Indices	May 2025 net return (ZAR)
FTSE JSE All Share Index	3.1%
FTSE/JSE Financials Index	2.5%
FTSE/JSE Industrials Index	2.4%
FTSE/JSE Resources Index	2.4%
FTSE/JSE ALBI	2.7%
STEFI	0.6%

Source: Bloomberg, as at 31 May 2025.

Global fixed income

US

May was a pivotal month for the US Treasury market, with a credit-rating downgrade underscoring broader concerns around US public finances. While market participants welcomed signs of easing trade tensions with China, fiscal concerns were front of mind, given the prospect of continued tax cuts and rising debt levels. This, together with the mid-month downgrade from Moody's – moving the US's credit rating to Aa1 from Aaa – drove yields higher across the Treasury curve.

On the monetary policy front, the US Fed kept rates on hold as expected, with commentary from Fed Chair Jerome Powell focusing on the uncertain growth and inflation outlook. Despite the CPI print for April coming in slightly lower than expected, inflation expectations for the rest of the year continued to rise. By the end of May, the market was pricing in fewer rate cuts for the rest of this year.

UK

Global factors – notably the sell-off in US Treasuries – drove Gilt-market moves, with ongoing concerns around UK public finances and higher-than-expected inflation pushing yields up across the curve. Although the BoE cut rates by 25bps to 4.25%, the accompanying message was one of caution, which raised the bar for back-to-back rate cuts in the near term. This led to the market slashing its rate cut expectations, with around 40bps of cuts by year-end now priced in.

EU

Bond market performance was mixed across the region; for example, German yields rose, and Italian yields fell. Regardless of the direction of these moves, the magnitudes were relatively small compared to the US and the UK



market moves. European inflation remains low at 2.2%, albeit slightly above the ECB's 2% target, while the growth outlook remains weak overall. The market continues to price in over two rate cuts by year-end.

Japan

The Japanese yield curve steepened over the month, with front-end yields broadly unchanged and longer-dated yields rising. Short-term bonds remained stable against the broader global bond sell-off after the Bank of Japan significantly reduced its economic growth outlook, citing looming global economic uncertainty. In contrast, longer-dated bond yields rose due to a combination of a supply and demand imbalance in the very long end, concerns about additional fiscal expansion ahead of the upper house election and continued quantitative tightening.

Indices	February 2025 net return (local currency)
The Bloomberg US Treasury Index	-1.0%
Bloomberg Global-Aggregate Total Return	-0.4%
The Bloomberg EuroAgg Index	0.2%

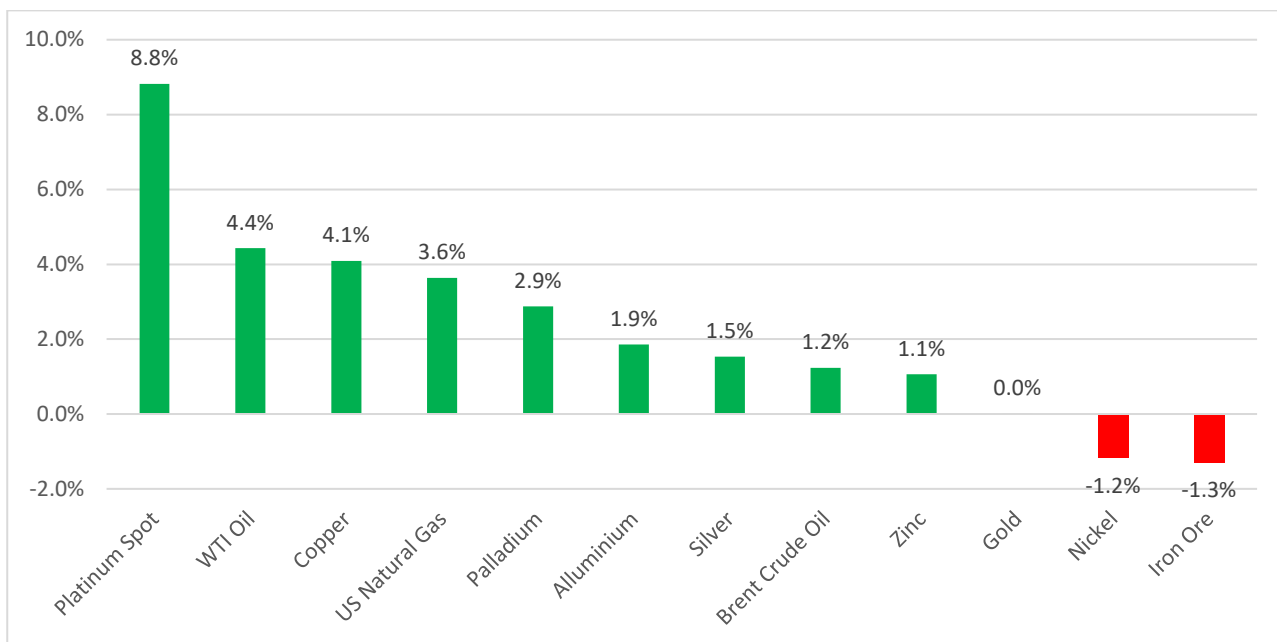
Source: Bloomberg, as at 31 May 2025.

Commodity markets

Improved economic data and hopes of a better-than-feared US-China trade outcome supported some commodities in May. However, tariff concerns were never far from commodity investors' minds, and as the month ended, President Trump announced that levies on steel and aluminium imports would double to 50% from early June.

Brent crude ended the month approximately 1% higher at about US\$64 per barrel. While easing trade tensions supported the commodity, the prospect of higher output from OPEC+ oil-producing countries and the risk that tariffs could still slow global growth held gains in check. Gold was flat, with the precious metal maintaining its appeal amid an uncertain macro backdrop, ending May at US\$3,289 per Troy ounce. The shares of gold-producing companies outperformed the physical metal, with the NYSE ARCA Gold Miners Index gaining 3%. Total known holdings of gold by exchange-traded funds, a gauge of desire to hold gold, declined 1% to 88.22m ounces.

Among industrial metals, copper recovered from a sharp dip in April to post a 4% gain in May. The price of the commodity rose after the US and China agreed to lower import duties temporarily, as well as in response to tight supply in some markets and expectations of strong long-term demand from electrification. Aluminium also gained in the month, rising about 2%. Iron ore declined slightly, but May finished on a more positive note for the steel-making commodity as over-supply forecasts were reduced on resilient demand and after bad weather disrupted output from a major Australian producer. Among agricultural commodities, corn declined partly as benign weather trends in the US increased harvest expectations, but supply worries supported wheat prices.



Source: Bloomberg, as at 31 May 2025.