ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

May 2025

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/05/2025	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	208.75	+0.7%	-0.4%	+3.7%	+5.8%	+11.4%
ARC Balanced	Medium Risk	262.11	+1.9%	-1.6%	+3.7%	+8.9%	+19.9%
ARC Steady Growth	Medium High Risk	317.38	+2.8%	-2.2%	+3.4%	+11.4%	+26.9%
ARC Equity Risk	High Risk	375.58	+3.9%	-2.6%	+3.2%	+13.7%	+33.8%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/05/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8772.38	3.3%	-0.4%	6.0%	15.3%	44.4%
UK All Share	UK	4759.54	3.6%	0.1%	5.4%	13.3%	41.5%
Dow Jones Ind Avg	US	42270.07	3.9%	-3.6%	9.3%	28.1%	66.5%
S&P 500 Index	US	5911.69	6.2%	-0.7%	12.0%	43.1%	94.2%
Nikkei 225	Japan	37965.10	5.3%	2.2%	-1.4%	39.2%	73.5%
MSCI Europe Ex UK	Europe	218.00	3.9%	-1.8%	5.2%	26.4%	57.8%
MSCI Asia Ex Japan	Asia	753.75	5.0%	5.4%	12.4%	9.6%	25.3%
MSCI Emg Mkts (£)	Emg Mkts	691.19	3.3%	-0.7%	6.7%	8.7%	29.0%
MSCI World Index (£)	Global	3863.48	5.7%	1.5%	12.1%	38.4%	79.9%
UK Conventional	Gilts	3056.78	-1.2%	-0.5%	1.4%	-11.9%	-27.7%
UK Index-linked	Gilts	3584.45	-1.9%	-3.9%	-7.5%	-27.1%	-38.4%
UK Real Estate Investment Trusts	Property	1966.41	2.9%	7.7%	-7.4%	-28.7%	-12.8%
WTI Crude ($/Barrel)	Oil	60.79	4.4%	-12.9%	-21.0%	-47.0%	71.3%
Gold Spot $/Oz	Commodities	3289.25	0.0%	15.1%	41.3%	79.0%	90.1%
£1 = US$	Currencies	1.3459	1.0%	7.0%	5.6%	6.8%	9.0%
£1 = €	Currencies	1.1860	0.8%	-2.2%	1.0%	1.0%	6.6%
£1 = Yen	Currencies	193.91	1.7%	2.4%	-3.3%	19.6%	45.7%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	31/05/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,426.30	4.8%	-1.2%	1.4%	2.7%	20.7%
Latest Weighted Average Discount	-14.7%						
12 Month Weighted Average Discount	-15.1%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

May saw a strong market rally as US tariff uncertainty abated as we saw various cuts to the rates and some wide ranging suspensions. US stocks appreciated rapidly, while the US dollar continues its pattern of weakening against major peers such as sterling.

UK and European stocks, despite strong performance themselves and Germany's DAX even hitting fresh all-time highs, lagged most peers as Asia and the US dominated investors' minds given the abatement of trade tensions between the regions. Some of this equity buying came at the expense of bonds, as UK gilts sold off with the general risk-on sentiment across markets.

In commodities, precious metals such as gold and silver had more muted months than recent times. Meanwhile, the oil price appreciated, reversing a modest amount of the losses suffered in previous months and years.

UK Commentary

The UK economy grew by 0.7% in the first quarter, the fastest pace in a year, boosted by services and investment. Consumer spending grew strongly in April, driven by warmer weather and the late timing of Easter, with retail sales volumes increasing by 1.2% month-on-month. Retailer Next, who recently surpassed the £1 billion profit mark for the first time, notably enjoyed better-than-expected spring sales.

It was also initially revealed that UK inflation rose more than expected to a 15-month high of 3.5% in April, largely due to higher energy costs and increased water bills. However, the ONS subsequently announced they had made a mistake and that the figure should have been 3.4%. Their inability to offer reliable data continues, which is no doubt a frustration to policymakers.

The Bank of England cut interest rates by 25 basis points to 4.25%, though some committee members dissented. Five members voted for the cut, two advocated for a larger 50 basis point reduction, and two preferred to keep rates unchanged. Governor Andrew Bailey stated that the decision was made due to "easing inflation".

The UK was in full deal-striking mode in the month, signing trade agreements with India, the US, and the EU. There were many encouraging headlines and quotes on these developments, however, details appear light at this stage and the extent of the arrangements appears somewhat limited. It is worth noting that the US deal made Britain the first country to reach an agreement with the US since the sweeping tariffs were announced, offering increased market access for US exports and tariff reductions for UK cars, steel, and aluminium. The UK accepted strict US security "requirements" for its steel and pharmaceutical industries as part of this deal, which was seen by some as a template to exclude China from strategic supply chains. Perhaps related to this deal, Toyota announced plans to produce more cars in the UK from next year, aiming to increase flexibility in response to US tariffs.

North America Commentary

The US and China initially agreed to lower tariffs for 90 days in a major de-escalation effort. However, US President Donald Trump later accused China of violating the truce, threatening to reignite the trade war. He also announced plans to impose a 50% tariff on imports from the EU, escalating trade disputes. Elsewhere, Canada effectively suspended almost all its retaliatory tariffs on US products, a move aimed at tempering inflation risks. New Prime Minister Mark Carney seems reluctant to engage in reciprocal tariff wars.

The Federal Reserve kept US interest rates on hold due to concerns that tariffs could trigger inflation and weaken the jobs market. The unanimous decision by the Federal Open Market Committee (FOMC) was largely influenced by growing concerns that President Donald Trump’s tariffs would trigger a fresh surge of inflation and weaken the jobs market. The FOMC stated that "uncertainty about the economic outlook has increased further" since their last meeting in March, and that "the risks of higher unemployment and higher inflation have risen".

As expected, US goods imports plunged in April as the tariffs disrupted trade flows. This turnaround followed a surge in imports in March, when businesses rushed to buy foreign goods before Trump's "liberation day" tariffs announcement on April 2. Pharmaceuticals, for instance, soared by $20.9 billion in March as businesses front-ran these new tariffs. This surge in imports in March, preceding the April plunge, became a major drag on economic growth, with net trade alone shaving approximately five percentage points off the first quarter's growth rate, pulling real GDP down at an annualized pace of 0.3%. However, with tariff prebuying likely peaking in March, imports are expected to slow and potentially become a positive factor for real GDP in the second quarter.

Meanwhile, Volkswagen revealed plans for "massive" investment in the US, following direct talks with the Trump administration due to tariffs which would be detrimental to their current business model. CEO Oliver Blume called the talks with the new administration “fair” and “constructive”. While controversial, many commentators would point to plans such as this as key to the reasoning behind Trump’s tariff policies.

Europe Commentary

Friedrich Merz failed in his initial vote to become Germany’s chancellor but succeeded in a second-round parliamentary vote. Under his new government, Germany dropped its long-held opposition to nuclear power, signalling rapprochement with France and aiming to remove biases against nuclear power in EU legislation. This shift was also seen as part of efforts for Germany to join France’s nuclear shield. Germany's Dax index climbed to a record high, boosted by investor optimism over US trade deals.

EU capitals agreed to launch a €150 billion loans-for-arms fund, backed by the bloc’s shared budget, in a landmark shift spurred by the war in Ukraine and US demands for Europe to increase its security spending. The new Security Action for Europe (SAFE) scheme has added yet another tailwind for the share prices of defence companies around the world, but particularly for those domestic to Europe.

Danish drugmaker Novo Nordisk cut sales and profit forecasts due to lower-than-expected US take-up of its GLP-1 drugs, impacted by alternatives from compounding (custom-made preparations by pharmacies). The CEO of Novo Nordisk also stepped down after the company's stock dropped significantly. This came as President Trump announced plans to use executive powers to drastically reduce the cost of drugs, introducing a "most favoured nation" policy.

Asia Pacific Commentary

Yields on long-dated Japanese government bonds surged to record highs due to investor fears of a lack of demand, Bank of Japan tapering, US trade tariffs, and Japan's national debt. Most countries would still be jealous of Japan’s 30-year debt, which is still yielding below 3%, but the significant increase from recent years is worth noting.

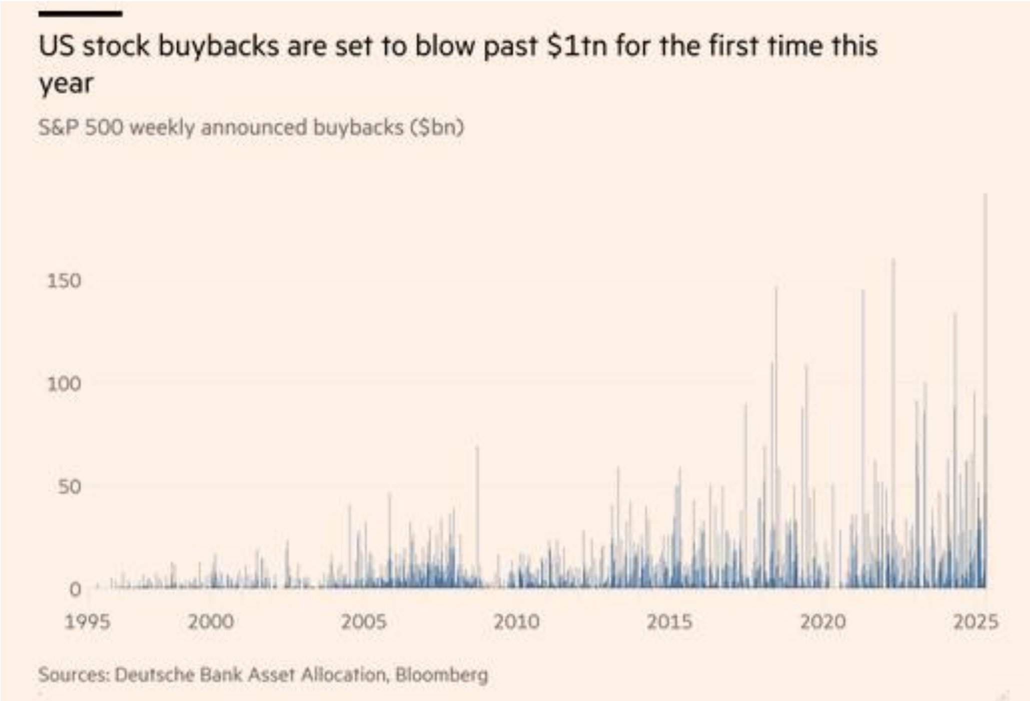
Chinese electric-vehicle battery maker CATL raised $4.6 billion in Hong Kong's biggest share sale of the year and the world’s largest IPO of 2025. The proceeds will primarily be used to fund CATL's European expansion, particularly its Debrecen, Hungary battery plant.

In related news, it was revealed that BYD sold more electric vehicles (EVs) in Europe than Tesla for the first time during the month of April, marking a breakthrough for the Chinese group. Chinese EV companies continue to steal market share at a significant rate.

Emerging Market Commentary

India and Pakistan briefly moved into open military conflict after New Delhi launched air strikes against its neighbour over a militant attack in Kashmir, with both sides claiming military successes. Fortunately, however, tensions seem to have cooled since.

Chart(s) of the month – US stock buybacks



The above chart from the Financial Times (citing data from Deutsche Bank) highlights the degree to which US companies are planning on buying back their own stock. The research noted the highest weekly figure since 1995 was hit recently, as well as the highest rolling three-month amount on record.

Repurchases reached a record level of $943 billion last year (according to S&P Global) and now look set to surpass $1 trillion this year. For context, this is over one fifth of the size of the entire UK Stock market.

It will be no surprise that technology companies such as Alphabet (owner of Google) and Apple are major players in this phenomenon, as are financials such as Visa. Companies which have been leading the way in terms of profitability are using some of this capital to buy their own shares and seem emboldened to do so given the recent market sell off in the US.

Investment Profile – Havelock Global Select

Managed by Matthew Beddall, who is a major investor in the fund himself, the fund looks for high-quality, financially disciplined companies trading at reasonable valuations. They look to maintain a concentrated portfolio to capture meaningful returns over the medium term.

As a result of the valuation sensitivity of the approach, the portfolio looks very different to global benchmarks with the UK having a greater weight than the US and a large overweight to Japan. The sectoral makeup is also unique, with a bias to materials and industrials rather than the technology names which have driven the benchmarks over recent years.

Long-term performance since the 2018 launch has been strong and consistent, but so far 2025 has been an exceptional year for the fund, which is up nearly 8% in the first five months of the year, largely as a result of the positioning mentioned above.

Investment Team's thoughts

The robust rebound in markets this month has been a welcome development, buoyed further by shifting political dynamics that have helped lift investor sentiment. While Donald Trump remains as unpredictable as ever, it is worth noting that he frequently moderates or reverses policies that provoke significant market controversy, as we have seen recently with the ongoing tariff disputes.

There is, admittedly, very little visibility into what may emerge from the White House next, and it seems likely that even those closest to the administration would say similar. Nevertheless, we continue to identify a broad range of attractive investment opportunities available at reasonable valuations. The recent bouts of volatility have created openings in the US market, and even more compelling prospects internationally.

Although volatility is often viewed with apprehension, it can actually serve as an ally to long-term investors. When short-term participants react emotionally and sell assets at depressed prices, it allows us to acquire high-quality investments at a discount. In this way, the recent market turbulence presented us with valuable opportunities to strengthen portfolios for the future.