Market Commentary - May 2025

FTSE 100	**8,596**	S&P 500	5,650
Resistance	8,770	Gold	$3,376
Support	8,200	GBP/EUR	1.1805
VIX	25%	GBP/USD	1.3383

Introduction:

The US government, which happily spent the last quarter of a century financing itself via the kindness of strangers, just raised two fingers to its primary lenders. Within days of Liberation Day, the US faced a classic emerging-market confidence crisis represented by rising bond yields, a falling currency and a collapsing stock market. As a result, disenchanted investors have begun to withdraw capital from America. With the UK representing less than 4% of the average global portfolio, a tiny slice of the Great Rotation would have a big impact on its currency and equity markets. All we need is a catalyst, and just maybe the delivery of a bilateral US trade deal is it; or perhaps it will come from somewhere else. But the essence of value investing is not waiting for the catalyst, but seeking asymmetric risk opportunities that protect your downside and offer ample scope for upside. UK investors remain on the verge of such a payday, the timing of which, as ever, remains elusive.

Market Outlook:

Over the long term *(since 1962), the FTSE All-Share has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at equalweight. The early days of April were characterised by sharp selloffs reminiscent of the market crashing toward recession in 2008. But as the Trump administration softened its tone on tariffs, the stock market rallied. Stocks remain below year-opening levels and are even further away from establishing new all-time highs. But the recovery has taken some panic out the market. We are now seeing selling days that do not turn into routs.

Investors are fearful that the tariffs as proposed along with retaliatory tariffs from trade partners could pitch the global economy into recession. The ever-changing tariff agenda is causing businesses and consumers to pause spending while awaiting clarity. However, we do not expect it to tip the economy into recession. Key measures of the economy including earnings growth, employment, PMIs and inflation - have moderated but remain consistent with ongoing, if muted, growth. One takeaway from the year-to-date sector map is impressive breadth, which bodes well in a challenging market.

But that does not mean we think this stock market volatility is over. The market bravado of 2024 appears to be completely gone. Institutional investors who were inclined to buy every dip now seem trigger-ready to sell every rally. A stray posting from the US president on Truth Social could knock the market back

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Market Outlook (cont):

down toward its lows. Interestingly, as stocks tanked, the expected safe-haven trade in the US Treasury market did not materialise. Instead, Treasury yields rose, and the dollar weakened - signs that global investors were exiting US asset classes formerly perceived as rock-solid. A changing of the order appears to be underway.

Looking at the charts, we have witnessed what is dreadfully called *"a death cross"* for the S&P 500. A death cross is when the 50-day moving average crosses below the 200-day. There have been some massive declines after a death cross throughout history (including 1930, 1940, 1973, 2000, 2007 and 2020).

While the major US stock indices are meaningfully off their lows, markets tend to move in waves. The year-long pattern of higher highs has been replaced so far in 2025 by a pattern of lower lows. That makes us nervous with each stock market rally. And with uncertainty the only certainty right now, the risks of economic dislocation are rising.

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Recommended Investment:

Foresight Environmental Infrastructure Limited

Foresight Environmental Infrastructure Limited (FGEN) is an investment trust listed on the London Stock Exchange. FGEN invests in a diversified portfolio of 42 environmental infrastructure projects (spread across 10 technology sectors predominantly in the UK) that support the drive towards decarbonisation, resource efficiency and environmental sustainability.

FGEN pursues an 'acquire, maintain and enhance' operating model and looks to retain an interest in assets over their useful life. These assets generate predictable and stable revenues and provide investors with a sustainable dividend paid quarterly, whilst preserving the capital value of its portfolio. FGEN targets a net IRR of 7.5% to 8.5% (it has achieved a 7.6% annualised NAV total return since its IPO) and a dividend of 7.8p per share, increasing in line with inflation which equates to a 10.4% yield at the current share price.

FGEN has 26% of its portfolio in waste management and water treatment assets which have no revenue linkage to the wholesale power price, leading to the trust having the lowest sensitivity to the energy price in its sector. In addition, 28% of its portfolio is in onshore wind and 15% is in solar assets which are supported by the UK's commitment to achieve low-carbon electricity targets. Renewable energy generation can be highly variable but this mixture of wind and solar cushions it against concentrated risk in one sector where, for example, higher than expected generation from wind assets can offset lower levels of solar irradiation for a given period. To manage risk, no one single project can represent more than 30% of the NAV. In reality, the top 10 assets make up just 50% of the portfolio.

Renewable energy assets also generate revenue from green tariffs in the form of feed-in tariffs for solar schemes and Renewable Obligation Certificates (ROCs) for wind energy. These are linked to inflation (RPI), meaning more than 60% of the trust's revenues are inflation-linked and a large amount are government-backed.

FGEN is managed by Foresight Group LLP, an infrastructure and private equity investment manager with over £12bn of AUM, £10.3bn of which is in infrastructure assets. Chris Tanner has been the investment manager since its IPO in 2014. The trust has a 1.3% TER.

In summary, FGEN is an interesting 'alternative' investment with a low correlation to the wider stock market (a beta of just 0.24). Yielding 10.4% and trading at a 30% discount to NAV, we rate the shares a strong buy.

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Post of the Month:

To say that the economic outlook is uncertain feels like an understatement. With tariffs an evolving threat, forecasts for the global economy are becoming increasingly pessimistic.

Despite the temporary unwinding of Donald Trump's tariff plans, economists at JPMorgan put the probability of a global recession at 60 per cent. They warn that *"misery loves company"*, and see a high chance of aggressive trade policy pushing the US economy - and the rest of the world - into recession this year.

The latest Federal Reserve projections were only issued in March, but already feel out of date. At the time, US central bankers expected trade restrictions to push up inflation somewhat, but stressed the uncertain outlook facing the US economy. *"Liberation day"* tariffs followed just weeks later, and by the time the next Fed forecasts are released in June, the backdrop will no doubt have changed again.

This feels like an agonisingly long wait when events are moving as fast as they are. And other big forecasters move equally slowly: the Bank of England, IMF and OECD all produce updates once a quarter. Can market-based signals give investors a view of how the global economy is performing sooner?

Yield curves are a long-held recession indicator. These visualise how much it costs to borrow money over different timeframes, and usually slope upwards: investors are rewarded with higher returns for locking money away over the long term. But sometimes, the curve inverts, historically an accurate signal that a recession lies ahead. And it is currently flashing a warning light - the slope of the US yield curve has been dipping in and out of negative territory since last month.

Government bond markets have more to tell us. There were 193 interest rate cuts by central bankers globally in 2024, and more than 30 more so far this year. Yet in major developed markets, rate cuts have not been accompanied by sustained falls in government bond yields. Yields are sticking higher, partly a reflection of investor concerns about high debt, persistent inflation and the impact of tariffs.

Stock markets are sending us signals, too. 'Dow Theory' is over a century old, and sets out that for a trend to be established, movements in the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJTA) should confirm one another. This is more straightforward than it sounds: good times (as a rise in the DJIA would suggest) should mean robust demand for goods, which means more freight and shipping. But it also works in reverse: we would expect an economic slowdown to be reflected in transport stocks. Ominously, the transport index is down by 17% over the past six months, while the conventional Dow has fallen by over 5%.

Commodities markets can also give us a steer. The gold price has risen from $2,700 to $3,300 per ounce over the past six months as investors fly to safety. Then there is 'Doctor Copper' - so called because of its expertise in diagnosing economic malaise. The metal's use in homes, factories and electronics make demand a strong predictor of economic health. The copper price fell from $9,800 to $8,600 per tonne in the wake of April's tariff announcements, but has since rebounded to $9,400. This may though just be traders snapping up supplies in case Trump imposes new levies akin to those already applied to aluminium and steel,

Market signals can act as a more timely indicator than economic forecasts, but we shouldn't put all of our faith in them: they can be blurred by tariff uncertainty, too.

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Quote of the Month:

"As history has repeatedly proven, one trade tariff begets another, then another - until you've got a full-blown trade war. No one ever wins, and consumers always get screwed" - Mark McKinnon

Initial tariffs can lead to retaliatory measures, spiralling into trade wars that disrupt global supply chains and economic stability. For investors, such scenarios introduce significant uncertainty, affecting market confidence and potentially leading to volatility. Sectors heavily reliant on international trade may experience sharp downturns, while domestic-focused industries might face input cost increases. Diversifying portfolios and staying informed about geopolitical developments become essential strategies in navigating these turbulent times.

Economics:

The UK economy is navigating a challenging landscape marked by subdued growth, persistent inflation, and external trade pressures. The International Monetary Fund has revised the UK's GDP growth forecast for 2025 down to 1.1%, citing negative impacts from recent US-imposed tariffs and domestic structural weakness. Inflation stood at 2.6% in March 2025, a slight decrease from 2.8% in February. Despite this moderation, inflationary pressures persist due to rising wages and energy costs. UK manufacturing exports have contracted for the seventh consecutive month, with the Purchasing Managers' Index registering at 45.4 in April 2025, signifying contraction. This decline is largely attributed to reduced demand from key trading partners and the adverse effects of US tariffs on UK goods. Meanwhile, consumer confidence has reached a record low, with 75% of individuals anticipating worsening economic conditions over the next year. In response, the Bank of England is anticipated to cut interest rates by 0.25% to 4.25% in its upcoming May meeting, aiming to stimulate economic activity amid global trade tensions.

The Eurozone economy grew 0.4% in the first quarter, surpassing expectations. The figure was twice as high as the 0.2% expected. The higher growth was **"more appearance than reality"**, Commerzbank economists wrote in a note to clients, adding that it was partly driven by one-off effects, including a 3.2% growth spurt in Ireland whose economy is heavily distorted by offshore US companies. Most analysts expect that the global trade war unleashed by the US president on "*liberation day*" will damage the Eurozone's subsequent economic performance. Survey data in recent weeks has indicated that business confidence in the Eurozone had deteriorated significantly since the US president unveiled the duties, while growth has approached zero. *"Growth will slow in the second quarter, as the recent surge in trade policy uncertainty hits investment,"* Melanie Debono, an economist at Pantheon Macroeconomics, wrote in a note to clients. She added that *"a short and shallow technical recession"* in the euro area in the second half of the year was possible.

The US economy contracted 0.3% in the first quarter of 2025, the first negative reading since 2022. This downturn is largely attributed to President Trump's extensive tariff implementations, including a 10% baseline tariff on all imports and significantly higher rates on goods from China, the EU, and other nations. These measures have disrupted global supply chains and dampened business investment. Inflation remains above the Federal Reserve's 2% target, with the Personal Consumption Expenditures price index rising by 3.6%. Despite this, the Fed is maintaining its benchmark interest rate between 4.25% and 4.5%, adopting a cautious *"wait and see"* approach in light of economic uncertainties. *"A period of stagnation now likely lies ahead if the current set of tariffs is maintained, with recession the most likely outcome if the additional reciprocal tariffs are imposed in full in July,"* Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients.

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Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

The January Barometer

Historically, the returns in January have signalled the returns for the rest of the year. If they are positive, the returns for the whole year tend to be positive and vice versa. First mentioned by Yale Hirsch in the Stock Trader's Almanac in 1972, a variant has it that returns for the whole year can be predicted by the direction of the market in just the first 5 days of the year. Judging by the first 5 days, 2025 is likely to be a positive year for the stock market.

May

May is 10th in the ranking of monthly performance, rising 51% of all the years in May, with an average return of -0.1%. In an average month, the market tends to trade fairly flat for the first two weeks, and then prices drift lower in the second half of the month.

Second Quarter

The FTSE 100 has risen 25 of the 44 years (61%) between 1984 and 2024, posting an average gain of 1.3%.

Sell in May and go away; don't come back till St Leger Day

Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

First-Year US Presidential Cycle

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Snake

Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *In Chinese astrology, the Snake symbolises wisdom, caution, and strategic thinking. These traits might culturally inspire investors to adopt a more analytical or conservative approach. Interestingly, this is the Wood Snake Year, which comes about every 60 years. Wood represents expansion, innovation, and flexibility. This could favour industries like tech, renewable energy, and AI, which thrive on evolution.*

Gibraltar Asset Management
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Investment Calendar:

6th May	FED Meeting. Fed expected to maintain current interest rates
8th May	BoE Meeting. Markets are anticipating a 0.25% cut
12th May	Full Moon (markets tend to reach a low point around this time)
13th May	US CPI
15th May	Eurozone GDP figures
16th May	Options Expiry Day
27th May	New Moon (markets tend to reach a high point around this time)

Technical Analysis:

Last month we noted *"with the RSI at 14 (a major oversold level), further economic agreements could see a strong rebound from today's depressed levels"*. In the event, the FTSE 100 rose 449 points (5.5%). But during the month, the FTSE was actually down a similar amount down, falling to 7,680. Panmure Liberum pointed out how the extreme drop implied an unrealistic three years of zero earnings in the UK market. The UK market was trading 20% below its long-term average PE ratio, indicating nominal returns of 10% a year for the next three, five and 10 years. A bounce was likely given such oversold levels and so it came to pass. The FTSE has now reclaimed its 200-day moving average, which is positive. However, the RSI is lying at an extreme overbought reading of 100%. We see resistance at 8,770 and a pullback to the 20-day moving average lying at 8,230 a likely possibility.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

red dashed line	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
red line	50 day moving average	(signifies the medium-term direction of the security)
thick red line	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
blue line		(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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