alpha beta partners

INVESTMENT UPDATE

JUNE 2025

FOR PROFESSIONAL INVESTORS ONLY

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With Donald Trump in the White House implementing erratic strategies and making intraday decisions that often contradict one another, competent portfolio managers have likely not worked this hard in years.

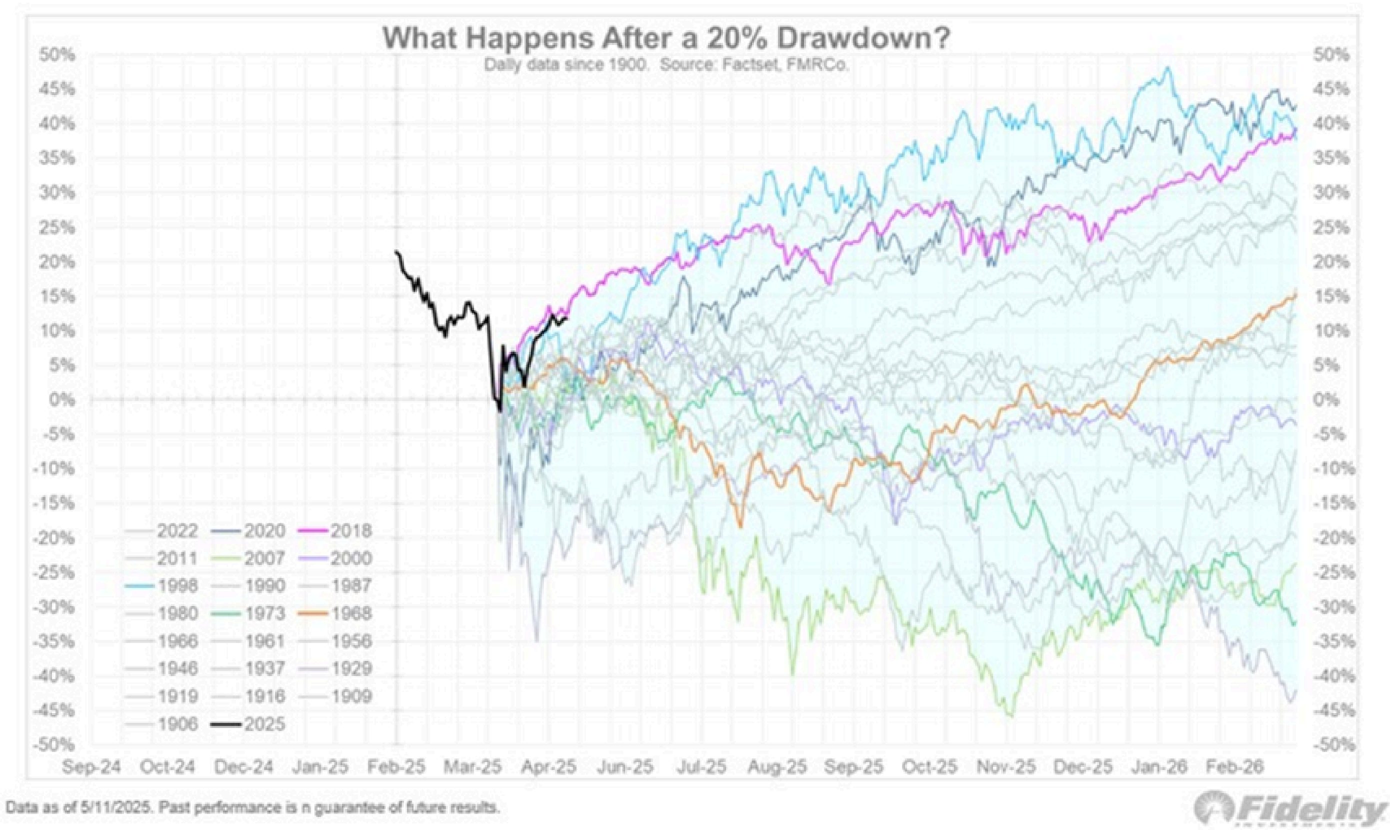
Results versus peers are encouraging. May brought several significant changes, which we outline in the following update.

After a 21.5% decline in stock prices, when all US-denominated assets seemed to be on sale (except gold), the market has taken the glass-half-full approach that a trade war will be prevented. President Trump announced a delay in implementing major tariffs—specifically a 50% tariff on EU imports—on May 26, pushing the effective date to July 9, 2025. This decision followed weeks of market volatility and political pressure, and it contributed to a late-month rally in U.S. equities as investors welcomed the temporary easing of trade tensions.

In May, U.S. equity markets posted strong gains despite ongoing political and economic uncertainty. The S&P 500 rose 9.6%, driven by robust earnings in technology and healthcare, while the Nasdaq advanced 10.2%, buoyed by semiconductor and quantum computing stocks. Key drivers included a surge in biotech and fintech shares, optimism around Ethereum-related ETFs, and a temporary easing of inflation concerns. However, volatility persisted due to legal challenges to President Trump's tariff policies and mixed signals from the Federal Reserve around the likelihood for interest rate cuts as slightly firmer inflation is expected to lie ahead.

Indeed, looking at all analogues since 1900, once the stock market has declined 20%, the current recovery is only bested by that pivot in late 2018, when Federal Reserve Chair, Jerome Powell acted to push markets higher from their low point (the Fed' put). In an era of fiscal dominance, the Fed put may have become obsolete, and it was fiscal moves around tariffs that led to a strong market bounce rather than any move from the central bank.

The chart shows a historic view of what happens after a 20% market fall.



Source: Fidelity, 11 May 2025

Led by America, longer dated bond yields around the world pushed notably higher, reaching 5% but trending higher still as implications for watered down tariffs and higher debt — in support of military spending — took their toll. At the month end, a New York court ruling has challenged President Trump's use of Executive Orders to impose tariffs, adding legal and policy uncertainty. The U.S. Supreme Court is expected to overturn the decision, but in the meantime, trade negotiations may be paused as other countries await clarity.

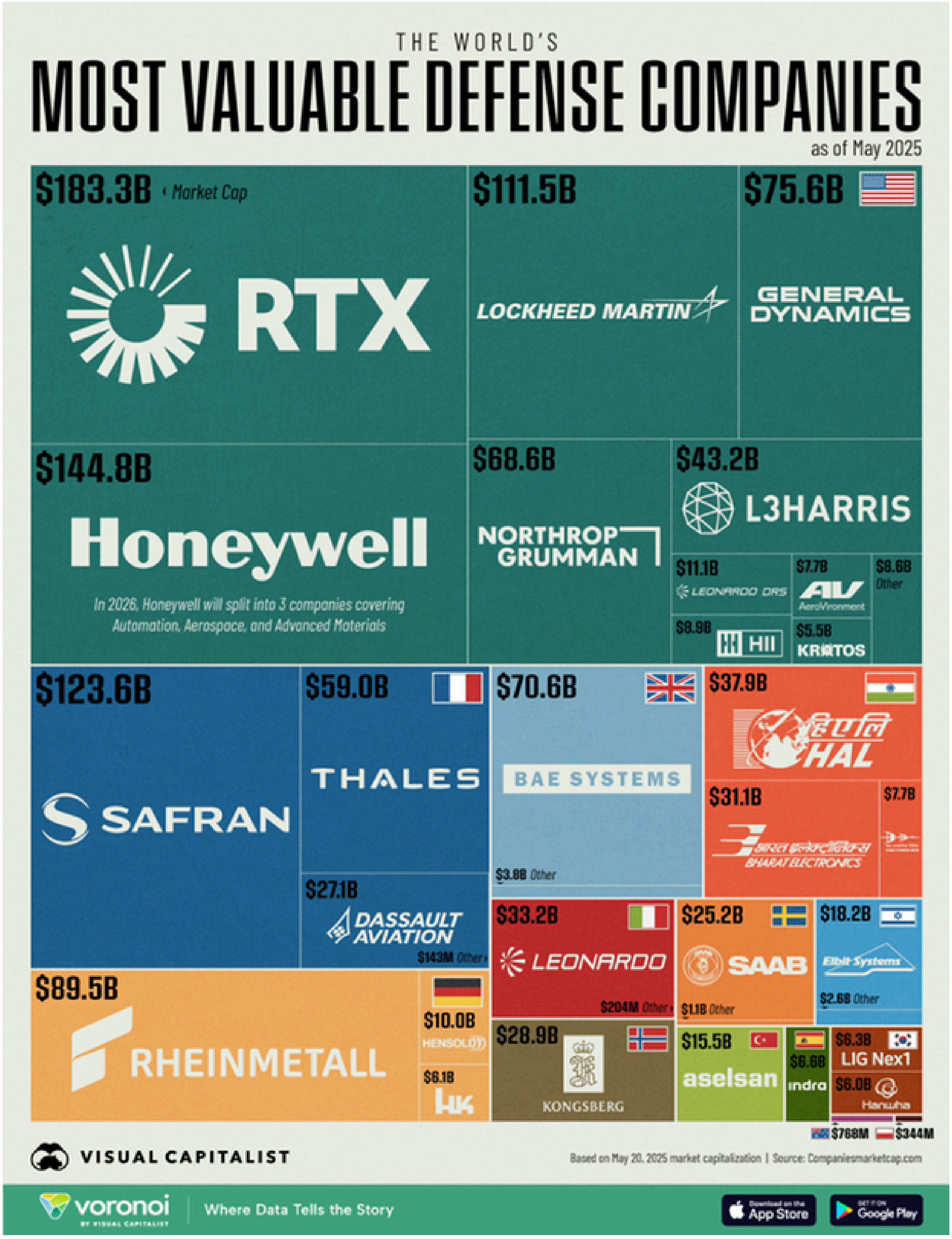
We witnessed an encouraging rebound in consumer confidence underpinned by retail customers who's "wealth effect" is most sensitive to equity and crypto currency prices – the latter reaching new highs during late May.

Forecasts for GDP growth also pushed higher based on the tariff suspension. As of the end of May, the U.S. dollar has fallen over 8% year-to-date, marking its steepest decline since 2008. This drop is reflected in the DXY Index, which tracks the dollar against a basket of major global currencies. President Trump wishes to see a "weaker, yet still mighty dollar" in a drive to support U.S. exporters.

Meanwhile, at home in the UK the government is considering loosening fiscal rules, despite saying at outset it would not. The UK continues to wallow in debt and so-called growth strategies are simply not coming to fruition after the corporate and personal taxation burden was hiked earlier this year. Most independent analysts project around 0.8% GDP growth for the year. It would be fair to conclude this is somewhat predictable.

Inflation pressures eased slightly, with CPI inflation trending down toward 2.3%, helped by stabilising energy prices and a stronger pound. The labour market remained tight, with unemployment holding steady at 4.2%, while wage growth continued to outpace inflation. Public sector pay settlements continue to add pressure. On the markets front, the FTSE 100 rose approximately 3.4% during the month, buoyed by gains in energy and financial stocks.

The European economy continued its slow but steady recovery, with the European Commission projecting 0.9% GDP growth for the euro area and 1.1% for the broader EU in 2025. Inflation showed signs of easing, expected to decline to 2.1% in the Eurozone, supported by stabilising energy prices and resilient consumer demand. Labour markets remained strong, with job creation continuing across member states. However, uncertainty from global trade tensions—particularly U.S. tariffs—kept investor sentiment cautious. Despite this, European equity markets held firm, with the Euro Stoxx 50 gaining around 2.8% in May, led by industrials and consumer discretionary sectors. Higher debt levels remain a focus whilst defence manufacturers are seemingly in a sweet spot for now.



Source: Marcus Lu, 29 May 2025

Japan's economy faced mounting challenges amid global trade tensions and domestic financial strain. The economy contracted by 0.2% in Q1, and forecasts for the full year were revised down to 0.7% GDP growth, largely due to the negative impact of U.S. tariffs—particularly on automobile exports. Inflation rose to 3.5%, surpassing the Bank of Japan’s target, while real wages declined and consumer spending stagnated. Investor confidence was shaken as long-term bond yields surged, with the 40-year yield hitting 3.135%, prompting over $60 billion in paper losses for insurers. Despite these headwinds, the Nikkei 225 managed a modest gain of around 1.2% in May, supported by defensive sectors and a weaker yen boosting exporter earnings. Our decision to reduce our allocation to Japan has been vindicated.

China and broader emerging markets experienced mixed economic and market developments. China saw a modest rebound in equity valuations, supported by monetary easing from the People’s Bank of China and fiscal stimulus measures aimed at stabilising the struggling and debt burdened property sector. However, structural issues—such as excess housing supply and weak consumer confidence—continued to weigh on growth. A temporary 90-day trade truce with the U.S., announced mid-May, helped ease tensions and supported market sentiment, with both countries reducing tariffs significantly. China continues to enjoy success with her export drive of BEVs and other green technology throughout the Global South.

Our strategy for navigating trade-related and broader economic uncertainty has proven effective at the portfolio level, particularly when compared to peers. A combination of elevated cash holdings, a slightly reduced allocation to U.S. equities, and a 50% currency hedge has contributed positively. Our fixed income positioning—focused on high-quality assets with notably short duration—has also delivered strong relative performance.

We believe President Trump's tariff policy will ultimately concentrate on China, potentially allowing for a rollback of harsher fiscal measures against other nations. While the future remains uncertain, as we approach the mid-year mark, we are pleased with our results and intend to maintain our current approach until greater clarity emerges.

As ever, we welcome questions and feedback.

Written by the Alpha Beta Partners Investment Team.

All sources Bloomberg unless stated.

CONTACT

Andrew Thompson

Tel: 020 8152 5117

Email: at@alphabetapartners.co.uk

Address: Northgate House, Upper Borough Walls, Bath, BA1 1RG.

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