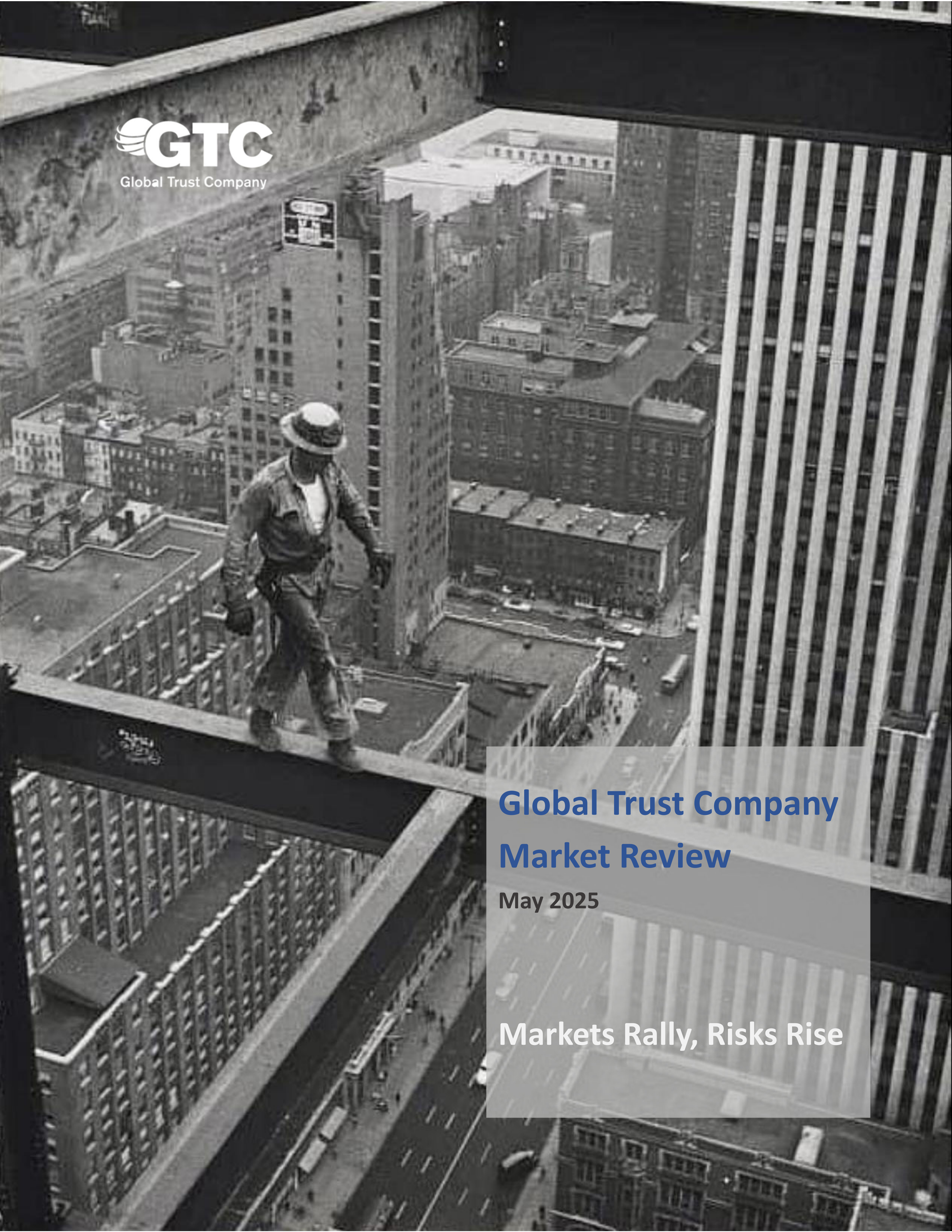

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Global Trust Company Market Review

May 2025

Markets Rally, Risks Rise

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Financial markets rebounded following the apparent de-escalation of President Trump's trade war. The S&P 500 surged 6.3% on the back of strong earnings and improving sentiment, while equity valuations returned to early-year levels. Yet, optimism appears headline-driven, with risks looming from unresolved trade policies, tax legislation, and the approaching debt ceiling. In fixed income, Treasury yields rose sharply—most notably the 10-year, now at 4.4%—fueling volatility and prompting a shift toward corporate and structured credit, which outperformed. Commodities lagged, with gold declining and oil showing modest recovery.

Tariff Update: Although agreements with China and the U.K. have eased tensions, the newly imposed 10% universal tariffs remain in place and are only beginning to affect the real economy. In just eight weeks, Customs and Border Protection has collected nearly $40 billion in tariff revenue—more than double last year's pace—suggesting a projected annual total of $200–250 billion. While a recent court ruling struck down some tariffs imposed under the International Emergency Economic Powers Act (IEEPA), this is unlikely to derail the administration's trade agenda. Trump can still rely on other legal authorities, such as Sections 122, 232, and 301, which have been widely used by past presidents. Although these statutes impose certain procedural constraints, they are expected to allow the administration to maintain average tariff levels near 10–12%. The economic impact of the tariffs is only beginning to materialize. Over the coming months, rising import costs are likely to pressure consumer prices and corporate margins. In short, the trade war may have cooled on the surface, but its economic consequences are just starting to emerge.

Equities: Global equity markets rallied in May, led by a 6.3% gain in the S&P 500, which marked a sharp rebound and brought the index's year-to-date return to 1.1%. The rally was broad-based, with technology leading but cyclical sectors like industrials and consumer discretionary also posting strong gains. Investor sentiment was buoyed by a solid Q1 earnings season, where S&P 500 earnings grew 12.4% year-over-year, and a majority of companies beat both earnings and revenue expectations. International equities also performed well, supported by progress in US–EU trade discussions and improving earnings outlooks.

Equity valuations have returned to levels seen at the start of the year, suggesting markets are back to fair value. However, much of the recent market optimism appears driven more by headlines than meaningful policy progress. As the end of the 90-day tariff pause approaches in mid-June, markets could face renewed volatility and drift lower without clear developments. Adding to the uncertainty are upcoming tax bill negotiations, a looming debt ceiling deadline between August and October, and the kickoff of second-quarter earnings in July—all of which point to a potentially volatile and eventful summer for markets.

S&P 500 Valuation Measures

	Latest	30-year avg.
Forward P/E	21.26x	16.97x
Shiller's P/E	36.20x	28.26x
Dividend Yield	1.64%	2.05%
Price to Book (P/B)	4.40x	3.22x
Price to Cash Flow (P/CF)	16.39x	11.36x

Source: J.P. Morgan Asset Management

Fixed Income: In May, U.S. Treasury yields rose sharply amid investor concern over the Trump administration's advancing "One, Big, Beautiful Bill Act," which stoked fears about increased government credit risk. This sentiment was underscored by Moody's downgrade of the U.S. credit rating to Aa1, aligning it with S&P and Fitch, though demand for Treasuries remained resilient. Across the curve, the 2-, 10-, and 30-year yields climbed by 29, 24, and 25 basis points, respectively. Despite this, corporate credit strongly outperformed Treasuries, with significant spread compression across sectors, particularly in industrials, utilities, and financials. Risk-on sentiment also bolstered structured credit markets. CMBS outpaced Treasuries, led by gains in both non-agency and agency tranches. ABS also performed well, driven by robust demand and oversubscribed new issuance. Meanwhile, Agency RMBS modestly outperformed Treasuries, with shorter-duration 15-year paper favored over 30-year bonds amid rising rates.

The 10-year Treasury yield, hovering around the 4.5% mark, remains a key indicator of market risk in the near term. While investors appear more accepting of higher yields, the recent breach of this threshold recalls the sharp move to 5% in 2023 following the debt ceiling suspension. Strong market gains in 2024 may have dulled investor sensitivity to such risks, but it is the speed of the yield's rise—more than the level itself—that could have the greatest impact going forward.

U.S. Treasury Yield Changes

	YTM	Change from Previous Month
3 Month	4.33%	+0.05%
1 Year	4.10%	+0.25%
2 Year	3.90%	+0.29%
3 Year	3.86%	+0.27%
5 Year	3.96%	+0.24%
10 Year	4.40%	+0.24%
30 Year	4.93%	+0.25%

Source: Bloomberg

Real Assets: Commodities posted the weakest performance in May, with the Bloomberg Commodities Index declining 0.6%. Gold fell 0.8% as investor appetite for risk dampened demand for safe-haven assets. In contrast, industrial metals and energy rose, supported by a modest rebound in oil prices, which recovered to nearly $63 per barrel after dipping mid-month. However, uncertainty persists as markets await confirmation of potential supply increases from OPEC+1. U.S commercial property prices increased 0.6% in March and is up 4.1% over the past twelve months according to the Green Street Commercial Property Price Index. REITs trailed the broader stock market for the month but continue to be one of the year's top performers. Telecommunications leads on a year-to-date basis, followed by health care, and diversified.

Diversifying Strategies: Hedge funds delivered strong gains in May, driven by the global equity market rebound and improving economic outlooks. Event Driven and Equity Hedge strategies led performance, with the HFRI Event-Driven Index posting its best monthly return since December 2023, fueled by strong gains in Special Situations and Activist strategies. Equity Hedge funds also performed well, led by Technology, Fundamental Growth, and Fundamental Value strategies. Fixed income-sensitive Relative Value strategies posted modest gains, with the HFRI Relative Value Index supported by corporate bond and multi-strategy approaches. In contrast, Macro strategies declined for the second consecutive month due to losses in systematic trend-following strategies.

Despite headwinds, M&A activity remained robust in the first quarter of 2025, with completed and pending deals totaling around $450 billion—the strongest quarter since early 2022. Second-quarter deal flow is also on pace to match this momentum. Much of the strength appears to reflect pent-up demand, particularly from private equity firms that have lagged in exiting investments. As investors adapt to the current policy and rate environment and gain more confidence in regulatory stability, another pickup in M&A activity is likely, potentially accelerating again by the fourth quarter.

Exhibit 1: Asset Class Returns (2016 – YTD 2025)

2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
High Yield 17.1%	Intl Equity 27.2%	IG Bonds 0.0%	US Equity 31.5%	US Equity 18.4%	US Equity 28.7%	Cmdty 16.1%	US Equity 26.3%	US Equity 25.0%	Intl Equity 14.0%
US Equity 12.0%	US Equity 21.8%	High Yield -2.1%	REITs 23.1%	60/40 14.0%	REITs 27.2%	Diversifying -1.7%	60/40 18.0%	60/40 15.5%	REITs 5.6%
Cmdty 11.8%	60/40 14.5%	60/40 -2.6%	60/40 22.4%	Intl Equity 10.7%	Cmdty 27.1%	High Yield -11.2%	Intl Equity 15.6%	Diversifying 9.8%	Cmdty 3.1%
60/40 8.3%	REITs 11.4%	US Equity -4.4%	Intl Equity 21.5%	Diversifying 8.4%	60/40 16.6%	IG Bonds -13.0%	High Yield 13.5%	High Yield 8.2%	High Yield 2.7%
REITs 5.0%	Diversifying 7.5%	Diversifying -4.7%	High Yield 14.3%	IG Bonds 7.5%	Diversifying 9.8%	Intl Equity -16.0%	REITs 10.9%	Intl Equity 5.5%	IG Bonds 2.5%
Diversifying 4.8%	High Yield 7.5%	REITs -4.7%%	Diversifying 8.9%	High Yield 7.1%	Intl Equity 7.8%	60/40 -16.1%	Diversifying 7.4%	Cmdty 5.4%	60/40 1.7%
Intl Equity 4.5%	IG Bonds 3.5%	Cmdty -11.3%	IG Bonds 8.7%	Cmdty -3.1%	High Yield 5.3%	US Equity -18.1%	IG Bonds 5.5%	REITs 2.0%	Diversifying 1.4%
IG Bonds 2.7%	Cmdty 1.7%	Intl Equity -14.2%	Cmdty 7.7%	REITs -8.2%	IG Bonds -1.5%	REITs -24.4%	Cmdty -7.9%	IG Bonds 1.3%	US Equity 1.1%

Source: IG Bonds = Bloomberg US Aggregate; US Equity = S&P500; Intl Equity = MSCI ACWI xUS; High Yield = Bloomberg US Corporate High Yield; REITs = FTSE EPRA/NAREIT Developed; Cmdty = Bloomberg Commodity; Diversifying = HFN Hedge Fund Aggregate; 60/40 = 60%S&P500/40%Bloomberg US Aggregate

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