verso
Investment Management

Window on the World

JUNE 2025

To use Donald Trump's jargon, US equities had a great May – they rallied strongly and were ahead of other major equity markets. Investors were digesting and getting used to the US President's apparent backtracking on tariffs, which was taken as good news.

While developments on the tariff front continued to generate most of the headlines, there were also some notable moves in bond yields worthy of attention and potentially of more importance. Additionally, US company earnings showed a considerable difference between the financial performance of technology companies relative to non-tech. And finally, the big day 9 July, the self-imposed deadline the President has put in place to secure trade deals with other countries, is fast approaching. So, like all investors, we'll be looking for early signs of progress or setbacks in deals as we move through June.

Capital Market Returns May 2025

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	3.8	1.0	10.6	9.4
US Equities	6.3	-0.4	14.4	1.1
European Equities	5.4	0.3	11.2	12.3
Japanese Equities	5.0	5.7	5.3	1.8
Emerging Market Equities	4.3	6.4	12.6	8.9
UK Gilts	-1.4	-0.7	1.6	0.9
UK Corporate Bonds	-0.2	-0.1	4.9	1.5
UK High Yield Bolds	0.8	0.8	10.5	3.4
US Corporate Bonds	-0.1	-0.2	6.1	2.4
US High Yield Bonds	1.7	0.6	9.5	2.6

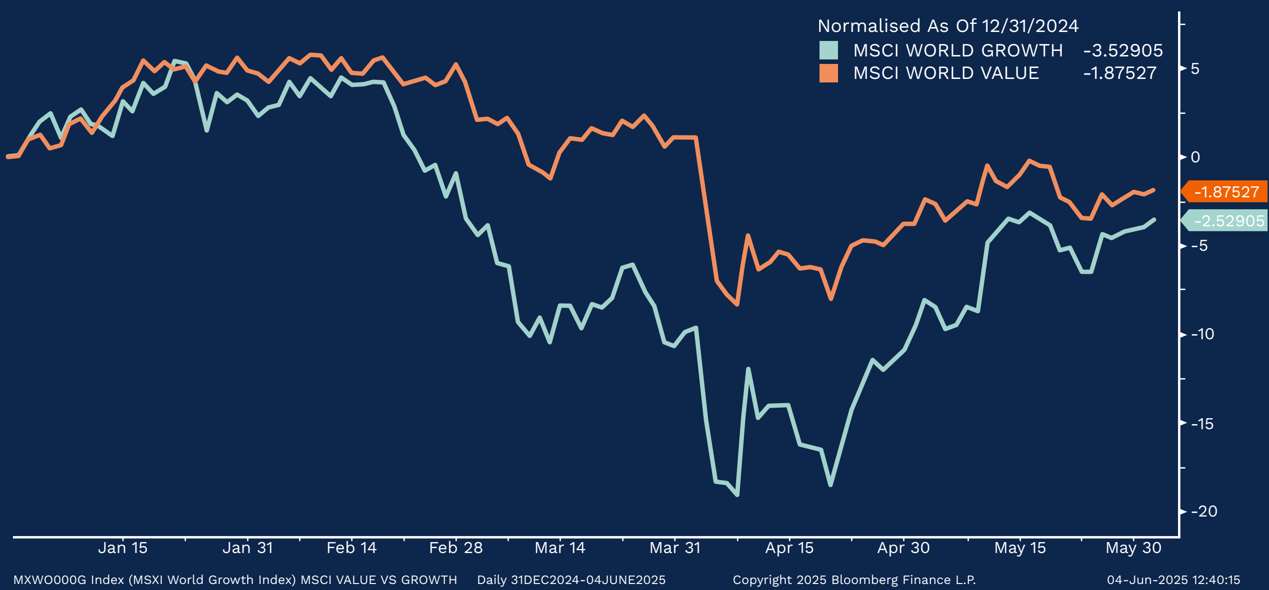
Source: Bloomberg, Verso Investment Management, as of end May 2025

Equity markets started their recovery from the “tariff selloff” in the second half of April, and this continued in earnest in the month of May, helped by an easing of trade tensions as President Trump announced temporary delays to tariff hikes. US equities led the way, thanks to a rebound in the technology stocks – and in local currency terms, US equities are now in positive territory for 2025, but still some way behind other major markets. This recovery was supported by a strong first-quarter earnings season, with most US companies surprising on the upside compared with consensus expectations. There was a particularly strong rebound in the Magnificent Seven technology stocks, with earnings growth significantly stronger than the broader market, continuing a trend that has been in place for some while now.

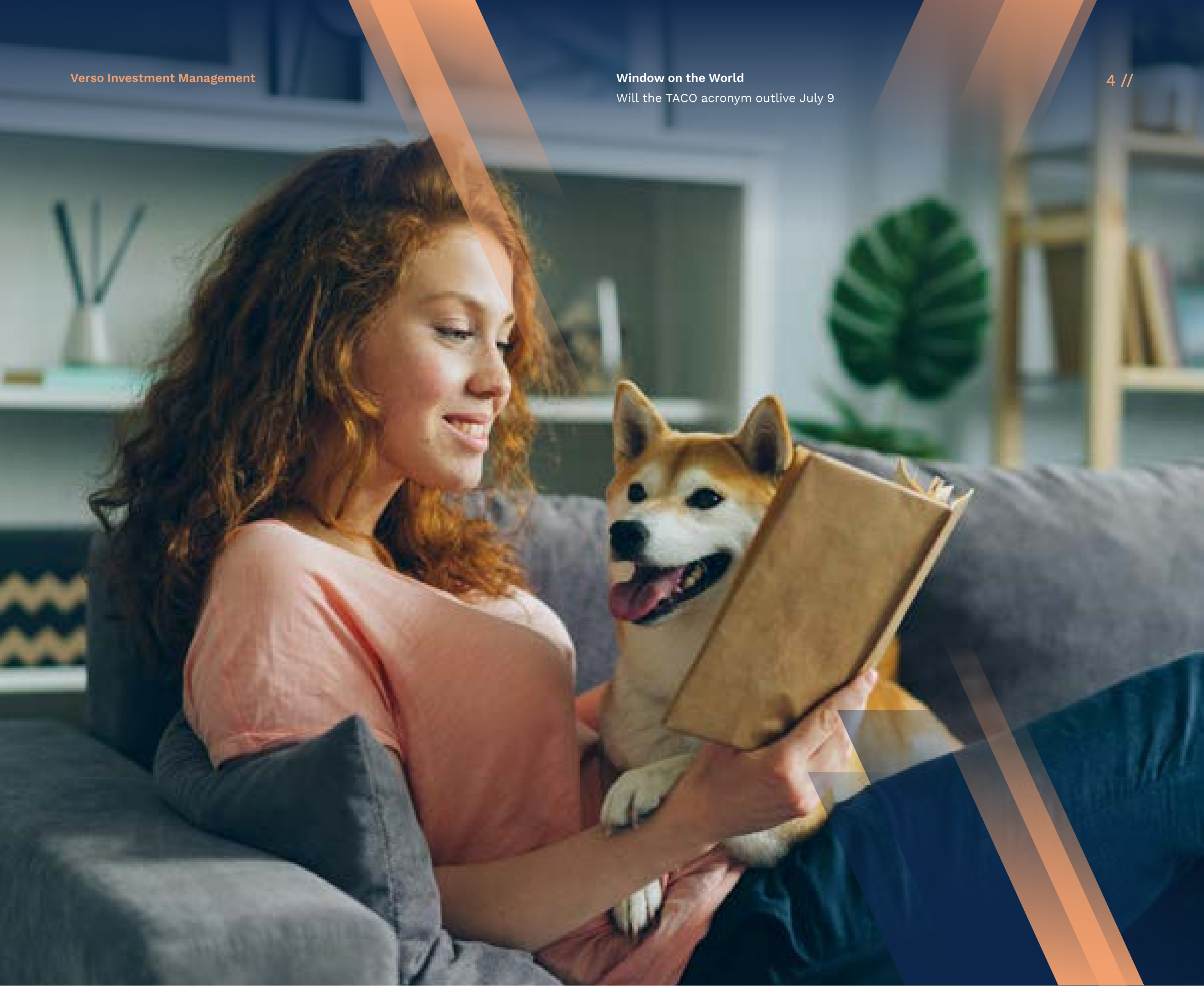
Outside of the US, there was a strong performance from European and Japanese equity markets, with the latter apparently making good progress on agreeing a trade deal with the US. In the case of Europe, President Trump’s decision to hike tariffs on European imports was quickly reversed and so did little to derail a rebound in European stocks, which have continued to perform well as sentiment improves on the longer-term growth potential for the region. UK equities rose but lagged their developed market peers – healthcare stocks, in particular, were weak due to concerns over drug pricing reforms in the US. Nevertheless, UK equity returns remain strong year-to-date.

May was a mixed month for fixed income markets. Moody’s, the credit rating agency, downgraded the US’s sovereign credit rating, which put downward pressure on longer-dated government bonds (more below), while credit markets continued to rebound from mid-April, with yield spreads relative to government bonds tightening as investor confidence about the reduced likelihood of a US recession grew.

Within equity markets, value as an investment style has continued to outperform growth this year, but the gap has narrowed as fears over a recession have diminished



Source: Bloomberg, Verso Investment Management, as of 4 June 2025



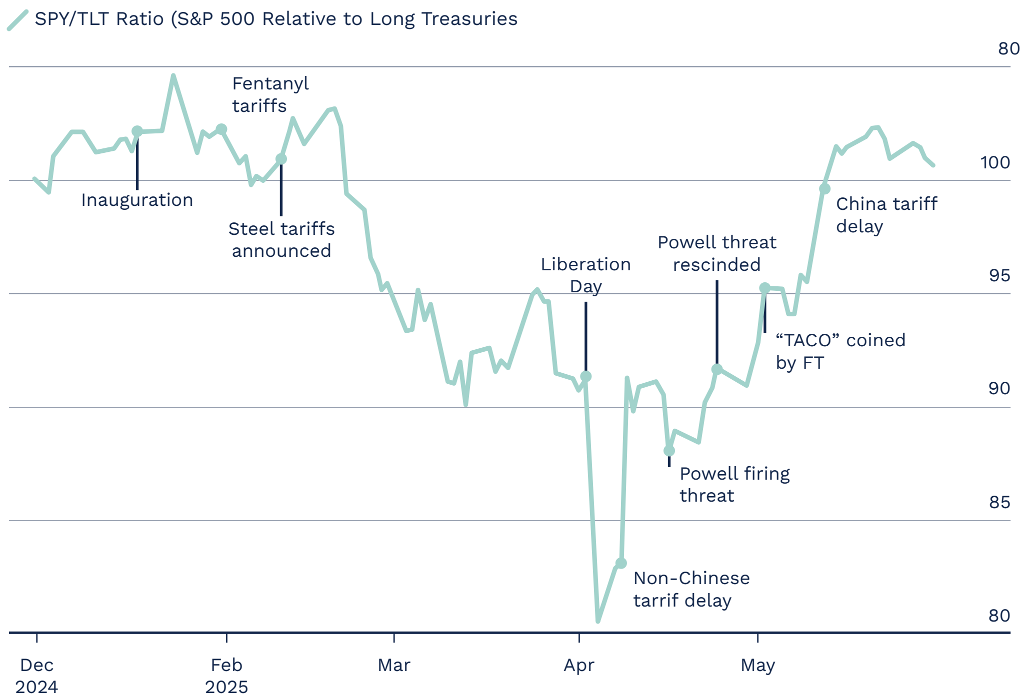
Will the TACO acronym outlive July 9

Investment markets love acronyms – think no further than BRICS (used to describe the five major emerging economies of Brazil, Russia, India, China and South Africa) and the FAANGs (Facebook, Apple, Amazon, Netflix and Google).

We now have a new one to add to the mix – TACO – Trump Always Chickens Out. This has been coined in the past month, based on the idea that as the market dips on the announcement of President Trump's extreme policies – primarily tariffs – it presents an opportunity to buy equities on the assumption he will ultimately back off. That has proved to be the case to date, with delays often announced very soon after tariffs have been introduced (one estimate suggests the administration has announced new or revised tariff policies more than 50 times since taking office). There is, of course, a clear risk that President Trump doesn't back down at some point, which is why 9 July is the key day when, allegedly, the time for negotiating trade deals comes to an end.

Within equity markets, value as an investment style has continued to outperform growth this year, but the gap has narrowed as fears over a recession have diminished

FIVE MONTHS IN TACO TERRITORY
IN MARKETS, 2025 IS THE STORY OF THREATS MADE AND THEN RESCINDED



Source: Bloomberg, Verso Investment Management, as of 4 June 2025. Graph shows the performance of US equities relative to long-dated US Government Bonds since the end of December 2024

With 9 July as the US administration's self-imposed deadline to have agreed trade deals with its trading partners, the theory runs that if deals have not been struck, then the original high tariff rates outlined in April come back into force. Some limited deals have been agreed so far – the UK being a prime example – but in the coming weeks (particularly around a G7 Summit and a NATO summit in mid and late June) investors will be looking for signs of further deals, and if not forthcoming, whether TACO comes back into play. In all likelihood, President Trump will want to announce that deals have been secured, but this cannot be guaranteed. While investors have become more attuned to this potential, the uncertainty it generates continues to weigh on economic survey data, albeit to a lesser extent than in April.

Are US fiscal concerns weighing on bond yields?

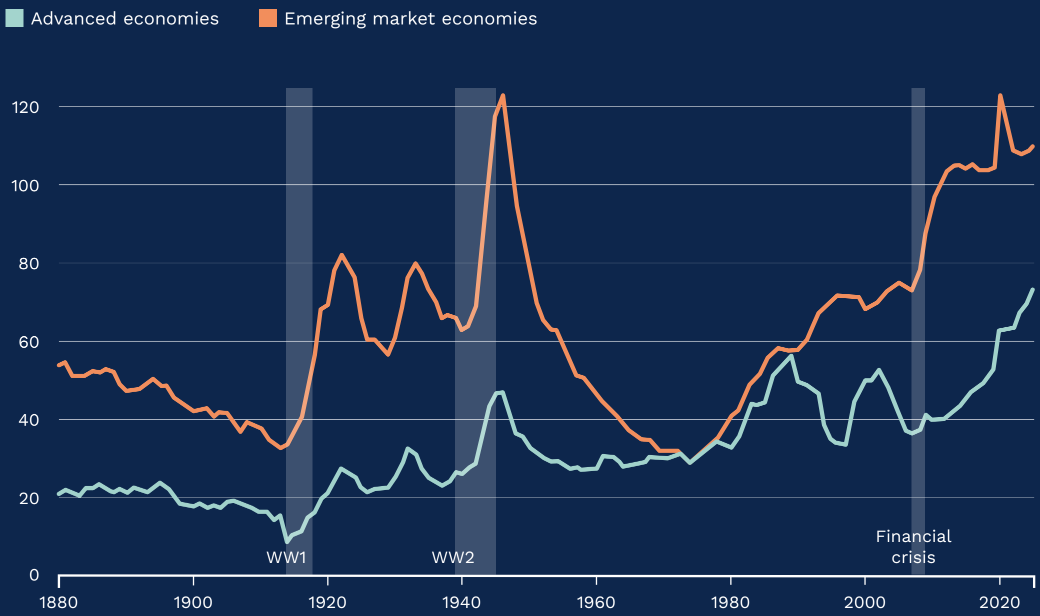
Beyond the noise around tariffs, another factor has been in play in fixed income markets, which has direct links with President Trump's trade and fiscal policies. Over the past six months, but particularly evident in the past four weeks, longer-dated government bond yields (those with maturities of 30 years or more) have been rising. This has not just been a US story, there has also been upward pressure on long-dated UK and Japanese government bond yields. A common feature of all three is their weak fiscal positions, and/or large levels of outstanding government debt.

In the US, focus has increasingly been on the US fiscal position and efforts to reduce government spending. Elon Musk, who was brought in to head up the Department of Government Efficiency (to use another acronym, "DOGE"), said he was going to generate $2 trillion of savings from the government but has since left the role, and is estimated to have only achieved $175 billion in savings. Meanwhile, the US administration has been seeking to pass the One Big Beautiful Bill Act (it has passed through the House and is with the Senate for approval). This tax bill will make permanent tax provisions from Trump's first term, along with other tax breaks, part funded by slashing Medicaid provisions (US healthcare scheme for the poor) and clean energy tax credits. For bond investors the key thing is whether they will get paid and by some calculations it's estimated it will add a further $3.3 trillion to US debt over the next decade, taking US debt levels above the highs reached after the second world war, which is not a comfortable or sustainable position to be in.

This has been cited as a key reason for the upward pressure on longer-dated Treasury yields and clearly warrants watching. That said, with yields at 5% on the US 30-year government bond, this simply takes us back to levels that they were trading at before the global financial crisis, so arguably normalising, and so nothing more than market noise. Nevertheless, with debt levels high, and a wide fiscal deficit, we will be watching developments, which leads us to retain our shorter-duration focus within the fixed income asset class.

Government Debt in advanced economies, as a percentage of GDP, remains close to historical highs, and is forecast to rise further in the US over the next decade

\ GENERAL GOVERNMENT DEBT AS A % OF GDP



Source: IMF 1880-2020: based on sample of 25 advanced & 27 emerging economies weighted by GDP at purchasing power parity. Updated since 2020 using IMF WEO

Outside of fixed income, and within equities we continue to favour non-US equities over US equities, where valuations remain more attractive. As such, our positioning remains unchanged on the month, with a preference for UK and emerging markets. And with the outlook for US trade policy still unclear as we head into July, we retain overall a neutral stance towards equities.

Rory Smith
Chief Investment Officer

verso
Investment Management

versoim.com / info@versoim.com / 020 7380 3300