LEATON WEALTH

MARKET COMMENTARY

14 June 2025

RESILIENCE AND ROTATION IN GLOBAL ASSETS

Markets ended May on a mixed note. Encouraging US inflation data opened up possibilities for Fed rate cuts, while trade tensions remained fluid following conflicting court rulings on whether Trump had ultimate authority on all tariff decisions.

The generally positive equity market performance during the month stood in stark contrast to the huge sell-offs and subsequent rebounds in April. US equities posted their strongest month since late 2023, with the S&P 500 rising more than 6% in May, and ending the month within 4% of February's record high. European stocks did even better, emerging as the year's clear winners, with eight of the world's 10 best-performing markets in Europe. In local currency terms, the Euro Stoxx 50 Index has provided returns of over 10% for the year to date, rising 4% in May alone. In dollar terms, the performance of European equities has been even better, with the pan-European Stoxx 600 outperforming the S&P 500 by a record 18 percentage points.

EQUITIES HAD A GENERALLY POSITIVE MONTH, IN CONTRAST TO THE HUGE SELL-OFFS IN APRIL.

FIXED INCOME MARKETS FACED SIGNIFICANT HEADWINDS. GOLD DECLINED FOR THE MONTH AFTER GAINS OF 23% YEAR-TO-DATE. OIL REMAINS SUBDUED.

Meanwhile, the FTSE All-Share Index ended the month 4% ahead and is over 8% higher year to date. Asian stock markets had a positive month. Japan's Nikkei Index rose 5% in May but is 3% lower year to date, and China's CSI 300 edged up 2% but is 5% lower year to date.

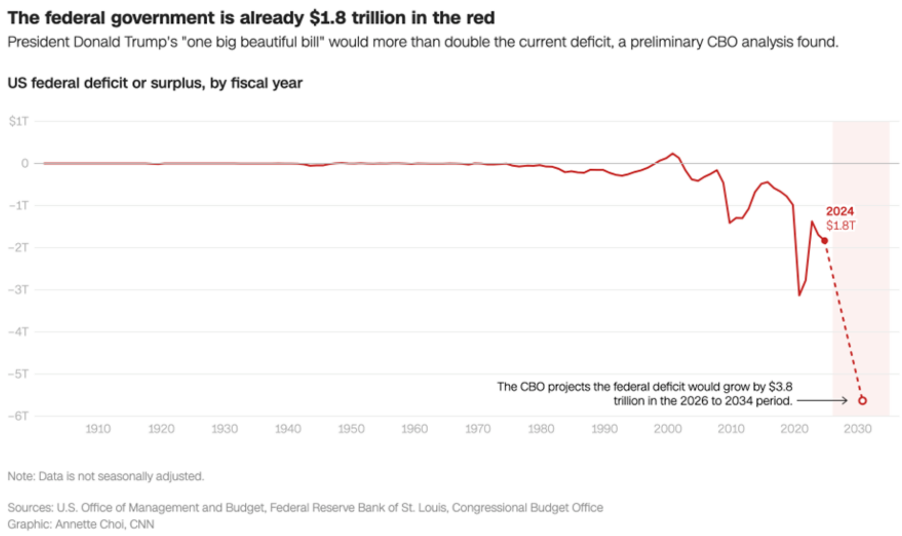
Fixed income markets faced significant headwinds in May. Trump's multitrillion-dollar fiscal package saw the benchmark 10-year Treasury yield climb nearly 25 basis points to 4.42%. Moody's Ratings' concerns about the sustainability of the US government debt saw the rating agency downgrade its US AAA sovereign debt rating. Weak demand for US Treasuries at the 21 May auction also led to further bond price declines. European bonds fared better, with Germany's 10-year yield stable at 2.50%.

Gold prices experienced a gradual decline through May, ending at $3,294.76 an ounce, down 0.7% for the month. Year-to-date gains of nearly 23% have been driven by trade uncertainty, but prices may ease if Trump continues to walk back his aggressive Liberation Day tariffs.

Oil markets have not benefited from Trump's pro-oil stance as anticipated due to tariff uncertainty and its impact on global demand.

The Brent crude oil price ended the month at $63 a barrel, 2% ahead for the month, but well below January's $80 a barrel. The market's anticipated OPEC+ decisions on production cuts came through on June 1. The organisation agreed to a further sharp increase in oil output for July.

TRUMP FISCAL POLICY CAUSES MARKET FALLOUT



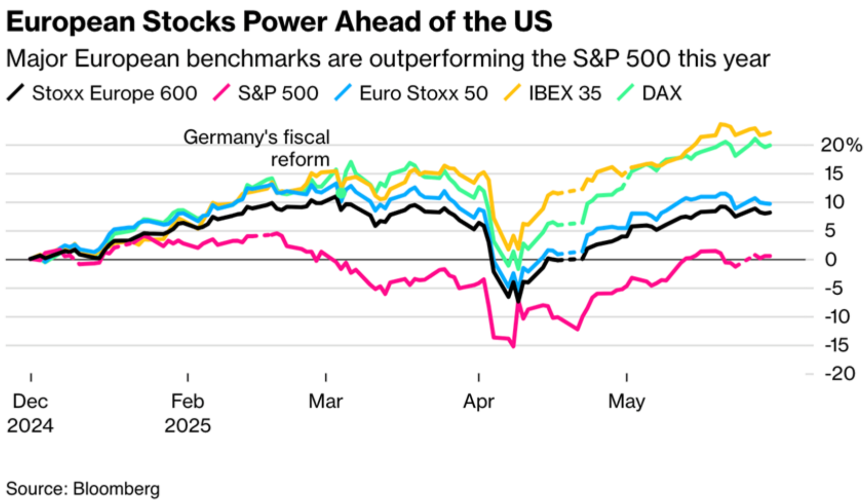
PRESIDENT TRUMP'S "ONE BIG BEAUTIFUL BILL ACT" PROPOSES A MASSIVE DEFICIT EXPANSION THAT COULD OVERWHELM INVESTOR APPETITE FOR US DEBT.

The passage of Trump's "One Big Beautiful Bill Act" has profound implications for both long-dated treasuries and equity valuations. The legislation's estimated $3.8 to $4.6 trillion cost over the next decade would more than double the current deficit, according to the Congressional Budget Office (CBO), and threatens significant market headwinds.

Long-dated treasuries surpassed 5% during the month, indicating the bill's massive deficit expansion could overwhelm investor appetite for US debt. The CBO projects $3.8 trillion in borrowing will raise a US debt-to-GDP ratio already exceeding 120%, nearly doubled since the Great Recession. Likely market consequences of this deteriorating fiscal picture, including higher US bond yields, a weaker dollar and equity markets, raise fundamental questions about US creditworthiness. Moody's recent downgrade of the US credit rating, held since 1917, highlights growing concerns about fiscal sustainability. For the first time in history, interest payments on the national debt exceed defence spending, having tripled since 2017, according to the US Government Accountability Office.

Equity markets face conflicting pressures from the legislation. While corporate tax cuts of 21% provide earnings support, the Penn Wharton Budget Model estimates the bill would add only 0.5% to GDP over 10 years, hardly justifying the huge fiscal burden the bill imposes on the US economy. Higher treasury yields make government bonds more attractive relative to stocks. With yields likely to remain elevated due to increased supply and credit concerns, equity valuations are thus likely to face sustained pressure.

EUROPEAN SMALL-CAP MARKETS STARTING TO ATTRACT INTEREST



EUROPEAN MARKETS ARE EXPERIENCING THEIR STRONGEST RELATIVE PERFORMANCE SINCE 2000, DRIVEN BY ATTRACTIVE VALUATIONS AND A SHIFT IN INVESTOR SENTIMENT AWAY FROM THE US.

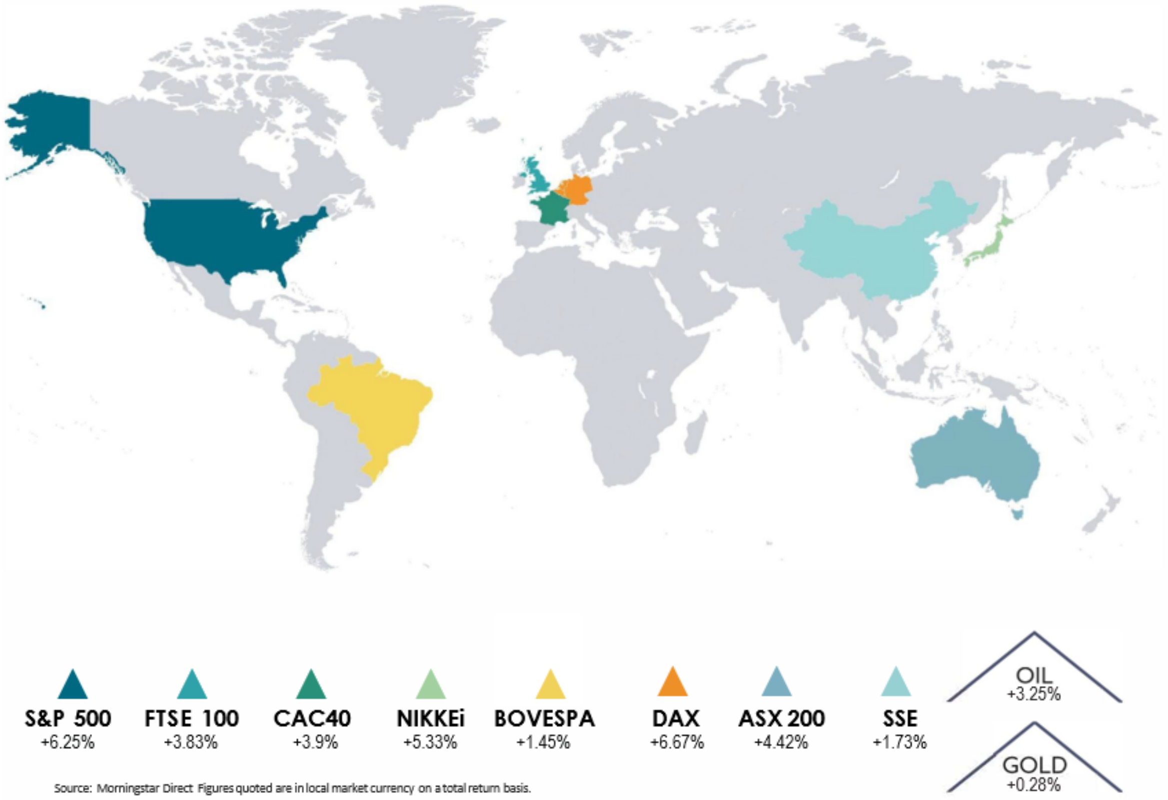
European markets are experiencing their strongest relative performance since 2000, driven by attractive valuations and a shift in investor sentiment away from the US.

The transformation is underpinned by improving fundamentals. Companies in the Stoxx Europe 600 index are expected to report 2.3% first-quarter earnings growth, beating expectations. More significantly, some analysts now expect Europe's annualised profit growth to outpace the US for the first time in over a decade, supported by expansionary policies, infrastructure spending, and renewed industrial focus.

The most compelling opportunity lies in European small and mid-cap stocks, which offer their largest price-to-earnings discount to large caps in over 20 years. These companies provide exposure to structural growth trends in industrials, electrification, and decarbonisation while remaining less vulnerable to dollar exposure.

Small-cap markets are particularly sensitive to flow dynamics given their limited liquidity. With global investors increasingly recognising European value, even modest increases in capital allocation could generate a significant price impact across smaller capitalisation stocks.

GLOBAL MARKET RETURNS - MAY 2025



Source: Morningstar Direct Figures quoted are in local market currency on a total return basis.

LEATON WEALTH

IMPORTANT INFORMATION