

Marktupdate

May 2025

May 2025: a stock market recovery continues

After the turbulent month of April, calm returned to financial markets in May, resulting generally in significantly higher prices on global stock exchanges. Little happened in the bond and currency markets, at least at first sight.

Stock markets had a difficult month in April, with sharp price falls, especially in the first half of the month. These followed US President Trump's announcement of trade tariffs on 2 April, 'Liberation Day'. As Trump hinted in April that things might not be as bad as they first appeared, a partial recovery in equity markets began. This recovery continued in May. Most equity markets returned around 5% in May, ranging from 4.4% for the MSCI Emerging Markets index to 6.5% for the MSCI North America index.

Listed real estate was the worst-performing share class in May, returning 'only' 2.8%. It was still the best performer in April, and therefore also over the second quarter so far. We should not fail to mention that almost all stock exchanges are now higher than they were at the beginning of April. As a result, the losses resulting from 'Liberation Day' have now been more than recouped. Since the beginning of the year, large differences in returns between Europe and the US have been striking, with a year-to-date return of 10% for the MSCI Europe index and -7% for the MSCI North America index.



This difference is at least partly due to the sharp fall in the value of the dollar, which has fallen by 9% against the euro since the beginning of the year.

On the bond markets, it is notable that price gains in May were limited, at least in Europe, with monthly returns of 0.1% for European government bonds and 0.5% for European corporate bonds. Relatively risky high-yield corporate bonds continued to show the biggest price movement, with a positive monthly return of 1.4%. There was more movement in bond markets outside Europe, with clearly higher yields (and thus negative returns) on government bonds from, for example, the US, UK and Japan. Among other things, the US downgrade by rating agency Moody's, with the US losing its coveted AAA status, and the adoption of the One Big Beautiful Bill Act by the US House of Representatives created uncertainty among investors about the sustainability of US sovereign debt.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	May	Q2	2025	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	0.1%	2.1%	0.7%	4.9%
Bloomberg Barclays Euro Bedrijfsobligaties	0.5%	1.5%	1.5%	6.5%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	1.4%	1.7%	2.3%	8.0%
FTSE/EPRA Europe Onroerend Goed	2.8%	8.2%	6.2%	0.8%
MSCI Europe Aandelen	4.7%	3.8%	10.0%	8.4%
MSCI North America Aandelen	6.5%	1.1%	-7.0%	8.9%
MSCI Asia Pacific Aandelen	4.9%	2.6%	-0.4%	8.0%
MSCI World Developed Markets Aandelen	5.8%	1.5%	-4.4%	7.2%
MSCI Emerging Markets Aandelen	4.4%	0.7%	-0.2%	8.1%
EUR/USD	-0.1%	4.9%	9.0%	4.6%

Source: Bloomberg

US economic outlook deteriorates rapidly...

At the beginning of the year, economists were fairly positive about the outlook for the US economy. The forecast for growth in 2025 was then 2.3%, with 2% expected in 2026. This has recently changed rapidly, especially in the past two months. The US economy is now expected to grow by only about 1.5% in both 2025 and 2026. At the same time, the estimated possibility of recession for the US (according to the consensus of economists surveyed by Bloomberg) has risen from 20% at the beginning of the year to 40% today.

It had previously been reported that the US economy contracted in the first quarter, albeit rather marginally by 0.2% (seasonally adjusted, annualised). Negative economic growth the second quarter would mean a recession. So far, it does not seem to have to come to that. The contraction in the first quarter was mainly driven by a surge in imports ahead of the announcement of Trump's 'Liberation Day' trade tariffs in early April. This effect is expected to mostly disappear from the figures for the second quarter, positively contributing to expected growth in the second quarter. On the other hand, the uncertainty surrounding Trump's trade policy may have a negative impact on consumer spending and business investment, but the question is whether these effects will be very noticeable as early as the second quarter or perhaps later.



...but a recession is far from a certainty

Confidence indicators are at least not yet signalling a recession at this point. The ISM index, which measures US producer confidence, is slightly below the neutral 50-point level for both industry and services. On balance, this indicates moderate but positive economic growth for the US economy in the coming months. It is only when these indicators fall below 45 that there is a clear signal of an imminent recession.

US consumer confidence is not clearly suggesting a recession either. Consumer confidence had fallen in April to levels seen at the low point of the coronavirus crisis, now five years ago, but it rose again in May to a more neutral level. Trump's trade tariff announcements in early April, and the resulting steep decline in US stock prices likely weighed on consumer sentiment, but rising stock prices (and lower oil prices) contributed to the rebound in May. At the same time, consumer confidence remains vulnerable to potential trade war unrest and a possible labour market deterioration, for example as a result of the recent wave of resignations among US officials in the context of the efficiency drive by the Department of Government Efficiency (DOGE) led by the now-departed Elon Musk.



Moderate growth in Europe as well, but no recession is expected

Economists have recently also gradually become more pessimistic regarding the European economy as well as the US economy. In the autumn of 2024, they still expected average growth in the eurozone economy of around 1.5% for 2025 and 2026, but have now revised this forecast down to around 1% for both these years. From this perspective, economic growth was still better in the first quarter, at 1.2% year-on-year.

The downside expectations for the eurozone economy mainly reflect the external threats, and in particular the potential adverse effects of a trade war with the US. Although the final impact remains unclear for the time being, the uncertainty alone, combined with the strong appreciation of the euro against the dollar, has a negative impact on economic development. As in the US, confidence indicators for both producers and consumers point to modest economic growth in the coming period, but at least not (or not yet) to an imminent recession.

Inflation picture in US and Europe similar, but inflation forecasts are not

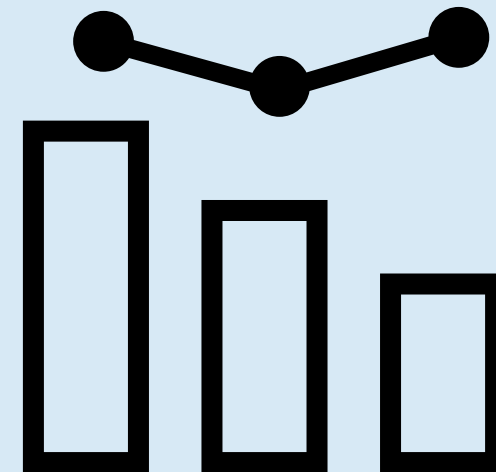
With all the uncertainty about the economic outlook, there is at least some good news to report on the inflation front. In the eurozone, inflationary pressures have eased to 1.9% year-on-year in May. This is the first time since the summer of 2021 that inflation has fallen below the ECB's 2% inflation target, apart from a one-off dip in September 2024. Inflationary pressures have also continued to ease in the US, reaching 2.3% year-on-year. One caveat to these relatively favourable figures is that they are largely due to lower oil prices. Core inflation, excluding food and energy prices, remains well above the 2% desired by central banks, at 2.7% year-on-year in the eurozone and 2.8% in the US.

While the current inflation figures for the eurozone and the US are quite similar, this certainly does not apply to inflation expectations. For the eurozone, economists expect inflationary pressures to reach around 2% in the course of 2025 (and beyond), but for the US, a strong rebound in inflationary pressures to above 3% is expected towards the end of 2025. This difference is partly due to the expected consequences of the trade war and is further fuelled by imported inflation in the US as a result of the recent, relatively sharp weakening of the dollar. Remarkably, US consumers are far more pessimistic about expected inflation than economists. According to research by the University of Michigan, US consumers expect inflation to be more than 7% (!) over a year, averaging about 4.5% on a 5-10-year horizon.

Scope for Fed and ECB rate cuts, but for different reasons

US consumers' expectations of future inflation trends may seem very extreme, but they are a good indication of the dilemma facing the US central bank, the Fed. The negative development of the economic growth outlook calls for lower interest rates, but if inflationary pressures do indeed rise as sharply as expected, the scope for rate cuts will be very limited. For the time being, the interest-rate market assumes that the deteriorating growth outlook will force the Fed into two rate cuts in the second half of this year, but uncertainty surrounding this forecast is high.

Compared to the Fed, the ECB seems to have a significantly less complex task ahead. With an interest-rate cut of 25 basis points at the beginning of June and probably one after the summer, the cycle of rate cuts that started a year ago seems to be coming to an end for now. At that time, the European base rate was still at 4.5%, and is currently only 2%. Unlike the Fed, the scope for the ECB to cut interest rates further may be due more to an improved inflation outlook than to a deteriorating economic growth outlook.



Financial markets appear to be more likely to underestimate than overestimate risks

With the strong recovery in stock markets in May and relative calm on (at least European) bond markets, financial markets seem to have little concern about all the political turmoil, especially from the US, and its potential impact on the global economy. The thinking seems to be that Trump's antics will be limited to words, but will result in little or no action. This has even become a meme: the 'TACO', or 'Trump Always Chickens Out', trade. We think this is too optimistic. When confronted by this term during a press conference, Trump reacted as if he had been stung by a wasp, and immediately announced additional trade tariffs on steel and aluminium the next day. In other words, the more the idea that Trump is never going to go through with what he says gains ground, the more he may be inclined to prove otherwise.

In that regard, Trump has plenty of opportunities in the coming period to show that he is serious. As things stand, there are at least two deadlines on the agenda for early July: the One Big Beautiful Bill Act, the Trump administration's comprehensive budget proposal, will have to be approved by the US Senate on July 4, and the ultimatum for a US-EU trade deal expires on July 9. With regard to both the US budget and a trade deal between the US and the EU, negotiations are certainly not going smoothly, and for both, there is little prospect of a favourable outcome for investors as yet. In addition, there is a significant chance that negotiations will continue beyond the aforementioned deadlines, leading to continued uncertainty. In this environment, we see room for lower rather than higher prices on the stock exchanges in the coming months, and as far as we are concerned, 'cash is king' applies, even at today's relatively low interest rates.

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