

Investment Views May 2025

Strategy:

Disciplined by Markets

Fixed Income:

Trade Wars Spur Rate Cut Bet and Dollar Dive

Equities:

Make Equities Great Again

Disciplined by Markets

- US tariff policy caused significant market volatility
- There was a barrage of criticism from high profile investors
- This combination led to more market friendly policy

April proved to be a roller-coaster month for financial markets. The year started well, with equities gaining in January and the first half of February, but concern then grew as President Trump imposed tariffs on both Canada and Mexico. Furthermore, it was announced that broad-based tariffs would be announced in early April, on a day referred to as “Liberation Day”. This turned out to be one for the history books, with the US announcing tariffs ranging from 10% to 54% on a wide range of countries. These rates were much higher than the markets expected, and additionally, the process for determining the various tariff rates was also widely criticised.

This announcement caused equity markets to swoon, with US equities falling 4.9% and 6.0% in the two days following the announcement. This was the sharpest fall in equities since the height of the pandemic in



STRATEGY

March 2020 and some market commentators have since referred to the day as “Demolition Day”. Cyclical sectors underperformed defensive sectors, which is consistent with an economic slowdown or recession, but some of the other market moves were even more problematic.

Consensus opinion was that US trade tariffs would be more negative for the rest of the world than for the US. The US runs a substantial trade deficit, so in theory, the rest of the world would suffer proportionally more pain than the US. The US dollar was expected to appreciate in a trade war, as US importers would need to buy less foreign currency if they import fewer goods. Furthermore, the US equity market is seen as a more defensive market than many other equity markets outside the US. US corporate earnings tend to hold up better in a downturn, as the region has more exposure to structural growth sectors, such as Technology, relative to other regions with higher weights to cyclical stocks. Lastly, a trade war dampens economic activity, which tends to be good for US Treasury bonds (lower yield and higher price).

However, US equities fell more than global equities, the US dollar depreciated, and US Treasury yields rose. This is a highly unusual combination not seen to the same degree since 1978, which was a period when the world lost confidence due to policy missteps. The early part of April had echoes of this period. Global trade in the modern economy is highly complex, and the flip side of the US’s trade deficit is a surplus in capital flows i.e., the rest of the world buys a lot of US assets. It is not easy to determine the specific drivers of capital flows, but there was a feeling that foreign investors were selling, or at least paused their accumulation, of US assets.

This market volatility led to significant criticism of the administration’s trade policy. Ken Griffin, the founder of Citadel, one of the largest hedge funds in the world, noted that recent policy had eroded the “brand” that is investing in the US. He noted that “in the financial markets, no brand compared to the brand of the US Treasury market, the strength of the US dollar. The strength, the creditworthiness of





STRATEGY

US Treasuries, no brand came close. We put that brand at risk”. This message was heard loud and clear at the heart of policy making.

Up until this point, it appeared that well-respected Treasury Secretary Bessent had struggled for influence within the new administration. That all changed after the market moves seen in early April. On April 9, President Trump announced that he would be pausing the “reciprocal” tariffs announced days earlier for the period of 90 days. China was an exception, where tariffs actually increased, but this saw US equities rally 9.6% on the day. Remarkably, this was the third best daily performance in the last 75 years.

In previous commentaries we noted that we expected equity markets to provide the “guardrails” for tariff policy and for bond markets to provide the “guardrails” for government spending policy. It turned out that bond and currency markets, in addition to equity markets, led to the policy reversals. Investors have been reassured that financial markets are playing this disciplining role and also that Treasury Secretary Bessent has been more influential. Early May saw a trade agreement between the US and China to lower tariffs by more than the market was expecting. It has been a volatile period for markets, but it is this volatility that has imposed discipline on policy makers. Damage has been done, but the policy reversal may have come just in time to save the US from recession.

Trade Wars Spur Rate Cut Bet and Dollar Dive

- Tariffs drive volatility higher and short-dated bond yields lower
- Gold hit record highs on geopolitical and monetary fears
- US dollar weakens on reserve status concerns

April brought renewed volatility across global markets, with fixed income assets absorbing the reaction to Trump's sweeping "Liberation Day" tariffs. The immediate introduction of broad-based trade barriers jolted sentiment, triggering defensive repositioning across rates and currencies as markets reassessed global growth expectations. Fixed income markets responded with front-end yields declining, yield curves steepening, credit spreads widening, and safe-haven currencies rallying. It was a month in which policy shocks replaced economic fundamentals as the dominant driver of asset performance.

US Treasuries experienced significant volatility early in the month as the market digested the scope and immediacy of the tariff regime,



spiking to levels last seen during the regional banking stress of 2023. Although volatility later moderated, demand for duration remained firm. Weakening ‘soft’ macro data also lent support to bonds, with confidence and sentiment falling, unemployment ticking higher, and first-quarter GDP showing a modest contraction. As a result, Treasury yields declined meaningfully, with the Federal Reserve expected to lower base rates by a further 1% this year, starting in July. At the long end, however, rising issuance needs and persistent supply concerns led to upward pressure, leaving the curve markedly steeper by month end.

European bond markets followed suit but with added conviction. The European Central Bank cut its deposit rate by 25 basis points, as officials acknowledged the deteriorating global trade backdrop. German Bund yields fell sharply, and Swiss government bonds once again flirted with 0% yields as capital flowed into perceived safe jurisdictions, with the appreciation of the franc likely to lead to a bout of deflation. UK Gilts and Australian government bonds also rallied, driven by both local data softness and spillover effects from US and euro area rates. Canada stood out in the other direction, with yields rising due to domestic fiscal policy headlines and the end of election uncertainty.

Credit spreads widened, with high yield moving nearly 40 basis points wider, as the market reassessed default probabilities in the face of weaker global demand and tighter financial conditions. New issuance ground to a halt, with many issuers postponing deals or offering hefty concessions to navigate periods of risk aversion. The tone across corporate credit was one of caution, with signs that liquidity was beginning to retreat from lower-quality names. However, spreads stabilised towards the end of the month, as risk sentiment benefitted from positive news out of the White House.

In currency markets, the dollar weakened materially, falling by nearly 5% over the month, as investors rotated out of US assets. The Swiss franc gained 6% against the dollar, its largest monthly gain in a decade, while the Japanese yen and the euro posted strong advances.

The rally in these currencies reflected a flight to quality, but also growing concern that the US unilateral trade stance could undermine the dollar’s standing as a global reserve currency. As a result, global FX volatility spiked, with the rapid repricing of cross-asset risk leaving traders scrambling to re-hedge and recalibrate exposures.

Oil prices dropped nearly 19%, as OPEC+ relaxed production restraints amid softening demand forecasts. Copper and natural gas also moved sharply lower, contributing to a decline in inflation expectations—particularly in the US, where five-year breakevens fell by more than 30 basis points. While these moves were significant, they served more as confirmation of macro pressures than as independent shocks. Gold, by contrast, emerged as a clear beneficiary of the risk-off tone, rising more than 6% to surpass USD 3,300 per ounce, a record high and a reminder of its dual role as a hedge against both geopolitical and monetary instability.

What emerged by the end of April was a market increasingly aligned around a slower growth trajectory and a prolonged period of policy uncertainty. The pricing of interest rate cuts—once seen as conditional on clear economic deterioration—began to reflect more persistent downside risks linked to policy-induced external shocks. Fixed income investors are faced with a late-cycle environment reshaped by geopolitical friction.

Portfolio positioning has navigated this period of volatility well. While we maintain a neutral duration stance, we remain cognisant that trade frictions may be swiftly resolved and that the US economy retains the potential to rebound sharply, potentially leading policymakers to hold interest rates steady for the remainder of the year. Long-end exposures therefore need to be managed cautiously amid elevated supply risks driven by the US administration’s promise of broad tax cuts. In credit, moving up in quality is prudent, particularly within sectors sensitive to global trade disruptions, but there is some value to be found now.

Make Equities Great Again

- Equity markets hanging on every shift in trade policy
- Recession risk saw defensive stocks outperformed cyclical stocks
- Retail investors, corporate buybacks, and hedge funds drive recovery

The pace of the news flow continued to accelerate, with equity markets hanging on every shift in US trade policy. In April, we navigated the fifth worst two-day percentage decline since World War II, the highest one-day return in nearly 17 years, and more recently the longest winning streak in two decades. The mood turned sour after the announcement of tariffs, with equity markets selling off sharply. Trump then posted on Truth Social “This is a great time to buy” followed by an announcement a few hours later that the tariffs were paused, sending the markets shooting higher. Despite all the volatility, the MSCI World Index ended the month with a gain and is now above pre “Liberation Day” levels.

The best performing sectors were defensive ones such as Consumer Staples and Utilities, suggesting that despite the positive returns,



investors remain cautious. The Energy sector was by far the worst performer, as oil prices moved lower. Supply concerns, coupled with investors pricing in a higher probability of a recession, weighed on prices. US equity investors largely benefitted from their overseas exposure in April as the US Dollar weakened. The US Dollar versus a basket of major world currencies depreciated by more than 4% as the “Sell America” theme played out.

Additionally, we had the first quarter earnings season. All eyes were on guidance and how management would respond to tariffs. We witnessed the first case of “What-if guidance” with United Airlines providing guidance for a stable scenario and then another set of numbers for a recession scenario. The companies most affected by tariffs pulled guidance, while the companies least affected reiterated guidance. Most companies have reported first quarter earnings, with 77% of US companies reporting a beat in Earnings Per Share (EPS) and 61% of European companies reporting a beat. US companies grew EPS on average by 12% year-on-year and European companies declined by 3%; however, interestingly, on a median basis, EPS grew by 6% year-on-year in the US and Europe, demonstrating how the largest market capitalisation companies skew the numbers.

As the markets continue to rebound, there are a number of factors supporting equities. In April, the buyers were retail investors, equity focused hedge funds, and corporates. As macro managers and long-only fund managers remained cautious, it was the retail investors and hedge fund managers who were buying the dip and rebuilding their equity exposure. Share buybacks rose markedly, with companies pulling forward purchase plans to take advantage of the depressed share prices. Announced buybacks also rose sharply, with the rolling three-month sum at a record high. As IPO activity remains subdued and corporates accelerate buybacks, the supply of equities remains constrained, supporting share prices.

77%

The percentage of US companies reporting a beat in Earnings Per Share (EPS)

On April 9, we published a note on tariffs, mentioning how volatility can create opportunities. The markets were pricing in a 50/50 recession probability and the consensus was if tariffs were rolled back, the economy would be fine, but if tariffs remained, there would be a recession. Now some of the tariffs have been rolled back and paused, progress has been made; however, tariffs are still higher than they were at the start of the year. We may have seen the back of peak uncertainty, but the tariff discussions are still ongoing and light on detail, with the potential for the positive momentum to fizzle out and the mood to sour again. The V-Shaped recovery in the equity markets has been cheered by investors and is a vote of confidence for the Trump administration, but perhaps like the sharp sell-off we saw after “Liberation Day”, investors may once again be getting overly optimistic.

Disclaimer

This document and the information contained herein has been prepared and issued by Butterfield Asset Management Limited, Butterfield Bank (Cayman) Limited and Butterfield Bank (Guernsey) Limited and is for illustrative purposes only. It neither constitutes investment advice nor is it an offer or an invitation to acquire or dispose of any securities and should not be relied upon as such. Prior to making any investment decision a financial adviser should be consulted. Products and services are available in the respective home jurisdictions and only in those other jurisdictions where they may be legally offered or obtained.

The data source for this document is Bloomberg unless explicitly stated otherwise and is believed to be accurate as at the date of publication and may be subject to change without notice. Whilst every care has been taken in producing this commentary, neither the author nor Butterfield Asset Management Limited, Butterfield Bank (Cayman) Limited, nor Butterfield Bank (Guernsey) Limited shall be liable for any errors, misprints or misinterpretation of any of the matters set out in it. Past performance is not necessarily a guide to future performance. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. In the case of some investments, you should be aware that there is no recognised market for them and that it may therefore be difficult for you to deal in them or to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain investments carry a higher degree of risk than others and are, therefore, unsuitable for some investors. Before contemplating any transaction, you should consider whether you require financial advice.

Any copying, duplication or reproduction of part or all of this commentary and/or its content in any form without the express written consent of the copyright owner is prohibited and will constitute an infringement of copyright unless expressly agreed to by Butterfield Asset Management Limited, Butterfield Bank (Cayman) Limited, or Butterfield Bank (Guernsey) Limited, or as otherwise permitted by the Copyright (Bailiwick of Guernsey) Ordinance 2005. You may not, without our express written permission, distribute or commercially exploit this work.

This commentary and/or its content is copyright of Butterfield Asset Management Limited, Butterfield Bank (Cayman) Limited and Butterfield Bank (Guernsey) Limited. All rights reserved.

Butterfield Asset Management Limited is licensed to conduct investment business by the Bermuda Monetary Authority. Registered Office Address: 65 Front Street, Hamilton HM12, Bermuda.

Tel +(441) 299 3817
www.butterfieldgroup.com/Investments

Butterfield Bank (Cayman) Limited is licensed to conduct securities investment business by the Cayman Islands Monetary Authority. Registered Office Address: Butterfield Place, 12 Albert Panton Street, George Town, Grand Cayman KY1-1107, Cayman Islands.

Tel +(345) 949 7055
www.butterfieldgroup.com

Butterfield Bank (Guernsey) Limited is licensed and regulated by the Guernsey Financial Services Commission under the Banking Supervision (Bailiwick of Guernsey) Law, 2020, The Protection of Investors (Bailiwick of Guernsey) Law, 2020, the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000, and The Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022, each as amended from time to time. Registered Office Address: P.O. Box 25, Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3AP. Company registered in Guernsey No. 21061.

Tel +44 (0)1481 711521 Fax +44 (0)1481 714533
www.butterfieldgroup.com

Telephone calls are recorded for training, regulatory and security purposes.

Global Asset Allocation

The chart below details our 6-12 month tactical investment strategy



