The merry, merry month of May

Jeremy Batstone-Carr, *European Strategist, Raymond James Investment Services*

"Climb the mountain not to plant a flag, but to embrace the challenge" – David McCullough Jr (American historian)

A well-known and widely referenced axiom has it that one should sell in May and go away. This particular piece of stock market folklore has its roots in the historically observed phenomenon in which superior returns are (or were) achieved during the early and later months of the year, leaving the torpid summer months free for holidays and seasonal festivities. Empirical evidence suggests otherwise, and May 2025 has lived up to the contrarian thesis. After suffering an early April plunge in knee-jerk response to confrontational US trade policy, the stock market swiftly recovered its footing once it was confirmed that hostile tariff implementation would be delayed allowing time for negotiation. April's aggressive rebound has carried over into May, as stocks climbed the equally axiomatic "wall of worry" in the face of unrelenting uncertainty. By the month's end the UK's benchmark index of leading 100 companies had recovered sufficiently to close in on its 3rd March all-time high.

Gains were not confined to the UK, stock markets around the world made strong headway as it was confirmed, first that UK negotiators and US counterparts had struck a deal, even if the exact terms are still being worked on. This was followed by an even more far-reaching truce with China and President Trump's ensuing trip to Middle Eastern Gulf states which yielded numerous and highly valuable deals. Yet throughout the month the uncertainty prevailed. A 90-day deadline extension hardly feels long enough for the US administration to secure highly complex arrangements with key trading partners including the EU and near neighbour Canada. Throughout a month punctuated by trade policy flip-flops, investors stoically held the line in anticipation that the "TACO President" (Trump Always Chickens Out) might be forced into a further relent as deadlines approached.

Just as market pricing adjusted to expectations for an uneasy but ultimately favourable trade war outcome, the little-known Federal Court of International Trade (CIT), located in Manhattan, New York stunned everybody by ruling in favour of a legal action brought by small American businesses claiming that operations had been severely harmed by tariffs. The decision to declare most, if not all, tariff policy illegal brought an immediate appeal from the US administration which has been upheld for sufficient time to allow the Supreme Court to adjudicate so, for now, we're back to square one. Furthermore, there exist alternative workaround solutions, including on specific products and / or sectors to ensure trade policy sticks rendering the CIT's ruling superfluous.

Another potential option open to the US administration, in the event of an adverse legal ruling, might be to try and persuade Congress to pass legislation enshrining tariff adjustments into law. However, the Republican Party's majority is extremely slender in both the upper and lower houses (and some Republicans are known to oppose the administration's trade policy), so this would be no easy task. A task made all the harder by the Trump administration's desire to drive its keynote reconciliation legislation ("One Big, Beautiful Bill") onto the statute book. While stock markets have soared, government bond markets have enjoyed no such recovery. Long-term borrowing costs have risen sharply, including in the US, in response to fears over rising national debt levels, a perturbing trend likely exacerbated in the near-term by the Trump-inspired legislation.

Persistent uncertainty makes central banks' monetary policy decisions extremely difficult. Household and business confidence has been rattled and whilst a popular decision, cutting interest rates while the future is unclear is a risky business for rate-setters not predisposed to a lack of caution. The Bank of England has cut the UK base rate again, from 4.5% to 4.25% but accompanied the decision with a strong hint that it is in no tearing hurry to accelerate the process. The outlook for the UK (and global) economy Is "unpredictable", it said, and any future rate cuts will be "gradual and careful". For financial markets, which typically try to price now for future conditions, the "jam tomorrow" promise of lower interest rates in the future is even more beguiling than "jam today". The European Central Bank and its US counterpart the Federal Reserve are equally well versed with this familiar script, and both are thought likely to ease borrowing conditions again in coming months.

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In the light of the above Raymond James remains constructive on prospects for favourable returns from financial assets even if the immediate future is shrouded in uncertainty. The best way of protecting what one has from risks, both systemic and idiosyncratic, is to build broadly diversified investment portfolios that can withstand the test of time whilst simultaneously providing a handy income stream. It was reported recently that Kami Rita Sherpa has summited Mount Everest for an extraordinary and record-breaking 31st time during the spring ascent season. Our wealth managers share the same experience and commitment, with just as great a focus on the relationship between risk and reward. Entrusting the team to be your sherpas will prove essential as we pick our way through the numerous challenges that lie ahead.