

Monthly View – June 2025

May 2025 – a calmer month

Global financial markets were calmer in May, following extreme volatility in April. The US S&P 500 Index led global sharemarkets higher, gaining 6.2%.

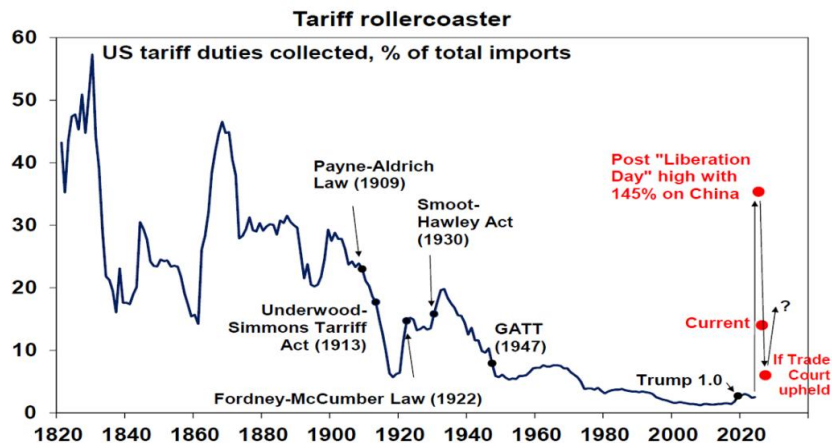
The de-escalation of the US-China trade war early in the month was a key catalyst in calming global sharemarkets. In a joint announcement the US and China agreed to significantly reduce tariffs. The US agreed to lower the recently imposed 145% tariff on Chinese goods to 30% (representing the 10% baseline that applies to all countries and the 20% “fentanyl” tariffs). China agreed to lower the 125% tariff on US goods to 10%.

This was a much better outcome than anticipated. Sector specific tariffs that apply to most countries remain (e.g. 25% on autos) and the agreement is temporary, lasting 90-days.

This continues a pattern of pausing country specific tariffs for 90 days to allow for trade negotiations. The 90-day pause for all other countries (except China) began on the 9th of April, where a baseline reciprocal tariff of 10% was also maintained. The 90-day period for these countries ends in early July. As at the beginning of June, only a trade framework with the UK had been announced. Goods from the UK make up around 2.0% of total US imports and the deal incorporated a baseline 10% tariff.

In another twist of the tariff saga, Trump’s tariffs imposed under the International Emergency Economic Powers Act have been struck down as illegal by the US International Trade Court on the basis that these exceed presidential authority. This covers the “reciprocal” tariffs & fentanyl tariffs but not the sectoral tariffs on steel, aluminium and autos. Trump raised the steel and aluminium tariffs to 50% from 25% in early June.

The Trump Administration is appealing this decision. The Appeals Court has put a stay on the Trade Court’s decision, meaning the tariffs remain in place pending the appeal. The appeal process may take some time and even be elevated to the Supreme Court. Even if the decision is upheld, the White House has other laws to enact tariffs. Tariffs will continue to be part of the economic landscape in the years ahead.



Source: AMP

Tariff negotiations have generally followed a pattern of Trump making outsized threats and even following through for a time, only to back off. Wall Street calls this “Trump Always Chickens Out”, or TACO. Encouragingly, financial markets appear to have become more comfortable with the toing and froing of Trump’s trade negotiations as the months progress

Global Sharemarkets

Global sharemarkets^[1] rose 5.6% in May. The US tech heavy Nasdaq index rose 9.1% on the de-escalation of trade tensions between the US and China. European markets also performed strongly, and the European Stoxx 50 index gained 5.1%.

Boosting the technology sector was a better-than-expected profit result from Nvidia. The AI giant reported first-quarter revenues had risen 69% from a year ago to US\$44.1b. The company’s data centre business recorded year-over-year growth of 73% on an annual basis to US\$39.1 billion. Nvidia provided positive forward guidance expecting US\$45 billion in sales in the June quarter.

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In relation to the impacts of Trump’s trade policy on US corporate earnings several companies have provided updates. Nvidia noted sales would be about US\$8 billion higher except for lost sales from a recent export restriction on its China-bound chips. Although HP provided a better-than-expected profit update it provided disappointing profit guidance. Management said the outlook reflected “the added cost driven by the current U.S. tariffs.” Large US retailer Macy’s also beat on quarterly sales and earnings estimates but cut its profit outlook. The company said it would be hiking prices of certain items to offset tariffs.

Australasian Sharemarkets

New Zealand’s sharemarket^[2] rose 4.3% in May. Over the month 22 companies provided profit updates. While the profit results were mixed, they generally had a positive tone relative to expectations and displayed positive earnings growth. This was pleasing after two years of disappointing corporate earnings outcomes.

Many companies reporting earnings were property companies, and their results were well received. The listed property sector outperformed, rising 6.8% over the month.

Mainfreight rose 26.6% in May after providing a profit update that surpassed market expectations, delivering revenue growth of 11.0% to NZ\$5.24 million in the year ending March, meanwhile net profit rose 31% to NZ\$274.3 million. Sanford gained 19.6% over the month after reporting an unexpectedly strong result. Sky City Casino fell -17.4% after warning that its profit for the year to June 2025 will fall below previous guidance given the softening of business conditions.

Highlighting the reach of Trump’s tariffs, Fisher and Paykel (FPH) updated the market that revenues would be negatively impacted by NZ\$11 million in the 2026 financial year due to US tariff impacts. The tariffs are expected to dampen demand for its New Zealand-sourced hospital products. FPH rose 7.4% over the month.

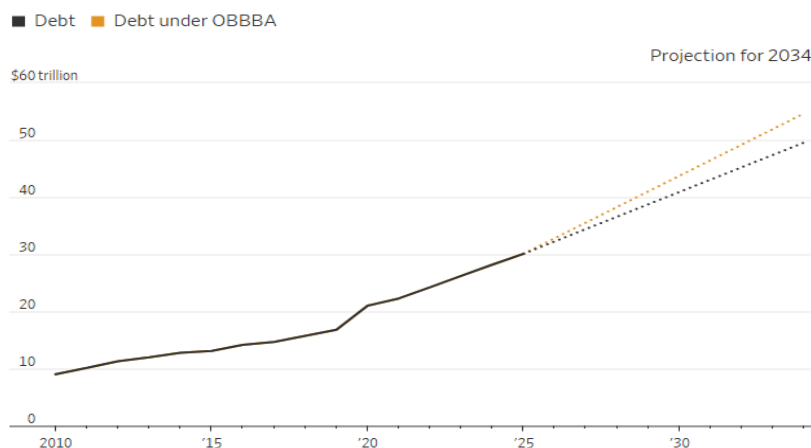
The Australian sharemarket^[3] increased +4.2% on improved global sharemarket sentiment and a reduction in interest rates by the Reserve Bank of Australia supported the market. Life360 rose 51.9% after delivering a result well above expectations with subscriptions up 33%. Xero gained a more subdued 12.2% after reporting its annual earnings result which continued to demonstrate strong revenue growth. Although the banking sector performed more in line with the market, the Commonwealth Bank of Australia (CBA) reached all-time highs during May. Generally, commodity and material companies underperformed, falling out of favour as investors focused more on the growthy parts of the market. Rio Tinto and Fortescue fell -3.8% and -4.9% respectively over the month.

Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) fell -0.4% in May as US longer-term interest rates rose on growing concerns over the US budget deficit and rising debt levels.

During May Trump’s tax and spending bill was passed by a majority of one in the House of Representatives. The bill now moves to the Senate for consideration.

The bill, referred to as “One Big Beautiful Bill” (OBBBA) extends Trump’s expiring 2017 tax cuts, introduces new tax cuts, and results in some spending cuts, most notably to Medicaid. Trump’s budget maintains the government spending deficit at around 7.0% of GDP, exacerbating the outlook for US debt levels. It is estimated the package of tax-and-spend will add \$3 trillion to US debt levels over the next decade compared to existing estimates.



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Source: WSJ Business

New Zealand's fixed income market^[4] also fell by -0.4% in May on rising US interest rates and a disappointing update from the Reserve Bank of New Zealand (RBNZ). In May the RBNZ cut the Official Cash Rate (OCR) to 3.25%. The RBNZ has reduced to OCR by 225 basis points (2.25%) since August 2024.

The RBNZ disappointed the market with its outlook for the future direction of the OCR. In commentary following the interest rate reduction, the RBNZ expressed no clear bias as to the direction of the next move in the OCR, whether up or down. No clear path was set and the RBNZ maintain full optionality over its next interest rate move. This disappointed relative to market expectation of the RBNZ providing a clear path of further interest rate reductions. As a result, New Zealand's interest rates rose in May.

Conclusion

The uncertainty from Trump's trade and tariff policy will continue in the months ahead, even after the expiry of the current 90-day pause ending 1 July. This will be unsettling for markets. Financial markets will ebb and flow on the potential and actual outcomes of these negotiations.

There is a risk that 2025 becomes known as the "great pause" and no clarity is gained on the outcomes of trade negotiations by the end of the year. Equally, it is possible Trump will persevere with his Liberation Day trade policy, which would be negative for markets.

Alternatively, along with ongoing tariff negotiations, which may bring some positive surprises for markets, other developments may also bring relief for global financial markets. These include central banks continuing to reduce interest rates, particularly in Europe and Australia, and the prospect of political pushback in the US resulting in a toning down of trade policy and a watering down of the OBBBA. The latter outcomes would be positive for global financial markets.

In this environment we continue to prefer domestic assets. The New Zealand and Australian economies are well placed relative to the rest of the world in the current uncertain global economic environment and the local fixed income market is less sensitive to rising global longer-term interest rates. However, returns from cash like investments are likely to trend lower over the remainder of this year.

At times of market volatility, we encourage investors to continue to focus on their longer-term goals, look through the short-term volatility, and maintain a portfolio commensurate with their objective and risk profile.

1 MSCI ACWI Index in local currencies

2 S&P NZX 50 gross index

3 S&P ASX 200 total return Index

4 Bloomberg NZ Bond Composite 0+ Yr Index

Indices for Key Markets

As at 31 May 2025	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	4.3%	-1.2%	-4.6%	5.4%	4.0%	3.4%
S&P/ASX 200 Index (AUD)	4.2%	4.3%	1.6%	13.4%	9.6%	12.1%
MSCI ACWI Index (Local Currency)	5.6%	0.5%	1.3%	12.1%	12.5%	13.7%
MSCI ACWI Index (NZD)	5.2%	-3.7%	2.1%	17.0%	15.7%	14.2%
S&P/NZX 90 Day bank bill Total Return	0.3%	1.0%	2.1%	4.9%	4.8%	3.1%

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