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Market Snapshot

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After global equities, as measured by the MSCI All-Country World Index, hit a record a week ago, the FTSE 100 index closed at an all-time high on Thursday. This milestone cemented its recovery from the slump following Donald Trump's 'Liberation Day' tariff announcement just two months ago. The UK blue-chip index hit a record closing high of 8,884 as investors continued to look for alternatives to US equities. In a related move, the US dollar hit a three-year low.

The FTSE 100 was up 0.2% over the week by mid-session on Friday, with the more UK-focused FTSE 250 was down 0.2%.

Trump impact on markets

Following a tense phone call with Chinese President Xi Jinping, both sides of the trade dispute agreed to resume negotiations in London. The outcome of London talks was a tentative "framework" deal, largely reiterating commitments made in Geneva. The US pledged to ease restrictions on sensitive exports and student visas, while China agreed to lift its blockade on rare earth mineral shipments – a critical pressure point given its dominance in global supply.

President Trump publicly called Federal Reserve Chair Jerome Powell a "numbskull" during a White House address, intensifying his long-running feud with the central bank. The outburst came as Mr Trump ramped up pressure on the US central bank to slash interest rates by two percentage points, arguing that such a move could save the US government up to $600bn annually in debt payments. President Trump expressed frustration that Mr Powell had refused to act despite what he described as "incredible" inflation data showing price stability and declining energy costs. While Mr Powell has maintained that the Federal Reserve will not be swayed by political pressure, Mr Trump hinted he might "force something" if the central bank doesn't act soon.

Investors are wary of potential trade tariffs and their impact on global supply chains and economic growth. These concerns have increased the perceived risk of a US recession, prompting a shift toward markets seen as more stable or with better growth prospects.

> **There is growing unease about the ballooning federal deficit and the long-term sustainability of Washington's fiscal policies**

It's not just the economic impact of the Trump tariffs that has caused investors to shun US assets. There is growing unease about the ballooning federal deficit and the long-term sustainability of Washington's fiscal policies. Rising debt levels and political uncertainty have even led some investors to question the stability of the US financial system. However, there was some positive news on this front on Thursday after a key bond auction eased concerns that the US economy might be falling out of favour with investors. Bonds rallied after an auction for US government bonds saw relatively strong demand. The Treasury on Thursday sold $22bn worth of 30-year bonds. The auction settled with a yield of about 4.84%.

This has resulted in European and emerging markets outperforming Wall Street in 2025 so far. For example, the MSCI Europe index is up about 20% year-to-date, compared to just 2.7% for the MSCI US index. Lower interest rates in Europe and large stimulus programs – such as Germany's €1 trillion plan for loans to strengthen the military, infrastructure and climate protection – have boosted investor confidence on the opposite side of the Atlantic.

Economics

US inflation data sent mixed signals, muddying the water ahead of next week's Federal Reserve rate-setting meeting. The May consumer price index (CPI) report showed headline inflation cooling slightly to

2.2% year-over-year, reinforcing calls for a rate cut. However, core inflation remained sticky at 2.8%, with a 0.3% monthly rise, suggesting persistent price pressures in services and housing. The data leaves the Fed in a delicate position ahead of next week's policy meeting, as markets debate over the balance needed between growth support and inflation control.

Early signs of tariff-related inflation emerged in May's consumer price index (CPI) data, with modest price increases in goods such as electronics and apparel. Analysts warn that the impact of the Trump administration's renewed trade barriers – particularly on Chinese imports – will likely intensify over the summer, potentially complicating the Fed's path to easing.

The UK economy contracted in April by 0.3% as businesses cut jobs and cancelled investment plans in response to higher taxes and the uncertainty created by Donald Trump's tariff war. Figures from the Office for National Statistics showed the economy went into reverse after growing by 0.2% in March and 0.5% in February. The reading, which was the worst monthly drop since October 2023, overshot City economists' expectations of a 0.1% contraction. The slump came as some tax rises came into force, including a change to stamp duty rates in England and Northern Ireland that led to a sharp drop in house sales. The hit to estate agents, conveyancing lawyers and other property industry businesses helped push the services sector down by 0.4%.

UK Spending review

There was a dose of economic reality as Chancellor Rachel Reeves unveiled the UK's 2025 Spending Review. Sluggish growth and high borrowing costs are the limiting room for manoeuvre. The Chancellor pledged a £113bn boost to infrastructure investment but warned of tough trade-offs ahead. The review, which sets departmental budgets through to the next general election, prioritises health, defence, and housing. The NHS is receiving a record £202bn in 2025/26 – accounting for nearly 40% of day-to-day departmental spending.

Despite the headline investment, several departments face real-terms cuts due to inflation and tight fiscal rules. Ms Reeves reaffirmed her commitment to fiscal discipline, resisting calls for further borrowing or tax hikes beyond the £40bn package announced last autumn. The review also confirmed a £39bn allocation for social and affordable housing and an extension of the £3 bus fare cap in England until 2027.

Geopolitics

In a dramatic escalation of Middle East tensions, Israel launched a sweeping military offensive against Iran on Friday, targeting nuclear facilities and high-ranking military officials. The operation, dubbed "Rising Lion," was triggered by mounting Israeli fears over Iran's nuclear ambitions. Intelligence reports indicated that Tehran had enriched uranium to near weapons-grade levels and amassed enough material for multiple nuclear warheads. The International Atomic Energy Agency had just declared Iran non-compliant with its nuclear obligations, prompting Israeli leaders to act pre-emptively, citing an existential threat to national security. The strikes, which hit key sites in Natanz, Khondab, and Tehran, also resulted in the deaths of senior Iranian military figures, including top commanders of the Revolutionary Guard. Israeli Prime Minister Benjamin Netanyahu defended the action as a necessary measure to prevent Iran from becoming a nuclear-armed state, accusing Tehran of exploiting stalled diplomatic talks to advance its weapons program. As a result, oil prices jumped - and investors moved in safe-haven assets.

On Thursday, Air India Flight AI171, a **Boeing** 787-8 Dreamliner heading to London, crashed shortly after take-off from Ahmedabad, killing 241 of the 242 people on board. The sole survivor, seated in 11A, was pulled from the wreckage in critical condition. Eyewitnesses reported the aircraft flying unusually low before it plummeted into a residential area, erupting into flames. The crash marks the first fatal incident involving the 787 family. The tragedy has reignited scrutiny of Boeing, a company still recovering from the fallout of its 737 Max disasters. Although no mechanical fault has yet been confirmed, the incident adds to a string of safety concerns that have plagued the manufacturer in recent years, including quality control issues and a high-profile door failure on an Alaska Airlines flight in 2024.

Companies

Tesco delivered a robust performance in the first quarter, reporting group sales of £16.38bn, buoyed by continued market share gains. Like-for-like sales in the UK rose 4.7%, while customer satisfaction and brand perception also saw notable improvements. Despite economic headwinds and fierce competition, Tesco's performance outpaced the broader UK retail sector, reinforcing its position as a market leader and boosted investor confidence in the group.

Inditex, the parent company of Zara, reported a modest yet steady performance in the first quarter of 2025, with revenues rising 1.5% year-over-year to €8.3bn. This was slightly below analyst expectations. Management flagged a slower start to summer sales, growing just 6% compared to 12% in the same period last year, and warned of a 3% currency headwind for the full year. Still, Inditex continued to expand its global footprint, opening stores in 26 markets and rolling out digital innovations like a new "travel mode" for online shoppers. While the results reflect resilience, they also underscore the mounting pressure from fast-fashion rivals and macroeconomic headwinds.

Halma delivered another record-breaking performance in full-year results, marking its 22nd consecutive year of profit growth and 46th straight year of dividend increases. The safety equipment group reported an 11% rise in revenue to £2.25bn and a 16% jump in adjusted pre-tax profit to £459.4m, driven by strong performances across all sectors. Chief executive Marc Ronchetti credited the results to Halma's diversified portfolio, agile business model, and long-term growth drivers, for positioning the company for continued expansion.

House builder **Crest Nicholson** reported a sharp turnaround in its interim results, posting an adjusted pre-tax profit of £7.9m, more than triple the £2.6m recorded a year earlier. This was despite a slight dip in revenue to £249.5m. The return to profitability was driven by improved sales rates, tighter cost controls, and a strategic focus on the mid-premium housing segment. Chief executive Martyn Clark highlighted rising consumer confidence, easing mortgage rates, and a more supportive planning environment as key tailwinds. The results signal a broader stabilisation in the UK housing market.

Shares in **Warner Bros Discovery** rose following a series of strategic announcements and a strong box office performance. The rally was fuelled by news that the company plans to split into two publicly traded entities – one focused on streaming and TV networks, the other on film and studio operations – sparking optimism about unlocking shareholder value through a more focused operational structure. Additionally, a record-breaking Memorial Day weekend at the box office bolstered revenue expectations.