Monthly View – May 2025

April 2025 – a volatile month that ends well

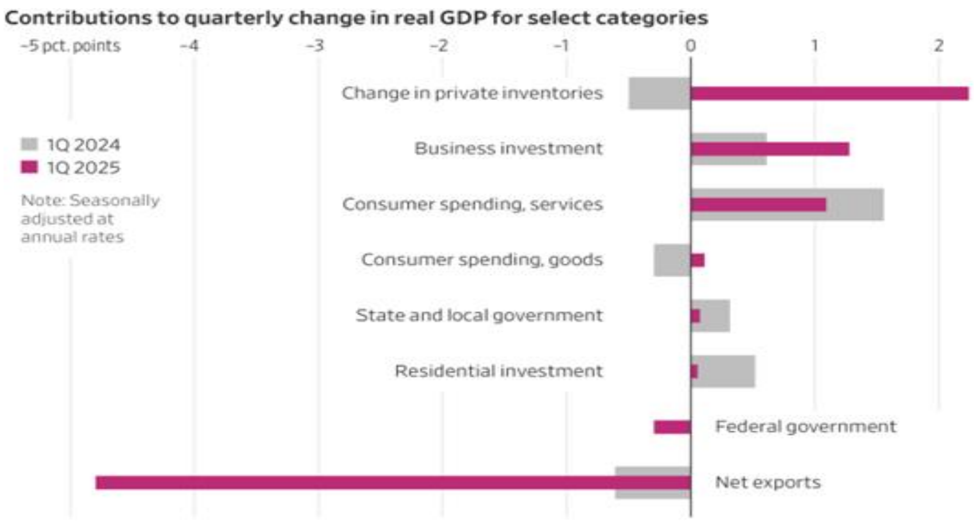
Global financial markets experienced a very unpleasant start to April but as the month went on things got better.

As has been well documented, on “Liberation Day”, the 2nd of April, US President Donald Trump unveiled larger than expected “reciprocal” tariffs on countries around the world. Global financial markets reacted negatively and the market volatility experienced was comparable to the Global Financial Crisis and COVID. Liberation Day soon turned into “liquidation day” as global equities fell, and US longer-term interest rates rose sharply.

Global markets stabilised and recovered after Trump called for a 90-day pause for the reciprocal tariffs, with Trump saying people were getting “yippy”, in reference to the level of financial market volatility. In truth, the US administration became yippy, particularly in relation to the sharp rise in US longer-term interest rates.

The economic impacts of Trump’s trade policy are being felt globally.

The US economy contracted an annualised 0.3% in the March quarter of this year. This is the first fall in GDP since 2022 and was weaker than consensus estimates. The contraction is largely the result of a surge in imports before the implementation of tariffs. U.S. imports rose more than 40% at an annualized rate in the first quarter of 2025. Net exports, the difference between what the US imports and exports, subtracted nearly five percentage points from GDP in the first quarter. See table below.



Source: WSJ

While unwelcome we expect this to be a short-term outcome.

Conversely, the 20-nation eurozone’s economy expanded 0.4% in the first three months of the year. On an annual basis to be comparable to the US outcome, the eurozone expanded 1.4%. Some of this was from a surge in exports to the US which underpinned a better-than-expected outcome. The eurozone last outpaced U.S. growth in the June quarter of 2022.

Global Sharemarkets

Global sharemarkets [1] fell -0.4% in April. The US S&P 500 index, which had fallen by over 11.0% at one stage, ended the month down -0.7%. In New Zealand dollar terms global sharemarkets fell -3.5% after the New Zealand dollar gaining 4.5% against the US dollar over the month. A stronger local currency detracts from foreign sourced returns. The strength in the New Zealand dollar primarily reflected a weaker US dollar on growing concerns of a US recession and as global investors allocated away from America.

First quarter US corporate earnings update provided a boost for the US sharemarket late in the month. So far, 70% of S&P 500 companies have reported March quarter earnings results with 76% beating expectations which is around historical average. Albeit earnings guidance had been lowered heading into the earnings season.

Big tech companies, Microsoft and Meta, beat expectations and outlined they will continue to invest heavily into data centres to support their artificial intelligence efforts. Microsoft is intending to invest US$80 billion in 2025, and Meta expects to spend between US$64 billion and US$72 billion.

Elsewhere, Netflix rose to record highs in April on growing earnings and energy companies underperformed on a falling oil price. The price of oil fell 15.0% in April on global growth concerns following the tariff announcements. McDonalds reported its largest drop in US sales since the height of the COVID pandemic, down 3.6%, with customers "grappling with uncertainty". Automaker GM said it will face a $5 billion bill for tariffs in 2025, which it will try to partially offset by reducing spending and shifting some production to US plants.

Australasian Equities

New Zealand's sharemarket [2] fell -3.0% in April, underperforming the rest of the world. Softness in the local market was largely due to technical factors (rather than concerns over US tariffs). For example, a placement of close to $100 million of Ryman Healthcare stock surprised the market and there was also a $20 million sell down in Tower by a major shareholder. Only a limited number of New Zealand listed companies are directly impacted by US tariffs, these include Skellerup, Kathmandu, and Delegate Group. In 2024 Delegate generated nearly 52% of its revenue from the US. Fisher & Paykel Healthcare was one of the better performing stocks in April as exports to the US from their Mexican plant are currently free of tariffs. Tourism Holdings fell -22.6% in April after downgrading their earnings on softness in the North American market (highlighting the indirect impacts of Trump's trade policy on weaker economic activity). Ryman fell 19.9% following the placement.

The Australian sharemarket [3] rose +3.6% helped by a 10.4% rise in the Commonwealth Bank of Australia (CBA) as it reached historical highs during April. CBA benefited from its safe-haven status and as investors fled US equity markets. For similar reasons other financial stocks performed strongly, including National Australia Bank (+6.2%). Woodside (-10.3%) and Santos (-9.8%) were among the larger companies to underperform in April on a lower oil price.

Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) rose 0.9% in April as global longer-term interest rates outside of the US fell sharply on economic growth concerns.

In America, after initially falling on economic growth concerns from the tariff announcement, the US 10-year government bond yield rose nearly 50 basis points (0.5%) in the following week, from 4.0% to 4.5%. The rise in yields reflected a combination of policy uncertainty leading to a loss of confidence in US bonds and US dollars as safe-haven assets, rumours of China and other countries selling US bonds, and hedge funds unwinding highly leveraged positions.

US 10-year treasury yield

Source: Bloomberg, JMI Wealth

By month's end the yield on the US 10-year government bond had returned to levels like those at the beginning of the month.

New Zealand's fixed income market [4] returned 1.2% in April as local interest rates fell in line with global rates and expectations grew that the Reserve Bank of New Zealand (RBNZ) would likely have to cut interest rates further than expected given Trump's tariff announcement. During the month the RBNZ cut the Official Cash Rate (OCR) to 3.50%. The RBNZ has reduced the OCR by 200 basis points (2.0%) since August 2024.

Overall, New Zealand is relatively well positioned, with exports to the US falling under America's 10% reciprocal tariff regime. Although the direct impacts of tariffs on the local economy are expected to be small, second round impacts such as slower global economic growth and any inflation pressures will require monitoring. These second-round impacts will be factors influencing future decision made by the RBNZ.

Previously, with excess capacity in the domestic economy and inflation within the RBNZ's 1 to 3 percent target range, the OCR was forecasted to be near 3.0% by the end of 2025. The likelihood of further reductions in the OCR towards 2.50% has grown given the potential for a weaker global economic backdrop because of US economic policy uncertainty.

Conclusion

Although a lot has been written about developments in April, for investors the environment has not materially changed since the end of March.

The uncertainty from Trump's trade and tariff policy will continue for some time, which is unsettling for markets. There will be a period of back-and-forth negotiations as trading partners seek to reduce the level of tariffs and engage in specific concessions for different industries. Financial markets will ebb and flow on the potential and actual outcomes of these negotiations.

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, Australia, and New Zealand, the prospect of political pushback in the US resulting in a toning down of trade policy, and a pivot by the Trump administration to promote the more positive elements of their policy agenda such as tax cuts and deregulation.

Equally, it is possible Trump will persevere with his Liberation Day trade policy, which would be negative for markets.

In this environment we 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 likely to benefit from further reductions in interest rates by the RBNZ. This will, however, result in returns from cash like investments to trend lower in the year ahead.

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 30 April 2025	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	-3.0%	-8.2%	-5.5%	0.3%	0.9%	3.2%
S&P/ASX 200 Index (AUD)	3.6%	-3.7%	1.2%	9.8%	7.2%	12.1%
MSCI ACWI Index (Local Currency)	-0.4%	-5.6%	-0.2%	10.1%	10.4	13.4%
MSCI ACWI Index (NZD)	-3.5%	-7.8%	1.4%	11.3%	13.5%	13.9%
S&P/NZX 90 Day bank bill Total Return	0.3%	1.0%	2.2%	5.1%	4.8%	3.0%