FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
1988	**80+**	**10+** COUNTRIES	**US$1.2** BILLION	**US$37.9** BILLION

ICM Monthly Outlook

JUNE 2025

Market Review

Financial markets continued to show resilience and climb the wall of worry. May 2025 was a strong month in the recovery of U.S. equity markets in the wake of the tariff tantrum. The S&P 500 rose 6.7%, returning to positive year-to-date territory in U.S. dollar terms. The tech-heavy Nasdaq outperformed the S&P, climbing 10%, helped by strong earnings. The DOW also had a positive month. As we continue through June, the U.S. equity markets continue to slope higher. The Magnificent 7 contributed approximately half the gains in May.

We have added emphasis to U.S. dollar returns, as U.S. equities remain in negative territory year-to-date in Euro, Sterling, and the U.S. dollar index[1]. Year-to-date, the U.S. dollar has depreciated by approximately 9%. It has steadily lost value against its peers this year due to U.S. policy decisions, including the potential long-term ramifications of President Trump's tax bill, which the House of Representatives approved in May and is now winding its way through the Senate, where we expect it will be passed. The President needs the Senate's approval of his bill by August, or the Federal Government is expected to run out of cash. The tax bill proposed raising the U.S. debt ceiling by US$ 4 trillion. Moody's rating agency downgraded the U.S. to Aa1 from AAA, citing concerns about the U.S.' deteriorating balance sheet and rising trade tensions. As a result, U.S. government bond yields rose and bond prices fell.

It is against this backdrop of dollar devaluation that the gold price continues to hit new all-time highs. Gold should remain in favour with traditional finance investors while Bitcoin is also proving popular as a store of value (and younger investors who can't afford a house to stash their gold). On May 22nd, Bitcoin closed at an all-time high of $111k per coin. We will take a closer look at the broader implications of a weaker U.S. dollar in next month's letter.

The financial markets' resilience contrasts with a generally gloomy narrative from mainstream media due to the lingering fog of trade wars, Middle East wars, and the war on illegal immigrants.

Outlook: Sunny with a chance of thundery downpours

We expect financial markets will remain resilient for the second half of 2025, with inevitable bouts of volatility.

We still expect positive outcomes from the ongoing trade negotiations with all major trading blocs. Be prepared for the inevitable tantrum followed by another pause. The President will probably make a sacrificial lamb of a lesser trading partner that won't amount to a hill of beans in a global context. We reiterate that President Trump is ultimately incentivised, once he believes he has exacted what he thinks he needs, to put an end to the trade tariff circus to steady the bond market.

Furthermore, the President will improve his chances of coaxing the Federal Reserve to lower interest rates sooner rather than later if the Federal Reserve has greater clarity on the implications for inflation from settled trade negotiations. The President cannot afford to delay potential rate cuts unnecessarily. He can exert some control over the economic outlook if he is prepared to agree to trade deals.

No amount of heckling will influence Federal Reserve policy. Chairman Powell is in his final year of his Chairmanship, and the pressure is off. Scott Bessent is becoming increasingly talked about as a potential new Federal Reserve Chairman when it comes around again in 2026. A poacher turning gamekeeper is never a bad thing, usually.

As the second half of the year progresses, we expect U.S. exceptionalism to regain prominence among investors, simply because there are no alternatives to access the fastest-growing sectors of the global economy, such as AI, nuclear energy, or defence, among others. On this matter, we expect President Trump to chicken out of his policy of punishing universities for policies he dislikes when the brain drain effect becomes more noticeable. The Magnificent 7 rely on the best and brightest young scholars globally to drive innovation and growth.

Nonetheless, we anticipate President Trump will dominate the news landscape for the latter half of 2025, just as he always has. We foresee the U.S. policy debate continuing to shift towards domestic issues and away from trade. President Trump will persist in inducing anxiety and fatigue among his electorate.

Investors will remain undeterred by the non-economic policy issues, based on the assumption that President Trump Always Chickens Out (TACO, as coined by the Financial Times). Investors can navigate President Trump's attention-seeking.

Risks as we see them.
We believe that a weaker global economy poses a greater risk than geopolitical tensions currently, notwithstanding the ongoing conflagration in the Middle East. Our opinion on the situation in the Middle East could shift depending on President Trump's influence in the region in the coming days. The President hasn't got the best track record in stopping wars thus far, albeit he has tried, sort of!?

The President and Mr. Bessent cannot be particularly pleased about the surge in oil prices since Israel (and now the U.S.) began bombing Iran, given their struggle to lower energy prices and bring down inflation to a level suitable for the Federal Reserve to cut interest rates in the process. Higher oil prices are an unwelcome consequence of conflict in the Middle East.

Is President Netanyahu trying to maximise his opportunity to attack while President Trump remains engaged? President Netanyahu is inflicting as much damage as possible before President Trump becomes disinterested or focuses on more manageable challenges. Domestic issues, such as unemployment or a crisis in the Treasury bond market, could divert the President's attention elsewhere. Economic-related protests would dwarf the immigration protests we have observed recently.

Furthermore, the U.S. is vulnerable to a budget crisis from an unforeseen event like an expensive, protracted, proxy war on behalf of Israel if the Middle East gets out of hand; renewed inflation; higher debt service costs; or even another pandemic.

In 2024, the U.S. government spent one in every 8 dollars servicing its interest payments. The new tax bill and higher debt ceiling will result in one in every 6 dollars serving the U.S. interest bill in 10 years.

Rate Expectation
In the short term, we expect the U.S. 10-year interest rate to remain range-bound between 4% and 4.75% due to the push and pull of an anticipated weaker economy counterbalanced by concerns about a widening budget deficit and fiscal recklessness. We attribute a greater likelihood to a slowing U.S. economy than a budgetary crisis. The market has been aware of the U.S. budget deficit and fiscal recklessness for a long time. It will likely continue to ignore it for now, assuming the U.S. can grow its economy to reduce its proportionate budget deficit.

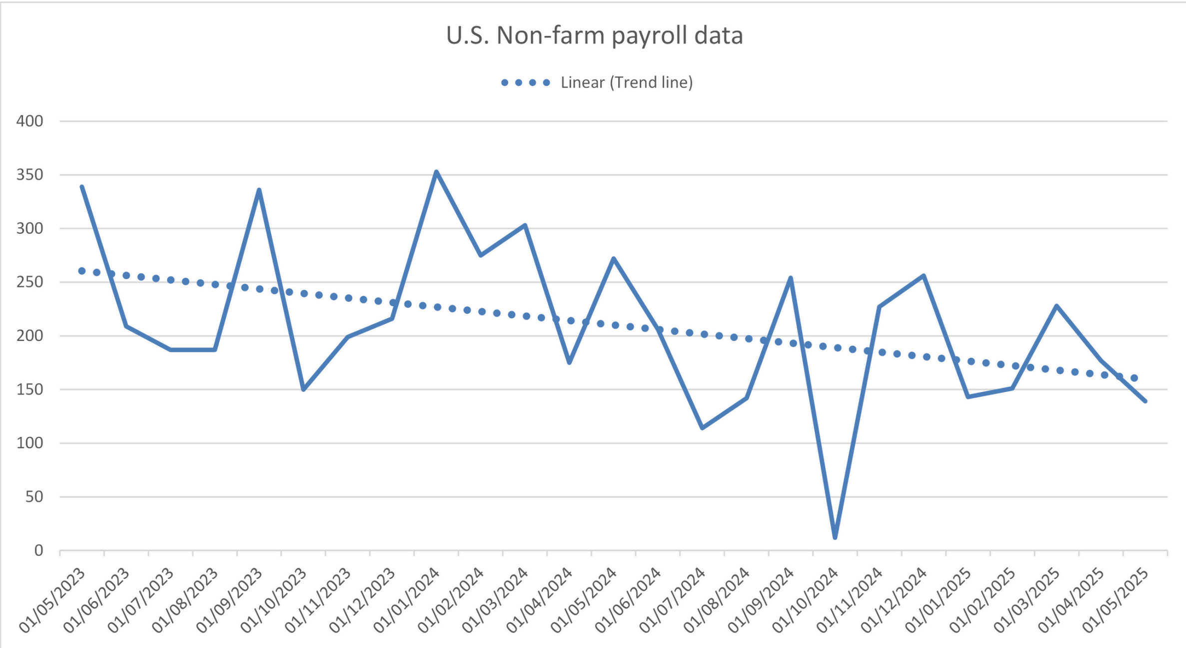
From the Federal Reserve's perspective, the U.S. is in cruise control until at least September based on the benign inflation situation, even after the anxiety of Trump's tariffs and the lacklustre labour market situation. Bloomberg's World Interest Rate predictor attributes a 77% chance of one 25-basis point cut by the Federal Reserve Bank in September, and a 130% chance of one 25-basis point cut by October. We'll go with September on the basis that unemployment will continue trending lower and President Trump will cobble together a ceasefire in the Middle East, pulling down oil prices in the process. Globally, inflation is running at 2%, which is what it ought to be.

In new news, the Federal Reserve Bank has appointed a long-time critic of burdensome banking regulations to overhaul the current laws. Michelle Bowman has bemoaned that overregulation has led to an increase in unregulated alternative banking products, which may have unintended consequences. The meteoric risk of private loan markets is one such area.

While not a problem at present, it could become a concern for the broader economy in the future if underwriting standards deteriorate and investors are unable to identify the risk, much like the opacity of the subprime crisis in 2007.

Unemployment

For now, the Federal Reserve cannot point to rising unemployment as a reason to cut interest rates. The latest employment data was drama-free. Nonetheless, President Trump took the opportunity to call on Chairman Powell to cut interest rates by 100 basis points after slightly weaker-than-expected jobs numbers. The Bureau of Labour Statistics' May non-farm payroll report shows job growth of 139,000 and revised down its two previous months' job growth numbers by 95,000 in aggregate. The market was on tenterhooks ahead of the release due to a much weaker data release from Automatic Data Processing (ADP), which suggested only 37,000 new jobs in May. ADP has less gravitas. While the latest data is not suggestive of an imminent economic slowdown, the revisions are considerable, and the long-term trend is downwards (see graph below). The U.S. economy could stall if this trend continues. Look back to Q2 & Q3 2024, when the employment data was similar, justifying 100 basis points of cuts by the Federal Reserve in Q4 2024. This time it's different, just a bit. The Federal Reserve's starting point makes cuts harder to justify, but not impossible if we see a couple more months of weak unemployment data.



Source: United States Bureau of Labour Statistics

Inflation

May 2025 was the fourth consecutive month of calming inflation data. Both headline CPI and core inflation were lower than expected. Year on year, CPI is trending at 2.35%, while core is trending at 2.78%[2]. Until Israel and the U.S. attacked Iran, energy prices were deflationary, with a 3.46% year-on-year decline. Food inflation was running at 2.88% annually, and core goods (such as clothes, drinks, and furniture) were increasing at 2.78% annually. You may recall that we previously commented on the prices of coffee, cocoa, and cattle (the fun stuff). We used these items as anecdotal examples of the impact of global warming on inflation. While the fun stuff's prices haven't fallen back, their impact on inflation has diminished due to base effects. Who'd have thought the fun stuff would become luxury goods with supplemental prices on restaurant menus?

Core services (services with less energy costs) remain one of the most stubborn components of inflation, primarily due to shelter costs. All other components of core services (transport, medical expenses, education, etc) are running below 0.20%. In May 2025, the Bureau of Labour Statistics reported that the shelter index rose 0.3% month-over-month, with a 3.9% year-over-year gain - its slowest annual pace since November 2021. The CPI shelter metric lags actual market rents by 12–18 months because it blends new and existing leases and uses owner-equivalent rent estimates. More timely, private market data (Realtor.com, Apartment List) shows asking rents falling for 22 consecutive months. In May 2025, the asking rent for 0-2 bedroom properties fell by $29, down 1.7%. We expect shelter CPI to fall in the coming months gradually - reflecting real-world rent declines - but with a time lag and structural inertia, meaning it will remain a persistent inflation anchor through much of late 2025.

As mentioned last month, the U.S. Federal Reserve will most likely wait to see if tariff-related pressures flow through the curve before cutting interest rates.

Shelter shortage is a global problem, with no quick fix and no end in sight. No country has the magic wand needed to build shelter and drive down the price of rent. Construction costs have made new housing unaffordable for most. Sadly, the main release valve for easing housing pressure is homelessness, another global crisis. Despite demand for easing, the U.K. has recently reported its lowest number of new housing permits in 13 years, c.39k in the first quarter of 2025, 33% lower than last year and 55% lower than the previous quarter. The UK government estimates that 300,000 new homes are needed annually. In 2023, the UK built 234,000 homes, with fewer forecast this year and next.

Market implications

Magnificent 7's dominance will continue to boost returns. In credit markets, spreads will remain at current tight levels. There are currently no red flags for investors to sell credit risk. The economic data of late is strong enough to support current spreads. Current yields and spreads support continued risk-adjusted returns for credit risk versus equity returns. Nor are there many short-term catalysts to reverse this situation, given that the Federal Reserve will remain on hold for at least the next three months, and equity valuations are approaching fair value.

Hopefully, we are heading into an uneventful summer. For the last 20 years, July has been the best month for total credit returns, according to Morgan Stanley - famous last words.

And finally

Here's hoping we've heard the last of Mr. Musk kyoodling in the White House. For the moment, the general narrative is that President Trump won the divorce case. Maybe, for now. Mr. Musk must have backed down when he realised that the U.S. population would ignore details of President Trump's salacious past, given the nation is so desensitised to political sleaze after years of philandering politicians.

The fact remains that the tech giants are the masters of the universe, including Mr. Musk. Tech Oligarchs have their fingers on the algorithms. It wouldn't take much to tweak and turn against the President before he has time to turn on them. Real strongmen have paramilitary support on the ground to heel errant oligarchs. The threat is enough. The U.S. doesn't have military on the ground in the U.S., oh no, wait, California.

Sadly, the Polymarket has numerous options to speculate on when the President and Musk will reunite, with the probability approaching 100% by year-end. Allow me to be more pessimistic, I'll say sooner.

Until next month, much love.

Conor Spencer
23 June, 2025

Source Data: ICM, Bloomberg as of 31 May, 2025.
[1] The U.S. Dollar Index (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies.
[2] Consumer Price Index News Release - 2025 M05 Results.

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