



FOUNDED IN

1988

EMPLOYEES

80+

LOCATED IN

10+
COUNTRIES

ASSETS DIRECTLY
UNDER MANAGEMENT

US\$1.2
BILLION

ASSETS HELD BY INVESTEE
& AFFILIATED COMPANIES

US\$37.9
BILLION



ICM Monthly Outlook

MAY 2025

Market Review

Equity markets have continued their snapback since our last letter. The U.S. equity market has recovered all ground since April 2nd, boosted by the capitulation on tariffs, solid earnings in Q1 2025, and better-than-expected jobs numbers. Since their lows on April 8, the S&P 500 has risen 18% and the NASDAQ has increased by 24%. Year to date, U.S. equity markets have returned to positive territory.

The easing of trade tensions has soothed some investors' fears of an entrenched trade war and fortified their view that President Trump's bark is worse than his bite. The U.S. and China agreed to cut reciprocal tariffs from 125% to 10%. U.S. duties of 20% on Chinese imports relating to fentanyl will remain in place, meaning total tariffs on China now stand at 30%. Essentially, China now has the same starting point as everyone else and looks poised to secure better trade terms than Europe, highlighting the benefit of standing up to bullies immediately, rather than appealing to their better judgment. While there will be plenty of potential sticking points in trade negotiations, we expect that tensions will melt away as President Trump's focus shifts to the U.S.' bloated balance sheet and budget deficit. President Trump knows it is not worth fighting China. China has the benefit of adopting a fifty-year time horizon. In contrast, President Trump has about a five-hour time horizon. Needless to say, China's 'pause' in anticipation of a deal was heralded by President Trump as a great achievement. President Trump also capitulated on auto tariffs based on the feedback of the U.S. auto industry¹, a scenario we discussed at length in our December 2024 letter. Common sense prevailed.

In our January letter, we stated that we expect 2025 to be another positive year for markets. With the first 100 days of Trump turbulence behind us, a slew of manufacturing and trade deals made during his Middle Eastern trip, and a better sense of how to manage his communications (investors waiting three days for a policy reversal), we reiterate our expectation that 2025 will indeed become a positive year.

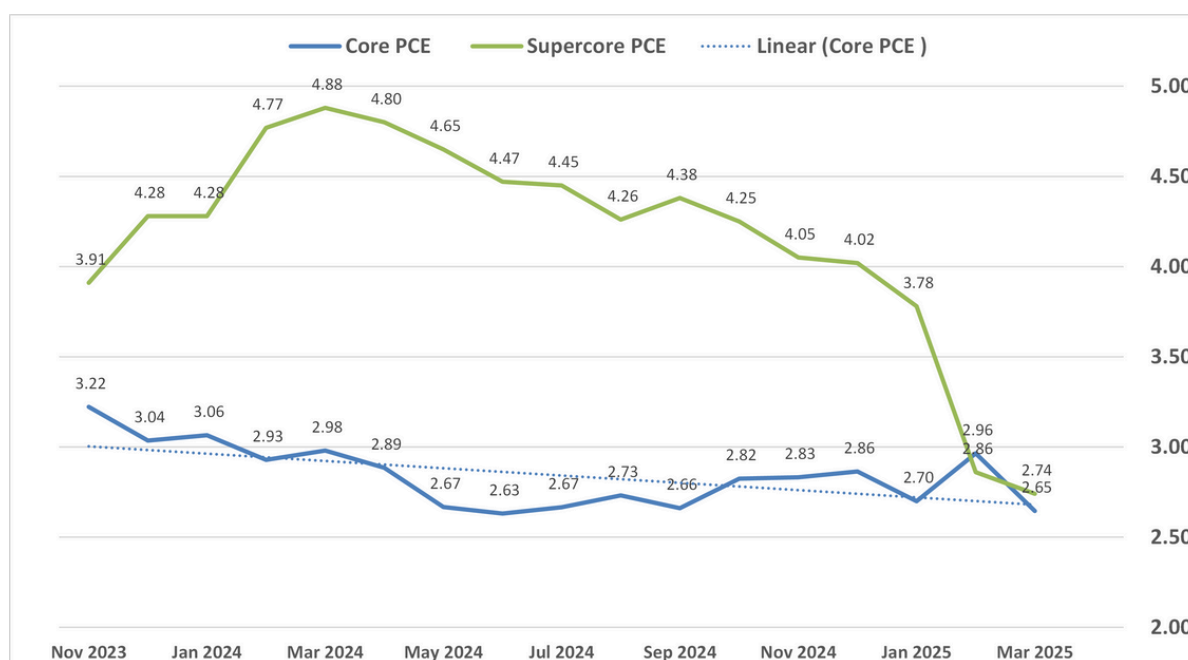
Outlook

Our central-case scenario is for the U.S. to avoid a recession this year, despite the dent in confidence suffered by some investors caused by President Trump's policies. We believe that the extent of the rally in equities and the inconsequential widening of credit spreads suggest that most investors do not expect a recession either. We anticipate that global GDP will kick-on based on fiscal expansion in Europe, the subsidence of tariff risk, a strong pipeline of new orders after the U.S. inveigled trade partners into larger deals than would have been on the table, and a rebound in consumer confidence. By way of example, on the same day that the U.S. and the U.K. announced a trade deal, International Airlines Group, the owner of British Airways and Iberia, ordered 32 wide-bodied Boeing planes. It was notable how quickly the U.S. agreed on heads of terms with the U.K. and Europe once airlines began suggesting they were considering cancelling orders with Boeing and buying Chinese planes instead². We expect to see a plethora of upward revisions to global GDP growth forecasts.

Inflation, Jobs, and the Fed

In April, U.S. consumer sentiment fell to its second-lowest level on record, driven by concerns about inflation resulting from tariffs. The U.S. economy needs consumers to engage. If consumers aren't consuming, the inevitable result is economic slowdown and recession. Equity and bond investors are nowhere near as pessimistic as the public in the U.S., and we think that the U.S. consumers will change tack.

The latest data on inflation suggests inflation continues to trend lower. In April, the U.S. Consumer Price Index (CPI) came in below expectations, encouragingly. Indeed, both CPI and Personal Consumption Price index (PCE) rates were lower than expected, at 0.2% and 0% month-on-month, resulting in annualised rates of 2.3% and 2.6%, respectively. We prefer to focus on the PCE, given the U.S. Federal Reserve Bank pays more attention to it. The following graph shows the improving trajectory of PCE, also known as core inflation.



Source: United States Bureau of Labour Statistics

Perhaps in the short term, the U.S. faces the prospect of a temporary return to inflation due to disruptions from President Trump's policies. However, we believe this will be a short-lived phenomenon, and choose to look through it, anticipating that inflation will continue its downward trend thereafter.

This does not mean that we expect the Federal Reserve Bank will look through. In 2022 and 2023, the U.S. Federal Reserve Bank endured a lot of criticism for looking through "transitory inflation" after COVID, when in fact inflation lingered a lot longer than anticipated. Once bitten, twice shy. Consequently, we believe the Federal Reserve Bank will likely delay cutting rates for longer than the market currently expects. However, over the medium term, we expect inflation to continue falling, which should allow the Federal Reserve to cut rates later.

Furthermore, we anticipate solid job numbers in the coming months. We believe that many companies have remained on the sidelines in their recruitment efforts while waiting to see how President Trump's plans unfold. Now, companies can resume filling jobs knowing that President Trump backs down when necessary. The U.S. can also expect a boost in job creation from reshoring, reduced immigration, and renewed consumer confidence. Going forward, a key consideration for the U.S. Federal Reserve will be wage inflation.

Now that he has his foreign counterparts on the defensive, President Trump's focus will shift toward domestic issues. For example, President Trump has targeted the pharmaceutical sector, in line with his pre-election campaign rhetoric. President Trump is targeting the unit costs of prescription drugs in the U.S. As usual, President Trump's opening gambit is another "you cannot be serious" move, but it has the industry on the defensive. The President will seek to gain leverage over the pharmaceutical industry to drive down prices. We can expect pharmaceutical companies to remonstrate based

on the long-term impact that lower revenue will have on research and development. Pharmaceutical industry lobby groups' protests will fall on deaf ears, given the current Secretary of Health's views on the industry³. Lower drug prices will feed through to lower inflation.

We still expect lower energy prices, too, due to increased output from OPEC+ and the U.S., with a price per barrel floor of approximately \$45-50. This drop will also pull down inflation and boost consumption, helping consumer confidence in the process. A favourable regulatory environment for hydrocarbon producers remains a central tenet of the current government.

Debt Burden and Key Man Risk

The U.S. President is rowing back on tariffs because he has no choice. The U.S. lacks the financial flexibility to endure a trade war, as we have previously discussed. The U.S.' economy lives in the shadow of its enormous debt burden. Part of President Trump's plan was for the Department of Government Efficiency (DOGE) to cut approximately USD 2 trillion in expenses. It remains to be seen if DOGE worked out as planned, but the general sense is that it did not. DOGE has highlighted the challenges the U.S. faces in reducing spending without destabilising the economy. As Mr. Musk prepares to depart Washington, the estimated cost savings are closer to USD 200 billion, a substantial number by any stretch of the imagination, except on the U.S. balance sheet, in which case it's a rounding error, equivalent to 0.55% of the Federal balance sheet. Cuts to the U.S. Internal Revenue Service (the tax collector) threaten less productivity, fewer collections, thereby negating the benefit of DOGE entirely. Furthermore, President Trump has yet to unveil his tax cut policies, which also formed part of this election manifesto, which could also reduce the government's tax take, leading to an increase in the deficit, undoing most or all of the DOGE efforts to reduce this gap.

The U.S. economy now faces key man risk on Treasury Secretary Bessent. Mr. Bessent has emerged as the grown-up in the room and has reassured market participants for the most part thus far. It was Mr. Bessent who convinced the President to pause tariffs when the bond market started to lose confidence in the U.S. economy. It was Mr. Bessent who persuaded Mr. Trump to stop sledging "Too-late Powell" for fear of spooking bond investors and driving up the cost of debt for the U.S.

Mr. Bessent keeps telling investors not to lose faith in the administration's plan, that there is a good plan, and that it'll all work out. Mr. Bessent still has control over this situation, for the time being. Woe betides the U.S. Government if he leaves his post. We believe Mr. Bessent will continue to manage the U.S. economy and prevent a recession because he has a deep understanding of markets.

Market implications

We believe the worst is likely behind us, and the market will continue to improve gradually. There is no way President Trump will re-ignite the trade tensions of early April, barring some vast outlandish plan for world domination. Inevitably, the market will endure more volatility, as President Trump needs the drama to stay in the headlines. For instance, the giant military parade he wants in Washington on June 14th, which coincides with President Trump's birthday, at an estimated cost of USD 100 million, straight out of the strongman playbook, but not the DOGE playbook.

We expect the Federal Reserve Bank to hold rates at their current level of 4.5% for longer than the market anticipates, unless there is a precipitous decline in economic activity, which we do not foresee. In the medium term, we anticipate that the Federal Reserve Bank will cut rates after it has gained significant visibility that inflation is sustainably lower, or the job market slows substantially.

Historically, May through September tend to be weaker months for market performance, inspiring the adage, Sell in May and go away (I wish). That feels apt this year, as the dust settles on a topsy-turvy year to date. Hard data over the next two months should begin to provide a clearer picture of demand, free from front-loading, and indicate whether consumers and companies have the confidence to spend and invest.

In conclusion, steady as she goes for the coming months, as trade deals are finalised and investor jitters subside.

And finally

The GOAT retires. Happy retirement, Mr. Buffett. Impressive.

Kind regards,

Conor Spencer

20 May, 2025

Source Data: ICM, Bloomberg as of 31 April, 2025.

[1] Trump tariffs: US president eases car import taxes after firms raised concerns - <https://www.bbc.com/news/articles/c70zy5w983go>

[1] Ryanair threatens to ditch Boeing for Chinese rivals over Trump tariffs - <https://www.telegraph.co.uk/business/2025/05/01/ryanair-threatens-swap-to-chinese-jets-over-trump-tariffs/?msocid=0fce34b13f7b66b903373bf73e916758>

[1] The Real Anthony Fauci by Robert F. Kennedy Jr. 2021.

Risk Warning

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