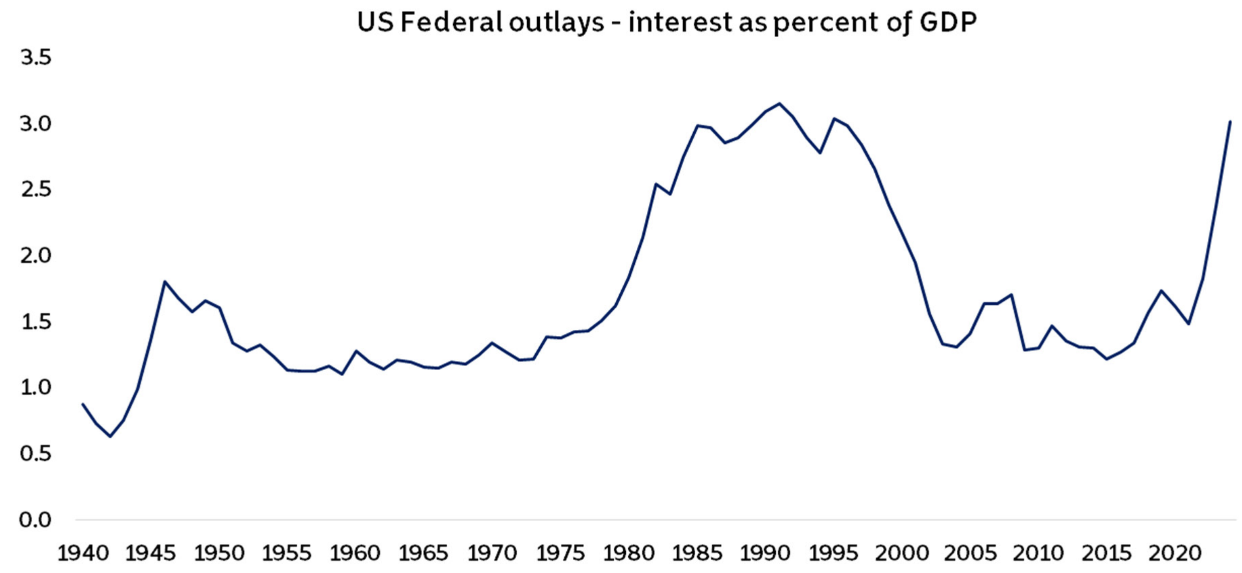
Chart of the Week

2 June 2025



Source: Momentum Global Investment Management, Bloomberg Finance L.P., US Office of Management and Budget, data to end 2024.

Debt of a nation

Tom Delic
Fund Manager

What this chart shows

The chart shows an 85-year history of US federal outlays on interest payments, as a percentage of US GDP. This is forecast to rise to its highest level over the period, while accelerating to above 4% by 2035[1]. This rapid increase in recent years has occurred due to an unsustainable trajectory of debt issuance and the normalisation of interest rates.

The increase is both startling and concerning when compared to the last peak in 1991. The preceding decade to 1991 saw an average 10-year US Treasury yield of 9.7%, an expensive time to issue debt. This compares to just 2.5% in the decade to the end of 2024, a period of tremendous lender generosity in the era of zero interest rates. While yields fell in the years following 1991, making the refinancing and issuance of debt more manageable for the US, it is unlikely we will see history repeat. A back of the envelope calculation shows that the refinancing of debt due to roll off over the next 5 years adds a further 0.5% of today's GDP to the yearly interest bill.

Why this is important

The concern surrounding the rising debt burden in the US is mounting, with the final major credit rating agency, Moody's, downgrading the US to below AAA in recent weeks. The current administration's appetite for debt shows no sign of abating, an unsurprising characteristic given the Commander-in-Chief's business record. "Yippy" bond markets have already forced President Trump to backtrack on his aggressive protectionist policies, and the bond vigilantes may return to warn the US government again – a shaky fiscal position will cost you.

Further, a recent paper by historian Niall Ferguson used events of the past to highlight the dangers of a high interest burden. In 2024, debt service costs outstripped defence spending for the first time in a century, a leading indicator that Ferguson finds in his paper, if remaining intact for an extended period, has been predictive of the decline of history's great global powers.

Source: [1] Congressional Budget Office – 'The Budget and Economic Outlook: 2025 to 2035'.

Weekly market update

week ending 30 May 2025

momentum
global investment management

Markets navigated a fragile equilibrium last week as central banks signalled easing, geopolitical and trade tensions escalated.

US

- The S&P 500 ended May with a 6% gain, reflecting investor optimism despite trade policy. uncertainty.
- JPMorgan's Jamie Dimon warned US bond market will 'crack' under pressure from rising debt, citing US fiscal mess.
- The US economy shrank at a 0.2% annual pace from January through March, the first drop in three years, as President Donald Trump's trade wars disrupted business, the government said Thursday was a slight upgrade of its initial estimate.
- President Donald Trump announced the US will double its current tariff rate on steel and aluminium imports from 25% to 50%, starting on Wednesday.

UK

- The IMF has upgraded its forecast for the UK economy this year after strong growth in recent months. The Fund now forecasts UK GDP will increase by 1.2% this year, up from a forecast of 1.1% last month.
- Bank of England policymaker Alan Taylor plays down inflation risk in call for rate cuts stating price rises are being driven by one-off factors as he stressed hit from Trump trade war.
- The UK's debt servicing costs are projected to reach £105 billion annually. With public sector debt at 100% of GDP and expected to rise, there are growing concerns about the affordability of public commitments like pensions and the NHS.
- Retail sentiment declined, with food inflation rising for the fourth consecutive month, impacting consumer confidence.

Europe

- EU markets reacted positively to the US delaying tariffs, with Germany's DAX hitting a record peak.
- The ECB is widely expected to lower the deposit rate by another 0.25% to 2% on 5 of June, marking its eighth interest rate cut amid a brightening economic outlook, despite ongoing uncertainty triggered by US trade tariffs.
- A Eurobarometer poll revealed that 52% of respondents across the 27 member states express confidence in the EU, the highest since 2007.
- Poland's Karol Nawrocki, a nationalist candidate backed by Trump, won Poland's presidential election with 50.9%, in a blow to the country's pro-EU government.

Rest of the World/Asia

- China accuses US of 'seriously violating' trade truce with Beijing promising to take strong measures to defend its interests.
- Weak demand for Japan's 40-year government bonds, with yields rising to their highest levels in nearly a year, signalling investor caution, in particular regarding the YEN/ USD carry trade.
- Japan proposed to purchase approximately ¥1 trillion ($6.94 billion) worth of US semiconductor products as part of tariff negotiations.
- OPEC+ increased production less than expected to 411,000 barrels a day in July matched expectations, but was less than some had feared, and tensions with Ukraine and Iran reduced the chance of more supply entering the market.

Weekly market data

week ending 30 May 2025

momentum
global investment management

Asset Class / Region	Currency	Cumulative returns: Week ending 30 May	Month to date	YTD 2025	12 months
Developed Markets Equities					
United States	USD	1.9%	6.3%	0.9%	14.0%
United Kingdom	GBP	0.7%	3.4%	9.2%	10.3%
Continental Europe	EUR	0.8%	4.7%	10.8%	8.0%
Japan	JPY	2.5%	5.1%	1.8%	5.4%
Asia Pacific (ex Japan)	USD	-0.8%	5.1%	8.0%	13.3%
Australia	AUD	0.9%	4.2%	5.0%	14.5%
Global	USD	1.6%	5.9%	4.9%	14.6%
Emerging Markets Equities					
Emerging Europe	USD	1.1%	4.8%	26.1%	14.9%
Emerging Asia	USD	-1.2%	5.0%	7.2%	12.5%
Emerging Latin America	USD	-1.4%	1.6%	22.4%	-0.5%
BRICs	USD	-1.9%	1.9%	9.8%	14.0%
China	USD	-2.7%	2.7%	13.1%	24.7%
MENA countries	USD	-1.2%	-2.0%	-1.5%	7.3%
South Africa	USD	-0.5%	5.0%	23.9%	35.1%
India	USD	-0.7%	0.8%	5.2%	8.4%
Global emerging markets	USD	-1.1%	4.3%	8.7%	12.1%
Bonds					
US Treasuries	USD	0.8%	-1.1%	2.5%	5.3%
US Treasuries (inflation protected)	USD	0.8%	-0.6%	3.6%	5.9%
US Corporate (investment grade)	USD	1.0%	0.0%	2.3%	6.2%
US High Yield	USD	0.7%	1.7%	2.6%	9.5%
UK Gilts	GBP	0.6%	-1.2%	1.0%	2.0%
UK Corporate (investment grade)	GBP	0.5%	-0.2%	1.5%	4.9%
Euro Government Bonds	EUR	0.6%	0.1%	0.7%	5.0%
Euro Corporate (investment grade)	EUR	0.4%	0.5%	1.6%	6.6%
Euro High Yield	EUR	0.5%	1.3%	2.3%	8.3%
Global Government Bonds	USD	0.4%	-0.6%	5.5%	7.0%
Global Bonds	USD	0.6%	-0.5%	5.2%	7.1%
Global Convertible Bonds	USD	0.5%	3.6%	6.7%	15.0%
Emerging Market Bonds	USD	0.7%	0.7%	2.9%	8.0%

Asset Class / Region	Currency	Cumulative returns: Week ending 30 May	Month to date	YTD 2025	12 months
Property					
US Property Securities	USD	3.0%	2.0%	0.1%	13.4%
Australian Property Securities	AUD	0.6%	5.0%	3.5%	8.3%
Asia Property Securities	USD	0.7%	1.3%	12.4%	11.1%
Global Property Securities	USD	2.2%	2.4%	5.3%	13.4%
Currencies					
Euro	USD	-0.1%	-0.1%	9.7%	4.7%
UK Pound Sterling	USD	-0.5%	0.9%	7.5%	5.7%
Japanese Yen	USD	-0.9%	-0.9%	9.3%	8.9%
Australian Dollar	USD	-1.0%	0.5%	3.9%	-3.3%
South African Rand	USD	-1.0%	3.3%	4.9%	3.6%
Swiss Franc	USD	-0.2%	0.0%	10.4%	9.9%
Chinese Yuan	USD	-0.3%	1.0%	1.4%	0.5%
Commodities & Alternatives					
Commodities	USD	-2.2%	1.0%	-2.0%	-4.8%
Agricultural Commodities	USD	-1.7%	-1.2%	-2.1%	-6.0%
Oil	USD	-1.4%	1.2%	-14.4%	-21.9%
Gold	USD	-2.0%	-0.6%	25.3%	40.1%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

For more information, please contact:
Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

Important notes - This document is only intended for use by the original recipient, either a Momentum Global Investment Management Limited (MGIM) client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multi-manager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

MGIM (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB. MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom (registration no.232357), and is exempt from the requirements of section 7(1) of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) in South Africa, in terms of the FSCA FAIS Notice 141 of 2021 (published 15 December 2021). For complaints relating to MGIM's financial services, please contact distributionservices@momentum.co.uk