

May 2025 Market Outlook

The Michele Carby Practice

A person is seen from behind, sitting in a kayak on a calm body of water. They are holding a blue paddle. The background shows a distant shoreline with trees under a clear sky. The entire image is overlaid with a semi-transparent dark blue filter.

Market Outlook

Navigating the Financial Currents

May 2025

MCP INSIGHTS

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Introduction

In this month's edition of our Global Market Insights newsletter, we look at the forces reshaping economies, sectors, and investor sentiment across the globe. From evolving tariff impacts and monetary policy signals to AI innovation and geopolitical recalibrations, May finds markets standing at the intersection of volatility and opportunity.

We begin with the U.S. economy and financial markets, where recent data reveals an unexpected contraction driven by a sharp, tariff-induced spike in imports. While some sectors remain strong, financial markets have responded with volatility. We examine what recent moves in Treasury yields and Fed policy signals mean for rate-sensitive asset classes and portfolio positioning.

Shifting our focus to China, we discuss the ripple effects of declining exports and disruptions in global trade flows. Mounting supply chain challenges continue to weigh on global markets and retail-sector equities, particularly in the U.S. and Asia. Our analysis explores how these dynamics may reshape global capital allocation.

Turning to the tech and AI frontier, we cover the diverging strategies of general-purpose versus specialised models, Meta's assertive capital deployment, and the surging demand for AI infrastructure. However, challenges remain—from data centre power constraints to strained supply chains.

On the geopolitical front, we evaluate a set of developments with long-term investment implications. This includes rising India-Pakistan tensions following a tragic terror attack, the deepening Franco-Polish defence partnership as Europe seeks strategic autonomy, and a complex U.S.-Ukraine mineral deal that ties resource access to foreign policy. We discuss how these developments may influence commodity prices, regional market performance, and global risk sentiment.

Finally, we review the broader macro picture. Tariffs, supply shocks, and market divergence have added complexity, but also opened the door to fresh opportunities in emerging markets. As always, our goal is to help you make sense of the noise, understand where the pressure points are forming, and position your portfolio to respond—not react—to change. Let's dive in.

Kind regards,

Payal Trehan

Senior Investment Strategist

A handwritten signature in blue ink that reads "Payal Trehan". The signature is written in a cursive, flowing style.

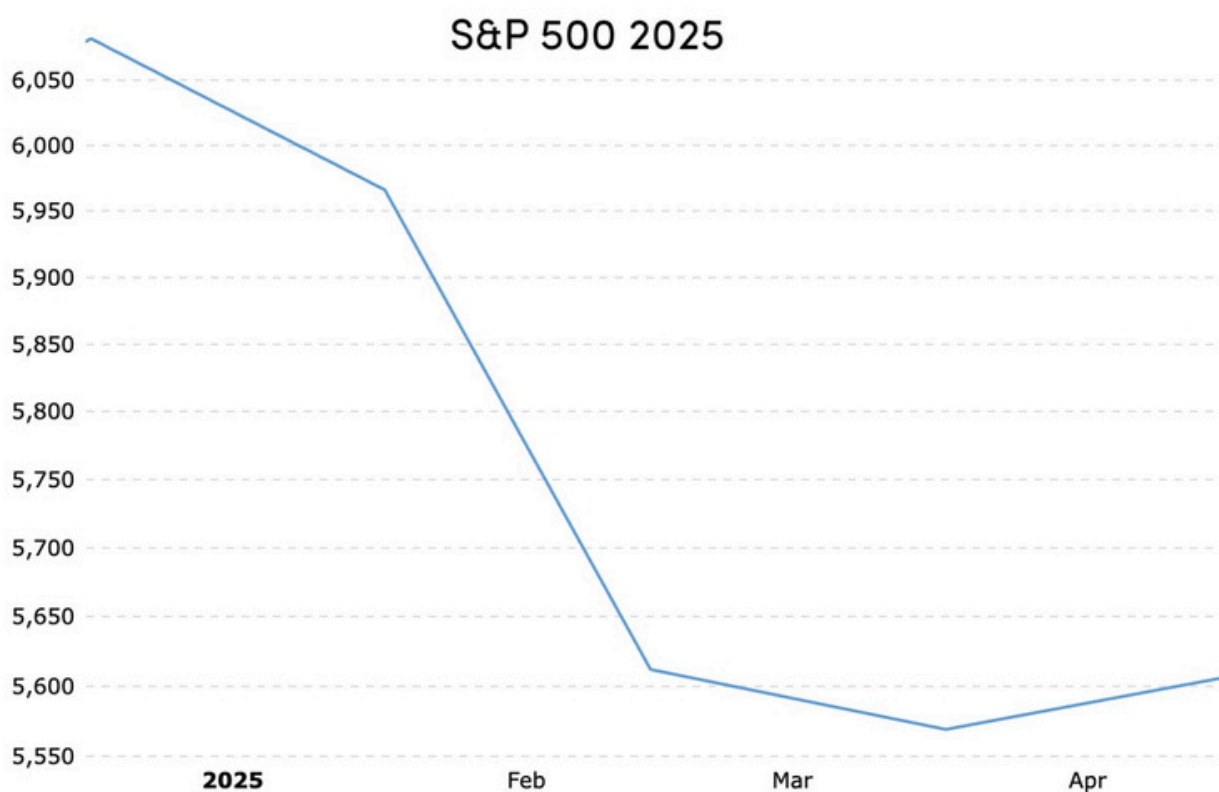
April Market Recap: A Month of Volatility and Divergence

As we reflect on the market landscape in April 2025, the picture is one of sharp contrasts and rising uncertainty. April marked a turning point from the relatively stable performance we saw earlier in the year—particularly in February—driven by escalating trade tensions, shifting Federal Reserve expectations, and sector-specific developments in technology and commodities.

The month kicked off with a jolt: sweeping new import duties introduced

by the Trump administration on April 2 sent shockwaves through financial markets, triggering an immediate sell-off across major U.S. indices. The Dow Jones Industrial Average and S&P 500 both struggled to recover from the initial blow, ultimately finishing the month in negative territory. In contrast, the Nasdaq Composite managed to claw its way back, ending April with a modest monthly gain.

By month's end, the performance figures told the story: the S&P 500 declined by 0.76%, the Dow dropped a more significant 3.17%, while the Nasdaq inched up by 0.85%.



Source: Marketwatch S&P 500 Index

Investor sentiment was rattled early on as the scope and severity of the tariffs exceeded expectations, prompting a spike in the CBOE Volatility Index (VIX), which briefly surged to 60—its highest reading since the COVID-era panic.

However, markets gradually stabilised after the administration softened its position. A 90-day grace period for trade partners yet to retaliate, along with the suspension of tariffs on key tech components, helped calm nerves and foster a mid-month rebound.

The broader equity landscape showed notable regional variation. While U.S. stocks lagged, developed markets elsewhere posted gains, with an average increase of 0.9% across key indices. Growth-oriented sectors continued to lead the way, outpacing value stocks. Energy stocks in particular were a drag on value indices due to weaker commodity prices and profit-taking.

U.S. Economy & Financial Markets

GDP Contracts Amid Tariff Surge: What's Really Happening?

The first quarter of 2025 brought about an unexpected shift in the U.S. economic narrative. A reported 0.3% contraction in GDP marked the first negative quarter since the pandemic recovery phase, raising concerns across markets and among investors. However, as we unpack the drivers of this contraction, a clearer, more nuanced picture begins to emerge.

Emerging markets fared better than expected, helped by strong performances in Latin America—especially from Mexico and Brazil—where stable domestic fundamentals offered a buffer against global headwinds.

Ultimately, April served as a stress test for investor confidence, with abrupt policy shifts, geopolitical jitters, and rate fluctuations converging to produce one of the most erratic market environments of the year so far.

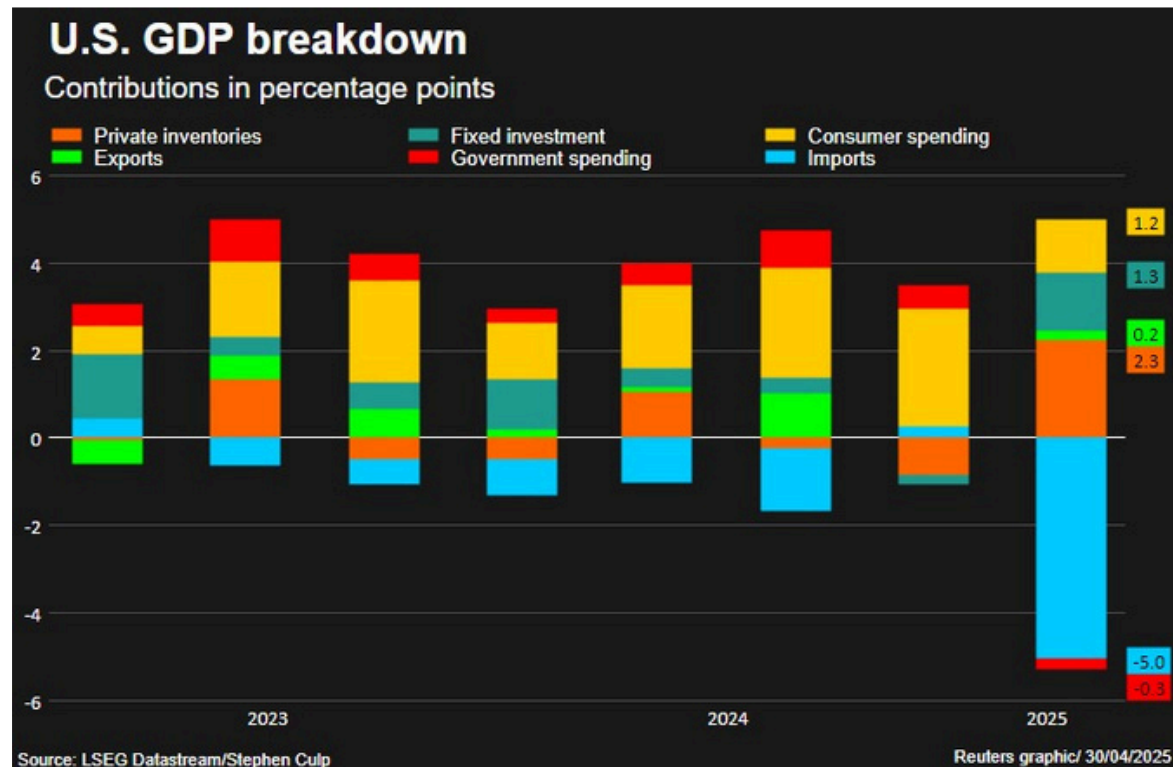
The month was a reminder of how quickly sentiment can shift. Equity markets became reactive to trade policy and rate expectations, while the fixed income market offered mixed signals—near-term caution with long-term concern. As we enter May, staying diversified and attentive to macroeconomic indicators will be more important than ever.

At the heart of this GDP dip is a dramatic spike in imports during the final weeks of Q1. This surge was not driven by increased consumption, but rather by businesses front-loading shipments ahead of the implementation of new tariffs introduced by the Trump administration. These pre-emptive imports artificially inflated the trade deficit, which negatively impacted the GDP calculation.

Yet despite this statistical anomaly, several core areas of the economy remain surprisingly healthy. Consumer spending continued to rise, especially in services and durable goods. This is a vital sign of confidence among

American households, who remain the backbone of the economy. Equally notable is the strong growth in business investment—particularly in information processing equipment, signalling that

firms continue to prioritise productivity and digital transformation despite policy uncertainty.



Source: Reuters & LSEG Datastream

Tariffs Trigger Market Volatility: What You Should Know

April 2025 delivered a jolt to global financial markets, with U.S. equities suffering their steepest two-day losses since the early stages of the pandemic. The S&P 500 and Nasdaq bore the brunt of the declines, driven by investor anxiety over the unexpected rollout of sweeping new tariffs by the Trump administration.

These tariffs, aimed at a wide array of imported goods from China, Europe,

and other trading partners, were met with immediate market resistance. Investors feared that higher import costs would compress corporate margins, especially in manufacturing and retail sectors, while also potentially re-igniting inflation. The ripple effect extended globally, roiling supply chains and prompting central banks to reassess policy trajectories.

In response to the market backlash, the administration announced a temporary pause on select tariff increases, a move that helped stabilise the indices—but

the volatility left its mark. Investor sentiment was fragile for most of April, especially given the uncertainty about future trade policy decisions. However, the end of April and beginning of May have seen a market resurgence, buoyed by the news that China is considering the possibility of trade talks with the US and that nonfarm payroll jobs increased by 177,000 throughout the month. While short-term volatility can be unnerving, it often presents buying opportunities for those with a longer horizon. Defensive sectors like healthcare, consumer staples, and utilities have outperformed during this recent correction, while growth sectors such as technology are trading at valuations not seen in several years.

The lesson here is clear: policy risk remains a key driver of market behaviour in 2025. It's critical to maintain a globally diversified portfolio that can absorb these shocks while still capturing long-term growth opportunities.

Treasury Secretary Signals Potential Rate Cuts: What It Means for You

A significant policy signal emerged in late April, when Treasury Secretary Scott Bessent publicly stated that economic indicators suggest the Federal Reserve may need to consider interest rate cuts. This comes on the heels of two-year Treasury yields falling below the effective federal funds rate—a yield curve inversion that historically precedes a downturn.

While the Fed has remained tight-lipped about future moves, markets have taken Bessent's comments seriously. Futures pricing suggests an increasing probability of rate cuts before the end of summer. This shift in expectations has broad implications for borrowers, investors, and the broader economy.

For borrowers, lower interest rates could mean reduced costs for mortgages, credit cards, and small business loans—potentially stimulating consumer and business activity. For equity investors, rate cuts often support higher valuations, particularly in growth-oriented sectors like technology and biotech, where future earnings are more sensitive to discount rates.

However, the picture is more complex for income-focused investors. As yields fall, the real return on cash and short-duration fixed income instruments diminishes. This environment may require a strategic shift—perhaps toward dividend-paying equities, municipal bonds, or alternative income-generating assets.

The takeaway here is that interest rates are poised to play a defining role in market performance through the rest of 2025. We're actively evaluating the impact of possible rate cuts on all aspects of our client's portfolio.

Consumer Behaviour Shifts in Fast Food Sector: A Sign of the Times?

Recent earnings reports from major fast-food chains such as McDonald's, Starbucks, and Chipotle have spotlighted a meaningful change in [pg. 6](#)

consumer behaviour. Despite relatively stable pricing, these companies reported a decline in both foot traffic and transaction volume—signs that point to a more cautious consumer mindset.

This shift is not occurring in a vacuum. Inflation, while moderating overall, has kept food costs elevated. Meanwhile, wage growth appears to be flattening, especially in lower-income brackets. As a result, many consumers are adjusting spending habits—trading down, eating out less frequently, or opting for less expensive dining options.

The broader implication is that economic uncertainty is beginning to shape daily financial decisions. Consumer discretionary spending, especially in non-essential areas like dining out, is often the first to be adjusted when confidence wanes. This trend offers important signals to investors about where growth—and risk—may lie in the current environment.

Companies offering essential products and services, such as groceries, household staples, and healthcare, may be better positioned to weather this shift. Meanwhile, fast-casual and premium dining chains could face ongoing headwinds unless they adapt their pricing and value propositions.

For investors, these patterns reinforce the need to be selective within the consumer sector. Opportunities remain, but they may be concentrated in firms that cater to value-conscious consumers or that can deliver

consistent demand regardless of the broader economic cycle. At The Michele Carby Practice, we are continuously reviewing sector exposure to identify resilient opportunities amid changing trends.



Long-Term Bond Yields Rise Amid Fiscal Concerns: A Caution Flag

While short-term Treasury yields have dipped in response to slowing growth and rising expectations for rate cuts, the story at the long end of the yield curve is quite different. Thirty-year Treasury yields have climbed to 4.8%, a level not seen since before the 2008 financial crisis.

This divergence reflects deepening concerns about the U.S. government's long-term fiscal outlook. With deficits projected to remain elevated and entitlement obligations continuing to grow, investors are demanding greater compensation for the risk of lending over longer durations. Higher long-term yields also suggest that inflation expectations remain sticky and that fiscal credibility may be under question. For bond investors, this environment presents both risks and opportunities. On one hand, rising long-term yields reduce the value of existing bonds with lower coupons. On the other, they offer

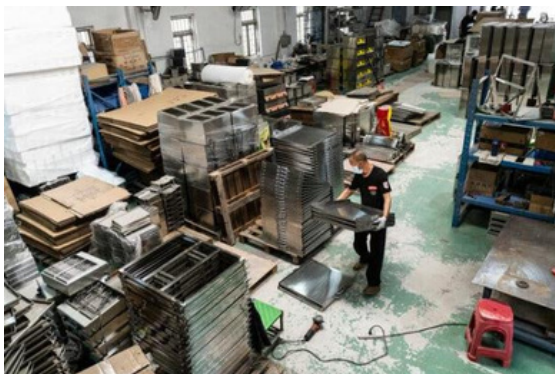
a chance to lock in more attractive income streams than have been available in recent years. The key is managing duration risk and maintaining exposure to high-quality credits.

In portfolio terms, this may mean reducing exposure to long-duration Treasuries while selectively adding intermediate or shorter-term positions with favourable risk-reward profiles. It may also involve looking beyond traditional fixed income to asset classes like infrastructure or dividend-paying equities for yield.

We are closely monitoring yield movements and fiscal policy signals. If you're unsure how rising long-term rates could impact your retirement income strategy or overall asset allocation, we are here to help ensure your plan remains on track.

China Economy & Financial Markets

Manufacturing Sector Struggles Under Tariffs: Navigating the Storm



The Chinese manufacturing sector, long regarded as the engine of global production, is undergoing significant stress as U.S. tariffs take their toll.

Since early 2025, the Trump administration has levied a new wave of duties on Chinese goods, impacting key sectors such as electronics, machinery, and textiles. In response, production has slowed, factory activity has dropped, and a wave of job losses has begun rippling through China's industrial heartland.

Economists estimate that Chinese exports could decline by as much as 10% this year if trade tensions persist. Factory managers are already suspending shifts and halting expansion plans. Some manufacturers have even begun relocating production to Southeast Asia in search of more favourable trade conditions, a move that underscores the magnitude of disruption the tariffs have created. This disruption not only affects China—it also reverberates through the global supply chain.

American companies dependent on Chinese parts are facing delays and rising input costs. As inventories dwindle and supply chains remain unstable, corporate earnings across multiple sectors could be impacted in the months ahead. For investors, this situation poses both risk and opportunity. On one hand, volatility in Chinese equities and emerging market indices may increase.

On the other hand, companies that successfully diversify their supply chains or those based in countries like Vietnam and India could stand to benefit. Investors with exposure to global manufacturing or logistics should consider reassessing regional allocations.

We continually monitor macroeconomic developments to identify implications for our client's portfolios. Whether that means reducing exposure to certain geographies or uncovering opportunities in global logistics and automation, our focus remains on helping client's navigate an increasingly complex international landscape.

China Considers Renewed Trade Talks with U.S.: A Glimmer of Hope

Geopolitical observers and investors alike have taken note of recent signals from Beijing suggesting an openness to renewing trade talks with the United States. Although no official negotiations have resumed, statements from Chinese state media and think tanks linked to the government hint at a willingness to engage—provided the U.S. reciprocates with good faith actions, such as reducing or pausing certain tariffs.

This potential diplomatic thaw comes at a critical time. China is facing slowing export growth, rising youth unemployment, and a property sector that has yet to recover from past overleveraging. Restarting trade discussions could offer both economic relief and a political win for Chinese leadership.

From the U.S. perspective, the growing costs of trade friction—reflected in inflationary pressures and supply chain instability—make renewed talks an attractive prospect. The Biden administration (or future leadership) may choose to ease tensions to support

broader economic stability heading into a potentially contentious election season.

Markets often respond positively to even the hint of diplomatic progress. Equity indices in Hong Kong and Shanghai have already rebounded modestly on the back of these statements. However, much uncertainty remains. Real progress would likely require months of negotiation and compromise, with both sides navigating domestic political pressures.

For investors, the key takeaway is this: geopolitical winds are shifting. While we should not yet price in a resolution to the trade war, increased dialogue could lead to reduced volatility and improved outlooks for export-heavy sectors. As always, we'll keep you informed on developments and their implications for portfolio strategies.

Retail Stocks Vulnerable to Supply Disruptions: A Sector at Risk

As geopolitical tensions continue to mount between the U.S. and China, one sector finding itself increasingly vulnerable is retail—especially companies that depend heavily on Chinese supply chains. From apparel and electronics to home goods and toys, many popular U.S. brands rely on Chinese factories for manufacturing and logistics. Any disruption in these supply lines can have cascading effects, both operationally and financially.

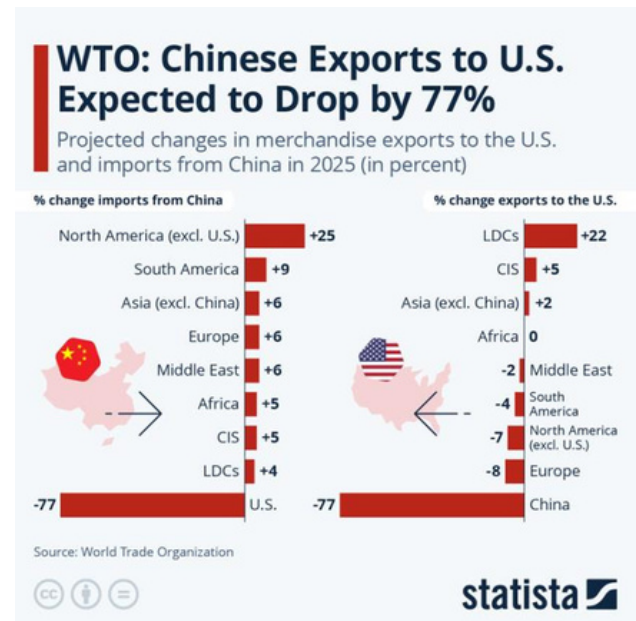
Recent tariff escalations and shipping bottlenecks have already begun to strain inventory levels for major retailers. In addition, some Chinese suppliers are reporting material shortages and labour constraints as they adapt to shifting trade policies and reduced production schedules. These supply-side disruptions are creating challenges in meeting demand, managing pricing, and maintaining profitability. Retail analysts are warning that continued instability could lead to product shortages on store shelves during peak seasons such as back-to-school and the holidays. Furthermore, as retailers struggle to maintain margins, some may be forced to pass along higher costs to consumers—potentially dampening sales and brand loyalty.

Investors should take note. Retail stocks are typically sensitive to both macroeconomic and geopolitical shocks, and in this environment, companies with limited supply chain diversification may be particularly exposed. While large-cap players with global sourcing capabilities might weather the storm, smaller and mid-size retailers with concentrated exposure to Chinese production could face a more turbulent road ahead.

However, disruption also breeds opportunity. Firms that have proactively diversified their supply chains or invested in nearshoring and automation may gain a competitive edge. Additionally, this environment could benefit logistics providers and domestic

manufacturers positioned to absorb re-routed demand.

China's Export Decline Impacts Global Markets: The Ripple Effect



Source: Statista. China's exports to US are expected to drop by 77% in 2025, according to the WTO.

China's role as the world's largest exporter means that any disruption in its trade flows reverberates across the global economy. With a notable decline in exports reported in Q1 2025, international markets are beginning to feel the ripple effects of China's slowdown.

Exports from China have been hit hard by U.S. tariffs, weakened global demand, and internal manufacturing challenges. Year-on-year export volumes have dropped significantly, particularly in consumer electronics, machinery, and textiles. This decline has sent shockwaves through supply chains, affecting companies and

economies reliant on Chinese inputs and finished goods.

Emerging markets that supply raw materials to Chinese factories, such as Brazil, Indonesia, and South Africa, are experiencing a slowdown in demand for commodities. At the same time, developed markets, including the U.S. and EU, are grappling with delays in the delivery of critical components. Multinational corporations that rely on just-in-time inventory systems are finding themselves squeezed by both rising costs and operational delays.

Global equity markets have responded with increased volatility. Investors are reassessing growth projections and adjusting portfolio exposures to account for shifting global trade dynamics. Technology and consumer discretionary sectors have been among the hardest hit due to their reliance on global supply chains and export markets.

In this environment, investors should be cautious but not reactive. Diversification across geographies and sectors becomes even more important when global trade flows are disrupted. Opportunities may arise in sectors that benefit from supply chain localization, digital logistics, or trade with less-affected regions such as Southeast Asia or Latin America.

Technology & Artificial Intelligence

AI Development Diverges Between General and Specialised Models: The New Frontier

The artificial intelligence sector is undergoing a fascinating evolution in 2025, as a growing divide emerges between general-purpose AI models—like ChatGPT—and highly specialised AI agents designed for narrow tasks. This is reshaping how businesses and consumers interact with technology, creating new opportunities and challenges in the process.

General-purpose AI models, trained on broad datasets and capable of handling a wide range of queries and tasks, have become central to everything from customer service bots to research assistants. These models are prized for their adaptability and conversational ability. However, they require immense computational resources and often raise concerns about data privacy, ethical use, and regulatory compliance.

On the other end of the spectrum, specialised AI models—often trained on proprietary or domain-specific data—are gaining traction for their efficiency and targeted performance. For example, financial institutions are deploying AI agents tailored to detect fraud, while hospitals are implementing models trained to assist with diagnostics and treatment recommendations. These task-specific agents offer faster processing, better accuracy in niche domains, and often operate with lower infrastructure costs. Another notable trend is the rise of open-weight AI models—tools where the underlying code and data structures are made publicly available. These models are gaining favour in research communities and smaller tech firms,

who seek the flexibility to customise AI for specific use cases without relying on proprietary, closed platforms.

For investors, this shift represents a strategic opportunity. Companies developing or deploying specialised AI may offer faster paths to profitability, particularly in regulated industries like healthcare and finance. Meanwhile, firms enabling the infrastructure and compute resources for general-purpose models—such as semiconductor manufacturers and cloud service providers—remain critical to the sector’s long-term success.

Meta’s Aggressive AI Investment Strategy: Betting on the Future



Meta CEO Mark Zuckerberg said that AI will replace mid-level engineers by 2025.

Meta, the parent company of Facebook, Instagram, and WhatsApp, is taking bold steps to secure its role at the forefront of the artificial intelligence revolution. CEO Mark Zuckerberg recently announced that Meta would invest over \$60 billion in AI infrastructure and research during 2025—an aggressive move that signals the company’s long-term commitment to the technology despite ongoing economic uncertainty and market volatility.

This investment includes building out massive data centres, acquiring top-tier AI talent, and deploying new training models designed to power everything from generative tools for content creators to advanced recommendation engines for advertising. The company is also pouring resources into open-source initiatives, signalling a willingness to collaborate with the broader AI community while still maintaining proprietary advantages.

Meta’s strategy reflects a broader belief that AI will be the defining platform of the next decade—similar to how mobile defined the 2010s. With competitors like Google, Microsoft, and Amazon all making their own billion-dollar bets on AI, Meta is positioning itself not just as a social media company, but as a foundational player in the next era of computing.

However, the risks are not insignificant. Building and running AI infrastructure at scale is capital-intensive and carries execution risk. Additionally, Meta is facing regulatory scrutiny in the U.S. and abroad, particularly around data privacy, algorithmic transparency, and content moderation—areas that become even more complex when powered by AI.

Still, investors have reasons to pay attention. If Meta succeeds in integrating AI across its platform ecosystem—enhancing engagement, ad targeting, and monetisation—it could dramatically improve both top-line revenue growth and operational efficiency. Furthermore, the company’s diversification into AI infrastructure

could offer new revenue streams beyond advertising.

For long-term investors, the key is to weigh the potential upside of Meta's innovation drive against the challenges of scale, competition, and regulatory oversight. People holding or considering exposure to Meta or other tech firms heavily invested in AI should review how these bets align with their risk tolerance and financial goals.

AI's Impact on Manufacturing: Transforming the Factory Floor

As artificial intelligence technology continues to mature, its impact on American manufacturing is becoming more profound. AI-powered tools are increasingly being adopted to enhance everything from predictive maintenance and quality control to production planning and supply chain optimisation. For an industry that has often lagged in adopting digital innovations, this transformation is ushering in a new era of efficiency, resilience, and competitiveness.

One of the most notable uses of AI in manufacturing is in predictive maintenance. By embedding sensors into factory machinery, manufacturers can now collect real-time data on equipment health and performance. AI models analyse this data to predict when machines are likely to fail—allowing for maintenance to be scheduled proactively, reducing downtime, and avoiding costly interruptions.

AI is also improving quality control through the use of computer vision.

Systems equipped with high-resolution cameras and machine learning algorithms can inspect thousands of products per hour, catching defects that human inspectors might miss. This not only improves product quality but also enables faster throughput and reduces waste.

Another promising application is in production planning. AI algorithms can forecast demand, model optimal inventory levels, and adjust production schedules in real time. This is particularly valuable in a world where global supply chains are frequently disrupted. Companies leveraging AI are better able to respond to changes in demand or material availability, improving responsiveness and customer satisfaction.

While these advancements are exciting, they also come with challenges. Implementing AI requires upfront investment in digital infrastructure, data integration, and staff training. Smaller manufacturers may struggle with these hurdles more than their larger peers. In addition, data security and intellectual property concerns remain front and centre as manufacturers digitise more of their operations.

For investors, the shift toward AI-enhanced manufacturing presents opportunities in multiple areas. Companies that produce industrial automation hardware, AI software platforms, and cloud-based analytics tools are well positioned for growth. Likewise, manufacturers that are early adopters of AI stand to gain in market share and profitability.

This evolution also intersects with broader economic goals. Policymakers are increasingly supporting digitalisation in manufacturing through grants and tax incentives, especially as part of efforts to reshore production and reduce dependence on foreign suppliers.

Data Centre Expansion Faces Challenges: Straining the Grid



AI centre demands are an increasing problem for tech companies around the world.

The explosive growth in artificial intelligence has triggered an unprecedented expansion of data centre infrastructure across the United States. Tech giants like Amazon, Alphabet, Meta, and Microsoft are racing to build hyperscale facilities capable of supporting massive AI workloads, including training large language models and managing billions of real-time queries.

However, this expansion is beginning to encounter substantial challenges—particularly around energy supply, land use, and local infrastructure capacity. Simply put, the power and physical space required to support the next generation of AI computing are straining existing systems.

One major issue is electricity demand. AI servers and GPU clusters consume far more energy than traditional data

centres. As a result, utility companies are warning of regional power shortages and delays in bringing new capacity online. In some areas, data centre construction has been paused or scaled back due to a lack of available energy permits. States like Virginia, Texas, and Georgia—once considered prime locations for data infrastructure—are reassessing how to balance growth with grid stability. Cooling is another growing concern. AI-focused data centres generate substantial heat, necessitating robust cooling systems that require water or advanced HVAC technologies.

Environmental groups and municipal governments are raising alarms about the water use and heat waste of these facilities, especially during periods of drought or extreme weather. Additionally, real estate for new sites is becoming more difficult to secure. Proximity to fibre-optic infrastructure, power substations, and sustainable energy sources often limits suitable locations. The costs of acquiring and developing these sites are rising rapidly, adding to project timelines and budgets.

For investors, these trends carry several implications. Companies specializing in energy efficiency, grid modernization, and advanced cooling technologies may experience growing demand. Real estate investment trusts (REITs) focused on data infrastructure could benefit from constrained supply and rising rents. Conversely, firms that overextend themselves or encounter regulatory delays may face financial setbacks. It's also worth considering the sustainability factor. Many institutional

investors are now scrutinizing the environmental impact of AI development. Companies with robust ESG strategies—including carbon-neutral commitments and renewable energy sourcing—may stand out as more attractive long-term holdings.

At The Michele Carby Practice, we are watching this space closely. The arms race in AI infrastructure is likely to define tech sector performance for the next decade—but it must be pursued strategically. It's crucial to evaluate tech exposure to ensure it captures growth opportunities while mitigating the risks that come with infrastructural and regulatory constraints.

Emerging AI Startups Attract Investment: Fuelling the Next Wave of Innovation

In the ever-evolving landscape of artificial intelligence, one of the most exciting developments is the surge in investment flowing into emerging AI startups. Venture capital firms, corporate investors, and sovereign wealth funds are aggressively funding a new generation of AI-focused companies—many of which are aiming to redefine industries from finance and healthcare to education and logistics.

Despite broader economic uncertainty and tighter monetary policy, venture capitalists remain bullish on the AI sector. In fact, several top-tier funds have launched dedicated vehicles targeting early-stage AI startups, raising billions in fresh capital. These funds are seeking to identify the next cohort of disruptive innovators—companies developing novel AI applications,

infrastructure, or tools that could scale rapidly and reshape markets.

What's driving this enthusiasm? Several factors stand out. First, the success of large foundation models has created a wave of opportunity for startups to build specialised tools and vertical applications on top of them. From legal contract analysis to precision agriculture, these startups are carving out niche markets with high-impact potential.

Second, the cost of entry has dropped significantly. Open-source AI frameworks, cloud-based training platforms, and pre-trained model libraries now enable small teams to develop sophisticated AI products without the infrastructure overhead that would have been required just a few years ago.

Third, enterprise demand for AI solutions is soaring. Businesses are increasingly looking to integrate AI into operations, customer service, and decision-making processes. Startups that can demonstrate practical, measurable ROI are finding eager customers and lucrative pilot opportunities.

Of course, not all that glitters is gold. The current gold rush in AI has led to some frothy valuations and heightened expectations. Investors must be cautious of hype cycles and prioritise startups with strong leadership, clear business models, and defensible technology. Due diligence is more critical than ever. For individual investors, the rise of AI startups opens up multiple avenues for

participation. While direct startup investment may be limited to accredited investors or venture fund participants, there are publicly traded funds and companies that provide indirect exposure. These include firms with stakes in leading VCs, companies offering AI infrastructure, or ETFs focused on innovation and emerging technology.

Our team view the burgeoning AI startup ecosystem as a bellwether for the future of the technology sector. While the risks are real, so is the potential for outsized returns.



Investment is flowing into new AI startups, with venture capitalist, corporate investors, and sovereign wealth funds pursuing all eager to fund the new generation AI companies.

Global Updates & Geopolitical Tensions

Global Economic Outlook Shaped by Tariffs and Geopolitics: A Delicate Balancing Act



The US-China trade war caused huge waves in the market in April, but hopes for negotiations are emerging.

As we move deeper into 2025, it has become increasingly clear that the global economy is being defined not just by monetary policy or innovation, but by the interplay of trade barriers and geopolitical friction. While inflation pressures are beginning to ease in developed economies, growth remains fragile—and, in many regions, is increasingly susceptible to external shocks driven by government policy and international conflict.

The most prominent source of tension remains the widespread use of tariffs. The United States has implemented new duties on hundreds of billions of dollars' worth of imports, triggering retaliatory measures from China and other major economies. These trade disruptions have raised input costs for manufacturers, strained supply chains, and created considerable uncertainty

for multinational corporations attempting to manage global operations.

Beyond trade, military and diplomatic tensions are creating headwinds for investment. Ongoing wars in Ukraine and the Middle East, coupled with rising assertiveness from China in the South China Sea and Russia's continuing influence in Eastern Europe, are leading many companies to rethink global expansion strategies. Cross-border investment flows are being scrutinised more heavily, and supply chain regionalization is becoming the new normal.

That said, the global economic outlook is not without silver linings. Inflation has declined significantly in many advanced economies, aided by tighter central bank policies and the normalisation of energy prices. This has allowed central banks such as the European Central Bank and the Bank of Canada to signal a pause—or even potential easing—in interest rate policy, providing relief to both consumers and businesses.

Meanwhile, select emerging markets are benefiting from the redistribution of supply chains and commodity tailwinds. Countries such as Mexico, Vietnam, and Indonesia are attracting new investments from companies seeking alternatives to China. This diversification could create new growth hubs and offset some of the broader global drag.

For investors, this environment demands a careful, forward-looking approach. Geographic diversification is critical—not just across countries, but across political regimes and trade

blocs. In addition, sectors that are more domestically oriented or less sensitive to international policy shifts, such as utilities, healthcare, and infrastructure, may offer more stable returns.

At the same time, opportunities exist in volatility. Periods of heightened geopolitical risk often result in mispricing, which active managers and long-term investors can use to their advantage. Thematic investments tied to energy security, defence, and digital infrastructure may also stand to benefit.

Emerging Market Stocks Rebound Post-Tariff Shock: A Measured Comeback

Following the initial market shock triggered by the United States' implementation of sweeping new tariffs, emerging market equities—particularly in Asia—are showing signs of resilience. Countries like China, Hong Kong, and Taiwan experienced sharp selloffs in early April 2025, but investor sentiment has since begun to recover as markets adjust to the new economic landscape.

Much of this rebound is driven by a recalibration of expectations. After the initial volatility, governments and central banks across emerging markets acted quickly to stabilise currency valuations and inject liquidity into financial systems. At the same time, signs of renewed trade negotiations and partial tariff suspensions by the U.S. have helped ease immediate concerns, giving investors a reason to cautiously return to riskier assets.

Sectors leading the recovery include technology, green energy, and financial

services—especially in markets with high domestic consumption and diversified export bases. For example, Chinese tech giants and semiconductor firms have staged partial comebacks, supported by strong earnings and expectations of resilient demand outside the U.S. Meanwhile, investors are also eyeing Southeast Asian economies as potential beneficiaries of shifting supply chains, a dynamic accelerated by U.S.-China trade friction.

Despite the bounce, risks remain. Global capital flows into emerging markets are still fragile and highly sensitive to U.S. interest rate expectations and geopolitical developments. Any breakdown in trade discussions or escalation in tensions could reignite market stress. Moreover, currency depreciation in some regions continues to pose challenges for companies with dollar-denominated debt.

That said, valuations in many emerging markets remain attractive relative to developed markets, offering potential upside for long-term investors. Dividend yields, earnings growth potential, and demographic trends in Asia and Latin America all provide reasons to consider selective exposure.

For investors seeking diversified international opportunities, this may be a favourable time to revisit emerging market allocations—albeit with a carefully hedged approach. ETFs focused on Asia-Pacific growth, local currency bonds, or actively managed EM funds can provide access while mitigating some of the volatility.

U.S.-Ukraine Mineral Agreement Faces Challenges: Potential Meets Reality

In a bid to secure access to critical raw materials vital for clean energy and advanced manufacturing, the United States and Ukraine signed a landmark mineral agreement in early 2025. The deal grants U.S. firms preferential rights to explore and extract rare earths, lithium, and other strategic minerals from Ukraine's rich but underdeveloped resource base. While this agreement has been hailed as a geopolitical and economic win for both sides, the path to execution is anything but straightforward.

Ukraine is known to possess vast mineral deposits, including graphite, cobalt, and manganese—materials essential for electric vehicle batteries, renewable energy systems, and semiconductor production. For the U.S., securing alternative sources to counter China's dominance in mineral supply chains is a strategic imperative. However, significant challenges stand in the way of rapidly capitalising on this partnership.

The first major obstacle is infrastructure. Much of Ukraine's mining sector suffers from decades of underinvestment. Outdated geological data, insufficient transportation networks, and limited processing capabilities hinder the rapid deployment of Western mining operations. Bringing these assets up to global production standards will require billions in investment and years of development.

Compounding the issue is security. A significant portion of Ukraine's mineral-rich territory lies near conflict zones or within areas currently under Russian occupation. Without stable governance and physical access, any large-scale mining initiative remains a high-risk venture. Political instability also complicates the enforcement of property rights and long-term investment guarantees.

Additionally, environmental and social concerns are gaining attention. Ukrainian citizens and advocacy groups are raising questions about land use, ecological degradation, and the role of foreign companies in resource extraction. Navigating these sensitivities will be critical to the long-term success and legitimacy of U.S. involvement. Despite these hurdles, the agreement holds long-term promise. If implemented effectively, it could help Ukraine rebuild its economy, reduce Europe's dependency on Russian energy and materials, and provide the U.S. with a more secure supply of critical inputs for its clean energy transition.

From an investment standpoint, this development could create opportunities in sectors such as mining technology, infrastructure engineering, and specialty chemicals. Companies with experience operating in high-risk, high-reward environments—and those able to partner with local stakeholders—may find first-mover advantages. As always, our analysts will continue to monitor the progress of this agreement and assess its implications for global supply chains and resource-linked equities.

France and Poland Strengthen Defence Ties: A New Chapter for European Security



French President Emmanuel Macron and Polish Prime Minister Donald Tusk signing the new defence treaty.

France and Poland are on the cusp of signing a landmark defence and economic treaty that underscores a major shift in European strategic thinking. At a time when questions are mounting about the long-term reliability of U.S. security commitments, especially with shifting political winds in Washington, European powers are increasingly turning to one another to bolster defence coordination and industrial cooperation.

The proposed agreement aims to deepen military collaboration between the two countries, including joint procurement initiatives, shared intelligence frameworks, and the development of interoperable defence technologies. Beyond security, the treaty is also expected to boost bilateral trade and investment—particularly in energy, infrastructure, and high-tech sectors.

This strategic partnership is not occurring in isolation. It reflects broader momentum within the European Union toward defence autonomy. The war in Ukraine, coupled with uncertainties

surrounding NATO's future role, has galvanised EU member states to reconsider their dependencies and strengthen intra-European alliances.

From a market perspective, the treaty could create new opportunities in defence contracting, cybersecurity, and infrastructure development. European defence firms such as Dassault, Airbus, and Polska Grupa Zbrojeniowa may benefit from increased demand. Additionally, the agreement could serve as a catalyst for further cross-border M&A activity and supply chain integration in Europe's defence sector. Poland's role in the agreement is particularly noteworthy.

Once seen primarily as a recipient of European defence assistance, Poland has rapidly increased its military spending and is emerging as a central player in NATO's eastern flank. Its collaboration with France—Europe's largest military power—signals a growing leadership role for Warsaw in continental security affairs.

For investors, the implications are twofold. First, the move toward greater European defence spending may bolster select defence equities and infrastructure funds. Second, it underscores the growing geopolitical divide between the U.S. and Europe—something that may influence transatlantic business flows, energy policy, and regulatory trends in the years ahead.

India-Pakistan Tensions Escalate After Terrorist Attack: Navigating a Fragile Peace

A deadly terrorist attack in Indian-administered Kashmir in April 2025 has sharply heightened tensions between India and Pakistan. The tragic event, which resulted in numerous civilian and military casualties, has triggered a series of retaliatory actions along the Line of Control (LoC). Both countries have exchanged artillery fire, and rhetoric on both sides has become increasingly confrontational.

The situation is particularly delicate given the nuclear capabilities of both nations and the long-standing territorial disputes that have historically flared into violence. The international community, including the United States and the United Nations, has urged both sides to exercise restraint and engage in dialogue. However, the domestic political pressures in both countries make diplomatic de-escalation difficult in the short term.

From an economic perspective, investors should be mindful of the potential fallout. The Indian and Pakistani equity markets have already reacted to the tension, with capital outflows from foreign institutional investors and rising demand for safer assets such as gold and U.S. Treasuries. Furthermore, supply chains and trade routes in the broader South Asian region could be affected if the conflict escalates.

Emerging market investors need to be especially cautious. Exposure to South Asia—either directly through equities or

indirectly through regional funds—should be reviewed. While long-term fundamentals in India remain attractive, near-term volatility may increase.

What to Expect in May: Preparing for Continued Uncertainty and Opportunity

As we enter May 2025, the themes shaping this year's economic and market landscape are still very much in play. Trade tensions, evolving AI innovation, energy constraints, and global geopolitical risks continue to dominate headlines—and markets. Based on current trends and the data we're tracking, here's what we expect to unfold in the weeks ahead and how it could impact your financial planning and investment strategy.

1. Continued Market Sensitivity to Tariff Policy: Investors should anticipate more volatility as markets react to every headline about tariff negotiations or new trade barriers. The temporary pause in tariff increases may offer brief relief, but without a durable trade resolution, we expect ongoing uncertainty. China have suggested they may be willing to consider negotiations with the US, which bodes well, but uncertainty will prevail until a resolution is agreed. Companies with global supply chains will remain under pressure, especially in manufacturing, consumer goods, and technology sectors.

2. AI Sector Dynamics to Accelerate: Investment in AI will remain a dominant theme. We expect more capital to flow into AI infrastructure, startups, and application development. However, the

tension between innovation and regulation is building. Watch for increased policy scrutiny around AI transparency and data usage. Companies that can demonstrate practical AI solutions with clear economic value will be the likely winners.

3. Inflation and Interest Rate Watch:

Inflation is easing, but central banks are walking a fine line. The Federal Reserve will be closely watched for any hints of rate cuts as economic data continues to show mixed signals. Bond yields—especially on the long end—may remain elevated due to fiscal concerns, so fixed income positioning will be key.

4. Geopolitical Flashpoints and

Defensive Positioning: Whether it's South Asia, Eastern Europe, or the South China Sea, geopolitical risks are elevated. These situations could flare quickly and unpredictably. Investors may want to consider allocations to traditional safe havens such as U.S. Treasuries, gold, or low-volatility equity strategies while keeping core exposure diversified.

5. Emerging Market Realignment:

Emerging markets are recovering from the initial tariff shock. In May, look for momentum to build in countries benefiting from global supply chain shifts, like Mexico, India, and Vietnam. However, this will vary by region and sector, so targeted exposure is preferable to broad-brush investments.

6. Energy and Infrastructure Themes to Remain in Focus: From data centres to mineral security and grid modernization, we expect infrastructure-related sectors to

continue attracting both public and private capital. This may benefit utility companies, REITs tied to data infrastructure, and firms in the clean energy value chain.

In summary, May is likely to be a month of transition. Some markets may stabilise as others remain highly reactive to global developments. Our approach remains grounded in active monitoring, risk management, and strategic allocation. If you'd like to reassess any part of your investment plan or align it with emerging trends, let's connect.

Final Thoughts: Positioning for the Road Ahead

As we wrap up this edition of the May 2025 newsletter, a few overarching themes emerge from our analysis of recent events and forward-looking insights.

April served as a pivotal month, exposing market fragility in the face of political shocks and macro uncertainty. The U.S. economy, while fundamentally resilient, is grappling with short-term distortions—such as tariff-induced import surges—that have skewed growth metrics. Markets responded sharply, with both the S&P 500 and Nasdaq decreasing amid policy-driven volatility. Meanwhile, signals from the Treasury and short-term bond markets suggest we may be on the verge of monetary easing.

China remains a central variable in the global financial equation. From export declines to shifting trade dialogues and increased issuance of panda bonds, the

country's influence on global markets remains strong. Supply chain vulnerabilities and the performance of retail equities with Chinese exposure should remain on investors' radar. In the realm of AI and technology, capital continues to pour into innovation. Yet, scaling infrastructure—especially power-intensive data centres—is creating bottlenecks. Meta and other tech leaders are betting big, but success will hinge on their ability to manage risk, secure resources, and navigate an increasingly scrutinised regulatory landscape.

On the geopolitical front, threats are intensifying. India-Pakistan tensions, European defence realignments, and mineral diplomacy with Ukraine all point to a world that is more fragmented and fragile—but also rich with sector-specific investment opportunity. These developments underscore the value of diversification, sectoral agility, and tactical exposure.

Looking to May, investors should brace for continued volatility while remaining disciplined. Policy direction, energy trends, and AI breakthroughs will be key drivers of market momentum. For many, this is a time to reinforce defensive allocations while staying ready to seize opportunities—particularly in infrastructure, green energy, and high-efficiency tech.

Ultimately, successful investing in this environment isn't about making perfect predictions—it's about building resilient, flexible portfolios that can adapt as the facts evolve.

Our goal remains the same: to protect and grow your wealth with a disciplined, forward-looking strategy.

To our clients—thank you for your continued trust. If you'd like to discuss anything from this issue in more detail, or review how these trends intersect with your specific goals—please don't hesitate to reach out.

As always, if you have any questions about this, please contact us at mcpractice@holbornassets.com

Kind regards,

Payal Trehan,
Senior Investment Strategist,
The Michele Carby Practice

A handwritten signature in dark blue ink that reads "Payal Trehan". The signature is written in a cursive, flowing style.