Relief rally or false comfort?

The latest market rally can only be described as relief exuberance. The word on the street is still "Trump crashed the markets"—but has he? Global equities have quietly risen in 17 of the last 19 sessions, the Nasdaq is up more than 30% from its April 7th lows, the DAX has hit a record high, and most equity indices now sit comfortably above their 200-day moving averages—a classic sign of positive momentum. For now, investors seem focused on one thing: the recent US–China trade truce. Nothing else matters.

But investors shouldn't abandon diversification just yet. Yes, markets have recovered recent losses—but now what? In this week's TEAM Talks, we'll unpack the less obvious trends that could shape client portfolios in the weeks ahead.

The US–China 'truce' has prompted some economists to revise up both their growth forecasts and the expected fiscal revenue from tariffs. While tariffs were much higher before the latest talks, those levels were widely seen as unsustainable—because you can't collect tariffs if trade volumes collapse. One study estimates the maximum theoretical revenue from tariffs at less than $500 billion—nowhere near the $5 trillion needed to fund the proposed tax cuts. In fact, despite the fanfare around the creation of DOGE

(the Department of Government Efficiency), Trump's tax package was rejected by Republicans who argued the spending cuts didn't go far enough.

Impact: US fiscal concerns are back in focus, with the budget deficit potentially rising above 7%. This could negatively affect clients' fixed income holdings. And while gold has recently pulled back, alternatives remain a valuable cushion against falling bond prices.

The question is: how high do yields need to go to entice investors back into bonds? The term premium—the extra yield investors demand for holding long-dated Treasuries over short ones—has risen to its highest level in over a decade. Yet investors remain reluctant to take the bait, with inflation risks still looming large. Cautious portfolios haven't forgotten the pain of 2022 and are understandably hesitant to load up on long-duration bonds.

Impact: One less obvious consequence of higher bond yields is pressure on equity valuations. So far, markets have largely ignored this. It's one reason why investors should remain somewhat sceptical of the latest sentiment-driven equity rally.

Another unintended consequence of US tariffs is that the upcoming 'Brexit review' between the UK and the EU may unfold in a more constructive economic environment. Both sides are likely to be more open to cooperation. The EU is expected to significantly ramp up defence spending—and the UK, with its sizeable defence sector, could stand to benefit. It's also worth noting that UK exports to the EU are nearly three times greater than those to the US. So while markets focus on the latest US trade deals, a more meaningful agreement could be taking shape closer to home.

Impact: Deeper trade integration between the UK and EU would be supportive for European equities and likely boost sentiment for both the euro and the pound relative to the dollar.

Luis Montenegro's centre-right Democratic Alliance won Portugal's snap election but again fell short of an outright majority. The rise of the far-right Chega party, led by André Ventura, may mark the end of decades of two-party dominance and introduces new policy uncertainty for expats. Chega has criticised what it sees as overly generous tax breaks for foreigners—meaning expats hoping for a return of the Non-Habitual Resident (NHR) tax regime will likely be disappointed.

Impact: Newcomers may also face tighter rules and higher taxes on property purchases. Portugal-based clients should stay alert to potential changes in residency renewal conditions or new tax measures—financial advisers will play a vital role in helping clients navigate what may become a shifting landscape

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