



## CIO OFFICE MORNING MARKET WRAP

28 April 2025

Markets closed mixed on Monday following a fast and furiously volatile rally driven by a 90-day tariff pause and a change in rhetoric to somewhat softer tones by the Washington administration. Although we should by now have seen peak trade uncertainty, as indicated by the falling Global Trade Uncertainty Index as compiled by Bloomberg, we would need to witness real progress on negotiations for the market to rally sustainably from these levels. So far risk assets have been trading on changes in trade headlines, and so far so good, or even better than just good, as economic data in the meantime has been deteriorating and the outlook is plain grim if this level of tariffs is confirmed, that we think it just will not be. Earnings revisions are also going in the wrong direction, that is down, not boding that well for the market outlook either. Indeed, the week is fully packed, and investors will be parsing results from four out of the Magnificent 7 soon reporting, as well as looking into the US jobs report due out Friday to see how tariffs are affecting earnings and the economy. But that is like doing some checks awaiting to see when the real bad about tariffs will be hitting real stuff. After all, current trade levies are all but certain to impact growth at some point. We will come back to this in the following paragraph, to continue now with some performance data and its implications. US equities erased at least a 1% drop across the major benchmarks showing no clear direction, with the Dow (+0.28%) outperforming, the S&P 500 little changed, and the Nasdaq ending barely negative. Notably, small caps (+0.41%) topped benchmark returns amidst lower volatility, in itself somewhat bullish leaning. Sector returns had a more defensive bias though, with utilities and real estate leading gains, while IT and consumer staples led losses. Boeing and IBM led gains in blue chips, while Nvidia slipped on news Huawei is set to test a new chip. Equities took a disappointing Dallas Fed manufacturing reading in their stride. The survey indicated a significant weakening in activity with the outlook subindex dropping to post-pandemic lows due to supply disruptions. The yield curve bull-steepened, as the yield on the 2-year note dropped by 6bps while the 10yr fell by 3bps, pointing to forthcoming rate cuts with money markets extending bets to 93bps of easing into year-end. Despite repeated concerns about rising price pressures traders still see a hit to growth first, deflationary in itself, forcing the Fed to step in at latest by July. But until the Fed holds steady, as it seems it will in the short term as per recent Fed speak, the outlook remains incrementally more positive for Rest-of-World markets, with the Eurozone and China expected to maintain an easing bias, while Brazil may be approaching the end of its tightening cycle. Crude oil (-1.5%) dropped on signs of strain in the US economy and talks with Iran on its nuclear program in focus. Gold (+0.7%) rebounded, while the US dollar (-0.5%) fell on the extending of bets on future monetary easing.

Treasury Secretary Bessent said that “all aspects” of the US government are in contact with China, yet it is up to Beijing to deescalate. And this simply takes us back to square one, because no de-escalation would mean that amidst a huge rearrangement of supply chains US companies would just be stopping sourcing goods from one of its biggest trading partners. Once inventories are run down and not replenished in time, by mid-May it is currently being reckoned, consumers would be confronted with the unpalatable reality of empty shelves and higher prices. This would be somewhat resembling of Covid’s supply-chain snarls and all their nasty consequences. And far from it being pure speculation, since levies on China were raised to 145% cargo shipments plummeted, possibly even by 60% as per one estimate. So, for equities to continue to rally investors would really need to see a follow-through to the recent dovish pivot to China. Negotiations may anyway be happening behind closed doors, despite Beijing’s claims to the contrary. China quietly exempted some medical products, semiconductors, and aviation parts from US tariffs. They cannot be easily sourced elsewhere, or they may rather point to some mutual undisclosed agreements as speculated by some. Shipment data in the weeks to follow will be telling us whether such agreements are indeed in place.

### Markets this morning:

Stocks are off to a good start in the morning session, with Asian markets gaining 0.6% and US futures contracts in the green as well on expectations President Trump will be easing tariffs on autos. A White House official said imported automobiles would be given a reprieve, with Hyundai Motors and other South Korean automakers climbing on the news. The US dollar steadied, while gold climbed as much as 0.6%. On a less positive note, on Monday the Chinese foreign ministry again denied trade negotiations were underway with the United States. As for the second round of President Trump’s policies to be focused on stimulus, following a meeting with congressional leaders Treasury Secretary Scott Bessent set a July 4 goal to pass Trump’s multi-trillion dollar tax cut package. The push on taxes follows a series of polls showing falling approval ratings on the president’s handling of economic issues.

### Upcoming key events/data:

Today’s focus in the United States will be the JOLTS report, providing a snapshot of labor demand conditions in March, and the Conference Board Consumer Confidence. Amongst blue chips UPS, a proxy for the US economy, will be reporting earnings. In Europe consumer, industrial, and economic confidence will be reported.

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