



## CIO OFFICE MORNING MARKET WRAP

1 July 2025

First half of the year is over with investors facing high volatility across asset classes in bonds, stocks, currencies and commodities. External shocks starting from the “Liberation Day” to heightened geopolitical risks in the Middle East have kept the market on its toes. However, overall returns have not been bad for investors who have stuck to diversification and proper asset allocation. S&P 500 and Nasdaq are up 5.5% each. European indices have outperformed the US stock markets for the first time in several years giving double digit USD returns due the Dollar weakness in line with our CIO Office Global outlook theme of winds of change. Gold stands out with more than 24% return and has acted as a perfect hedge edging out long-end treasuries. Even bond markets have generated positive returns across the IG, HY and EM debt segments. Valuations remain rich in credit and equities while markets seem priced for perfection. Upcoming second half will present its own challenges including the tariff deadline of July 9th and dynamics between growth Vs inflation will impact asset prices. Hence, asset allocation and quick reaction to event will remain key to maintaining the superb first half returns for investors.

In recent events, long-end US Treasury yields decreased following Bessent's comments regarding the nation's increased reliance on short-term issuance at current long-end yields. These remarks were made shortly after President Trump's statement last Friday, where he mentioned instructing his advisors not to issue any debt beyond nine months, preferring to wait for lower rates to issue long-term debt. Treasury's funding gap is sizable FY 26 onwards and if US were to solely depend on T-Bills then its share could rise to 28% of outstanding treasuries by FY 28 according to a JPM analysis bucking the trend of last three decades where it has barely risen above 25%. The Treasury yield curve flattened by 5 basis points from end to end, with long-end yields declining by 7 basis points. The S&P 500 and Nasdaq indices both increased by 0.5%.

The EU is willing to accept Trump's 10% universal tariff but seeks lower rates for drugs, alcohol, chips, and planes. The US is finalizing a trade deal with India. Trump threatened new penalties on Japan over its refusal to accept US rice. The Tax cut bill remains in the Senate, with 2 Republicans opposed and 6 undecided. Meanwhile, Trump signed an order ending US sanctions on Syria, effective today.

### Markets this morning:

This morning, HangSeng index is down 0.9% despite China's Caixin manufacturing PMI rising more than expected to 50.4 in June, signalling an expansion. Output in May rose to the highest since November 2024. Nikkei has lost 1.2% on the tariff discussion and a stronger Yen. US equity futures are slightly in the red. Gold is trading at \$3,318 while Brent Crude is lower at \$66.4. US 10-year yield is down 1 bps to 4.21%.

### Upcoming key events/data:

ISM manufacturing data for June is expected to show an improvement to 48.8 from 48.5. JOLTS job openings may decrease in May, while construction spending is anticipated to continue facing challenges decreasing by 0.2%. Eurozone June CPI may come in at 2%. Federal Reserve Chair Jerome Powell, European Central Bank President Christine Lagarde, BOJ Governor Kazuo Ueda, Bank of England Governor Andrew Bailey, and Bank of Korea Governor Rhee Chang Yong will attend a policy panel hosted by the ECB in Sintra.

Best Regards,

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Wealth Management  
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