CIO OFFICE MORNING MARKET WRAP

7 July 2025

The second half of 2025 starts on a positive note with all asset classes delivering positive weekly returns in dollars. Stocks gained +1.3% in developed markets, led by the US at fresh all-time high, and +0.4% in emerging regions. Global bonds were also in the green, following their risk hierarchy, despite US Treasury yields rising in a bear steepening pattern, between +11 basis points for the 2-year and +5 for the 10-year. This wasn't enough to support the dollar, down another -0.2% against trade-weighted counterparts. Finally, gold rebounded +1.9% to $3,335 while the price of Brent crude oil gained 50 cents to $68.3.

Among the avalanche of macro data released last week, we focus on global leading indicators and on the US labor market. For the former, June PMIs were overall positive. At the composite level, all major economies showed an improvement over May, and a majority exceeded expectations. Most absolute levels are between 51 and 52, with the Eurozone slightly lower at 50.6 but also positive outliers: the UAE at 53.3, KSA at 57.2 and India at 61. This was not the only good news. The US job market impressed again, first with a jump in job openings from the JOLTS report, and then with the June non-farm payrolls report showing 147,000 job creations, much more than the median forecast of 106k. The unemployment rate consequently and unexpectedly dropped from 4.2% to 4.1% while the consensus of economists was predicting an increase. The details were less buoyant with most of the incremental positions actually coming from the public sector (DOGE is only a souvenir…) and some denominator effect in the unemployment rate due to the impact of tighter immigration policies. Still, the report cemented anticipations that the Fed would not cut rates in July.

Staying in Washington, the "one big beautiful bill" became law, having been approved by the Senate, the House, and finally inked by President Trump on Independence Day. The bill raises the US debt ceiling by an astonishing amount of $5tn. Over the coming decade, taxes are cut by $4.5tn while government expenses are reduced by $1.2tn, leading to a potential increase in deficits of $3.3tn. This number is a simple difference which doesn't take into account the economic impact of the budget, which, according to the White House, will be a massive boost to growth. It also doesn't include the additional revenues expected from tariffs.

We thus enter H2 with comfort on the current economic situation and one less uncertainty on the US budget bill. Still, there are big unknowns ahead, starting with the deadline of July 9th which is the end of the 3-months suspension of most "reciprocal" tariffs, which came on top of the 10% baseline, already in place. President Trump has announced that some of them will be replaced by "unilateral tariffs", announced in individual letters to be sent imminently, most probably today. These letters are for a selection of countries and carry a "last chance" three-week extension of negotiations to conclude a deal, to August 1st. We understand that countries which are very advanced in negotiations will still remain on the July 9th deadline, while the ones with the letters face potentially punitive tariffs in the absence of an agreement. Everything is not crystal clear, but at this stage we have three deadlines: July 9th for the countries in advanced negotiations, August 1st for the ones that receive a kind of "last chance" letter, and August 12th for China which is the expiration of the current temporary agreement. Only time will tell the outcome, which can be anything from a disaster for global trade to more benign confirmation of the current 10% universal tariffs plus a few specific ones.

The start of H2 will also soon bring us the Q2 corporate earnings releases for a first idea of the impact of the first wave of tariffs. And finally but importantly, whether the current economic momentum will be sustained during the summer or not is another open question.

Against this backdrop, we didn't change our positioning last week in our investment committee. On balance, we are only slightly defensive overall, considering that fundamentals are resilient, and that rich valuations for Western stocks in particular are somewhat mitigated by global investors still being a bit underexposed. We overweight cash, safe bonds and gold but also stocks form emerging markets while being overall neutral on equity. We underweight mostly hedge funds as their job is certainly not easy when the Winds of Change are so strong. Our three profiles are up around +9 on average this year, outperforming our global competition. Our latest monthly update, a mid-year edition, is online and our weekly publication released today will also focus on the same.

Markets this morning:
Since Friday was a holiday in America, it's interesting to see that this morning US Treasuries are not scared by the potential increase in US deficits. As we write this morning, in Tokyo trading, their yields are between -1 and -2 bps lower, to 3.85% for the 2-year, 3.91% for the 5-year and 4.33% for the 10-year, very close to our year-end fair value. By contrast, stocks are showing some trade angst, down -0.5% in Japan, China and Hong-Kong, while Korea is slightly up. The dollar continues to weaken, and so are commodities with gold down -0.7% to $3,310 and the Brent falling -1.8% to $65.8, hit by the perspectives of a larger than expected production increase by the OPEC+ next month.

Upcoming key events/data:
The week ahead is light when it comes to data but could be quite intense in terms of policy decisions, with the tariffs deadline happening at a time when President Trump could be galvanized by his massive "big beautiful" political win. Have a great week.

Best Regards,

Chief Investment Office
Wealth Management
Emirates NBD.

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