CIO OFFICE MORNING MARKET WRAP
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Last week was positive for equities, and broadly flat for fixed income. China led the outperformance of emerging markets' stocks, now the second-best asset class of 2025 at +18% in US$. The dollar strengthened overall, which took a modest toll on gold, down -0.2% but still 2025's undisputed leader at +27%. Oil prices were volatile but ended the week -1% lower at $69.3 for the Brent.

Economic data was supportive. China released strong June trade numbers and a solid Q2 GDP growth, with a boost, visible in industrial production, from front-loaded orders linked to uncertainty on future tariffs. The state of China's economy does not make headlines, but numbers are robust, including nascent signs of a positive inflexion in domestic demand. It's good to keep in mind that an overwhelming majority of economists, from the IMF to most of investment banks, do not believe that China will reach its 5% GDP growth target in 2025. Still, the official real GDP growth in H1 was +5.3%, even if nominal GDP is affected by negative price developments. Top-down positivity continued with the US: monthly retail sales and industrial production, weekly jobless claims as well as both the Empire manufacturing and Philly Fed business surveys were all better than forecast. June inflation didn't spoil the party: the CPI report came out benign, in line with forecast. and factory gate prices, as per the PPI, progressed slightly slower. Details from the reports showed some early signs of tariffs-driven pressure, on "import-icons" such as appliances, furniture or toys. Visible, but not massive. Factually H1 growth was resilient, and inflation didn't drift. This makes the other hot topic of last week, i.e. the fate of Mr. Powell as Fed chair, a bit awkward. Assuming that monetary policy is more driven by data than by speculation or by the career aspirations of voting members, there is little reason, if any, to cut interest rates imminently with full employment and stalling disinflation. Reports of an imminent firing of chair Powell was denied after only a couple of hours, following an instantly negative market reaction. Looking at the global inflation picture, it's fair to say that price pressures are manageable but sticky, around +3% on average at the core level for the first half of the year, if we remove the two large (and opposed) outliers China and Türkiye. Disinflation seems to have stalled in Europe in particular. Bottom-line, 2025 so far has been quite ideal for markets, but we face a double risk on activity and inflation ahead, especially if US tariffs land higher than the current ~10-15% average level which seem to make consensus. This level would not be unmanageable but is also most probably priced-in by markets. We will know more soon, as August 1st deadline is approaching, with a significant risk on EU which is said to prepare retaliation measures in case no deal is agreed.

Finally, but crucially, the Q2 corporate earnings season started on a positive note, especially for US banks. Only 10% of the S&P500 members have reported, but 85% of those who did delivered better earnings than forecast, and two thirds better revenues. This was however not enough for a strong market reaction, as US stocks are already priced for this kind of growth. This also explains why market participants are demanding, with severe sanctions on misses and no euphoria on beats. Still, it's fundamentally good news, and we'll have much more results in the week ahead.

Markets this morning:
Markets are closed in Japan for a holiday, which also includes US Treasury trading in Tokyo. Still, the yen is strengthening following the defeat of the current ruling coalition in yesterday's upper house elections. This may look paradoxical, but the yen is fundamentally a "risk off" currency, which usually is favored by uncertainty. Stock markets are up half a point on average across onshore China, Hong-Kong and Korea. Major commodities are stable at $3,350 for gold and $69.3 for Brent crude oil. Major crypto currencies are also quiet, following the US "crypto week" which passed several legislations in the field.

Upcoming key events/data:
The week ahead will be rich on several fronts. Flash PMIs for July will be released for all major regions, the ECB will meet on Thursday and most probably do nothing, while the central bank of Türkiye may resume cuts. The earnings season will really start in Europe and globally accelerate, including big US tech names Tesla, Alphabet or IBM, all three post-market on Wednesday. Have a great week.

Best Regards,

Chief Investment Office
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