CIO OFFICE MORNING MARKET WRAP

24 July 2025

Cyclical assets rallied yesterday following the US-Japan deal and hopes for the EU to be next. Stocks gained +1% in developed markets, led by Japan at +3.6%, and +1.4% in emerging regions now approaching a 20% dollar return in 2025. US Treasury yields logically rose between 3 and 5 basis points in a not too brutal bear flattening pattern. Gold was down -1.3% to $3,385 despite the dollar slightly weakening. Brent was overall stable around $68.5.

The deal with Japan on a 15% main tariff rate is the sixth announced since Liberation Day. It is rational to see markets positively reacting to the removal of an uncertainty (this is not the worst possible outcome as Japan was facing a bigger threat), and it also indicates that negotiations can conclude in a short delay. Having said that, it also confirms, if needed be, that the US won't back up on tariffs and that their actual level can be higher than just "10% on everything and a bit more for China and strategic sectors". The full impact will certainly be more nuanced than what yesterday's pro cyclical rally suggests. Additional fiscal revenues from tariffs are not bad news for the US Treasury, typically. On the darker side, tariffs will have to be paid by America's private sector one way or another, higher prices for the end client, and/or lower margins. Globally they remain a drag on activity. As often after a political win, President Trump couldn't help adding a bit of pressure yesterday, saying that trading partners face tariffs "between 15% and 50%" which tends to put a hard floor. 15% is still more than double the average tariff rate of 2024, and close to 10 times what Japan used to pay overall. The big unknown now is about where the EU will land. For the time being, hope prevails after some European diplomats signaled yesterday good progress towards a 15% levy for most products. A few hours earlier however, the EU was disclosing their strong retaliation plan in case of "no deal". Have they read "The Art of the Deal"? We shall know soon.

Economic data was light, with European consumer confidence and US new home sales being as low as we expected. But the earnings season continued with two big names. Tesla disappointed with plunging profits, falling revenues, drying free cash flows and the warning of a few "rough quarters" to come from Elon Musk, who is also said to come back to politics. The stock fell post market. Alphabet was comparatively better with AI and cloud demand boosting its quarter, leading to a 19% increase in net profits. This is objectively good, but markets are difficult to impress at these levels of valuation and the stock price was indicated slightly lower post market.

Markets this morning:
Asian markets continue to celebrate hopes for more visibility on trade as we write this morning. Stocks are up almost +2% in Japan and around +0.4% on average across Hong-Kong, onshore China and Korea. US Treasury yields are marginally higher, to 3.95% for the 5-year and just below 4.4% for the 10-year. The yen is slightly up to 146 for a dollar, but there is no other notable move in currencies and commodities.

Upcoming key events/data:
Today will provide flash PMIs for all regions and it started with Japan surprising to the upside on services but disappointing on manufacturing. Releases will continue East to West, from India at 9AM to the Eurozone at 12, where the consensus expects an improvement which we see as less likely, and the US at 5.45PM with a median forecast of stability for the PMI composite at 52.8, which we see as a bit conservative. US Jobless claims may confirm, or infirm, their positive inflexion from last week. The ECB policy meeting will almost certainly keep rates unchanged and emphasize data-dependency to keep all options open. The central bank of Turkey, by contrast, should be able to resume rate cuts following the latest developments on inflation. On the corporate side, it's a big day for earnings in Europe with blue chips LVMH, Roche, Nestle and TotalEnergies. In the US, Intel will be of particular interest.

Have a great day.

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