CIO OFFICE MORNING MARKET WRAP

28 July 2025

Stocks closed at new all-time highs for the second week back-to-back, propelled by the closing of more tariff deals with some of the major trading partners, by strong corporate profits, as well as a resilient US economy. That the president repeatedly attacked Powell failed to shake the ongoing bull market, since investors maintained the view that the Fed would shift to cutting rates in the second half of the year. In the last month uncertainty did fade significantly and risk taking surged, that reflected in a steady rise of the main benchmarks amidst a low volatility environment. So much so, that signs of euphoria emerged as well, with meme stocks staging a comeback and being a defining part of the week. Bank of America provided a warning pointing to rising risks of a bubble from easier policy and looser financial regulations. The S&P 500 equal-weighted (+1.9%) topped gains, while the large caps (+1.5%) were led higher by healthcare (+3.4%), industrials and materials (both +2.3%), with information technology (+0.7%) and consumer staples (0.0%) lagging. Alphabet (+4.4%) surprising to the upside failed to galvanize IT stocks, that will see most of the Magnificent 7 release earnings this week. Tesla (-4.1%) on the other hand fell short of expectations. The 2s10s yield curve flattened by 8bps and the 10-year yield finished down by 3bps, as Trump's comment that firing Powell was not "necessary" stalled steepening momentum. The 20-year auction also met decent demand, supporting the long end of the curve at around 5%. DM ex-US (+1.9%) outperformed, led by Japan (+4.1%) as auto manufacturers surged following news of a deal with the United States. The agreement set 15% tariffs on most Japanese goods including autos, included direct investments totaling USD550bn in the United States, and opened the Japanese market to key American goods. Europe (+0.3%) put in modest returns, as Christine Lagarde left rates unchanged in Europe, pausing after 8 consecutive cuts and pointing to tariff uncertainty to remain non-committal about the future course of policy. A hold seems to be the baseline for September that markets took as hawkish. The Chinese offshore index (+2.3%) was the next best performing market after Japan, ahead of one more round of trade talks with the US and following repeated liquidity injections by the central bank. The US dollar (-0.8%) showed renewed weakness possibly on concerns about Powell being dismissed, and gold was little changed but on the back foot as well, failing once more to close above $3,400oz.

The latest release of the flash business confidence surveys did not materially change the picture of a resilient US economy, of Europe and Japan in sluggish growth, and a softening UK. Across all countries the gap between services and manufacturing activity staid large, with the former in expansion territory and the latter still hanging in the balance. The fading of purchases in anticipation of tariffs was a contributing factor. Prices paid remained high in the United States, indicating forthcoming inflationary pressures from companies passing import costs to consumers, while services activity expanded at the fastest rate this year. In another report, durable goods took a dive, but by less than expected, and growth in new orders, that leads real GDP, hovered at high levels, pointing to sustained economic activity in Q3 this year.

Markets this morning:
The week started under the lucky star of trade deals with an agreement between the European Union and President Donald Trump on 15% tariffs, following deals with the Philippines, Indonesia, and Japan in the previous one. Europe provided also a soft commitment to invest in US military equipment and energy. Meanwhile the US and China are expected to extend their tariff truce by another three months according to the South China Morning Post. And today trade talks between Treasury Secretary Bessent and Chinese Vice Premier Lifeng are scheduled in Stockholm. Contracts on S&P 500 futures rose 0.4% and on European stocks gained 0.9%, while the euro ticked higher against the dollar. Asian shares were flat, the Nikkei declined 0.7%, and Hong Kong advanced by 1%. Gold slipped, crude oil edged 0.6% higher, while the US Dollar Index and Treasuries were steady. Investors are bracing for a busy week of data, including policy meetings of the Fed and the BOJ, earnings from megacap companies, and the US jobs report. This morning industrial profits in China fell for a second straight month, that would push the authorities to intensify efforts to rein in excessive competition causing deflationary pressures alongside tariffs.

Upcoming key events/data:
It is going to be an eventful week with the US jobs report (Friday) in the spotlight, the Fed (Wednesday) and the BOJ (Thursday) holding policy meetings, earnings announcements from Microsoft and Meta (both on Wednesday) and Amazon and Apple (both on Thursday). Second tier releases will be advance Q2GDP in the United States and Europe (both on Wednesday), and the US ISM manufacturing print (Friday).

Have a great day.

Chief Investment Office
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