CIO OFFICE MORNING MARKET WRAP

31 July 2025

US markets closed mixed with small losses in the S&P 500 that were quickly reversed in late hours after Microsoft and Meta Platforms reported solid earnings. Two-year yields rose 7bps to 3.93% when Fed chair Powell said no decision had been made to ease policy in September. At the press conference his remarks sounded hawkish, when he said that the US labor market “looks solid”, while inflation remains above target. Yet, the FOMC statement had a dovish tone, pointing to a shift in the assessment of the economy. For the first time since 1993 two Fed governors, this time Waller and Bowman, dissented about keeping rates steady, so the official statement must have seen some compromise being struck. As per the official communication activity was deemed to “have moderated in the first half”, with uncertainty about the outlook remaining “elevated”. Yet, money markets went by what Powell said and pared bets on rate reductions this year and traders now see less than 50% chance of a cut in September. The dollar saw its strongest advance since February, while copper (-20%) saw its worst intraday plunge on record as the president exempted the metal from his planned tariffs. According to the ADP private jobs report companies stepped up hiring in July with payrolls increasing by 104,000, though the pace remained consistent with weaker labour demand. But it is the labor report from the Bureau of Labor Statistics due out Friday that moves markets. On Friday it is expected to point to moderating job growth and rising unemployment. A separate release printed real US GDP growth at an annualised 3% rate in Q2 according to a preliminary estimate. But details portended weaker underlying momentum even before there was full tariffs pass through to consumers. A gauge of private demand that strips trade, inventories, and government spending from official figures showed growth decelerated to 1.2% (versus 1.9% prior). Overall, the economy expanded by a 1.25% average rate in H1, lower than its 1.8% trend rate. Meanwhile, the Treasury department yesterday announced it plans to continue selling the same amount of longer-term US debt in the next several quarters ahead. This will be relevant for market liquidity, since issuance will necessarily be skewed towards T-Bills to fund the rising debt, that for technical reasons don’t drain bank reserves, hence don’t negatively impact liquidity. This will also avoid upwards pressure on yields at the longer end of the curve, overall a boon to risk assets.

In Europe, the economy unexpectedly eked out a modest gain in Q2 (+0.1%), benefitting from better performance in France and Spain, offsetting contracting economies in Germany and Italy. Tariffs weighed on spending and investments, and growth is likely to stay modest for the remainder of the year as the recent US-EU deal offers limited relief.

Markets this morning:
Futures contract rose in the Asian morning session on optimism bolstered by strong earnings from IT megacaps, while the dollar steadied following gains after the Fed held rates steady. Nasdaq (+1.3%) and S&P 500 futures (+0.9%) advanced, as Microsoft (+9%) and Meta (+12%) surged in after-hours trading. Asian shares (-0.2%) edged lower, with South Korean equities fluctuating after the country reached a trade deal with the US, and the Nikkei advanced (+0.9%) while the yen maintained its gains after the BOJ left rates unchanged. Chinese indices dropped as factory activity unexpectedly worsened. Copper continued to fall in London trading after President Trump surprised markets by exempting the metal from his anticipated import tariffs. South Korea agreed to 15% tariffs and USD350bn worth of direct investments in the United States.

Upcoming key events/data:
The main highlight for today is the income and spending report shedding light on the conditions of the US consumer, as well on price pressures via PCE inflation. In the euro area unemployment numbers will be released. Amazon and Apple will be reporting earnings today.

Have a great day.

Chief Investment Office
Wealth Management
Emirates NBD.

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