



CIO OFFICE MORNING MARKET WRAP

23rd June 2025

The week started and ended with geopolitical tensions in the spotlight. We all know what is happening in the Middle East, now with direct US involvement, so we may as well jump to our best guess for the outlook from the unfolding of the current events. The main concerns are related to the duration of the conflict, the possibility that energy production facilities are hit, and the ensuing economic pain. When President Trump addressed the nation on Saturday evening, he mentioned strikes against nuclear facilities, but also the need “to make peace”. His post on X was ended with “now is the time to make peace”. This seems to convey that an off-ramp is prioritised, rather than extensive confrontations. We could speculate that if the other side responds with a token retaliation while ultimately seeking the same off-ramp, with time we may be on track for some de-escalation. Although markets have had a muted response to spiking tensions, key events occurred in the weekend, and the litmus test of actual investor’s reaction will be at Monday’s open. There is rife speculation about the Strait of Hormuz being targeted for retaliatory reasons, though this should be deemed unlikely as, while causing economic pain, it would at the same time be hitting the vital interests of too many nations that are not directly involved. Other options remain open that are as damaging to US interests. And herein lies the reason for the need for an off-ramp: the longer tensions escalate, the more likely miscalculations on both sides, the higher crude prices could be headed. Mr. Trump’s greatest constraint is the Treasury market, the cornerstone of America’s financial system. The Washington administration has well-advertised its preference for low crude prices, and OPEC+ has responded accordingly. A prolonged involvement in the Middle East would undo what was achieved both in terms of oil prices and stable Treasury yields, with the latter directly linked to the former. In summary, though some economic pain and even major market volatility must be reckoned with, it seems that irreparable damage and an uncontrollable crisis can still be averted.

US stocks ended mixed in the five days through Friday, in an ebb and flow of contradicting news driven by geopolitical tensions. The Fed meeting was a non-event that flagged rising stagflation risks, while economic releases took a backseat. The Nasdaq (+0.2%) posted modest gains, the S&P 500 (-0.2%) closed mildly lower, and the smaller companies (+0.4%) outperformed. Energy (+1.0%) was the leading sector, while materials (-1.2%) lagged, and the rest of the pack was mixed at best in a sign that investors preferred to stay sidelined. Elsewhere, the Nikkei (+1.5%) led gains, whereas the Stoxx Europe 600 (-1.5%) trailed. And while Brent crude (+3.7%) hovered near the highs of the week, gold (-1.8%) pulled back. The US dollar rebounded, and Treasury yields were lower across the curve, with the 10-year settling at 4.37%. The US Senate passed stablecoin legislation, establishing a regulatory framework for cryptocurrencies pegged to the dollar. Industry backers hope stablecoins will become a mainstream form of payment. Mastercard (-5.4%) and Visa (-4.9%) slumped on possible negative impacts on credit card business. The bill will need approval of the House. Early in the week in China retail sales beat expectations, though on temporary factors that suggest at some point more stimulus is needed. In the United States a mixed retail sales print and weaker industrial production pointed to a slowdown in the economy.

On Wednesday, the Fed left rates unchanged as expected, continued to foresee two rate cuts for the year, as well as still an uncertain economic outlook. The quarterly forecasts for the economy pointed to stagflation, with growth revised lower, and inflation and unemployment seen higher versus the previous set of projections. Powell laid emphasis on rising inflation risks in the press conference. The market’s reaction to the FOMC meeting was quite muted for the day. Governor Waller, a dissenting voice and a potential successor to Powell, said on the other hand on Friday that cuts could come as early as July, pointing to a view of transitory impact on prices from tariffs. Elsewhere, both the Bank of England and the Bank of Japan held rates steady as well, the former planning to ease further, the latter to continue tighten policy down the road. The Swiss National Bank lowered its benchmark rate to 0%, to counter lower inflation pressures and the strength of the Swiss franc.

On the tariff front, at the G7 the US and Japan failed to produce a trade agreement disappointing expectations. Reciprocal tariffs are set to return to their higher levels on July 9, taking levies on Japanese imports from 10% to 24%. But soon investor’s attention should be diverted to Trump’s more pro-growth agenda, with the July 4 deadline looming larger, when the Senate is set to approve Trump’s tax and spending bill.

Markets this morning:

Stocks retreated and oil traded at new highs in the Asian morning session following strikes on Iranian nuclear facilities in the weekend. The initial market reaction was less extreme than the gloomiest scenarios could suggest, as investors still do not see clear incentives on either side leading to a prolonged and escalating confrontation. Contracts on the S&P 500 fell 0.3%, and Asian equities reached their lowest level since early June. Brent crude rose 2% after surging as much as 5%, while the US dollar gained against most peers, and Treasury yields edged higher. Retaliatory measures, as well as their impact on oil prices will be at the forefront of investor’s minds. Spreads on Asia’s IG dollar bonds widened the most in a month. Defence stocks traded higher, shipping stocks advanced on speculation freight rates may rise, while airline shares declined on higher oil prices. Shares of major chip producers retreated on a WSJ report that the US Commerce Department might revoke waivers to access to American technology in China.

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Upcoming key events/data:

The week ahead includes the NATO summit, the semiannual testimony by Fed chair Powell, and the “Sumner Davos” conference in China, as well as a slew of PMI reports.

Key earnings reports: Fedex, Micron Technology, Nike.

Have a good week ahead!

Chief Investment Office
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