CIO OFFICE MORNING MARKET WRAP

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After the storm blue skies. Geopolitical tensions subsided with Donald Trump playing the role of peacemaker and sending warnings to both parties to stick with the truce. Powell's testimony was dovish, as he gave to understand that cuts will be a matter of when, not if. And yesterday's macro data played into this view, reinforcing the notion of a slowing US economy. The end result was a bullish session on bonds and equities, and one more plunge in oil prices. The US dollar and gold fell as well. The S&P 500 rose 1.1% while the Nasdaq climbed 1.4% to new all-time highs. Financials and Information Technology led gains, and Energy again ended in negative territory. Brent crude lost 13% in a two-day tumble, gold broke lower to lose 1.5%. Yields downshifted across the curve, that pushed the dollar close to its lows for the year. Money markets fully priced two cuts for 2025, and a 20% chance of a July move, that a week ago was not in play. Bond strength wax also helped by a weak consumer confidence release.

Powell's testimony and weaker data strengthened the outlook for rate cuts starting from September. The main message was that in the end the Fed will be waiting, and if lower growth comes with contained inflation the Fed will be cutting sooner than later. No need to rush to ease in order to be able to evaluate the impact of tariffs. But Powell also said that currently economic conditions are moderately restrictive, that let investors think that the Fed at some point will be looking to cut, hence the dovish bias. So, why hold on to dollars or why not buy bonds if easing is in the pipeline? Yields and the dollar declined during the testimony. And economic data helped throughout. Consumer confidence fell below all estimates, with the shares of respondents anticipating better business conditions at the lowest in two years. Anxiety about the impact of import duties on the job market prevailed. Also, the latest manufacturing surveys, including yesterday's from the Richmond Fed, were mixed, pointed to continued struggle for the sector.

President Donald Trump is always making headlines. And it won't be an easy task for him to make a trade deal with Europe. The European Union is planning to impose retaliatory tariffs on US imports even if the US imposes a baseline levy on EU goods. The EU is rushing to clinch a deal before the tariff rate rises to 50% on almost all its exports to the US. But on what basis, given the huge gap in views? A new hike in tariffs could be in store for Europeans to shock them into a more Trump-like view of how things should be. And President Trump surprised also about his stance towards Iran. He announced on social media that China can continue to purchase oil from Iran, undermining years of sanctions on the country. Is this actually the yielding of some ground to China in order to ease rare-earth flows from China to the United States?

Markets this morning

Stocks in Asia advanced in the wake of an Iran-Israel truce that appeared to hold, with MSCI Asia gaining 0.3% following a more than 2% gain in the previous session. US equities futures dipped after yesterday's gains that saw the broader market led higher by technology. Investors were galvanised by a dovish Powell testimony, that had traders ramp up bets on Fed's rate cuts. Yields and the US dollar were little changed, while Brent crude rebounded after plunging on the rapid chain of events that lead to a ceasefire in the Middle East. In today's data-poor session focus will be once more on the Fed chair testimony, this time before the Senate Banking Committee. The World Economic Forum summer session being held in China through June 26 will also provide food for thought. China's advantage in AI is set to grow, with more Deep-Seek-like breakthroughs fundamentally changing "the nature of … the whole Chinese economy", according to a top official. As per some estimates high-tech contribution to China's GDP could exceed 18% in 2026. It was also remarked that the US should see inflation start to pick up in August, as tariffs will feed through to the economy and companies will have used stockpiles accumulated before duties were hiked.

Upcoming key events/data

Today's focus will be on Powell's Senate testimony, as well as on US housing data.

Best Regards,

Chief Investment Office
Wealth Management
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