



CIO OFFICE MORNING MARKET WRAP

26th June 2025

US large caps have recovered from a -20% drawdown that was due to the new reality of trade war and have since come almost full circle, hovering close to all-time highs. And while with prices 20% lower most investors were wondering whether it would be too risky to buy, given tariff uncertainty, now they are again wondering whether it is too risky to buy, given valuations. And valuations of the US market are expensive indeed, so the doubt is legitimate. Other markets are cheaper, hence for the long run one may be better off buying ex-US stocks, that indeed have outperformed year-to-date. But valuations are not a trigger to buy or sell in the shorter term, while liquidity is. And here comes the Fed to the rescue, as Powell yesterday in his testimony at the House said that lower growth coming with low inflation would warrant an earlier cut. Markets are discounting forthcoming stimulus, be it from July, still quite unlikely, or from September, considered very probable as per money market odds. Two full cuts are discounted by money-market futures from September for this year. Stocks closed mixed yesterday with the Dow (-0.2%) mildly lower, the S&P 500 unchanged, and the Nasdaq (+0.3%) posting modest gains. Information Technology (+1.2%) led gains, while Real Estate (-2.5%) trailed. Consumer Discretionaries (-1.1%) and Industrials (-1%) ended in negative territory as well. The US dollar was yet again down for the day with yields little changed at the longer end of the curve. Gold ticked higher, while Brent crude rebounded after a very sharp two-day selloff.

While in the House Powell laid emphasis on why policy is on hold, yesterday in the Senate he expressed concerns about tariff-related inflation. What is surprising is that he said the Fed is struggling to work out how much tariffs will show up in consumer prices. From that, a wait-and-see approach to policy. Even more surprising is that stagflation is not the Fed's base case, although the Summary of Economic Projections of the June meeting produced forecasts pointing to lower growth and higher inflation. All in all, he was non-committal about stagflation, that would be posing quite a conundrum for monetary policy, as well as about the impact of tariffs. Other Fed officials, like Waller and Bowman that expressed support for cuts as early as in July, seemed to be less convinced about the outlook for stagflation. And that view itself is out of line with consumer and business confidence surveys, that on the other hand point to an outlook much less strong for growth than for inflation. In summary, we are not getting much of a firm guidance from the Fed about stagflation odds.

Yesterday the NATO summit concluded, and leaders agreed to increase defense spending to 5% of GDP, a major win for Donald Trump who had criticised the underspending. US defense companies will benefit from that spending, and maybe that is all Trump was aiming for. On the other hand, allies would like to see renewed US commitment to NATO. But that is far from certain. Doubts remain about America's commitment to NATO's Article 5, whereby allies come to each other's aid if one is attacked.

Markets this morning:

The dollar declined and Treasury yields edged lower in the Asian session on increasing bets that US rate cuts would come sooner than expected. President Donald Trump was considering an early appointment for the next Federal Reserve chairman as early as September or October, according to a WSJ report. That would be affecting market sentiment via a shadow Fed chair. The Dollar Index lost 0.3%, while yields declined across maturities, with the 10-year down 2bps to 4.27%. Asian equities rose 0.4%, though with dispersion across countries. Mainland China stocks edged lower, while the South Korean market tumbled after a recent rally. Oil gained for a second day, and gold ticked higher.

Upcoming key events/data:

There is no tier-one data releases today, from 1Q GDP (third print) to durable goods orders, pending home sales, to the Kansas Fed manufacturing survey. Tomorrow is quite different, with personal income and spending, that includes PCE inflation, and the University of Michigan consumer sentiment survey.

Have a good week ahead!

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