



CIO OFFICE MORNING MARKET WRAP

13 May 2025

The unexpectedly positive outcome from negotiations between the US and China over the week-end propelled cyclical assets this Monday. Stocks rallied over +2% in both developed and emerging regions, led by the US at +3.3% for the S&P500 and +4.4% for the Nasdaq, followed by India at +3.7% (also supported by the ceasefire) and China at +3.2%. Oil prices gained, with the Brent crude reaching \$65. Defensive assets were logically in the red: -2.7% for gold to \$3,235, and a +10bps average increase in US Treasury yields across the curve, to 4% for the 2-year and 4.47% for the 10-year. The dollar had its best day in months, gaining +1.4% on average against trade-weighted counterparts, with the Swiss franc and the yen falling the most. Finally, Fed fund futures are now pricing in only 55bps of easing in 2025, i.e. little more than 2x25bps cuts.

You didn't need to be a Nobel prize in economics to predict that the absurd triple digit tariff rates between the world's largest consumer and producer could not persist. Still, the 90-day truce that brings back the general headline rates to respectively 30% to the US and 10% to China was better and faster than what markets had anticipated. This outcome will also bring back some confidence in the rationality of the US administration, with a special mention to Treasury Secretary Bessent. Lower tariffs reduce risks on both activity and inflation, making the market reaction rational, even if its magnitude is considerable, which can probably be explained by the unwinding of extreme positions amplified by a bit of euphoria and speculation.

Still, we should not be complacent and carried away by the genius of the "Art of the Deal" tactics. It's incomparably better than the initial announcements of Liberation Day. But it's not ideal. Even assuming a best-case scenario where tariffs between the US and China stay where they are and where 10% is the effective rate for all others, this is still a much more constrained environment for global trade, with consequences on prices and supply chains. The dramatic adjustment of this weekend, only a month since the peak of the escalation, probably indicates that the damage on both economies, especially US small businesses, was massive. Uncertainty also hasn't disappeared: it's a pause, not a final deal, and negotiations with the EU and Japan are still to take place. Carpe diem - let's enjoy the ride and we're glad that our positioning is only reasonably defensive (our three profiles are now all up by 4% or more in 2025), but the Winds of Change continue to blow and support volatility ahead.

Markets this morning:

Asian stock markets are a bit mixed as we write this morning: +1.7% in Japan but flat in onshore China and Korea, and down -1.7% in Hong-Kong. US Treasury yields are shedding -2bps, while the dollar is down -0.2%. The PBOC set today's USDCNY fixing at 7.19, below 7.20 for the first time in a month, a direct consequence of the trade truce and a demonstration of good will. The yen by contrast is weakening as Japanese Prime Minister said he will discuss currency matters with Scott Bessent (who is the administration's trusted negotiator now). There is no notable move for gold at \$3,236 or Brent at \$64.8.

Upcoming key events/data:

President Trump will land today in Saudi Arabia, before heading to Qatar and the UAE in his first "gulf tour" since 2017. In terms of data, we will have a look at the ZEW index in Germany, inflation in India, but the most important will be the US CPI inflation for April. Expectations are for a +0.3% monthly increase for both headline and core measure, which would set their YTD progression at respectively +2.4% and +2.8%. Have a great day.

Best Regards,

Chief Investment Office
Wealth Management
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