



## CIO OFFICE MORNING MARKET WRAP

19 May 2025

The US lost its final triple-A rating last Friday as Moody's downgraded the country to Aa1. The first time it happened in 2011 by S&P, equities lost 20% and the Fed had to come to the rescue with operation twist. Post Fitch's rating action in 2023, term premium went up and the curve bear-steepened. We expect a similar reaction to 2023 but with smaller moves as the rating decision was not entirely unexpected. Moody's had kept the US on a negative outlook for the last one year. Overall, investors can expect a higher.

Meanwhile, the House Budget Committee approved President Trump's tax and spending package on Sunday after Republican hardliners won agreement from party leaders to speed up cuts to Medicaid health coverage. Deficit worries and long-term interest rates approaching 5% remains a cause for concern for the Hardliners. Once the House does pass a version of their bill, more obstacles await in the Senate from moderate Republicans who oppose Medicaid cuts and want a slower phase out of clean energy incentives.

President Trump's visit to the Middle East resulted in a host of deals while benefitting the UAE and the KSA with increased access to advanced chips required for AI related developments. Meanwhile, tariff related deals are still off to a slow start. South Korea's leading presidential candidate, Lee Jae-myung, said there's no reason for an early trade deal with the US. Trump told Fox News he's "in no rush" to reach an agreement with India despite saying Delhi offered to cut all tariffs on US goods.

Last week risk assets ripped higher propelled by the US China trade deal. S&P 500 rose 5% and Nasdaq increased more than 7%. All the segments except Health Care were positive. But US macro data releases were soft. The year-over-year CPI increases are respectively +2.3% for the headline, down from 2.4%, and +2.8% for the core, stable. The latter gains only 2.1% annualized over the last 3 months, very close to the magic 2% level. In contrast, University of Michigan inflation of expectations ratcheted higher to 7.3% for the 1-year horizon and 4.6% for long term expectations. Retail sales were revised higher for March but gained only +0.1% in April, with goods purchases probably lower. Industrial production rolled over after the strength of the first quarter. Finally, PPI inflation, the factory gate prices, surprised with a sharp -0.5% decrease in April.

### Markets this morning:

This morning, US equity futures are in the red. S&P 500 is down 0.9% and Nasdaq is lower by 1.2%. The dollar is also trading lower. Asian indices are in the negative with Nikkei and Hang Seng trading -.3% and -0.4% down. China's industrial output expanded 6.1% on year in April, beating expectations. Retail sales rose 5.1% in April, weaker than expected, while growth in fixed-asset investment slowed to 4% in the first four months of the year. US 10-year yields are back at 4.5%. Gold trades around \$3,228. Brent Crude is down 0.3% at \$65.2.

### Upcoming key events/data:

This week is relatively data light with May preliminary PMI releases from the US due on Thursday. Euro Area inflation data will release today with the headline number expected to be 2.2%. Euro Area preliminary May PMIs are out this Thursday. Germany's Q1 GDP numbers are due on Friday. Japan's April CPI details come out on the same day. Egypt makes its rate decision on Thursday with economists expecting a 200-bps cut.

Best Regards,

Chief Investment Office  
Wealth Management  
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