



CIO OFFICE MORNING MARKET WRAP

22 May 2025

The US Treasury curve sold off along with other developed market government bonds. The sell-off started after a surprise in the UK CPI driven by services inflation. The Headline and Core CPI numbers came in above estimates at 3.5% and 3.8% respectively. Services inflation climbed to 5.4%. This would result in a hawkish BoE and could lead to only 2 rate cuts for the year. The global bonds rout gathered pace post the tepid 20-year US notes auction. US 30-year yields, leading losses on the day, pushed higher and reached as high as 5.09%, the cheapest since October 2023. US fiscal deficit concerns came to the fore as the Republican tax cut proposal is closer to being passed in the House. An overnight hearing on the tax bill in the House Rules Committee resulted in a compromise to raise the SALT deduction to \$40K (from an initially proposed \$30K), and the bill could move to a full vote on the House floor soon. Former Treasury Secretary Steven Mnuchin said he's concerned by the rising budget deficit and urged the administration to prioritize fiscal repair.

Risk assets did not like higher yields. S&P 500 plunged 1.6% while Nasdaq went down 1.4%. DM stocks lost 1% and EM equities were up 0.6% driven by the earlier rally in Asian shares yesterday. All the sectors were in the red except communication services with Real Estate being the worst performer due to higher 30-year yields. President Trump said he's "giving very serious consideration" to taking Freddie Mac and Fannie Mae public after more than a decade of being under government oversight.

Markets this morning

This morning the Asian shares are down following the US market losses overnight. Nikkei has lost 0.9% and Hong Kong shares are lower by 0.5%. US equity futures are modestly positive. Japanese core machine orders accelerate by 13% MoM. Gold gained topping \$3,340 as investors pushed back on the tax-cut plan. Bitcoin hit a record crossing \$110k for the first time in history. US 10-year bond yields are down 1 bps trading at 4.59%. Brent crude is trading below \$65.

Upcoming key events/data

Today we get a host of preliminary May PMIs. The US numbers may show a softening of the manufacturing while Services could accelerate. Eurozone PMIs could indicate continued weakness in manufacturing with both France and Germany PMIs in the contraction area. Indian PMIs are expected to show continued strength in the economy with both manufacturing and services numbers in the expansion region.

Best Regards,

Chief Investment Office
Wealth Management
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