



CIO OFFICE MORNING MARKET WRAP

27 May 2025

The trade war took center stage at the start of the week, as President Donald Trump delayed the date for aggressive tariffs on Europe from June 1 to July 9. Trump's pattern of making big threats to then backtrack is being repeated, and investors still seem to be falling hostages to the ensuing volatility, rather than taking the pattern in their stride. With US cash markets closed for Memorial Day, S&P 500 and Nasdaq futures rose almost 1% while the Europe Stoxx 600 erased Friday's losses. The stop-and-go stance on trade weakened the dollar, that hovered close to its lowest level in the last two years. At the same time, Trump's tactics played out favorably for markets. Ursula von der Leyen, head of the EU's executive arm, showed in a post on X extreme willingness to negotiate, saying that talks could advance "swiftly and decisively" as long as there is time for a "good deal" till "July 9". An agreement would in the end imply a cost for Europe, and at some point stock investors should take this into account by moderating their enthusiasm for the common area's shares. Cash Treasuries did not trade due to holidays in the US and the UK. Gold slipped from a two-week high on lower trade uncertainty, while Brent crude was little changed ahead of a possible OPEC+ decision to increase supply for a third consecutive month.

Bitcoin defied gravity during the recent market crash, exhibiting lower-than-usual correlation with the Nasdaq. It is now trading close to all-time highs, after a 30% advance from mid-April lows, even as stocks still hover below their previous top. Bitcoin's resilience may have to do with expected stablecoin legislation, the so-called GENIUS Act, clarifying legal treatment of stablecoins, seen supercharging the stablecoin market via demand for tokenized dollar-based instruments. According to some projections stablecoin market cap should grow from the current \$230bn to \$2tn by 2028-end. That would expand Bitcoin's market cap accordingly, that historically has traded versus stablecoin's according to specific ratios. And such stablecoin growth would require the holding of \$1.6tn of additional Treasury reserves as collateral. Indeed, Treasury Secretary Bessent in a recent interview expressed his blessings for that argument, saying that stablecoins could create "\$2tn of demand for US Treasuries and Treasury bills". In the end, it is the need to create additional domestic demand for Treasuries that will push the authorities to boost stablecoins, in turn propelling Bitcoin higher. Investors are sharpening their bets, backed by Bessent's words. Sounds of the death-knell of the dollar, or at least of its diminished role in a multipolar world, are getting louder of late. ECB President Lagarde called for a greater role for the euro, implying some reduced clout of the world reserve currency. She expressed the view that increased issuance of Eurobonds to finance rearmament would increase the appeal of the euro to global investors. Although President Trump could not in any way agree to a diminished dollar, he may well be working for its reduced value versus its major peers. Ambitions of rivalling China in the short term, that is an extremely productive manufacturer, may prove to be elusive. A way to increase competitiveness quickly could be through significant dollar devaluation. And Trump's stop-and-go trade tactics, quite deliberate in this respect, are proving to be really effective. The dollar has been sliding throughout the year, and more should be expected to come, given Trump's ambitions and the competitiveness gap between the two superpowers.

Markets this morning:

Stocks struggled for direction early in the Asian session in a data-poor day, with investors looking forward to Nvidia's results and the FOMC minutes to be released tomorrow. The MSCI Asia Pacific Index fluctuated between small gains and losses, while the dollar edged down holding close to the year's lows. The yield on the 10-year Treasury note ticked lower, and contracts for the S&P 500 and the Nasdaq 100 held steady. The yen gained as much as 0.4% following Bank of Japan Governor Ueda's remarks that the central bank would be adjusting easing should the economy improve as expected. Yields on Japan's 40-year sovereign bonds slumped ahead of a bond auction expected to test demand following yield spikes that sent jitters through global markets. China's central bank asked its major lenders to raise the share of yuan in cross-border payments, in a push to further drive the use of the currency. The nation's EV sector drew attention after BYD introduced sweeping price cuts. Its shares tumbled 8.6% in Hong Kong, putting pressure on peers.

Upcoming key events/data:

The release of Nvidia's Q1 results tomorrow will be accompanied by heightened investor's expectations about unprecedented demand for its GB200 drives. Recent commentary from Microsoft, Amazon, and OpenAI alluded to their growing need for advanced AI infrastructure. As for tomorrow's FOMC minutes of the meeting held 6-7 May, details about discussion on employment and inflation forecasts will be closely scrutinized. Staff forecasts for core inflation may have been marked up, while the unemployment rate pushed higher. Such forecasts suggest rates should be kept on hold throughout the year.

Best Regards,

Chief Investment Office
Wealth Management
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