



## CIO OFFICE MORNING MARKET WRAP

### 28 May 2025

Yesterday's session on Wall Street was very strong, driven by positive tariffs sentiment, a turn in consumer confidence, and falling yields globally. Yet again easing trade tensions helped drive equities higher, as the United States and the European Union sped up trade negotiations. The main benchmarks halted a four-day slide, with the S&P 500 rising by 2%, and the Nasdaq by 2.4, while the smaller companies outperformed slightly (+2.5%). Gains were paced by discretionaries (3%) and IT (+2.5%), and all sectors closed well in the green. Nvidia (+3.2%) led technology stocks ahead of its Q1 results later today, while Apple halted its longest selloff in more than three years. The 30-year yield fell below 5% to 4.95% on signs the Japanese authorities were ready to rein in supply at the longer end of the curve, and the 10-year settled lower at 4.44%. A sale of two-year notes that met with solid demand overall helped boost animal spirits. The dollar advanced against all the major peers, a sign investors flocked back to US assets. Worries about the ability of Western governments to pay their high debts faded, after long-bond investors had fled the asset class on the passage of Trump's tax bill at the House. The safety of global government bonds had been put into question on concerns about future inflation and the global rally had investors get much needed relief. The Japanese government took the unusual move to send a questionnaire to investors asking views on issuance and the current market situation, a sign the authorities were trying to stabilize markets. Some other governments had shifted issuance towards shorter-dated tenors. The UK had been steering away from longer bonds. The yield on 30-year UK gilts fell as much as 9bps on Tuesday, while similar-dated German yields fell 7bps to below 3%. The relief may yet be temporary, till the core issue of the unsustainability of debt trajectories is tackled. With US 10-year term premium trading at the highest level since 2014, investors are now looking to auctions of five- and seven-year debt later this week. Gold fell 1% as global bond jitters receded, while Brent crude slipped.

The Citigroup US Economic Surprise Index jumped higher yesterday following an unexpectedly sharp rebound in consumer confidence in May. Improvement was broad across age and income groups, driven by a more optimistic outlook for the economy and labor market. Consumers were sanguine about future business conditions, their incomes, as well as plans to increase spending on big-ticket items in the next 6 months. Abating worries about tariffs should have played a major role in sentiment's turnaround. On the other hand, core durable goods orders showed a more risk-averse business stance, that anyway failed to translate into a net drag on the overall level of economic surprises. Such surprises are relevant for the future direction of longer-dated Treasury yields. In the Eurozone economic confidence rose and exceeded expectations in May. The outlook improved as well as per the previously released Ifo index in Germany on easing trade concerns and plans of higher public expenditure.

#### Markets this morning:

Asian shares gained in the morning session in the wake of Wall Street's strong returns the day before. The MSCI World came within striking distance of all-time highs yesterday, while DM ex-US equities cleared the previous highs already early this month. An Asian stock gauge rose as much as 0.6% to then pair most of the advance, with chip stocks leading ahead of Nvidia's results. In Hong Kong Xiaomi beat on revenue as it plans to aggressively expand presence in China's EV market and grow its core smartphone business. Temu's owner PDD plunged in US trading missing both on sales and profits highlighting a toll from trade tariffs. Yields on Japan's 40-year bonds rose 3.5bps ahead of a key auction that turned out to be the weakest since July. Oil rebounded ahead of an OPEC+ meeting, and gold ticked lower.

#### Upcoming key events/data:

The release of Nvidia's Q1 results today 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 the 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,

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