



CIO OFFICE MORNING MARKET WRAP

30th May 2025

Wall Street closed Thursday's session in the green with moderate returns. A backdrop of negative growth in Q1 as well as renewed policy uncertainty reined in optimism. US domestic demand was revised lower for Q1 and legal uncertainty about tariffs became heightened. A federal appeal court offered President Trump a reprieve from a previous ruling that threatened to throw a spanner in his tariff agenda. The S&P 500 paired most of a 1% advance, while Treasuries rose on bets the Fed would cut rates twice this year, as well as a strong 7-year auction. The yield on the 10-year note fell 5bps to 4.43%. The S&P 500 and the Nasdaq rose 0.4%, the Dow 0.3%. Stocks were led higher by defensive sectors, Real Estate and Pharmaceuticals, while Communication Services ended in the red. The first in-person meeting between Trump and Powell since inauguration day was a clash of views about lower rates, an interventionist as against an on-hold stance. The US economy shrank at the start of the year, with consumer spending revised lower in the second GDP print and a bigger impact from trading. Recurrent jobless claims rose, pointing to higher unemployment. Nvidia led gains in megacaps, up over 3%, while Salesforce fell over 3% as investors focused on its slow revenue growth. The US dollar fell 0.4%, and gold rebounded.

The dollar continued to show pervasive weakness, as investors stayed focused on the longer-term picture rather than on tariffs. The Fed minutes of the May FOMC meeting released yesterday revealed some pronounced risks to growth past 2025 and reinforced conviction about sticky inflation. Given high debt levels at some point Fed officials would have to cut rates aggressively to avoid excessive interest costs despite the risks to inflation. A stagflationary scenario would represent a double whammy for the reserve currency, with investors showing less interest in US markets. At the same time, the competitiveness that would be impossible to achieve against China in manufacturing processes and labor costs could be within reach with a significant loss of value of the dollar. All roads seem to lead to a weaker reserve currency in a multipolar world.

Court pronouncements against tariffs should not represent a decisive setback to the main pillar of Trump's policies. According to major investment banks tomorrow's tariff levels are likely to be the same as yesterday's, given the different options the administration has available to regain its authority. It is even doubtful that court decisions could have an impact on tax cuts in Congress, as lawmakers never made an explicit link between fiscal package and trade revenue. What is looming larger is the growing conflict between the executive and the judiciary powers, with the former frustrated to achieve an agenda citizens had voted for, and the latter making more encroachments to protect democracy. Polarization of the US society has reached the highest institutional levels.

Markets this morning:

Asian shares were weaker on rising trade uncertainty and a slowing US economy, with a regional gauge losing 0.4% led by Japan. Equity index futures for the US and Europe retreated on reports the Trump administration was considering stopgap measures to impose tariffs on swaths of the global economy. Hong Kong shares dropped 1.4% after Treasury Secretary Bessent said talks with China are "a bit stalled". The dollar consolidated, the yen gained marginally following the highest Tokyo inflation in two years, while gold slipped.

Upcoming key events/data:

Today's focus will be on the personal income and spending report. Both PCE inflation and personal spending should have decelerated in April, while personal spending and wage growth should have remained solid. Tokyo's CPI, a proxy for whole Japan, is the main highlight in Asia.

Have a good weekend!

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