



CIO OFFICE MORNING MARKET WRAP

13 October 2025

The eventful week was marked by renewed frenzy for the AI trade and an impressive rally in precious metals, starting well with the announcement of the AMD deal with OpenAI, and ending badly as President Trump threatened retaliation tariffs against China. And there was much more, from the Fed's minutes that revealed inflation concerns, to the Gaza peace plan promoted by President Trump, and the US shutdown rolling into its second week. Investors were caught off guard by escalating trade tensions, that saw indices end in negative territory across the board. In the S&P 500 (-2.4%) only utilities (+1.4%) and staples (+0.6%) ended in positive territory, while small caps (-3.3%) underperformed, in a typical risk-off pattern. Ex-US DM equities (-1.9%) somewhat contained losses thanks to Japan's (+5.1%) impressive performance on expectations of new fiscal stimulus. In EM equities (-0.6%) China (-3.1%) and India (+1.6%) finished at the opposite end of the return spectrum, the former embroiled in the tariffs confrontation, the latter a defensive play. Sentiment deteriorated in credit as well, with US junk spreads widening by more than 30bps. US Treasuries (+0.5%) were the beneficiaries of the flight to quality, that drove yields on average 8bps lower both at the shorter and longer end of the curve. The US dollar (+1.3%) rebounded on extreme short positioning, while gold (+3.4%) managed to settle above \$4,000/oz.

President Trump threatened 100% tariffs on Chinese products on Friday in retaliation to Beijing's announcement of sweeping export controls on rare earths the previous day. The unexpected developments sent markets in a tailspin on the last trading day of the week with the MSCI World losing 2.31%. The impact of escalation on either side would be dramatic, and in principle China would end up exerting control over the technology's whole supply chain by creating a Chinese version of the measure adopted by Washington to control semiconductor exports to China. But is it worth even extrapolating so far? Beijing may have been posturing, trying to gain leverage in the forthcoming talks in South Korea between Trump and Xi. President Trump had to play tough to avoid losing face. Both then toned down the rhetoric, the Chinese saying that the US should not threaten but rather negotiate, President Trump concluding that "highly respected President Xi just had a bad moment". No one side could afford to go the whole tit for tat for real.

Rallies in IT stocks and precious metals, in particular gold, characterized most of the week, an unusual combination. One more deal in the IT sector, whereby OpenAI announced it would buy billions worth of AMD's AI chips and also take a 10% stake in AMD over time, set markets on fire. AMD ended 30.5% higher broadly upgraded by analysts. It is worth noting that OpenAI recently also struck deals with Nvidia and Oracle, for investments amounting to roughly \$1tn overall including the agreement with AMD. That's really not bad for a company that is just burning cash as of today, concerns that Wall Street of course is brushing aside for whatever carries an AI label. We must anyway acknowledge that there is much more to the sector than hype. IT investments contributed more to GDP through H2 than consumption expenditure, keeping the economy afloat and the labour market subdued at the same time. With less need for workers amidst a productivity surge, inflation remains in check, and markets celebrated. Gold (+53% YTD) was in the spotlight as well, rising for eight weeks back-to-back, though conveying a more ominous message. Central bank reserve managers have been buying the yellow metal as an alternative to the US dollar in a more fractured world, and investors joined in as well. Yearly returns well above 35% were last recorded in the 70s, the times of stagflation, the regime that tariffs in the United States will eventually be ushering in. Also, growing worries about the finances of the major DM countries have been driving purchases, in a so-called debasement trade.

The publication of the latest Fed minutes failed to make headlines. The Fed is likely to retain an easing bias, as the Committee judged it "would be appropriate to ease policy further", while acknowledging that inflation progress "had stalled, even excluding the effects of this year's tariff increases." The probability of an October cut is currently at 95% and investors ignored the bad government-shutdown news buoyed by the outlook for easier policy. Historically, shutdowns have produced negligible effects on growth, though the shutdown has already rolled into its second week and it is estimated that a third one would see three million workers miss their pay-cheques.

Markets this morning:

US equity futures climbed in the Asian session and oil rebounded as President Trump signaled openness to deal with China following Friday's tariffs threats. The S&P 500 rose 1.3% while the Nasdaq jumped 1.8%, though the Asian markets, that were closed when Trump threatened retaliation, were generally weaker indicating concerns about the durability of the truce. Mainland China and Hong Kong opened lower by more than 2% before paring losses. US 10-year Treasury futures opened higher and gold set a new peak. Investors will be getting further cues on market direction this week from the Q3 earnings season in the United States and the release of soft data taking on more relevance in the absence of the CPI, the PPI, and retail sales releases that are delayed due to the government shutdown.

Upcoming key events/data:

Soft data in the United States will be scrutinized for insights in the state of the economy, from the smaller companies' NFIB report on Tuesday, to the nationwide Beige Book on Wednesday, and the Philadelphia Fed outlook on Thursday. The CPI will be released October 24. Elsewhere, China PPI and CPI are published on Wednesday. The Q3 earnings season will be in the spotlight with Citigroup, Morgan Stanley, Goldman Sachs, JPMorgan, and Taiwan Semiconductors amongst others slated to report. On Tuesday Powell speaks at an event and the IMF releases its World Economic Outlook. Friday the Eurozone CPI is published.

Have a great day!

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