

May 26, 2025

Weekly Investment Insights



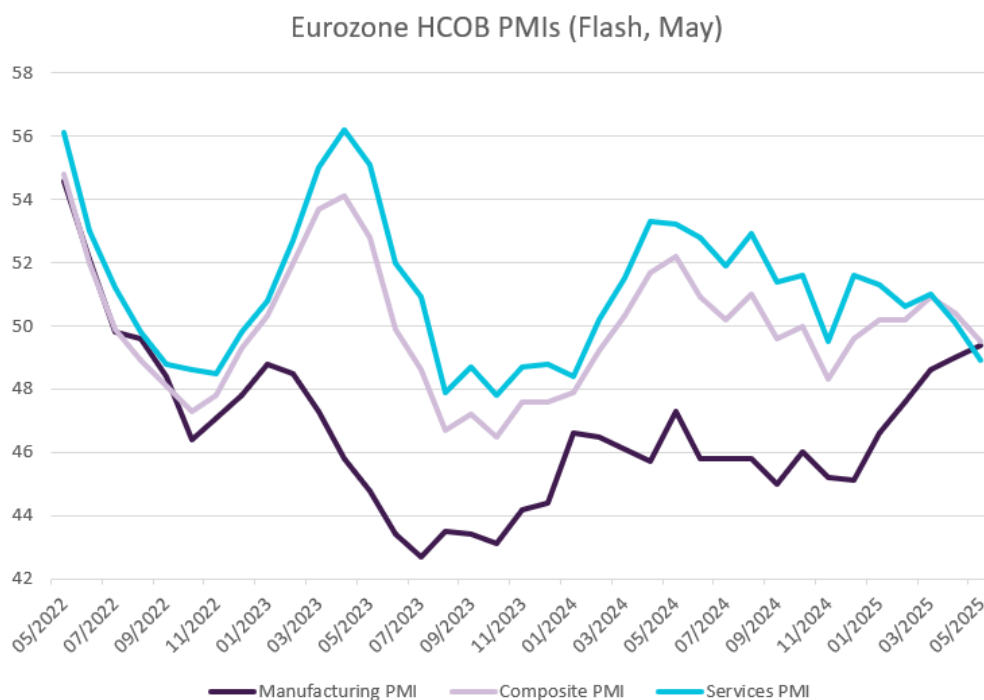
Last week, markets were caught off guard by President Trump's announcement that he recommends imposing a 50% tariff on imports from the EU from June 1, stating that the talks with the EU are "going nowhere". However, it did not take long until that deadline had been postponed to July 9 after a call between Trump and European Commission president Ursula von der Leyen. Both the euro and European stocks rose on the news, after having fallen following the announcement on Friday.

The US House of Representatives passed President Trump's "big, beautiful bill" last week, a tax bill that would lower taxes, cut social spending and increase federal debt. The Committee for a Responsible Federal Budget estimates that it will raise US national debt by more than \$3.3tn over the next decade. The bill was passed by a single vote after having been a hot topic of debate within the Republican party, as members disagreed on parts of the bill such as spending cuts to state-backed healthcare and clean-energy tax credits. The yield on 30-year US Treasuries rose on the announcement that the bill had been passed, as investors closely monitor concerns over the US's fiscal deficit. The bill will now be passed on to the Senate for approval, or potential changes, before it can become law.

Eurozone composite PMI falls into contraction in May, while US PMIs strengthen

According to preliminary estimates, the Eurozone services sector joined manufacturing in contraction territory in May, dragging down the composite PMI to 49.5. The services sector PMI dropped unexpectedly to 48.9 in May, compared to an expected figure of 50.3 and 50.1 in April. This raises renewed concerns about the health of the Eurozone economy and its ability to stage a recovery anytime soon. The services sector has been the growth engine for the eurozone in recent years, while the manufacturing sector has struggled amid high energy costs and fierce competition. This weakness reflects a drop in business activity and sluggish domestic and international demand that has weighed heavily on the sector. Business confidence dropped to its lowest level since September 2022.

On the manufacturing side, the PMI increased to 49.4 in May, up from 49 in April. This marks the slowest contraction in the manufacturing sector since August 2022, driven by increased output and stabilising new orders. However, much of this is attributed to increased production in anticipation of trade tariffs.

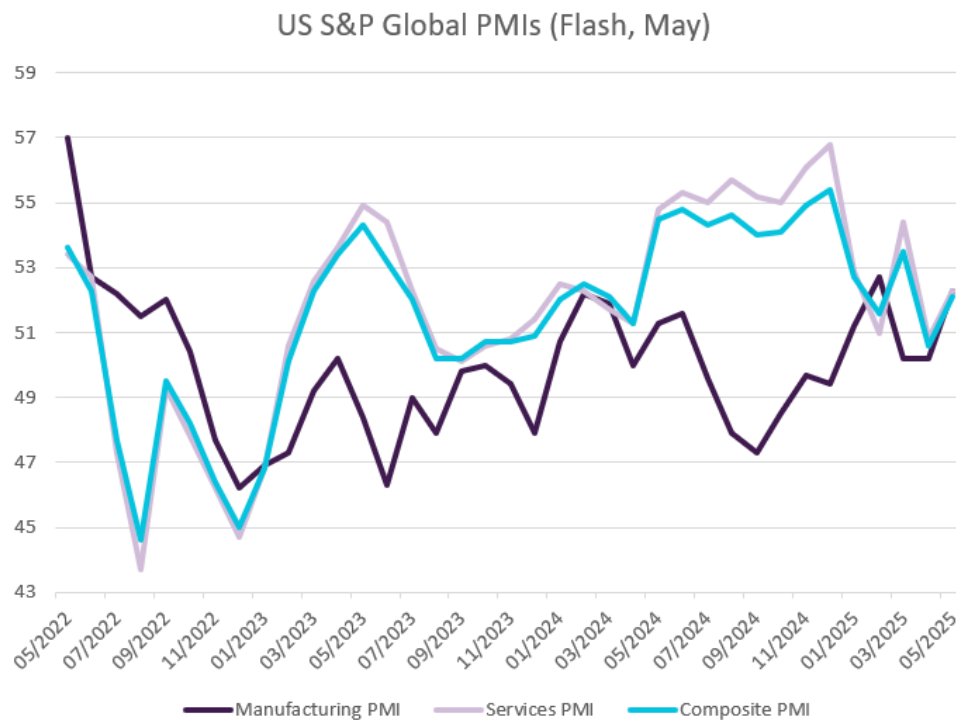


Source: Bloomberg, BIL

In the US, activity in both the services and manufacturing sectors strengthened, with the Composite PMI rising from 50.6 in April to 52.1 in May. The services PMI increased from a 17-month low of 50.8 in April to 52.3 in May. Despite a significant drop in orders from abroad, new orders were up. However, uncertainty over the past few months has led firms to reduce their employment levels for the second time in four months. Amid higher labour costs, input costs

rose, leading to a spike in output charge inflation.

The manufacturing PMI also improved in May, rising from 50.2 to 52.3. This was the strongest improvement in business conditions since June 2022, driven by growth in factory production and new orders. The biggest positive contribution came from inventories, which increased by the most since the survey began in 2009.



Source: Bloomberg, BIL

Growth in China's industrial production and retail sales slowed in April

Following a strong start to 2025, China's industrial output growth slowed in April as the impact of US trade tariffs began to be felt. Having grown by 7.7% in March, output growth slowed to 6.1% year on year in April. Although the impact of the tariffs is becoming apparent, growth was stronger than expected.

On the consumption side, households showed less confidence in April than in March, with retail sales rising by 5.1%, compared to 5.9% the previous month. Ongoing trade tensions with the US and persistent employment uncertainty means that confidence remains subdued.

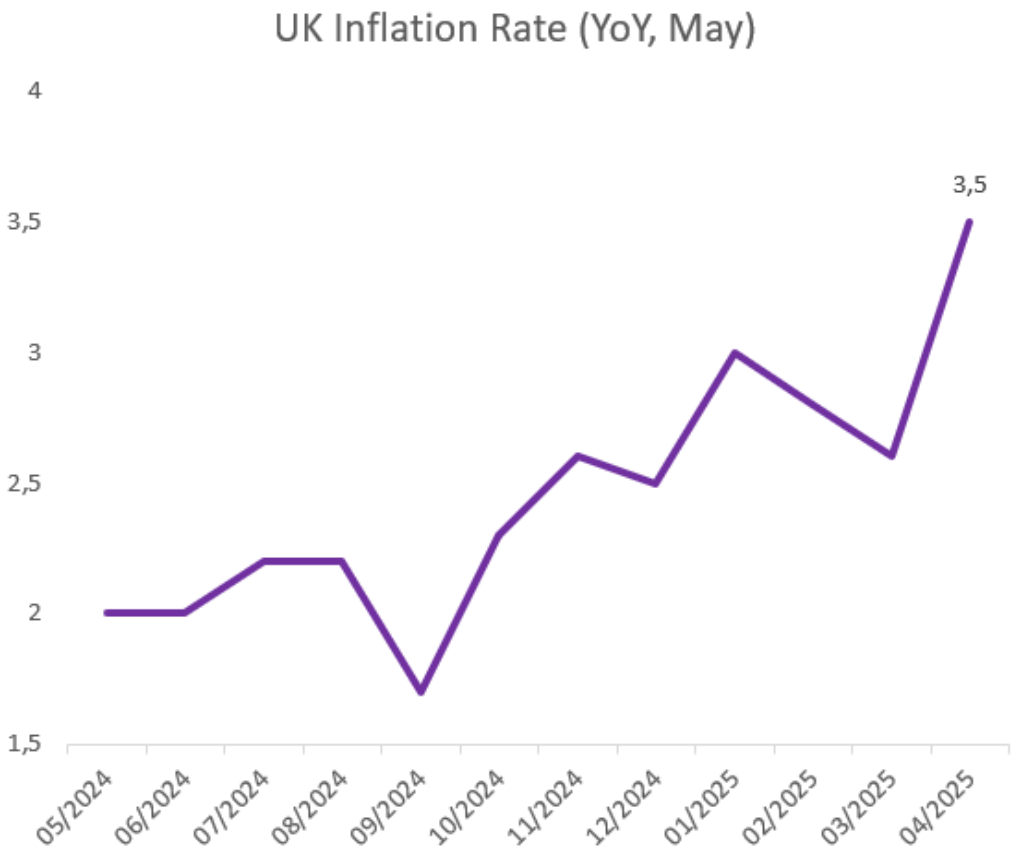
China and the US have agreed to pause 'reciprocal' tariffs for 90 days while discussing a long-term agreement. However, the remaining tariffs are still much higher than before President Trump returned to the White House. In April, shipments from China to the US fell by 21%, as Chinese manufacturers began redirecting trade to avoid tariffs. Shipments to the US are

expected to increase again during the 90-day pause, as importers attempt to stockpile goods while they await more clarity on what agreement might be reached.

UK inflation soared to 3.5% in April

Consumer prices in the UK rose by 3.5% year on year in April, up from 2.6% in March. Although a rise in inflation last month was expected due to tax rises part of the Autumn budget kicking in and higher utility bills, the rise was more than expected.

In April, the rise in employers' national insurance contributions came in place, while costs for gas, electricity and water increased. In addition, air fares surged by 27.5% from March, driven up by the timing of Easter. Services inflation, which is closely watched by interest rate setters, rose to 5.4% in April, up from 4.7% in March and the expected 4.8%. Core inflation, excluding volatile categories such as food and energy, also increased by more than expected to 3.8%.



Source: Bloomberg, BIL

UK inflation is now well above the EU average, and the Bank of England expects it to peak at 3.7% later this year.

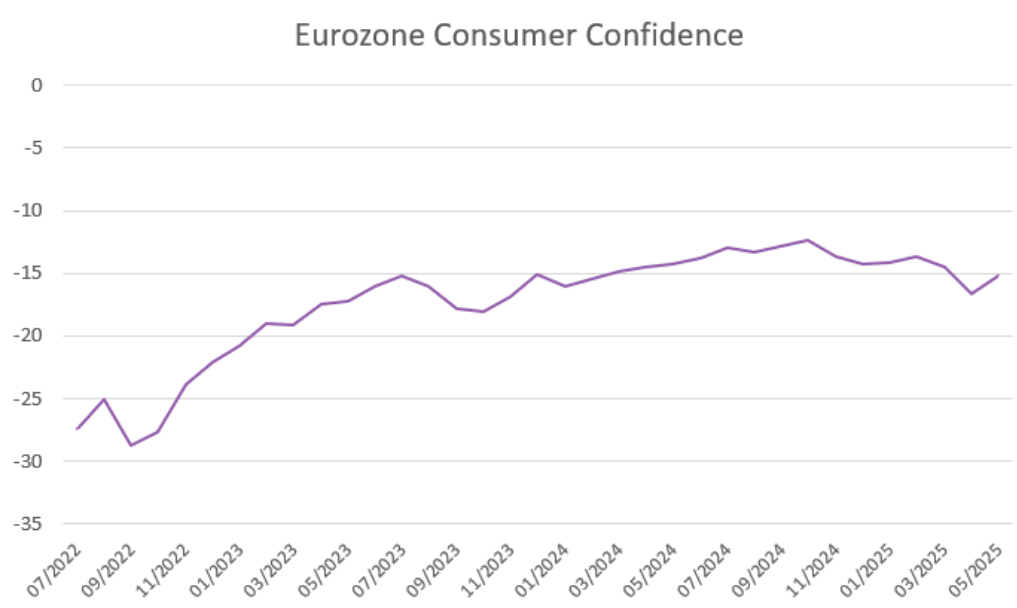
With inflation rising to a 15-month high, markets are now expecting up to two more interest rate cuts by the Bank of England before the end of the year. The pound climbed to its highest level against the dollar since the start of 2022 on the news, before retreating again.

However, this did not stop retail sales from jumping by 1.2% in April compared to the previous month. This was the sharpest monthly increase since January and was mainly driven by a 3.9% increase in food store sales, which had declined in the two previous months. Good weather boosted sales in supermarkets, butchers, bakers and alcohol and tobacco outlets. Meanwhile, non-food store sales declined by 0.7%.

Eurozone consumer confidence rose in May

With the brighter weather brought by May, Euro Area consumer sentiment also perked up. The European Commission's confidence indicator rose to -15.2, from -16.6 in April. Economists expected a reading of -16. Despite the partial recovery, consumer confidence remains markedly below its long-term average of -10.58, and also below the 2024 average.

Tariffs and trade disputes are worrying consumers and last week, it became clear that this theme is not isolated to the US and its trading partners. It was revealed that the EU intends to impose a fee of EUR 2 on billions of small packages entering the Eurozone, mainly from China. It is estimated that 4.6 billion items are annually imported directly to people's homes, with online platforms in other countries offering prices that EU retailers can hardly compete with. It is expected that the revenues from this new tax will cover the cost of extra customs checks, while the remaining money will be directed to the EU budget.



Source: European Commission, Bloomberg, *B/L*

CALENDAR FOR THE WEEK AHEAD

Monday – Switzerland Non Farm Payrolls (Q1)

Tuesday – EU New Car Registrations (April). Germany GfK Consumer Confidence (June).
Switzerland Balance of Trade (April). Eurozone Economic Sentiment (May), Consumer
Confidence (Final, May). **US CB Consumer Confidence** (May).

Wednesday – ECB Consumer Inflation Expectations (April). Switzerland Economic Sentiment
(May).

Thursday – US GDP Growth Rate (Q1, second estimate), Jobless Claims.

Friday – Germany & Switzerland Retail Sales (April). Switzerland KOF Leading Indicators (May).
US Michigan Consumer Sentiment (Final, May).

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