

June 16, 2025

Weekly Investment Insights



The short week kicked off with a thaw in trade tensions between the US and China as representatives from the world's two largest economies met in London to continue negotiations. However, concerns rose again later in the week when President Trump told reporters that he would be sending letters to trading partners with new tariff rates within the next couple of weeks. On Thursday, the dollar fell to its lowest level in three years as ongoing policy uncertainty continued to put pressure on the currency.

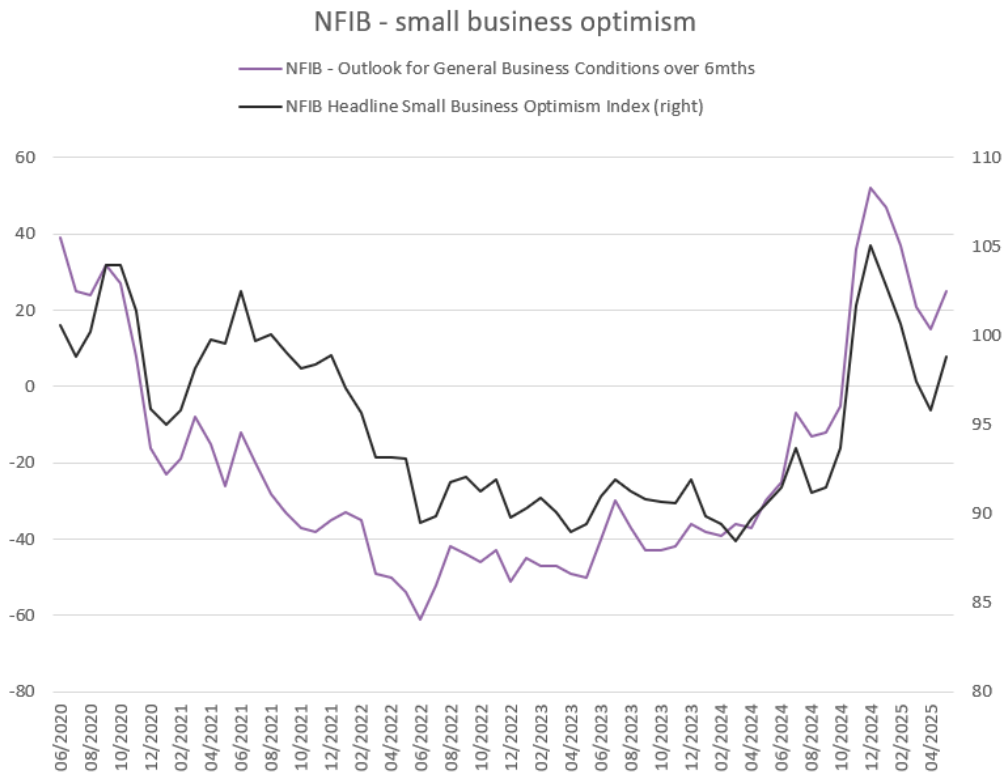
At the end of the week, stocks fell, and energy prices jumped as Israel and Iran launched a series of aerial strikes on each other. Oil prices rose by the most in more than three years, as the escalating conflict raised concerns about the security of supply. The safe-haven gold, as well as other metals such as silver and platinum, all strengthened. The US dollar also got some temporary reprieve.

Central banks will be in the spotlight this week, with meetings being held in Japan, Sweden, the US, the UK, Norway and Switzerland to discuss monetary policy. Rising geopolitical tensions and oil prices could complicate matters for policymakers that are currently working to bring inflation down closer to their targets before continuing to reduce interest rates. Both the Fed and the Bank of England are expected to keep rates on hold while they await more clarity on the path of

inflation.

WEEKLY HIGHLIGHTS

US small business optimism hits three-month high



Source: Bloomberg, BIL

It seems that business owners, at least on Main Street, are, to some extent, looking through the uncertain policy landscape, and growing more optimistic about the future. The NFIB small business optimism index hit 98.8 in May, the highest in three months, compared to 95.8 in April and forecasts of 95.9. Note that the 2024 average was 93.

18% of owners reported taxes as their single most important problem, with this replacing inflation as the single most pressing problem. The net percent of owners expecting better business conditions rose by a whopping 10 points to 25%.

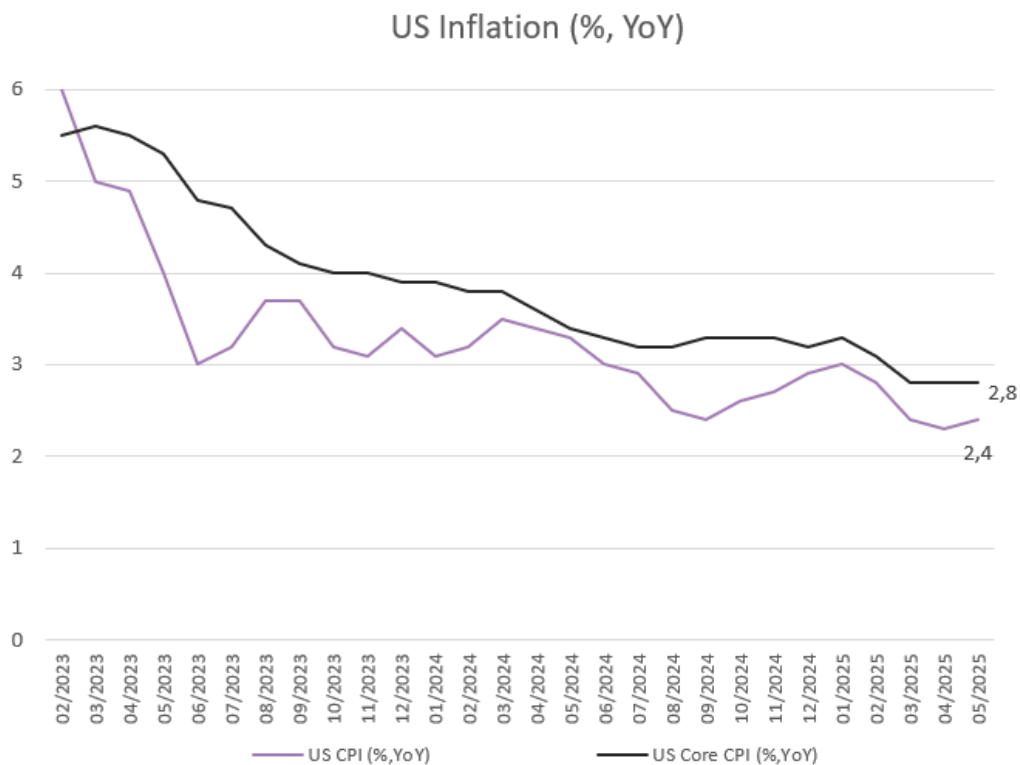
US inflation comes in below expectations – tariff impact yet to be fully felt

US CPI came in at 2.4% YoY in May, up from 2.3% and below expectations of 2.5%. Prices rose more for food (2.9%), transportation services (2.8%), and used cars and trucks (1.8%), while it fell for shelter (3.9%) – a category that has been notoriously sticky.

Energy costs declined 3.5%, with gasoline (-12%) and fuel oil (-8.6%) continuing their sharp fall. On the other hand, natural gas prices remained elevated (15.3%).

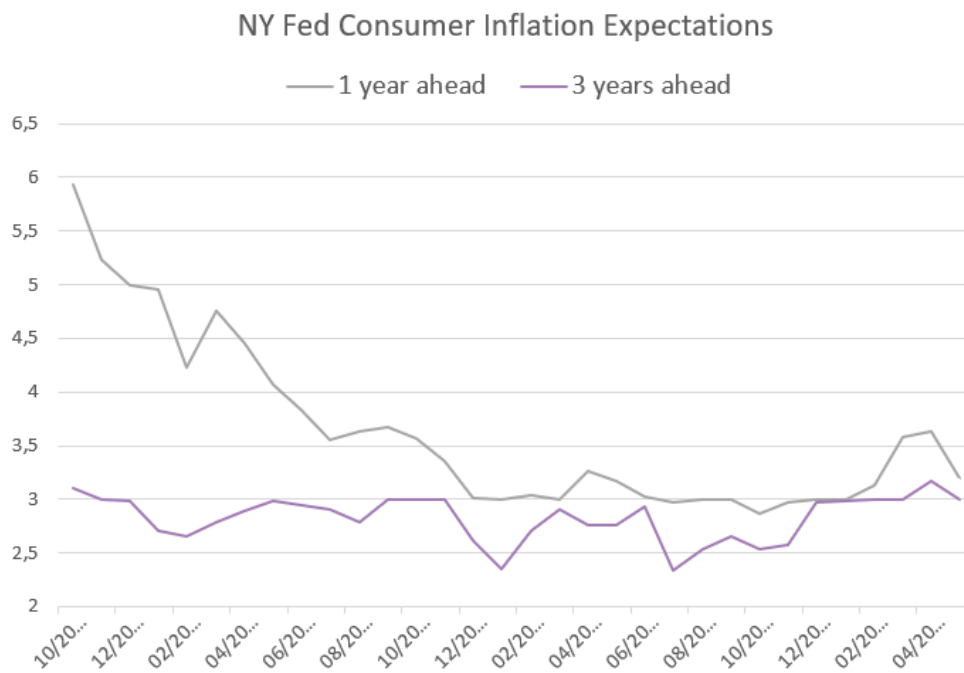
On a monthly basis, the CPI edged up 0.1%, below 0.2% in the previous month and forecasts of 0.2%

Annual core inflation remained steady at 2.8%, holding at 2021-lows, while expectations were pointing to a rise to 2.9%



Source: Bloomberg, BIL

Consumer inflation expectations also softened, according to a survey by the NY Fed, as shown below. This eases concerns about a self-fulfilling feedback loop taking hold.



Source: Bloomberg, *B/L*

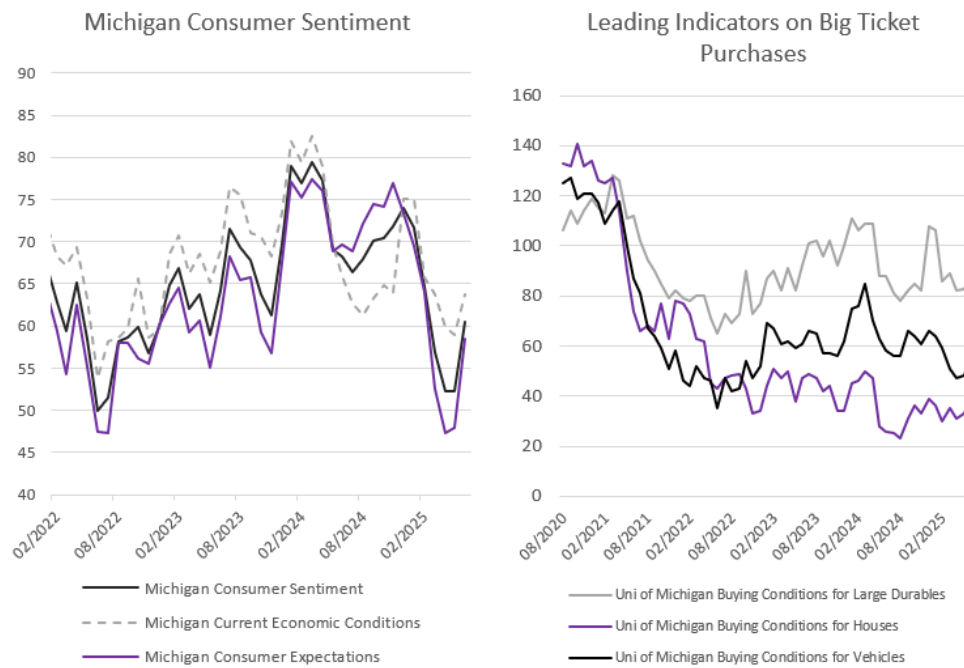
Despite the benign data, the US Federal Reserve must remain vigilant, with the impact of trade tariffs yet to fully pass through to consumers and businesses. On average, US businesses hold three-months of goods inventory in their supply chains, implying that the bulk of the impact should be felt late-June. At its monetary policy committee next Wednesday, the US Federal Reserve is expected to hold borrowing costs steady in a range of 4.25-4.5%.

US consumer sentiment ends six month slide in May

According to the latest University of Michigan survey, US consumers are feeling more upbeat as the trade negotiation deadline on July 9th nears. The sentiment index rose to 60.5, up from a near-record low of 52.2 in both May and April, and well above market expectations of 53.5. It was the first increase in sentiment in six months, driven by broad-based gains in assessments of current conditions and future expectations.

However, to put things in perspective, we must also keep in mind that the index is still roughly 20% below its December 2024 level, when consumer confidence received a temporary post-election boost. A de-escalation in trade has boosted sentiment, but until more clarity is forthcoming, it is unlikely to close the gap.

In tune with the aforementioned NY Fed survey, inflation expectations moderated, while consumers expressed a greater willingness to buy big ticket items such as large durables, homes and vehicles.

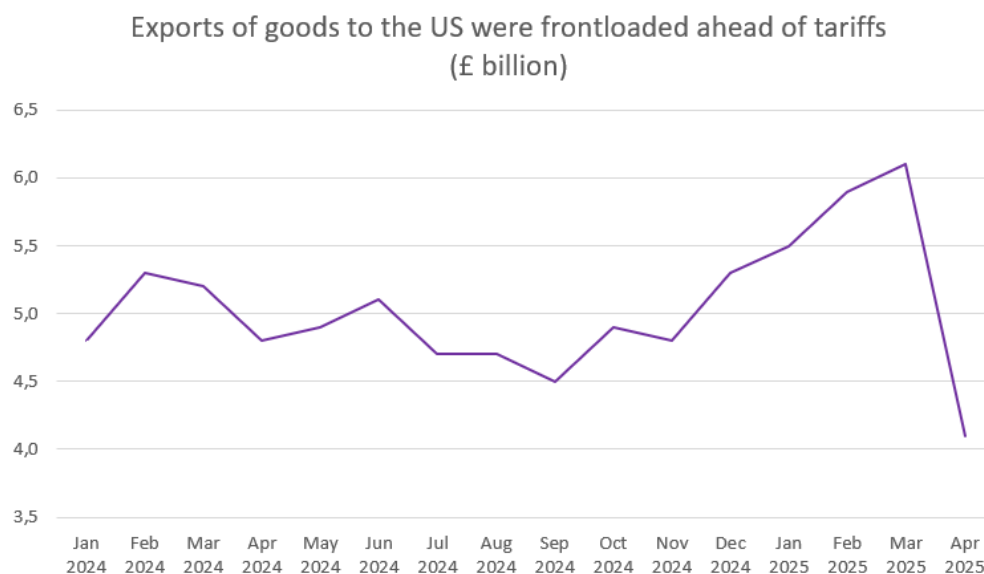


Source: Bloomberg, BIL

UK economy contracts and unemployment hits 4-year high

After a strong growth in the first quarter, the British economy shrank by 0.3% in April, the worst performance in almost two years, caused by the negative impact of US trade policy and a decline in the services sector.

Tariffs on US imports have led goods exports from the UK to the US to fall by the most on record.



Source: ONS, BIL

In addition to the impact of US tariffs on UK exports, the services sector — a dominant driver of the UK economy — struggled, with output falling by 0.4% amid several tax increases that came into effect in April. British companies are grappling with the rise in national insurance contributions and the increase in the minimum wage, while households are facing higher utility bills. Against this backdrop, the Bank of England expects the pace of economic growth to slow to 0.1% in Q2, down from 0.7% in Q1.

These figures were released following the government spending review by Chancellor Reeves, in which a 3% increase in NHS funding and higher school budgets were announced, alongside cuts to the budgets of several government departments, including the Home Office, the Foreign Office and the Department for Digital, Culture, Media and Sport.

Turning to the labour market, the unemployment rate rose to a four-year high in the three months to April as employers came under pressure from the aforementioned tax increases. According to the Office for National Statistics, this led companies to reduce their payroll by 55,000 between March and April. Wage growth is slowing, which is a positive sign for the Bank of England, which is expected to continue its rate-cutting cycle later this year.

Calendar for the week ahead

Monday – China Industrial Production, House Price Index, Retail Sales, Unemployment and Fixed Asset Investment (May). Eurozone Balance of Trade and Wage Growth. OPEC Monthly Report.

Tuesday – Bank of Japan Monetary Policy Committee. Germany and Eurozone ZEW Economic Sentiment. US Retail Sales, Industrial Production, NAHB Housing Market Index. G7 Summit.

Wednesday – UK Inflation (May). Eurozone Inflation (final print, May). US Housing Starts and Building Permits. **US Federal Reserve Monetary Policy Meeting with Economic Projections.**

Thursday - Bank of England Monetary Policy Committee. US Weekly Jobless Claims. **SNB Monetary Policy Meeting.**

Friday – UK Consumer Confidence and Retail Sales. Japan Inflation (May) and BoJ Meeting Minutes. China Loan Prime Rate. France Business Confidence.

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