June 20, 2025

Weekly Investment Insights

Saturday 21 June marks the summer solstice in the Northern Hemisphere. This is the day with the most daylight hours in the year and is celebrated as the start of summer in many cultures. However, despite currently being in the season of long days and warm weather, major economies around the world are showing signs of cooling, a fact that prompted several central banks to cut interest rates this week. Some were more cautious, however, as inflationary pressures from trade tariffs remain a major obstacle to looser monetary policy. With the US administration's attention now pulled in the direction of the Middle East, some analysts worry that the July 9 deadline for settling trade negotiations might not be met. Indeed, with President Trump forced to leave the G7 meeting early, only the UK was able to use the event to settle a trade deal, while other major economies like Japan and Europe left the summit having made scant progress on a deal.

Brent crude prices have fluctuated this week after last week's spike, amid ongoing concerns about potential supply disruptions caused by the escalating conflict between Israel and Iran. However, the International Energy Agency still predicts that supply will substantially exceed demand in 2025.

Meanwhile, equity markets were jittery as investors considered the possible consequences of

US involvement in the conflict between Israel and Iran. However, stocks managed to rise again toward the end of the week on signals that President Trump would delay his decision on whether to enter the war to allow time for diplomacy.

WEEKLY HIGHLIGHTS

US Fed holds rates steady but cuts outlook for the economy

At its monetary policy meeting on Wednesday, the Federal Reserve (Fed) kept interest rates at a range of 4.25–4.50%, as expected, for the fourth consecutive meeting. This followed renewed pressure from President Trump, who again called for Chair Jerome Powell to cut rates this week.

The Fed lowered its forecasts for US economic growth and raised its inflation expectations. It now expects the economy to grow by just 1.4% in 2025, down from an estimate of 1.7% in March. Inflation is expected to rise to 3%, up from the 2.7% estimate in March.

FOMC Dot-Plot, June 2025 – *Weaker economy, more inflation*

	2025		2026	
	March	June	March	June
Real GDP	**1.7**	**1.4**	**1.8**	**1.6**
Unemployment	**4.4**	**4.5**	**4.3**	**4.5**
PCE Inflation	**2.7**	**3.0**	**2.2**	**2.4**
Core PCE Inflation	**2.8**	**3.1**	**2.2**	**2.4**

Source: Federal Reserve, BIL

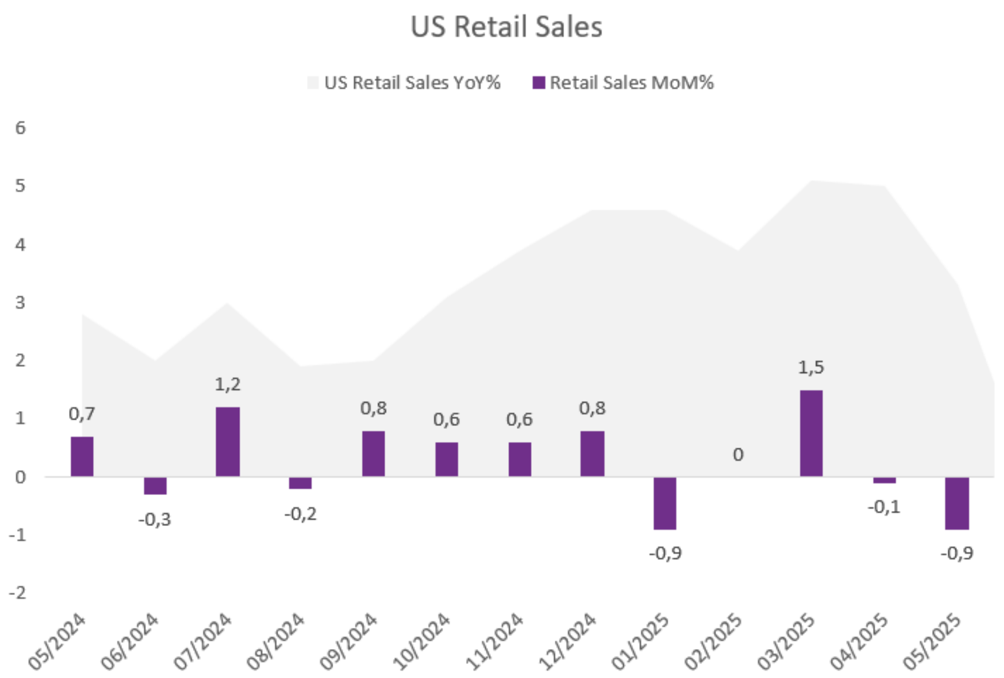
According to the Fed's June 'dot plot', two 0.25 percentage point interest rate cuts are still expected this year. However, Wednesday's meeting showed that rate setters are becoming more divided, with an increasing number ruling out further rate cuts this year due to increased inflation risks. Although inflation came in below expectations at 2.4% in May, prices are expected to rise in the coming months as the impact of President Trump's trade tariffs becomes more apparent.

US retail sales decline after tariff front-loading

US retail sales declined 0.9% MoM in May, while markets expected a 0.7% fall. This is partly caused by consumers pulling back after a March spending spree when they tried to get ahead of tariffs and potentially higher prices. This was most evident for auto purchases, with sales at car dealerships recording the largest decline (-3.5%), followed by building material & garden equipment suppliers (-2.7%).

If we look at control group sales (which are used to calculate GDP and which exclude autos, gasoline, food services and building materials), they actually rebounded 0.4% from -0.1% prior. Based on two months of data, they are up 3.7% in the second quarter (versus 5.1% in Q1), indicating a slowdown, but not a major slump in spending.

That said, we would expect that price sensitivity among consumers becomes more visible through summer. Retailers, however, which have enjoyed meatier margins since the pandemic, have more room to absorb some of the tariff impact.

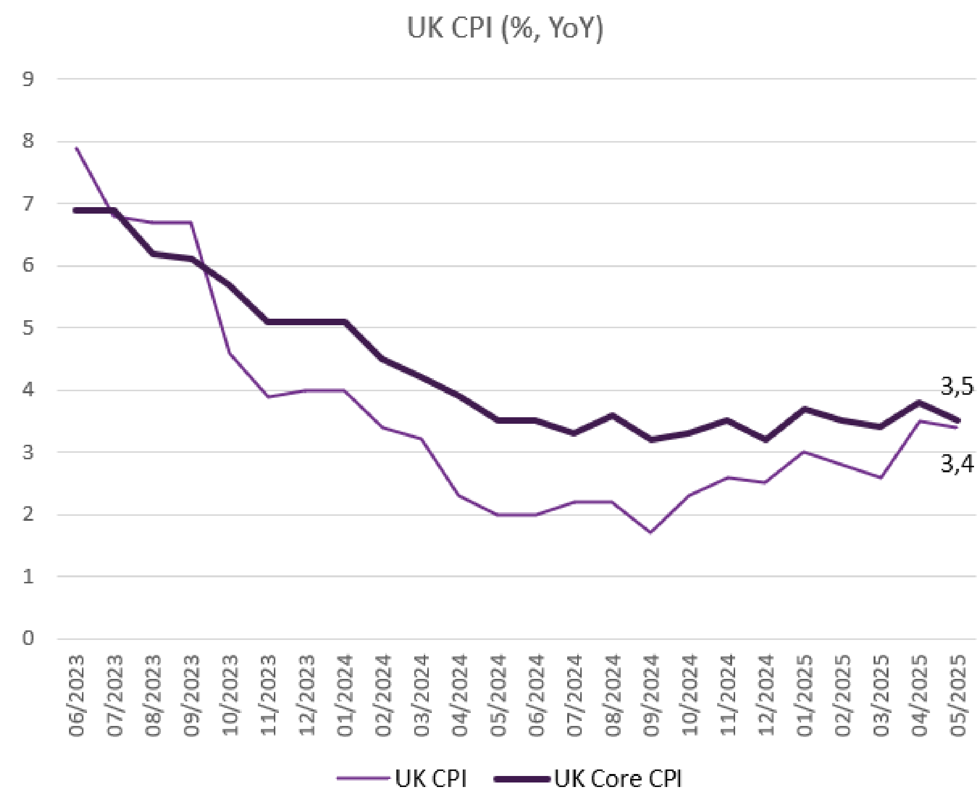


Source: Bloomberg, BIL

UK inflation cooled in May, but price pressures remain high

Inflation slowed to 3.4% in the UK in May, but price pressures still have a long way to fall before they reach the Bank of England's 2% inflation target. The largest downward contribution came from falling transport prices (specifically airfares), as well as declining prices for motor fuel. Service inflation, which is closely watched by rate-setters, also slowed. Prices increased the most for food and non-alcoholic beverages, in particular chocolate, confectionery and ice cream. Core inflation, excluding volatile categories such as food and energy, cooled to 3.5%, from 3.8% in

April.



Source: Bloomberg, BIL

Bank of England leaves interest rates unchanged

Just like the US Federal Reserve, the Bank of England (BoE) kept interest rates steady (at 4.25%) at its June meeting amid inflationary pressures and geopolitical uncertainty. Looking ahead BoE governor Andrew Bailey indicated that another rate cut could be imminent, stating that "Interest rates remain on a gradual downward path, although we've left them on hold today."

Thursday's decision was in line with expectations and followed the release of inflation data, which showed that inflationary pressures remain strong. Additional uncertainty for rate setters is caused by the escalating conflict between Israel and Iran, shifting US trade policy, and domestic tax increases which went live in April and are still percolating through the real economy. "The world is highly unpredictable," Bailey noted, adding that the BoE continues to monitor the impact of the weak labour market on inflation.

The Monetary Policy Committee expects pay growth to cool significantly, which could allow the central bank to cut interest rates again as soon as August.

Also raising concerns about a weakening British economy is the slump in household spending in

May. Figures from the Office for National Statistics showed that retail sales fell by 2.7% last month — a sharper drop than expected. The most significant contributors to this decline were a 5% decrease in sales at food stores and a 2.5% fall in household goods sales.

May's fall is the first negative reading this year.

Strong inflationary pressures, a weakening labour market and faltering consumption are a challenging combination for the UK economy, indicating that the economic strength observed in Q1 has not continued into Q2.

China's retail sales grew in May, while Industrial Production output slowed

Chinese retail sales exceeded expectations by growing by a strong 6.1% in May, marking the fastest expansion since December 2023. This was boosted by increased holiday spending, an earlier-than-usual online shopping festival, and the government's trade-in scheme, which was launched at the start of the year.

However, industrial output growth continued to slow, expanding by 5.8% year on year — down from 6.1% in April. Despite the fact that reciprocal tariffs between the US and China were paused in May, export-oriented companies are still struggling with the remaining 55% tariffs. Exports to the US fell by 34.5% in May, marking the steepest drop since the start of the pandemic.

Furthermore, the struggling property market continues to weigh on the economy. Property investment and new house prices in 70 of China's largest cities continue to fall, with little prospect of an imminent recovery.

Swiss National Bank cuts interest rates to 0%

The Swiss National Bank (SNB) cut interest rates by 25 basis points to 0% on Thursday, in line with expectations. The cut comes as a response to falling inflation, which fell below 0% in May, the appreciation of the Swiss franc and trade policy uncertainty from the US.

The Swiss franc has appreciated significantly this year, up 10% against the dollar, as investors seek a safe-haven from geopolitical uncertainty. This in turn puts deflationary pressure on the Swiss economy as the strong currency makes the cost of imports lower. In order to combat the currency appreciating even further, which could potentially harm the Swiss export-oriented economy's competitiveness, the SNB is expected to return to sub-zero interest rates later this year, a policy it maintained between 2014 and 2022.

Calendar for the week ahead

Monday – Eurozone, France, Germany HCOB Composite, Manufacturing & Services PMI (Flash, June). UK & US S&P Composite, Manufacturing & Services PMI (Flash, June).

Tuesday – Germany Ifo Business Climate (June). US CB Consumer Confidence (June).

Wednesday – EU New Car Registrations (May). US Housing Stats.

Thursday – Germany GfK Consumer Confidence (July). US GDP Growth Rate (Q1, Final), Jobless Claims.

Friday – UK GDP Growth Rate (Q1, Final). Eurozone Consumer Confidence (Final, June). US Michigan Consumer Confidence (June, Final) ECB Consumer Inflation Expectations (May).

BIL 1856