June 30, 2025

Weekly Investment Insights

At a summit in the Hague last week, Nato allies pledged to raise defence spending to 5% of GDP by 2035. This was music to President Trump's ears who reassured the allies that he is "with them all the way". Although this assurance from Trump was warmly welcomed by many European leaders, others have criticised the decision to further increase defence spending due to the fiscal pressure that the target will place on budgets.

With just over a week to go until President Trump's tariff pause ends on July 9, trade partners are doing their utmost to appease the US in the hope of striking a deal. Canada scrapped its digital services tax, which targeted the US tech industry, just hours before it was due to come into effect on June 30. It is hoped that this gesture will help progress trade talks with the US, after Trump said that he was "terminating" trade negotiations with Canada over the tax. The EU and the US have yet to reach an agreement, and while discussions are ongoing, the EU is preparing a package of retaliatory tariffs to be implemented if an agreement is not reached by the deadline.

Stock markets have been heavily influenced by tariff headlines this year, particularly since Trump announced his long list of "reciprocal" tariffs on "Liberation Day" at the start of April. While the majority of discussions have been inconclusive until now, many stock markets, *including in the US, have nevertheless recovered from their April drops. In fact, the S&P 500 index rose by 10% in Q2, reaching record highs once again. Europe's Stoxx 600 rose by barely 2% in Q2, lacking the strong momentum experienced in Q1, which was mainly driven by fiscal spending announcements. However, further volatility is anticipated when President Trump's tariff pause ends early next week, particularly if major trade partners fail to finalise their deals with the US before then.*

This week, the US Senate will be holding votes on amendments to Trump's "big, beautiful bill". If passed, the bill will extend tax cuts introduced during Trump's first term by reducing spending on healthcare and social welfare programmes, while also increasing federal debt.

WEEKLY HIGHLIGHTS

STATEC lowers Luxembourg GDP forecast for 2025

Economic growth in the Grand Duchy is expected to slow to just 1% in 2025, against a backdrop of global trade uncertainty and heightened geopolitical risk. Thereafter, a modest recovery is expected in 2026, with growth of 2% expected; this still lingers below the 3% levels seen in prior years.

STATEC Director Tom Haas highlighted that Luxembourg's economy has stagnated since 2022, with a persistent state of "poly-crises" preventing a return to pre-pandemic stability. While activity in the industrial and construction sectors has shown early signs of recovery, output is still far off levels seen prior to the energy crisis.

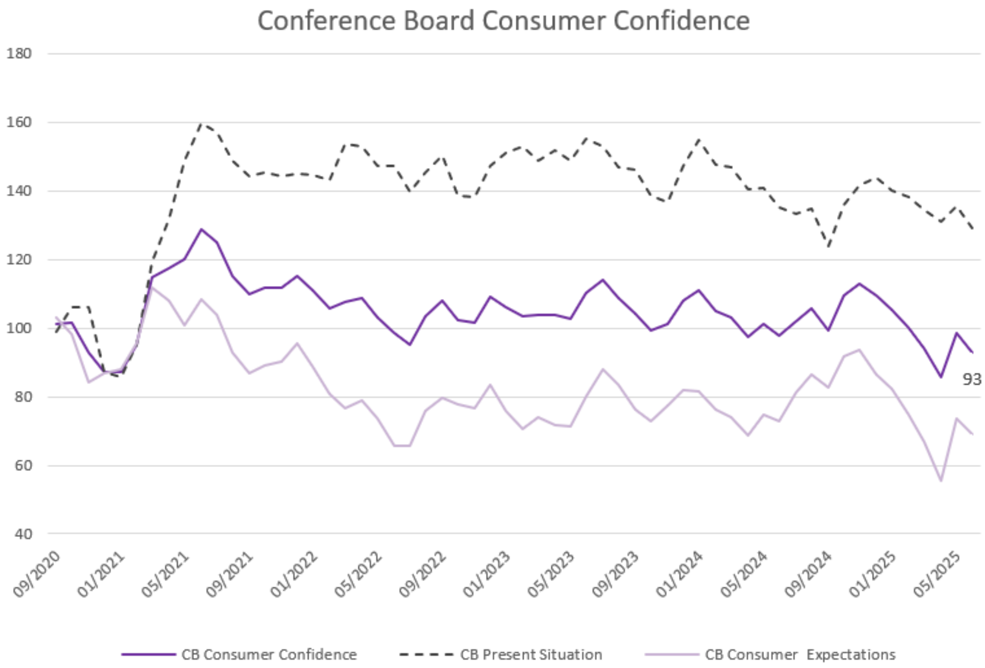
More encouragingly, inflation has fallen sharply since 2022 and currently stands just below 2%. STATEC predicts the next wage indexation will likely take place in Autumn 2026.

US consumer confidence remains highly-sensitive to tariff headlines

The Conference Board's gauge of consumer confidence fell to 93.0 in June, almost erasing all of May's gains. Consensus had expected an increase to 99.5. Households grew less optimistic about the labour market, viewing jobs as less plentiful, while anxiety about import duties and higher prices dominated concerns. The expectations sub-index fell 4.6 points to 69 – substantially below the 80 threshold which typically signals recession. On a brighter now, consumers' assessment of their personal finances "remained solid", while their expected financial situation going forward improved. Buying intentions were mixed.

With consumption being the main engine of US growth, how consumers feel matters. Recently, dips in sentiment haven't always translated to reduced consumer spending, but economists and

Fed officials are watching closely.



Source: Bloomberg, BIL

Consumer buying intentions relative to the previous month

Cars	Steady
Appliances	Improved Slightly
Electronics	Decreased
Services	Decreased
Dining Out	Increased
Vacations	Steady
Fitness	Increased
Motor Vehicle Services	Increased

Source: Bloomberg, BIL

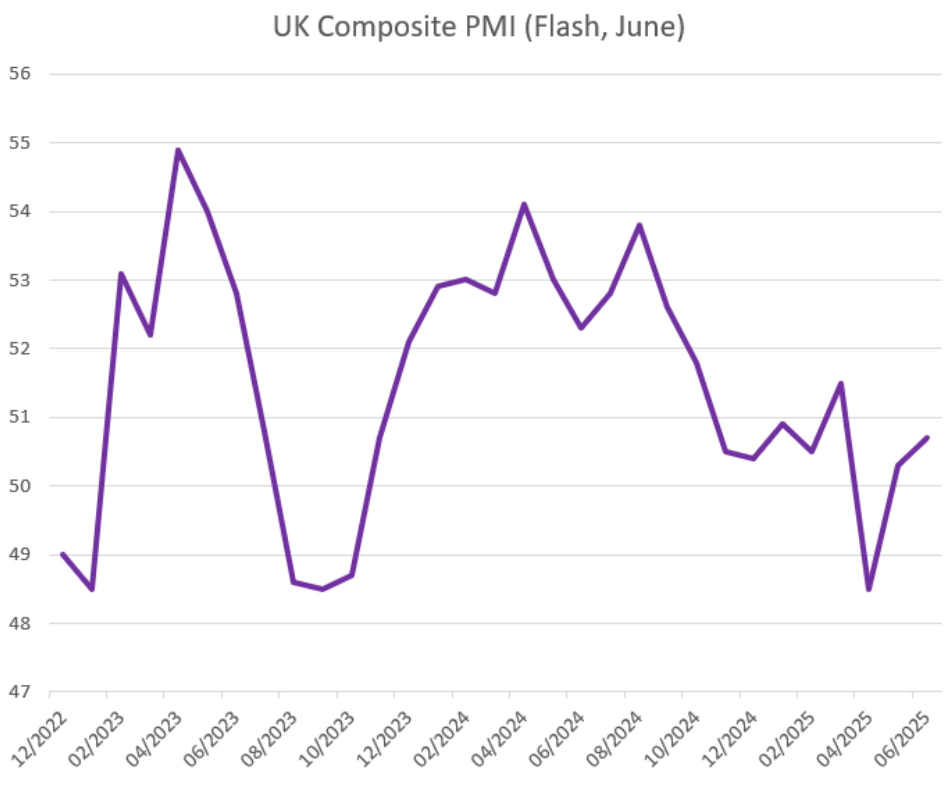
UK business activity grew modestly in June

According to flash estimates, British business activity expanded modestly in June, with the Composite PMI rising from 50.3 in May to 50.7. Growth was driven by the services sector, where the PMI increased from 50.9 to 51.3, offsetting the softer decline in manufacturing sector activity (up to 47.7 from 46.4).

The expansion in the services sector was the strongest in three months, showing a rebound in new business, though exports continued to fall. Employment also continued to decrease. Price pressures eased, with prices rising at the slowest pace in over four years.

The manufacturing sector contracted at a slower pace than expected. Nevertheless, manufacturers continued to report declines in export orders due to the impact of President Trump's trade tariffs and heightened geopolitical uncertainty. However, the rate of decline in export sales eased, pointing to a potential stabilisation. Output fell in June, and total new work from abroad fell for the eighth consecutive month.

Although business conditions have improved since the downturn in April, the tailwinds currently outnumber the headwinds for British firms.



Source: Bloomberg, BIL

German consumers aren't riding the same wave of optimism as companies

While business confidence in Germany has been on the upswing since the beginning of the year, consumers are notably more cautious. Germany's GfK Consumer Climate Indicator edged down to -20.3 heading into July, missing market forecasts of -19.3.

Up to now, the government's fiscal stimulus plans have been almost exclusively aimed at companies, not households. While households do envisage a brightening economic landscape (economic expectations climbed to 20.1 from 13.1, recording the highest reading since the start of the Ukraine war in February 2022) they are not yet willing to loosen their purse strings. With some loosening evident in the labour market and geopolitical uncertainty lingering, the propensity to save hit its highest since April 2024 (13.9 vs 10.0 in June).

Calendar for the week ahead

Monday – Germany Retail Sales (May). Italy & Germany Inflation Rate (Prel, June).

Tuesday – China Caixin Manufacturing PMI (June). Switzerland Retail Sales (May), Manufacturing PMI (June). Eurozone Manufacturing PMI (Final, June), Inflation Rate (Flash, June). US S&P Global Manufacturing PMI (Final, June), ISM Manufacturing PMI (June), JOLTs Job Openings & Quits (May).

Wednesday – Eurozone Unemployment Rate (May). US Challenger Job Cuts (June).

Thursday – China Caixin Services PMI (June). Switzerland Inflation Rate (June). Eurozone Services & Composite PMI (Final, June). UK Services & Composite PMI (Final, June). US Non Farm Payrolls (June), Unemployment Rate (June), Balance of Trade (May), Jobless Claims, S&P Global Composite & Services PMI (Final, June), ISM Services PMI (June), Factory Orders (May).

Friday – Switzerland Unemployment Rate (June). Germany Factory Orders (May). Eurozone Construction PMI (June).

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