July 7, 2025

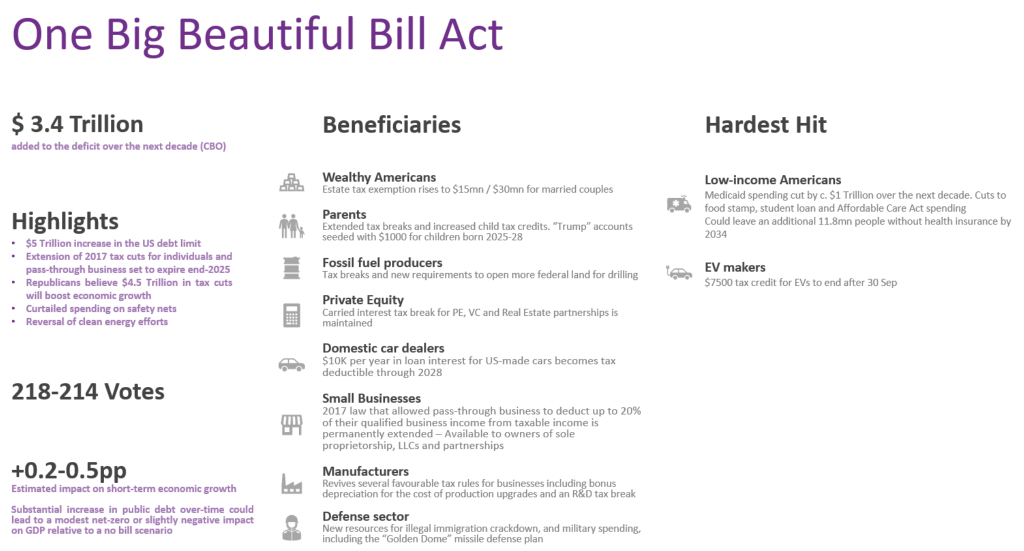
Weekly Investment Insights

*Last week, the House of Representatives granted final approval to President Trump's widely debated tax and spending legislation, titled the "*One Big Beautiful Bill Act*". The bill extends tax cuts from Trump's first term in office, while also cutting Medicaid funding and clean energy subsidies. It will also increase military spending and fund Trump's clampdown on illegal immigration. The bill's fiscal impact has raised concerns, as it is expected to increase the federal deficit by more than $3 trillion over the next decade. It also includes a $5tn increase to the federal debt ceiling, which is a limit on how much the government can borrow. Despite heavy opposition from the Democrats, as well as from members of President Trump's own Republican Party, the bill was passed by 218 votes to 214. Earlier in the week, it was passed by a single vote in the Senate. In addition to concerns about the federal deficit, opponents of the bill have expressed concern about who will benefit from the legislation, saying that it will largely favour the wealthy at the expense of low-income Americans. Economists anticipate that the bill could modestly stimulate near-term economic growth, but the substantial increase in public debt could mean a net-zero or even slightly negative impact on GDP over the long term. For more details, please see infographic below.*

With the bill signed into law, focus has turned back to trade as the July 9 deadline for tariff *negotiations is on our doorstep. With two days to go, a lot of US trading partners are still without a deal, including the EU…*

While US stock markets reached record highs last week, European equity markets were down due to uncertainty surrounding trade negotiations. Historically, equity markets have performed well in July. However, trade uncertainty poses an undeniable risk this year.

Over the weekend, Opec+ agreed to speed up the unwinding of production cuts, hiking oil output by 548k barrels a day next month. This fueled concerns about an oversupplied oil market, pushing bent crude lower.



WEEKLY HIGHLIGHTS

US strikes in-principle trade deal with Vietnam

As the original July 9 deadline for trade negotiations nears, Vietnam has become the latest country to reach a preliminary agreement with the US. Under the deal, Vietnam faces a 20% tariff, which is more than half the initial 46% reciprocal announced by the US on "Liberation Day". However, there is a catch. The US plans to impose a steeper 40% tariff on goods trans-shipped through Vietnam – a measure aimed at curbing the flow of Chinese goods routed via Vietnam to bypass levies. Questions arise, however, about the enforcement of this in practice, given the complexity of global supply chains.

Vietnam's role in global manufacturing has expanded significantly in recent years, especially after firms shifted production out of China to avoid earlier tariffs under the first Trump administration. The US now accounts for 30% of Vietnam's exports, which totalled $136.6 billion last year.

Trade deals with other major US trading partners are yet to materialise and the "90 deals in 90 days" announced on April 2 is unlikely to come to fruition. Commerce Secretary Howard Lutnick commented: “We’re going to do top 10 deals, put them in the right category, and then these other countries will fit behind.”

Japan was one of the first countries to kick-off negotiations with the US, but talks have faced hurdles over protections for domestic rice production. China is on a separate timeline, with its 90-day pause having started mid-May, after a limited deal was reached.

India has proactively reduced tariffs on various goods as it seeks to reset its trade relationship with the US. Notably, it has also cut crude imports from Russia, Saudi Arabia, and Iraq in the first trimester of the year, while increasing supplies from the US by around 120%, aligning with efforts to narrow its $45 billion trade surplus with the US. According to reports, a deal between the two is in its conclusion phase.

Traders pare back rate cut expectations on “strong” labour market data

US labour market data, released Thursday, showed that American firms added 147k jobs in June, well above forecasts of 110k. In turn, the unemployment rate fell to 4.1%. Market pricing shifted strongly following the payrolls report, with traders all but taking the chance of a July rate cut off the table, causing the USD to rally (the greenback subsequently gave away most of those gains).

When we look beneath the surface, the strong headline figure masks some underlying softness. The breadth of job gains is falling, with the nonfarm payroll diffusion index slipping below 50. This threshold is often seen as a red flag, suggesting economic weakness. Indeed, around 90% of the new positions were government-linked (+96k) or in healthcare (+39k).

Government hiring occurred primarily at the state or local level and in education. At the Federal Government level, job losses linked to DOGE continued (-7K in June), with employment down by 69K since January.

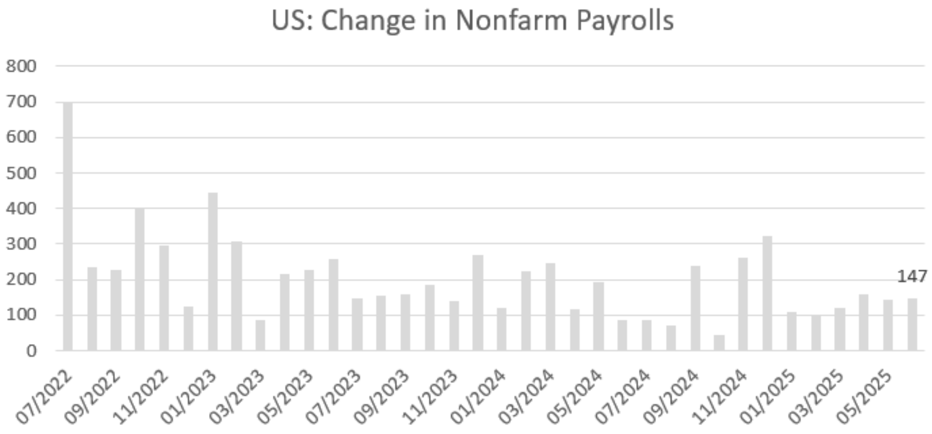
Health care is a long-term driver of job creation due to demographic forces, including an ageing population. Demand for healthcare personnel is not as sensitive to cyclical forces.

Elsewhere, construction saw an increase of 15,000 while manufacturing lost 7,000. Most other sectors showed little change.

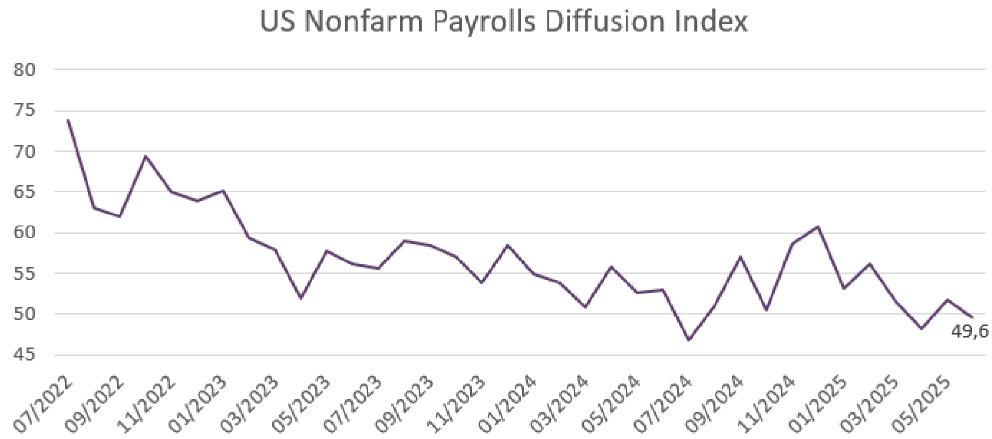
A separate report from ADP which only measures employment in the private sector showed that 33,000 jobs were shed in June – the first decline since March 2023.

The silver lining for now is that despite a hesitancy to hire, layoffs remain muted (if we overlook Elon Musk’s DOGE drive). Slower hiring is also yet to meaningfully disrupt pay growth.

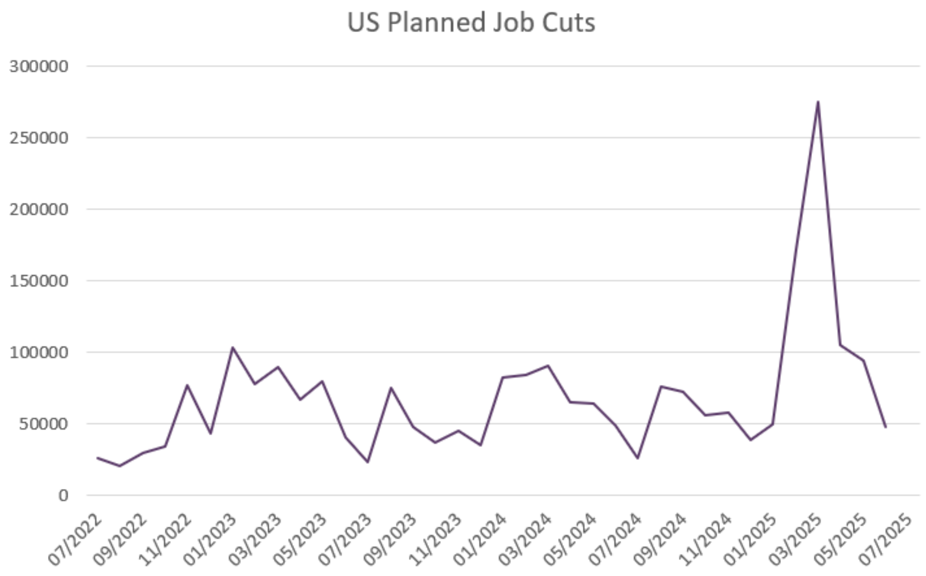
Average hourly earnings are still growing at a clip of 3.7% YoY – above the 3% level that the Fed believe is consistent with its 2% inflation goal.



Source: Bloomberg, BIL



Source: Bloomberg, BIL



Source: Challenger, Gray & Christmas, Bloomberg, BIL

Eurozone inflation inches up to the ECB's 2% target, Lagarde speaks at Sintra

Annual consumer price inflation in the Eurozone rose from 1.9% to 2.0% in June, in line with both market expectations and the ECB's target. Inflation in Germany unexpectedly softened (2.0% from 2.1%), while France (0.9%) had one of the lowest rates in the bloc.

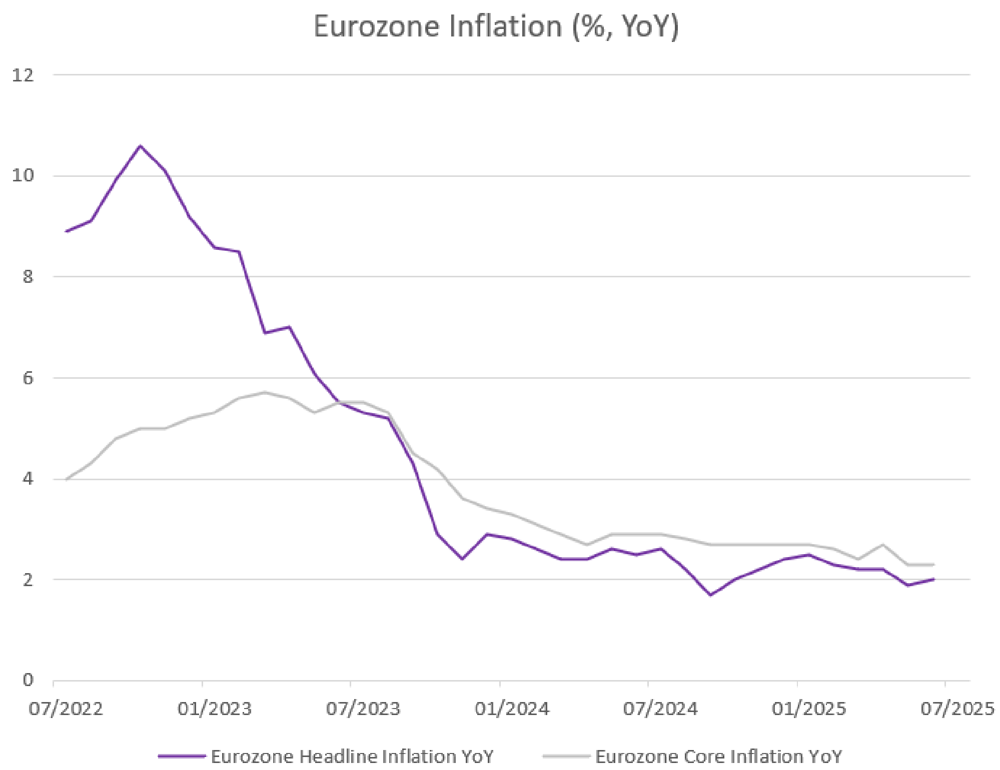
For the Eurozone as a whole, services inflation accelerated to 3.3%, up from May's three-year low of 3.2%. Energy prices fell less (-2.7% from -3.6%), while inflation eased for non-energy industrial goods (0.5% vs. 0.6%) and for food, alcohol, and tobacco (3.1% vs. 3.2%).

Core inflation—which excludes volatile categories—was unchanged at 2.3%, marking its lowest level since January 2022. However, if we look at the month-on-month data, it rose 0.4%.

Speaking at the ECB Forum on Central Banking in Sintra, ECB President Christine Lagarde reaffirmed the central bank's commitment to price stability: "It will take time for us to gather sufficient data to be certain that the risks of above-target inflation have passed… Our work is not done, and we need to remain vigilant." "We will not rest until the match is won and inflation is back at 2%."

The single currency has gained around 13% year-to-date, in what is shaping up to be its strongest year in more than two decades. Markets expect one more 25 basis point rate cut before year end.

Source: Bloomberg, *BIL* as of 2.7.25

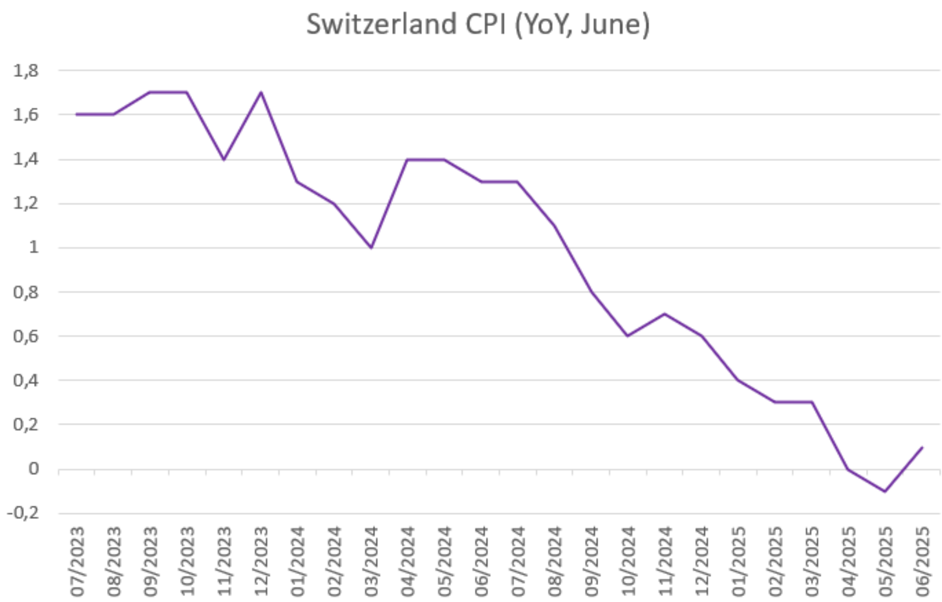


Source: Bloomberg, *BIL*

Swiss inflation rate back in positive territory

Consumer prices in Switzerland grew by 0.1% year-on-year in June, rebounding from a 0.1% fall in May and exceeding analysts' expectations. On a monthly basis, prices increased by 0.2%. This was driven by rising prices for international holiday packages, restaurants and hotels, as well as clothing and footwear. Meanwhile, prices for petrol, air transport and certain fruits decreased.

This will be welcomed by the Swiss National Bank, which is currently struggling with the deflationary effects of the appreciation of the Swiss franc.



Source: Bloomberg, BIL

Calendar for the week ahead

Monday – Germany Industrial Production (May). **Eurozone Retail Sales** (May).

Tuesday – Germany & France Balance of Trade (May). US NFIB Business Optimism Index (June).

Wednesday – China Inflation Rate (June).

Thursday – US Jobless Claims.

Friday – Germany & France Inflation Rate (June, Final). UK GDP (May), Industrial Production (May), Balance of Trade (May). Switzerland Consumer Confidence (June).

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