July 21, 2025

Weekly Investment Insights

Trade was again the hot topic last week, with President Trump stating that letters would be sent to more than 150 countries notifying them that their tariff rates could be 10 or 15%. He clarified that this group will be composed of smaller countries with which the US doesn't do much business. The final tariff rate that the Administration decides on, will be the same for all of the 150. On Tuesday, the European Commission published a list with EUR 72bn worth of US goods that it could hit with counter-tariffs if the two sides do not strike a deal. It includes aircrafts, cars and bourbon. However, the Commission put no specific tariff rates against individual products, in what was perceived as a way to avoid provocation. Earlier in July, President Trump threatened to impose a 30% tariff on EU imports starting on August 1, if no other deal is reached.

President Trump also renewed calls for the Fed to cut rates, while Treasury secretary Scott Bessent said that a "formal process" to select the successor to Powell as Chair of the US central bank had begun. US bond markets were visibly nervous about the pressure being heaped on

Powell, who has held rates in a range of 4.25%-4.5% all year, as the Committee waits for more data on how tariffs will impact prices.

Across the Pacific, Japan's 10-year yield hit its highest level since the 2008 financial crisis in the run up to Sunday's election. Investors appeared to grow antsy about certain populist campaign pledges and general political uncertainty. As anticipated, the ruling Liberal Democratic party lost its majority in the upper house. This, in turn, could lead the LDP to concede to smaller parties that have campaigned on capital-intensive pledges to appeal to an electorate that is growing dissatisfied with rising inflation, high taxes and low wage growth. Japan already has the highest public debt among developed market peers.

WEEKLY HIGHLIGHTS

Tariffs start to show up in US consumer prices

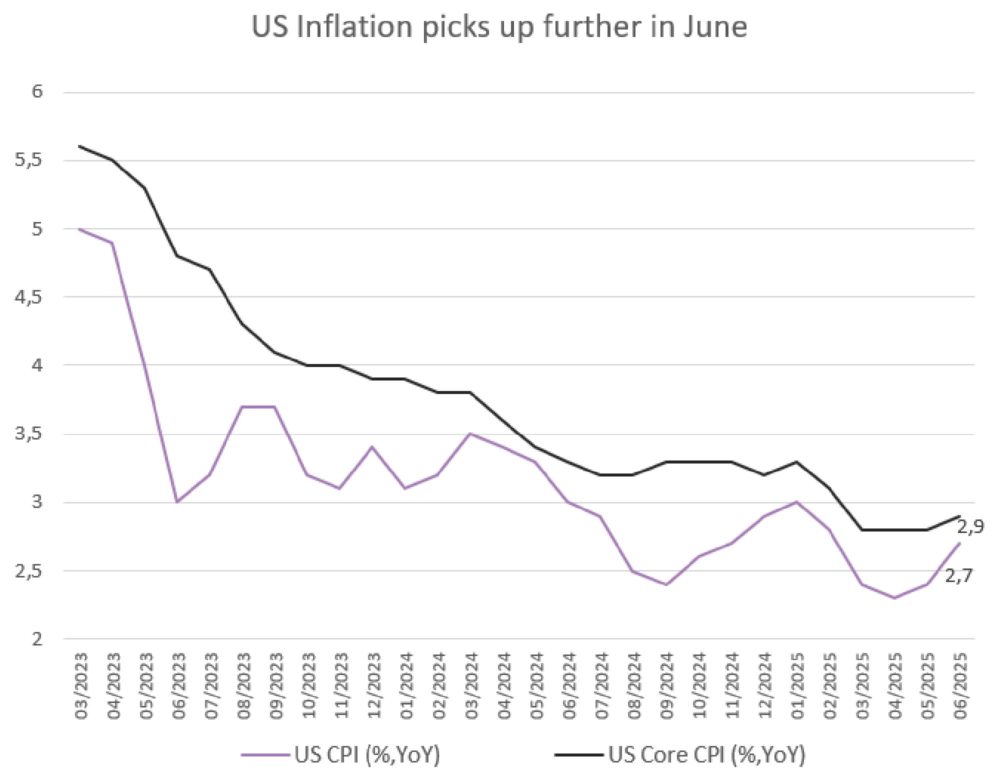
US CPI inflation accelerated for the second month in a row to 2.7% YoY in June, the highest level since February, up from 2.4% in May and in line with expectations.

On a monthly basis, the CPI edged up 0.3%, marking the largest increase in five months. Shelter and gasoline were the key contributors to the price rises. Worth noting is that goods prices, excluding food and energy commodities, rose 0.2% after stalling the prior month. Categories more exposed to tariffs including furniture, appliances, toys and clothing ticked up, suggesting companies are starting to pass higher costs onto consumers.

Core inflation, which excludes volatile food and energy prices, went up to 2.9%.

Later in the week, the Fed's so-called Beige Book which gathers qualitative data on economic conditions, showed that businesses in all 12 districts reported "modest to pronounced" tariff-related increases in input costs.

Most members of the Fed's rate-setting committee have indicated they want to hold fire on interest rate cuts until the inflationary impact of tariffs becomes clear. Markets see almost a zero chance of a rate cut at the next FOMC on 30 July, despite pressure from the President.



Source: BLS, Bloomberg, BIL

UK stock market hits a new high, despite complicated domestic situation

The UK made headlines on several occasions last week, with bond vigilantes paying close attention to communication regarding the upcoming Autumn budget. It is clear that the Chancellor Rachel Reeves faces difficult trade-offs between raising taxes and cutting spending, after the Office for Budget Responsibility said that the economy faces "daunting" risks to public finances.

At the same time, inflation picked up to an 18-month high of 3.6%, driven by food and fuel costs. Nonetheless, this is not expected to derail a Bank of England rate cut next month, against the backdrop of a slowing economy. The UK economy contracted in May for a second consecutive month.

Despite the complicated domestic situation, the UK's FTSE 100 stock index reached the 9,000 mark for the first time ever, with investors diversifying away from the US. The UK is one of only a handful of countries to have already struck some form of trade deal with the US.

China's economy surpasses estimates in Q2

According to official data, China's GDP expanded 5.2% in Q2. Consensus had expected a slightly lower reading of 5.1%, after a pace of 5.4% in Q1.

In June, the pace of industrial output unexpectedly quickened to a 3-month high. However, retail sales grew the least in four months, despite government subsidies on electronic items.

The world's second largest economy has so far avoided a sharp slowdown due to policy support, as well as the front-loading of exports as factories capitalize on the temporary US-Sino trade truce. Investors are buckling up for a weaker second half as exports lose momentum as the August 12 tariff deadline looms. That said, traders were last week made hopeful about a deal after the US government reversed a ban on selling certain AI chips to China.

Trade worries aside, deflation pressures, weak domestic demand and a prolonged property downturn already represent a complicated stew.

Across the first six months of the year as a whole, the Chinese economy grew 5.3%. The official growth target for this year is around 5%. A relatively strong start means Beijing has more room to tolerate some slowdown in the second half. Last year, the Chinese economy grew 5%, bang in line with the target.

Professional investors continue warming up to the Eurozone

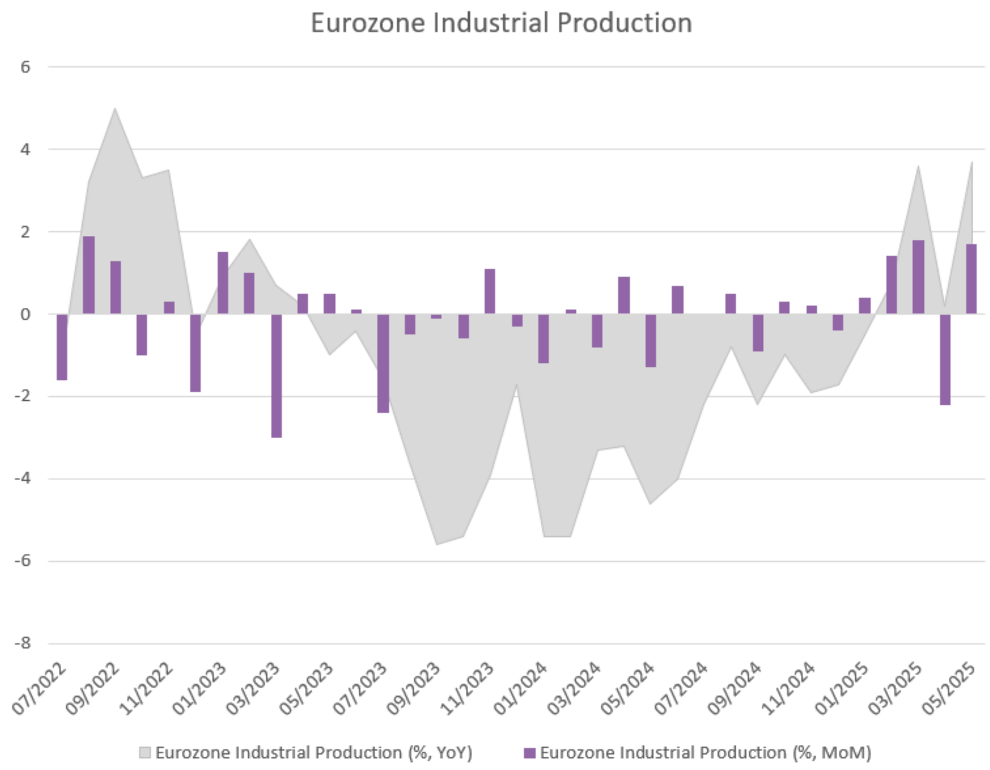
Each month, the ZEW institute measures the sentiment of hundreds of economists, analysts and financial professionals, to garner their opinion about the prospects of both the German and the Eurozone economies.

For Germany, the sentiment indicator has risen for three straight months, reaching its highest level since February 2022 in July. It seems that despite ongoing trade uncertainty, analysts are focusing on the Government's planned emergency spending program. Expectations surged for mechanical engineering and metal production, followed by the electrical engineering sector. Overall, nearly two-thirds of the experts expect German economic conditions to improve.

Source: Bloomberg, BIL

The Eurozone indicator also continues to rise, hitting a four-month high, even if the incline of that rise is not as steep as for Germany. 48.1% of the analysts expect no change in economic activity at the bloc level. 44% expect improvement and 7.9% expect deterioration.

Data also released last week showed that Eurozone industrial production is back on its path of recovery after a blip in April.



Source: Bloomberg, BIL

Production in the single-currency union rose by 1.7% MoM, reversing from a 2.2% fall in April and beating market expectations for a 0.9% increase. The gains were driven by **energy** (3.7% vs -2.8% prior), **capital goods** (2.7% vs -1.3%) and **non-durable consumer goods** (8.5% vs -5.7%). Production fell further for intermediate goods and durable consumer goods. On an annual basis, industrial output growth accelerated to 3.7% in May from 0.2% in April.

Calendar for the week ahead

Monday – US Conference Board Leading Index.

Tuesday – US Fed Chair Powell Speech.

Wednesday – US Existing Home Sales. Eurozone Consumer Confidence (Flash, July).

Thursday – Eurozone New Car Registrations. Germany and Spain Consumer Confidence. France Business Confidence. **US, UK, Eurozone, Japan Composite PMI (Flash, July). ECB Monetary Policy Meeting.** US Weekly Jobless Claims, New Home Sales and Building Permits.

Friday – UK Consumer Confidence and Retail Sales. Eurozone M3 Money Supply. Italy Business and Consumer Confidence. Eurozone Consumer Inflation Expectations. US Durable Goods Orders.

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