July 28, 2025

Weekly Investment Insights

On Sunday, in the quaint village of Turnberry on Scotland's west coast, a trade deal between the EU and the US was finalized, ahead of the August 1 deadline. After months of back-and-forth negotiations, US President Donald Trump and European Commission President Ursula von der Leyen convened at Trump's golf resort and struck a deal. The agreement reduces US tariffs on EU imports to 15%, including cars, semiconductors, and pharmaceuticals. It also includes a commitment from the EU to invest several hundred billion dollars in US energy products and weaponry. However, EU steel and aluminium will continue to be subject to high tariffs of 50%. Although the deal increases tariffs on a wide range of EU exports, it alleviates the uncertainty that has plagued EU businesses since Trump first announced his 'reciprocal' tariffs in April this year. The announcement was met with enthusiasm in European markets, with stocks surging to a four-month high.

The US and Japan also came to a similar agreement last week, cutting US reciprocal tariffs on Japanese imports from 25% to 15%. The deal spares Japan from new levies on other goods in exchange for a USD 550 billion investment package bound for the US and grants US firms increased access to its domestic market. Japanese auto stocks rose on the announcement as levies fall to 15%, from 27.5%.

This week, all eyes turn to the US Federal Reserve, as it meets on Wednesday to decide on the next step of its monetary policy pathway. Despite recurring pressure from President Trump to cut rates, markets participants expect the Fed to stick to its guns and hold rates steady as it awaits more clarity on the inflationary impact of Trump's trade policies.

WEEKLY HIGHLIGHTS

ECB holds rates steady awaiting more trade clarity

As widely expected, the European Central Bank kept its deposit facility rate at 2% on Thursday, while it waited for more clarity on the outcome of trade negotiations with the US. Markets pared bets on a September rate cut following the meeting, but continue to expect one more 25bp rate cut later in the year.

Despite inflation having fallen back to the ECB's target of 2% and modest economic growth, the central bank decided to keep rates on hold while trade negotiations with the US were being finalized. ECB President Christine Lagarde commented at the press conference: "The sooner this trade uncertainty is resolved, the less uncertainty we will have to deal with and that will be welcomed by many economic actors including ourselves."

In June, the ECB projected that US tariffs would result in lower growth and lower medium-term inflation in the eurozone, depending on potential EU retaliation. The ECB stated that "the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes", thereby entering a wait-and-see mode before deciding on the next step on its monetary policy path.

After the trade deal was struck, Ursula von der Leyen said, the trade deal "creates certainty in uncertain times … for citizens and businesses on both sides of the Atlantic." While this is true, business leaders have warned that a "painful" 15% tariff could still have a big negative impact on industry, especially in Germany.

Is Trump winning the trade war?

Last week, it was reported that the US had garnered some USD 64 billion in customs duties in Q2 – all without much in the way of retaliation from other countries, who are wary about the impact that a trade war could have on inflation and supply chains. Only China and Canada have thus far hit back.

Worth keeping in mind, however, is the fact that tariffs are almost always paid by the company buying the goods, rather than the business making the product. As such, the question now is how American firms handle the increased cost of tariffs. Will they absorb some of it themselves? Will they ask for discounts from suppliers? Or will they pass the additional costs onto consumers? Will they shift production, or will they find ways to do some “gymnastics” around the levies? A blend of solutions is the likely answer.

One potentially overlooked side effect is that consumers around the world could be part of the solution… While US firms might be able to sneak in marginal price increases, US consumers – already fatigued with inflation – are unlikely to swallow increases of 5% and above. Larger US multinationals might therefore spread the cost increases across all their markets, meaning that here in Europe, we might also see higher prices for certain US goods. Smaller US firms are do not have the same ability to navigate cost increases nor the same pricing power.

Beyond monetary amounts, Trump has also scored several wins when it comes the removal of non-tariff trade barriers.

In return for a US import levy of “only 15%” and lower auto tariffs, Japan will open its markets to American cars and rice (both has been sticking points in negotiations) and will invest USD 550 Billion in the US. Trump claims that the US will reap 90% of the profits of this endeavor, and that it will create hundreds of thousands of jobs. The EU will reportedly be “opening up their countries at zero tariff” to American exports. On top of that, the bloc will spend an additional USD 750bn on US energy products, invest $600bn in America and buy “a vast amount” of military equipment worth “hundreds of billions of dollars” as part of the deal.

The UK, in return for a 10% blanket tariff, has also said it would lower non-tariff barriers and give US exporters increased market access, especially for beef, ethanol and other agricultural produce.

While certain Vietnamese and Filipino goods will be hit with a 20% and 19% tax, respectively, US goods will flow to those countries tariff free.

Finally, while India and Indonesia are still to finalise their trade deals, it also looks like “the art of the deal” might also prevail. India has been making valiant attempts to increase its imports of US crude, has proactively dropped duties on several categories of goods and has eliminated the “Google tax”. Indonesia has allegedly said (awaiting formal confirmation) that US goods would be tariff-free, and that it would eliminate tax on revenue earned from digital services such as streaming and advertising. Apparently, the country has also said it would drop “pre-shipment” inspections on American goods which are especially burdensome for US farmers, accept US Federal Motor Safety Standards and remove export restrictions on critical minerals.

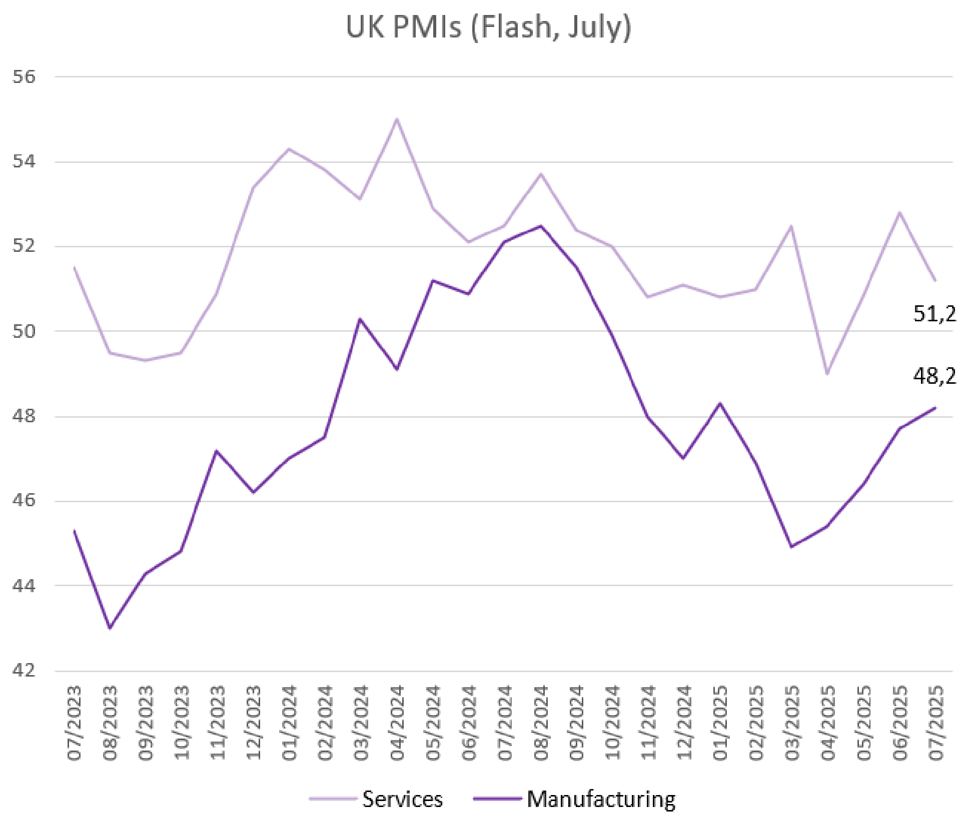
Through an American lens, Trump appears to be stacking up wins. It is yet to be seen if these will outweigh the strain that tariffs will undoubtedly place on US firms, and to some extent, consumers.

UK business activity softens while consumers remain cautious

According to preliminary estimates, the Composite UK PMI fell short of market expectations in July, dropping from 52 the previous month to 51. However, it remained in expansion territory. The services sector drove this expansion, with growth easing from 52.8 in June to 51.2, offsetting the softer contraction in manufacturing, which increased to 48.2.

The services sector fell short of an expected expansion of 53, citing fragile domestic economic conditions and geopolitical uncertainty. Weak demand from foreign markets caused a drop in new orders to the lowest level since April. In response, firms are cutting staff at an accelerated rate. Despite these challenges, businesses remain relatively optimistic about increased business activity over the next year.

The contraction in the manufacturing sector slowed this month. Nevertheless, manufacturers continue to report difficulties in key export markets, with US trade tariffs delaying investment decisions. New orders declined and job cuts accelerated.



Source: Bloomberg, BIL

Consumers showed a little more confidence in June with retail sales rising 0.9% month-on-month, rebounding from the 2.8% drop in May. Food store sales grew by 0.7%, reversing the 5.4% decline in May. Automotive fuel sales jumped 2.8%, the most since May 2024. Online store sales also reached their highest level since February 2022.

The GfK Consumer Confidence indicator, however, edged down to -19 in July as households grow increasingly cautious amid concerns about rising taxes and inflation. There are growing speculations over potential tax increases in the upcoming autumn budget which could hurt consumers' spending power.

Calendar for the week ahead

Monday – US Dallas Fed Manufacturing Index (July).

Tuesday – Spain GDP Growth Rate (Flash, Q2). **US JOLTs Job Openings** (June), CB Consumer Confidence (July).

Wednesday – **Eurozone, France, Italy & Germany GDP Growth Rate (Flash, Q2).** Switzerland KOF Leading Indicators (July), Economic Sentiment Index (July). Eurozone Economic Sentiment (July), Consumer Confidence (Final, July). **US GDP Growth Rate (Adv, Q2), Fed Interest Rate Decision.**

Thursday – Bank of Japan Interest Rate Decision. Switzerland Retail Sales (June). Eurozone Unemployment Rate (June). US Core PCE Price Index (June), Jobless Claims.

Friday – China Caixin Manufacturing PMI (July). Switzerland Manufacturing PMI (July). Eurozone, France, Germany, UK Manufacturing PMI (Final, July). **Eurozone Inflation Rate** (Flash, July). US Non-farm payrolls (July), Unemployment Rate (July), **ISM Manufacturing PMI** (July), Michigan Consumer Sentiment (Final, July).

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