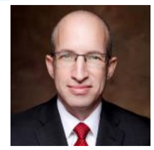
WEEKLY MARKET RECAP

9 June 2025

Summary for the week ending on Friday, 6 June 2025

GLOBAL INVESTMENT SOLUTIONS EMEA & LATAM



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THE ECONOMIC AND POLITICAL BACKDROP

The US

Trade remained a notable talking point during the week, with tensions between the US and China continuing to re-escalate following social media comments from President Donald Trump at the end of the prior week. However, on Thursday, Trump and President Xi Jinping held a phone call that "resulted in a very positive conclusion for both countries," according to a social media post from Trump, which gave investors some hope that the issues could be resolved.

The highlight of the week's economic calendar arguably came from Friday's closely watched nonfarm payrolls report, which seemed to indicate the labour market is cooling but at a slower pace than many were anticipating. The Labor Department reported that the economy added 139,000 jobs in May, down from April's downwardly revised reading of 147,000 but ahead of consensus estimates of 130,000. The unemployment rate held steady at 4.2%, remaining in the 4.0% to 4.2% range that it has been in since May 2024. Stocks and Treasury yields rose on Friday following the release.

The better-than-feared jobs data were an especially welcome surprise following several lacklustre labour market-related reports during the week, including a report from payroll processing firm ADP that indicated private payrolls increased by only 37,000 in May, the lowest reading since March 2023. Initial jobless claims for the week ended 31 May 2025 also missed the mark, rising by 8,000 to 247,000, the highest reading since October.

Elsewhere, the Labor Department reported on Tuesday that both job openings and hiring picked up in April, indicating demand for workers remained resilient through the first month of the Trump administration's wide-ranging global tariffs.

US manufacturing activity contracted for a third consecutive month in May, according to a report from the Institute for Supply Management (ISM). The May purchasing managers' index (PMI) reading of 48.5% fell short of estimates for 49.5% and was the lowest reading since November (readings below 50% signal a contraction). The prices index remained in expansion territory (indicating rising prices) and near the highest levels since June 2022. Imports plunged 7.2% to 39.9%, "as demand has reduced the need to maintain import levels from previous months, as well as due to the impact of tariff pricing," according to Susan Spence, the chair of the ISM Manufacturing Business Survey Committee.

Activity in the services sector also surprised to the downside in May, registering a PMI of 49.9%, the first reading in contraction territory since June 2024. Similar to the manufacturing sector, the prices index remained solidly in expansion territory and hit its highest level since November 2022, while new orders fell 5.9%, from 52.3% to 46.4%. Employment was a bright spot, however, with the index returning to expansion after two months of contraction.

Europe

As expected, the European Central Bank (ECB) trimmed its deposit rate by a quarter point to 2%, the lowest level since 2022. Only one policymaker dissented. President Christine Lagarde said that the ECB had “nearly concluded” the latest policy cycle, which has entailed eight rate cuts since July 2024. She said the current policy stance was in a “good place” and that rate setters were not on any “pre-set path” and would continue to be led by economic data. Financial markets appear to expect one more rate reduction, probably in September, as the central bank assesses the risk to growth and inflation posed by trade policy uncertainty.

The eurozone economy expanded much faster than initially estimated in the first quarter, according to a final reading of the data. Gross domestic product (GDP) expanded 0.6%, double Eurostat’s initial estimate. The result marked the fastest expansion since the third quarter of 2022. Strong growth in Ireland and a higher German estimate drove the increase.

Headline annual inflation in the eurozone slowed in May to 1.9% from 2.2% in April, as energy and services prices receded. Underlying pressures also abated, with the core rate, which excludes volatile energy and food prices, falling to 2.3% from 2.7%.

Industrial production in Germany and France contracted by more than forecast in April. German industrial output contracted by 1.4%, after rising 2.3% the previous month, as exports weakened. Manufacturing orders, however, increased 0.6% instead of falling 2.2% as predicted, due to strong domestic demand. In France, industrial output declined by 1.4%, down from a 0.1% increase in March, driven mainly by a 0.6% drop in manufacturing.

The UK

In comments to a parliamentary committee, Bank of England (BoE) Governor Andrew Bailey, who voted for a quarter-point rate reduction in May, stressed that the path for interest rates “remains downwards” but added that “how far and how quickly (rates are lowered) is now shrouded in a lot more uncertainty, frankly.”

Japan

There was no apparent agreement in the bilateral trade talks between the US and Japan, although the negotiations reinforced preparations for an agreement that could be announced in June at the Group of Seven (G7) summit. The Japanese yen weakened to JPY 144.9 against the US dollar, from 144.0 at the end of the previous week.

The yield on the 10-year Japanese government bond (JGB) declined to 1.45% from 1.49% at the end of the previous week. This followed a sharp rise in JGB yields in late May, driven by Japan’s worsening public finances and some concerns that the Bank of Japan (BoJ) may be tapering its bond purchases too aggressively. Ahead of the central bank’s upcoming interim assessment for JGB purchase reductions, BoJ Governor Kazuo Ueda noted that most market views were supportive of continued tapering. Some reports suggested that the central bank may consider slowing the pace of bond tapering next year.

On the economic data front, household spending fell 0.1% year on year (YoY) in April, down from a 2.1% rise in March and short of consensus estimates for a 1.4% gain. Real (inflation-adjusted) wages declined by 1.8% YoY in April, weaker than consensus estimates, as inflation continued to outpace the wage hikes granted by employers. The BoJ emphasised that, despite some pockets of weakness, Japan’s economy is undergoing a moderate recovery. The central bank also reiterated its readiness to raise interest rates again if its economic and price projections continue to materialise. This reinforced expectations of a gradual monetary policy tightening cycle.

China

A private survey showed that China’s manufacturing sector suffered its biggest decline since September 2022, reflecting the impact of US tariffs on smaller exporters. The Caixin manufacturing PMI fell to 48.3 in May from April’s 50.4 reading, trailing economists’ forecasts and falling below the 50 mark that separates growth from contraction. The Caixin services PMI rose to 51.1 in May from 50.7 in April.

The Caixin data were far weaker than official indicators released the prior weekend. China's official PMI ticked up to 49.5 in May from 49.0 in April, likely reflecting the temporary reprieve on US tariffs. China and the US reached an agreement on 12 May to reduce tariffs for 90 days, allowing for further talks on a lasting trade deal. The official non-manufacturing PMI, which includes services and construction, fell to 50.3 from 50.4.

The contraction in manufacturing revealed in the Caixin survey supported the view that Beijing needs to roll out more incentives to boost consumption as it tries to offset the impact of US tariff hikes. Last month, China's central bank announced a slew of easing measures, including cutting the seven-day reverse repurchase rate, a key policy rate, and the reserve requirement ratio for banks. Expectations that a spiralling trade war with the US would spur Beijing to deploy more stimulus have driven Chinese stocks in recent weeks, though hopes for more support have been tempered as both countries work toward a broader agreement.

Australia

Australia's GDP increased 0.2% quarter on quarter (QoQ), with year-ended growth unchanged at 1.3%. The outcome was weaker than consensus (0.3% QoQ), dragged down by a contraction in public spending. Per-capita GDP decreased for the 8^{th} time over the past nine quarters. Australia's Fair Work Commission (FWC) announced that award wages will increase 3.5% on 1 July 2025, above broad inflation. The FWC estimated that the award accounts for around 10.5% of the total wages bill in Australia. Australia's goods trade surplus narrowed to AUD 5.4 billion in April, largely driven by a sharp pull-back in coal and non-monetary gold exports.

EQUITY MARKETS

Last week, the MSCI All Country World Index (MSCI ACWI) rose 1.5% (7.1% YTD).

The US S&P 500 Index gained 1.5% (2.6% YTD), closing higher for the second week in a row. Growth shares outperformed value stocks, and small caps outperformed large caps. The Russell 1000 Growth Index returned 2.0% (1.7% YTD), the Russell 1000 Value Index 1.1% (3.6% YTD), and the Russell 2000 Index 3.2% (-3.8% YTD). The technology-heavy Nasdaq Composite rallied 2.2% (1.4% YTD), joining the S&P 500 Index in positive territory for the year.

At the sector level, information technology stocks outperformed, partly due to upbeat sentiment surrounding artificial intelligence (AI)-related stocks following several positive corporate earnings reports. News that Facebook parent Meta Platforms is entering a 20-year contract with Constellation Energy to power its AI operations also appeared to help boost sentiment in the space.

In Europe, the MSCI Europe ex UK Index ended the week 1.1% higher (12.0% YTD) as inflation slowed and the ECB eased its monetary policy. Strong US jobs data also appeared to allay fears of a recession. Major stock indexes advanced. Germany's DAX Index put on 1.3% (22.1% YTD), France's CAC 40 Index added 0.7% (8.5% YTD), and Italy's FTSE MIB Index increased 1.3% (22.5% YTD). Switzerland's SMI Index edged up 1.1% (9.9% YTD). The euro appreciated against the US dollar, closing the week at USD 1.14 for EUR, up from 1.13.

The FTSE 100 Index in the UK gained 0.8% (10.3% YTD), and the FTSE 250 Index moved up 0.8% (4.3% YTD). The British pound was little changed against the US dollar, closing the week at USD 1.35 for GBP.

Japan's large-cap stock markets fell over the week. The TOPIX Index lost -1.2% (0.1% YTD), but the TOPIX Small Index added 0.2% (3.7% YTD).

In Australia, the S&P/ASX 200 Index tacked on 1.0% (6.5% YTD) on decent FWC minimum wage growth and the resumption of Trump-Xi talks. Australian government bond short-term yields rose, with the curve modestly flattening. The Australian dollar strengthened against the US dollar by 1.0%.

In Canada, the S&P/TSX Composite rose 1.0% (8.1% YTD).

Emerging markets and other markets

The MSCI Emerging Markets Index ended the week 2.3% higher (11.4% YTD), with the stock markets of China, India, Taiwan, and South Korea contributing positively to performance, while that of Brazil contributed negatively.

Mainland Chinese stock markets advanced as a batch of weaker-than-expected economic indicators raised hopes that the government would roll out more stimulus. The onshore CSI 300 Index gained 1.0% (-0.9% YTD), and the Shanghai Composite Index added 1.2% (1.6% YTD). Hong Kong's benchmark Hang Seng Index rallied 2.3% (20.8% YTD). The MSCI China Index climbed 2.5% (17.2% YTD).

In the Czech Republic, the government reported that inflation in May was measured at a YoY rate of 2.4%. This was higher than expected and higher than the 1.8% YoY rate measured in April. T. Rowe Price associate portfolio manager and credit analyst Ivan Morozov estimates that core inflation probably increased to about 2.8% from 2.6%.

When considering the underlying data, Morozov believes that the overall report sends a less hawkish signal than the 2.4% headline number, as the inflation increase was largely driven by food and rent. He also believes the general inflation trend in the Czech Republic remains downward. However, central bank officials, who authorised a “very cautious” interest rate cut in early May, could respond to the data by delaying additional rate cuts.

In Poland, the central bank held its two-day monetary policy meeting, and policymakers decided to keep the key interest rate, the reference rate, at 5.25%. Other interest rates controlled by the central bank were also unchanged.

According to the post-meeting statement, policymakers once again characterised the global backdrop for economic activity and inflation as “subject to uncertainty” due to trade policies and other factors. Turning to the Polish economy, central bank officials noted that first-quarter GDP grew at a YoY rate of 3.2% versus 3.4% in the fourth quarter of 2024, thanks in part to “a rise in domestic demand, including consumption and investment.” Inflation in May was measured at a rate of 4.1%, slipping from a rate of 4.3% in April, driven by the “further decline in fuel prices amid lower global oil prices.”

However, policymakers considered inflation to be still “elevated” due to factors such as services price growth, “earlier increases” in administered energy prices, and “continuously heightened annual growth in prices of food and non-alcoholic beverages.” As a result, they decided to leave interest rates unchanged, as they felt that rates at current levels were “conducive” to meeting the central bank’s inflation target in the medium term.

FIXED INCOME MARKETS

Last week, the Bloomberg Global Aggregate Index (hedged to USD) returned -0.2% (1.7% YTD), the Bloomberg Global High Yield Index (hedged to USD) 0.3% (3.2% YTD), and the Bloomberg Emerging Markets Hard Currency Aggregate Index returned 0.3% (4.3% YTD).

US Treasuries were little changed heading into Friday morning amid the slew of economic data releases during the week. Still, yields increased across most maturities following Friday’s better-than-expected jobs report. Over the week, the 10-year Treasury yield rose 11bps, ending at 4.51% from 4.40% (down -6bps YTD). The 2-year Treasury yield increased 14bps, ending the week at 4.04% from 3.90% (down -21bps YTD).

Meanwhile, US investment-grade corporate bonds outperformed, with issuance in line with expectations and most new issues oversubscribed.

Over the week, the 10-year German bund yield rose 7bps, ending at 2.57% from 2.50% (up 21bps YTD). The 10-year UK gilt yield decreased by -1bps, ending the week at 4.64% from 4.65% (up 8bps YTD).

YTD is year to date. bps is basis points. GDP is gross domestic product.

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