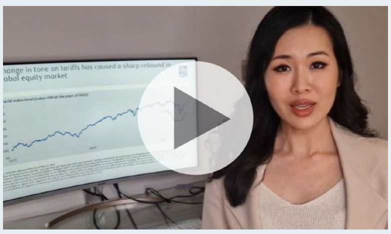
1 July 2025

Markets in a Minute

Key highlights

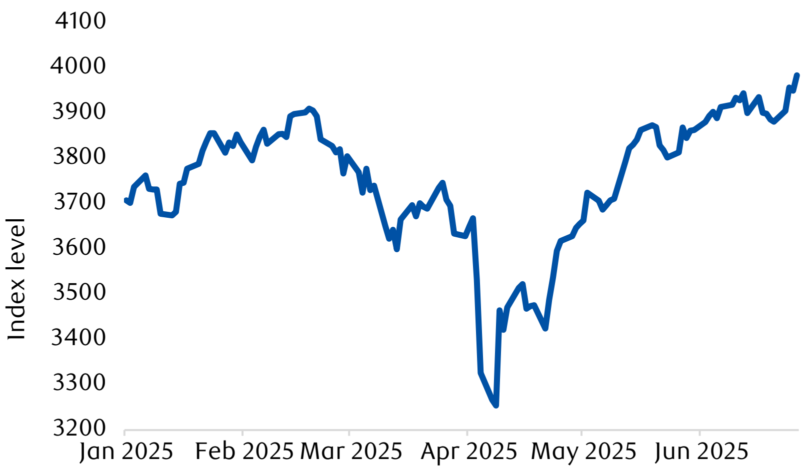
- **Optimism returns to markets**: The S&P 500 hit new highs, inflation pressures eased with lower oil prices, and slowing inflation supports expectations for two U.S. rate cuts by the end of the year.
- **Geopolitical and policy stability:** Geopolitical tensions eased with an Israel-Iran ceasefire and progress in U.S.-China and U.S.-Canada trade negotiations, while the removal of Section 899 from Trump's 'One Big Beautiful Bill' has reassured Wall Street.
- **U.S. domestic demand concerns:** Personal consumption growth slowed sharply, U.S. first-quarter GDP was worse than expected, and May household spending contracted, raising concerns about domestic demand.



Watch the latest Markets in a Minute video with Janet Mui, Head of Market Analysis.

Stocks rally as risks recede

Global stocks reached new record highs as multiple risks faded



Source: Refinitiv Datastream

The S&P 500 surged to a new record high, finally joining the MSCI World and Nasdaq 100, which had already surpassed previous peaks. The move completes a rapid rebound from April's correction – a full recovery in just one quarter – as investors reprice assets on the back of easing macro risks.

Several headwinds that previously dampened sentiment, including geopolitical threats and trade tensions, have subsided or moderated. Markets are embracing a backdrop of measured disinflation, diplomatic progress, and long-term secular tailwinds such as artificial intelligence-led innovation.

The strength of technology stocks was again evident last week, with Nvidia reclaiming its title as the world's most valuable company. Meanwhile, the U.S. dollar declined, lifting sterling to a four-year high and generating numerous news headlines.

One of the key developments last week was the announcement of a ceasefire between Iran and Israel, alleviating a major geopolitical concern. Although fragile, the ceasefire helped reduce the risk of escalating Middle East tensions or spillover effects and eased concerns about potential oil supply disruptions in the Gulf.

Figure of the week

10%

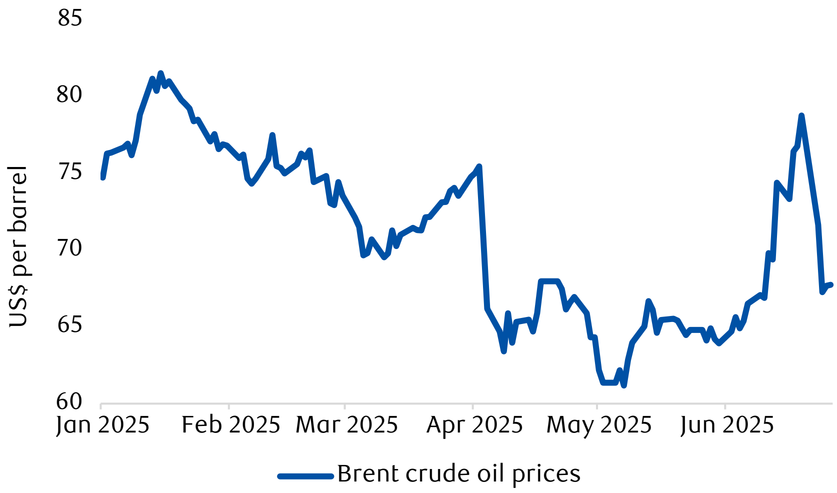
The approximate decline in the U.S. dollar index this year

As a result, Brent crude prices declined, more than reversing the gains since the start of the '12-day war'. This is a familiar pattern as geopolitical shocks often trigger knee-jerk reactions in oil markets but tend to fade quickly when diplomacy prevails. Importantly, oil market sensitivity appears to be lower than in past cycles, partly due to the U.S.'s role as a major energy producer and the global transition towards energy efficiency.

The market's reaction also reflects the view that this particular geopolitical shock was largely contained within the oil sector, with limited spillover into broader risk assets. With energy prices stabilising, inflationary pressures may ease further, which supports the case for monetary policy flexibility in the second half of the year.

From trade tensions to trade optimism

Oil prices slumped on Israel-Iran ceasefire



Source: Refinitiv Datastream

The broader improvement in market sentiment also stems from developments on the U.S.–China trade front. The U.S. Secretary of Commerce, Howard Lutnick, confirmed a finalised tariff framework with China that would allow rare earths to flow.

This marks a meaningful shift in tone. Rather than escalating trade tensions, both sides appear to be seeking a diplomatic path forward. The move reduces some uncertainty for multinational firms and global supply chains and reinforces the impression that the U.S. is adopting a more pragmatic approach. Ahead of the 9 July tariff deadline, the administration is trying to project a sanguine tone for a change.

Lutnick mentioned 10 potential trade deals are imminent but provided no detail. Typically, comprehensive trade deals are years in the making. But any direction of partial or quick wins would be helpful.

Perhaps less discussed outside of financial media was the proposed removal of Section 899 from the One Big Beautiful Bill Act. Section 899 is considered a 'reciprocal' or 'revenge tax' on foreign investments for countries whose tax policies the U.S. deems discriminatory. Its removal will bring huge relief to investors who were worried about punitive tax measures on U.S. assets, which have dire consequences of exacerbating the risk of capital outflow.

Overall, the more conciliatory, diplomatic and sanguine tone from the U.S. administration has lowered the temperature around trade and investment risks.

> "...markets are increasingly confident that the direction of travel of monetary policy is one of gradual easing."

Fed rate-cut case builds

The U.S. dollar extended its slide last week, hitting a three-year low amid improving global risk sentiment and renewed speculation over future leadership at the Fed. Reports that President Trump may pre-announce his preferred Fed Chair nominee raised expectations that a more dovish tilt in monetary policy may lie ahead.

But markets may have got ahead of themselves. Bear in mind, President Trump is the one who nominated Jay Powell in 2017. It means Trump does not always get what he wants. The Fed's dual mandate (maximum employment and stable prices) should surpass Trump's influence.

The market derives confidence from the Fed to remain independent and to do the right thing. With no official announcement and several months to go, this remains a speculative narrative, and the market may be overpricing its implications in the short term. For instance, markets are currently pricing in three rate cuts in 2026, as opposed to one cut as indicated by the 'dot plot'.

Meanwhile, economic data last week added weight to the dovish policy narrative already taking shape. The final Q1 Gross Domestic Product (GDP) shows personal consumption was sharply revised from 1.2% to just 0.5%. Personal spending data in May has contracted, which adds to the concern that U.S. consumers are becoming cautious on their spending.

This softening in household spending suggests that underlying demand may be more fragile than previously believed, even as headline inflation continues to moderate. The combination of slower growth and declining inflation is now reinforcing the market's pricing of two Fed rate cuts by year-end, provided tariff risks remain contained.

At the same time, Fed officials remain divided. While a few members have voiced openness to a July rate cut, the majority maintain a data-dependent, cautious stance. For now, the Fed appears willing to wait for further confirmation before acting. But markets are increasingly confident that the direction of travel of monetary policy is one of gradual easing.

Coming up

- **U.S. jobs report:** June nonfarm payrolls will be closely watched for signs of labour market cooling. Any weakness will reinforce expectations of rate cuts.
- **ISM indices:** The U.S. business surveys will offer timely demand and price pressures in both the manufacturing and services sectors.
- **Trade watch:** Markets will monitor news flow on trade negotiations or deals ahead of the 9 July deadline, amid heightened optimism.

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