

Staying attentive to market risks, but open-minded to investment opportunities

Weekly Global

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The US and China are opening a second round of trade talks in London on 9 June, after US President Trump and China's President Xi spoke over the phone last week. Trump said after the call that the US is "in very good shape with China and the trade deal." Ahead of the talks, Beijing granted approval to some applications for the export of rare earths, while Boeing has begun shipping commercial jets to China for the first time since early April.

US equities on Friday were also boosted by a May labor report that came out stronger than expected. Headline nonfarm payrolls increased by 139,000 last month, beating consensus forecasts, while the unemployment rate was steady at 4.2%. The S&P 500 gained 1% to stand above 6,000 for the first time since February, and the 10-year Treasury yield rose 11 basis points to 4.51%.

However, we think investors remain highly attuned to numerous sources of global uncertainty. This likely spells further market volatility in the near term as investors watch for further tariff, economic, and fiscal risks.

US tariffs are likely to remain high despite potential agreements ahead of the July deadline and recent legal challenges. Efforts to deescalate US-China tensions are welcome, but a comprehensive agreement will likely take time. Investors will also be looking for concrete steps toward reaching lasting deals with other trading partners. Overall, we do not think it is in the interest of the Trump administration for US tariff rates to return to levels announced on "Liberation Day", given the potential economic damage they would cause the US. A collapse in trade would also undermine the country's need for a predictable revenue stream to finance an expansive fiscal agenda. The effective tariff rate should end the year around where it stands now at roughly 15%, albeit six times higher than the 2.5% rate at the start of the year. In our view, the Court of International Trade's ruling to halt the tariffs levied under the International Emergency Economic Powers Act (IEEPA) of 1977 would ultimately be upheld by the Supreme Court, but these levies will likely reappear in other forms. Tariffs on critical products are also likely forthcoming, to be levied under Section 232 of the Trade Expansion Act of 1962 on national security grounds.

US economic activity has shown signs of softening amid mixed data. While the growth in nonfarm payrolls was stronger than market

From the studio

Podcast: [Jump Start: Consumer sentiment, ECB rate cut & AI momentum](#) (5:00)

Video: [Investors Club: The case for thematic TRIO equity exposure](#) (15:35)

Video: [Asset allocation strategy and June portfolio moves](#) (8:35)

Video: [The US fiscal outlook with CIO's co-head of credit](#) (7:39)

Questions for the week ahead

How is the US economy coping with trade uncertainty? Following the host of US economic data releases last week (most notably the May employment report), investors will likely look for clues on the health of the US consumer in the week ahead. We believe the upcoming consumer price index (CPI) and producer price index (PPI) releases will offer fewer clues than usual, as they are unlikely to reflect the impact of recent tariffs. Instead, investors may attach greater weight than usual to the University of Michigan consumer sentiment survey release, due Friday, to help clarify the conflict between slower consumption data in April and a rebound in the Conference Board gauge of consumer confidence for May.

Does the global easing cycle still have further to go? The European Central Bank cut interest rates for the eighth time in the current cycle last week. However, President Christine Lagarde strongly hinted that "the end may now be in sight," noting that the central bank is in a "good position." Further guidance on how close the ECB is to

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expectations, details of the labor report were more mixed. There were downward revisions totaling 95,000 for the prior two months, and the household survey was relatively weak. Additional data last week showed JOLTS job openings rising to 7.4 million in April and jobless claims edging up to 247,000, near the upper end of their recent range. Other recent economic indicators such as the ISM PMIs and the Fed's Beige Book have also pointed to a US economy that is already demonstrating signs of deceleration. We think the US labor market remains balanced for now, with moderately rising payrolls and wages providing households with income growth that is helping to sustain consumption spending. But we expect to see further softening in the second half of 2025 as tariffs and other policy measures weigh more heavily on the economy, leading the Federal Reserve to resume cutting interest rates in September.

Worries over the US fiscal outlook could drive yield volatility. The "One, Big, Beautiful Bill Act" (OBBBA) is currently under review by the US Senate following its passage in the House of Representatives last month. Recent headlines suggest that contentious debates are likely, and the Senate will probably make some modifications to the bill. While we think it unlikely that changes would substantively alter the potential fiscal impulse in 2026 or deficits further out, media attention on the US fiscal outlook is likely to trigger bouts of Treasury yield volatility. Markets will also be closely watching the USD 22bn auction of 30-year government bonds this week to gauge investor appetite for US debt, while additional details on OBBBA tax provisions that target "discriminatory" tax policies in several OECD countries could lead to potential market swings.

So, the potential for market swings continues. But this should not be an impediment to investors putting cash to work, especially given our continued expectation for US equity gains over 12 months, and with both interest rates and cash returns set to fall as the year progresses. For underallocated investors, we recommend phasing into equities or balanced portfolios to manage near-term uncertainty while building long-term potential for wealth creation.

Investors seeking to shield portfolios from volatility should also hold sufficient exposure to medium-duration high-quality government and investment grade bonds, which would likely perform especially well in adverse growth scenarios. To diversify and hedge against political risks, CIO also continues to see value in holding an allocation to gold with a long-term price forecast of USD 3,500/oz by next June. And as both US equity and US high-quality bond returns have recently moved in tandem during market volatility, there is also potential merit in the use of alternative investments like hedge funds for uncorrelated sources of return, potential volatility dampening and portfolio diversification, and as a means to exploit potential mispricings across asset classes. Investors should be willing and able to bear the unique risks of investing in alternatives, including but not limited to greater difficulty in selling them in stressed financial markets (also known as illiquidity).

concluding its easing cycle may come from upcoming remarks by various ECB officials, including Frank Elderson, Claudia Buch, and Isabel Schnabel this week.

Will AI sustain its momentum in the week ahead? Momentum in artificial intelligence (AI) development continued to build last week, highlighted by several major power deals for AI infrastructure. With this backdrop, investors are watching to see whether the technology sector will gain further momentum in the days ahead. Notably, Apple—the second-largest company in the US—will hold its developer conference this week, where investors anticipate the unveiling of new AI products.

Key Messages

Global easing cycle poised to resume

Central banks were back in focus last week, as global policymakers continue to respond to shifts in economic data and persistent uncertainty around global trade.

The European Central Bank (ECB) cut interest rates by 25 basis points last week, marking its eighth reduction of the current cycle and bringing the deposit rate to 2%. This move followed data showing Eurozone inflation fell below the ECB's 2% target for the first time since September. Meanwhile, the Federal Reserve signaled it may resume easing later this year despite the latest Fed Beige Book pointing to already softer economic activity across the US. Recent data reinforced this trend as the ISM Services PMI, a gauge of service-sector sentiment, slipped into contraction territory for the first time in nearly a year, while manufacturing activity declined for a fourth consecutive month. Against this backdrop, policymakers remain data-dependent as they monitor the impact of President Trump's tariffs on the economy.

But ongoing uncertainty is likely to spur more rate cuts around the globe, as policymakers seek to support a gradual growth deceleration while containing any inflationary pressures. #In our view, the ECB will cut rates again in July, and further trade tensions could prompt even deeper reductions. Moreover, the Swiss National Bank is also expected to lower rates to 0% or below. And in the US, while we expect growth to slow, a recession appears avoidable. Thus, we see Fed rates falling by 100 basis points over the next year.

Takeaway: Lower rates underscore the need for investors to put excess cash to work. While cash may feel safe amid uncertainty, we expect returns to decline further and for cash returns to lag inflation (negative real cash returns) over the long term. Should central banks ease more aggressively to support growth, cash rates could fall quickly. #We like diversified fixed income and select equity income strategies as a means of putting cash to work, while underallocated investors can use phasing-in strategies to invest gradually in diversified portfolios for potential long-term wealth appreciation.

AI momentum continues amid volatility

US equities continued to rebound last week, climbing to their highest levels since February despite mounting evidence of slowing economic activity. The S&P 500 and the tech-heavy Nasdaq are now just 2.4% and 3.3% below their all-time highs, respectively.

While market swings have persisted as investors react to shifting trade and economic headlines, secular trends continue to provide a supportive backdrop for equities. Innovation remains a key driver of long-term equity performance in our view, and recent developments reinforce our conviction in the potential of our Transformational Innovation Opportunities (TRIOs): artificial intelligence (AI), power and resources, and longevity. Robust demand for AI compute is fueling record capital investment, with global

AI capex expected to rise 60% this year and 33% in 2026, even as US-China tech tensions persist and as recent reports question whether artificial general intelligence is achievable.

In the power and resources space, surging electricity demand driven by AI data centers and electrification has led to major long-term energy contracts and strong sector earnings. Furthermore, May executive orders from US President Trump targeted nuclear generation expansion, reviving the nuclear fuel industry, and streamlining regulation in order to achieve an expanded target of quadrupling US nuclear capacity to 400 GW by 2050 (previously the Biden administration targeted a threefold increase to 300 GW). This is translating into increased investment—International Energy Agency data illustrate that spending on nuclear generation grew by c. 14% per annum between 2021 and 2024, after a period of stagnation between 2015 and 2020.

Meanwhile, the longevity theme is supported by rising global demand for healthcare solutions, with the sector poised for growth despite near-term policy uncertainty and regulatory risks.

Takeaway: For investors seeking to benefit from enduring secular trends, we believe our TRIO themes offer durable growth potential that can outlast short-term volatility. We recommend a balanced approach to AI, combining high-growth semiconductors with resilient software and platform companies. In power and resources, we favor the electrification value chain, while in longevity, we see opportunities in select pharmaceutical, medtech, and health care service providers, as well as companies focused on nutrition and wellness. Investors anxious about the potential for further setbacks can also access the themes through structured strategies with capital preservation features, or via instruments that generate yield and seek to buy equities at lower prices than today's.

US labor market sends mixed signals

US employment figures last week underscored a labor market that remains balanced, but with pockets of weakness emerging. Nonfarm payrolls rose by 139,000 in April, surpassing consensus expectations, while the unemployment rate held steady at 4.2%. Payroll gains were concentrated in health care and leisure and hospitality, with most other sectors little changed. Notably, average hourly earnings increased by a solid 0.4% month over month. However, the household survey pointed to a decline in employment, and the labor force participation rate slipped to 62.4%.

Additional data showed JOLTS job openings rising to 7.4 million in April and jobless claims edging up to 247,000, near the upper end of their recent range.

While there are signs of softening, the US labor market remains well-balanced in our view, with moderate growth in both payrolls and wages supporting household income and consumption. Overall, the jobs market is not demonstrating weakness of an order that would prompt the Fed to cut rates at its June monetary policy meeting.

That said, we do expect further moderation in the second half of 2025 as tariffs and other policy measures exert greater pressure on the economy, likely leading the Fed to resume easing policy in September.

Takeaway: We expect the US to avoid a full-blown recession this year, though any further deterioration in economic data could unsettle market sentiment. Phasing into equities can help investors manage near-term volatility while positioning for longer-term opportunities. We also like high-quality government and investment grade bonds as a source of yield, mindful that in adverse economic scenarios they could generate capital appreciation as yields fall while also steadying portfolios.

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