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WS Global CIO Office
13 May 2025

Market Watch

Temporary Ceasefire

Summary

Event: US and China released a joint statement on Monday agreeing to a partial suspension of tariffs for 90 days starting from 14 May: 1) the US will cut headline tariffs on China to 30% (from 145%) while 2) China will cut tariffs on the US to 10% (from 125%) and suspend or remove non-tariff countermeasures taken since 2 April 2025.

Market reaction: Very positive. The Hang Seng Index rose by nearly 4% at one point before settling 3.0% higher. The S&P 500 closed 3.3% higher. The US 10-year government bond yield rose, testing 4.5%, and the US Dollar index (DXY) gained 1.4%.

Investment strategy: There is room for risky assets to go higher from here. Maintain equity exposure, diversified regionally, and add to Hang Seng technology index on pullbacks below 5,250. Add to portfolio hedges: high quality bonds are offering higher yields and add to gold in the USD 3,000 to 3,250 range. Expect USD/CNH to weaken near term, testing support at 7.1360.

Working towards common ground

A lifting of the effective "trade embargo": During the 90-day pause, US effective tariffs on Chinese goods will decline to 39.5% (from 114%), reducing the average US import tariffs on the world to 11.9% (from 20.2%). This pauses what was effectively a trade embargo between the US and China. However, there was no mention of changes to the de minimis rule (i.e. goods under USD 800 in value, key for ecommerce). The suspension of non-tariff countermeasures by China suggests a suspension of its export controls on rare earth.

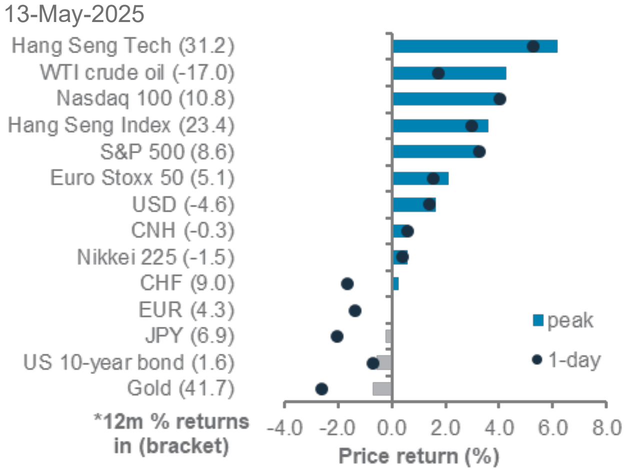
Impact on growth: The reduction (at least temporarily) of tariffs reduces the probability of a US recession and a severe slowdown in Chinese growth. De-escalation is achieved and trade between both countries is likely to accelerate during this 90-day window.

The pause reduces, but does not eliminate, the drag on economic growth. To place this in perspective, during the last US-China trade war, goods subject to a 25% tariff witnessed an approximately one-third decline in exports to the US. The fact that negotiations have started and reached a swift headline conclusion is positive, as this appeared unlikely as recently as a week ago. However, the history of 2018 trade talks suggest more concrete agreements could take time.

What to watch: Key events from here include: (i) the speed and nature of further negotiations, including any policy flip-flops, (ii) discussions on sensitive areas, such as rare earth export control, (iii) whether currencies or US bond purchases are referenced as part of negotiations, (iv) US inflation and growth data.

Risk assets jumped after the policy announcement, while holding onto a large part of the gains

1-day and intraday peak asset class returns; as of 4:15am SGT on 13-May-2025



Source: Bloomberg, Standard Chartered

Summary of the agreement between US and China

Remove	91% in tariffs on each other's goods
Suspend	Another 24% in tariffs for 90 days
Total reduction of tariffs	115%
US tariff on China goods	Lowered to 30%
China tariff on US goods	Lowered to 10%
Other highlights	• Includes a mechanism for talks toward a permanent deal to continue • China to suspend or remove non-tariff countermeasures taken since 2-Apr-25 • Bessent hinted that sector tariffs are still coming. The agreement does not cover industry-specific tariffs for "strategic necessities" like steel, semiconductors and some medicines

Source: Standard Chartered

What does this mean for investors?

Bonds

Our View: Add to high quality bonds. The US 10-year government bond yield is approaching the top of its recent range.

Rationale: The 10-year US and China government bond yields climbed by 3-4bps to 4.45% and 1.67%, respectively by the close of New York session. Markets are responding positively to signs of easing trade tensions via improved growth expectations. However, forthcoming US growth and employment data is likely to be critical to setting interest rate expectations from here. We continue to expect 75bps of Fed rate cuts by Q1 2026 and favour adding to high quality bonds at current levels given the 10-year yield is testing the top of its recent range and is notably above our expected 12-month range of 4.00-4.25%.

Equities

Our View: Maintain diversified regional exposure. Add on pullbacks – especially Chinese equities and the Hang Seng Technology Index below 5,250, due to their still-cheap valuations.

Rationale: Key equity indices in China and the US both broke above key resistances – Hang Seng Index broke above the 23,000 level while the S&P 500 rose above 5,800, both key levels we highlighted in a prior Marketwatch.

This improved technical picture along with reduced downside volatility argues there is room for both Chinese and US equities to rise further in the very near-term. We continue to like the attractive valuation in the Hang Seng technology index and add on pullback below 5,250.

Longer-term, tariffs are admittedly still higher than what they were before "Liberation Day". However, optimists will argue the start of US-China negotiations ultimately points to a discussion and resolution of uncertainty. An agreement that results in a tariff level that helps avoid a recession and achieve our baseline scenario of a soft landing for the US economy is positive for global equities over the full year. We continue to recommend a diversified equity portfolio across regions, with preferred exposures including technology and communication services in the US, industrials in the EU, and technology in China.

FX

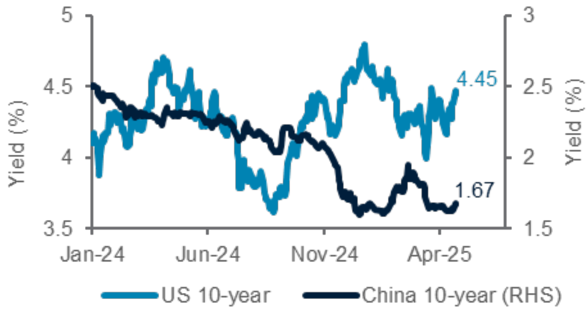
Our view: Bearish USDCNH over the next 2-4 weeks, expecting a test of support at 7.136. Bullish USD/CNH subsequently over next 1-3 months, expecting a rise to 7.380.

Rationale: USD/CNH fell 0.6% to 7.1922 after the tariff announcement. However, a firm US-China trade agreement is likely to take time, and a complete dial-back of the US tariffs appears unlikely. This could create headwinds for the CNH, especially if tangible gains are not achieved within the 90-day pause. In addition, policy support is needed to bolster economic growth in China.

Hence, we expect a lower USD/CNH in the coming days and weeks driven by technical and near-term optimism, but expect the pair to rebound higher over a longer 1-3 month timeframe.

US and China yields spiked, reflecting positive views on trade tensions

US and China 10-year government bond yield



Source: Bloomberg, Standard Chartered

The Hang Seng Technology index is still cheap, trading around -1 standard deviation below its historical mean

Hang Seng Technology Index 12m forward P/E ratio

Source: Bloomberg, Standard Chartered

USD/CNH is likely to test its support at 7.1360

USD/CNH

Source: Bloomberg, Standard Chartered

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