



# Weekly Market View

## Tax cuts and trade deals

→ If the first half of 2025 was marked by President Trump's trade war, the second half is likely to be signposted by US tax cuts, trade deals and business deregulation. Fed rate cuts are likely to follow.

→ The passage of the US budget, which includes USD 4.5tn of tax cuts, and trade deals with key US partners will help reduce uncertainty and counter slowing growth. However, rising fiscal deficit and debt are likely to keep the USD under pressure.

→ While a near-term technical USD bounce is likely, we would use any such bounce to diversify into non-US equities and Emerging Market local currency bonds.

→ We remain bullish on US banks amid expectations of higher dividends after passing the Fed's stress tests, expected relaxation of capital requirements and further deregulation of the sector.

→ We close our bullish US software sector equities idea with a 7.1% gain.

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Bullish US banks: Relaxation of bank capital, deregulation

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Bullish EM local currency bonds: EM rate cuts, weak USD sustaining flows into EMs

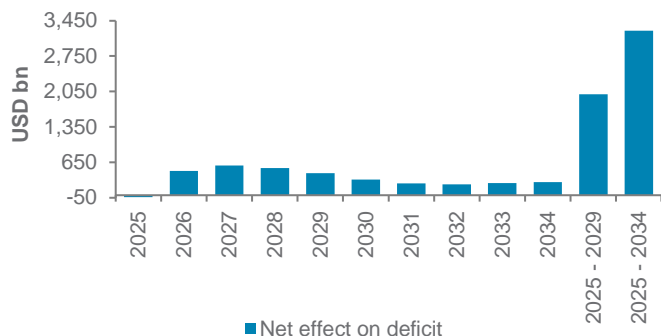
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Rangebound EUR/USD: ECB pushback against EUR strength vs USD weakness

## Charts of the week: A stimulative budget

**The US budget is estimated to increase the fiscal deficit by USD 3.4tn over ten years; the USD is due a near-term bounce**

Net effect on US fiscal deficit from next year's budget



USD index (DXY) and combined investor positioning



Source: US Congressional Budget Office, Bloomberg, Vanda Research, Standard Chartered

## Editorial

### Tax cuts and trade deals

**Investment Strategy:** If the first half of 2025 was marked by Trump's trade war, the second half is likely to be signposted by US tax cuts, trade deals and business deregulation. Fed rate cuts are likely to follow. The passage of the US budget, which includes USD 4.5tn of tax cuts, and trade deals with key US partners will help reduce uncertainty and counter slowing growth. However, rising fiscal deficit and debt are likely to keep the USD under pressure. While a near-term technical USD bounce is likely, we would use any such bounce to diversify into non-US equities and Emerging Market local currency bonds.

**Slowing growth:** After four years of fiscally fuelled economic expansion following the pandemic, US growth is slowing as policy and trade uncertainty and high interest rates weigh on outlook. Following months of weak confidence indicators ("soft" data), the so-called "hard" data has started to weaken. Although headline net new non-farm payrolls rose unexpectedly in June, gains were mainly driven by government jobs. Private payroll gains fell to the lowest since October last year. Continuing jobless claims, which have jumped since Trump launched his trade war in April, are at their highest since 2021. A slowing job market is slowing consumption, the main driver of the economy. US real personal spending contracted 0.3% m/m in May. The housing market and private investment remain weak.

**Tax cuts:** The US budget for the fiscal year starting 1 October should help counter slowing growth. The budget is estimated to provide a USD 3.4tn fiscal boost to the USD 30tn economy over ten years. It includes USD 4.5tn of tax cuts (including extension of Trump's 2017 tax cuts and new tax breaks for businesses and on tips, overtime pay, auto loans among others. It also makes USD 1.1tn of spending cuts. The latter includes cuts to healthcare, food and clean energy incentives. The net positive fiscal impact should more than offset the negative impact of tariffs on growth. The budget also raised the US debt ceiling by USD 5tn, helping the US avoid the risk of a near-term default.

**Fed cuts to follow?** The fiscal stimulus is likely to be followed by monetary stimulus. Slowing growth is building the case for the Fed to resume rate cuts after a pause since last year. The surprisingly resilient jobs report in June led money markets to price out any chance of a rate cut in July. However, markets are pricing 52bps of rate cuts by the end of the year, with 70% chance of a rate cut in September, and a terminal rate of around 3.1% by the end of 2026. Although Fed Chair Powell reiterated that rates need to be on hold until the impact of tariff on inflation is clearer, other Fed governors have made the case for a rate cut in July. A deterioration in the job market would hasten cuts.

**Use any USD bounce to diversify:** The USD index (DXY) has slumped to a three-year low. We expect the USD to remain weak on a 6-12-month horizon amid concerns about rising US debt and expectations of Fed rate cuts. However, technical and positioning indicators suggest the USD is oversold, raising the risk of a near-term technical bounce. Any short-term bounce, potentially with the conclusion of trade deals, can be used as an opportunity to diversify into non-US equity markets, especially in Asia-ex-Japan, and into EM local currency bonds.

**Trade deals key to watch next week:** Meanwhile, trade deals with key partners in the coming weeks (if not before Trump's self-imposed 9 July deadline) will reduce a major market uncertainty. So far, the US has reached broad framework trade agreements with the UK, China and Vietnam. Agreements with India, South Korea and the European Union are likely to be reached shortly. A deal with Japan could take longer, especially with political sensitivities around core issues of auto exports and rice imports ahead of the Upper House election on 20 July.

While the UK deal sets a 10% baseline tariff for most partners, Vietnam agreed to a 20% tariff on all exports to the US and 40% tariff on goods transhipped through the economy. It's unclear whether other transshipment hubs used by China in recent years, especially in Asia, will face similar tariffs. China's reaction to the transshipment tariffs will also be watched closely.

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets in the near-term

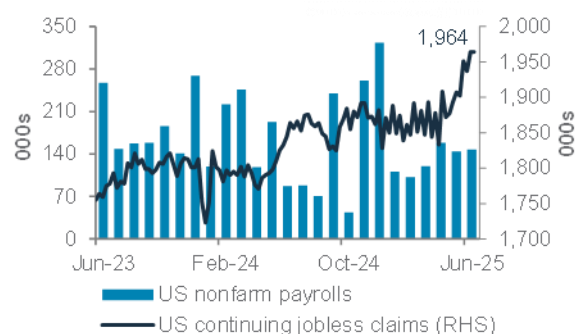
**(+) factors:** US job creation beat estimates; improving manufacturing activity in US and China; US Congress's approval of tax-cutting budget

**(-) factors:** US inflation pressures; weaker Euro area economic confidence, China services sector

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US nonfarm payrolls beat expectation; unemployment rate also fell unexpectedly</li> <li>US ISM manufacturing and services PMIs rose to 49 and 50.8 respectively, beating expectations</li> <li>US job openings rose to 7.8m in May, beating estimates</li> <li>Euro area service sector confidence beat expectation</li> <li>China Caixin manufacturing PMI rose more than expected to 50.4</li> </ul>	<ul style="list-style-type: none"> <li>US core PCE inflation rose more than expected to 2.7% y/y (0.2% m/m)</li> <li>US personal income fell unexpectedly in May</li> <li>US ISM new orders PMI and employment PMI dropped unexpectedly; prices paid rose</li> <li>Euro area unemployment increased to 6.3%, above expectations</li> <li>China Caixin services PMI fell unexpectedly</li> </ul>
	<b>Our assessment: Positive</b> – US headline job creation continued to beat expectations. Strong manufacturing activity in US and China vs rising inflation pressures in the US	
Policy developments	<ul style="list-style-type: none"> <li>Fed Chair Powell reiterated a cautious policy stance but did not rule out a July rate cut</li> <li>BoJ Governor Ueda said no rush to raise rates</li> </ul>	
	<b>Our assessment: Negative</b> – Cautious central banks	
Other developments	<ul style="list-style-type: none"> <li>The US Congress approved Trump's "Big Beautiful Bill"</li> <li>US-Vietnam agreed on 20% base tariff (vs 46% before) and 40% tariff on transshipped goods</li> <li>Israel agreed to 60-day ceasefire in Gaza</li> </ul>	<ul style="list-style-type: none"> <li>Trump said there will be no extension on 9 July tariff deadline and threatened Japan with tariffs up to 35%</li> </ul>
	<b>Our assessment: Positive</b> – US Congress's budget approval, US-Vietnam trade deal	

### The US job market showed mixed signals. Non-farm payrolls in June beat expectations, but continuing jobless claims beat estimates

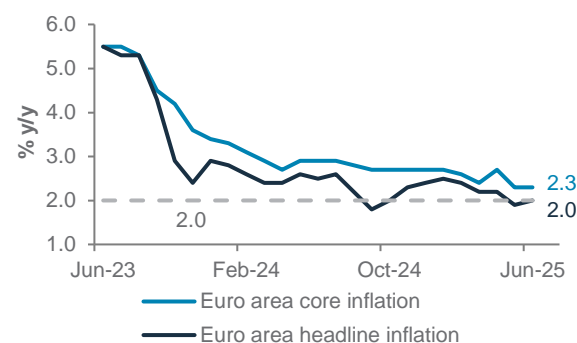
US non-farm payrolls, continuing jobless claims



Source: Bloomberg, Standard Chartered

### Euro area core inflation rose more than expected in May, while headline inflation was unchanged

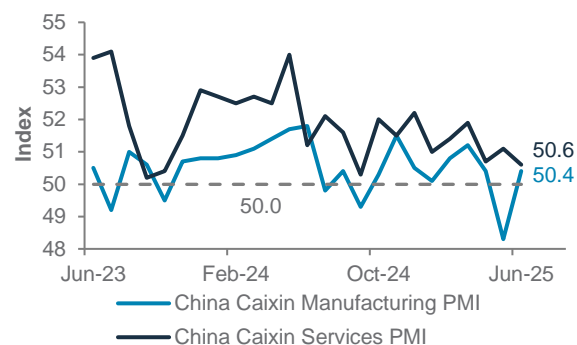
Euro area core and headline inflation



Source: Bloomberg, Standard Chartered

### China's Caixin manufacturing PMI rose sharply in June, while services PMI fell unexpectedly

China Caixin manufacturing and service PMIs



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What is the outlook for US equities?

**Our view:** We view US equities as a Core Holding. Take advantage of the current strength and rotate excessive exposure to 1) non-US equity markets, and 2) major US banks.

**Rationale:** The S&P 500 index is at a new record high. Subsiding risks in the Middle East as well as the passing of the “Big Beautiful Bill” (“BBB”) have been driving US equities higher. **Investor positioning on US equities is still light** relative to history, at -0.4 standard deviation below Neutral levels, according to Vanda Research data. Historically, the current level of positioning indicates a 3-month forward return of approximately 4%.

That said, we see near-term headwinds. Valuations are expensive – 12m forward P/E for the MSCI US index is at 22.5x – almost 2 standard deviations above its historical average. Sustained earnings growth is needed to justify this valuation premium. The Q2 earnings season kicks off in two weeks’ time. Markets are currently projecting earnings growth of 5.8% y/y for the quarter, revised lower from 12% at the start of 2025 (source: LSEG I/B/E/S). This reflects **geopolitical and tariff uncertainty**, and their potential impact on supply chains and profit margins. **“Soft data” remains under pressure**, including consumer confidence, and there is uncertainty around whether US trade negotiations will extend beyond the 9 July deadline. All this means US equities face pullback risk at these elevated levels. Support is at 6,147, followed by 5,969.

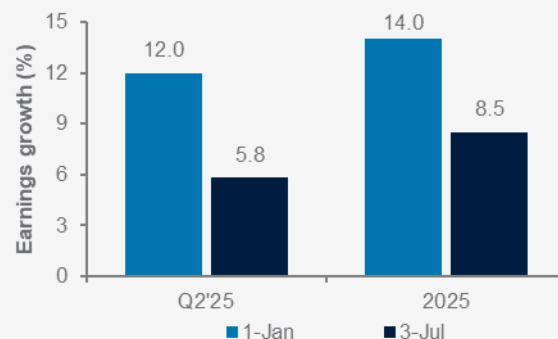
We view US equities as a Core Holding. We suggest taking advantage of the current strength to trim excessive long exposure and add to other regional markets with strong domestic policy support and earnings growth projections, such as China and Korea within Asia. The removal of Section 899 from the final version of the US budget eliminates concerns about retaliatory taxes, which supports markets such as Euro area and Japan.

Within the US, we expect rotation into the major US banks. The sector is riding on expectations of a **relaxation by the Fed in the “enhanced supplementary leverage ratio”** for banks and the passing of the Fed’s annual stress tests. We expect **further deregulation to help support US banking sector equities**.

— Michelle Kam, CFA, Investment Strategist

### Consensus earnings growth estimates for US equities in Q2 have been revised lower since the start of the year

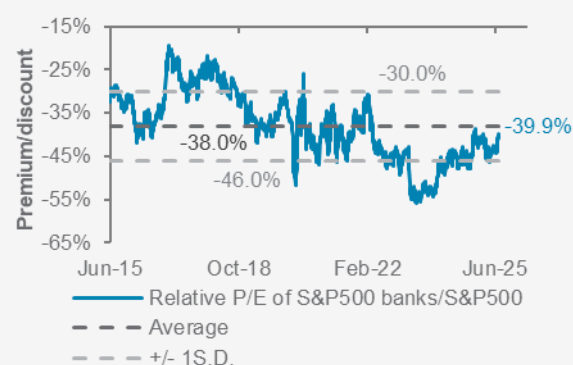
Consensus earnings growth estimates for S&P 500 index in Q2’25 and FY25, in 3 July vs. 1 January



Source: LSEG I/B/E/S, Standard Chartered

### The S&P 500 Banks index is still trading at a discount to the S&P 500 index

Relative P/E ratio of S&P 500 banks / S&P 500 indices



Source: Bloomberg, Standard Chartered



## Top client questions (cont'd)

**Q** The US 10-year government bond yield has been on a downtrend since the end of May. Where do you see opportunities in bond markets?

**Our view:** Add to Emerging Market (EM) local currency (LCY) government bonds on pullbacks. EM LCY government bonds currently yield over 5.9%, at the higher end of their 5-year range.

**Rationale:** The US 10-year government bond yield fell to the 4-4.25% range earlier this week. However, the yield subsequently rebounded above 4.25% after the surprisingly strong US payrolls report. The still-resilient US job market and the upcoming US trade negotiations (and associated tensions) argues for higher yields. This is until slower growth allows **the Fed to cut interest rates** from September, driving a renewed move lower in the 10-year yield.

Meanwhile, many EM economies have strengthened their fiscal and current accounts in recent years. Their benign inflation outlook, bolstered by the expected reduction in US interest rates and a weak USD, have resulted in **high real yields** (nominal yield minus inflation). These factors should enable **EM central banks to cut interest rates**. This, together with our weak USD view, is why we are Overweight EM LCY bonds.

We are also opportunistically bullish on EM Asia local currency bonds. **A weaker USD** is likely to attract **increased fund flows** into the asset class, which offers diversification benefits due to its low-to-moderate correlation with major developed market bonds.

Risks to our view include EM's susceptibility to market volatility and geopolitical uncertainties. Weaker US demand and higher tariffs could also pose challenges to these economies.

— **Ray Heung**, Senior Investment Strategist

**Q** Why have you closed your US software equities opportunistic idea?

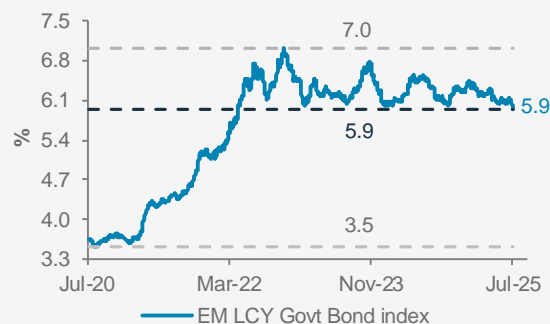
**Our view:** We close our US technology software opportunistic idea as the potential reward no longer compensates for the risk.

**Rationale:** We close our idea at a 7.1% profit since inception on 20 February, 25. **The index heavyweights have been weakening technically**, and the index is susceptible to pullback after breaking all-time high. **US software stocks are now closer to fair value**, being slightly more expensive than their 5-year average price-to-earnings ratio. Within US equities, the focus is moving to the major US banks, with deregulation as a key narrative in the near-term.

— **Daniel Lam**, Head, Equity Strategy

### The yield on EM local currency government bonds is attractive from a historical perspective

EM Local Currency Government Bond Index yield



Source: Bloomberg, Standard Chartered

### The US software index is now closer to fair value

P/E ratio for the S&P North American Expanded Technology Software Index



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

**Q** EUR/USD is trading close to a four-year high. What is your view on the pair?

**Our View:** EUR/USD to be rangebound with risk of short-term pullback. Resistance near 1.20, while support is at 1.14.

**Rationale:** The EUR has gained over 10% against the US dollar this year, prompting concerns amongst ECB officials that further appreciation could undermine the central bank's 2% inflation target and economic recovery. A move in EUR/USD above 1.20 is expected to trigger stronger ECB pushback, including verbal intervention or further rate cuts, to counter disinflationary pressures.

Our long-term weak USD bias notwithstanding, EUR/USD is currently overbought and, thus, is technically challenged. The pair has been grinding higher, while its relative strength indicator (RSI) is diminishing in strength, suggesting waning momentum and therefore limited room for further upside. We expect a partial unwind of stretched bearish USD positions. This dynamic supports a range-bounding EUR/USD, between 1.14 to 1.20.

— Iris Yuen, Investment Strategist

**Q** What is your view on Korea equities following the passing of the Commercial Act amendments by the National Assembly?

**Action:** We are Overweight Korean equities within Asia ex-Japan. We expect further policy support from the Korean government, alongside appealing valuations and a weak USD, to support further market growth.

**Rationale:** South Korea's parliament passed the Commercial Act amendment on 3 July, with proposals such as: 1) expanding directors' fiduciary duties, 2) mandating the adoption of electronic general meetings, and 3) enhancing the application of "3% rule". The revision to the Act is expected to protect minority shareholders' interests and support corporates' valuations.

Markets reacted favourably following the passing of the Act, with the KOSPI index closing 1.3% higher on the day. We see near-term market sentiment to be clouded by 1) heightened tariff concerns as the 9 July US trade deadline approaches, and 2) potential delay in BoK's policy pivot due to a pick-up in inflation, we are bullish Korea equities over a 12-month horizon. However, 1) **valuation is cheap**. Korea equities trade at a 28% discount to Asia ex-Japan equities, despite a strong rally since April, 2) **further fiscal expansion plans** under President Lee's administration, such as the revamp of the tax system, 3) **improving corporate governance**, and 4) **the weak USD** and the historically inverse correlation between USD and Asia market performances. This can stimulate the region's earnings growth projections and ultimately narrow the valuation discount.

— Michelle Kam, CFA, Investment Strategist

**Play the EUR/USD trading range. We anticipate a short-term pullback in the pair due to excessive bearish positions in the USD**

EUR/USD and its expected range



Source: Bloomberg, Standard Chartered

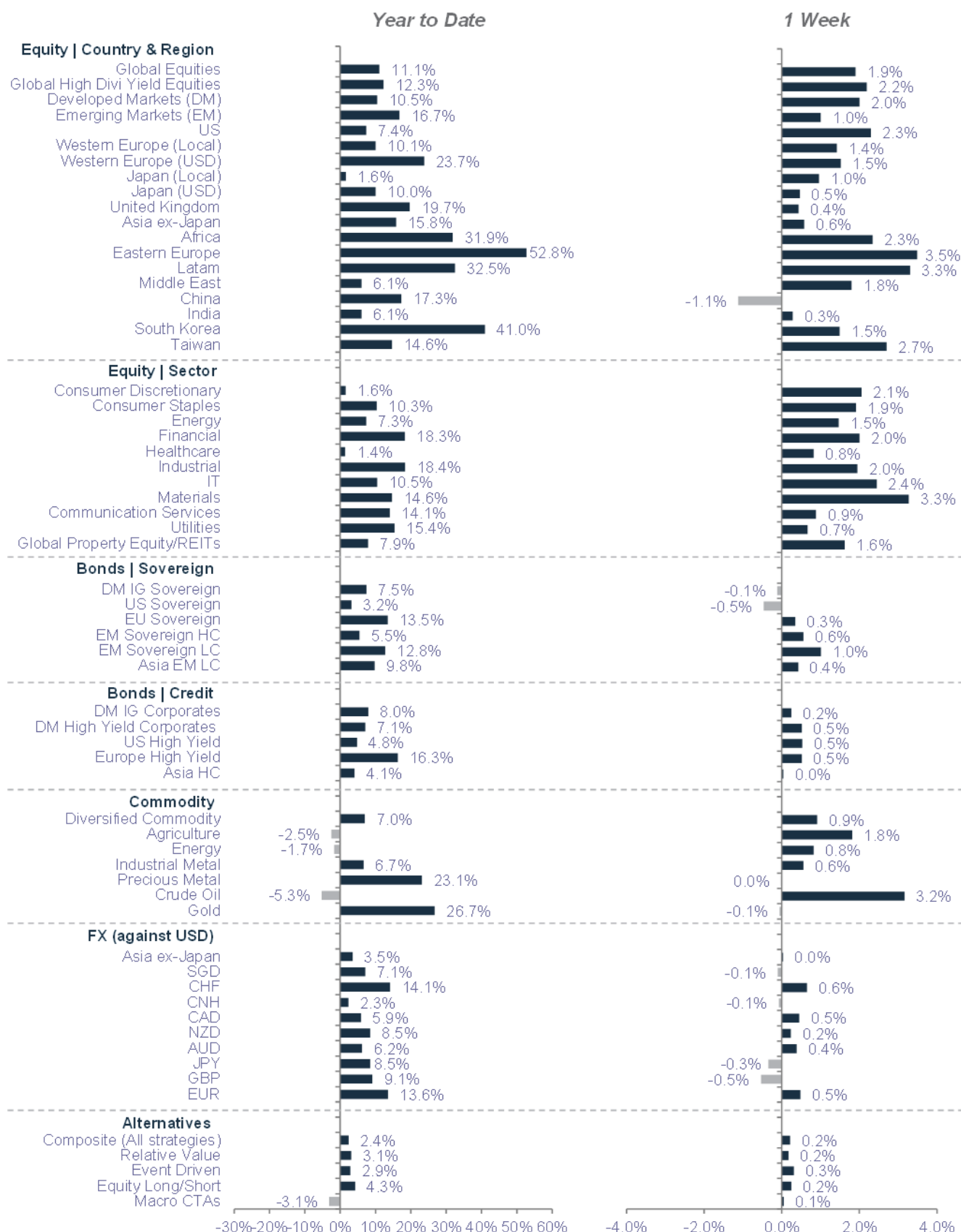
**Korean equities are trading at a significant discount to Asia ex-Japan equities**

Relative 12-month forward P/E for MSCI Korea vs. MSCI Asia ex-Japan index



Source: FactSet, Standard Chartered

## Market performance summary\*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

\*Performance in USD terms unless otherwise stated, 2025 YTD performance from 31 December 2024 to 3 Jul 2025; 1-week period: 26 June 2025 to 3 Jul 2025

## Our 12-month asset class views at a glance

Asset class	
<b>Equities</b> ▲	<b>Preferred Sectors</b>
US ◆	US Financials ▲
Europe ex-UK ◆	US Technology ▲
UK ▼	US Communication ▲
Asia ex-Japan ▲	Europe Technology ▲
Japan ◆	Europe Communication ▲
Other EM ◆	Europe Industrials ▲
	Europe Financials ▲
<b>Bonds (Credit)</b> ◆	China Technology ▲
Asia USD ◆	China Communication ▲
Corp DM HY ◆	China Discretionary ▲
Govt EM USD ◆	
Corp DM IG ▼	<b>Alternatives</b> ◆
<b>Bonds (Govt)</b> ◆	<b>Gold</b> ◆
Govt EM Local ▲	
Govt DM IG ◆	

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

## The S&P500 has next interim resistance at 6,402

Technical indicators for key markets as of 3 July close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	6,279	6,039	6,402	22.3	1.3
STOXX 50	5,343	5,210	5,456	15.1	3.3
FTSE 100	8,823	8,720	8,915	12.9	--
TOPIX	2,829	2,759	2,884	15.1	2.7
Shanghai Comp	3,461	3,380	3,503	12.8	3.1
Hang Seng	24,070	23,326	24,674	10.3	3.4
Nifty 50	25,405	24,696	25,892	21.3	1.6
MSCI Asia ex-Japan	805	768	824	13.6	2.6
MSCI EM	1,237	1,183	1,264	12.7	2.9
Crude oil (WTI)	67.0	60.0	76.2	na	na
Gold	3,326	3,233	3,435	na	na
UST 10Y Yield	4.35	4.18	4.51	na	na

Source: Bloomberg, Standard Chartered

Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

## Economic and market calendar

	Market	Event	Period	Expected	Prior
MON	EUR	Sentix Investor Confidence	Jul	–	0.2
	EUR	Retail Sales y/y	May	–	2.3%
TUE	AUD	RBA Cash Rate Target	8-Jul	3.6%	3.9%
	USD	NFIB Small Business Optimism	Jun	97.9	98.8
WED	USD	Trump's tariff deadline	9-Jul	–	–
	CNH	PPI y/y	Jun	-3.1%	-3.3%
	CNH	CPI y/y	Jun	-0.1%	-0.1%
THU	NZD	RBNZ Official Cash Rate	9-Jul	3.3%	3.3%
	USD	FOMC Meeting Minutes	18-Jun	–	–
	USD	Initial Jobless Claims	5-Jul	–	–
	USD	Continuing Claims	28-Jun	–	–
FRI/SAT	GBP	Industrial Production y/y	May	–	-0.3%
	GBP	Manufacturing Production y/y	May	–	0.4%
	CAD	Unemployment Rate	Jun	–	7.0%

Source: Bloomberg, Standard Chartered

Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated

P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

## Investor diversity in EM local bonds fell below threshold

Our proprietary market diversity indicators as of 3 July close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.46
Global Equities	●	↓	1.31
Gold	●	↑	1.58
<b>Equity</b>			
MSCI US	●	↓	1.33
MSCI Europe	●	→	1.38
MSCI AC AXJ	●	↓	1.37
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.44
DM High Yield	●	↓	1.35
EM USD	●	↓	1.50
EM Local	○	↓	1.21
Asia USD	●	↓	1.72
<b>Currencies</b>			
EUR/USD	●	→	1.29

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ● Low to mid | ○ Critically low





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chartered

# InvesTips

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Fortnightly series on WEDNESDAYS

Presented by

*Steve Brice*

Global Chief Investment Officer  
Standard Chartered Bank

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