Week in review
21 July 2025

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In this week's update, Kevin Quinn discusses:

- Markets & tariffs
- US data
- US cryptocurrency regulation
- Euroarea inflation, Chinese data
- NVIDIA exports to China
- Fund manager risk appetite
- Japanese bond yields[*]
- UK data
- US Federal Reserve's 'Beige Book'[+]

Latest update from markets (to 18.07.25)

	Past week	YTD
Global shares	+1.0%	-1.0%
US shares	+1.2%	-4.0%
European shares	-0.1%	+10.6%
European government bonds	+0.2%	+0.0%
Global commodities	+1.8%	-5.3%
The Magnificent 7[**]	+2.3%	-6.7%

Source: Bloomberg 21.07.25. All returns expressed in euros.
**Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA, and Tesla.

The long and short

Investing requires a long-term focus, but shorter-term events can take most of our attention. In these weekly updates, we place current events into a longer-term perspective.

The long…

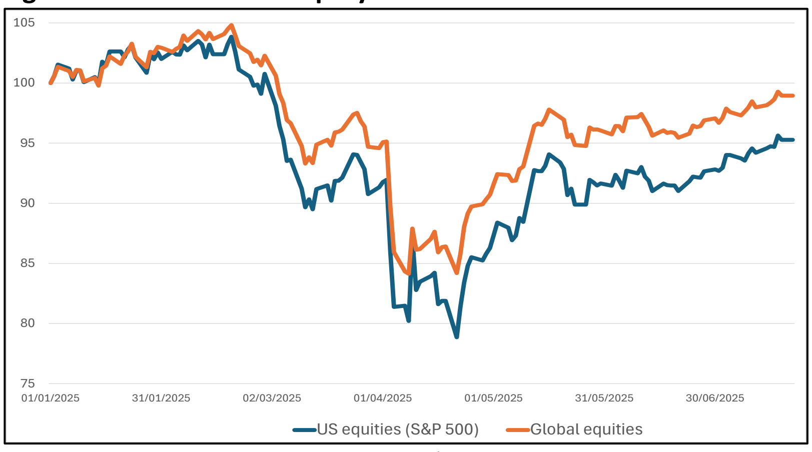
Could markets choke on a TACO?

Global equity markets have come to expect that "Trump Always Chickens Out (TACO)" from imposing the high tariffs he first threatens. This expectation now stands in stark contrast to fears in April's when tariffs of 145% were first threatened on China. Back then, there was genuine concern that the outcome could be a de-facto trade embargo between the world's two largest economies and an accompanying disconnection of complex global supply chains.

The recovery we have seen in markets since April has been, in part, a recognition that this most extreme outcome was off the table.

With markets powering back over recent months (see Figure 1) and inflation only modestly increasing so far as a result of the tariffs, it appears that the US administration has a renewed belief, rightly or wrongly, in its approach to tariffs.

Figure 1: Global and US equity market returns in 2025 to date



Source: Bank of Ireland Investment Markets/Bloomberg 12.07.25

The recent "second wave" of US tariff threats has involved the dispatch of letters to over 20 significant US trade partners outlining tariffs on goods imported from their countries. The letters set new baseline tariff levels at 20% to 40% —with a 50% levy on goods from Brazil alone.

On 10.07.25, President Trump announced a further 35% tax on certain Canadian goods, and a 30% tariff level on the EU and Mexico, effective on 01.08.25. This date also sees threatened tariffs on pharmaceuticals (200%), copper and semi-conductors potentially coming into effect. This was also followed with an indication that 10-15% tariffs would also be applied to over 150 smaller trading partners.

These levels of tariffs would undoubtedly be damaging to all, but there are good reasons why "TACO" might prove correct yet again. The US is not in a position to manufacture pharmaceuticals or smartphones in the near future nor to create new copper mines. These would take time and may prove impractical – meaning markets are a long way away from pricing in the impact of trade wars that the threatened new tariff levels could create. Furthermore, its only in the coming months that the impact of existing tariffs will begin to feed into US inflation and in turn US interest rate policy. It will be an interesting few weeks ahead…….

The short…

Market news

US consumer price inflation (CPI) was slightly higher at 2.7% in June 2025, while core CPI (excludes energy and food) rose by 2.9%, a small bit below consensus expectations. Car prices were a big factor and when excluded, US inflation was the highest since November 2021.

US retail sales rebounded in June 2025, with a broad advance that might reduce concerns about a possible downturn in consumer spending. The monthly increase was 0.6%, well ahead of the expected 0.1%.

US Congress passed the first federal regulation to regulate stablecoins[++] in what is seen as a watershed victory for the crypto industry. Stablecoins up to now have been mostly used for payments related to cryptocurrency but their speed of settlement may give them a potential role in the payments system.

Euroarea core inflation was unchanged at 2.3% year-on-year in June 2025 (in line with expectations). Headline inflation, which includes food and energy, increased to 2.0% in June 2025 (in line with expectations).

Chinese economy grew faster than expected with economic growth rising by 5.2% per annum (p.a.) between April-June. The expansion was driven by stronger exports to the US although domestic consumer demand remained weak. Unemployment stood at 5.0% in line with expectations while retail sales disappointed at an increase of 4.8% in June, down from 6.4% in May.

NVIDIA looks set to resume exports of its H20 artificial intelligence (AI) chip to China after it received assurances from Washington that shipments would get approved. It marks a reversal in the US administration's policy to limit China's AI ambitions and will add back billions to NVIDIA's revenue.

Fund manager risk taking has become more elevated judging by the Bank of America Global Fund Manager Survey. According to the survey, the risk level in investor portfolios is the highest on a three-month basis since 2001. The survey also pointed to strong increases in allocations to US and European stocks, as well as tech stocks.

Japanese bond yields continued to rise last week as prices fell, with the 10-year yield reaching a 17-year high of just under 1.6% p.a.. This is on foot of record highs in the 30 and 40-year yields. Japan's core CPI rose by 3.3% in June, in line with expectations, while headline inflation dropped to the same level.

UK economy is showing some signs of rebounding from its recent slump despite contracting again in May 2025. There was a jump in June 2025 retail sales of 3.1% along with evidence of a strong pick-up in activity in other leading indicators also. UK core inflation increased to 3.7%, slightly higher than expected. Headline inflation at 3.6%, 0.2% higher than anticipated.

Federal Reserve (Fed) "Beige Book" showed five US districts in growth, five in decline and two holding steady, with trade the main uncertainty being faced. Meanwhile Governor Waller indicated he backed a July interest rate cut citing a softening labour market as the rationale. The market sees very little chance of this cut happening in August and continues to see September as the most likely for a cut.

Source: Bloomberg, PIMCO, BCA 14.07.25--18.07.25
[*] Yield refers to how much income an investment generates and is often expressed as a percentage of a bond's market value or purchase price. [+] A summary commentary on Current Economic Conditions report published by the Federal Reserve System. [+] A digital asset that remains stable in value against a pegged external traditional asset class.

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Table 1: 5 year historic performances

	2020	2021	2022	2023	2024
Global equities	6.70%	27.50%	-13.00%	18.10%	25.30%
US equities (S&P 500)	8.70%	38.20%	-13.00%	22.20%	33.60%
European equities (Stoxx 600)	-1.40%	25.80%	-9.90%	16.60%	9.60%
Emerging market equities	9.10%	4.90%	-14.90%	6.60%	15.40%
Global bonds	4.90%	-2.60%	-15.10%	4.50%	0.90%
US government bonds	8.30%	-2.00%	-12.50%	5.80%	0.30%
European government bonds	4.30%	-3.70%	-18.40%	7.20%	1.90%
Emerging market debt	-3.40%	6.40%	-9.80%	5.40%	15.10%
Broad commodities	-13.10%	37.00%	20.70%	-10.90%	7.00%
US corporate bonds	7.80%	-1.90%	-17.10%	5.80%	2.10%
European corporate bonds	2.40%	-1.20%	-14.00%	8.40%	4.60%
Magnificent 7	102.2%	62.7%	-41.9%	100.4%	78.9%
NVIDIA	104.19%	142.09%	-47.13%	228.20%	189.99%

Source: Bloomberg 21.07.25. All returns expressed in euros.

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