Bank of Ireland

Week in review
30 June 2025

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In this week's update, Kevin Quinn discusses:

- Causes of the dollar slide
- Ceasefire in the Middle East
- Purchasing manager indices
- Federal Reserve updates
- US data
- European inflation

Latest update from markets (to 27.06.25)

	Past week	YTD
Global shares	+1.5%	-3.1%
US shares	+1.8%	-6.7%
European shares	+1.4%	+9.9%
European government bonds	-0.2%	+0.5%
Global commodities	-5.2%	-8.0%
The Magnificent 7*	+3.5%	-10.0%

Source: Bloomberg, 30.06.25. 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…

The Dollar's decline

June saw the US Dollar weaken against other major currencies reaching $1.17 to the euro, a 3- year high for the common currency. It also brings the year to date losses for the Dollar to almost .12% when measured against a basket of currencies, see figure 1.

Figure 1: The US Dollar index 01.01.2020-26.06.2025

Source: Investment markets/Bloomberg 26.06.2025

Five Causes of Dollar weakness

1. "Sell America" sentiment from overseas

US financial markets are the most developed globally and so-called US exceptionalism means the past decade has seen extensive capital flows into the US. The dollar's role as the global reserve currency has enabled the US to finance its deficits with ease. However, following the 'Liberation Day' tariff announcements there was intense selling of US Treasuries, equities and the dollar as capital markets began to demand a higher term premium for US assets.

2. De-dollarisation

Many central banks have been reducing their holdings of US Treasuries, to reduce reliance on the US Dollar. In its place the likes of gold (and even bitcoin) have grown their share of balance sheets. This so-called "de-dollarisation" is a multi-decade process which has gathered momentum this year. Gold in particular has been a beneficiary from this reduced confidence in the Dollar, but also in other fiat[1] currencies.

3. Deficits and issuance

The scale of new issuance, that will arise due to the growing US budget deficits are likely to bring about, is creating pressure on longer dated US Treasury yields. Increasing the overall cost of debt financing a larger portion of government expenditure, creating a negative feedback loop.

4. Interest rate differentials

The market continues to believe that there is two further interest rate cuts due this year from the US Federal Reserve (Fed) with as many as three possible in 2026. In contrast the European Central Bank is expected to deliver just one further rate cut this year. Tightening of interest rate differentials is likely to prove another source of weakness for the Dollar.

5. Powell's successor

In addition to all of the above, speculation is mounting about when and who will be announced as successor to Federal Reserve Governor Powell, with Trump's favoured candidates, more likely to be "rate cut friendly". Bets on the Fed cutting rates are increasing which in turn is adding more pressure on the US Dollar.

1. Fiat currencies are government-issued currencies that are not backed by a physical commodity like gold or silver.

The short…

Market news

Ceasefire between Israel/US and Iran has seen oil prices drop as low as $66 a barrel during the week.

Purchasing manager indices gave some positive signals for June with both UK and Japanese PMI's expanding while Eurozone Composite PMI was also expansionary albeit unchanged from the previous month. US Composite PMI expanded again in June, at a slightly slower pace than the previous Month.

Federal Reserve has proposed to reduce capital requirements for big banks allowing them to hold more Treasuries. What's known as the "Enhanced Supplementary Leverage Ratio[2]" would be reduced to 3.5%-4.5% from the current 5%-6%.

Fed chair Powell signalled no plans to cut interest rates during a speech before Congress, following the Fed's June decision to hold rates unchanged. He said they'll evaluate tariff impacts on inflation using June and July inflation data, and doesn't expect to cut interest rates before early autumn.

Germany signalled it plans to borrow about a fifth more than expected in the coming months, intending to raise €18 billion in the July-September period to finance a surge in spending.

US Consumer confidence unexpectedly fell back in June with the effect of tariffs still dominating. This almost gives back all of the recovery in May, suggesting confidence remains fragile and is being heavily influenced by recent news flow.

US unemployment as measured by recurring applications for benefit, rose to 1.97 million, its highest since November 2021, signalling that more people are staying out of work for longer. Initial claims did however decrease to 236k, lower than expected.

US Quarter 1 GDP was revised down to -0.5% compared to the previous estimate of -0.2%.

US Trade deficit widened unexpectedly by 1.1% to $96.6 billion in May following the biggest drop in exports since the pandemic, while imports remained largely unchanged.

US Personal Consumption Expenditure (PCE) fell by 0.3% in May while Core PCE which excludes food and energy rose by 0.2%

Inflation in Europe ticked up slightly with French inflation at 0.8% year on year while Spain saw prices rise by 2.2%.

2 The ratio with which banks calculate the amount of common equity capital they must hold relative to their total leverage exposure

Source: Bloomberg, PIMCO, BCA 23.06--30.06.25

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Table 1: 5 year historic performances

	2020	2021	2022	2023	2024
Global equities	6.7%	27.5%	-13.0%	18.1%	25.3%
US equities (S&P 500)	8.7%	38.2%	-13.0%	22.2%	33.6%
European equities (Stoxx 600)	-1.4%	25.8%	-9.9%	16.6%	9.6%
Emerging market equities	9.1%	4.9%	-14.9%	6.6%	15.4%
Global bonds	4.9%	-2.6%	-15.1%	4.5%	0.9%
US government bonds	8.3%	-2.0%	-12.5%	5.8%	0.3%
European government bonds	4.3%	-3.7%	-18.4%	7.2%	1.9%
Emerging market debt	-3.4%	6.4%	-9.8%	5.4%	15.1%
Broad commodities	-13.1%	37.0%	20.7%	-10.9%	7.0%
US corporate bonds	7.8%	-1.9%	-17.1%	5.8%	2.1%
European corporate bonds	2.4%	-1.2%	-14.0%	8.4%	4.6%
Japanese government bonds	-4.3%	-3.7%	-11.7%	-9.7%	-7.3%

Source: Bloomberg 27.06.25. All returns expressed in euros.

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Warning: The value of your investment may go down as well as up.

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