Weekly round up (Week 30)

This week's headlines: Despite the August 1 deadline for international trading partners to reach a trade agreement with the US, it was another positive week for risk assets.

Risky assets rose again last week, supported by progress in global trade negotiations, a positive start to the US earnings season and improving economic data in several regions. The recovery was broad-based, with equities rising and credit spreads tightening. High yield outperformed investment grade credit, benefiting from lower volatility and solid carry. Global high yield rose 0.41%, led by emerging markets (0.51%) and Europe (0.38%). Investment grade markets also advanced, with US IG leading the way with a 0.30% performance.

On the fixed income side, global bond yields rose slightly, erasing some of the previous week's decline. The US Treasury curve flattened slightly, while the Bund curve remained broadly unchanged. On the equity front, Japan stood out with a weekly gain of 4.3%, as the positive reaction to US trade negotiations offset political uncertainty following the loss of the ruling coalition's majority.

Trade negotiations progress, but risks remain

Markets were reassured by progress in US trade negotiations, particularly with the European Union and its main Asian partners. The White House officially announced the conclusion of trade agreements with Indonesia, the Philippines, and Japan, with a tariff rate of 19% for Indonesia and the Philippines and 15% for Japan. The agreement between the US and Japan also provides for a $550 billion investment fund and a reduction in tariffs on Japanese car exports to 15%, well below the 25% imposed on Canada and Mexico. This announcement follows the recent approval for Nippon Steel to acquire US Steel, subject to the US government obtaining “control action.”

On Sunday, the US and the European Union reached agreement on the framework for a trade deal. The US will impose a 15% base tariff on almost all imports from the EU, including key sectors such as automobiles (currently taxed at 27.5%), while decisions on specific tariffs for semiconductors and pharmaceuticals will be made in two weeks. A zero-tariff agreement has been reached for aircraft and aircraft parts, certain chemicals, generic drugs, semiconductor equipment, certain agricultural products, and essential raw materials, with other categories potentially added at a later date.

Tariffs on European steel and aluminum will remain at 50% for the time being, but are expected to be replaced by a quota system. The agreement also includes significant financial commitments: the EU has pledged to purchase $750 billion worth of oil, gas, nuclear fuel, electronic chips and military equipment during Donald

Trump's second term, while European companies could invest $600 billion in the US during the same period.

As for countries that have not yet signed an agreement, US Treasury Secretary Scott Bessent stressed that “quality agreements” would take precedence over strict deadlines, hinting at an extension of the August 1 deadline for countries engaged in constructive negotiations. However, he warned that the absence of an agreement could lead to a significant increase in tariffs, thereby strengthening the US administration's uncompromising position in the negotiations.

The ECB hits the pause button

The European Central Bank kept its key interest rates unchanged at its July meeting, in line with expectations. However, comments by President Christine Lagarde at the press conference following the meeting were interpreted as more hawkish than expected. She downplayed concerns about the strength of the euro, which could push inflation below target, and signaled her willingness to tolerate some temporary deviation from the 2% target.

Christine Lagarde highlighted the improvement in data, particularly the July flash PMIs, which showed a recovery in services and signs that the manufacturing sector may have bottomed out. However, regional divergences persist, with France continuing to lag behind while Germany shows signs of emerging from stagnation. The ECB also acknowledged the favorable role of rising real disposable income and private sector demand across the euro area. The fiscal stimulus measures planned in Germany should provide additional support.

While the decision to keep rates unchanged was unanimous, the likelihood of a cut in September has diminished. The ECB appears willing to pause and assess the economic and trade developments. The trade agreement between the EU and the US could further reduce the case for easing in the near term.

US data paints a mixed picture

In the US, economic data presented a mixed picture. The S&P Global Flash Composite PMI rose slightly in July, supported by an improvement in service activity, but the manufacturing index fell further below 50, indicating a persistent contraction. However, corporate results have surprised on the upside overall. With around 30% of S&P 500 companies having reported, earnings have supported the index's continued rise to record levels.

Markets will be closely watching the US Federal Reserve's meeting this week(31). Although no change in key interest rates is expected, recent statements by some voting members of the Federal Open Market Committee have hinted at support for a possible cut. The press conference that follows will be closely watched for any change in tone from the Fed, especially as its chairman, Jerome Powell, continues to be criticized by the US administration.

Stablecoins: regulation paves the way for a new source of demand for Treasury bills

In a development that could have long-term implications for demand for Treasury bills, President Trump signed into law on July 18 the Guiding and Establishing National Innovation for U.S. Stablecoin Act (GENIUS Act). This legislation authorizes the regulated issuance of stablecoins by banks, fintechs, and even large retailers, provided they are fully backed by liquid, risk-free assets, such as short-term US Treasury securities.

The stablecoin market has already seen substantial growth, rising more than 60% year-on-year to reach a total market capitalization of USD 265.2 bill. According to analysts, if adoption accelerates as expected, stablecoin issuers could collectively hold more than US$1 trillion in Treasury bills by 2030, surpassing China's current holdings.

The week ahead

In addition to the Fed meeting, investors will also be closely watching economic data releases for clues on the impact of tariffs on activity and, potentially, monetary policy.

In Europe, second-quarter GDP data could show a slight contraction after a solid first quarter, while preliminary inflation figures for July are expected to reflect base effects in the headline index and stable core inflation.

Final PMI figures will provide further insight into regional growth dynamics, particularly in peripheral economies. With trade negotiations continuing and global monetary policies evolving, the coming weeks could prove decisive in shaping investor expectations for the rest of 2025.

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