Weekly round up (Week 31)

Last week was marked by a flurry of news on several fronts: political, macroeconomic, microeconomic, and corporate. Analysts had a lot to digest: the expiry of reciprocal tariffs, month-end portfolio rebalancing, important meetings of central banks and political leaders, key US economic data, and key second-quarter results from tech giants.

Investors saw a possible "ray of hope" last week with the expiration of the deadline for reciprocal tariffs. According to estimates, the average effective rate of US tariffs on imported goods is between 15% and 18%, with the lower end of the range reflecting substitution effects (after import readjustments in response to tariffs). Even so, tariffs have reached their highest level since 1934.

Treasury Secretary Scott Bessent says the US has collected about $100 billion in customs revenue since the beginning of the year, a figure that is expected to reach $300 billion by the end of 2025. In the longer term (2026-2036), customs revenues are expected to reach $2.8 trillion, or about 0.7% of GDP per year. However, economic models suggest that in the long term, the US economy will be about 0.4% weaker and prices will stabilize at a higher level of about 1.8%.

Further agreements are expected to follow. **Mexico** has succeeded in extending its trade negotiations by an additional 90 days, and **China** is expected to secure a similar extension for tariff negotiations at meetings in Sweden. Most of the new tariffs will take effect after midnight on August 7, allowing time for US customs and border protection to adjust their collection systems. The seven-day delay before implementation leaves room for further negotiations for those wishing to reduce reciprocal tariffs.

In Western markets, **Switzerland** is expected to act quickly to secure a better trade deal after being caught off guard by a 39% tariff hike. Swiss chocolate makers and watchmakers face significant risks to their sales in the world's largest consumer market. At the same time, the Swiss pharmaceutical industry, which accounted for nearly half of Swiss exports to the US in 2024, is at stake.

In emerging markets, Taiwan is expected to sign an agreement on more favorable terms, while **India and Brazil**, facing tariffs of 25% and 50% respectively, are under pressure to reach a common agreement.

The devil is also in the details of reciprocal tariffs, particularly their exemptions. In the case of Brazil, government estimates indicate that after exemptions, only 35.9% of its exports to the US (in value terms) will be subject to the high 50% tariff provided for in the new decree, with beef and coffee remaining among the main commodities subject to this high import tax[4].

Similarly, the US decision to exempt imports of refined copper has provided considerable relief to domestic industries and copper-exporting countries in Latin America, particularly **Chile**. The 50% tariff will only apply to semi-finished copper products such as pipes, wires, rods, sheets and tubes, while less processed metals, including ore, concentrates and cathodes, will remain exempt.

Could all this fuss over tariffs be for nothing? The US Court of Appeals has begun reviewing arguments regarding President Trump's authority to impose tariffs under the International Emergency Economic Powers Act (IEEPA), and a decision is expected “in the coming weeks.” Any decision will likely be appealed to the US Supreme Court, but if Trump ultimately loses, it could upend trade policy and deprive his administration of one of its favorite tools for exerting economic influence.

The modus operandi of policymakers remains one of “business as usual.” In China, the Politburo meeting hailed the resilience of GDP growth in the first half of the year, which came in at 5.3% year-on-year, while highlighting the persistence of risks and challenges. Leaders called for continued accommodative macroeconomic policies but refrained from announcing major new stimulus measures, disappointing investors who had hoped for additional measures.

Of the six central banks that met, only South Africa adjusted its rates, lowering its key rate by 25 basis points to 7.0%, in line with expectations. Governor Lesetja Kganyago welcomed the recent moderation in inflation expectations. Within the G10, two major central banks signaled that they were moving toward a policy shift. The Bank of Japan kept its key rate at 0.5%, but Governor Kazuo Ueda outlined two key conditions for the next hike: that food price surges reinforce inflation expectations and that hard data remains resilient after the Japan-US trade deal. According to the latest Bloomberg survey, 42% of the 45 economists polled now expect a rate hike in October, up from 32% previously. At the same time, the Federal Open Market Committee (FOMC) left rates unchanged at 4.25-4.50% for the fifth consecutive meeting, but moved closer to easing. Governors Chris Waller and Michelle Bowman expressed their disagreement, marking the first double dissent since 1993. The monetary policy statement adopted a more accommodative tone, noting that growth had “moderated in the first half of the year” and removing the previous wording that growth was “progressing at a solid pace.” Federal Reserve (Fed) Chair Jerome Powell tempered this message with slightly more hawkish remarks, stressing that “almost all of the committee” believes that the economy “does not appear to be being held back inappropriately by restrictive policy ."

It should be remembered that the FOMC's primary mission is to promote full employment and price stability, defined as inflation of around 2%. Its two main indicators, personal consumption expenditure (PCE) inflation and non-farm payrolls (NFP), were both released during the week. PCE data showed a weakening in consumer spending alongside higher goods prices due to tariffs. The Fed's preferred measure of core inflation rose 0.3% month-on-month in June, one of the fastest increases of the year, while spending barely grew as households cut back on purchases of goods exposed to tariffs and focused on essential items . The employment report was more worrying: non-farm jobs rose by only 73,000 in June, well below expectations, and downward revisions brought job gains for the last two months to near zero. Unemployment rose to 4.2%, even as the labor force participation rate fell, suggesting that job seekers are giving up looking for work. Average job growth over three months thus stood at 35,000, well below the 80,000 to 100,000 job gains needed to prevent unemployment from rising. Following the non-farm payrolls report, the overnight index swap (OIS) market adjusted the probability of a 25 basis point rate cut in September to 87%.

Given the volume and complexity of events, it is virtually impossible to fully assess the broader implications of the past week. President Trump took to social media to give his opinion, stating: "Too little, too late. Powell is a disaster. CUT RATES! The good news is that tariffs are bringing billions back to the US." A more useful approach may be to focus on the reaction of asset classes, as market price movements provide valuable clues as to how market participants are interpreting and prioritizing this flood of information.

In terms of market sentiment, our preferred indicator, the VIX, has risen above 20, signaling potential difficulties ahead as investor confidence wanes. In determining which countries have weathered the latest tariff measures best, foreign exchange markets clearly point to the US as the big winner, with the dollar appreciating broadly against G10 currencies and the euro performing particularly poorly. In emerging markets, the Brazilian real bucked the trend, likely supported by the central bank's decision to keep its key rate at 15% . Equity markets reflected the deteriorating growth outlook, with global indices ending the week in the red, industrial stocks underperforming and the Bloomberg World Large & Mid Cap Index falling by more than 2.0% over the week. At the same time, the US government bond yield curve steepened, reflecting growing market fears that the US economy could be entering a period of stagflation.

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