

DATE: August 1, 2025

TITLE: Rate Cuts, Tariff Shocks, and Tech Resilience – A Volatile Start to August

TRANSCRIPT:

Q1: Eric, let's start with the U.S. – a busy week of data and Fed policy. What are the key takeaways?

Eric:

Yes, a lot to unpack this week.

We saw clear signs of a cooling labour market—monthly revisions were sharply lower, and the three-month average of job gains just hit the lowest level since the pandemic. The unemployment rate ticked up to 4.2%, and wage growth slowed to 3.7% year-on-year.

But here's the twist: inflation is not cooling fast enough. The June PCE index—the Fed's preferred inflation gauge—rose 2.6% year-on-year. Core inflation stayed at 2.8%, the highest since February. Sticky inflation meets softening jobs data. It's the Goldilocks dilemma—with a bit too much heat left in the porridge.

The Fed, meanwhile, held rates steady at 4.25–4.50%—for the fifth straight meeting. Powell was cautious. No promises of cuts, especially with tariffs clouding the inflation outlook. Markets have now walked back September rate cut odds to below 50%.

So, it's a fragile equilibrium—labour softening, inflation stubborn, and the Fed stuck in neutral.

Q2: And then we had Trump's surprise move on trade. What happened there?

Eric:

This was the week's biggest geopolitical shock.

Late Monday night, President Trump invoked emergency powers to impose sweeping new tariffs on imports from 68 countries—some as high as 41%. India, Taiwan, and Canada were hit with levies ranging from 20% to 35%. Even allies like the UK, Japan, and the EU were not spared, although they got more favourable caps of around 10–15%.

The kicker? Implementation begins on August 7th. So we're talking about real, near-term cost pressure across supply chains and import-heavy sectors. Retailers are already warning of price hikes.

This is no longer a theoretical trade risk. This is inflationary. It's disruptive. And it comes at a time when the Fed is already navigating difficult terrain.

Q3: So how did markets react to all this—rate hold, inflation, and tariff news?

Eric:

Mixed, but remarkably resilient.

U.S. equity markets ended July in the green—MSCI USA was up 2.4% on the month, supported by strong earnings, especially in tech. China quietly outperformed, up nearly 5%, as local stimulus and reduced tariff exposure supported sentiment.

Meanwhile, India lagged badly—down over 5%—as investors reacted to potential tariff fallout and profit-taking.

Currencies were active. The U.S. dollar strengthened modestly, reflecting expectations that the Fed will stay higher for longer. Gold, which had weakened earlier in July, is now stabilising. It may even be poised for a rebound if trade tensions escalate further.

Bond markets were steady overall. Yields drifted higher post-Fed, but the front end of the curve looks increasingly priced for “wait and see.”

Q4: You mentioned tech earnings were strong. Who led the way?

Eric:

Big tech carried the torch again.

Meta posted a 22% increase in revenues and beat expectations on its AI monetisation strategy. Microsoft also crushed it—\$76 billion in revenue, \$27 billion in net income, and a 39% surge in Azure revenues. Both stocks jumped in after-hours trading.

These results were a key offset to macro gloom. Without them, equity sentiment could’ve soured quickly after the Fed and the tariffs.

So yes—tech continues to anchor market confidence.

Q5: And what about global central banks—are we starting to see some divergence?

Eric:

Definitely.

In Brazil, the central bank held rates at 15%, citing elevated inflation and external risks—especially from U.S. trade policy. In contrast, Chile cut rates by 25 basis points, becoming the first commodity-linked economy to ease this cycle.

And over in Europe, the ECB made headlines for different reasons—announcing that it will integrate climate risk into its lending and collateral frameworks starting mid-2026. That’s a long-term structural shift in how central banks influence capital allocation.

So, we’re seeing a fractured global policy landscape. The Fed’s on hold. Latin America is diverging. And the ECB is going green.

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