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TITLE: Markets in the Crossfire – Central Banks Hold, Tariff Talks Surge, and Tesla Stumbles

TRANSCRIPT:

Q1: Eric, let's start with the big picture this week—central banks seem to be in pause mode while the geopolitical and trade backdrop keeps shifting. Where do things stand?

Eric:

It has been a week of pause and posture. The European Central Bank held its key rate at 2%—after eight consecutive cuts over the past year. But now the ECB is hitting the brakes. Why? Because while inflation looks contained, trade uncertainty—particularly with the U.S.—is clouding the outlook.

Markets are beginning to wonder: is this it for rate cuts in Europe? The odds of another move are now being pushed out to October. So, this is not a hawkish pivot—but it is a signal that policy is now data-dependent and reactive. We are entering a “wait-and-see” phase.

Across the Atlantic, the Fed is holding steady, but political theatrics are testing its independence.

Q2: Right—President Trump's visit to the Fed made headlines. What was that all about?

Eric:

Quite the show. President Trump's unannounced visit to the Fed building—the first by a sitting president in over two decades—wasn't just symbolic. It was a power play.

This came just days after his Commerce Secretary publicly called for Jerome Powell to resign—or be replaced. That kind of rhetoric is unprecedented. Powell, to his credit, stayed composed, even fact-checking Trump in real time during a press moment. The dollar actually traded higher through the drama, suggesting markets still believe Powell stays put.

But the message from the White House is clear: they want lower rates now. And if Powell does not deliver, the pressure will only escalate.

Q3: And how are markets digesting all this—central bank caution, political noise, and ongoing trade headlines?

Eric:

Surprisingly well, actually.

We are seeing a broadening equity rally—particularly in the U.S. and Japan. The S&P 500 is again flirting with record highs, powered by improving trade sentiment. Japan's equity markets surged on signs of a U.S.–Japan tariff agreement, reducing the threat of a 25% levy down to a 15% baseline. Meanwhile, the EU and U.S. are nearing a similar deal—with exemptions for aircraft, agriculture, and spirits. That is good news for everyone from Airbus to Scotch whiskey producers. The pound even got a lift as India and the UK finalized their free trade agreement.

But currencies are telling us more than the headlines. The euro's 10% rise year-to-date means a 15% tariff might not be as bad as it sounds. In fact, EU goods entering the U.S. are effectively 25% more expensive than last year.

Q4: Let us turn to Asia—there's been a flurry of activity in Japan. How are markets interpreting the latest inflation and political signals?

Eric:

Tokyo's inflation data this week told an interesting story. Headline inflation dipped slightly to 2.9%, but core-core inflation—excluding food and energy—held steady at 3.1%. That suggests persistent domestic pressure.

Markets are starting to price in a subtle shift from the Bank of Japan—a signal that tightening might finally be on the table. We'll know more at their July 30–31 meeting.

On the political front, Prime Minister Ishiba is walking a tightrope after losing his upper house majority. But markets are interpreting the result as a possible gateway to new, more populist leadership—with a focus on fiscal easing. Equities rose. The yen, though, weakened, reflecting capital flight expectations—especially with Japan proposing a \$550 billion fund to invest in U.S. assets.

So, we have rising equities, a weaker yen, and a central bank caught between inflation and instability. Classic Japan.

Q5: You mentioned trade earlier—can you summarise where things stand with tariffs and what we should watch next?

Eric:

This week brought good news—on the surface.

Japan and the U.S. struck a deal. The EU and U.S. are close. India and the UK signed theirs. It is a flurry of last-minute diplomacy before the August 1 deadline for steep new U.S. tariffs.

But the underlying dynamic has not changed. Goldman now estimates the average U.S. tariff rate will hit 16%, and that alone could add a full percentage point to core inflation in 2025. That is not trivial. They also forecast a 1% drag on GDP growth.

So yes, we are seeing relief rallies. But under the hood, markets are still pricing in slower growth and higher prices in the months ahead.

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