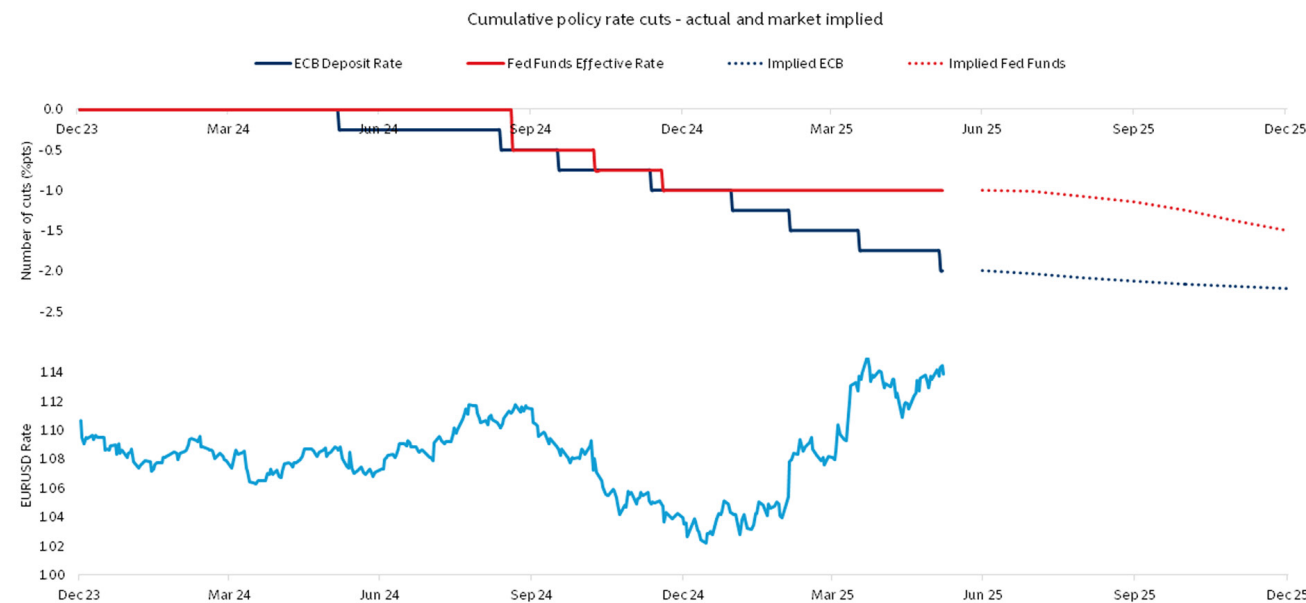


Chart of the Week

9 June 2025



Source: Momentum Global Investment Management, Bloomberg Finance L.P., data to end 6 June 2025.



How low can you go?

Alex Harvey, CFA
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What this chart shows

The top chart shows the European Central Bank (ECB) and Federal Reserve (Fed) policy rates since January 2024. The ECB was first off the mark, cutting rates in the Eurozone almost exactly a year ago. The Fed didn't follow for another three months, but when they did, they opted for a bigger 50bps cut. They then moved broadly in lockstep until around the time of Trump's inauguration on 20 January this year. As expected, the ECB cut again this week and has now delivered a full two percentage points of cuts whilst the Fed has remained on hold, much to Trump's chagrin, citing lingering inflation concerns and a seemingly robust labour market (which the latest Non-Farm Payroll data - released on Friday 6 June - would support). The two lines projected forward from today to end of Dec 2025 are the market implied cash rates.

The lower chart shows the EURUSD FX rate over the same period. Through end of September 2024 the Euro held fairly steady against the greenback - even after the ECB starts cutting - but it starts to weaken as Trump pulls ahead in the US presidential race. Once elected and inaugurated however, the Euro has been on a tear, up almost 12% from its lows.

Why this is important

Currency forecasting is notoriously difficult with FX rates being driven by many different fundamental and technical factors. Interest rate differentials - and expectations thereof - often explain a meaningful proportion of one currency's move relative to another over the short term, with higher relative rates typically attracting capital flows, often resulting in a stronger currency. What is interesting in the charts above is the apparent breakdown in this explanatory variable. As the Fed Fund rate has implicitly tightened versus the Euro, the US dollar has weakened. This has not been unique to the EURUSD cross; investors have shunned the dollar in the aftermath of Donald Trump's questionable 'Liberation Day' policies. The discount has been exacerbated by worries about the impact of the 'Big, Beautiful Bill' on the US balance sheet and the creditworthiness of US bonds. The Treasury Secretary, Scott Bessent, just last week said, "the United States of America is never going to default, that is never going to happen". That may be so, but international investors have a choice, and they remain unconvinced of the real worth of what those bonds might give back.

Weekly market update

week ending 6 June 2025

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Global markets are being shaped by US tariffs, synchronised rate cuts (notably the ECB), and resurgent trade diplomacy, creating a push-pull between inflationary supply shocks and growth concerns.



US

- » US equities rebounded, with the S&P 500 reaching the 6,000 point level for the first time since late February.
- » US President Donald Trump said on Friday that a decision on the next Federal Reserve chair will be coming out soon, adding that a good Fed chair would lower interest rates.
- » Trump has signed an order doubling tariffs on steel and aluminium imports from 25% to 50%, the UK are exempt. The move hikes import taxes on the metals, which are used in everything from cars to canned food, for the second time since March.
- » White House aides scheduled a call with Elon Musk today to avoid an escalation of his feud with Donald Trump, Politico reported. Musk earlier signalled he's open to cooling tensions after differences between the two exploded on Thursday.



Europe

- » The European Central Bank cut interest rates as expected on Thursday but hinted at a pause in its year-long easing cycle after inflation finally returned to its 2% target.
- » EU considers adding Russia to money laundering 'grey' list of countries with inadequate controls against money laundering, with strong support for the move.
- » European small-caps outshine US rivals as investors bet on growth revival.
- » Germany's government will aim to pass a €46 billion package of corporate tax breaks over the summer.



UK

- » OECD downgraded UK growth, warning of pressured public finances amid tariffs and high interest costs.
- » The Bank of England policymaker Megan Greene still expects the ongoing rise in UK inflation to fade but is "not sanguine" about it after price growth proved more persistent than anticipated only a few years ago.
- » On the 11 June UK Chancellor Rachel Reeves will unveil the government long-awaited spending review, laying out how it wants to spend more than £600bn annually on public services over the next few years.
- » UK house prices experienced a steeper-than-expected fall in May, dropping 0.4% month-on-month to an average. This marked the biggest quarterly decline in almost a year.



Rest of the World/Asia

- » The Bank of Japan should make clear it is not monetising government debt by ensuring that fiscal considerations do not take precedence over its goal of achieving price stability, Deputy Governor Shinichi Uchida said on Saturday.
- » China's export growth slowed to 4.8% in May, missing estimates, as a 34.4% plunge in shipments to the US added to the urgency for Beijing to reach a trade deal. Talks between the two sides kick off in London today.
- » China fast tracks rare earth export licences for European companies, Beijing has attempted to improve relations with Brussels since Donald Trump returned to the White House.
- » Israel reassured the US that it won't strike Iran's nuclear facilities unless Trump indicates negotiations have failed. Meanwhile, Tehran ordered thousands of tons of ballistic-missile materials from China.

Weekly market data

week ending 6 June 2025

Cumulative returns					
Asset Class / Region	Currency	Week ending 6 June	Month to date	YTD 2025	12 months
Developed Markets Equities					
United States	USD	1.5%	1.5%	2.4%	13.2%
United Kingdom	GBP	0.8%	0.8%	10.0%	10.3%
Continental Europe	EUR	1.1%	1.1%	12.0%	7.0%
Japan	JPY	-1.2%	-1.2%	0.7%	3.0%
Asia Pacific (ex Japan)	USD	2.3%	2.3%	10.5%	13.5%
Australia	AUD	1.0%	1.0%	6.0%	12.7%
Global	USD	1.4%	1.4%	6.4%	13.8%
Emerging Markets Equities					
Emerging Europe	USD	0.3%	0.3%	26.6%	15.7%
Emerging Asia	USD	2.5%	2.5%	9.9%	12.9%
Emerging Latin America	USD	1.8%	1.8%	24.6%	3.1%
BRICs	USD	2.0%	2.0%	11.9%	15.2%
China	USD	2.5%	2.5%	15.9%	26.7%
MENA countries	USD	0.6%	0.6%	-0.8%	7.2%
South Africa	USD	4.3%	4.3%	29.2%	44.5%
India	USD	0.8%	0.8%	6.1%	7.8%
Global emerging markets	USD	2.3%	2.3%	11.2%	13.0%
Bonds					
US Treasuries	USD	-0.5%	-0.5%	1.9%	3.1%
US Treasuries (inflation protected)	USD	-0.8%	-0.8%	2.7%	3.7%
US Corporate (investment grade)	USD	-0.2%	-0.2%	2.1%	4.4%
US High Yield	USD	0.3%	0.3%	3.0%	9.0%
UK Gilts	GBP	0.4%	0.4%	1.4%	0.6%
UK Corporate (investment grade)	GBP	0.5%	0.5%	2.0%	4.3%
Euro Government Bonds	EUR	-0.2%	-0.2%	0.5%	3.9%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	1.5%	5.9%
Euro High Yield	EUR	0.3%	0.3%	2.6%	8.1%
Global Government Bonds	USD	0.0%	0.0%	5.4%	5.7%
Global Bonds	USD	-0.1%	-0.1%	5.1%	5.6%
Global Convertible Bonds	USD	1.3%	1.3%	8.2%	16.0%
Emerging Market Bonds	USD	0.5%	0.5%	3.3%	7.5%

Cumulative returns					
Asset Class / Region	Currency	Week ending 6 June	Month to date	YTD 2025	12 months
Property					
US Property Securities	USD	0.4%	0.4%	0.5%	11.0%
Australian Property Securities	AUD	1.5%	1.5%	5.1%	6.9%
Asia Property Securities	USD	0.5%	0.5%	13.0%	9.8%
Global Property Securities	USD	0.6%	0.6%	5.9%	11.6%
Currencies					
Euro	USD	0.3%	0.3%	10.0%	4.6%
UK Pound Sterling	USD	0.4%	0.4%	8.0%	5.8%
Japanese Yen	USD	-0.7%	-0.7%	8.5%	7.5%
Australian Dollar	USD	1.0%	1.0%	4.9%	-2.6%
South African Rand	USD	1.1%	1.1%	6.2%	6.3%
Swiss Franc	USD	-0.1%	-0.1%	10.3%	8.3%
Chinese Yuan	USD	0.1%	0.1%	1.5%	0.7%
Commodities & Alternatives					
Commodities	USD	4.0%	4.0%	1.9%	0.1%
Agricultural Commodities	USD	1.5%	1.5%	-0.6%	-3.1%
Oil	USD	4.0%	4.0%	-10.9%	-16.8%
Gold	USD	0.6%	0.6%	26.1%	39.5%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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