FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON

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POTENTIAL FOR TARIFFS TO DRAG ON GROWTH MEANS CENTRAL BANKS ARE HAPPY TO HOLD RATES

This week we saw US tariffs continue to cast their shadow over global markets. A busy schedule for interest rate setting saw most central banks leave rates unchanged. The reasons for this cautious approach were spelled out by the Federal Reserve when it referenced the uncertainty and potential upward pressure on inflation caused by rising tariffs. The OECD cited the same reason for lowering its global GDP growth forecast.

Despite the cautious attitude of central banks, government bonds have continued to rally. Markets are seeing a slightly higher chance of rate cuts later this year, but investor nervousness means defensive assets, including government bonds, remain in demand. Falling bond yields will be welcomed by government finance ministries as the cost of government interest payments continues to rise. Figures from the OECD show the average cost of debt servicing to annual GDP is 3.3% for developed economies. This is a big increase from the level of 2.4% of GDP in 2021. In the UK, debt interest is now equal to 2.9% of GDP. This is better than the OECD average and far better than the 4.7% figure for the US.

THE MARKETS THIS WEEK

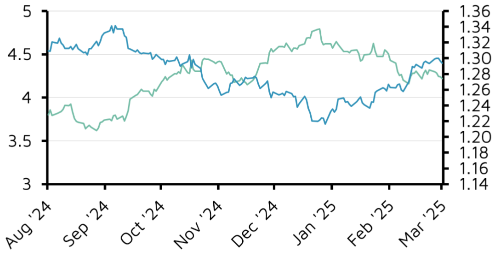
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+1.14%	+1.78%	+1.30%	+1.19%	-1.93%	-0.07%	+0.01%	+1.99%	+0.85%	+2.50%	+0.06%

RATES: CENTRAL BANKS ADOPT A WAIT AND SEE APPROACH

The busy calendar for central bank interest rate meetings resulted in most choosing to do nothing. This week the Bank of England joined the US Federal Reserve, the Bank of Japan and Swedish Riksbank in leaving interest rates alone. Most of the banks cited the potential for tariffs to drag on global growth and fuel inflationary pressures. Federal Reserve chair Jerome Powell said there is in no hurry to cut rates due to the higher levels of uncertainty as the Fed cut its US economic growth forecast and raised its inflation expectations. The one outlier this week is the Swiss National Bank which announced a fifth consecutive cut to take its interest rate to 0.25% as inflation slows towards zero.

The BoE left rates unchanged but governor Andrew Bailey said rates are still on a gradually declining path. Although UK wage inflation is still running at almost 6%, the potential for further rate cuts this year helped push up UK gilt prices. US government bonds gained. Sterling fell slightly against the dollar after rising to its highest value in five months.

Sterling/US Dollar Exchange Rate (USD, LHS) and 10-Year US Treasury Yield (%, RHS)

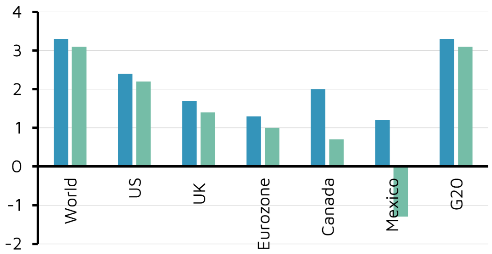


GLOBAL: DEFENSIVE ASSETS BENEFIT FROM GROWTH SLOWDOWN FEARS

The OECD cut its forecast for economic growth due to concerns about the negative effective of trade tariffs. The revised forecast has reduced projected annual GDP growth for the US and the global economy by 0.2%. The UK and Europe see a slightly larger downward revision of 0.3%. Canada and Mexico will be hit harder as forecast growth is cut by 1.3% and 2.5% respectively. This would push Mexico into recession this year.

Fears that tariffs will drag on global growth have been evident in equity markets in recent weeks. These concerns have also been reflected in defensive assets. The price of gold was rising over most of 2024 but its rally has accelerated in 2025 and this month the price passed $3,000 an ounce. US government bonds have also rallied in recent weeks to push yields down. The yield on 10-year US treasuries has fallen from 4.78% in mid-January to 4.21%. Trade tensions have also driven the price of copper above $10,000 a ton as buyers try to stockpile the commodity in advance of any new tariffs.

Difference between December and March OECD GDP Growth forecast for 2025

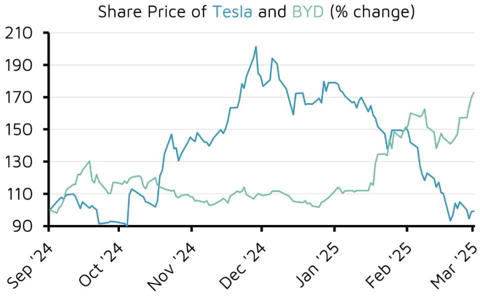


AUTOS: BYD SURGES ON BREAKTHROUGH FAST CHARGING GEAR

Chinese carmaker BYD has unveiled a fast charging system that could add around 470km in range in just five minutes to its electric vehicles. This is almost as fast as refuelling a petrol car, negating one of the main EV adoption hurdles: range anxiety. This comes after unveiling its "God's Eye" advanced driver-assistance system and offering it on all its models for free, in a direct challenge to Mercedes and other rivals, who charge hefty premiums for such features. BYD shares jumped 8% for the week and are up 60% this year. The EV maker has banked on its share prices to expand overseas. It raised $5.6bn in Hong Kong earlier in the month by selling equity.

In contrast, Tesla shares have halved this year, shedding over $700bn in value. Elon Musk's tango with Trump and foray into European politics have tarnished Tesla's halo among some buyers. European sales have tanked as a result and production in China has slumped due to trade tensions and competition. Hedge fund short sellers pocketed $16.2bn in the sell-off.

Share Price of Tesla and BYD (% change)



Data sourced from Investing.com and OECD