FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
16 May 2025

MARKETS WELCOME EASING OF US-CHINA STANDOFF BUT OVERLOOK LONG-TERM EFFECT OF TARIFFS

This week brought further twists and turns from US trade policy as the US and China agreed to step back from the most extreme tariffs. This was welcomed by equity markets as the S&P 500 index turned positive for the year to date. This is despite tariffs of 30% remaining on Chinese goods entering the US and tariffs of 10% on trade going the other way. Slowing US inflation and an uptick in UK growth added to the positive mood.

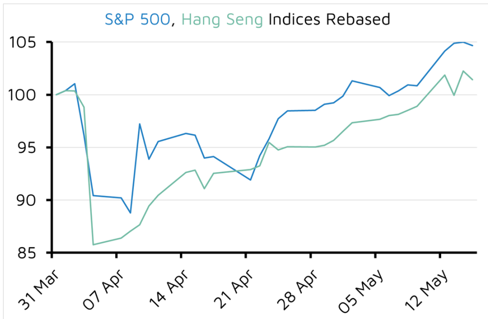
However, the inflationary impact of tariffs has not disappeared. The rapid policy announcements have disrupted trade flows with US importers rushing orders to beat tariff deadlines before scaling them back. This is disguising any inflationary effect. But price rises appear inevitable for US consumers. Retail giant Walmart confirmed prices rises starting this month due to higher import costs and it expects these to accelerate. Car makers are among the companies most exposed to higher tariffs and Honda joined other global car makers by putting a figure on the additional costs. Honda puts this number at $3bn as an indication of the size of the additional costs that needs to be paid for by businesses or consumers.

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
+1.09	+4.61%	+1.21%	+2.31%	+2.09%	+0.04%	+0.02%	-3.68%	-3.74%	+0.45%	+0.29%

TRADE: US AND CHINA AGREE TO 90-DAY TARIFF ROLLBACK

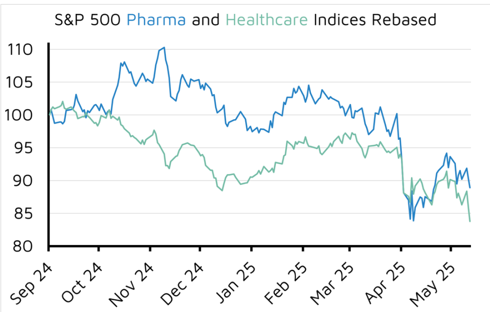
US and global equities gained as China and the US agreed to slash tariffs against one another. The US reduced levies on Chinese goods to 30% and China reduced its rate to 10% as the countries agreed to reduce rates for 90 days. Markets applauded the truce, with the S&P 500 clocking its third highest jump in five years on Monday. Chinese and European shares also gained. Shipments are expected to spike as firms stockpile goods, after the month-long freeze following "liberation day" tariffs, but, retailer Walmart warned that the reduction would not prevent price hikes in the US.



Meanwhile, a rally in China's tech champions continued. CATL, the world's largest battery maker, is banking on its recent advances in charging technology and is set to raise $4.6bn from its secondary listing in Hong Kong, making it the largest share sale this year. Baidu is preparing to test robotaxis in Switzerland in partnership with Swiss Post. It is operating in 10 mainland cities and a pilot in Hong Kong with further planned expansion in Turkey.

PHARMA: STOCKS UNDER PRESSURE ON MANDATORY PRICE CUT THREAT

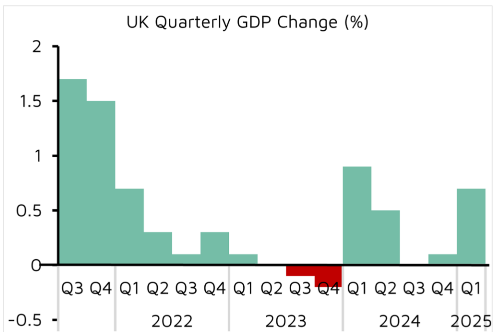
Global pharmaceutical stocks tumbled after US President Donald Trump said he would force them to lower prices if they did not introduce voluntary cuts. The cost of prescription drugs in the US are, on average, three to four times that of comparable nations and Trump has called for 30% to 80% cuts. Pharmaceutical shares fell steeply. Roche and GSK fell 2.8% and Novartis fell 2.5%. US companies dropped even more with Pfizer down 4.6% and Merck plunging over 8%.



The recent decline in pharma shares follows a difficult period for healthcare and pharmaceuticals stocks. The S&P 500 Pharmaceuticals and S&P 500 Healthcare indices are down around 6% this week, but they are down around 20% since last September – mainly due to the Trump administration's hostility towards these sectors. Trump has also pushed for drug makers to charge higher prices in other countries and threatened tariffs on US imports as well as export controls to stop US-made treatments being sold overseas.

UK: Q1 BUMPER 0.7% GROWTH MASKS FRAIL UNDERLYING MOMENTUM

UK economic growth whizzed past most G7 economies in the first quarter, driven by services and manufacturing to a tiny extent. Business investment also contributed with a 5.9% jump. Exports rose 3.5% reversing a three-month downtrend as firms rushed US shipments ahead of tariffs. In contrast, business sentiment plunged to its lowest since the pandemic. Firms are opting to delay or stop hiring and payrolls have been falling in the three months to April. The Bank of England warned that the tumult caused by tariffs is distorting the data and masks the drag from weak productivity and high borrowing costs.



Meanwhile US inflation slowed to 2.3% in April from 2.4%, although core inflation (excluding food and fuel) was unchanged. Better economic data and more easing of tariffs caused government bonds to fall as yields rose. In the corporate sector, US companies including Pfizer, Google and T-Mobile, have banked on dollar's weakness and lower borrowing costs in Europe to issue bonds worth €40bn so far this year, a third higher than last year.

Data sourced from Investing.com and Office for National Statistics