

**THE TRUMP TARIFFS SHOWS UP IN RISING INFLATION BUT OUTLOOK FOR CENTRAL BANKS SEEMS UNCHANGED**

This week's inflation numbers provided the first evidence that Donald Trump's tariffs are pushing up prices. CPI inflation increased more than expected as it rose for the second month in a row and all areas except cars increased month-on-month. There is significant disagreement about how far and how persistent the inflationary pressure will prove to be, as some companies choose to swallow some or all of the increase in costs rather than pass them on to consumers. The big increase in US customs revenues shows the size of the potential problem.

In the face of higher inflation, the Federal Reserve's wait and see approach appears to be a sensible one as corporate earnings seem to be holding up. This hasn't spared the Fed from more vitriol from Trump as he continues to call for rapid rate cuts. In the UK, the jobs market is weakening as AI, higher employment costs and uncertainty among employers combine. Although the rise in UK CPI was higher than forecast, the rise was broadly expected through the second half of this year, so the outlook for the Bank of England and Fed remains little changed on this week's data.

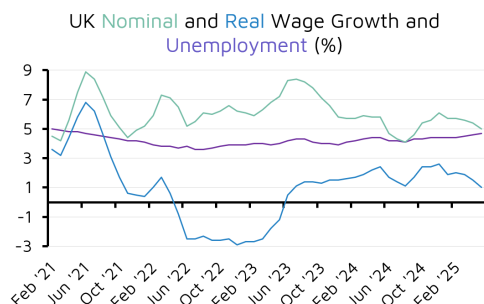
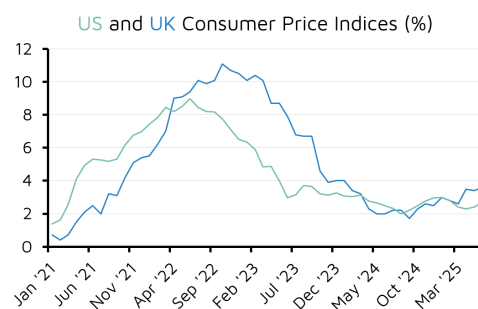
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.42%	+0.94%	+1.12%	+0.04%	+2.84%	+0.06%	+0.05%	+1.55%	+0.99%	+1.27%	-0.67%

US: TARIFF REVENUES POUR IN BUT INFLATION EDGES UP

The effects of President Donald Trump's tariffs are starting to seep into economic data. The tariffs raised an extra \$47bn in the second quarter, a 276% leap from the year before, to lift US revenues from customs duties to \$64bn. Prices for imported goods have increased as a result, but have not kept up with tariffs because international brands are spreading the cost around their global supply chains to minimise the impact on American consumers, fearing a drop in demand if prices spike.

However, inflation in the US ticked up to 2.7% in June as food, transportation and used cars prices increased and gas prices extended their rapid rise. This seems to validate the Federal Reserve's reluctance to lower interest rates. UK inflation rose 0.2% to 3.6% from May to June, driven by fuel costs and elevated housing expenses, while services inflation also held at 4.7% and retail prices climbed. The Bank of England may, however, opt to ignore this and cut rates as it contends with a contracting economy and weakening jobs market.

**UK: JOBS MARKET COOLS AS RISE OF AI HITS PROFESSIONAL HIRING**

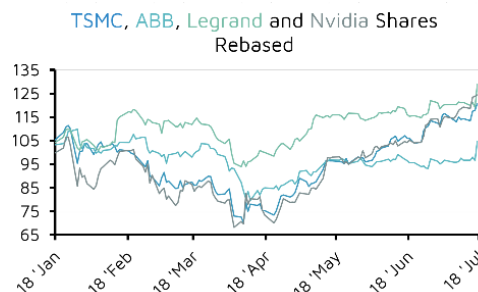
UK unemployment increased to 4.7% in the three months to the end of May. Unemployment has been rising steadily since last August when the rate bottomed out at 4%. Although there are some concerns about how accurate this figure is, the number of salaried employees as recorded by HMRC declined by 90,000 over the last three months. The monthly jobs report from KPMG and the Recruitment & Employment Confederation puts the drop in vacancies down to employer uncertainty about the economic outlook as well as higher employment costs. Fewer jobs and a greater supply of workers is combining to slow wage growth as wage inflation has dropped to 5% from 5.8% a year ago.

Listed recruitment firms continue to reel from job market weakness. Robert Walters' quarterly fee income continues to decline as it expects no significant improvement in the short term. Meanwhile, rising use of AI is affecting jobs as consultancy McKinsey reported a big drop in the number of vacancies in white collar jobs like financial analysis and marketing.

**TECH: GLOBAL TECH STOCKS FLY ON DATA CENTRE DEMAND**

Demand for data centres to support increasing use of artificial intelligence is propelling tech companies globally. This week shares of Legrand, France's leading electrical and digital infrastructure group, jumped 8% after it reported a 13.4% bump in sales to €4.77bn and raised its revenue growth forecast due to data centre demand from the US. Swiss engineering group ABB's US orders rose 37% in the second quarter significantly outpacing the overall 14% rise in orders. ABB shares leaped 8.5%.

Data centre developers are fed with the latest AI chips and Taiwan's TSMC, which dominates global production, saw its second quarter profits jump 60% to \$13.5bn. Meanwhile, the world's bellwether of all things tech, Nvidia, also had good news to share. It is to resume and step up its sales to China after the US government signalled it will remove its ban on sales of all but the best available chips. The ban had caused a \$4.5bn excess inventory at Nvidia, whose shares gained 24% this year to make it the world's first \$4tn company.



Data sourced from Investing.com, Federal Reserve Bank of St.Louis and Office for National Statistics

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