March 28, 2025

Weekly Investment Insights

Another week, another set of changes to US trade policy – and that's before the April 2 deadline where reciprocal tariffs on several trading partners will be unveiled. The week began with President Trump announcing a 25% tariff on imports from all countries that buy Venezuelan oil. According to reports, China, which has already been hit with 20% tariffs this year, is among the top buyers, alongside India, Spain and Italy. Trump told the reporters that the 25% levy would be in addition to any existing tariffs

Then, Wednesday brought the news that the White House might impose a 25% tariff on all copper imports within several weeks. In markets, the threat of US tariffs has driven a widening gap between the prices quoted for the metal in London and New York.

On Thursday, 25% tariffs on foreign-made car imports were announced by the President, effective April 2. When he was asked if there was anything car manufacturers could do to have the levy removed, he said: "This is permanent, 100 per cent." A US official later confirmed the tariffs would apply to car parts as well as completed vehicles. One official said that the revenues from tariffs would be used to “give the largest tax cut in American history.”

Persistent uncertainty around trade cataylsed a global sell-off in equities and visibly lower liquidity on the US stock market. The safe haven, gold, hit a new record high.

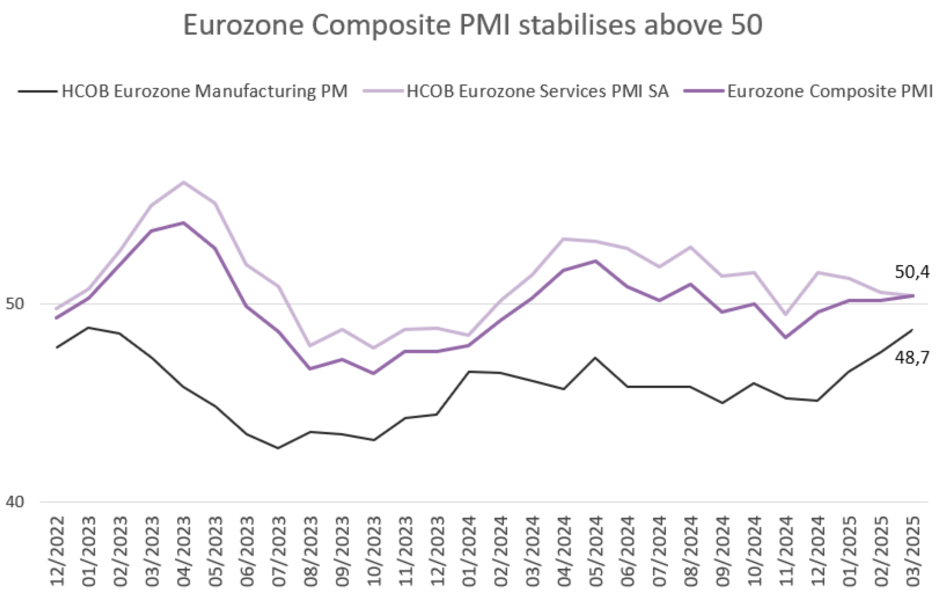
Weekly Highlights

Eurozone manufacturing continues its nascent recovery, services slow slightly

While the Eurozone manufacturing sector continues to attempt a recovery, the services sector slowed slightly in March, with new orders continuing their decline.

Further confirming the ECB’s expectation for slowing wage growth this year, input costs in the labour-intensive services sector rose at a slower pace.

In the manufacturing sector, output expanded for the first time in two years and job cuts slowed. Despite this improvement, new orders continued to decline. The risk is that the recovery remains fragile and business confidence is showing signs of weakening again - unsurprising given the evolving global trade landscape which is fraught with uncertainty, twists and U-turns.



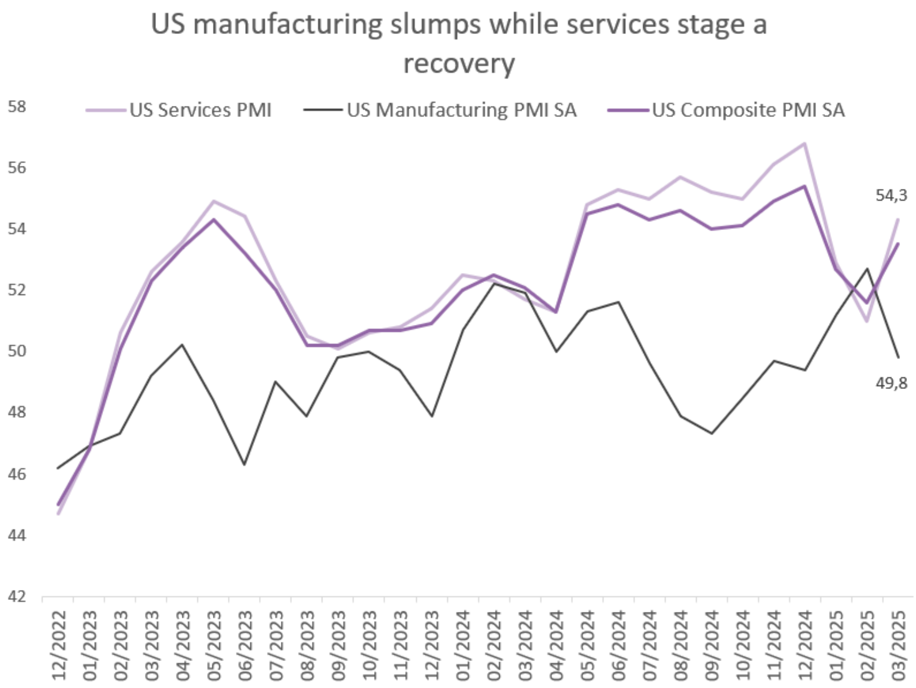
Source: Bloomberg, BIL

US Manufacturing PMI falls below 50 into contractionary territory

US service providers exhibited a new bout of optimism at the turn of Spring, with the services PMI rising to a three-month high of 54.3. Firms reported a strong rebound in output, improved business inflows, and strengthening customer demand. Exports, however, continued a three month streak of declines. Businesses are, however, increasingly nervous about federal spending cuts, tariffs, and broader policy changes.

US goods producers were feeling less upbeat. The Manufacturing PMI fell into contraction territory, while output fell from a 3-year high in February (much of which could have been driven by industry players trying to front-run tariffs). The downshift in production affected staffing levels, with manufacturers shedding jobs for the first time since October 2024. On the price front, input cost inflation hit a 31-month high and these cost pressures seeped into selling prices. The silver lining is that the sub-index for general business sentiment remained among the highest seen over the past three years. The hope is that once companies know exactly what the state of play will be in terms of tariffs, they can adjust their strategies accordingly. Moreover, the business-friendly aspects of Trump's agenda are yet to pass through Congress. Only now are we are seeing some supportive measures start to come through, for example, the recent Executive Order aimed at increasing American production of critical minerals like uranium, copper, potash and gold.

On Wednesday, **US Durable Goods orders**, a good guage of future factory activity, were shown to have unexpectedly increased by USD 2.7 Billion in February. **Transportation equipment** led the increase, up by 1.5%, namely orders for **motor vehicles and parts** (4%) and **defense aircraft and parts** (9.3%). However, orders for **non-defense capital goods excluding aircraft**, a closely watched **proxy for business spending** plans, fell 0.3%, the first drop in four months. Uncertainty surrounding tariffs is likely making businesses hesitant to ramp up spending on equipment.



Source: Bloomberg, BIL

UK Spring Statement accompanied by some better-than-expected British data

Across the Channel, UK Chancellor Rachel Reeves' Spring Statement was the key focus on Wednesday. The key contents were as follows:

- GBP 3.4 Bn in welfare cuts
- GBP 3.6 Bn in cuts to day-to-day departmental spending
- GBP 6.4 Bn by 2027 to boost defence spending
- Capital spending increase of £2bn a year relative to the plans set out in the autumn

The OBR downgraded its GDP forecast for this year from 2% to 1%. The new figure aligns with Bloomberg consensus expectations and would represent only a very slight acceleration from last year when growth 0.9%.

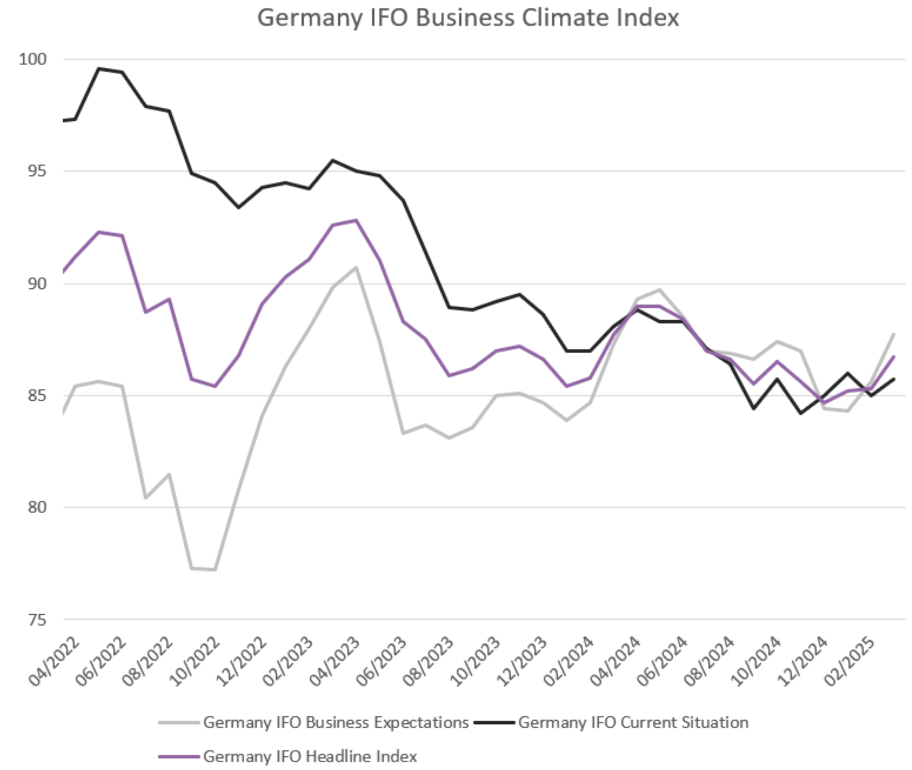
Inflation is forecast at 3.2% in 2025, up from 2.6% forecast in October. It is expected to fall to 2.1% in 2026, before returning to the BoE's 2% target from 2027. UK inflation registered at 2.8% in February, below expectations, with the largest downward contribution coming from the clothing category. The annual core inflation rate declined to 3.5% from 3.7%. Come April, however, the inflation numbers might not look pretty, given the impending leap in water and electricity prices. Pricing in futures markets, however, implies a high probability of a BoE rate cut in May.

Preceding the Spring statement, Monday's PMI data implied that British private sector output reached a six-month high in March, powered by the services sector which is more immune to the threat of US trade tariffs (PMI 53.2). The mood amongst factories was more downbeat (PMI 44.6 from 46.9), with weak international demand leading to the fastest decline in manufacturing export sales since August 2023. Moreover, manufacturers reported the steepest downturn in production volumes for nearly one-and-a half years.

On Friday, UK retail sales were shown to have risen by 1% in February, propelled by an increase at clothing and household goods shops. Watches and jewellery retailers also saw a boost in demand, attributed to economic uncertainty driving interest in gold. On the contrary, food store sales volumes fell by 2.0% in February, offsetting some of the overall gains. Supermarkets were the biggest drag on food sales, with retailers citing the impact of rising prices on consumer spending.

Historic debt deal boosts the business climate in Germany

On Tuesday, the **IFO Business Climate Indicator for Germany** was shown to have reached the highest level since July 2024. The Government's newfound willingness to spend appears to be boosting confidence, with increased defense spending and a substantial infrastructure package in the pipeline. Sentiment improved across all industries, notably for **manufacturers** and **trade firms**. Services providers recorded a small uptick in optimism, which was primarily driven by **architectural** and **engineering firms**. **Construction firms** showed improved sentiment driven by a more positive assessment of the current situation; a lack of orders remains to be the sector's biggest challenge.



Source: Bloomberg, BIL

German consumer confidence was largely unchanged moving into April, according to the latest GfK survey.

US consumer confidence dips for a fourth month

It's becoming a bit of a repetitive theme in our newsletter, but the latest Conference Board survey showed US consumer confidence continued its decline in March. The index was pulled down by the expectations component which gauges how Americans are feeling about the outlook for income, business and the job market. That indicator fell to a 12-year low of 65.2. Worth noting is that this is also below the 80-level which, in the past, has served as a recession signal. That said, the correlation between survey data and actual activity has been more blurred as of late.

Calendar for the week ahead

Monday – China NBS Manufacturing PMI (March). Germany Retails Sales (February). Italy and Germany Inflation (preliminary, March).

Tuesday – Japan Tankan Index (Q1). China Caixin Manufacturing PMI (March). UK House Prices. Eurozone & US Manufacturing PMIs (Final, March). **Eurozone Inflation** (Flash, March). **US JOLTs Job data** and ISM Manufacturing Index.

Wednesday – France Budget Balance. Spain Unemployment Change.

Thursday – US, Eurozone, UK, Japan Composite PMI (final, March). China Caixin Composite PMI (March). Eurozone PPI (February). US ISM Services Index (March).

Friday – Japan Household Spending (February). Eurozone Construction PMI (March). Italy Retail Sales (February). **US Nonfarm Payrolls, Unemployment Rate and Average Hourly Earnings (March).**

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