

TAM Talks - Weekly Update - 12th May 2025

Markets have been behaving like a swan in recent weeks—calm on the surface, but paddling furiously underneath. Reports that US and Chinese officials were meeting in Switzerland for trade discussions helped lift market sentiment, as investors hoped for tariff de-escalation. Meanwhile, the US-UK trade deal—America's first since April 2—was announced on Thursday. US and European shares were mostly flat this week, while Japanese equities rose nearly 2%, supported by a weaker yen. Chinese stocks also performed well, boosted by fresh stimulus measures ahead of the upcoming trade talks.

Despite recent signs of optimism, the average effective US tariff rate is expected to settle around 22%—well above historical norms. We remain cautiously positioned, and clients should continue to hold well-diversified portfolios.

De-escalation in focus: the US and China have agreed to sharp tariff cuts for 90 days, with US duties on Chinese goods dropping from 145% to 30%, and China's tariffs on US products falling from 125% to 10%. These figures are starting to look far more reasonable—signalling a shared desire to avoid full economic decoupling and a willingness to cooperate.

What this means for clients: markets will likely get a further lift from improving sentiment, though attention may soon shift to inflation.

"Feeding the dragon" ahead of trade talks. As negotiations begin, Beijing has returned to its old playbook: injecting one trillion yuan of liquidity into the system and cutting interest rates. Manufacturing activity just contracted at the fastest pace in 16 months, so it's no surprise China wants to negotiate from a position of strength—ensuring the economy has enough support to absorb a potential shock from weakening US demand. This serves as a reminder that many Asian economies still have significant room to manoeuvre—especially now, with stronger currencies giving them the ability to apply monetary stimulus without risking capital outflows.

We expect our higher-risk strategies to benefit from this positioning, given their exposure to global emerging markets.

"Changes to our cash interest rates". You may have seen an email along those lines from your bank or savings platform in recent weeks. On Thursday, it was the Bank of England's turn to cut rates. However, policymakers pushed back against expectations of a faster pace of easing—so the two additional cuts that markets had priced in over the next three meetings may turn into just one. Meanwhile, the Federal Reserve held interest rates steady. Unlike other major central banks, the Fed continues to highlight rising risks of both higher inflation and higher unemployment—a difficult combination for any central bank to manage.

With further rate cuts likely, clients should avoid holding excess cash as a long-term store of value.

More details emerged this week about the US-Ukraine minerals deal, which will channel American capital and expertise into Ukraine's vast mineral sector in exchange for an equal share of royalties—with all revenue reinvested in Ukraine for the first 10 years. This agreement reduces the near-term risk of a US split with NATO allies and signals a firmer commitment to Ukraine. In particular, US investment near frontline areas may act as a further deterrent against Russian aggression.

To the extent that it adds regional stability, we view this as a positive for risk assets.

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