HIGHLIGHTS

BLI BANQUE DE LUXEMBOURG INVESTMENTS

The to-and-fro of Donald Trump's tariff policy maintains a general climate of uncertainty, reducing visibility for all economic players. Nevertheless, despite countless U.S. administration about-faces, the global economy appears to be holding up, with signs of slowdown so far contained. In the US, the slight deceleration in household spending in April can be explained by earlier purchases made prior to the introduction of tariffs. Industrial production even seems to be picking up since the easing of trade tensions with China, with companies rushing to build up inventories ahead of the possible end of the tariff truce on July 8. In the eurozone, economic activity is continuing to grow at a sluggish but positive pace, with the manufacturing sector proving more robust than service activities since the start of the year. In China, domestic consumption and industrial production are benefiting from government stimulus measures, while exports have rebounded since the reduction in US tariffs. In Japan, first-quarter GDP was down 0.2% on Q4 2024, due to falling external demand and stagnant domestic activity.

The tariff policy of the Trump administration has not yet led to a deterioration in US price indicators. The headline inflation rate fell from 2.4% in March to 2.3% in April, while inflation excluding energy and food remained unchanged at 2.8%. The personal consumption expenditure core price index, the Federal Reserve's preferred price indicator, fell from 2.7% to 2.5%. In the Eurozone, the headline inflation rate reached the European Central Bank's target level, falling from 2.2% in April to 1.9% in May. Excluding energy and food, inflation fell from 2.7% to 2.3%.

In line with expectations, the US Federal Reserve left monetary policy unchanged at its May meeting. Chairman Jerome Powell reiterated the monetary authorities' wait-and-see stance with a view to observing which of its 2 objectives, full employment or 2% inflation, will prove more at risk following the new administration's tariff policy. In the eurozone, the next meeting of the Governing Council will take place on June 5. A further reduction in the European Central Bank's deposit rate by 25 basis points to 2% seems highly likely.

Nervousness around US long rates remains high, as investors continue to doubt the ability of US government bonds to maintain the role of ultimate safe haven after the Trump administration's change in trade policy and the lack of improvement in the budget deficit. In May, the yield on the 10-year US Treasury note rose from 4.16% to 4.40%, while that on the 30-year note even reached the 5% mark, returning to the higher levels preceding the great financial crisis of 2008. In the eurozone, bond yields were little changed. The benchmark 10-year rate moved from 2.44% to 2.50% in Germany, from 3.17% to 3.16% in France, from 3.56% to 3.48% in Italy and from 3.11% to 3.09% in Spain. Since the beginning of the year, the JP Morgan EMU Government Bond Index has gained 0.8%.

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Stock markets rebounded strongly in May, with most indices returning to levels above those in place prior to Liberation Day on April 2. The month's rebound was mainly triggered by the reduction in US tariffs on Chinese imports from 145% to 30%, ending a situation that had amounted to a de facto embargo on Chinese products. Generally speaking, Donald Trump's strategy of announcing tariffs only to suspend them a few days later is reassuring investors that the so-called “Trump put” will be maintained on financial markets. The MSCI All Country World Net Total Return index, expressed in euros, gained 5.9% over the month. At regional level, the S&P 500 in the United States rose by 6.2% (in USD), the Stoxx 600 Europe by 4.0% (in EUR), the Topix in Japan by 5.0% (in JPY) and the MSCI Emerging Markets index by 4.0% (in USD). In terms of sectors, technology, communication services and industry were the best performers, while consumer staples, real estate and healthcare recorded the least favorable trends.

In May, the euro remained unchanged against the dollar at 1.13, consolidating the gains made over the previous two months. Precious metals prices were also little changed after their sharp rise at the start of the year, with the price of an ounce of gold remaining unchanged at 3289 USD and that of an ounce of silver appreciating by 1.1%, from 32.6 USD to 33.0 USD.

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