

# Market Viewpoints

by Manish Singh - Chief Investment Officer

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We're seeing a subtle shift in tone from key Fed officials, yet Fed Chair Jerome Powell may be gone soon.

## Summary

President Donald Trump is done waiting. He wants interest rates cut—and if Fed Chair Jerome Powell won't deliver, Trump is ready to replace him.

Historically, U.S. interest rates have hovered just 50 to 100 basis points above those set by the ECB.

Today, the gap has ballooned to 235 basis points. With inflation cooling, the Fed's stubbornly high rates appear increasingly detached from economic reality—anchored in outdated fears rather than current data.

If the Fed holds rates steady at the July 30 FOMC meeting, expect fireworks. Trump may waste no time: Announcing a preferred successor to Powell that same evening, effectively installing a “Shadow Fed Chair.” From that moment, markets could begin tuning Powell out entirely. And if the pressure continues, Powell may even step down before his term ends in May 2026—opening the door for a Trump-appointed Chair as early as this Christmas. Trump's criticism of the Fed resonates with many investors and economists. But his confrontational style and willingness to upend norms risks undermining the credibility of his message—and alienating moderate support.

Meanwhile, after a near -20% slump during April's tariff-induced sell-off, the S&P 500 has roared back with a classic V-shaped recovery, hitting new all-time highs. The 10-year Treasury yield slipping below +4.20% adds further fuel, reflecting cooling inflation and rising confidence in monetary easing. The S&P 500 has rebounded +26% from its April 8 lows—yet it's up only ~+7% for the year. This still feels like the early innings of the 2025 rally. And as the old market adage goes: “Don't fight the tape.”

### **Trump Wants Rate Cuts — And He Wants Them Now**

President Donald Trump has repeatedly pushed US Federal Reserve Chair Jerome Powell to slash interest rates in a bid to stimulate growth. Earlier in June, Trump publicly called for the Federal Reserve (Fed) to cut its benchmark rate from +4.3% down to the +1-2% range, citing the rising costs of servicing US government debt.

More recently, Trump escalated his pressure campaign by posting a comparative chart of global central bank rates—highlighting the Fed's relative hawkishness and insisting the appropriate Federal Funds Rate should be in the +0.25% to +0.50% range (see below).

I'll let you judge for yourself where interest rates should be — but let's give credit where it's due: Trump's penmanship is surprisingly tidy. All caps. Clear. Impossible to miss.



On Monday, in typical Trump fashion, he didn't hold back:

"He [Powell] just refuses to lower rates. I don't even think he's political — I think he hates me. He probably should. I've called him every name in the book trying to get him to cut."

Clashes between Presidents and Fed chairs aren't new — Franklin D. Roosevelt vs. Marriner Eccles, Harry Truman vs. William McChesney Martin, Richard Nixon vs. Arthur Burns, Ronald Reagan vs. Paul

Volcker, even Bill Clinton had his moments — but this one is uniquely personal, thanks to Trump’s trademark style.

When Roosevelt considered appointing banker Marriner Eccles to head the Fed, Eccles insisted on fundamental reform. He famously said the Fed needed more centralized, public interest control—or “it should be considered simply an agency...whose primary function is to carry out the job of Government financing at the will of the Treasury.”

Truman clashed repeatedly with Fed Chair Martin, who refused to accommodate policies aimed at financing post-war spending and the Korean War

Nixon leaned on Fed Chair Burns to boost the economy ahead of the 1972 election, directing him to cut rates. Burns initially resisted, but ultimately complied, stating privately: “We dare not exercise our independence for fear of losing it.”

Volcker, appointed by President Jimmy Carter and retained by Reagan, made the politically painful decision to raise interest rates to ~20% to crush inflation—despite opposition from the Reagan White House.

Trump is done waiting. He wants interest rates lower, and if Powell won’t deliver, Trump wants him out.

Trump’s Commerce Secretary, Howard Lutnick added fuel to the fire:

“Why do we have one of the highest central bank rates in the world? We have a roaring economy, low inflation, trillions in new investment, and \$88 billion in tariff revenue. Powell is part of the ‘expert class’ that’s been wrong about Trump from day one. This is a sad situation for our country. Powell and the Fed board should be ashamed.”

What we’re seeing isn’t just a disagreement over monetary policy — it’s a political and institutional standoff, that could reshape the Fed’s independence. And it’s only just heating up.

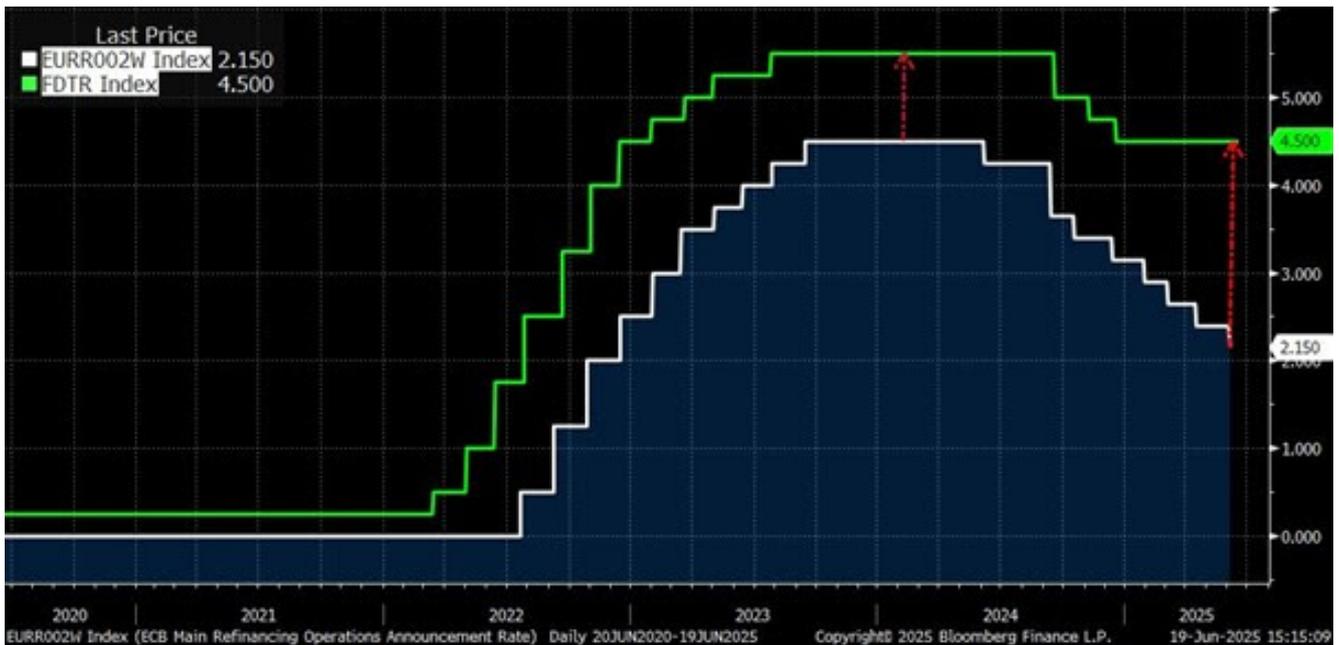
There’s some merit to Trump’s argument. A basic comparison between the US Fed Funds Rate and the European Central Bank (ECB) base rate, shows US rates are currently at least 100 basis points higher than normal.

Historically, US rates have hovered only marginally (50-100 bps) above ECB levels (see chart below). Today, they are 235 bps higher.

With inflation showing signs of cooling, the Fed’s elevated rate stance now appears increasingly driven by inflationary fears rather than current inflation realities—a dynamic that is arguably holding back growth.

Trump’s critique of the Fed’s rate posture touches a nerve with many investors and economists. However, it’s his combative tone and unconventional methods that tend to undermine the seriousness of his message and alienate potential allies—even when the economic argument has substance.

## **5-Year chart: US Federal Funds rate v/s ECB main refinancing rate**



*Source: Bloomberg*

We’re already seeing a subtle but meaningful shift in tone from key Fed officials including Fed Chair Powell

Powell said this week that he “can’t say” whether a rate cut will happen in July — but he hasn’t ruled it out either.

Fed Governor Christopher Waller and Vice Chair Michelle Bowman have publicly signalled that rate cuts could be on the table as early as July — if inflation continues to ease. Even former St. Louis Fed President Jim Bullard, now outside the voting circle, has re-emerged to push for a cut, reinforcing what markets are increasingly pricing in.

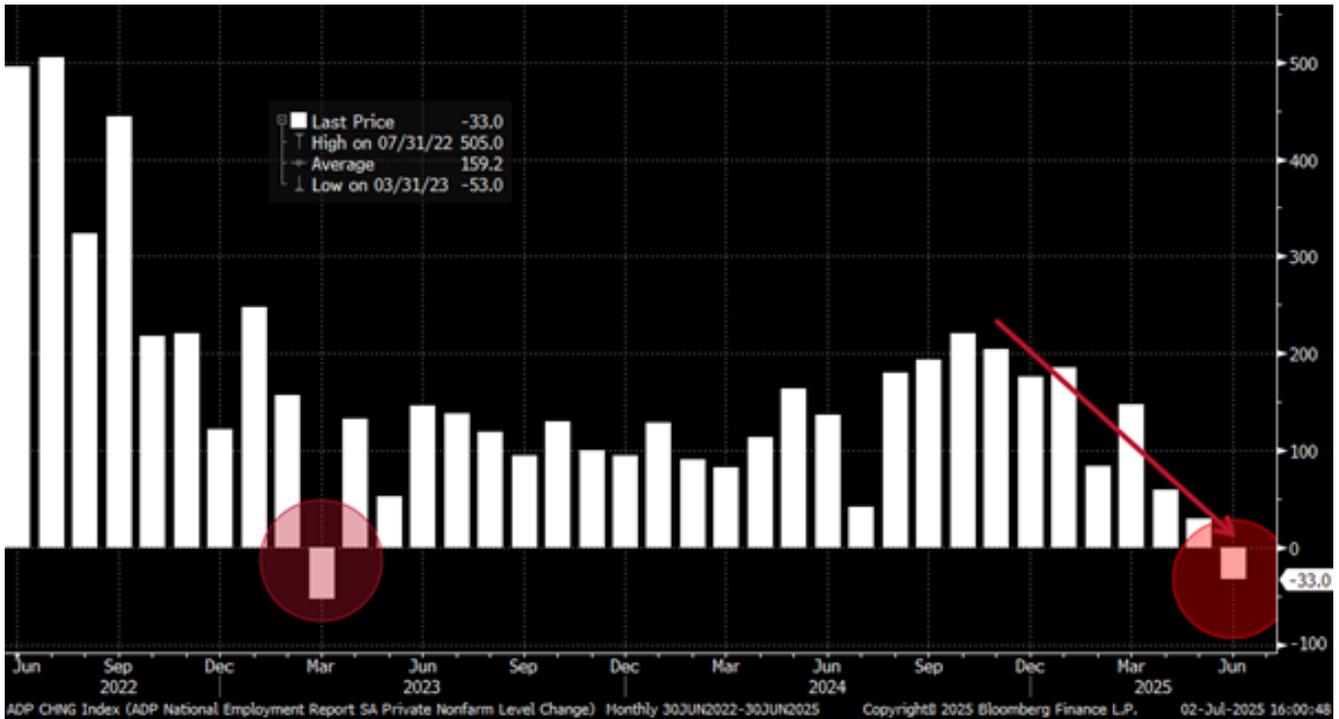
Let’s be clear: Rate cuts aren’t coming just because Trump is demanding them. They’re coming because the data is starting to justify them.

Core PCE inflation for May came in cooler than expected at +2.7%, while retail sales have shown signs of fatigue — both classic indicators for a dovish policy pivot. Oil prices have softened too, thanks to easing geopolitical tensions in the Middle East, helping push headline inflation lower and fuelling risk appetite in equity markets.

Meanwhile, labour market cracks are beginning to show. ADP’s June report revealed a surprise contraction in private-sector hiring, with payrolls falling by 33,000 — the first decline since March 2023. That’s a sharp miss against expectations for a 100,000 gain. Even May’s already-weak figures were revised lower.

Put simply: The Fed’s tone is softening because the economy is too.

### **Price chart: ADP National Employment Report**



Source: Bloomberg

If the Fed doesn't cut rates at the upcoming FOMC meeting on July 30, brace for impact. Fireworks are almost guaranteed.

And don't be surprised if, that same evening — or the very next day — Trump announces his preferred successor to Powell, effectively installing a "Shadow Fed Chair." At that point, markets may start tuning Powell out entirely.

If the political pressure keeps building, Powell may opt to step down before his term ends in May 2026 — opening the door for Trump to appoint a new Chair as early as this Christmas.

All that said, no — rates aren't going back to +1%, let alone +0.5%, even if Trump somehow made himself the Fed Chair.

Ignore the noise of - inflation may yet come.

Focus on what's most likely to happen, not what's loudest.

And stay out of "emotional debates" — they rarely help your investment decisions.

"Thank you for your attention to this matter"

## Markets and the Economy

While much of the market remains focused on the Federal Reserve and potential rate cuts, attention is also turning to the "One Big Beautiful Bill" (OB BB)—a sweeping legislative package that combines tax cuts, spending reductions, and enforcement reforms.

The bill narrowly passed the Senate in a 51-50 vote, with Vice President JD Vance casting the tie-breaking vote. However, it faced strong resistance in the House of Representatives, as a group of Republican holdouts voiced objections to key provisions in what had become Trump's signature legislative package.

With the GOP holding a narrow 220-212 majority—and at least five members, including several from the Freedom Caucus, having already opposed a procedural vote over concerns about insufficient spending cuts and reductions to Medicaid—the bill appeared to be in jeopardy. Nonetheless, Speaker Mike Johnson and President Trump launched an intensive lobbying effort in the lead-up to the self-imposed July 4 deadline. Trump's mix of persuasion and political pressure ultimately proved effective.

The House passed the bill on Thursday afternoon, reinforcing President Trump's firm grip on the Republican Party. In the end, only two House Republicans and three GOP senators voted against the measure.

President Trump is set to sign the legislation into law on Friday, marking the occasion with an Independence Day celebration at the White House, including a picnic for military families. The event will feature a flyover by a B-2 stealth bomber—the same aircraft used in the recent surprise U.S. strike on Iran's nuclear facilities.

The One Big Beautiful Bill (OBBB) passed by the House includes a sweeping package of tax cuts and spending changes, totalling roughly \$4.5 trillion in tax relief. Key provisions include the extension of Trump-era tax cuts, new exemptions for tips and overtime pay, and a significant expansion of the child tax credit—estimated at \$817 billion. The bill also raises the SALT deduction cap to \$40,000, benefiting residents in high-tax states.

On the spending side, it rolls back clean energy tax credits from the Inflation Reduction Act, imposes limits on Medicaid growth, and introduces cuts to discretionary spending. It includes increased support for rural hospitals and infrastructure, along with expanded IRS enforcement measures.

According to the Congressional Budget Office, the legislation would add \$3.3 to \$3.4 trillion to the federal deficit over the next decade, despite efforts to offset costs through spending reductions and enforcement provisions.

### **Global Equity Index Performance (2025 YTD and from April 8 market lows, 2022-2025 YTD and 2024 Performance)**

Ticker	Name	Country	2025 Performance Year-To-Date (Lcl Ccy)	2025 Performance since Apr 8 "market bottom"	Cumulative 2022-2025 YTD Performance (Lcl Ccy)	2024 Performance (Lcl Ccy)
IBEX Index	IBEX 35 INDEX	Spain	20.4%	17.5%	63.5%	14.8%
DAX Index	DAX INDEX	Germany	19.4%	18.0%	51.0%	18.8%
HSI Index	HANG SENG INDEX	Hong Kong	19.2%	19.6%	4.3%	17.7%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	17.2%	13.7%	35.4%	-10.4%
FTSEMIB Index	FTSE MIB INDEX	Italy	16.1%	18.7%	46.1%	12.6%
<b>MXEF Index</b>	<b>MSCI EM</b>	<b>Emerging Markets</b>	<b>15.0%</b>	<b>23.4%</b>	<b>1.6%</b>	<b>5.1%</b>
<b>SX5E Index</b>	<b>Euro Stoxx 50 Pr</b>	<b>Europe</b>	<b>8.0%</b>	<b>11.9%</b>	<b>24.7%</b>	<b>8.3%</b>
<b>UKX Index</b>	<b>FTSE 100 INDEX</b>	<b>Great Britain</b>	<b>7.7%</b>	<b>11.5%</b>	<b>18.9%</b>	<b>5.7%</b>
<b>SPX Index</b>	<b>S&amp;P 500 INDEX</b>	<b>US</b>	<b>6.8%</b>	<b>26.0%</b>	<b>31.0%</b>	<b>23.3%</b>
CCMP Index	NASDAQ COMPOSITE	US	6.7%	34.9%	30.7%	28.6%
MXTR Index	MSCI TURKEY	Turkey	6.3%	11.4%	423.7%	36.6%
MXIN Index	MSCI INDIA	India	5.6%	13.8%	48.5%	14.3%
INDU Index	DOW JONES INDUS. AVG	US	5.4%	19.1%	22.9%	12.9%
CAC Index	CAC 40 INDEX	France	4.1%	9.2%	8.3%	-2.2%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	3.6%	10.0%	-3.8%	12.7%
NKY Index	NIKKEI 225	Japan	-0.2%	20.5%	37.6%	19.2%

Source: Bloomberg

So far, the US Treasury market has shown little reaction—suggesting investors may have already priced in the bill’s fiscal impact. Let’s see how things unfold in the coming days, and if the bill is beautiful – or just big.

Meanwhile, across the Atlantic, the UK’s Labour government is grappling with its own fiscal challenges. A proposal to cut welfare benefits—part of an effort to rein in a £59.6 billion deficit over the past year—was overwhelmingly rejected in Parliament, with a sizable number of Labour MPs rebelling against the leadership.

The government, under pressure to improve deteriorating public services, while reducing the deficit, has opted for benefit cuts rather than tax hikes—a politically fraught path for a centre-left party. Prime Minister Keir Starmer has so far resisted raising taxes, but the backlash over benefit reductions has exposed deep divisions within the party.

Chancellor Rachel Reeves faced speculation over her future earlier in the day, which fuelled volatility in UK bond markets, until a statement from the Prime Minister’s office reaffirmed its support for her, helping to pull Gilt yields back from session highs. Although yesterday’s 19 basis point surge in UK 30-year gilt yields, wasn’t the largest recent move, it was still significant.

The UK’s limited fiscal flexibility, despite a debt-to-GDP ratio similar to that of the US, leaves it more vulnerable to bond market reactions. This episode is the latest in a pattern of developed economies coming under bond market pressure—following earlier flare-ups in the US in April and in Japan earlier this summer.

Meanwhile, after a rocky March and early April, equity markets have bounced back sharply both in the US and abroad (see table above).

After a -19% drop during April’s tariff-driven market tantrum, the S&P 500 (SPX) has staged a sharp V-shaped rebound, climbing to new all-time highs.

While the index is up +26% from its April 8 lows, it’s only up +6.8% for the year.

While US markets have done well, many international markets have done even better.

Countries like Germany (DAX), Italy (FTSEMIB), Hong Kong (HSI), and Spain (IBEX) have outperformed the S&P 500 by over +10% YTD.

We have seen similar rallies across sectors. The only sectors that have lagged are Healthcare (XLV) and Consumer Discretionary (XLY).

**Benchmark US equity sector performance (2022-2025 YTD, 2023-24, 2025 YTD and 2025 YTD relative to the S&P 500 Index)**

Ticker	Name	Performance 2022-2025 YTD	Performance 2023-2024	Performance 2025 YTD	Performance 2025 YTD (relative to S&P 500)
XLI US Equity	INDUSTRIAL SELECT SECT SPDR	41.8%	34.2%	13.4%	6.2%
XLC US Equity	COMM SERV SELECT SECTOR SPDR	37.2%	101.7%	11.6%	4.5%
XLK US Equity	TECHNOLOGY SELECT SECT SPDR	47.1%	86.9%	10.5%	3.5%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	36.0%	41.3%	10.1%	3.1%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	1.3%	8.3%	8.6%	1.7%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	14.7%	7.4%	8.1%	1.3%
<b>SPY US Equity</b>	<b>SPDR S&amp;P 500 ETF TRUST</b>	<b>31.3%</b>	<b>53.3%</b>	<b>6.7%</b>	<b>0.0%</b>
XLP US Equity	CONSUMER STAPLES SPDR	7.3%	5.4%	4.5%	-2.1%
XLRE US Equity	REAL ESTATE SELECT SECT SPDR	-19.1%	10.1%	2.8%	-3.7%
XLE US Equity	ENERGY SELECT SECTOR SPDR	57.2%	-2.1%	1.6%	-4.8%
XLY US Equity	CONSUMER DISCRETIONARY SELT	7.9%	73.7%	-1.4%	-7.6%
XLV US Equity	HEALTH CARE SELECT SECTOR	-4.2%	1.3%	-1.5%	-7.7%

Source: Bloomberg

What we’ve seen so far in the SPX, appears to be a recovery rally. When measured by the pace of new all-time high closes, the index’s 2025 advance may still be in its early stages.

On Friday last week, the SPX surged to a fresh all-time high — its first since late February.

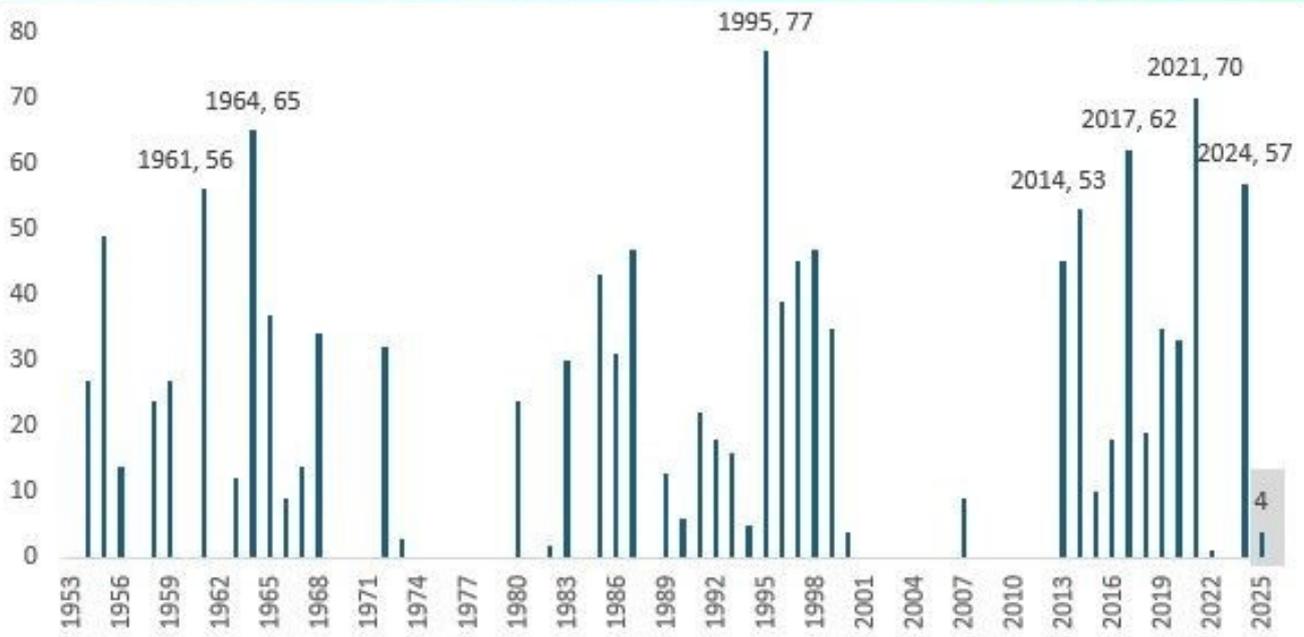
Meanwhile, 10-year Treasury yields are now below +4.20%.

The yield decline reflects growing market conviction, that the Fed may begin trimming rates as early as July 30.

As indicated in the section above economic data has started to soften. May’s Core PCE inflation cooled to around +2.7%, slightly below forecasts, and retail sales showed signs of fatigue.

Technical indicators are also flashing positive signals. The SPX recently formed a “golden cross,” where its 50-day moving average rose above the 200-day—a bullish pattern last seen in February 2023. Market breadth has improved, too, with sectors beyond mega-cap tech—such as financials, industrials, and utilities—joining the rally.

## S&P 500 New All-Time Closing Highs By Year: 1953 - 2025



Source: Bespoke Investment Group

Looking at seasonality in stock performance, July has historically been the hottest month not just in terms of weather, but also for markets—especially the SPX.

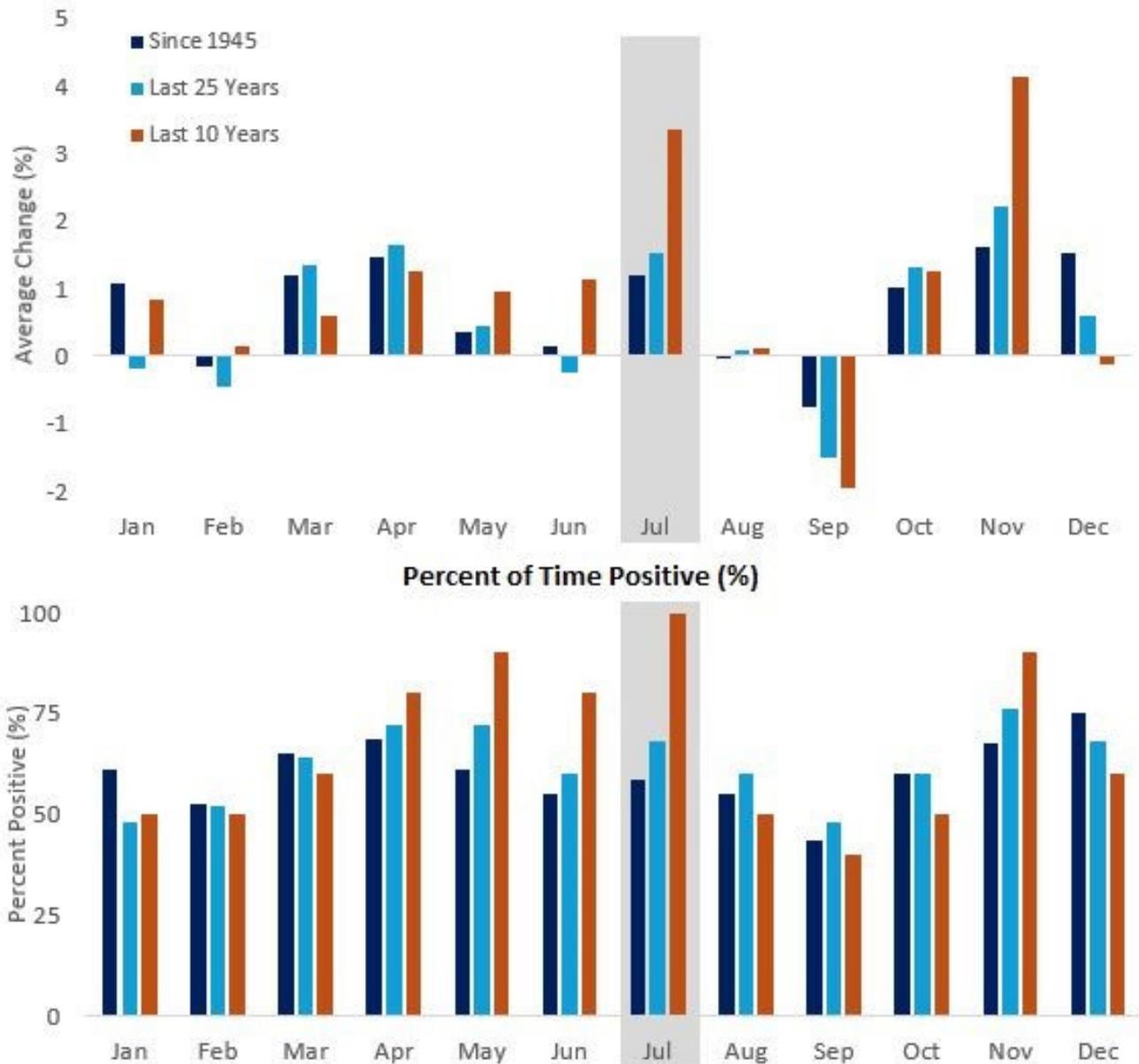
Since World War II, July has ranked as the fourth-best month for the SPX, with an average gain of +1.2%.

Over the past 25 years, its average return improves to +1.5%, making it the third-best month, and over the last 10 years, it climbs even higher—ranking second with an average gain of +3.4%, just behind December's +4.1%.

What's particularly notable is the consistency: The SPX has finished higher in July for ten consecutive years.

But enjoy the strength while it lasts—August has historically been a weak spot, ranking as the third-worst month since WWII and the fifth worst over the past 25 years. September has been even worse, standing as the weakest month across all three-time frames.

## S&P 500 Average Performance by Month



Source: Bespoke Investment Group

Momentum often builds on itself, and it's likely we'll see more of this in Q3. As the old market saying goes, "Don't fight the tape."

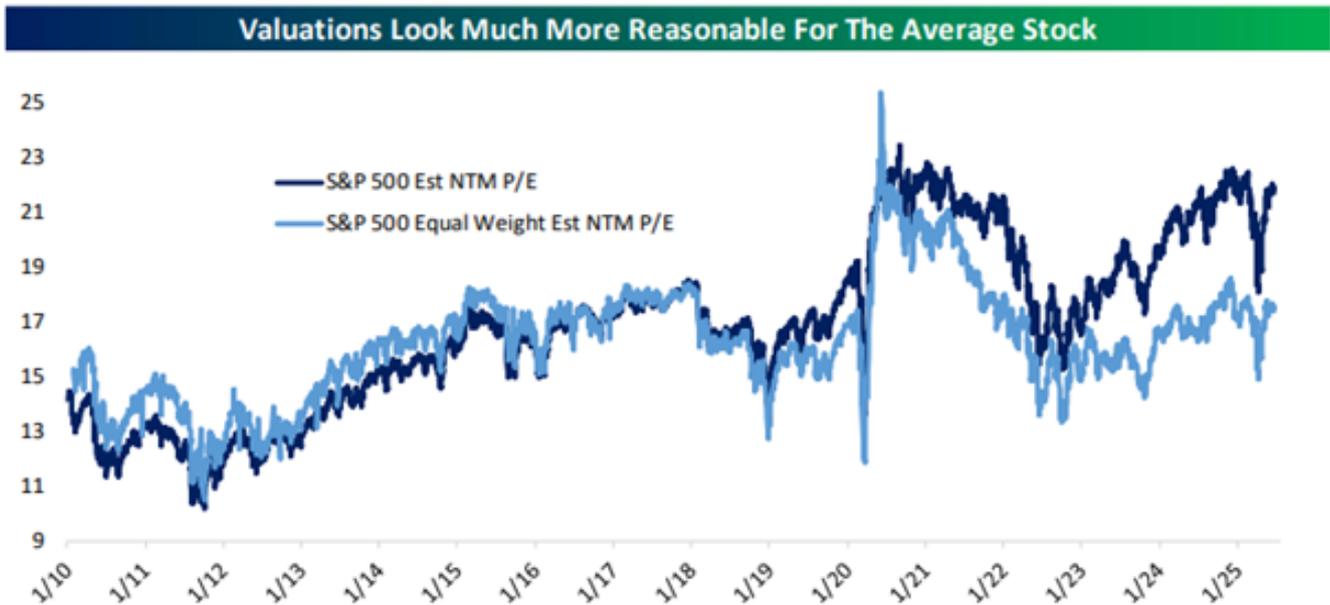
The technical outlook for semiconductors has improved markedly in recent weeks. Both price action and relative strength show the sector breaking out of the downtrend that began after last summer's peak.

Nvidia (NVDA), the sector's largest and most influential stock, recently reached a new high and is on track to become the first company in history to hit a \$4 trillion market cap.

While Nvidia leads the charge, the rally in the Philadelphia Semiconductor Index (SOX) has been broad-based: since the April low, its components have averaged a +45.8% gain, with all but three

outperforming the SPX.

The broader market, however, paints a more nuanced picture. Those concerned about high tech and semiconductor valuations should note that although the SPX market-cap-weighted price-to-earnings multiple is nearing late-2020 levels, the equally weighted version of the index trades at valuations more typical of the 2010s (chart below)—underscoring how much of the recent rally has been driven by the largest names.



Source: Bespoke Investment Group

Bottom line: The SPX 's climb to fresh all-time highs, combined with the 10-year yield dipping below +4.20%, reflects a nuanced but promising backdrop: A Fed signalling growing comfort with easing, inflation gradually cooling, and technical turning constructive. While the recent rally appears more like a recovery than a breakout, the frequency of record closes suggests the bulk of 2025's upside may still be ahead.

Best wishes,

Manish Singh, CFA