MACROMATRIX

Markets in Transition: The Disinflation-Divergence Tradeoff

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Crosswinds, Convergence, and Caution

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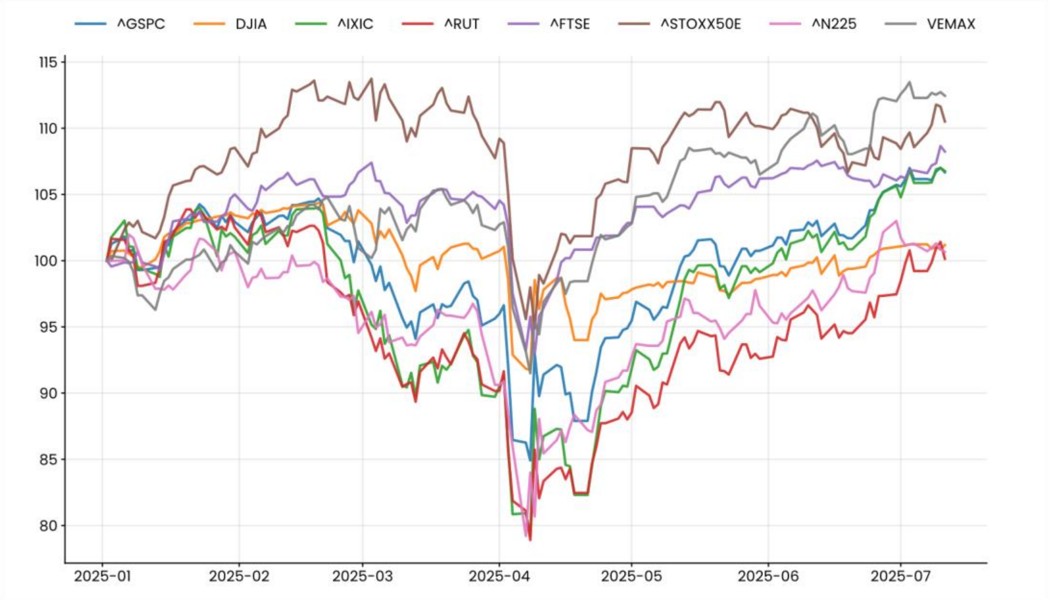
Over the past two weeks, global markets have navigated a complex terrain of conflicting economic signals, shifting monetary expectations, and renewed geopolitical friction. While optimism surrounding rate cuts and policy accommodation has buoyed equities and certain risk assets, the underlying data suggest a slower, more fragmented economic trajectory. From disinflationary trends in Asia and fiscal stress in Europe to signs of consumer fatigue in the U.S., the macroeconomic backdrop remains highly nuanced.

Major Global Market Indices (YTD)



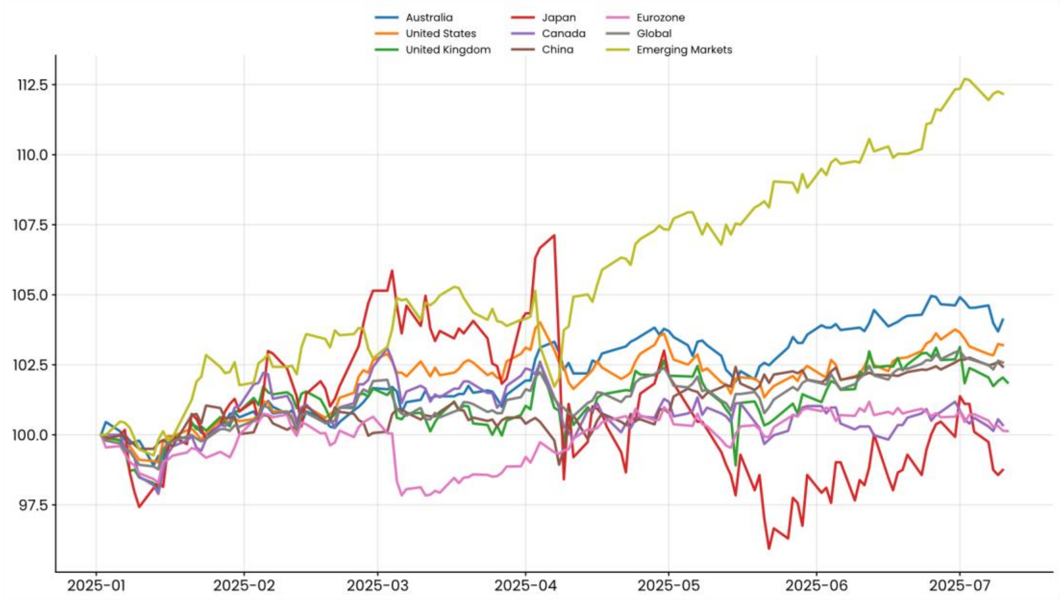
Source: Data sourced from Yahoo! Finance as on July 14, 2025
Tickers: ^GSPC – S&P 500 Index (US Large Cap), DJIA – Dow Jones Industrial Average (US Industrials), ^IXIC – NASDAQ Composite Index (US Tech), ^RUT – Russell 2000 Index (US Small Cap), ^FTSE – FTSE 100 Index (UK Large Cap), ^STOXX50E – EURO STOXX 50 (Eurozone Equities), ^N225 – Nikkei 225 Index (Japan Equities), VEMAX – Vanguard Emerging Markets Stock Index Fund (Emerging Markets Equities)

United States: Balancing Act Between Labor Resilience and Growth Slowdown

The U.S. economy continues to show signs of underlying resilience, but with increasingly visible cracks. On the labor front, June's nonfarm payrolls rose by 147,000—slightly above expectations—though earlier months were revised downward, and private sector hiring remained modest. Initial jobless claims have steadily declined, most recently coming in at 227,000—well below consensus—yet the rise in continuing claims to a post-2021 high of 1.965 million points to increasing difficulty in job matching, a phenomenon often seen in late-cycle dynamics. Labor force participation also dipped, contributing to a modest drop in the unemployment rate to 4.1%. Wage pressures remain contained, with average hourly earnings rising just 3.7% year-over-year, suggesting minimal upward pressure on inflation via labor costs. The Challenger Job Cuts report and ADP's decline in private payrolls add further caution to the labor market narrative, indicating an evolving balance between headline employment strength and underlying softness.

Meanwhile, consumer behavior appears increasingly cautious. Personal income fell 0.4% in May, and consumer spending contracted by 0.1%. This softness is echoed in high-frequency data—motor vehicle sales fell to an annualized pace of 15.3 million units, and construction spending declined 0.3% in May, led by weakness in residential investment. The Michigan Consumer Sentiment Index staged a slight recovery in June, but concerns over inflation and tariffs continue to weigh on expectations.

Global Bonds Performance (YTD)



Source: Data sourced from Yahoo! Finance as on July 14, 2025
Note: Australia – iShares Core Composite Bond ETF (GOVT.AX), United States – iShares U.S. Treasury Bond ETF (GOVT), United Kingdom – iShares UK Gilts ETF (IGLT.L), Japan – Daiwa ETF-TOPIX Mid Small (2621.T), Canada – iShares Canadian Government Bond Index ETF (XGB.TO), China – VanEck China Bond ETF (CBON), Eurozone – iShares Global Government Bond EUR Hedged ETF (XGLE.L), Global – Vanguard Total World Bond ETF (BNDW), Emerging Markets – VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC)

The housing market, while showing signs of life on the refinancing front due to declining mortgage rates, remains tepid overall. MBA mortgage applications rose 2.7% in the week ending June 27, but purchase activity barely moved, suggesting that buyers are still in wait-and-see mode. ISM and PMI manufacturing data for June showed slight improvement—the ISM index rose to 49.0 and the PMI to 52.9—yet both remain near contractionary territory, with new orders and employment components still weak.

On the inflation front, core PCE—the Fed's preferred metric—rose just 0.1% in May, bringing the year-over-year rate to 2.6%. This moderation, coupled with a fall in one-year-ahead inflation expectations from 6.6% to 5.0%, reinforces the view that price pressures are gradually easing. Market pricing now implies a rising probability of a Fed rate cut in September, although FOMC minutes and public remarks from Fed officials suggest a cautious approach. Fed Governor Christopher Waller and others continue to cite uncertainty around tariffs and fiscal policy as reasons to remain data-dependent.

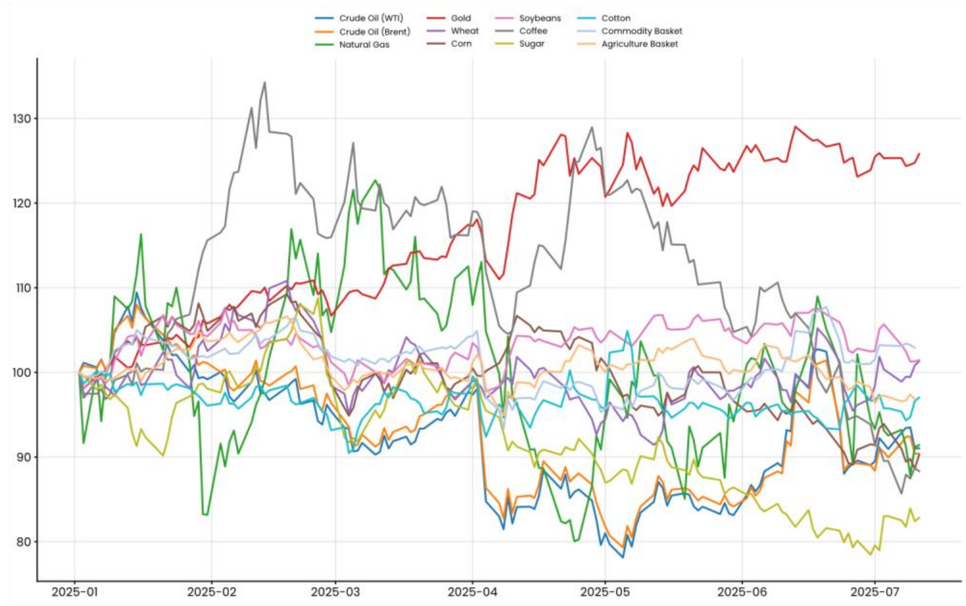
Adding to the complexity is the evolving fiscal picture. A significant spending bill remains pending in the Senate, with potential implications for Treasury issuance and debt sustainability. July has already seen a ramp-up in shortterm Treasury auctions, contributing to higher bill yields and a steeper curve. The 30-year bond auction, however, saw lower demand, indicating growing investor unease around long-duration exposure in the face of fiscal slippage.

Eurozone and UK: Inflation Divergence and Industrial Deceleration

The Eurozone macro landscape is characterized by patchy momentum and subdued inflation pressures. Headline inflation edged up to 2.0% in June, driven by services and food, but core price growth remains tame. German inflation stayed firm at 2.7%, yet producer price data (-0.6% MoM in May) indicates broader price deceleration— particularly in energy-intensive sectors. Italy's CPI and industrial production dynamics will likely shape the European Central Bank's (ECB) near-term stance, with any sustained weakness giving the Governing Council room to prolong accommodation.

Manufacturing indicators across Europe remain fragile. Germany's new orders fell 1.4% in May, with a deeper 7.8% contraction in domestic demand pointing to persistent consumption headwinds. French industrial production fell for the second month in a row, and Italy's retail sales contracted 0.4%, suggesting that household spending is losing steam. Meanwhile, the UK's construction sector continues to contract, marking its sixth consecutive monthly decline.

Global Commodities Performance (YTD)



Source: Data sourced from Yahoo! Finance as of July 14, 2025
Note: Crude Oil (WTI) – NYMEX WTI Crude Oil Futures (CL=F), Crude Oil (Brent) – ICE Brent Crude Oil Futures (BZ=F), Natural Gas – NYMEX Natural Gas Futures (NG=F), Gold – COMEX Gold Futures (GC=F), Wheat – CBOT Wheat Futures (ZW=F), Corn – CBOT Corn Futures (ZC=F), Soybeans – CBOT Soybean Futures (ZS=F), Coffee – ICE Coffee C Futures (KC=F), Sugar – ICE Sugar No.11 Futures (SB=F), Cotton – ICE Cotton No.2 Futures (CT=F), Commodity Basket – Invesco DB Commodity Index Tracking Fund (DBC), Agriculture Basket – Invesco DB Agriculture Fund (DBA)

However, there are signs of stabilization in pockets. The Eurozone composite PMI expanded in June, led by strength in Germany, Italy, and Spain, though France remained in contraction. The UK's composite PMI also showed mild expansion, aided by a more stable housing market and improving wage dynamics. UK house price growth slowed to 2.1% in June, reflecting tempered buyer enthusiasm amidst lingering economic uncertainty.

On the policy side, ECB minutes suggest a wait-and-see approach, balancing low inflation with growing pressure from fiscal coordination challenges, such as increased defense spending and ongoing trade tensions with the U.S. Meanwhile, the euro area's subdued PPI and stable core inflation could reinforce the case for keeping rates on hold through Q3.

China: Domestic Weakness and Policy Watch

China's macro signals remain weak, with persistent deflationary pressure and muted domestic demand. The CFLP Composite PMI continues to hover near contraction, and industrial profits fell 1.1% year-to-date through May. Retail sales growth slowed to 0.6%, and core inflation rose just 0.7% in June—well below the People's Bank of China's target. The producer price index (PPI) declined 3.6% YoY, marking the sharpest fall since July 2023.

This suggests that manufacturing overcapacity and soft export demand are translating into widespread pricing power erosion. Monetary policy remains in accommodative mode, with further easing likely, especially if the renminbi remains relatively stable. Trade tensions with the U.S. could escalate on July 9, following President Trump's renewed threat of a 10% tariff on BRICS exports. This could weaken global risk appetite and further dampen China's export performance.

Japan and South Korea: Fragile Recovery Amid Global Headwinds

Japan's macro outlook is clouded by inconsistent industrial momentum. Retail sales rose 2.2% YoY in May, but industrial production disappointed and is forecasted to decline further in June and July. Core CPI remains above 3%, but Tokyo CPI decelerated more than expected in June, signaling easing inflationary pressure. Producer inflation eased to a 10-month low of 2.9% in June, supported by subsidies and declining global demand. The Bank of Japan's decision to reduce bond purchases amid rising JGB yields suggests a cautious step toward normalization. However, political pressure for renewed fiscal stimulus and a slowdown in exports may limit further tightening.

South Korea faces deeper challenges. Industrial production and retail sales have both weakened, dragging PMI readings lower for the fifth consecutive month. The export-dependent economy is caught in the crosshairs of global trade deceleration, especially in semiconductors and intermediate goods. Inflation edged up to 2.2% in June, but core prices remain anchored, leaving room for policy easing. The Bank of Korea held rates steady at 2.50%, but reiterated its concerns over household debt and house prices—implying that any future cuts will be datacontingent.

India: Momentum Sustained

India's economy continues to defy the regional slowdown. The manufacturing PMI rose to 58.4 in June, fueled by strong output, new orders, and buoyant business sentiment. While the Reserve Bank of India recently cut policy rates by 50 basis points to 5.50%, citing external headwinds and softening global demand, domestic growth drivers remain robust. Credit demand, infrastructure spending, and labor market stability have helped shield the economy from external shocks.

Markets and Policy Expectations: The Liquidity Pulse 2

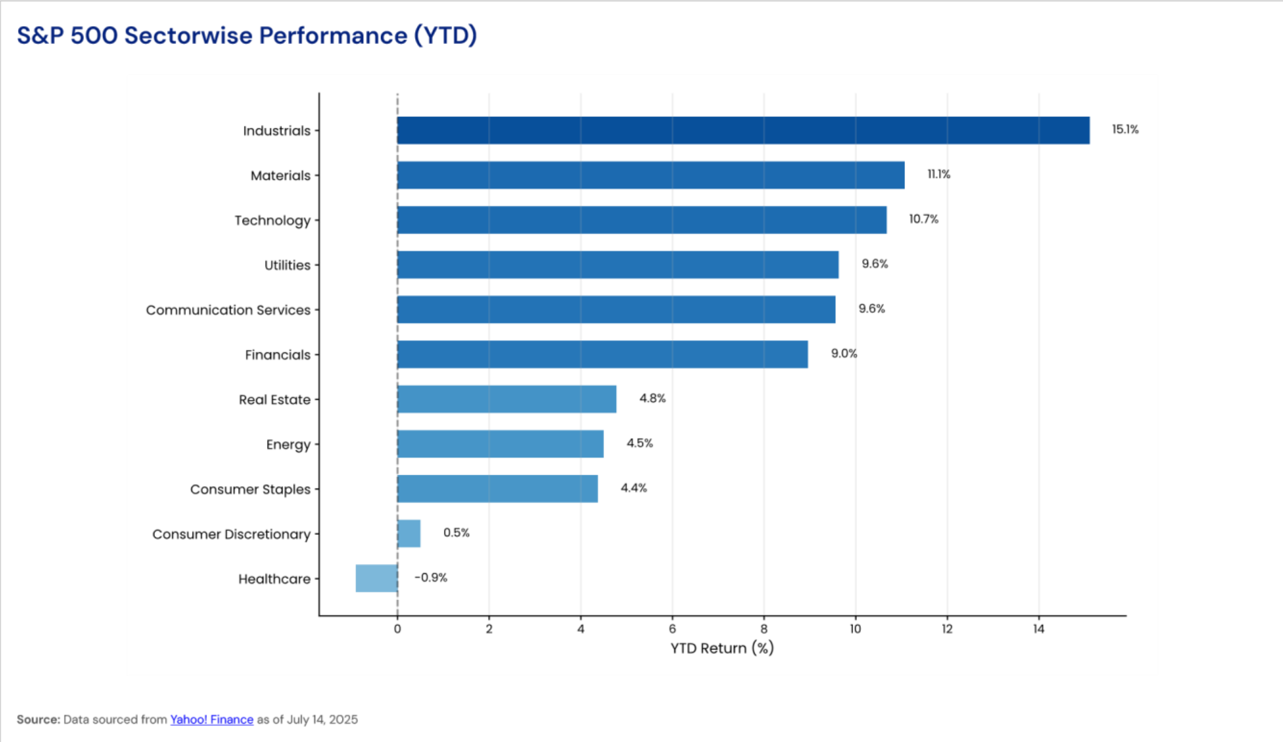
Commodities and Trade: Energy Volatility and Agricultural Adjustments. Commodity markets have been volatile amid mixed macro inputs. Crude oil inventories in the U.S. rose 7.1 million barrels, but refined product demand fell 1.6% YoY, implying softness in transportation and manufacturing. Meanwhile, soybean, corn, and wheat prices reacted to mixed USDA reports, with stronger export inspections supporting grain futures, even as U.S. crop progress data showed deterioration in winter wheat conditions.

The U.S. trade deficit widened to $71.5 billion in May, driven by a 4.0% drop in exports and flat imports. Ongoing trade tensions, especially around agriculture and BRICS import tariffs, could further strain the external sector, particularly if retaliatory measures surface.

Global bond markets have repriced over the past week, with yields rising sharply in Japan, the U.S., and the UK. The U.S. 10-year yield rose 20 basis points in July, reflecting higher Treasury issuance and fading inflation concerns. The Fed's balance sheet continues to contract, though at a slower pace, and bill auctions indicate solid demand for short-duration assets.

Equities have held up well, driven by dovish central bank expectations, a stabilizing inflation outlook, and resilient earnings—particularly in financials, after the Fed proposed easing capital requirements. The dollar has weakened modestly, with safe-haven currencies like the yen and Swiss franc gaining traction due to tariff-related uncertainty.

Looking ahead, the Fed appears inclined to hold rates steady in July, with a rising probability of a September cut. All eyes remain on labor market prints, inflation data, and the evolution of trade risks. Meanwhile, markets will monitor whether rising fiscal pressures—especially in the U.S. and Europe—begin to push yields to levels that challenge valuations and corporate borrowing costs.



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Trump Announces 35% Tariffs on Canada Starting Aug. 1, Warns of Higher Levies if Ottawa Retaliates — CNBC | July 10, 2025

Japan's Wholesale Inflation Slows, Relieves Interest Rate-Hike Pressure — Reuters | July 10, 2025

South Korea Signals Near-Term Rate Cut, Warns of 'Significant' Uncertainty from US Tariffs — Reuters | July 10, 2025

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Macroeconomy at a glance

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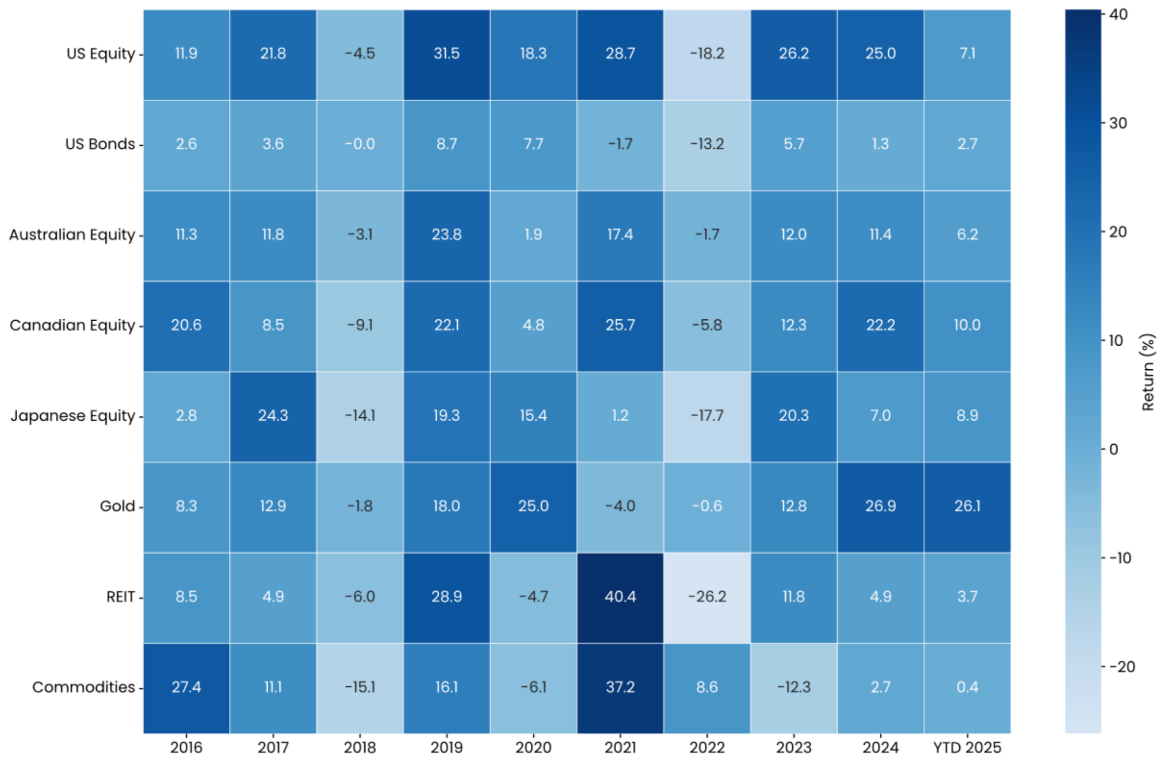
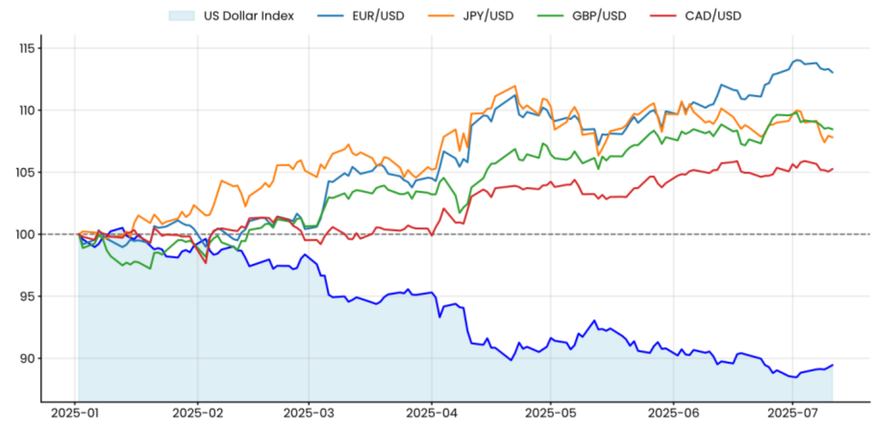
Global Asset Class Performance (Last 10Y)



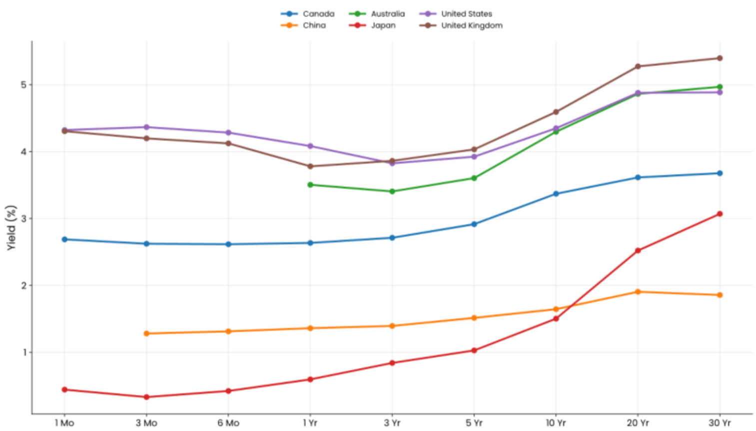
Source: Data sourced from Yahoo! Finance as of July 14, 2025
Note: US Equity – Vanguard 500 Index Fund (VFIAX), US Bonds – Vanguard Total Bond Market Index Fund (VBTLX), Australian Equity – Vanguard Australian Shares Index ETF (VAS.AX), Canadian Equity – Vanguard FTSE Canada All Cap Index ETF (VCN.TO), Japanese Equity – iShares MSCI Japan ETF (EWJ), Gold – iShares Gold Trust (IAU), REIT – Vanguard Real Estate Index Fund (VGSLX), Commodities – S&P-GSCI Commodity Index Future (GD=F)

Major Global Currencies (YTD)



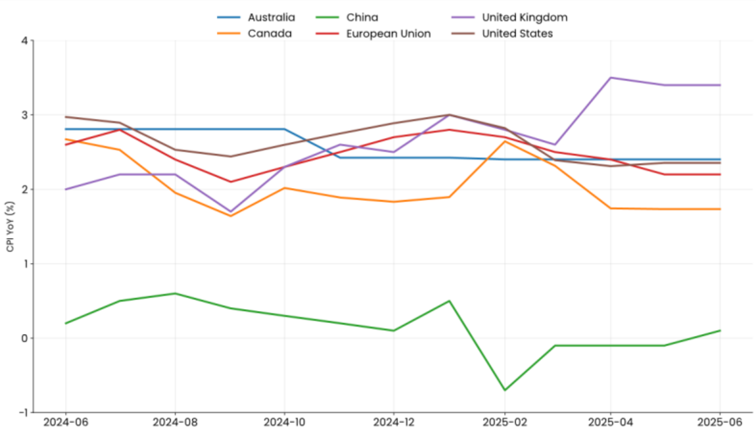
Source: Data sourced from [Yahoo! Finance](#) as of July 14, 2025

Treasury Yield Curve



Source: Data sourced from [Investing.com](#) as of July 14, 2025

Inflation Across Major Economies



Source: Data sourced from [OECD](#) as on July 14, 2025

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RCK Analytics Private Limited

www.rckanalytics.com
info@rckanalytics.com

Mobile +91 72194 74999
Phone: +91 (20) 46046669