



MACROMATRIX

Mid-2025 Macro Watch: Inflation Surges, Trade Rewinds, Recovery Splinters



RCK Analytics Private Limited
Research. Analytics.

Issue 02 | July 28, 2025

www.rckanalytics.com

The Global Economy Balances on a Narrow Ridge

1

As we step into the second half of 2025, the world economy finds itself at an inflection point. Growth has shown an unexpected resilience, buoyed by household consumption, selective capital spending, and pockets of strength in Asia. Yet, behind the numbers, a more nuanced picture emerges—one marked by **slowing momentum in the United States, a tentative rebound in Asia, and persistent policy uncertainty fueled by geopolitics.**

Key macro signals from July highlight a **world that is not in recession, but also not in clear expansion.** The global outlook is increasingly defined by **divergence**:

- Developed markets, led by the United States and parts of Europe, are slowing as high interest rates and trade uncertainty weigh on investment.
- Asian economies, notably Singapore and Japan, are showing resilience in specific sectors.
- China's economy remains fragile, with weak industrial profits and a cautious policy stance.

In aggregate, global growth is likely to hover just above trend, but **policy risks, trade tensions, and uneven investment patterns suggest heightened volatility into year-end.**

Labor Markets: Still Resilient, But Shifting Gears

Employment data continues to paint a mixed picture. The **U.S. labor market remains tight**, with jobless claims falling to 221,000 and a four-week average at its lowest since May. Payroll surveys confirm a recovery in manufacturing sentiment, with new orders and shipments bouncing back in both the Philadelphia Fed and Empire State indexes. However, there are **early signs of cooling**: cautious hiring in services, slower wage growth, and a decline in mortgage applications.

Elsewhere, **the story differs.** The U.K. faces a softening labor market, with unemployment rising to 4.7%. Australia's unemployment ticked up to 4.3%, while Japan continues to experience structural labor shortages—particularly in financial and service sectors—forcing firms to invest in **automation and digitization.**

This **uneven global labor picture** reinforces the argument that central banks may need to pursue **region-specific policy trajectories** rather than a synchronized tightening or easing cycle.

Inflation Dynamics: Tariffs Are Reawakening Price Pressures

Inflation remains a central driver of policy debates. **In the U.S., June's CPI data showed a 0.3% monthly increase and a 2.7% year-over-year rise**, up from 2.4% in May. Core inflation, at 2.9%, remains well above target. These figures confirm that **tariff-related cost pressures are gradually working their way through the system**, even as commodity prices remain volatile.

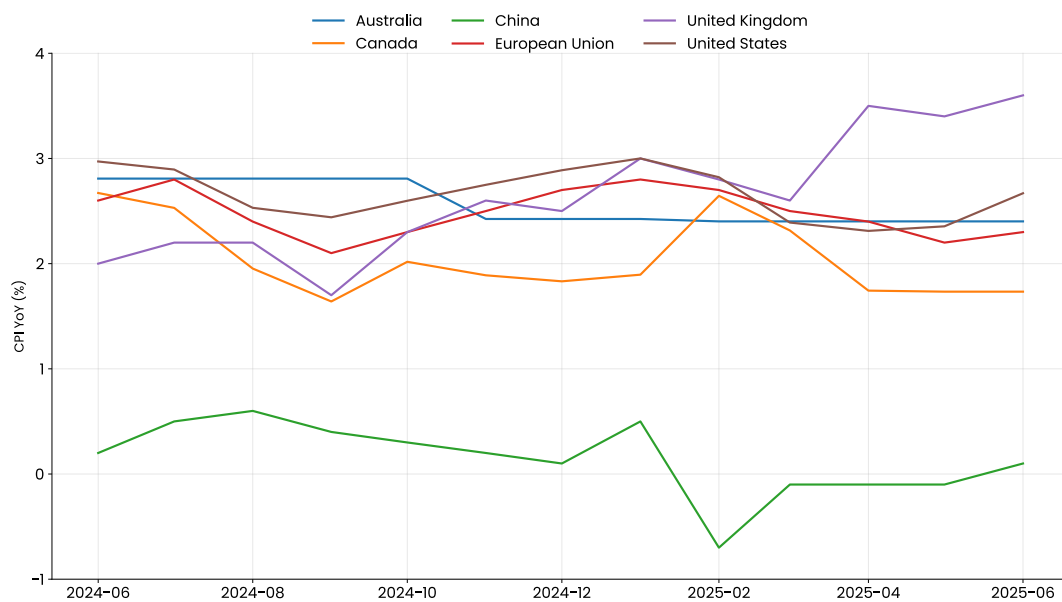
Europe's inflationary pressures, while easing from peak levels, continue to **linger in services and energy costs.** The euro area's headline CPI has ticked up to 2.0%, with core readings that remain a concern for the ECB. The U.K. faces persistent price stickiness, with core CPI at 3.7%.

Emerging markets show greater variation:

- **India** has seen a sharp fall in inflation to 2.1%, opening space for rate cuts.
- **New Zealand** faces a mild uptick, with annual CPI at 2.7%, testing the top of the central bank’s target band.
- **China’s industrial sector weakness is disinflationary**, with industrial profits down 1.8% year-to-date.

The broad theme is that global inflation has slowed, but has not been vanquished—and trade disruptions risk reigniting it.

Figure 1: Major Economies See an Inflation Uptick



Source: Data sourced from Yahoo! Finance as on July 28, 2025. ^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)

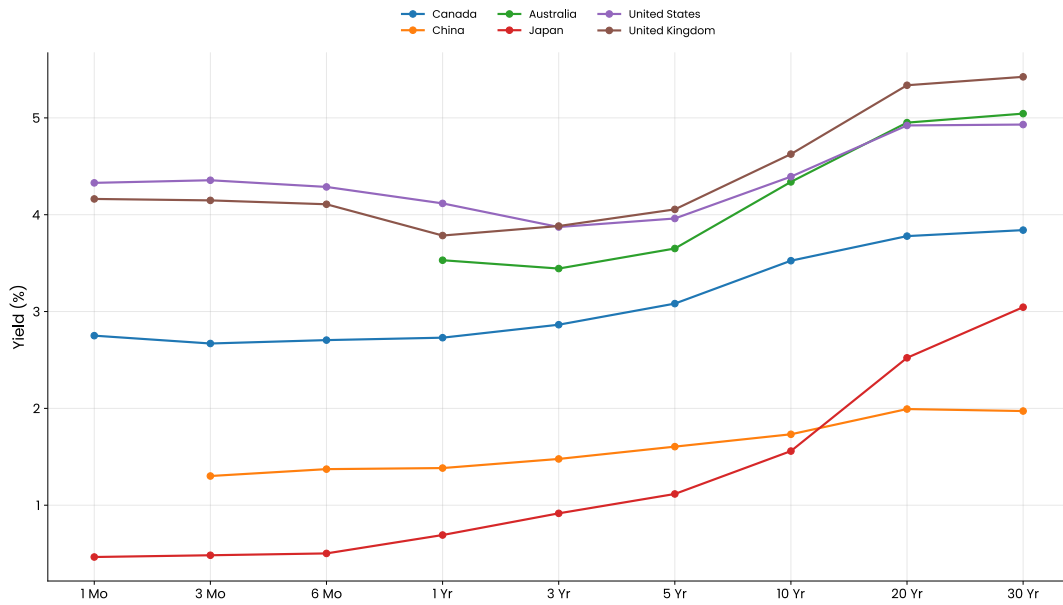
Central Banks: Divergence Becomes the Norm

Policy divergence is emerging as **one of the defining themes of the second half of 2025.**

- **The Federal Reserve** faces a difficult balancing act. Although Governor Waller and other members have signaled openness to a rate cut as early as September, the inflation rebound complicates this. Political pressure is rising: Vice President JD Vance has called the Fed’s stance “*monetary malpractice*,” while several high-profile economists—including Mohamed El-Erian and Jeremy Siegel—have suggested Powell consider resigning to safeguard the Fed’s independence.
- **The ECB** remains cautious, holding rates steady, waiting for evidence that core inflation is easing while balancing a weak growth environment.
- **Asia-Pacific policy stances are more fragmented.** The Reserve Bank of Australia remains watchful, while India has room to ease. China’s PBOC is maintaining a cautious stance, and the Bank of Japan

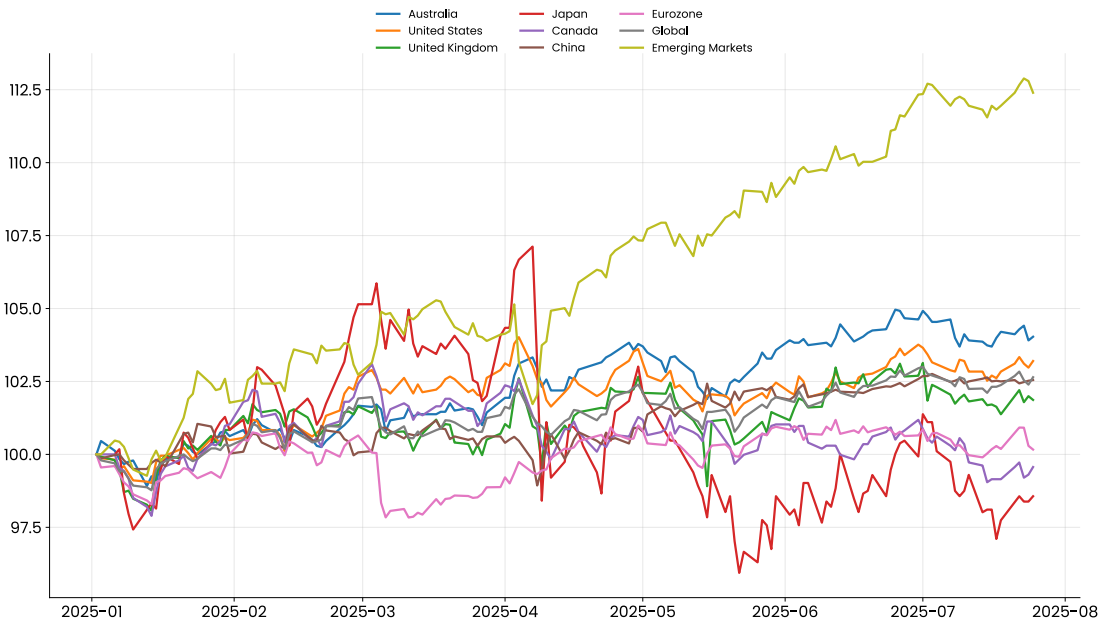
faces pressure to combine monetary accommodation with fiscal stimulus given its fragile political climate.

Figure 2: Yield Curves of Major Global Economies



Source: Data sourced from Yahoo! Finance as on July 28, 2025.

Figure 3: Emerging Markets Bonds See an Outlandish Performance YTD



Source: Data sourced from Yahoo! Finance as on July 28, 2025. 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 (XGLEL), Global – Vanguard Total World Bond ETF (BNDW), Emerging Markets – VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC)

This **patchwork of policy approaches** is introducing currency volatility and impacting global asset allocation.

Trade Tensions: A Persistent and Rising Risk

Trade has once again become the **Achilles' heel of global growth**. The U.S. administration's renewed tariff threats toward Mexico and the European Union have injected uncertainty into an already fragile trade environment. China's June trade data showed a **widening surplus but weak flows with the U.S.**, underlining the fractured state of global trade ties.

The political environment has also seen **policy-driven experiments**, such as the U.S. move to allow crypto assets to be considered in mortgage risk assessment—a shift that could reshape consumer financing behavior but also adds complexity to regulatory risk. **Market participants are beginning to accept that trade-driven uncertainty is no longer episodic; it is structural.**

Financial Markets: Resilient but Uneasy

2

Despite the macro backdrop, **financial markets have shown surprising resilience**. Equity markets have continued to rebound from April's sharp sell-off, entering a phase marked by robust corporate earnings, broad-based participation, and renewed momentum—despite elevated market speculation and ongoing trade-policy anxieties. JPMorgan warns of **concentration risks**, with retail favorites like Palantir and Coinbase becoming overcrowded trades at the fastest pace in three decades. **Stock-picking versus ETFs** has returned to the spotlight, with legendary investor Rob Arnott arguing that selective stock picking still has merit in a market driven by innovation and policy crosscurrents.

Bullish Resilience Driven by Fundamentals. Even after April's tariff-induced correction, the S&P 500 surged nearly 24–28% off its lows, with non-U.S. equities outperforming—gaining over 11% vs. roughly 7% for the U.S. in mid-2025. This rally has been anchored by strong corporate results—currently around 83% of S&P 500 companies beating EPS expectations, with notable capex announcements like Alphabet's \$10 billion AI investment lifting semiconductor names.

Technical Conditions and Market Breadth. Technically, indices like the S&P 500 and Nasdaq have moved into overbought RSI territory, suggesting an elevated risk of short-term consolidation. Still, the rally features increased market breadth: the percentage of S&P 500 stocks trading above their 200-day moving average rose to over 66%, hitting a year-to-date high—a healthy sign of broad participation.

Meme Stock Mania and Concentration Risks. A fresh wave of meme stocks ("DORKs" like Opendoor, Kohl's, GoPro, Krispy Kreme) surged even as many had poor fundamentals. Opendoor gained over 400% in July, while Goldman Sachs flagged this as one of the largest retail-driven short squeezes in history. While this retail exuberance mirrors the 2021 frenzy, analysts note that broader market momentum is still grounded in earnings strength and policy optimism.

Valuation Tensions and Investor Caution. Despite recent gains, analysts remain cautious about valuations. The MSCI ACWI Index is up ~30% from April lows, yet valuations remain stretched—

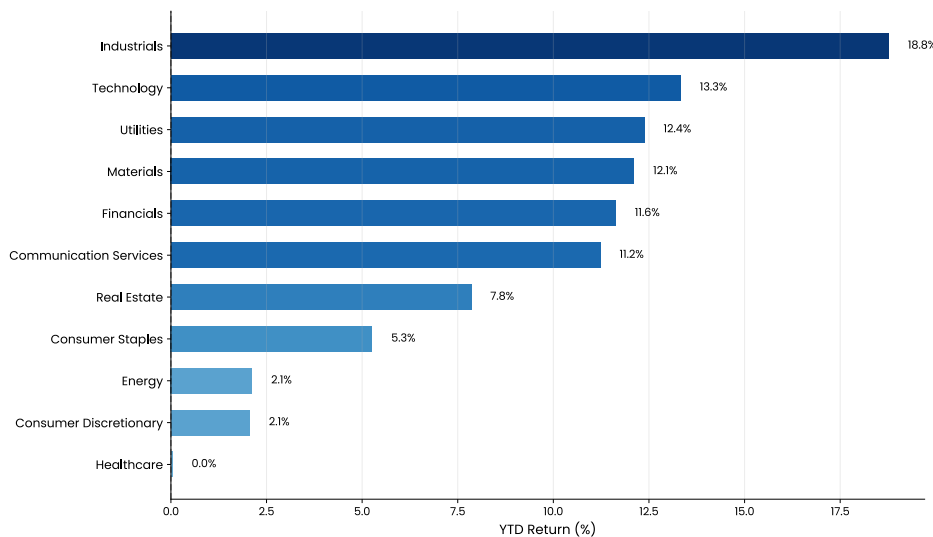
particularly in mega-cap tech and retail-concentrated segments. Institutions are recommending diversified exposure, with some calling attention to bubble-like signals, such as elevated speculative indicators and valuation dispersion.

Figure 4: Major Global Markets



Source: Data sourced from Yahoo! Finance as on July 28, 2025. 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)

Figure 5: Industrials Sector Was the Front-runner, Followed by Technology and Utilities

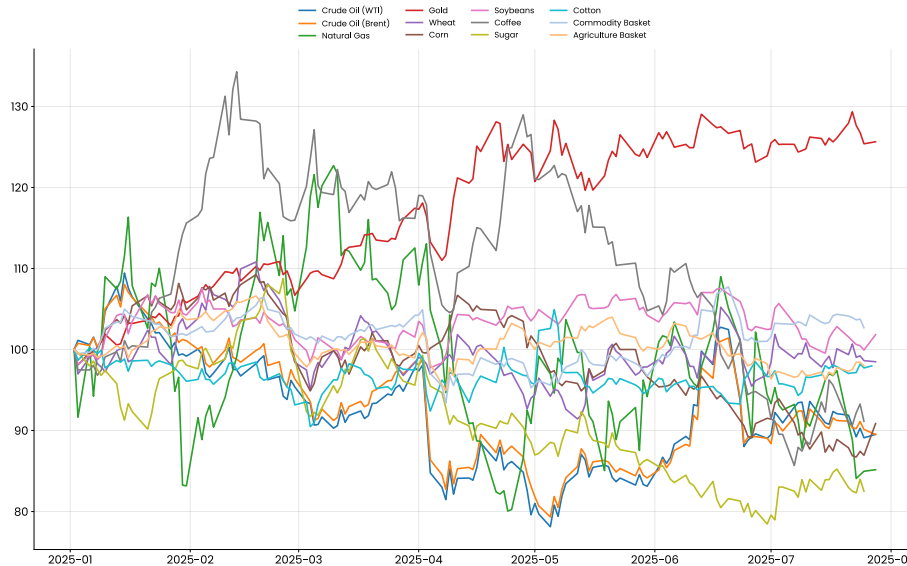


Source: Data sourced from Yahoo! Finance as on July 28, 2025.

Commodities and energy:

- Oil prices have stabilized but remain range-bound, with rig counts modestly up from recent lows. Agricultural commodities like soybeans and wheat have seen export inspections surpass expectations, providing some relief to rural economies.

Figure 6: Gold Continues its Rally, Oil Prices Stabilizing After an Uptick

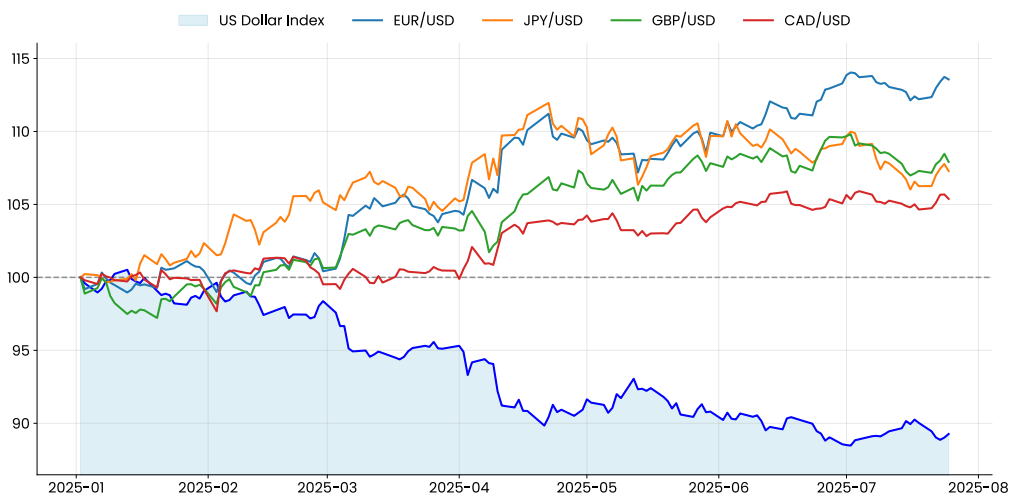


Source: Data sourced from Yahoo! Finance as on July 28, 2025.

Credit markets:

- Treasury yields have eased slightly as expectations of a Fed rate cut grow, though issuance patterns—particularly the Treasury’s new buyback program—could alter the yield curve’s dynamics in the months ahead.

Figure 7: Major Currencies Continue to Strengthen Amid Weakening Dollar Index

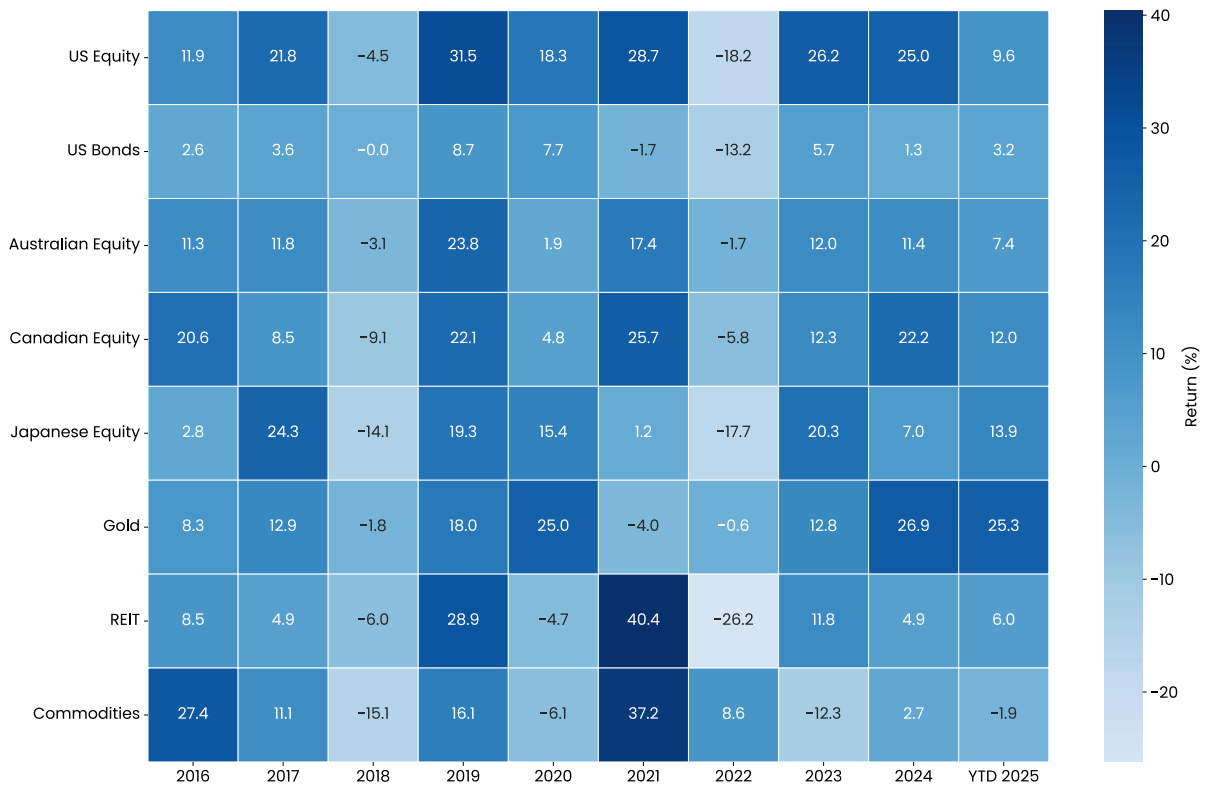


Source: Data sourced from Yahoo! Finance as on July 28, 2025.

Crypto and digital assets:

- Regulatory developments are adding credibility to the sector, particularly after Fannie Mae and Freddie Mac were directed to consider crypto holdings in mortgage eligibility. This has the potential to **reshape consumer lending markets**, a development that bears close watching.

Figure 8: Global Asset Class Performance



Source: Data sourced from Yahoo! Finance as on July 28, 2025. 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)

Behavioral Trends and Micro Themes: Insights from the Ground

Beyond headline macro data, **behavioral and sentiment indicators tell a story of both caution and opportunity:**

- **Retail participation remains robust** despite warnings, as individual traders search for growth stories amid high market dispersion.
- The **boom-bust cycles in meme stocks and the enduring fascination with options trading** highlight a generational appetite for risk-taking, even as volatility spikes.
- **Consumer sentiment** remains mixed. While U.S. consumer confidence edged up to 61.8 in July, it is far below post-2024 highs. The emergence of low-cost lifestyle choices—from cheap “Spaghet” drinks to DIY financial tools—underscores how middle-income households are adapting to persistent cost pressures.

- **Demographic shifts** are shaping labor dynamics, with older Americans staying in the workforce out of necessity, and millennial parents expressing burnout as they juggle work and childcare—a trend that could influence consumption patterns and long-term savings rates.

Regional Highlights

Japan: Automation to the Rescue

Machinery orders data confirm that Japan's growth drivers are increasingly anchored in digitization and automation, especially in finance and services. This is a natural response to labor shortages and is expected to sustain capex even as manufacturing demand lags.

Singapore: A Standout Performer

Singapore's 1.4% quarterly GDP growth exceeded expectations, with all major sectors showing resilience. The construction rebound and steady services expansion position the city-state as one of the few bright spots in Asia, benefiting from global supply chain realignment.

China: Weak Industrial Profits Keep Policy Cautious

China's industrial profits fell 1.8% year-to-date through June, underscoring the challenges facing the manufacturing-heavy economy. Policymakers are walking a fine line: using targeted stimulus to stabilize growth while avoiding over-stimulus that could fuel imbalances.

What This Means for Decision-Makers

3

Three strategic themes stand out as we move through the second half of 2025:

1. **Divergence is now structural.** Growth, inflation, and policy paths are no longer synchronized. Regional and sector-specific allocation matters more than ever.
2. **Trade risks are systemic.** Tariff policies are not transitory shocks; they are embedded features of the global economy. Corporate strategies must assume an environment of frequent, unpredictable trade frictions.
3. **Market resilience has limits.** Equity valuations remain supported by liquidity, but crowded trades and speculative excesses could amplify volatility in the event of a macro shock.

For investors, boards, and policymakers alike, **the imperative is agility**: the ability to adapt rapidly as regional divergences, policy shifts, and structural disruptions shape a new normal.

The world stands on a ridge between resilience and realignment. The next moves by central banks, the trajectory of global trade, and the resilience of labor markets will define whether this balance can be maintained—or if it tips.



About us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, Gen AI solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



RCK Analytics Private Limited

www.rckanalytics.com

info@rckanalytics.com

Mobile +91 72194 74999

Phone: +91 (20) 4604 6669