

*Market Monitor – United States*

## Concerns about US debt levels are heightening



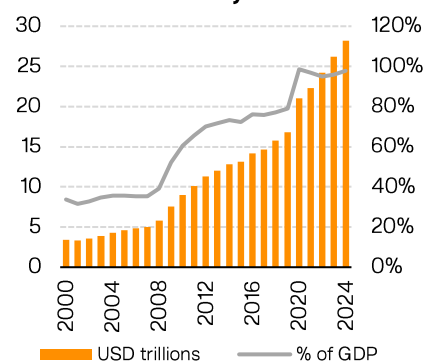
- Moody's downgraded the US credit rating one notch from AAA to AA1, citing rising debt, a widening deficit, and higher interest payments.
- Trump's "big, beautiful tax bill" got passed by the House.
- Business surveys pointed to a mixed growth outlook, while inflation slowed further, yet its future remains highly uncertain.

### US credit rating downgraded amid rising debt concerns

**Moody's downgraded the US credit rating.** Moody's lowered the US rating to Aa1 from the highest level of AAA. Other rating agencies, S&P and Fitch, had already made similar downgrades to the US in 2011 and 2023, respectively. Moody's cited rising concerns over the increase in government debt and interest payments as their consideration. At present, US federal debt held by the public stood at around USD 28.2 trillion and looks set to keep ballooning. According to the Congressional Budget Office (CBO), federal debt held by the public was 98% of GDP in 2024 with an annual deficit of 6.6% of GDP. The CBO also predicts that the public debt-to-GDP ratio will rise to 118.5% in 2035 and 156% in 2055, with the annual deficit expected to reach 7.3% of GDP in 2055.

**Trump announced his signature "big, beautiful tax bill" (BBB).** The Trump administration recently announced a new tax bill, BBB, to lower taxes across the board. Specifically, the BBB extends the tax cuts from his 2017 tax bill; includes a more generous cap for state and local tax deductions; removes taxes on tips and overtime pay through 2028; and raises the debt ceiling by USD 4 trillion, among others. The House narrowly passed the bill by a vote of 215-214 on 22<sup>nd</sup> May and now it moves to the Senate for further review. Despite its potential to boost the economy, market participants have focused on the bill's implications for the fiscal deficit and public debt levels if passed.

**Federal Debt held by the Public**



Source: Congressional Budget Office

## Economic Research

### Despite the US-China trade truce, tensions persist

**The US and China agreed to roll back bilateral tariff measures.** Following trade talks in early May, the US and China announced a joint statement, agreeing to roll back their tariff measures. The agreement featured the US scaling down the additional tariffs on Chinese imports from 145% to 30%, and China lowering punitive tariffs on US imports from 125% to 10%. These reductions are effective for 90 days until 12<sup>th</sup> August. However, in late May, both sides accused each other of violating their recent trade deal. Subsequently, President Xi and US President Trump had a phone conversation in early June, agreeing to hold further trade talks to resolve disputes over tariffs and export controls. This underscores the inherent unpredictability of bilateral trade relations

**Trump doubled tariffs on aluminium and steel.** On the grounds of national security, Trump doubled the tariffs on aluminium and steel to 50% beginning 4<sup>th</sup> June. The decision came days after a US appeals court allowed his tariffs to stay in place after a smaller US trade court ruled the bulk of his tariffs to be illegal. A notable exception is the UK, where the tariffs for its aluminium and steel imports will remain at 25% thanks to the US-UK trade deal agreed in early May. The heightened tariff has especially grave ramifications for US neighbours, such as Canada and Mexico, the two largest steel suppliers to the US. Meanwhile, trade negotiations between the US and EU continued, with tensions souring at one point when Trump threatened an additional 50% tariff on the EU as soon as 1<sup>st</sup> June. The matter was diffused, and Trump decided to extend the negotiation deadline back to 9<sup>th</sup> July before imposing additional measures on the EU.

In early June, Trump signed a travel ban, restricting access to the US for 12 countries: Afghanistan, Myanmar, Chad, Republic of the Congo, Equatorial Guinea, Eritrea, Haiti, Iran, Libya, Somalia, Sudan, and Yemen. The move is a part of the Trump administration's ongoing efforts to curb illegal immigration and migrant inflows to the US.

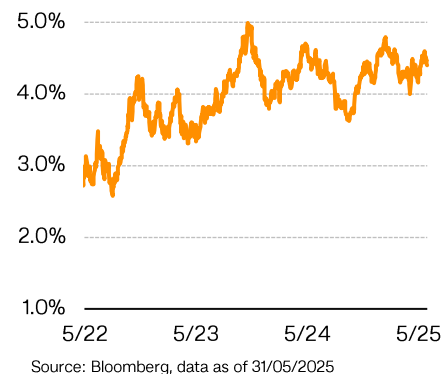
### Business surveys indicated a mixed business environment

**Business surveys pointed to diverging growth trends.** The Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) fell slightly to 48.5 in May. However, the S&P Global manufacturing PMI rose to 52.0 in May from 50.2 in April. The ISM services PMI fell into contractionary territory at 49.9, while the S&P Global services PMI rose to 52.0. The differing trends between the two can be attributed to their coverage of business conditions, with ISM covering more large firms and S&P Global more small to mid-sized firms.

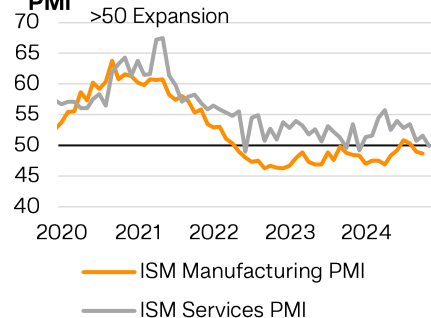
**Consumer sentiment surveys also varied.** The University of Michigan (U-Mich) consumer sentiment index for May remained at a low level of 52.2, while the US Conference Board (CB) consumer confidence index rose notably to 98.0 from 85.7 in April. The U-Mich survey highlighted worries about stagnating incomes and rising inflation, while the rise in the US CB index reflected more optimism driven by the US-China trade truce.

## June 2025

### US 10-year Treasury Yield



### ISM Manufacturing and Services PMI



## Economic Research

### Worries linger despite inflation slowing

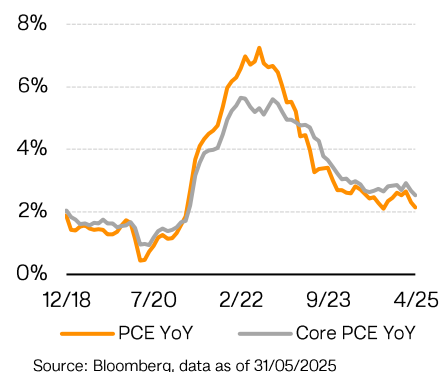
**US inflation slowed further, yet its future remains highly uncertain.** The personal consumption expenditure (PCE) inflation rate continued to ease, down by 0.2 percentage points (ppt) from March to 2.1% year-on-year (YoY) in April. The core PCE inflation rate, which excludes food and energy, also slowed by 0.2 ppts to 2.5% YoY. On a monthly basis, both the headline price index and the core index inched up by 0.1% month-on-month (MoM) in April, which helped ease market concerns about rising inflationary pressures. However, there is great uncertainty surrounding the US inflation outlook, particularly on how the tariff effects would be translated into final consumer prices. Recently, goods prices have picked up, highlighting the need for vigilance and monitoring of price trends.

### Major stock markets continued to bounce back

**Major US stock markets continued to regain losses from tariff shocks.** The S&P 500, Nasdaq, and Dow Jones Industrial Average rose by 6.2%, 9.6%, 3.9% MoM as of the end of May. This rally was driven by easing trade tensions between the US and China, better-than-expected corporate earnings, and strong gains in the technology sector. However, uncertainties surrounding trade negotiations and economic policy continued to be key market overhangs, influencing investor sentiment heading into June. In May, US treasury yields surged, with the 10-year yield surpassing 4.6% at one point before ending the month at 4.403%. The rise in yields reflected investor concerns over fiscal health and rising debt levels. The US dollar index remained relatively stable, ending the month at 99.329, 0.1% lower than the end of April.

**June 2025**

**US PCE Inflation**



**US Equity Indices**



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