Economic Research

July 2025

Market Monitor – United States

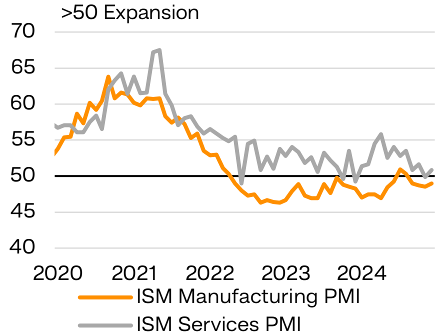
Trump's budget bill passed amid rising deficit projections

- Trump's "big, beautiful tax bill" was narrowly passed in early July.
- Inflation ticked up in May, while personal spending and income softened. Despite this, a solid labour market in June alleviated some growth concerns.
- The Fed held rates unchanged in June, reaffirming a cautious stance.

Trump's budget bill was narrowly passed

Trump's "big, beautiful tax bill" (BBB) was approved by the House after days of deliberation. After a narrow 50-50 vote in the Senate, with Vice President JD Vance casting the tie-breaking vote (51-50), the bill returned to the House for approval of Senate amendments before proceeding to Trump for his signature. The House ultimately passed the bill on 3rd July by a vote of 218-214, following several Republican members switching their "nay" votes to "yea". Thereafter, on 4th July, Trump signed the bill into law. The legislation extends the 2017 tax cuts, reduces Medicaid funding, eliminates tax incentives for green energy, and implements further corporate tax reductions, among others. According to the Tax Foundation, the bill is expected to increase long-run GDP but will significantly reduce federal tax revenue, thereby exacerbating the US deficits.

ISM Manufacturing & Services PMI



Source: Bloomberg, data as of 04/07/2025

Trump applies pressure to US trading partners

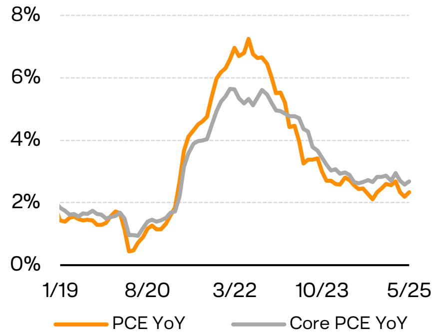
The US and Vietnam have reached to a trade deal. The US initially proposed a 46% reciprocal tariff on Vietnamese exports, the final agreement imposes a 20% tariff on most Vietnamese goods, while Vietnam eliminates tariffs on US imports. The deal also introduces a 40% tariff on "trans-shipped" goods through Vietnam, a measure that will have profound impacts on Asian value chain integration. Meanwhile, the US is reportedly closing in on a deal with the EU to avoid the brunt of the proposed 50% tariff on European imports, and a trade deal with India also appears imminent.

Trump extended the reciprocal tariff deadline to 1st August but applied pressure on certain economies to reach trade agreements. Shortly before the initial 9th July deadline, Trump signed an executive order extending the reciprocal tariff deadline to 1st August for all trading partners, apart from China. Trump also put pressure on certain 14 economies, including Japan, South Korea, Indonesia, Malaysia, Thailand, etc., threatening to impose new reciprocal tariff rates that could be higher or lower than April's rates. Specifically, Japan and South Korea were threatened with 25% tariffs. The extension is poised to pressure US trading partners to accelerate negotiation progress in the coming three weeks.

Business surveys and a solid jobs report eased growth concerns

US inflation ticked up in May. Both headline and core personal consumption expenditures (PCE) inflation increased by 0.1 percentage points to 2.3% year-on-year (YoY) and 2.7% in May, respectively. On a monthly basis, headline PCE inflation rose by 0.1% month-on-month (MoM), the same pace in April, while core PCE inflation accelerated to 0.2% MoM, up from 0.1% in April. These price gains came along with weaker-than-expected personal income and spending. In May, personal spending fell 0.1% MoM, while personal income declined 0.4% MoM, reversing a 0.7% increase in April. This suggests a modest cooling in private spending and increases pressure on the Fed to balance price stability with growth.

US PCE Inflation

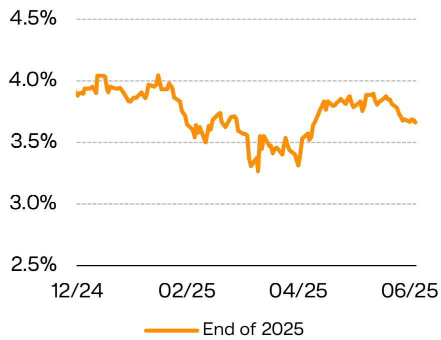


Source: Bloomberg, data as of 30/06/2025

The US labour market remained solid in June. Nonfarm payroll grew by 147,000 in June, following a 144,000 increase in May. The unemployment rate edged down by 0.1 percentage points to 4.1% in June. However, wage growth moderated, with average hourly earnings rising by 3.7% YoY and 0.2% MoM in June, compared to 3.8% and 0.4% in May. The solid jobs report helped offset earlier concerns about an imminent economic slowdown, leading markets to lower expectations for a July rate cut.

Business surveys showed broad-based improvement in June. The Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) contracted at a slower pace, rising to 49.0 in June, while the S&P manufacturing PMI expanded more strongly to 52.9. Besides, the ISM services PMI crept into expansionary territory at 50.8 in June, and the S&P services PMI remained in expansion at 53.1, despite a slight decline. Overall, these business surveys indicate improving sentiment regarding economic momentum.

US Rate Expectations



Source: Bloomberg

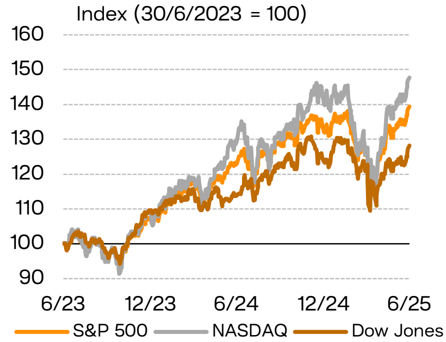
The Fed kept rates steady

The Fed held rates unchanged in June. The FOMC held the federal funds rate steady at 4.25-4.50%, reaffirming its patient approach to monetary policy adjustments. Fed Chairman Powell described the economy as being in solid shape and indicated no immediate need for rate cuts. The Fed's latest economic projections for 2025 anticipate a total of 50 basis points (bps) rate cuts for the remainder of the year, though the dot plot showed a wide dispersion of views. For 2026 and 2027, the Fed expects fewer rate cuts than previously forecast. In addition, projections for inflation and the unemployment rate have been revised upward, while growth forecasts have been trimmed. These revisions reflected the Fed's view that the tariff measures would exert upward pressure on inflation and pose downside risks to growth.

Stocks posted strong gains in June

Major US stock indices surged in June. The S&P 500, Nasdaq, and Dow Jones Industrial Average rose by 5.0%, 6.6%, and 4.3% in June, respectively, with both the S&P 500 and Nasdaq hitting record highs. This capped a strong quarter after a subdued Q1, which was weighed down by tariff concerns. June's strong rally was driven by strength in the technology sector, optimism around AI, and improved investor sentiment from the China-US trade truce. US treasury yields were volatile in June amid escalating geopolitical tensions between Israel and Iran, which once drove up oil prices. The US 10-year treasury yield ended June at 4.23%. The US dollar weakened again in June, with the US dollar index falling by 2.5% MoM to 96.875, as fiscal concerns weighed on sentiment.

US Equity Indices



Source: Bloomberg, data as of 30/06/2025

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).