



JAPANESE EQUITIES GET A BOOST BUT US TRADE PARTNERS FACE TOUGH CHOICES

This week economic data was scant, but corporate updates were abundant. The overall picture for corporate earnings has been positive as companies across a range of industries presented positive updates. In the US around 80% of businesses exceeded their earnings forecast. There were some disappointments as car makers and other high-profile companies like Intel and luxury goods maker LVMH fell short of expectations.

The trade deal between Japan and the US was welcomed by investors in Japanese equities. Japanese car makers were among the biggest beneficiaries, and a quick glance at recent earnings updates from global car makers shows why. There were also trade deals for Indonesia and the Philippines. The headline rate for Indonesia falls from 32% to 19%, although the pre-April rate was a maximum of 5%, and the levy on exports from the Philippines falls from 20% to 19%. These deals highlight the dilemma facing many governments. On one hand are punitively high tariffs and on the other are significant concessions to US businesses plus tariffs way higher than their pre-April levels.

THE MARKETS THIS WEEK

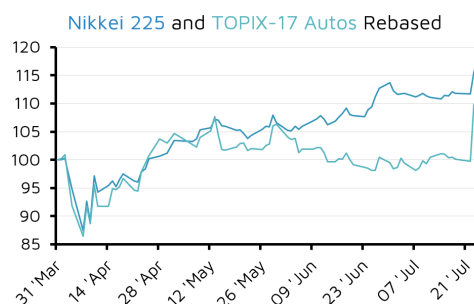
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+1.29%	+1.03%	+4.00%	+0.07%	+2.26%	-0.02%	-0.02%	-0.21%	-0.26%	+4.71%	+0.26%



TRADE: US SIGNS DEALS WITH JAPAN, INDONESIA AND PHILIPPINES

Japan and the US agreed a trade deal after four months of haggling. The US will charge a 15% levy on Japanese goods apart from steel which has a 50% tariff rate. Crucially, tariffs on autos are cut from 25% to 15%. Japanese shares rose as double digit jumps in automakers Toyota, Honda, Subaru and Mazda propelled the Nikkei index 4% higher. Japan is allowing US rice, cars and agricultural products into its market and investing \$550bn in America, including a possible liquified natural gas project in Alaska.

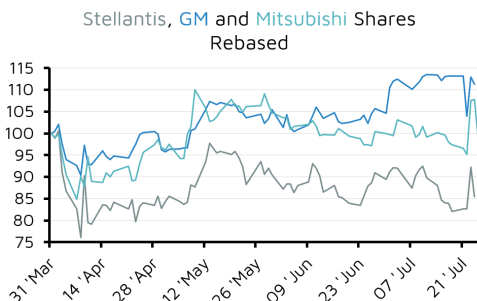
Indonesia and the Philippines also reached deals setting US tariffs on their goods at 19%, with Indonesia dropping "non-tariff barriers" including goods inspections and export controls, while adopting US car safety and pharmaceuticals standards. The already extended deadline for negotiations on US reciprocal tariffs ends next week. The EU is closing in on a 15% tariff agreement to allay US grievances about its trade surplus with the US. Meanwhile it is negotiating with China over its trade surplus with the EU.



AUTOS: US TARIFFS BITE AUTOMAKERS REVENUES ACROSS THE GLOBE

Car makers are counting the cost of Donald Trump's tariffs after the US imposed a 25% levy on cars and car parts from 2 April. Stellantis - the owner of Fiat, Alfa Romeo and Chrysler - expects a loss of €2.3bn in the first half of its financial year as US shipments dropped 25% in the second quarter. The company made a profit of €5.6bn during the same period in 2024. Revenues at US car maker GM fell 32% in the second quarter, despite a big increase in electric car sales and a recovery in its Chinese business. GM makes a large number of cars in South Korea, Mexico and Canada for the US market.

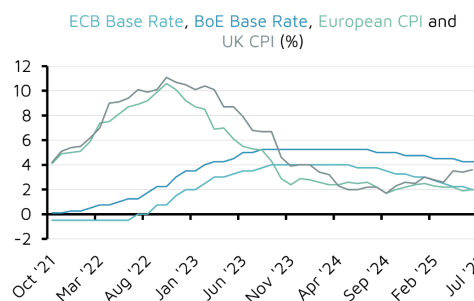
Profits at Korea's Hyundai fell 22%, despite higher sales. While Mitsubishi Motors said a 3% fall in sales and tariffs wiped out its profits from a \$201m profit last year. Tariffs have cost VW €1.3bn, with operating profits at Audi and Porsche plunging 64% and 91% with restructuring at both firms adding to costs as well. EU and Korean firms will be hoping a trade deal will bring them a boost similar to what Japanese firms enjoyed this week.



RATES: ECB HOLDS RATES AFTER EIGHT CONSECUTIVE CUTS

The European Central Bank kept its benchmark interest rate unchanged at 2.15% as inflation continued to ease and wage growth slowed. It is the first time in 12 months that the bank has not cut rates, seeing as the Eurozone economy was resilient in the face of trade pressures and inflation falling to its 2% target.

In Japan, a combination of low demand from traditional buyers and political uncertainty led to the weakest auction of 40-year government bonds in 14 years. Prime Minister Shigeru Ishiba's party lost its majority in both houses of parliament in a historic defeat over the weekend. The two events hit Japanese bond markets and yields on the more liquid 10-year bonds hit a 17-year high of 1.6%. Meanwhile, Emerging Markets sovereign and corporate bonds are attracting international investors with the premium they must pay above US treasuries falling to their lowest since 2007. Bonds issued by wealthy Gulf states have garnered high ratings and have boosted the performance of EM bonds.



Data sourced from Bank of England, European Central Bank, Eurostat, Investing.com and Office for National Statistics

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