

Weekly Newsletter

May 16th, 2025

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Musings

"If you can't convince them, confuse them."

—Harry S. Truman

Last week in the markets

	Closing level	Weekly change	YTD change
S&P 500	5,958.37	5.29%	1.30%
Nasdaq Composite	19,211.10	7.15%	-0.52%
10Y UST Yield	4.445	1.44%	-2.80%
Crude oil	61.97	1.56%	-13.59%
Gold	3,204.45	-3.65%	22.11%
DX	100.98	0.56%	-6.91%
USD/INR	85.55	0.22%	0.02%
Euro STOXX 50	5,415.00	1.84%	11.47%
India (Nifty)	25,019.80	4.21%	5.82%
Japan (Nikkei)	37,753.72	0.67%	-5.37%
China (CSI 300)	3,889.09	1.12%	-1.16%
Saudi (TASI)	11,438.94	0.66%	-4.96%
Abu Dhabi (ADX)	9,654.22	0.29%	2.50%
Dubai (DFM)	5,455.40	2.69%	5.75%

News from the markets

The University of Michigan's preliminary consumer sentiment index for May dropped sharply to 50.8, down from 52.2 in April and marking the fifth consecutive monthly decline and the second-lowest reading on record.

Inflation expectations surged to 7.3%, the highest since 1981.

On the face of it, this suggests a move towards stagflation and makes the Federal Reserve's job more difficult.

We do, however, note that in recent months 'soft data' such as the above has not always been reflected in subsequent 'hard data'.

Also, it is not clear that these sentiments fully capture the impact of the recent announcements of change in trade policy.

As per CME Fedwatch, ~77% of the market expects the first Fed cut to happen in September 2025.

Credit rating agency Moody's downgraded the credit rating of US from a perfect Aaa, which it had maintained from 1917, to a notch lower at Aa1. The reasons given are rising level of deficit when the debt to GDP has crossed 100%.

S&P had downgraded the US in 2011.

Fitch had downgraded the US in 2023.

In both instances, markets had mostly taken their own course driven by the direction of interest rates.

We do not expect a significant long-term response this time around, too. Reasons include:

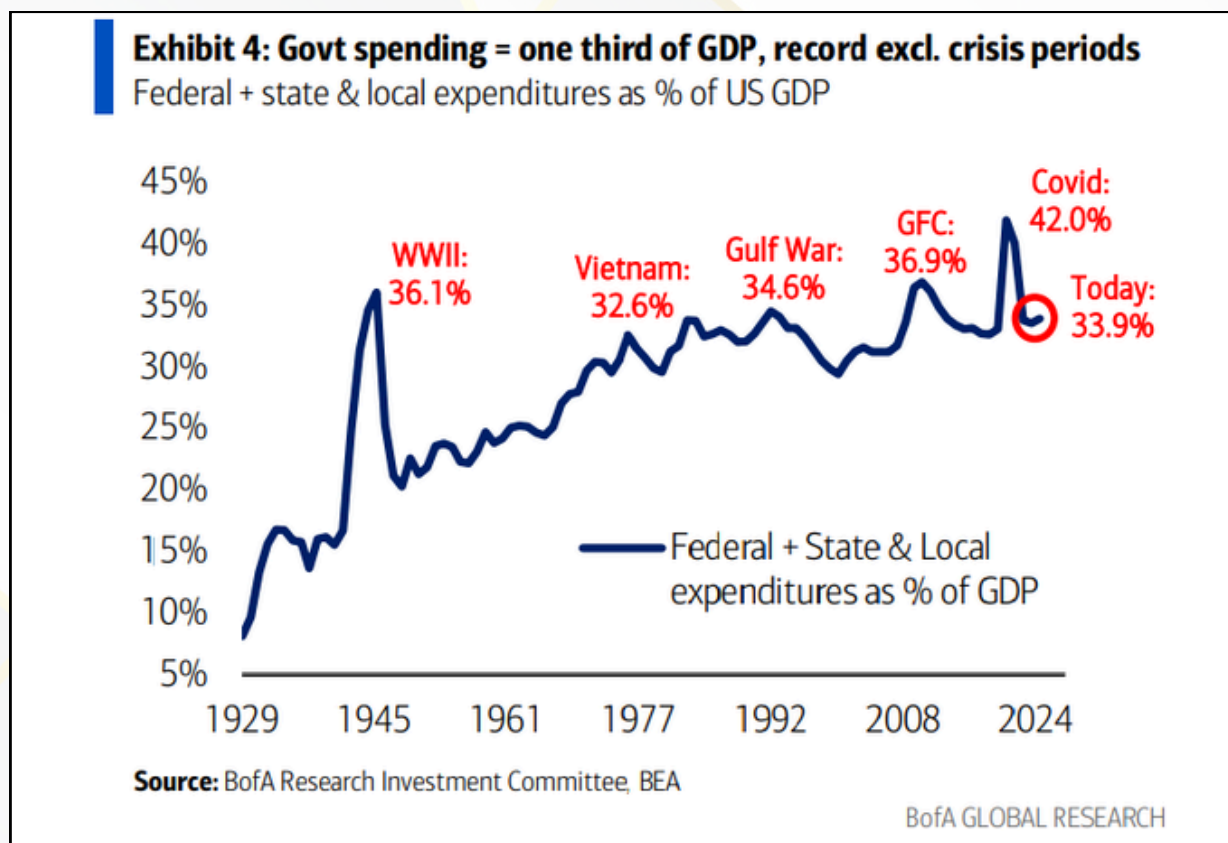
- Moody's had already put US on a credit watch in 2023, so a downgrade was expected in any case.
- None of the countries still with AAA ratings – Australia, Canada, Denmark, Germany, Lichtenstein, Luxembourg, Netherlands, Switzerland, Norway, Sweden and Singapore – have capital markets of comparable depth. In other words, US remains 'the cleanest dirty shirt in the laundry heap'
- Under the Basel III framework, used in the U.S. and globally for bank capital regulation, banks do not need to hold capital against their holdings of U.S. Treasury securities. This downgrade does not change that.

Having said that, we continue to believe that investors should book some profits from the recent blistering rally and keep some cash available for better entry levels.

Key economic events coming this week

May 19th	<ul style="list-style-type: none"> • EUR CPI (Apr) • Emaar Dev. earnings
May 20th	<ul style="list-style-type: none"> • Home Depot, Palo Alto earnings
May 21st	<ul style="list-style-type: none"> • UK CPI (Apr) • US Crude Oil Inventories • Baidu, Lowe's, Target, Snowflake earnings
May 22nd	<ul style="list-style-type: none"> • US Initial Jobless Claims • US Existing Home Sales (Apr) • Intuit, Dollar Tree earnings
May 23rd	<ul style="list-style-type: none"> • German GDP Q1 • US New Home Sales (Apr) • JSW Steel, PDD Earnings

Chart of the Week



House Republicans failed Friday to push their big package of tax breaks and spending cuts through the Budget Committee, as a handful of conservatives joined all Democrats in a stunning vote against it.

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