MARKETS AND ECONOMY

Markets buoyed by news on trade talks and the Fed chair

April 28, 2025

Invesco Global Market Strategy Office

Share

Key takeaways

Market rally

Conciliatory words from the US administration helped financial markets rally last week, but we're not at the end of this ride yet.

Rate cuts

Deeper cuts are priced for major central banks, but we think the European Central Bank and Bank of England have more flexibility than the Federal Reserve now.

US economy

As households and businesses spend money before tariffs come into full force, it's difficult to determine whether and when a US recession may be coming.

The 2025 roller coaster took an upward turn last week when President Donald Trump announced that he never had any intention of firing Federal Reserve (Fed) Chair Jerome Powell, when US Treasury Secretary Scott Bessent made concessionary comments around tariffs on China, and when Elon Musk commented that he would soon be stepping back from the Department of Government Efficiency (DOGE).

Can we get off the roller coaster now and find a tamer ride in the 2025 theme park? Doubtful. Markets have heard positive comments before, only to get another twist a few days or hours later. It's certainly possible that we have passed the scariest part of this ride, but to think it may not have a few more corkscrews is naïve.

The data we observe now is something of a house of mirrors. Consumer and business sentiment in the US has been crashing,[1] and the International Monetary Fund (IMF) has downgraded its growth forecasts.[2] But hard data have been coming in stronger than expected. This likely reflects a pulling forward in demand and makes it difficult to form strong views on recession probabilities.

You're not fired: Trump indicates he will not remove Fed Chair Powell

The market rejoiced when it appeared that market pain would result in the Trump administration backing down from select policies.[3] Market action on Monday, April 21—US stocks, US Treasury bonds, and the US Dollar Index all falling together — sent a clear signal that challenging Federal Reserve independence won't be rewarded.[4]

Maybe those fears were misplaced. On Tuesday, April 22, Trump said he never had any intention of firing Powell. "Never did," and "The press runs away with things. No, I have no intention of firing him. I would like to see him be a little more active in terms of his idea to lower interest rates."[5]

Perhaps Trump realized that firing Powell would likely mean much higher bond yields. By stepping back, Trump may get his wish for lower rates. The market is now free to focus on recession risks and is now pricing three to four rate cuts by year end.[6]

We wouldn't be surprised to see fingers pointed at Powell in the event of slower US growth, but that's more about politics than policy.

Trade talk continues as markets seek clarity on tariffs

Markets were further buoyed by Bessent's comments that a trade deal could be done with China. However, shortly after he said a deal would take years. Comments from Bessent later in the week suggested an "agreement of understanding" could be made with South Korea soon.

These are better trade headlines, but we are no closer to knowing where the ultimate tariff rate will land. What we do know is that tariffs are an order of magnitude higher than the 2.3% of 2024,[7] and uncertainty around trade policy is at a record high.[8] That's having a dampening effect on economic sentiment in the US.

Is DOGE done? Musk announces plans to step down

Elon Musk announced he will step back from DOGE soon to spend more time at Tesla. By DOGE's own estimates, the team has saved around $160 billion,[9] a fraction of the original goal and a vanishingly small dent in the $6.8 trillion[10] federal budget. It will become clear over the coming months what type of lasting impact layoffs and spending cuts may have on government departments. However, less uncertainty around department cuts and disruptions, at the margin, was taken positively by markets.

US growth forecasts decline, but hard data has held up

Last week, the IMF downgraded its global growth[11] forecast citing the US trade shock and subsequent uncertainty. Consumer sentiment and business confidence measures have been falling fast as uncertainty takes its toll on economic vibes.[1]

But hard data are holding up. Two weeks ago, we saw strong US retail sales, and then last week, durable goods orders rose by 9.2% compared to 2.0% expected.[12]

It's no surprise to see stronger-than-expected US economic activity as households and businesses rush to make transactions before tariffs come into full force. This pulling forward of demand makes it difficult to determine whether and when a US recession may be coming.

At this point, we might think of this as more of a "vibecession" than a recession.

Easier path for the ECB and BOE than the Fed

While Trump wants the Fed to cut rates more quickly, his policies are providing the conditions for other central banks to cut more quickly.

Bank of England (BOE) Monetary Policy Committee member Megan Greene commented last week, "The tariffs actually represent more of a disinflationary risk than an inflationary risk" [for the UK]. Markets are now close to pricing four rate cuts[13] from the BOE. Four cuts seem about right to us and, if achieved, should mean mortgage rates move lower. Lower mortgage rates should encourage UK households to dip deeper into their pockets and spend more.

The ECB has led the rate cuts in this cycle and that's starting to help improve consumer confidence and retail sales. Domestic activity in Europe has been improving and this has been reflected in better European equity market performance.

Time in the market versus timing the market

Over the three weeks ending April 16, 2025, investors withdrew $47 billion from equity mutual funds and ETFs and $50 billion from fixed income mutual funds and ETFs.[14] This simultaneous flight from stocks and bonds is unusual and underscores the anxiety surrounding US dollar assets.

Unfortunately, those investors who took money out of equity funds before April 9 missed out on the third best day ever for the S&P 500 Index.[15] A reminder of the importance of time in the market versus timing the market for long-term investors.

We remind investors, too, that by the end of last week, the 10-year US Treasury rate was close to its average over the past two years.[16]

Stocks higher, but relative trends are unchanged

Global equity markets traded higher[17] on the softer tone from the US administration last week. US equity markets outperformed,[18] and the US dollar[19] recouped some of its lost ground, but we don't think this marks a return to the US exceptionalism narrative.

US assets have enjoyed more than a decade and a half of dominance, and those valuation premiums are now hard to justify.

Even if investors outside of the US don't rush to take their money home, we believe the marginal pound, euro, franc, yen, etc. will now find their way into markets outside of the US, including Europe, Asia, and maybe even the UK.

It's time once again to remember the importance of diversification. And finally, recent moves in stocks confirm that while markets are a roller coaster, there are some good reasons to stay on the ride.

It's certainly a rush!