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Economic and Market Commentary June Quarter 2025

Significant volatility in April was followed by a broad recovery in most markets.

After a wild start to the quarter, the end outcome was a quite remarkable increase in asset values across almost every major asset class. In early April, just two days into the quarter, the US President surprised everyone—potentially including himself—with the size and severity of tariffs, especially against China. Global share markets tumbled at a rate not seen since the Covid pandemic. For example, US shares (SP500) fell by 12% over a period of days.

Tariff policy has been a key driver in the quarter but markets are learning to ignore talk and respond only to actions

It was only after the US Treasury market began to show signs of heart murmurs that the President began to back down on the tariff threat. The remainder of the quarter saw on-again-off-again policy announcements and deadline extensions. The net result is that markets bounced back quickly. Markets now appear to be disregarding what is said on the White House lawn and are responding only to concrete, implemented action. That is probably a good thing for markets going forward.

The outlook for growth has softened

Markets and economists have been revising down their forecasts of economic growth over the medium term, especially in the US. The general view is that tariffs, or even the uncertainty created by swings in policy, are likely to have a net negative impact. Businesses are in wait-and-see mode, pausing capital investment until some of the fog lifts.

Central banks are continuing to ease policy with inflation under control

With this background, some central banks have cut interest rates further, though they were likely to cut rates anyway, with inflation rates generally coming back close to their targets. New Zealand, Europe, England and Australia have all cut rates. The US and Canada have kept rates unchanged, though both are expected to ease policy in the coming months. All central banks have emphasised unusual uncertainty, to the extent that some are now publishing 'scenarios' rather than forecasts.

All major asset classes delivered positive returns for the quarter

Overall, global equity markets rose 4% in the quarter. Europe, the UK and New Zealand were at the weaker end of the spectrum, though within Europe Germany stood out due to the removal of its federal debt constraint. Long-term interest rates, despite being volatile in April, ended the quarter only slightly higher than where they began.

Key items to watch in the coming months are: tariff policy (again); whether the US Federal Reserve eases policy soon; and how markets react to the massive and clearly unsustainable fiscal stimulus in the US budget bill (Figure 2).

Figure 1 – Despite volatility, almost all the main asset classes have had positive returns

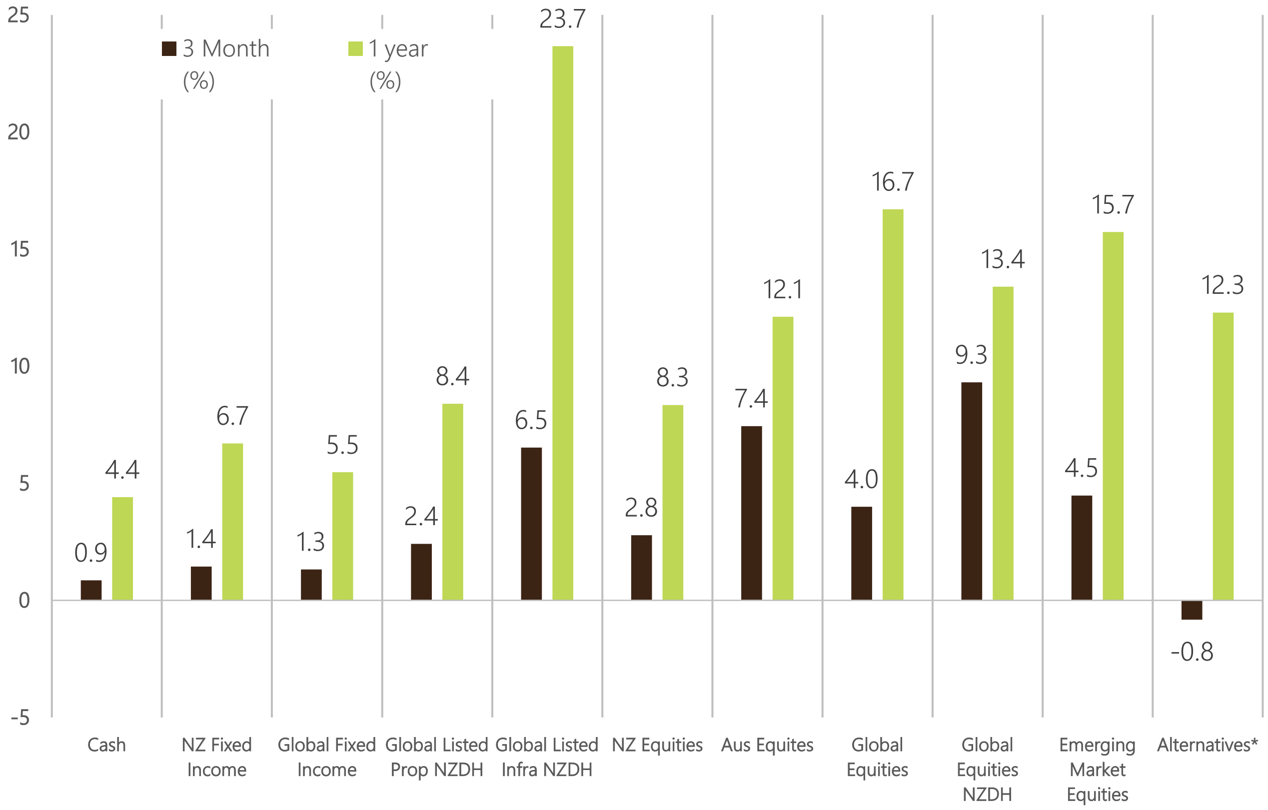
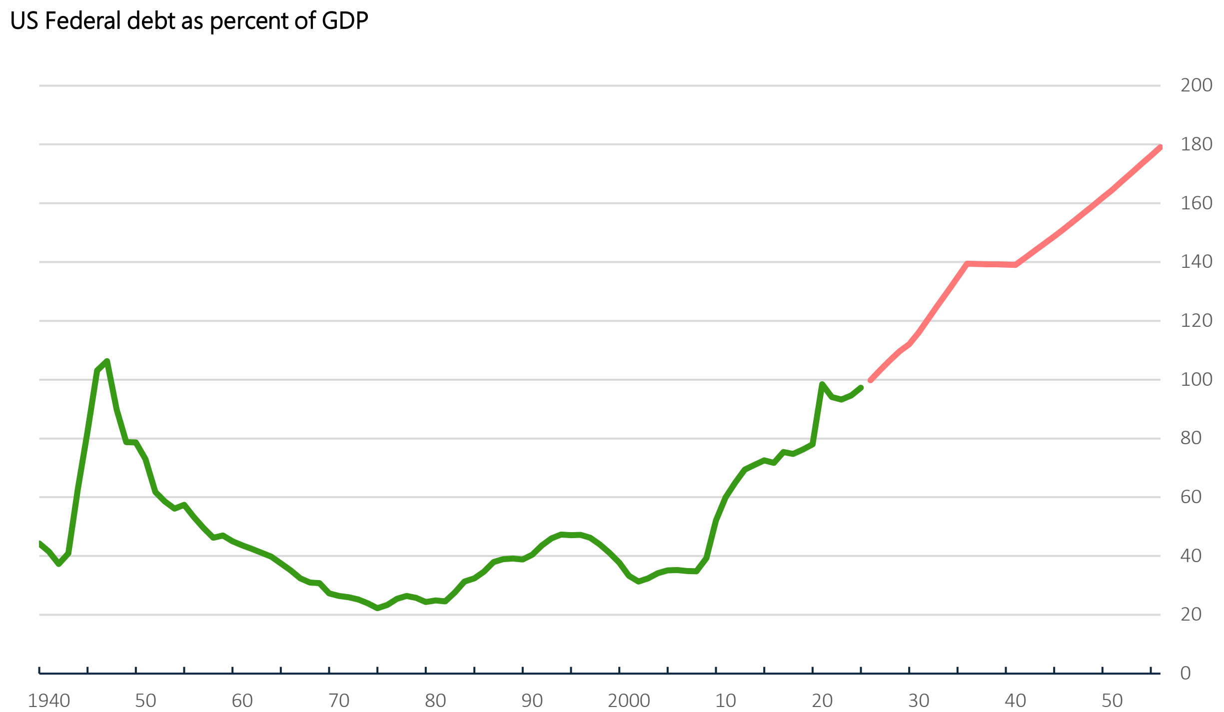


Figure 2 – US fiscal policy is unsustainable



Source: US Federal Reserve, Budget Lab at Yale