Macro Month Ahead
May 2025

May the odds be ever in your favour in the “Tariff games”

May this new month bring visibility to the economic and financial outlook, after the upheaval triggered by 2 April tariff announcements and their aftermath!

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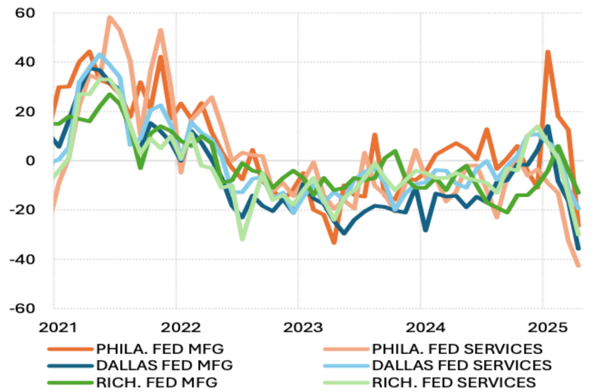
PRIVATE BANKING

The so-called Liberation Day indeed introduced an unusual degree of uncertainty in short-and-medium term prospects. Global trade dynamics and supply chains could be dramatically affected if deals are not rapidly sealed to lower tariff rates down to reasonable levels, and the maverick approach of the Trump administration toward international relations was a cold shower for businesses around the globe. Business leaders realised that unilateral political decisions essentially driven by ideology could be taken by the world's largest economic power with little consideration for their impact on existing businesses. While the tone of US officials turned more constructive in the second half of April, it remains difficult for companies and investors to have visibility on some essential components of the economic framework (tariff levels, economic growth prospects, inflation dynamics, interest rates, US dollar…). In such uncertain context and similar to what happened last month, the main market moving news might rather come from President Trump's posts on social networks, statements by officials such as Secretary of the Treasury Bessent and Secretary of Commerce Lutnick, or reactions from China to the US pressure. Still, even if the full effects will likely be felt only after a few more months, all economic data releases related to April will be closely watched as gauges of the initial impact of the tariff announcements. It is also worth paying attention to the OPEC meeting **(5/05)** when the cartel could further increase its output and exacerbate downward pressures on oil prices. In parallel, the new German government will effectively take office **(6/05)** with elevated expectations around its economic program after the announcement of a radical shift in fiscal policy approach announced in March. Without prejudging the performance of the markets over the coming weeks, May is a month in which investors shouldn't shy away—at least from their economic newsfeed. Let's review below the main known macroeconomic events due this month, and may the odds be ever in your favour as the inevitable surprises of the coming weeks unfold!

United States: assessing the extent of the confidence shock

The tariff announcement on 2 April was so disruptive to the US economy that economic data related to prior months have lost their appeal. The resulting uncertainty for businesses and households as well as their impact on economic activity have already been visible in April's releases but will likely take months to fully feed through real economic activity data. However, sentiment surveys for the month of May will be closely watched for gauging the extent of the confidence hit experienced by the US economy. The Empire Manufacturing and Philadelphia Fed Business outlook **(15/05)**, the NY Fed Services business activity **(16/05)**, the Philadelphia Fed Services activity **(20/05)**, the Dallas Fed Manufacturing activity **(27/05)** and Richmond Fed Manufacturing activity **(28/05)** will bring interesting insights into the dynamic in activity and sentiment after the initial April hit. The flash estimate of May PMI Manufacturing & Services **(22/05)** will also be of interest.

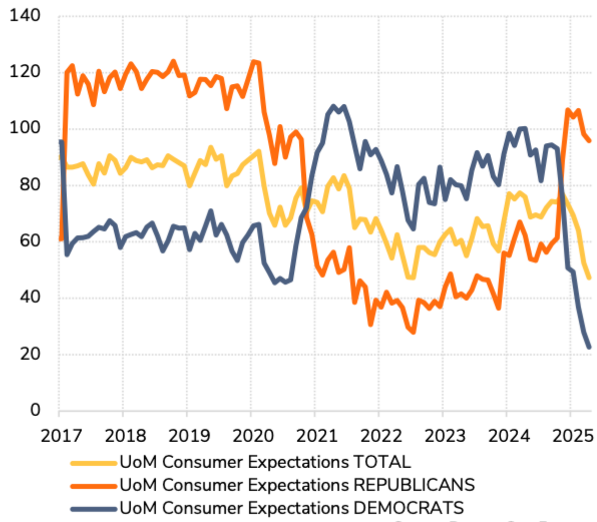
Will the downward trend in business confidence extend in May?
Selected regional surveys of manufacturing and service activity



Source: Banque Syz, Factset

Consumer confidence surveys will be closely watched as the US consumer might eventually be the most affected by the inflationary impact of tariffs on a wide range of imported goods. Consumer sentiment began deteriorating at the beginning of the year as households have become increasingly concerned about an inflation resurgence that would hamper their purchasing power. Interestingly, this evolution had so far been quite partisan, with Democrat-leaning voters becoming very pessimistic while Republican-leaning voters had remained rather upbeat about their current situation and the outlook. The first release of the University of Michigan consumer sentiment survey **(16/05)** will bring an interesting insight into the impact of tariffs on the Republican voters' base. A deterioration in confidence among President Trump's voters would at the same time increase the chances of a softening in the administration's stance and raise the risks of a broad-based slowdown or even decline in consumption spending. The Conference Board consumer confidence **(27/05)** will also provide a valuable update on households' sentiment later in the month. In that respect, it should be noted that the decline in oil prices can be expected to bring some support to consumer sentiment, and that developments in the labour market will be key for the consumption's outlook (Employment Report **2/05**, weekly jobless claims every Thursday). Whether the job market remains resilient or eventually deteriorates will likely define whether consumption and growth "simply" experience a significant slowdown in the coming months, or if a recession scenario cannot be avoided.

Consumer expectations split between Republican and Democrat-leaning voters (U. of Michigan)

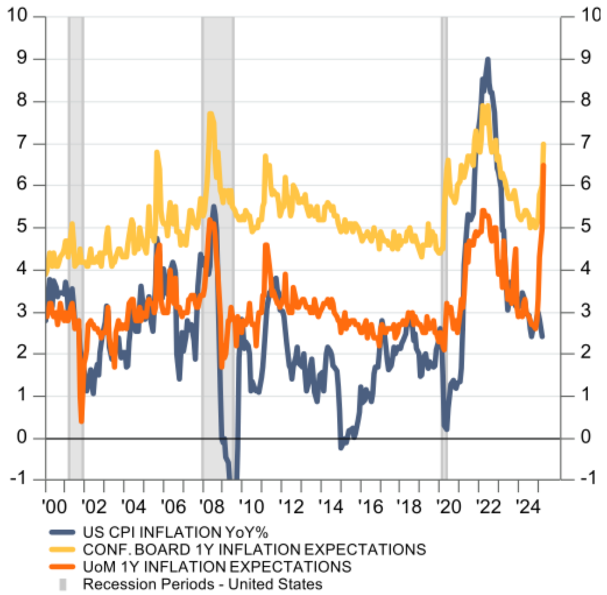


Source: Banque Syz, Factset

Inflation data will also be closely watched in the coming weeks for early signs of higher prices resulting from tariffs or supply-chain disruptions. Gauges of inflation expectations in the consumer survey above-mentioned and NY Fed inflation expectations **(8/05)** will show whether the sharp increase witnessed in the recent months is extending further. In parallel, actual inflation numbers will show how many of those high expectations are materialising. CPI inflation **(13/05)**, PPI inflation **(15/05)**, the evolution of import prices **(16/05)** and the Fed's favourite inflation gauge (PCE deflator **30/05**) will bear a special significance this month. This will be crucial information for the Fed and the evolution of US monetary policy in the coming months. When Fed members meet in the first week of May, they are unlikely to have sufficient visibility to move away from the "wait-and-see" stance they adopted at the beginning of the year. No change in rate is to be expected at the next meeting **(7/05)** but the evolution of economic activity, the labour market and inflation data will define whether the rate cuts currently expected by future markets can be delivered or not.

While easing monetary policy can appear necessary if US growth slows down significantly, the Fed is also required to prevent a resuming in inflationary dynamics. It could be "forced" to maintain a restrictive monetary policy stance if inflation expectations remain elevated.

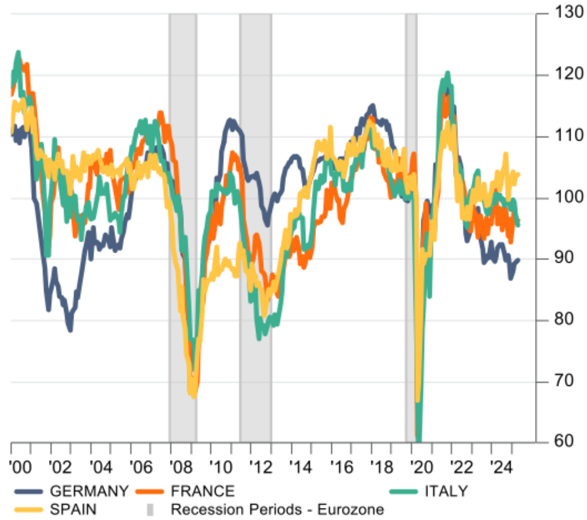
US consumer inflation expectations and actual CPI inflation



Europe: short-term headwinds and long-term hopes?

US tariffs on European imports have been temporarily suspended after the initial announcement on 2 April. However, the lingering uncertainty and the message it sends to one of the United States' oldest allies are negative for most European companies doing business in the US. This uncertainty is likely to weigh on economic activity in the coming months. After a stronger-than-expected GDP growth in Q1, the growth dynamic risks faltering and business activity surveys will, like in the US, be scrutinised to gauge the extent of the short-term damages. The final data of Manufacturing PMI **(2/05)** and Services PMI **(6/05)** for April and, more importantly, the first estimate of those same PMI indicators for May **(22/05)** will be complemented by the Economic Sentiment Index for May **(27/05)**. The latter has been hovering at level consistent with economic stagnation for some time, due to the weakness of growth in Germany, who is in front line among European economies for a negative impact of US tariffs through its industrial sector. The German ifo Business Confidence Index **(22/05)** will reveal the mood among German businesses after these recent developments.

Economic Sentiment Index by country



Interestingly, German businesses and households might be currently torn between the short-term headwinds coming from the US and encouraging medium-term prospects from an expected change in fiscal policy. After the February's elections and the historical shift in fiscal policy philosophy operated in March, the new coalition government headed by Friedrich Merz should formally take lead at the beginning of the month once the new Chancellor is elected by the Bundestag **(6/05)**. The agenda for reforms and policy announcements will then be heavy for the new government. Hopes of a significant and sustained fiscal policy support might mitigate the negative sentiment impact of US tariffs even before the concrete impact becomes visible in 2026, but it will be up to Friedrich Merz to live up to the expectations in a credible and swift manner. In the ensuing weeks, a Eurogroup meeting **(12/05)** and the EU-UK summit **(19/05)** will be the first official occasions for Chancellor Merz to elaborate on the new German economic policy with European partners in a context of Europe is pushed by global developments to better coordinate and integrate its policy responses.

Earnings season continues

The Q1 earnings season in the US is already well advanced as most S&P500 heavyweights have published their results in April. However, some big cap market bellwethers still need to communicate their Q1 results in May: Berkshire Hathaway **(5/05)**, Walt Disney **(7/05)**, Walmart and Deere&Co **(15/05)** and, last but not least, the always eagerly awaited results of Nvidia **(28/05)**.

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