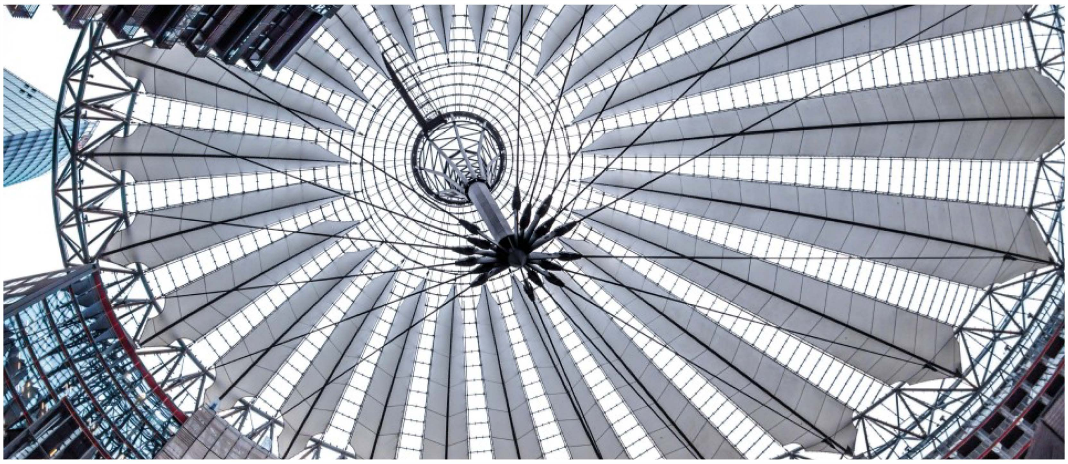

Article MARKET COMMENTARY

Weekly round-up: 5-9 May

Tom Watts recaps the past week's events and looks ahead to the next.

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This week

Having come into office for the second time back in January, investors have already become very used to Donald Trump going off script, and so it was no surprise this week that UK investors spent their bank holiday digesting what his latest tariff could mean for actual script writing...

It was lights, camera, action! On Sunday as the man in the White House announced a 100% tariff on all films produced outside the of the US, saying the American movie industry was dying a "very fast death" due to the incentives that other countries were offering to lure filmmakers.

He added: "WE WANT MOVIES MADE IN AMERICA, AGAIN!" on his Truth Social account but did not provide any further details on how tariffs would be implemented.

Shares in major film producers such as Disney, Warner Bros Discovery, Paramount and Amazon were all sent *reeling* after the news, falling a few percent each.

With the UK actually being one of the leaders in audiovisual production, it seems apt that the past week really allowed us to *focus* in on how the domestic economy is doing, thanks to the Bank of England (BoE), who cut rates by 0.25% on Thursday as expected. The headline news really came in the form of the BoE's rate setting committee, which narrowly voted 5-4 in favour of cutting borrowing costs by a smaller amount. Two Monetary committee members, Swati Dhingra and Alan Taylor, actually voted for a bigger 0.5% cut, whilst the bank's Chief Economist, Huw Pill, and Catherine Mann wanted to keep rates on hold.

"The past few weeks have shown how unpredictable the global economy can be. That's why we need to stick to a gradual and careful approach to further rate cuts," Bank Governor Andrew Bailey said in an accompanying press conference.

The combination of this voting split and the decision to keep the "gradual and careful" forward guidance, rather than endorse the extra cuts the market was pricing in, gave the decision a somewhat hawkish feel to it. Indeed, sterling and gilt yields jumped as the market began to price out another rate cut next month.

It was time to get the popcorn out later on during Thursday too, as US President Trump said he would scrap 25% tariffs on imports of British steel and lower tariffs on domestically manufactured cars from 27.5% to 10%, the rate which will remain for most other goods imports.

However, he did pour cold water on any ideas of seeing the UK deal as a template for other negotiations, saying that Britain "made a good deal" and that many other trading partners may end up with much higher final tariffs because of their large US trade surpluses.

"It opens up a tremendous market for us," Trump told the media during the announcement, noting that he had not fully understood the restrictions facing American firms doing business in Britain.

As a result, the US effective tariff rate on the UK will fall from 13% to around 11%, still much higher than the 1% rate prior to the much touted "liberation day" that rocked markets during early April. In exchange, the US will receive reduced tariffs on beef, machinery and ethanol from the UK, along with faster customs processing.

From recording to records, with a raft of positive news surrounding the UK economy towards the end of the week, it was a shame to see the FTSE 100 fall slightly on Thursday, breaking a never seen 17 day winning streak, predominantly fuelled by a recovery in investor sentiment following the harsh pullbacks seen after Trump's original tariff threats.

That's a wrap as they say…

Next week

With the previous bank holiday Monday now a distant memory, its time to go back to work for the beginning of this week, with even those on Threadneedle heading back into the office.

This coming Monday should prove fascinating considering what happened last week in terms of a three way spilt in the Bank of England's (BoE) rate setting committee. Monday morning will see Clare Lombardelli, the bank's Deputy Governor, give her views of the domestic economy and the reason she voted as she did, at the Bank of England Bank Watchers' conference hosted by King's College Business School, in London.

Being one of the more influential voices at the BoE, her words will carry a certain weight, with public engagements such as this often used to drop subtle clues regarding future monetary policy.

Staying with the domestic economy, the Office for National Statistics (ONS) release a raft of domestic labour data. With the UK employment market having proven remarkably resilient in the face of rising rates, Tuesday will give us the opportunity to check one facet of the employment landscape for weakness, the Unemployment Claimant Count. Measuring the change in the number of people claiming job seeker's related benefits during the previous month, the figures are crucial in understanding the strength of the overall market as the figures contribute strongly to the general unemployment picture.

The data will be twinned with average hourly earnings figures to give us a much more comprehensive picture of the domestic employment landscape, and with higher corporate National Insurance and minimum wage payments starting to bleed through into the numbers, the data should take on added significance.

The ONS have more work to do during the second half of the week as they make public their Gross Domestic Product (GDP) reading for the UK. Acting as the broadest measure of economic activity and the primary gauge of the economy's health, GDP measures the change in the total value of all goods and services produced by the economy. With the government struggling to spur any growth during the first months of the year, both those in the City of Westminster and City of London will be hoping for some good news to get the second quarter of 2025 off to a strong start.

Across the pond, the big news should come in the form of US inflation data. Having come in marginally below expectations last month, many will be hoping for more of the same as US President, Donald Trump's potentially inflationary policies start to have an effect on prices at the tills, or "registers" with the data coming from North America…

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