

Stocks rally as risk-on returns with Dollar finding relief as trade talks & earnings pick up

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude up, Dollar up
- **REAR VIEW:** BBG reports Bessent expects situation with China to de-escalate, while FBN sources say Bessent remarks about a trade deal with China "have being imminent overstate what he said"; White House reportedly 'close' on Japan and India trade agreements, albeit may take months to reach final deals; Trump said US and Israel are on the same side of every issue; IMF WEO lowers '25 & '26 global growth forecasts; US reportedly proposes recognising Crimea as Russian; US data disappoints; RTX FY sales guidance underwhelmed; NOC earnings underwhelmed.
- **COMING UP:** **Data:** Australian, Japan, EZ, UK, US PMIs. **Event:** IMF/World Bank Spring Meeting. **Speakers:** BoE's Bailey & Breeden, ECB's Lane, Cipollone, Fed's Goolsbee, Musalem, Hammack, RBA's Bullock. **Supply:** Germany, US. **Earnings:** BE Semiconductor, Volvo AB, Danone, Kering, EssilorLuxottica, NatWest, Saipem, Boeing, AT&T, Vertiv, Phillip Morris, GE Vernova, Alaska Air, IBM, Chipotle, ServiceNow, Texas Instruments, Lam Research.

MARKET WRAP

US indices saw strength on Tuesday and pared some of Monday's weakness amid the broader risk-on sentiment and participants buying Dollar-denominated assets. Risk-on trade was already seen as US players entered for the day and after the US cash equity open, but it was further buoyed after Bloomberg reported that US Treasury Secretary Bessent told a closed-door investor summit Tuesday that the tariff standoff with China is unsustainable and that he expects the situation to de-escalate. Do note, FBN's Gasparino later posted on X that he's been told by a person close to Bessent that the reports on his remarks about a trade deal with China having been imminent overstate what he said. Elsewhere on the trade footing, Politico noted that the White House is 'close' on Japan and India trade agreements, but added it may take months to hammer out the final deals. US data was dismal as both Philly Fed Services and Richmond Fed disappointed, albeit saw little market move, while IMF downgraded the 2025 and 2026 global growth forecasts. Amid the greater demand for US assets on Tuesday, the Dollar was bid to the detriment of most G10 peers (EUR, CHF lagged), although the CAD saw marginal gains due to firmer oil prices. On this, the crude complex was firmer, buoyed by the aforementioned risk-on sentiment and new US sanctions against Iran, amongst other things. Overall, T-Notes reversed prior day Trump vs. Powell steepening. Fed speak saw little new. Sectors were all in the green with everyone noticing gains of around 1.5% or more. Financials outperformed, while Consumer Staples 'underperformed', with the focus in the US equities space on earnings. The highlights included VZ, RTX, LMT, and NOC with all major earnings recapped below.

US

RICHMOND FED: Richmond Fed disappointed in April, as the composite manufacturing index fell to -13 from -4 in March. Of its three component indices, shipments and new orders fell notably to -17 (prev. -7) and -15 (prev. -4), respectively, and employment fell slightly to -5 from -1. Moreover, the local business conditions index tumbled to -21 from -13, while the index for future local business conditions also dropped notably to -37 from -22. On the inflationary footing, prices paid and received both rose, and firms expected heightened growth in both indices over the next 12 months. Furthermore, the future indices for shipments, new orders, and capacity utilisation all fell into negative territory.

FED'S KASHKARI (2026 voter) speaking on tariffs, said they are somewhat inflationary and also slow growth, and it's logical that tariffs lead to one-time increases in prices, but the backdrop of high inflation runs the risk of unanchoring inflation expectations. Kashkari added that can't allow inflation expectations to get unanchored, a familiar line from the Fed, and so far long-run inflation expectations have not moved much; the Fed's job is to make sure they don't. Kashkari added that it is too soon to judge the path of interest rates and interest rate level in the US is largely influenced by capital flows. On data, has not seen evidence of widespread layoffs yet; but will be paying close attention to signs if the labor market is softening materially. Data showing the labor market is healthy is stale.

FED'S BARKIN (2027 voter) said inflation expectations may have loosened. Firms are defensive, delaying and deferring investments, and there are a lot of reasons to be worried about consumer spending.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED HALF A TICK LOWER AT 110-25+

T-Notes reverse prior day Trump vs Powell steepening. At settlement, 2s +5.9bps at 3.811%, 3s +4.0bps at 3.814%, 5s +1.9bps at 3.978%, 7s +0.2bps at 4.178%, 10s -1.6bps at 4.389%, 20s -4.0bps at 4.906%, 30s -3.3bps at 4.877%.

INFLATION BREAKEVENS: 5yr BEI +5.9bps at 2.355%, 10yr BEI +4.5bps at 2.271%, 30yr BEI +2.6bps at 2.251%

THE DAY: The Treasury curve flattened on Tuesday, reversing some of the steepening seen on Monday after Trump criticised Fed Chair Powell. T-Notes had sold off overnight and in the European morning to hit a low of 110-16+ as US players were arriving. T-Notes then started to reverse, supported by a 6.5k block trade in the 5yr T-Note futures, which helped lift the 10yr futures ultimately

to hit peaks of 110-30. Note that, the upside also coincided with reports in Punchbowl that the Treasury next week will provide Congress its estimate for when the federal government exhausts its ability to borrow money. T-Notes saw little reaction to the US data, while Fed speak lacked information on monetary policy and the economic outlook. Recapping the data, Philly Fed non-manufacturing tumbled, and Richmond Fed also disappointed. There was some chop on reports via Bloomberg that Treasury Secretary Bessent told a closed-door investor summit that the tariff standoff with China is unsustainable, and he expects the situation to de-escalate. Attention then turned to the 2yr T-note auction, which ultimately tailed (more below).

SUPPLY:

- US Treasury sold USD 69bln of 2yr notes at a high yield of 3.795%, a lower yield than the prior 2yr offering of 3.984%, and resulted in a 0.6bps tail, a worse reception than the prior stop through of 0.3bps and average stop through of 0.4bps. The bid-to-cover ratio was also weak at 2.52x. The breakdown saw direct demand surge to 30.1% from 13.6%, well above the 15.4% recent average, while indirect demand tumbled to 56.2% from 75.8%, well beneath the 73% average. This left dealers (forced surplus buyers) with 13.7% of the auction, above the 10.6% prior and 11.6% average.
- US Treasury sold USD 70bln of 6wk bills at a high rate of 4.24%, B/C 2.83x.

US Treasury to sell:

- USD 70bln of 5-year notes on April 23rd and USD 44bln of 7-year notes on April 24th; all to settle April 30th USD 30bln 2-year floating rate notes on April 23, to settle on April 30.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: May (prev. 4bps), June (prev. 20bps), July (prev. 44bps), Dec (prev. 97bps).**
- NY Fed RRP op demand at USD (prev. 114bln) across counterparties (prev. 38).
- EFR at 4.33% (prev. 4.33%), volumes at USD 96bln (prev. 94bln).
- SOFR at 4.32% (prev. 4.32%), volumes at USD 2.469tln (prev. 2.505tln).

CRUDE

WTI (M5) SETTLED USD 1.26 HIGHER AT 63.67/BBL; BRENT (M5) SETTLED USD 1.18 HIGHER AT USD 67.44/BBL

The crude complex was firmer on Tuesday, as it was buoyed by risk-on sentiment and new US sanctions against Iran, amongst other things. WTI and Brent trundled largely sideways in the European morning, and eventually hit lows of USD 62.72/bbl and 66.54, respectively. However, as US players entered for the day and in after US cash equity open, benchmarks were buoyed by the upturn in risk sentiment and ground to session highs of USD 64.36/bbl and 68.04/bbl, and also gained after US issued fresh Iran-related sanctions. Prior to this, the complex waned off intra-day peaks following the IMF forecasts in which it downgraded global 2025 and 2026 growth forecasts amid tariffs, with downgrades seen in the US, China, EZ, and the UK. On the day, the energy complex was supported by several headlines, even if some of the upside proved fleeting. WTI and Brent extended higher and headed towards the earlier aforementioned peaks in wake of US President Trump posting on Truth that he had just spoken to Israeli PM Netanyahu, and relative to numerous subjects including trade, Iran, etc, and the call went very well and they are on the same side of every issue. Following this, benchmarks once again saw a boost on BBG reports that US Treasury Secretary Bessent told a closed-door investor summit that the tariff standoff with China is unsustainable and that he expects the situation to de-escalate, although FBN's Gasparino later poured some cold water on this. Lastly, oil saw immediate upside, before paring straight away, on a WaPo article that the US proposes recognizing Crimea as Russian as peace talks ramp up, potentially on the unlikelihood that Ukraine would even remotely accept it and that a truce does not seem to be getting closer. After-hours we await the weekly private inventory data, whereby current expectations are (bbls): Crude -0.8mln, Distillate 0.0mln, Gasoline -1.4mln.

On Iran/US, desks note that although talks between Washington and Tehran over the latter's nuclear programme made progress over the past weekend, failure to reach a deal could weigh heavily on Iran's oil exports amid tightening US. Analysts note that, "Either some nuclear deal is agreed or the US tries to drive Iran's oil flows to zero, and its increasingly looking like a zero-flow scenario."

EQUITIES

CLOSES: SPX +2.51% at 5,288, NDX +2.63% at 18,276, DJI +2.66% at 39,187, RUT +2.71% at 1,890

SECTORS: Consumer Staples +1.61%, Industrials +1.77%, Health +1.80%, Real Estate +2.09%, Materials +2.35%, Technology +2.45%, Energy +2.62%, Utilities +2.76%, Communication Services +2.90%, Consumer Discretionary +3.23%, Financials +3.28%.

EUROPEAN CLOSES: DAX: +0.34% at 21,279, FTSE 100: +0.64% at 8,329, CAC 40: +0.56% at 7,326, Euro Stoxx 50: +0.61% at 4,965, AEX: +0.59% at 857, IBEX 35: +0.61% at 12,997, FTSE MIB: -0.09% at 35,948, SMI: -0.05% at 11,655, PSI: +1.40% at 6,830.

STOCK SPECIFICS:

- **Verizon (VZ):** Postpaid phone net additions declined more than expected.
- **RTX (RTX):** FY sales guidance underwhelmed
- **Lockheed Martin (LMT):** EPS & revenue topped. Continues to expect between 170-190 deliveries on F35 for the year
- **Northrop Grumman (NOC):** Weak report; EPS, revenue missed & cut FY25 profit outlook.
- **3M (MMM):** Q1 numbers impressed & lifted share buyback programme USD 2bln to a total of USD 7.5bln; Cut '25 profit outlook
- **Danaher (DHR):** EPS & revenue beat.
- **GE Aerospace (GE):** Top & bottom-line beat; Left '25 forecasts unchanged but said they now assume the impact of

announced tariffs

- **Pulte Group (PHM)**: EPS beat and revenue missed
- **Genuine Parts (GPC)**: EPS & revenue topped as well as reaffirming FY view, albeit excludes tariff impact.
- **Quest Diagnostics (DGX)**: Major Q1 metrics beat.
- **Bausch Health (BHC)**: Carl Icahn has an economic interest covering ~34%; Icahn owns a 9.4% stake in the Co., and he has exposure to an additional 24.6% through cash-settled equity swap agreements.
- EU may reportedly issue first **Meta (META)** and **Apple (AAPL)** DMA fines on Wednesday, according to Handelsblatt.
- **OpenAI, Meta (META)** and **Microsoft (MSFT)** approach **Samsung (SSNLF)** about AI deals on phones, according to The Information

FX

The Dollar managed to claw back some of the weakness seen on Monday amid risk-taking returning to USD-denominated assets. Remarks from Treasury Secretary Bessent at a JPM event helped the Buck continue its strength. Bessent noted, via BBG, that the tariff standoff with China is unsustainable and that he expects the situation to de-escalate. That said, FBN's Gasparino source cited Bessent, who reportedly said reports emerging on his remarks about a trade deal with China of imminent are overstated. Meanwhile, the White House said they now have 18 proposals from countries on trade, albeit the Politico report that despite the WH being "close" on Japan and India trade agreements, they may take months to reach final deals. Regarding data, both the Richmond Fed Comp Idx and Philly Fed Svs Idx worsened in April, with attention turning to the S&P Flash PMI (Apr) report on Wednesday. Some desks, notably ING, as well as WSJ's Timiraos are speculating that US President Trump is paving the way to blame Fed Chair Powell for an economic downturn if rates are not cut soon, which would mark the first admission from the US administration of a downturn in the economy. For the record, we got updated IMF forecasts; they cut 2025 global growth forecast to 2.8% (prev. 3.3%) and cuts 2026 to 3% (prev. 3.3%). IMF do not forecast US recession, but risk of recession has increased to 40%; Global inflation expected to reach 4.3% in 2025 and 3.6% in 2026

G10 FX was generally on the back foot with the recent top gainers, CHF and EUR, at the bottom of the pile. JPY initially marginally outperformed with modest strength in the US morning, however, it succumbed to later strength in the USD amid a mixed treasury curve (short end sold, long bid). As mentioned, a trade deal between Japan and the US is reportedly 'close', however, Reuters earlier cited sources which noted that "Japan sees little scope for a grand deal on the yen in talks with the US" at this week's Washington meeting and that Japan will push back against any request to boost the Yen. Ultimately, USD/JPY heads into overnight trade at ~141.50 from earlier lows of 139.89.

Cable's strength to begin the week was trimmed on Tuesday on the broad US strength, leaving the pair at ~1.3340 into APAC trade. The day saw remarks from hawkish BoE Greene, who said that not all of the movement in BoE market pricing is related to the UK. Greene noted services inflation is the primary focus and argued US tariffs represent more of a disinflationary risk than an inflationary one for the UK, with the latter remark causing Gilts to pare earlier downside on her remark that wage growth remains "pretty high". Separately, ECB's President Lagarde was interviewed on CNBC, though remarks were consistent with rhetoric seen post-ECB meeting last Thursday, while EZ Consumer Confidence Flash (Apr) worsened more than expected.

EMFX: LatAm currencies outperformed, with CLP, BRL, and MXN seeing strength while the COP lagged and CEE's saw losses. For the Yuan, weakness remained despite the Yuan seeing swift strength on the BBG reports that Bessent expects the situation with China to de-escalate. Elsewhere, Bessent signalled a willingness to offer Argentina an FX line, according to Bloomberg.

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