

Large-cap weakness leads NDX lower as earnings season gets into full swing

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** US reaches separate trade deals with Philippines and Indonesia, who are to pay 19%; Bessent says likely to work out extension for 12th August China trade deadline; Mini India-US trade deal reportedly ruled out before August 1st; Trump says will probably meet Xi in not too distant future; Sweden to host continued US-China trade negotiations next week; BoJ likely to leave rates unchanged next week, BBG sources say; AAPL likely to gain EU antitrust approval for app store fees and rules; GM expects Q3 tariff impact to be higher than Q2.
- **COMING UP: Data:** EU Consumer Confidence, US Existing Home Sales. **Speakers:** BoJ's Uchida, US President Trump. **Supply:** Japan, UK, Germany, US. **Earnings:** VAT, Lonza, Equinor, Thales, Tesla, Alphabet, Google, ServiceNow, IBM, Chipotle, GE Vernova, Freeport, AT&T, Thermo Fisher Scientific, Lamb Weston, Infosys, Moody's, CME, Hilton

MARKET WRAP

US indices closed the day mixed on Tuesday, as the tech-heavy Nasdaq 100 lagged and was weighed on by weakness in mega-cap names Nvidia, Microsoft, Broadcom, and Netflix, while the Russell 2000 pared Monday's losses. Amid a lack of tier 1 data and Fed blackout ahead of the confab next Wednesday, focus resided around a deluge of US earnings and also remarks from Trump/Bessent. Trump announced a trade deal with both the Philippines and Indonesia, which will pay 19%, while he said they'll probably be meeting Xi in the not too distant future, and Xi has invited him to China. Bessent suggested that August 1st is a pretty hard deadline, despite saying on Monday that the quality of the deal is what matters, not the time keeping, and will be in talks Monday and Tuesday with China in Stockholm. Sectors are largely firmer with Tech the clear laggard, while Health resides at the top and is buoyed by Danaher (DHR). It is also worth noting that in the midst of earnings season, some of the tariff impact is starting to show, with GM tumbling post earnings following weak guidance, while RTX also took a hit after it cut its profit guidance amid the impact of tariffs. The Dollar saw losses, to the benefit of all G10 FX peers, while the crude complex was also lower in light of energy-specific newsflow ahead of private inventory metrics after-hours. T-Notes saw slight gains across the curve and were largely supported by aforementioned Bessent's comments, while havens generally caught a bid. Ahead, Tesla and Alphabet earnings on Wednesday are the highlights in what is a quiet week in terms of scheduled events, ahead of a blockbuster one next week.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 7 TICKS HIGHER AT 111-13

T-Notes were supported by Bessent's comments while havens generally caught a bid. At settlement, 2-year -2.1bps at 3.831%, 3-year -2.7bps at 3.778%, 5-year -2.8bps at 3.880%, 7-year -2.9bps at 4.092%, 10-year -3.2bps at 4.338%, 20-year -3.6bps at 4.893%, 30-year -3.2bps at 4.905%.

INFLATION BREAKEVENS: 1-year BEI -0.9bps at 2.845%, 3-year BEI -2.9bps at 2.609%, 5-year BEI -2.1bps at 2.499%, 10-year BEI -2.0bps at 2.382%, 30-year BEI -2.0bps at 2.317%.

THE DAY: T-Notes continued to the upside on Tuesday with yields falling between 2-4bps across the curve. There was little data to digest other than the Richmond Fed survey, which saw manufacturing slump but services rise slightly, seeing the composite fall further into contractionary territory. Fed's Powell and Bowman both avoided commentary on monetary policy as expected given the blackout. The upside in T-Notes resumed when US players started arriving, with the curve meandering overnight. Havens in general were performing quite well today amid commentary from Bessent suggesting that August 1st is a pretty hard deadline, despite saying on Monday that the quality of the deal is what matters, not the time keeping. Also worth noting in the midst of earnings season, some of the tariff impact is starting to show, with GM tumbling post earnings following weak guidance, while RTX also took a hit after it cut its profit guidance amid the impact of tariffs. Meanwhile, Bessent also echoed support in Powell, saying he has confidence in him. It is a relatively quiet week this week, but next week action picks up with quarterly refunding, FOMC, US/China talks and the August 1st tariff deadline.

SUPPLY

Bills

- US sells USD 80bln of 6wk bills at a high rate of 4.260%, B/C 2.85x

Notes/Bonds

- US to sell USD 13bln 20yr bonds on July 23rd and USD 21bln of 10yr TIPS on July 24th

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 1bps (prev. 1bps), September 16bps (prev. 16bps), Oct 29bps (prev. 28bps), Dec 47bps (prev. 46bps).**

- NY Fed RRP op demand at USD 196bln (prev. 214bln) across 34 counterparties (prev. 33)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 108bln (prev. 110bln) on July 21st.
- SOFR at 4.28% (prev. 4.30%), volumes at USD 2.688tln (prev. 2.775tln) on July 21st.

CRUDE

WTI (U5) SETTLED USD 0.99 LOWER AT USD 66.21/BBL; BRENT (U5) SETTLED USD 0.62 LOWER AT USD 68.59/BBL

The crude complex trundled lower throughout the US session amid broader risk-off sentiment. Energy-specific and headline-moving newsflow was light on Tuesday amid a lack of tier 1 US data and Fed blackout ahead of the confab next Wednesday. Macro attention was arguably on earnings and any rhetoric from President Trump or Treasury Secretary Bessent. The former said they'll probably be meeting Chinese President Xi in the not-too-distant future, and Xi has invited him to China, while the latter noted they will be in talks Monday and Tuesday with China in Stockholm. Participants continue to await the August 1st tariff deadline, with a deal between the US and EU still seemingly no closer. Geopolitics have also been light today, whilst ahead of the Iran-E3 meeting this Friday, Iran's Foreign Minister reiterated that Iran will not give up its uranium enrichment program, via IRNA. After-hours attention turns to the private inventory data, whereby current expectations are (bbls): Crude -1.6mln, Distillates -1.1mln, Gasoline -0.9mln

EQUITIES

CLOSES: SPX +0.03% at 6,308, NDX -0.50% at 23,064, DJI +0.46% at 44,525, RUT +0.81% at 2,249.

SECTORS: Health +1.89%, Real Estate +1.79%, Materials +1.28%, Utilities +1.27%, Consumer Discretionary +0.67%, Financials +0.54%, Energy +0.51%, Industrials +0.29%, Consumer Staples +0.25%, Communication Services -0.30%, Technology -1.08%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.01% at 5,289, Dax 40 -1.15% at 24,027, FTSE 100 +0.12% at 9,024, CAC 40 -0.69% at 7,744, FTSE MIB +0.00% at 40,165, IBEX 35 -0.07% at 14,022, PSI +0.97% at 7,746, SMI -0.50% at 11,877, AEX -0.80% at 901.

EARNINGS:

- **NXP Semiconductors (NXPI):** Guidance underwhelmed some lofty analyst expectations.
- **Synchrony Financial (SYF):** Revenue missed and lowered FY outlook.
- **Danaher (DHR):** Announced CFO transition plan; Note, EPS and revenue topped with FY outlook.
- **D.R. Horton (DHI):** Top and bottom-line surpassed expectations.
- **Equifax (EFX):** EPS and revenue topped.
- **PulteGroup (PHM):** Profit impressed, but the top line was light.
- **General Motors (GM):** FY EPS midpoint view underwhelmed.
- **Northrop Grumman (NOC):** Top and bottom beat with strong FY guidance.
- **RTX (RTX):** FY profit guide light, although EPS, revenue & EPS beat with solid revenue guide.
- **Coca-Cola (KO):** Mixed results & warned of currency headwinds; to launch US cane sugar offering this fall.
- **Philip Morris (PM):** Top line light.
- **Sherwin-Williams (SHW):** Profit shy and next quarter net sales guided up or down low-single digit %.
- **Lockheed Martin (LMT):** Revenue missed with FY EPS guidance weak.

STOCK SPECIFICS

- **Apple (AAPL):** Likely to gain EU antitrust approval for app store fees and rules, according to Reuters citing sources. EU approval of app store changes will help AAPL stave off daily fines; EU decision expected in coming weeks, timing may still change.
- **Lululemon (LULU):** Downgraded at JPMorgan to 'Neutral' from 'Overweight'.
- **Circle Internet Group (CRCL):** Downgraded at Compass Point to "Sell" from "Neutral".
- **xAI - CEP Musk allies** to raise up to USD 12bln for xAI chips as startup burns through cash, according to WSJ.
- **Microsoft (MSFT):** Hired nearly two dozen AI experts from Google DeepMind (GOOGL) to strengthen its AI team, according to CNBC.
- **Kellanova (K):** Plans to remove synthetic dyes from retail foods by 2028.
- **Limbach Holdings (LMB):** Spruce Point short Limbach Holdings.
- **Synovus (SNV):** Reportedly weighing potential merger after drawing interest, according to Bloomberg.
- **Hershey (HSY):** Raising candy prices by double digits on high cocoa costs, Bloomberg reports.

FX

The Dollar continued to weaken broadly against G10 peers. Similar to Monday, a clear driver for the move was absent, but the recent downtrend in US yields likely had some influence amid the increasing pressure from the Trump administration on Fed Chair Powell. US Treasury Secretary Bessent said the Fed should conduct an exhaustive internal review of non-monetary policy operations, and the Fed's decision to undertake massive building renovation at a time of operating losses should be reviewed. Meanwhile, on trade, Bessent showed a different tone on the August 1st trade deadline, noting August 1st is a "pretty hard deadline", a more aggressive stance on the matter than Monday's TV appearance, "the quality of the deals is more important than the timing". The Treasury Secretary also said they will likely work out an extension to the August 12th tariff deadline for China, and will be in talks Monday and Tuesday with China in Stockholm. In later trade, Trump said he'll probably be meeting Xi in the not-too-distant future, and Xi has invited him to China. US data was thin, but did see the Richmond Fed Composite worsen in July, weighed by deteriorations in shipments, new orders, and employment. Now attention looks towards housing data on Wednesday, whereby

existing home sales are expected to fall to 4mln from 4.03mln.

Haven FX outperformed major peers in response to the lower US yield environment, with USD/CHF now at 0.7925 and USD/JPY trading at 146.60. Bloomberg sources report the BoJ is likely to leave rates unchanged next week, with little impact seen on the rate stance from the election, with the impact of ongoing trade talks to be watched before any hikes. Note, this was the general market consensus anyway, with money markets pricing 14bps of easing by the December meeting. Gold too saw gains, now up ~USD 80/oz this week.

In the UK, **GBP** relatively underperformed, but still strengthened despite the worse-than-expected borrowing figures. Borrowing in June was GBP 20.7bn (exp. 16.75bn), the second highest June borrowing since monthly records began in 1993, second only to June 2020. The increased borrowing is to add pressure on UK Chancellor Reeves' Autumn budget, where ING notes it will likely raise the chance of an even further tax hike, "a prospect that can keep GBP upside capped".

AUD was muted towards the RBA Minutes from the July meeting, where the RBA surprised with a hold vs. the widely expected 25bps rate cut. The board's focus was on the timing and extent of easing, and the job market not loosening as expected, with less risk of a severe global downturn. Into the US evening, AUD/USD trades at ~0.6540.

EMFX: In the aftermath of the announced US-Philippines trade deal, which will see the Philippines pay 19% tariffs and the US pay 0%, USD/PHP saw little reaction, ending the session modestly lower. Separately, the NBH maintained rates as expected in July with Governor Varga noting no change in forward guidance; EUR/HUF finished flat. In China, the Forex Regulator said overseas investors in general net increased their onshore equity and bond holdings in Q2, with supply and demand in the FX market "basically stable". On the Yuan, "it has been basically stable at reasonable and balanced levels this year".

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com