

Shafted?



Diet Coke Deal Truth of the Tape

CIO Insights
May 2025

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Diet Coke Deal: Truth of the Tape

The US-UK trade agreement, dubbed a “Diet Coke deal” (not the real thing!) offers minimal benefits, leaving UK exporters at a disadvantage relative to pre-Trump 2.0 - but then it could’ve been worse.

While markets find solace in de-escalation signals, including similar hopes for the upcoming weekend meet with China, underlying economic indicators suggest caution. Lower volatility is yet another opportunity to de-risk.

- **Trade Deal Disappointment:** UK’s Kemi Badenoch in describing the trade deal suggested “we’ve been shafted” – an inadequate deal, with the hype not matching the detail. While compared to where we were post “liberation day”, the fact is that UK exporters remain worse off compared to pre-Trump 2.0 conditions. Yet, it could’ve been worse.
- **Market Relief:** The initiation of trade talks between the US and China, led by Treasury Secretary Bessent and Vice Premier He, signals de-escalation, leading to positive market reactions. Given that the market had rebased to disaster scenarios, these are, at the margin, positive, best reflected in lower volatility - VIX index has fallen to 22 from a peak of 60, indicating reduced market volatility and increased investor confidence.

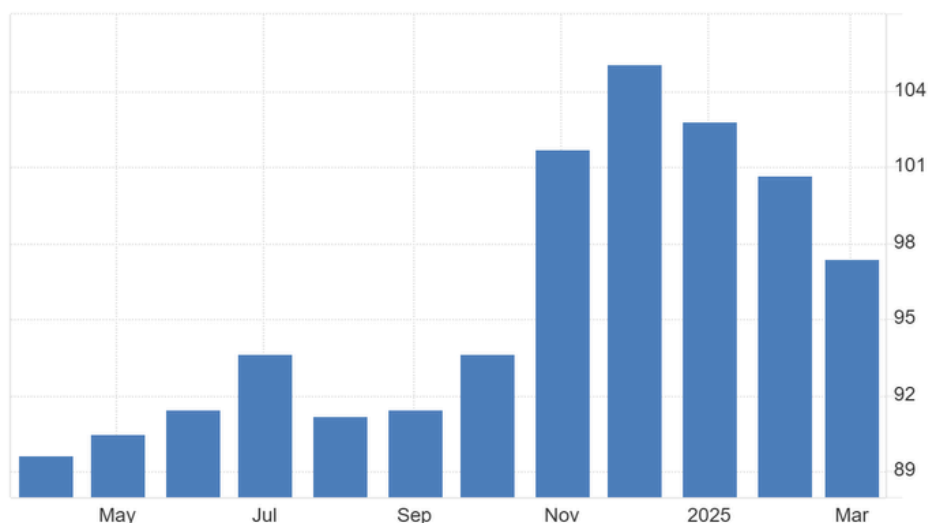
VIX - Steep Decline from April Peak



source: TradingView

- A weaker Economy BUT the FED stands pat:** Despite acknowledging risks to the jobs market, the Fed remains focused on inflation, suggesting a reactive approach to economic weakness. Their proactiveness on inflation contrasts with a reactive stance on the jobs market. Indicators point to a cyclical slowdown, with policy uncertainties affecting investment and consumption, potentially leading to weaker corporate earnings. With small businesses a key source of employment, waning confidence (NFIB Small Business Optimism Index fell to 97.4 in March 2025) is telling.

US NFIB Business Optimism Index - points



Source: tradingeconomics.com | National Federation of Independent Business

- **Market Outlook:** A decisive breakout above the 5700-5800 range for the S&P 500 could challenge the current bearish bias, but for now, rather than be complacent on reduced volatility, this is yet another opportunity to de-risk.

S&P - 5700-5800 Breakout Critical for Bulls



source: TradingView

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