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Markets await more trade news after US-Vietnam deal

UBS House View - Daily Asia

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From the studio

Podcast: **Investors Club: CIO's Carl Berrisford on Chinese robotics momentum** (11:53)
Video: **CIO's Min Lan Tan on our Asia 2H25 outlook** (6:28)
Video: **CIO mid-year checklist – your next equity moves with Crystal Zhao** (4:41)
Video: **CIO mid-year checklist – credit strategies for the second half with Timothy Tay** (3:04)

Thought of the day

US President Donald Trump on Wednesday announced the US had reached a trade agreement with Vietnam. The deal, which stemmed from direct talks with Vietnamese General Secretary Tô Lâm, is said to impose a 20% tariff on Vietnamese exports to the US, and a higher 40% levy on goods deemed to be transshipped through the country. Trump said that Vietnam had agreed to drop all levies on US imports in return.

Vietnam's state media on Thursday said President Trump has been invited for a state visit to Vietnam, and that tariffs on several Vietnamese products would be significantly cut. No formal trade text has been publicly released, and it’s not clear how the transshipment provision (aimed largely at products rerouting from China) would be implemented and enforced. In early April, Trump had imposed a 46% duty on Vietnam as part of his initial rollout of the “reciprocal” tariffs, before pausing at a 10% level for negotiations.

The benchmark Vietnamese equity index fell 0.2% on Thursday, and regional markets in Asia were mixed. While we await more concrete details, we make several initial observations for global investors:

Tariff stakes are now higher for economies with elevated US surpluses, transshipments. The draft Vietnam deal confirms that countries with sustained high trade surpluses with the US, and those acting as transshipment hubs for Chinese goods, may face higher baseline tariffs and

What to watch: 4 July 2025

- UK June construction PMI
- Eurozone May producer price index
- European Central Bank President Lagarde speaks

additional duties on rerouted products. It also confirms a broader US effort to ring-fence and curb perceived Chinese overproduction and excess capacity. In April, we warned of higher risks to Vietnam, Malaysia, and Thailand over transshipments. It's difficult to calculate accurately and estimates vary, but Nomura data suggest nearly 19% of Vietnam's US goods exports reflect Chinese value added, with Malaysia and Thailand next in line at 11.5% and 9.8%, respectively. We anticipate the economic pain will be far more significant for Vietnam than China, given this represents a minimal fraction of China's overall exports. Still, heavier penalties for transshippers should further accelerate supply chain shifts out of China, as US companies still need to source products competitively from compliant nations, in our view. We would caveat that not all Asian economies fall in this transshipment bucket, with North Asia, India, the Philippines, Indonesia, and Singapore less at risk.

An overall 15% effective tariff still looks likely. While Vietnam's higher headline tariffs may appear to signal tougher outcomes elsewhere, we don't see them as a template for other US trade talks. Vietnam is among the top 10 largest US trade partners, but less central than others now negotiating. It's also worth noting that our forecast for an overall US effective tariff rate of 15% assumes a 30-40% rate on Chinese exports in particular. Despite the Vietnam deal's indirect targeting of China, we note positive US-China steps this week on chip design software, ethane, and rare earths, and that there is plenty of time to reach a deal before the 90-day reciprocal tariff pause on China ends on 12 August. The US's top two trade partners, Mexico and Canada, are on a separate track and are not subject to the 10% baseline or "reciprocal" tariffs. Both have made progress on border issues, and we believe they could ultimately agree to metal quotas and to limits on Chinese transshipments. When factoring in sector-specific tariffs, potential carveouts, and some one-off less punitive bilateral deals, we think our year-end forecast for a 15% US effective tariff rate remains reasonable.

More bilateral deals are likely, and that will bring more clarity. With the 9 July "reciprocal" tariff pause deadline looming, we expect the US administration to announce several country-specific deals and further extensions for countries negotiating "in good faith," as well as bilateral escalations aimed at strengthening US negotiating leverage. Following the Vietnam announcement, Reuters reports Indian and US negotiators are pushing to land a deal this week, with some officials reportedly told to be on standby for a potential announcement. Japan and South Korea have expressed more difficulty in talks in public comments, but neither is walking away and could be granted extensions, in our view. We also note that purchase agreements have proven popular with the US administration.

So, on balance, we take the US-Vietnam accord as a positive step toward more durable bilateral deals for the US and toward greater clarity for investors. While tariffs will likely slow US growth and add some inflation pressure into 2026, we do not expect them to derail the economy or cause a recession. Headline risks around trade may persist as negotiations continue, but we believe the market impact will moderate as President Trump's negotiating tactics become increasingly familiar. Ultimately, we expect the US administration to prioritize economic stability over more maximalist tariffs, especially ahead of the 2026 midterm elections. After the current round of "reciprocal" tariff negotiations, we think the next major milestone will likely be the announcement of sector-specific tariffs under Section 232 on pharma, semiconductors, and critical minerals later this year. We continue to recommend gradually increasing exposure to diversified global stocks or balanced portfolios to position for stronger potential returns in 2026 and beyond.

Caught our attention

June US jobs report surprises to the upside. The latest employment report showed the US labor market remained more resilient than anticipated in June, with nonfarm payrolls rising by 147,000, relative to 144,000 jobs added in May and exceeding expectations of 106,000. The unemployment rate unexpectedly fell to 4.1%, below consensus estimates of 4.3% and down from 4.2% in May. On the weaker side, average hourly earnings rose 0.2% on a monthly basis and 3.7% annually, both slightly below expectations, while the labor force participation rate ticked down to 62.3% from 62.4% in the prior month. Notably, government hiring accounted for roughly half of June's job growth, adding 73,000 positions.

Our view: While June's job gains and a lower unemployment rate point to ongoing resilience, the moderation in wage growth, softer labor force participation, and the first private sector job losses in over two years—as highlighted in this week's ADP data—point to a cooling labor market. The strength of Thursday's report has led markets to scale back expectations for an imminent Fed rate cut, with Fed funds futures pricing in just a 4.7% probability of a July cut at the time of writing, down from 24% before the release. However, beyond the headline figures, the overall labor market is showing clear signs of deterioration, and recent inflation data has been on the soft side. As a result, we maintain our base case scenario of 100bps in Fed rate cuts, beginning in September. Against this backdrop, we believe quality bonds offer attractive risk-reward and can help hedge against downturns.

UK government seeks to allay fiscal worries. Prime Minister Keir Starmer has pledged not to relax his government's borrowing targets, and backed his chancellor to remain in office for "a very long time." This was in response to a sharp rise in UK bond yields following the government abandoning a planned GBP 5 billion of cuts to welfare spending, which brought the UK's ongoing fiscal challenges back in focus. The yield on the 10-year government bond climbed from 4.43% on 2 July to an intraday high of 4.68%. However, on 3 July, assurances from the prime minister helped calm markets, with the yield falling back to 4.52% at the time of writing.

Our view: Recent events have underlined the fiscal challenges for the UK government, which have been present for some time. The government is faced with a politically tough decision over whether to raise taxes or cut spending as it seeks to reassure markets that the trajectory of government finances is sustainable. However, investors are likely to be focused on the risks of a third option—tweaks to the fiscal rules, which would result in higher UK debt issuance. Despite the latest bout of volatility, we believe gilts can move lower, especially given our view that the Bank of England will likely cut rates at least two more times this year. More broadly, with the global easing cycle still on track, we recommend investors assess their cash holdings and seek more durable sources of income.

Market update

03.07.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	16.4	-0	-0	-1	-1
MOVE Index	91	-2	+2	-9	-7
S&P 500	6279	+0.8%	+2.3%	+5.2%	+6.8%
S&P 500 trailing P/E (**)	24.2x		+0.6x	+1.1x	-0.4x
S&P 500 forward P/E (**)	21.9x		+0.5x	+1.0x	+0.4x
S&P 500 forward P/E ex-Mag 7 (**)	19.9x		+0.4x	+0.6x	+1.0x
Russell 2000	2249	+1.0%	+3.5%	+6.9%	+0.8%
Euro Stoxx 600	544	+0.5%	+1.2%	-0.9%	+7.1%
Shanghai Composite	3461	+0.2%	+0.4%	+2.5%	+3.3%
US 10-year Treasury	4.34	+7	+10	-11	-23
US 2-year Treasury	3.88	+10	+16	-7	-36
Germany's 10-year Bund	2.61	-5	+5	+9	+25
Germany's 2-year Bund	1.83	-3	+1	+5	-25
EURUSD	1.176	-0.4%	+0.5%	+3.4%	+13.6%
EURCHF	0.93	+0.0%	-0.2%	-0.3%	-0.6%
USDCHF	0.80	+0.4%	-0.6%	-3.5%	-12.4%
USDJPY	145	+1.0%	+0.4%	+0.7%	-7.7%
Brent crude, USD/bbl	69	-0.6%	+1.4%	+4.6%	-8.0%
Gold, USD/oz	3343	-0.5%	+0.3%	-0.2%	+26.6%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, UBS

Appendix

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