Review | Outlook

August 2025 market review

September 2025

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August 2025 Snapshot

- In August 2025, global markets were shaped by a mix of macroeconomic, geopolitical, and government policy-driven forces.
- Major markets hit record highs in mid-August[1]. Though US returns were muted for euro-based investors as the US dollar fell.
- Gains in equities were driven by the Magnificent 7[2].
- A US Federal Reserve (Fed) interest rate cut is expected in September 2025, supporting US market returns.
- US and European Q2 2025 corporate earnings exceeded expectations.
- Geopolitical tensions continued with the unrest in the Middle-East having a significant impact on the price of oil.

Below is a summary of the key economic drivers of market performance in August 2025:

1. US Markets Rise on Hopes of Lower Interest Rates to Come

The Fed is expected to cut interest rates in September 2025, as markets price in future rate cuts in response to softening economic data, despite persistent inflation pressures.

Fed Chairman Powell's Jackson Hole Symposium[3] speech on 22.08.25 has increased the expectation that there will be a cut in rates at its next meeting on 16-17 September. He said that a shifting balance of risks may warrant adjusting policy, referencing in particular the recent weak US labour market report and that downside risks were rising. Investor optimism about potential Fed rate cuts has fueled a "risk-on" sentiment.

Falling consumer confidence and a weakening jobs market signal weakening demand in the US economy.

2. Corporate Earnings Exceed Expectations

Q2 2025 US and European corporate earnings significantly exceeded expectations. Though analysts had reduced forecasts when President Trump announced increased tariff rates in April 2025.

- Expectations had been for US earnings to grow by +5% year-on-year (y/y) in Q2[4]. In fact, they came in much higher at +12% (y/y), driven by positive surprises in Technology and Financials. Analysts are forecasting +10% (y/y) for 2025 as a whole.
- European earnings were forecast at -8% (y/y) and came in at 0% (y/y), with Financials delivering the majority of the positive surprises[4].

3. Clarity on Tariff Rates Starting to Emerge

While tariffs are undoubtedly bad for global trade, the uncertainty level that prevailed around the US "Liberation Day" in April 2025 has diminished, as deals are agreed at lower tariff levels than initially expected.

To date, the US has agreed deals with major trading partners the UK, EU, Japan, and South Korea at 10-15%[5] levels. Negotiations with Canada, Mexico and China are ongoing. Switzerland, India, and Brazil saw tariff levels much higher than other countries, mainly for political reasons. However, uncertainty around the impact on inflation and corporate margins remain.

[1] Source: Bloomberg 29.08.25
[2] Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA, and Tesla.
[3] Source: An annual economic policy symposium hosted by the Kansas City - Federal Reserve: in Jackson, Wyoming
[4] Source: Factset 25.08.25
[5] Source: Forbes 29.08.25.

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4. Global Central Bank Policies Indicate Lower Interest Rates to Come

While the Fed has left interest rates unchanged since December 2024, as it assesses the US inflationary impact of tariffs, it is leaning toward rate cuts (currently 4.25-4.50%) as previously mentioned. In contrast the European Central Bank (ECB) has cut rates from 4% to 2% in the last year and is less likely to cut further. This divergence reflects differing inflation dynamics and economic resilience across regions. Eurozone Consumer Price Index (CPI) is 2.0% while US CPI is 2.7%[6].

The Bank of England cut rates to 4.00% in August[4] and is expected to cut further as the UK economy weakens. China maintained macro support amid weakening domestic demand and a fragile recovery.

President Trump continues to heap pressure on the Fed to lower US rates with continuous criticism of its Chairman and attempting to fire one of its governors following allegations about falsified personal mortgage documents. This is leading to increased fears that the Fed is losing its independence battle.

5. Artificial Intelligence (AI) Boom is Driving Stock Markets but Little Impact on Economy So Far

The rapid adoption of AI is reshaping industries and labour markets, contributing to both job displacement and creation. While AI has been a dominant driver of stocks for the past few years, its impact so far on the global economy has been muted.

Results from NVIDIA, Microsoft, Amazon, Apple, and Meta during August 2025 continued to fuel the AI, cloud computing and technology growth story. Whether broad AI capital expenditure can continue at the same pace is questionable, with NVIDIA signalling that growth is decelerating. Yet, the group continue to say the opportunity remains immense.

So far, AI's impact on productivity in the broad economy has also been underwhelming. To justify today's equity valuations, AI would need to permanently lift corporate profits across the board.

6. Geopolitical Tensions Continue

Ongoing conflicts in Ukraine and Gaza, misinformation, and climate-related disasters have heightened global uncertainty. This saw the gold price rise +6% to a new high above $3,500[6] during August.

The Organization of the Petroleum Exporting Countries (OPEC) continues to increase production and Indian imports of Russian oil increased supply. As a result, the oil price was down -8% over the month[6].

4 Source: Factset 25.08.25
6 Source: Bloomberg 29.08.25

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Outlook for the rest of 2025

- **Economic growth forecasts** for the US, Canada, Eurozone, UK, and China have been **revised upward** due to stronger Q2 data.
- Despite strong Q2 economic growth in the US, which was revised up to +3.3% quarter-on-quarter[7], forward looking indicators suggest a deceleration in the final few months of the year and the rationale behind a future rate cut. **In the US, growth is slowing,** with no reacceleration expected until early 2026.
- **Market gains are still heavily concentrated in a few giant tech stocks.** Technology & Communications continue to lead performance, driven by AI and cloud infrastructure. **Healthcare and Energy appear undervalued** due to regulatory, cost pressures and oil prices, respectively.
- The weak US dollar makes emerging market equities seem more favourable. **We expect a short-term rebound in the US dollar which would be a positive for euro-based investors,** but its broader weakness compared to the euro is expected to continue because of US policies.
- **Global uncertainty is likely to remain high,** which may create periods of uncertainty for investors in the coming months.

[7] Source: Bureau of Economic Analysis 28.08.25

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