Market Review - August 2025

<u>Chaos Without Volatility</u>

From August 21 to 23, 2025, the Jackson Hole meeting was held, bringing together around 100 central bankers, ministers, experts, and academics to discuss the challenges facing labor markets, demographics, and productivity. This event is always eagerly awaited by investors, even though fiscal policies have had a greater impact than monetary policies in recent years.

In a tense political climate marked by tensions between the Fed chairman and the US president, Jerome Powell's speech was eagerly anticipated. He suggested that a review of monetary policy might be appropriate, citing an imbalance of risks, with the labor market "curiously balanced" due to the simultaneous slowdown in both labor supply and demand. He emphasized that decisions remain data-driven and clarified that tariffs are a one-off shock to prices, which should allow the Fed to act cautiously as changes in monetary policy are considered. The markets would have liked a more explicit message on rate cuts, but investors nevertheless concluded that an initial cut would take place at the next FOMC meeting on September 17.

After threatening to fire Jerome Powell, Trump seems to have abandoned the idea. This will allow him to blame the Fed chairman should the economy slow down. However, political pressure continues. The White House announced that Governor Cook was fired for "cause" because she allegedly lied about the nature of mortgage applications, which she denies. Ms. Cook has refused to resign and has taken the matter to court, so this is a case to watch. This lady seems to have the character to stand up to him. Trump is maintaining the pressure, and even if he cannot force Ms. Cook to leave, it is intimidating for everyone on the FOMC board. The US president's goal is to transform an independent institution into a mere puppet serving the president's priorities and whims. Surprisingly, these political maneuvers have not elicited outrage from market players. The credibility of the Federal Reserve is at stake.

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The US is continuing its "EMification" (becoming an emerging market), which is characterized by a weakening of institutions. Starting next May 26, when the new Fed chair is appointed, it will be entirely subject to the White House. This contributes to the plan to debase the dollar.

As said, at the Jackson Hole summit, Jerome Powell softened his stance. Against a backdrop of global economic restructuring and US isolationism, it seems logical that the Federal Reserve cannot be independent of a government plan that aims to be revolutionary in macroeconomic and geopolitical terms. For the US bond market, a cut in key rates does not automatically mean a fall in long-term rates or an increase in lending to the private sector. Public deficits are expected to remain high, and foreign demand for long-term treasuries may be limited in the context of low economic visibility and declining governance of US institutions.

Market trends to end August 2025

			Equities in Local Currencies					
End of August	**MSCI World**	**S&P 500**	**EuroStoxx**	**CAC**	**Spain**	**Switzerland**	**MSCI EM**	**CSI 300**
Perf 1 Month	2.49%	1.91%	0.60%	-0.88%	3.74%	2.97%	1.22%	10.33%
Perf 3 Month	8.13%	9.28%	-0.28%	-0.62%	5.54%	-0.32%	8.74%	17.10%
Perf YTD	12.67%	9.84%	9.31%	4.38%	28.81%	5.06%	17.01%	14.28%

		Commodities				Currencies vs EUR		
End of August	**WTI Oil**	**Brent Oil**	**Gold**	**Copper**	**USD**	**JPY**	**GBP**	**CHF**
Perf 1 Month	-7.58%	-6.08%	4.80%	3.03%	-2.31%	0.13%	-0.13%	-0.87%
Perf 3 Month	5.30%	6.60%	4.82%	4.25%	-2.89%	-4.89%	-2.57%	-0.24%
Perf YTD	-10.75%	-8.74%	31.38%	12.93%	-11.40%	-5.28%	-4.39%	0.49%

			Bloomberg Indices Bonds Total returns					
End of August	**Global Aggregate**	**US Aggregate**	**Euro Aggregate**	**US 10 Year Treasury**	**German 10 Year Bund**	**Global Credit**	**Global High Yield**	**Emerging Sovereign $**
Perf 1 Month	1.45%	1.20%	-0.20%	1.68%	-1.54%	1.47%	1.53%	1.33%
Perf 3 Month	1.84%	2.48%	-0.29%	2.67%	-3.47%	3.05%	4.28%	4.22%
Perf YTD	7.21%	4.99%	0.64%	6.47%	-7.37%	8.45%	8.88%	7.32%

Source : Bloomberg 31/08/25

An unsustainable investment cycle?

The US economy remains two-speed, with high interest rates (even after some cuts), cuts to the Medicaid program, and other factors continuing to put downward pressure on low-income consumers and young people. At the same time, budget spending continues to target middle-aged Americans, while wealthy Americans and businesses have generally locked in most of their debt at low long-term rates.

It is important to note that AI capital expenditures significantly contribute to US growth. In fact, by 2025, Alphabet, Amazon, Meta, Microsoft, and Oracle are expected to have invested more than $400 billion by the end of this year. This corresponds to 1.3% of US GDP. These huge amounts offset relatively weak consumption, which partly explains why the economy is not faltering. However, it should be remembered that with such large sums invested, and given that a data center can become rapidly obsolete, high returns on investment will be needed to justify current spending.

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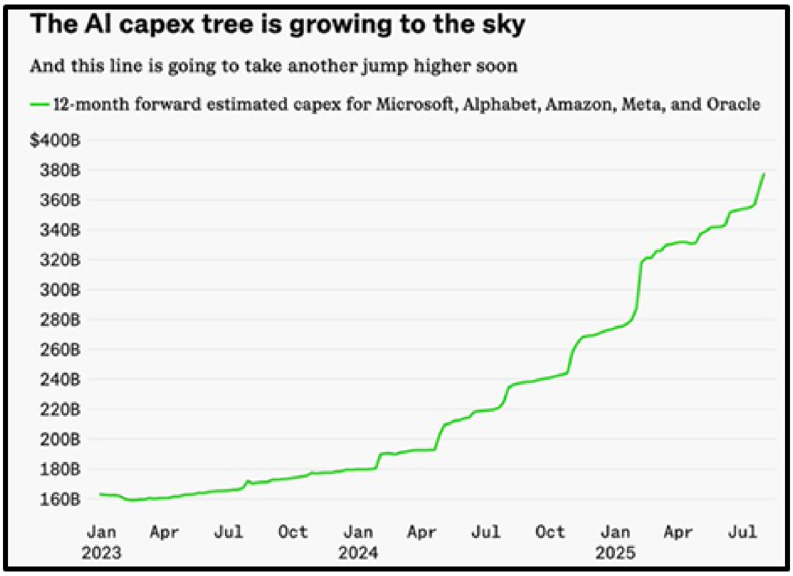
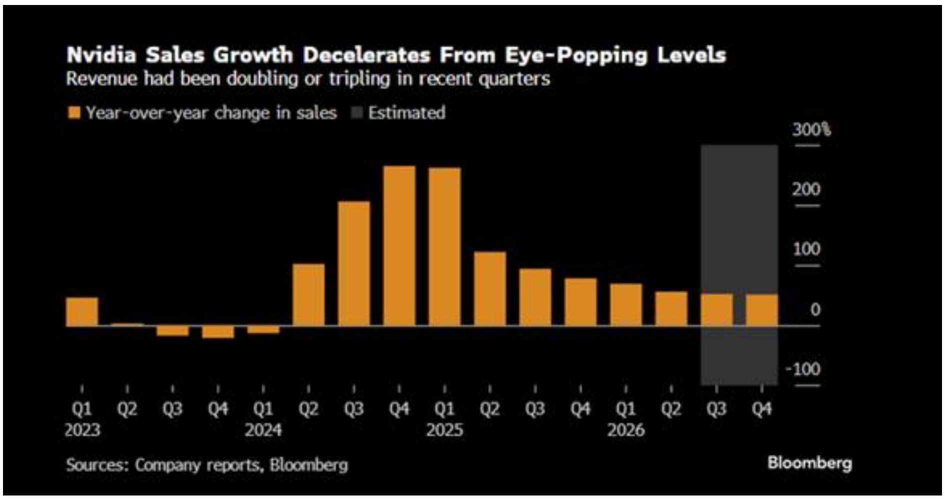
Big Five 12 Month Forward AI Capex



Nvidia's results (for Q2 2026) were published on August 27. Although investors were slightly disappointed, growth remains strong (+56% YOY), in line with the Capex projections above. Nvidia's CEO expects investment to accelerate further to $600 billion by the end of next year, which seems optimistic. Jensen Huang also expressed confidence about sales to China. He believes that these could represent "a $50 billion opportunity for us this year, expecting it to grow 50% per year, like the rest of the AI market." The Trump administration will allow Nvidia and AMD to export GPU chips to China, but only degraded versions of their best chips, and with a 15% tax on sales. The funds collected by the government would be deposited into an escrow account, which would be used to finance domestic investment initiatives in the chip sector.

YoY Nvidia Sales Growth



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Will the Chinese want these second-rate chips? Chinese companies such as Huawei and Alibaba are working on designing chips for AI and inference. Work is progressing rapidly. The Chinese government has asked groups specializing in artificial intelligence, including the major internet companies ByteDance and Tencent, to reduce their dependence on Nvidia technology. Therefore, even if Nvidia could sell chips to the Chinese, it is uncertain whether they will accept the offer.

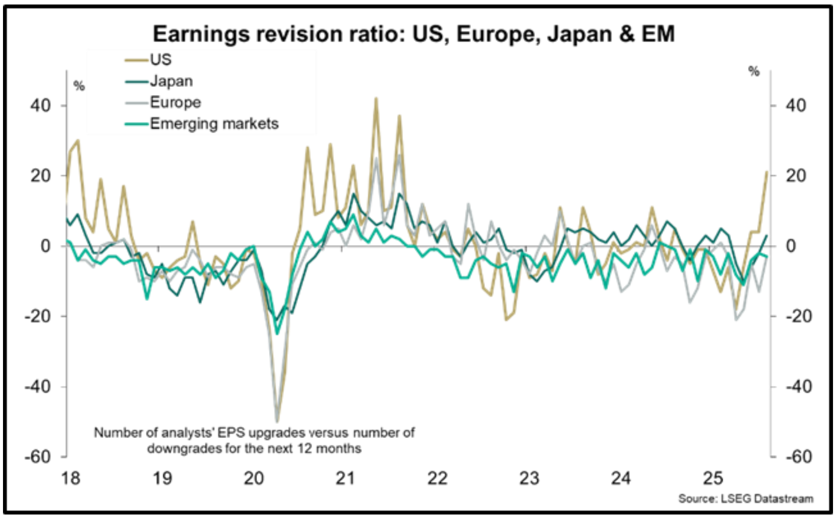
It is also challenging to understand investors' positive reaction to the announcement that the government was taking a 10% stake in Intel. Trump has announced that there will be other "deals." Isn't the government's entry into the capital of private companies a socialist recipe? The French are champions in this category. This will not increase the return on invested capital; instead, it will decrease it.

In today's chaotic US environment, it is hard to believe that the US equity market risk premium is not climbing significantly. The US regulatory environment is now subject to change daily.

Excellents US Earnings

The quality of the results can perhaps explain the new stock market highs recorded in the US in August. These were excellent, even if the decline of the greenback contributed greatly to this.

The graph opposite shows that in August, the earnings revision ratio surged, resulting in earnings expectations for the next 12 months being revised upward by 1.3% over the last three months. At the same time, earnings growth expectations fell by 2% in Europe and 3% in emerging markets in the previous quarter. Earnings growth for the entire 2025 year is therefore expected to be 10% for the S&P 500, 0% for the Euro Stoxx 50, and 10% for emerging markets. It is worth noting that earnings growth for 2026 stands currently at 13% in the US and Europe, with the assumption of improving margins, which are already at all-time highs.



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Despite an uncertain international climate, the markets have continued their upward trend, especially in the US. While Europe is pausing (in euros), the region's markets remain close to their highs. Emerging markets are also performing well; for example, most of them are up more than 20% in dollar terms since the beginning of the year. A weak dollar is a supporting factor.

World MSCI ETF Price (MXWO)

ith such a show of strength from the markets, and despite September typically being the weakest month of the year, there is no reason to fear a major correction in the stock markets. On the contrary, consolidation would be welcome and could then allow the year to end on a high note. With the expected half-percent cut in interest rates by the Fed till the end of the year. This is expected to benefit cyclical stocks. This may allow small caps and less richly valued companies to outperform the inflated MAG7.

Tariffs everywhere

Tariffs remain an issue, as they are subject to change daily, and numerous exceptions apply. India has just been penalized with a 50% tariff on exports to the US because the country continues to purchase Russian oil. All of these tariff measures have resulted in a high degree of complexity, which may be intentional, aimed at discouraging imports. On average, considering the 50% imposed on India, the average rate imposed on imports arriving on US soil is 17.7% according to the FT, as shown in the graph opposite. These are the highest tariffs in a century. However, it is worth remembering that consumer goods now represent only a fraction of the economy, unlike in the 19th and early 20th centuries. The shock will be less severe. However, no one knows today how this will impact prices. We will have to wait several more quarters to find out. Initial data show that exporters are not paying these taxes, as import prices have remained unchanged since March. Initial "surveys" suggest that importers are paying part of the taxes and that consumers are bearing the rest. Will this have a knock-on effect on the price of services? How? As J. Powell pointed out, there will be an effect, but it should not be repeated, since once the increases have been implemented, the impact on prices will disappear.

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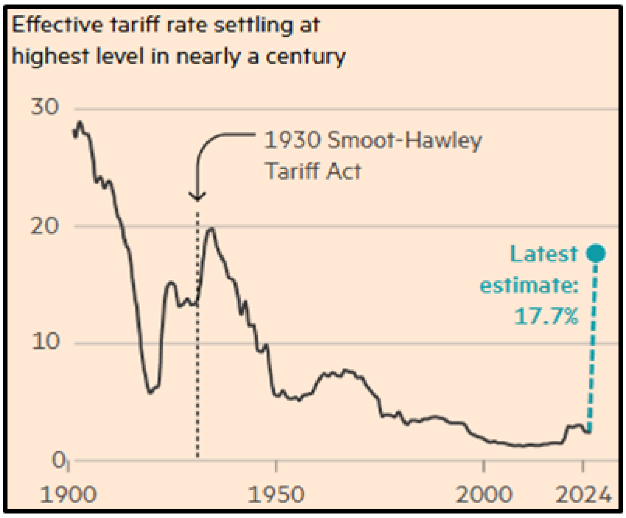
US Effective Tariff Rate



This is why inflation readings are closely scrutinized. For July, the CPI stood at 2.7% and 3.1% yoy for the core, in line with expectations. The same applies to the personal consumer expenditure (PCE) index, the Fed's preferred metric, which was measured at 2.6% and 2.9% year-over-year (yoy) for the core. The 2% target still seems a long way off. Can we still call it a target when we have been above it for more than four years?

Since no one knows how to interpret macroeconomic figures, and the quality of these measures is being called into question due to a lack of resources for conducting reliable surveys, bond markets have gone into "pause" mode. In other words, yield curves are showing little variation. In one month, the yield on 10-year Treasury bonds has fallen a few points to 4.22%, while the Bund remains between 2.65% and 2.75%. Only the ultra-long end of the curve, from 10 to 30 years, is under pressure. This means that term premiums are on the rise, due to the many long-term uncertainties following the paradigm shift in the global economy. The yield on the 30-year Bund has surpassed 2023 levels, settling at over 3.3%. In the US, the bond market is a little calmer, but the yield spread between 10-year and 30-year maturities is also widening. The yield curve has steepened considerably in Europe. A similar trend can be expected in the US, and perhaps even to a greater extent, given the expected abysmal deficits and uncertainties about the evolution of inflation.

Rendement à l'échéance du Bund Allemand à 30 ans

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Inflation expectations calculated from market prices remain under control for the moment. Credit spreads are at their lowest. It is therefore not at all attractive to buy corporate or high-yield bonds. Of course, bond fund managers will likely argue the opposite, as this situation may persist over time. In this environment, it is preferable to invest in government bonds when making purchases. It is worth noting the relative stress on the French market following the Prime Minister's decision to call for a vote of confidence in parliament on September 8, ahead of the vote on the 2026 budget. The government will likely fall, which should lead to new legislative elections. The 10-year OAT yield has widened slightly further from the Bund, to 80 basis points; however, the risk premium had already increased significantly in 2024 when the National Assembly was dissolved. It does not appear that this new political challenge is likely to undermine European institutions. France is facing a significant budgetary problem, with deficits expected to remain high, above 5% for 2025 and 2026, and even larger if the economy slows down.

Gold takes a break

With the weakening of the US dollar, we can expect the price of gold to continue rising. Why should central banks buy greenbacks when they know full well that their value is going to fall significantly? Gold purchases by central banks in emerging countries will continue. Since April, however, the yellow metal has neither risen nor fallen. It is consolidating within a narrow range. It is worth noting that this type of pattern is rare, especially after a sharp rise, such as the one observed at the beginning of the year. Volatility has therefore decreased, making it increasingly attractive for those who wish to capitalize on the next leg of the rise to buy options. Gold remains an asset of choice in portfolio construction, particularly for people with a dollar-based monetary base.

Gold Oz Price

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Sister Anne sees nothing coming

We must still address the war in Ukraine, as hopes for peace or at least a ceasefire had grown. Unfortunately, the Alaska summit between Putin and Trump stood out for its visual aspect, but not for its content. It reinforced Putin's diplomatic prestige without yielding any tangible progress in terms of peace or Ukraine's sovereignty.

The US president, who had been threatening his Russian counterpart, appears to have abandoned all hope of peace and will not impose new sanctions despite the threats made in August.

Europe has responded with clarity and unity, reaffirming that any peace must include Ukraine's participation and sufficient security guarantees. Europe has indicated that it cannot rely solely on ad hoc diplomacy between the US and Russia and that it must develop its own strategic frameworks.

There is no rapprochement. The war will continue.

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