



Market Outlook

Market Views

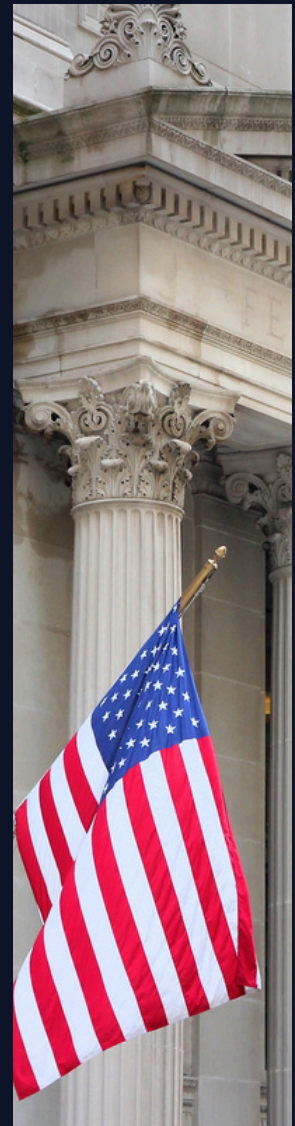


August proved to be a strong month for both bonds and equities, despite a somewhat jittery start. Initial market nervousness was triggered by a weak US jobs report and the 1 August tariff deadline, but confidence quickly returned.

By mid-month, markets had recovered as resilient global activity, inflation figures that were in line with expectations, and strong second-quarter corporate earnings all helped the S&P 500 post its fourth consecutive monthly gain.

A significant boost to investor confidence came from Federal Reserve Chairman Jerome Powell's dovish speech at Jackson Hole. He said that the balance of risks to the US economy had shifted from inflation to the jobs market, strongly implying that the Fed would cut rates at their next meeting in September.

However, the US administration continues to make headlines, and in August, the Fed faced headwinds over concerns of its independence when President Donald Trump threatened to fire one of its Board of Directors. This brought on fresh worries that inflation could rise in the future. In the bond market, short-dated US Treasuries had a strong month while longer-dated global bonds struggled. Expectations of a rate cut also weighed on the dollar, which weakened against every other G10 currency over the month, with the Dollar Index falling 2.2%.





Tariff Deadline Passes

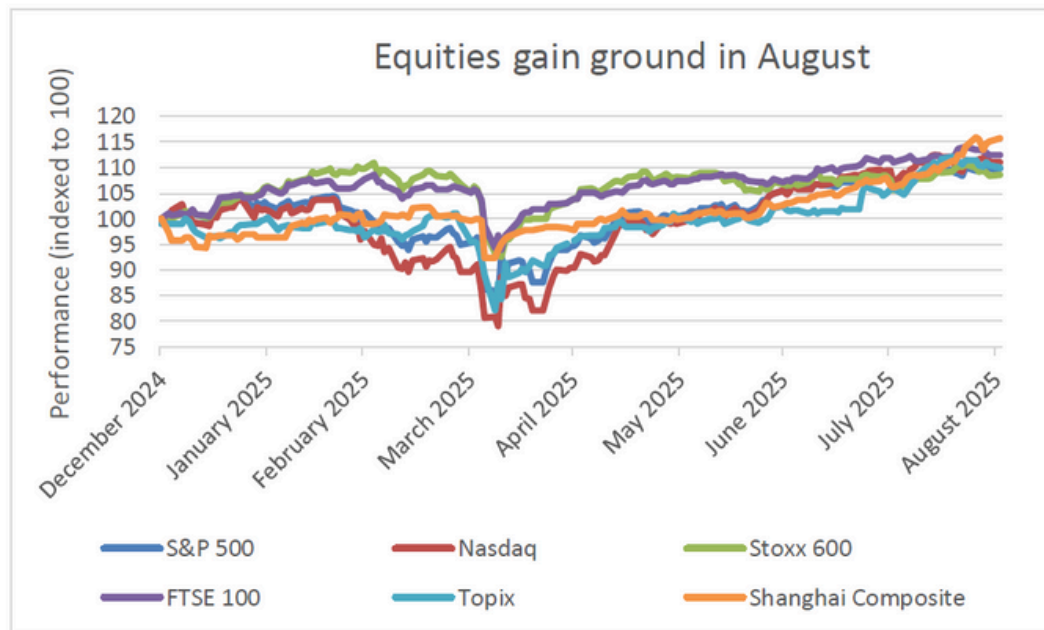
The tariff deadline on 1 August drew a lot of attention, with new tariffs coming into effect on 7 August. These included a 50% tariff on copper and Canada increasing tariffs to 35% on goods from countries outside the USMCA. Mexico was given an extra 90 days to negotiate a new trade deal. While this initially seemed like it could trigger major market disruption, the impact was softened as the US secured trade agreements with several key partners, including the EU and Japan.

Weak jobs report creates volatility

A weaker-than-expected jobs report caused some turbulence in markets at the start of August. The US economy only added 73,000 jobs in July, far fewer than expected, while the unemployment rate edged up from 4.1% to 4.2%. On top of this, job growth figures from previous months were revised down. Together, these signs suggested that the labour market may not be holding up as strongly as it had earlier in the year. The situation became more controversial when President Trump dismissed the head of the Bureau of Labor Statistics, prompting criticism that economic data was being politicised.

Despite the shaky start, markets soon regained ground. Investors grew more confident that the Federal Reserve would step in with an interest rate cut in September to support the economy. Inflation data came in broadly as expected, which reassured markets that tariffs had not caused a major spike in prices, though core inflation (which strips out food and energy) rose at its fastest pace in six months. Later in the month, at the central bank's annual meeting in Jackson, Wyoming, Fed Chair Jerome Powell gave the clearest signal yet that interest rate cuts were back on the table. He highlighted the combination of slower job growth, the drag from higher borrowing costs, and contained inflation risks as reasons why monetary policy may need to be eased.

This helped push equities up in August, with the S&P 500 rising 2% and the Nasdaq up 1.7%. Gains extended beyond the US, with the STOXX 600 Index finishing the month up 1%, the FTSE 100 up 1.2% and Japan's Topix up 4.5%. Emerging markets also saw solid gains, with the Shanghai Composite surging 8.1% due to a combination of domestic fund flows, supportive government policies and an extended US/China tariff truce.



Source: Bloomberg

Fed still faced headwinds

The Federal Reserve also made headlines for reasons beyond its annual Jackson Hole conference. On 25 August, President Trump threatened to remove Lisa Cook from the Fed's Board of Governors. Cook had recently voted to keep interest rates unchanged, and Trump accused her of falsifying records to secure a mortgage. Cook has since filed a lawsuit to challenge his attempt. While legal experts question whether the president even has the authority to dismiss her, the move raised fresh concerns about political interference in the central bank. It also unsettled markets, with some investors starting to expect higher inflation as a result.

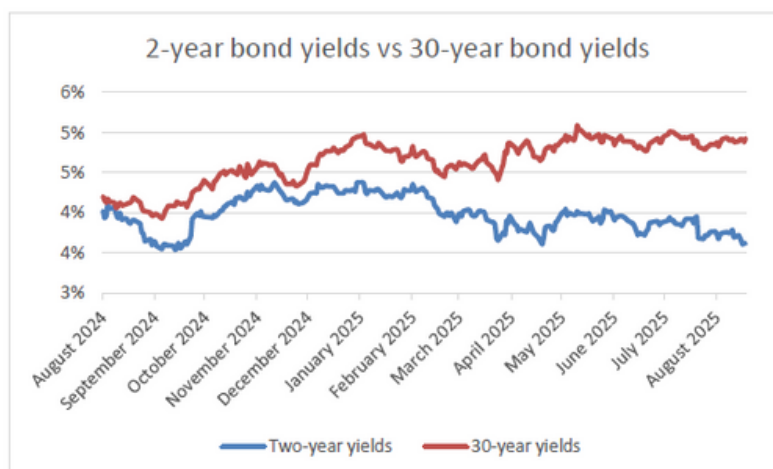


No breakthrough on Russia/Ukraine

News of a potential peace deal between Russia and Ukraine gathered steam mid-month as Trump met with Vladimir Putin in Alaska, followed by a meeting between Trump and European leaders, although no deal was reached. Meanwhile in France, Prime Minister François Bayrou called a confidence vote on 8 September, sparking fresh concerns over France's debt. The 10-year Franco-German spread moved by 0.13% in August, the biggest move since June 2024 when President Emmanuel Macron announced a snap legalisation election.

Short-dated bonds have solid month while long-dated notes struggle

Short-term US government bonds performed well in August, with yields on two-year Treasuries falling to 3.62%—their biggest monthly drop since August 2024. Ten-year Treasury yields also moved lower, ending the month at 4.23%. Longer-term government bonds, however, told a different story. Rising global spending on artificial intelligence and defence drove yields higher across many markets. In the UK, long-dated gilts spiked to 5.6% on 19 August—the highest level among G7 nations since 1998—reflecting both these global pressures and challenges unique to the UK economy.



Source: Bloomberg

The Bank of England (BoE) lowered rates to 4% from 4.25%, bringing the cost of borrowing to the lowest level in more than two years. This is the fifth cut since August last year but was only narrowly backed by the bank's policymakers and took two votes rounds to reach a decision. The unprecedented second vote suggests future interest rate cuts will be finely balanced over concerns of rising prices, although BoE Governor Andrew Bailey maintained the path for rates continues to be "downwards". Inflation in the UK is now forecast to peak at 4% in September, twice the bank's target rate and above the 3.8% rate predicted in its May report.



Conclusion

There were many mixed signals in August, and although markets rebounded following a shaky start, uncertainty remains. Investors are left navigating the shifting balance between inflation risks and the Fed's evolving policy stance. With several crucial central bank meetings on the horizon, September may provide some clarity in terms of inflation and growth.

Outlook by Asset Class/Region

Asset/Region	View
Cash	Positive
Government Bonds	Neutral
Credit Fixed Income	Neutral
Property	Positive
UK Equity	Positive
US	Positive
Emerging	Neutral
Asia	Neutral
Commodities	Positive
Alternatives	Neutral
Technology	Positive

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