CIO OFFICE MORNING MARKET WRAP

3 September 2025

Global equities extended losses Tuesday as the combination of higher yields and mounting concerns in the technology sector weighed on sentiment. The MSCI ACWI declined 0.7%, with developed markets down 0.8% and emerging markets ending flat. The start of September has introduced renewed fragility across asset classes, with reduced risk appetite and a pickup in volatility. In the US, the S&P 500 fell 0.7%, marking its second consecutive day of declines, led by weakness in large-cap technology and rate-sensitive sectors. Apple dropped 1.0% following reports of multiple high-profile departures from its AI unit, including the head of its robotics research and several members of its Foundation Models team. The exodus raised fresh concerns around the company's internal capabilities and long-term positioning in the competitive AI landscape, as Meta, OpenAI, and Anthropic continue expanding teams through aggressive hiring. Broader market tone remained cautious, with the Nasdaq 100 losing 0.8% and the VIX climbing above 19 for the first time since early August. Treasury yields extended their rise, with the 10-year moving up four basis points to 4.27%, and the dollar gaining 0.5% ahead of key policy signals including the Fed's Beige Book and Friday's payrolls data. The US revoked TSMC's waiver for equipment shipments to its Nanjing plant, ending its VEU status by year-end. Future deliveries will now require individual licenses, adding friction to legacy 16nm operations. Though the site contributes less than 3% of output, the move highlights rising export controls on China-linked chip supply. TSMC and key equipment suppliers traded lower on the news.

European markets underperformed following a hotter-than-expected eurozone inflation print that recalibrated expectations around ECB policy. The MSCI Europe Index declined 1.4%, with pressure concentrated in real estate, utilities, and industrials. August headline CPI accelerated to 2.1%, above consensus, while core held at 2.3%, reinforcing concerns about persistent price pressures. German stocks lagged as companies sensitive to long rates, including Vonovia and Siemens Energy, lost more than 5%. ECB officials adopted a cautious tone on easing, prompting a shift in rate path expectations and positioning across the curve.

Asian equities lost ground following recent strength, as sentiment turned more fragile in the face of shifting liquidity and growing valuation concerns. The MSCI Asia Pacific Index slipped 0.2%, with the CSI 300 falling 0.7% as chipmakers and AI names saw profit-taking. Leverage has been building in onshore markets, with margin debt now at 2.28 trillion yuan ($320 billion), exceeding 2015's peak. Speculative activity is rising, driven by new retail accounts, hedge fund registrations, and a decline in household deposits. The pickup in leverage has introduced momentum risk, particularly as underlying earnings trends remain uneven. Hong Kong tech names retreated after last week's strength. The TOPIX added 0.6%, supported by fiscal expansion bets amid leadership speculation in the LDP. The KOSPI closed higher on chip strength and yen softness, while India closed flat.

Within commodities, brent crude advanced 1.5% to $69.1 per barrel, gold gained 1.6% to a record $3,533 an ounce. The metal continued to draw demand as a hedge against fiscal deterioration and policy uncertainty, even with the dollar strengthening and rates climbing.

Markets this morning:
Today, global bond markets came under renewed pressure, reinforcing macro fragility across asset classes. Japanese yields surged, with 30-year JGBs up eight basis points to 3.28%, as the country joined a synchronized global bond selloff. Supply concerns and fiscal noise in the US and Europe echoed in Asia, amplified by Japan's upcoming 30-year auction and LDP leadership flux. Australian bonds dropped after stronger GDP data reduced rate-cut probabilities. Duration was broadly marked down, and the Bloomberg Global Aggregate Index posted its sharpest one-day drop since June as desks cut exposure to the long end.

Upcoming key events/data:
The remainder of the week brings a heavy macro slate. Today we get the Fed's Beige Book, euro area PPI and final services PMIs across the euro area and UK, plus China's Caixin services PMI; BOE and ECB appearances also populate the diary. Thursday features the US ADP employment report, initial jobless claims, trade balance and ISM services; euro area retail sales land the same day. The Senate Banking Committee holds a hearing to fast-track Stephen Miran's nomination to the Fed Board, with remarks due from New York Fed President John Williams and Chicago Fed President Austan Goolsbee. Friday brings US nonfarm payrolls and unemployment, with euro area GDP, Germany factory orders and UK retail sales also due.

Have a great day.

Chief Investment Office
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