CIO OFFICE MORNING MARKET WRAP

4 September 2025

Global equities advanced modestly as softer US labor data and a pivotal court ruling in favor of megacap tech helped steady sentiment. The MSCI ACWI gained 0.4%, with developed markets up 0.4% and emerging markets adding 0.1%. Attention remained anchored on the evolving policy backdrop, with rate expectations shifting in both the US and Europe and corporate developments shaping sector moves. In the US, the S&P 500 rose 0.5% as technology and communication services drove gains. Alphabet surged 9% after escaping the harshest antitrust remedies, lifting peers and boosting the Nasdaq 100 by 0.8%. Apple added nearly 4%, its strongest day in months. Job openings dropped to the lowest in a year, reinforcing expectations for a September Fed cut and pushing the 10-year Treasury yield down four basis points to 4.22%. Treasury positioning has turned increasingly bearish ahead of Friday's payrolls, with JPMorgan's client survey showing one of the sharpest weekly shifts toward shorts in five years and 30-year yields testing 5%. The jobs release is now set to dictate whether bearish wagers unwind or extend. Credit markets remained highly active. CLO issuance has topped $320 billion this year, running at a record pace as managers lock in cheap funding and prime for a new wave of leveraged loan supply. The surge in demand has pushed loan spreads toward cycle tights, with expectations that Fed cuts could spur a broader revival in M&A-driven issuance.

Europe outperformed, with MSCI Europe up 0.7%. Healthcare and retailers led, energy lagged on weaker crude. Autos were in focus after Porsche AG was dropped from the DAX less than three years post-IPO, a symbolic blow amid tariffs and EV demand weakness. In the UK, policy noise grew louder as fiscal constraints tightened. Chancellor Reeves prepared a "damage control" budget, and Governor Bailey cast doubt on further BOE cuts this year, signaling a slower pace of easing amid sticky services inflation. Regional resilience in PMI data added to cautious optimism, though fiscal strains remain a cap on momentum.
Within Asia, the MSCI China down 0.4%. Travel names advanced on visa-free entry for Russian tourists, defense shares slipped as profit-taking set in after a military parade. Japan underperformed, with the TOPIX falling 1.1% as political uncertainty intensified following the resignation of a key power broker, raising doubts over policy execution. The Nikkei dropped 0.9%, banks and exporters struggled under bond market fragility. Korea and Taiwan held firmer on chip demand. EV sentiment weakened further after BYD cut its full-year sales target by nearly 20%, underscoring intensifying competition and cooling demand even for the sector leader.
In commodities, Brent crude fell 2.2% to $67.6 on speculation OPEC+ may revisit output targets. Gold added 0.7% to $3,559, extending its record run. The dollar eased 0.1%, with softer yields lending support to FX-sensitive risk assets.

Markets this morning:
Today, Asia traded with a firmer tone as Fed-cut bets lifted regional benchmarks, led by Japan and Australia, even as onshore China snapped lower after reports that regulators are weighing cooling measures to temper a $1.2 trillion rally since early August, including easing some short-selling restrictions and curbing speculative activity across margin channels, broker marketing, and social platforms; Japan's long end stayed in focus ahead of a 30-year auction with the 30-year yield near 3.285%, oil extended its pullback toward $67, and gold gave back a sliver of its recent run as rate expectations swung dovish heading into US payrolls.

Upcoming key events/data:
Today we get 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.

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