CIO OFFICE MORNING MARKET WRAP

8 September 2025

Investors digested a weak US jobs report pointing to a more severe economic slowdown and a bad start to the week marked by rising global yields. The current mantra is that bad news is good news on growing signs that Fed chair Jay Powell is ready to resume cutting policy rates at the forthcoming September meeting. "Why worry if more liquidity will hit the market?", this must be the current thought process. So, Western markets (+0.3%) closed in the green, though with pockets of weakness here and there, while EM stocks (+1.4%) outperformed led higher by Latin America. The business confidence surveys showed bright spots outside of China and the United States, with a mixed picture in the latter and the usual divergence between US manufacturing, leaning weak, and the stronger services sector. Solid tech earnings from Broadcom and positive legal news from Alphabet helped benchmarks rally midweek, alongside the building case for rate cuts on weaker jobs openings and low private payrolls as per the ADP report. The end of the week saw renewed weakness set in both in the US and European markets in the wake of the subdued labor report, while Brazil and Mexico closed at all-time highs. The outlook for lower US rates and concerns about debt sustainability in France and the UK pushed gold (+4%) to record highs. Brent crude (-3.7%) weakened in anticipation of OPEC+ accelerating the return of oil that was withheld from the market. On a different note, the largest ever Shanghai Cooperation Organisation summit held in China through Sept. 1, saw the emergence of a China-led axis with the Asian superpower, India, and Russia becoming strategically more aligned. On the geopolitical front risks reached a new peak with Russian missiles hitting the Ukrainian government's headquarters in Kiev on Sunday.

The US indices closed mixed, with the S&P 500 (+0.3%) mildly positive, the Dow (-0.3%) in the red, while the Nasdaq (+1.1%) outperformed on gains in semiconductor stocks. Small (+1%) and mid caps (+1.3%) topped returns being sensitive to the outlook for lower funding costs. Likewise, Mexico (+3%) and Brazil (+0.9%) closed at record highs as EM currencies jumped on the prospect for Fed cuts. Japan (+0.7%) put in the strongest gains in the major DM countries. Global yields closed lower despite Gilts tumbling at the start of the week on mounting concerns about the UK's fiscal outlook. France's debt load was also in the spotlight with the yield premium over Germany rising to the highest level since January, and the PM expected to face a confidence vote today. But payrolls weakness on Friday saw Treasury yields end sharply lower with the yield on the 10-year note tumbling 16bps to 4.07% and the 2-year 11bps to 3.51% for the week. In August only 22,000 new jobs were created in the private sector, while in July job openings fell to the lowest level since September last year, and unemployed Americans exceeded job openings for the first time since 2021. June payrolls were revised to be in negative territory. Governor Waller, that Trump is considering as replacement for Powell at the Fed, said rates should be lowered starting from this month, to be followed by multiple cuts. As per money markets the probability of a 25bps cut at the September meeting shot higher to 100%, and that of a 50bps move to 12%. Gold surged as investors must have come to the conclusion that only bond vigilantes can force governments to rein in expenses, while the dollar was little changed despite dovish Fedspeak.

Markets this morning:

The yen fell and Japanese stocks advanced in the wake of PM Ishiba's weekend announcement that he intends to resign. The expectation is that political instability will make rate hikes less likely, that sent the yen 0.7% lower against the dollar. Stocks (+1.8%) rose on the yen tailwind and the possibility of more stimulus from the next leader. Markets are now in limbo over Japan's fiscal direction, that adds to the growing uncertainty about fiscal sustainability in both France and the UK. US futures ticked higher after Friday's fall, while Treasuries dropped, retracing some of Friday's gains on weaker labor data. Asian currencies inched higher catching up to Friday's dollar weakness. Taiwan and South Korean shares gained, as well as mainland China and Hong Kong's shares, despite concerns the rally may delay another round of stimulus. Oil edged higher after OPEC+ agreed on Sunday to raise production at a modest rate next month.

Upcoming key events/data:

The release of the August PPI (Wed) and CPI (Thu) should not build the case for a 50bps cut in September, as headline CPI could run hot on discretionary services. BLS revisions to payrolls data (Tue) could show labor market conditions have been tepid for a long time. The ECB meeting (Thu) is the next highlight for the week. Investors will be also watching China's CPI and PPI (Wed). On the corporate front, Apple (Tue) is expected to unveil its new iPhone 17.

Have a great day.

Chief Investment Office
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