



CIO OFFICE MORNING MARKET WRAP

11 September 2025

Wednesday delivered a Goldilocks session with a favourable gate inflation print that let investors see the glass half full of forthcoming rate cuts. But markets closed mixed, unable to follow through on the new all-time highs. As already mentioned in this publication, multiple signals are telling us that growth is slowing, so the inflation risk should for now take a backseat. Longer-dated yields closed at the lows of the week, while the most cyclical pockets of the equity market failed to hold up. In China price pressures turned negative again, and in the previous week euro-area inflation kept close to the ECB target. We are in the late stages of the business cycle, and disinflation is for now prevailing. It is quite easy to take sides after the fact, but it is indeed possible that the Fed kept rates high for too long, validating President Trump's 'Too Late' narrative. If we consider policy restrictive when core inflation sits below the Fed funds rate, this has happened since August 2023, and the large negative revision to payrolls through March 2025 would be confirming that policy was tight for long. Interest rate cuts by the Fed and other central banks will accelerate money supply growth, supporting equities, gold, and cryptocurrencies. One 25bps cut seems to be a done deal for September, and further easing is also priced in for Canada, Australia, Sweden, and other central banks by year end. The US benchmarks closed mixed, with the S&P 500 +0.3%, the Nasdaq unchanged, and the Dow -0.5%, and the small and mid caps were little changed. Technology and energy (both +1.8%) led gains, while consumer discretionary (-1.6%) lagged. Transportation stocks have been trailing the whole year, one more sign the current environment is not reflationary at all. The Treasury curve flattened with yields falling faster at the longer end. The yield on the 10-year note ended at 4.04%, the 30-year at 4.69%. Crude gained 1.8%, while the dollar was little changed.

The Producer Price Index in the United States printed -0.1% MoM, below estimates of +0.3%, and annually it rose 2.6%, again well below projections. While focus will be primarily on today's CPI, the PPI usually leads and the two gauges tend to move together. So, the current reduction in production costs signals an important source of disinflation for the future. It also signal companies may be competing to keep market share despite tariffs-related costs. Today the CPI is expected to increase briskly on discretionary services, like airfares and hotels. That signal should be faded considering the broader disinflation environment. Monthly forecast for headline and core: +0.3%; over year forecast for headline: +2.9%, and for core: 3.1%.

Markets this morning:

Asian stocks were flat after a record run in US shares on Wednesday. Australia and Hong Kong were slightly lower, keeping MSCI's Asia-Pacific index flat. Mainland Chinese shares fluctuated, while Japan's Nikkei 225 and South Korea's Kospi index rose. Alibaba Group Holding Ltd, retreated 1.3%, while Japan's Softbank Group rose around 8% to a new high after major shareholding Arm Holdings Plc rose in Wednesday trading in New York. Chipmakers Taiwan Semiconductor Manufacturing Co and SK Hynix Inc in South Korea also advanced. Treasuries were steady after a rally across the curve yesterday, and the US dollar was little changed.

Upcoming key events/data:

Investors will be focusing today on the US CPI release, as well as the ECB meeting. President Lagarde is expected to leave rates untouched at 2% against projections of slowing economic growth. Yet, ruling out further cuts completely could be counterproductive. Many countries in Europe are facing fiscal challenges, in particular France, where President Macron is trying to build consensus around a deficit-reduction plan. The euro area is now in conditions of fiscal dominance, when a central bank is forced to keep interest rates low for governments to continue to borrow. In the absence of a debt reduction plan this usually leads to inflation.

Have a great day.

Chief Investment Office
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