CIO OFFICE MORNING MARKET WRAP

17 September 2025

After an unanimously positive Monday, returns were dispersed on Tuesday. Defensive assets outperformed, from gold reaching another all-time high, briefly touching $3,700, to US Treasuries, with yields falling -2/-3 basis points on all maturities of 5-years and shorter. Stocks modestly fell in developed markets with the US closing around -0.1%, but they gained +0.7% in emerging markets, with a nice rebound from the GCC. The dollar weakened further, and oil prices rose to $68.5 for the Brent.

All eyes are on the US. August retail sales surprised to the upside with a +0.6% monthly jump, more than twice the median forecast. This is hard data, part of the GDP calculation, not just a survey. Since the index is calculated on value, part of the surprise may be attributable to higher prices from tariffs as the effective rate increased in August. Still, this is good news for a consumption-driven economy and suggests that US growth in Q3 may be resilient, again. Industrial production was also positive for August at +0.1% (versus expectations of -0.1%) but July was revised -0.4% lower so all in there's nothing to get too excited about. On the inflation side, import prices came in a bit hotter than forecast at +0.4% ex fuel. Finally, food for thought: 50% of US consumption comes from the 10% of earners. This is also America.

No doubt, robust retail sales and sticky import prices come at an interesting time as the Fed's FOMC will conclude tonight. Frankly, these numbers do not demonstrate the need for fast and deep monetary easing, as consumption remains strong and as inflation risk is certainly not diminishing. The FOMC will still include Mrs Cook, despite President Trump's attempt to fire her, but will also welcome the President's pick Stephen Miran who was just sworn in yesterday. The new voting member alluded to a "third mandate" for the Fed which, together with employment and inflation, would be to maintain "low interest rates". That doesn't sound very hawkish. We expect the Fed to cut interest rates by 25 basis points tonight, and to marginally alter their economic projections with most probably a slightly higher unemployment for 2026 and a symbolically higher inflation. The dot-plot may include one more cut in 2025 and 3 or 4 in 2026, or potentially shallower, with some dispersion among voting members. We wouldn't be surprised to see an emphasis on a trajectory to a "neutral" policy rather than a data-driven justification of the guidance which honestly could be difficult to build. After all, we have a very low unemployment (even if job creations are very weak), a resilient economy with relentless consumption, pockets of inflation risk and buoyant financial markets. It would be much easier to say that a neutral rate is probably around 3% (which nobody can either challenge or really demonstrate) and that the Fed will gradually remove its restrictive bias – so 5 or 6 25bps cuts from now to the end of 2026. We keep on thinking that this scenario is already priced in by most asset classes: resilient growth, rate cuts ahead, and a bit of procrastination when it comes to thinking about the inflation risk.

In other news, both China and the US confirmed that their respective Presidents will speak on the phone on Friday, following two days of negotiation of their teams in Madrid. The central topic should be the US operations of TikTok but it could extend to trade in general. A publicly announced official conversation between the world's most powerful leaders means some form of agreement, with both superpowers having anyway some leverage on each other.

Markets this morning:
The mood is cautious in Asian markets as we write this (early) morning, with most stock markets modestly down. There is overall no notable move in other asset classes – and there probably won't be as the day will really begin tonight with the FOMC conclusion.

Upcoming key events/data:
We'll have a look at August inflation numbers for the UK and the Eurozone, before focusing on the Fed's statement at 10PM Dubai time: rate decision, update of economic projections and dot-plot, and of course the press conference. The Bank of Canada will also hold their policy meeting.

Have a great day.

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