Investment Review – August 2025

Highlights

- At the Jackson Hole gathering, the chair of the Federal Reserve indicated that interest rates could be cut at the next meeting. Meanwhile, President Trump attempted to fire a member of the Fed's board.
- Despite a 0.25% Bank Rate cut from the Bank of England, the FTSE 100 was little changed over the month as concerns grew about what might be in the Autumn Budget.
- European markets were mixed, with Germany and France both down about 1%. The imminent risk of another budget-driven defenestration of a French prime minister marked the end of the month.
- Chinese markets enjoyed a strong month, with the Shanghai Composite up 8%.
- 30-year government bond yields continued to climb in developed markets as worries about deficits grew.
- At the end of August, a Federal Appeals Court ruled that Trump's 'emergency' tariffs were illegal, but left them in place until mid-October, pending an appeal to the Supreme Court.

Global equity markets generally rose in August, as the prospect of a cut in US short-term interest rates grew stronger. US tariff actions continued to grab headlines, with an agreement between the US and China once again being pushed back for another 90 days. Government bond yields fell in the US, except at the very long end, while in Europe, German Bund yields fell as French OAT yields (their bond equivalent) neared Italian levels, while a parliamentary collapse loomed.

United States

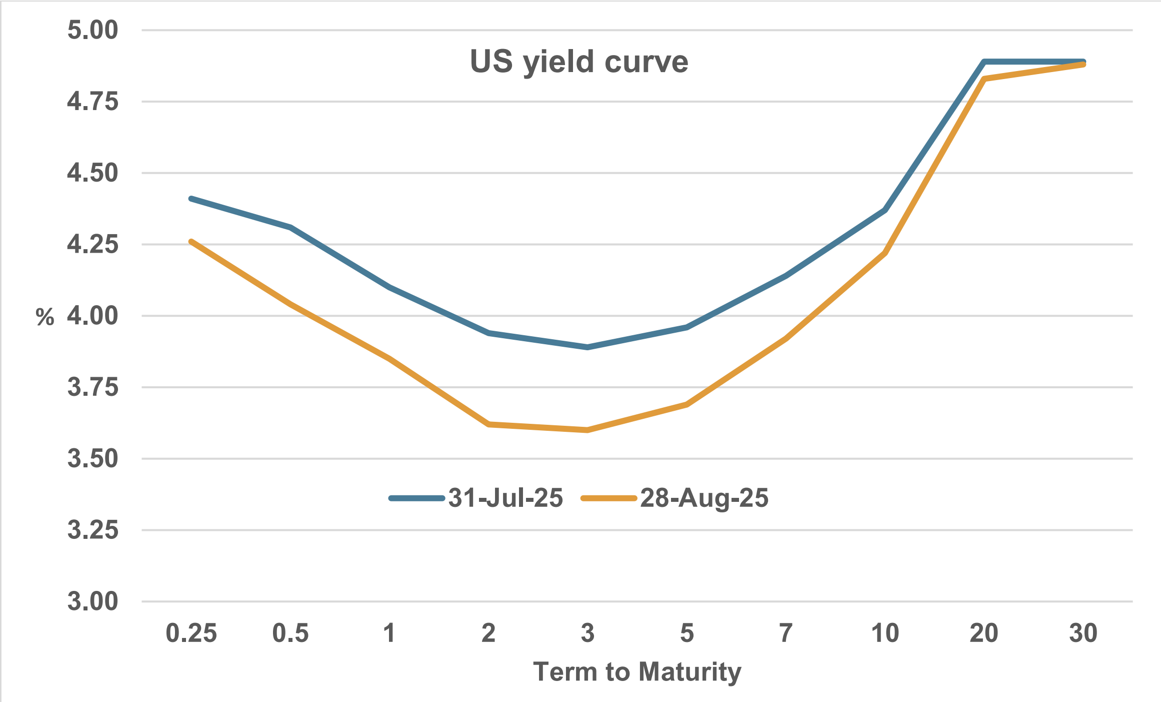
August was bookended by two significant events:

- At the start of the month, the Bureau of Labour Statistics (BLS) released employment numbers (see 'And Also...' below) which surprised the market. The employment outlook suddenly looked much weaker, raising the pressure on the Federal Reserve to pay greater attention to that aspect of its dual mandate and start cutting rates. The disappointing data also called into question the strength of the US economy, in response to which President Trump fired the BLS chief.
- After US markets closed for the Labour Day weekend on 29 August, a US Federal Appeal Court upheld an earlier US Court of International Trade ruling that the President did not have the authority to introduce his 'reciprocal' tariffs. The judgement allowed for the tariffs to remain in place until 14 October, pending an appeal to the Supreme Court. If that court, which has a 6–3 conservative majority, does not find in favour of Trump, the fallout for markets could be dramatic.

In between those two events, Donald Trump continued to put pressure on the Federal Reserve to cut interest rates. He replaced one Fed governor who resigned at the beginning of August with Steve Miran, his chair of the Council of Economic Advisors (and author of the so-called Mar-a-Lago Accord). Subsequently, Trump announced that he had fired another Fed governor, Lisa Cook, over alleged mortgage fraud, a move now mired in the courts.

The month's drama seemed to have negligible impact on the S&P 500, which closed above the 6,500 level for the first time on 28 August – its 20th new high of 2025. Over the month, the S&P 500 was up 1.9% and the NASDAQ Composite 1.4%. The prospect of interest rate cuts was more helpful to smaller companies, with the Russell 2000 posting a 7% gain in August, enough to restore the index to positive territory for the year-to-date.

The two-year Treasury bond yield fell by 0.33% and its 10-year counterpart by 0.16%, but the 30-year was little changed, flirting with, but not quite reaching 5%.



Source: Federal Reserve

United Kingdom

The FTSE 100 drifted over the month, ending up 0.6% after reaching a new all-time high on return from the Bank Holiday. Inevitably, the focus during the month was the potential contents of the Autumn Budget. The threat of tax rises was given a boost early in the month with a report from the National Institute for Economic and Social Research suggesting that the Chancellor faced a £41.2 billion shortfall against her primary fiscal target. This implied that she would need to find £50+ billion through tax rises – spending cuts look unlikely – to maintain even the minimal headroom established in last year's Budget. Rachel Reeves has since disputed the figure.

There had still been no Budget date set by the end of August, knocking the likely event to mid-November before Reeves reveals her numbers. A date of 26 November has subsequently been announced once Parliament reconvened. During August, the spectre of tax rises had more impact on more UK-oriented companies, which meant both the FTSE 250 and FTSE Smaller Companies indices fell. However, banking constituents of the FTSE 100 suffered an unfortunate last day of the month following a report from the left-leaning Institute for Public Policy Research (IPPR) proposing a “Thatcher-style tax on bank windfalls”. Natwest lost more than 5% on the day.

The IPPR argument revolved around the impact of quantitative easing on government finances, which ironically was weakened marginally in early August by the Bank of England’s 0.25% cut in Bank Rate to 4%. Unfortunately, that was not the only 4% mentioned in the Bank’s Monetary Policy Committee statement: 4% was also sighted as the likely September peak in consumer price index inflation, an increase on previous projections. That set the backdrop for gilt yields to rise, with the 30-year bond closing the month out at 5.6%, close to levels last seen in 1998.

Europe

European markets had a mixed month with the Euro Stoxx 50 up by 0.6%, despite falls in France and Germany. The Spanish equity market once again recorded a strong performance, with the IBEX 35 rising 3.7% over the month, taking its year-to-date rise to 28.8%, beating the 20.1% of the Dax. After last month’s 14% slump, the Danish stock market recovered 1.8% as Novo Nordisk, maker of Ozempic and Wegovy weight loss drugs, recovered 14.1% after its July plummet.

France’s fiscal and political problems returned to the Eurozone forefront in August as the French Prime Minister, François Bayrou, embarked on what is likely to be a futile attempt to push a contentious budget through a three-way divided parliament. Bayrou is seeking €44 billion of tax increases and spending cuts – including the abolition of two national holidays – to deal with a budget deficit that hit 5.8% of GDP in 2024. French government bond yields rose over the month, with the 30-year OAT yield adding nearly 0.3%, taking it above the yield on Greece’s 30-year paper.

Asia

The Japanese equity market enjoyed a strong August, with the Nikkei 225 rising over 6% to a new all-time high by the middle of the month before falling back to a 4% gain by the month end. That left the Nikkei 37.2% above the 2025 low that it hit on 7 April, just before President Trump watered down his Liberation Day tariffs, one of the largest market bounce backs around the globe. The rally has been helped by foreign buying, some of it replacing exposure to China, and domestic retail purchases driven by Japan’s equivalent of the UK’s individual savings account scheme. However, Japanese government bond yields continued to rise over the month, with the 10-year bond yield reaching 1.61% and the 30-year bond yield adding 0.1% to 3.19%. The increase came despite another 0.2% fall in annual inflation to 3.1%.

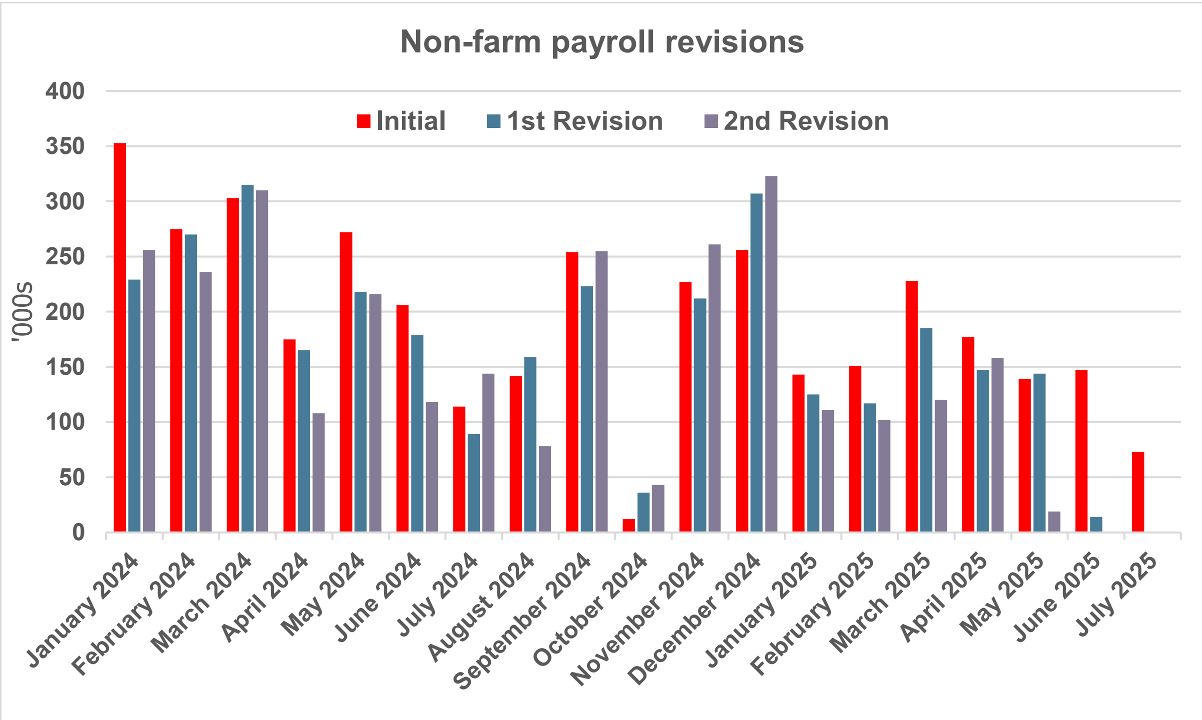
Hong Kong’s Hang Seng index experienced a roller coaster month, ending with a modest rise of 1.2%, well below the performance of its mainland counterparts. The Taiwan stock market index added another 3.3% during August.

Emerging Markets

The MSCI Emerging Markets Index was up 1.2% on the month in dollar terms, despite another round of US tariff disruption. While Donald Trump confirmed a last minute 90-day extension to temporary China tariffs of around 30%, he subsequently imposed a new 50% tariff on India, giving its imports of Russian oil as justification. The Bombay Stock Exchange Sensex fell 1.7% over the month and the rupee reached a new low against the dollar.

In contrast, the Shanghai Composite continued the rally which started after Trump's watering down of the Liberation Day tariffs on 7 April. The index was up 8% over the month, helped by rising retail buying and low interest rates – Chinese 10-year government bonds now yield about 1.8%, just under 0.2% over their Japanese equivalents.

And also…



Source: Bureau of Labor Statistics

On Friday 1 August, the US Bureau of Labor Statistics (BLS) released the non-farm payroll (NFP) data for July. They surprised the market, partly because at 73,000, the number of new jobs created was 37,000 below the consensus forecast and the smallest increase in five months. However, the real shock came from the adjustments for May and June, which cut the payroll total for those two months by 258,000. Suddenly, what investors had assumed was a robust labour market looked much more fragile, pushing up the odds of a Fed interest rate cut in September.

In response, Donald Trump fired the BLS Commissioner, Erika McEntarfer, on the grounds of releasing ”rigged” figures. Trump offered no evidence, beyond the substantial revisions which had been made. The BLS said that almost half the adjustment was due to a reversal of increased educational payroll originally reported in May.

The BLS is not alone with employment data problems. In the UK, the Labour Force Survey (LFS) from the Office for National Statistics (ONS) is far from reliable. Even the ONS says in its monthly release that “We recommend using LFS estimates as part of our suite of labour market indicators.” Both the BLS and ONS are suffering from limited resources and poor survey response rates, which have never recovered from the Covid-19 pandemic. The latest response rate for the LFS is just 21.3%, but the ONS has many other problems. For example, the ONS suspended Producer Price Indices (PPI) in March 2025 and will not be reinstating them until October.

The unreliability of employment data is a major issue for both the Federal Reserve and the Bank of England. In setting interest rates, both are trying to balance above-target inflation with the needs of the economy. Incorrect employment numbers could lead to wrong interest rate decisions.

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