

August 29, 2025

# Weekly Investment Insight



Thursday saw the S&P 500 notch a fresh high for the second day in a row, buoyed by revised Commerce Department data showing that the US economy expanded by **3.3% in Q2**. The Dow also scored a new record, while the Nasdaq narrowly missed out on joining the new-high-club.

Tariffs took centre stage (again), with President Trump announcing a 50% levy on Indian imports, noting New Delhi's continued purchases of Russian crude oil. The US is India's largest export market, equivalent to 2.2% of India's GDP, and roughly two-thirds of Indian goods will now face the higher tariff. Notably, pharma, electronics and petroleum products are exempt.

While a 25% tariff will remain for aluminium, steel and copper, sectors such as textiles, jewellery and seafood, key sources of Indian employment, will be most exposed. The Indian rupee plunged to a record low against the US dollar.

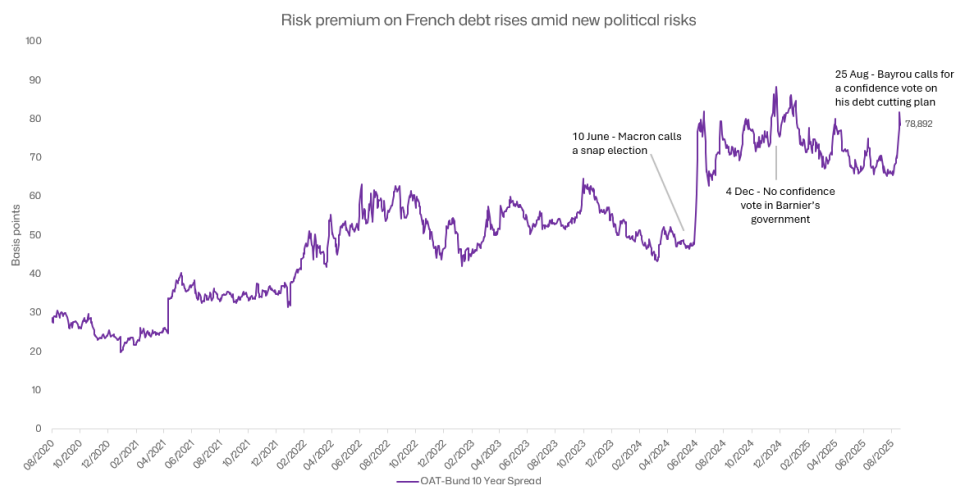
In response, the Indian government has pledged to lower goods and services taxes (to 5% or 18%) and is encouraging consumers to "buy Indian" to cushion the blow. Similar shifts in consumption patterns have already been observed in China, where domestic brands with cultural resonance are increasingly preferred.

Turning to Europe, politics took the spotlight. France's Prime Minister François Bayrou has called a vote of confidence for 8 September, seeking parliamentary backing for EUR 44 Bn in budget cuts and tax increases, aimed at stabilising public finances. With France's budget deficit reaching 5.8% of GDP in 2024, its fiscal standing now looks weaker than that of Greece, Spain and Italy.

Opposition parties have already vowed to vote against the motion, raising the risk that Bayrou might be forced to resign – just as Michel Barnier did in late 2024. Investor nerves were evident:

French equities, particularly banks, declined, while sovereign borrowing costs climbed, with the spread over the German 10-Year Bund briefly touching 80 basis points.

For several months, we have been avoiding the long-end of the yield curve in both Europe and the US, a stance we continue to believe is prudent. With the European yield curve having normalised, investors may be tempted to extend duration to capture carry. However, if steepening persists, driven by long-end yields rising while the short-end remains anchored by an “on-hold” ECB, any incremental carry could quickly be eroded.



Source: Bloomberg, BIL as of 29 Aug 2025

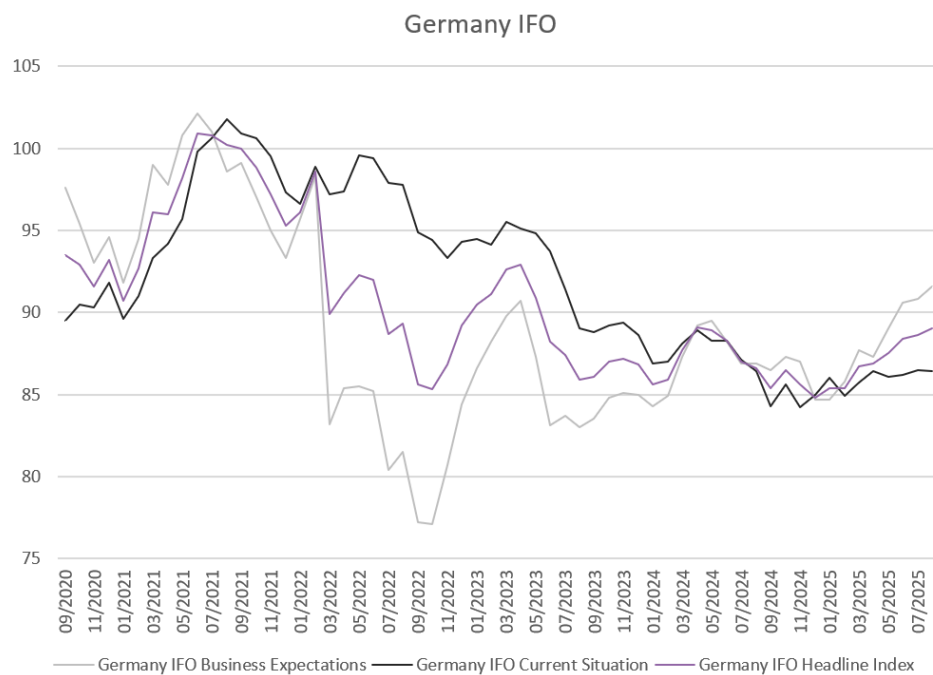
## MACRO SNAPSHOT

### Europe – Fragile recovery amid trade and consumer headwinds

The week began with a cautiously upbeat signal from Germany. The **Ifo Business Climate Index** rose to 89.0 in August (from 88.6), the highest since May 2024 and slightly above forecasts. While still well below the long-term average of 96.0, the improvement suggests a fragile recovery may be taking hold.

Clearer trade dynamics appear to be boosting morale among companies. The White House has confirmed a **15% tariff** on most EU imports, however, a key sticking point is the **27.5% tariff on autos** – a crucial industry for the Eurozone’s largest economy. On Thursday, the European Commission proposed eliminating tariffs on all US industrial goods, a move that – if approved – would lower US auto tariffs to 15% and save European carmakers an estimated EUR 500 million per month.

Combined with the better-than-expected PMI reading (Composite at 50.9), the IFO data suggests that the **German economy may eke out modest Q3 growth**, thereby defying Bundesbank expectations for stagnation, after a 0.3% contraction in Q2.



Source: Bloomberg, BIL

Consumers in the bloc do not seem to be sharing in the same optimism as companies. The French consumer confidence reading slipped to 87.0 in August, it's weakest since October 2023, while Germany's GfK Consumer Climate index dropped to -23.6, the lowest since April.

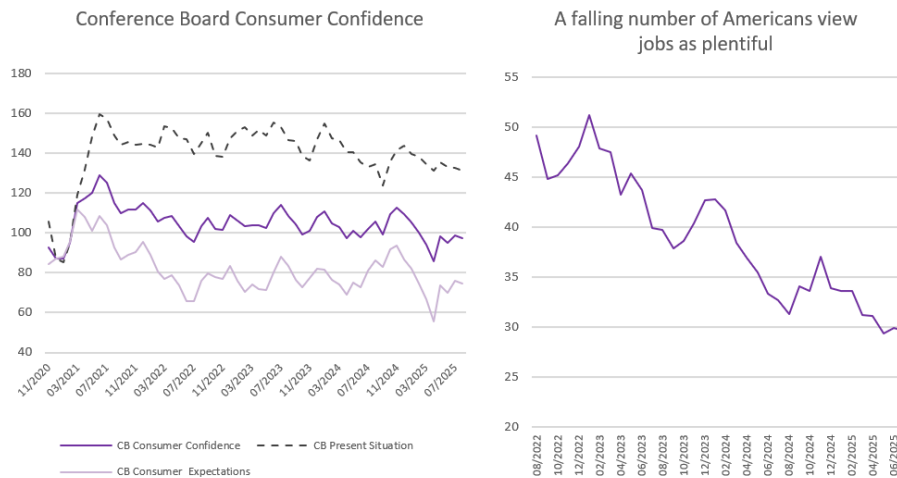
On the inflation front, data from France, Spain and Italy came in softer than expected. An ECB survey showed consumers are less concerned about price pressures, reinforcing expectations that the central bank will hold rates at 2% in September. Market scepticism is growing over the likelihood of another rate cut in 2025.

## US – Inflation fears and Fed independence in focus

US markets were unsettled after President Trump attempted to remove Federal Reserve Governor Lisa Cook, citing allegations of mortgage fraud. The move stoked concerns about central bank independence; long-dated Treasuries sold off, short-term yields fell, and the dollar weakened as investors priced in greater uncertainty over future Fed policy.

Consumer sentiment also softened. The Conference Board Index dipped to 97.4 in August (from 98.7), echoing the University of Michigan's survey. Notably, assessments of job availability declined for the eighth month, though optimism about future business conditions provided some balance. Inflation is still a growing concern, with average 12-month inflation expectations reaching 6.2% in August—up from 5.7% in July but still below the April peak of 7.0%. Consumers' write-in responses showed that references to tariffs increased somewhat and continued to be associated with concerns about higher prices.

Hardly helping to allay these fears, the US officially closed a loophole on low-value package imports, imposing reciprocal tariffs or flat fees (USD 80-USD 200) on small shipments that were previously duty-free.



Source: Bloomberg, BIL

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## CALENDAR FOR THE WEEK AHEAD

**Monday** – China Caixin Manufacturing PMI (August). Eurozone Manufacturing PMI (Final, August). Eurozone Unemployment Rate (July).

**Tuesday** – Eurozone Inflation (Flash, August). US ISM Manufacturing PMI (August).

**Wednesday** – China Caixin Services PMI (August). Eurozone Composite PMI (Final, August). Eurozone PPI (July). US JOLTs Job Openings, Factory Orders (July), Fed Beige Book.

**Thursday** – Eurozone Retail Sales (July). US Challenger Job Cuts (August), ADP Employment Change (August), Nonfarm Productivity (Q2), ISM Services PMI (August), Weekly Jobless Claims.

**Friday** – UK Retail Sales (July), House Price Index (August). Italy Retail Sales (July). Eurozone GDP Growth (3<sup>rd</sup> est., Q2). US Nonfarm Payrolls, Average Hourly Earnings (August).

**Sunday** – OPEC and Non-OPEC Ministerial Meeting



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