

September 5, 2025

Weekly Investment Insights



Bond markets are back in the spotlight. After a period of calm, concerns about record borrowing among developed economies have resurfaced. The wake-up call came from a series of idiosyncratic events across the globe...

In the US, deficit worries deepened after an appeals court judged most of President Trump's trade tariffs illegal, jeopardising hundreds of billions in revenue. For context, last month, the Congressional Budget Office said the new levies would cut US deficits by USD 4 Trillion over the coming decade. The administration is pushing for a Supreme Court reversal. It has until October 14 when the appeals court ruling kicks in.

In Japan, Prime Minister Shigeru Ishiba's future looks uncertain following July's election losses in the upper house. Markets fear his potential exit could usher in a more populist candidate with looser purse strings.

Meanwhile, the UK – already burdened with the highest borrowing costs in the G7 – faces increasing fiscal strain. Chancellor Rachel Reeves has set November 26 for the Autumn Budget, amid investor pressure to rein in spending. Reliance on tax hikes alone risks undermining growth and fuelling inflation, while higher gilt yields are already driving up debt servicing costs.

Elsewhere in Europe, France's 5.4% budget deficit looms large as political instability threatens to complicate fiscal repair, while the Netherlands prepares for a complex EUR 2 Trillion pension

reform on January 1 that could steepen the yield curve. In a switch to life-cycle investing, younger workers will be more heavily invested in riskier assets like stocks.

The amalgamation of these events catalysed a global sell-off in core bonds, especially longer-dated tenors. The 30-year yield on US Treasuries hit 5%, while the Japanese equivalent reached a record 3.29%. In the UK, 30-year yields spiked to 5.75% - the highest since 1998. Given Germany's fiscal pivot in March, Bunds were not spared, and its 30-year borrowing costs hit a 14-year high.

The global core bond sell-off catalysed a broader risk-off mood and equity markets stumbled into September.

Nonetheless, markets stabilised towards the end of the week, with weak labour market data from the US fuelling Fed rate cut bets. A 25bp cut in September is basically seen as a sure thing in futures markets. US Treasuries rallied and the risk-off mood that had been weighing on stocks lifted.

But September is typically a tricky month on markets. Volatility is stirring again in the fixed income world and pressure on long-dated bonds could continue, with ripple effects affecting equities.

Our latest [BILBoard](#) outlines how we are investing and diversifying our portfolios in light of this.

MACRO SNAPSHOT

Eurozone inflation and labour market data adds to the case for a pause in rate cuts

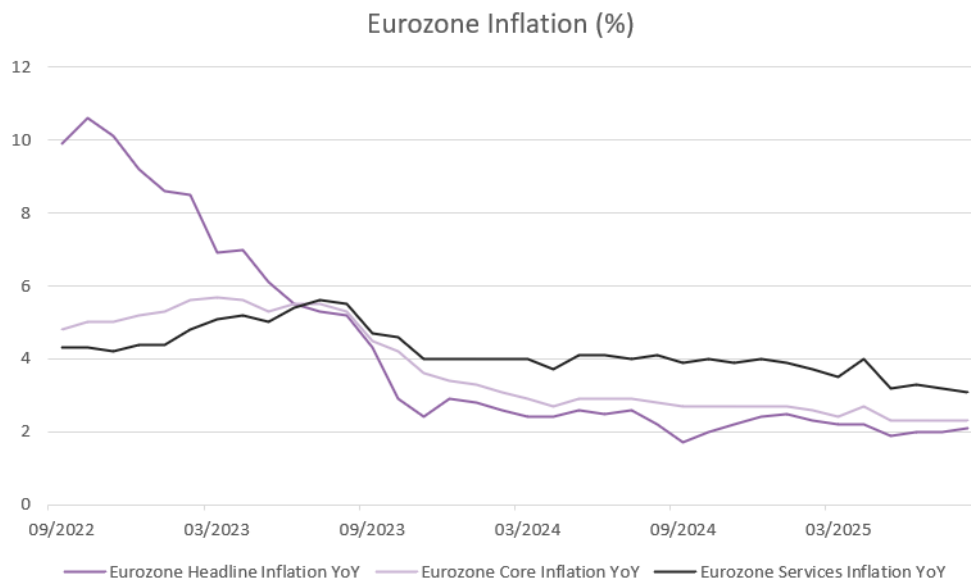
Early last week, the **Eurozone unemployment rate** was shown to have fallen to **6.2% in July** (seasonally adjusted), down from 6.3% and matching a record low. This paints a picture of a strong job market, with the number of unemployed people declining by 170k to 10.805 million. That said, there is heterogeneity among member states -- among the largest Eurozone economies, Germany (3.7%) and the Netherlands (3.8%) recorded the lowest jobless rates, followed by Italy (6.0%), France (7.6%), and Spain (10.4%).

On Tuesday, **inflation** in the bloc was shown to have picked up to **2.1% in August**. Unprocessed food prices climbed 5.5% from 5.4%, while energy costs fell 1.9%, a smaller decline than the previous month's 2.4% drop. The core measure, which strips out volatile categories like food and energy, held at 2.3%. Closely watched **services inflation eased to 3.1%**.

Overall, business sentiment data suggests the Eurozone is weathering headwinds well for the time being. With the labour market proving resilient and price pressures moving (albeit very

slightly) above the ECB's 2% target, data prints this week corroborate the case for the **ECB to pause its rate cutting campaign**.

The central bank is likely to keep rates steady at its next meeting on **September 11**, while market **expectations for any rate cut at all this year have faded significantly**. A 25 bp reduction by the ECB's March meeting is seen as a coin toss.



Source: Bloomberg, BIL

On Friday, China announced that it would be imposing **tariffs on pork** imported from the EU, ranging from 15.6% to 62.4%. Beijing said that European companies had dumped certain pork and pig byproducts on the Chinese market, causing “material injury” to its domestic firms. The European Commission is studying the matter and will “take all necessary steps” to defend producers and industry, according to a spokesperson.

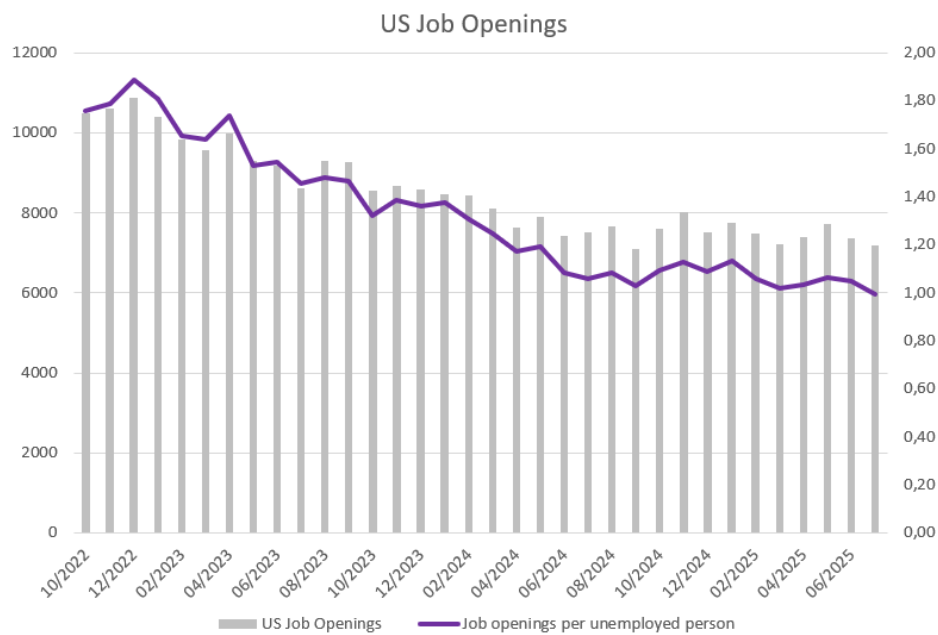
US: soft labour market data fuels Fed rate cut bets

Cracks in what the Federal Reserve described as a “balanced” labour market, are becoming more apparent. Amid ongoing uncertainty, companies continue to exercise caution when it comes to hiring -- evident in the steep fall in **open job positions**, down 176,000 to **7.18 million**; the lowest level since September 2024. Markets had expected a figure of 7.4 million. As the chart below shows, the **ratio of job vacancies to unemployed Americans has dropped below 1**, a strong indicator of a weakening employment situation.

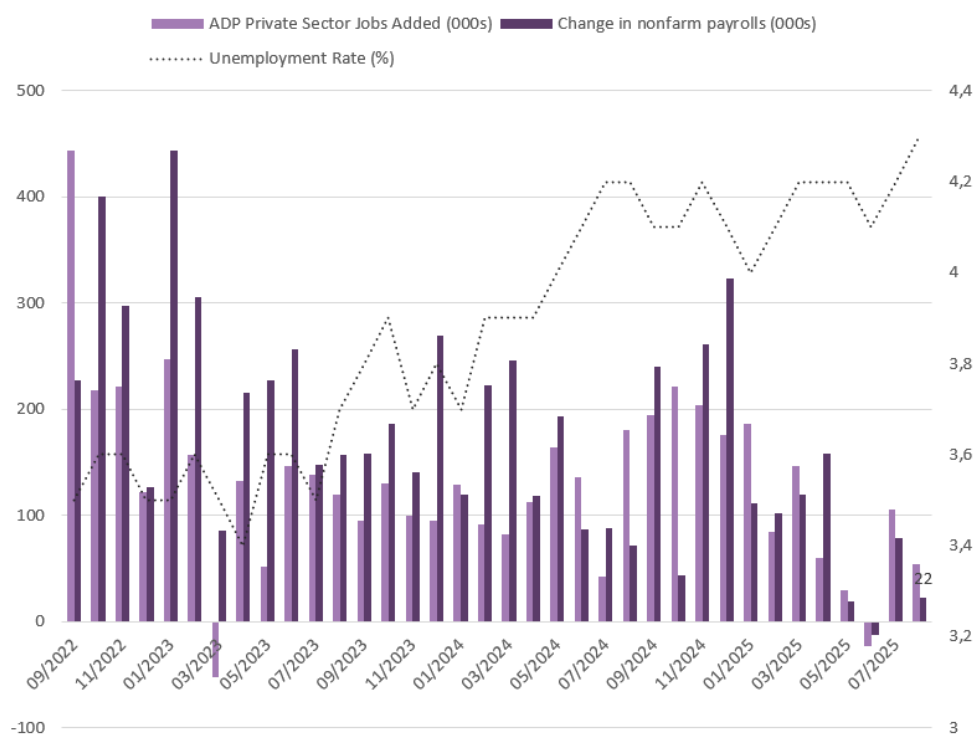
With **nonfarm payrolls rising just 22k in August** (down from 79k in July), the **unemployment rate**

rose to a near-4-year high of 4.3%. Average hourly earnings rose 3.7% YoY, down from 3.9%.

This data slate which points to a faster slow down in the labour market than originally thought, has all but **cemented a 25bp rate cut from the Federal Reserve when officials meet in two weeks**. The data has even put the prospect of a larger September rate cut on the table for debate. An item to watch will be the Bureau of Labour Statistics' release of the preliminary estimate of the upcoming **annual benchmark revision** to the establishment survey data on **September 9 at 10am ET**. Last year, these data revisions saw nonfarm payrolls for the year revised down by a huge 818k. With the labour market in focus, these revisions certainly have the scope to cause market jitters.



Source: Bloomberg, BIL



Source: Bloomberg, BIL

Eurasia – Greater integration, with China at the core

Last week, **China** garnered global attention. A military parade unveiled a range of new weapons, while the **Shanghai Cooperation Organisation** (SCO) summit in Tianjin attracted dozens of world leaders representing roughly half of the world's population. The event, with guests including Indian Prime Minister Narendra Modi and Russian President Vladimir Putin, highlighted a shifting geopolitical balance, with American protectionism accelerating Eurasian integration, with China at its core.

Following the US' decision to hit India with levies of 50% for its continued purchases of Russian crude oil, it was interesting to see Russia and China ink a deal to build a new gas pipeline as they deepen energy ties. This new infrastructure would broaden Beijing's energy sources, while potentially reducing dependence on LNG imports from the US.

CALENDAR FOR THE WEEK AHEAD

Monday – China Balance of Trade (August) and Standing Committee National People's Congress. Germany Balance of Trade and Industrial Production (July). US Consumer Inflation Expectations (August).

Tuesday – France Industrial Production (July). US NFIB Small Business Optimism Index (August).
China Standing Committee National People's Congress

Wednesday – China Inflation (August). Italy Industrial Production (July). US PPI (August). China
Standing Committee National People's Congress

Thursday – Japan PPI (August). **ECB Monetary Policy Committee**. **US Inflation (August)** and
Weekly Jobless Claims. China Standing Committee National People's Congress

Friday – UK GDP (July). Germany, France, Spain Inflation (Final, August). **US Michigan Consumer
Sentiment (Preliminary, September)**. China Vehicle Sales, New Yuan Loans, M2 Money Supply
(August).

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