

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 <u>BILBoard</u> 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

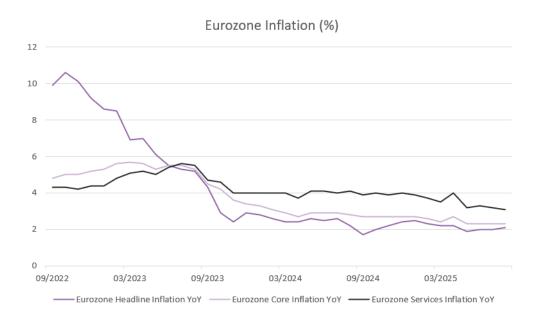
Early last week, the **Eurozone unemployment rate** was shown to have fallen to **6.2% in July** (seasonally adjusted), down from 6.3% and matching a record low. This paints a picture of a strong job market, with the number of unemployed people declining by 170k to 10.805 million. That said, there is 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

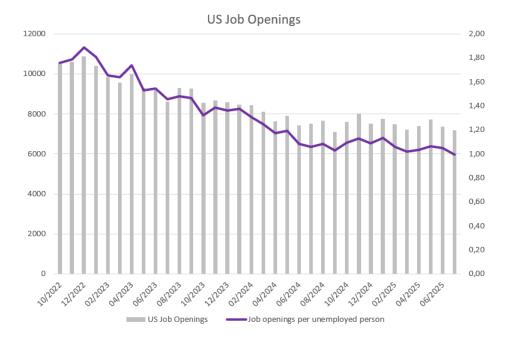
On Friday, China announced that it would be imposing **tariffs on pork** imported from the EU, ranging from 15.6% to 62.4%. Beijing said that European companies had dumped certain pork and pig byproducts on the Chinese market, causing "material injury" to its domestic firms. The European Commission is 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

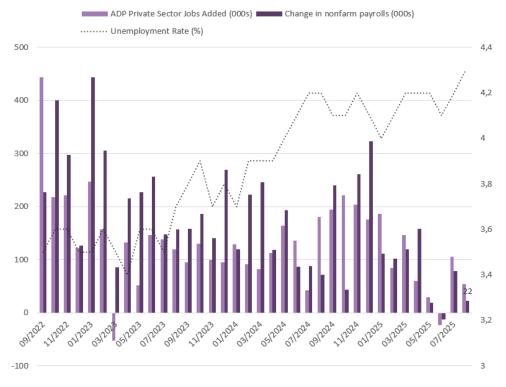
Cracks in what the Federal Reserve described as a "balanced" labour market, are becoming more apparent. Amid ongoing uncertainty, companies continue to exercise caution when it comes to hiring -- evident in the steep fall in open job positions, down 176,000 to 7.18 million; the lowest level since September 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

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).

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof.

Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352

