

September 22, 2025

Weekly Investment Insights



Last week saw a number of central bank meetings, including the highly anticipated interest rate cut by the US Fed. As expected, the Bank of England and the Bank of Japan held rates steady, while the Norwegian central bank surprised markets with a rate cut. This week, it is the turn of Sweden's Riksbank and the Swiss National Bank to meet and discuss monetary policy.

US stocks hit new record highs last week, as the Fed's interest rate cut, announcements on artificial intelligence spending and US-Sino trade talk news brought both large and small cap indices higher. With the Fed rate cut coming in as investors had expected, attention quickly turned to signs of further easing in the months ahead, with markets now anticipating a total reduction of 50 basis points by the end of the year. Long-term US Treasury yields increased in response to the Fed's comments, which the markets viewed as somewhat hawkish. The MSCI All Country World Index, which tracks stocks in developed and emerging economies, also rose, boosted by rising shares in Asia.

MACRO SNAPSHOT

Europe

The Bank of England (BoE) held interest rates steady at 4% on Thursday, in line with market expectations, as the UK economy struggles with both sticky inflation and meagre growth. The central bank also announced that it would slow its balance sheet reduction efforts, reducing its bond-selling programme from £100bn to £70bn, to curb rising bond yields. The slowdown is the first since 2022 when the BoE began to unwind Gilt holdings and will move sales away from

long-dated Gilts to minimise the impact on volatile bond markets. Yields on 30-Year UK Government bonds hit their highest level since 1998 at the start of this month.

The BoE maintained its forecast that inflation will peak at 4% this month after holding steady at 3.8% in August. Consumer price growth in the UK continues to be significantly higher than in the Eurozone, and any other advanced economy. However, in August, services inflation, closely watched by the Bank of England, slowed to 4.7% from 5.0% in July. Core inflation, which excludes volatile categories such as food and energy, also slowed, from 3.8% in July to 3.6%. Despite this, consumers continue to suffer from higher prices, with food inflation rising at the fastest pace since January 2024. Wage growth is also still running hot at 4.7%, well above the 3% level that the Bank of England considers consistent with its 2% inflation target.

In Switzerland, the impact of US trade tariffs is starting to be felt. Seasonally adjusted Swiss exports fell by 1.0% in August compared to the previous month, weighed down by lower sales of watches and jewellery. Exports to the US fell to their lowest level since late 2020, dropping by 22.1% immediately after 39% tariffs on Swiss goods came into effect. Gold exports were hit particularly hard, falling by a hefty 99% in August, as uncertainty over whether “reciprocal” tariffs applied to the precious metal caused exports to nearly grind to a halt. It was later clarified that the 39% tariff would not apply to gold, however, that exemption was only formalised in early September. With high tariffs threatening several pillars of the Swiss economy, August's trade data also showed the country diversifying its export markets. Germany overtook the US to become Switzerland's largest export market.

US

Amid growing concerns about the weakening labour market, the Federal Reserve cut interest rates by 25 basis points on Wednesday. As market participants had anticipated, the federal funds target range was lowered to 4–4.25%, with signals that more easing lies ahead. According to the projections released on Wednesday, the majority of committee members anticipate at least two more quarter-point cuts by the end of the year.

The US central bank has remained on hold since December last year while waiting to see the impact of President Trump's trade tariffs on inflation. Meanwhile, cracks have started to appear in the labour market, prompting the Fed to cut rates to support the economy. “The labour market has softened. The case for there being a persistent inflation outbreak is less,” said Fed chair Jerome Powell at the press conference. The Fed also released its updated economic projections, showing that growth expectations have been revised upwards, and that the unemployment rate is expected to fall in 2026 and 2027, presumably with a fall in the labour supply acting as a factor amid immigration crackdowns. Expectations for inflation this year were left unchanged but were revised up for 2026.

FOMC Economic Projections, September 2025

	2025		2026		2027	
	June	September	June	September	June	September
Real GDP	1.4	1.6	1.6	1.8	1.8	1.9
Unemployment	4.5	4.5	4.5	4.4	4.4	4.3
PCE Inflation	3.0	3.0	2.4	2.6	2.1	2.1
Core PCE Inflation	3.1	3.1	2.4	2.6	2.1	2.1

Source: Fed, BIL

Markets were largely unmoved on the decision, as the outcome met expectations and provided little real guidance on what is to come. The most surprising outcome of the meeting was perhaps that only one committee member voted for a 50-basis-point cut rather than a 25-basis-point cut. While the decision was in line with market expectations of Fed easing in 2025, investors may be slightly over-optimistic about the extent of further easing in 2026, with Powell saying that the Fed “will continue to determine the appropriate stance of monetary policy based on the incoming data, the evolving outlook, and the balance of risks.” The fact that the word “solid” was dropped from the language describing the labour market, and the acknowledgement of downside risks to employment tell us where the balance of risks has shifted.

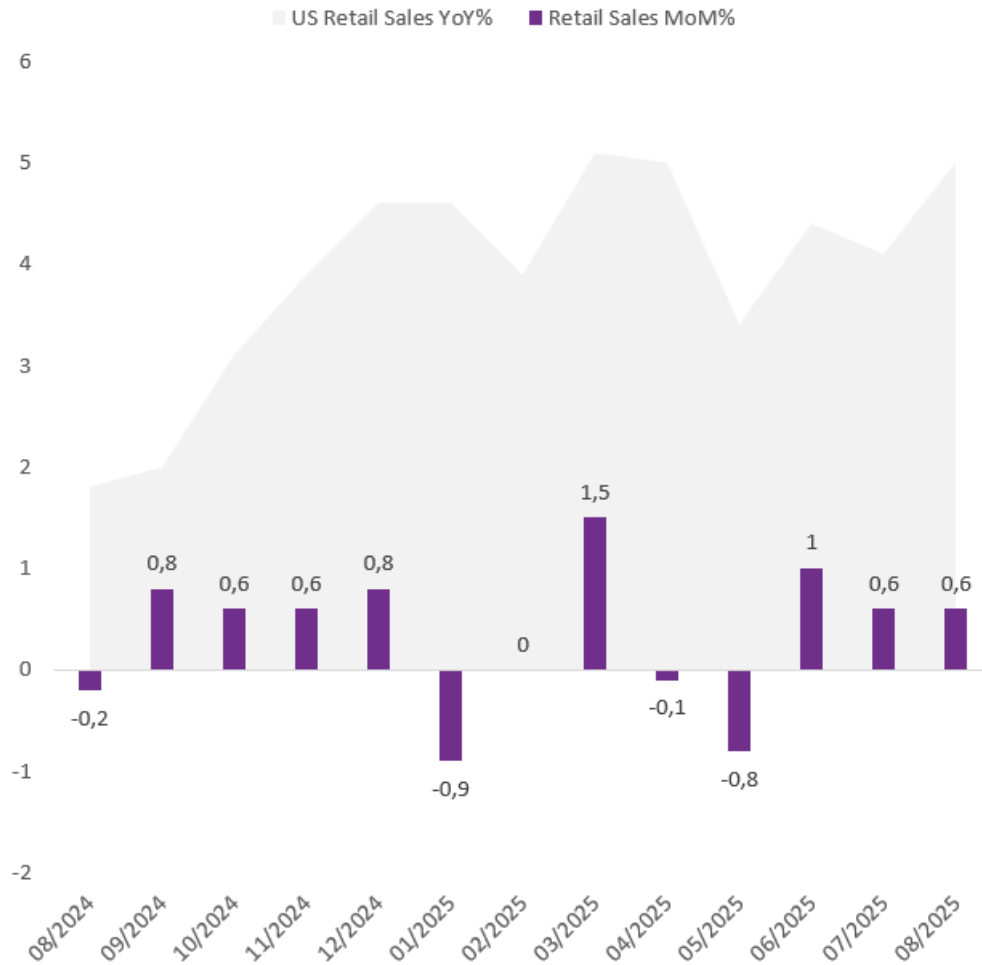
Despite this, consumption has held up – at least on the surface. Last week, we had another strong retail sales print, posting a 0.6% month-on-month gain, versus 0.2% expected. Spending was up across most categories. While back-to-school shopping was a factor, it is clear that a two-speed economy continues to take hold in the US, with the top 10% of earners driving the bulk of spending, driven in part by the wealth effect (with their perceived wealth boosted by rising stock markets and home prices).

Underlying weaknesses are therefore less apparent in the hard data. Soft data, on the other hand, shows weakening confidence, while anecdotal data suggests shoppers are “trading down”, trying to stretch their dollars further and seeking out good deals.

Data last week, also suggested that the housing market is increasingly strained by high rates. Housing starts tumbled 8.5% MoM in August to reach a near 2-1/2-year lows amid an inventory bloat. The NAHB survey reveals builder confidence remained low in September, but lower mortgage rates and expectations for a Fed rate cut helped push future sales expectations to their highest level in six months. In September, current sales remained at their lowest level since 2012, and buyer traffic inched lower.

All things considered, Fed Chair Powell's characterization of the latest rate reduction as an “insurance” cut looks questionable and we, like markets, expect more cuts ahead this year.

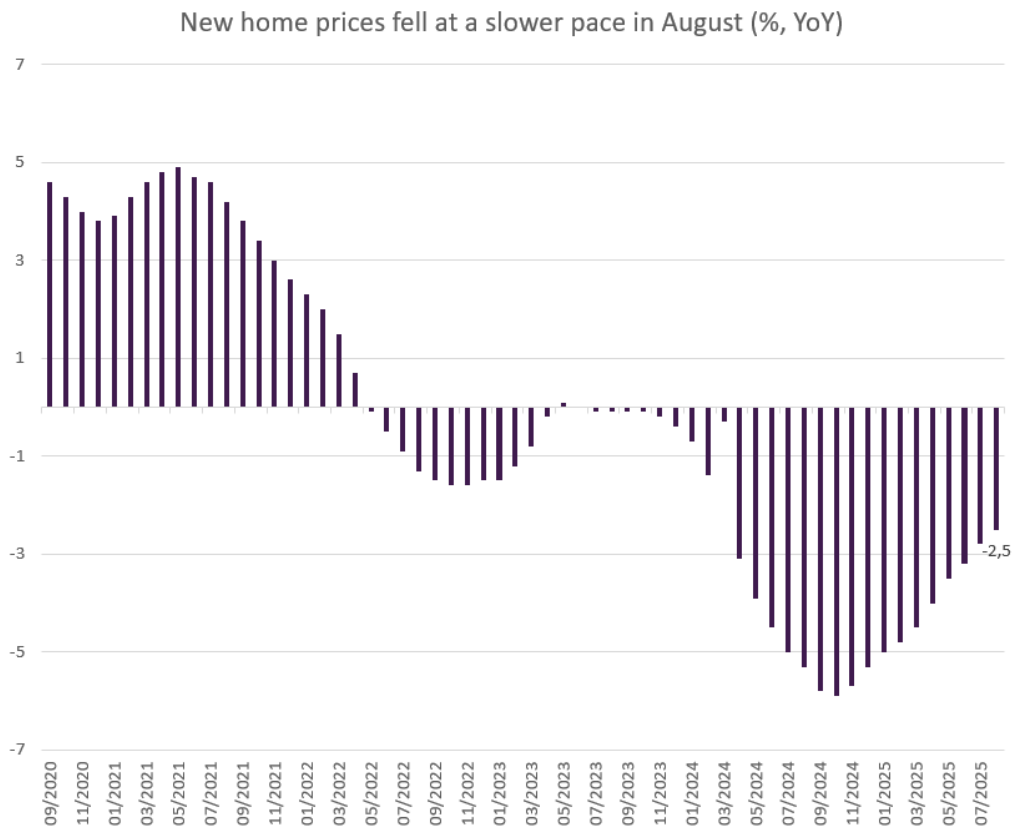
US Retail Sales



Source: Bloomberg, BIL

Asia

China's new home prices dropped by 2.5% year-on-year in August, easing from a 2.8% drop in July. Of the 70 cities surveyed, 65 recorded falls in prices over the same period. Prices continued to fall in major cities such as Beijing (-3.5%), Guangzhou (-4.3%), Shenzhen (-2.7%) and Chongqing (-2.4%), while Shanghai was an exception, with prices rising by 5.9%. Over the past few weeks, Shanghai and Shenzhen have further relaxed homebuying restrictions, completely removing them in some districts.



Source: Refinitiv, BIL

China has been struggling with a real estate downturn since 2021. With many Chinese people having much of their wealth tied up in their properties, falling prices have dampened consumer confidence. Although the authorities have introduced several measures to boost consumption and prop up the real estate market, market participants are still hoping for stronger measures to stabilise the housing sector.

Calendar for the week ahead

Monday – Eurozone Consumer Confidence (Flash, September).

Tuesday – Eurozone, Germany, UK, US Manufacturing, Services & Composite PMI (Flash, September). Sweden Riksbank Rate Decision.

Wednesday – Japan Manufacturing, Services & Composite PMI (Flash, September). Germany Ifo Business Climate (September). Switzerland Economic Sentiment (September). US New Home Sales (August).

Thursday – EU New Car Registrations (August). Germany Consumer Confidence (October). France Consumer Confidence (September). **SNB Interest Rate Decision**. US Jobless Claims.

Friday – Italy Consumer Confidence (September). US Michigan Consumer Sentiment (Final,

September).

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