August 22, 2025

Weekly Investment Insights

Echoing the old adage that innovation is often overestimated in the short-term but under-estimated in the long run, US tech stocks lost momentum this week amid concerns of an emerging AI bubble. A recent MIT study found that only 5% of companies are currently generating returns on their AI investments. This weighed quite heavily on the tech-focused NASDAQ composite, despite a run of strong earnings. After such a rapid valuation surge, some volatility might have been expected, and highlights that AI should be viewed as a long-term structural theme within portfolios. Selectivity will be critical, as investors seek to identify the true beneficiaries of a growing set of monetization opportunities, while avoiding those that will be left behind.

Towards the end of the week, US stocks halted their slide while those in Europe hovered near all-time highs, as all eyes turned to Fed's Annual Economic Policy Symposium in Jackson Hole, where Jerome Powell delivered his long-awaited speech on the outlook on monetary policy. Following his speech, US government debt and US stocks rallied.

More details of the US-Europe trade deal were outlined in a joint statement released by Washington and Brussels on Thursday, confirming the 15% cap on US tariffs on key EU goods exports including pharmaceutical goods, lumber and semiconductors. However, these sectors are not entirely safe from higher duties, as they remain subject to ongoing US national security investigations that could result in increased tariffs. From September, the US will also reduce tariffs on unavailable natural resources (including cork), all aircraft and aircraft parts, generic pharmaceuticals and their ingredients, and chemical precursors to pre-January levels.

In return, the EU has promised to purchase significant quantities of energy and AI technology from the US, grant preferential market access for a range of seafood and agricultural products,

and reduce tariffs on all US industrial goods to zero. To the detriment of Germany in particular, the US will maintain a 27.5% tariff on EU cars until the lower tariffs on US goods are set in stone: this could take some time as it requires the approval of the member states and possibly the European Parliament.

WEEKLY HIGHLIGHTS

Powell opens the door for a September rate cut

Policymakers from around the world gathered in Jackson Hole Wyoming this week for the annual Kansas City Fed Economic Policy Symposium. The burning question is: Will the Fed cut rates next month? Powell seemed to pave the way for this.

Given that the last monetary policy meeting revealed a divided group of rate setters, it was unsure whether the Fed would be able to give a clear direction of monetary policy.

Clearly, data showing significant weakening in the labour market has caught the Fed's attention. Powell struck a dovish tone, stating, "With policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance". The statement gave markets participants enough confidence that an interest rate cut is on the way – and now, futures markets are almost fully pricing in a 25 basis point cut in September, with a second one expected by year end. Powell also noted that the impact of the trade war is now visible on consumer prices, and signaled that the impact would likely be a one-off shock rather than long-lasting.

We identify three key reasons why this might be the case:

- Businesses are unlikely to pass on the full cost of tariffs to consumers, instead absorbing some of the cost themselves and putting pressure on their suppliers to do the same.
- Moderating job growth and softening consumer sentiment make price increases more difficult.
- Businesses are nimble and will likely reconfigure supply chains over time to avoid some of the tariff impact.

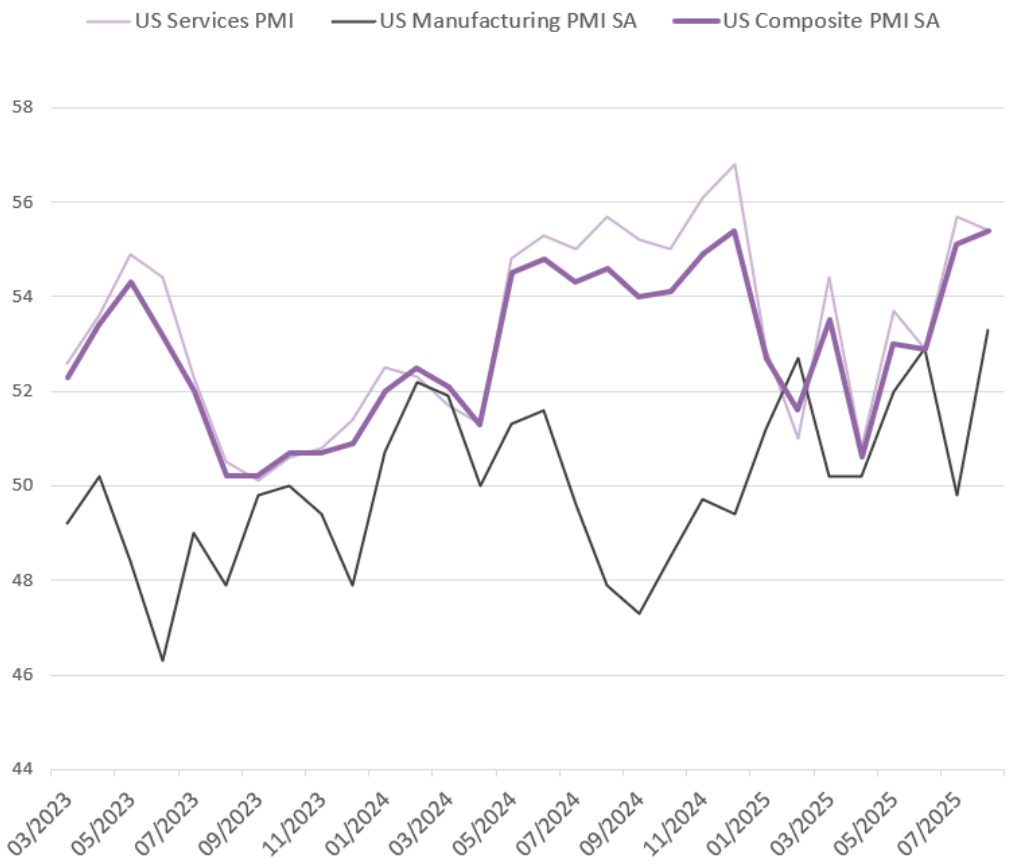
The speech might be considered a win for President Trump, that has repeatedly called for the Fed to cut interest rates this year to support the economy.

US

Fears about a slowing labour market (weekly jobless claims overshot expectations) were somewhat alleviated by a solid set of PMIs. According to preliminary estimates, US private sector activity grew at the fastest pace this year with the composite PMI coming in at 55.4. Solid growth

was seen in both services and manufacturing with both PMIs well-above the growth threshold of 50. The manufacturing PMI increased to a 39-month high of 53.3, boosted by a large increase in new orders.

Both sectors noted an uptick in hiring, however, input costs continued to rise sharply, mainly due to tariffs, fuelling the steepest increase in average selling price seen in the past three years.



Source: Bloomberg, BIL

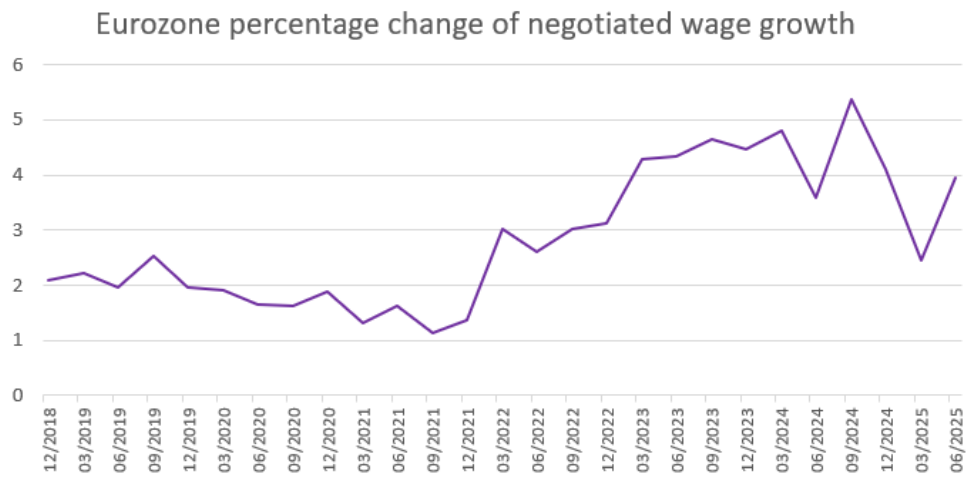
With the composite measure PMI at 55.4, US business activity grew at the fastest pace this year and suggests strong Q3 growth (S&P global sees it consistent with 2.5% annualized growth, slightly above the 2.3% implied by the Atlanta Fed's GDPNow tracker).

The S&P Global report on the PMI concluded that "combined with the upturn in business activity and hiring, the rise in prices signaled by the survey puts the PMI data more into rate hiking, rather than cutting, territory according to the historical relationship between these economic indicators and FOMC policy changes".

Europe

A surprising development in the **Eurozone** this week, was Friday's data showing that negotiated

wage growth in the bloc rose 3.95% YoY in Q2, from an upwardly revised 2.46% in the previous quarter. The ECB pays close attention to this data point and has emphasised that sustaining its 2% inflation target depends on slower pay gains and cooling price pressures in services, where inflation remains stuck near 3%. The uptick can somewhat be explained by a strong uptick in German wages during the quarter, and the Bundesbank expects this to fade out as inflation eases and the economy stays weak. The ECB's own pay tracker points to softer wage growth across the bloc into next year.



Source: Bloomberg, BIL

Despite an unexpected rise in wages, Eurozone consumers were not feeling more upbeat. Consumer confidence decreased to -15.50 points in August, from -14.70 prior.

Corporates, on the other hand, are showing improved sentiment following the announcement of the trade deal with the US. According to preliminary PMI data, Eurozone businesses saw new orders increase for the first time since May 2024 in August, helping the composite PMI rise to 51.1. Economic activity has picked up in both manufacturing and services, with the manufacturing PMI rising above the growth threshold to 50.5 for the first time in over three years. Activity in the services sector continued to expand, albeit at a slower pace of 50.7, easing slightly from July's 51. Germany recorded its fastest growth since March, driven by a strong manufacturing expansion. In France, the downturn eased to the smallest decline in a year.

The unexpected increase in activity, combined with higher inflation pressures in the services sector, bolsters the case for a pause in ECB easing – at least until the effect of tariffs becomes more visible through autumn. Markets currently expect one more 25bp cut this year, but not until December.

Price pressures continued to rise in the United Kingdom in July. The annual inflation rate increased to 3.8%, the highest level since early 2024, up from 3.6% in June and exceeding market expectations. This increase was largely driven by a surge in airfares, likely reflecting the

timing of the summer school holidays. Services inflation, which the Bank of England (BoE) closely monitors when setting rates, also rose from 4.7% in June to 5%. As the BoE was strongly divided when deciding to cut interest rates earlier this month, this stubborn inflation suggests that the central bank may slow its already gradual pace of monetary easing.

In Switzerland, companies are still estimating the impact of the 39% tariff imposed by President Trump earlier this month. Many companies that export large quantities of products to the US will find it difficult to pass on the full cost increase to their customers and will need to find more than one way to absorb the cost of tariffs. Some companies have already built up stocks in the US in anticipation of higher tariffs, which gives them more time to plan their next steps. It could therefore take several months before the tariff costs start to impact these companies' margins. In July, exports to the US rose by only 1.1%, slowing from June's 25.2% surge to frontload potential higher tariffs.

The uncertainty surrounding US trade policy has already impacted the economy. Industrial production in Switzerland contracted by 0.1% YoY in Q2, following strong growth of 8.9% in Q1. This was the first decline in industrial activity since the beginning of 2024 and was driven by lower output in energy supply and construction. Additionally, manufacturing growth slowed to significantly to 0.7%.

Calendar for the week ahead

Monday – Germany Ifo Business Climate (August).

Tuesday – France Consumer Confidence (August). US Conference Board Consumer Confidence (August).

Wednesday – Germany GfK Consumer Confidence (September). Switzerland Economic Sentiment Index (August).

Thursday – EU New Car Registrations (July). Switzerland GDP Growth Rate (Q2). Eurozone Economic Sentiment (August), Consumer Confidence (Final, August). US GDP Growth Rate (2nd Est, Q2), Jobless Claims.

Friday – Japan Unemployment Rate (July), Industrial Production (Prel, July), Retail Sales (July), Consumer Confidence (August). Germany Retail Sales (July). France, Germany, Italy & Spain Inflation Rate (Prel, August). Switzerland KOF Leading Indicators (August). US Goods Trade Balance (Adv, July), PCE Price Index (July), Michigan Consumer Sentiment (Final, August).

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