September 15, 2025

Weekly Investment Insights

US equity markets locked in on monetary policy last week, pushing major indices higher on hopes that the Fed will cut interest rates by at least 25 basis points on Wednesday. The S&P 500, the Dow Jones Industrial Average and the Nasdaq Composite all reached new all-time highs, as investors looked past the high inflation reading, assuming that cracks in the labour market will prompt the US central bank to lower rates. Excitement surrounding artificial intelligence (AI) also helped push stocks up following positive guidance from blue chip players. Asian stocks also rallied at the end of last week, with the MSCI Asia-Pacific index nearing a record high, boosted by rallies in China, Japan, South Korea and Taiwan, driven in part by the AI theme.

Notably, Chinese government bond yields rose to the highest level since November with investors switching into equities. Analysts suggest that China's "anti-involution" campaign against overproduction is starting to gain traction and will lead to a pick-up in price pressures in the remainder of the year.

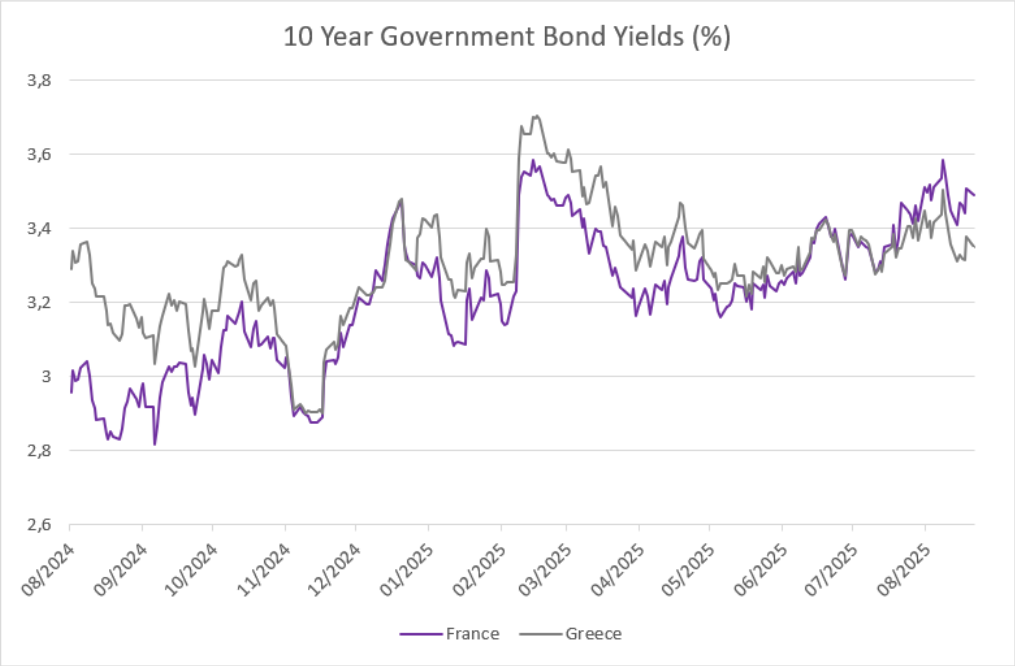
France in political turmoil

Last Monday, the French government collapsed for the third time in a year after Prime Minister François Bayrou lost a confidence vote. He called the vote to gain parliamentary support for his deficit-cutting budget, which included tax increases and spending cuts. Following strong opposition from several parties, Bayrou resigned. On Tuesday, President Macron appointed his fifth Prime Minister in less than two years, loyalist Sebastien Lecornu. Lecornu faces the same

challenge as his predecessors: passing a budget to tackle the third highest debt burden in the bloc, with a deficit of 5.4%. Without action, the Ministry of Finance expects public spending to increase by EUR 51.1bn in 2026, resulting in a budget deficit of 6.1% of GDP, which significantly exceeds the 4.6% target submitted to the European Commission. The situation is causing significant bond market volatility, with French yields now higher than those of Greece.

Lecornu is expected to take a more conciliatory approach to gain support from opposition parties and French equities edged slightly higher on his appointment.

However, political turmoil continued later in the week, with widespread demonstrations on Wednesday protesting potential spending cuts. The "Block Everything" protests, organised via social media, aimed to showcase public dissatisfaction with President Macron and his government.



Source: Bloomberg, BIL

MACRO SNAPSHOT

Europe

On Thursday, the European Central Bank held its deposit facility rate steady at 2% for a second meeting, maintaining its “wait-and-see” approach amid steady inflation, a resilient labour market, and ongoing uncertainty surrounding trade policy. The central bank updated its growth projection as the economy proved more resilient than anticipated in the second quarter of the year. It now expects growth of 1.2% in 2025, compared to the 0.9% predicted in June. However, the growth projection for 2026 was lowered slightly to 1%. Meanwhile, the central bank expects

inflation to remain close to the target this year, before dipping below 2% in 2026 and 2027. Core inflation expectations were left largely the same as in June.

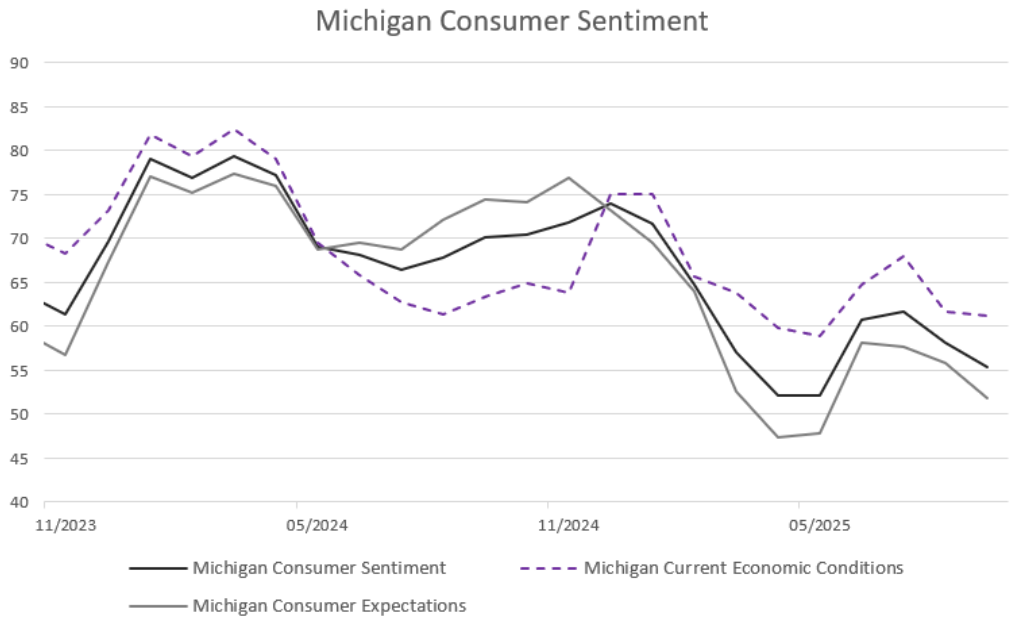
	GDP Growth		Inflation		Core Inflation	
	September Forecast	June Forecast	**September Forecast**	June Forecast	**September Forecast**	June Forecast
2025	**1.2%**	0.9%	**2.1%**	2.0%	**2.4%**	2.4%
2026	**1.0%**	1.1%	**1.7%**	1.6%	**1.9%**	1.9%
2027	**1.3%**	1.3%	**1.9%**	2.0%	**1.8%**	1.9%

Source: ECB, BIL

The ECB reiterated its commitment to ensuring that "inflation stabilises at its 2% target in the medium term", and that it will continue to adopt a meeting-by-meeting approach to determine the next steps in its monetary policy. The central bank will be closely monitoring the evolution of core inflation while assessing the time it will take for monetary policy to be transmitted into the economy. In recent weeks, investors have reduced their expectations of another cut in 2025, with swap markets currently pricing in a less than 30% chance of a 25 basis point reduction by the end of the year. This figure has remained largely unchanged following the interest rate decision.

US

Fed easing bets dominated last week, fuelling a risk-on mood. The Bureau of Labor Statistics' preliminary annual revisions showed job growth in the year to March 2025, was overstated by 911k, reinforcing the view that the labour market is slowing. Adding further confirmation was the sharp and unexpected rise in Weekly Jobless Claims, which shot up by 27,000, to 263,000 – the most since October 2021. With the labour market on a less firm footing, consumer spending – the key growth engine – could be in jeopardy. Consumer sentiment, as measured by the University of Michigan, dropped to 55.4 in September, well below consensus expectations of 58.



Source: Bloomberg, BIL

Easing factory gate prices also added to the case for interest rate cuts. After registering a hotter-than-expected 3.3% YoY in July, producer prices cooled to 2.6% in August, well below the 3.5% consensus estimates. Core PPI, which strips out food and energy, even fell 0.1% on the month.

Separate data released Thursday, however, showed US CPI hit 2.9% in August, the highest since January, showing that price pressures continue to linger, with expenses picking up, including for groceries, gasoline, electricity and car repairs. Core consumer price inflation held steady at 3.1%, in line with expectations.

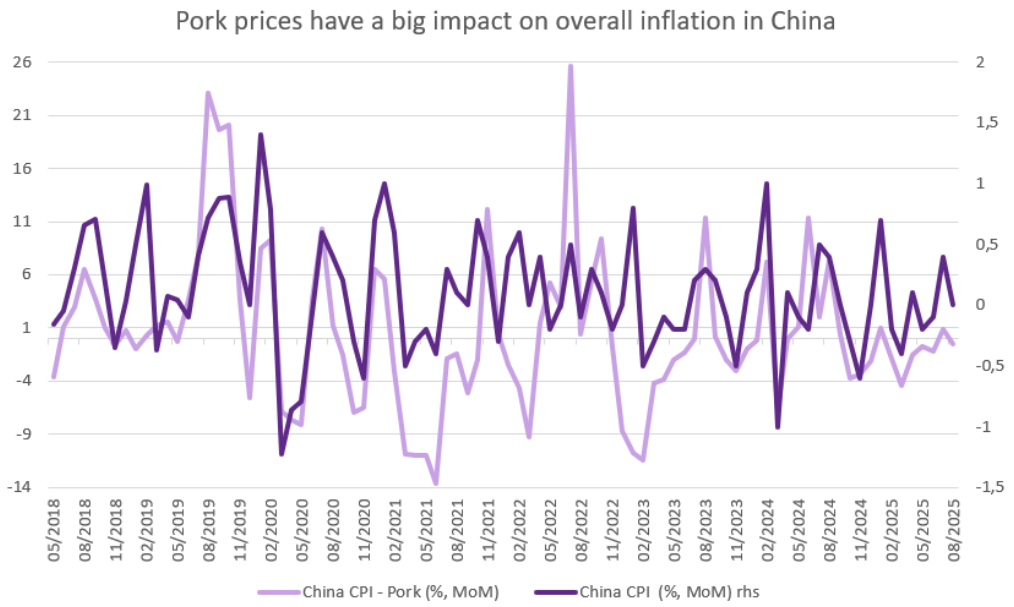
The Fed still faces the delicate challenge of balancing maximum employment with price stability, but the market reaction to the data over the week implies it thinks jobs matter more than inflation now. Three Fed rate cuts are now priced before year-end.

Asia

Pork is an important staple of Chinese cuisine, accounting for around 60% of total meat consumption in China. A key ingredient in many traditional dishes, many consumers eat pork several times a week, or even daily. Despite this, the price of pork fell in August due to ample supply but weak demand. This trend is not a new one and has been attributed to consumers growing more health conscious and financially sensitive, opting for leaner, cheaper meat such as poultry.

Pork prices significantly impact the calculation of inflation in China due to its weighting in the basket of consumer goods used to calculate the consumer price index. Consumer prices fell

into deflation again in August, dropping 0.4% compared to a year earlier, as the Chinese economy continues to show signs of cooling. Food prices fell sharply (-4.3%, compared to -1.6% in July), dropping by the most in nearly four years, with falling pork prices exacerbating the decline. However, core inflation, which excludes volatile categories such as food and energy, rose by 0.9% year on year, the highest increase in 18 months. Meanwhile, China's producer price index fell by 2.9% on the year in August, easing from a 3.6% drop in July.



Source: Bloomberg, BIL

The fact that core inflation remains stable in positive territory and deflation in producer prices is easing can be seen as positive signs for the economy, and analysts suggest that China's "anti-involution" campaign could be to thank for this. The campaign aims to curb overcapacity leading to price wars and falling profitability among Chinese firms by controlling production in highly competitive industries and overseeing pricing and subsidies in EVs and food delivery, amongst other measures.

Still, there are still a number of other factors showing that the Chinese economy is still struggling to gain momentum. Last week, official data revealed that growth in imports and exports slowed in August. While the trade surplus was higher than anticipated at USD 102.33 billion, exports slowed to a six-month low of 4.4% year on year, down from 7.2% in July. Imports also fell well below expectations, rising by just 1.3%. Exports to the US continued their downward trend, falling by 33%. However, this was offset by an increase in exports to other regions, such as South-East Asia, which grew by 22.5%.

In addition, both retail sales and industrial production slowed by more than expected in August, growing at the slowest pace this year. Retail sales rose 3.4% YoY while industrial production output grew 5.2%.

Calendar for the week ahead

Monday – China House Price Index (August), Industrial Production (August), Retail Sales (August), Unemployment Rate (August). Eurozone Balance of Trade (July).

Tuesday – UK Unemployment Rate (July). Eurozone Industrial Production (July). Germany & Eurozone ZEW Economic Sentiment (September). US Retail Sales (August), Industrial Production (August).

Wednesday – Japan Balance of Trade (August). UK Inflation Rate (August). Eurozone Inflation Rate (Final, August). US Housing Stats (August). Fed Interest Rate Decision.

Thursday – Switzerland Balance of Trade (August). Bank of England Interest Rate Decision. US Jobless Claims.

Friday – UK Gfk Consumer Confidence (September), Retail Sales (August). Japan Inflation Rate (August), Bank of Japan Interest Rate Decision.

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