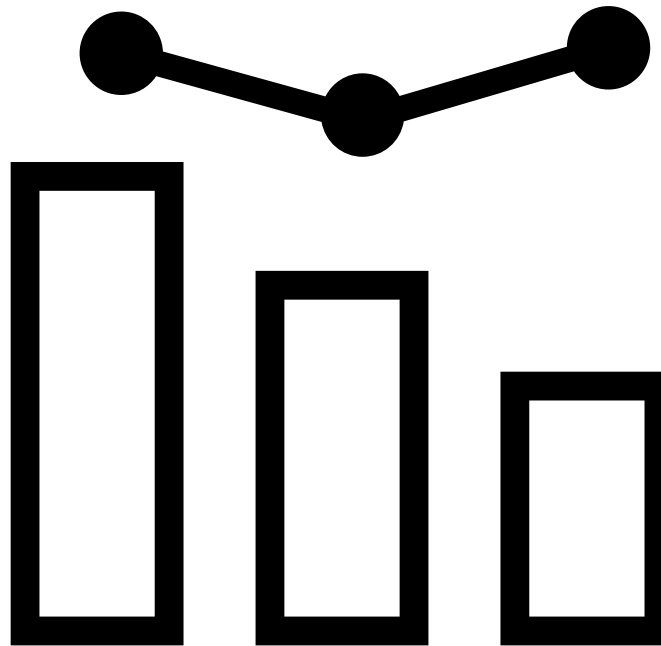




Market update

Augustus 2025

August 2025: Quiet on the stock market, but not in the world

Financial markets were relatively calm last month, with a modest 'risk on' sentiment. Given the many geopolitical hotspots worldwide, the policy uncertainty from the US and the relatively weak economic outlook, this is striking.

European stocks rose 1% last month and Asia Pacific shares rose 0.7%. US equities performed even better in local currency terms, returning 2% in August. However, as the dollar weakened by 2.4% against the euro last month, US equities produced a negative return in euro terms (-0.3%). Listed real estate and emerging market equities were the two biggest losers last month, with a return of -1%. Emerging markets suffered from trade tensions with the US, such as the recently announced 50% tariff on imports from India.

Bonds did not perform very well last month. Government bonds suffered from rising yields and fell by 0.4%. Investment grade corporate bonds remained flat, while the somewhat riskier high yield corporate bonds showed a slight plus of 0.2%.



The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	August	Q3	2025	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	-0,4%	-0,7%	-0,1%	1,1%
Bloomberg Barclays Euro Bedrijfsobligaties	0,0%	0,0%	1,4%	4,5%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0,2%	1,4%	4,1%	7,0%
FTSE/EPRA Europe Onroerend Goed	-1,1%	-5,1%	0,9%	-7,1%
MSCI Europe Aandelen	1,1%	1,9%	10,6%	7,1%
MSCI North America Aandelen	-0,3%	5,2%	-1,6%	9,9%
MSCI Asia Pacific Aandelen	0,7%	5,1%	4,7%	9,4%
MSCI World Developed Markets Aandelen	0,1%	4,7%	-0,2%	7,9%
MSCI Emerging Markets Aandelen	-1,1%	4,1%	5,5%	10,4%
EUR/USD	2,4%	-0,9%	12,9%	5,8%

Source: Bloomberg

Growth expectations and sentiment in the eurozone improve slightly

Economic growth expectations for 2025 have improved slightly over the past month, although this is partly because expectations were already low. The eurozone economy grew by 1.4% year-on-year in the second quarter of this year (flash estimates were already known, but now the official figures have been released). This was slightly lower than in the first quarter (1.5%) but in line with expectations. Those expectations have risen slightly since then. The polled economists at Bloomberg expect a growth rate of 1.1% for the eurozone for the whole of 2025. While this is below the long-term average (1.2%), it is higher than the 0.8% expected in April this year.

Yet there is no real cause for celebration. The GDP figure for the eurozone as a whole masks the wide variations internally. The eurozone growth rate was boosted by Ireland, where GDP grew by 16.2%. However, Irish GDP growth is volatile and partly driven by the multinationals based there for tax reasons and the accounting techniques they use. Economies more representative of the eurozone as a whole, such as Germany and France, showed more subdued growth of 0.7% and 0.4% respectively in the second quarter. Spain however produced strong growth of 2.8% and the Dutch economy also grew by 1.5%, outpacing the growth rate of the eurozone as a whole.

The picture presented from forward-looking indicators such as purchasing manager indices (PMIs) and consumer confidence is also not unambiguously negative either. Although consumer confidence in the eurozone at -15.5 is below the long-term average (-12), purchasing manager indices for both services and industry are above 50. What is particularly striking is that the industry PMI now stands at 50.7, indicating growth in the manufacturing sector.



For the US, the picture for economic growth is mixed

For the US, previous estimates of second quarter economic growth have been adjusted from 3% to 3.3% (quarterly, annualised). This figure presents a more positive picture than the situation in reality. As we noted in our [previous monthly report](#), the high growth rate in the second quarter was mainly due to a sharp fall in imports, which had risen sharply in the first quarter in the run-up to Trump's tariffs. One positive adjustment however was the upward revision to consumption growth from 1.4% in the first estimate to 1.6%.

The forward-looking indicators present a mixed picture. Consumer confidence is slightly above the long-term average (95) at 97. However, both services and services PMIS have declined steadily this year. The services PMI (from S&P) stands at 50.1 (barely indicating growth) while the industry PMI stands at 48 (indicating contraction).

All in all, economists are still assuming that the US economy will grow, although at 1.6% this growth will be a lot less than what America is used to (with a long-term average of 2.1%).

Eurozone inflation is stable

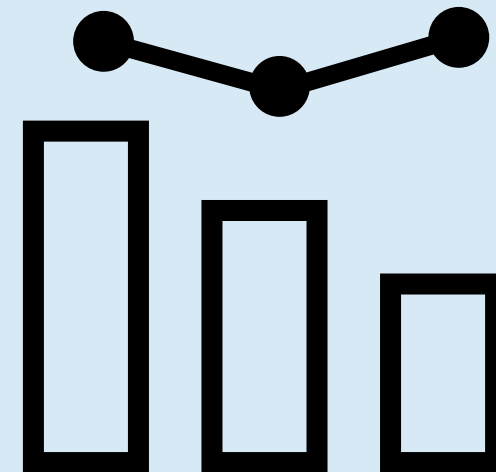
Inflation in the eurozone meanwhile appears to be nearly under control. Core inflation is still a bit high (2.3% in August), but headline inflation was 2.1% in August, slightly higher than last month (2%). Inflation in the eurozone has thus been close to the ECB's target for four months. It should however be noted that the headline inflation rate is being squeezed by lower energy prices. The energy component of inflation has been negative for six months (-1.9% in August). If this component is no longer negative, there could be some upward pressure on inflation. Furthermore, services inflation is still high (3.1% in August), which is important for the inflation outlook for a service-oriented economy such as the eurozone.

How inflation will develop over the coming period will largely depend on the jobs market and wage growth. At first glance, the jobs market still looks tight, which could put upward pressure on inflation. Eurozone unemployment is still historically low (6.3%) and CLA negotiated wages in the eurozone increased by 4% in Q2, which is more than the 2.5% growth seen in Q1. However, more recent indicators from the labour market point to cooling. According to the '[wage growth tracker](#)' of job website Indeed, wage growth in the eurozone is declining steadily and stood at 2.6% in July.

All in all, therefore, there is no clear direction for inflation. Wage growth appears to be slowing, although unemployment is still low. Energy prices have dampened inflation over the past few months, but the question is whether that will continue to be the case.

A reasonable chance of higher US inflation

There are a few more signs that US inflation could rise. Inflation in the US is higher than in the eurozone and has risen rather than fallen in the last four months (from 2.3% in April to 2.7% in July). This also applies to core inflation, which rose from 2.8% in April to 3.1% in July. These are admittedly not big increases, but they are not in the Fed's preferred direction. If we dive a little deeper into the US inflation data, we see that, as in the eurozone, headline inflation is being squeezed by falling energy prices. The energy component of US inflation fell by 1.6% in July. Furthermore, services inflation is still relatively high, at 3.8%. The labour market also still looks tight, with a historically low unemployment rate of 4.2% and wage growth that is still reasonable of 4.2%. That produces some upward pressure on inflation.



Monetary policy: Fed to cut rates this year, ECB not

Despite the fact that US inflation is not at the Fed's desired level, financial markets are assuming that the Fed will lower its policy rate this year. Based on overnight index swaps, financial markets appear to expect 2 rate cuts this year and 3 rate cuts in 2026. So markets expect the Fed to cut rates by about 1.25% over the next 11 months, which is quite a lot. If this changes significantly (for example, if inflation turns out to be higher than the Fed estimates), it could cause shocks in the financial markets. The reason markets expect policy rate cuts is that during his annual [speech in Jackson Hole](#), Fed Chairman Jerome Powell hinted that he is more concerned about the collapse of the US labour market than about an increase in inflation. Unlike the ECB, the Fed has two objectives, stable prices and maximum employment. The markets are assuming that the Fed will give more weight to the latter than the former in the coming period. To some extent, the expectations of rate cuts may also be due to Trump's public pressure on Powell to cut rates. Trump has also provisionally 'fired' Fed board member Lisa Cook, though it is not yet clear whether this will hold up as it is not certain whether Trump's action is legally valid.

The ECB is in a more comfortable situation than the Fed. Inflation in the eurozone seems to be stabilising at around 2% and economic growth expectations are average. The markets are thus not expecting any policy rate changes this year.

What if the Fed is no longer independent?

If it turns out that Trump is actually able to get control of the Fed's interest rate policy, we can expect inflation expectations and thus expectations for long-term US bond yields to rise in any case. Research has repeatedly shown that central bank independence is an important condition for price stability ([Alesina and Summers, 1993](#)). Countries with less independent central banks have higher and more volatile inflation rates ([Athanasopoulos et al., 2025](#)). A recent example is Turkey, where President Recep Tayyip Erdogan has fired several heads of the country's central bank since 2018 because they refused to lower the policy rate. Since then, inflation in Turkey has been high and volatile, peaking at 85.5% in 2022 and falling back to 38% in 2023, before rising again to 75% in 2024. The measure currently stands at 33.5%. High inflation erodes consumer purchasing power and volatile prices create uncertainty. Both are bad for economic growth and investment.

Winners and losers of a weaker US dollar

A key theme on investors' minds in recent months has been the weakening of the US dollar. Against the euro, for example, the US dollar has fallen by 13% since the beginning of the year. This hurts eurozone investors in US equities and bonds, as their returns on these assets are 13% lower in euro terms.

A weaker US dollar also does not help to bring down US inflation, as Americans need more dollars to import the same volume of products and services from abroad. This is inflationary.

A weak US dollar also has benefits. It puts the US in a better competitive position. Goods and services exported from the US have indeed become cheaper as a result. But remember that some (or a large part) of this will be nullified if the importing country has introduced trade tariffs on the US. At the same time, a weaker dollar should be good for the US's competitive position.

Furthermore, emerging markets generally benefit from a weaker dollar. In particular, countries that have borrowed heavily in US dollars, such as Turkey, Argentina and Pakistan. Paying those debts in foreign currency will be a little easier for those countries. However, emerging market currencies are not weakening against the dollar. This is still an open question in a world with geopolitical tensions and protectionism.

Countries with high imports of commodities also benefit from a weaker dollar. Many commodities such as oil, iron and copper are traded in US dollars. A weaker dollar thus reduces the price of commodities in local currency.

Geopolitical and policy uncertainty

As well as macroeconomic developments, geopolitical uncertainty and policy uncertainty will be a major determinant of sentiment in the coming period. This concerns the many geopolitical flashpoints worldwide, such as the war between Ukraine and Russia and the conflict in Gaza, but also policy uncertainty from the US and, closer to home, the uncertainty surrounding the French government deficit.

The French government does not seem to be able to agree on the government budget, which includes cuts to reduce the French government deficit. This disunity led French Prime Minister François Bayrou to call a vote on 8 September to determine whether the incumbent government still has the confidence of parliament. If Bayrou loses this vote, there could be another election, creating policy uncertainty. This situation also shows that it will be difficult for France to reduce its government deficit (and, as a result, its public debt).

Due to this combination of increased policy uncertainty and higher future government debt, the French 10-year yield rose by 0.16% to 3.5% in August. The spread to the 10-year German government yield also increased, from 0.65% to 0.79%. The latter indicates that the increase in French government yields relates more to the problems in France than to the eurozone as a whole. This is a risk for investors in French government bonds to consider.

No clear direction for asset classes

The macroeconomic and financial environment does not advocate a clear view for any particular asset class. Corporate values such as equities and corporate bonds could benefit from the economy moving forward, inflation stabilising and policy rates falling rather than rising. On the other hand, there is a significant level of geopolitical uncertainty worldwide and the situation in France shows that policy uncertainty outside the US can also affect investors. This may affect government bonds, but due to high valuations, equities are also particularly sensitive to negative sentiment or any increase in uncertainty.

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