

08/2025

Market Snapshot

Equity Snapshot

United States

US equities had a bumpy start to the month, with the S&P 500 Index recording its worst day since May as President Trump's postponed 'Liberation Day' tariffs came into effect on 1 August. Renewed accusations of political interference also weighed on sentiment as President Trump renewed his hostile campaign against the Federal Reserve (Fed) and fired Bureau of Labour Statistics Commissioner Erika McEntarfer following the publication of disappointing jobs data. However, US stocks recovered to close the month modestly higher, boosted by rising hopes of a September rate cut.

US economic data generally remained solid. GDP growth for the second quarter was upwardly revised to 3.3% on an annualised basis, helped in part by stronger consumer spending, with the Federal Reserve Bank of Atlanta's GDPNow running estimate signalling growth of 3.5% for the current quarter. Less positively, retail sales eased to 0.5% in July from June's final figure of 0.9%. Elsewhere, the jobs market was an area of concern: non-farm payrolls rose by just 73,000 in July, well below estimates of 110,000, while the figures for May and June were downwardly revised to 19,000 and 14,000 respectively.

Headline inflation in the US held steady at 2.7% in the 12 months to July, but core inflation, which excludes volatile food and energy prices, ticked up to a five-month high of 3.1%. Worryingly, producer price inflation, which measures the cost of goods before they reach consumers, soared to 3.3 % in the 12 months to July from June's figure of 2.4%. At the Jackson Hole summit of central bankers, Fed Chair Jay Powell fuelled expectations of a September rate cut, highlighting that a softening labour market may offset the inflationary risks posed by higher tariffs. The US central bank is coming under intense pressure from President Trump to slash rates.

Europe

European equities moved slightly higher in August but underperformed the global index as investors cautiously awaited the outcome of a series of high-level meetings to discuss the future of Russia's war in Ukraine. Intensifying political turmoil in Paris also undermined sentiment towards month end. Ballooning French national debt and budget deficit levels prompted French Prime Minister François Bayrou to call a parliamentary vote of confidence in early September. The CAC 40 Index plummeted, driven lower by French banks and insurers, after the three major opposition parties vowed to vote against the proposed slew of budget cuts, which includes the contentious cancellation of two public holidays.

The flash estimate of the HCOB euro-zone composite purchasing managers' index (PMI) rose to a 15-month high of 51.1, driven by an uptick in manufacturing activity which returned to expansionary territory for the first time since April 2022. The news bolstered the case for the European Central Bank (ECB) to keep rates on hold at its next meeting in September. Meanwhile, inflation in the euro zone held steady at the ECB's 2% target in July.

Asia

Asia ex Japan equities moved higher in August. China was the strongest market, as investor sentiment improved on extended Sino-U.S. trade truce, Fed rate cut hopes, and potential stimulus from Beijing. ASEAN markets also delivered strong returns, with most swept up in the late-August global rally. Singapore led the gains, as stocks continued to benefit from the market's perceived safe-haven status. Malaysia followed closely, driven higher by tech stocks. Taiwan also rose, though it eased slightly into month-end after hitting a fresh high earlier in the month. In contrast, South Korean equities lagged in August, posting a negative return, though they remained well ahead on a year-to-date basis. Indian equities also declined, as market sentiment stayed subdued amid strained trade negotiations with the U.S.

Bond

Global bonds delivered mixed returns in August. US government bonds rallied, with 10-year US Treasury yield down 15bps, boosted by growing hopes that the Federal Reserve would cut rates in September. However, gains were capped by President Trump's escalating campaign to undermine the Federal Reserve's independence. On the other hand, European bonds were mixed, with government bonds selling off particularly in the UK and France, while corporate bonds moved higher. 10-year yields on German Bunds, UK Gilts and French OATs slightly increased by 3bps, 15bps and 16bps respectively.

Outlook

At the time of writing, the market had returned its focus to the Fed and US rate moves. Chair Powell's Jackson Hole speech leaned more dovish than expected, opening the door to near-term cuts while noting tariff-driven price pressures. Markets reacted swiftly, underscoring how sensitive sentiment is to policy signals. Lower long-term rates, whether in the US or locally, support our long-duration Growth assets.

While geopolitics and trade tensions dominated headlines in August, company commentary and Q2 results suggest the direct impact has so far been modest. We can look to our Global strategy holdings Shopify or Visa for early indications of spending pressure, where the Visa CEO recently noted that spending remains robust with no meaningful effect from tariffs. Shopify is seeing price increases, but no meaningful impact on gross merchandise volumes. Bellwether European Industrial Atlas Copco describe their exposure as "really minor at the moment." This resilience reinforces our conviction in focusing on earnings power over headline noise. Currency headwinds have been frequently noted, however.

At the style level, Value has enjoyed a strong run, and August presented strong style headwinds again for our Europe and Global portfolios. Much of the easy re-rating seems now behind us, however. Cyclical versus defensives have reached a fresh 30-year high, driven by defensives trading at a 17-year relative low. With US growth softening and labour markets cooling, risk premia are likely to widen and bond yields ease, being conditions that historically favour defensives and Quality Growth over Value.

Flows have been returning to European equities for most of this year, supported by multi-year stimulus projects and numerous earnings hotspots. A recent Morgan Stanley study highlighted the potential for an EUR 1.2 trillion US-to-Europe equity rotation over the next five years, equivalent to 6% of Europe's current market cap. Valuations are historically attractive, and many of our Quality Growth holdings trade at or below their 10-year averages. Even in the US space, our valuation aware Global strategies are still finding attractive opportunities within Quality Growth.

Lower rates, supportive policy, and a potentially maturing Value trade are setting the stage for Growth to recover. While volatility and dispersion will likely persist, amplified by AI, trade and politics, we believe disciplined stock selection focused on durable moats alongside new growth avenues remains the best path to long-term outperformance.

Source: Allianz Global Investors, as of 31 August 2025 unless otherwise stated.

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Issuer:

Hong Kong – Allianz Global Investors Asia Pacific Ltd.