

09/2025

# Market Snapshot

## Equity Snapshot

### United States

US equities rose in September, buoyed by optimism around a Federal Reserve (Fed) rate cut and easing trade tensions. US Treasury Secretary Scott Bessent announced that the US and China had agreed a framework deal for TikTok's parent company ByteDance to divest the platform's US business. All three major US indices – the S&P 500 Index, the Dow Jones Industrial Average Index and the tech-heavy Nasdaq Composite Index – hit fresh record highs. However, Fed Chair Jerome Powell struck a more cautious tone later in the month, highlighting upside risks to the labour market, while the prospect of a federal government shutdown also weighed on sentiment.

US economic fundamentals generally remained robust, but the jobs market continued to show signs of slowing. The Federal Reserve Bank of Atlanta's GDPNow running estimate accelerated, signalling annualised growth of 3.9% for the third quarter. On a more cautious note, non-farm payrolls rose by just 22,000 in August, way below expectations of 75,000, while data for June was revised to a loss of 13,000 – the first monthly fall since December 2020.

Headline inflation in the US ticked up to 2.9% in the year to August from July's figure of 2.7%, while core inflation, which excludes volatile food and energy prices, held steady at 3.1%. The Fed announced its first rate cut in nine months, lowering the key interest rate by 25 basis points (bps) to 4.25%, citing softening labour market data. US policymakers indicated they expect to lower rates by another 50 bps by the end of 2025, with a further 25-bp reduction following in 2026.

### Europe

European equities edged slightly higher in September, but once again underperformed the MSCI All Country World Index. Political turmoil in France weighed on markets early in the month, with the French National Assembly voting to oust Prime Minister François Bayrou in a confidence vote on 8 September aimed at ending the political impasse over the country's deepening financial crisis. French President Emmanuel Macron named close ally Sébastien Lecornu as the new Prime Minister, who will inherit the task of bringing France's spiralling national debt under control. Sentiment was dented further after rating agency Fitch downgraded French sovereign debt to A+ from AA-.

The flash estimate of the HCOB euro-zone composite purchasing managers' index (PMI) crept up to a 16-month high of 51.2 in September, driven by an increase in services activity. Meanwhile, inflation in the euro zone came in slightly softer than consensus estimates, remaining stable at the European Central Bank's (ECB's) target level of 2.0%. The ECB held rates steady at 2.0% at its September meeting, as widely anticipated, and policymakers signalled the end of the ECB's current rate-cutting cycle.

### Asia

Asia ex Japan equities rose again in September tracking the broader global rally on US Fed rate cut optimism. China markets had another good month, led by technology stocks after Beijing's pivot away from Nvidia AI chips and towards homegrown suppliers. Sentiment was boosted by further signs of easing trade tensions with the US after the agreement of a framework deal for TikTok.

Another feature was the increased involvement of retail investors who previously had largely stayed on the sidelines and built up significant cash levels.

Korea was another notably strong market, buoyed both by heavyweight memory chip providers as well as further measures by the government to tackle the long-standing Korea discount. Taiwan equities also performed well after heavyweight stock TSMC reported another month of robust sales. ASEAN markets rose modestly in aggregate but lagged the broader regional index. Malaysia was the strongest performer, with sentiment boosted following a better-than-expected second-quarter GDP print. India closed September with a small positive return, with foreign investor outflows continuing to weigh on the market.

## Bond

Global bonds rose modestly as yields mostly eased after the Fed cut rates for the first time this year and indicated further reductions were on the cards. The 10-year US Treasury yield was down roughly 8bps in September. Japan proved the exception, with yields rising slightly as the Bank of Japan continued to take steps to normalise monetary policy. European bonds also eked out slight gains over September, with the yield on the 10-year German Bund closing the month little changed at below 2.75%. France dominated the headlines in European sovereign debt markets in September, with 10-year yields rising to parity with those in Italy amid rising concerns about the French government's ability to tackle its fiscal problems.

## Outlook

Global equity markets continue to navigate a more fragile and complex macro environment. The combination of slower growth, renewed inflation pressures, and policy divergence between regions has increased the need for flexibility and active allocation. We have responded accordingly, with turnover across our portfolios rising in recent weeks.

While stagflation concerns have resurfaced in the US as tariffs and labour constraints are reflected in prices, the overall backdrop remains one of moderate growth supported by resilient corporate earnings. In this setting, selectivity and discipline around quality balance sheets and durable pricing power remain important to sustain long-term returns.

In Europe, the outlook is encouraging. Inflation appears contained, real wage growth is improving, and fiscal momentum is turning positive. German government spending is set to rise materially from 2026. The ongoing drive for strategic autonomy continues to underpin a structural investment cycle that supports many of our portfolio holdings, especially in digital infrastructure and advanced manufacturing. Local champions in these sectors are delivering healthy earnings growth at valuations that remain very reasonable relative to global peers.

Globally, the defining theme remains the rapid diffusion of artificial intelligence across industries. The AI adoption wave continues to accelerate, now broadening beyond the semiconductor and cloud ecosystems into enterprise software, healthcare, and industrial automation. This new investment cycle can fuel productivity gains as well as cost cutting, supporting earnings quality. While near-term enthusiasm has lifted a narrow group of US megacaps, Europe's enabling ecosystem of semiconductor equipment and infrastructure suppliers can capture also capture some of the value chain.

Both our European and Global Quality Growth strategies remain positioned towards companies with strong competitive moats, high cash flow visibility, and structural growth exposure. We continue to prioritise durable earnings resilience over cyclical recovery, and overall Quality over hype. The combination of global re-investment in digital and energy infrastructure, AI-driven productivity advances, and improving European fundamentals supports a constructive medium-term outlook. Active management and a focus on fundamental Quality are our key differentiators as the cycle evolves.

Source: Allianz Global Investors, as of 30 September 2025 unless otherwise stated.

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Issuer:

Hong Kong – Allianz Global Investors Asia Pacific Ltd.