Weekly Market Update

25 August 2025

Week in review:

Top headlines

United States (US)

1. July's FOMC minutes showed divergence of opinion among policymakers, highlighting upside risk to inflation and downside risk to employment.

2. S&P Global ratings' affirmed its AA+ long-term credit rating and A-1+ short-term rating on the US. While the S&P cited a weaker fiscal position due to US tax cuts and higher government spending, they pointed out that revenues from tariffs will offset the shortfall.

Europe

1. UK inflation rose for a second straight month to 3.8% y/y in July, above forecasts of 3.7%. The jump in inflation reduces the expectations of rate cuts from BoE this year.

2. Germany Manufacturing PMI rose to 49.9 in August, above forecasts of 48.8. suggesting economic resilience so far in Eurozone. The negative impact of US tariffs likely lies ahead since the US-EU trade deal offers limited economic relief.

Asia

1. Japan's exports fell 2.6% y/y in July, worse than forecasts of a 2.1% decrease, as the impact of US tariffs intensified. Exports to US tumbled 11.4%, due to weaker shipments of cars, auto parts, and steel.

2. China's central bank maintained the 1-yr and 5-yr Loan Prime Rate at 3% and 3.5% respectively. This is in line with market expectations, as authorities signalled they are not in a rush to roll out monetary stimulus

3. New Zealand's central bank cut its policy rate by 25 bps to 3.00%.

Market movements

United States (US)				Europe		Asia			
S&P 500	**+0.4%**	**UST 2Y**	**3.70%**	**STOXX 600**	+1.5%	**Nikkei 225**	**-1.8%**	**Hang Seng**	**+0.3%**
NASDAQ	**-0.6%**	**UST 10Y**	**4.25%**	**FTSE 100**	+2.1%	**CSI 300**	**+4.3%**		

Source: Bloomberg, as of 22 August 2025

This week's focus:

- Jackson Hole Symposium - Fed Chair Jerome Powell signalled incoming data may warrant a shift in the Fed's current policy rate
- Stocks generally showed positive returns during "insurance rate" cut cycles
- Current tailwinds and headwinds driving stock market returns

Investment Strategy

- Near term volatility presents an opportunity to enter risk assets on dips to position for a strong end to 2025
- Maintain a diversified portfolio and seek income-generating assets like IG bonds and quality dividend stocks

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Topic 1 Jackson Hole Symposium

Key Takeaways

- Fed Chair Jerome Powell signalled that incoming data may warrant a shift in the Fed's current policy rate, which he cited it to be in "restrictive territory"
- In terms of the Fed's dual-mandate goals, while the labour market has cooled from its formerly overheated state, it remains near maximum employment. Inflation of the other hand, although it is still somewhat elevated, has come down significantly from its post-pandemic highs.
- GDP growth has slowed notably in the first half of 2025

What does this mean?

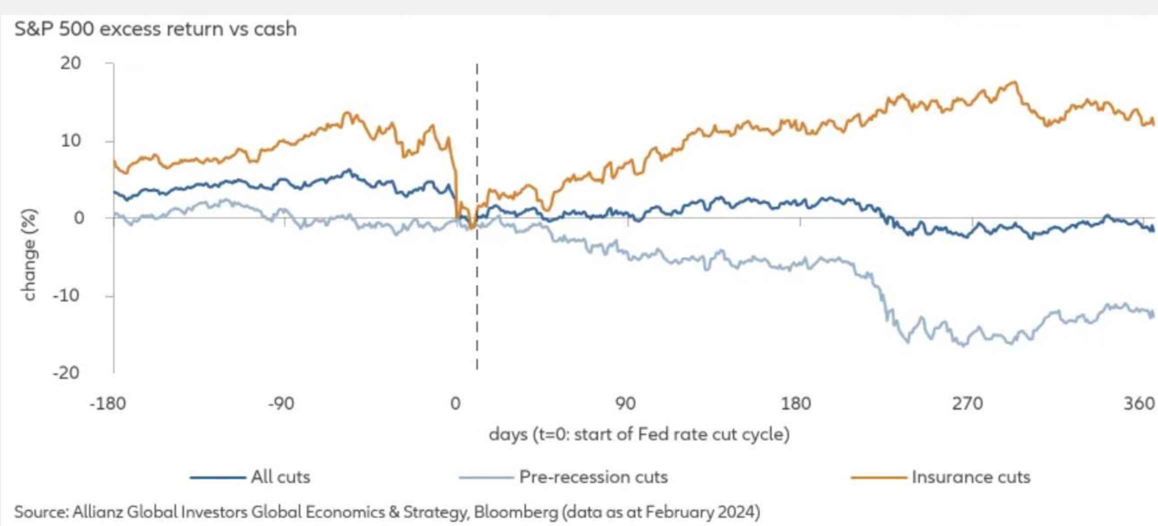
- This may indicate the Fed has a greater willingness to cut interest rates despite tariff inflation pressures
- Expectations for a Fed rate cut in the September FOMC meeting has raised to 84% from 73% a day before the event
- US stocks and bonds rose sharply on Friday after Powell's speech. Mega-cap technology stocks can be seen underperforming the value and cyclical sectors

Source: federalreserve.gov

Topic 2 Current drivers of market returns

Insurance rate cut vs recession rate cut (What are the differences?)

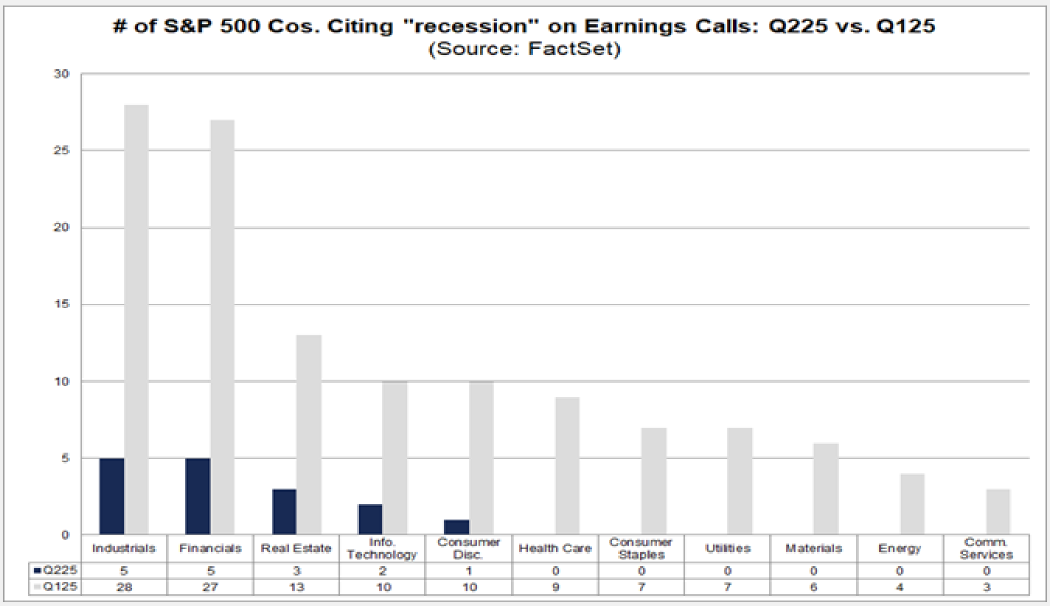
- **Recession cuts** – Fed cut rates but failed to stop the economy from sinking into a recession
- **Insurance cut –** Fed cut rates in response to rising financial stability risks (1997-1998) or sluggish economic growth (1984, 1995). Recessions were successfully prevented
- **US stock markets performed best when the Fed cut interest rates and growth stayed positive**



Topic 2 Current drivers of market returns

Recession concerns are low among S&P 500 companies

- The number of S&P 500 companies citing “recession” in earnings calls has significantly declined compared to first quarter earnings season
- Only 16 S&P 500 earnings calls mentioned “recession” during this period, which was far below the 5-year average of 74 and the 10-year average of 61



Source: FactSet, 11 August 2025

Current drivers of the stock market

Tailwinds

- Rising expectations of a Fed rate cut as soon as the upcoming September FOMC meeting
- Easing trade tension
- AI-driven earnings and continued capital investments into the AI space
- Potential easing of geopolitical conflicts

Headwinds

- High US equity valuations
- Potential seasonal market weakness (Q3 in particular)
- Investor sentiment is bullish, and positioning is stretched

Opportunities

- Near-term volatility presents an opportunity to enter risk assets on dips to position for a strong end to 2025
- Focus on building core investment and maintaining a diversified portfolio

UOB

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Weekly Cheat Sheet

What you should do:

- Near-term volatility presents an opportunity to enter risk assets on dips to position for a strong end to 2025
- Maintain a diversified portfolio and seek income-generating assets like Investment Grade bonds and quality dividend stocks

Core

- Multi-asset strategies
- Investment grade bond funds

Tactical

- Quality dividend stocks
- China
- Developed Market financials
- Technology
- Market neutral strategy (Asia stocks)
- Gold

3Q Investment Strategy

Market View

Clarity on US policies will help improve market environment in 2H 2025.

Global interest rate cuts are expected in 2H 2025

Investment Strategy

Be nimble to offset risks and capture opportunities when US policy uncertainty recedes.

- Maintain a diversified portfolio across asset classes, regions and sectors
- Interim volatility is an opportunity to accumulate Core and Tactical investments on dips to position for strong end to 2025
- Tactical opportunities seen in China, Developed Market financials, technology and market neutral approach for broader Asia.

Focus on income-generating assets to beat inflation over the long term.

- Investment grade bonds offer attractive yields plays an important role in portfolio diversification
- Quality dividend stocks provide compounding wealth effects when dividends are reinvested.

To discover how these strategies can be exclusively tailored to your portfolio, speak to your UOB Advisor to perform a portfolio review today

Right By You

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