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August 2025
Market Pulse

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STRONG Q2 EARNINGS AND TRADE DEVELOPMENTS SUPPORT MARKETS IN AUGUST

Global stock markets rallied in August. Equities were supported by a positive Q2 earnings season and increased clarity on US tariffs. Global economic activity remains solid, with inflation controlled in most economies and signs of tariff-induced price pressures more limited than expected in the US.

US Treasury yields fell as the Federal Reserve guided towards a September rate cut, while French yields rose in response to increased political risk. French Prime Minister Francois Bayrou called a confidence vote for September amid tensions relating to efforts to cut France's budget deficit.

The US dollar declined against the euro as investor expectations for Fed rate cuts increased.

Lenny McLoughlin
Chief Investment Strategist, Irish Life Investment Managers Limited (ILIM)

US

US labour-market data suggested more slack than previously assumed, with July non-farm payrolls coming in weaker than expected and substantial downward revisions to May and June data. This was the backdrop to Fed Chair Powell's speech at the Jackson Hole symposium in August, in which he suggested that looser policy may be justified by the "shifting balance of risks". Specifically, he stated that "downside risks to employment are rising" at a time when inflation expectations are stable.

Meanwhile, the Fed's independence has been challenged as President Trump nominated Stephen Miran, chair of the White House's Council of Economic Advisers, to replace Fed Governor Adriana Kugler, who had resigned from her position. Later in the month, Trump escalated tensions with the Fed as he announced the firing of Fed Governor Lisa Cook on the grounds that there was "sufficient reason" to believe she had made false statements in relation to mortgage agreements. Cook, however, subsequently filed a lawsuit against what she described as Trump's "unprecedented and illegal attempt" to remove her as Fed Governor.

Other data showed that household consumption remains robust, with July retail sales up by 0.5% m/m, although down from June's figure of 0.9%. Q2 GDP was revised higher to an annualised rate of 3.3% with consumption revised up to 1.6%. Headline consumer prices rose by 2.7% y/y and core prices by 3.1% in July, with both accelerating slightly from the prior month; the increases remained below the anticipated levels of tariff-induced inflation expected by some commentators.

Europe

Flash August PMI data suggested a pickup in Eurozone economic activity, with the index unexpectedly rising and indicating expansionary conditions, driven by increases in Germany and France. The composite reading rose to a 15-month high while manufacturing output rose to a 41-month high. Employment and new orders subcomponents were strong and imply that underlying business conditions are healthy.

In France, Prime Minister Bayrou called a confidence vote for September 8th amid disagreements on how to reduce the budget deficit from a projected 5.4% of GDP this year to a targeted 4.6% in 2026. Expectations were that the government would lose the vote, thereby leading to either a new prime minister being appointed or an election being called, all of which has raised political uncertainty in France and, to some extent, the Eurozone as it relates to regional policies.

MARKET ROUND-UP

Equities

Global stock markets continued to rally in August, supported by the prospect of monetary easing from the Fed and healthy economic conditions. The MSCI All Country World index ended the month up by 2.0% (0.2% in euro), with the MSCI USA rising by 2.0% (-0.3% in euro) to new historical highs, supported by a broadly positive Q2 earnings season. The MSCI Emerging Markets (EM) index rose by 1.6% (-0.8% in euro), supported by a rally in the MSCI China (4.2% in local terms, 2.6% in euro) amid increased flows from and improved sentiment among retail investors. European stocks underperformed the US for a fourth consecutive month, with the MSCI Europe ex-UK higher by 1.2% (1.1% in euro) in August. France (-0.9%) was the main drag as political developments weighed on sentiment.

Bonds

Eurozone government bond returns were negative as capital losses from increased bond yields offset income. The 10-year German Bund yield only rose by 1 basis point (bp) in August, to 2.71%, but the increased political uncertainty in France pushed up the equivalent government bond yields by 16bps to 3.51%, with the spread over Bunds reaching the highest level since January during the month. Peripheral spreads also widened slightly. The ICE BofA 5+ Year Euro Government bond index returned -0.9%.

CHARTS OF THE MONTH

Global equities

Source: ILIM, FactSet. Data is accurate as at 31 August 2025.

Bonds – German 10-year yield

Source: ILIM, FactSet. Data is accurate as at 31 August 2025.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	-1.2	17.3	22.8
MSCI United Kingdom	1.4	10.3	14.7
MSCI Europe ex UK	1.1	11.5	7.7
MSCI North America	-0.2	-1.5	32.9
MSCI Japan	4.6	4.4	15.9
MSCI EM (Emerging Markets)	-0.8	5.8	15.3
MSCI AC World	0.2	1.4	25.9
10-Year Yields	**Yield last month**	**2024 Yield (%)**	**2023 Yield (%)**
US	4.22	4.57	3.88
Germany	2.71	2.35	2.02
UK	4.72	4.56	3.54
Japan	1.61	1.09	0.61
Ireland	2.96	2.63	2.38
Italy	3.58	3.51	3.69
Greece	3.40	3.23	3.06
Portugal	3.17	2.84	2.66
Spain	3.27	3.04	2.99
FX Rates	**End last month**	**2024 Rates**	**2023 Rates**
U.S. Dollar per Euro	1.17	1.04	1.10
British Pounds per Euro	0.87	0.83	0.87
U.S. Dollar per British Pounds	1.35	1.25	1.27
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2024 Return (%)**
Oil (Brent)	-6.1	-8.7	-3.1
Gold (Oz)	5.5	32.1	27.1
S&P Goldman Sachs Commodity Index	-0.2	5.4	9.2

Source: ILIM, Bloomberg. Data is accurate as at 1 September 2025.

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THE ILIM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The agreement of trade deals provides clarity and helps remove uncertainty. While tariffs are higher than at the start of the year, they are at levels which should avoid a recession. Earnings forecasts have stabilised and show positive growth, consumer balance sheets are strong and ongoing disinflation is evident in Europe. Along with expected Fed rate cuts and a corporate-friendly stance from the US government, these factors should mean a favourable environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world are set to remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 19.1x against a long-term average of 16.2x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 22.7x against a long-term average of 16.5x. Equities outside the US offer somewhat better relative value. Europe ex-UK equities trade at a multiple of 14.8x against a long-term average of 13.4x; Japanese equities trade at 16.2x versus a long-term average of 15.1x; UK equities trade at 13.1x against a long-term average of 12.5x; and emerging markets are trading at 13.1x against a long-term average of 11.4x. Equities remain expensive against both bonds and cash given the high yields currently available on these assets.

Despite equities appearing fully valued, the outlook on a 12-month view is constructive. With growth expected to remain positive and US corporates eventually set to benefit from growth-friendly policies from the new administration through 2026, earnings are forecast to rise over the next one to two years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month timeframe.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly, central banks can cut rates further in 2025, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.71% and 4.22% to 2.25% and 3.75%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform to a greater extent.

THE MONTH AHEAD

SEPTEMBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		03 Australia GDP growth rate QoQ China RatingDog services PMI Spain, Italy HCOB Manufacturing PMI US MBA 30-year mortgage rate, JOLTS job openings, factory orders MoM	04 Australia balance of trade UK S&P Global construction PMI Euro Area retail sales MoM Canada balance of trade US balance of trade, exports, imports, initial jobless claims, ISM services PMI	05 Japan household spending MoM, YoY Germany factory orders MoM UK retail sales MoM, Halifax house price index (MoM, YoY) France balance of trade Canada unemployment rate, Ivey PMI US non-farm payrolls, unemployment rate
08 Japan current account, GDP growth annualised final China balance of trade, exports YoY, imports YoY Germany balance of trade, exports MoM, industrial production MoM	09 Australia Westpac consumer confidence change, consumer confidence index, NAB business confidence France industrial production MoM	10 China inflation rate YoY, MoM; PPI YoY Italy industrial production MoM US PPI MoM, core PPI MoM Russia inflation rate MoM, YoY	11 Euro Area deposit facility rate, ECB interest rate decision, marginal lending rate, ECB press conference US core inflation rate MoM, YoY; inflation rate MoM, YoY; CPI; initial jobless claims	12 UK RICS house price balance, GDP MoM, GDP three-month average, goods trade balance, industrial & manufacturing production MoM US Michigan consumer sentiment (prel)
15 China house price index YoY, industrial production YoY, retail sales YoY Germany wholesale prices MoM, YoY Euro Area balance of trade	16 UK unemployment rate, average earnings incl. bonus, employment change Euro Area industrial production MoM, ZEW economic sentiment index Germany ZEW economic senti-ment index Canada inflation rate YoY US retail sales MoM, export prices MoM, import prices MoM, industri-al production MoM	17 Japan balance of trade, exports YoY UK inflation rate YoY, MOM US MBA 30-year mortgage rate, building permits (prel), housing starts, Fed interest rate decision, FOMC economic projections, Fed press conference Canada BoC interest rate decision	18 Japan machinery orders MoM, YoY Australia employment change UK BoE interest rate decision US initial jobless claims, Philadelphia Fed manufacturing index	19 UK Gfk consumer confidence, retail sales MoM Japan inflation rate YoY, BoJ interest rate decision Germany PPI YoY, MoM France business confidence Canada retail sales MoM final, MoM prel
22 US Chicago Fed national activity index Euro Area consumer confidence flasg	23 India HSBC composite, manufacturing & services PMI flashes Euro Area, Germany, France HCOB composite, manufacturing & services PMI flashes UK S&P Global composite, manufacturing & services PMI flashes US existing home sales, S&P Global composite, manufacturing & services PMI flashes	24 Japan S&P Global composite, manufacturing & services PMI flashes Germany Ifo business climate US new home sales	25 Germany Gfk consumer confidence US durable goods orders MoM; GDP growth rate QoQ final; GDP price index QoQ final; initial jobless claims	26 Canada GDP MoM, MoM prel US core PCE price index MoM, personal income MoM, personal spending MoM

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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