VINTAGE asset management

Market Commentary

Equity markets saw some further progress overall in August and several reached new highs again in the month, helped by prospects for continued reductions in interest rates although there has been a persistent high rate of inflation in some regions. Global economic growth has been resilient, if with some distortions from the tariff disputes, while company profits have been robust to enable continued investment and dividend payments. While the autumn months have seen historically a degree of volatility the outlook remains broadly positive.

President Trump duly announced a range of higher levies from 1st August. Switzerland was confounded on its national day by a rate of 39% - the US represented 17% of Swiss watch sales in 2024, for example - Canada saw 35%, India 25% and Taiwan 20%, perhaps as Trump's focus was on China, with whom the retaliatory tariffs were suspended for a further ninety days to 10th November. Trump increased the levy on India's exports to 50% on 27th August given the country's imports of oil from Russia, while Canada suspended some of its tariffs to allow further negotiation and a US appeals court challenged the basis of the reciprocal tariffs.

The economic outlook has remained broadly encouraging, if more mixed. The US labour market has slowed with only 73,000 new jobs created in July, while the figures for May and June saw an unusually large downward revision of 258,000 combined, which meant that those months saw the lowest level since the pandemic in 2020; President Trump responded by dismissing the head of the Bureau of Labour Statistics. There was continued concern over the level of debt and the yield on 30-year gilts in the UK moved above 5%, the highest level for nearly three decades, given high inflation levels. Interest payments are correspondingly high and the government has been forced to consider a range of taxes for the autumn budget, although it did see reassuring data that the economy had grown by 0.3% in the second quarter of 2025 from the first, better than expected. The US Congressional Budget Office estimated that increases in tariffs would reduce the payments on interest over the next decade by $700bn, if the higher rates of trade duties persist and they do not diminish the level of economic growth or imports.

In the US the consumer price index (CPI) in July was at an annualised level of 2.7%, the same as in June, although the core rate increased to 3.1%; the key Personal Consumption Expenditure (PCE) price index rose by 2.6% on the prior year, which was the same as the previous month and broadly as expected. In the UK the CPI was up further to 3.8% in July from 3.6% for June, which was the highest level since January 2024, with high food costs a continuing factor. In the eurozone the rate of consumer price inflation in July was unchanged on the prior month at the central bank target of 2%. In Japan the rate of inflation eased further to 3.1% in July from 3.3% in June.

In his speech at the Jackson Hole meeting the chairman of the US Federal Reserve, Jay Powell, seemed to suggest that there was more scope to cut interest rates given the signs of a cooling economy in spite of some persistent inflation. The central bank has been under considerable pressure from the Trump administration, which included a move by the president to dismiss one of its governors, Lisa Cook, which she contested vigorously. The Bank of England reduced its interest rate from 4.25% to 4% as expected, although there were two rounds of voting on the Monetary Policy Committee before it agreed by a 5:4 majority, reflecting the conflicting pressures of a subdued economy and a rate of inflation that the bank has forecast will reach a high of 4% later in 2025. The European Central Bank interest rate stood at 2% and the Bank of Japan rate at 0.5%.

Russia intensified its attacks on Ukraine around a summit with the US in Alaska, where President Putin made no apparent concessions, while Volodymr Zelensky travelled to the US supported by a range of European leaders. President Trump claimed success in brokering a ceasefire between Thailand and Cambodia as well as an end to the conflict between Armenia and Azerbaijan, although there were renewed clashes between the Democratic Republic of Congo and Rwanda. At home President Trump deployed the National Guard to Washington DC. In France François Bayrou called a confidence vote for 8th September in the National Assembly over his plans to reduce the high level of debt, a vote he is likely to lose ending his short tenure as prime minister and increasing pressure on President Macron. In Japan Shigeru Ishiba remained in place as prime minister despite his party's recent electoral set-back.

The high spending in the technology sector continued, particularly on AI: the chief executive of Nvidia, Jensen Huang, predicted global spending of up to $4trn by the end of the decade as he reported revenues in the second quarter that were up by 56%, on the prior year, although the market reflected some disappointment as well as wider concerns on the effectiveness of the spending. The US government announced an investment into the chip maker Intel as well as a sharing of revenue from chip sales into China, which has been building its own expertise. The Chinese maker of Labubu dolls, Pop Mart, announced a four-fold increase in profits for the first half of the year.

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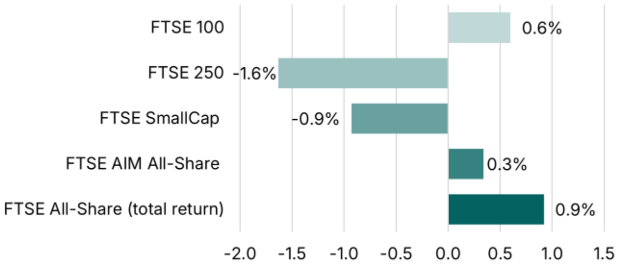
United Kingdom

The FTSE 100 index was up by 0.6% over the month to 9187, although the FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw declines of 1.6% and 0.9% respectively; the FTSE AIM All-Share index rose 0.3%.

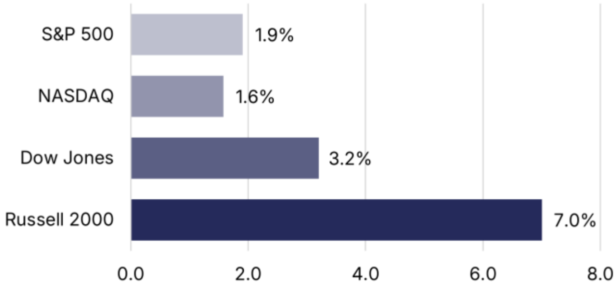
The total return for the FTSE All-Share index, including income, was 0.9% in the period.



United States

In the US the S&P 500 index was up by 1.9% in the month, the technology-oriented NASDAQ index rose by 1.6% and the Dow Jones Industrials index gained by 3.2%.

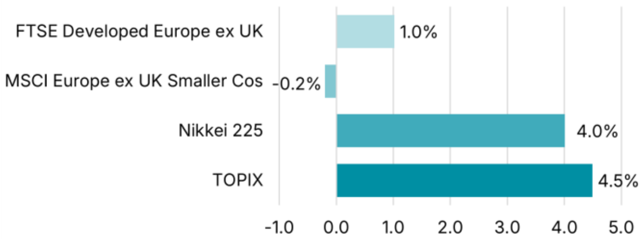
The Russell 2000 index of smaller companies was up by a strong 7%.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 1% over the month, when the Spanish and Italian markets gained although there were declines in the French and German indices. The MSCI Europe ex UK Smaller Companies Index was also down, by 0.2%.

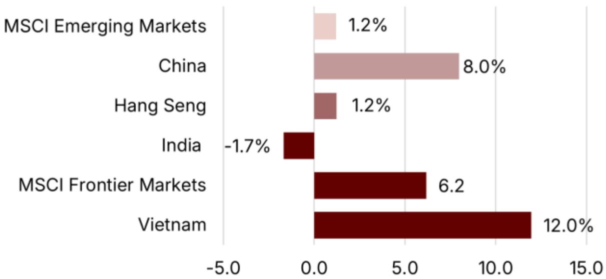
In Japan the Nikkei 225 index was up by 4% and the TOPIX index by 4.5% in the period.



Emerging Markets

The MSCI Emerging Markets index in US$ rose by 1.2% in the month, when the Shanghai index gained by 8% with the Hang Seng index in Hong Kong up by 1.2%; the Brazilian market was 6.3% higher although the Korean and Indian markets were down by 1.8% and 1.7% respectively.

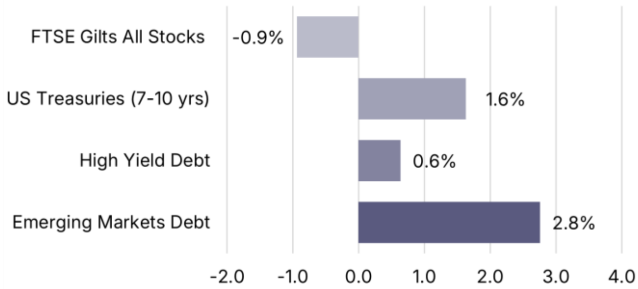
The MSCI Frontier Markets index was 6.2% higher and the Vietnamese market gained by 12%.



Bond Markets

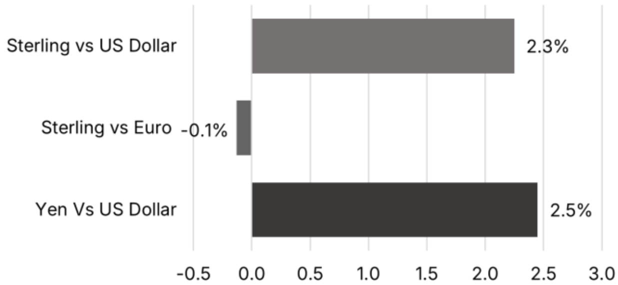
In bond markets the UK 10-year gilt yield rose from 4.57% to 4.72% and the total return for the FTSE Gilts All Stocks index in the month was -0.9%. In the US the ten-year yield was back down to 4.23% from 4.37% and in Germany the 10-year bund yield was little changed at 2.72% from 2.70%.

There were positive returns in the major bond markets outside the UK and eurozone, with emerging market debt doing best.



Currencies

Sterling rose by 2.3% against the US$ in the month, ending at a rate of $1.35:£, while against the euro Sterling was 0.1% lower to end at a rate of €1.16:£. The US$ was down by 2.5% against the Japanese yen to a level of ¥147:$.



Commodities

The price of Brent crude oil ended the month down by 7.1% at a level of $68 per barrel while the price of gold was 4.8% higher at $3448 per troy ounce.

The main metals were mostly higher in the month, with the bellwether copper up by 3.8%, and the main agricultural commodities were mixed - wheat was down by 1.5% while the price of coffee jumped by a third.