



Monthly Macro Insights — September 2025



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Investors are hoping for accommodative monetary policy in a stable economic environment, with “insurance” or “normalisation” rate cuts. However, the Goldilocks scenario is increasingly being tested as adverse inflation dynamics clash with a weakening labour market.

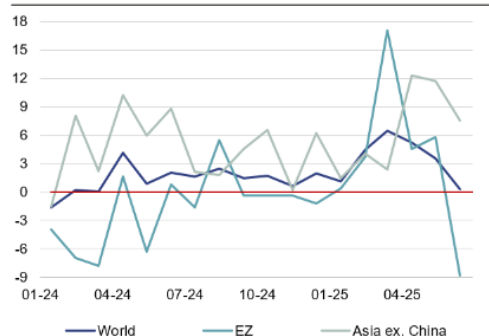
Front loading hangover ¹?

Global industrial activity surged in the first few months of 2025 and was accompanied by an even larger surge in exports. Some of the increase is due to a rebound from a soft patch in H2 2024, but most of it reflects the front loading ¹ of purchases as businesses and households brought forward spending ahead of tariff increases. However, despite some strength in global capex – particularly resilient US tech import demand – a downshift in global trade and industrial activity is now under way as global industrial production stalled and export volumes contracted.

Looking ahead, the August S&P global manufacturing PMI ² rose to 50.9 from 49.7 in July ³, signalling a slight improvement in operating conditions and suggesting the soft patch could be short lived. That said, the index has been volatile in recent months, and the details were much less positive than the headline. The future outlook and finished goods inventory subcomponents indicated that business sentiment remained below its long run survey average for a seventeenth consecutive month, while much of the recent improvement has been concentrated in stockbuilding rather than final sales. In addition, results from similar surveys in some countries diverged from the S&P data. For instance,

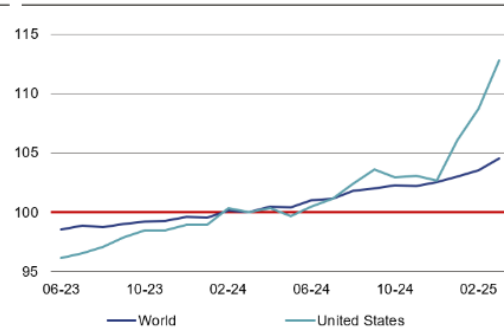
the US manufacturing PMI ² rose by 3.2 points ³ to 53, the highest level in more than three years and accounting for a substantial part of the increase in the August global index. By contrast, the ISM Manufacturing Index edged up by only 0.7 point to a still depressed 48.7 ², signalling weak demand for a sixth straight month amid tariff uncertainty.

World – Industrial production
in %, 3m/3m ann.



Source : JP Morgan, Rothschild & Co Asset Management, September 2025

World – World trade volumes
index, March 2024 = 100, 3m m.a.



Source : OECD, Rothschild & Co Asset Management, September 2025

China’s outlook is highly uncertain...

Even as its exports to the US have collapsed, China has benefited from the global capex pickup through transshipments and sales to other markets, helping the economy remain remarkably resilient in the first part of 2025. However, a key risk is further tightening of controls by other countries, as the US increases scrutiny of the rerouting of Chinese shipments.

Earlier this year, the authorities expanded the number of home-appliance categories eligible for government subsidies, broadening the consumer-goods trade-in programme aimed at boosting domestic demand. Yet the positive economic impact seems to be fading quickly, as evidenced by weak retail sales in recent months.

According to the National Bureau of Statistics, China’s factory activity remained stuck in contraction in August, with the PMI ² at 49.4 compared with 49.3 in July ⁴. Admittedly, the non-manufacturing PMI edged up 0.2 point to 50.3, yet the construction sub-index fell to 49.1 – its lowest level since the pandemic – as the housing downturn added pressure. Existing-home prices fell a further -0.55 per cent m/m in July, while new home prices slid -0.31 ⁴ per cent, following June’s steepest drop in eight months. In fact, a slew of recent government support measures has so far done little to revive interest in property investment.

The upshot is that the outlook remains uncertain. Despite better weather conditions and the 90 day pause on higher US tariffs – into early November – China’s August PMI ² show that the economy has not shaken off July’s weakness. Although the soft data argue for more monetary easing, the PBOC ⁵ might be cautious about adding liquidity given the

surge in equities, which seems to be outpacing the real economy.



...and so is the US

The Fed is increasingly caught in a dilemma between its two mandates: price stability and full employment. On the latter, the August report showed further weakening in job gains, with private payrolls averaging just 29k per month⁶ over the past three months. Combined with lower hours worked and a rising unemployment rate reaching a post pandemic high of 4.3 per cent⁶, the data are consistent with weakening labour demand, paving the way for the Fed to ease at the September meeting.

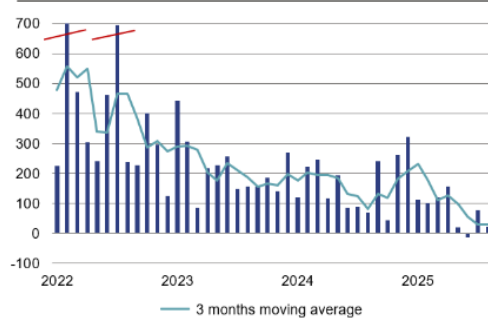
However, progress towards bringing inflation back to levels consistent with the price stability mandate has stalled. July core PCE inflation – the Fed’s preferred measure of underlying inflation – ticked up to 2.9 per cent, still well above the 2 per cent target. In addition, wages and salaries in the Employment Cost Index rose 0.9 per cent q/q in Q2 2025⁶, interrupting the earlier cooling trend, while unit labour costs accelerated to 2.5 per cent y/y⁶, the fastest pace since Q1 last year.

What’s more, forthcoming inflation prints will likely show a significant rise in prices as hopes for tariff reductions fade. New tariffs have come into effect in recent weeks, with additional sector-specific measures expected; higher intermediate goods prices are filtering through the production chain to final consumer goods, and previously front-loaded inventories have been run down.

The key question is whether the deterioration in growth and the labour market will prove more consequential than the pickup in inflation. If so, that would open the door to substantial monetary easing. However, inflation expectations risk becoming unanchored – at least according to household surveys – given that the Fed has missed its target for the past four years and is not expected to achieve it before 2027 at the earliest. Consequently, inflation dynamics will interact uncomfortably with policy deliberations for most Fed

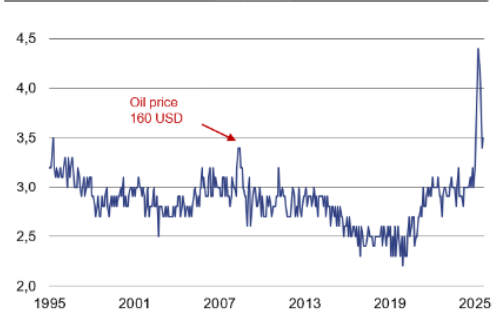
officials, except perhaps those inclined towards the Trump Administration’s calls for lower rates to ease the financing of large fiscal deficits. Ironically, recent attacks on the Fed’s independence are likely to push long-term yields higher than otherwise, as bond investors impose greater discipline.

United States – Nonfarm payrolls in thousands



Source : Macrobond, Rothschild & Co Asset Management, September 2025

United States – Inflation expectations In %, Michigan U. survey



Source : Macrobond, Rothschild & Co Asset Management, September 2025

Performance of the indices and interest rate levels

	Price as of 29/08/2025	1 month % change	2025 % change
Equity markets			
CAC 40	7 704	-0.9%	4.4%
Euro Stoxx 50	5 352	0.6%	9.3%
S&P 500	6 460	1.9%	9.8%
Nikkei 225	42 718	4.0%	7.1%
Currencies			
EUR/USD	1.17	2.4%	12.9%
EUR/JPY	171.86	-0.1%	5.6%
Interest rates			
	Level as of 29/08/2025	1 month change bp ⁽¹⁾	2025 change bp ⁽¹⁾
3 month			
Eurozone	1.99%	-3	36
United States	4.14%	-20	-18
10 years			
Eurozone	2.72%	3	36
United States	4.23%	-15	-34

(1) Basis point.
Source: Bloomberg, data as of 30/04/2025. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

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- (1) Front-loading refers to a strategy of bringing forward orders or investments ahead of a period of uncertainty or change in trade policy.
 - (2) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates expansion in activity; below 50, contraction.
 - (3) Source: S&P Global, September 2025.
 - (4) Source: Bloomberg, September 2025.
 - (5) People's Bank of China.
 - (6) Source: Fed, July 2025.

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