A post-summer catch-up

27th August 2025

With Europe still returning from the beach and the US gearing up for Labor Day, I'll spare you a full note this week. But for those easing back into work, here's a quick recap of the key developments of recent weeks. Three stand out.

A September cut, but bigger questions loom

The first - and most important - surrounds US monetary policy. A September rate cut from the Fed now looks nailed on, with another likely to follow in December. However, we're still not convinced the macro outlook justifies the degree of loosening that is now priced into markets. The economy is softening but not collapsing, and slower growth is due as much to supply constraints as it is to demand weakness. That doesn't point to the need for a large loosening of policy. This raises the question of whether the Fed will bend to political pressure to lower interest rates. Our US team unpack the implications of President Trump's firing of Fed Governor Lisa Cook here, and I examine the broader issue of institutional integrity here. Long rates have drifted up but the markets have so far taken Trump's broadsides in their stride. Yet attacks on institutions are insidious. We simply don't know how robust these institutions are or how these pressures will play out. This is a huge question hanging over the outlook for 2026 and beyond.

Problems elsewhere

While much of the focus has been on the US, the world's two other major economies – China and the euro-zone – have their fair share of problems too. In China, the latest data have contained signs that exports, which have been a key prop to growth over the past year, are now starting to slow. Our China Activity Proxy suggests that the economy is now growing at just 3.5% y/y, and our new labour market dashboard is starting to flash red in some areas. Economic weakness is likely to spur speculation of additional policy support. While we wouldn't rule this out, previous rounds of stimulus have failed to drive a sustained rebound in growth and we doubt that this time would be any different.

Meanwhile, in Europe, the French prime minister's decision to call an early vote of confidence in his government may not ultimately change the balance of power in parliament, but neither will it make it easier to pass the budget cuts needed to put the country's public finances on a more stable footing. For markets, we think it may only be a matter of time before French bonds trade through their Italian counterparts. For the euro-zone more generally, the threat of a renewed flare-up in fiscal concerns is the last thing the bloc needs while already grappling with low growth, a mounting competitive threat from China and an increasingly unpredictable US administration.

Trump, trade and US-China fracturing

On which note, we are updating our analysis of global economic fracturing in the age of Trump. The early months of the administration have generated plenty of noise about a remaking of the global

order, but how much is actually changing? Is the breakdown in US–China relations still the defining challenge for the global economy? And what are the implications of this upheaval for economies, for policy and for financial markets? We will answer all of these questions in a major piece of work to be published next week – and my book on the same issue will be published this week in the UK and next week in the US and elsewhere. We will be briefing clients at a series of events over the next month. Register here:

Singapore on Wednesday 3rd September

Hong Kong on Thursday 4th September

London on Wednesday 17th September

New York on Thursday October 9th.

I look forward to seeing you all there.
