Weekly round up (Week 39)

Financial market prices were sluggish and lackluster last week. Negative news slightly outweighed positive news, leaving insufficient momentum to push prices above the famous “wall of worry” that often accompanies a bull market. As a result, investors ended the week with more uncertainty than they had at the beginning. This was reflected in a steady rise in our favorite confidence index, the VIX, which rose from 15 at the beginning of the week to 17. Commodity markets clearly benefited from this environment, with energy and precious metal prices leading the way as investors factored in growing geopolitical uncertainty and rising tensions.

Central banks continued to play the role of “good cop” on the world stage, providing a source of stability. The six committee meetings held this week reinforced the message from the previous week: monetary policy is moving towards neutral levels. Two central banks eased their policy by 25 basis points (bp), while the others kept their rates unchanged. The only surprise came from Sweden, where the Riksbank lowered its key rate to 1.75%. However, this decision was accompanied by an indication that no further reductions were planned until 2028.

In Switzerland, the Swiss National Bank kept its key rate at zero. Its president, Martin Schlegel, acknowledged the difficulties caused by tariffs but emphasized the limited overall impact on the economy, as only 4% of Swiss exports are directly affected.

In China, key lending rates were kept unchanged, underscoring the caution of the People's Bank of China. Despite sluggish activity data in August, policymakers remain cautious so as not to fuel a stock market overheating.

On the other hand, policymakers continued to play the role of global “bad cop,” and were particularly prominent this week. NATO made it clear that it would no longer tolerate any further violations of its airspace and that it was prepared to respond with all necessary force, including shooting down Russian aircraft.

Meanwhile, Ukraine continued its attacks on Russian energy infrastructure, mainly targeting refineries. Estimates of refining capacity shut down vary widely—from 200,000 barrels per day to more than 1 million—but the frequency and apparent effectiveness of the strikes are also contributing to the geopolitical risk premium on oil. Energy prices rose by more than 3% this week.

In the UK, Andy Burnham, Mayor of Greater Manchester and considered Prime Minister Keir Starmer's main rival, called for an additional £40 billion loan to fund housing projects. This announcement spooked the gilt market, which continues to question the government's fiscal discipline, leading this week's 5- and 30-year gilt auctions to record the lowest number of orders since at least 2022.

Not to be outdone, the Trump administration announced additional tariffs. Starting October 1, 2025, the United States will impose new tariffs of 100% on branded or patented pharmaceuticals, 50% on kitchen cabinets, 30% on upholstered furniture, and 25% on heavy trucks. The timing is noteworthy, perhaps a show of confidence or arrogance, as the government risks being paralyzed on the same day due to a budget impasse.

Republicans remain committed to the temporary funding resolution passed by the House of Representatives, while Democrats are pushing for a version that extends expiring Affordable Care Act subsidies and addresses other priorities. The administration has threatened to lay off some federal employees rather than furlough them. A shutdown would also delay the release of the crucial September nonfarm payrolls report, scheduled for October 3.

As for the “neutral cop,” economists—the balanced and impartial arbiters—have painted a mixed picture. The eurozone composite PMI index reached its highest level in 16 months, at 51.2, driven by momentum in the services sector.

However, the manufacturing component fell back into contraction at 49.5, contrary to consensus expectations, highlighting the weight of trade tensions. **France** also weighed heavily on the index, with its composite PMI falling to 48.4.

In the United States, the economy grew at its fastest pace in nearly two years in the second quarter, with the government revising its previous estimates upward, thanks in particular to consumer spending and business investment. GDP was revised to an annualized rate of 3.8%, up from 3.3% previously. Household consumption—the main driver of growth—rose 2.5%, boosted by increased spending on transportation, financial services, and insurance. Business investment jumped 7.3%, driven by the strongest increase in intellectual property products since 1999. Investment in data centers, which support artificial intelligence infrastructure, reached a record annual level of more than $40 billion.

However, these positive US GDP figures were tempered by an OECD report highlighting the impact of President Donald Trump's “reciprocal” tariffs. With tariffs affecting more than 90 trading partners, the average US tariff rate reached around 19.5% in August – its highest level since 1933. The US administration's trade strategy is having global repercussions, weighing on GDP growth around the world and even more so in the US.

According to the OECD, global GDP is expected to fall from 3.3% in 2024 to 3.2% in 2025 and then to 2.9% in 2026. The US, which has imposed high tariffs on many trading partners, is expected to see its growth slow from 2.8% in 2024 to 1.8% in 2025 and then to 1.5% in 2026. This slowdown is largely attributed to higher tariff rates and a contraction in net immigration.

Finally, the “shadow cop,” quantitative research—which operates behind the scenes and can indirectly influence investment decisions—remains optimistic. Over the past 40 years, there have been eight episodes in which the Federal Reserve lowered rates after keeping them steady for six months or more. In half of these cases, the economy subsequently entered a recession. In the other four cases, when the economy continued to grow – which remains the baseline scenario for the next twelve months – the S&P 500 recorded a median return of +8% over six months and +15% over 12 months.