Weekly round up (Week 35)

In the latest overview of key developments in financial markets and economies, Muzinich explores potential catalysts for a market pullback in September, a historically unfavorable month for financial asset valuations.

August was a favorable month for investors, with most equity markets ending in positive territory. The Bloomberg World Large & Mid Cap Index rose more than 2.5%, with the Shanghai Index proving to be the best performer, gaining nearly 8%, while several benchmark indices reached historic highs. The Indian Sensex 30 index, on the other hand, lagged significantly, falling more than 1% after the US decision to raise tariffs to 50%.

At the same time, the US dollar continues to depreciate against global currencies, with the DXY index falling more than 10% since the beginning of the year and heading for its worst performance in more than a quarter of a century. The Brazilian real was the best-performing currency in August, appreciating by more than 3% against the dollar, as investors ignored political tensions to focus instead on one of the highest real yields in the world. Among developed markets, the Japanese yen and the euro both appreciated by more than 2% against the dollar.

Energy prices eased as OPEC+ continued its production increases, adding 1.9 million barrels per day since April. Metals, on the other hand, continued their rally, supported by supply shortages, tariff pressures, and growing demand for their role as a store of value. Silver was the star performer in August, gaining more than 5% and catching up with some of the sharp gains already made by gold.

Sovereign bond curves generally steepened in August. The short end was supported by the shift towards lower policy rates, while the long end came under pressure from fiscal expansion and, in the US, renewed doubts about the independence of the central bank. The yield on 2-year US Treasuries fell by more than 20 basis points (bp) after Federal Reserve Chairman Jerome Powell signaled in Jackson Hole that the committee was prepared to cut rates in September. In contrast, German 2-year yields remained unchanged. At the other end of the curve, the US 30-year yield rose by only 4 bp, which is modest compared to its peers, while fiscal concerns pushed Japanese, UK, and French 30-year yields up by 13 bp, 16 bp, and 24 bp, respectively.

Inflows continued into corporate credit markets, generating total returns of over 1% in the US and emerging markets, supported by a rise in the short end of the US Treasury yield curve and a tightening of spreads. In contrast, European credit remained broadly stable in August.

Want the good news or the bad news?

Common factors behind recent price fluctuations include robust economic growth, stable inflation, and continued easing of global financial conditions, all of which have helped propel stock markets to new highs, tighten corporate credit spreads, and support commodity prices (with the exception of energy). Differences between markets are largely explained by geopolitical factors: tariffs, fiscal concerns, pressure on independent institutions, or the fragility of coalition governments.

Investors continue to favor equities and other risky assets, such as cryptocurrencies. The consensus is for a weaker US dollar, while gold prices are expected to continue rising. Corporate credit spreads reflect a degree of complacency, as evidenced by the VIX trading below 15 points, signaling that investors perceive limited risk in the short term, while economists expect continued easing of government policy, either through rate cuts or fiscal measures. This optimism, combined with record levels in several asset classes, sets the stage for September.

But those with weak hearts may prefer to stop here. Historically, September has always been a bad month for asset valuations . Take equities, for example: September has been the worst-performing month of the last decade, with declines in four of the last five years.

Commodities have fared little better: over the past five years, oil has posted an average return of -2.59% in September, while gold has declined in eight of the last ten Septembers. Sovereign bonds have not always fulfilled their role as a safe haven, with UK gilts performing particularly poorly and investment grade and high yield credits also underperforming. Investment grade bonds have undergone corrections in eight of the last ten Septembers. Historically, the only winning positions have been long positions on the US dollar and volatility—the exact opposite of current investor choices and expectations.

Black swan catalysts?

Over the past five years, two major catalysts have triggered widespread corrections in September. In 2020 and 2021, markets were roiled by COVID-19 fears, while in 2022 and 2023, declines were fueled by rampant inflation and aggressive monetary tightening.

For September, the most obvious catalyst remains US tariffs. July reports suggested that companies were absorbing costs through margin compression or inventory reduction,but August reports will provide a clearer picture of the actual price pass-through. Any upside surprises—potentially signaling uncontrolled inflation expectations—could cause the Fed to reconsider its planned rate cut. The Bank of Japan could also weigh on markets. Although no rate adjustments are expected before the first quarter of next year, rising inflationary pressures are fueling a growing number of voices calling on the central bank to affirm its commitment to controlling prices.

Other factors could trigger massive sell-offs in September: government tensions and interventions, particularly in Europe, where political instability is high, with the possibility of governments falling in France and the Netherlands. At the same time, delays and uncertainties in the peace process in Ukraine are testing international patience and could lead to severe sanctions against Russia.

The US administration continues to push ahead with its “Make America Great Again” agenda at the expense of global stability, while seeking to increase its influence over Fed policy. Could September see bond vigilantes force sovereign bond yield curves to steepen, or threats to the Fed's independence trigger a dollar crisis? Given high valuations of risky assets, some buyer fatigue, and end-of-quarter rebalancing, the risks of disruption are real and should not be underestimated, while the ongoing revaluation of the potential of artificial intelligence continues to fuel headlines.

But the biggest surprise—the real “black swan”—in September 2025 would be if markets simply continued to climb, confirming the adage that “the trend is your friend.” However, we advise investors to remain cautious: September could well be a turbulent month.