Article MARKET COMMENTARY

Weekly round-up: 4 August – 8 August

Tom Watts recaps the past week's events and looks ahead to the next.

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Date: 08 Aug 2025

This week

Inspired by the sight of a road "stretching up into the hills" in the Scottish Highlands, an area stunningly surrounded by lochs and distant mountains, the song *The Long and Winding Road* appears as a cornerstone on The Beatles 1970 masterpiece *Let It Be*.

Whilst it is not clear if The Beatles' final album had much of an influence on investor sentiment, it seemed that there was important economic news *Across the Universe* this week, with US President, Donald Trump, even declaring that America would build a nuclear reactor on the moon on Tuesday.

From the tranquillity of Paul McCartney's farm in Scotland, to the hustle and bustle of the Bank of England (BoE) residence on Threadneedle Street, it seems the central bank carries on its own long, unwinding road, cutting rates by 0.25% to 4.25%, gradually undoing the extensive rate hikes put in place during 2022/2023 when inflation reached double digits.

Indeed, it was *Let It Be* for a cut in borrowing costs from BoE Governor, Andrew Bailey, from 4.5% to 4.25% on Thursday, a widely expected move. However, difficulty reaching an agreement meant that the bank's Monetary Policy Committee (MPC) had to hold two rate votes for the first time in its history. With 9 members, the first round of voting ended in a 4-4-1 split, with 4 voting to keep rates still, whilst 4 voted to cut by 0.25%, with external member Alan Taylor initially backing a larger 0.5% cut.

The BoE repeated its guidance about "a gradual and careful approach" to further cuts in borrowing costs but added a new line, hinting that its run of rate cuts might be nearing an end. "The restrictiveness of monetary policy had fallen as Bank Rate had been reduced," the bank said, no longer directly mentioning that policy was still restrictive, "…any future rate cuts will need to be made gradually and carefully". Those on Threadneedle Street also repeated that there was no pre-set path for borrowing costs and they would make their decisions as economic data arises.

The bank also said it now expected inflation to return to its 2% in the second quarter of 2027, three months later than its previous forecast. This was largely attributable to the rising cost pressures Rachel Reeves' tax hike placed on UK employers, and Donald Trump's tariffs.

On the news, it was the pound that refused to *Get Back*, jumping 0.4% initially, crossing $1.34 in the process. UK government bond yields also jumped whilst the UK blue chip index lagged its European peers.

Staying in the UK, housing data from lender Halifax released on Thursday, showed house prices rose by the most in six months in July, increasing by 0.4% from June. Commenting on the figures, Halifax showed that when it came to the property market, they could *Dig It*, "challenges remain for those looking to move up or onto the property ladder. But with mortgage rates continuing to ease and wages still rising, the picture on affordability is gradually improving…We expect house prices to follow a steady path of modest gains through the rest of the year."

With previous data showing that weaknesses were starting to open up in the US employment landscape, it was very much a case of *Don't Let Me Down* for economists examining jobless claims, that were released this week. The numbers showed that Americans filing new applications for unemployment benefits ticked up to the highest level in a month last week, suggesting the labour market was largely stable, although job creation is weakening and it is taking those who have lost their job more time to find a new one.

The latest data on new unemployment claims indicates employers are not yet turning to large-scale redundancy as the economy loses steam, but are managing through attrition, largely not replacing those who have left. Feeding into this, the figures also showed that worker productivity rebounded more than expected in the second quarter. *I've Got a Feeling*...it could well be a case of employees working harder, with less resources...

Next week

With the coming week set to usher in yet another heat wave of what has been a sunny summer so far, it should also be heating up for investors as a range of economic data may be too hot for some to handle.

The high street seems to have benefitted from the warmer weather of late, with the sun tempting shoppers out to refresh their summer wardrobes, as well as firing up the odd barbeque or two. Examining whether this this trend is continuing, the British Retail Consortium will release its Sales Monitor figures, and although the figures lead the government released consumer inflation data by about 10 days, they can be narrower in scope as they only include goods purchased from retailers who belong to the BRC. Nonetheless the figures should give us a decent update as to how the UK high street is performing and what we should expect from both upcoming retail sales and inflation numbers.

With many retailers remarking that it won't be all plain sailing after Labour's Budget announcement, "work" will be the watchword here in the UK on Tuesday. With the UK labour market having proven remarkably resilient in the face of rising rates and Rachel Reeves's hike in NIC and minimum wage, the first half of the week will give us the opportunity to check the employment landscape for weaknesses, with both the Average Hourly Earnings Index and Unemployment Claimant Count. Measuring the change in the number of people claiming unemployment related benefits during the previous month, claimant counts can be particularly useful, the figures are crucial in understanding the strength of the overall market as the figures contribute strongly to the unemployment picture.

Giving us a more comprehensive view of the domestic economy, later in the week the ONS will also release its monthly Gross Domestic Product data, the broadest gauge of economic health. With the UK economy having bounced back quicker and stronger than many expected, both those in the City of London and Westminster will hope there are no clouds on the horizon.

Whilst domestic news may dominate the agenda this week, the US will also enjoy its place in the sun, releasing its latest inflation numbers on Tuesday. With prices rising slightly quicker than expected last month and with the US labour markets showing signs of weakening, many will be hoping inflation shows some sign of abating. With the US Federal Reserve now looking like they will cut rates during their next meeting as a reaction to soft data, those on Wall Street will be hoping that prices are moving in the right direction at least.

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