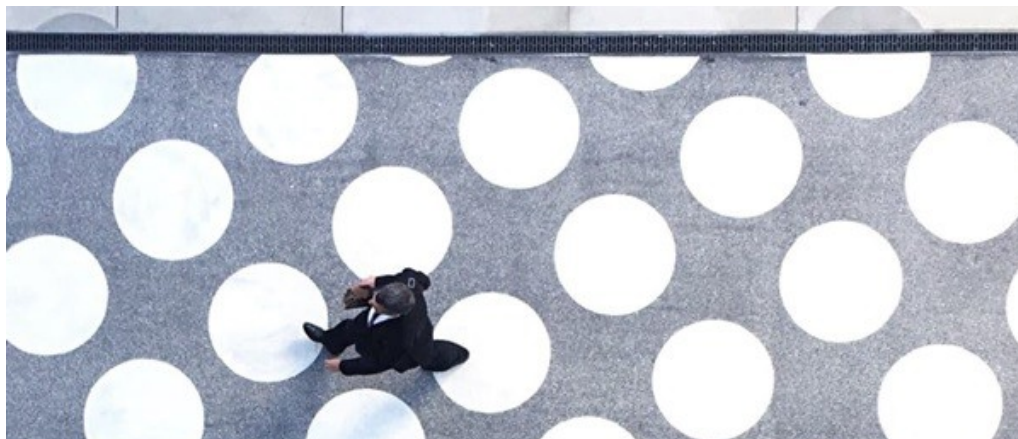




Article MARKET COMMENTARY

Weekly round-up: 11 August – 15 August

Benjamin Benson recaps the past week's events and looks ahead to the next.

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Date: 15 Aug 2025

With sparse data from the global markets outside of the US, this weekly will be US focused, but for good reason. Earnings season is all but done, and the only game in town is now the September Federal Open Market Committee (FOMC).

Earnings season is well past its peak, with over 90% of S&P constituents having reported their second quarter earnings. It was a low bar at the aggregate level, but it has been cleared handsomely, which explains a lot of the unabated US equity market strength since Liberation Day. To provide further detail, an above average number of companies have beaten expectations on earnings, revenue, or both. This is to say that market participants often expect company guidance to be beaten, and the degree to which they surprise will define the market outcome. Perhaps more importantly for the index, the Magnificent Seven have delivered strong results, with profits reported 13% better than forecast.

The US market continues to deliver on quite demanding valuations, but it's worth noting that expectations for 2026 profit growth now stand at over 13%, compared to that of 6% annualised for this quarter. There could be downside risks on any disappointment, but the current forecast will no doubt moderate, and as noted above, the degree of surprise currently matters as much as the accuracy of forecasts.

Earnings and valuations aside, the market is almost entirely fixated on the Fed meeting in September. This week saw US Consumer Price Index (CPI) and Producer Price Index (PPI) reports, which at their respective releases, had opposing market implications. CPI reported no change at 2.7% year-on-year, but this was better than expected by a whole 0.1%. As such, riskier assets rose, and interest rate futures indicated that a 0.25% cut was entirely priced in. The PPI report quickly curtailed this as it came in much hotter than expected. The measure rose 0.9% month-on-month, and 3.3% year-on-year, ahead of 0.2% and 2.5% expected respectively. In fact, the reported number was above any forecast visible on Bloomberg and is the largest

upside surprise to the print since March 2022. Perhaps an important takeaway is that tariffs are driving prices higher, but they are not yet reaching the consumer.

Despite mixed-to-disappointing data, US equities managed multiple all-time-highs throughout the week. However, it is worth noting the imbalance in this as the 'Mag 7' continue to do most of the heavy lifting, whilst the majority of the S&P languishes. The adage that markets climb a wall of worry rings true; positivity is tentative and now seems to hinge on interest rate expectations which may not be as nailed-on as they appear. Employment data remains resilient in the US, with initial claims reporting in line this week, and continuing claims falling marginally. The September nonfarm payroll figure could be key in shaping rate expectations for September. With tariffs not yet fully in consumer prices, and August tariffs still to reach inflation numbers, there

appears to be upside risk to future inflation prints. With this backdrop, it's hard to accept that the Fed sees interest rates in the same light as the market.

Markets will either prove correct or experience volatility. The fundamental strength witnessed in Q2 earnings season should provide a floor, and interest rate disappointment could even provide a buying opportunity.

Data of note outside of the US is from our own little island. UK labour data showed a little further weakness as vacancies and pay growth fell further. The BOE is on a cutting path, but it still looks like this relies on inflation rather than labour data as it stands.

Next week

As we reach mid-to-late summer, and participants and commentators return from summer holidays, we face a potentially seminal week from a geopolitical perspective. President Trump is set to meet with Putin in Alaska this Friday

evening, which looks like it could be a big step in the Ukraine war. Whilst it is highly unlikely that this initial meeting will solve everything, if anything at all, it could offer some insight into the direction of travel. Russia has taken more ground in recent days, which may signal their intent, and Trump has indicated that certain areas of land may have to be returned, ceded or negotiated upon. There is not yet enough information in the tea leaves to know how this might end, but this rhetoric signals that they might be moving mountains as much as markets.

We get a UK CPI print on Wednesday, which is currently being forecast at 3.6% at the headline level, and 3.7% at the core. A mid 3% level is unlikely to be a place from which the BOE can continue to ease policy significantly, especially without meaningful economic downturn. There are a few data points to flow under the bridge between now and November as the next Monetary Policy Committee (MPC) report however, but current expectations are for another cut.

Wednesday will also offer the FOMC minutes from a historic vote at the last committee meeting. As previously commented, two dissenting votes has not been seen since 1993, and these minutes may add some clarity to the discussions that took place. Moreover, given the muddy waters of economic data the committee is watching, the minutes might also guide us on what we can expect in September.

On Thursday we will get flash PMIs from the US, UK, and Europe, as a leading indicator of economic health. UK and Europe are hovering near the 50 mark, the point which indicates whether economies are likely expanding or contracting, but the US, and services in particular, remain comfortably above this threshold.

Finally, it is the Jackson Hole Symposium this week, where central bankers from around the world come together to discuss the future of monetary policy. The main discussion topic this year is the 'labour market in transition', which will consider demographics and productivity with regard to macroeconomic policy. The gathering is viewed as pivotal as global central bankers come together for open discussion regarding policy,

which in turn can impact local expectations for policy.

With a slightly busier week on the data and news front, markets may be more volatile. However, it's still summer after all, and volumes will remain lower, so enjoy the sun while it lasts, and look out for our take on some important events next week.

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