



Simon Molica
Investment Director

Five things you need to know *from August's markets*

As we leave the summer months behind, the main question for investors is whether market momentum will continue or stall – and with inflation still in a somewhat uncomfortable place, there are however signs of economic weakness.

1 UK inflation running hot - rising to 3.8%

The Consumer Price Index (CPI) reported that UK annual inflation officially rose to 3.8% in July, its highest reading since January 2024 – with food prices and airfares playing their part. The August data confirms the UK is experiencing the highest inflation among the G7.

This inflationary backdrop is causing a headache for the Bank of England (BoE), as sizeable reductions to interest rates are hard to justify given the latest data. A gentler fall in rates is the more likely scenario.

2 UK and US diverge in rate policies

Expectations of an interest rate cut by the Monetary Policy Committee (MPC) of the BoE were realised in August, when UK rates reduced by 0.25% to 4.00%. It was a close call, and required two rounds of voting, showing just how difficult balancing sticky inflation and a softening economy has become.

Meanwhile across the pond, at the end of July, the Federal Reserve (Fed) decided to maintain their pause in reducing rates. Chair Jerome Powell defended the decision by insinuating that in fact they were somewhat looking through inflation by not hiking.

Although UK markets may welcome the BoE's decision, diverging rate policies with the US are more likely to move GBP/USD - which could create headwinds for investors.

3 Trump meddling with the Fed again!

Trump has been piling pressure on the Fed to reduce interest rates for some time now. He argues that high interest rates in the US have led to a stalling housing market, evidenced by new home sales dropping and pending sales falling in 2025. However, Powell has stood his ground, determined to uphold Fed independence and data dependency, without political interference. Trump continues to publicly criticise the Chairman and vocalise his potential sacking. For now, he's redirected his attention to Fed Governor Lisa Cook. Trump's now attempting to remove Cook from her position over alleged fraudulent mortgage activity. Cook remains in place as the issue is escalated to the courts. These actions pile further pressure on the US dollar which has significantly weakened during 2025.

4 The Tariff debacle rumbles on

The US and China still haven't reached an agreement over trade, but have extended their trade truce for another 90 days, keeping the US tariff pause in place until 10th November, with China returning the gesture.

US levies on Chinese imports remain at 30%, with China keeping a 10% tariff on American imported goods. However, at the end of the month, Trump imposed a 50% tariff on Indian goods due to trade imbalances – which included a 25% penalty related to India's purchase of Russian oil.

5 China A stocks defy gravity over August

Following on from strong returns in July, Chinese onshore stocks continued to progress through August, up nearly 10% in GBP terms. Easing trade tensions with the US have helped, as has speculation of further stimulus and easing. Another contributing factor is high Initial Public Offering (IPO) activity, with 63 companies going public in August. Record household savings being drawn into the market has added further fuel to the market rally.

Markets don't usually go up in straight lines. Some volatility is to be expected after recent strong equity gains, so it's important to remain focused on your long-term investment goals. As always, we're strong advocates of building well-diversified portfolios and sticking to a disciplined investment process.

Name	1m	3m	YTD	1yr	3yr
FTSE Actuaries UK Conventional Gilts All Stocks	-0.94	0.19	1.23	-1.87	-5.10
ICE BofA Global Corporate	0.72	2.37	4.81	4.74	14.46
ICE BofA Global High Yield	1.01	3.43	6.30	8.49	29.71
FTSE All Share	0.92	5.42	14.45	12.58	38.58
FTSE USA	-0.14	9.31	2.76	12.94	46.09
FTSE World Europe ex UK	1.21	3.26	17.20	10.93	48.79
FTSE Japan	4.95	7.74	10.23	10.86	34.26
FTSE Asia Pacific ex Japan	-0.26	9.65	9.48	13.74	18.46
FTSE Emerging	-0.04	8.47	7.88	14.53	18.70

Source: FE Analytics, GBP total return (%) to last month end

Parmenion

Investment Management

Registered Office: Aurora,
Counterslip, Bristol, BS1 6BX.
Website: www.parmenion.co.uk

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It's also important to remember that an investment's past performance isn't an indicator of its future performance, and you could get back less than you put in. There's also no guarantee that an investment will meet its objectives.