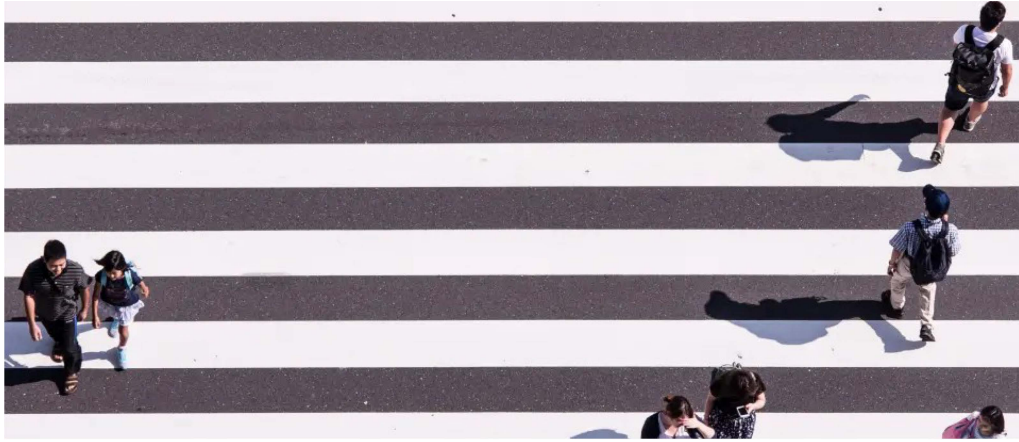




Article MARKET COMMENTARY

Weekly round-up: 8-12 September

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

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This week

During a 1902 hunting trip, it is said that the US President at the time, Theodore Roosevelt, refused to shoot a bear that had been clubbed and tied to a tree for him during a hunting competition, branding it as unsportsmanlike.

The events of the hunt then became immortalised in a political cartoon in The Washington Post, in turn, inspiring a toy shop owner in New York to creating a smaller, cuter version of the bear in the picture called "Teddy's bear." Despite 'Teddy' being a nickname the president apparently loathed, the new product was, quite literally, a roaring success.

With the enduring popularity of the toy, it is hardly surprising that it has its own holiday, and National Teddy Bear Day, a celebration of all things cute and cuddly, was observed this Tuesday. The past week for investors, similarly to Morris Michtom's Teddy creation, was also stuffed, this time with US Inflation data, as mixed readings gave many paws for thought.

First of all, data showed that annual producer prices (the change in the price of finished goods and services sold by wholesalers) actually fell by 0.1%, against expectations of a gain of 0.3%, amid a mild increase in the cost of goods, suggesting that domestic businesses were probably absorbing some of Donald Trump's tariffs on imports. The lack of strong producer price pressures, despite import duties, could also be a signal that we are witnessing softening domestic demand against the backdrop of a weaker than expected US labour market.

In reaction to the weak reading, Donald Trump found it hard to simply grin and bear it, taking to his Truth Social to show his own claws. "Just out: No Inflation!!! "Too Late" must lower the RATE, BIG, right now. Powell is a total disaster, who doesn't have a clue!!!" in reference to US Federal Reserve Chair, Jay Powell's previous reticence to cut interest rates.

The following day saw investors bear witness to US consumer inflation figures, with prices increasing by the most in seven months in August. This was amidst higher costs for housing and food, however the increase was largely expected by investors. Inflation rose at 0.4% last month, the biggest gain since January, after increasing 0.2% in July, driven by a 0.4% jump in the cost of shelter, which includes rents and hotel rooms. Food prices increased 0.5%, with the cost of food consumed at home soaring 0.6%.

The early *Ursa Major* news on domestic shores was released by the British Retail Consortium (BRC) on Monday, showing that shoppers spent more in August, spurred on by the sunny summer weather, resulting in a stronger demand for food, furniture and back-to-school computers. However, some of this rise did reflect higher food prices too. "Stronger growth in food and drink was largely down to rising prices, which rose over 4% in August, rather than increasing volumes," the BRC commented.

Over in Europe, it was very much *bear with us*, as the European Central Bank (ECB) held rates at 2% for its second meeting in a row. Although the lack of a rate cut was anticipated, it was mentioned that conversations about a further rate cut were likely to resume in the autumn if US import tariffs take a toll on eurozone growth.

"The Governing Council...will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance," the ECB said in an accompanying press conference.

The final big piece of economic data this week came in the form of UK Gross Domestic Product (GDP), the broadest measurement of economic health. It was announced that the UK economy recorded no monthly growth during July, after a sharp drop in factory output, matching expectations for a slower start to the second half of 2025 but still disappointing for the government ahead of the November budget.

Friday's data showed that manufacturing output, which comprises 9% of the economy, dropped by a hefty 1.3% on the month in July, its biggest fall in a year, led by poor sales in computers, electronics and pharmaceuticals. However, the much larger services sector edged up 0.1% on the month, slightly ahead of expectations. Despite being largely expected, the data piles further pressure on the Chancellor, Rachel Reeves, with incoming tax hikes now seeming a formality. It just goes to show, unlike the Teddy bear's favourite pastime, running the UK economy is far from a picnic.

Next week

With Japanese markets closed in observance of Respect for the Aged Day on Monday, the coming week may not prove to be the same old story for investors as both the Bank of England (BoE) and US Federal Reserve announce the latest borrowing costs for their respective economies.

The first of the two key central bank press conferences will come from the US, as a rate cut from the Fed almost seems inevitable, with the only question now being by how much or by how many this year now. With recent US labour data proving to be much weaker than first expected, it seems the Fed may be slightly behind the curve and needs to make up for lost time, with some commentators even seeing another 0.5% rate cut coming up in September, as opposed to the likely 0.25% cut next week and further move later on in the year.

Very much on the other side of the coin, many expect the BoE's press conference the following day to show there is little rush there to lower borrowing costs on these shores, with the next bank move not being fully priced in until April next year.

With the market not pricing in too much news from those on Threadneedle Street next week, it will be the bank's forward guidance that should capture investors' imaginations, giving hints as to how its key members will view economic data going forward.

Possibly coming too late to have an immediate impact on the bank's forecasts, the latest UK inflation print will be released the day prior. Although probably not factored into Thursday's prepared statement, inflation readings are key in helping the BoE in gauging how price rises are evolving.

The end of the week sees investors look to the Far East as the third of this week's major central banks' press conferences takes place, this time in Japan. Japan's upward GDP revisions suggest wage growth and household spending will continue to drive the economy forward. However, Prime Minister Ishiba's recent resignation increases policy risk, pushing many expectations of a rate hike in Japan back until October.

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[Back to top](#) ^

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