Rothschild & Co
Asset Management

Monthly Macro Insights — October 2025

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Global economic conditions remain complex as we enter the final quarter of 2025. While growth has shown an unexpected resilience since Liberation Day, the interplay of trade frictions, inflation dynamics, and policy uncertainty continues to shape a challenging environment. Central banks, particularly the Fed, face a delicate balancing act: sustaining economic momentum without reigniting inflationary pressures.

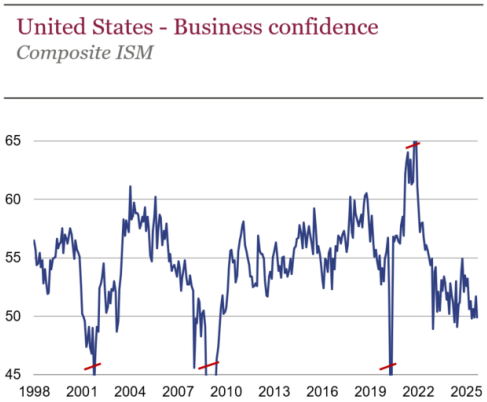
United States: A Policy Tightrope with Conflicting Signals

The US economy presents a paradox. On one hand, recent data point to soft business and consumer sentiment amid a weakening labour market. On the other, the Atlanta Fed's GDPNow model projects robust near-term growth as consumption and investment – particularly in technology – are providing meaningful support, notwithstanding the fact that the overall effective US tariff rate has reached its highest level since 1933.

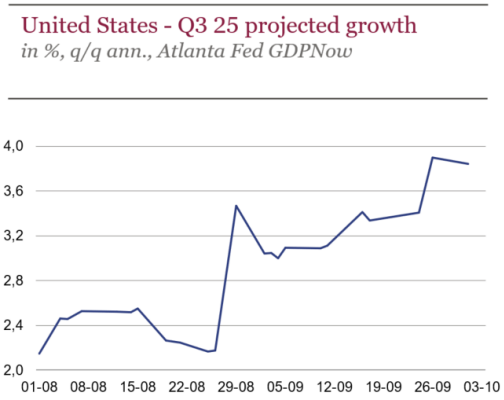
This divergence matters because GDPNow[1] has historically offered a reliable gauge of short-term momentum and underscores the complexity of interpreting the current cycle. If its projections hold, the narrative of imminent significant slowdown driven by a labour market breakdown may prove overstated, while a resilient economy would fragilize the case for aggressive interest rate cuts, especially with core inflation still above target and services prices proving sticky.

In fact, the inflation challenge goes beyond current readings. After more than four years of overshooting its 2 per cent target, the Fed is increasingly concerned about the risk of de-anchoring inflation expectations, as recent surveys show an uptick in household and market-based measures. This shift, though modest, is significant: if businesses and consumers start to anticipate persistently higher inflation, wage-setting behaviour and pricing strategies could reinforce upward pressure, making disinflation harder to achieve.

The Fed's September meeting captured this tension. Policymakers[2] delivered a rate cut, acknowledging downside risks to the full employment objective of the dual mandate, yet also emphasized caution amid persistent inflationary pressures. Chair Powell reiterated that future moves will be data-dependent, but the ongoing government shutdown[3] limits access to key labour and inflation metrics, adding another layer of uncertainty. Investors anticipate further easing, but the Fed's tone suggests a gradual approach, mindful of avoiding a premature pivot that could destabilize inflation expectations.



Source : Bloomberg, Rothschild & Co Asset Management, October 2025



Source : Bloomberg, Rothschild & Co Asset Management, October 2025

Eurozone: Fragile Stability

The Eurozone economy continues to navigate a fragile outlook as the resilience seen earlier this year was mostly based on temporary factors. In Q1 2025, GDP was flattered by a sharp surge in Irish output, which accounted for a disproportionate share of Eurozone's 0.6 per cent q/q growth[4]. This spike was in part linked to front loading[5] in the pharmaceutical sector, as companies accelerated production and exports ahead of anticipated regulatory changes and pricing adjustments.

In Q2, the most notable contributor was inventory accumulation. This dynamic provided a temporary lift to GDP but raised questions about sustainability, as this inventory-driven growth was not a signal of robust underlying demand.

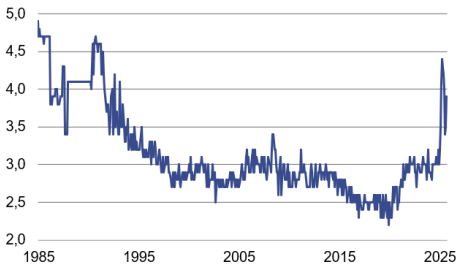
Looking ahead, fiscal support measures – such as Germany's targeted stimulus and increased defence spending – could cushion the impact of global trade disruptions. However, despite a robust labour market, household consumption has remained weak since the start of the year, and the erratic movement in consumer confidence does not suggest an immediate improvement.

Inflation dynamics remain a focal point for the ECB. According to flash estimates, headline inflation was up to 2.2 per cent in September from 2.0 per cent over the previous three months, mostly driven by energy base effects, while core inflation stayed at 2.3[4] per cent. Non-energy industrial goods inflation remained stubbornly at 0.8 per cent[4] for the third month in a row, suggesting that disinflationary forces – stemming from a stronger euro and potential trade diversion from China – have yet to exert downward pressure on core industrial goods prices.

Meanwhile, services inflation – a persistent concern for policymakers as it largely reflects domestic cost pressures – edged up by 0.1 percentage point to 3.2 [4]per cent. The path towards stabilizing inflation at 2 per cent over the medium term therefore remains sinuous. Indeed, while progress on disinflation is evident, upside risks linger, particularly if energy prices rebound or fiscal impulses prove stronger than expected.

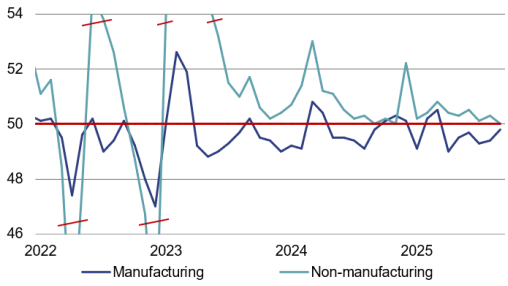
President Lagarde has reiterated that any future rate adjustments will be gradual and contingent on incoming data. Correspondingly, the ECB appears committed to maintaining its current stance through year-end, prioritizing stability over aggressive easing. This cautious approach reflects a broader theme: central banks are wary of undermining credibility at a time when inflation expectations remain sensitive.

United States - Expected long term inflation
in %, university of Michigan



Source :Macrobond, Rothschild & Co Asset Management, October 2025

China - Business confidence
NBS index



Source :Macrobond, Rothschild & Co Asset Management, October 2025

China: Searching for a Floor Amid Structural Strains

China's September PMIs suggest that the economy continued to lose momentum and remains under pressure despite successive policy support targeting private consumption and the real estate sector. In the manufacturing sector, the index rose 0.4 point to 49.8[7], indicating a slower pace of contraction. The construction PMI[6] showed a similar trend, up 0.2 point to 49.3[7], with both sectors supported by improved weather conditions and a resumption of activity after temporary output pauses for a military parade. However, the services sector weakened as the end of the summer holiday travel season weighed on demand, with the index falling by 0.4 point to 50.1[7]. Overall, business confidence in

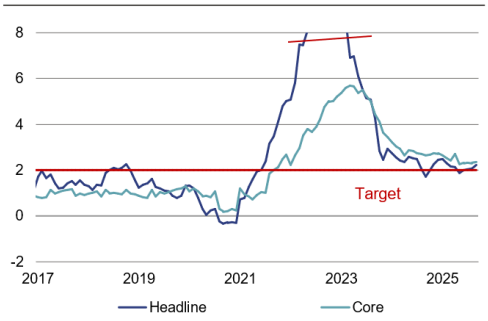
September remained subdued, pointing to a likely downshift in China's economy in H2 2025.

The property sector continues to weigh heavily on confidence, constraining household spending and private investment. Prices for both new and existing homes have continued to decline, deepening concerns about household wealth effects and reinforcing caution among consumers.

Furthermore, external conditions add complexity. Export performance, buoyed earlier by front-loading[5] ahead of tariff hikes, is losing momentum as global demand softens and protectionist measures proliferate. Deflationary pressures persist, with consumer prices barely positive and producer prices in contraction, raising fears of entrenched deflation.

While authorities have deployed targeted measures – such as tax rebates and selective liquidity injections – the scale of stimulus remains modest compared to previous cycles, reflecting concerns about financial stability and currency volatility. In fact, policymakers face a delicate balancing act: bolster domestic demand without fuelling asset bubbles or exacerbating debt vulnerabilities. Recent signals suggest incrementalism rather than a sweeping stimulus package, reinforcing the narrative of a managed slowdown.

Eurozone - Inflation rate
in %



Source : Macrobond, Rothschild & Co Asset Management, October 2025

Eurozone - Consumer confidence
EU index

Source : Macrobond, Rothschild & Co Asset Management, October 2025

Performance of the indices and interest rate levels

	Price as of 29/08/2025	1 month % change	2025 % change
Equity markets			
CAC 40	7 704	-0.9%	4.4%
Euro Stoxx 50	5 352	0.6%	9.3%
S&P 500	6 460	1.9%	9.8%
Nikkei 225	42 718	4.0%	7.1%
Currencies			
EUR/USD	1.17	2.4%	12.9%
EUR/JPY	171.86	-0.1%	5.6%

Interest rates	Level as of 29/08/2025	1 month change bp(1)	2025 change bp(1)
3 month			
Eurozone	1.99%	-3	36
United States	4.14%	-20	-18
10 years			
Eurozone	2.72%	3	36
United States	4.23%	-15	-34

(1) Basis point.
Source: Bloomberg. data as of 30/04/2025. Performances in local currency.
Past performance is not a reliable indicator of future performance and is not constant over time. Index's performance is calculated on the basis of net dividend reinvested

Completed writing on 6 october 2025.

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(1) GDPNow is a real-time estimation model of US gross domestic product (GDP) developed by the Federal Reserve Bank of Atlanta.
(2) Federal Open Market Committee: Fed body responsible for controlling open market operations in the United States.
(3) Source: Political situation in which the US Congress fails to vote on the funds necessary for the government to function, leading to a partial shutdown of its activities.
(4) Source: Bloomberg, October 2025.
(5) Source: Strategy of anticipating orders or investments ahead of a period of uncertainty or change in trade policy.
(6) Source: Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates expansion in activity; below 50, contraction.
(7) Source: National Bureau of Statistics, China, October 2025.

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(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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