



Monthly Macro Insights — August 2025



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The global economy started 2025 on a solid footing as businesses and consumers rushed to front-run tariffs by producing and buying more goods. Although several factors have unfolded more constructively than feared, was the drop in economic activity averted, or only delayed?

H1 better than expected...

The April “Liberation Day” recession risk was partly associated with the threat of a concentrated shock magnified by a sentiment slide. Although uncertainty around the final US tariff rate remains, tail-risks have been trimmed as a framework with a minimum 15 per cent rate emerging¹. Rates on China, India, and key sectors such as pharmaceuticals and semiconductors, are above this level.

Admittedly the overall US tariff level is now the highest since the 1930s, and about six times what it was when Trump took office at the start of this year¹. Still, April tariffs were not implemented immediately as delays and exemptions have slowed the rise and the pass-through to US consumer prices.

Meanwhile, a drop in business sentiment has indeed materialised, but the deterioration was not as brutal as feared. In addition, it has not been reflected in financial conditions, which in fact have eased materially, thus supporting economic activity. Economists even nudged their forecasts for the US a little higher in recent months.

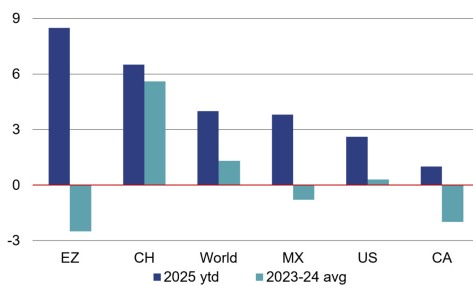
The China tariff hikes that threatened to disrupt supply chains were reversed, also

reducing the risk of a more concentrated or disruptive growth drag. Furthermore, the rise in global trade restrictions was muted as retaliation has not materialised outside China and Canada, while some barriers to US exports have been lowered.

In sum, recession risks have somewhat receded. However, a significant downshift in US and global growth in the second half of this year seems likely, albeit the lack of recent historical precedents which widens the error band around any forecast.

World – Manufacturing output

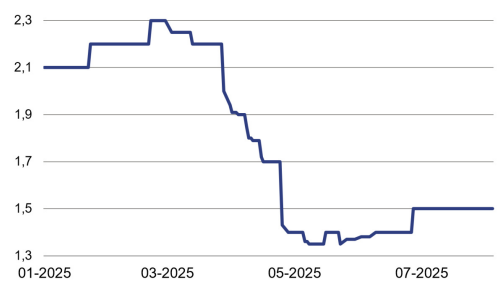
in %, annualized



Sources : Macrobond, Rothschild & Co Asset Management.

United States – 2025 GDP forecast

in %



Sources : Bloomberg, Rothschild & Co Asset Management.

...but risks remain to the downside

So far, China has held up relatively well in the face of higher tariffs, thanks to front-loading by exporters and resilient shipments to markets outside the US. However, business confidence unexpectedly fell in July. In the manufacturing sector, the PMI² worsened from 49.7 to 49.3 despite a tariff truce with the US, and for a fourth month the index remained below the 50 mark³, indicating contraction.

The non-manufacturing PMI fell by -0.4pt to 50.1³, signalling a loss of momentum in the services and construction sectors. Although unusually hot weather and heavy rains might have played a role in the weak July readings, the data suggest the economy is at risk of a more pronounced slowdown in H2 2025, reinforcing the case for additional government stimulus. What's more, the real estate sector remains a significant headwind despite a myriad of measures announced in the past months. New-home prices dropped -0.3 per cent m/m in June, the most in eight months, while values of second-hand homes fell -0.6 per cent⁴, the biggest decline since September.

More broadly, nearly all countries have seen an acceleration in manufacturing output in 2025, with outsized gains concentrated in Asia and Europe. Within this bounce, there has been a concentrated activity in technology and pharmaceuticals.

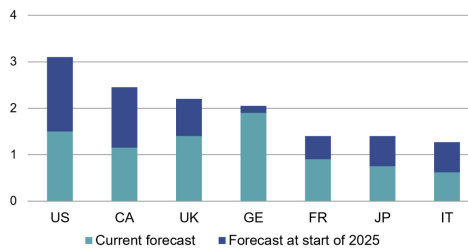
Yet, a front-loading⁵ hangover promoting a stall in global industry and CapEx spending is to be expected as the sector cannot sustain the boomy pace seen so far this year.

Forecasts for business investment in 2026 in all G7 countries are lower now than they were when Trump took office. In fact, the full brunt of the trade war might have only been delayed, and the unwinding of front-loading in the few sectors where it has occurred will be amplified by a weakening in US demand as tariff and immigration policies bite. Already,

the latest US data show that the concentrated jump in tech is levelling out, the surge in pharma is unwinding, and the remainder of imports are slowing.

G7– Fixed capital investment 2026

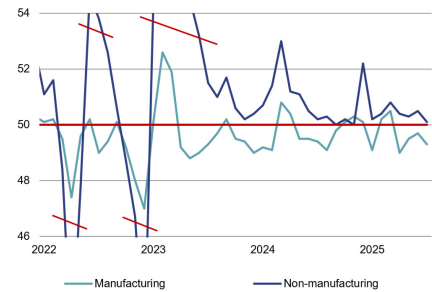
in %, y/y



Sources : Bloomberg, Rothschild & Co Asset Management.

China – Business confidence

NBS index



Sources : Macrobond, Rothschild & Co Asset Management

A complicated dual mandate

The Fed held rates in the 4.25 per cent to 4.5 per cent range for the fifth consecutive meeting in July⁶. For the first time in more than 30 years, two governors – Waller and Bowman – dissented, stating they preferred a -25 bps cut rather than hold rates higher for longer. They fear the deterioration in growth and the labour market could be more consequential than the rise in inflation. In fact, the Fed is increasingly caught in a dilemma between its two mandates: full employment and price stability.

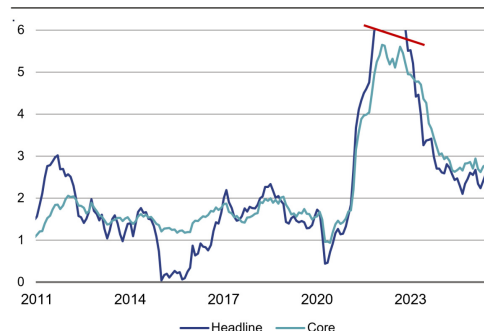
On the one hand, the June core PCE inflation – the Fed's preferred measure of underlying inflation – remained at 2.8 per cent, stubbornly much higher than target. The six-month annualised rate rose to 3.2 per cent, suggesting price pressures remain significant. In addition, the wages and salaries in the employment cost index rose 0.9 per cent q/q in Q2 2025, interrupting the earlier cooling trend. All told, progress toward bringing both wage and price growth down to levels consistent with the price stability mandate looks to have stalled.

On the other hand, July's nonfarm payrolls print was surprisingly weak, with a mere 73 000 jobs created⁷. The biggest shock was the massive revision to past data, which reduced gains for May and June to nearly zero. Correspondingly, the labour market seems to be deteriorating swiftly.

In the end, tariffs may not be as high as initially feared. Nevertheless, they are a tax that will disrupt supply chains and global trade. The consequences could prove more damaging than expected, especially as the inflationary pressures they cause hamper central bankers' ability to adopt accommodative monetary policy.

United States – PCE inflation

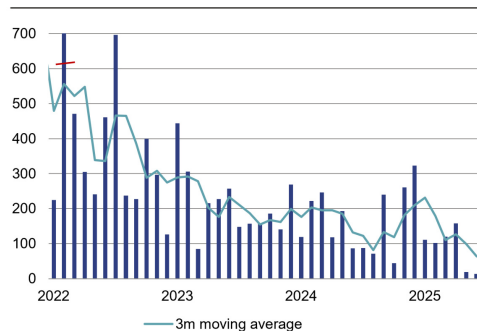
in %



Sources : Macrobond, Rothschild & Co Asset Management.

United States – Nonfarm payrolls

in thousands



Sources : Macrobond, Rothschild & Co Asset Management.

Performance of the indices and interest rate levels

	Price as of 31/07/2025	1 month % change	2025 % change
Equity markets			
CAC 40	7 772	1.4%	5.3%
Euro Stoxx 50	5 320	0.3%	8.7%
S&P 500	6 339	2.2%	7.8%
Nikkei 225	41 070	1.4%	2.9%
Currencies			
EUR/USD	1.14	-3.2%	10.2%
EUR/JPY	172.08	-1.4%	5.7%
Interest rates			
	Price as of 31/07/2025	1 month bp ⁽¹⁾	2025 bp ⁽¹⁾
3 month			
Eurozone	1.96%	0	-78
United States	4.34%	5	-2
10 years			
Eurozone	2.70%	9	33
United States	4.37%	15	-20

(1) Basis point.

Source: Bloomberg, data as of 31/07/2025. 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 1 August 2025.

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- (1) Source : Bloomberg, August 2025
(2) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates an expansion in activity, below 50, a contraction.
(3) Source : S&P Global, August 2025.
(4) Source : National Bureau of Statistics of China, August 2024.
(5) “Front-loading” refers to a strategy of anticipating orders or investments ahead of a period of uncertainty or change in trade policy.
(6) Source : Fed, July 2025
(7) Source : US Bureau of Labor Statistics, August 2024.

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