

Message from the Investment Manager



Fed Rate Path Remains Uncertain

U.S. economic momentum remained strong, with its 2Q GDP revised upward to 3.8%, the strongest quarterly growth rate since 2023. The labor market has shown signs of softening, but spending remains solid. Rising productivity, strong business and tech investment, and the wealth effect from financial markets are supporting the U.S. economy and its consumers, despite a cooling job and housing market. The Federal Reserve resumed its rate-cut cycle in September. However, uncertainties around employment and inflation may complicate the path for further cuts. Markets currently expect a 25-basis-point cut in October, with a potential another cut by year-end. At the same time, there is ample liquidity in the system waiting to be deployed into risk asset.

Europe's short-term growth momentum has weakened. Germany's industrial production plunged 4.3% in August. The deteriorating manufacturer sentiment may pose headwinds for GDP growth in the second half of 2025. Political unrest in France has created significant fiscal stress, leading to higher French bond yields and underperformance in the stock market.

Japan's nominal wage growth slowed from 3.4% to 1.5% year-on-year in August. Real income continues to decline, though less than expected, keeping purchasing power under pressure. The trend of moderate wage gains keeps the Bank of Japan on track to consider further rate hikes. Politically, the appointment of Sanae Takaichi as prime minister fueled market hopes for further stimulus and drove a rally in Japanese equities.

China's economic data was mixed. Manufacturing activity showed signs of stabilization, with the Purchasing Managers' Index rising to 51.1, marking three consecutive months of expansion. However, the property sector and weak domestic demand remain key concerns.

Looking ahead, the direction of the global markets is likely to be hinged on Fed's rate policy, movements in the USD, and the progress of U.S.-China tariff negotiations.

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