Monthly Market Insights

Data and opinions as of August 31, 2025

Markets lifted by Fed signals and tech earnings

Investor sentiment pivoted sharply in August. After months of speculation, Fed Chair Jerome Powell's Jackson Hole address confirmed that a September rate cut is on the table. Markets immediately priced in a more accommodative policy stance, with equities rallying across the board. Small-caps and cyclical sectors that had lagged earlier in the year suddenly outperformed as investors anticipated cheaper financing and stronger economic momentum. At the same time, earnings season provided an added boost. Strong results from technology and AI-linked firms reassured investors that secular growth remains intact despite valuation concerns. Energy prices steadied, but investors hedged gains ahead of September's key PCE inflation report. Bonds rallied modestly as yields eased on rate-cut bets, while the U.S. dollar weakened, providing a lift to emerging-market assets.

NEI perspectives

Dovish Federal Reserve (Fed) signals spark a rally: Chair Powell's Jackson Hole speech set the stage for a September rate cut, igniting strong late-summer equity gains. **Bottom line:** If the Fed moves ahead with rate cuts amidst sticky inflation and resilient labour markets, the case for cuts remains debatable and markets will turn to question the independence of the Fed. This uncertainty could fuel volatility, underscoring the need to stay diversified across both fixed income and equities.

Tech earnings highlight AI resilience: Mega-cap technology once again led markets higher, with strong cloud computing and semiconductor results reinforcing AI as a durable theme. **Bottom line:** AI remains a multi-year growth driver, but selectivity will be key as leadership broadens beyond a handful of mega-cap behemoths.

Tariffs keep inflation risk alive: A new U.S. tariff list complicates the path for inflation, even as energy prices stabilize. **Bottom line:** Trade frictions could reignite inflation into year-end, making global diversification and inflation hedging strategies increasingly important.

– NEI Asset Allocation team

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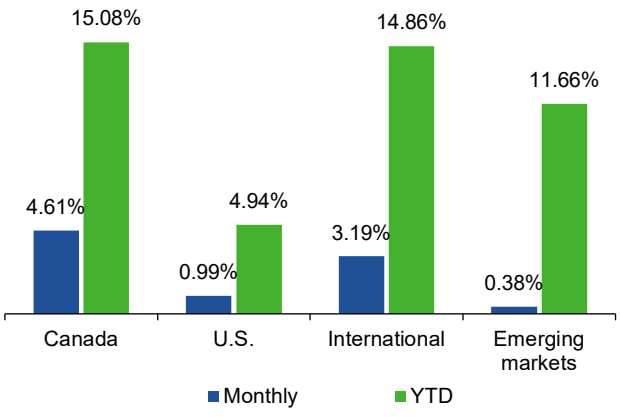
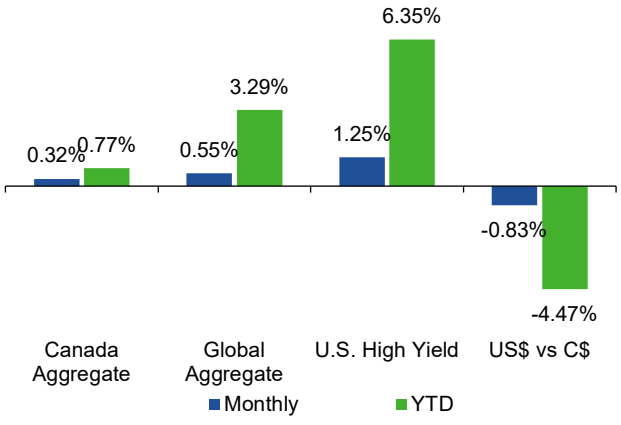
Equity returns (in C$)



Canada: MSCI Canada Index TR; **U.S.:** MSCI USA Index TR **International:** MSCI EAFE Index TR; **Emerging markets**: MSCI Emerging Markets Index TR.

Source: Morningstar Direct.

Fixed income and currency returns (in C$)



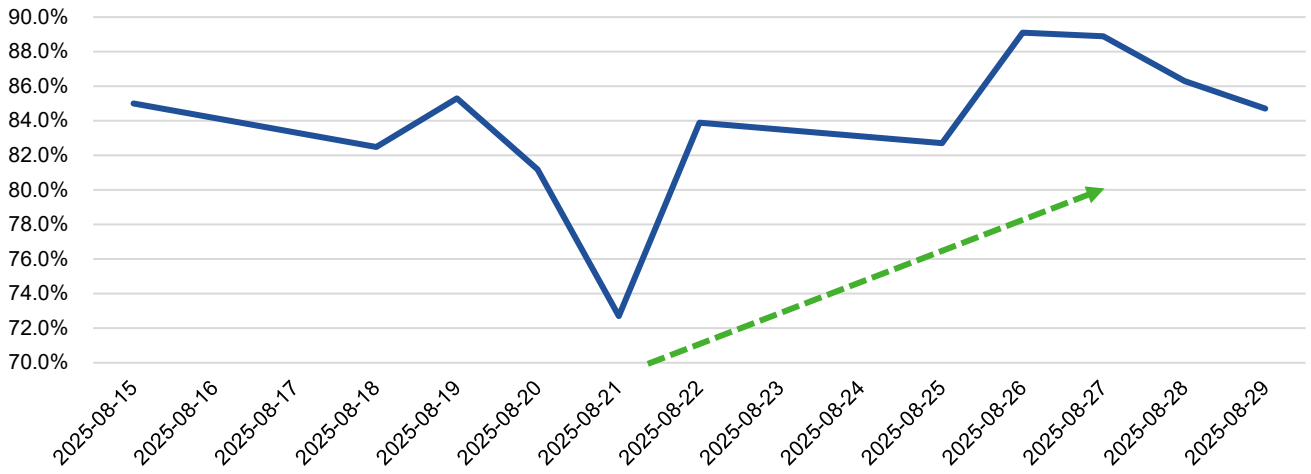
Canada Aggregate: Bloomberg Barclays Canada Aggregate Bond Index; **Global Aggregate:** Bloomberg Barclays Global Aggregate Bond Index; **U.S. High Yield:** Bloomberg Barclays U.S. High Yield Index.

Source: Morningstar Direct.

Rate-cut hopes ignite a late-summer rally

The highlight of August came at Jackson Hole, where Fed Chair Jerome Powell opened the door to a September rate cut. Markets immediately priced in a more accommodative policy stance, with equities rallying across the board. Yet the macroeconomic backdrop tells a more complicated story. Inflation remains sticky, with price pressures persisting in core areas of the economy. At the same time, labour markets continue to show resilience, offering little evidence of a sharp slowdown. This combination suggests that the economic case for rate cuts is not straightforward, raising the risk that the Fed's shift could prove premature if inflation accelerates again. The Fed is also under tremendous political pressure. A move to an easing stance could be interpreted as the Fed losing its independence, which could trigger a bout of volatility on long yields and the U.S. dollar.

Chart 1: Probability of September rate cut



Source: Bloomberg.

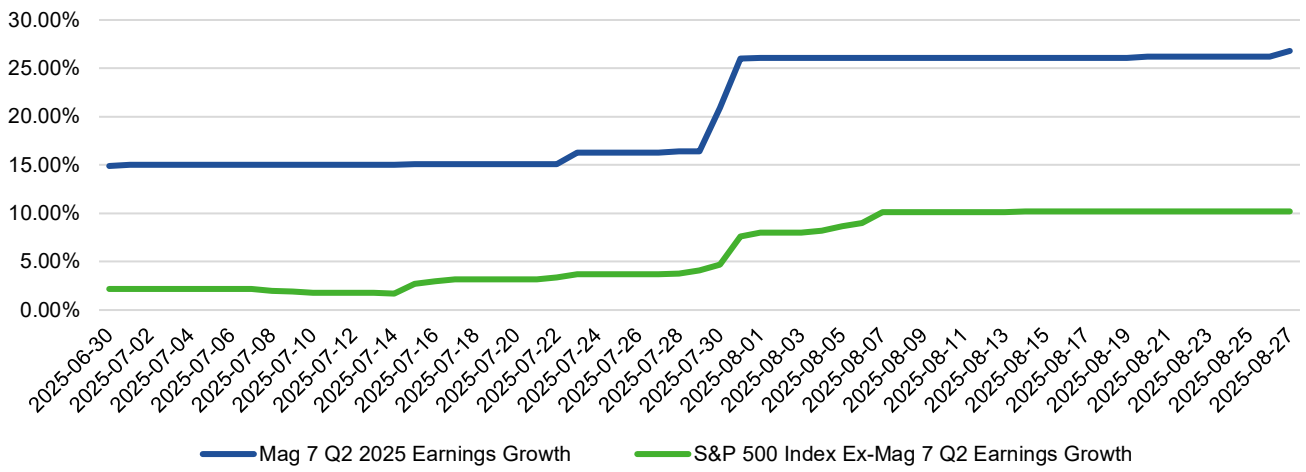
Bottom line: While a September rate cut could sustain market momentum in the near term, sticky inflation and firm labour data mean volatility may return quickly if the Fed is forced to recalibrate. Staying globally diversified across fixed income and equities remains essential in this uncertain policy environment.

Tech earnings and AI momentum in the spotlight again

Technology earnings once again proved pivotal in underpinning market gains throughout August. Mega-caps including Microsoft, Meta, and Amazon delivered strong results, each highlighting growth driven by AI-powered services like cloud computing and digital advertising. Semiconductors also held steady, supported by resilient demand and easing export restrictions. However, the release of NVIDIA's Q2 earnings late in the month added further nuance to the narrative. Despite beating expectations on revenue and EPS, setting another quarterly record, NVIDIA's shares slipped due to concerns over decelerating data-center sales growth and export restrictions to China.

This pullback triggered broader caution around valuation, not just in NVIDIA but across the AI sector, with some observers drawing parallels to past tech bubbles. Still, buying interest remained steady from major AI investors, signalling that the shift toward AI remains grounded in long-term structural demand.

Chart 2: Q2 2025 earnings growth, Magnificent 7 vs. the rest of the S&P 500 Index



Source: Bloomberg.

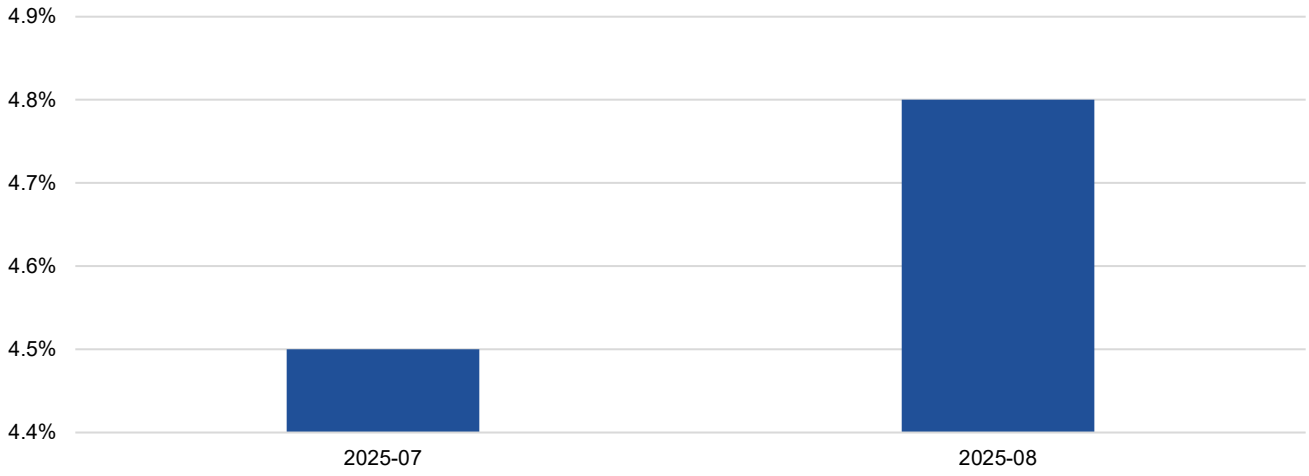
Bottom line: AI continues to drive markets, but elevated valuations and earnings pressure in data center segments highlight growing dispersion among tech stocks. For investors, now is a good time to be selective around exposure, balancing marquee names like NVIDIA with broader participation across the AI value chain to mitigate concentration risk and capitalize on longer-term trends.

Tariffs, trade talks, and inflation crosscurrents

Trade policy re-entered the spotlight in August, as the U.S. administration released an updated tariff list targeting major trading partners. While the measures were less aggressive than some feared, they rekindled expectations of modest inflationary pressure over the coming months. The timing was particularly sensitive, with the Fed preparing to ease just as tariffs threaten to add to import costs.

Meanwhile, negotiations with China and the EU offered a counterbalance, raising hopes that some frictions could de-escalate before year-end. Energy markets also contributed to stability, with crude oil prices leveling off after July's volatility. For investors, the net effect was a mix of optimism around policy easing and caution around renewed cost pressures in the global economy.

Chart 3: University of Michigan 1-year inflation expectations jump



Source: Bloomberg.

Bottom line: The push and pull between tariffs and trade talks will likely keep inflation uncertainty elevated into the fall. For investors, this creates both risks and opportunities: inflation-hedging assets can provide protection, while global equities outside the U.S. may benefit from more attractive valuations if trade tensions ease.

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