Monthly view as at 31 August 2025

Overview

An unusual level of calmness prevailed over global financial markets during August. There was an intense focus on the US Federal Reserve's (Fed) next move and whether tariffs would lead to higher consumer prices.

These two issues are intricately linked. Better than expected inflation data would allow the Fed to reduce interest rates. While poor inflation data could see the Fed remain on hold. Conversely any weakness in the US labour market would also likely push the Fed to cut interest rates.

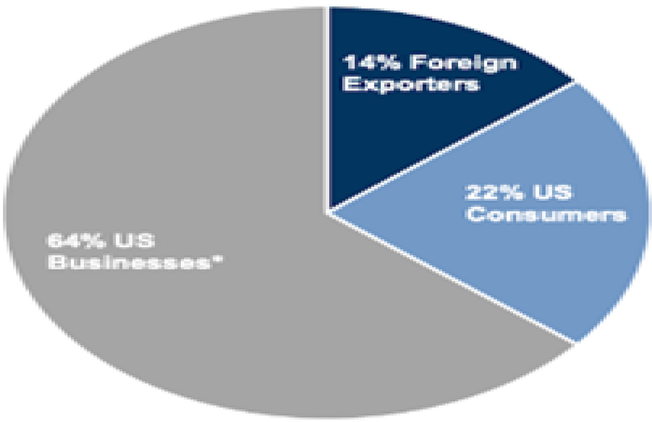
The Fed has a dual mandate of price stability and full employment. There are currently risks to both sides of its mandate, specifically upside risks to inflation and downside risks to employment i.e. higher unemployment.

The US Core Consumer Prices Index, which excludes food and energy, rose 0.3% over July, taking the annual rate to 3.1%, its highest level in five months. The details of the report indicated that firms rather than consumers are absorbing the price impacts of tariffs.

This was partially confirmed with the release of the US Producers Price Index (PPI). The US PPI rose 0.9% in July, the fastest pace in over three years. This saw the annual inflation measure jump from 2.6% to 3.7%.

Goldman Sachs estimates that US businesses have been absorbing more than half of the tariff costs so far, as outlined in the chart below.

Division of Tariff Costs as of June 2025



Source: Goldman Sachs

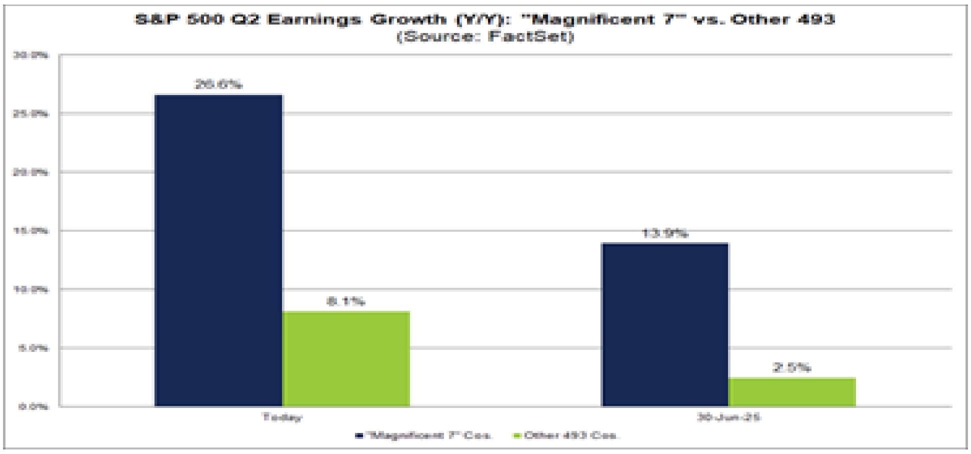
Goldman Sachs anticipate that businesses will pass the tariff costs onto consumers in time, and that eventually the consumer will absorb two-thirds of the tariff costs, while foreign exporters will absorb a quarter of them.

International shares

Global sharemarkets rose 2.0% in August. US markets led the way on favourable corporate earnings updates and growing expectations the Fed would commence interest rate reductions at their next meeting in mid-September.

With the US earnings season all but over, 81% of companies beat earnings expectations and US corporate earnings have grown by 11.7% over the past year. This was the third straight quarter of double-digit annual growth in earnings.

Although earnings growth is beginning to broaden from the “Magnificent 7” companies (Alphabet (Google's parent company), Amazon, Apple, Meta (Facebook's parent company), Microsoft, NVIDIA, and Tesla.), these companies still dominate the growth in earnings of the US sharemarket.
In aggregate, the Magnificent 7 companies reported annual earnings growth of 26.6% for the second quarter. This compares to aggregate annual earnings growth for the other 493 companies in the S&P 500 index of 8.1%.



Source: FactSet

One of the last companies to report their earnings was Nvidia. The company posted second quarter revenues of US$46.7bn, up 56% on last year, with demand for its AI chips continuing. The demand for Nvidia’s AI chips has propelled it to become the largest traded company in the world and the first company to have a market value of over US$4 trillion dollars, beating the likes of Microsoft and Apple to this milestone. At US$ 4 trillion this is greater than the entire stock markets of countries like the UK, Canada, France, and Germany, and more than the GDP of nearly 97% of the world’s economies.

Australasian shares

New Zealand’s sharemarket rose 0.9% in August. Domestic listed property continued its outperformance of the broader market returning 2.6% over the month and 11.3% over the last three months. The month was dominated by corporate actions and earnings updates. Although there were mixed profit results from the local companies, the overall tone was marginally positive with the worst likely behind the listed corporates in New Zealand.

On the positive side, A2 Milk was one of the better performing stocks during the month (+21.5%) after announcing a good profit result and that it had acquired Yashili New Zealand Dairy Co and its Pōkeno infant formula plant from China Mengniu for $282m. The deal coincides with A2 Milk selling its 75% stake in Mataura Valley Milk to Open Country Dairy for $100m.

During the month Fonterra broke the news it had sold its consumer business to French company Lactalis for $3.85 billion. The co-op will return $3.2 billion to shareholders.

EBOS fell -20.3% over the month after its profit update came in below expectations. SkyCity Casino fell -26.3% after announcing a heavily discounted $240 million capital raise. The capital raise was undertaken at a 30.0% discount to the last traded price and was undertaken to reset the balance sheet.

The Australian sharemarket increased +3.1%. Corporate earnings updates dominated market actions in Australia over August. James Hardie, CSL, and Amcor fell 24.6%, 21.4%, and 10.9% respectively over the month after delivering disappointing earnings updates. The strong performance of the resource sector, +10.0% in August, supported the Australian market. Gold company Newmont rose 15.6%, Origin Energy +10.7%, and BHP 10.0% in August. Banking stocks Westpac and National Australia Bank also performed strongly, returning 14.2% and 10.0%.

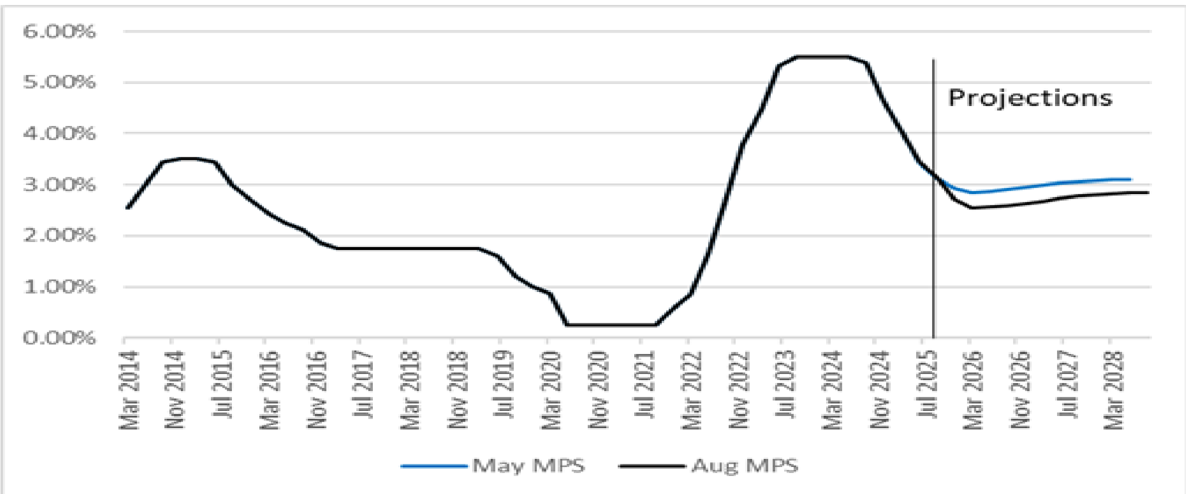
Fixed income and cash markets

The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) rose 0.4% in August on the decline in US longer term interest rates due to softer US labour market data and comments made by Fed Chair Jerome Powell at the annual Jackson Hole symposium. At Jackson Hole Powell noted the balance of risks appears to be shifting towards the risk of the labour market softening t0o quickly. Powell's comments effectively opened the door for interest rate reductions.

The prospects of the Fed reducing interest rates rose following July's US employment report, which was considerably weaker than expected. The number of new US jobs grew just 73k in July, as measured by the US non-farm payrolls survey, well short of the 110k forecast. Job growth continued to slow in August, with just 22k new jobs. The government revised its numbers from previous months and said the economy lost 13k jobs in June. It is the first such decline since December 2020.

New Zealand's fixed income market rose 1.2% over the month primarily on a surprise update from the Reserve Bank of New Zealand (RBNZ). The surprise was not in them reducing the Official Cash Rate (OCR) by 25 basis points (0.25%) to 3.0%, that was widely anticipated, but in projecting more interest rate reductions than had previously been forecasted. A further surprise was that two members of the Monetary Policy Committee called for a 50 basis points cut. This is a notable shift in outlook by the local central bank.

The graph below compares the RBNZ's OCR forecasts from the most recent Monetary Policy Statement (MPS) to those prepared in the May MPS. The RBNZ now forecast the low point in the OCR in this interest rate cycle to be 2.55%, down from 2.85% forecasted in May. The market has adjusted with the expectations the OCR will reach 2.5% and with this likely occurring before the end of the year. This compares to a peak OCR of 5.5% in 2024.



Source: Bloomberg, JMI Wealth

Although inflation is forecast to test the upper end of RBNZ's 1 – 3% target range in the September quarter of this year, the recent economic weakness and the high level of excess capacity in the local economy are factors in a change in view by the RBNZ.

The RBNZ is forecasting the New Zealand economy to contract -0.3% in the June quarter 2025, with moderate growth over the second half of this year and a more robust expansion in 2026 of close to 3.0%.

Assuming inflation pressures ease and given the level of spare capacity in the local economy, there is the potential for New Zealand to enjoy a period of economic growth without triggering inflation concerns. This environment would be supportive of an extended period of low short-term interest rates.

Summary

As the year progresses greater certainty around US policy may continue to emerge as the Trump administration focusses more on their pro-growth policies, such as deregulation, in the run up to the mid-term elections scheduled for 2026 and as the US Federal Reserve lowers short-term interest rates.

Against this backdrop, although slowing global economic growth and uncertainty over US inflation outcomes will linger, a more constructive investment environment characterised by low short-term interest rates may develop, notwithstanding current high US valuations.
In this environment we like domestic assets. The New Zealand and Australian economies are well placed relative to the rest of the world in the current global economic environment and will continue to benefit from low short-term interest rates.

However, returns from cash like investments are likely to trend lower as the RBNZ undertakes further interest rate reductions. This environment will likely be supportive of the local sharemarket, particularly the higher dividend yielding companies and the listed property sector.

We encourage investors to continue to focus on their longer-term goals, look through the short-term volatility, and maintain a portfolio commensurate with their objective and risk profile.

Indices for Key Markets

As at 31 August 2025	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	0.9%	4.3%	3.0%	4.6%	4.3%	2.4%
S&P/ASX 200 Index (AUD)	3.1%	7.0%	11.6%	14.7%	13.0%	12.3%
MSCI ACWI Index (Local Currency)	2.0%	8.2%	8.8%	15.1%	17.0%	12.7%
MSCI ACWI Index (NZD)	2.4%	9.6%	5.5%	22.3%	19.1%	15.1%
S&P/NZX 90 Day bank bill Total Return	0.3%	0.9%	1.8%	4.3%	4.9%	3.2%