Monthly Market Commentary

August 2025

Equity markets earn their way to gains.

- Global equities, as measured by the MSCI ACWI Index, finished in positive territory in August amid optimism regarding generally positive corporate earnings news and anticipated monetary policy easing by major central banks. Developed markets modestly outperformed emerging markets.
- Global fixed-income assets posted gains for the month. U.S. Treasury yields moved lower across the yield curve, with the exception of the 30-year bond. (Bond prices move inversely to yields.)
- Stagflation, which refers to an economic environment marked by stagnant growth and high inflation, appears to be widening.

Economic Backdrop

Global equities, as measured by the MSCI ACWI Index, finished in positive territory in August amid optimism regarding generally positive corporate earnings news and anticipated monetary policy easing by major central banks. Developed markets modestly outperformed emerging markets.

The Far East was the strongest-performing region within the developed markets for the month, benefiting primarily from strength in Hong Kong and Singapore, while Japan led the market rally in the Pacific region. North America posted a positive return, but was the weakest performer among the developed markets due to relative weakness in the U.S. Latin America was the top emerging-market performer in August as Colombia and Chile garnered double-digit gains. Conversely, the Gulf Cooperation Council (GCC) countries recorded negative returns, most notably in the United Arab Emirates (UAE) and Kuwait. Eastern Europe's underperformance was due to a market downturn in Poland.[1]

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, gained 1.5% (in U.S. dollars) in August. High-yield bonds led the U.S. fixed-income market, followed by investment-grade corporate bonds, mortgage-backed securities (MBS), and U.S. Treasurys. Treasury yields moved lower across the yield curve, with the exception of the 30-year bond, which ticked up 3 basis points (0.03%) for the month. Yields on 2-, 3-, 5-, and 10-year Treasury notes fell by corresponding margins of 0.35%, 0.31%, 0.28%, and 0.14% to 3.59%, 3.58%, 3.68%, and 4.23%, respectively. The yield curve ended the month flat (3-month yields were equivalent to 10-year yields).[2]

Global commodity prices, as measured by the Bloomberg Commodity Index, rose 1.9% in August. Spot prices for West Texas Intermediate (WTI) and Brent crude oil decreased 7.6% and 5.9%, respectively, over the month amid concerns about weaker demand in the U.S. and an anticipated increase in supply from the Organization of the Petroleum Exporting Countries (OPEC) and its allies in the autumn. The gold price rose 5.0% to another record high in August as investors sought safe-haven assets and the U.S. dollar weakened. (The gold price typically moves inversely to the U.S. dollar). The 3.5% decline in the New York Mercantile Exchange (NYMEX) natural gas price for the month was attributable to softer demand, high output, growing inventories, and forecasts for relatively cooler weather and lower-than-expected demand through early September. The wheat price was up 2.1% in August amid declining supply and rising demand.

U.S. trade policy remained a focal point for global financial markets in August. Toward the end of the month, a U.S. federal appeals court upheld a lower-court decision striking down the tariffs that President Donald Trump has implemented this year. The court ruled by a 7-4 margin that Trump had exceeded his authority under the International Emergency Economic Powers Act (IEEPA). The court found that IEEPA does not explicitly authorize the president to impose tariffs, which fall under the purview of the U.S. Congress. However, the appeals court let the tariffs remain in place until mid-October to allow time for a potential U.S. Supreme Court appeal.

Earlier in the month, the Trump administration imposed tariffs on imported goods from roughly 90 countries. Consequently, the average effective U.S. tariff rate rose to 18.6%, according to the Budget Lab at Yale—the highest level since the Smoot–Hawley Tariff Act significantly raised import levies in the early 1930s. The tariffs assessed in early August averaged 15%, with higher levies on several other trading partners, particularly India. The U.S. imposed a 50% tariff on the country as a sanction for its purchases of oil from Russia.

On the geopolitical front, Trump met with Russian President Vladimir Putin in Alaska on August 15 to discuss the ongoing military conflict between Russia and Ukraine. At a news conference following the meeting, Trump described the negotiations as "extremely productive," but the two world leaders could not reach an agreement on a ceasefire. While Putin mentioned "agreements," he provided no details, calling them a "starting point." During a meeting with Ukraine's President Volodymyr Zelensky and several European leaders on August 19, Trump proposed a summit involving himself, Zelensky, and Putin. Zelensky agreed to the meeting, though Putin did not commit to direct talks with Zelensky. However, U.S. Secretary of State Marco Rubio said that the U.S. was working to arrange the meeting. Toward the end of the month, Trump expressed doubt about arranging direct talks between Putin and Zelensky, though he said that he still believed that there would be summit involving all three countries.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) rose 0.3% in July. Year-over-year consumer prices were up 1.7% as consumers paid more for groceries, while gasoline prices were significantly weaker. Producer prices were higher in July, as the Industrial Product Price Index (IPPI) and the Raw Materials Price Index (RMPI) rose 0.7% and 0.3%, respectively. Year-over-year prices were also higher, up 2.6% and 0.8%, respectively, for the IPPI and RMPI. Prices for metals have sharply increased over the past 12 months, while crude oil prices were once again notably weaker after starting 2025 in strong fashion. The Canadian labour market shed 66,000 jobs in August, while the unemployment rate rose 0.2% to 7.1%. This represents the highest unemployment rate since May 2016 (excluding 2020 and 2021, due to COVID-19 disruptions).

- The Department of Labor reported that the consumer-price index (CPI) rose 0.2% in July, down marginally from the 0.3% rise in June and in line with expectations. Housing costs ticked up 0.2% and comprised the bulk of the increase in the index for the month. Conversely, prices for gasoline and utility gas service fell 2.2% and 0.9%, respectively, in July. The CPI advanced 2.7% year-over-year in July—unchanged from June and slightly below expectations. Costs for utility gas service surged 13.8% over the previous 12-month period, while electricity prices were up 5.5%. In contrast, gasoline and fuel oil prices saw year-over-year declines of 9.5% and 2.9%, respectively. Core inflation, as measured by the CPI for all items less food and energy, rose at 3.1% year-over-year in July, up from the 2.9% annual upturn in June. According to the second estimate from the Department of Commerce, U.S. GDP expanded at an annual rate of 3.3% in the second quarter of 2025—a notable increase from the 0.5% decline in the first quarter and a significant improvement from the initial estimate of 3.0% growth. The upturn in the economy for the second quarter was attributable primarily to a substantial decline in imports (which are subtracted from the calculation of GDP) following a surge in imports in the first quarter as businesses rushed to stockpile goods before the Trump administration's tariffs took effect, as well as an increase in consumer spending. Conversely, there were declines in residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals). The upward adjustment in second-quarter GDP from the government's initial estimate resulted from increases in nonresidential fixed investment (purchases of equipment and software, and nonresidential structures), partially offset by a downward revision to private inventory investment (a measure of the changes in values of inventories from one time period to the next).

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, increased 0.1% in July, down from the 0.3% rise in June. The CPI advanced at an annual rate of 3.8% in July, slightly higher than the 3.6% year-over-year increase for the previous month. Restaurants and hotels, transportation, and alcohol and tobacco posted the largest gains in July, while clothing and footwear costs declined. Education, housing and household services, and communication costs climbed 7.5, 7.4%, and 6.1%, respectively, over the previous 12-month period. Furniture and household goods prices were up just 0.3% year-over-year. Core inflation, as represented by the CPI excluding energy, food, alcohol, and tobacco, rose at an annual rate of 3.8% in July 2025.[3] The ONS also announced that U.K. GDP increased 0.3% in the second quarter of 2025,, down from the 0.7% growth rate in the first quarter of this year. Output in the construction and services sectors rose 1.2% and 0.4%, respectively, over the quarter, while the production sector saw a 0.3% decline.[4]

- According to Eurostat's preliminary estimate, inflation for the eurozone rose 2.1% for the 12-month period ending in August, ticking up from the 2.0% increase in July. Prices for food, alcohol and tobacco increased 3.2% year-over-year in August versus the 3.3% annual rise for the previous month. In contrast, energy prices fell 1.9% year-over-year. Costs in the services sector rose at an annual rate of 3.1% in August, inching down from the 3.2% increase in July. Core inflation, which excludes volatile energy, food, and alcohol and tobacco prices, increased at an annual rate of 2.3% in August, unchanged from the year-over-year increase in July.[5] Eurostat also reported that eurozone GDP rose 0.1% the second quarter of 2025—down from the 0.6% growth rate for the first quarter of this year—and increased 1.4% over the previous 12-month period. The economies of Spain, Portugal, and Estonia were the strongest performers for the second quarter, expanding 0.7%, 0.6%, and 0.5%, respectively. In contrast, Ireland's economy contracted 1.0%, while GDP for Germany and Italy each dipped 0.1% during the quarter.[6]

Index Data (August 2025)

- The S&P/TSX Composite Index gained 4.96%.
- The FTSE Canada Universe Bond Index was up 0.37%.
- The S&P 500 Index, which measures the performance of U.S. equities, rose 1.32%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 1.76%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.05% (currency hedged) and 0.51% (unhedged).
- The Chicago Board Options Exchange Volatility Index (VIX)—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—moved modestly lower from 16.72 at the end of July to 15.36 to end August despite topping 20 earlier in the month.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—slumped from US$69.26 to US$64.01 a barrel during August.
- The Canadian dollar strengthened to C$1.37 per U.S. dollar. The U.S. dollar was weaker against the world's other major currencies, ending August at US$1.17 versus the euro, US$1.35 against sterling, and at 146.83 yen.

Glossary

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

Index Definitions

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Cboe Volatility Index** (**VIX)** measures the constant 30-day volatility of the U.S. stock market using real-time, mid-quote prices of S&P 500 Index call and put options. A call option gives the holder the right to buy a stock at a specified price; a put option gives the holder the right to sell a stock at a specified price.

The **Consumer Price Index (CPI)** is based on a fixed basket of goods and services designed according to international standards and methods.

The **FTSE Canada Universe Bond Index** comprises a series of benchmarks designed to track the performance of the bonds denominated in Canadian dollars.

The **ICE BofA High Yield Constrained Index** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities, with maturities of one year or more and a credit rating of BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service, but are not in default.

The **Industrial Product Price Index (IPPI)** reflects the prices that producers in Canada receive as goods leave the factory gate. The IPPI does not reflect what the consumer pays. Unlike the Consumer Price Index, the IPPI excludes indirect taxes, such as sales taxes and tariffs, and all costs that occur between the time a good leaves the plant and the time the final user takes possession of the good. This includes transportation, wholesale and retail costs. Although the IPPI does not measure the direct effect of tariffs on prices, tariffs may indirectly influence prices measured in the IPPI. For example, inputs used in the production process that are imported and on which Canada imposes a tariff may raise the prices charged by Canadian producers. Tariffs on Canadian imports or exports may also indirectly influence prices in the IPPI through their impact on supply and demand dynamics.

The **MSCI ACWI Index** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **Raw Materials Price Index (RMPI)** reflects the prices paid by Canadian manufacturers for key raw materials. The RMPI includes all charges purchasers incur to bring a commodity to the establishment gate, including transportation charges, net taxes paid, and customs duties and tariffs paid on imported raw materials. Many of the prices measured by the RMPI are set on the world market. However, as few prices are denominated in foreign currencies, their conversion into Canadian dollars has only a minor effect on the calculation of the RMPI.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

The **S&P/TSX Composite Index** tracks the performance of the broad Canadian equity market—i.e., stocks listed on the Toronto Stock Exchange (TSX).

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[1] All equity market performance statements are based on the MSCI ACWI Index.

[2] According to the U.S. Department of the Treasury. As of August 31, 2025.

[3] According to the ONS. August 20, 2025.

[4] According to the ONS. August 14, 2025.

[5] According to Eurostat. September 2, 2025.

[6] According to Eurostat. July 30, 2025.