



FOUNDED IN

**1988**

EMPLOYEES

**80+**

LOCATED IN

**10+**  
COUNTRIES

ASSETS DIRECTLY  
UNDER MANAGEMENT

**US\$1.3**  
BILLION

ASSETS HELD BY INVESTEE  
& AFFILIATED COMPANIES

**US\$41.6**  
BILLION



# ICM Monthly Outlook

SEPTEMBER 2025

## Market Review

U.S. equity indices continue to climb higher, reaching multiple new all-time highs since July, when the S&P 500 surpassed its previous peak from February 2025.

Year to date, the S&P 500 is up 11.95%, and the NASDAQ is up 14.66%. Gold is one of this year's top performers, up 40% in U.S. dollar terms and 23% in Euro terms.

U.S. Treasury bond prices have rallied, as the U.S. 10-year Treasury bond yield fell to 4.01% today compared to a 4.37% average year to date—bond prices rise as yields fall. Credit spreads remain close to their historical lows.

The dovish tone of the U.S. Federal Reserve Bank Chairman at the Jackson Hole symposium in August was another fillip for risk assets. Since then, the gold price is 11% higher. Chairman Powell essentially guaranteed a 25-basis-point rate cut in September. September will be the turning point to an accommodative policy from the flat-line, restrictive policy since December 2024.

Chairman Powell's change of tone is based on deteriorating employment data. As we predicted in our July newsletter, the U.S. Federal Reserve Bank cut by 25 basis points in September, despite justifiably having the latitude to cut the interest rate by 50 basis points if it wanted to, given the latest weak labour report and downward revision for the full year 2024 jobs number, which outweighs the stubborn inflation data. Inflation remains above target, with U.S. CPI ex Food and Energy static at 3.1% in August.

Bloomberg's Interest Rate Predictor model is pricing in two 25 basis point cuts by the end of 2025. We can envisage two more cuts based on the data. Let us consider the 2025-year-to-date non-farm payroll numbers for a moment. From January to April 2025, the U.S. created 127k jobs per month, on average.<sup>1</sup> From May to August 2025, the U.S. created 27k jobs per month, on average. August's non-farm payroll report was +22k compared to the 75k median estimate—quite the deterioration. Year to date, the average nonfarm payroll increase is 75k compared to 168k jobs per month, on average in 2024, a significant slowdown in job creation as we go through the year. The U.S. unemployment rate now stands at 4.3%.

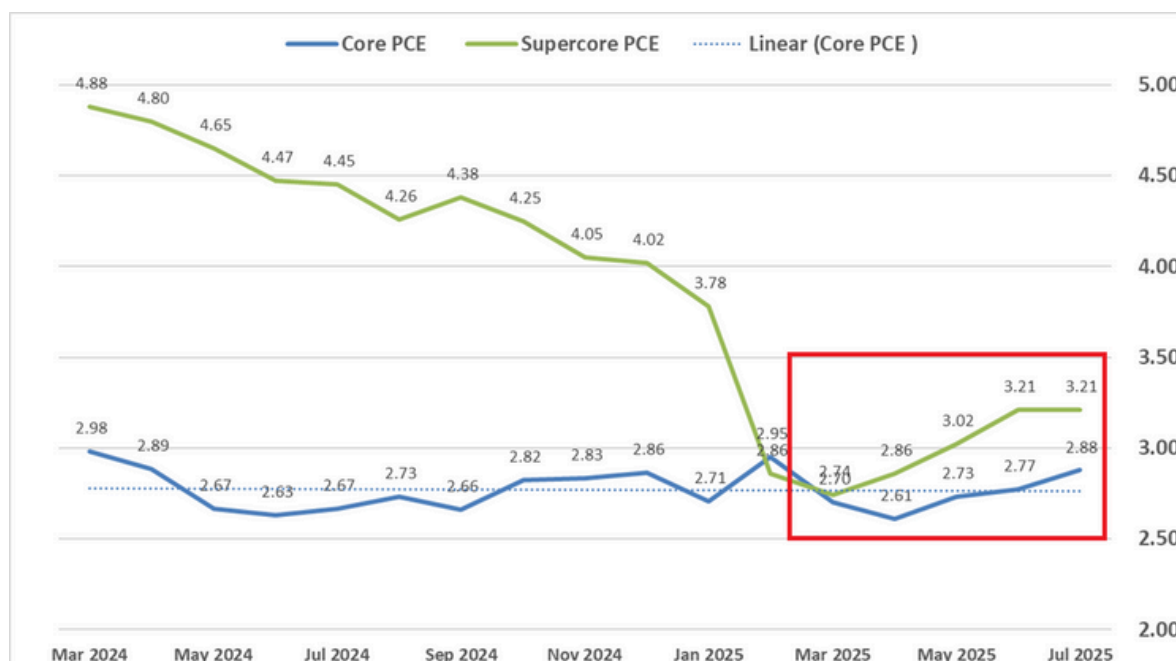
President Trump will be concerned about the deteriorating trend, which explains why he is lashing out at Chairman "too late" Powell. It's easier to blame someone else. The President will need to buck this trend of lower employment, which coincides with his tariff tantrum. Here's hoping President Trump's promise of more jobs and more opportunities from his tax cuts and tariffs pans out.

[1] January 125k, February 117k, March 185k, April 147k.

In our July newsletter, we predicted a second 25 basis points cut in December 2025. We now believe that a 50-basis-point cut is more likely. That said, Chairman Powell is a lame duck Fed President and, therefore, biased against helping President Trump. It is conceivable that the Fed only cuts by 25 basis points in December to counteract the President's intimidatory tactics.

For the time being, the emphasis has shifted away from the Federal Reserve Bank's inflation mandate. However, Central Banks globally cannot ignore food inflation. My 'fun stuff' index of coffee, chocolate, and beef rebounded sharply in August to a near all-time high. Year on year, Coffee, Chocolate, and Tea are 12.1% higher in the U.S. Coffee is 20% higher alone; beef is 13.9% higher. The price rises are due to climate change and higher transportation costs. As we've said before, beef, coffee, and chocolate are becoming premium products/luxury goods. Also, inflation could stay stubborn due to trade tariffs and disputes.

## U.S. Personal Consumption Expenditure



Source: Bureau of Economic Analysis, Bloomberg

## Market Outlook: Looser monetary conditions are ahead

We see no reason to be risk-off for the moment. We expect equity index returns to continue climbing higher, albeit at a shallower slope than recent months. Since Tariff Tantrum Day, the S&P 500 is up 30%. We expect more new all-time highs between now and year-end. That said, we predict a moderation of U.S. and global economic activity in 4Q due to tariffs and frontloading, but for that softness to be temporary.

Investors' psyche remains dominated by increasing liquidity from the U.S., positive sentiment, a good-enough macroeconomic outlook, and a low probability of a recession in the near term.

U.S. consumer spending remains resilient as measured by retail sales, and other indicators like credit card delinquencies, which remain low. Also, we expect a boost from the One Big Beautiful Act over the coming 6 -18 months.

Thankfully, we have seen a gradual downward trend in average hourly earnings (wage growth), which peaked at 5.9% in March 2022. Since 2022, service sector inflation has remained stubbornly high and confounded policymakers' ability to cut rates harder and faster. The slowing trend in average hourly earnings is expected to result in lower service sector inflation.

## ISM Manufacturing PMI – Prices Paid Component



Source: Bloomberg

As mentioned, the U.S. labour market is weakening, validating the moves in U.S. Treasury bonds. As you'd expect, U.S. Treasury bond prices rallied after the weak non-farm payroll report for August. Bond prices rise when yields fall. The U.S. 10-year Treasury yields 4.06% today compared to a 4.37% average year to date. A lower inflation rate on top of a weaker job market would clear the way for more rate cuts in 2026.

Over the medium term, we expect a return to a more traditional upward-sloping yield curve, with higher term premia (a wider spread between the front end and long-end) due to elevated government indebtedness by historical standards, and the inflationary impact of climate change. The U.S. 10-year had fallen to 4.0% versus a 4.3% average in the past three months.

### Gold (and France)

Gold's rally is based on several factors, most of all the fear of currency debasement due to rising sovereign debt. By extension, gold is reacting to the propensity for political interference in the independence of the U.S. Federal Reserve Bank. One of President Trump's possible candidates for the next Chairman of the Federal Reserve Bank, Stephen Miran, is softening up investors for the Fed adopting a "third mandate" of stable long-term rates, in addition to inflation and maximum employment. Investors fear that inappropriately low interest rates will allow inflation to run too hot for too long. Gold is a hedge against such behaviour.

More broadly speaking, gold is a hedge against rising sovereign debt, political instability, and future inflation expectations. France ticks two out of three boxes right now. France's debt to gross domestic product is 114%, considered high by European Standards. The E.U. area average general gross debt to GDP ratio was 81% at the end of March 2025. In 2024, France's budget deficit was 5.8%, exceeding the 3% target set by European Union rules. France's current financial problems stem from COVID spending and the energy crisis.

The French Parliament has voted no confidence in three different Prime Ministers' austerity budgets since January 2024, illustrating the increasingly fragmented nature of politics in France. The budgets were designed to reduce the deficit. The French headline annual inflation rate is 0.9% versus 1% in July, so it is not a problem at present. While headline inflation has fallen and flatlined, the price of food and the fun stuff continues to rise in France, too. We can expect to see considerable public protests against the planned austerity measures.

France's 10-year bond yields 3.5% now, higher than Greece's 10-year bond, which yields 3.32%. The market likes certainty and will demand a risk premium from France until there's greater certainty around government formation and how to tackle the budget deficit. Over the longer term, we expect France to get its act together, but it could get worse before it gets better.

## Federal Reserve Bank Independence (and Gold)

For the time being, the independence of the U.S. Federal Reserve Bank remains intact, but for how long? The lack of reaction by Treasury yields to the attempted ongoing dismissal of Fed Governor Cook suggests that investors were unperturbed, despite the extensive debate.

More pertinent is the President's nomination of Stephen Miran to replace outgoing Governor Kugler. Stephen Miran's views on 'moderate long-term rates' could be construed as undue political influence on monetary policy. For the time being, bond investors have the back of the Federal Reserve, and any significant attempt to shift the power away from the Federal Reserve will result in bond yields spiking. We repeat, the bond market can handle President Trump. Nonetheless, Chairman Powell is a lame duck President, and investors are looking beyond his tenure for signs of what comes next. The recent rally in the gold price may also indicate investors' expectations of a higher inflation target rate and increased political influence on monetary policy. The U.S. dollar would weaken in this scenario.

So far, markets are pricing a modestly easier monetary policy on the back of growth and softening employment, with the possibility of rates being lower than necessary to cushion the economy. The tail risk is that the Fed loses credibility, resulting in rising long-term inflation expectations and pushing long-end rates higher. We are learning from experience that President Trump has no qualms about dismantling old norms. For investors, it could be another case of "You cannot be serious!" to put America First.

## Market Implications

We remain constructive on risk assets and are overweight specific sectors, as we have stated repeatedly for months. We expect easier monetary conditions in the U.S. to result in continued risk-on and higher risk asset prices. We continue to see substantial capital expenditure in Artificial Intelligence infrastructure, as well as defence spending. We expect that big tech, AI, aerospace, defence, and cybersecurity will continue to dominate the markets. Oracle's USD 240 billion market value increase in a single day, following a significant upward revision of future guidance due to strong demand for AI, database, and cloud services, neatly demonstrates this point. Defence spending will continue, whether it be cyber or physical warfare. We have recently seen Russia expand its drone/Patriot-missile arbitrage warfare into Europe. (See our July newsletter about the financial implications of drone warfare.) Globally, governments must increase defence spending and make difficult decisions about how to allocate fiscal resources, considering that many have increased national debt following the pandemic and energy crisis. We expect significant return differences between the winners and losers from different sectors of the economy. Sooner or later, softer earnings from one or two Mega-caps is inevitable but won't undermine the entire U.S. economy. We will buy the dip.

## And finally, the oil price

Since last year, we have said that we expect the oil price to remain in the \$50 to \$70 range for the coming months as OPEC+ continues to increase supply and suppress prices. Now, we can see an extreme case scenario of oil falling significantly lower if the U.S. invades Venezuela to access its oil reserves. Venezuela has more oil reserves than Saudi Arabia, and it would be very beneficial to President Trump and the U.S. to have access to those reserves. While I may sound far-fetched, why would it be so different to the U.S. invading Iraq? Iraq was a phoney war to release oil reserves without political ramifications. History may repeat itself. And let's face it, President Trump is more unpredictable and emboldened during his second term. Will Venezuela be another "You cannot be serious!" moment to put America First?

Have a good month and kind regards,  
Conor Spencer  
September, 2025

Source Data: ICM, Bloomberg as of 31 August, 2025.

## Risk Warning

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