



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

AUGUST 2025

Market Review

Financial markets were buoyed over the course of July by strong corporate earnings—especially from large-cap and tech-growth names—and growing clarity on fiscal and trade policy. The passage of the "One Big Beautiful Bill Act" ("OBBA") and a series of trade agreements with Japan and the EU helped reduce political uncertainty and fuelled investor optimism. Additionally, Q2 earnings surprises reinforced confidence in a "Goldilocks" type scenario: solid growth driven by stimulus and AI innovation, but without runaway inflation.

The S&P 500 gained approximately +2.2% in while the Nasdaq outperformed with a gain of around +3.7%.

European markets were also boosted by improved investor sentiment, especially related to trade-related issues.

Asian markets were mixed after a hotter-than-expected U.S. PPI reading (+0.9% month-on-month) led to a recovery rally in the USD as investors scaled back expectations for significant Federal Reserve rate cuts in September, creating a more cautious tone.

The OBBA is a sweeping tax-and-spending package that extends and expands the 2017 tax cuts to individuals and small businesses and is partially funded through reduced spending in Medicaid, food stamps, and student loan forgiveness.

In emerging markets, optimism prevailed—with strong capital inflows, especially into Chinese debt and high-carry currencies, reflecting investor confidence in attractive yields. US\$55.5 billion flowed into emerging market stocks and bonds in July, the second-largest monthly inflow in four years¹. This happened despite a rebound in US dollar strength in July, demonstrating the popularity of emerging market assets so far this year driven by a generally weaker US dollar environment.

Market Outlook: Looser monetary conditions are ahead

We expect financial markets will remain robust as we move through the second half of 2025 and increasingly, we are of the view that markets will probably remain strong into the first half of 2026, possibly even longer. Of course, there will be periods of volatility driven by concerns from a myriad of possible sources such as trade, inflation or geopolitics. Despite this, we believe these concerns will be outweighed, over time, by a recovering business cycle and rising global liquidity through a further loosening of monetary policy across the globe.

The US Business Cycle

In examining the strength of the US economy, we can use the US manufacturing PMIs as an indicator as to where we are in the business cycle and the direction in which it is trending. From the chart below, looking at the average of the ISM and S&P Global US Manufacturing PMI, we can clearly see that the US business cycle is in recovery mode, albeit that recovery has been slow and erratic. However, this has to be considered in the context of the US economy having to bear the burden of high and restrictive levels of Federal Reserve interest rates for several years. Furthermore, in recent months, the US economy has had to endure and survive tariff Armageddon, and despite these challenges, it has managed to battle its way through and keep its recovery intact. Hence, we expect the business cycle and, therefore the US economy to continue improving from here. As trade uncertainty abates and interest rates fall, we expect US PMI readings to start moving upwards towards the mid 50's throughout the remainder of the year and possibly higher during the course of 2026. Bolstering this belief is the fact that the July ISM production sub index rose to 51.40 from 45.4 as recently as May which suggests demand is outpacing supply as production increases to meet the production deficit.

Average of ISM and S&P Global US Manufacturing PMI.



Source: LSEG Datastream, Real Vision

Corporate earnings also indicate the US economy is on a solid footing. Overall, 90% of the companies in the S&P 500 have reported actual results for Q2 2025 to date, and of these 81% have reported actual EPS above estimates, which is above the 5-year average of 78%. In aggregate, companies are reporting earnings that are 8.4% above estimates². The profit margins of US firms performed better than expected despite tariff concerns because companies were able to negotiate with suppliers, adjust supply chains, cut costs, or push price increases onto consumers. Large US corporations with foreign sales benefited from a weaker US dollar. While it is true that the majority of this earnings growth is coming from the magnificent seven, all other companies in the S&P 500 also grew their earnings at 3.4%³. This corporate earnings growth explains why we are at all-time highs in US stock markets and likely why we will continue to see new highs being reached later this year and early next year, especially if we are right about the business cycle and its ability to continue to improve gradually from current levels.

As mentioned above, the US business cycle recovery has been sluggish since the Federal Reserve induced slowdown in 2022. It is noteworthy that the ISM has stayed below or about 50 for nearly 3 years, which implies the manufacturing economy is not expanding. This extended length of time is quite unusual and suggests that interest rates have been too high relative to the strength of the manufacturing economy and especially given that inflation is now at 3% or below since June 2024. Indeed, there is an argument to say that this current business cycle is likely to be extended given the fact that interest rates have been maintained at an unusually high level for such a long period of time.

Inflation

Speaking of inflation, we have, for a long time, been firmly in the camp of expecting to see continuing disinflation. We expect this to continue in the short term, but given tariffs and the recovery in the business cycle, which will lead to higher goods and commodity inflation, we do expect disinflation to end soon. Over time, we are likely to see inflation rising slowly again, however we do not expect it to become troublesome. It is natural to see a pickup in inflation as the economy recovers, and goods and manufacturing-related input prices have started to rise, as shown in the chart below. Indeed, it would be difficult to see discretionary spending increases without at least some modicum of associated price pressures.

ISM Manufacturing PMI – Prices Paid Component



Source: Bloomberg

While we will see goods inflation and possible wages- or services-led inflation increasing, we do expect shelter-related inflation, which is still elevated and lagging, to continue to fall and work as an offset, thereby mitigating the overall increase in the rate of inflation. The CPI shelter metric lags actual market rents by 12–18 months because it blends new and existing leases and uses owner-equivalent rent estimates. According to Realtor.com, in July 2025, the U.S. median asking rent for 0–2-bedroom properties across the 50 largest metro areas declined for the 24th straight month, down 2.5% year-over-year.

This is an import nuance as we believe slowly rising inflation, better described as “controlled” inflation, is still conducive to stronger future market returns over the medium term.

Interest rates

We believe the Federal Reserve will be comfortable with a controlled level of inflation and will not be dissuaded from eventually cutting interest rates. Indeed, as we have been predicting for a long time, the jobs market, which lags the business cycle by up to 18 months, now appears to be weakening sharply. July payrolls increased by just 73k, well below expectations, and earlier months saw steep downward revisions—May from 144k to 19k and June from 147k to 14k. The 3-month average tumbled to around 35k jobs/month. A weaker jobs market and the associated loosening in wage pressures should allow the Federal Reserve to continue with further rate cuts. As we write, bond markets have priced in another five interest cuts between now and the end of next year, with two of these cuts coming before year end. Looser monetary conditions are ahead of us.

Moreover, the Federal Reserve has proposed to overhaul the Enhanced Supplementary Leverage Ratio (“eSLR”) for global systemically important banks, pivoting from a rigid, uniform buffer toward a risk-adjusted, more flexible standard. The aim behind this proposal is to keep banks resilient while reducing unintended constraints—especially to help them support Treasury and credit market liquidity in volatile periods. These changes mark a notable regulatory shift—one of the most significant rollbacks in bank capital rules since the 2008 crisis. It signals a clear intent to balance bank stability with market function rather than prioritise one at the expense of the other. From a capital market’s perspective, when passed, it will undoubtedly have the impact of loosening monetary conditions even further.

Fixing the Debt Conundrum

When Scott Bessent entered office earlier this year, he announced his “3-3-3” plan, to 1) cut the federal budget deficit to 3% of GDP by 2028, 2) to achieve sustained real GDP growth of 3% and 3) to Increase U.S. energy production by an additional 3 million barrels of oil equivalents per day.

Whilst it is a bold and ambitious plan and may never be fully realised, it does provide a useful context to begin thinking about how this current administration wants to run the US economy, and therefore the likely impact its implementation will have on asset prices. The plan aims to lift growth through measures like deregulation, energy expansion, and boosting economic confidence.

The current administration tacitly recognises the fact that the US is facing a growing debt problem for which there is no easy or palatable fix. Of course, the US could simply announce austerity measures to cut back spending and to raise taxes in order to close the spending deficit, but this is politically unacceptable. Hence, Bessent believes the best way to fix this problem is to run the economy hot, growing the country out of its debt problem, while maintaining control of inflation. This will be a difficult challenge, or better said, a balancing act, but it seems one the current administration has decided to pursue.

Controlling inflation will be a major challenge over the longer term if they pursue higher growth. Hence, Bessent's plan of increasing oil production and reducing energy costs is a key part of the puzzle as it provides a natural offset to price pressures from growing demand. If energy costs can be kept in check through geopolitical alliances, both at home and abroad, then this will facilitate their plan. However, to keep inflation tamed, they will need help from other sources too. This explains why we have seen so much focus on deregulation and cutting red tape across multiple industries. By reducing the burden of regulation, together with advances in major technologies such as AI, it is believed that productivity will be boosted and rising cost pressures will be mitigated.

Tariffs have a major role to play in this overall strategy. By making imports less attractive, they work to rebalance global trade and naturally should reduce the US trade deficit with the rest of the world. This also has the effect of reducing demand for dollars which should reduce dollar strength, again making US exports more attractive abroad. The taxes paid on the consumption of imports also raise Government finances that can be used to reduce the budget deficit or finance tax cuts. Controlling the world's reserve currency has its advantages, but it does come with the disadvantages of having a naturally strong currency which over time can erode competitiveness and lead to unsustainable imbalances within an economy. Hence, Tariffs are seen as a counter to this in the sense of adding an element of self-protection for the US economy.

So here it seems we have a good outline of the plan to solve, or at least control, the US debt conundrum for the current cycle. The economy will be boosted by a stimulative tax reform and spending bill, the One Big Beautiful Bill. Tariffs will fund spending, reduce the trade deficit and probably, most importantly, reduce US dollar strength. Deregulation and reduced energy prices will mitigate against rising price pressures. The Federal Reserve is expected to eventually do its part by introducing more interest rate cuts, further stimulating the economy. The combined aim of all these measures is to boost real GDP growth to around 3% on a consistent, sustainable basis, while keeping inflation under control. If nominal GDP can grow at 5-6%, factoring in inflation of 2-3%, then debt sustainability measures will improve significantly. Bessent's plan is to keep the annual budget deficit, which includes all annual borrowing costs, at 3%. If the US economy can grow in nominal terms at 5-6% while annual borrowing, including debt service, only grows at 3% then the US debt/GDP ratio will fall. If the plan works and this outcome is achieved, it will be a great result for this current administration. As we can see, the key to its success is creating the optimal economic and market conditions to encourage growth back into the US economy but not at the price of runaway inflation. Hence, this is why deregulation and productivity gains are so important to the overall equation.

Market Implications

Despite the strong recovery in financial markets since the low of April, there is still a lot to be constructive about for the second half of this year. Although the US dollar has already significantly declined, easing financial conditions considerably, there remains a decent probability that the dollar will continue to stay weak and potentially weaken further in the short to medium term. Even if the majority of the dollar weakness is behind us, financial conditions are likely to be further eased by incoming interest rate cuts by the Federal Reserve. A weak US dollar and lower interest rates are a boon to the business cycle.

The following chart shows how the US ISM Manufacturing PMI is correlated to financial conditions. Current financial conditions are already pointing to a higher US ISM PMI in the coming months and probably even higher if US rate cuts are

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forthcoming later in the year. This is inherently good for growth, for corporate earnings, and US debt sustainability, reducing uncertainty around its ability to manage its deficit.

Correlation between ISM US Manufacturing PMI and Financial Conditions



Source: LSEG Datastream, Real Vision

With these leading indicators of the business cycle pointing higher, economic surprises are likely to be positive going forward. A looser jobs market and falling shelter costs should help to keep a lid on inflation as other components of the inflation basket start to rise in line with a recovering business cycle.

In summary, over the next 6-9 months we could enjoy a goldilocks scenario where we have the right amount of growth to spur corporate earnings and dampen debt concerns, but not enough to trigger rampant inflation. Indeed, a dovish pivot lower by the Federal Reserve could lead to a rerating in earnings multiples. A recovering economy, buoyed by easier monetary conditions and rising liquidity, points to rising corporate earnings and higher asset prices ahead.

There are plenty of risks, not least geopolitical uncertainty or trade-related disagreements, but if Bessent can pull off his plan we will all benefit as investors.

Gavin Blessing

19 August, 2025

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

[1] <https://www.reuters.com/markets/us/em-portfolios-see-second-biggest-monthly-inflow-four-years-iif-data-shows-2025-08-13>

[2] <https://insight.factset.com/sp-500-earnings-season-update-august-8-2025>

[3] <https://insight.factset.com/are-magnificent-7-companies-still-top-contributors-to-earnings-growth-for-the-sp-500-for-q2>

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