



MACROMATRIX

Global Growth Crossroads: Diverging Momentum and a Policy Tightrope



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Executive Overview

1

The latest data suggests that the global economy is at a defining crossroads. In the U.S., revised **Q2 GDP now stands at a robust 3.3%** annualized, buoyed by stronger personal consumption and a surprising rise in core capital goods orders that point to underlying investment resilience. Yet consumer confidence slipped in July, inflation expectations rose, and the Chicago PMI remains deep in contraction at 41.5, underscoring a near-two-year manufacturing downturn that fuels recession narratives. The Fed's forward guidance, shaped by Powell's Jackson Hole remarks, hints at a 25-basis-point cut in September but stresses a data-dependent path thereafter, leaving the policy horizon uncertain amid a cooling labor market, rising initial jobless claims and persistent sticky inflation (PCE 2.6% YoY, core 2.9%). In parallel, mortgage applications surged more than 12% week-over-week, suggesting a tentative rebound in housing demand that could be offset by the 0.4% dip in pending home sales and the broader ambiguity over rate cuts.

We believe that the U.S. will likely see a modest easing of policy in September, but any further cuts will be contingent on a clear deceleration in price pressures and a demonstrable softening of the labor market. The confluence of higher inflation expectations, a still-tight credit environment and a weakening manufacturing sector creates a delicate balance for the Fed: support demand enough to avoid a hard landing, yet avoid reigniting price pressures. Consequently, equity valuations that are heavily weighted toward cyclical exposure should be approached with caution, while sectors that benefit from the ongoing services-led expansion—particularly technology-enabled consumer services and high-margin industrials with strong order-backlogs—remain relatively attractive.

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Key Takeaway

While pockets of demand in the U.S., India and parts of the Euro-area remain resilient, the global recovery is increasingly defined by divergent growth trajectories, tightening monetary policy and lingering trade frictions that together shape a narrow window for upside and heightened downside risk.

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Advanced European Economies: Fragile Rebound And Policy Calibration

2

We note that Germany's Q2 GDP contracted sharply, driven by a collapse in industry and investment, while the German consumer climate deteriorated for a third consecutive month as income expectations fell and unemployment fears rose. The RPI and RPI-P declines may force the German government to contemplate additional fiscal stimulus or a more accommodative stance from the ECB, yet the ECB minutes reveal only cautious optimism, with external trade shocks and lingering market volatility keeping growth forecasts tilted downward. German manufacturing PMI showed early signs of revival, but employment cuts and weak investment continue to sap momentum, and a sharp 6.5% rise in automotive orders stands out as a solitary bright spot amid a broader order slump.

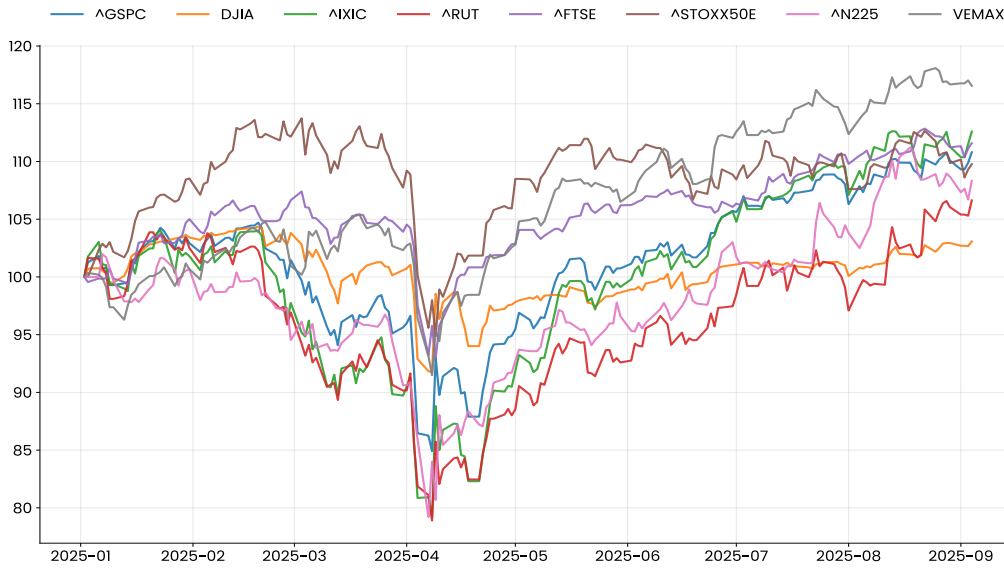
In France, business sentiment slipped in August, largely due to retail weakness, although the manufacturing PMI entered expansion, driven by a slowdown in demand decline and improving business confidence, hinting at a modest sectoral turnaround. Euro-area retail sales fell 0.5% in July, with Germany's retail sales down 1.5%, reflecting broader consumer weakness amid rising inflation. Nevertheless, Euro-area unemployment eased to 6.2% and youth joblessness improved, providing modest support for household consumption. The Euro-area M3 money supply accelerated to 3.4% in July, but credit conditions remain uneven, with deposit growth outpacing investment fund inflows, suggesting that monetary transmission is still fragmented.

The United Kingdom continues to grapple with a protracted retail slump—eleven straight months of declining sales—yet September forecasts hint at a possible bottoming out. House-price growth slowed but remains positive (annual 2.2%), and recent retail sales were buoyed by clothing, online purchases, favorable weather and the UEFA Women's EURO. Construction, however, stayed in contraction in August, with declines in civil engineering and housebuilding adding to domestic growth concerns. UK construction weakness and the persistence of affordability pressures keep the outlook for real-estate-linked equities cautious, even as a potential easing of rates and stronger wage growth could revive demand later in the year.

Switzerland's economy slowed to a meagre 0.1% Q2 growth, with goods exports down 4.7% amid tariff pressures, prompting the SNB to consider rate cuts to cushion the slowdown. Swiss retail sales fell 0.5% in July and the SVME PMI lingered just below 50, indicating consumer and business caution linked to US tariff actions. Yet Swiss unemployment held steady at 2.9% and consumer prices fell 0.1% in August, giving the SNB latitude to push rates into negative territory if needed. Swiss consumer confidence hit its lowest level since April, driven by pessimism over job security and economic outlook, potentially dampening domestic consumption and reinforcing the case for monetary easing.

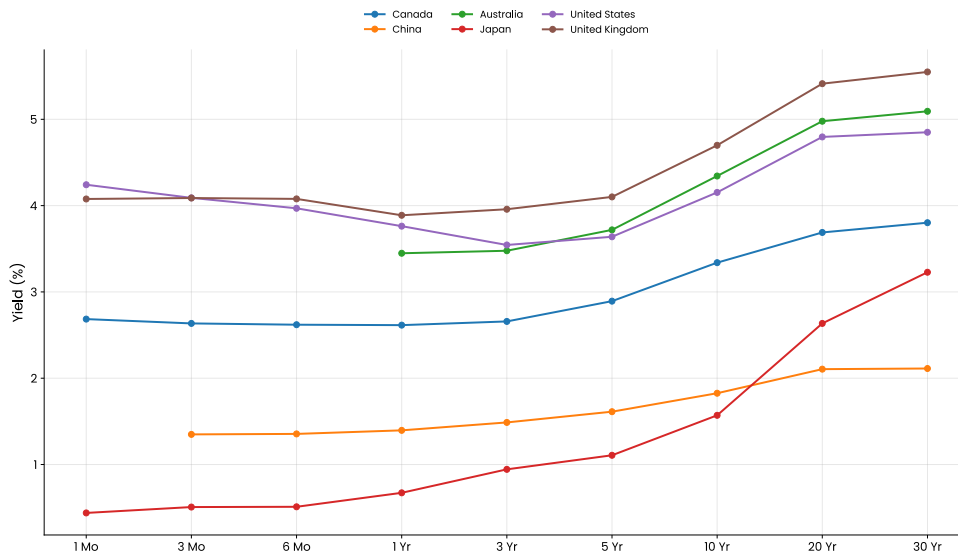
Italy's business and consumer confidence weakened in August, and retail sales were flat in July, with food sales down 0.4% and non-food up 0.3%, reflecting muted consumer demand. The Italian slowdown dovetails with the broader Euro-area trend of sluggish Q2 growth (0.1%) and barely expanding household spending, underscoring the fragility of the recovery across the periphery.

Figure 1: Major Global Markets (YTD)



Source: Data sourced from Yahoo! Finance as on September 05, 2025. ^GSPC – S&P 500 Index (US Large Cap), DJIA – Dow Jones Industrial Average (US Industrials), ^IXIC – NASDAQ Composite Index (US Tech), ^RUT – Russell 2000 Index (US Small Cap), ^FTSE – FTSE 100 Index (UK Large Cap), ^STOXX50E – EURO STOXX 50 (Eurozone Equities), ^N225 – Nikkei 225 Index (Japan Equities), VEMAX – Vanguard Emerging Markets Stock Index Fund.

Figure 2: Yield Curves of Major Global Economies



Source: Data sourced from Yahoo! Finance on September 5, 2025.

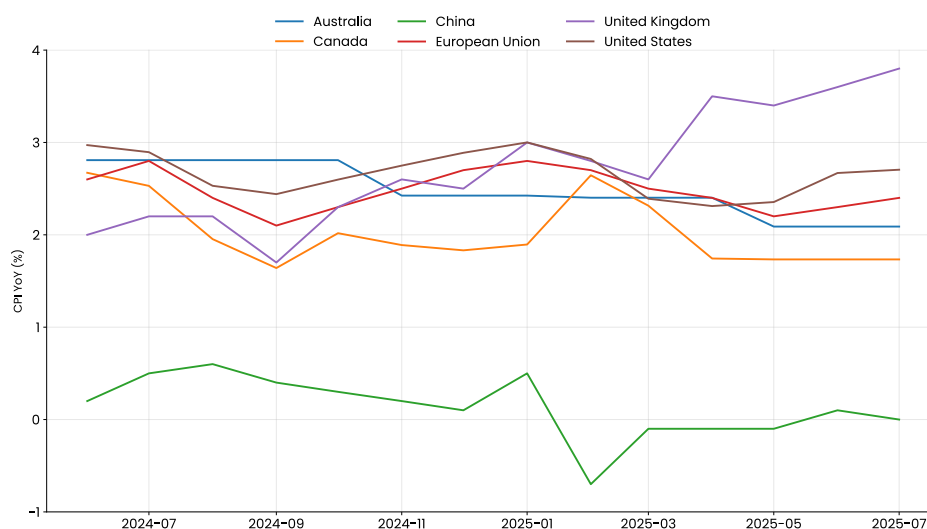
North American Dynamics: Labor, Consumption And Inflation Interplay

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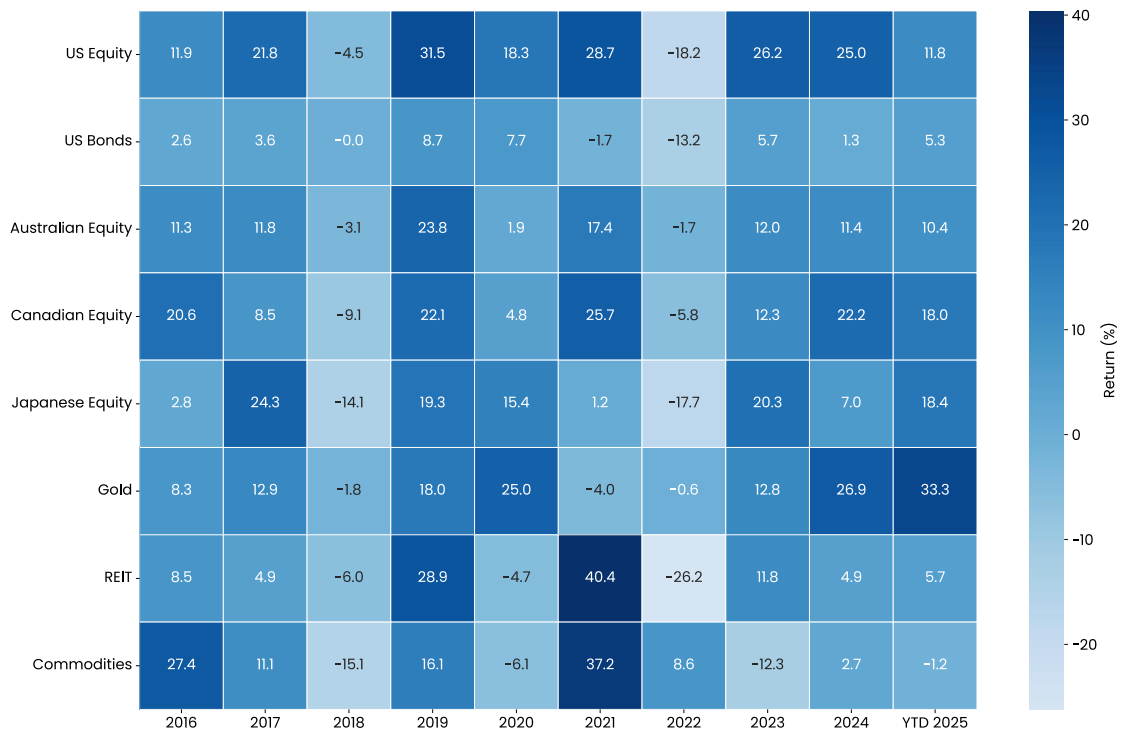
We believe that the United States is navigating a bifurcated environment where strong corporate profit growth (7% YoY in Q2) coexists with mixed macro signals. Durable goods orders fell less than expected, and core capital goods rose, indicating that business investment remains resilient despite a broader slowdown in durable goods. However, the Chicago PMI's deep contraction, a decline in consumer confidence and rising inflation expectations create a policy dilemma for the Fed. The Beige Book notes uneven growth across districts, with half reporting expansion—the strongest share since January—yet many still see flat consumer spending and tariff-related price pressures, complicating September policy decisions.

In Canada, the picture is equally mixed. June retail sales showed resilience on strong food and beverage demand, but July's decline and tariff-related consumption concerns could increase policy caution. Canada's Q2 GDP fell 1.6% and trade deficits widened, with tariffs identified as a drag on household consumption that may delay monetary stimulus. The merchandise trade deficit narrowed to C\$4.9 bn in July as exports rose and imports fell, offering modest relief to the current account. Nonetheless, a weakening labor market—expected to see a rise in unemployment—could prompt the Bank of Canada to hold off on rate cuts, reinforcing a more defensive stance on Canadian equities.

Figure 3: United States Continue to See a Rising Inflation



Source: Data sourced from Yahoo! Finance as on September 5, 2025. ^GSPC – S&P 500 Index (US Large Cap), DJIA – Dow Jones Industrial Average (US Industrials), ^IXIC – NASDAQ Composite Index (US Tech), ^RUT – Russell 2000 Index (US Small Cap), ^FTSE – FTSE 100 Index (UK Large Cap), ^STOXX50E – EURO STOXX 50 (Eurozone Equities), ^N225 – Nikkei 225 Index (Japan Equities), VEMAX – Vanguard Emerging Markets Stock Index Fund (Emerging Markets Equities).

Figure 4: Global Asset Class Performance – Gold Heating Up


Source: Data sourced from Yahoo! Finance as on September 5, 2025. US Equity – Vanguard 500 Index Fund (VFIAX), US Bonds – Vanguard Total Bond Market Index Fund (VBTLX), Australian Equity – Vanguard Australian Shares Index ETF (VAS.AX), Canadian Equity – Vanguard FTSE Canada All Cap Index ETF (VCN.TO), Japanese Equity – iShares MSCI Japan ETF (EWJ), Gold – iShares Gold Trust (IAU), REIT – Vanguard Real Estate Index Fund (VGSLX), Commodities – S&P-GSCI Commodity Index Future (GD=F).

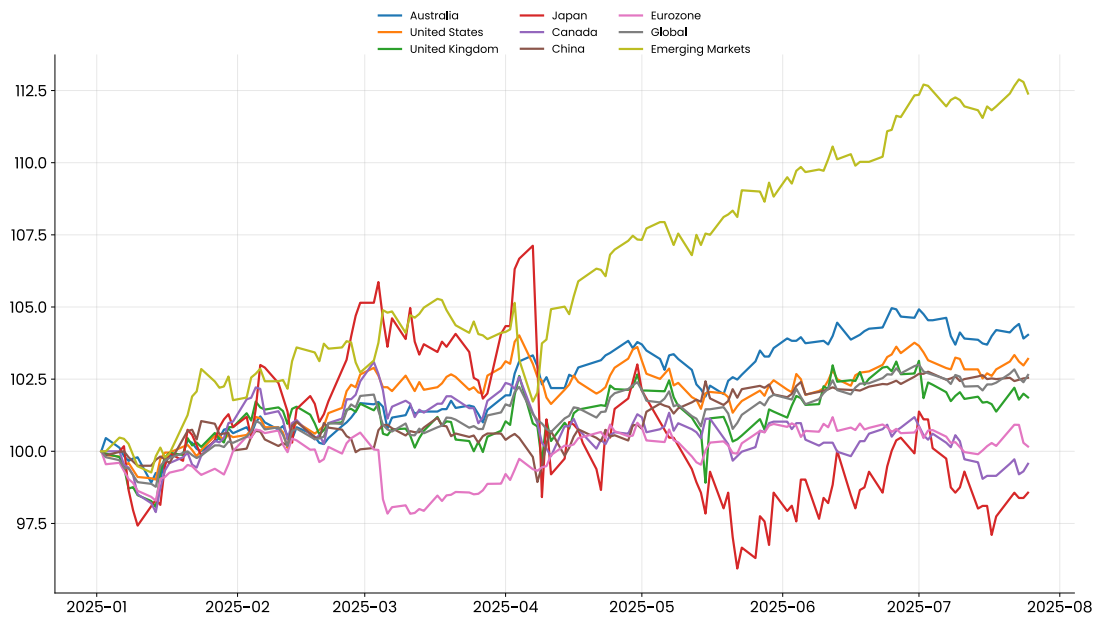
We note that US mortgage applications rose more than 12% week-over-week, suggesting a tentative rebound in housing demand despite broader labor market uncertainty. Yet pending home sales slipped 0.4% in July, indicating limited upside for the housing market amid rate-cut uncertainty. Initial jobless claims fell to 229 k, yet continuing claims remain above 1.9 m, highlighting underlying labor market softness that may influence Fed policy. Job openings fell to 7.18 m in July, ADP payrolls missed expectations and layoff intentions rose 38%, increasing the probability of a mid-September Fed rate cut. The confluence of these labor market cracks with a modestly higher inflation backdrop (PCE 2.6% YoY) suggests that any further easing will be measured and highly data-dependent.

Asia-Pacific: Growth Divergence, Trade Reconfiguration and Monetary Tuning

4

We believe that the Asia-Pacific region is experiencing a widening divergence between growth engines. India's industrial production surged 3.5% in July, with manufacturing up 5.5%, supporting the RBI's decision to hold rates at 5.50% while emphasizing domestic demand resilience amid global headwinds. India's manufacturing PMI hit a 17-year high, reinforcing strong growth momentum and suggesting that the RBI may postpone rate cuts despite global trade tensions. Conversely, China's industrial profits declined 1.7% YoY in July, and its Composite PMI showed only a modest rebound in August after five months of contraction, indicating that the world's factory floor remains weak. While the manufacturing PMI recorded modest output and new-order gains, export orders declined for a fifth month and input-cost inflation rose, underscoring a mixed outlook for China's export-driven sectors.

Figure 5: Emerging Market Bonds Significantly Outshine Other Major Economies on a YTD basis



Source: Data sourced from Yahoo! Finance as on September 5, 2025. Australia – iShares Core Composite Bond ETF (GOVT.AX), United States – iShares U.S. Treasury Bond ETF (GOVT), United Kingdom – iShares UK Gilts ETF (IGLT.L), Japan – Daiwa ETF-TOPIX Mid Small (2621.T), Canada – iShares Canadian Government Bond Index ETF (XGB.TO), China – VanEck China Bond ETF (CBON), Eurozone – iShares Global Government Bond EUR Hedged ETF (XGLE.L), Global – Vanguard Total World Bond ETF (BNDW), Emerging Markets – VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC)

South Korea's trade surplus narrowed as export growth slowed, and its manufacturing PMI contracted for a sixth month, with rising input costs signaling emerging inflationary pressure. Yet Korean CPI cooled sharply, especially core inflation, opening space for a possible rate cut to stimulate growth. Taiwan's

manufacturing PMI also contracted for six months, with falling payrolls and weak business confidence, pointing to continued sectoral stress in the region.

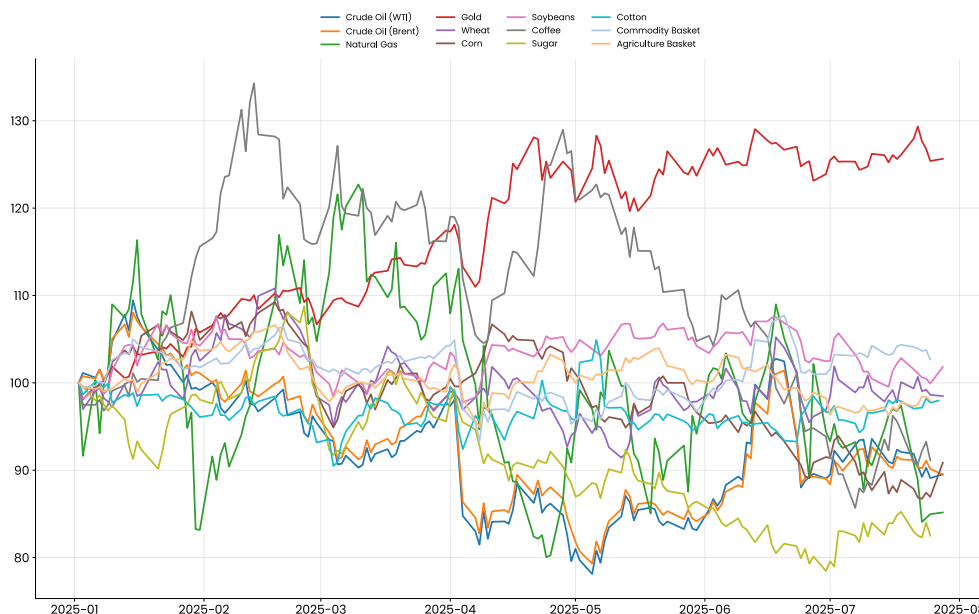
Australia’s CPI jumped to 2.8% in July on electricity price spikes, likely slowing the RBA’s planned pace of rate cuts, while the RBNZ’s aggressive easing is sustaining Q2 retail trade volume growth (0.5% QoQ, 2.3% YoY). However, rising inflation expectations and a robust labor market may curb further rate cuts and pressure the NZD higher. Singapore’s subdued CPI and falling core inflation point to continued accommodative MAS policy, though higher food and private transport costs could temper the outlook.

These dynamics are further complicated by the newly signed China-India agreement to resume direct flights, overland trade and ease visa/investment rules, which is expected to lower bilateral trade tensions, boost tourism and generate incremental FDI flows for both economies. The agreement could provide a modest lift to regional trade volumes, but the broader backdrop of China’s lingering industrial weakness and South Korea’s export slowdown suggests that the net effect will be modest rather than transformational.

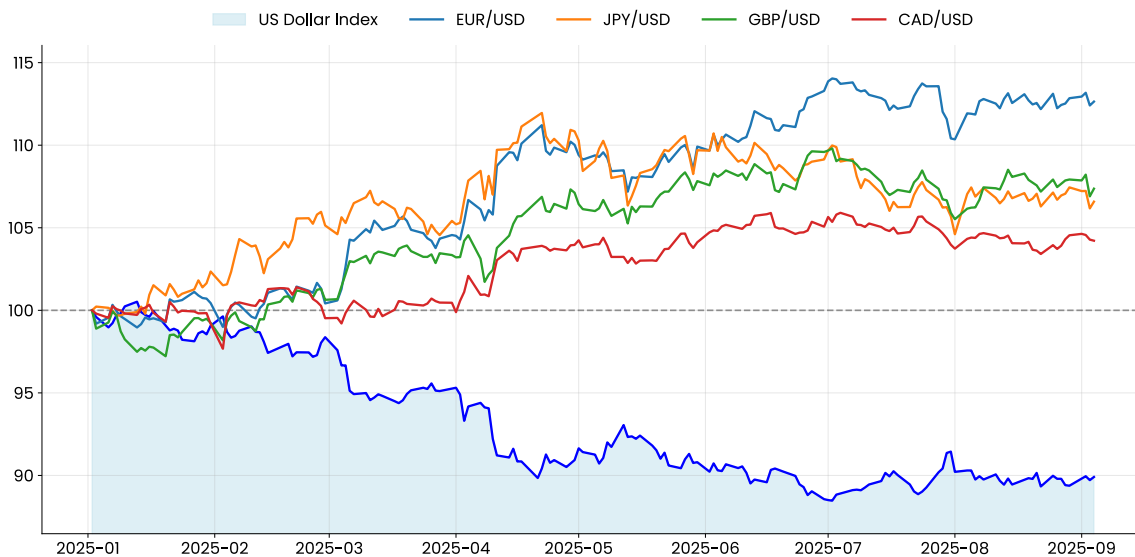
Commodities, PMI and Trade Flows: Bullish Oil Dynamics and a Splintered Factory Floor

We note that crude oil inventories fell 2.4 m barrels, 6% below the five-year average, while product demand is up 2.5% YoY, supporting bullish oil price dynamics. The decline in inventories, combined with sustained demand growth, creates a favorable environment for energy-related equities, particularly upstream producers and service firms that stand to benefit from higher price levels.

Figure 6: Gold Continues its Rally Amid Other Commodities Dropping



Source: Data sourced from Yahoo! Finance as on September 05, 2025. Crude Oil (WTI) – NYMEX WTI Crude Oil Futures (CL=F), Crude Oil (Brent) – ICE Brent Crude Oil Futures (BZ=F), Natural Gas – NYMEX Natural Gas Futures (NG=F), Gold – COMEX Gold Futures (GC=F), Wheat – CBOT, Wheat Futures (ZW=F), Corn – CBOT Corn Futures (ZC=F), Soybeans – CBOT Soybean Futures (ZS=F), Coffee – ICE Coffee C Futures (KC=F), Sugar – ICE Sugar No.11 Futures (SB=F), Cotton – ICE Cotton No.2 Futures (CT=F), Commodity Basket – Invesco DB Commodity Index Tracking Fund (DBC), Agriculture Basket – Invesco DB Agriculture Fund (DBA).

Figure 7: Major Global Currencies Continue to Appreciate Against the U.S. Dollar


Source: Data sourced from Yahoo! Finance as on September 05, 2025.

At the same time, the global composite PMI climbed to 52.9 in August, driven by services and manufacturing gains in the United States, India and China, while Germany's services sector contracted, highlighting divergent regional dynamics. The US ISM Services PMI rose to 52.0 in August, reflecting stronger business activity, yet employment in services contracted for a third month, underscoring labor market tension. In Europe, the Euro-area retail sales decline (-0.5% in July) and Germany's retail sales fall (-1.5%) echo broader consumer weakness amid rising inflation, while the Euro-area Q2 growth stalled at 0.1% with household spending barely expanding and investment dragging. These mixed signals reinforce the view that the global recovery is uneven, with pockets of resilience offset by persistent weakness in traditional export-oriented economies.

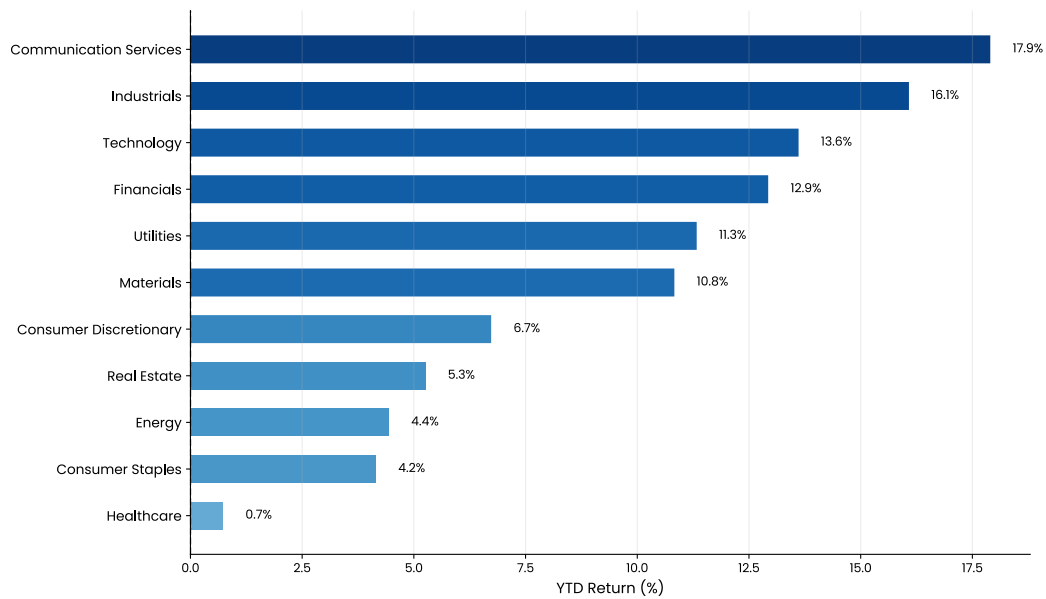
Outlook and Investment Implications

We believe that the macroeconomic landscape over the next fortnight will be dominated by policy decisions that hinge on the balance between inflation containment and growth support. In the United States, a September rate cut appears plausible but will be limited in magnitude; any deviation—either a larger cut or a hold—will be priced heavily into equity and fixed-income markets. Investors should therefore tilt toward high-quality, cash-generating businesses with strong balance sheets, while remaining vigilant on sectors exposed to rate-sensitive demand such as consumer discretionary and real estate.

In Europe, the combination of fragile growth, uneven credit conditions and persistent inflation suggests that defensive positioning remains prudent. German industrial exposure should be approached cautiously, with a focus on export-oriented firms that can benefit from any fiscal or monetary stimulus. French and UK markets offer selective opportunities in services and technology where domestic demand shows signs of stabilizing.

In the Asia-Pacific, India’s robust industrial and manufacturing momentum makes it a relative bright spot; exposure to Indian consumer and infrastructure assets may capture the upside from domestic demand resilience. Conversely, China’s mixed factory data and declining industrial profits warrant a defensive stance, favoring companies with diversified export markets or strong domestic consumption bases.

Figure 8: All S&P 500 Sectors Registered Positive Performances, Led by Communication Services & Industrials



Source: Data sourced from Yahoo! Finance as on September 05, 2025.

Finally, the bullish oil backdrop and the modest improvement in global composite PMI support a measured allocation to commodities and energy-linked assets, while the continued weakness in European retail and German industrial orders suggests caution on cyclical European equities. A balanced, region-specific approach that recognizes the divergent policy trajectories and growth prospects will be essential for navigating the near-term macro-driven volatility.



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RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, Gen AI solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



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