

Market Commentary 5th of September 2025

The S&P 500 reached a new all-time high in August (+1.91%), supported by easing trade tensions, strong corporate earnings, and continued momentum in artificial intelligence (AI) investment. Although softer labour market data unsettled equities early in the month, the Federal Reserve signaled the possibility of an interest rate cut as early as September, which helped restore confidence.

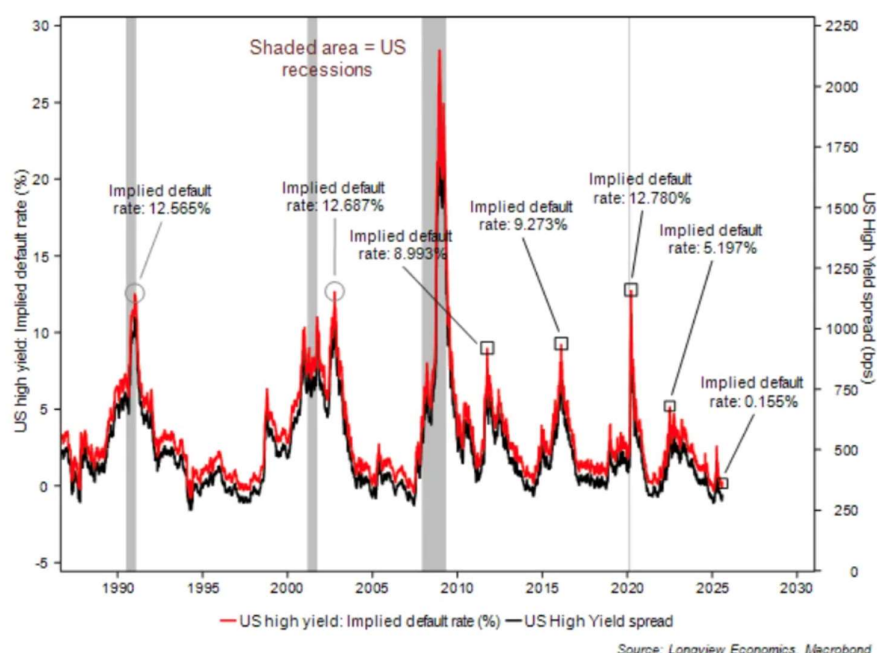
World equities also advanced as geopolitical risks moderated with the MSCI World Index up 1.88% for the month. Japan led gains among developed markets, climbing 4.0% on the back of robust corporate earnings. MSCI Euro and the FTSE 100 had moderate gains reporting +0.21% and +0.6% respectively.

Fixed income delivered solid returns in August as Treasury yields declined. The Global Aggregate Bond Index gained 1.45%, with the 10-year Treasury yield falling from 4.37% to 4.23%.

Gold rallied (+4.80%) into month-end on a US dollar reversal, geopolitical tensions and strong ETF inflows. Crude oil prices on the other hand moved lower (-7.58%) in August 2025, weighed down by OPEC's accelerated production increases, heightened concerns over demand due to ongoing trade disputes, and rising global inventory levels.

The U.S. Dollar Index (DXY) fell by 2.2% in August, extending its recent downward trend. Bitcoin also performed poorly, dropping 6.32% for the month.

The case for High Yield over Investment Grade Bonds





The above chart underscores that US high yield spreads and implied default rates typically surge during recessions, albeit in short and sharp spikes that do not last long. Today the picture is very different: implied defaults are near historic lows at just 0.16%. This signals that corporate fundamentals remain robust, with balance sheets stronger than in past cycles. Against this backdrop, high yield bonds are attractive. Compared with investment grade credit, HY offers a materially higher income stream, and with default expectations subdued, the excess yield represents attractive compensation for the risk taken. While investment grade continues to serve as a defensive allocation, the risk/reward balance currently favours high yield, where spreads are anchored and the macro environment supports continued low defaults. For investors seeking total return potential, high yield stands out as the more rewarding choice relative to investment grade.

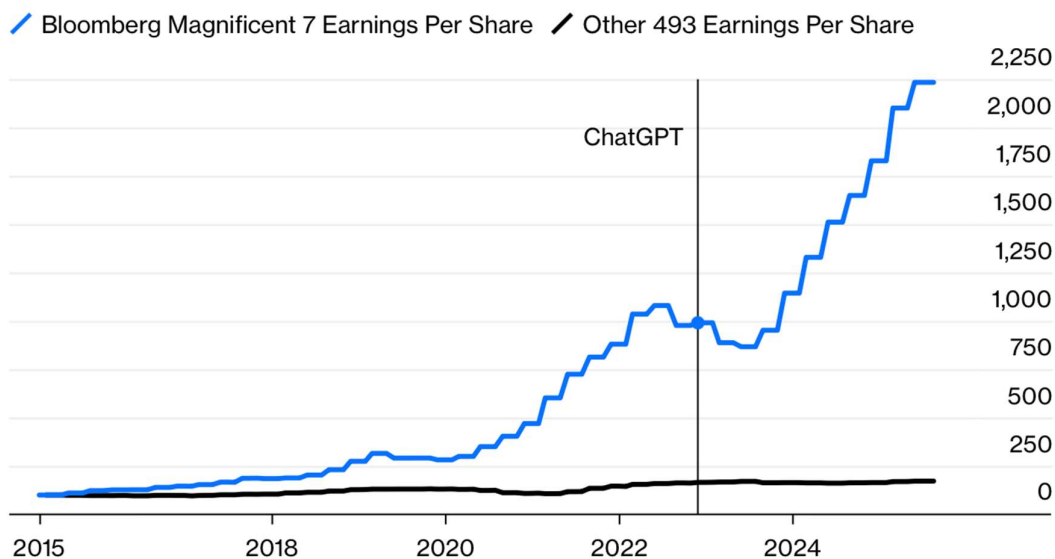
Mag 7 and “overvaluation”

There is a lot of talk about the “bubble” in Mag 7 stocks and their very high valuations. Yet, to us while valuations are indeed high, they are justified. This is because they are growing their earnings at a much faster pace than the rest of the market. The two charts below and on the next page show their earnings growth versus the rest of the US market, as well as the profit margins of the biggest of them all, Nvidia. Additionally, they are generating huge sums of free cash flow and still have considerable moats to fend off competitors.

We remain invested!

Magnificent Earnings Growth

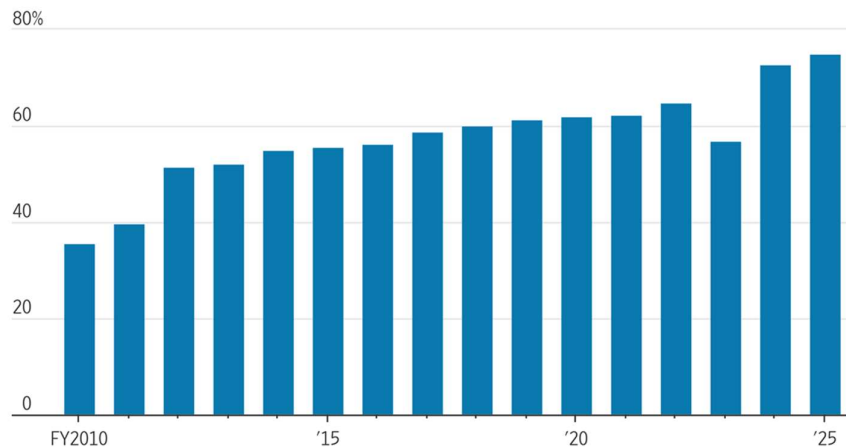
Since ChatGPT, Big Tech earnings have been in another stratosphere



Source: Bloomberg
Data is normalized with factor 100 as of April 30, 2015.



Nvidia's gross profit margin per fiscal year



Note: Fiscal year ends in January

Source: S&P Global Market Intelligence

The Elgin Analysts Team

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