DIAMOND HILL

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Global Markets Skip Summer Break

Aug 2025

Markets rose in August — with US markets hitting new highs — as they continued climbing the proverbial wall of tariff- and inflation-induced worry. As measured by the MSCI ACWI Index, the global market was up +2.5% in USD terms. All major regions were likewise in the black, even as uncertainty in most areas remains high.

Though August is typically a quieter month as summer winds down and fall starts, this August provided ample headlines as US tariffs take effect and initial impacts are felt globally. For example, Canada's GDP shrank more than expected as exports to the US declined; Italy spoke up about higher-than-advertised tariffs on its cheese exports; South African exporters are hurting under the US's 30% tariff; US wholesale prices rose more than expected and China's economy remains pressured by a combination of the ongoing fallout from its property sector implosion — which has contributed meaningfully to deflation — and the trade war with the US.

As has been the case since the outset of President Trump's efforts to shake up the global trade order, countries responded various ways. Recently elected Canadian Prime Minister Mark Carney, for instance, announced he would remove 25% retaliatory tariffs on US goods with the exceptions of steel and aluminum — potentially paving the way for further negotiations with the US administration.

In contrast, tensions heated up between the US and India in August, with the US imposing 50% tariffs on India as the country continues importing Russian oil. While the US administration's ostensible aim in increasing the tariff is pressuring Russia and President Putin into ending (or at least negotiating to end) its war with Ukraine, it undoubtedly also has significant implications for the US's trade relationship with India. The development comes following India's resistance to opening its agricultural and dairy markets, which had stalled talks between the two countries and prompted Indian Prime Minister Narendra Modi to initiate trade discussions with Russia and China. Whether and when a breakthrough (or crack in either side's position) will materialize is yet to be seen.

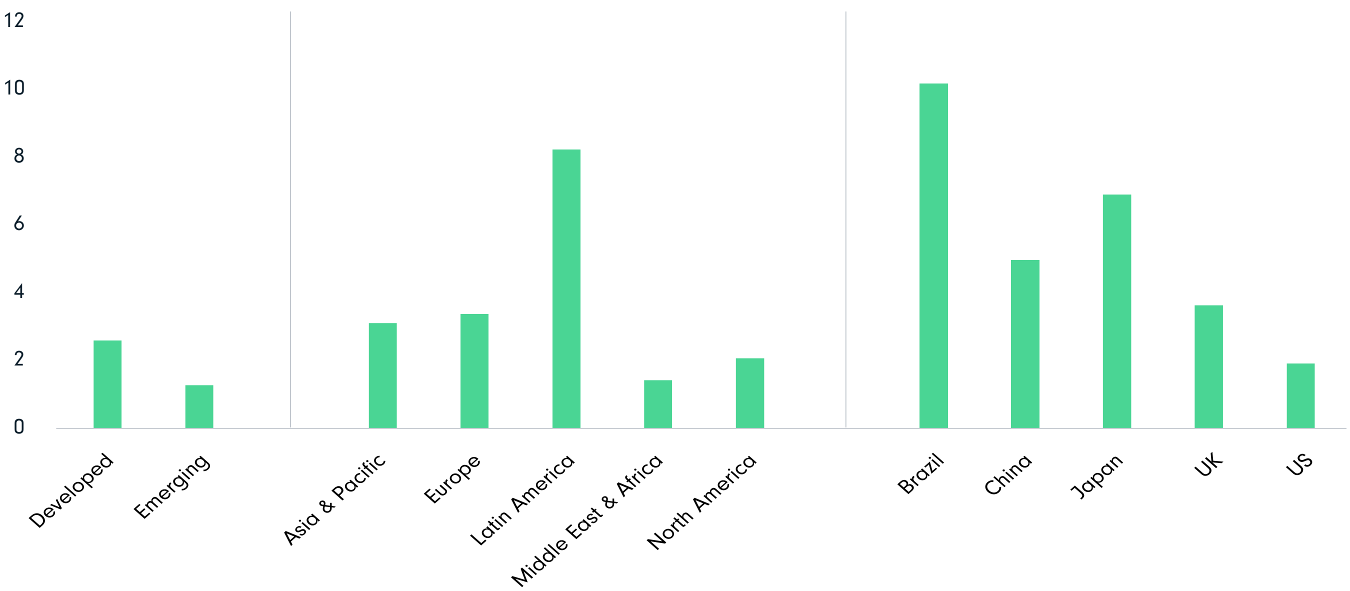
As August concluded, a US appeals court upheld the US Court of International Trade's May ruling that many of the recently implemented tariffs exceed the president's authority — but allowed them to remain in place pending the administration's Supreme Court appeal, which means the uncertainty is likely to persist for the foreseeable future.

The other major August headlines revolved — as they have for many months now — around inflation and global central banks' likely responses. All eyes were on Jackson Hole, Wyoming, where central bank heads gathered for their annual conference, facing a slew of familiar — and a few newer — challenges, including ongoing inflation (to varying degrees) and diverging economic data, which in some regions show signs of weakening. Among the more recent headlines is ongoing pressure from the Trump administration on the Federal Reserve to lower rates. And with Adriana Kugler's surprise departure from the rate-setting board, the president now has the opportunity to appoint an ally to his cause: economist Stephen Miran, who supports Trump's calls for rate cuts. To date, Federal Reserve chief Jerome Powell has resisted the pressure to cut as he awaits data on tariffs' impact — which by a traditional economic reading would presumably pressure prices upward and thereby call for higher, not lower, rates. During his annual Jackson Hole speech, however, he signaled the Fed could cut rates in September amid signs the US labor market is weakening.

Against this backdrop, the Bank of England, which continues facing weakening economic data but consistent inflationary pressure, cut rates 25 basis points to 4%. Meanwhile, the European Central Bank is expected to hold rates given inflation, which is meeting the bank's target, and economic data, which have been more resilient than anticipated.

Regionally, markets were universally in the black in August, led by Latin America (up over 8%), where stocks in Brazil were up 10%, and those in Colombia and Chile notched double-digit gains. Europe and the Asia & Pacific region both rose north of 3%, and North America gained just over 2%. Among Europe's biggest contributors were the UK and Switzerland — the former up over 3% and the latter gaining 4%. In Asia, Japan was the biggest contributor in August, adding a sharply positive 7%, while China was up 5%. Of note were declines in India (-3%) and Korea (-2%), where ongoing semiconductor-related trade pressures are likely weighing on markets. The Middle East and Africa was also positive in August, with South Africa delivering more than 6% returns, despite ongoing trade concerns.

Exhibit 1 — August Returns for Major Markets (%)



Source: FactSet, as of 31 August 2025

From a sector perspective, financials (+3%), consumer discretionary (+5%) and materials (+7%) were the primary drivers of positive August returns. No sectors were in the red, though information technology provided the smallest return, gaining less than +1%.

Though there have been periods of sharp volatility year to date, overall, markets have climbed the wall of worry fairly steadily, notching new highs along the way — and yet uncertainties remain across the board, from trade to economic data to central bank policy to geopolitics. Fortunately, such high levels of uncertainty make for a good backdrop for seasoned investors who diligently pursue a rigorous, bottom-up philosophy and approach to identifying and investing in high-quality, undervalued companies. Though events could always take an unforeseen turn, we believe our process positions us well to see past the near-term noise and benefit investors who have a longer-term investment horizon.

MSCI ACWI Index measures the performance of large- and mid-cap stocks in developed and emerging markets. The index is unmanaged, market capitalization weighted, include net reinvested dividends, do not reflect fees or expenses (which would lower the return) and are not available for direct investment. Index data source: MSCI, Inc. See diamond-hill.com/disclosures for a full copy of the disclaimer.

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