

Investment Views October 2025

Strategy:

A strong quarter across the board

Fixed Income:

Growth Outpaces Jobs, Fed Moves to Ease

Equities:

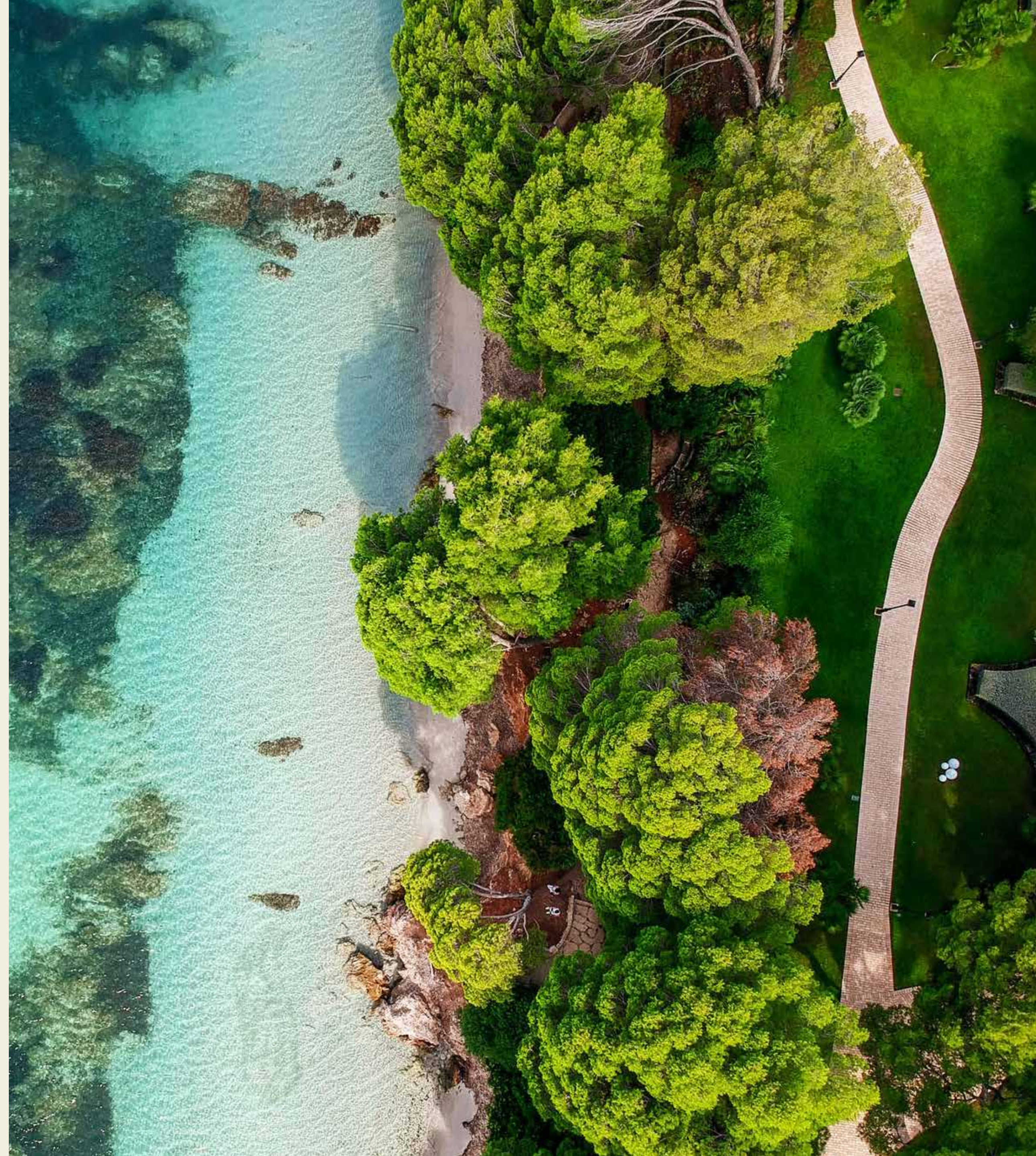
Global Equity Markets Rally, Defying Seasonal Trends

A strong quarter across the board

- Bonds, equities and commodities all rise
- AI-related stocks and Emerging Markets outperform
- Unusual disconnect between hiring and investment in the US

The third quarter saw positive returns across a wide range of assets. Global equities, US treasuries, US corporate bonds, commodities, and gold all made gains over the quarter. Over the last 30 years, or 120 quarters, this has happened 23 times, or 19% of the quarters. Positive returns across all five of these asset classes is not a regular occurrence, but not as rare as one may think.

This was driven by a favourable combination of lower inflation readings than feared, and more resilient growth in the US economy. Equity markets saw notable declines in March and April, as the US imposed trade tariffs on a wide range of trading partners. One of the frameworks that we have been using to think about this year is the concept of guardrails. We saw trade and government spending as risks for this year, but expected financial markets to play a key role of providing guardrails around policy outcomes. We thought



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that equity markets would provide the guardrails around tariff policy, while the bond market would provide guardrails around government spending policy.

This is largely what transpired. Financial market volatility in the days after tariffs announcements prompted President Trump to pause the tariffs for 90 days to allow for trade negotiations. He noted at the time that markets were “getting a little bit yippy, a little bit afraid”. From this moment in mid-April onwards, equity markets never looked back and rallied strongly over the summer and through the end of September.

While markets recovered on better than feared tariff rates, the effective tariff rate imposed on US imports is still a significant 17%, a level not seen since 1935. Trade tariffs are effectively a tax paid by importers. Whether these tariffs get passed onto consumers has been a key focus for markets, but so far, many companies have managed their supply chain and avoided passing costs on. These taxes do have to be paid by someone, so corporate margins and inflation rates will be watched closely in coming months.

In terms of the US economy, a very unusual disconnect has opened up between the strength of the labour market and the strength of capital investment. The supply and demand of workers in the jobs markets has come in better balance this year, but we have seen a marked slowdown in the rate of hiring. This is usually a warning sign that growth is weakening. However, we have also seen investment in sectors linked to Artificial Intelligence (AI) and the associated data centre buildout pickup strongly this year. Companies are usually either optimistic and therefore hiring and investing, or pessimistic and the reverse. This year, it appears there is caution towards hiring, but optimism around the potential for AI to transform business processes.

While equity markets recovered strongly from their April lows, the US dollar continued to languish. Emerging Markets have

17%

The effective tariff rate
on US imports





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benefitted from this, with Emerging Market equities returning 10.6% and outperforming global equities, which returned 7.3%. Emerging Market Debt also performed well. European stocks have given up some of their outperformance earlier in the year, while Japanese stocks recovered after a weak second quarter. Interestingly, Financial stocks in both regions did well, returning 9.0% and 13.8% respectively in US dollar terms. Outperformance of Financials is associated with economic resilience, so while global growth has been under pressure, there are no signs that growth is falling precipitously.

Within Alternative assets, gold was again the standout performer over the quarter. After rising 25.9% in the first six months of the year, gold gained a further 16.8% in the third quarter. Gold has been supported by a range of factors. The freezing of Russia's foreign exchange reserves in 2022 broke the link between real (after inflation) bond yields and gold. This increased the attractiveness of gold as a reserve asset and central banks have been consistent buyers in recent years. Policy uncertainty has also been supportive, while political pressure on the Federal Reserve to cut interest rates has also benefitted gold.

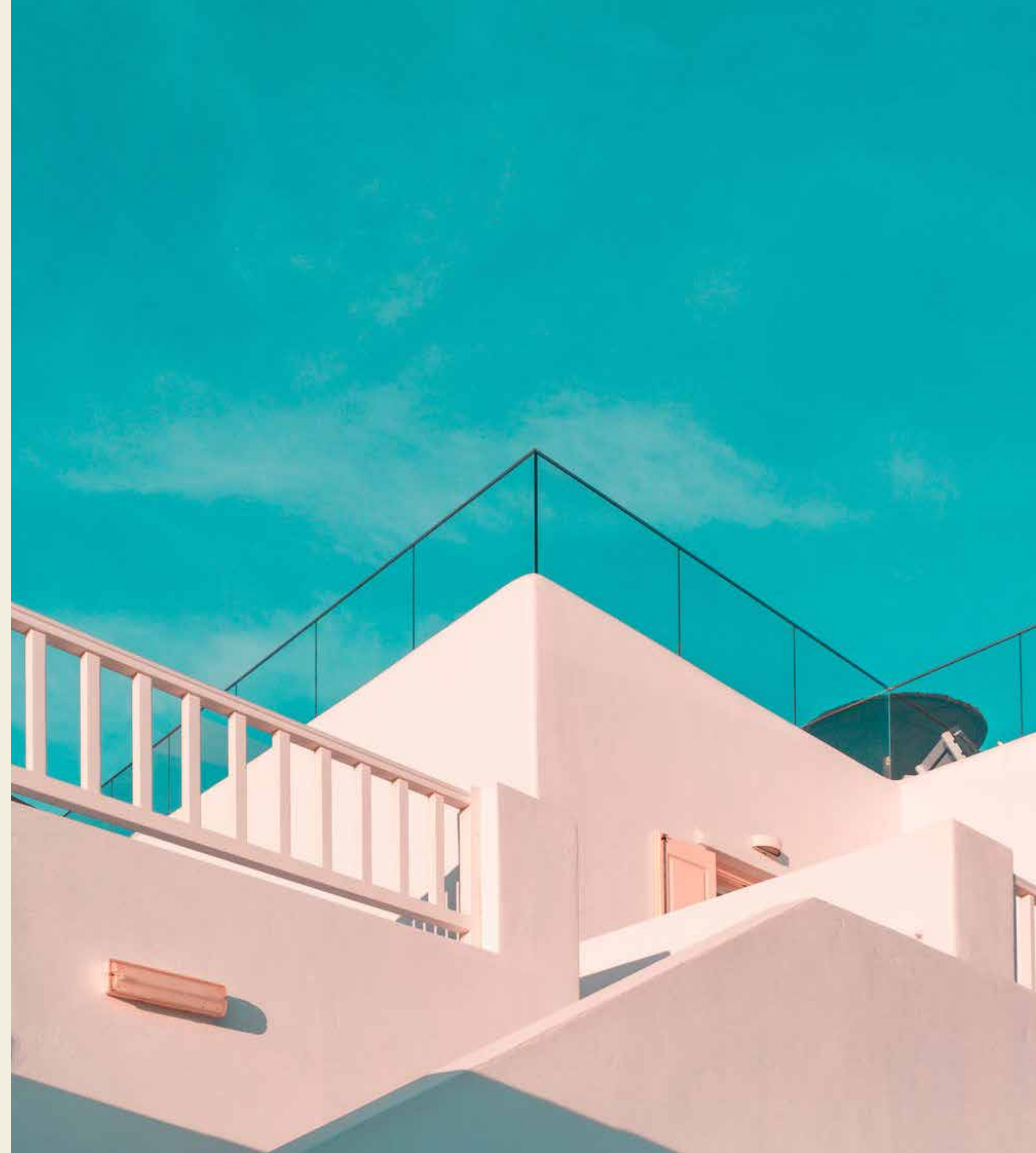
At the start of July, we moved our House View on Equities from a Modest Underweight to Equal Weight. This was in acknowledgement that US recession risks were fading, while the AI capital investment boom would clearly extend into next year. This move has worked well, so we continue to be fully invested in risk assets while also favouring diversifying strategies relative to cash as interest rates come down.

Growth Outpaces Jobs, Fed Moves to Ease

- Growth resilient but shutdown threat ahead
- Housing activity rebounds on lower mortgage rates
- Credit spreads tight, risk premium eroding

The third quarter began with rising political pressure, looming tariff deadlines, renewed questions over central-bank independence and ended with a resumption of US monetary easing alongside growing risks of a government shutdown. Short-dated Treasuries outperformed, as investors leaned into carry and the probability of rapid base rate cuts increased. Inflation expectations firmed but remained relatively well anchored despite concerns over the fiscal deficit and a stronger macro backdrop.

Policy moves across major economies underscored the continuation of the global easing cycle. After nearly a year on hold, the Federal Reserve lowered its base rate by 25 bps to 4.25%, as did the Bank of England, while both the European Central Bank and the Bank of Japan left policy unchanged. By quarter-end, futures markets were



expecting another 25 bps US cut in October and had fully priced a glide path toward a 3% policy rate by end-2026, consistent with the Fed’s estimate of the neutral rate of interest.

On the US macro front, the final second quarter GDP print was revised up to an annualised 3.8%, while the Atlanta Fed’s GDPNow estimate for the third quarter closed the quarter up at around 3.9%, highlighting broad-based momentum even as employment trends remained weak. The composition of growth is important: AI-related capex is driving output and productivity gains but contributing far less to payrolls, leaving labour demand uneven. This imbalance sharpens the Fed’s dilemma. Firm activity and inflation argue against a rapid easing cycle, while softening employment breadth supports the case for insurance cuts to prevent slack from becoming entrenched.

Commodities and the real estate market were in focus. Oil prices ended the quarter lower, despite ongoing geopolitical risk and stronger macro data. In housing, US mortgage rates fell to their lowest level in three years, transmitting stimulus to the real economy quickly by boosting refinancing, purchase applications, and building permits. However, further gains remain dependent on continued declines in long-term US Treasury yields, which ultimately drive mortgage rates.

Public pressure on the Fed’s leadership intensified into August, complicating communication and clouding the outlook, as several members positioned themselves as potential successors when Jerome Powell’s term ends. The next major catalyst for markets is the US government funding timeline. A broad-based shutdown would create a near-term data blackout, limiting policymakers’ ability to gauge the health of the domestic economy, while a prolonged standoff that triggers permanent departmental or headcount reductions could alter the medium-term bond market outlook.

A smaller federal payroll and tighter spending would help narrow the deficit and reduce expected Treasury supply, while weaker aggregate demand would increase the likelihood of further Fed easing. On balance, that mix is supportive for duration but negative for risk

3.8%

US economic growth in
the second quarter

assets: credit would be exposed to slower nominal growth just as investment-grade spreads sit at their lowest levels since 1998.

The US dollar ended the quarter modestly stronger, supported by improving growth dynamics and steady equity inflows that helped stabilise the greenback. The yen remained weak, with policy normalisation progressing at a glacial pace and real yield gaps persisting. Sterling underperformed amid concerns over stagflation (weak growth with elevated inflation) and a challenging fiscal outlook. The Canadian dollar lagged on softer domestic momentum and weaker oil prices. Euro strength also stalled, with German fiscal stimulus expected to filter into the domestic economy only gradually, while the war in Ukraine continues without resolution. Together, these factors leave the US dollar positioned for a potential technical rebound, reversing part of its 10% year-to-date decline.

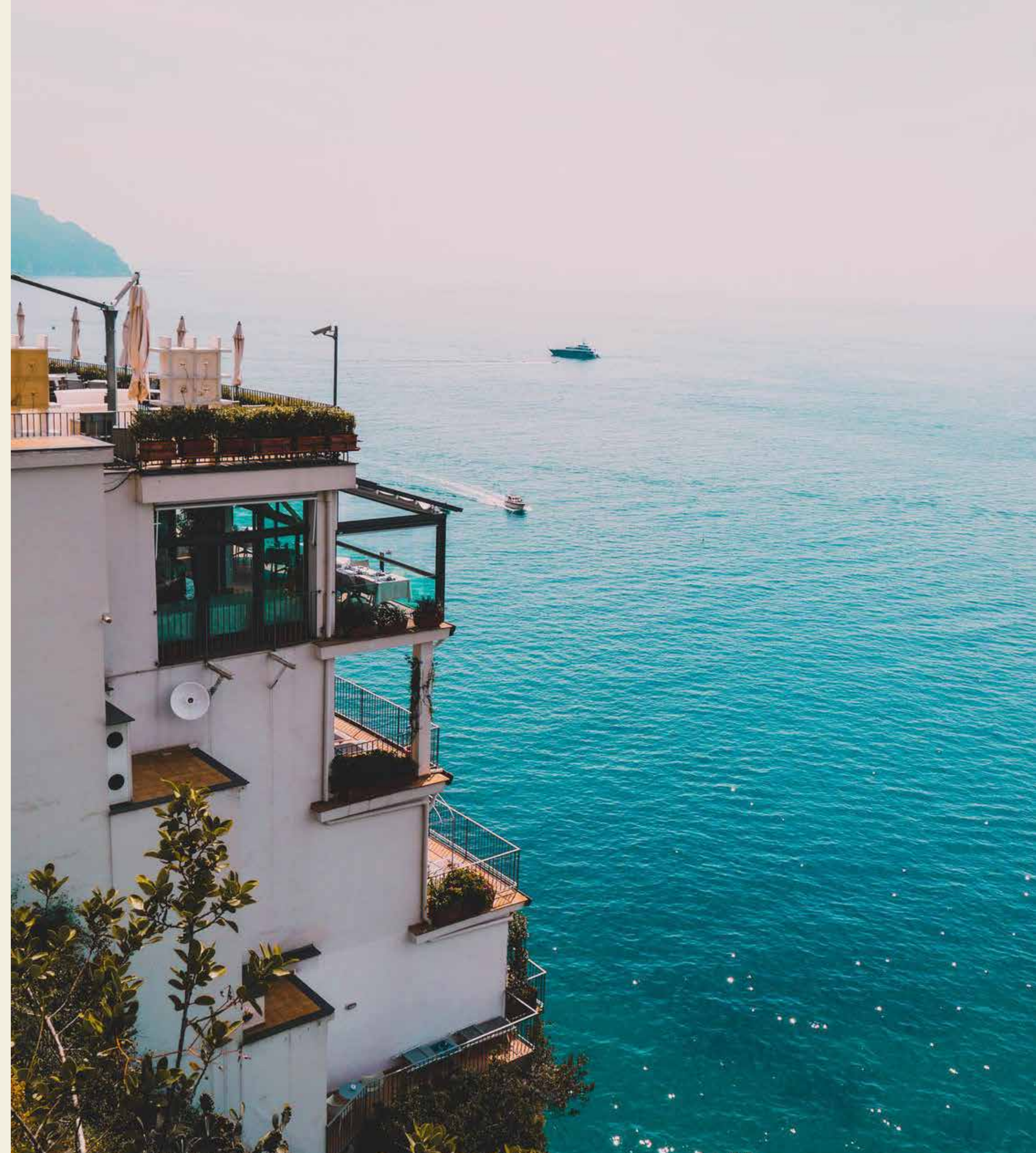
Looking ahead, we remain cautiously constructive on risk assets but with tighter budgets. Global growth appears broadly stable as the “Liberation Day” drag fades. China remains weak, but continues to export disinflation, while US activity shows little sign of slowing, even as employment breadth softens. Tariff noise has eased, though the inflation pass-through is still uncertain given limited corporate pricing power. With valuations stretched and Fed easing likely fully priced, we have dialled back broad risk exposure in our US dollar bond funds. However, with the US economy still expected to deliver close to 5% nominal growth this year and next, we will continue to add high-quality carry when we see any equity-led weakness, prioritising liquidity and downside protection. US duration stays overweight in US dollar bond funds, albeit more modestly than last month. We also maintain a preference for flatter curves in the euro area, where rate cuts have paused and ECB sentiment is turning more hawkish.

Global Equity Markets Rally, Defying Seasonal Trends

- The fifth consecutive month of positive returns
- Not all technology stocks are benefitting from AI
- Capital markets are open for business

The MSCI World Index delivered its fifth consecutive month of positive returns in September, marking its strongest September in the past twelve years; a notable achievement given the typically weak seasonality for the month. Equities maintained their momentum, posting an impressive quarterly return of 7.3%, following an 11.5% gain in the second quarter and a negative result in the first. Year-to-date, the MSCI World Index is up 17.4%, positioning itself for potentially another outstanding year for equity investors.

Technology stocks once again led sector performance in the third quarter, though there was considerable variation within subsectors.



Technology Hardware emerged as the best-performing subsector, returning 22%. Apple’s share price surged by 24% in the quarter, fuelled by robust iPhone sales, strong numbers from China, solid demand for the new iPhone 17, and the announcement of US-based investments. Semiconductors also posted strong returns of 17%, with Intel stealing the show, benefiting from investments by both the US administration and Nvidia. Broadcom and Nvidia also performed notably well, returning 20% and 18% respectively, as competition between Graphic Processing Units (GPUs) and custom semiconductor chips continued.

In contrast, the Software subsector underperformed, returning only 3%. Initially considered a haven, immune to tariffs, software stocks faced headwinds from narratives around the so-called “death of software”. Concerns emerged that AI is simplifying coding, allowing companies to develop their own applications, and potentially reducing demand for traditional software offerings. However, there were exceptions. Palantir, closely aligned with the US administration, rallied 34% this quarter, while Oracle’s growth was propelled by its cloud computing division. Microsoft posted subdued returns, and several Enterprise Resource Planning (ERP) software companies experienced double-digit declines.

The Consumer Staples sector was the worst performer, declining by 2%, as defensive stocks lagged and tariffs began to impact business. By contrast, Consumer Discretionary outperformed the broader index, largely due to Tesla’s shares rallying 40%. Amazon’s performance remained flat, hampered by disappointing results from Amazon Web Services (AWS). Healthcare and Real Estate sectors also continued to underperform relative to the broader market.

Emerging markets outperformed even the technology-heavy US equity index. Mainland Chinese and Hong Kong shares rallied, with stocks like Baidu and Tencent leading the charge. Taiwan also saw strong performance, with Taiwan Semiconductor



Manufacturing Company (TSMC) driving the index up 18%. Meanwhile, European markets lagged, with French, German, and Swiss indices underperforming due to internal political tensions and the impact of tariffs.

The second quarter earnings season exceeded expectations, with S&P 500 earnings growing by 11% year-on-year; well above analysts’ projections of 4%. Notably, 58% of companies raised their 2025 guidance, double the proportion seen in the first quarter. This outperformance was partly attributed to a weaker dollar, given that international sales account for 28% of S&P 500 revenues, as well as resilient profit margins. Following “Liberation Day”, analysts reduced earnings forecasts due to tariff concerns, although these effects have yet to materialise. Earnings have been the primary driver of the S&P 500’s year-to-date total returns, and with historically high earnings multiples, future gains are likely to be driven by continued earnings growth.

Cutting interest rates amidst ongoing economic expansion is supportive of equity markets and recent results from Jefferies suggest that capital markets remain open for business. The US Initial Public Offering (IPO) market is on track for its strongest year since 2021, and the value of announced US mergers and acquisitions is up 29% year-on-year, underscoring robust activity in capital markets and the potential for further gains in equity markets this year.

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Global Asset Allocation

The chart below details our 6-12 month tactical investment strategy

	UNDERWEIGHT -	+ OVERWEIGHT
Asset Allocation	CASH (MODEST UNDERWEIGHT) \$	 ALTERNATIVES (MODEST OVERWEIGHT)
Fixed Income		 SHORT DURATION HIGH YIELD EMERGING MARKET DEBT INFLATION PROTECTION
Equities Regional		 JAPAN EMERGING MARKETS EX CHINA
Equities Sector	CONSUMER DISCRETIONARY REAL ESTATE 	 UTILITIES

