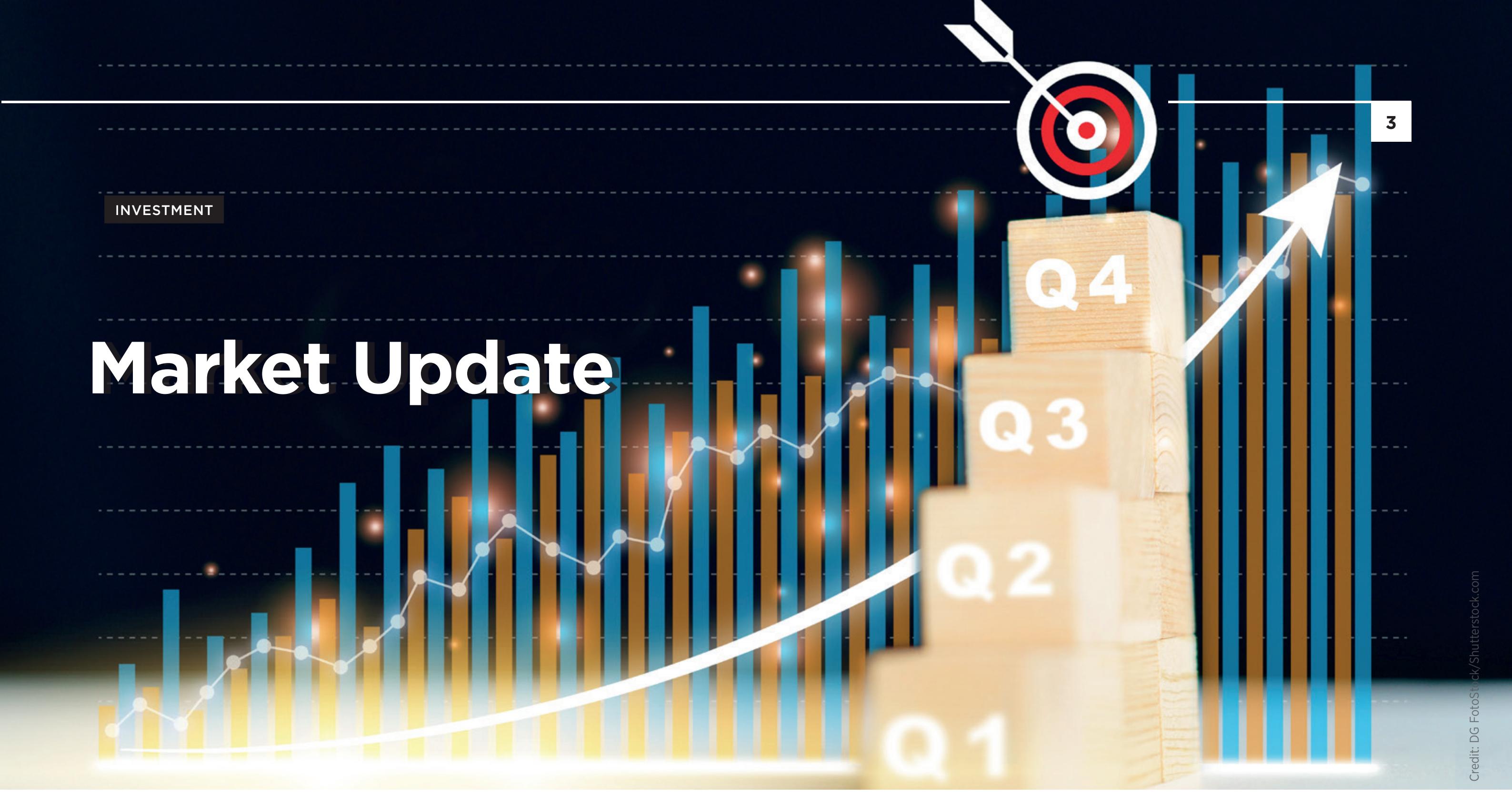
INVESTMENT

Market Update



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As winter settles in, investors are navigating a landscape shaped by policy uncertainty, cooling labour markets and episodes of market volatility. The past couple of months have been marked by an extended US government shutdown, trade tension flare-ups and a gradual softening in economic momentum. Yet markets have shown remarkable resilience, and our diversified portfolios continuing to support clients well through these crosswinds.

The protracted US government shutdown, which was the longest in history, delayed key data releases and cast a cloud of uncertainty that weighed on business and consumer confidence. Private-sector indicators during October and early November told a mixed but increasingly cautious story: job cuts surged, small-business optimism slipped and hiring plans were scaled back. Some private payroll estimates even pointed to outright contraction in certain weeks, reinforcing signs of slowing growth. With the government shutdown ending in mid-November, investors now await a backlog of official data that is expected to confirm this softening trend. In the UK, the labour market has also weakened. Unemployment rate has risen, payrolls saw their steepest monthly drop since 2020, and third-quarter GDP growth slowed to just +0.1%.

On a more positive note, inflation continues to moderate. In the US, core inflation is easing, rent growth is slowing, and the Federal Reserve (Fed) delivered another 25 basis point rate cut in October. The Bank of England (BoE), meanwhile, held rates steady at 4% in a narrow vote, suggesting a cautious stance. BoE officials noted that September's 3.8% inflation reading was 'likely the peak'.

Additionally, US-China trade relations moved from tension to cautious cooperation. Markets were rattled by the announcement of potential 100% tariffs on all Chinese imports, only to recover after a framework agreement extended the trade truce, eased rare-earth restrictions, and reopened some export channels. While this was a welcome development, it underscored the unpredictable nature of US trade policy. Tariffs with most of US's trade partners remain elevated at 10–20%, and the average effective rate across all imports is now the highest in nearly a century. This uncertainty continues to weigh on corporate investment and hiring decisions, contributing to the softer employment trends we now observe.

Recent market turbulence in the AI space highlighted growing unease around valuations that are increasingly stretched after several years of extraordinary gains. Investor enthusiasm has cooled as questions emerged over the sustainability of the current pace of capital expenditure across the broader AI ecosystem. Vast sums continue to be committed to datacentre build-out, chip production and power infrastructure, yet the returns on much of this spending remain distant and uncertain. At the same time, a degree of circular financing has become apparent: a relatively concentrated group of hyperscalers, chip designers and infrastructure providers are simultaneously customers, investors and suppliers to one another, creating interconnectedness that can amplify both upside and downside moves. While the long-term transformative potential of AI remains, these dynamics have prompted a more cautious stance. We continue to maintain thematic exposure to the technology theme where valuations appear more reasonable, but we have deliberate underweights in areas where momentum has outrun fundamentals or where leverage has risen. Diversification across regions, styles and asset classes remains central to managing these evolving risks effectively.

The final weeks of the year will bring a flurry of economic data as US statistical agencies work through their backlogs. These official data releases may confirm a softening labour market in the US. At the same time the UK Chancellor will set out the Autumn Budget in late November, which could influence domestic growth and sentiment. Meanwhile, trade policy remains a key area of uncertainty, with legal challenges to presidential tariff authority still unfolding.

In summary, the environment calls for vigilance rather than alarm. Growth is slowing and policy uncertainty is elevated, yet inflation is trending lower, central banks are supportive and corporate balance sheets remain generally solid. Our balanced, multi-asset, globally diversified approach is designed precisely for periods such as this. We aim to capture upside when sentiment improves while reducing downside during bouts of volatility.

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