Third quarter review and outlook

Global markets reached new highs in Q3 2025 despite ongoing geopolitical and economic challenges.

Q3 2025

Marketing material.

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Markets were resilient in the third quarter of 2025, despite continuing geopolitical tensions, as major equity indices achieved fresh all-time highs. This sharp turnaround from April's tariff tantrum was primarily fuelled by growing optimism surrounding potential trade agreements, a US fiscal stimulus, and continued enthusiasm for AI.

President Trump announced framework trade agreements with the EU and Japan, and whilst no agreement was formalised with China, talks will continue under a tariff truce running to early November. This helped Chinese equities continue their recent rally, despite questions about technology exports and Taiwan remaining unresolved.

Central bank independence emerged as a contentious issue as President Trump publicly criticised Federal Reserve ('Fed') Chair Jay Powell, contributing to rising long end yields and US dollar weakness throughout the quarter. The 25 basis point (bp) rate cut at the September Federal Open Market Committee (FOMC) meeting did little to stem Trump's calls for the central bank to go further.

Economic data was mixed in the quarter, making the Fed's decision harder, as inflation remained above target, whilst the jobs market continued to weaken. Elsewhere we saw continued political uncertainty, with a change in Prime Minister in both France and Japan, as well as continuing efforts to end the wars in Ukraine and Gaza, which impacted oil markets and added to gold's continued strong performance.

Equities

US

US equities were remarkably resilient with the S&P 500 gaining 7.8%[1], while the tech-heavy NASDAQ Composite rose 8.8%[2], both reaching fresh all-time highs despite looming tariff deadlines and concerns around the independence of the Federal Reserve.

The market rally was helped by large technology companies, with Nvidia becoming the first company to surpass a $4 trillion market capitalisation, after receiving approval to resume exporting their H20 AI chips to China.

AI related stocks declined briefly within the quarter, after a report from the Massachusetts Institute of Technology (MIT) found that 95% of AI agents had been deployed unsuccessfully, creating fear that AI's ability had been overstated by the market.

The market rebounded to reach all-time highs shortly after but concerns as to whether the AI theme is a bubble have continued. Small-cap stocks, measured by the Russell 2000 index, were the best performers during the period with a 12%1 gain, having benefitted from lower rates and a weaker currency.

Despite calls by Trump for big interest rate cuts, the Fed cut rates by the expected 25bps, with the sole dissenter being Stephen Miran, the newly confirmed Trump-backed Governor, who opted for a larger 50bp cut.

A further 1% of cuts are expected over the next 12 months by the market, with any reduction in those expectations, due to a more hawkish Fed, having the potential to cause market volatility.

[1]Price return in local currency. [2]Price return in USD. Performance figures are price return in local currency unless otherwise specified.

About Cazenove Capital

- Owned by Schroders, a FTSE 100 company
- Assets under management over £65 billion[1]
- Offices across the UK in Birmingham, Bristol, Chester, Edinburgh, London, Manchester and Oxford
- Founded 200 years ago and built on lifelong partnerships with our clients
- [Discretionary fund management for advisers]

[1]Correct as of December 2024.

Richard Gould
Portfolio Director

Richard Gould is a Portfolio Director within the DFM Team. Having joined in 2007, Richard began his career in the City working for an executive search agency focusing on asset management firms. He then moved to Morley Fund Management where he worked on the Corporate Bond team before moving to the Private Equity desk. Richard has completed the Chartered Securities and Investment Institute Masters in Wealth Management.

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UK

The UK equity market performed positively over the quarter, with the FTSE 100 rising 6.7%[1] across the quarter, despite volatility triggered by the government's U-turn on welfare cuts and rising bond yields. The Chancellor came under renewed pressure as government borrowing costs, measured by yields on 30-year government debt, rose to levels not seen since 1998. This added to concern around the UK budget deficit, with speculation that the slim £9.9bn fiscal headroom has been eroded.

The Bank of England (BOE) Monetary Policy Committee (MPC) held rates at 4% in the September meeting, in a 7-2 vote, with the two dissenters voting for a 25bp cut. The MPC noted that they expect inflation to resume its downward trajectory to the 2% target but remain concerned that temporary price pressures could embed into wages creating a wage price spiral. They also announced a reduction in their annual bond sales, known as quantitative tightening (QT), from £100bn to £70bn, which should reduce the upward pressure on bond yields.

Europe

European equities delivered positive returns in the quarter with the STOXX 600 rising 5.1%[1], led by Italy's FTSE MIB rising 7.4%[1], whilst Germany's DAX 30 was unchanged, having had a strong first and second quarter. French stocks underperformed the broader European market as political uncertainty weighed on sentiment.

Trade negotiations with the US boosted sentiment. The EU and US have agreed to remove all tariffs on US industrial goods and granted preferential access to US agriculture products. In return, the US will keep tariffs on most European goods at 15% or less, with some items, like planes and generic medicines, paying only the usual basic rates. Both sides also pledged to make product rules and checks more compatible, and to work together on technology and energy. Europe plans to make large purchases of U.S. gas, oil, nuclear fuel, as well as AI chips, and to invest in US projects.

Inflation concerns have faded as the Eurozone's June CPI print came in at exactly 2.0%, matching the European Central Bank (ECB's). Eurozone Gross Domestic Product (GDP) for Q2 was revised up from 1.4% to 1.5%, making the final print 0.3% higher than expectations, signaling improving macro conditions in Europe.

Japan

Japanese equities delivered solid returns with the Nikkei 225 advancing 11%[1] and the broader TOPIX rising 10%[1], despite volatility in Japanese government bond yields.

The Bank of Japan held rates at 0.5% in both the July and September meetings, although the September meeting saw a 7-2 vote split, with two dissenters opting for a rise to 0.75%, having unanimously voted to hold rates steady at the July meeting. The Bank also indicated they will be stepping down Japanese Government Bond (JGB) purchases steadily moving forward, and that they would start selling ETFs and J-REITs, but at a pace that would take more than 100 years to fully unwind the Bank's position.

Japanese inflation data showed CPI falling to 2.7% year-on-year in September, having been at 3.5% at the start of the quarter, in signs that price inflation is continuing to ease.

Asia & Emerging Markets

Asian and Emerging Markets saw strong gains with the MSCI Emerging Markets index rising 11.6%[2], led by Asian stocks which were up 12.1%[3].

Chinese stocks rallied despite mixed economic data. Chinese GDP growth was 5.2% in the second quarter, outperforming expectations but marking a deceleration from the 5.4% growth recorded in the first quarter. Most growth came from exports rather than domestic consumption, as retail sales fell in each month during the quarter.

Indian equities were a drag on emerging market returns, with volatility continuing as President Trump ordered an additional 25% tariff to be implemented on Indian imports, due to the continuing purchases of Russian oil and gas at discounted prices.

Government bonds

UK government bonds fell as the ICE BofA UK Gilts All Stocks Index slipped -1.4%[1], with gilt yields volatile on concerns around fiscal-discipline after the government's U-turn on welfare cuts. UK yields pushed up across the curve during the quarter, with ten year yields rising around 20bps.

Global sovereigns were also weak with the ICE BofA Global Government Index falling -0.3%. US treasuries led as the ICE BofA US Treasury Index rose 0.7%[1] and 10-year yields fell to 4.15% from 4.35% after the Fed cut rates at the September meeting. Emerging market debt fell 0.6% in the quarter in local currency terms.

Credit outperformed, with global corporates up 1% led by US corporates which gained +1.5%, as spreads held firm despite turbulence in the sovereign bond markets. UK corporates fell 0.4% whilst European corporates were flat[1]. High yield rallied, aided by the $3.4tn net fiscal package in the US and continued resilient growth.

Commodities

Gold rose by an impressive 17%[2] during the quarter, reaching new all-time highs above $3,800/oz as investors sought safe-haven assets amid concerns around the independence of the Federal Reserve and heightened geopolitical tensions.

Brent crude oil prices declined by -1%[2] over the quarter, primarily driven by OPEC+'s decision to increase production.

Industrial metals were particularly strong after President Trump proposed a 50% tariff rate on copper products, causing futures to surge 13%[2] in their largest daily move since 1988, though this rally partially reversed after the US surprisingly exempted refined metal from the new tariffs.

By quarter-end, market sentiment remained focused on the Federal Reserve's monetary policy path following its rate cut in September, with futures pricing in additional cuts by year-end, creating a supportive environment for gold which continued its strong 2025 performance with a year-to-date increase exceeding 46%[2], and putting it on track for its strongest annual performance since 1979.

[1]Price return in local currency. [2]Price return in USD. [3]MSCI Asia ex Japan price return in EUR Performance figures are price return in local currency unless otherwise specified.

Outlook

We expect the global economy to continue its expansion, supported by resilient domestic demand and less policy uncertainty. While growth may be slightly slower than the last couple of years, it has held up despite tariff disruption, and the Schroders forecast remains above consensus for both 2025 and 2026.

Consumer fundamentals are supportive, but capacity constraints and the risk of inflation argue against aggressive policy easing. A policy misstep is a risk, whilst strong equity performance has also caused valuations to look increasingly stretched. We retain conviction in themes such as technology and small caps but are more cautious about the broader US market.

Inflation risk remains to the upside in the UK and US, where policy rates may stay higher for longer than markets expect. Market pricing appears too dovish, and any rate cuts that do occur could risk reigniting inflation rather than materially boosting real growth.

Elsewhere, Europe's outlook has brightened following the EU-US trade deal and looser financial conditions, but structural headwinds remain. Japanese and emerging Asian equities continue to offer appealing combinations of improving earnings and reasonable valuations, and we retain overweight positions there. The UK economy remains supply-constrained, keeping inflation high and rates most likely on hold, but select opportunities remain in domestic equities.

In fixed income, we hold a neutral stance on duration, having added modestly to long-dated exposure earlier in the year. Yields remain attractive in absolute terms, and long bonds should offer portfolio protection if growth disappoints. We maintain a preference for asset-backed securities over investment-grade credit and remain underweight US treasuries given fiscal concerns. Gold remains an attractive diversifier as central banks and investors look to hedge geopolitical and dollar-related risks.

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