

THE Quarterly Edit

2025 Outlook |
& review of Q3 2025 |



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Q3
2025

Quarter

IN REVIEW



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Global equity markets posted strong returns during the quarter, with several major markets including the UK and the US reaching record highs, supported by resilient economic growth, strong Q2 earnings reports and lower-than-expected tariff impacts. While many European equity markets also reached all-time highs, French equities were subdued due to concerns about the fiscal situation.

In the US, Q2 GDP rebounded to 3%, driven by falling imports. However, the labour market softened, with downward revisions to both June and July payrolls and August gains at just 22,000 vs. the 75,000 forecast. The Federal Reserve's (Fed's) rate cut reflects its dual mandate to support employment as well as price stability. Meanwhile, the Bank of England cut rates for the fifth time in this cycle in August, reaching a two-year low, despite inflation remaining elevated at 3.8% in August.

In our latest 'Quarterly Edit', we touch on four themes that we hope provide you with an overview that reflects our informed decision-making and helps you understand the challenges that investors currently face.

Our focus continues to be on keeping a balanced and diversified approach, aiming to position our asset allocation choices to weather economic uncertainties effectively, and focused on a long-term investment strategy that is adaptable yet based on sound principles. As ever, we are grateful for the trust you place in us and are committed to targeting the highest level of service and performance. Together, we look forward to navigating the market's complexities and working towards achieving your financial goals.





Economic indicators presented a mixed bag in Q3

Sticky inflation remained a concern. US inflation held firm at 2.9% in August, driven by persistent cost pressures in housing and services. The impact of tariffs has not been fully felt yet, as many businesses stocked up on imports ahead of 'Liberation Day'. This could delay but not eliminate upward price pressures, potentially keeping inflation higher and squeezing consumer budgets. On the other hand, the labour market showed unexpected weakness, with unemployment rising to 4.3% in August and monthly job growth stalling. While this softening could ease inflation, it also raises concerns about a possible recession. Leading indicators offered little reassurance: the Conference Board's Consumer Confidence Index continued its downward drift, and the ISM Manufacturing PMI hovered near contraction territory. This underscores the importance of diversification, as economic slowdown could favour defensive over cyclical stocks, but close attention to forward-looking consumer and business sentiment will be critical in assessing the growth outlook.

Artificial Intelligence (AI) capital expenditures fuel tech stock rally amid bubble fears

US equity market indices reached new highs in Q3, but the surge was narrowly driven by mega-cap tech firms. Nvidia and its peers surged 15–30% on AI optimism, echoing the narrow leadership and valuation excesses of the dot-com era. Strong quarterly earnings beat expectations, supported by robust demand for AI infrastructure. However, forward guidance tempered optimism due to ballooning capital expenditure (capex), projected to exceed \$300 billion in 2025. A recent MIT study revealed that 95% of organisations have yet to realise profit from generative AI investments, raising questions about how long the hype can last. Supporters emphasise AI's transformative potential to boost productivity, potentially adding 1-2% to annual GDP growth and justifying premium valuations. Sceptics, however, draw parallels to hype cycles that culminated in steep corrections. For investors, caution is advised: while technology offers growth, overexposure risks sharp pullbacks. Some diversification into value sectors may offer a more balanced approach.



The Fed delivers its first rate cut of 2025

The Fed resumed its 2025 monetary easing in September with a 25-bps cut to interest rates, setting the target range at 4.00-4.25%. This move was aimed to support a weakening labour market without stoking inflation as the Fed cautiously navigated its dual mandate of maximum employment and stable prices. The Fed's outlook for 2026 is uncertain. While the median forecast puts rates in the mid-3% range, opinions among policymakers vary widely. The recent appointment of Stephen Miran, a Trump loyalist favouring aggressive easing, introduced a dovish tilt. Miran dissented in favour of a 50-bps cut, arguing that tariffs would not drive inflation higher. Uncertainties around tariff effects and labour trends complicate the path ahead, possibly leading to further volatility in bond yields. Elsewhere, the Bank of England cut rates to 4% in August with no change in September, citing stubborn inflation, while the European Central Bank maintained its 2% rate throughout the quarter.

Rising UK bond yields signal growing fiscal concerns

The UK 10-year gilt yields climbed to 4.7% from 4.5%, while 30-year yields peaked at 5.7%, driven by fears over government debt sustainability and sticky inflationary pressure. The yield curve steepened, as 30-year gilt yields increased more than 2-year yields. While this sometimes signals optimism about growth, in this case it could point to worries about fiscal stability. The Labour government faces mounting pressure to balance the budget, as total debt has reached £2.8 trillion. The upcoming Autumn Budget in November is expected to explore new revenue streams to meet fiscal targets. Success in these measures could calm markets and stabilise yields, but failure may amplify volatility, especially in the context of geopolitical tensions and trade uncertainty. For investors, short-dated bonds may offer better risk adjusted returns than long-term bonds.



2025 OUTLOOK

Balancing risks and rewards amid trade and geopolitical tensions

While US tariffs remain lower than those announced on ‘Liberation Day’, the effective tariff rate is still at its highest level in about a century. Framework deals with partners like the EU, Japan, and the UK set tariffs between 10–20%, often with exemptions and investment pledges. Sectoral tariffs target steel, autos, and copper, with future levies expected. Other countries face higher tariff rates amid ongoing talks, and China faces a 90-day tariff pause until the 10th November. It is clearly too soon to assess fully the future impact of the tariffs, but expectations are for slower economic growth and higher inflation and there is evidence that companies are holding off on capex and hiring plans until the future picture becomes clearer. Indeed, the US has experienced a clear trend of slowing job creation, as evidenced by the recent weaker than expected non-farm payroll data, as well as downward revisions to previous months’ reports.

At the same time, geopolitical risk remains at historic highs, with fresh spikes recently from Russia violating Polish, Estonian and Romanian airspace, and Israel carrying out a strike in Qatar against Hamas’ leadership. Despite some diplomatic overtures, no ceasefire has been reached.

Against this backdrop and given the ongoing strength in equity markets and, in some cases, elevated valuations, we continue to have a neutral weighting in equities. Our allocations are diversified, being spread across regions, countries and sectors. We are conscious of achieving a balanced overall investment style, seeking growth from US equities for example, and value from UK equities. We continue to seek thematic exposure within portfolios through both the technology and healthcare themes. Within bonds we prefer higher quality and shorter maturity debt that offers relatively attractive yields while limiting sensitivity to unexpected macroeconomic volatility. Within alternative investments, including structured return products, we target investments which offer expected returns and yields that do not always move in the same direction as equities and bonds, aiming to reduce overall risk. This diversified approach is designed to position portfolios to effectively navigate the economic and geopolitical uncertainties that lie ahead.



UK

UNITED KINGDOM EQUITIES

The UK equity market looks attractively valued on both a historical and relative basis. Around 75% of revenues from UK-listed companies come from overseas, making them sensitive to global rather than domestic trends. UK equities remain central to our strategy, particularly in undervalued 'value' sectors like resources and financials. These stocks offer appealing price-to-earnings and dividend metrics and help balance our growth exposure across other regions and asset classes, contributing to portfolio diversification and resilience.

US

UNITED STATES EQUITIES

US equities face growing headwinds, with valuations appearing stretched and market leadership increasingly narrow. While Q2 earnings saw over 80% of S&P 500 companies beat estimates, gains were concentrated in a few sectors, including technology and communication services. AI enthusiasm has driven prices higher, but underlying fundamentals remain varied. Elevated expectations, policy uncertainty, and weak breadth raise concerns about sustainability. The market could be vulnerable to disappointment if macroeconomic conditions or earnings growth falters.

EU

DEVELOPED EUROPE EQUITIES (EXCLUDING THE UK)

While some European equity indices reached all time highs in Q3, some, most notably France, faltered. German equities peaked early in the quarter, benefiting from the planned increase in fiscal spending, while French equities were hit by ongoing political uncertainty and budget deadlock. Looking forward, Europe's earnings growth remains underwhelming, largely due to weak performance in energy and sectors sensitive to China which have recently been subject to earnings downgrades.

AP

ASIA PACIFIC EQUITIES (EXCLUDING JAPAN)

After a strong recent performance, many Asian stock markets now look expensively valued vs history. Domestic growth remains subdued and many stocks have seen a material rerating only partially backed up by improvements in earning growth expectations. We see little evidence for an imminent turnaround in the broader Chinese economy, especially given the challenges posed by the ongoing property crisis which we believe will take some time to resolve.

JP

JAPAN EQUITIES

Japanese equities are supported by corporate governance reforms, strong earnings and foreign inflows. Inflation and domestic demand are stabilising, aiding positive sentiment. However, risks include monetary tightening, political uncertainty, yen volatility, and sector concentration. Exporters face pressure from global trade tensions, and valuations in some areas are becoming stretched. While fundamentals remain constructive, market performance may be vulnerable to policy missteps or external shocks. We will continue to monitor central bank actions and earnings growth.

EM

EMERGING MARKETS EQUITIES

Many emerging market countries rely on China as a source of demand. China currently faces several economic challenges: slowing growth, weak consumer demand, and persistent deflation. Fiscal fragility, low private investment, and geopolitical tensions further complicate economic recovery efforts. Other markets, such as India, appear somewhat expensive, especially given muted earnings growth of below 10%. Geopolitical risk and tariff uncertainty also lead us to remain cautiously positioned within this portion of overall equity market exposure.

Outlooks defined: We express positive, neutral, and negative outlooks across a range of asset classes. These are defined as our judgement as to the expected return compared to the relevant broader asset class benchmark over our central forecast period of twelve months.

● POSITIVE ● NEUTRAL ● NEGATIVE

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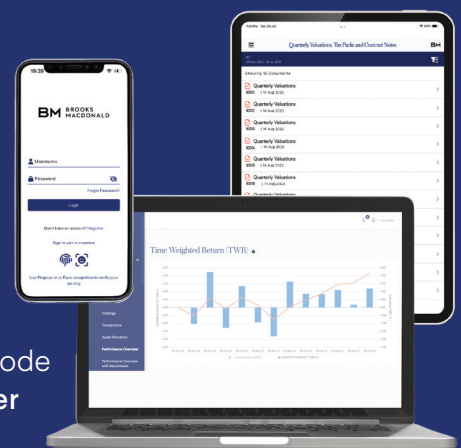


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The views in The Quarterly Edit are correct as at 30 September 2025. All information is current at the time of issue and, to the best of our knowledge, accurate.

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