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Vanguard – Q3 2025 investment update

Key takeaways

- The LifeStrategy funds continue to bring in strong cashflows over the year reinforcing their popularity with the IFA community.
- Performance continues to remain top quartile over the long term.
- US equities led Q3 gains, driven by strong economic data and earnings.
- Global bonds led fixed income gains, offset by weaker UK performance.

Fund Performance Q3 2025

Performance was primarily driven by its equity exposure to the developed world and US equities, with a notable contribution from UK equities and emerging markets. Fixed income also contributed positively, with global bonds being the main driver, partially offset by UK government bonds.

Contributors > Equity exposure to the developed world, particularly US equities, was a key driver of performance. The US market benefited from strong corporate earnings and renewed enthusiasm for AI. UK equities recorded strong gains, supported by a resilient global economy and a weaker local currency. Emerging markets contributed positively, driven by progress in trade talks, firmer precious metal prices, and softness in the US dollar. Euro area equities advanced, led by financial and healthcare stocks. Banks in particular benefited from solid corporate earnings. Japanese equities posted strong gains, supported by structural reform momentum and growing expectations of a US rate cut. Additional tailwinds included a softer yen, a favourable trade agreement that reduced US tariffs on most Japanese exports, robust domestic macro data, and ongoing corporate governance reforms. In fixed income, global bonds were the main positive contributor. Credit markets also performed well, with US investment-grade spreads tightening, supported by robust consumption and solid corporate earnings.

Detractors > Within fixed income, UK government bonds partially offset gains, as 30-year Gilt yields rose to record highs due to persistent inflation, political instability, and fiscal concerns. Expectations of no rate cuts for the remainder of 2025 suggest continued pressure from services inflation. US Treasuries underperformed relative to other major government bond markets. After an initial steepening, yields reversed course following the Federal Reserve’s rate cut in September, aimed at supporting a cooling labour market - indicating that earlier assessments of US economic resilience may have been overstated. Eurozone yields rose, driven by optimism from resolved tariff uncertainties and anticipated benefits from German fiscal spending. Although the ECB held rates in September, it lowered inflation forecasts beyond its 2% target, creating mixed signals for bond investors.

Performance relative to IA sector peers (Q3 2025)

	Q3		YTD		1y		3yrs		5yrs		7yrs		10yrs		Since Inception	
	7/1/2025 9/30/2025		12/31/2024 9/30/2025		10/1/2024 9/30/2025		10/1/2022 9/30/2025		10/1/2020 9/30/2025		10/1/2018 9/30/2025		10/1/2015 9/30/2025		Inception Date 9/30/2025	
Group/Investment	Return (Cumulative)	Peer group quartile	Return (Cumulative)	Peer group percentile	Return (Cumulative)	Peer group quartile	Return (Annualized)	Peer group quartile	Return (Annualized)	Peer group quartile	Return (Annualized)	Peer group quartile	Return (Annualized)	Peer group quartile	Return (Annualized)	Peer group quartile
Mixed Investment 0-35% Shares																
Vanguard LifeStrategy 20% Eq A Grs Acc	2.25	3	5.08	71	4.12	4	5.55	4	0.47	4	2.16	3	3.07	2	3.95	1
Peer Group Median	2.86		5.55		5.27		6.22		2.71		2.61		3.07		3.07	
Mixed Investment 20-60% Shares																
Vanguard LifeStrategy 40% Equity A Acc	3.83	3	6.49	62	6.87	3	7.65	3	3.19	4	3.88	2	5.18	2	5.57	1
Peer Group Median	3.89		7.01		7.13		7.85		4.82		3.79		4.62		4.73	
Mixed Investment 40-85% Shares																
Vanguard LifeStrategy 60% Equity A Acc	5.54	3	8.23	46	10.24	2	10.26	2	6.30	3	5.86	2	7.50	1	7.26	1
Vanguard LifeStrategy 80% Equity A Acc	7.22	1	9.74	22	13.27	1	12.75	1	9.41	1	7.78	1	9.77	1	8.66	1
Peer Group Median	5.58		8.03		9.74		9.55		6.76		5.39		6.73		6.38	
Global																
Vanguard LifeStrategy 100% Equity A Acc	8.92	1	11.26	27	16.37	1	15.26	2	12.56	2	9.69	2	12.06	2	10.58	2
Peer Group Median	5.82		7.83		10.66		13.26		9.42		8.59		10.66		9.26	

Vanguard's house view: Q3 2025 Markets Outlook

- UK economic growth slowed during the quarter.
- Euro area inflation remained around the ECB's 2% target.
- The US economy lost momentum as jobs growth slowed.

- As some global uncertainties faded in the third quarter, major economies continued to chart divergent paths. Economic activity improved in the United States but softened in the euro area and United Kingdom. Inflation remained at target levels in the euro area but was elevated in the United Kingdom and United States. During Q3, the European Central Bank (ECB) kept interest rates unchanged, while the Bank of England (BoE) and US Federal Reserve (Fed) cut interest rates once, respectively.
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- In the United Kingdom, the economy grew by 0.3% (quarter-on-quarter) in Q2, weaker than the 0.7% recorded during Q1. Survey data suggested a further moderation of growth in Q3. Employment data showed signs of cooling, with the unemployment rate rising to 4.7%. The annual headline Consumer Price Index (CPI) remained elevated at 3.8% in August, up from 3.6% in June. Annual core CPI, which excludes volatile energy and food components, fell from 3.7% to 3.6% over the same period. While the BoE eased interest rates from 4.25% to 4.00% at its August meeting, it kept rates on hold at its September meeting.
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- In the euro area, economic activity expanded by 0.1% (quarter-on-quarter) in Q2. This reflected a sharp drop in growth since Q1, when the economy grew by 0.6%, as it benefitted from the front-loading of trade ahead of the imposition of US tariffs. Forward-looking economic indicators for the third quarter suggested a similarly lacklustre pace of growth to that seen in Q2. Inflation continued to hover around the ECB's 2% target, with annual headline and core CPI

averaging 2.1% and 2.3% over the quarter, respectively. With growth steady and inflation benign, the ECB decided to keep its policy rate at 2.00% at both its July and September meetings.

- US economic activity rebounded in Q2, expanding by 3.8% (quarter-on-quarter, annualised), after contracting by 0.2% in Q1. However, jobs growth has cooled rapidly, suggesting that the economy lost momentum over Q3. Tariffs had only a slight impact on prices, with the Fed's preferred inflation measure, the annual Core Personal Consumption Expenditures (PCE) Index, edging up from 2.8% in June to 2.9% in August. Meanwhile, headline PCE increased from 2.6% to 2.7% over the same period. Faced with a weakening labour market, the Fed opted to ease interest rates at its September meeting. This left the federal funds target range at 4.00-4.25% at the end of Q3.
- *Data source: Vanguard and Bloomberg, as at 1 October 2025*

What does this mean for LifeStrategy investors going forward?

The data shows that 79% of the time, actual S&P 500 returns fell outside the range of analyst forecasts. This highlights how difficult it is to predict short-term market movements even for professionals. For LifeStrategy investors, this is a powerful reminder that trying to time the market is not only stressful, but statistically unreliable. Instead, LifeStrategy products are built to weather volatility through strategic asset allocation. They combine global equities and bonds in proportions aligned to long-term goals and risk tolerance. This approach helps investors avoid the pitfalls of reactive decision-making and instead benefit from compounding returns over time.