

Quarterly review

for the three months to 30 September 2025



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Chief investment officer

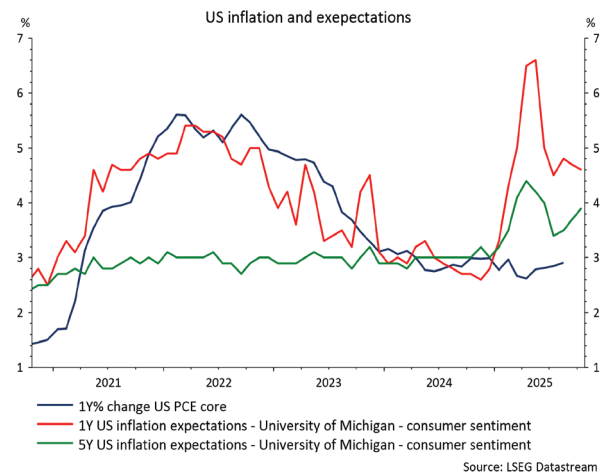
Global equities and bonds rose 9.66% and 2.40% in sterling respectively over the third quarter of 2025 as the US Federal Reserve cut its policy interest rate for the first time in 2025. Bankruptcies in the US private debt market and concerns over US policy-making, however, fuelled an 18.48% rise in sterling for gold, traditionally a safe-haven asset.

The Fed lowered its federal funds rate by a quarter percentage point in September to 4-4.25% in response to weaker-than-expected employment data. In August, the latest month for which data is available owing to the US government shutdown, non-farm payrolls rose just 22,000 and new job openings for the year to 31 March 2025 were revised downwards by 911,000. Despite signs of jobs data weakness, unemployment is close to historic lows at 4.3%. The Fed has a dual mandate to ensure full employment and price stability and has, in response to uncertain economic prospects, protected jobs, potentially at the risk of higher inflation. The core personal consumption expenditures (PCE) price index, the Fed's preferred inflation measure, showed a 2.9% rise in August, well above the Fed's 2% target rate.

Current US inflation may not reflect the full impact of Trump's tariff increases because companies may have increased stocks of imported components or absorbed the impact of higher production costs through lower margins. Tariffs are a tax on global trade but may also ensure greater US economic security through the onshoring of manufacturing. The Covid-19 pandemic exposed the fragility of global supply chains when companies such as Ford Motor suspended production due to a lack of semiconductors. Trump's isolationism and heightened geo-political risk may also be factors. In October, China reached an agreement with the US over the supply of rare earths after Trump threatened to impose 100% tariffs on Chinese goods in response to proposed Chinese export controls. China is the leading producer of rare used in industries such as electric vehicles, electronics and defence.

Trump's restrictive immigration policies may also prove inflationary because service sector inflation driven by wage increases are likely to contribute to higher prices overall. The Fed's September core PCE inflation forecast was 3.1% for 2025 in line with the June forecast but the 2026 forecast increased to 2.6% from 2.4%. The University of Michigan consumer surveys are widely consulted to determine inflation expectations. As the

chart below shows, in October consumers expected US inflation to be 4.6% one year ahead and 3.9% in five years' time, up from 3.7% in September. US consumers anticipate higher prices at a time when the savings ratio, the percentage of wages saved, was at a 4.6% historic low in August 2025, down from 5% in June 2025. Higher-than-expected US inflation could precipitate a fall in markets should investors anticipate tighter monetary policy coupled with weaker consumer spending.

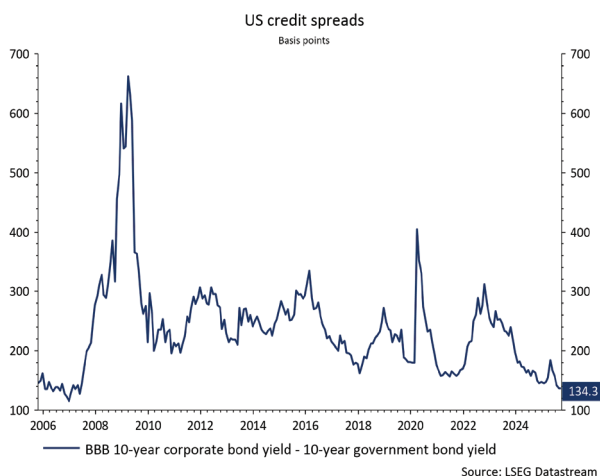


US stocks outperformed over the quarter, up 10.06% in sterling, with technology stocks even stronger, up 16.33%, as investors responded to easier monetary policy but high valuations leave little room for disappointment. The recent bankruptcies of First Brands Group and Tricolor, both funded in the private debt markets, prompted Andrew Bailey, the Bank of England (BoE) governor, to draw a parallel between the \$2.5 trillion private credit market and the lending practices in the US subprime mortgage market ahead of the 2007-8 global financial crisis. As the chart overleaf shows, the US credit spread, which measures the excess return investors expect from high-yield bonds compared to US treasury bonds is just 1.34 percentage points, an historically-low level of compensation for increased risk.

UK equities lagged, rising only 6.85% over the quarter while equities in Europe excluding the UK rose only 4.87% in sterling. The European Central Bank froze its key deposit rate at 2% as eurozone inflation increased from 2% in June to 2.2% in September. The BoE cut its policy rate to 4% in August in response to faltering economic growth despite above-target inflation, which hit 3.8% in September. The BoE expects

Quarterly review (continued)

for the three months to 30 September 2025



of artificial intelligence. In the bond markets, shorter-dated inflation-linked bonds appeared defensive should inflation remain sticky. Gold may provide diversification but rose strongly over the first nine months of 2025 as some central banks sought to diversify away from the dollar. The gold price is volatile and gold, as a nil-yielding asset, may prove vulnerable to profit-taking should interest rates remain higher for longer.

inflation, however, to fall to the 2% target. UK government bonds eased 0.80% despite easier monetary policy.

Equities in Asia excluding Japan and emerging markets outperformed, up 13.06% and 12.93% respectively in sterling. Some emerging market economies have lower public sector borrowing levels than developed economies, more favourable demographics and faster economic growth. Chinese stocks rose 22.92% in sterling as negotiations resulted in lower tariff rates than initially feared whereas Indian stocks fell 4.96% as investors took profits from a market trading on a relatively-elevated valuation. Japanese stocks rose 10.55% in sterling as investors responded to further evidence that inflation might stick around the central bank's 2% target.

At the quarter end, there were grounds to be positive overall about equities, with the most attractive market areas being UK equities, large Europe ex-UK companies and some emerging markets, which all ended the quarter trading on relatively-low valuations. US stocks appeared priced for perfection, however, with the result that earnings disappointments could trigger technology sector falls despite the long-term potential

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