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MARKET PERSPECTIVES REVIEW & OUTLOOK

THIRD
QUARTER
2025

THIRD QUARTER 2025 REVIEW & OUTLOOK

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THIRD QUARTER 2025 REVIEW & OUTLOOK

EXECUTIVE SUMMARY

14 October 2025

PORTFOLIO THEMES

- We believe the global bull market will continue. While sentiment is improving, lingering economic and political fears help keep expectations low, leaving room for bullish positive surprise.
- We expect European equities and Value to continue to lead global performance through the remainder of the year, albeit with expectations for US and Growth to also fare well.
- Easing global inflation has led to many central banks cutting rates, resulting in a steeper yield curve and acting as a relative tailwind to non-US countries as the US Fed mulls over their own course.

MARKET OUTLOOK

- **Tariffs Not Playing Out as Feared:** With pending court challenges, new trade deals with countries, and underwhelming tariff collections, US tariff impact has been better-than-feared. Worst-case scenarios were priced in in April but as they failed to come to fruition markets bounced back sharply.
- **Post-Correction Optimism Does Not Signal the End:** While sentiment has become more optimistic since the correction earlier this year, lingering economic and political fears are evidence that this bull market has not reached euphoric levels and that the “wall of worry” is still intact.
- **Economic Tailwinds Should Continue Driving this Bull Market:** Despite increased tariffs, corporate earnings keep growing and beating expectations, especially in Europe. Inflation and interest rates likely remain benign as higher prices for tariffed goods are offset by disinflation elsewhere.

Three quarters into 2025, global markets are clocking new highs—on track for the solid bull market year we forecast. The MSCI ACWI Index climbed 7.6% in Q3, leaving the market on course to finish the year with the strong double-digit returns we forecast.ⁱ While we remain bullish, now is a time to remain even-keeled as investor optimism stirs. Stocks have plenty to like in an overall fine global backdrop, yet there is also plenty to watch.

Emerging Markets (EM) growth continued in Q3 as the MSCI EM Index returned 10.6%ⁱⁱ, defying fears related to tariffs and trade policy. US trade agreements with several EM nations boosted EM sentiment, as the US unveiled revised tariff rates on global trade partners on 31 July. Most EM nations now have at least some clarity surrounding the rate America plans to levy and have had time to adjust accordingly. For EM overall, sentiment is warming as more recognise constituents' aggregate underlying economic strength and solid market fundamentals—despite US tariffs impact.

i Source: FactSet, as of 01/10/2025. MSCI ACWI Index return with net dividends, 30/06/2025 – 30/09/2025 and 31/12/2024 – 30/09/2025, in USD.

ii Source: FactSet, as of 10/01/2025. MSCI EM Index return with net dividends, 30/06/2025 – 30/09/2025 and 31/12/2024 – 30/09/2025, in USD.

Fundamentally, this bull market has many tailwinds. Economic drivers are chugging along. GDP grows moderately throughout much of the world. US tariffs, which polls show remain unpopular with most voters, have added headwinds but not derailed growth. Corporate earnings keep growing and beating expectations, especially in Europe. Inflation isn't where people would like but isn't a major concern, either. Aided by rate cuts, yield curves have steepened, particularly outside the US, supporting economic growth and value stocks generally. Global politics are eventful but reinforcing gridlock across the developed world. All looks well enough for the bull market to continue, in our mind.

Sentiment also looks favourable for a continued bull. As corrections typically do, the springtime downturn reset investor expectations far lower, teeing up positive surprise—one key reason bull markets typically run an average 14 months after the cycle's last correction regained pre-correction highs.ⁱⁱⁱ

Moods brightened considerably over the summer as investors fathomed growth continuing despite tariffs and other headwinds. All things artificial intelligence (AI) keep pumping enthusiasm toward its supposed beneficiaries. All these are widely known factors, but they point to sentiment tipping toward increasingly positive. Not euphoric, but bending back toward optimism, which often brings nice returns. Legendarily, bull markets climb an irregular wall of worries until euphoria causes people to run out of concerns. This bull market's wall of worry still has many false fears, including myriad, continuing geopolitical fears and flares, high price-to-earnings ratios and other valuations, US and European debt concerns, US Dollar strength struggles, interest rates and more. All of these are too widely known to hit stocks for long, in our view.

The extant US government shutdown continues garnering many headlines. By now, many acknowledge this as a false fear. Historically, fear of shutdowns carrying vast negative market and economic fallout has run rampant ahead of and during said shutdowns. Today, we see headlines touting the politics—but little fear of economic or market impact. Sensibly, people appear to be largely—not fully, but largely—moving on.

With sentiment warming and AI enthusiasm widespread, people make ever more parallels with the 1990s, implying this boom will soon bust. Some of their points are valid, others less so. Whether you find bullish or bearish comparison points, connecting then-and-now dots won't reveal when and how this bull market will end. To us, the hunt for bubbles is yet another sign this bull market hasn't reached a euphoric peak. The expectation of a bubble bursting is, in and of itself, a sign of fear—not euphoria.

But all bull markets do end. While we don't think this one is ending now, we are watching several possible pitfalls: stocks' relatively higher tendency to fall in presidents' second years; potential monetary policy risks as Fed leadership changes; uncertainty as the Supreme Court's tariff ruling approaches; risks within private equity and credit rippling outward; cryptocurrency blowups infecting equities; potential wildcards in 2026's midterm elections and more.

ⁱⁱⁱ Source: FactSet, as of 29/09/2025. Statement based on S&P 500 average time from the point the bull market's final correction reached recovery to end of bull market, 1928 – 2024.

We have time to watch these things closely because bear markets, especially big, prolonged ones, almost always start with a whimper, not a bang. They typically begin with gradual slides, with the worst pain coming late. The total decline tends to average about 2% per month. This creates a window—at least three months—to assess the landscape after a new all-time high and determine whether a bear market is forming. We are always aware we could be wrong, so instead of trying to nail the peak of a bull market, we take the time to determine whether a bear market is underway, with a high enough probability of severe downside ahead to justify the risk of adjusting our positioning to be more defensive.

More broadly, bull markets generally end one of two ways: the “wall” or the “wallop.” That is, stocks reach the proverbial wall of worry’s top, expectations get too hot, and a bear market creeps in as investors ignore deteriorating conditions. Or, something sudden, huge and broadly unseen wallops markets before they finish climbing the wall, as COVID lockdowns did in 2020. While we are monitoring carefully, we don’t see anything imminent on either front today.

Yet volatility is always possible, for any or no reason. While bull markets usually run at least 12 – 18 months after a correction like this spring’s, that doesn’t rule out a second correction late this year. Should one strike, we caution patience and to remember how quickly stocks rebounded from April’s lows. That patience could likely prove more profitable, over time, than trying to dodge possible volatility.

GLOBAL UPDATE AND MARKET OUTLOOK

6 November 2025

MARKET RECAP

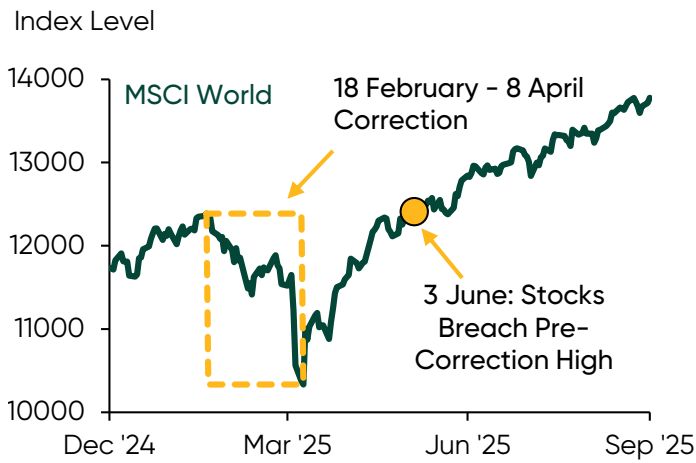
ENJOY THE BULL MARKET, BUT STAY GROUNDED

The strong, double-digit bull market year we forecast is unfolding, and optimism is perking. However, while market drivers point positively, the landscape isn't risk-free. We believe that there are reasons for bullishness—which we think remain in the driver's seat—and some negatives we are watching. Now is a time to appreciate markets' good year—but remain even-keeled and forward looking.

THE FIRST THREE QUARTERS

Nine months in, 2025 has met our bullish expectations, with the MSCI ACWI rising 18.85%.^{iv} April's tariff announcements were surprisingly broad and steep, which the large correction surrounding them illustrates. But as we forecasted then, fears seemed excessive relative to reality—providing fuel for the bull market to continue. The correction ended on 8 April. Equities returned to all-time highs in early June and kept climbing.

EXHIBIT 1: THE CORRECTION AND BEYOND



Source: FactSet, as of 02/10/2025. MSCI World Index return with net dividends, 31/12/2024 – 30/09/2025.

Many seem surprised at the recovery's speed and equities' run of record highs. Yet corrections often end about as fast as they struck, with V-shaped rebounds. Emotions, scarred by the drop, rarely heal quickly. This creates corrections' lasting, bullish influence: They reset expectations lower, facilitating positive surprise.

That appears to hold now. Tariffs are economically negative and bad for equities. Yet their scope is much smaller than most feared, teeing up relief. There is likely more ahead. Consider Exhibit 2, which displays the final correction in every S&P 500 bull market since 1928, the recovery date and the time to the bull market's end. The average tops 14 months, with the longest lasting 52.9 months. Even if this correction is the bull market's last, equities should have room to run.

EXHIBIT 2: FROM FINAL CORRECTION TO BULL MARKET END

Correction			Correction Low to Recovery		Recovery to Bull Market End	
Peak Date	Trough Date	Return	Recovery Date	Length (Months)	Length (Months)	Return
14/05/1928	12/06/1928	-10.3%	28/08/1928	2.5	12.3	55.0%
06/04/1936	29/04/1936	-12.8%	14/07/1936	2.5	7.9	19.4%
05/02/1946	26/02/1946	-10.1%	09/04/1946	1.4	1.6	2.0%
23/09/1955	11/10/1955	-10.6%	14/11/1955	1.1	8.6	7.2%
03/08/1959	25/10/1960	-13.9%	27/01/1961	3.1	10.5	18.6%
22/08/1962	23/10/1962	-10.5%	14/11/1962	0.7	38.9	56.3%
25/09/1967	05/03/1968	-10.1%	30/04/1968	1.8	7.0	11.0%
28/04/1971	23/11/1971	-13.9%	04/02/1972	2.4	11.2	14.7%
13/02/1980	27/03/1980	-17.1%	14/07/1980	3.6	4.5	17.1%
10/10/1983	24/07/1984	-14.4%	21/01/1985	6.0	31.1	92.2%
09/10/1989	30/01/1990	-10.2%	29/05/1990	3.9	1.6	2.3%
16/07/1999	15/10/1999	-12.1%	16/11/1999	1.1	4.2	7.6%
27/11/2002	11/03/2003	-14.7%	12/05/2003	2.0	52.9	65.6%
20/09/2018	24/12/2018	-19.8%	23/04/2019	3.9	9.9	15.4%
19/02/2025	08/04/2025	-18.9%	27/06/2025	2.6	??	??
Average		-12.9%		2.6	14.4	27.5%
Median		-12.4%		2.4	9.3	16.3%

Source: FactSet, as of 29/09/2025. S&P 500 price index, based on final bull market correction of cycle, 1928 – 2024.

^{iv} Source: FactSet, as of 01/10/2025. MSCI ACWI Index return with net dividends, 31/12/2024 – 30/09/2025.

LOOKING AHEAD

For now, we remain bullish and are working diligently on our 2026 forecast, which we will share late this year or early next. Markets rose throughout Q3, gaining 7.7% in a relatively placid stretch.^v It is wise to prepare for further volatility, as mid-October's choppiness highlighted. Enduring a correction early this year doesn't preclude more volatility or a second correction late this year. While we aren't forecasting one and don't think forecasting corrections is possible, we have seen two corrections in a year (e.g., 2018) and another could strike any time.

BULLISH FUNDAMENTALS

Better-than-feared economic conditions underpin this bull market. While sentiment has warmed, many claim AI is America's sole economic engine, overlooking healthy consumption and a robust services sector, the bulk of US GDP. Others call the weak dollar a canary in the coal mine signaling trouble that equities overlook, a fear we believe to be overblown. In our view, all similarly liquid markets discount information efficiently. The idea one asset class sees something another ignores is almost always a fallacy. Beyond this, the dollar and equities have no relationship. A weak dollar isn't bullish or bearish.

Overall, fundamentals have maintained their strength – in America and globally.

Entering Q3's reporting season, analysts expect 8.0% y/y US earnings growth and 6.3% revenue growth.^{vi} This trails Q2's 12% y/y earnings growth, but analysts may be too tepid again.^{vii} Q2's final figure trounced 30 June's consensus estimate of just 4.8%, with all sectors but Materials surprising positively.^{viii} The biggest source of positive earnings surprise? Companies with *greater* than 50% of sales outside the US, showing trade fears are overdone. Furthermore, analysts expect even faster full-year earnings growth in Europe—an unseen bullish factor abroad.^{ix}

ECONOMIC UPDATE

Modest worldwide economic growth persists. Some highlighted the upward revision in US Q2 GDP to 3.8% annualised, a historically robust clip. But like Q1, tariffs and tariff fears skewed Q2's GDP. In Q1, imports' sharp rise drove GDP's slight contraction (GDP subtracts imports from exports). In Q2, the reverse struck. Pure private sector growth, composed of consumer spending, business investment and residential real estate investment, totaled 2.4% annualised in Q2. (Exhibit 3, see next page) This is fine, but not as upbeat as the headline rate suggests—and in line with extant trends.

v Source: FactSet, as of 01/10/2025. MSCI ACWI Index return with net dividends, 30/06/2025 – 30/09/2025.

vi "Earnings Insight," John Butters, FactSet, 03/10/2025.

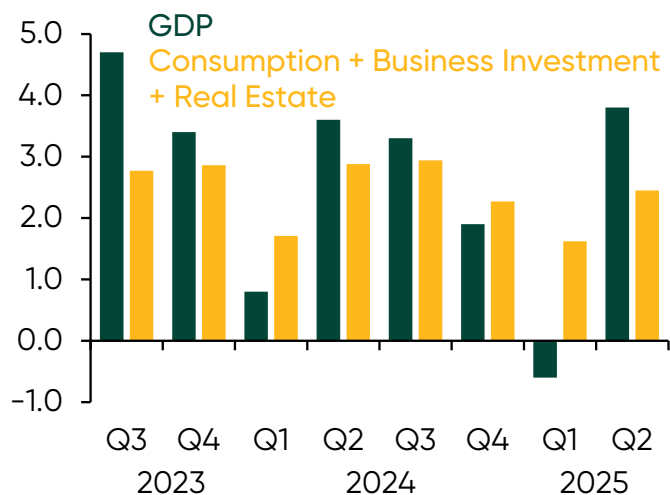
vii Ibid.

viii Ibid.

ix Source: FactSet. MSCI Europe and S&P 500 expected full-year 2026 earnings growth.

EXHIBIT 3: US GDP VERSUS CORE COMPONENTS

Annualised Growth Rate (%)



Source: US Bureau of Economic Analysis, as of 03/10/2025.

European economic growth largely persists. Eurozone Q3 GDP grew 1.3% annualised, slightly above expectations.^x Spain continued its strong run, growing 2.8%, while Germany and Italy were flat. Of the 20 Eurozone nations, 15 grew—a broader expansion than many appreciate.^{xi}

In Britain, growth cooled from Q1's 2.7% annualised to 1.1% in Q2, largely on exports' flipping from big boost to small detraction.^{xii} All in all, though, economic fundamentals are much better than appreciated in the UK, where tax hike fear has dogged investors all year. The disconnect between economic reality and persistent worry is a nicely bullish factor.

At a sector level, worldwide industrial activity remains stuck in malaise. However, the services sector—which dominates GDP in developed nations—continues growing.

INFLATION

The war on hot inflation is over. Yes, prices remain high and probably won't reverse the horrific rise since 2019. Yes, inflation (the pace of rising prices) remains slightly above central banks' targets in America and Britain. And yes, fear of hot inflation returning lurks globally, stoked by monthly fluctuations in certain categories.

But inflation is about the pace of change in prices *economywide*. It is a monetary factor, erupting when too much money chases too few goods and services. At the pandemic's height, the Fed boosted M4 money supply more than 30% y/y, flooding the economy as lockdowns impaired production and services.^{xiii} At a lag, inflation surged.

Today, money supply grows tamely. US M4 grew 4.5% y/y in August, a normal pre-pandemic rate.^{xiv} UK and eurozone money supply jumped similarly during lockdowns but run far cooler now, 4.2% y/y and 2.9%, respectively.^{xv} With the Fed's targeted personal consumption expenditures price index at 2.7% y/y, America's inflation is normal.^{xvi}

This exceeds the Fed's 2% target, but there is no evidence central banks can fine tune inflation (or any economic figure) to the decimal point. Eurozone inflation matches the ECB's 2% target. Britain's is highest of the three (4.1% y/y), but this ties largely to government actions, like misguided household energy price caps. Core inflation (which excludes food and energy) is somewhat slower, unlike in America.

x Source: Eurostat, as of 30/10/2025.

xi Ibid.

xii Source: FactSet, as of 15/10/2025.

xiii Source: Center for Financial Stability, as of 03/10/2025.

xiv Ibid.

xv Source: European Central Bank and Bank of England, as of 03/10/2025. Figures are eurozone M3 and UK M4 excluding other financial corporations.

xvi Source: US Bureau of Economic Analysis, as of 03/10/2025.

There is scant evidence that tariffs are reigniting US inflation. Some products are up, but shifts encourage substitution and can depress demand. Purchasing managers' indexes (PMIs, surveys of businesses across a range of inputs) suggest many US firms are paying more for imported goods but haven't raised prices. Many likely fear losing market share if they try. Regardless, tariffs don't sway money supply, rendering them unlikely to spur hot inflation.

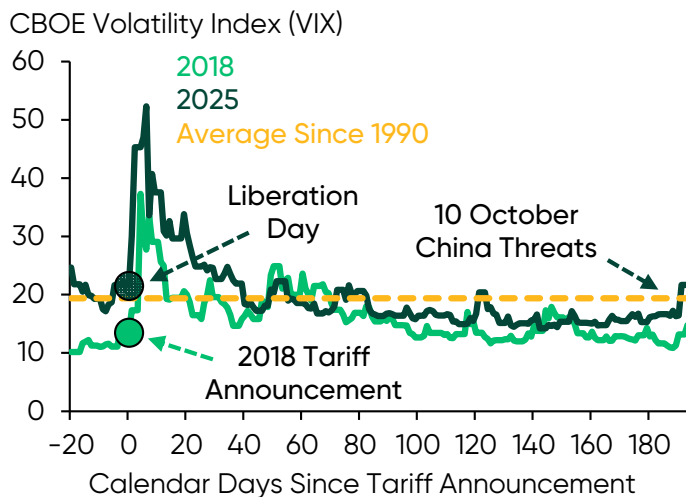
TARIFF UPDATE

Relatively tame inflation undercuts many economists' fears of tariff-driven recession. As we wrote in our Q1 Review—and updated last quarter—we believe tariffs are economically negative, increasing costs and red tape for businesses and consumers. They hurt the imposing country most, via uncertainty, seen and unseen costs. We estimate US tariff rates are up roughly 10 percentage points this year after considering all measures and exemptions.^{xvii}

But these tariffs' bite is far smaller than feared, fueling a recovery since 8 April. New tariffs on trucks and pharmaceutical imports, announced in Q3, have large exemptions that mitigate them.

Markets largely adapted after April's shock. Exhibit 4 plots the CBOE Volatility Index (which gauges expected S&P 500 movement in the next 30 days) now versus 2018, when President Donald Trump deployed tariffs in his first term. In both cases, efficient markets weighed the shock and moved on. Even mid-October's China tariff-driven chop pales next to April's surge.

EXHIBIT 4: MARKETS PRICE IN TARIFF SHOCK—AND MOVE ON



Source: FactSet, as of 13/10/2025. CBOE Volatility Index, 12/01/2018 – 31/07/2018 and 13/03/2025 – 13/10/2025 (20 trading days before major tariff announcements to the latest available as we write).

We previously covered four possible scenarios. Here are major developments in each.

Scenario 1: Tariffs Prove Illegal and Unenforceable: As expected, on 29 August, the Federal Court of Appeals upheld a lower court's ruling that Trump's basing broad tariffs on the International Emergency Economic Powers Act (IEEPA) was unconstitutional. It promptly paused overturning tariffs, pending appeal to the Supreme Court. This covered all "reciprocal" tariffs announced 2 April and those slapped on China, Canada and Mexico tied to fentanyl trafficking. The Court agreed to hear the case, starting 5 November.

While we can't know how the Court will rule, it may spark uncertainty regardless. If it overturns lower court rulings, questions surrounding the extent of limitations on the White House could swirl. If it upholds the rulings, it could force the government to refund IEEPA-related tariff revenue collected (roughly \$89 billion).^{xviii} The mechanics of this are unclear. It would also raise questions about deals struck since April—the second path to mitigating tariffs' impacts. And it could rattle nerves as investors wait to see whether and how the administration attempts to replace the tariffs on different legal grounds.

xvii Source: Fisher Investments Research, as of 03/10/2025.

xviii Source: US Customs and Border Protection, as of 23/09/2025.

Scenario 2: Dealmaking Galore. After several non-binding deals in Q2, Q3 was quiet.

Scenario 3: Coordinated Retaliation. This was the bearish scenario, but there remains little evidence of vast, coordinated retaliatory tariffs. China and the US continue squabbling occasionally, as in early October. China's threat to control rare-earth exports (metals used in many technology products) led Trump to threaten an additional 100 percentage point tariff hike on China, effective 1 November. At the moment however, no executive action has formalised the threat. Recent talks between US and Chinese officials seemed to put tensions at bay, with both sides agreeing to a one-year truce.

Scenario 4: Free Trade Expansion Outside America. This scenario, first detailed last quarter, continues taking shape, with free-trade talks between many non-US nations and regional groups, as well as vast economic stimulus plans aimed at cushioning the tariffs' blow.

A WORD ON SENTIMENT

"Bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria." This quote from Sir John Templeton, depicts sentiment's bull market journey. After the spring's deep correction reduced expectations, sentiment—particularly in America—warmed, likely straddling scepticism and optimism. We don't believe this is bearish, optimistic environments can deliver excellent returns before the euphoria that often characterises bull market peaks.

This divide can clearly be seen in headlines' parallels between today and the 1990s. Some cast AI as the next Tech boom, hyping revolutionary technology set to drive explosive productivity gains and opportunities galore, from data-centre buildouts to power grid enhancement. Others see the next Tech bust, arguing only Nvidia and its peers prop the market up, using interconnected revenues. They note surveys showing firms' relatively small AI usage, suggesting the utility may be insignificant.

While some of these points are valid others aren't. But the comparison tells you nothing about this bull market's end. Mostly, it illustrates barbelled sentiment, arguing against broad euphoria and broad scepticism.

FACTORS WORTH WATCHING THROUGH 2025'S END

While we are bullish and see many false fears, we also see negatives worth watching. Below is a brief list of those.

- Next year, 2026, is the second year of Trump's term. Historically, the second year is negative 40% of the time since 1925, with 2022 the latest example.
- US Midterm elections, which will factor into our 2026 forecast, are presently too distant to matter, but they often spur unease early before relief comes late.
- Uncertainty surrounding US Fed Chair Jerome Powell's replacement before his term's expiration in May.
- The potential for uncertainty to increase however the Supreme Court rules on tariffs.
- Cash-hungry private credit and private equity are trying to unlock retail investor cash, which could misallocate capital into illiquid assets and force later fire sales of stocks.
- Cryptocurrency's increased use by investors and select companies called "Crypto Treasury stocks" could blend their volatility into public equity markets. This looks like a minor issue today, but it could grow.
- People are, understandably, doubtful of traditional recession indicators like the Leading Economic Index, which has delivered false warnings for years. But do they carry it too far and ignore a broader range of tools out of cynicism?
- Does excess emerge in the markets and/or economy? Perhaps financial product innovation goes too far, like allegedly safe "Boomer Candy" ETFs employing options strategies or leveraged single-stock or crypto funds?

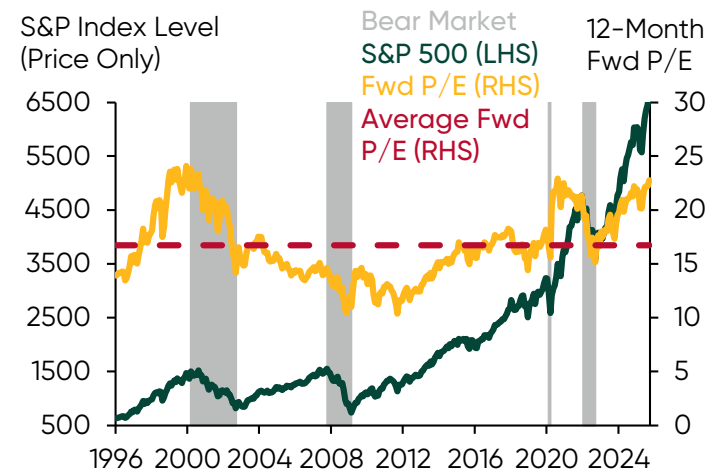
While 2022 may seem like a counterpoint, Russia's invasion of Ukraine didn't cause the bear market, which began nearly two months before the war. It was one of many issues weighing on investors that year, contributing to a sentiment-driven bear market. That downturn ended in October 2022. Since then, the Russia – Ukraine war has raged on. Hostilities flared in the Middle East, from Hamas's attack on Israel in October 2023 to the war in Gaza and Tel Aviv's strikes on Iran in June. The bull market persisted. Russian drone incursions in Europe have added more drama to the geopolitical stage, but regional conflicts on their own aren't bearish. They affect too small a sliver of GDP to wallop.

VALUATIONS

Some have asked whether equities are "too expensive", citing high price-to-earnings (P/E) ratios and other valuations. But this false fear is age-old. Every valuation, from the trailing P/E to the cyclically adjusted P/E (CAPE), is backward-looking. Even the forward P/E—which compares prices to analysts' earnings estimates for the next year—isn't *forward-looking*. The current price reflects past performance, while expectations are influenced by the present and recent past.

Valuations simply aren't predictive. As history shows, (Exhibit 8) the forward P/E *coincided* with new bear and bull markets—but at varying levels and trends. True, it was above average before the 2000 – 2002 bear market. But it was below average before the 2007 – 2009 bear market. "Expensive" equities can get more expensive—and "cheaper" equities can fall further. Old information doesn't inform.

EXHIBIT 8: S&P 500 VS. FORWARD P/ES



Source: FactSet, as of 10/10/2025. January 1996 – September 2025.

A REMINDER ON DISCIPLINE

We have noted that sentiment is increasingly warmer, with US investors growing particularly optimistic. Many mistake this for euphoria, arguing the bull market's end awaits.

OUR BEAR MARKET FRAMEWORK

Bear markets are deep, fundamentally driven declines of -20% or worse that usually (but not always) last for extended periods. Contrary to popular belief, they don't typically roar to life and end equities' run dramatically. Rather, bull markets mostly die with a whimper.

Recognising how bear markets form reduces the risk of getting fooled by a correction (a sharp, sentiment-driven pullback of roughly -10% to -20%). The biggest risk facing investors seeking long-term growth isn't a bear market, rather, it is missing bull market returns.

THE WALL OR THE WALLOP

We believe bull markets end in one of two ways: the wall or the wallop. Longtime clients may be familiar with this framework, but here is a refresher.

THE WALL

The “Wall” is bull markets’ proverbial wall of worry. At the top, equities lose steam as euphoric investors see only positivity ahead and can’t fathom risk. That alone isn’t necessarily bearish, but trouble arises when investors dismiss or ignore worsening fundamentals—believing equities can rise forever. These unattainable expectations breed a bear market as equities pre-price the upcoming disappointment—or they make markets fragile and susceptible to any negative hit.

Today, sentiment has warmed to optimism, not euphoria. Optimism is generally rational—a recognition reality isn’t as poor as feared—and expectations aren’t outlandish. But euphoria blinds investors from negative news and inspires visions of a permanently profitable future.

We see some faint previews of that now. For instance, many dismiss The Conference Board’s Leading Economic Index (LEI) as broken, arguing its power is gone. We disagree. LEI may be less revealing presently due to pandemic-related developments and its skew toward goods-producing industries—but it isn’t *broken*. (See our Q3 2024 Review for more.) It has core components, including the yield curve and Leading Credit Index, that cover the broad economy. We think it remains useful, and as with any dataset, it is important to determine whether a drop is valid or a false read.

While this trend is something to watch, these examples are isolated. The wall of worry has plenty of bricks, and the consensus dismisses and/or ignores positive developments like the steeper yield curve, especially abroad. Euphoria would mean investors ignore negatives *en masse* and focus on potential positives. We aren’t there yet.

THE WALLOP

The “Wallop” is a huge, little-noticed negative shock large enough to destroy trillions of dollars of economic activity, causing a global recession. 2020 is a textbook example. Governments worldwide shuttered economies in response to COVID—halting the global economy. The 2007 – 2009 global financial crisis is another. There the shock was less-seen and remains lesser-known: markets priced how applying mark-to-market accounting rules to illiquid, hard-to-value assets would decimate bank balance sheets and the haphazard government response that followed.

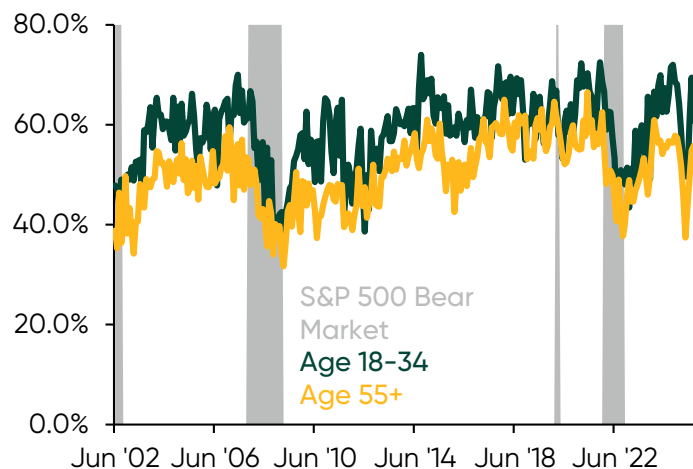
It has been a long time since a long, traditional bear market accompanied a turning business cycle. 2022’s was sentiment-led. The MSCI World Index spent only 36 days below -20%, and recession never occurred.^{xx} 2020’s was a wallop, but its speed was correction-like—both in the decline and recovery. The recession stemmed from a wallop, not the business cycle rolling over.

You must go back nearly two decades to 2007 – 2009 for an archetypal, big bear market that preceded or paralleled a recession. This suggests the traditional bear market has power to surprise investors when it happens. Many younger investors haven’t experienced one in their working years or while investing. Those who did invest through 2008 or 2000 – 2002 may not recall it with clarity, as time and behavioural quirks can morph memories.

This manifests in younger folks’ tendency to be more positive and have more of a “buy the dip” mentality than older folks. (Exhibit 9, see next page) Younger investors tend to be relatively more eager to trade and rely more on social media for financial information—which may stir more optimism than traditional news sources. And their warmer outlooks may simply reflect their not yet having the scars from experiencing a grueling bear market.

xx Source: FactSet, as of 10/10/2025. MSCI World Index returns with net dividends, 04/01/2022 – 12/10/2022.

EXHIBIT 9: YOUNGER GENERATION VS. OLDER GENERATION EQUITY MARKET OPTIMISM



Source: FactSet, as of 08/10/2025. Percentage of respondents (based on age group) who believe stock market will rise in the next year, as recorded by the University of Michigan.

Understanding what doesn't end bull markets can help investors stay disciplined. Most headline fears are too small, misinterpreted or too widely discussed to wallop.

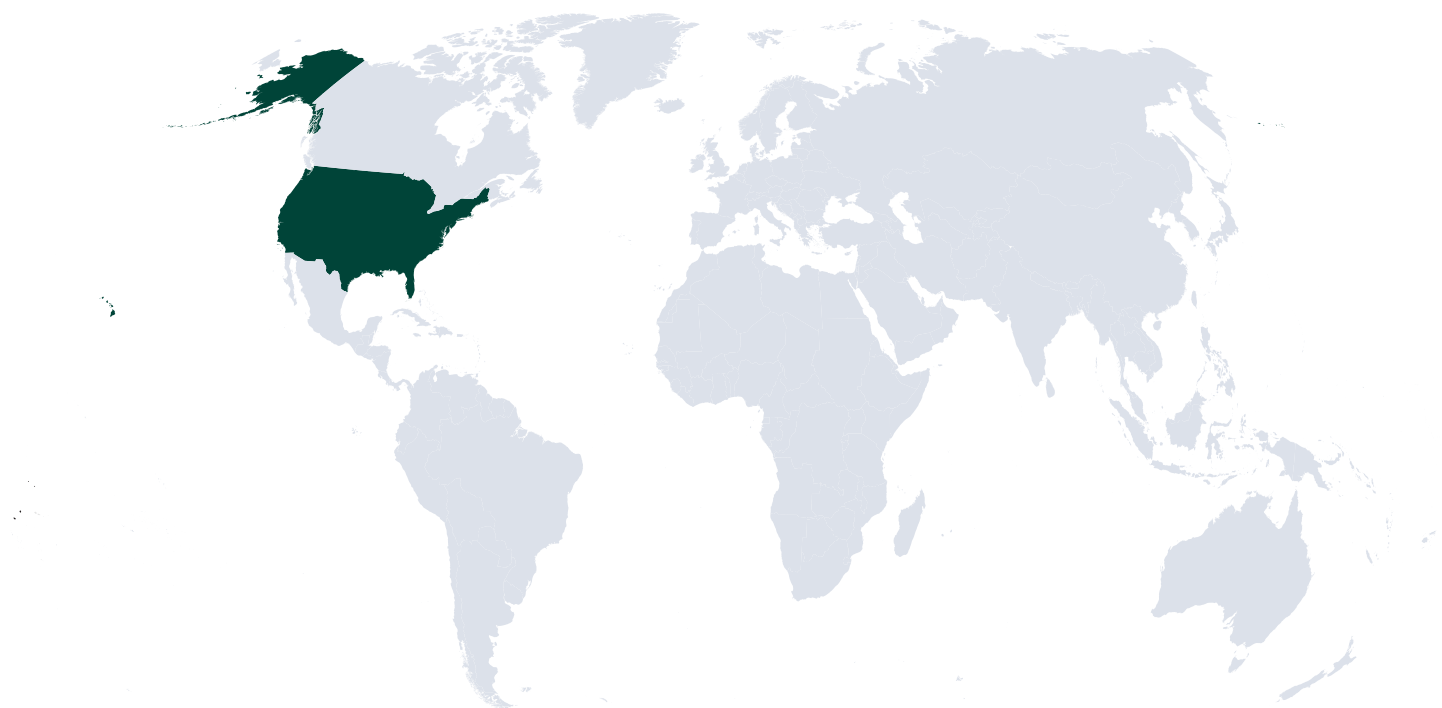
For instance, pundits now portray weak manufacturing as a sign of broader trouble. But heavy industry is too small to derail the US economy. Manufacturing is less than 10% of US GDP, dwarfed by services (over 70%).^{xxi} Global manufacturing declined in the mid-2010s—weighing on growth in some major economies, including China—yet no bear market occurred.

US debt is a fertile misperception, with most fretting its seemingly large magnitude. When debt ceiling worries perk, default fears hit overdrive. Yes, a US default would be bad, with potential wallop power. But the likelihood is small considering America's tax revenues easily cover interest payments. Debt concern is a bullish false fear, as our Q2 2024 Review showed.

Widely discussed negative stories tend to get priced quickly, sapping their surprise power. This is often the case with regional conflicts. While there may be some volatility in the run-up to fighting, that is usually fleeting—even if conflict actually erupts.

^{xxi} Source: Bureau of Economic Analysis, as of 07/10/2025.

UNITED STATES COMMENTARY



ON FED RATE CUTS, KEEP PERSPECTIVE

To no one's surprise, the Fed cut rates by -0.25 ppt in September and October. Most observers, citing market-based measures and Fed projections, pencil in one more cut by year-end. While this may be the case, you can't forecast the Fed. They are people, biased like any human, interpreting incoming data piecemeal.

Fed cuts are fine—all else equal, lowering short-term rates steepens the yield curve. Banks borrow short term to fund long-term loans, so the difference in these rates heavily influences new lending's profitability. When long rates top short (so-called "steep" yield curves), banks earn more on new loans—encouraging them to lend. Readily available capital fosters investment and economic growth. When short rates top long, the curve is "inverted"—a reliable, if imperfect, recession warning.

But the Fed's cut amounts to playing catch up. Outside the US, broader central bank cuts (e.g., the ECB's eight since June 2024) and rising long rates have steepened non-US yield curves far more. Unseen, this swung the global yield curve from mildly inverted to positive. America's swung slightly positive after September's cut, but it is far flatter than Europe's, the UK's or Japan's.

EXHIBIT 10: GLOBAL YIELD CURVE SPREAD—WIDER ABROAD

Region	Current 10Y	Current 3M	Current Spread	Spread 6M Ago	Spread 1Y Ago
Developed World	3.48%	2.84%	0.65%	0.28%	-0.42%
US	4.13%	4.03%	0.10%	-0.27%	-0.73%
Europe ex-UK	3.00%	1.85%	1.16%	0.84%	-0.34%
UK	4.70%	3.93%	0.77%	0.32%	-0.78%
Japan	1.67%	0.49%	1.18%	0.78%	0.78%

Source: FactSet and Fisher Investments Research, as

of 06/10/2025.

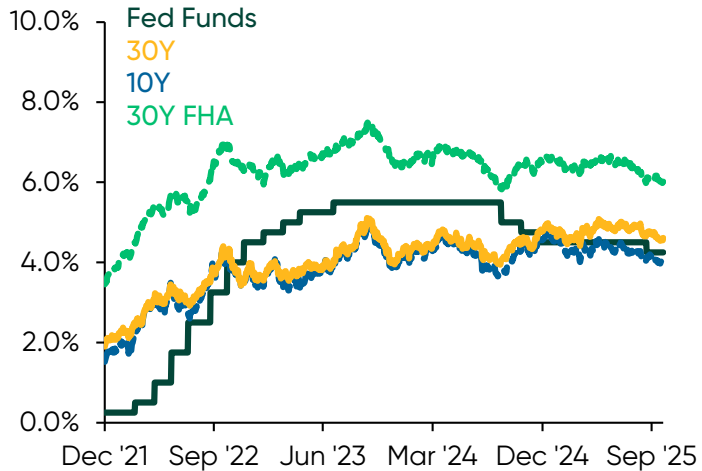
A key reason this is bullish: Few see or accept it. While the yield curve is a well-known indicator, 2022 – 2023’s false inversion led many to consider it broken and ignore it. They don’t consider *why* it failed: An ocean of COVID-era deposits meant banks didn’t have to pay depositors rates near fed-funds. That heightens the yield curve’s steepening power now.

WON’T LONG RATES FALL?

Some may say cuts won’t steepen curves much, as long rates will also drop. But despite headlines, this was the cycle’s *fifth* Fed cut, not the *first*. We already see the effects.

Fed cuts directly affect only overnight rates, not longer ones. Hence, 2024’s three cuts didn’t lop mortgage rates or long bond yields. Nor did they sway equities. This bull market started in October 2022, nearly two years before September 2024’s initial, -0.50 ppt cut.

EXHIBIT 11: FED CUTS DON’T AUTOMATICALLY REDUCE LONG RATES



Source: FactSet and Federal Reserve Bank of St. Louis, as of 29/10/2025. Fed-funds target range upper limit, 10-year Treasury yield, 30-year Treasury yield and 30-year Fixed Rate FHA Mortgage.

Stirring optimism here may prove unfounded. While there are fundamental reasons to be bullish involving rate cuts (steeper yield curves), don’t expect a lending boom on lower rates.

BOND MARKETS

Bond markets’ chief trait in Q3 was continued narrowing in the gap between corporate bond and Treasury yields. Corporates ordinarily pay higher yields than similar maturity Treasuries for a simple reason: even the credit-worthiest companies are a much greater default risk than the US government, given its taxing powers, vast array of assets and strong demand for its debt. But as sentiment warms, the spread between Treasury and corporate bond yields narrows, as it did in Q3—to very low levels historically. (Exhibit 12) This signals optimism.

EXHIBIT 12: CORPORATE SPREADS FALL TO HISTORICALLY LOW LEVELS



Source: Federal Reserve Bank of St. Louis and FactSet, as of 06/10/2025. ICE BofA ML US Corporate Index, option-adjusted spreads, 31/12/1996 – 30/09/2025. S&P 500 bear markets.

Corporate bonds' higher yields can benefit fixed income returns when the corporate yield spread over Treasuries is stable, due to the higher yields. But also, bond prices and yields move inversely. Corporate bonds' benefits are enhanced when spreads narrow, because it boosts corporate bond prices compared to Treasuries in addition to the extra yield. However, when spreads widen, corporate bonds tend to underperform Treasuries, since prices suffer.

As Exhibit 12 shows, in downturns like bear markets (or corrections, though those aren't highlighted), spreads often rise. When that happens, corporates underperform Treasuries. With spreads tight, we don't think the small additional yield from corporates rewards investors for this sufficiently.

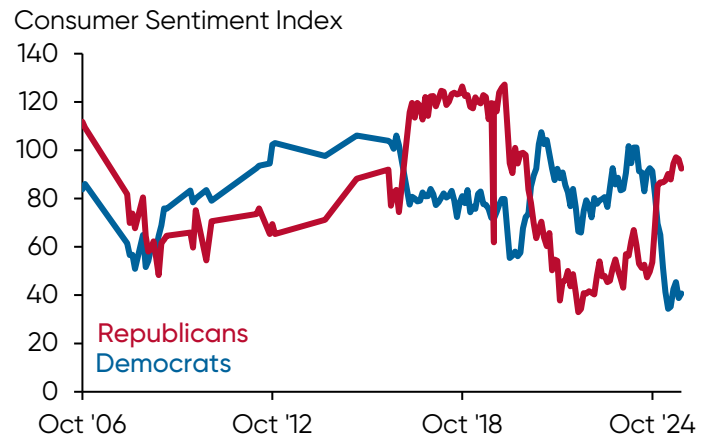
WHAT MARKETS DO (AND DON'T) CARE ABOUT

US politics generated headlines aplenty, with most focusing on matters outside markets' purview. Some conversation now shifts to 2026's midterms, which we are watching, but those are more relevant to returns next year and beyond. For now, there is too much noise and speculation. The government shutdown stirred more fear in October, but most political developments with market significance happened abroad.

Politics often befuddle investors, largely because people have strong opinions about them. Political biases run deep, making it easy for feelings about non-economic matters to sway investor's views of politics' economic and market effects.

We see two chronic dangers. One, equities are apolitical, with no preference among parties or politicians. Humans seem hard-wired to believe their preferred party must be good for equities and the economy and the other party bad. The University of Michigan's Consumer Sentiment Survey illustrates this, showing readings by party affiliation. It didn't consistently parse partisan sentiment before 2017, but even limited looks before then show economic sentiment flips with the White House.

EXHIBIT 13: CONSUMER SENTIMENT GETS PARTISAN



Source: University of Michigan, as of 06/10/2025.

Yet we have had bull markets and bear markets under both parties, as well as recessions and expansions. Both parties enacted policies beneficial for markets and detrimental to them. Neither side monopolises good or bad. Equities know this, even if biases blind many people to it, and remain neutral.

Two, equities don't care about most political issues in headlines. Most are "sociology"—societally important matters that don't relate to the economy. Hot-button cultural issues usually mean little to corporate earnings over the next 3 – 30 months. They don't affect businesses' investment decisions, consumer spending or overall day-to-day activity. Hence, these issues mean little to equities generally.

ON THE FECKLESS GOVERNMENT SHUTDOWN

The partial government shutdown that began 1 October has stretched into its fifth week, yet markets aren't bothered. S&P 500 returns thus far have been up during the shutdown, while 10-year US Treasury yields are flat.^{xxii} This shouldn't come as a shock, as we have seen this many, many times in the past.

Shutdowns' economic and market relevance is minimal. Furloughed "non-essential" workers and "essential" workers going without pay receive backpay once the funding bill passes and the government reopens. While Congress used to have to authorise this, 2019's shutdown-ending legislation enshrines backpay permanently. The affected workers and businesses are a sliver of economic activity, and growth elsewhere more than offsets it. Hence, no shutdown ever caused a recession or bear market, a fact more pundits seemed to notice this time. Perhaps that signals warmer sentiment today, but it may show this false fear is now too well understood to matter.

xxii Source: FactSet, as of 15/10/2025.

EXHIBIT 14: GOVERNMENT SHUTDOWNS DON'T WRECK EQUITIES

Shutdown at Midnight	Gov't Reopened	Days	S&P 500 Price Returns					
			Week Before Shutdown	During Shutdown (periods vary)	1 Month After Shutdown	3 Months After Shutdown	6 Months After Shutdown	12 Months After Shutdown
30/09/1976	11/10/1976	10	-1.6%	-2.5%	-3.2%	2.4%	-4.1%	-6.6%
30/09/1977	13/10/1977	12	1.6%	-2.6%	2.1%	-4.6%	-4.2%	11.5%
31/10/1977	09/11/1977	8	0.8%	0.1%	0.5%	-2.3%	3.7%	2.2%
30/11/1977	09/12/1977	8	-1.7%	-2.0%	-1.4%	-5.5%	7.8%	3.9%
30/09/1978	18/10/1978	17	0.7%	-1.2%	-7.5%	-1.8%	0.0%	2.1%
30/09/1979	12/10/1979	11	-1.0%	-3.9%	-3.4%	4.6%	-0.9%	24.0%
20/11/1981	23/11/1981	2	0.0%	0.0%	1.0%	-7.0%	-5.6%	10.3%
30/09/1982	02/10/1982	1	-2.7%	1.3%	9.6%	15.3%	25.4%	36.2%
17/12/1982	21/12/1982	3	-1.5%	-0.9%	6.6%	11.5%	24.0%	18.9%
10/11/1983	14/11/1983	3	0.6%	1.1%	-0.8%	-6.0%	-4.7%	0.6%
30/09/1984	03/10/1984	2	0.3%	-1.5%	2.4%	2.2%	10.4%	12.5%
03/10/1984	05/10/1984	1	-2.3%	0.3%	2.8%	1.0%	9.9%	12.3%
16/10/1986	18/10/1986	1	1.6%	-0.3%	2.4%	11.5%	20.1%	18.4%
18/12/1987	20/12/1987	1	5.9%	0.0%	1.1%	8.8%	8.6%	10.9%
05/10/1990	09/10/1990	3	1.8%	0.6%	-2.4%	0.6%	20.8%	21.4%
13/11/1995	19/11/1995	5	0.7%	1.3%	1.1%	8.0%	11.5%	22.9%
15/12/1995	06/01/1996	21	-0.2%	0.1%	3.1%	6.3%	6.6%	21.3%
30/09/2013	17/10/2013	16	-1.2%	2.4%	4.5%	7.4%	8.2%	8.2%
20/01/2018	22/01/2018	2	0.9%	0.8%	-3.3%	-5.0%	-0.3%	-5.0%
09/02/2018	10/02/2018	1	-5.2%	N/A	6.4%	3.0%	8.9%	3.4%
21/12/2018	25/01/2019	34	-7.1%	9.3%	5.7%	10.7%	13.7%	24.7%
Mean		8	-0.5%	0.1%	1.3%	2.9%	7.6%	12.1%

Source: FactSet, as of 23/09/2021. S&P 500 price returns, 30/09/1975 – 25/01/2020.

GRIDLOCK'S UNSUNG BENEFITS

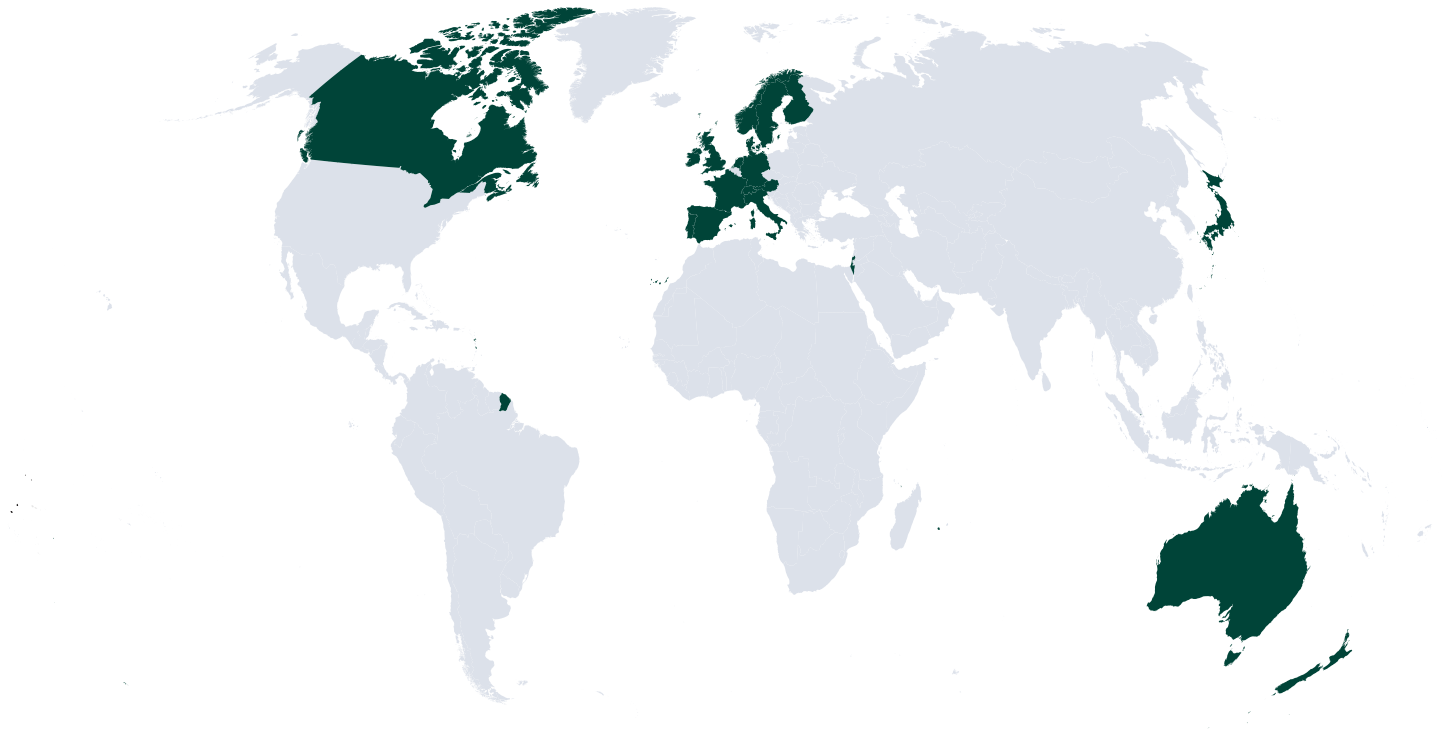
Even with policies that directly affect the US economy, like taxes, investors may be tempted to believe measures or ideas are inherently bullish and bearish. But markets are more complex.

Policies are rarely all good or bad. All legislation creates winners and losers. Often, potential losers are less visible than winners, the legislation's downstream effect. Markets appreciate this, which is why simply having an active legislature can be negative. A government that passes legislation easily can create winners and losers easily. Faster legislation gives markets less time to see—and pre-price—potential effects. When governments are active, equities can suffer legislative risk aversion. That doesn't always cause bear markets, but it can weigh on returns.

The reverse is also true: Gridlock is overwhelmingly bullish in developed markets. When a government can't pass much, investors needn't worry about sudden rule changes hurting future returns. Businesses can become more willing to take risk. Equities have one less thing to fear, boosting returns.

The US's unified government minimises party-line gridlock now, even with the small GOP House and Senate majorities—one factor we weigh as we look to 2026. But much of the world features significant gridlock, helping non-US equities outperform. Few see this, focusing instead on perceived upheaval and debt concerns. These are false fears, hiding gridlock's bullish effect.

GLOBAL DEVELOPED EX-US **COMMENTARY**



NEW GOVERNMENT, SAME OLD FEARS IN FRANCE

France's government collapsed in September—the second in under a year—ousting PM François Bayrou. His replacement, former Defence Minister Sébastien Lecornu, resigned after just 27 days, then was reappointed in a shock twist. Behind this is a budget dispute that remains, stoking uncertainty. But clarity should come soon.

Bayrou's fall was largely a foregone conclusion, as his government narrowly escaped a no-confidence vote in July. The opposition parties hinted they would use September's budget to oust him, seemingly hoping for leverage. But Bayrou called a confidence vote on his budget proposals—including spending cuts and cancelling two holidays—before negotiations got going. Opposition parties on the left and right pledged to vote against it, and Bayrou lost and resigned on 8 September.

President Emmanuel Macron tapped Lecornu to replace Bayrou, tasking him with seeing a budget through the National Assembly. Given the chamber is fractured among Macron's centrist Renaissance (which allies with the centre-right Republicans), the centre-left Socialist Party, leftist France Unbowed and the populist-nationalist National Rally, this isn't easy. No party has a majority, and they have little policy overlap. Lecornu's warmer relations with the National Rally theoretically enabled compromise, but these hopes didn't pan out. Lecornu resigned on 5 October, citing irreconcilable differences with other party leaders.

Macron accepted Lecornu's resignation, then tasked him with continuing negotiations and breaking the impasse by 7 October. That evening, Lecornu announced there was enough consensus for a new government to take power. But on 9 October, Macron reappointed Lecornu, much to opposing parties' consternation. In his first parliamentary speech, he announced the government will suspend its flagship retirement age increase until after 2027's presidential election. In return, the Socialists said they won't support a no-confidence motion, which they followed through on thereafter, allowing Lecornu to pass this first test. This doesn't guarantee he stays or passes a budget swiftly, but crucially, the stalemate and gridlock aren't new for French equities, up 18.6% throughout France's political crises since summer 2024.^{xxiii}

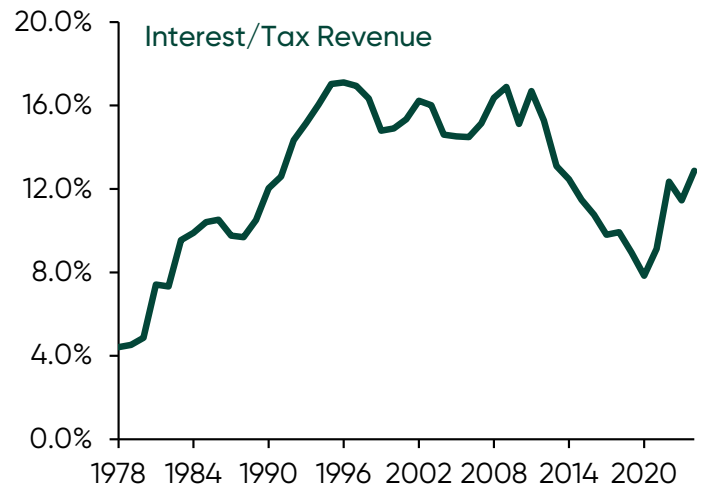
All parties agree in principle on deficit reduction. France's public finances aren't flailing, but the deficit exceeds EU limits, risking disciplinary action from Brussels (if it chose to do so). But the parties don't agree on how to trim. The government prefers cutting spending and preserving prior tax cuts, while others prefer tax hikes. Leftist parties push for a wealth tax, which polling favours.

The backdrop looks chaotic, complete with social unrest, and headlines warn of French debt doom. But reality is more benign. Even with unrest, gridlock is bullish. A government that can't pass a meaningful budget generally can't shock investors with sweeping legislation that would alter property rights or other factors critical to investment returns and risk-taking. French equities, which are up since the political crisis began, see this even if headlines don't.

France's finances are a political problem, not an economic and market risk. The best way to assess debt isn't by its size or share of GDP, but by interest payments' affordability.

France's interest payments, though up, are a lower share of tax revenues than they were throughout the 1990s and 2000s, fine times for France's market and economy with no debt crisis. This is a brick in France's wall of worry.

EXHIBIT 15: FRANCE'S DEBT REMAINS AFFORDABLE



Source: Insee, as of 03/10/2025. Central government interest payments and tax revenues (excluding social contributions), 1978 – 2024.

CANADA'S TARIFF SIDESWIPE LOOKS TEMPORARY

After Canada's GDP contracted in Q2, monthly data showed signs of underlying broad-based growth in Q3—which Canadian equities appear to have already anticipated, as they have been making new highs since May. Overall, this suggests the negative impact from US tariffs—while real—is proving smaller than feared, allowing markets to move on.

Q2 GDP fell -1.6% annualised, led by exports' -26.8% plunge, which subtracted -8.9 percentage points from headline growth.^{xxiv} Business investment also fell -2.4% annualised. Though these declines are large, they weren't exactly surprising given America's early Q2 tariff imposition and related uncertainty pausing firms' capital expenditure plans.

xxiii Source: FactSet, as of 10/10/2025. MSCI France return with net dividends, 30/06/2024 – 10/10/2025.

xxiv Source: FactSet, as of 10/10/2025.

But a look at GDP's main engine—consumer spending—shows tariffs, while not great, haven't wrecked Canada's economy to the degree expected. Household expenditure rose 4.5% annualised, near the top of its four-year range.^{xxv} Underlying domestic demand is largely holding up. That reality highlights how sentiment is overly dour—and why Canadian markets are unbowed.

More recently, mixed Canadian Q3 data suggest tepid growth, but they didn't need to be that strong to exceed expectations. Monthly GDP reports showed 0.2% m/m growth in July and a flat preliminary reading in August.^{xxvi} Such month-to-month volatility makes it too soon to tell how Q3 shakes out overall. But against widespread recession fears, reality looks likely to exceed expectations again.

Moreover, a closer look at all categories' output data underpinning monthly GDP finds most higher in July (August's details aren't available yet). Goods production rose 0.6% m/m, cutting against tariff fears with 16 of 21 industries growing.^{xxvii} Services production was more mixed, ticking up 0.1% m/m, but Canada's largest sector has seen steadier expansion overall—and continues trending upward.

Then too, September's Ivey Purchasing Managers Index (PMI)—surveying manufacturing and services firms across Canada—surged from August's 50.1 to 59.8, its highest since June 2024.^{xxviii} This suggests Canada closed Q3 strong, as readings above 50 indicate growth—a solid majority of firms see their business activity expanding.

Labour market data initially stirred fear of fallout in early Q3, as payrolls fell in July and August, and the unemployment rate rose from 6.9% to 7.1%.^{xxix} But in September, that reversed course, with payrolls rising 60,400—beating all estimates and far exceeding the median 5,000 projection.^{xxx} Employment data tend to lag output figures by at least several months, so this may be a trailing confirmation of tariffs' temporary hit.

While all that is in the past, the Canadian yield curve's steepening—long-term rates moving above short rates—looks forward and indicates likely lending growth ahead, which should fuel further economic activity. Banks borrow short term to fund longer-term loans, so higher long rates than short typically mean profitable new loans. Inversion, when short rates top long, implies the opposite—and typically precedes recession. Not always—but typically.

Now, Canadian and global yield curves inverted deeply post-pandemic, but lending grew anyway. Why? COVID stimulus unleashed a deposit flood that detached banks' funding costs from short rates. Today, the steeper yield curve should aid lending as deposit growth has slowed significantly since the pandemic's end. This, in addition to the fact few notice the bullish upturn, should help growth continue exceeding expectations looking forward.

xxv Source: FactSet, as of 10/10/2025.

xxvi Source: Statistics Canada, as of 26/09/2025.

xxvii Source: FactSet, as of 10/10/2025.

xxviii Source: Ivey Business School, as of 10/10/2025.

xxix Source: Statistics Canada, as of 10/10/2025.

xxx "Canada Employment Rises 60,400, Jobless Rate Sticks at 7.1%," Erik Hertzberg, *Bloomberg*, 10/10/2025.

No doubt tariffs are negative, stirring massive uncertainty in Canada—which likely spurred Q2's GDP drop. But America's 25% headline Canadian tariff rate overstates reality. With the United States-Mexico-Canada Agreement (USMCA) still in place, the vast majority of Canadian exports to America aren't subject to tariffs. Some estimate this puts Canada's *effective* tariff rate at 7%—well below the headline and the global average's 17%.^{xxxi} Yet even that is too simplistic a view, as most goods ship with no tariff at all. That is likely why Canadian equities have climbed since April's low. Tariffs' feared economic effects outstripped reality. Notably though, with the USMCA up for renegotiation next July, its free-trade protections could erode—a factor worth watching carefully.

AUSTRALIA CHUGS ALONG

Australia's economy remains strong, with the latest data suggesting further growth at least through Q3—and likely beyond, if Australian equities' ongoing bull market is any indication.

GDP rose 0.6% q/q in Q2, extending its unbroken string of growth since Q3 2021.^{xxxii} Household expenditures' 0.9% q/q gain points to consumers—half the economy—being in good condition. Press coverage, though, casts economic conditions in a rather dim light, dwelling on business investment's falling -0.1% q/q. But occasional dips aren't uncommon amid overall expansion, in our experience.

Global trade uncertainty was also top of mind given the Trump administration's 10% blanket tariff (with several exemptions) and select higher rates on specific categories (e.g., 50% on copper products and 25% on furniture). However, exports expanded 1.7% q/q and contributed the most to growth.^{xxxiii} Considering Australia's shipments to America average less than 5% of its total exports, we don't think this should have been shocking.

More recent data suggest continued growth. S&P Global's Australian manufacturing PMI stayed above 50—signaling expansion—for the ninth consecutive month through September, though it dipped to 51.4 from August's 53.0.^{xxxiv} However, the new orders subcomponent fell below 50 as survey respondents said US tariffs weighed not only on demand from America but other major trading partners as well. While worth monitoring, manufacturing is only 5% of Australia's GDP, not its primary driver.^{xxxv}

Meanwhile, Australia's services PMI represents 66% of GDP and remained expansionary at 52.4 in September.^{xxxvi} While this is down from August's 55.8, it was the 20th straight month above 50. Though a smaller majority saw growth, "solid" new orders here support further business activity expansion ahead. All in all, Australia's main growth engines—consumer spending and services—has continued its strength.

We see little suggesting Australian economic trouble looms. Like equities globally, with Australia's markets hitting serial all-time highs, it would be very unlikely for an economic downturn to start anytime soon.

TUNE DOWN UK TAX TALK

Britain is not technically gridlocked, as Labour has a large majority. But internal divides are delivering stalemate anyway. Whilst this may complicate passage of the pro-growth reforms Chancellor of the Exchequer Rachel Reeves has talked up lately, it also means the many rumored tax hikes dominating headlines may also struggle, leading to a milder outcome than many fear.

xxxi "The Deal Shielding Mexico and Canada From Trade Oblivion," Staff, *The Economist*, 02/10/2025.

xxxii Source: FactSet, as of 10/10/2025.

xxxiii Source: FactSet, as of 10/10/2025.

xxxiv Source: S&P Global, as of 30/09/2025.

xxxv Source: World Bank, as of 10/10/2025.

xxxvi Source: S&P Global, as of 02/10/2025.

As we have previously noted, whilst Reeves and PM Keir Starmer have pursued austerity since taking office last year, this is largely for political reasons, not economic necessity, as central government debt service costs remain well within historical norms. But the government has a statutory requirement for fiscal policy to fit with a balanced budget within the next five years, making the Office for Budget Responsibility (OBR) a *de facto* policy arbiter. Its budget deficit forecasts rest in large part on its economic forecasts, which have steadily fallen, wiping out Reeves's fiscal headroom and forcing the government to continue focusing on deficit reduction. Reeves has tried to tinker with the rules, including encouraging the OBR to "score" pro-growth measures as positive for revenue, but so far this hasn't gained much traction, leaving spending cuts and tax hikes on the docket.

After last year's inheritance tax and employer National Insurance Contribution (NIC) rises proved unpopular and drove widespread chatter about high taxes impeding economic growth, Reeves and Starmer focused earlier on the spending side, with modest welfare reforms including means-testing benefits. But intraparty opposition led to their being watered down heavily before passage, weakening the government's political capital. Deputy Prime Minister Angela Rayner's downfall in a summertime tax scandal weakened their hand further, coming alongside former Labour Party leader Jeremy Corbyn's attempts to form a breakaway party. With the populist Reform Party simultaneously siphoning support from both main parties, Greater Manchester Mayor Andy Burnham started hinting strongly at a leadership challenge against Starmer. That chatter simmered down after Labour's party conference, but now the scandal over dropped charges against a former parliamentary aide accused of spying for China is piling the pressure on Starmer.

These snowballing political problems add to Reeves's tricky position, stuck between manifesto pledges not to raise taxes on working people, OBR forecasts and tax hikes' unpopularity. Burnham and others lobby for a wealth tax, but Reeves rules this out as impractical and ineffectual. Starmer, meanwhile, unveiled a more business-orientated economic team, and Reeves talks up deregulation and pro-growth measures including planning reform. While this sounds investor-friendly and would, in theory, aid investment and faster construction, intraparty opposition persists, and gridlock looks likely.

Beneficial as the proposed changes may be, if they end up watered down, their economic rewards would likely be limited. Even if Reeves does manage to pass a broad pro-growth agenda, such packages rarely unleash a sudden flood of investment that powers equities higher. Markets care primarily about corporate earnings over the next 3 – 30 months. Most of Britain's publicly traded companies are globally focused, rendering local planning and construction conditions less relevant to the bottom line.

As for taxes, Reeves has talked lately of taxing assets of those with the "broadest shoulders," raising fears of higher property taxes or even tougher inheritance tax—potentially including inheritance tax on family homes. For now, though, this is all speculative, and it is important to remember we have seen this play out before. Last year's big fear was a sweeping capital gains tax hike, which Reeves and other Treasury sources alluded to publicly and with anonymous leaks to reporters. These looked very much like policy ideas floated publicly to gauge voters' and markets' reaction. In the end, when the Budget was released, the tax changes proved far milder. Yes, taxes rose for businesses and some individuals, but not to the extent feared initially. Notably, GDP continues growing, and UK equities continue outperforming global markets. That is with a status quo of individual tax hikes via the ongoing freeze on income tax bands, which drags more income into higher brackets as inflation lifts wages. Whilst this is far from ideal from a personal finance standpoint, UK equities have stomachached this for years, pricing it in.

Whatever happens, taxes are usually too widely known to move markets for good or ill. The debate is long and public. Often, what passes is watered down from initial proposals. This has been the UK's story for years and likely remains so going forward.

JAPAN'S REVOLVING DOOR TURNS AGAIN

Japan also has government turnover, with Sanae Takaichi succeeding Shigeru Ishiba as the ruling Liberal Democratic Party's (LDP's) leader in early October. Ordinarily, swiftly becoming PM (Japan's fourth since 2020) would be a formality, but the path quickly became complicated.

The LDP elected Ishiba as party president and PM in October 2024 in hopes he would be able to unify the party and soothe public opposition after a fundraising scandal. But the LDP lost its lower-house majority in that month's general election. After another defeat in July's upper house election left the party and its now-former coalition partner, Komeito, with a minority government, Ishiba signaled he would resign following completion of the trade deal with the Trump administration. That deal concluded and Ishiba's resignation became official in early September, launching a short party leadership race. Takaichi was announced as the winner on 4 October.

Soon after, Komeito left the coalition, leaving Takaichi scrambling for support while the opposition Constitutional Democratic Party for Japan (CDPJ) explored joining with minority parties to field a candidate. After much speculation and talk, the LDP wound up sealing a coalition deal with the Japan Innovation Party, also called Ishin. The combination put Takaichi two seats short of a majority. And in 21 October's vote, she won a simple majority in both the lower and upper house of parliament.

From here, uncertainty should ease. Takaichi is largely a known quantity for markets. A protégé of late Prime Minister Shinzo Abe, Takaichi calls her platform "neo-Abenomics," referring to his "three arrows" of fiscal stimulus, monetary easing and economic reform. Echoing him, she campaigned on tax cuts, public spending and the benefits of a weaker yen. However, we caution against drawing big conclusions: Takaichi doesn't have a mandate for reform, and a weaker yen isn't inherently bullish.

Furthermore, her coalition's minority status means legislation sweeping legislation isn't likely to pass fast. This form of gridlock is just fine for Japan, though, as prior administrations plucked much of the low-hanging reform fruit. Japanese equities are also quite used to gridlock and have done fine since it returned after Abe stepped down.

NORWAY RE-ELECTS GRIDLOCK

Norway's September election generated headlines, mostly because the right-wing populist Progress Party doubled its share of the vote from 2021's election and took second place, winning 48 seats in the 169-seat legislature. This rode the latest wave of populist fears, which weighs on sentiment throughout Europe. But we doubt it changes much for Norway's government.

The centre-left Labour Party won re-election with 53 seats. A coalition with its traditional allies, should it form, would have 87 seats—a two-seat majority. Finalising this could take time, however, as the four smaller parties try to win concessions on tax hikes and other measures. Whatever government emerges likely won't be able to do much, extending Norway's bullish gridlock—a backdrop to Norway's outperformance this year.

NEXT UP: THE NETHERLANDS

Dutch voters hit the polls on 29 October for a snap election, called after populist Freedom Party (PVV) leader Geert Wilders pulled his support from the governing coalition. The PVV currently holds a plurality in the House of Representatives, and outgoing PM Dick Schoof's government relied on it to survive. Without it, the government collapsed in June, teeing up October's contest.

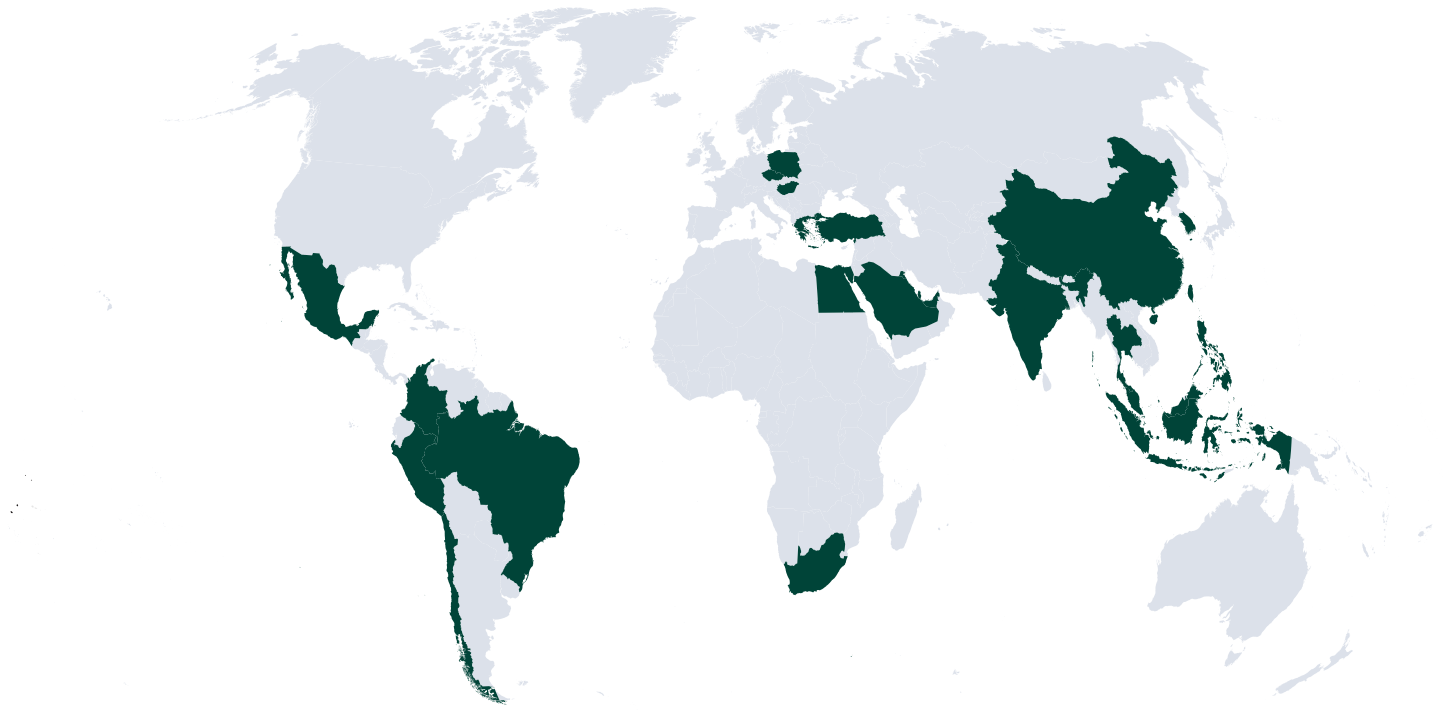
The Dutch Parliament is one of Europe's most fractured, with 15 groups currently holding seats in the House of Representatives. This has long complicated government formation, forcing the country into gridlock. After November 2023's election, coalition building took over seven months as the PVV negotiated with other parties, who were ambivalent at best about working with Wilders. The process eventually entered *de facto* mediation, resulting in an extra-parliamentary cabinet staffed by technocrats and supported by the PVV, the centre-right Party for Freedom and Democracy (VVD), centrist New Social Contract (NSC) and populist Farmer-Citizen Movement (BBB). This administration lasted less than a year, splintering over immigration, and passed very little.

As of this writing, the election is too close to call, with populist Freedom Party (PVV) leader Geert Wilders and the Democrats 66 (D66) leader Rob Jetten both getting 26 seats. These results came as a surprise, as D66 was only projected to get 17 seats. While the results are yet to be confirmed, it has become clear that there are no majorities. A long government formation process looks probable once again, likely yielding a coalition that can do very little.

This is fine for Dutch equities, which have done well with gridlock. Dutch markets tend to track global Tech trends due to the outsized weighting of ASML, which manufactures the lithography machines used to produce semiconductors worldwide. Dutch equities are outperforming world and European markets year to date, thriving amid the latest standoff.^{xxxvii}

xxxvii Source: FactSet, as of 10/10/2025. MSCI Netherlands, MSCI Europe and MSCI World Index returns with net dividends, 31/12/2024 – 30/09/2025.

EMERGING MARKETS COMMENTARY



CHINA MAINTAINS ITS STRENGTH

While many feared retaliation following April's US tariff announcements, China has made an effort to strengthen its ties to other EM nations, mitigating the effects of tariffs on their economy. China has courted India and Brazil to expand cooperation aimed at boosting bilateral trade and investment. On 19 August, China and India agreed to resume direct flights and reopen border trade, continuing a rapprochement after past skirmishes along their shared mountain border.^{xxxviii} China also agreed to lift export restrictions on critical minerals, fertiliser and tunnel boring machines to India.

China's buying of Brazilian soybeans has also ramped up. Instead of importing from the US as usual this time of year, China has received all its soybean imports from South America, largely from Brazil.^{xxxix} This is as China invests in Brazilian export terminals and rail infrastructure to improve logistics and speed their burgeoning trade.

xxxviii "India and China Are Partners, Not Rivals, Modi and Xi Say," Laurie Chen and Mei Mei Chu, *Reuters*, 31/08/2025.

xxxix "US Losing out on China Soybean Sales as Brazil Fills Key Supply Period," Naveen Thukral and Ella Cao, *Reuters*, 13/08/2025.

Chinese monthly indicators slowed but grew overall in Q3. Real retail sales rose 3.0% y/y in September,^{xl} slowing from August's 3.4% y/y and July's 3.7% y/y."^{xli} The popular narrative suggests more government support is needed to bolster its economy against trade headwinds and a protracted property plunge. Setting aside questions over the need for and efficacy of such stimulus, the government has indeed announced a variety of measures recently. The latest includes targeted loan subsidies to boost household consumption and business services, in addition to myriad programmes announced earlier this year.^{xlii}

China's outbound shipments rose 8.3% y/y in September, accelerating from August's 4.4% and defying fears of a collapse under the Trump administration's trade restrictions.^{xliii} A look under the hood shows exports continue rerouting, not ceasing altogether. While Chinese exports to the US fell -27.3% y/y, those to Southeast Asia, Africa and the EU rose double-digits, hitting near-record levels. Additionally, domestic growth looks to have carried through September with the official composite PMI rising to 50.6 (the services component was slightly above 50, manufacturing slightly below).^{xliiv} With Chinese demand and output holding up, the real estate slump faded further into the rearview mirror. On 25 August, the Hong Kong Stock Exchange delisted property developer Evergrande—the posterchild for the country's housing implosion—putting a bookend on the saga. Property woes—and worries—remain, weighing on sentiment, but without any long-feared hard landing, markets mostly moved on long ago.

INDIA'S GST OVERHAUL

To counter US tariffs and boost consumption, India simplified—and cut—its goods-and-services tax (GST) on 22 September, the largest overhaul since its 2017 introduction. The move has triggered some consternation over deficits, which we think is overstated. While we don't see this tax cut and simplification as having a significant impact on Indian equities, it is a mild economic positive and illustrates how many nations are attempting to cope with US tariffs' effects.

The reform moves from the previous four-tiered tax rates (5%, 12%, 18% and 28%) to two (a 5% "merit" rate and 18% "standard"). With this simplification, most goods and services previously taxed at 28% (e.g., small cars, air conditioners and TVs) dropped to the lower 18% tax rate, while those at 12% before (on consumer items like packaged food, toothpaste and shampoo) fell to 5%. In all, around 175 products saw at least a -10 percentage point tax reduction. Additionally, India's Finance Ministry removed the 18% GST on life and health insurance policies.

Not all taxes fell. The government imposed 40% "super luxury" and "sin" taxes on some categories, including cars with engines exceeding 1,500cc, cigarettes and carbonated drinks. Also, clothes and accessories costing more than ₹2,500 (\$28), which had been taxed at 12%, moved to the higher 18% tier.

Economists estimate net GST cuts will hit tax collection by -₹1.0 – 1.8 trillion (-\$11.3 – 20.3 billion). However, the government thinks revenue loss will amount to only about -₹480 billion (-\$5.4 billion). Some private sector analysts go further, implying Laffer curve effects—tax cuts that boost economic activity, raising revenue—could largely offset or improve India's fiscal standing.

xl Source: FactSet, as of 30/10/2025.

xli Ibid.

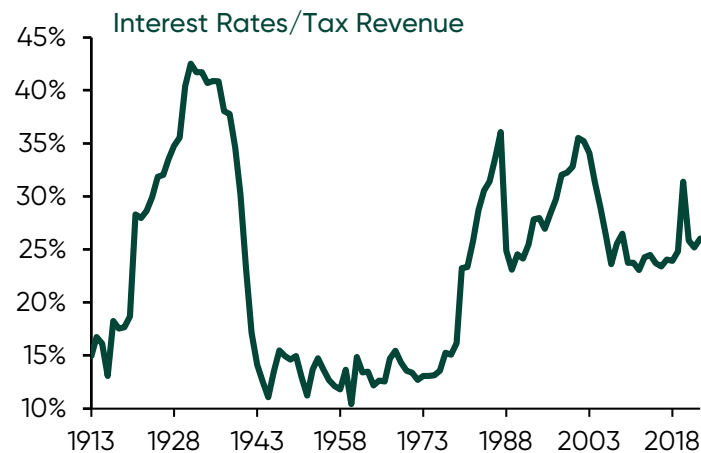
xlii "China Pledges More Financial Support for Consumption With Loan Interest Subsidy," Staff, Reuters, 13/08/2025.

xliii Source: FactSet, as of 30/10/2025.

xliv Ibid.

Regardless, while budget projections and fretting over deficits generate lots of heat, they aren't very illuminating. To us, it all looks unnecessary. Given India's \$4.2 trillion GDP and the IMF's estimated government revenue as a percent of GDP around 21%, the high-end -\$20 billion hit to tax collection would raise its interest costs' share of tax revenue less than a percentage point.^{xlv} As Exhibit 16 shows, that would still be well within historical bounds—while India has never defaulted on its debt even with interest costs much higher versus revenue.

EXHIBIT 16: INDIA'S INTEREST COSTS AREN'T HISTORICALLY ONEROUS



Source: IMF, as of 09/10/2025.

For markets, we mostly think this shows how countries aren't helpless in the face of Trump administration tariffs. The shock of America's 50% tariff on Indian goods initially weighed on sentiment, but that seems to be fading quickly. With goods exports as a percent of GDP about 11%—and the US 18% of that—only about 2% of India's GDP is potentially affected.^{xlvi} Yet even this seems overstated, as some analysts find only 2% of Indian exports will likely be hit, less than 0.3% of GDP.^{xlvii} Tariffs were always likely to prove a false fear for the country.

That said, the fact that India is choosing to respond *not* with retaliatory tariffs—looking instead at deals with nations like the UK and domestic measures to streamline and stimulate economic activity—is a global positive. It likely doesn't change the outlook for Indian equities much in the near term, but it shows the big fear following April's "Liberation Day" tariff unveiling—a global trade war of ever higher barriers—remains unlikely. A world of greater non-US free trade and incremental reforms streamlining economic activity may be just a mild plus for equities in absolute terms, but it far exceeds fears.

INDONESIA'S BUDGET AND CIVIL UNREST

Following Indonesian President Prabowo Subianto's 8 September cabinet reshuffle in response to anti-government protests, new Finance Minister Purbaya Yudhi Sadewa released a 2026 budget seeking to placate critics and boost growth.

Protests erupted in August after reports circulated that Indonesia's House of Representatives approved a monthly 50 million rupiah (\$3,075) housing allowance—10 times Jakarta's minimum wage—for its 580 members, which was on top of their extant salaries. Politicians' seeming self-dealing contrasted starkly with popular dissatisfaction over cost of living increases amid widespread layoffs and weaker economic growth. The anger apparently boiled over when an armored police vehicle plowed through demonstrators, killing a delivery driver. Notably, protestors had already ransacked longstanding—and now former—Finance Minister Sri Mulyani Indrawati's residence alongside several other lawmakers'.

To calm the demonstrations, Prabowo revoked lawmakers' perks, including the housing allowance. In his cabinet shakeup, he fired Sri Mulyani and four others—the ministers for politics and security, cooperatives, youth and sport, and migrant workers protection. He also called in the military—more popular than the police—to help defuse tensions, while the police apologised for the delivery driver's death and promised to investigate.

xlv Source: IMF, as of 09/10/2025.

xlvi Source: Government of India Press Information Bureau and FactSet, as of 03/09/2025.

xlvii "'Negligible' Impact of US Tariffs on India's GDP, Exports: Study," Staff, *The Economic Times*, 06/08/2025.

This unrest provided the backdrop for Indonesia's expansive 3,843 trillion rupiah (\$231 billion) 2026 budget, which is expected to rise 9% over 2025's. Driving the increase: guns and butter, with the headline initiatives a 30% jump in defence spending for military modernisation and a near doubling of Prabowo's signature free meals programme for children and pregnant women. Also propelling the budget upwards: higher transfers to regional governments.

In all, 2026's budget is projected to bring the deficit to 2.7% of GDP. This would be below 2025's expected 2.8% and under the 3% mandated by law. However, it relies on aggressive revenue estimates that assume government spending boosts private sector economic activity and GDP growth. Critics warn the kinds of spending this budget emphasises are unlikely to aid growth or productivity materially. Amid widespread economic unease, doubts abound the budget will supercharge GDP enough to hit the 5.4% target next year, versus the latest 5.2% y/y in Q2, much less Prabowo's 8% aim.^{xlviii} Hence, the moves are mostly shining a light on Indonesia's questionable budget mechanics—and its underlying commitment to discipline—weighing on sentiment.

However, the near-term market impact should not be overstated. For now, bond markets seem sanguine: Indonesia's 6.2% 10-year yield is down from over 7% at the year's start and closing in on decade lows.^{xlix} Meanwhile, Indonesian equities mostly key off oil and industrial commodity prices—broadly flat year to date—which we think largely explains equities' moderate decline alongside the added sentiment headwinds.ⁱ

SAUDI ARABIAN FOREIGN OWNERSHIP LIBERALISATION

Saudi Arabia is reportedly considering loosening or even scrapping foreign ownership limits on public companies. On 24 September, the Kingdom's Capital Market Authority (CMA) said it could soon relax the 49% foreign ownership cap, allowing majority foreign ownership, perhaps to 100%. The CMA hinted it might grant such approval by yearend. If so, this could greatly boost market liquidity, accelerate public listings and help diversify the economy into non-oil sectors. Yet some claim this is a cyclical driver—a precursor to Saudi outperformance—as the move could push index providers to raise Saudi weights in various indexes, driving vast inflows. While these moves are positives, they are longer-term positives—not likely to drive markets cyclically.

Saudi sentiment leapt on the news. From their 15 September year-to-date lows, the Tadawul All Share Index (TASI) and MSCI Saudi Arabia Index have jumped 11.1% and 11.9%, respectively.ⁱⁱ Many see this catalysing Saudi share outperformance after badly lagging the MSCI Emerging Markets (EM) Index so far this year. To date, the MSCI Saudi Arabia Index is up only 3.6% versus the MSCI EM's 30.0%.ⁱⁱⁱ But with the expectation now priced in, markets await further details and follow through. Regardless, this likely doesn't sway the outlook for Saudi equities on a relative basis. Unless official policy differs drastically from the CMA's trial balloon (positively or negatively), there isn't much left to shock equities.

xlviii Source: FactSet, as of 09/10/2025.

xlix Source: FactSet, as of 09/10/2025.

i Source: FactSet, as of 09/10/2025. Statement based on the S&P GSCI Index and MSCI Indonesia Index returns with net dividends.

ii Source: FactSet, as of 08/10/2025. TASI and MSCI Saudi Arabia Index returns with net dividends, 15/09/2025 – 07/10/2025.

iii Source: FactSet, as of 08/10/2025. MSCI Saudi Arabia and Emerging Markets Indexes returns with net dividends, 31/12/2024 – 07/10/2025.

Most short-term bulls argue this reform will push index providers like MSCI to raise Saudi companies' weight in its EM or All-Country World Indexes (ACWI). Firms passively investing in those gauges would have to boost holdings. Active fund managers benchmarked to them might, too. There are two problems with this logic: One, it is widely known—and markets pre-price widely known factors. To whatever extent the theory is correct, the jump since 15 September may already reflect it. Two, always remember: For every buyer, there is a seller. Hence, why bear markets don't end when massive fund inflows arrive. While we think this is a long-term positive for Saudi Arabia's capital markets, its cyclical impact is likely quite limited.

More fundamentally and bigger picture, in the cyclical timeframe equities focus on—the next 3 to 30 months roughly—Saudi Arabia's economy likely remains oil-focused and driven by oil prices. Weak oil drove the TASI down -13.7% through 15 September while the MSCI EM rose 25.8%.^{liii} That lag depressed sentiment significantly, so any positive surprise would spur a short-term relief rally. Index announcements and shifts just aren't fundamental drivers with lasting power, in our experience.

As MSCI index reclassifications show they generally get priced well before they take effect. MSCI's 2018/2019 addition of Saudi Arabia to EM exemplifies this. Saudi stocks, expecting the shift, outperformed before MSCI's June 2018 announcement, but then slid on the news. Before 2019's implementation, they led again—only to lag badly after.

Israel's upgrade from EM to developed market status is another example. In the year preceding MSCI's June 2009 announcement, Israeli equities outperformed the ACWI massively, then traded broadly in line with it until the official switch in May 2010. But thereafter they underperformed steadily for the next three years.

Or consider the UAE, which enacted a very similar liberalisation not too long ago. On 2 July 2019, the UAE announced it would lift foreign ownership limits on a roster of equities effective 31 March 2020. COVID muddies absolute returns over this span. UAE equities led EM and the ACWI for a couple weeks after July's announcement. Then they lagged drastically through late 2020. March's implementation changed nothing. Other factors were of focus in the timeframe equities care more about.

Longer term, though, the Kingdom's opening its markets to majority foreign ownership—if it happens—would be a long-term economic plus. That would allow players in Energy or other sectors to more freely enter its economy. This would be in keeping with Saudi Arabia's Vision 2030 plan, which aims to cut the country's oil dependence and diversify it away from oil by encouraging—and financing—private sector entrepreneurship in services areas like sports, entertainment and tourism, as well as developing advanced technological capabilities in transportation, construction and automation. It is the kind of market-oriented liberalisation global investors clamor for, but one likely carrying long-term benefits—not material short-term ones.

In most developed nations, there are few limitations on foreign equity ownership outside select industries deemed too central to national interests. Aligning with that would likely be a big plus for Saudi Arabia. All these are unabashed positives for the Saudi Arabian economy's long-term prospects.

^{liii} Source: FactSet, as of 08/10/2025. TASI and Emerging Markets Indexes returns with net dividends, 31/12/2024 – 07/10/2025.

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