

Market review: Rebound rally amid rate-cut hopes

The third quarter of 2025 marked a significant rebound in global investment markets. Helped by a temporary reduction in acrimony around trade tariffs, cooling inflation numbers in Europe, and an annual review which resulted in a substantial downward revision to US jobs data, investors turned their attention back to the outlook for interest rates. In so doing, they concluded that further cuts, particularly in the US, were warranted. This, combined with good corporate earnings almost everywhere, a resurgence in enthusiasm for the great AI boom meant that most major asset classes enjoyed a positive quarter.



Global equities were led by Emerging Markets, particularly those in Asia, and Growth equities, led by the large cap US technology stocks, and their peers in Asia. At the same time, interestingly, small cap stocks began to improve their performance relative to their larger brethren. UK equities performed well, helped by strength in the shares of banks and by the market's exposure to commodity-related companies.

European equities were not so strong but still produced a decent return, despite a lacklustre performance by German cyclical and autos.

A notable feature in many markets was the pick-up in both IPO issuance and in M&A activity, with the standout deal being the taking private of US Games company, Electronic Arts (EA) in the largest ever leveraged buyout.



Fixed income markets were more mixed over the quarter, with the best performing being the US where Treasury bond yields fell following the annual review of labour market statistics. This resulted in a revision downwards of 911,000 to the figure of jobs created in the year to end March. Although a downward revision had been anticipated, the scale of it was greater than expected and caused investors to conclude that the US jobs market was not as robust as previously believed. When combined with the fact that since April, the average figure for jobs gained has been low (at 53,000) this gave strength to the argument that the Federal Reserve could afford to cut rates, even though they remain concerned about the stickiness of inflation and also that any inflationary impact of Trump's tariffs is not likely to be seen until the

next few months. That kick-started the move downward in yields in Treasuries, resulting in a small positive return for the quarter. Elsewhere, sovereign bond yields moved slightly higher than at the end of Q2, pressured by, among other things, political uncertainty in the UK, Japan and France.

Corporate bond returns, however, were positive in most regions as credit spreads tightened, particularly for Investment Grade paper. Issuance has been strong and well supported.

Commodities were a stand-out feature of the quarter, led by precious metals. Gold hit all-time highs, while silver rose to levels not seen since the Hunt brothers tried to corner the market in the 1980's.

Gold prices (USD)



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Outlook

Attention has recently moved from the US tariff issue and onto the impact of the US Government shutdown. After a week of squabbling between Republicans and Democrats, no compromise has yet been found. The result has been the furloughing of thousands of Federal workers and the loss of economic activity amounting to \$7-\$15 bn per week, depending on whose estimates are used. Importantly, while some of this activity will be recouped, a significant amount will not. While arguing that the Democrats are doing this for purely political reasons, Trump has also ratcheted up the pressure by cancelling transportation projects in both Chicago and New York (both Democrat leaning) and threatening not to re-employ a number of those workers who have been furloughed.

One other important consequence of the shutdown has been that economic statistics have, in many cases, not been produced. Thus, commentators, investors and policy makers alike have been flying blind, with the most important data (that of September's non-farm payrolls) failing to be produced, leaving the Federal Reserve without key data on the labour market at a time when it appeared to be softening. Indeed, the recent annual revisions suggested that the US labour market may have been less strong than previously believed, leading market investors to price-in several more rate cuts over the next twelve months. Hence the reduction in 10-year treasury yields to 4.15% from 4.23% at the end of June and 4.57% at the end of last year.

Nonetheless, concerns remain about the scale and direction of the US deficit, the overall level of US debt and the cost of funding, which has increased significantly. This, of course, has implications for the USD given that it has benefitted enormously from huge inflows into the US.

Inflation, while more subdued, is likely to remain above target (2%) in most regions, but monetary policy is still tight. Thus, the expectation continues to be for a gradual easing of official rates over next 12 months, although, the extent of these cuts, particularly outside the US, is clearly less than it was six months ago and the ECB has already signalled it believes it is close to the end of its easing journey.

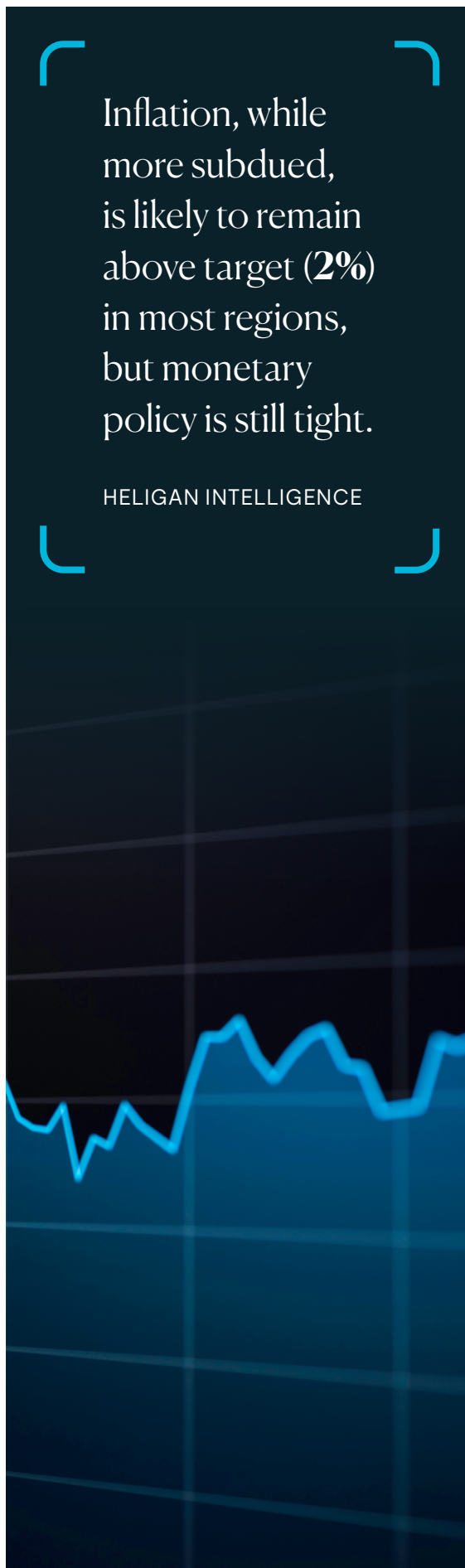
Much of the uncertainty which markets are having to deal with is heightened by the fractious political background in many countries, accompanied by the difficult geopolitical background and, of course, the aggressive trade stance taken by the Trump Administration.

Though it has been somewhat in the background over recent weeks, as the focus switched to the strength of the economy and a looming US Government shutdown, the tariff issue has not gone away. There remain several areas of potential concern which have yet to be 'resolved', for example in pharmaceuticals and semiconductors. Moreover, there are still significant issues relating to several of America's largest trade partners, including the EU (digital services), India (political relationship / trade with Russia) and, of course, China where the Trump Administration seems to delight in playing with people's emotions as to whether relations between the two are warming or cooling.

It seems likely that once the government shutdown has been resolved, the tariff tantrums will come into focus once again, as will the impact of Trump's politically motivated undermining of the Federal Reserve and in particular its Chair, Jerome Powell. In an environment where the US Treasury needs to borrow huge sums of money to finance a deficit running at almost 7%, it seems madness to run the risk of undermining confidence in the Fed and, therefore the US Dollar. However, the recent performance of gold, silver and

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crypto currencies highlight the fact that investors are not comfortable with that risk. Thus, this is likely to be an important factor in the run up to the end of the year.

In summary, the remainder of 2025 is likely to see a return to prominence of those issues seen in the first half of the year. Tariff issues, divisive politics and government debt levels are likely to feature strongly on the investment agenda, along with the outlook for interest rates towards the end of the year and the early part of 2026. We would not be surprised to see this add up to a more challenging time for USD assets, and while we are not yet in the recession camp, clearly the risks of an economic slowdown, particularly in the US have risen. We are also mindful of the fact that the inflationary impact of US tariff rises is likely to start coming through in the fourth quarter and, therefore, inflation may well be slightly higher than current consensus expectations.

Given the strong performance of investment markets over the third quarter, we would expect that a modest correction is both likely and healthy. For that reason, we are minded to take profits in holdings that have been exceptionally strong and hold a balance of cash, in order to take advantage of such a correction should it occur.

Strategy and performance contributors

We remain of the view that in the current environment, diversification is an essential part of building a resilient portfolio. Within balanced portfolios, while expressing our cautious view on fixed income assets, we continue to diversify across both credit, and government exposure, but remain relatively short duration. We also believe it wise to retain an exposure to inflation-linked bonds given the

current level of real yields in many countries. In equities we have a balance between growth and value and continue to hold a spread of exposures across the market capitalisation spectrum. These holdings are complemented by investments in technology-related sectors, such as the cloud and AI and, although it has been something of a laggard so far this year, the healthcare sector. Finally, our balanced and growth strategies have benefitted from our long-held positions in gold and commodity-related investments. We remain of the view that these are helpful diversifiers, but after such a strong run over the past quarter, believe that some profit-taking is probably merited.

Our directly invested global equity strategy has performed well, helped by good performances from names such as Alphabet Inc., Avacta Group, Citigroup Inc., Geely Automobile, Johnson & Johnson, Nvidia Corp., and Vietnam Holding, along with Polar Capital Technology Trust, the Euro Stoxx Banks ETF and the star performer of the quarter, the Amati Strategic Metals Fund which rose by 50% during the period, helped by its exposure to gold and silver miners. Laggards were, thankfully, few, with the main ones being LKQ, Diageo and Swiss construction materials company Sika. Overall, however, these negative contributions were far outweighed by those of the positive performers.

Commentary as at 10/10/25



Stephen Dowds

Chief Investment Officer,
Heligan Wealth Management