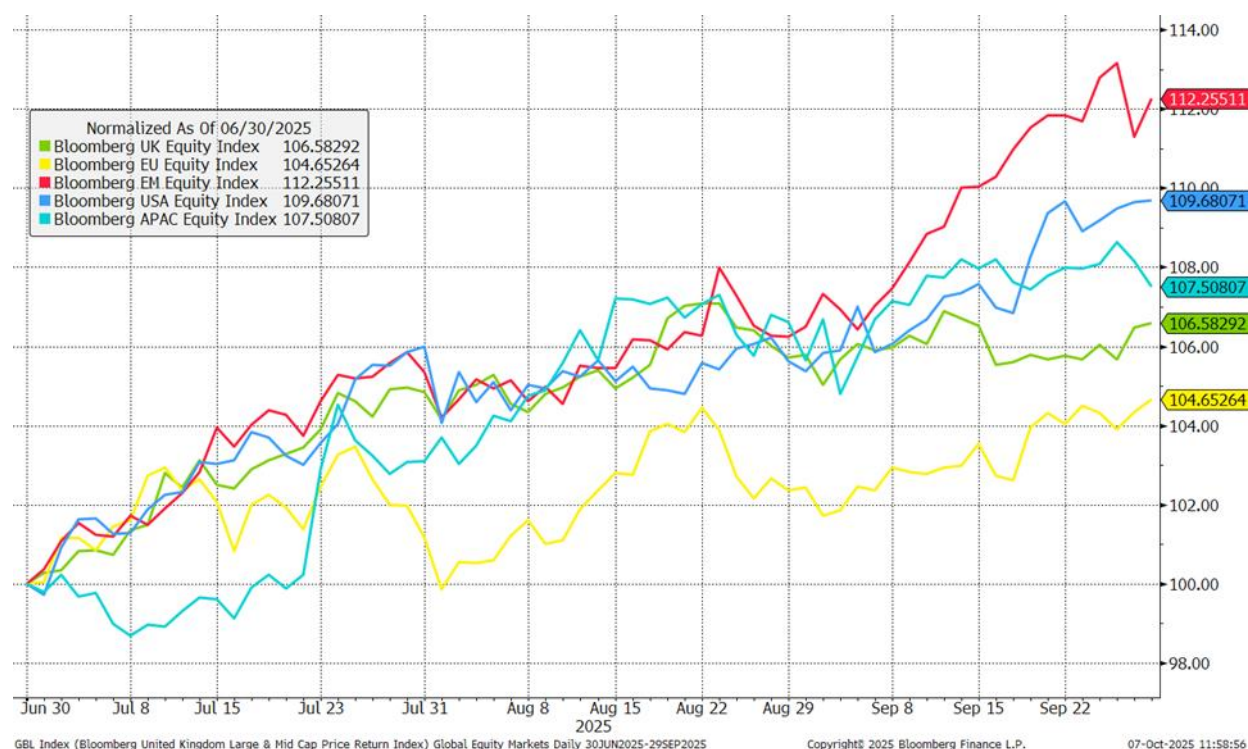


LEARN FROM THE PAST, PLAN FOR THE FUTURE

Introduction and Market Overview

The third quarter of 2025 proved much steadier for global markets after the volatility seen earlier in the year. While President Trump's tariff announcements had caused significant disruption in the first half, their impact on inflation and growth has been more modest than initially feared. This is highlighted by the fact that during the quarter, the IMF raised its global growth forecast to 3.0% for 2025 and to 3.1% for 2026. The resilience of the US economy and stronger-than-expected corporate earnings provided a tailwind for risk assets, helping to underpin equity markets across most regions.

Major Markets Total Return in Q3 2025 (% , rebased to 100)



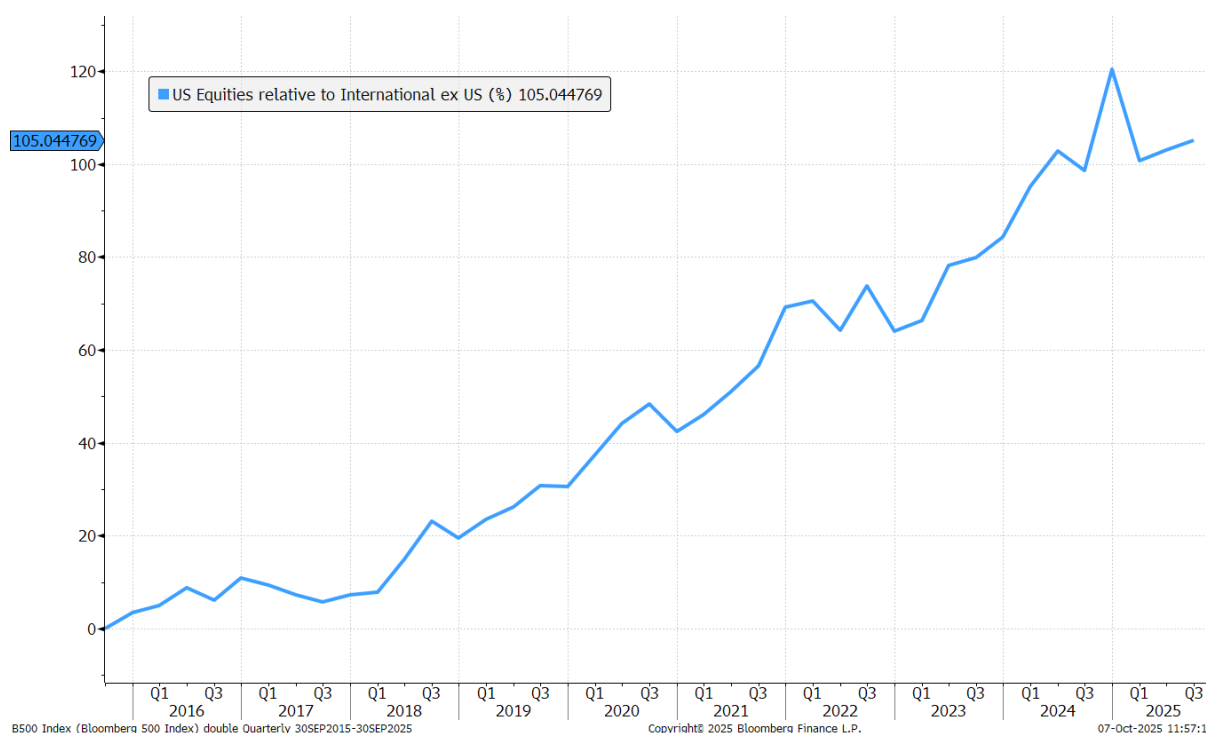
Source: Bloomberg

Emerging markets outperformed developed markets, with Chinese equities surging on the back of continued AI investment, domestic policy support, and the extension of the US-China trade truce. Japanese equities also performed strongly, aided by a weaker yen, resilient domestic economic data, and the US-Japan trade deal, which reduced tariffs on exports.

US equities, led by their large technology-related companies, rose 10% in sterling terms over the quarter and have now rallied nearly 30% since April's lows. Earnings growth has exceeded expectations, although a large portion of this rise reflects higher valuations rather than purely stronger profits. In our view, international markets, particularly in Asia and emerging markets, remain more attractively valued, offering the potential for further upside. While US equities have dominated global performance for much of the past 10 years, markets outside the US are now showing stronger leadership in 2025, even as the performance gap narrowed slightly in Q3.

This can be seen in the chart below, which shows the performance of the S&P 500 Index of US stocks relative to a global equity index that excludes US stocks.

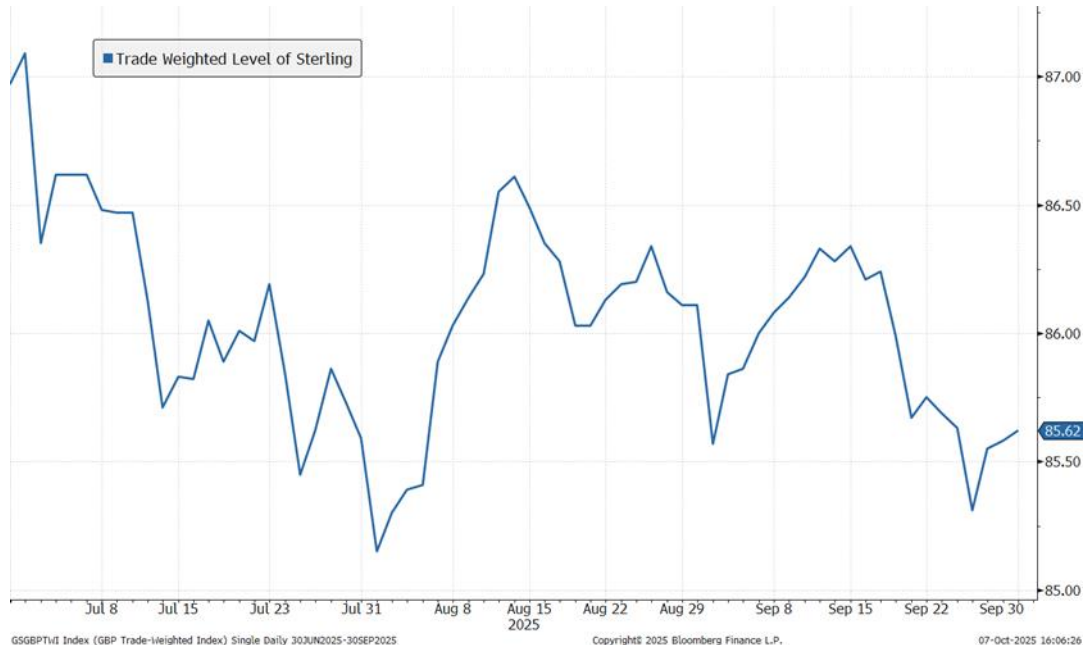
S&P 500 relative to International ex US over past 10 years



Source: Bloomberg

UK equities rose around 7% over the quarter, supported by the global reach of many large UK-listed companies, whose overseas earnings benefited from a weaker pound. Sterling fell around 2% on a trade-weighted basis, as softer domestic data and political uncertainty ahead of the November budget weighed on investor confidence. While the currency's decline provided a short-term boost to exporters and internationally focused firms, it also reflected lingering caution over the broader UK economic outlook.

Performance of Trade Weighted Sterling over the quarter



Source: Bloomberg

Fixed income markets were volatile but ended the quarter slightly higher. In the US, Treasury yields fell in response to softer labour market data, while in the UK, 30-year gilt yields climbed to their highest level since 1998, a move that pushed gilt prices lower. The rise reflected investor concern over the government's fiscal outlook and the challenge of balancing tax and spending commitments ahead of the budget.

UK government bond 30-year yield since 1998

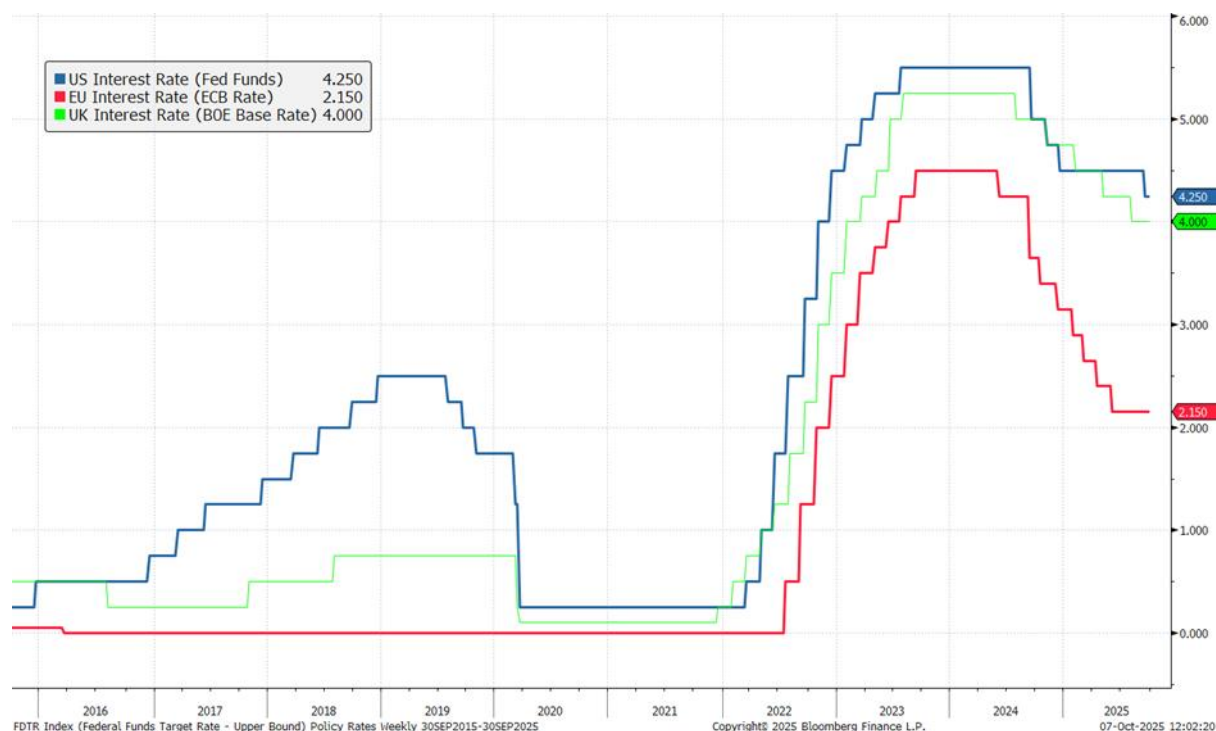


Source: Bloomberg

Corporate bonds also performed well, as the difference in yield between higher-risk corporate debt and safer government bonds narrowed, benefiting both investment grade and high-yield holdings. A broad basket of commodities rose around 6%, with gold benefiting from safe-haven demand, while oil prices were largely flat despite geopolitical tensions, reflecting expectations of supply surpluses.

Central banks diverged in tone over the quarter. The Federal Reserve cut the federal funds rate by 25 basis points in September, its first reduction of the year, signalling the start of a gradual easing cycle as growth momentum softened. The Bank of England also cut rates by 25 basis points to 4.0% but indicated that further reductions are likely to come more slowly, given persistently high inflation and ongoing fiscal concerns. Both the US and UK labour markets showed signs of softening. In the US, average monthly job gains slowed to 29,000 in the three months to August, while UK unemployment rose to 4.7% and job vacancies declined to their lowest levels since 2020.

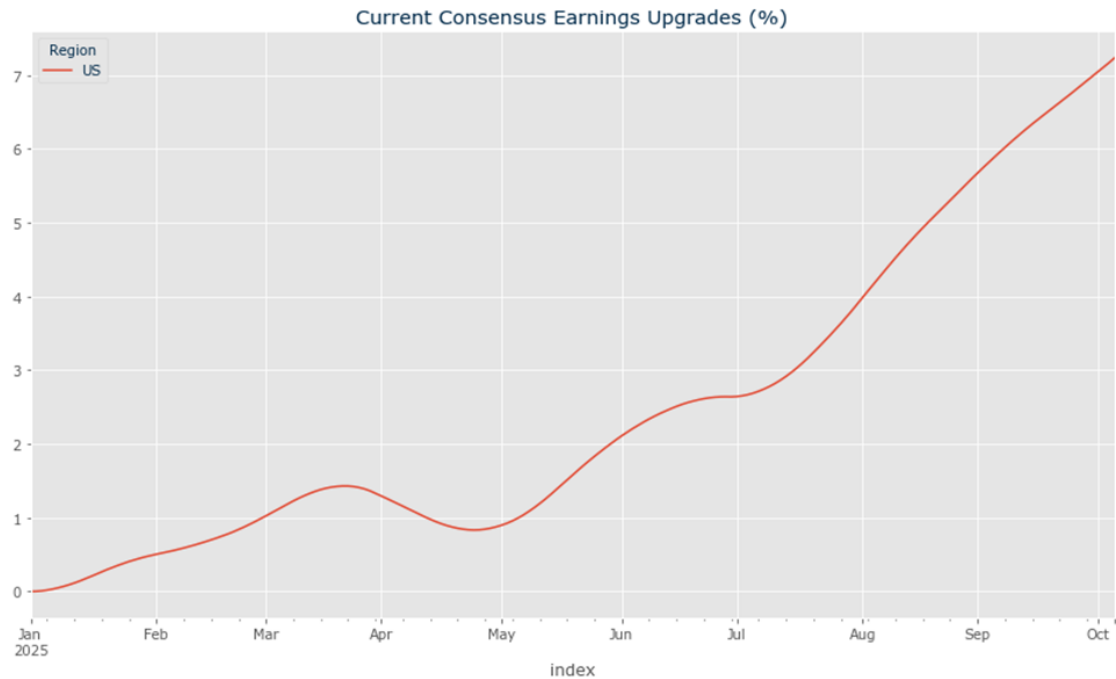
Major Central Bank Interest rates (%)



Source: Bloomberg

Looking ahead, the global economy continues to show resilience, even as growth moderates from the rapid pace seen earlier in the cycle. While the near-term outlook for growth has cooled, the long-term prospects for equity markets remain favourable, underpinned by expectations for sustained earnings expansion. Earnings remain the key driver of stock prices, and analyst forecasts have continued to be revised higher in recent months. Corporate earnings growth has been supported by positive operating leverage: after several years of restructuring, firms are leaner, more efficient, and increasingly driven by automation and AI, allowing modest revenue gains to translate into strong profit growth even amid a cooling economy.

US Corporate Consensus Earnings Upgrade (%)



Source: Bloomberg

Trade negotiations and tariffs remain a source of uncertainty, and while they have yet to significantly impact inflation, we are monitoring the situation closely for signs of inflationary pass-through. For the time being, inflation remains relatively under control, albeit a little higher than central bank targets.

UK and US Consumer Price Index (CPI)



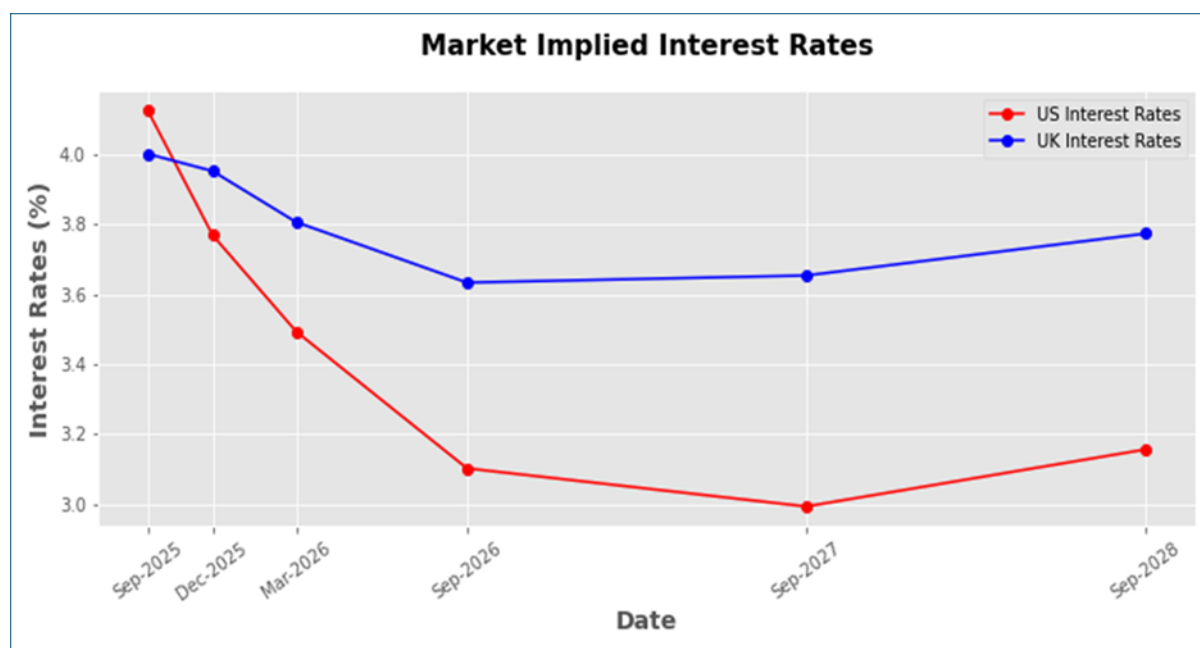
Source: Bloomberg

Job creation, though slowing, continues to support overall income growth, and the Federal Reserve has shifted its focus toward sustaining employment and guiding an orderly economic slowdown. For the time being, demand for goods and services remains broadly positive, underpinned by healthy consumer and corporate balance sheets.

Some earlier cyclical tailwinds, such as capital expenditure growth and elevated job openings, have eased, but momentum from AI investment and infrastructure buildout continues to support growth. Sentiment indicators remain subdued due to political and trade uncertainty, yet the underlying data on production, consumption, and investment continue to hold up well. From an investment standpoint, this divergence between perception and reality can create opportunity.

Against this backdrop, we remain constructive on markets. Global diversification remains crucial, particularly as valuations in the US are elevated relative to other regions. We continue to see attractive opportunities in companies exposed to global AI infrastructure, Asia Pacific and emerging market technology, and deeply discounted healthcare sectors. We believe these areas are well-positioned to benefit from declining interest rates through the remainder of 2025. With global growth steady and central banks easing policy, we remain positive on both equities and fixed income.

Market implied UK and US base interest rates



Source: CIM and Bloomberg

The UK economy is demonstrating resilience, but attention will remain on politics and the November budget. Despite renewed concerns over fiscal sustainability, in our view, these higher yields already reflect much of this negative sentiment and offer a substantial margin of safety.

Overall, while risks remain, the combination of steady growth, easing monetary policy, and selective opportunities across international markets provides a positive environment for diversified portfolios heading into the final quarter of 2025.