

Investment Outlook 4q25

September 2025



FUTURE PLANNING

- American “exceptionalism” isn’t dead
- Alternatives to fixed income
- Long bonds remain at risk



Key points

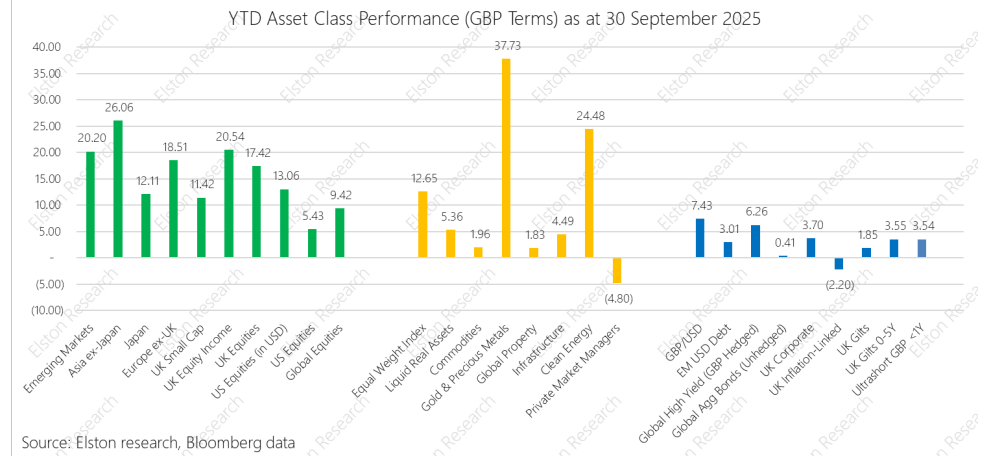
1. America continues to dominate the direction and level of global equity markets
2. With bonds under pressure, it is worth considering alternatives to fixed income
3. Longer dated UK Government bond yields made the headlines and remain at risk

Resilient economic and earnings growth – and AI expectations – have driven equity markets higher

Top Line

US economic and corporate earnings growth remains resilient despite trade disruption and acute geopolitical risks. Furthermore, optimism that the Artificial Intelligence (AI) revolution could transform economic and corporate productivity - similar to the advent of the internet in the 1990s - has driven valuations higher. This combined, with the prospect of lower US interest rates, have spurred on the equity rally.

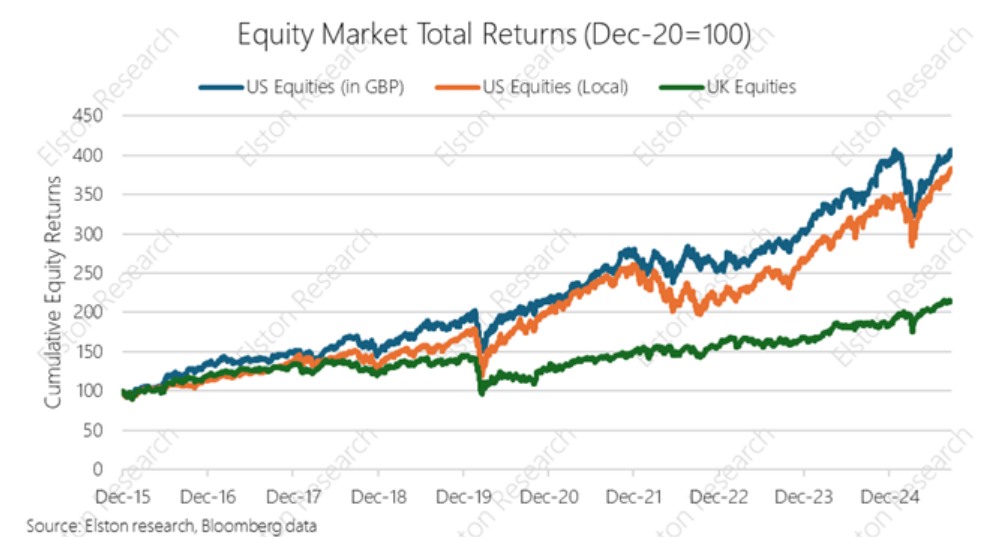
Fig.1. YTD Asset Class Returns



American “exceptionalism” isn’t dead

Dollar weakness weighed on the relative performance of US equities year to date. However, we are more concerned about the growth outlook in the rest of the world than in the US and think Sterling could weaken against the dollar from here. As long as the US avoids recession, we expect US equities to outperform, helped by stronger earnings growth.

Fig.2. US vs UK equity market total returns



US equities reflect stronger earnings growth

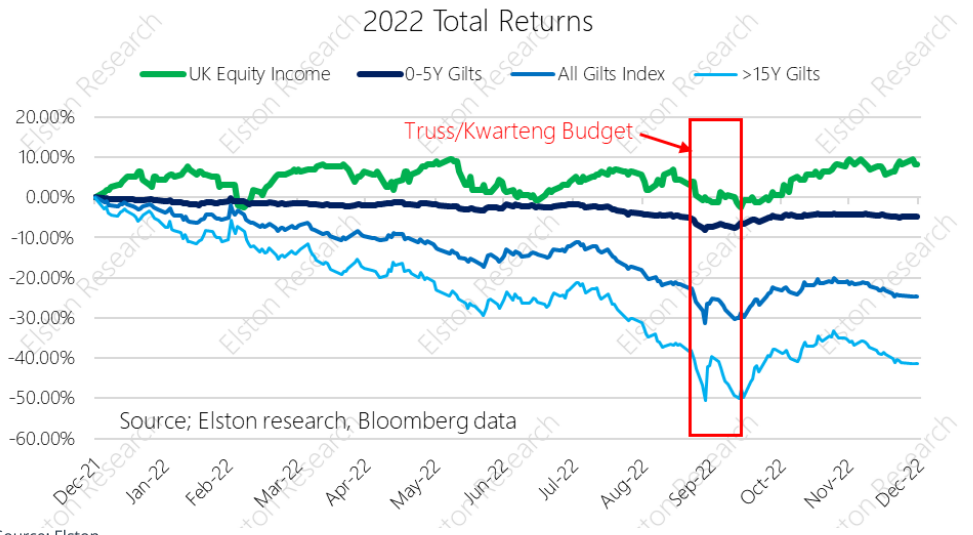
Fixed income was traditionally a “safe” asset. But inflation and indebtedness are raising concerns.

Longer dated gilts yield premia are rising. This reflects concerns around the viability of UK Government borrowing levels.

Alternatives to fixed income

Persistent inflation and concerns around levels of Government indebtedness means long-dated government bonds are under pressure. For low volatility income, shorter-duration bonds remain resilient. For higher volatility income, equity income provides an alternative that has potential to keep pace with inflation. Alternative asset classes - such as gold - provide protection against the devaluation of currency or bonds. In the 2022 Truss/Kwarteng crisis, UK Equity Income was more resilient than UK Fixed Income.

Fig.3. In the 2022 Gilts crisis, UK Equity Income was more resilient than UK Fixed Income

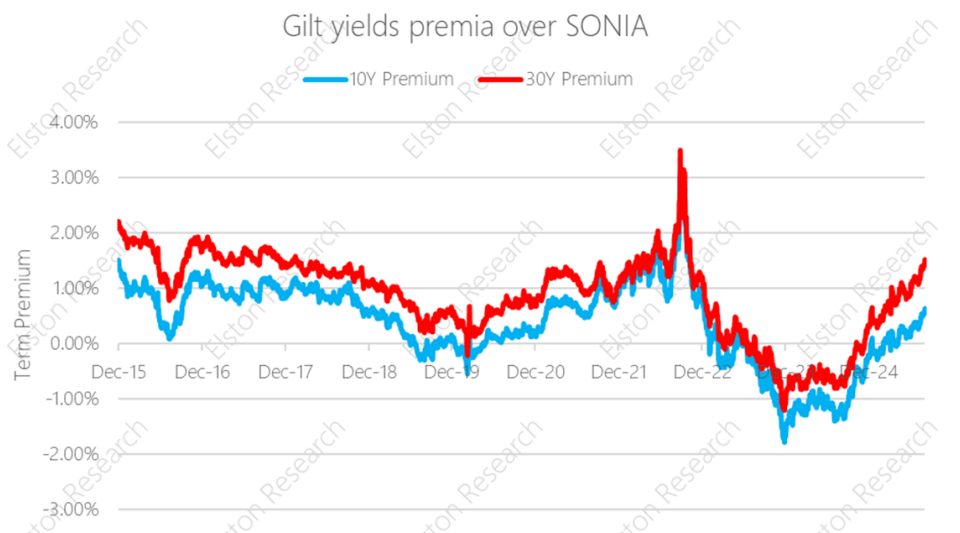


Source: Elston

Long bonds remain at risk

There are concerns about the sustainability of government debt levels in the UK and the US. This impacts longer dated bond exposures - where the “term premium” over SONIA has ticked up. Gold provides a hedge against a potential bond and currency devaluation risks.

Fig.4. Gilt yields premia on the rise

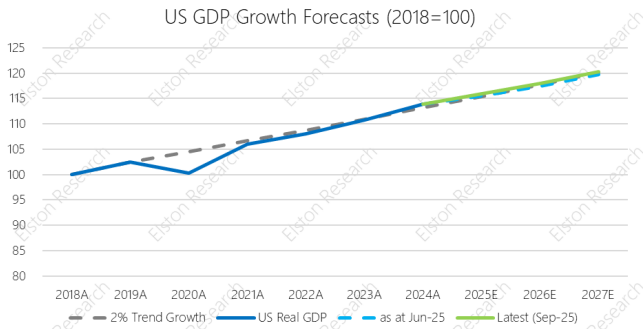


Outlook

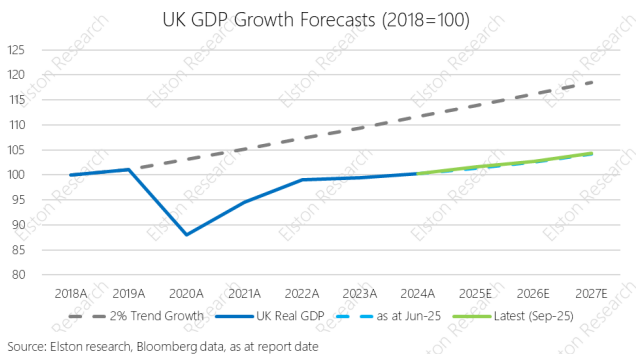
For our Outlook, we consider three key macro factors which are key drivers to markets: Growth, Inflation and Interest Rates.

Growth

In the US, the 2025E and 2026E growth estimates have both been revised moderately higher to 1.76% and 1.80%, up from 1.50% and 1.60% in June. The 2027E growth projection remains unchanged at 2.00%. Estimated 3 year annualised growth for 2027 is now +1.85% pa compared to +1.70% last quarter.

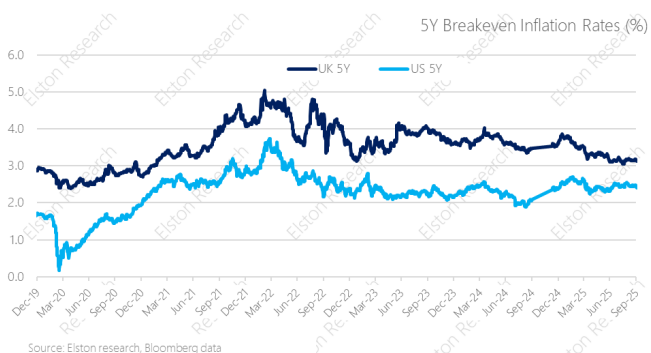


In the UK, the forecast for GDP growth in 2025E has been adjusted upwards to 1.30% over the last quarter compared to 1.10% in June. However, the 2026E projection has been lowered from 1.20% to 1.15%. The growth forecast of 2027E is currently projected at 1.50%. Estimated 3 year annualised growth for 2027 is now +1.32% pa compared to +1.27% last quarter.



Inflation

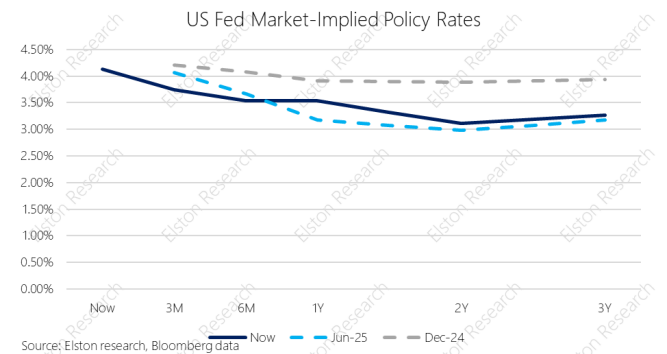
Inflation expectations has moved slightly higher for both US and UK. US 5Y Break-even Inflation Rates ("BEIRs"), a market-implied expected inflation rate, were 2.45% end Sep-25, vs 2.31% end Jun-25. UK 5Y BEIRs increased to 3.15% end Sep-25, vs 3.11% end Jun-25.



Interest Rates

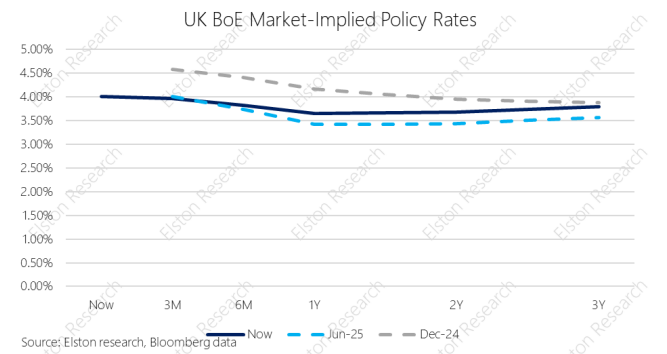
The Federal Funds rate target range currently stands at 4.00-4.25%, following a 25bps cut in September - the first cut in 2025. Chair Powell described the September cut as an act of "risk management" following softer growth momentum and cooling labour market. The dot plot revealed significant dispersion, with one member calling for 125bps of cuts by year-end while others expect just two more cuts.

US Policy Rate expectations



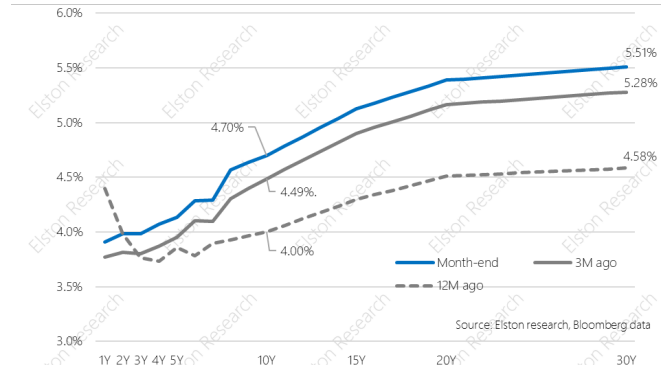
The BoE left rate unchanged at 4.0%, with the MPC voting 7-2 to hold in September. Two members voted for a 25bps cut. Market-implied expectations now point to a more hawkish path than in the US, with no cuts expected by year-end and one cut expected over the next six months.

UK policy rate expectations



The UK "yield curve" (gilt yields across each maturity) has continued to normalise (now 1 as well as 2 year yields are lower than 10 year yields) and has experienced an upward shift over the past three months. Benchmark 10 year yields increased to 4.70% end Sep-25 compared to 4.49% 3 months ago and increased from 4.00% 12 months ago.

UK Yield Curve



Bottom Line

Stronger US economic and earnings growth has supported global equity markets. Other equity market exposures where valuations are less stretched have also been performing well. Until there is more clarity from the November budget, the UK Gilts market could remain volatile (particularly long-dated). Downward pressure on currencies and bonds has driven interest in Gold and other alternative assets.

Whilst equity markets have recovered, we continue to focus on data that could change the outlook for the key macro factors (growth, interest rates and inflation) as well as any geopolitical risks (including "tail risks") that have a material economic impact.

What does this mean for portfolios?

Whilst portfolios we recommend have clear long-run strategic investments, adapting portfolios to align to changing market and economic conditions can help mitigate near- to medium-term risks and help navigate market risk. Our Investment Committee keeps those portfolios under continuous review.

Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

Disclaimer

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Notice

Investments carry risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.



Contact us

For more information, please contact your financial adviser.

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