



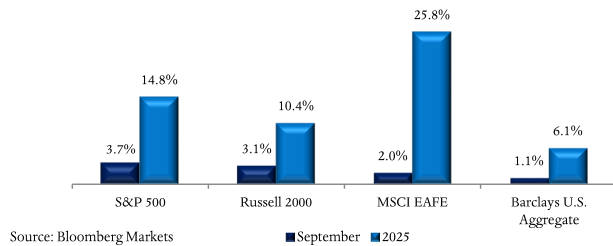
MARKETS

The third quarter of 2025 saw positive returns across most major asset classes, with many markets reaching record levels. Global trade tensions subsided, the potential effects of Artificial Intelligence impressed, and the Federal Reserve resumed cutting interest rates.

The S&P 500 index posted its best September (+3.6%) in 27 years (+8.1% in Q3; +14.8% ytd), supported by earnings that came in well above expectations. US equity gains were broad-based as evidenced by the Russell 2000 index taking the leadership baton (+12.4% in Q3; +10.4% ytd), achieving new highs for the first time in four years. Impressively, all eleven large and small-cap sectors have produced gains so far in 2025.

Overseas equities in the MSCI EAFE index added +4.9% in Q3, continuing a streak of strong performance (+25.8% ytd). In Europe, the Stoxx 600 index rose +3.5% in Q3 (+13.3% in 2025) underperforming on account of its high UK (23.2%) and low technology (7.8%) weightings. In Asia, Chinese stocks rallied sharply, with the Hang Seng index gaining +12.5% in Q3 (+38.2% ytd). Policy support for domestic chipmakers, alongside an acceleration in AI spend, fueled the rally. Japanese stocks (+11.8% in Q3; +14.7% ytd), were supported by a weaker yen, a US trade deal (which lowered tariffs on almost all exports from 25.0% to 15.0%), as well as a resilient economy and ongoing corporate governance reforms. A weaker US Dollar helped emerging market stocks stage a broad rally (+10.9% in Q3; +28.2% ytd), generally outperforming their developed market peers.

Bond markets were volatile throughout the quarter as global political uncertainty and concerns around fiscal sustainability came into focus. Nonetheless, the Bloomberg US Aggregate Bond Index ended the quarter higher by +2.0% (+6.1% ytd), as US Treasuries rallied (10-year yield 4.15%) and credit spreads tightened on the back of



the first interest rate cut of the year by the Fed.

The Bloomberg Commodity Index added +3.7% in Q3 (+5.9% ytd), driven by gold (+17.3% in Q3; +47.0% ytd) which rocketed to its best performance since 1979, amid worries over the debasement of fiat currencies by spendthrift governments. The US Dollar Index stabilized in Q3 (+0.9%) following one of its worst first half performances on record (-10.7%). In energy markets, expectations of crude oil surpluses, weighed against elevated geopolitical tensions, resulting in heightened volatility (WTI crude +2.6% in Q3; -12.7% ytd).

GEOPOLITICS

As we go to press, Israel and the Palestinian militant group Hamas have signed an agreement to cease fire and free Israeli hostages in exchange for Palestinian prisoners, in the first phase of US President Trump's initiative to end the war in Gaza. The thornier issues within the wider plan to permanently end the war, such as the disarmament of Hamas and a full withdrawal of Israeli troops from the Gaza enclave, appear to have been left for future negotiations.

In an increasingly multi-polar world, China's President Xi Jinping hosted Indian Prime Minister Narendra Modi and Russian President Vladimir Putin, presenting a united front against US pressure. Later, Xi and Putin publicly joined North Korea's Kim Jong Un at a Tiananmen Square military parade marking the end of World War II. In response, US President Donald Trump accused the

nations of conspiring against the US. Meanwhile, Russian forces continue their offensive in eastern Ukraine and stretched Kyiv's defenses with a newer assault in the Kharkiv region. Prospects for peace talks have taken a back seat to military action, with Ukraine awaiting crucial Western aid to hold the line and Russia intensifying its attacks on civilian infrastructure.

France continues to be in a period of turmoil as Prime minister François Bayrou was forced to step down after his package of budget cuts and tax increases failed to win support in parliament. After a vote of no confidence, he was replaced by Sébastien Lecornu, the fifth prime minister to be appointed over the past two years. Less than a month later, he also stepped down due to the minority government's continued inability to push through fiscal consolidation measures.

In Japan, former Economic Security Minister Sanae Takaichi, a hardline conservative, is poised to become the country's first female prime minister. If confirmed, LDP leader Takaichi vowed to strengthen the Japan-US alliance, indicating its importance to her country's diplomacy and security, while also seeking to expand trilateral partnerships with South Korea, Australia and the Philippines. Takaishi has also pledged to boost the local economy with aggressive spending and has been critical of the Bank of Japan's interest rate hikes.

US

The continued resilience of the US economy was evident by strong GDP growth of 3.8% in Q2, steady consumer spending, and benign core inflation. Conversely, housing and consumer sentiment remain weak on account of elevated interest rates and the impact of tariffs. The labor market is showing signs of softening, but not because of a recession, but rather on account of weak labor supply due to the lack of immigration, fewer government jobs and the implementation of AI. Given the suspension of federal government services, we refer to ADP's National Employment Report which indicated that private sector employment shed 32,000 jobs in September, while wages rose 4.5%. Headline

September 2025 Economic Statistics

	Sep-25	Dec-24	Dec-23
Federal Funds Target Rate	4.00 - 4.25%	4.25 - 4.50%	5.25 - 5.50%
Consumer Confidence Index	94.2	104.7	110.7
Manufacturing PMI Index	49.1%	49.3%	47.4%
Unemployment Rate	4.3% (est.)	4.2%	3.7%
JPY/USD	147.90	157.18	141.06
USD/EUR	1.1733	1.0353	1.1036
Gold/oz.	\$3,858.18	\$2,623.81	\$2,062.59
Oil (WTI)/bbl	\$62.37	\$71.72	\$71.65

Sources: see disclosure *

inflation accelerated from 2.7% to 2.9% with tariff passthrough being modest so far. Nevertheless, the Federal Reserve was willing to lower overnight interest rates by 25 basis points, with further cuts expected at the upcoming October and December policy meetings.

EUROPE

Eurozone services expanded at their fastest pace since January and marked the fourth consecutive period of growth. Robust demand from the bloc was partially offset by weakness in foreign demand, with a decline in new export orders for the twenty-eighth straight month, providing an indication of the ongoing challenges in global trade. The region's manufacturing extended a period of consistent contraction (with the exception of last month) which started in June 2022 when Russia's invasion of Ukraine triggered shortages of key raw materials. On the labor front, employment rose at the slowest pace in over four years. EU unemployment currently stands at 5.9% while the Euro area's rate is 6.3%, both remaining relatively steady, at historically low levels, over the past year.

European Central Bank President Christine Lagarde acknowledged that the significant inflation spike experienced between 2022 and 2024 has subsided, and risks are currently balanced. Inflation aligned with the ECB's 2% target in August, but September's figure rose to 2.2%. Despite the US trade tariffs, Lagarde noted the eurozone has managed better than expected, with limited moderate growth impacts rather than significant inflationary pressure.

ASIA

China's softening fixed asset investments and reduced consumption have raised concerns about the economy's growth momentum. Fiscal stimulus has been distributed in the form of spending programs to support the automobile, food and beverage, and tourism industries, especially around the National Day Golden Week holiday. However, the People's Bank of China has been reluctant to cut rates or bank reserve requirements given their already low levels. The Party's fourth plenum, scheduled to take place on October 20-23, will provide the outline of the 15th 5-Year Plan and the sectors that could benefit from more policy support. Greater diversification of external trade, facilitation of technological innovation, sustaining investment and consumption, and the deepening of China's financial infrastructure will be some of the key themes.

A US-Japan trade deal, which lowered US tariffs on almost all Japanese exports from 25% to 15%, combined with resilient domestic data and ongoing corporate governance reforms, have led to positive local economic sentiment. It now remains to be seen in which direction the incoming prime minister and the Bank of Japan will steer the country's fiscal and monetary policies.

OUTLOOK

Investors have had to contend with concerns including tariffs and trade wars, rising geopolitical tensions, inflation, policy uncertainty, cracks in the labor market, soft housing data, and most recently a US government shutdown. Yet, since the spring's bout of volatility that witnessed drawdowns between 20% (for the S&P 500) and 30% (for the Russell 2000), the stock market has stormed back to record highs with healthy breadth. The recent momentum has been aided by the direct and indirect effects of AI, the Trump administration's capital spending-friendly policies, lower interest rates and a reaccelerating economy. This seems to prove-out the old adage that "every bull market must climb a wall of worries."

After trouncing second quarter earnings (12.7% actual vs. 7.2% expected), the third quarter estimated earnings

growth rate for the S&P 500 currently stands at 7.9%. Eight of the eleven sectors are expected to report year-over-year earnings growth, led by the Information Technology, Utilities, Materials, and Financials sectors. These prospects have been baked into the current valuation of 22.2x 2026 earnings. We are encouraged to see increasingly diverse investor participation evidenced by the new highs reached by the small-capitalization Russell 2000 index as well as robust returns from cyclicals, which have outperformed defensive stocks. In addition, international markets have gained traction in 2025, showing solid growth in earnings while trading at reasonable valuations. Given the expectations for lower short-term interest rates, coupled with the sustained economic boost from the AI driven capex cycle, we maintain an optimistic view of equities for long-term oriented investors.

US financial conditions have been very liquid, thanks to the Fed keeping money flowing smoothly through the economy, an effort that was further boosted by last month's interest rate cut. Credit markets have stayed open across the board, and even riskier borrowers have been able to refinance and get new loans, keeping the cycle going. We have, however, seen an uptick in bankruptcies of late, which is likely to lead to wider spreads. Thus, we recommend an increase in credit quality and reduced duration in fixed income portfolios.

Alternative asset diversification has continued to be additive to client portfolios in 2025. Precious metal mining equities have produced outstanding returns since our initial recommendation, and we expect more to come as associated metals rise against fiat currencies, but with commensurate volatility. Software equities have been out of favor of late, on account of the possibility of disruption by AI, offering an attractive entry point. We have also identified unique opportunities related to cybersecurity, water infrastructure, artificial intelligence, and natural resources. Lastly, our proprietary efforts to source direct investments are gaining traction, with several compelling small and middle market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.