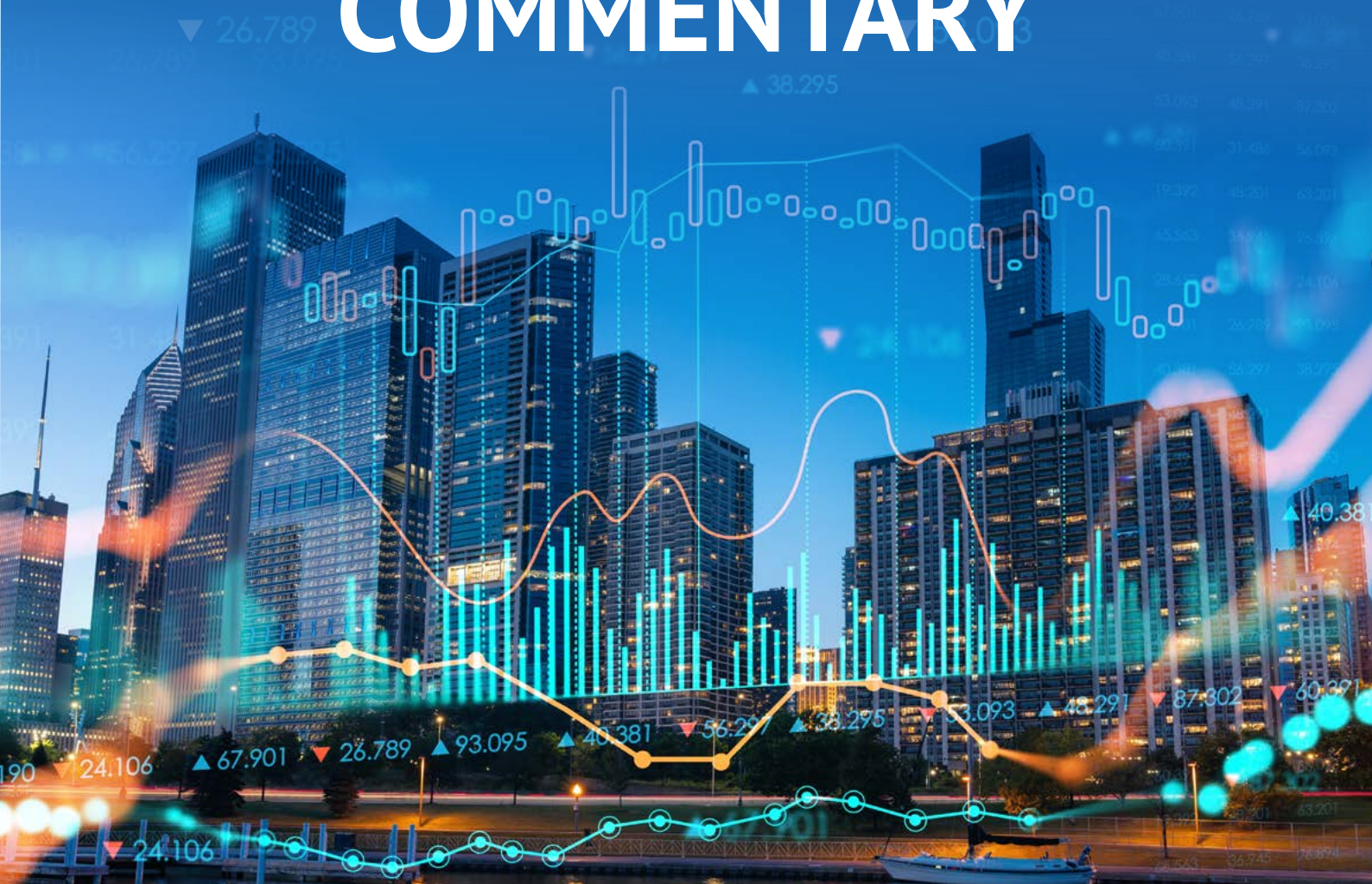




QUARTERLY MARKET COMMENTARY



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Quarterly Market Commentary September 2025

Complex and changing picture for global markets

Welcome to the September 2025 issue of *Quarterly Market Commentary* from One Four Nine Portfolio Management.

The summer months have shown a complex and changing picture for global markets. As we examine the period from June to August, a key theme has been the fragile balance between strong economic activity and ongoing geopolitical and fiscal tensions. After a volatile second quarter shaped by the initial shock of US trade tariff announcements, markets stabilised in July and August as negotiations offered temporary relief and clearer direction.

Across the globe, the focus has shifted. While central banks seem to be nearing the end of their rate-cutting cycles, concerns about fiscal policy and government debt sustainability have moved centre stage, influencing bond yields and investor sentiment. In the US, markets absorbed mixed signals. The second-quarter earnings season was largely positive, surpassing muted expectations, and business surveys indicated optimism. However, a slowdown in the labour market and renewed doubts over the independence of the Federal Reserve introduced fresh uncertainty. The US dollar showed some weakness, while US equities, particularly technology stocks, continued to be buoyed by enthusiasm for artificial intelligence, despite emerging questions about its immediate revenue impact.

In the UK, the economic landscape remains challenging. Inflation proved stickier than anticipated, leading the Bank of England to adopt a more cautious tone, even as it delivered a rate cut. This tempered expectations

for future easing and placed upward pressure on gilt yields, reflecting ongoing concerns about the UK's fiscal position. Similarly, the Eurozone experienced a mixed quarter. While resilient activity data and strong corporate earnings in certain sectors were encouraging, political instability, particularly in France, created volatility and negatively impacted market performance.

Asian markets offered a more positive story. Japanese equities performed strongly, benefiting from a favourable US trade deal and better-than-expected economic growth. In the wider Asia ex-Japan region, markets made solid gains as tariff fears eased. China's performance was notably strong in August, supported by an

extended trade truce with the US and government initiatives to bolster its domestic technology sector. Emerging markets broadly benefited from a weaker US dollar and progress on trade talks, although country-specific issues, such as the impact of US tariffs on India, created divergence in performance.

As we navigate the final months of the year, staying informed is more crucial than ever. This issue of *Market Matters* will delve deeper into these developments, providing detailed commentary on each major market to help you understand the forces shaping the global financial environment. We aim to equip you with the insights needed to make confident and informed decisions for your portfolio.

MID-YEAR MARKET ANALYSIS OF NAVIGATING THE CROSSCURRENTS

The global financial landscape is constantly changing, shaped by shifting economic policies, evolving trade negotiations, and fluctuating market sentiment. This issue provides an in-depth analysis to help you understand these complex dynamics. Explore our commentary on key markets from the UK to Japan. For further information or to arrange a meeting, please get in touch.

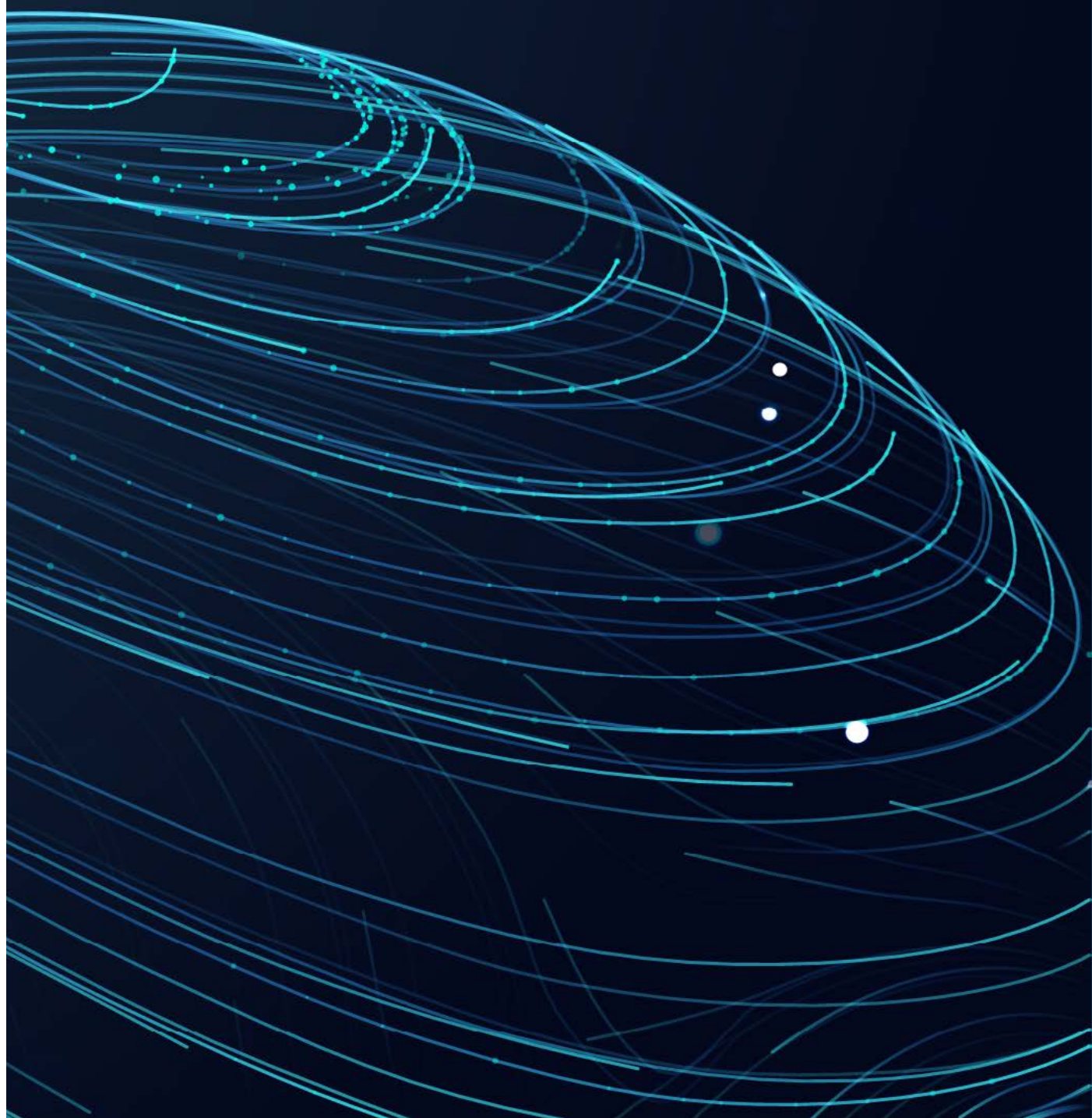
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The summer months have shown a complex and changing picture for global markets. As we navigate the final months of the year, staying informed is more crucial than ever.





Quarterly Market Review

Summer of shifting tides and geopolitical currents

The summer months offered a period of cautious optimism across global markets, although not without significant undercurrents of economic and political tension. After the volatility triggered by US tariff announcements in the second quarter, July and August experienced some stabilisation as trade negotiations advanced and fears of an immediate global recession eased.

Central bank rhetoric shifted from aggressive rate-cutting cycles to a more data-driven approach, while investor focus increasingly turned to fiscal policy issues and sovereign debt sustainability. Corporate earnings seasons in the US and Europe were mostly positive, supporting equity markets, but regional challenges and political uncertainties led to a mixed performance picture.

UK

The UK market faced a volatile summer in 2025, dealing with ongoing inflation, political instability, and a tough economic climate. Although the FTSE All-Share Index made modest gains, it lagged behind many global counterparts, indicating the specific pressures affecting the domestic economy. Notably, the FTSE 100 hit the 9,000 level in July for the first time, a milestone largely driven by the robust performance of large-cap, internationally exposed firms in defensive sectors such as healthcare and consumer staples.

However, this achievement concealed underlying vulnerabilities in the broader market, especially among mid-cap stocks that are more exposed to the domestic economy. The summer months were characterised by a complex interaction of economic, monetary, and political factors, which influenced market sentiment and investor behaviour. We examine the key developments across the economy, monetary policy, and financial markets during June, July, and August.

Economy: Inflation and interest rates

Inflation remained a key concern for the UK economy over the summer months. Despite some progress earlier in the year, inflation proved stubbornly resistant. The UK's annual inflation rate, as measured

by the Consumer Prices Index (CPI), was 3.8% in July. This was the highest since January 2024 and compares with 3.6% in June. July's inflation data also surpassed expectations, driven by higher energy prices and ongoing supply chain disruptions. Core inflation, which excludes volatile items like food and energy, stayed elevated, highlighting the widespread nature of price pressures.

In response, the Bank of England (BoE) maintained a cautious approach to monetary policy. August began with a knife-edge vote at the Bank of England, where the Monetary Policy Committee cut interest rates to their lowest level for over two years. On 7 August, the BoE's Monetary Policy Committee (MPC) reduced its benchmark interest rate by 0.25% points to 4%. Financial markets were expecting further cuts to follow in 2025, but recent inflation and other economic data appear to have made the pace of cuts more uncertain.

Policymakers emphasised the need to remain vigilant against inflationary risks, signalling that further rate cuts were unlikely in the near term. This cautious stance reflected concerns about the credibility of the BoE's inflation-targeting framework, as well as the potential for higher wage growth to entrench inflation. The BoE's actions

came against a backdrop of rising government borrowing costs. The yield on 30-year gilts surged to its highest level since 1998 in August, reflecting investor unease about the UK's fiscal outlook. Rising debt servicing costs, combined with questions about fiscal discipline, added to the challenges facing policymakers.

Economic data: Sluggish growth and labour market resilience

Economic data released over the summer painted a mixed picture of the UK economy. On the one hand, GDP growth remained sluggish, with the economy expanding by just 0.2% in the second quarter. Weak consumer spending and a slowdown in business investment weighed on activity, reflecting the impact of higher interest rates and ongoing uncertainty about the global economic outlook.

On the other hand, the labor market continued to show resilience. The unemployment rate held steady at 4.2% in July, while wage growth remained robust, with average earnings excluding bonuses rising by 7.8% year-on-year. However, this strength in the labour market also posed a challenge for the BoE, as it risked fuelling further inflationary pressures.

The housing market, a key barometer of consumer confidence, showed signs of cooling.

House prices fell by 1.5% year-on-year in August, marking the largest annual decline since 2012. Higher mortgage rates and affordability constraints weighed on demand, particularly among first-time buyers.

Political matters: Fiscal discipline under scrutiny

The UK's political landscape added another layer of complexity to the economic outlook. The government faced mounting pressure to address the cost-of-living crisis, which remained a top concern for households. In response, policymakers announced a series of measures aimed at supporting low-income families, including increased welfare spending and targeted energy subsidies.

However, these measures raised questions about the government's commitment to fiscal discipline. The Office for Budget Responsibility (OBR) warned that the additional spending could push the budget deficit above 5% of GDP in the current fiscal year, further straining public finances. This, in turn, contributed to the rise in gilt yields, as investors demanded higher compensation for holding UK government debt.

The political backdrop was further complicated by ongoing tensions within the ruling party over the direction of economic policy. While some lawmakers called for more aggressive fiscal stimulus to support growth, others argued for a return to austerity to restore market confidence. These divisions underscored the challenges facing the government as it sought to balance competing priorities.

Equities: A tale of two markets

UK equities delivered a mixed performance over the summer, reflecting the divergent fortunes of different sectors. The FTSE 100 hit the 9,000 high-water mark in July for the very first time, dominated by large-cap multinational companies,

and benefited from its defensive characteristics and exposure to global markets. Sectors such as healthcare and consumer staples outperformed, as investors sought refuge in companies with stable earnings and strong balance sheets.

In contrast, the FTSE 250, which is more heavily weighted towards domestically focused mid-cap companies, faced significant headwinds. Concerns about the UK's economic outlook weighed on sentiment, with sectors such as retail, construction, and financials underperforming. The weaker pound, which fell to a six-month low against the US dollar in August, added to the challenges for mid-cap stocks by increasing import costs and squeezing margins.

Gilts and bonds: Rising yields reflect fiscal concerns

The UK gilt market saw notable volatility over the summer, driven by a mix of domestic and global factors.

Britain's long-term government borrowing costs reached a 27-year high in August as global investors grew concerned about public finances ahead of an Autumn budget. The yield on 30-year UK government bonds, known as gilts, increased by as much as 9 basis points to 5.73%, the highest level since May 1998.

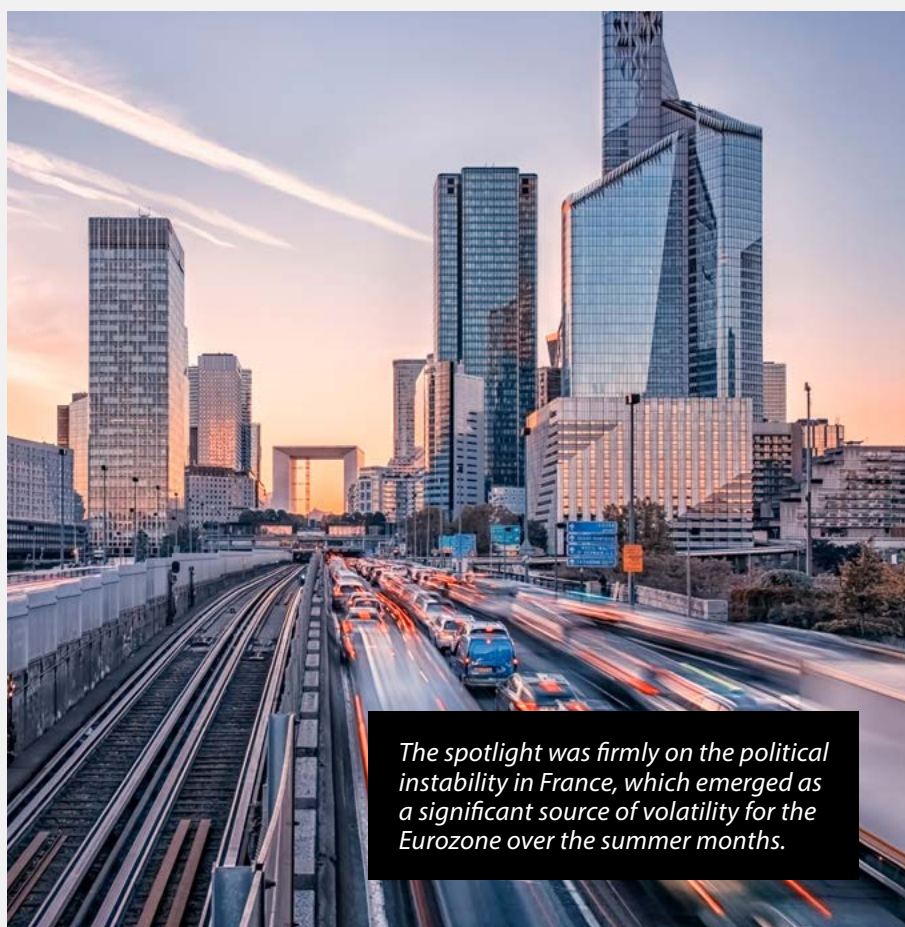
The yield on 10-year gilts increased to 4.8% in August, while the 30-year yield reached its highest point in nearly thirty years. This notable rise in yields reflected mounting concerns about the UK's fiscal outlook, as well as expectations of tighter monetary policy in the US and Europe.

Corporate bond markets also faced challenges, with credit spreads widening as investors demanded higher compensation for taking on risk. However, demand for high-quality investment-grade bonds remained relatively robust, supported by strong corporate balance sheets and limited default risk.

Policymakers emphasised the need to remain vigilant against inflationary risks, signalling that further rate cuts were unlikely in the near term.



EUROZONE



The spotlight was firmly on the political instability in France, which emerged as a significant source of volatility for the Eurozone over the summer months.

The Eurozone markets experienced a lively summer in 2025, characterised by economic resilience, political instability, and cautious optimism. Equities delivered solid gains, driven by strong corporate earnings and a favourable trade agreement with the US that eased fears of a more damaging trade war. Export-oriented sectors, particularly in Germany and the Netherlands, benefited from the improved trade environment. However, the region faced significant headwinds, with political unrest in key member states and ongoing fiscal challenges creating bouts of volatility and uncertainty for investors.

Along with these pressures, sluggish economic growth and ongoing inflation concerns complicated the outlook. Meanwhile, political instability in France and fiscal

issues in Italy underscored the region's structural challenges. Despite these obstacles, cautious optimism persisted as improving manufacturing data and targeted government measures offered hope for a more stable economic path. We review the key developments in the economy, monetary policy, and financial markets during June, July, and August.

Economy: Inflation, interest rates, and growth

Inflation continued to be a central concern for the Eurozone during the summer, although signs of easing appeared. The Harmonised Index of Consumer Prices (HICP) increased by 3.2% year-on-year in June, down from 3.5% in May, indicating falling energy prices and a gradual normalisation of supply chains.

Nonetheless, core inflation, which excludes volatile items such as food and energy, remained persistent at 3.8%, highlighting the ongoing challenges for policymakers.

The European Central Bank (ECB) kept its main interest rate steady at 2% during its July meeting, signalling that it was approaching the end of its rate-cutting cycle. ECB President Christine Lagarde highlighted the need for a cautious approach, pointing to ongoing inflationary pressures and the importance of maintaining price stability. The decision to pause rate cuts was widely expected, as the ECB aimed to balance the need for economic support with its inflation-targeting mandate.

Economic growth in the Eurozone remained subdued, with GDP expanding by just 0.1% in the second quarter. While this marked a slowdown from the 0.3% growth recorded in Q1, there were signs of a potential recovery in the manufacturing sector. Flash Purchasing Managers' Index (PMI) data for August showed an improvement in manufacturing activity, driven by stronger export demand and easing supply chain constraints. However, the services sector continued to face headwinds, reflecting weaker consumer spending and rising borrowing costs.

Political matters: France in the spotlight

Political instability in France emerged as a significant source of volatility for the Eurozone over the summer. Prime Minister François Bayrou's minority government faced a vote of no confidence in early September, raising doubts about the country's ability to implement fiscal reforms. The government's proposed €44 billion budget cut, which included a widespread spending freeze and the scrapping of two public holidays, faced strong opposition from both lawmakers and the public.

France's fiscal problems were underscored by its rising debt levels. The gross national debt hit €3.35 trillion at the close of the last financial year, amounting to 114% of the country's GDP, a record high. The budget deficit, now at 5.8%, nearly doubles the 3% limit established by the European Union. Although the Bayrou government aimed to bring the deficit down to 4.6% by 2026, opposition parties remain divided on how to achieve fiscal consolidation, further complicating the political landscape.

President Emmanuel Macron, who has refused to call new parliamentary elections ahead of his second term ending in 2027, faces increasing pressure to resolve the deadlock. Polls indicate that the public prefers snap elections, signalling growing frustration with the government's failure to address the country's fiscal

issues effectively. The political uncertainty has affected French markets, with investors adopting a cautious approach amid fears of further instability.

Equities: Resilience amid volatility

Eurozone equities, as measured by the MSCI EMU Index, rose over the summer, supported by strong corporate earnings and a favourable trade deal with the US. The agreement, which set a baseline tariff of 15% with exemptions for key sectors, prevented a more damaging trade war and brought relief to export-focused industries. This development, together with healthy earnings in the healthcare and financial sectors, improved investor confidence.

Healthcare stocks outperformed, driven by strong demand for

innovative treatments and positive regulatory changes. Financials also posted solid results, buoyed by higher interest margins and better credit quality. However, the wider market faced headwinds from political uncertainty and concerns about the economic outlook, leading to increased volatility.

French equities were notably impacted by the political turmoil, with the CAC 40 underperforming its regional counterparts. Meanwhile, German and Dutch markets performed better, supported by their stronger fiscal positions and resilient export sectors.

Gilts and bonds: Rising yields reflect fiscal concerns

The Eurozone bond market experienced significant volatility during the summer, driven by a mix of domestic and global factors. Yields on French government bonds increased sharply, reflecting investors' concerns about the country's fiscal outlook and political stability. The spread between French and German 10-year bond yields widened to its highest level in over a year, emphasising the perceived risk premium linked to French debt.

German bunds, traditionally regarded as a safe haven, experienced increased demand amid uncertainty, with yields remaining fairly stable. However, the broader Eurozone bond market faced difficulties due to rising global interest rates, as central banks in the US and other major economies indicated a more hawkish stance.

Corporate bond markets also faced challenges, with credit spreads widening as investors required higher compensation for risk. Despite this, demand for high-quality investment-grade bonds remained strong, supported by robust corporate balance sheets and limited default risk.



German bunds, traditionally regarded as a safe haven, experienced increased demand amid uncertainty, with yields remaining fairly stable.



As Labour Day marked the unofficial end of summer, investors were reminded of the risks that could affect markets in the coming months.

US

The summer of 2025 proved to be a strong season for US markets, with equities posting impressive gains despite a backdrop of mixed economic signals and political drama. The S&P 500, Dow Jones Industrial Average, and Nasdaq Composite all recorded their best summer performances since 2020, driven by optimism about Federal Reserve policy and a robust Q2 earnings season. Technology stocks, in particular, led the charge, fuelled by enthusiasm for artificial intelligence (AI) investments, while resilient consumer spending and strong corporate earnings across sectors added further support to the rally.

However, as Labour Day marked the unofficial end of summer, investors were reminded of the risks that could affect markets in

the coming months. Concerns about the Federal Reserve's next steps, persistent inflationary pressures, and the potential for political deadlock in Washington loomed large. Additionally, global uncertainties, such as trade tensions and geopolitical risks, contributed to the cautious tone. While the summer's gains reflected optimism, examining June, July, and August reveals a more uncertain outlook moving forward, requiring investors to weigh opportunities carefully against potential headwinds.

Economy: Inflation, interest rates, and growth

Economic data over the summer painted a complex picture of the US economy. Inflation continued to decline, with the Consumer Price Index (CPI) rising by 3.1% year-on-year in June, down from 3.8% in May. Core inflation, which excludes food and energy, also showed signs of easing, coming in at 3.5% in July. These figures offered some relief to policymakers and markets, as they suggested that the Federal Reserve's aggressive rate hikes over the past year were finally having their intended effect.

However, the labour market showed signs of cooling. The July non-farm payrolls report revealed that the US economy added only 150,000 jobs, significantly below the monthly average of 250,000 seen earlier in the year. Wage growth also slowed, rising by 4.2% year-on-year in July compared to 4.6% in June. While the unemployment rate remained low at 3.7%, the data indicated a potential softening in labour market conditions, raising questions about the sustainability of economic growth.

Business surveys presented a more optimistic outlook, with the ISM Manufacturing and Services PMIs both indicating expansion in July and August. The manufacturing sector, in particular, benefited from easing supply chain constraints and robust demand for durable goods. However, consumer spending, which makes up nearly 70% of US GDP, showed signs of deceleration, as higher borrowing costs and persistent inflation put pressure on household budgets.

Monetary policy: Rate cuts on the horizon?

The Federal Reserve's policy stance was a key factor influencing market sentiment over the summer. Fed Chair Jerome Powell signalled a potential shift in policy during his July testimony, recognising the need to balance inflation control with supporting economic growth. Markets interpreted this as a dovish pivot, pricing in a 90% probability of a rate cut in September. Traders also anticipated at least one more rate cut before the end of the year.

This change in expectations was evident in the bond market, where US Treasury yields steepened. Short-term yields decreased due to the anticipation of lower interest rates, while longer-term yields increased, reflecting concerns about fiscal policy and central bank independence. The yield on the 10-year Treasury note rose to 4.3% in August, its highest level since 2011, as investors demanded greater compensation for holding long-term debt.

Political matters: Central bank independence under fire

Political drama resurfaced over the summer, adding another layer of uncertainty to the economic outlook. President Donald Trump challenged the independence of the Federal Reserve and the Bureau of Labour Statistics. His comments, which accused the institutions of manipulating data to undermine his political agenda, sparked controversy and raised concerns about the politicisation of economic policymaking.

These developments occurred against a backdrop of increasing fiscal pressures. The US budget deficit widened to \$1.8 trillion in the fiscal year ending August, driven by higher interest payments on government debt and increased spending on social programmes. The national debt surpassed \$33 trillion, prompting calls for greater fiscal discipline. However, with a divided Congress, progress on tackling these challenges remained elusive.

Equities: Early summer rally

Over the summer, all three major US equity indices recorded their best June-to-August performance since 2020. The S&P 500 rose by 9.3%, the Dow Jones Industrial Average increased by 7.8%, and the Nasdaq Composite jumped by 12%, reflecting strong investor confidence and optimism about the Federal Reserve's policy outlook.

The rally was supported by a strong Q2 earnings season, during which about 75% of S&P 500 companies exceeded analysts' expectations. Technology stocks stood out, buoyed by enthusiasm for artificial

intelligence (AI). Companies in the AI sector reported high demand for their products and services, boosting investor confidence in the sector's growth prospects. However, an MIT report questioning the immediate revenue benefits of AI pilots caused some concern, emphasising the need for caution when assessing the sector's long-term outlook.

Other sectors also contributed to the rally. Consumer discretionary stocks benefited from resilient spending on travel and leisure, while healthcare companies delivered strong earnings, supported by demand for innovative treatments. Financials, meanwhile, saw improved margins due to higher interest rates, although concerns about credit quality persisted.

Bonds: Steepening yield curve reflects mixed sentiment

The US bond market saw significant volatility during the summer, influenced by changing expectations for Federal Reserve policy and worries about fiscal sustainability. The yield curve steepened, with the gap between 2-year and 10-year Treasury yields narrowing to -0.5% in August, from -0.8% in May. This reflected a mix of declining short-term yields, as markets anticipated rate cuts, and rising long-term yields, driven by fiscal concerns and increased inflation expectations.

Corporate bond markets also encountered difficulties, with credit spreads widening as investors required higher compensation for bearing risk. Nevertheless, demand for high-quality investment-grade bonds stayed strong, supported by resilient corporate balance sheets and limited default risk.

“OVER THE SUMMER, ALL THREE MAJOR US EQUITY INDICES RECORDED THEIR BEST JUNE-TO-AUGUST PERFORMANCE SINCE 2020.”



Japan's economy demonstrated notable resilience during the summer, with economic data portraying a positive outlook on growth and corporate activity.

JAPAN

The Japanese market emerged as a standout performer during the summer of 2025, with equities delivering robust gains and economic data exceeding expectations. The Nikkei 225 and TOPIX indices both posted strong performances, buoyed by a favourable trade deal with the US, improved corporate governance, and healthy economic indicators. However, speculation around potential monetary policy shifts and rising government bond yields added a layer of complexity to the outlook. We explore the key developments across the economy, monetary policy, and financial markets during June, July, and August.

Economy: Growth and inflation on the rise

Japan's economy demonstrated notable resilience during the summer, with economic data portraying a positive outlook on growth and corporate activity. Q2 GDP growth registered at an annualised rate of 1.8%, surpassing market expectations and marking the third consecutive quarter of expansion. The increase was driven by strong exports, supported by a favourable trade deal with the US, and solid domestic demand, especially within the corporate sector.

Machinery orders, a key indicator of corporate capital expenditure,

increased by 4.5% in July, indicating healthy investment by Japanese companies. This rise in capital spending was linked to higher demand for advanced manufacturing equipment and technology, as firms aimed to boost productivity and competitiveness. Consumer spending also stayed resilient, supported by a tight labour market and rising wages.

Inflation, however, continued to rise. The Consumer Price Index (CPI) increased by 2.8% year-on-year in June, up from 2.5% in May, driven by higher energy costs and a weaker yen. Core inflation, which excludes food and energy, also grew to 2.4%, prompting the Bank of Japan (BoJ) to revise its inflation forecast upwards. Although inflation remained below the levels seen in other major economies, this upward trend indicated a shift away from Japan's long-standing deflationary environment.

Monetary policy: Speculation of a rate hike

The Bank of Japan maintained its highly accommodative monetary policy unchanged throughout the summer, keeping its policy rate at -0.1% in its July meeting. However, the central bank's decision to raise its inflation forecast led to speculation of a possible rate rise later in the year. BoJ Governor Kazuo Ueda emphasised the importance of closely monitoring inflation trends,

particularly wage growth, before any policy adjustments.

The prospect of a rate increase caused Japanese government bond (JGB) yields to rise, with the 10-year yield reaching 0.7% in August, its highest point since 2014. This marked a notable shift in market expectations, as investors started to factor in the possibility of tighter monetary policy. The BoJ's yield curve control (YCC) policy, which aims to maintain 10-year yields near 0%, came under scrutiny, with some analysts questioning its sustainability amid rising inflation.

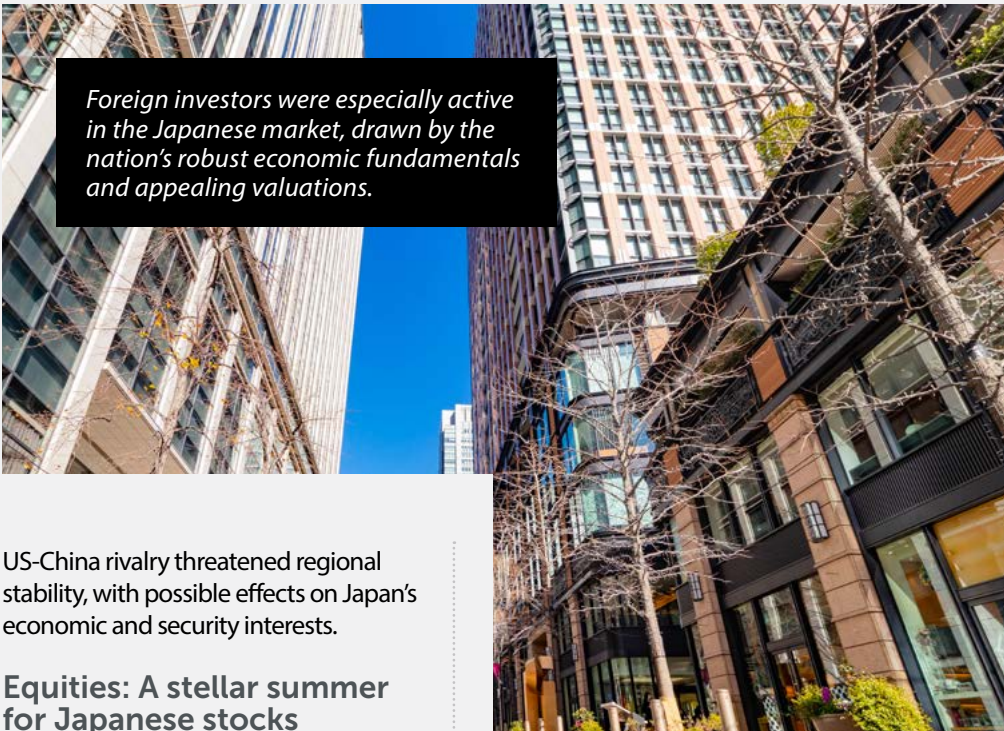
The yen also experienced volatility, dropping to 145 against the US dollar in July before recovering slightly in August. The currency's fluctuations reflected a mix of monetary policy divergence between Japan and the US, as well as market speculation about the BoJ's next moves.

Political matters: Stability amid global uncertainty

Japan's political landscape stayed relatively steady over the summer, providing a stable environment for economic and market developments. Prime Minister Fumio Kishida's government continued to prioritise structural reforms, including measures to strengthen corporate governance and increase labour market flexibility. These reforms were well-received by investors, as they aimed to enhance productivity and foster long-term economic growth.

On the international stage, Japan's trade relationship with the US took centre stage. The two nations reached a favourable trade agreement in June, which included reduced tariffs on key Japanese exports such as automobiles and electronics. This deal gave a considerable boost to Japan's export-driven industries, strengthening the country's position as a key player in global trade.

However, geopolitical tensions in the Asia-Pacific region continued to be a concern. Ongoing disputes in the South China Sea and increased



Foreign investors were especially active in the Japanese market, drawn by the nation's robust economic fundamentals and appealing valuations.

US-China rivalry threatened regional stability, with possible effects on Japan's economic and security interests.

Equities: A stellar summer for Japanese stocks

Japanese equities achieved significant gains over the summer, with the Nikkei 225 and TOPIX indices both outperforming their global counterparts. The Nikkei 225 increased by 12% from June to August, while the TOPIX rose by 10%, marking one of the strongest summer performances in recent years. The rally was driven by a combination of solid corporate earnings, positive trade developments, and ongoing corporate governance reforms.

Export-oriented sectors, such as automobiles and electronics, ranked among the top performers, benefiting from the US trade deal and a weaker yen. Companies like Toyota and Sony reported strong earnings, supported by high demand for their products in international markets. The technology sector also experienced notable gains, driven by increased investment in artificial intelligence and advanced manufacturing technologies.

Corporate governance reforms continued to play a vital role in enhancing investor confidence. Japanese firms increasingly emphasised shareholder returns, with many announcing share buybacks and dividend hikes. This shift reflected a broader trend towards improving capital efficiency and

aligning corporate practices with global standards.

Foreign investors were especially active in the Japanese market, drawn by the nation's robust economic fundamentals and appealing valuations. Net foreign purchases of Japanese equities reached a five-year peak in July, highlighting the increasing attractiveness of the market.

Bonds: Rising yields reflect policy shifts

The Japanese government bond (JGB) market saw significant volatility over the summer, driven by changing expectations for monetary policy. The yield on 10-year JGBs increased to 0.7% in August, reflecting speculation about a possible rate hike by the BoJ. This marked a shift from the low-yield environment that had characterised the Japanese bond market for years.

Corporate bond markets also encountered difficulties, with credit spreads widening as investors required higher compensation for bearing risk. Nevertheless, demand for high-quality investment-grade bonds stayed strong, supported by resilient corporate balance sheets and limited default risk.

ASIA (EX JAPAN)

Markets across Asia, excluding Japan, performed strongly during the summer of 2025, supported by easing trade tensions between the US and China and a generally favourable global economic climate. The extended trade truce between the two superpowers, which delayed the imposition of additional tariffs until November, offered much-needed relief to the region's export-driven economies.

However, not all markets in the region shared the same optimism. Despite some positive trends, the area faced challenges from rising global interest rates and geopolitical uncertainties, which tempered some of the enthusiasm. We examine the main developments in the region's economy, monetary policy, and financial markets during June, July, and August.

Economy: Trade truce and diverging growth trends

The extended truce in the US-China trade dispute gave a much-needed boost to Asia's export-focused economies. The agreement, which delayed the introduction of additional tariffs until November, eased fears of a full-scale trade war and supported regional trade flows. This was especially helpful for economies like Taiwan, South Korea, and China, which depend heavily on exports of technology and industrial goods.

China's economy showed signs of stabilising over the summer, with GDP growth for Q2 reaching 4.8% year-on-year, marginally above market expectations. Industrial production and retail sales both increased in July and August, reflecting the impact of government stimulus measures. Beijing announced ambitious plans to triple domestic chip production by 2026, aiming to reduce reliance on foreign technology and strengthen its semiconductor industry. These measures provided a notable boost to investor confidence, especially in the technology sector.



Despite some positive trends, the area faced challenges from rising global interest rates and geopolitical uncertainties, which tempered some of the enthusiasm.

In contrast, India's economy encountered difficulties as the US imposed a 50% tariff on Indian exports in August. The move, which penalised India for its trade relationship with Russia, significantly impacted the country's export sector and raised concerns about its economic outlook. Although domestic demand remained strong, the tariff shock underscored the risks linked to India's geopolitical stance.

Elsewhere in the region, Southeast Asian economies such as Vietnam and Indonesia continued to benefit from supply chain diversification as companies sought alternatives to China for manufacturing and production. However, these economies also faced headwinds from rising global interest rates and slowing demand in key export markets.

Monetary policy: Inflation and interest rate dynamics

Monetary policy across Asia excluding Japan remained broadly accommodative over the summer,

as central banks aimed to support growth amidst a challenging global environment. Inflation trends varied throughout the region, reflecting differences in economic conditions and policy priorities.

In China, inflation remained muted, with the Consumer Price Index (CPI) increasing by just 0.8% year-on-year in July. This provided scope for the People's Bank of China (PBoC) to keep its accommodative stance, cutting the benchmark loan prime rate by 10 basis points in August to support credit growth and investment. The central bank also introduced targeted measures to enhance liquidity in the property sector, which has been a significant obstacle to economic growth.

“THE SHANGHAI COMPOSITE INDEX ROSE BY 9% OVER THE SUMMER, WITH TECHNOLOGY AND CONSUMER DISCRETIONARY STOCKS LEADING THE GAINS.”

South Korea and Taiwan, by contrast, faced greater inflationary pressures, driven by rising energy costs and robust domestic demand. The Bank of Korea (BoK) and Taiwan's central bank both maintained rates during the summer, signalling a cautious stance on monetary policy. Policymakers emphasised the importance of striking a balance between controlling inflation and supporting economic recovery, particularly in light of the global AI investment boom that has driven growth in their technology sectors.

India's central bank, the Reserve Bank of India (RBI), also kept rates unchanged, despite rising inflationary pressures. The decision reflected concerns about the impact of US tariffs on the economy, as well as the need to support domestic demand. However, the RBI signalled that it would remain vigilant against inflation risks, particularly if food and energy prices continue to rise.

Political matters: Trade and geopolitical tensions

Geopolitical developments significantly influenced the economic and market landscape

across Asia, excluding Japan, during the summer. The US-China trade truce offered a temporary respite from escalating tensions, but the underlying issues remained unresolved, leaving the region susceptible to future disruptions. The November deadline for further negotiations loomed, with both sides under pressure to reach a more comprehensive agreement.

India's geopolitical challenges emerged in August, when the US imposed a 50% tariff on Indian exports. The move, which was linked to India's trade relationship with Russia, highlighted the risks associated with its foreign policy stance. The tariff not only strained US-India relations but also raised questions about India's capacity to navigate the complex dynamics of global trade and geopolitics.

In Southeast Asia, political stability remained a key concern, particularly in countries such as Thailand and Malaysia, where governments faced pressure to address economic challenges and implement structural reforms. However, these issues had a limited impact on market sentiment, as investors focused on the region's long-term growth prospects.

Equities: Technology drives gains, India lags

Equity markets across Asia, excluding Japan, delivered strong performance over the summer, with the MSCI Asia ex-Japan Index rising by 8% from June to August. The rally was driven by a combination of easing trade tensions, robust corporate earnings, and strong demand for technology stocks.

Taiwan and South Korea were the leading performers, benefiting from the surge in global AI investment. Taiwanese companies, especially in the semiconductor industry, experienced high demand for their products as companies worldwide increased investment in AI and advanced computing technologies. The Taiwan Stock Exchange Weighted

Index rose by 12% over the summer, while South Korea's KOSPI grew by 10%, driven by strong earnings in the technology and industrial sectors.

Chinese equities also performed well, especially in August, as the trade truce and government stimulus measures boosted investor confidence. The Shanghai Composite Index rose by 9% over the summer, with technology and consumer discretionary stocks leading the gains. The government's plans to triple domestic chip production by 2026 provided a substantial boost to the semiconductor sector, which has been a key focus of Beijing's industrial policy.

In contrast, India's equity market underperformed, with the Nifty 50 Index falling by 3% over the summer. The US tariffs significantly affected export-oriented sectors, such as textiles and pharmaceuticals, while concerns about the broader economic repercussions of the trade dispute dampened investor confidence. However, domestically focused sectors, such as financials and consumer staples, provided some support, demonstrating the resilience of India's domestic demand.

Bonds: Diverging trends across the region

The bond market across Asia, excluding Japan, reflected the region's diverse economic and monetary policy dynamics. Chinese government bond yields declined over the summer, as the PBoC's rate cut and liquidity measures supported demand for fixed-income assets. Conversely, bond yields in South Korea and Taiwan increased, reflecting higher inflationary pressures and expectations of future tighter monetary policy.

India's bond market faced challenges as US tariffs raised concerns about the country's fiscal stability and external vulnerabilities. The yield on 10-year Indian government bonds rose to 7.5% in August, reflecting investor caution and higher risk premiums.

EMERGING MARKETS

Emerging markets (EM) performed strongly during the summer of 2025, outpacing their developed market counterparts. A weaker US dollar, progress in US trade negotiations, and solid performances from key markets, including Taiwan, South Korea, China, and Brazil, supported the rally.

Nevertheless, the situation was far from uniform, as countries like India and Mexico faced challenges from US tariffs, while geopolitical tensions in the Middle East affected markets such as Saudi Arabia. We examine the key developments across the economy, monetary policy, and financial markets in emerging markets during June, July, and August.

Economy: Diverging growth and inflation trends

Emerging market economies faced a mixed economic landscape over the summer, with growth and inflation trends differing widely across

regions. A weaker US dollar offered some relief to EM economies, easing the burden of dollar-denominated debt and encouraging capital inflows. However, external pressures, such as US tariffs and geopolitical tensions, posed challenges for certain markets.

China, the largest emerging market economy, showed signs of stabilisation, with Q2 GDP growth reaching 4.8% year-on-year, slightly exceeding expectations. Industrial production and retail sales both improved in July and August, supported by government stimulus measures and a truce in the US-China trade dispute. Beijing's ambitious plans to triple domestic chip production by 2026 further boosted sentiment, especially in the technology sector.

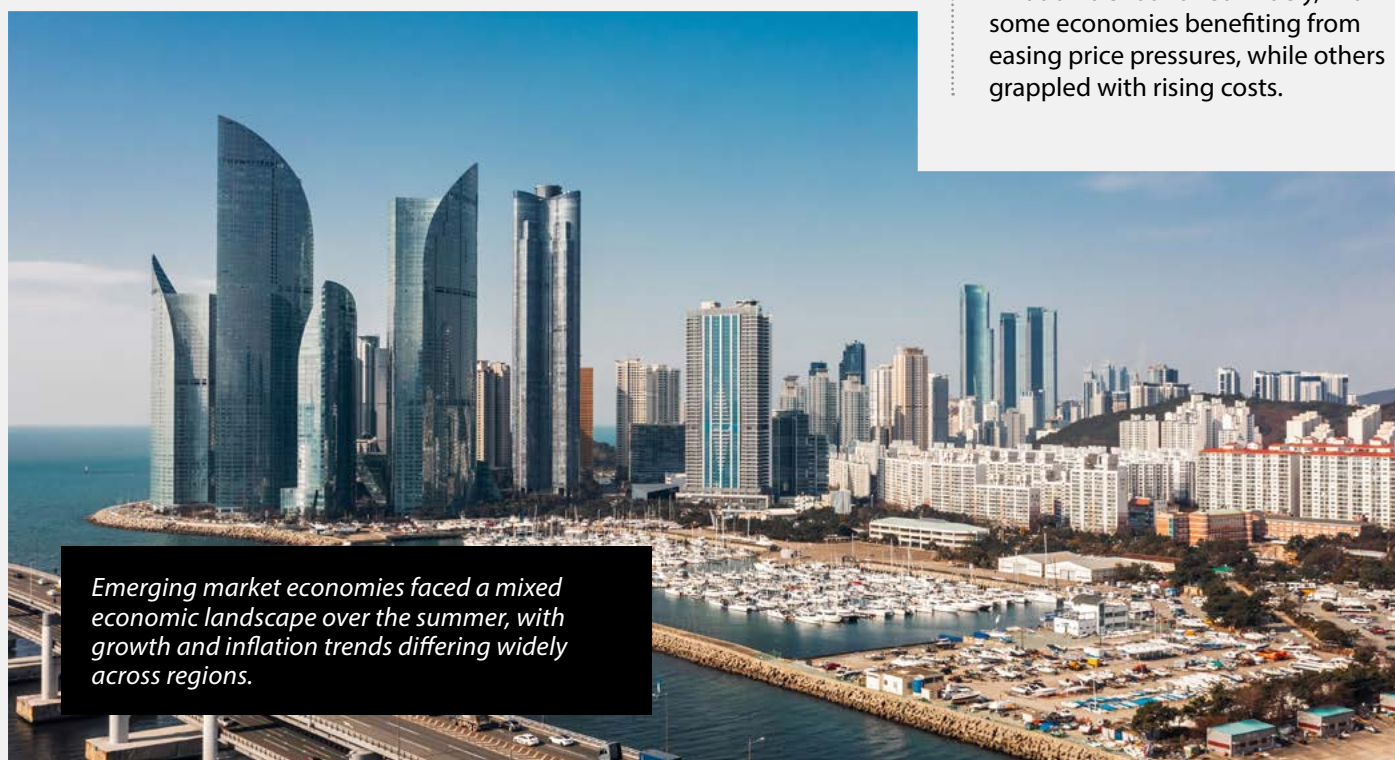
Brazil's economy also performed well, benefiting from strong commodity exports and a proactive central bank.

The country's GDP grew by 1.2% in Q2, driven by robust agricultural output and increased investment in infrastructure. In contrast, India faced significant challenges, as the US imposed a 50% tariff on Indian exports in August. The move, which penalised India for its trade relationship with Russia, weighed heavily on its export sector and raised concerns about its economic outlook.

In the Middle East, Saudi Arabia's economy faced challenges from geopolitical tensions and declining oil prices. Although the kingdom persisted with its Vision 2030 reforms, investor confidence was reduced by increasing regional instability and concerns over global energy demand.

Monetary policy: Inflation and interest rate dynamics

Monetary policy across emerging markets reflected the diverse economic conditions and challenges faced by individual countries. Inflation trends varied widely, with some economies benefiting from easing price pressures, while others grappled with rising costs.



Emerging market economies faced a mixed economic landscape over the summer, with growth and inflation trends differing widely across regions.

MARKET REVIEW

In Brazil, inflation stayed high, prompting the central bank to raise interest rates by 50 basis points in July. The move aimed to support the real, which had come under pressure earlier in the year, and to curb inflationary pressures. The rate increase was well-received by investors, as it showed the central bank's commitment to maintaining price stability.

China's inflation remained subdued, with the Consumer Price Index (CPI) rising by just 0.8% year-on-year in July. This allowed the People's Bank of China (PBoC) to maintain its accommodative stance, cutting the benchmark loan prime rate by 10 basis points in August to support credit growth and investment. The central bank also introduced targeted measures to boost liquidity in the property sector, which has been a significant drag on economic growth.

India's central bank, the Reserve Bank of India (RBI), kept rates steady despite increasing inflationary pressures. The decision reflected concerns about the impact of US tariffs on the economy, as well as the need to bolster domestic demand. However, the RBI signalled that it would stay alert to inflation risks, especially if food and energy prices continue to rise.

In the Middle East, Saudi Arabia's monetary policy stayed closely linked to the US Federal Reserve because the riyal is pegged to the dollar. Although the kingdom did not implement any major policy changes over the summer, increasing geopolitical tensions and lower oil prices created challenges for its fiscal and monetary stability.

Political matters: Trade and geopolitical tensions

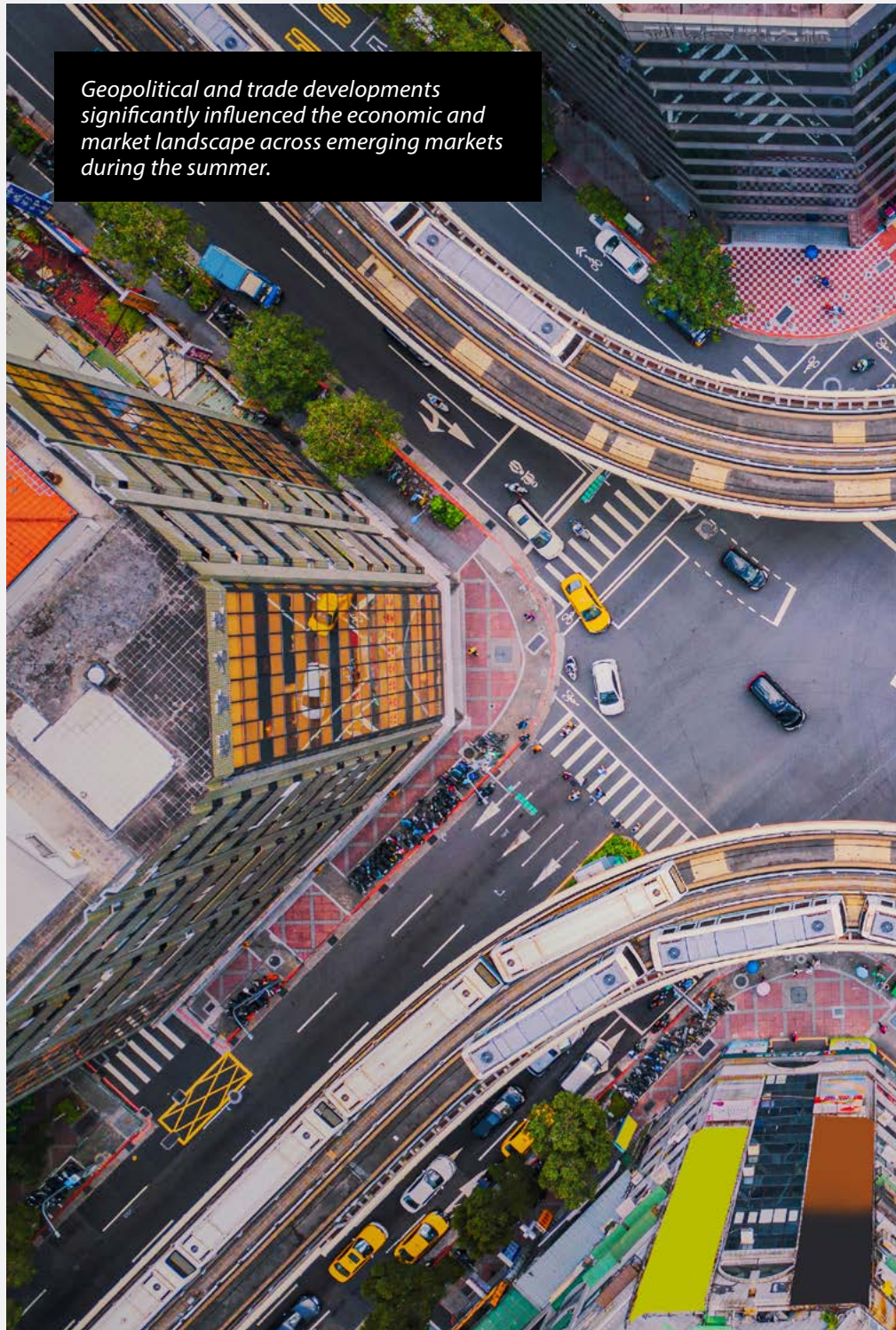
Geopolitical and trade developments significantly influenced the economic and market landscape across emerging markets during the summer. The prolonged truce in the US-China trade conflict created a supportive environment for many EM economies, especially those in Asia. However,

the November deadline for further negotiations cast a shadow over the region, leaving it susceptible to potential disruptions.

India's geopolitical challenges came to the forefront in August, as the US imposed a 50% tariff

on Indian exports. The move, which was linked to India's trade relationship with Russia, highlighted the risks associated with its foreign policy stance. The tariff not only strained US-India relations but also raised questions about India's ability to navigate the

Geopolitical and trade developments significantly influenced the economic and market landscape across emerging markets during the summer.



complex dynamics of global trade and geopolitics.

In the Middle East, geopolitical tensions heavily impacted markets such as Saudi Arabia. Rising instability in the region, combined with concerns over

global energy demand, dampened investor confidence and posed difficulties for the kingdom's economic diversification efforts.

Equities: Strong gains with regional divergences

Emerging market equities, as measured by the MSCI Emerging Markets Index, increased by 7% over the summer, outperforming their developed market counterparts. The rally was prompted by a mix of easing trade tensions, a weaker US dollar, and robust performances from key markets.

Taiwan and South Korea ranked among the top performers, benefiting from the global artificial intelligence (AI) investment surge. Taiwanese firms, especially those in the semiconductor sector, saw strong demand for their products as companies worldwide increased investment in AI and advanced computing technologies. South Korea's KOSPI also showed significant gains, driven by strong earnings in the technology and industrial sectors.

China's equity market performed well, especially in August, as the trade truce and government stimulus measures boosted investor confidence. The Shanghai Composite Index increased by 9% over the summer, with technology and consumer discretionary stocks leading the gains. The government's plans to triple domestic chip production by 2026 provided a notable boost to the semiconductor sector, which has been a key focus of Beijing's industrial policy.

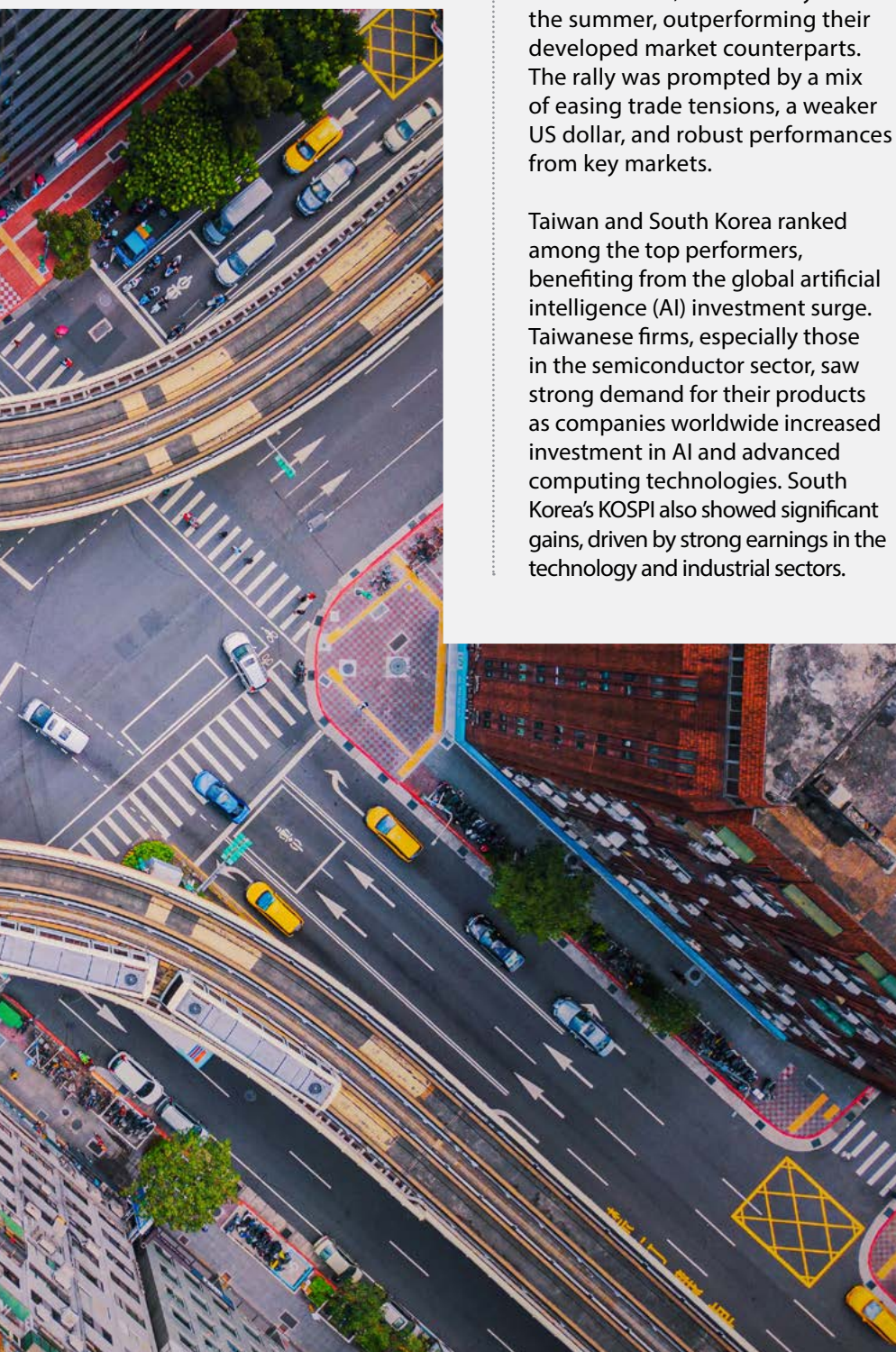
Brazil's equity market also delivered strong returns, supported by the central bank's proactive monetary policy and robust commodity exports. The Bovespa Index rose by 8% over the summer, with energy and materials stocks leading the gains.

In contrast, India's equity market underperformed, with the Nifty 50 Index declining by 3% over the summer. The US tariffs heavily impacted export-focused sectors, such as textiles and pharmaceuticals, while concerns about the broader economic effects of the trade dispute dampened investor confidence. Mexico also faced difficulties, as its close trade ties with the US made it vulnerable to tariff pressures and declining demand.

Bonds: Diverging trends across regions

The bond market across emerging markets reflected the varied economic and monetary policy conditions. Brazilian government bond yields increased over the summer, influenced by the central bank's rate hike and investor confidence in its ability to combat inflation. Conversely, Chinese government bond yields declined as the PBoC's rate cut and liquidity measures supported demand for fixed-income assets.

Indian bond yields increased, reflecting concerns about the country's fiscal health and external vulnerabilities. The yield on 10-year Indian government bonds rose to 7.5% in August, as investors sought higher risk premiums due to US tariffs and rising inflationary pressures.



GLOBAL BONDS

The global bond market saw a lively summer in 2025, with the focus shifting from monetary policy to fiscal issues. Government bond yields in leading developed economies increased as investors contended with the effects of rising deficits, especially in the US and UK.

Meanwhile, corporate bonds performed strongly, supported by resilient corporate earnings and an improved economic outlook. We review the key developments across the global bond market during June, July, and August, analysing the economic background, monetary policy, fiscal challenges, and market performance.

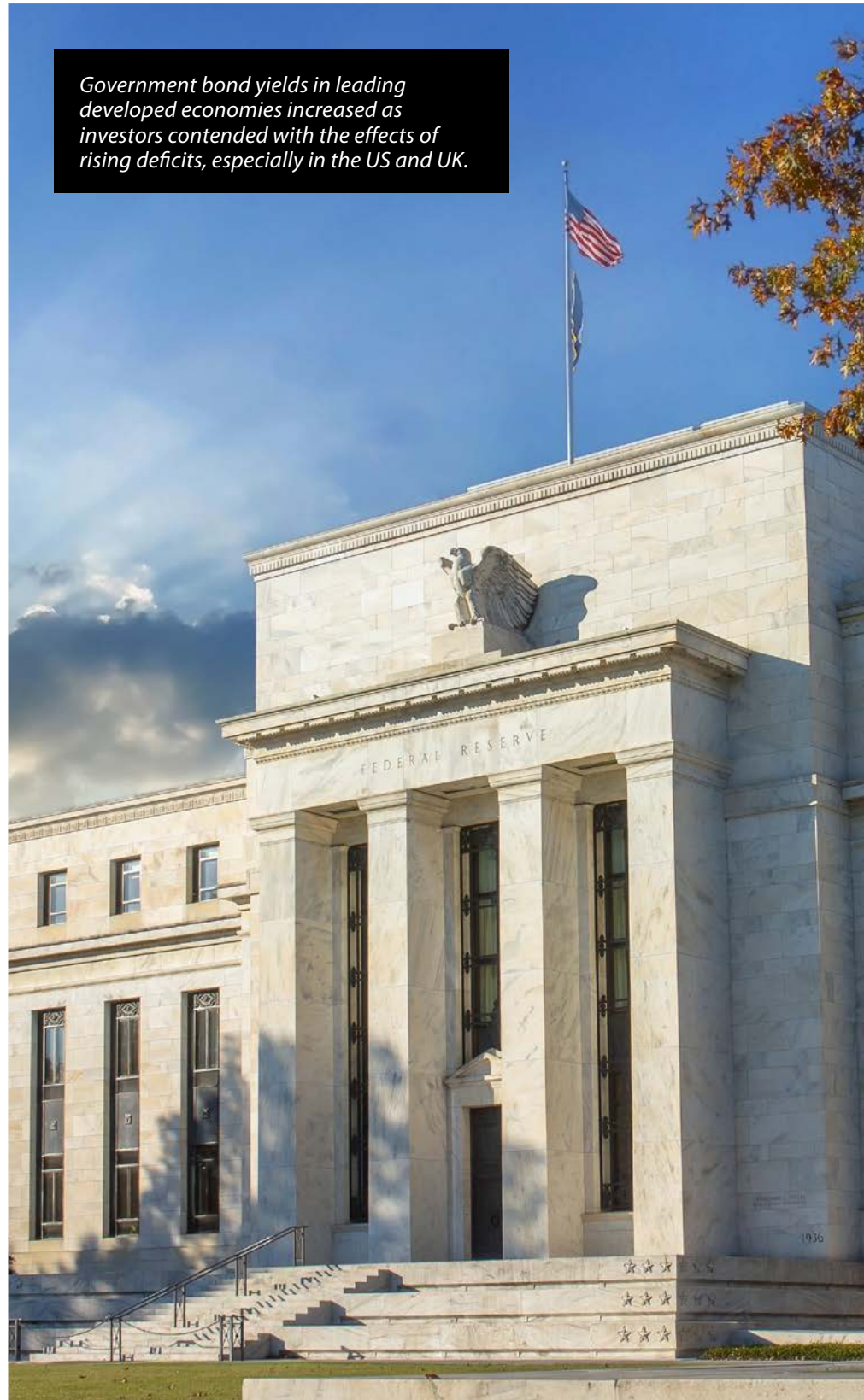
Economy: Inflation, interest rates, and growth

The global economic outlook during the summer of 2025 was marked by slowing inflation, steady growth, and diverging monetary policies across regions. Inflation in major developed economies showed signs of easing, reflecting the effects of tighter monetary policy and improving supply chain conditions.

In the US, the Consumer Price Index (CPI) increased by 3.1% year-on-year in June, down from 3.8% in May, while core inflation stayed steady at 3.5%. Similarly, inflation in the Eurozone eased to 3.2% in June, though core inflation remained high at 3.8%.

Despite progress on inflation, central banks in major economies remain cautious. The Federal Reserve signalled a possible policy shift, with markets pricing in a high likelihood of a rate cut in September. The European Central Bank (ECB) and the Bank of England (BoE) emphasised the importance of staying vigilant against inflation risks; however, the BoE decided to reduce the base rate to 4% on Thursday, 7 August 2025.

Government bond yields in leading developed economies increased as investors contended with the effects of rising deficits, especially in the US and UK.



“IN THE UK, FISCAL CONCERNS WERE SIMILARLY SIGNIFICANT, WITH THE BUDGET DEFICIT FORECAST TO SURPASS 5% OF GDP IN THE CURRENT FINANCIAL YEAR.”



In Japan, the Bank of Japan (BoJ) kept its ultra-loose monetary policy but raised its inflation forecast, sparking speculation of a possible rate increase later in the year.

Economic growth remained robust, with the US economy expanding by 0.5% in Q2, supported by strong consumer spending and business investment. The Eurozone, however, experienced sluggish growth, with GDP increasing by only 0.1% in Q2, reflecting weak consumer demand and slowing industrial activity. In the UK, growth was similarly subdued, with GDP rising by 0.2% in Q2, as higher interest rates and fiscal pressures dampened activity.

Fiscal concerns: Rising deficits and debt dynamics

Fiscal concerns dominated the global bond market during the summer, as increasing deficits and debt levels in major economies raised questions about fiscal sustainability. In the US, the passage of the "Big Beautiful Bill" sparked considerable debate about the nation's debt dynamics.

The bill, which included substantial spending on infrastructure and social programmes, was judged to worsen the fiscal outlook, with the budget deficit projected to exceed \$2 trillion in the current financial year. This prompted a sharp rise in US Treasury yields, as investors demanded higher compensation for holding government debt.

In the UK, fiscal concerns were similarly significant, with the budget deficit forecast to surpass 5% of GDP in the current financial year. Rising government borrowing costs, alongside doubts about fiscal discipline, increased the difficulties faced by policymakers. The yield on 30-year UK gilts rose to its highest level since 1998 in August, indicating investor concern about the country's fiscal outlook.

The Eurozone, although less affected by fiscal concerns, faced difficulties in countries such as France and Italy, where high debt levels and political instability had a negative impact on investor confidence. In France, the government's plans to introduce fiscal consolidation measures encountered strong opposition, raising doubts about its ability to meet its deficit reduction targets.

Government bonds: Rising yields reflect fiscal pressures

Government bond yields in key developed economies increased over the summer, driven by fiscal worries and changing monetary policy expectations. In the US, the yield on 10-year Treasuries rose to 4.3% in August, their highest since 2011, as investors anticipated the effects of the "Big Beautiful Bill" on the country's debt situation. The yield curve became steeper, with the gap between 2-year and 10-year yields decreasing to -0.5% in August from -0.8% in May, indicating expectations of near-term rate cuts and long-term fiscal challenges.

In the UK, the yield on 30-year gilts increased to 5.2% in August, marking its highest point in nearly thirty years, as investors dealt with rising government borrowing costs and concerns over fiscal discipline. The yield on 10-year gilts also climbed, reaching 4.8% in August, amid similar worries. In the Eurozone, German bund yields remained relatively steady, reflecting

the country's strong fiscal position and safe-haven status. However, yields in peripheral countries, such as Italy and France, increased as investors demanded higher risk premiums due to their fiscal difficulties and political instability.

Corporate bonds: Strong performance amid tightening spreads

Corporate bonds performed well over the summer, driven by resilient corporate earnings and an improved economic outlook. Both investment-grade and high-yield credit yielded positive returns as credit spreads narrowed against government bonds. The global AI investment surge and high demand for technology and industrial goods created a supportive environment for corporate earnings, especially in sectors like technology, healthcare, and consumer discretionary.

In the US, investment-grade corporate bonds outperformed, supported by solid balance sheets and limited default risk. High-yield bonds also performed well, as investors sought higher returns in a low-yield environment. The energy and technology sectors were among the top performers, reflecting strong earnings and favourable market conditions.

In Europe, corporate bonds also benefited from resilient earnings and improving economic sentiment. However, the performance was more uneven, with spreads widening in countries like France and Italy, where fiscal and political concerns affected sentiment.

In emerging markets, corporate bonds faced challenges from rising global interest rates and geopolitical tensions. However, demand for high-quality investment-grade bonds remained robust, supported by strong fundamentals and attractive yields.

Summary

Navigating a path forward

In summary, the summer of 2025 has ended, leaving investors with a market environment characterised by cautious optimism and influenced by underlying economic and political factors. The period from June to August was marked by a shift in focus. After the initial shock of US tariff announcements earlier in the year, a series of trade negotiations and temporary truces brought some stability, allowing equity markets to stabilise. This fragile calm, however, has shifted attention to new challenges, chiefly concerns over fiscal policy and sovereign debt sustainability in major economies such as the US and UK.

Our review of the past quarter reveals a diverse global landscape. In the United States, a resilient corporate earnings season and continued enthusiasm for technology balanced mixed signals from the labour market and renewed political tensions surrounding the Federal Reserve. Across the Atlantic, the UK faced persistently high inflation and

fiscal pressures, which affected gilts and domestic equities. The Eurozone experienced a similar mix of positives and negatives, with relief from a US trade deal offset by political uncertainty in France, reminding us that regional stability cannot be taken for granted.

In contrast, Asian markets showed a more optimistic outlook. Japan's





Looking ahead, investors should stay alert, paying close attention to central bank statements, inflation trends, and ongoing geopolitical developments.

equities stood out, supported by a favourable trade agreement with the US and strong domestic economic data. The broader Asia ex-Japan region also experienced solid gains as fears of a full-scale trade war diminished, with markets like Taiwan and China demonstrating particular strength. Emerging markets generally benefited from a weaker US dollar, although performance varied considerably depending on individual exposure to US tariffs and local political conditions. Meanwhile, global bond markets echoed this new outlook, with government bond yields rising in several developed countries as investors demanded higher compensation for fiscal risks.

Looking ahead to the final quarter of the year, the main themes of summer are likely to continue. Investors should stay alert, paying close attention to central bank statements, inflation trends, and ongoing geopolitical developments. The balance between strong corporate performance and macroeconomic challenges will be delicate. While there are certainly opportunities, especially in regions with solid fundamentals, a well-diversified and proactive approach to managing portfolios will be crucial. Understanding the factors discussed in this report is the first step towards navigating the future with confidence and making informed decisions to protect and grow your investments.



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