

Q3 2025 Market Commentary

The third quarter of the year brought a strong return from most equity markets with a continuation of strength from Artificial Intelligence (AI) names. Easing trade tensions and loosening monetary policy also helped returns. Whilst most countries have a baseline for trade tariffs imposed by the US the chart below shows the average tariff and how this has changed since liberation day. We remain watchful and engaged with our underlying companies on how this increased cost is being absorbed for example being passed through to the end consumer or absorbed within the company at this stage.

The “Big Beautiful Bill”, part of President Trumps election campaign, came into law on the 4th July, which effectively extends tax cuts made under his first term as presidency, alongside some new tax breaks with a reduction in spending on elements of health care.



For now, we await further details and will continue to engage with our active managers on any potential implications at company level. We also remain watchful on what this does to government debt levels and how this may impact moving forward, although at this point negotiations are ongoing. The weakening of the dollar also had a big impact on markets and proved helpful for Emerging market equities.

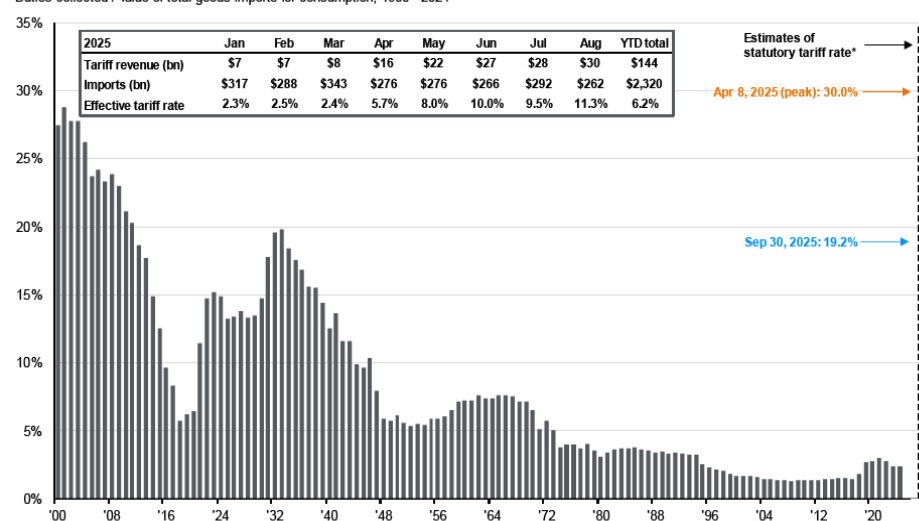
Throughout the quarter we continued to see monetary and fiscal stimulus in China as it looks to boost the domestic economy. At the same time, potential trade tariffs from the US, along with those from European markets, have impacted the Chinese stock markets. Japan had good performance as strong investor sentiment and continued structural reforms offset lingering trade concerns.

Geopolitical events aren’t uncommon in markets and, whilst we have had a lot over the last five years (many not forecasted), markets tend to recover quickly. We feel it is important to not make short term reactionary moves in this quarter highlighted this as the initial tariff concerns abated

throughout the quarter. Often these periods provide opportunity for active stock selection over investment time frame, we remain focused on strategies and the underlying companies as and when details become clearer.

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption, 1900 - 2024



Source: U.S. Census Bureau, U.S. Department of Treasury, U.S. International Trade Commission, J.P. Morgan Asset Management. For illustrative purposes only. The estimated weighted average statutory U.S. tariff rate includes all tariffs that are currently in effect, not announced. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Tariff revenue shown are figures from the Monthly Treasury Statement. Import figures included in the table are from the U.S. Census Bureau. Estimates, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data as of September 30, 2025.

J.P.Morgan
ASSET MANAGEMENT

Equities

Equity markets were generally higher recovering sharply from the initial falls with a combination of easing trade tension and strong earnings boosting the market. It should be noted that on the whole corporates and the consumer at this point remain in overall good shape.



The US market has strong returns with the AI related names performing well alongside optimism on further Federal Reserve Board (FED) rate cuts and easing trade tensions. We continue to monitor details as and when they come out and continue to engage with our active managers on how companies are adjusting to tariff changes and how the costs are being absorbed.

In Europe, shares were strong over the quarter particularly in the areas of financials and healthcare with banks in particular continue to report strong earnings. The increased fiscal spending and continued falling inflation as well as further monetary loosening should be supportive. President of the European Central Bank (ECB), Christine Lagarde, acknowledged the inflation spike of 2022 – 2024 had subsided and so far, the US initiated trade tariffs have been managed better than forecast. We will monitor the potential trade tariffs and the implications of these for the strategies we hold. It should also be noted that whilst a Europe business may suffer US tax on exports to the US, companies with factories in the US will not.

The UK market as measured by the MSCI UK IMI index was up by 11.26%. Corporate earnings overall remain resilient, whilst merger and acquisitions have picked up this year from a variety of sources proving value within the UK market and flows from overseas have started to return. The consumer remains in a reasonably resilient place and should inflation and rates start to fall this should be helpful with at this point a high level of savings. We continue to actively engage with fund groups on the implications of the national insurance rise and minimum wage increases and how they are adapting to this. As ever, there is a variation in approach and remain watchful of wider risk concerns.

In Japan markets were strong as market sentiment as a combination of US rate cuts, domestic political developments and a weaker Yen helped market returns. Corporate governance reforms continue, and companies are buying back shares at a greater pace as well as increasing dividend payments. Earnings continue to be robust and companies on the whole continue to buy back shares and increase dividend payments. At the domestic level, as inflation continues to rise, there is some pressure on the Bank of Japan to look again at raising interest rates but at the moment there is political uncertainty as the ruling Liberal Democratic Party defeat in the Upper House and the resignation of Prime Minister Ishiba.

Emerging Markets and Asian markets were also strong over the quarter as dollar weakness and easing trade tariff sentiment helped returns. AI enthusiasm also helping market in the region as well as in the US.

Fixed Income



The FED cut rates by 0.25% during the quarter as a slightly weaker jobs markets gave scope to cut as the dual mandate remains the for the inflation rate to be at 2% over the longer term and achieve maximum employment. They have scope to cut rates further if required. Inflation has moved up and the committee remain cautious on tariff implications which haven't yet fully filtered through and as such they will continue to remain data dependent moving forward.

The Bank of England cut rates by 0.5% over the quarter with growth remaining weak over the quarter, inflation remains above target with an easing in wage inflation albeit still relatively high being slightly offset again with an increase in energy and food inflation. The annual Consumer Price Index (CPI) inflation rate ticked up slightly to 3.8% in line with forecasts as a mix of regulated and energy price increasing impact but the BoE anticipate this falling back later in the year. Corporate debt continues to offer attractive income with defaults continuing to be low.

The ECB cut interest rates by a further 0.25% with inflation very close to targets. Inflation has continued to fall as expected and is very close to the 2% target, as a slight increase in energy inflation was offset by decreasing food price inflation and moderating labour costs. The growth expectations have been revised up to 1.2% for 2025, before decreasing slightly to 1.0% for 2026 as a combination of the appreciation of the euro and weaker foreign demand from tariff impact. Unemployment remains low at 6.3% although demand for labour has weakened.

Outlook

Looking at the investment outlook for the long term, we continue to focus on fundamentals and what drives investment returns over investment time frames. Over the last twelve months we have seen indiscriminate moves across markets, sectors, and individual companies which are short term and lacking fundamental support. In the West, rates are now being cut as inflationary pressures ease providing greater stability. We cannot rule out further volatility in the short term due to several reasons. Many short-term markets movements are sentimental and reactionary without long term consideration of how individual companies are performing and adapting to the economic environment. The dislocation in markets presents opportunities for active management.

Corporate earnings for now remain supported and the US consumer remains in good shape with a tight job market. The outlook is mixed with a possible slowdown ahead of a slight pickup in unemployment. We do not envisage a deep recession in the US but will continue to keep a close eye on economic developments. We continue to focus on what drives asset class returns over investment time frames.

We continue to actively engage with all our fund managers on both a routine and ad-hoc basis to monitor how they are positioned and how the underlying companies are doing against wider media headlines, and they are changing to political changes if, and when, these get implemented. We remain overweight equities favouring active managers, who have been trimming and adding to positions when opportunities arise.

We remain overweight in a pool of diversified real asset funds. Some of the underlying investments in the funds are assets with inflation linked contractual payments often backed by governments. The more rate sensitive areas in this space such as Infrastructure and Real Estate should start to benefit as start to come down, with many attractively valued offering a good level of income and many now also buying back shares to further add value.

Our portfolios remain blended and diversified throughout regions/sectors and asset types and will perform different roles in the portfolios over investment time frames. We continue to focus on longer term drivers of asset class return and not trying to second guess short term sentiment or be too reactive to macro/geopolitical events.

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