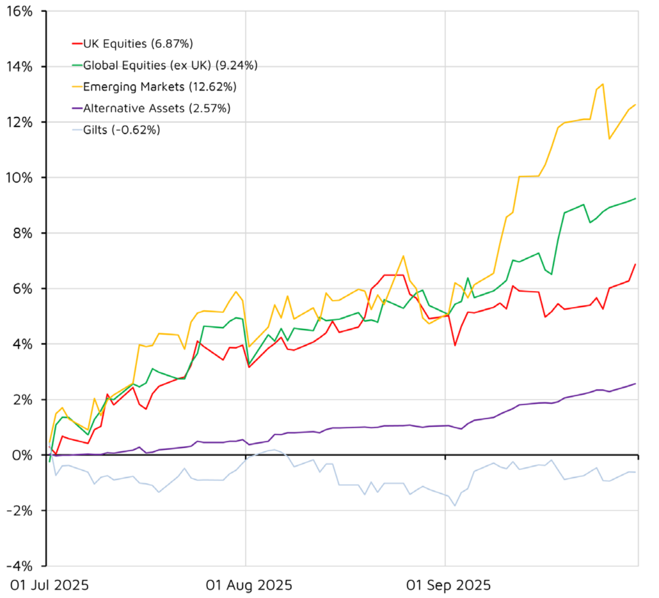
AUTUMN OUTLOOK

REVIEW OF THE PAST QUARTER:

Equity markets extended their gains as certainty about US tariffs and renewed AI optimism maintained positive investor sentiment. Many US trade partners struck agreements with the White House, generally lowering their trade barriers and promising public and private investment in the US, in exchange for lower tariffs. With lower tariffs and resilient economic growth, the chances of a global recession have significantly reduced. The tech sector continues to post growing earnings as it attracts huge new investment. Tariff certainty and tech growth helped Japanese and emerging market equities to gain. US stocks also rose due to gains from the largest tech companies as Google became the latest company to join the '$3 trillion club'.

UK shares gained, especially in mining, telecoms, financials and utilities, as investors were lured away from the US by attractive relative stock valuations. Rising commodities prices also helped British shares. European stocks only made small gains as anaemic earnings growth, trade-war uncertainties and France's political uncertainty held the region back.

Bond yields in the US, France and the UK hit multi-year highs as investors sought higher premiums, worried about rising levels of debt and growing deficits. This led gilts to trade flat. Meanwhile, corporate bonds made small gains, though the surge in issuance in the first half of the year tapered off in the third quarter, especially for investment grade bonds.



Performance Data Calculated on a Total Return Basis

ASSET CLASS RETURNS

Cash	Government Bonds	Index Linked Bonds	Corporate Bonds	UK Equities	Overseas Equities	Emerging Markets	Property
+1.01%	-0.62%	-1.32%	+0.68%	+6.87%	+9.24%	+12.62%	+2.57%

THE ACTUARIAL VIEW:

Until now, the US Federal Reserve's fear of inflation has outweighed its concerns about any cooling in the jobs market. However, further signs of weakness have finally broken the Fed's reluctance to cut interest rates and it has signalled two more cuts are likely before Christmas. Markets see rates continuing to fall through 2026; however, leading indicators, such as rising producer prices, suggest a further pick up for inflation. In this case the Fed may cut rates slower than markets are predicting.

Many of America's trading partners have settled on higher reciprocal tariff rates, and trade talks with China are ongoing. This significantly reduces the chances of a worst-case scenario trade-war. Despite indicators showing little change in current economic activity, high US tariffs are generally expected to contribute a slowdown in global growth, and a mild recession in the US remains a possible outcome. In addition, the high valuations of some US equities present an ongoing risk if there is a shift in investor confidence. Against the negative outlooks, certainty about US tariffs brings the possibility of faster growth due to greater business investment. The potential for further Chinese stimulus as well as fiscal support from the US and EU, to address weakening growth, could lead to faster global economic growth and support equity values.

WHAT TO LOOK FOR IN THE NEXT QUARTER:

- **UK:** The Bank of England's Monetary Policy Committee interest rate decisions are due on 7 November and 18 December. Chancellor Rachel Reeves will deliver the Autumn Budget on 26 November. October consumer confidence and September retail sales updates are released on 24 October. The September inflation rate is out on 22 October. Monthly GDP data is released on 16 October.
- **US:** There will be interest rate decisions from the Federal Open Market Committee (FOMC) in late October and early December. September non-farm payrolls employment data is released on 3 October. The September consumer inflation reading is out on 15 October. The third quarter GDP initial estimate is released on 30 October.
- **Eurozone:** European Central Bank interest rate decisions are due on 30 October and 18 December. The consumer inflation rate for September is published on 1 October. Third quarter GDP growth and September unemployment rates are released on 30 October.
- **Other Data:** Bank of Japan interest rate decisions on 30 October and 19 December. General election in the Netherlands on 29 October. Chinese trade data is released on 13 October and Q3 GDP growth rate on 20 October.

ASSET CLASS SCENARIOS:

UK EQUITY

Most Likely: Inflation causes the Bank of England to delay interest rate cuts. Growth is low but positive as the budget brings tax rises that keep business investment and hiring subdued. Slowing trade favours companies with strong balance sheets. Consumer sentiment remains low and manufacturing activity stays depressed. Large companies with overseas earnings outperform more UK-focused smaller companies.

Worst Case: Inflation rises as war in the Middle East drives up energy prices. US policies worsen trade, further devalue the dollar and add to inflation, which drags on global markets. High interest rates and rapid reduction in central bank balance-sheets send stocks and bonds plummeting, accompanied by an increase in unemployment. Tax rises hit business activity, reducing GDP and earnings growth expectations.

Best Case: The budget is well received as businesses increase spending and hiring. Inflation returns to target without driving up unemployment or affecting growth. Positive sentiment helps the UK rally from low relative valuations. Peace in Ukraine and the Middle East further reduces inflation. Better trade relations with Europe and political stability leads to flows into UK equities as smaller companies outperform.

GLOBAL EQUITY

Most Likely: The Federal Reserve cuts rates to prioritise jobs and growth. Inflation rises as tariff costs are passed on. The US jobs market cools and growth slows but AI spending supports tech stocks. European growth is sluggish, but fiscal stimulus helps infrastructure and defence. A strong euro and tariffs hold back exporters. Wage growth and fiscal spending support Japanese equities but a strong yen hurts exporters.

Worst case: Tariffs drive up inflation as the Fed faces rising unemployment and slowing growth. Energy prices spike on renewed Russian aggression. US equities fall, with technology stocks hit hard as confidence in AI wanes. Europe is hit by a strong euro and US tariffs. Japan struggles as global demand weakens and the yen strengthens.

Best case: US rates fall as tariffs have limited impact as inflation slows, and trade and geopolitical tensions ease. Strong consumption and stable global trade support growth. AI investment generates tangible revenues. Low inflation and interest rates boost European stocks. Fed easing and global growth weakens the yen, helping Japanese exports.

EMERGING MARKET EQUITY

Most Likely: US inflation cools, giving the Fed scope to signal rate cuts in 2026. In China, targeted support for some sectors provides partial relief from deflation. Taiwan and South Korea benefit from steady semiconductor demand. In Latin America, lower inflation and central bank support foster a cautiously constructive backdrop for equities.

Worst Case: High inflation forces the Fed to keep rates high, draining global liquidity and triggering outflows from emerging markets. Chinese deflation picks up while growth slows. Taiwan and South Korea face weaker semiconductor demand. Indian inflation rises and rising funding costs weigh on investor sentiment. Latin America struggles with falling commodities, currency volatility and higher borrowing costs.

Best Case: US inflation cools, enabling the Fed to cut rates aggressively. This loosens global financial conditions and encourages capital inflows into emerging markets. China tackles deflationary pressures, lifting consumer and investor confidence. Taiwan and South Korea benefit from stronger semiconductor demand. Latin America gains from firm commodity prices and moderating inflation.

CASH

Most likely: Money market yields remain steady. The Bank of England maintained interest rates in September and signalled caution about further cuts as inflation remains high and pay growth remains elevated. Weaker US job data has prompted the Fed to cut rates and introduced a slightly more dovish global monetary backdrop. This reinforces money market instruments as sources of stability and modest returns.

Worst case: Macro-economic data deteriorates sharply as the Bank of England cuts rates aggressively. However, the risk of rapid easing remains low. In such a scenario, money market yields would fall and government bonds could significantly outperform cash, driving a shift in investor preference away from money market funds.

Best case: Moderating inflation, a soft-landing for growth and only a gradual reduction in rates would see money market instruments remain favourably positioned. The Bank of England could maintain rates for longer or cut only modestly, with slower-than-expected cuts reflecting persistent but contained wage and price pressures. Real returns improve if the Bank settles on a higher long-term average for interest rates, supporting stable or slightly improving yields.

FIXED INCOME

Most likely: The Fed makes one further rate cut this year as it focuses on labour market weakness. The Bank of England pauses, with a small chance of a final cut by year end, as it remains cautious about inflation. Government bond prices continue to be sentiment driven. Higher quality credit is the likely best performer if profit margins remain stable.

Worst Case: Global inflation surprises, spurred by perception of excessive rate cuts by the Fed. This forces other central banks to keep rate high, or even hike rates. Risks are highest to issuers struggling to refinance and investors may suffer capital losses in riskier markets.

Best case: The Fed cuts twice more in 2025 to support growth and the labour market. Inflation remains under control, with any tariff pass-through being transitory for prices. The UK makes at least one further cut. Government bond yields fall in the short term while longer-term costs stabilise. Defaults in quality and (more speculative) high-yield credit remain minimal.

ALTERNATIVES

Most likely: Demand from AI, electrification, and infrastructure investment provides tailwinds for growth. Commodities & natural resources tied to energy transition and supply of critical minerals should benefit. Energy and power infrastructure are well-placed as AI growth spurs demand for infrastructure. Gold retains value as inflation remains above target and Fed independence is called into question.

Worst Case: Global recession as sticky inflation means central banks are unable to cut rates, and deteriorating sentiment compounds losses. Commodities and energy suffer from demand weakness. Real asset strategies struggle as correlations rise. A flight to safety into fixed income and cash sees outflows from less liquid alternative strategies.

Best Case: Inflation continues to slow, while demand remains resilient—especially from AI, electrification, and infrastructure. Commodities and gold outperform as supply constraints combine with strong secular demand. Energy & natural resource equities surge as soaring demand from data centres increase electricity usage. Global macro & event-driven strategies thrive as markets become more volatile.

Data Sourced from FE Analytics, and MCSI Barra