

Insight Matters

Autumn 2025

Navigating market turbulence with clarity



In this edition of Insight Matters we cover



2025 up until now

We reflect on key moments in markets so far this year



Sector spotlight: European defence spending

We explore the latest developments in this space



Investment implications into the future

What's next? We look ahead to the end of 2025 and beyond

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2025
up until now



White water and dark pools

Any onlooker knows intuitively that white water can be perilous. But any experienced kayaker also knows that dark pools of still water can be equally so, with eddies and undertows beneath the surface.

Learning to read the signs of even subtle changes on the water can be the difference between a successful passage and capsizing. As with kayaking, so too with charting a course through the markets this year. At times investors have battled a relentless flow of negative news akin to a river in spate; at times the flow has been inexplicably calm.

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The chop has made it a challenging year for the inexperienced to navigate, and the cross-currents show little sign of abating as 2025 draws to a close.

The US has been the epicentre of this maelstrom, making far-reaching policy choices on geopolitics, tariffs, spending and immigration. President Trump's upending of global norms – for good or for bad – has left many governments and industries in flux. Appeasing Trump without upsetting the domestic apple cart is proving no easy feat for politicians. In the UK and abroad, tough choices are ahead on budgets for social services, healthcare and defence, balanced against taxation and lacklustre growth. As a result, politics is becoming more polarised and scapegoating more common, with rival political parties increasingly entrenched in ideological fervour.

Companies selling globally have found themselves snared in a kaleidoscope of different national tariffs, industry-specific carve outs, exemptions, reprieves or settlements. CEOs have had a crash course on balancing pragmatic deeds with conciliatory words to curry favour with Trump. It's been a year for cool heads and assured paddling.

What then explains the apparent paradox of equity markets hitting all-time highs in such conditions? Or equity market volatility – bar one notable and extreme exception in April – being much lower than its 20-year average? Or gold simultaneously hitting all-time highs? With so much challenging news, how are markets evading the undertow? Is this year's run driven by decent fundamentals or founded on complacency? Are investors adequately pricing-in the risks?





Global growth is slowing but there's a channel ahead

The world's economy is still growing but at a slower pace than forecast a year ago.

Institutions such as the International Monetary Fund (IMF) and the Organization for Economic Co-Operation and Development (OECD) have adjusted their forecasts both up and down this year. For example, in January the IMF forecast 3.3% growth, reduced it to 2.8% in April, and then nudged it up to 3% in July. The main reason is that advanced economies have proven more resilient than expected in the face of higher US trade tariffs and geopolitical uncertainty. There's increasing hope that the world's largest economy, America, may navigate a period of high interest rates and the tariff shock without a recession.

But given that business cycles have frequently exhibited some symmetry – sharp downturns followed by sharp recoveries, or mild downturns by mild recoveries – it's reasonable to ask whether we may now be locked into a period of lower economic growth for years to come. This is based on the reality of many advanced economies having shrinking workforces and ageing populations, meaning boosting productivity is key.

For example, the US has all-but closed its southern border with Mexico, cutting a near inexhaustible labour supply which has buoyed economic growth and suppressed wage inflation.

Without migrant labour entering the workforce and increasing the total numbers of hours worked, the only other way to increase economic output is to be more productive – the output per hour per worker must increase. This productivity conundrum is not unique to the US. It perhaps partly explains why hopes are high that artificial intelligence (AI) may help solve it.

For now, US economic growth is slowing, inflation is higher than policymakers might like, and unemployment has ticked up slightly this year.

A passage for growth remains – but 3% is an important growth hurdle, being higher than most central banks' inflation targets. Whether the US's more protectionist and mercantilist approach to trade and its allies will harm economic growth remains to be seen. For now, US economic growth is slowing, inflation is higher than policymakers might like, and unemployment has ticked up slightly this year. At face value, this concoction looks stagflationary, but the current reality is more 'muddling through' amidst persistent uncertainty. There are echoes of this in the UK, too.



White water Tariffs

The US tariff shock is not over but we have more certainty than in April.

The effective tariff rate may settle in the region of 15% – still by far the highest for a century or so – and there seems a method to their imposition:



No reciprocal tariffs

Most goods traded with the US's two neighbours, Canada and Mexico, are exempt from tariffs under the US-Mexico-Canada Agreement (USMCA) – the successor to the North American Free Trade Agreement (NAFTA). The three nations adhere to rules of origin to determine which goods qualify for preferential tariff treatment. These track the provenance of every component in every part of a good sold, ostensibly to prevent the back-dooring of goods from China via third nations. Given the rules are onerous to replicate, they may confer a trade advantage on Canada and Mexico with effective tariff rates of around 5-6%.

10% tariffs

Australia and the UK, parties of the tri-lateral AUKUS strategic security partnership

10% tariffs

Other strategic allies including the EU, Japan and South Korea

16-20% tariffs

China trans-shipment countries in Asia, including Taiwan, Vietnam and Pakistan

25%+ tariffs

BRICs nations Brazil, India and China who are perceived to be challenging US hegemony. (Note, elsewhere there are outliers, such as Switzerland with a tariff rate of 39%)

Trump appears to be wielding tariffs to force otherwise intractable policy changes.



Three big tariff questions remain...

Who is paying tariffs? Where is the anticipated inflation? Will the US Supreme Court deem tariffs illegal – potentially paving the way for rebates?

So far, the evidence on who is paying tariffs is mixed. Importers stock-piled ahead of 2 April – Trump's *Liberation Day* tariff announcement – and pre-tariff inventory in warehouses may still be being run down. Some consumers got in early before tariffs to buy bigger-ticket items, leaving less to spend for the rest of the year and may have changed their spending habits, distorting trend activity. However, there is still a pronounced trend to spend on experiences rather than goods, and consumers are looking for good value – unsurprising when the cost of an average grocery basket is up more than 30% in recent years. Some companies have been reluctant to pass on the cost of tariffs to consumers – which are, after all, a tax on consumption – lest they lose market share.

So far, tariffs appear to be only faintly inflationary, but it is too early to tell for sure. Their effects could well be masked by prolonged periods of higher background inflation since the Covid-19 pandemic. Consumers are more sensitive to inflation than they were before 2020. In fact, younger consumers (among the least resilient financially) may be experiencing the first sustained price increases of their lifetimes. Consumers' sensitivity to price changes matters as much as a change in price itself, and therefore to the US Federal Reserve's (Fed's) goal of anchoring inflation-expectations and stabilising prices.

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As it stands, a ruling over Trump's use of the International Emergency Economic Powers Act (IEEPA) – usually reserved for economic sanctions – sits with the US Supreme Court after a lower court deemed this route to tariffs illegal. We expect a hearing to take place in early November and a verdict not before Q1 2026. If ruled illegal, more than \$150bn of tariffs collected to date might have to be rebated. This would be a significant stimulus to the companies and importers which have paid them.

Notwithstanding legal challenges, many countries – whether under perceived duress or not – will have already by then inked bilateral trade deals with the US.

Regardless, it's probable that Trump's administration will find another way to impose tariffs. Trump's team has a plan B: there are several other legal avenues to get there under various US trade acts, including *Discrimination Against US Trade* (Section 338), *Balance of Payments* (Section 122) and *Unfair Trade Practices* (Section 122).

Notwithstanding legal challenges, many countries – whether under perceived duress or not – will have already by then inked bilateral trade deals with the US.





Dark pools Underlying issues

When it comes to the US or the US dollar it's often said that *there is no alternative* – or “TINA”. For decades the US economy and its deep and liquid capital markets have been peerless.

That's not about to change any time soon. But some investors are now beginning to fret about the sustainability of US debt, as in other advanced economies.

The US spends roughly \$2trn more every year than it receives in revenues. This creates a fiscal deficit of c. 6.8% of GDP.

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Ratings agency Moody's recently noted that the US's current debt-to-GDP ratio of 124% could surpass 130% within five years. Trump's flagship *One, Big, Beautiful Bill*, signed into law on 4 July, attempts to neutralise tax cuts with a mix of monetary and fiscal offsets – including tariff revenues to the tune of some \$400bn annually – if they stick in their current range. The government will likely fund shortfalls by selling more US treasuries – for which foreign investors still have an unquenchable thirst. In the absence of any alternative, and in a world which cannot realistically *de-dollarise*, a practical question remains: can the US ever borrow too much? Of course, there is virtually zero credit risk as the US prints its own money and may use force to collect taxes by law. But there is a subtle sense that a general erosion of trust might prompt investors to question US exceptionalism.

Another structural issue is Trump's public challenge to the Fed, which may risk its independence. Trump has been vocal in urging the Fed to cut interest rates more aggressively, branding current chair Jerome Powell "Mr Too Late". Trump's first Fed appointee in his second term, Stephen Miran, is seen by some as a talking head. Chatter of novel ways the Fed could tweak its dual mandate of stabilising employment and inflation might spook markets. Many investors consider the Fed's independence sacred in protecting the value of their money. In future, they may demand an 'inflation-uncertainty' premium for holding particular assets if they consider it compromised.





Charting a course requires reliable data

Trump's recent firing of the commissioner of the US's Bureau of Labour Statistics (BLS), Erika McEntarfer, may also have appeared political.

However, news subsequently broke that the BLS had overstated the number of Americans in work in the year through to March 2025 by 911,000. This was a nasty revision from an agency responsible for a crucial source of data feeding into the Fed's decisions.

Statisticians at the UK's Office for National Statistics (ONS) have also been in the firing

line over the accuracy of Labour Force Survey statistics – vital inputs into monetary and other economic policy decisions. Inaccurate data in the gig economy of side-hustles, social media influencers and other novel activity compounds poor and politically-partisan survey responses in the US and UK. Sometimes, it's the method: a respondent may simply not answer the phone – a relic of bygone days.



UK

No clear passage

No-one could say that Labour has found its return to power a walk in the park. The UK has its fair share of political crises and challenges too – though the independence of the Bank of England (BoE) is not currently one of them.

Despite this, economic data has not been as gloomy as occasionally reported and the UK grew faster in the first half of 2025 than its G7 peers. The BoE forecasts +1.3% growth this year. (By comparison, the Fed expects +1.6% for the US, and the ECB +1.2% for the eurozone).



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Manufacturing is weak and services stronger, mirroring other advanced economies, albeit services data in September were poor. The idiosyncrasies of the UK's energy market and trade friction with the EU after Brexit contribute to its higher and stickier inflation. At +3.8% at its latest reading (with core inflation, excluding volatile elements like food and energy, at +3.6%), consumer confidence is challenged. As elsewhere – wage growth has struggled to keep pace with inflation since the Covid-19 pandemic – although it has managed to do so more recently.

With the UK Budget set for 26 November, the government must confront the harsh reality of a new geo-political landscape. UK public sector net borrowing hit £18bn in August according to the ONS, the highest level for the month in five years and some way ahead of consensus expectations of £12.5bn. Borrowing over the financial year-to-date is now £16.2bn higher than for the same period last year. Therefore, upping defence spending and maintaining social welfare spending without hiking taxes or borrowing from the markets – for funding day-to-day spending or long-term structural investment – will be nigh-on impossible.

The wafer-thin c. £10bn of fiscal headroom Chancellor Reeves afforded herself at last year's Budget had more than effectively evaporated by the time of the Spring Statement in March. Although estimates vary on how much she now needs to balance the books and set the economy on an even keel, it is likely to be in the region of £20bn to £40bn.



UK-US tech prosperity... A new course?

One potential bright spot is the UK's recently announced tech-trade deal with the US, eyeing co-operation across AI, quantum computing and nuclear energy.

American firms including Microsoft, NVIDIA and OpenAI will invest some £31bn into the UK's AI infrastructure. Some estimates put the potential capital outlay at £150bn, with US private equity firm Blackstone stumping up

the majority. Labour will see the deal as evidence that Prime Minister Starmer can balance pragmatism in appeasing Trump with protecting the UK's interests in an increasingly multi-polar world.

Sector spotlight: European defence spending





We explore recent developments in the UK and Europe

The global geopolitical landscape has shifted significantly in recent years. Russia's invasion of Ukraine triggered a significant re-evaluation of defence spending and strategy across Europe, and the apparent reluctance of the United States to backstop Europe and the West militarily has meant that defence and security considerations are now front and centre of sovereign investment and foreign policy.

As a result, European governments have pledged to ramp up defence spending and consequently, this renewed emphasis on defence and security has driven investor interest in those companies which might stand to benefit.

James Tulloch, Senior Investment Specialist, met with Ben Butcher, Equity Analyst, to consider recent developments in this space and explore how the macroeconomic and market implications of this changing landscape might shape the future of this sector.

James Tulloch (JT): Ben, let's start with context. What has Europe historically spent on defence, and what's driving the urgency to increase and upgrade capabilities now?

Ben Butcher (BB): Historically, European defence spending had been on a steady decline, especially after the global financial crisis and the Eurozone sovereign debt crisis.

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But Russia's invasion of Ukraine in 2022 was a real turning point, exposing years of collective underinvestment. Since then, spending has accelerated, with European countries reaching around 2.1% of GDP in 2024 – up from an average of 1.5% in the previous decade.

The heated exchange between Presidents Zelensky and Trump earlier this year also made European leaders realise they can't always rely on the US for security. If we look at individual EU countries, Poland leads with more than 4% of GDP spent on defence, followed by the Baltic states and Greece, which all spend above 3% of GDP on defence. Larger Eurozone economies like France and Germany are estimated to have been closer to the 2% mark in 2024, while Italy and Spain continue to lag. There is a clear regional divide – countries closer to Russia are spending more and faster – but across the board, Europe is ramping up its defence budgets.

JT: What are current spending plans and where is the money likely to go? There's a distinction to be made between core defence spending and a broader definition which includes other related spending, isn't there?

BB: Absolutely. NATO's new headline target is 5% of GDP on defence by 2035, a significant uplift from the previous 2% target. Split between 3.5% for "core defence" – things like equipment and personnel – and 1.5% allocated to non-core spend, such as defence related for infrastructure or military logistics.



In order to show a credible commitment to these targets, NATO will require countries to annually present their planned trajectory for defence spending. If Europe hits that 3.5% core target, we're looking at the 2024 defence spending level doubling to c. €800bn by 2035.

A big chunk of this will go towards equipment, especially European-made. Currently, around one-third of European NATO nations' defence budgets are allocated to equipment, and around one-third of that is spend in Europe – approximately 10% of the total. We would expect the proportional spend on European equipment to rise notably amid the wider increase in defence spending. We've already seen a shift – military personnel costs drop from c. 60% of the overall budget in 2014 to less than 40% today, while equipment has risen from 15% to more than 30%. That's a big change and it signals strong growth potential for the European defence industry.

That said, Europe will still rely on US suppliers for key technologies, such as the M142 High Mobility Artillery Rocket System (HIMARS), the Patriot air defence system and the Lockheed Martin F-35 because of their scale, cost-efficiency and strategic importance. So, while Europe is investing more at home, the transatlantic relationship remains vital.



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JT: Given the fiscal pressures many governments are currently facing – high debt to GDP ratios and budget deficits to name a few – are these increased spending targets realistic? Can countries actually afford them?

BB: That's the million-euro question. Whether countries can afford these targets depends on four fundamental factors. The first of these is common to all members: NATO's requirements. The other three factors are country dependent: their own fiscal headroom, economic growth and proximity to Russia.

Some countries have short-term fiscal flexibility thanks to the EU's national escape clause (NEC) – an instrument which allows individual member states to temporarily increase public spending or run higher deficits without being considered in breach of the EU's fiscal rules. Sixteen countries have already requested this clause, but it's a temporary fix. What happens after the four year exemption the NEC provides is less clear.

Germany – which has a comparatively low debt-to-GDP ratio – has committed to 3.5% of GDP on core defence by 2029, amending its debt brake to allow more borrowing for defence spending. The UK has pledged to hit the 5% target by 2035 and has already made cuts to the foreign aid budget to free up funds, although it is likely that further budget savings will need to be found. France, Spain and Italy are yet to request their escape clause and there are questions about how a number of major EU member states might finance any major defence spending increases.

It is possible that the EU could help finance the spending increases through loans or grants. Grants are likely to be more effective, but these would face various hurdles and would likely take some time to approve. The Security Action for Europe (SAFE) instrument is a new 150bn euro loan facility, which was adopted in May of this year. It was designed to provide member states with competitively priced long-term loans for urgent defence investment and common procurement.

NATO lacks a clear enforcement mechanism to steer reluctant countries towards compliance. Ultimately, proximity to Russia remains a key driver. Countries on Europe's eastern flank are spending more, and faster. For others, especially those with tighter budgets, meeting NATO's targets may be more challenging – especially in the long-run – but the intentions to do so are certainly there.

JT: Aside from the fiscal challenges countries now face, what are the other key challenges for both governments and the defence industry to ensure Europe is protected from outside threats? Is there a need to collaborate with partners and allies to develop a military capability fit for the future, and a requirement for the manufacturing capacity to deliver it?

BB: This is where things get even more complex. The European defence industry faces three major challenges: capability gaps, manufacturing capacity constraints and a lack of cross-country cooperation.

First, the capability gap. Years of underinvestment have meant less spending on R&D, which is crucial for innovation and global competitiveness. The share of EU spending on R&D within defence is just 4%, compared to 16% in the US. This, combined with the structural trend of rising costs, has led to depleted stockpiles of equipment and a shortage of skills and technology required for high-intensity conflict, meaning Europe will continue to rely on the US for some key capabilities.

Second, the European industrial base is fragmented as far as defence is concerned. Europe has many more defence companies than the US and they're often structured along national lines – leading to a lack of standardisation. This stands in contrast to the US, where a post-Cold War defence industry consolidation led to a shrinkage in the number of major players from 51 to five. Europe has 20 different aircraft types, while the US has six; 17 different battle tank systems, while the US has just one; Europe has more helicopter types than governments to buy them. This fragmentation inevitably makes procurement and cooperation harder.

Finally, there's a lack of cross-country cooperation. Countries tend to make procurement decisions in their own national interest and without coordinating with neighbouring allies, favouring domestic producers. For example, the UK government will likely favour BAE Systems, France supports Thales, Germany favours Rheinmetall and so on. For EU nations and the UK to be truly

effective, there needs to be more joint procurement initiatives and investment in cutting-edge technologies across borders, but of course, that's easier said than done.

JT: From an environmental, social and governance (ESG) perspective it has historically been common practice for most “ethical” investment mandates to simply eschew all companies involved in weapons manufacture of any kind, but there has been a notable recalibration in recent years. How are investors thinking about defence now?

BB: It's true that defence exclusions are still relatively common – especially for controversial weapons – but the landscape is shifting. Regulators in the UK and EU have rules around those controversial weapons, so biological, chemical, nuclear, cluster munitions and anti-personnel mines, but there's no blanket ban on defence holdings.

Recent geopolitical events, and perhaps the performance – or anticipated future performance – of the defence sector have prompted some investors to review their policies. The traditional ESG argument against defence stock ownership is that the products these companies produce are designed to cause significant harm when used as intended. But increasingly, there's a counter-argument that defence and homeland security is a fundamental right and indeed a prerequisite for long-term national stability and sustainability.

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So, we're seeing more nuanced approaches, with some investors now viewing the defence sector as compatible with long-term ESG goals.

Where blanket exclusions of certain sectors are applied, from an ethical or sustainable investment perspective, any nuance or complexity around identified factors can be lost. Defence companies might manufacture weapons, but ultimately it is governments and military leaders who decide whether, where and when to use them. And, most multi-asset ethical investment mandates would not exclude developed market government bonds.

JT: Finally, how are these factors translating to your point of view on defence companies? UK and European defence companies have already staged a strong rally in anticipation of that increased government spending, so there's definitely momentum there. But, are valuations still attractive, and how do you assess the sector?

BB: Yes, defence spending is on the rise and that's set to sustain growth for European contractors. If NATO members – excluding the US – ramp core defence spending from around 2.1% of GDP in 2024 to 3.5% by 2035, that's a compound annual growth rate (CAGR) of over 5% in budgets. For European defence companies, we're seeing underlying growth rates above 12.5% CAGR from 2024 to 2028, as procurement rises from 32% to 40% of budgets by 2030.



The journey to 3.5% core defence spending won't be uniform in our view, some countries will ramp up spending at a faster rate than others and companies with greater exposure to those early movers will likely benefit most.

For client portfolios, we prefer "long-cycle" defence names; companies which produce goods that can lead to high-quality, visible and steady earnings streams. BAE Systems and Thales are good examples. BAE, for instance, is a highly diversified defence contractor, with products ranging from submarines and frigates to Typhoon jets.

The company also has exposure to space defence related activities and is part of the Global Combat Air Programme (GCAP) – a partnership with Italy's Leonardo and Japan's Mitsubishi Heavy Industries to develop a next generation stealth fighter jet. It also has "short-cycle" products, with a stake in the European missile systems company, MBDA – a joint venture between BAE, Airbus and Leonardo – and a large land vehicles business.

Overall, we believe European defence is a significant structural theme with a clear role to play in clients' portfolios.

Defence companies might manufacture weapons, but ultimately it is governments and military leaders who decide whether, where and when to use them.

Investment implications





Equities

With the US comprising roughly 65% of all listed companies globally by market capitalisation, equity markets are now trading on slightly higher valuations than at the start of 2025. According to a crude price-over-earnings ratio (P/E), which effectively estimates how many years' current earnings an investor is paying in the prevailing share price, the US may look optically expensive.

- The MSCI World, an index of global equities, is valued at approximately 20x their expected earnings for this year, versus a long-run average of 16x
- US equities are trading on a P/E multiple of 24x, versus the long-run average of 16x
- Europe ex-UK equities are on a P/E of 15x, roughly in line with their long-run average
- UK and Emerging Market equities are priced around their long-run averages of 13x and 14x respectively
- Chinese equities are priced close to their average, having closed a large gap since the start of the year from 10x to 14x

Artificial intelligence or artificial exuberance?

Global corporate profit growth forecasts have fallen broadly this year. In the US, for example, they have fallen from approx. 14% to 10%, and in the UK, from around 8% to less than 4%.

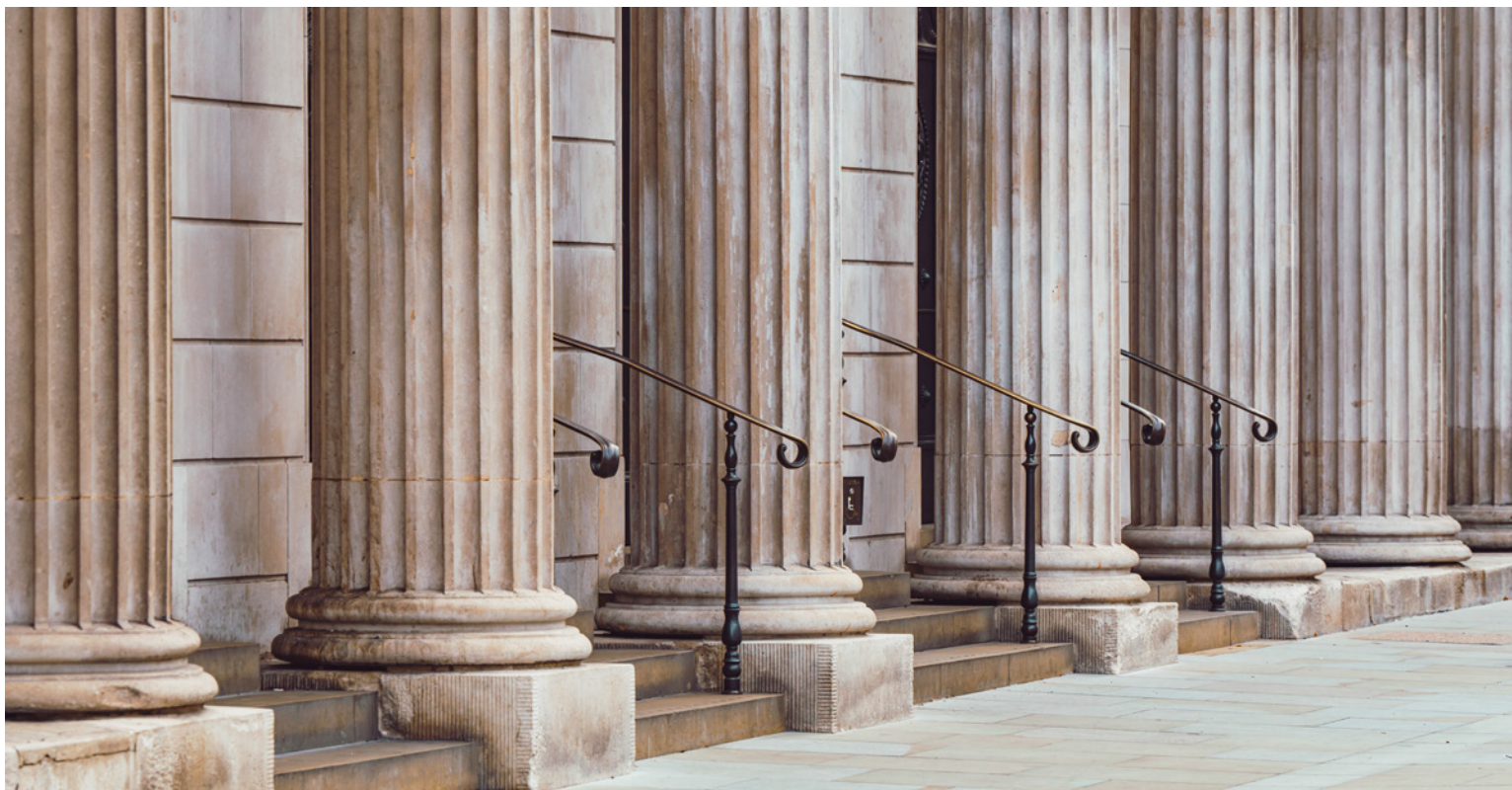
Consequently, it may seem paradoxical that many equity indices have recently hit all-time highs. But investors are weighing up the present value of future cash-flows and on balance are willing to pay up.

Having splurged in the race for tech-dominance, many highly-valued US companies are a direct or indirect play on the monetisation of AI. So, it's reasonable to ask whether equity markets have got over their skis – a case of artificial exuberance? On balance, we don't think so. Regardless of any forthcoming AI productivity boom, there is enough breadth and quality of earnings from different sectors to make current equity markets more than a one-horse race. That said, what is considered rational to pay is the subject of intense debate.

Alongside looking through almost daily negative news, this probably explains below-average equity market volatility. Apart from two brief spikes – one of which was extreme in mid-April – the most common proxy for equity market volatility, a market index known as the VIX, currently trades some way below its 20-year average.

We remain on watch. But the bottom line is that 10% earnings-per-share growth for the US is respectable, and corporate profits will drive total returns for investors in the long-run.





Bonds

Politicians know the power of the bond markets. So-called bond-vigilantes, who express their fiscal concerns by selling government debt, force yields and borrowing costs up (bond prices and yields are inversely correlated).

This dynamic played a part in zapping Chancellor Reeves's fiscal headroom in late 2024, as noted earlier. Rapidly spiking bond yields may also be tricky for equity markets to digest.

Certainly, it's been curious to observe the yields on UK and US 10-year bonds' decouple, especially considering their historically positive correlation. Both yields started the year at around 4.5% and whilst some would say the UK has shown more fiscal restraint than the US, the yield on UK gilts has gone up and the yield on US treasuries down.

Good yields – including in special situations and unrated bonds – are possible but require expertise to manage the risks.

Right now, the valuation of most advanced economies' government debt is relatively attractive compared to history. They should offer investors some protection in the case of any recession – not a base case scenario – and a *real* inflation-adjusted income too. Bondholders' foreign currency risk can also be cheaply hedged to define a fixed income stream in sterling.

Corporate bonds are currently offering less value. Credit spreads – the additional premium a bondholder typically receives above a government bond yield of the same term – are at all-time 'tight' levels. For example, the credit spread on UK investment grade corporate debt is currently 0.97%, compared to its 20-year average of 2.19%. Good yields – including in special situations and unrated bonds – are possible but require expertise to manage the risks.

From a *purely* fixed income rather than a multi-asset perspective, we therefore prefer government debt to corporate and near-term maturities over longer-dated issues to minimise duration risk.



Alternatives

When equity and bond markets are positively correlated, diversifiers add ballast to portfolios. Gold has continued to rally to all-time highs this year, recently moving through the \$3,800 per oz level.

Many investment trusts continue to trade at a discount to their net asset values – often with inflation protection too given the indexation of income streams from underlying real assets including infrastructure. Depending on the multi-asset mandate, other diversifiers may have a role to play: private equity and structured products, for example, may eke out returns and diversify risk. Cash and near-cash securities – beyond immediate needs – provide optionality but not the longer-term inflation protection most investors require as yields fall.

Looking ahead





What do we do
from here?
Keep calm and
paddle on

Overall, markets have largely remained in risk-on mode and shrugged off persistent concerns over tariffs, geopolitical uncertainty, lacklustre growth and the fiscal challenges facing many advanced economies. We've observed several times this year that investors have a great propensity to muddle through in the face of persistent uncertainty.

Beyond the headlines, there are causes for cautious optimism, with the main ones being:

- The Fed has resumed cutting interest rates. This should ease credit conditions and support jobs and consumption. This sets up the potential for a **'soft-landing'**, a rare occurrence of rate cuts without a recession, which historically has fuelled market returns
- The US and China appear to have stepped back from an all-out trade war

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- Tariff uncertainty is diminishing – and businesses and governments can start to plan accordingly
- Corporate profits in the all-important US are growing

Of course, we do not underestimate the risks. The Fed's rate cuts may prove too late, with overly restrictive credit conditions crimping growth – leading to fewer jobs, greater consumer constraint, lower corporate profits, and ultimately lower share prices.

Yet, if the Fed continues to cut, it may be doing so with above-target inflation and equity markets at all-time highs. The full impact of tariffs is unknown: as a sales tax paid by producers and consumers, they could dent confidence, corporate profits and perhaps labour markets, and be inflationary to boot.

Whatever the hurdles, longer-term investors will know that economic hiccups reset the cycle – allowing them to upgrade portfolios with quality investments previously difficult to justify buying on valuation grounds. Simply put, the less an investor pays for an expected set of future cashflows and growth, the greater the likelihood of compounding above-average long-term total returns. Other risks are perennial and mostly geo-political – such as the escalation of regional wars or new confrontations in a more fragmented, multi-polar world.



On balance Looking downstream

So far, 2025 has been about assured paddling: reading the current, taking stock and at times having the confidence to hold tight and do nothing other than hold a steady course.

Charting a passage through the white water and dark pools. Downstream, investors will confront longer-term issues: how sustainable is US government borrowing and does it matter? Will the dollar remain the world's reserve currency? Will AI bring a huge productivity boom? What will it mean for the workforce? How will governments tax and spend in the brave new world? That's for the future.

For now, our investment team remains laser-focused on fundamental analysis and will continue to assess economic data and company fundamentals to select the investments which we believe offer the best risk-reward opportunities for our clients.



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