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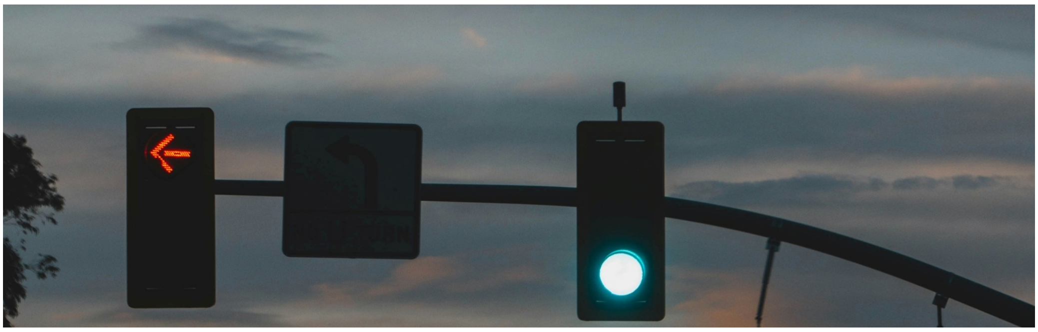
BILBoard October 2025 Mixed signals



The global economy has performed better than economists expected this year and the impact of tariffs has, so far, been more contained than feared. Equities have performed well, with key indices reaching one new high one after another, largely driven by the artificial intelligence theme and better-than-expected growth in major economies. However, these same economies are sending conflicting signals, suggesting that the full impact of tariffs is yet to be seen. In this environment, our October allocation continues to reflect a preference for equities over bonds. We have, however, taken steps to protect that equity exposure using an option strategy as we navigate the final quarter of the year. Acknowledging increasing divergence in the performance of European countries, we have also decided to narrow our exposure to focus on the Eurozone, where recession fears have faded, despite raising concern over France's fiscal situation. Within the fixed income space, we have reduced our exposure to government bonds and allocated the proceeds to emerging market debt which offers more attractive income opportunities. In a nutshell, we maintain a measured approach as we wait to see how the impact of tariffs continues to play out and whether the Fed will continue to lower rates as expected.

MACROECONOMIC OUTLOOK

The US

In the US, consumers have continued to drive growth, despite the uncertainty created by US trade policy and a weakening labour market, leading Q2 GDP growth to be revised up to 3.8%, from the previous estimate of 3.3%. Fixed investment also saw an increase of 4.4% in Q2, largely fueled by a surge in investments in Artificial Intelligence. Looking ahead, business activity remains robust, as indicated by a composite PMI of 53.9..

When we look under the surface though, we see mounting risks to the consumption outlook. While consumer spending bolstered growth in the first half of the year, it is primarily concentrated among the top 20% of earners, who now account for over half of total consumer spending. This trend is partly driven by the wealth effect, where rising stock market and house prices enhance perceived wealth, encouraging spending. However, if the stock market was to experience a downturn, or if the housing market weakens, it could prompt even the more confident consumers to reduce their spending.

US consumers on the lower end of the income spectrum have been much harder hit by the uncertain environment, rising prices and still-high borrowing costs. While interest rates seem to be on a downward trajectory following the Fed's 25 basis point cut to a range of 4–4.25% in September, higher inflation remains a prominent risk. US firms seem to be absorbing most of the tariff costs for the moment, as weak demand and rising competition are making it difficult to pass on increased costs to consumers. According to the latest PMI survey, input costs have surged to their highest level since May, largely due to tariffs, while output costs have increased at their slowest rate since April, indicating that companies are struggling to raise prices. If businesses start to pass on more cost increases to consumers, it could exert upward pressure on inflation, leading the Fed to adopt a more cautious stance on policy easing than markets are currently anticipating.

At the same time the labour market continues to show signs of cooling, with consumer perceptions of job availability dropping to the lowest level since early 2021. This creates a stew of mixed signals coming from the economy, further complicated by the lack of official economic data being released due to the ongoing government shutdown, which in itself could bring additional growth headwinds.

Eurozone

The Eurozone economy has also outperformed expectations, with private sector activity growing at the fastest pace in over a year in September (Composite PMI at 51.2). However, growth remains meager and recent data continues to reveal significant disparities in performance among countries within the bloc, with southern nations like Spain driving the expansion. In contrast, concerns are mounting in France regarding its ability to manage its budget deficit amidst rising political instability. Morale among German companies is gradually improving, but hard data still points to fragility.

Despite a resilient labour market with strong wage growth, inflation nearing the target level, and a loose monetary policy expected to put a floor under consumption, only modest growth is anticipated. While the EU has averted the 'worst-case scenario' and secured a 15% reciprocal tariff from the US, sector-specific concessions, particularly for the automotive industry, still need to be finalised to improve confidence in these sectors. Overall, growth catalysts remain limited: increased defense spending will take time to materialise, and it must benefit domestic suppliers for the Eurozone to reap the maximum benefit.

China

In China, the economy lost some momentum towards the end of the summer, after a strong start to the year driven by tariff frontloading and policy support. Both consumption and factory output slowed in August, with manufacturing activity in contraction for the past six months. However, looking at activity over the year as a whole, it can be considered strong. The real estate sector is also showing some early signs of improvement - although new home prices continue to fall in August, the rate of decline is gradually easing each month. Exports to the US continue to decrease, despite the extension of the US-China trade truce, but this decline is somewhat offset by rising exports to regions like Southeast Asia. Looking ahead, key growth drivers include Beijing's commitment to boosting consumption and its efforts to achieve self-sufficiency in advanced semiconductor production, which aims to strengthen domestic industry and enhance competitiveness. Attention now turns to the October plenum, during which the communist party will meet to map out the country's social and economic development over the next five years.

INVESTMENT DECISIONS

In our portfolios, we continue to have a **preference for US equities** in combination with select emerging markets. We remain cautious on Europe and Japan. With the US economy sending mixed signals, we have added some **downside protection to our US equity exposure**. While acknowledging the strong performance in the first half of the year, several risks remain, including a spike in inflation, possibilities of twists and turns in the Fed's pathway and further weakening in the labour market exacerbated by the recent federal government shutdown. **With stability a core pillar** of our investment philosophy, this gives us additional comfort to navigate through to the beginning of next year, without exiting the market. As another hedge against uncertainty, we maintain our exposure to gold.

In **Europe**, the **divergence of performance** between different countries is becoming more prominent. While the United Kingdom can be seen to have received the one of the best trade deals with the US, the country suffers from sticky inflation, a cooling labour market and subdued confidence and business activity. Worsening matters is glaring fragility on the fiscal front. Switzerland has received one of the highest reciprocal tariffs from the US, which is expected to dampen export business and investment. Given these idiosyncratic issues, we have decided to

focus our European exposure on the Eurozone and thus increase our exposure to the core economies of the bloc which are middling through.

In **fixed income**, we further **reduced our government debt exposure** and allocated the proceeds **into Emerging Market Debt (EMD)**. With the Fed expected to continue cutting rates, yields at the short end of the developed sovereign curve are limited. EMD offers a higher yield and lower volatility. The weaker dollar is also a tailwind for EMD as it has improved debt sustainability in emerging markets, making us comfortable with taking credit risk in this segment.

Conclusion

With less than three months of the year remaining, the current macroeconomic landscape presents both opportunities and challenges. Although the global economy has held up well, underlying vulnerabilities remain apparent. The divergence in economic performance across regions, particularly within Europe, necessitates a strategic focus on core economies to mitigate risk. Our investment decisions reflect a measured approach, prioritising US equities while protecting our positions against potential market volatility and seeking yield in our fixed-income investments.

As we navigate these mixed signals, our philosophy remains clear: we focus on fundamentals and lean into our convictions while staying agile and adaptive.

If you would like help turning any of our insights into tangible trading ideas, do not hesitate to contact your dedicated relationship manager or investment advisor.

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