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BILBoard November 2025 – Two speed economies



Divergence in growth is becoming increasingly prominent within major economies. In the US, it is the top earners and companies with the largest market capitalisation that are propping up the economy, while those at the lower end of the income spectrum, and companies not involved in artificial intelligence, struggle. In Europe, this divergence can be seen between the bloc's major economies. Spain continues to be the driver growth, while France is doing slightly better than expected. Meanwhile, Germany and Italy are standing still. China has long had a two-speed economy, driven primarily by external rather than domestic demand. This is, however, something that Beijing is determined to change.

Until now, the winners have kept on winning, holding up the rest, compelling our constructive stance on equities. However, we see increasing concentration risk, particularly in the US, with major tech companies driving the bulk of market returns, and hedging is prudent. The AI capex boom, while supercharging activity for now, is – over the long-term - unsustainable at such a pace, representing potential downside risk to both the AI trade and broader US equity indices. Investors will be spooked if they dial down spending, fearing that the AI theme has lost steam. At the same time, if they ramp up spending, this will only attract more questions about the payoff on those colossal investments.

Earnings remain strong for now, and market sentiment is a force not to be reckoned with. To be prudent, however, we maintain downside protection on our US equity exposure to cushion portfolios through any potential volatility until next year. Within fixed income, we rotate out of USD Loans into broader High Yield (HY), compelled by the fact that the average rating for US HY bonds is one notch higher than for loans.

MACROECONOMIC OUTLOOK

The US

The US economy has remained quite resilient overall, though data is light owing to the ongoing federal government shutdown. However, we are seeing increasing bifurcation in what can be described as a “K-shaped economy”, in which some parts of the economy benefit and grow, while others struggle and decline, illustrated by the divergent legs of the letter “K”. The consumer spending underpinning the economy is increasingly driven by the top 20% of earners, while those at the lower end of the income spectrum are squeezed. The same is playing out on the corporate side, with AI the driving force behind capex and market gains, while the rest lag behind. This creates the risk that perception of the health of the economy could shift quite quickly if the spending patterns of high-earning consumers or major tech companies were to change.

The Federal Reserve cut interest rates by 25 basis points in October, bringing its benchmark rate to a range of 3.75 and 4%, but tempered hopes for further monetary easing in December, stating that an additional rate cut this year should not be seen as “a foregone conclusion — in fact far from it”. Although the Fed noted that downside risks to the labour market had increased in recent months and inflation remains elevated, it will become increasingly difficult to assess the state of the economy in December if the data blackout continues.

Eurozone

The Eurozone economy grew by more than expected in the third quarter of the year, with GDP growth reaching 0.2% (compared to an expected 0.1%), driven primarily by Spain and France. Meanwhile, Italy and Germany stagnated. Given the resilient labour market and the fact that inflation is near the European Central Bank’s (ECB) 2% target, monetary policy easing is expected to remain on pause for the foreseeable future, in line with the central bank’s decision in October. Still-strong wage growth and slightly improving confidence may boost consumption, but a consumer boom is not expected.

For the corporate sector, the period of peak uncertainty surrounding trade appears to be over. Auto tariffs have been lowered to 15%, providing much-needed retrieve to the struggling auto industry. Defence spending is expected to drive growth going forward, which could boost industry and support demand. Nevertheless, given budget constraints, import dependencies, and the time required to scale up the defence industry, the GDP impact of increased defence spending is expected to be modest in 2026 and 2027. In Germany, the announced fiscal stimulus that boosted confidence earlier in the year is already taking longer to materialise than

initially hoped.

China

In China, the economy continues to grow at two speeds, with external demand outpacing domestic. Growth in the third quarter slowed slightly to 4.8% year-on-year, down from 5.2% in Q2, and was largely driven by exports, while domestic demand remained muted. The real estate downturn is easing, however, likely not enough to provide a significant boost to consumer confidence.

At the recent Fourth Plenum, which discussed the next five-year plan, the Communist Party outlined two key priorities. The first is the pursuit of manufacturing self-reliance and industrial independence through technological innovation. The second is the long-standing promise to boost domestic consumption; however, details as to how this will be achieved were limited. Although the full plan will not be released until next year, initial reports suggest policy continuity, with external demand continuing to play a significant role in China's growth. Improving relations with the US should boost sentiment, as Presidents Trump and Xi agreed on a one-year trade deal in October, giving the two powers more time to reduce their dependence on one another, as Chinese exporters continue to work on diversifying their export markets.

INVESTMENT DECISIONS

In the **fixed income** space this month, we **rotated out of USD Loans into broader High Yield (HY)** to capture carry and increase duration. The average rating for the US HY bond universe is one notch higher compared to loans, offering some more security. Exposure to HY offers carry and potentially gains from directionality, after the hawkish comments from the Fed, which dampened hopes of further easing this year, wears off. In addition, this move allowed us to limit our exposure to Private Debt, concerns of which have been raised following the default of First Brands.

Conclusion

With major economies growing at two speeds, we see greater importance in selectivity to ensure exposure to the sectors that are poised to benefit within the different economies. Equally important is adaptability – although we are long-term investors, we remain adaptable so that we can adjust our positioning in response to potential changes in the outlook for the different economies and sectors within them. Concentration risk in US equities is becoming

increasingly prominent. While major tech hyperscalers appear set to continue spending, we believe that it is crucial to implement protective measures, with the aim of achieving stable portfolio returns over time.

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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