

Q3 2025 Commentary

In the third quarter of the year financial markets have seen less volatility than in earlier months. Markets recovered from the shock and extreme volatility caused in April when, on “Liberation Day”, crippling new tariff regimes were introduced by President Trump’s administration, and announcements around negotiations have subsequently settled investors’ nerves.

Emerging markets, Europe, the UK and other developed markets have continued their relative outperformance to US equity markets in the third quarter, and, despite the eye-catching headlines about AI, investors have chosen to invest in equities deemed to have more attractive valuations to those of the US.

The US economy is still very much leading globally and showed a healthy growth of 3.3% in the second quarter. Inflation is subsiding and, with a renewed focus on supporting employment growth, the Federal Reserve (US central bank) cut interest rates in September by 0.25%, their first cut in nine months. It is widely expected that the Fed will cut interest rates further in the second half of this year.

There are concerns growing about a reflationary boom in the US, stoked by loose fiscal policy (interest rate cuts) as well as by President Donald Trump’s signature tax cut and spending package, which he has called the “One Big Beautiful Bill”. In addition, huge commitments have been announced by tech companies for AI-driven capital expenditure projects (principally building data storage facilities) and have reached approximately \$400bn so far this year. Enthusiasm about these AI-driven investments is a prime reason for the increase in index levels this year. There is little evidence yet that these investments will boost productivity and corporate earnings sufficiently to justify those company valuations.

For the UK, attention will be firmly focused on the upcoming Budget on 26th November and what actions the government may propose for stimulating growth and investment as well as reining in public expenditure.

Although there are still many uncertainties, especially regarding resolution to the Russian invasion of Ukraine and the ongoing concerns about the effect of trade tariffs (and whether they will stoke inflation), risk assets offer attractive opportunities for the longer-term investor. It is very heartening to see the beginning of the roll-out of the peace deal in the Middle East led by President Trump.

We will remain vigilant to news flow, especially the upcoming third quarter earnings results and the accompanying company commentary and forecasts.

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