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CAPITAL MARKETS
MONTHLY



CHARLES
THOMSON

HEAD OF PORTFOLIO
MANAGEMENT

Further Volatility for Global Bonds

The outlook for the U.S. Treasury market remains constructive, with the prospect of lower yields ahead. As expected, at its September meeting, the Federal Reserve delivered a 0.25% rate cut—the first since December 2024. The FOMC statement cited a softer labour market and a rising unemployment rate. While Fed funds futures continue to price a gradual easing path, ongoing weakness in employment could prompt the Fed to cut more aggressively than currently implied. The inflationary effects of earlier tariff measures have proved largely transitory, with underlying inflation expected to trend toward the Fed’s target over time. Political pressure, particularly from Trump, further tilts the balance toward lower short-term rates, as the Fed seeks to fulfil its dual mandate of maximum employment and price stability. A looming government shutdown could delay the release of critical employment data ahead of the October meeting, raising the probability of another 0.25% rate cut on 29 October.

UK Gilts performed broadly in line with U.S. Treasuries in September, though the yield curve steepened on the back of persistently high inflation data and ongoing concerns about growth. Softer activity indicators highlighted the UK’s vulnerability, while the likelihood of further tax hikes later this year poses an additional headwind to GDP. The upcoming 26 November budget is set to be challenging for the Labour government, given a financing gap of around GBP 30bn. Tax increases appear inevitable, with welfare reforms offering limited scope for meaningful spending cuts. Policy will need to remain acutely sensitive to the impact on Gilt yields. The government has reiterated its commitment to fiscal responsibility, and the recent decline in 30-year yields suggests a degree of credibility, though the margin for error is slim.

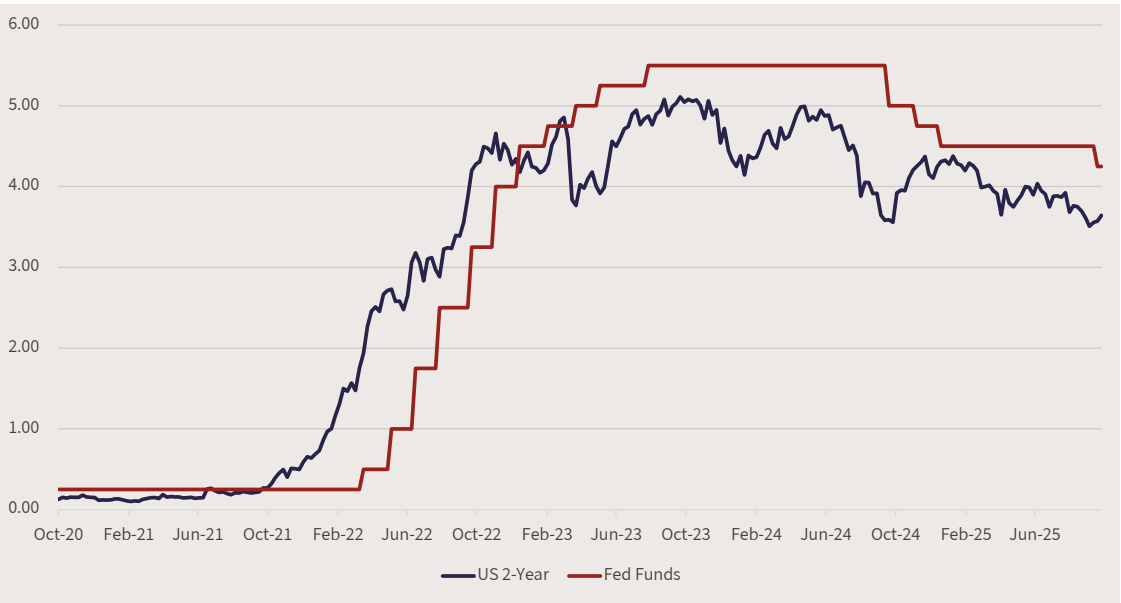
European government bonds marginally underperformed in September. Following the inevitable loss of a no-confidence vote, Prime Minister François Bayrou was replaced by Sébastien Lecornu. Paradoxically, French yield spreads versus Germany narrowed by roughly 10 basis points, indicating that the bad news had already been largely priced in. Nonetheless, fiscal risks remain elevated across the region, with high deficits weighing on spreads and sentiment. The ECB’s June rate cut may prove to have been the last of the cycle, leaving investors cautious about further policy support. Futures markets currently imply only 0.02% of additional cuts by year-end—consistent with less than a 10% probability of further easing in Q4.

Japanese government bonds remain relatively attractive, with 10-year yields holding above 1.6%—levels offering stronger long-term value for investors. However, the Bank of Japan’s hawkish hold at its 19 September meeting suggests a high likelihood of a rate hike on 30 October, which would raise the policy rate from 0.5% to 0.75%.

Chinese government bonds were mixed in September. The front end of the curve remained relatively stable, with 2-year yields rising around 5 basis points, while the long end came under pressure. This steepened the curve and weighed on total returns, as the 30-year yield climbed from 2.08% to 2.26% over the month. Despite short-end stability, overall market performance was negative, with the ICE Bank of America China Government Index returning -0.5% for September.

The following chart shows the yield of the benchmark 2-year US Treasury note versus the Fed funds rate (upper band). The lower yield on the 2-year note indicates anticipated rate cuts.

US 2-Year Yield and Fed Fund Rate



Source: Bloomberg Finance L.P., September 2025.



SLAWOMIR
SOROCZYNSKI

HEAD OF FIXED INCOME

US dollar remains steady as the Fed delivers first interest rate cut of the year

The most anticipated event of the month—the Fed’s interest rate decision—failed to significantly move the markets. The 25 basis point cut was widely expected, so most assets reacted in a textbook manner. The foreign exchange market was no exception. However, it is worth noting that following the announcement, the US Dollar experienced a brief period of weakness.

In particular, the world’s primary currency pair, EUR/USD, attempted to break out of its established trading range, which had been capped by the 1.1820-1.1850 zone. During Chair Powell’s Q&A session, EUR/USD surged above 1.1900, reaching a high of 1.1919, before quickly retreating toward 1.1850, eventually closing just below 1.1820. Other major currency pairs followed a similar pattern: GBP/USD tested resistance near 1.3720 to close at 1.3630, USD/CHF approached support at 0.7820 before closing at 0.7925, and USD/JPY declined to around 145.50 to finish the day at 146.80. These movements on the day of the Fed’s rate cut represented the extremes for the month.

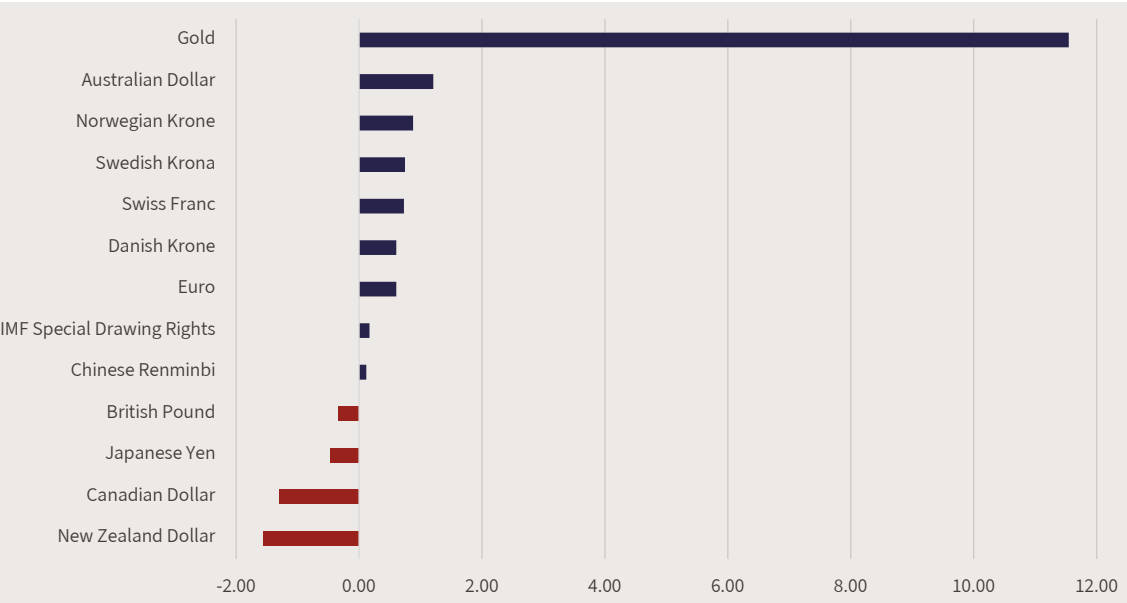
Since then, market focus has shifted to ‘local’ factors, which have generally been negative for major currency pairs and, consequently, supportive of the US Dollar. In the Eurozone, France’s credit rating downgrade overshadowed positive developments in peripheral countries. In the UK, growing concerns about the budget and weak economic growth weighed on the pound. Meanwhile, in Japan, the upcoming elections and their potential impact on the Bank of Japan remained key issues.

Amid this competition of negative factors and elevated uncertainty—sometimes described as ‘known unknowns’—one asset experienced its strongest monthly performance in over a decade. Gold posted its best month since August 2011, gaining 11.55% in September. From a technical standpoint, the Relative Strength Index (RSI) showed gold spending much of September in overbought territory. RSI readings above 80 are rare, but in this case, where geopolitics and psychological factors dominate, the overbought conditions could persist longer than usual.

For a detailed breakdown of G10 currency performance in September, please see the table below.

Looking ahead, despite these ‘local’ headwinds, we maintain the view that the primary theme in the FX market—a weaker US Dollar—remains intact. We expect key currency pairs to test the levels indicated in previous months. Additionally, we believe volatility patterns across the G10 currencies will diverge, with USD/JPY poised to be the standout. It is also worth remembering that October has historically been a challenging month for trading, driven by seasonal flow patterns and market positioning ahead of year-end.

September performance vs. USD (%)



Source: CAIM, 30 September 2025.



SIMON PRICE
SENIOR EQUITY FUND
MANAGER



United States

Activity data, principally due to AI spend, aids sentiment

US equities reached new highs, driven by stronger activity data and rising confidence in further interest rate cuts. The Fed delivered its first cut of 2025, a “risk-management” move, despite slightly hotter August CPI. However, underlying PPI and CPI data pointed to a softer core PCE outlook, the Fed preferred measure of inflation. Improved US-China trade sentiment also supported risk assets, while AI-driven corporate activity and increased capex continued to concentrate equity returns.

Regarding monetary policy, the FOMC delivered its first rate cut of 2025, lowering the fed funds rate by 25bps to 4.00–4.25%, as expected. Chair Powell described it as a “risk-management cut,” citing emerging risks to the labour market, which he no longer characterised as “solid.” While the dot plot shifted slightly, now implying 75bps of total cuts for 2025, the Fed’s 2026 growth and inflation forecasts were revised higher, suggesting a more dovish reaction function. Interestingly during the press conference Powell downplayed the dot plot, emphasising a “meeting-by-meeting” approach and maintaining a cautious stance on further easing. Fed independence remained in focus, with Stephen Miran confirmed to the Board and a court ruling blocking Trump from removing Lisa Cook before her appeal, so both were involved in the meeting.

In the macro backdrop, labour market data raised concerns about slowing employment growth, with the latest jobs report showing weaker-than-expected payrolls and downward revisions to prior months. The unemployment rate rose to 4.3%, its highest since October 2021, and the BLS announced notable negative revisions to March 2025 figures, suggesting a softer labour market than previously thought. On inflation, headline CPI came in above expectations, while core matched forecasts. However, the rise was largely driven by volatile components like fares and lodging, pointing to more moderate underlying price pressures and a less pronounced impact from tariffs.

AI momentum remained strong as Q2 earnings season wrapped up. Oracle surged 35.95% after issuing an aggressive cloud outlook, with its Remaining Performance Obligation, the total value of contracted revenue that a company has yet to recognise, advancing to \$455bn, up \$317bn from the prior quarter. Outside of earnings, Nvidia announced a strategic partnership with OpenAI, committing up to \$100bn to build new data centres and AI infrastructure. It also revealed a \$5bn investment in Intel, reinforcing its leadership in the AI-driven capex cycle.

U.S. equities posted positive results in September with large cap outperforming mid and small cap. Turning to sectors, market breadth remained weak with the AI theme a strong catalyst with technology, communication services and utilities outperforming while materials and energy were laggards, with energy impacted by lower commodity prices.



Europe

Geopolitical concerns still a hurdle

European equities posted modest gains in September, held back by a slightly hawkish ECB stance and political uncertainty in France. The ECB signalled rates would remain unchanged for the foreseeable future, as risks to growth were “more balanced” amid fading trade uncertainty and a resilient domestic economy, dampening investor sentiment.

In France, political tensions escalated as the government lost a confidence vote, prompting President Macron to appoint Sébastien Lecornu as the new Prime Minister. Meanwhile, attention turned to Germany’s upcoming budget season, with coalition disagreements over funding a major stimulus programme adding to market caution.

In terms of sector performance, technology firms benefited from ongoing AI-driven digital transformation, though some faced pressure from global competition and supply chain disruptions. Defence companies saw positive momentum, supported by continued geopolitical tensions and domestic autonomy initiatives. Banking & Financials outperformed, with improved credit conditions and resilient fundamentals driving gains. On the downside, defensive sectors, including consumer staples, lagged due to tariff concerns and weak sales growth. Automakers declined, led by Porsche and Volkswagen, after both cut profit forecasts for the year.



Developed Asia

Markets extend their run on policy stimulus hopes

Asian equities extended gains in September, with the Hang Seng advancing to a four-year high amid hopes that China will cut interest rates after consumer prices fell further. Japanese stocks advanced on stronger macro data, Q2 positive revisions, aiding financials, while the upcoming LDP leadership election has promoted hopes for more expansionary fiscal and monetary policies, boosting market sentiment.

Japanese prime minister Shigeru Ishiba announced his resignation after poor summer election results. With the LDP-Komeito coalition losing its majority, the new PM may need opposition support. While Bank of Japan held rates at 0.5%, as expected, two of the nine board members dissented in favour of a hike, marking the first dissent under Governor Ueda. The market also absorbed the news, that the BoJ plans to sell holdings of ETFs and J-REITs, without disruption, which had been a concern.



Emerging markets

Emerging market equities continued their advance in September, outperforming developed markets as the restart in Fed easing, a perceived manageable slowdown in global growth and subdued market volatility all provided a benign backdrop for EM assets.

Regionally, in USD terms, Asia and Latam outperformed while CEEMA was an underperformer

AUTHORS

Charles Thomson

Head of Portfolio Management
charles.thomson@caiml.com

Slawomir Soroczynski

Head of Fixed Income
slawomir.soroczynski@caiml.com

Simon Price

Senior Equity Fund Manager
simon.price@caiml.com

CONTACT

Crown Agents Investment Management

3 More London Riverside
London
SE1 2AQ
United Kingdom

www.caiml.com

CAIMInsights@caiml.com

T: +44 (0)20 7489 7223

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