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CAPITAL MARKETS
MONTHLY



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HEAD OF PORTFOLIO
MANAGEMENT

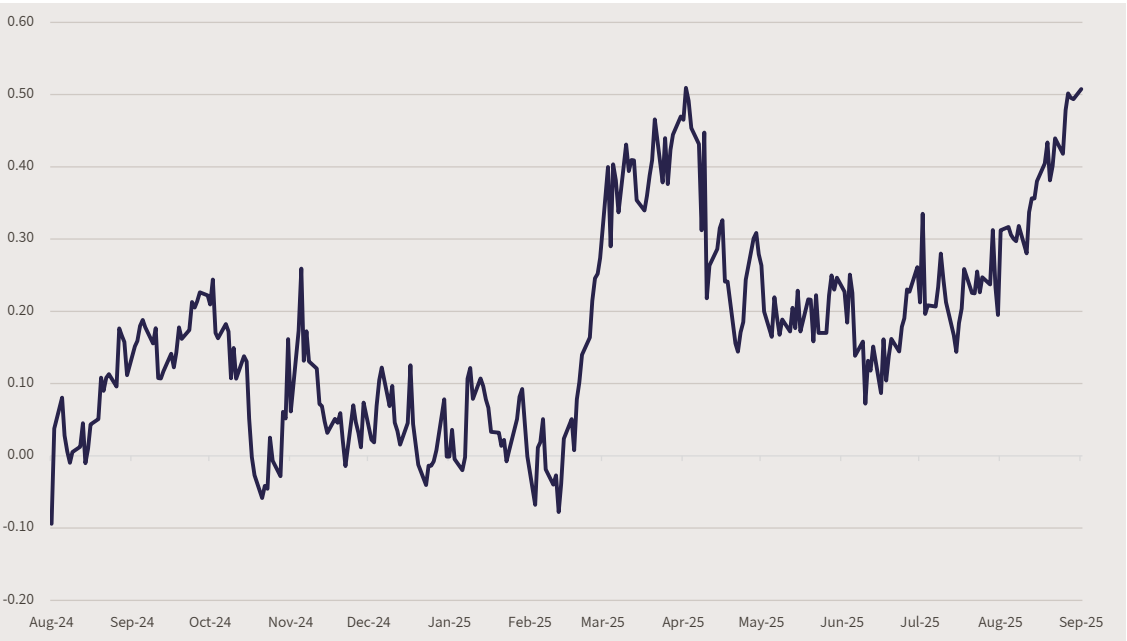
Divergent Outlook for Global Bonds

The medium-term outlook for the U.S. Treasury market remains constructive. While Fed funds futures currently price a gradual path of easing, weakness in the labour market could push the Federal Reserve to cut rates more aggressively than implied. The inflationary effects of newly imposed tariffs are likely to prove transitory, with underlying inflation pressures continuing to drift toward target over time. Political pressure, particularly from Trump, further tilts the risk toward much lower short-term rates as the Fed seeks to preserve financial stability. On the supply side, issuance schedules may be adjusted to reduce pressure on the long end, especially given the steepness of the curve, which would add further support to duration. Additional bullish dynamics include persistent safe-haven demand in the face of global growth headwinds and geopolitical uncertainty, as well as ongoing strong foreign buying interest given the relative attractiveness of U.S. yields compared to other developed markets. Altogether, these factors argue for a supportive backdrop for Treasuries, with potential for yields to move lower across the curve.

UK Gilts underperformed in August as the curve steepened on the back of disappointing inflation data and renewed concerns around the economic outlook. Softer growth indicators added to worries that the UK remains vulnerable, with the likelihood of further tax hikes later this year posing an additional headwind to GDP. While sentiment remains cautious, the sell-off has left longer-dated gilts looking attractive, with higher yields and a steeper curve offering relative value compared to peers. Gilts remain the highest yielding market in the G7.

The chart below shown the material divergence between UK Gilt yields and US Treasuries at the 10-year point of the curve.

10-year Yield Spread between UK Gilts and US Treasuries



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

European government bonds faced renewed pressure in August, with France in focus as political uncertainty grows ahead of a key confidence vote and fiscal risks remain elevated given persistently high deficits. Investor concerns about France’s debt trajectory are weighing on spreads, adding to broader euro area caution. In addition, structural changes in the Netherlands EUR 1.5 trillion pension fund industry as it transitions away from defined benefit schemes, pose a new challenge for long-dated bonds, as this will reduce demand for longer dated securities, creating another headwind for the long end of the European government bond market. Note that the early June rate cut by the ECB may have been the last in the cycle.

Japanese government bonds look increasingly attractive, with longer-dated yields—such as the 10-year—backing up to levels that offer better value for investors, slightly above 1.6%. A more stable outlook for JPY should help ease imported cost pressures, supporting the case for disinflation. With inflation expected to fall significantly next year, the environment is turning more supportive for JGBs, underpinning a more bullish outlook for the market.

Chinese government bonds were mixed in August, with the short end stable as 2-year yields held unchanged at around 1.4%. However, the long end came under pressure, driving a steepening of the curve and weighing on performance. As a result, overall returns for the bond market were negative despite front-end stability.



SLAWOMIR
SOROCZYNSKI

HEAD OF FIXED INCOME

The Inconclusive End of the Summer Holiday Season

Many who were waiting for a breakthrough from Jackson Hole were left disappointed. Market volatility indicators declined, equity markets reached new record highs, and corporations managed to issue record amounts of debt, while credit spreads remained at the tight end of their multi-month ranges. Investors’ tolerance for geopolitical risks remained high, with yields in the sovereign bond space starting to price in the possibility of a Fed rate cut in September. This was fully reflected in the U.S. yield curve behaviour where ‘steepeners’ reached record highs. In the meantime, the Bank of England delivered a long-anticipated 25 basis point cut, while the ECB, along with most other developed-market central banks, remained on the sidelines.

The only surprise came from the Reserve Bank of New Zealand, where a dovish 25 basis point cut sent the New Zealand Dollar to the bottom of the developed-market currency rankings. Other major currency crosses recovered most of their July losses against the U.S. dollar. Gold, along with other precious metals, performed well, delivering a solid 4.6% return.

Among major currency crosses, the Japanese Yen gained 3.4%, while the Euro advanced by 2.3%. These two currencies, key components of the U.S. Dollar Index (DXY), helped the index build ‘negative’ price momentum and close the month below the 98.00 mark. The DXY opened the month at 100.00—a key psychological level—but quickly retreated, moving down toward 98.00 where it found support near its 50-day moving average and spent most of the month. Its upside was efficiently capped by the 100-day moving average.

Downside movement was limited by geopolitical factors, including a surprising comment from the French Minister of Finance, who mentioned that France might need to seek support from the IMF. While the initial market reaction to this sensational statement was muted, there is no doubt that, in the medium to long term, it will limit appetite among investors looking to diversify away from the U.S. dollar into the EUR.

Although we still believe the U.S. dollar’s worst phase is not yet behind us, any adverse developments regarding credit ratings could jeopardize our year-end EUR/USD target of 1.2000.

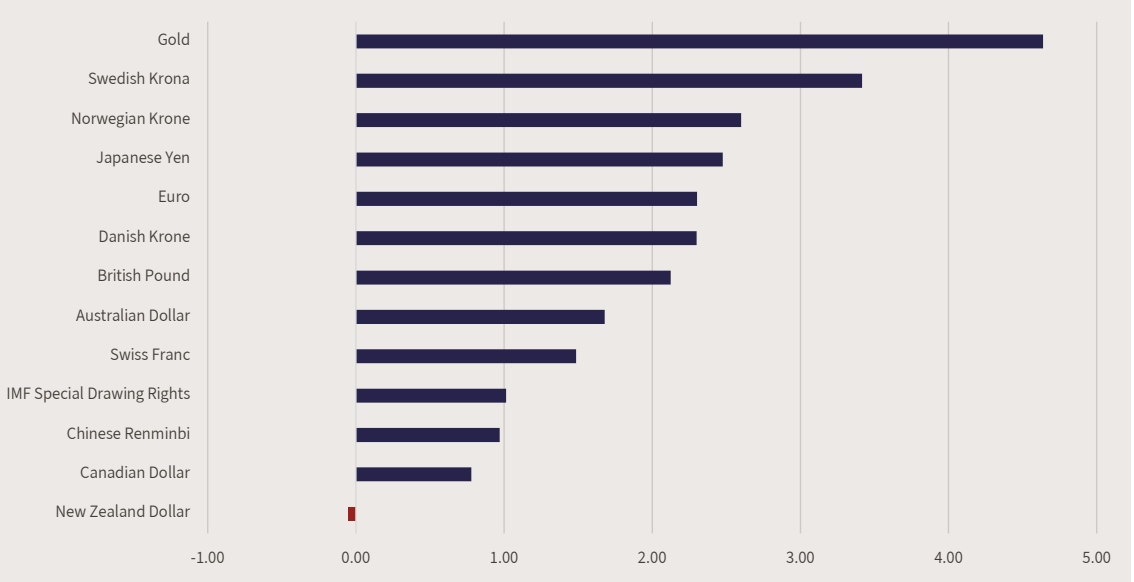
As for the Japanese Yen, the first hours of the month brought a surprise when USD/JPY broke through its key resistance level at the 200-day moving average and tested 150.00. However, this weakness quickly reversed, with the pair settling back into the 147.00–148.00 trading range for the remainder of the month.

Among the top performers, the Scandinavian currencies stood out: the Swedish Krona advanced nearly 3.5%, while the Norwegian Krone gained 2.6%. Regarding the British Pound, markets largely ignored the Bank of England’s decision and instead focused on how the cut was delivered. The hawkish tone provided support for sterling.

Turning to the Chinese Renminbi, with no significant surprises on either the external or internal fronts, it enjoyed another positive month, gaining around 1% against the U.S. dollar. We believe the lack of new developments in these areas supports the continuation of a positive trend for the yuan.

Our medium-term outlook for the U.S. dollar remains unchanged: we continue to expect the diversification trend away from the greenback to persist. However, this trajectory could be disrupted by any negative credit rating actions affecting France, which we now consider a new, significant risk factor in the financial markets.

August performance vs. USD (%)



Source: CAIM, 29 August 2025.



SIMON PRICE
SENIOR EQUITY FUND
MANAGER



United States

Interest rate cut expectations drive the optimistic scenario for now

Equity markets reached new highs in August, buoyed by growing expectations of a Fed rate cut in September. Investors are increasingly optimistic that easing will support economic growth and risk assets. Despite an uptick in core CPI, inflation concerns eased as tariff effects appeared muted currently. Fed Chair Powell’s dovish tone at Jackson Hole reinforced confidence in upcoming policy support. Volatility remained subdued, with the VIX closing at a 2025 low of 14.49, underscoring strong market sentiment.

Regarding monetary policy, Fed Chair Powell’s Jackson Hole speech marked a shift from his July FOMC remarks. He highlighted that the “balance of risks is shifting,” with rising downside risks to employment. Powell also suggested that with policy already restrictive, the evolving outlook may justify a change in stance—implying that further labour market weakness may no longer be needed to trigger easing. Meanwhile, political pressure resurfaced as former President Trump called for Fed Governor Cook’s resignation.

In the macro backdrop, headline CPI came in slightly below expectations, mainly due to falling gasoline prices. Core CPI rose more than anticipated, but both figures remained within expected ranges, with limited tariff impact, supporting market sentiment. However, July’s jobs report disappointed, raising concerns about labour market resilience post-Liberation Day. Notably, May and June saw downward revisions totalling -258k, the largest since May 2020 during the pandemic.

The Q2 corporate earnings season has just about wrapped up with results generally exceeding lowered expectations. Retailers reported solid consumer spending, though many flagged challenges from Trump-era tariffs. Walmart missed earnings due to higher insurance claims and restructuring costs. Nvidia, the last of the Mag 7 to report, posted a modest beat with \$46.7bn in revenue vs \$46.2bn expected, and guided \$54bn for Q3, in line with estimates. While this reflects over 50% year-on-year growth, it marks a slowdown from previous triple-digit gains. Uncertainty remains around China, as Nvidia recorded no H20 chip sales there in Q2 but sees potential for \$2–\$5bn in Q3 if geopolitical hurdles ease.

U.S. equities posted positive results in August, despite a sharp sell-off on the final trading day of the month. The rally broadened in August, with mid and small caps outperforming their large-cap peers, as Fed Chair Powell’s dovish remarks during the Jackson Hole symposium reignited hopes for Fed rate cuts, boosting rate-sensitive small-cap stocks. Most sectors posted gains, led by Materials and Health Care, the latter of which reversed its losses from July, while Utilities was the sole decliner.



Europe

Geopolitical concerns come to the fore.

European equities posted modest gains in August, with sentiment fluctuating amid geopolitical and fiscal developments. Hopes for a ceasefire in Ukraine briefly lifted markets mid-month, following a meeting between President Trump and President Putin in Alaska, which was later followed by discussions with European leaders. Although no agreement was reached, the perceived likelihood of peace drove volatility in assets such as oil and European defence stocks.

A second key driver was fiscal uncertainty in France. Prime Minister Bayrou’s announcement of a September 8 confidence vote, aimed at securing backing for a budget plan involving €44 billion in fiscal tightening, rekindled concerns over France’s debt trajectory. With Bayrou’s minority government expected to lose the vote, investor caution increased.

In terms of sector performance, Healthcare stocks continued to outperform on perceived better tariff and pricing environments following the joint EU-US statement formalising their July trade deal confirmed that tariffs will not exceed 15%. The underperformers included Media, where there are increased concerns that AI could impact their pricing models and some parts of technology, namely software, where AI might drive headcount reductions, which impacts software vendors with seat-based pricing models.



Developed Asia

Positive sentiment towards tariffs aid further buying

Asian equities extended gains in August, supported by a pause in U.S.-China tariffs through November 10, rising expectations for Fed rate cuts, and strong onshore liquidity flows into equities. Hong Kong markets outperformed, shrugging off softer Chinese macro data and typical seasonal weakness.

Japanese stocks advanced, with both the Nikkei 225 and TOPIX reaching record highs for the first time in a year. Investors were encouraged by expectations that yen appreciation would remain moderate due to supply-demand dynamics, even as Fed rate cut hopes and a potential BOJ rate hike gained traction. While political instability and weak April–June corporate earnings posed challenges, reassuring management commentary on tariff impacts and mitigation strategies helped bolster sentiment.



Emerging markets

Emerging market equities continued their rebound in August, supported by persistent US dollar weakness, which boosted EM currencies and equity inflows and improved investor sentiment, driven by expectations of Fed rate cuts and easing trade tensions.

Regionally, in USD terms, EM LATAm outperformed on strong performance from Brazil and Mexico , while EM Asia and CEEMEA followed.

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