

The background of the entire page is a photograph of autumn foliage, with branches of trees bearing orange, yellow, and green leaves. Overlaid on this are several geometric shapes: a dark blue triangle in the top right corner, a light grey triangle in the bottom left corner, and a large light grey triangle in the bottom right corner that contains the main title and subtitle. The text is white, providing a high contrast against the background and the grey shapes.

Autumn
2025

market outlook.

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Written by:
The Investment
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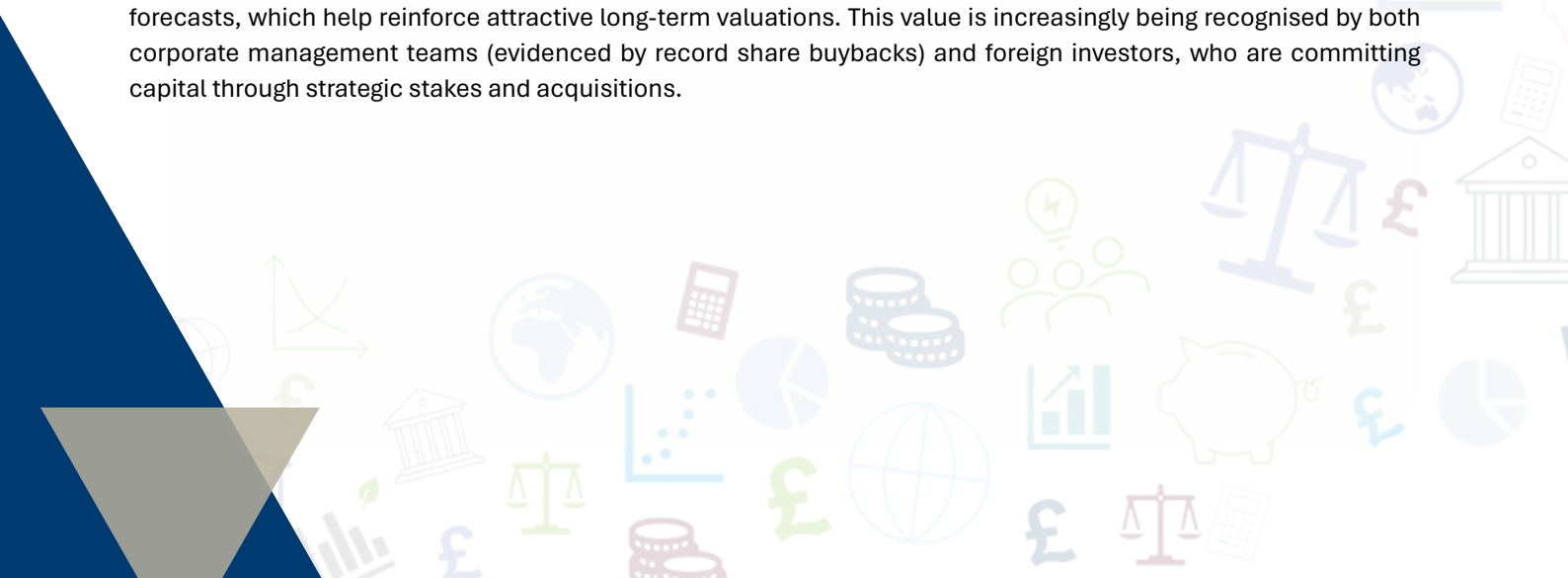
The UK Economy

UK unemployment has been rising steadily, driven by a mix of post-COVID labour market normalisation, global economic headwinds, structural shifts across industries, and demographic factors. Meanwhile, aggregate wage growth remains elevated, primarily due to public-sector pay settlements, while private-sector wage growth continues to moderate. Despite these evolving labour market dynamics, consumer confidence has improved consistently throughout the year, and recent retail sales figures have surpassed expectations, indicating resilient household spending for the time being.

While speculation abounds, the upcoming budget is expected to provide clarity that will enable businesses and consumers to plan with greater confidence (regardless of the specific policies announced).

UK inflation has shown signs of stabilisation in recent months. Although it remains above the Bank of England's 2% target, growing evidence suggests downward pressure is building. As a result, interest rates remain high, but current economic indicators point to the possibility of rate cuts in the near future.

UK equity markets have delivered strong returns over the quarter, supported by upward revisions to earnings forecasts, which help reinforce attractive long-term valuations. This value is increasingly being recognised by both corporate management teams (evidenced by record share buybacks) and foreign investors, who are committing capital through strategic stakes and acquisitions.





The European Economy

European equities began the year with solid gains, supported by interest rate cuts, the prospect of fiscal spending, and investment in infrastructure and defence. However, momentum faded as the quarter progressed, with the region underperforming other major markets. Earnings growth has slowed, and investor sentiment has softened amid political and policy uncertainty. One should remain cautious when it comes to Europe, as relative valuations, while attractive, are offset by weaker growth prospects and lingering structural challenges.

Political instability in France and fiscal inaction in Germany have continued to weigh on sentiment. In France, Prime Minister Sébastien Lecornu's resignation and reappointment, the third leadership change in just over a year, underscores ongoing political fragility. While the government remains functional, failure to pass a budget by year-end could further dampen confidence. In Germany, the economy stagnated in Q3 after a 0.3% contraction in Q2, as weak global demand and U.S. tariffs pressured exports. Hopes for growth, driven by Chancellor Friedrich Merz's pledge to boost infrastructure and defence spending, have been slow to materialise amid legislative delays. The lack of progress and sluggish growth reduce the region's attractiveness, particularly given current valuations following a strong start to the year.

The European Central Bank's easing stance earlier this year helped support market sentiment, but the impact appears to be fading. With the deposit rate held steady at 2.00% since June, and policymakers citing a broadly balanced risk outlook, the ECB's rate-cutting cycle looks to be slowing. Despite lower interest rates and a relatively stable labour market, consumer spending remains weak. Elevated household savings ratios suggest that caution continues to dominate consumer behaviour, and the transmission of monetary policy into the real economy has been slow. Inflation remains above target, and with the ECB committed to a data-dependent approach, there is little urgency to ease further. This leaves investors operating in a more constrained policy environment, with monetary support providing tailwinds at a slower pace.

The late-summer US-EU trade deal, the ceasefire in the Middle East, and progress in US-China trade talks have eased near-term risks to global growth. U.S. tariffs were negotiated lower, with a 15% ceiling on most EU exports such as cars, semiconductors, and pharmaceuticals, providing some relief for key sectors. While the intensity of geopolitical headlines has moderated, underlying risks remain. The war in Ukraine continues, and Russia's recent provocations toward NATO members underscore the fragile security environment. Against this backdrop, although external risks may appear quieter the broader European outlook remains constrained by weak domestic growth and persistent political uncertainty, neither of which appears to be priced into markets. Should markets revert, any pullback could present a buying opportunity, particularly if incoming economic data supports broader policy measures.



The US Economy

U.S. equity markets continued their upward momentum this quarter, with investors largely looking past President Donald Trump's latest tariffs, geopolitical strains, and the prolonged government shutdown. As we anticipated, markets have shown resilience, rebounding swiftly and becoming less reactive to tariff headlines. The government shutdown has disrupted data releases and delayed spending; however, markets have remained largely unfazed. Historically, shutdowns have had limited long-term impact for markets and the economy. Importantly, neither party wants to be blamed for a default, which helps to contain broader market risk. Any short-term volatility may present opportunities for investors. Performance has been driven by strong corporate earnings, Federal Reserve interest rate cuts, and sustained investment in technology. Notably, what was once broadly referred to as "big tech" is now increasingly labelled simply as "AI". While artificial intelligence is a powerful catalyst, the sector's strength goes beyond speculative hype. Today's leading tech and AI firms are profitable, globally integrated, and central to the digital economy.

While the tariff announcements in April triggered a sharp but brief market sell-off, investor sentiment quickly rebounded. This pattern has been dubbed the TACO trade ("Trump Always Chickens Out.") and reflects a familiar rhythm: equities dip on tariff threats but recover when President Trump delays or softens the measures. This recurring dynamic has unfolded much as we expected, with markets becoming more resilient to political noise over time. Investor confidence has been further buoyed by monetary easing. The Federal Reserve's two rate cuts this quarter provides additional reassurance that policymakers remain ready to support the economy amid modest cooling in the labour market. Despite reduced visibility due to the shutdown and ongoing political pressure from President Trump, the Fed has remained focused on its dual mandate. The 0.50% reduction in rates to the 3.75–4.00% range has been a supportive step and whilst markets may experience some noise if expectations for further cuts run ahead of reality, the Fed's measured stance underscores confidence in both the inflation outlook and health of the economy.

Big tech continued its strong momentum this quarter, with the group previously known as the 'Magnificent Seven'—now referred to as 'BATMAAN'—remaining central to market performance. While some draw comparisons to the dot-com era, today's leaders are fundamentally different: profitable, globally integrated, and embedded across the digital economy. Their valuations are supported by exceptional earnings, strong balance sheets, and consistent cash generation far removed from the speculative companies of past cycles. Companies like Nvidia exemplify this, with valuations reflecting real leadership in AI infrastructure, data processing, and automation. Although a market pullback is always possible, any correction is likely to be moderate given the depth, scale, and global influence of these tech giants. Encouragingly, recent gains have not been confined to technology alone, strength in the consumer and industrial sectors points to a more balanced market and healthier underlying fundamentals.

Geopolitical tensions between the U.S. and China sparked early-quarter volatility but ultimately gave way to progress. Markets dipped after President Trump proposed a 100% tariff on Chinese goods but rebounded following his first meeting with President Xi in South Korea. The leaders discussed easing trade restrictions, reducing tariffs, and resuming key exports. China has restarted purchases of American soybeans (offering relief to U.S. farmers) and both sides have relaxed controls on semiconductor components and rare earth exports. Despite the potential for noise as agreements are finalised, the trade relationship is strengthening as anticipated. While fiscal tensions in Washington and patchy data flow add near-term uncertainty, markets appear to be pricing in a soft-landing scenario. As we have alluded to all year, investors should focus on long term fundamental investment themes, acknowledging the benefits of short-term noise presenting attractive entry points as we have seen many times this year.



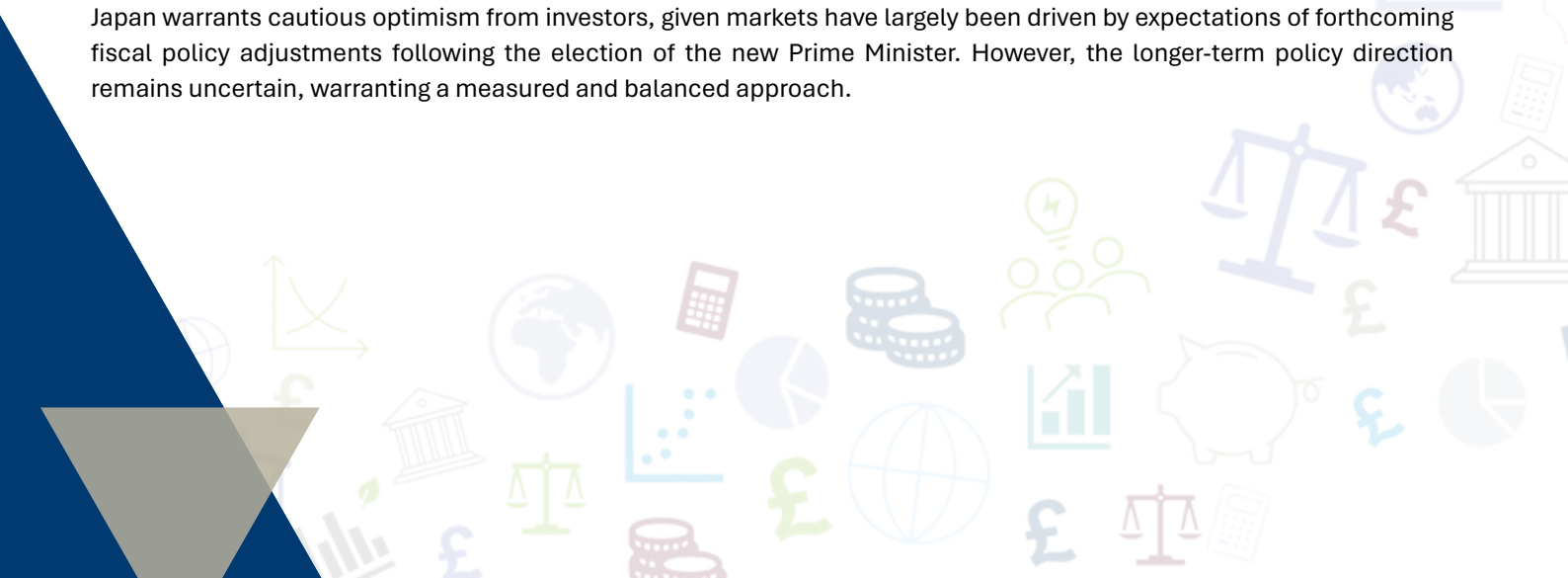
The Japanese Economy

Japan's short-term outlook has improved following the agreement to settle Trump-era tariffs at 15%, and the election of Sanae Takaichi as the country's first female Prime Minister. Her leadership signals a return to the popular policies of former Prime Minister Shinzo Abe, with a renewed focus on large-scale fiscal spending and bold monetary easing hallmarks of "Abenomics" aimed at combating deflation and supporting domestic activity. Given the recent uplift in sentiment, it would be prudent for investors to manage risk by avoiding overexposure to longer-term uncertainties; while also ensuring they are not underexposed to near-term opportunities. A balanced approach remains key.

The "Takaichi trade" triggered a market rally, driven by relief over stable policy direction. Takaichi's proposed measures, gasoline tax cuts, utility subsidies, and targeted tax breaks aim to boost consumption and ease income pressures, benefiting markets. While BOJ Governor Ueda remains cautious on rate hikes, rising fiscal spending could fuel inflation and weaken the yen. In response, the BOJ has signalled a possible rate hike in December or January, contingent on wage trends and currency movements. Overall, this mix of stimulus and gradual policy normalization supports steady growth and broad investor engagement.

Japan's longer-term outlook remains mixed. Structural challenges persist, including elevated food inflation, subdued domestic demand, and the lingering impact of U.S. tariffs, which have temporarily disrupted trade flows. However, recent trade agreements with the U.S., a more predictable policy environment, the Bank of Japan's cautious stance, and signs of improving consumer sentiment suggest Japan is relatively well-positioned to navigate near-term volatility.

Corporate reforms continue to support equity returns and enhance long-term value. While small-cap stocks may benefit from potential policy stimulus, the impact is expected to be supportive across the entire market cap spectrum. Diversification through multi-cap exposure offers greater flexibility and resilience over the long term. In the near term, Japan warrants cautious optimism from investors, given markets have largely been driven by expectations of forthcoming fiscal policy adjustments following the election of the new Prime Minister. However, the longer-term policy direction remains uncertain, warranting a measured and balanced approach.





Emerging Markets & Asia Economy

Asia and emerging markets delivered strong performance over the quarter, supported by AI enthusiasm, U.S. dollar weakness, and renewed investor inflows. Technology shares drove much of the rally, particularly in Korea, Taiwan, and China, where demand for semiconductor startups and AI/automation related components remains robust. Attractive relative valuations also drew investment into the region, while improving U.S. sentiment towards China added to the positive tone. Despite a resurgence of trade tensions with the U.S., the quarter concluded with an agreed framework for a trade deal, a development that has helped ease near-term uncertainty and is broadly positive for global markets.

While headwinds persist, particularly in the property sector and from subdued consumer demand, China has introduced a series of pro-growth, market-friendly measures. These include the “anti-involution” campaign to improve corporate profitability and reduce deflationary pressures, alongside initiatives to stimulate consumption and bolster private-sector confidence. The recent Fourth Plenum acknowledged challenges and signalled that further stimulus may be forthcoming. Reform and innovation were central themes, with a focus on strengthening domestic physical assets, encouraging onshore listings, and attracting talent. Efforts align with China’s 2035 modernisation plan, which aims to transition the economy towards more stable, sustainable growth, mirroring the structure of other major developed markets. Despite the uncertain path of policy, China’s GDP reached approximately \$14.3 trillion (US dollars) in the first three quarters of 2025, keeping the government’s annual growth target of 5% within reach. This underscores the scale and resilience of the Chinese economy.

India’s recent performance has lagged behind that of other Asian and emerging market peers. The new 50% tariff on Indian exports to the U.S. threatens to significantly erode the country’s export competitiveness, at least on the surface. However, as an economy driven primarily by domestic demand, exports to the U.S. account for only around 2% of GDP, meaning recent tariffs have had limited impact. The recent overhaul of the Goods and Services Tax (GST) is set to boost competitiveness and household spending. Over the longer term, India presents one of the most compelling investment cases globally, underpinned by powerful structural drivers such as favourable demographics, accelerating digitalisation, and ongoing reform momentum. However, a more cautious stance may be warranted in the short term, given uncertainty around tariffs and what are currently perceived stretched valuations.

We also trimmed Latin American exposure after strong performance and amid rising political and trade uncertainty. Relations between President Trump and Brazil’s President Lula have become strained and remain relatively uncertain, and new U.S. tariffs on regional partners have added to volatility. Whilst solid commodity demand and fiscal discipline continue to underpin fundamentals, valuations in the commodity space are looking stretched when coupled with strained economic relations with the U.S. and even China. It would seem wise to take profits following a strong period.



Fixed Interest

Over the quarter, there have been some idiosyncratic developments in global Fixed Income markets, including heightened geopolitical tensions and pockets of uncertainty around the monetary policy path of certain major central banks. However, Investment Grade issuers have remained largely insulated from these pressures, supported by strong corporate fundamentals, active refinancing, healthy earnings and balance sheets. Given this environment, it is not surprising that credit spreads remain relatively tight.

Headlines around Fixed Interest markets this year have been mixed - and at times mildly pejorative - yet Fixed income funds in our growth portfolios (which are Investment Grade funds) have performed well.

Looking ahead, the UK's November budget will have significant implications for the region's fiscal landscape, Fixed Income markets and wider asset classes. While the specific policy direction remains uncertain despite ongoing speculation, the announcement will undoubtedly be a key catalyst.

Although spreads remain tight and valuations appear elevated at a headline level, there are still selective opportunities within corporate bonds where attractive value can be found. Total returns in these areas remain compelling and continue to offer meaningful downside protection in risk-off environments.





If you would like to discuss this or any other aspect of your portfolio, please do not hesitate to contact us on 01423 501 401, Monday to Friday 9am-5pm or you can email us at info@mzltd.co.uk

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