Market Overview

Markets recorded another strong quarter of gains despite a wave of geopolitical and macroeconomic risks surfacing.

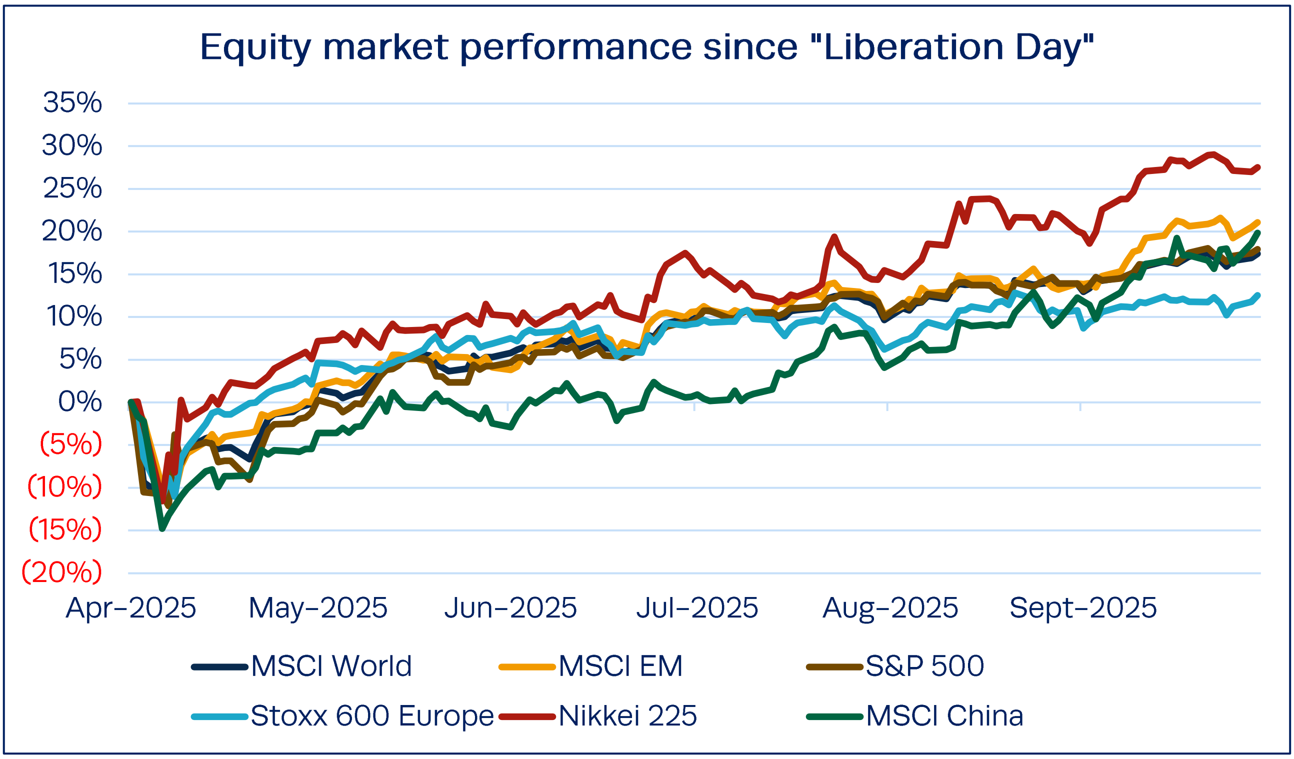
Emerging markets outperformed developed peers, with Chinese equities leading the rally following an extension of the US–China trade truce and strong momentum in AI-linked technology shares.

The Hang Seng Tech Index surged 22% during the quarter, taking its year-to-date gains to 46%. Domestic semiconductor manufacturers benefited from targeted policy support, while leading Chinese technology firms accelerated AI-driven product rollouts, further fuelling investor enthusiasm.

In the US, the S&P 500 returned approximately 8% over the quarter, supported by resilient earnings and optimism that the Federal Reserve's long-awaited rate-cutting cycle had begun. Despite the US' strong performance this year, returns remain highly concentrated.

In the year-to-date, 6 of the 11 S&P 500 sectors have delivered single-digit YTD returns despite the index's 15% YTD return. Some of the underperforming sectors include Healthcare (+2.6% YTD), Consumer Staples (+3.9% YTD) and Consumer Discretionary (+5.3% YTD). The market has distinctly bifurcated companies into "AI winners or losers," contributing to exacerbated performance dispersion.

It wasn't all smooth sailing through the quarter. US Treasury yields spiked sharply in September amid labour market concerns and mixed inflation data, briefly unsettling equity markets before a dovish Fed pivot restored calm.



US Labour Market Uncertainty

The US labour market continued to display signs of softening through the quarter. Average monthly job gains in the three months to August fell to just 29 000 — down sharply from 99 000 in the three months to May — reflecting waning momentum in hiring.

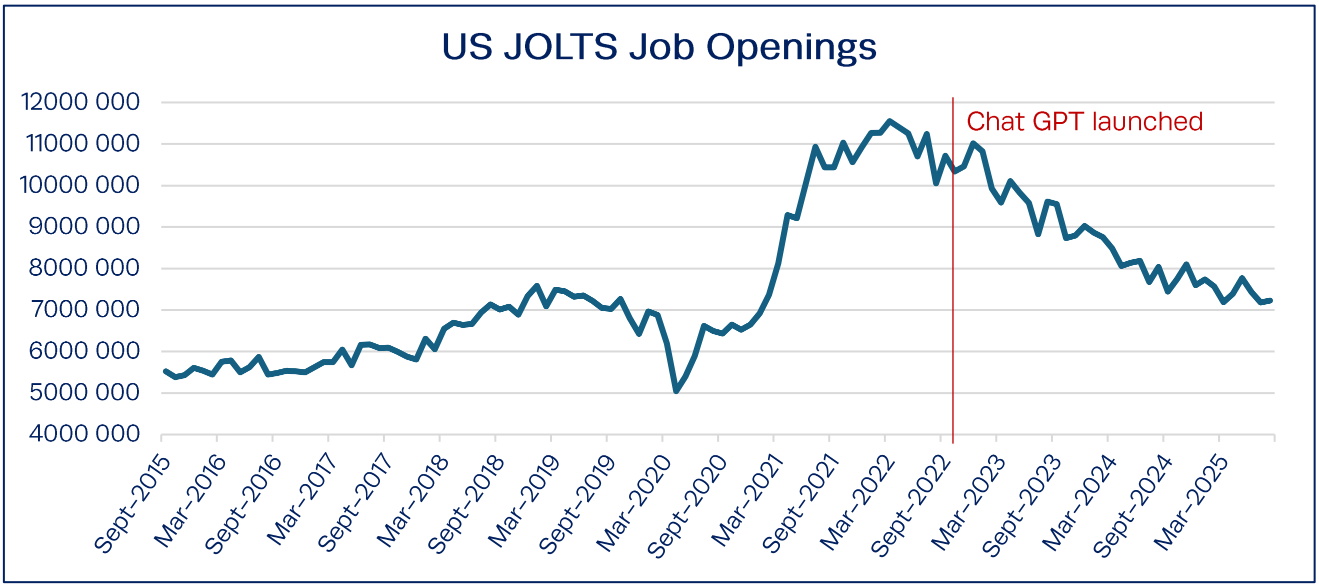
In addition, the Bureau of Labor Statistics revised employment growth for the 12 months to March 2025 lower by an unexpectedly large 911 000 jobs, reinforcing the view that earlier data overstated the economy's strength.

The revision estimate is equivalent to 76 000 fewer jobs per month. It implied that nonfarm payroll gains averaged about 71 000 per month, instead of 147 000. Thus, the labour market momentum is being lost from an even weaker position than originally thought

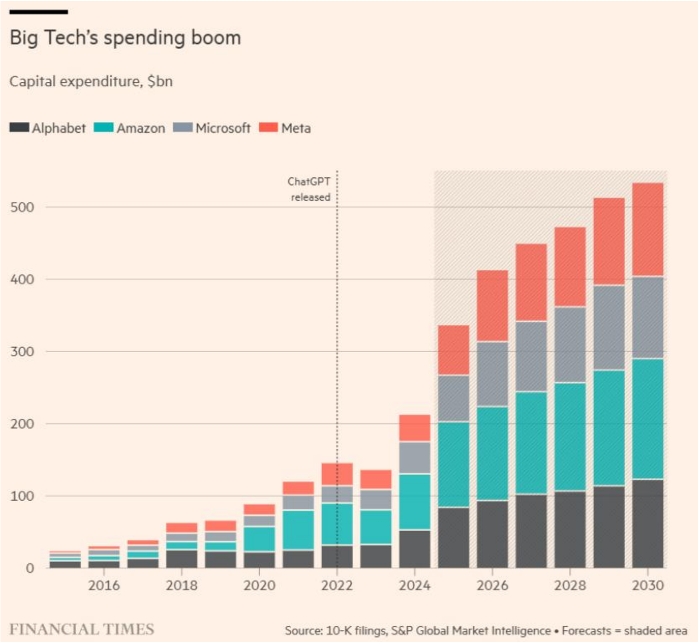
Despite the softening trends in labour, broader economic activity remains resilient. The unemployment rate has drifted modestly higher, but wage growth and job openings remain consistent with a tight labour market.

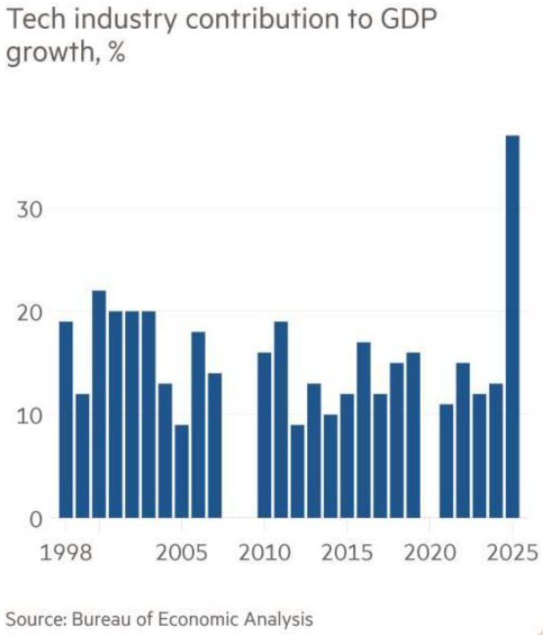
The US economy surprised to the upside, growing at a revised annual rate of 3.8% in Q2. While the headline numbers were reassuring for investors, it included an artificial boost thanks to a sharp decline in imports, which was essentially an unwinding of the huge surge in 1Q25 as businesses stockpiled inventory ahead of anticipated tariffs. However, what was most notable in the data was the contribution from technology capex, and AI-related spending in particular, outpacing the contribution from consumer spending despite its much smaller share of the total economy, reflecting the sheer magnitude of capital currently flowing into AI-related projects.

Inflation ticked slightly higher to 2.9% year-on-year in August, but the Fed judged that tariff-related cost pressures had not yet translated into significant consumer price acceleration. The committee's updated guidance signalled further gradual easing in the months ahead — a supportive backdrop for risk assets.



Artificial Intelligence Tailwinds Persist





AI remained the defining investment theme of 2025. Global AI-related capital expenditure is projected to surpass $500 billion this year, according to Goldman Sachs, marking a near-doubling from 2024. Much of this surge is being driven by hyperscalers and semiconductor leaders racing to build infrastructure for large-scale model training and edge inference.

In the US, investment in data centres and AI hardware continues to expand at double-digit rates. The construction pipeline for high-density data centres now exceeds 4.5 GW of capacity, reflecting a secular shift in corporate capex priorities from traditional IT infrastructure to AI.

While valuations in AI-related equities remain elevated, the structural nature of this capital cycle — spanning semiconductors, infrastructure, and applied software — suggests that AI will continue to underpin global growth.

While the 'golden age' of AI is yet to come, we are in the installation period - a time of experimentation and disruption. Only when we shift to the deployment period the companies reap the true benefits from this new technology. For now, that appears to be some way off, so a level of caution is warranted when deploying capital in the AI basket of companies.

Tariffs still a risk

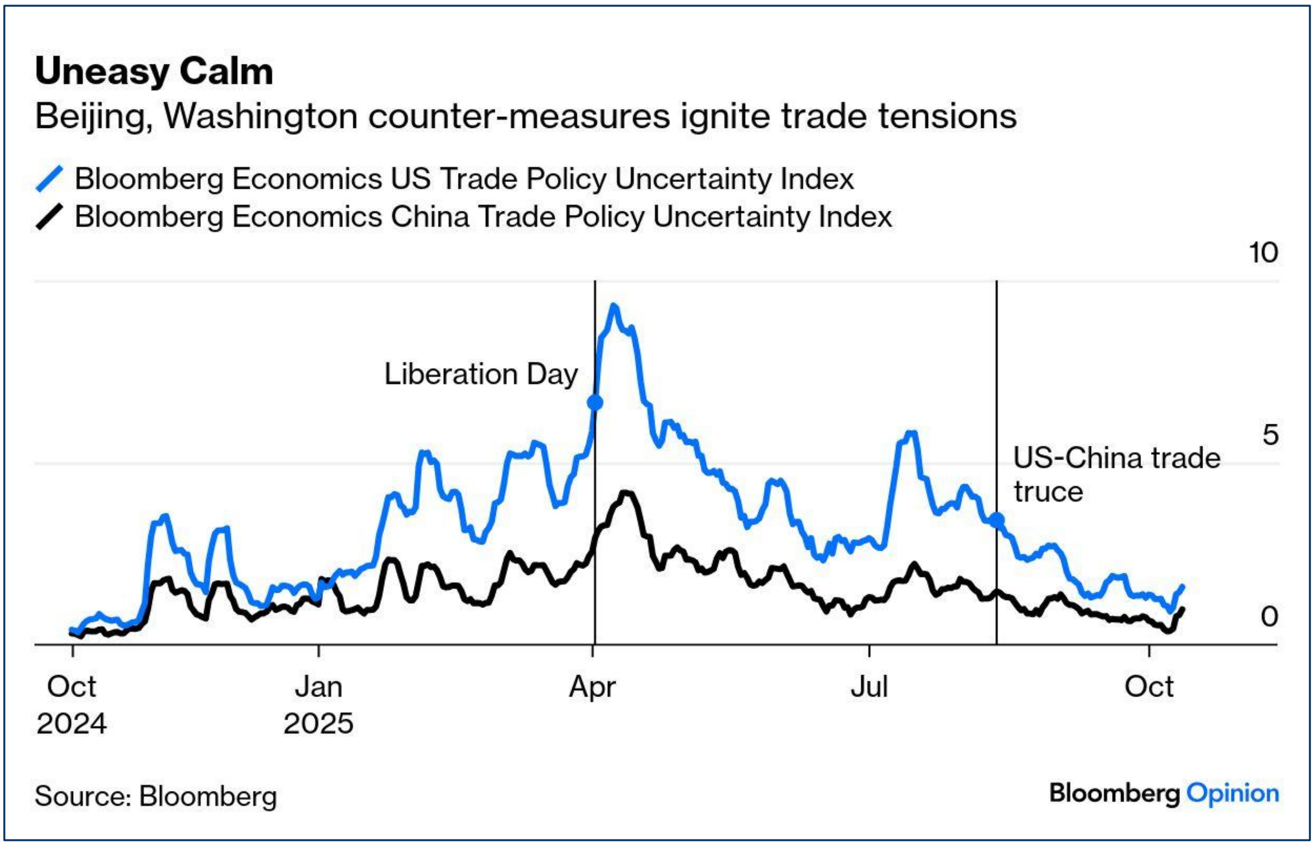
Trade policy uncertainty resurfaced following the implementation of reciprocal tariffs in August. The new regime, coupled with bilateral agreements between the US and several trading partners, has lifted the effective U.S. tariff rate to an estimated 17.4% — a sevenfold increase from January levels.

However, due to temporary tariff pauses and stockpiling, the realised effective rate on imports has so far averaged closer to 12%. The economic consequences have been uneven:

- US GDP dynamics reflected weaker net exports and inventory drawdowns.
- China's growth benefited from front-loaded exports and domestic substitution.
- Canada's economy contracted in Q2 as exports to the US fell sharply.

Legal challenges to the new tariff structure are expected to reach the US Supreme Court later this year, while ongoing negotiations with China, Mexico, and Canada may lead to selective easing or rebalancing.

In the interim, global supply chains remain under adjustment, and corporates are actively diversifying production to Southeast Asia and India.



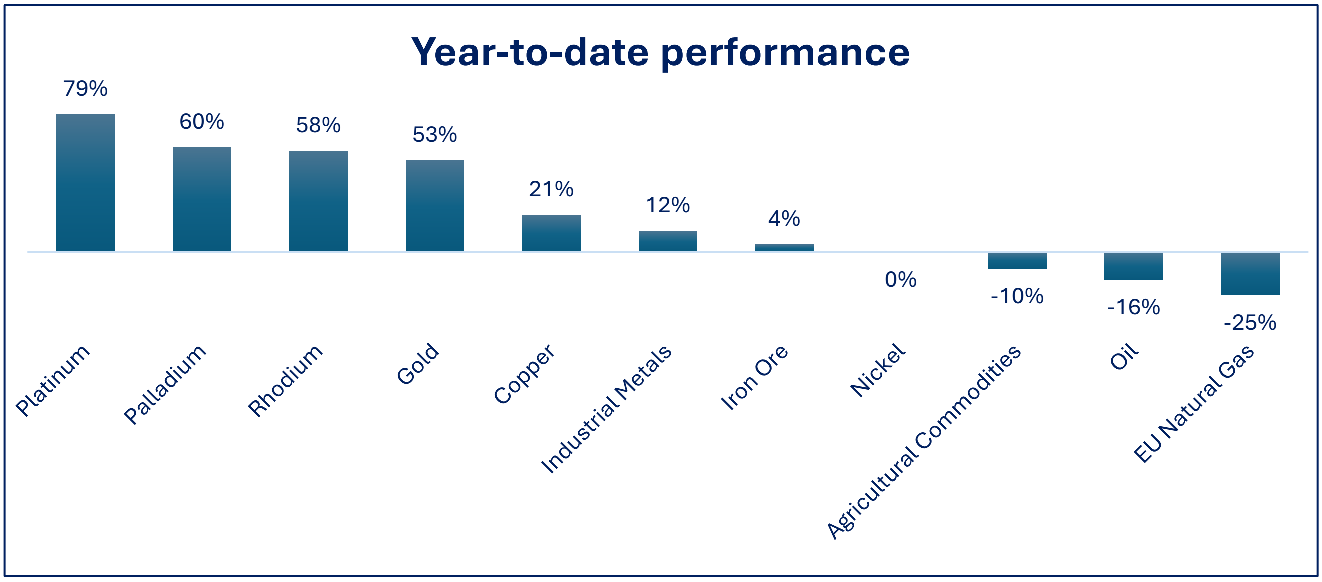
Commodities remain buoyant

Commodity markets were broadly supported by US dollar weakness and the dovish Fed pivot. The September rate cut, coupled with forward guidance suggesting further easing, accelerated the dollar's decline — a key driver of stronger demand for precious metals and agricultural commodities.

Gold and silver rose steadily as investors sought hedges against policy uncertainty and fiscal slippage. Spiking metal lease rates across the gold, platinum group metals (PGMs), and silver markets point to tightening physical supply conditions, which augur well for sustained performance.

In contrast, industrial commodities such as oil and base metals underperformed. Crude oil faced downward pressure from ample global supply and slowing Chinese industrial output, while base metals were weighed down by excess capacity and subdued construction demand.

The interplay between a weaker dollar, central bank gold accumulation, and structurally constrained mine supply supports a bullish outlook for precious metals into 2026.



Outlook

As we look to the final quarter of 2025, we remain constructive on global equities, underpinned by resilient growth, an easing Fed, and ongoing structural investment in technology and energy transition themes.

The International Monetary Fund in July upgraded its global growth forecast to 3.0% for 2025 and 3.1% for 2026, citing robust consumer demand, front-loaded trade activity, and improving financial conditions.

We expect the Fed to deliver two more 25bp cuts before year-end, followed by another in mid-2026. While labour market fragility and sticky inflation could moderate the pace of easing, the trajectory remains supportive.

Key tailwinds for Q4 include:

- Continued AI-driven capex and productivity growth.
- A weaker US dollar bolstering risk appetite and emerging-market inflows.
- Easing financial conditions amid declining policy uncertainty.

As ever, we remain cognisant of the risks currently evident in the market — notably, a potential escalation in tariff disputes, renewed political volatility underpinned by the US government shutdown, and the possibility of an overextended equity rally.