# Equity market performance update

Equity markets have been **broadly positive** although they've shown some variation across regions and sectors. Growth stocks have outperformed value, largely impacted by technology shares falling as revenue confidence has weakened. Smaller companies have outpaced their large counterparts, supported by an improving economic outlook and expectations of US interest rate cuts.

**Regionally**, Emerging Markets and Asia ex Japan equities posted slight declines, with gains in China offset by losses elsewhere. A temporary US-China trade truce until mid-November has supported sentiment, contributing to a 3.1% monthly gain. Korean equities have retreated after proposed corporate tax increases, though year-to-date remain up 33%, alongside China's 20% year-to-date rise. Japan advanced 5% during the month, buoyed by a US trade deal and strong economic data.

In **the US**, equities have risen 2% over the month in local terms but were flat against Sterling as the Dollar weakened. Despite trade risks, corporate earnings held firm, with 79% of S&P 500 companies beating Second Quarter 2025 expectations – although this is only slightly above the long-term average.

**European** equities have extended gains, though momentum has slowed. Political tensions in France have triggered local market pullbacks, tempering otherwise supportive economic indicators. The French Prime Minister faces a no-confidence vote this month following budget disputes. Politics also caught the headlines again in the US as President Trump dismissed the Bureau of Labor Statistics head after July's employment release and sought the removal of a Federal Reserve governor, the latter now subject to court review.

From a **sector** perspective, Utilities, Industrials and Information Technology has lagged, while all other sectors gained. The heavily anticipated results from AI computing giant Nvidia have beaten expectations. However, shares slipped on weaker data centre revenues and export concerns. Healthcare recovered some of the losses year-to-date as optimism in the sector has improved.

In **fixed income**, Emerging Market Debt has benefited from currency strength and policy support, while High Yield also extended year-to-date gains. US Treasuries rose modestly as soft inflation and employment data boosted expectations of rate cuts. This caused shorter terms bond yields to fall (prices rise), whereas longer term bond yields rose as investors demanded more compensation for taking on the risk of longer-term lending given the unsettlement between the US government and US agencies. Overall, this has led to a steepening in the yield curve.

In **the UK**, government bond yields rose (prices fell) after July's inflation surprise raised questions about the Bank of England's interest rate policy path, even as the central bank delivered their fifth rate cut this cycle, to 4%, on 6th August. General sentiment is that this will be the last rate decrease for 2025.

## Investment portfolios

The overall picture has been positive for portfolios, adding to strong year-to-date gains. Political tensions and trade negotiations continue to be a theme of this year, yet it remains important to look through short-term noise and instead focus on opportunities, while maintaining well-diversified portfolios that can withstand a range of outcomes.

Valuations have risen after recent market strength but select areas of value remain. We see opportunities in Emerging Market equities – particularly for Latin America and South Korea – along with Emerging Market Debt, UK equities, and US smaller companies, supported by our research partner, Morningstar's depth of research.

Given the underlying uncertainties, **diversification** remains critical for portfolios robustness. Portfolios are balanced with defensive equities in healthcare, consumer staples, and utilities, alongside inflation-linked bonds, high-quality government debt, and alternative assets. These diversifiers play a key role in mitigating risk and enhancing stability.

All in all, it's been **good news** for markets. November's budget will certainly be a factor in the short-term, but I remain positive that the funds within our portfolios have the ability to withstand new developments.

As always, we are here with you on your journey, helping you to make sense of what matters. If you have any questions or concerns, please don't hesitate to reach out.

Andy

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