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# September 2025
# **Quarter in Review**

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# UNCERTAINTY EASES AS ECONOMIC DATA SHOWS RESILIENCE

Reduced trade tensions and resilient economic data, as well as monetary easing from the Fed, supported a more positive outlook for the global economy.

The US government entered a shutdown at the start of October as Republicans and Democrats disagreed on spending measures. Elsewhere, political uncertainty returned in France; a new Prime Minister was appointed as the government faced ongoing challenges to pass a budget aimed at reducing the fiscal deficit, which was reflected in a sovereign credit ratings downgrade by Fitch.

Global equities rallied in Q3 as a benign economic backdrop and the AI theme buoyed sentiment. Government bond returns were negative due to rising Eurozone bond yields, with a falling likelihood of further European Central Bank (ECB) rate cuts amid improving activity.

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## US

Developments around tariffs were generally constructive during Q3. The US and EU struck a trade deal with a 15% tariff rate being agreed on most goods and a zero-for-zero deal on selected items. Japan agreed with the US that Japanese imports to America would also be taxed at 15%, which was 10% lower than the levy initially threatened by President Trump. The US and Vietnam also reached an agreement whereby the latter's exports would have a tariff of 20%, down from the 46% announced on "Liberation Day", while American exports to Vietnam will have no tariffs applied to them. By contrast, the US escalated tensions in other areas as Trump announced a 50% tariff on copper imports, excluding refined copper, and the same rate for imports from Brazil; and a 100% tariff on imports of branded and patented pharmaceutical products. Europe and Japan however are excluded from these higher pharmaceutical tariffs given their already agreed trade deals.

In July, the "One Big Beautiful Bill" was passed by the House and signed into law by President Trump. This is set to be supportive of growth as it will result in an estimated net $3.4 trillion of fiscal stimulus over the next 10 years, equivalent to some 1.2% of GDP annually. Tariffs however will act as a partial offset and are estimated to raise $2.8 trillion over the next 10 years. The debt ceiling was also raised by $5 trillion, which means that the limit is not likely to be reached until 2027. Overall, the tax bill is expected to increase US growth by 0.2-0.3% in 2026.

US economic data has generally been resilient in recent months. Overall activity rebounded in Q2, with GDP expanding by 3.8% q/q annualised from -0.6% in Q1, supported by a 2.5% rise in personal consumption and a strong expansion in non-residential fixed investment (5.7%). This reversed most of the drag in Q1 that had been caused by import frontloading ahead of tariff implementation. Q3 data showed that household consumption remains robust, with August headline retail sales up by 0.6% m/m and core rising by 0.7%, while the figures for July were also upwardly revised.

Conditions in the corporate sector were also indicative of a healthy backdrop. Although the September manufacturing and services PMIs both fell from August levels, both remained in expansionary territory. Last month the Philadelphia Fed manufacturing index rose well in excess of projections to the highest level since January.

However, there were concerns around slowing labour market activity as only 22K non-farm jobs were added in August. This was comfortably below market estimates of 77K, while June data was also revised down from a 14K job gain to a 13K job loss, the first negative reading since December 2020. The unemployment rate also rose to 4.3%, the highest reading since 2021. Meanwhile, inflation stayed above the Fed's 2% target, with consumer prices rising by 2.9% y/y in August at the headline level and by 3.1% for core prices.

This was the backdrop to Fed Chair Powell's speech at the Jackson Hole symposium in August, in which he stated that "downside risks to employment are rising" at a time when inflation expectations are stable. This laid the ground for policy easing at the Fed's September meeting, when the central bank cut its policy rate target range by 25bps to 4.00-4.25%, a move it described as "risk management". However, there was some caution from Chair Powell around further policy easing, and the median committee projection showed 50bps of additional cuts this year and 25bps in 2026, with the latter less than markets had priced in prior to the meeting. This was justified by initial jobless claims data in September, which remained close to recent lows and pointed towards the labour market not being as weak as suggested by recent months' employment reports.

Meanwhile, the Fed's independence has been challenged as President Trump nominated Stephen Miran, chair of the White House's Council of Economic Advisers, to replace Fed Governor Adriana Kugler, who had resigned from her position. Later in the month, Trump escalated tensions with the Fed as he announced the firing of Fed Governor Lisa Cook on the grounds that there was "sufficient reason" to believe she had made false statements in relation to mortgage agreements. Cook, however, subsequently filed a lawsuit against what she described as Trump's "unprecedented and illegal attempt" to remove her. In addition, the Trump administration fired the Chief of the Bureau of Labour Statistics (BLS) following the softer jobs data, leading to concerns over the future impartiality of economic data releases.

## Europe

Q2 GDP in the Eurozone rose by 0.1% q/q, decelerating from 0.6% in Q1. The outturn was above consensus expectations, driven by upside surprises in France (0.3% q/q) and Spain (0.8%), with both countries supported by improved household consumption.

The ECB kept its policy rate unchanged during Q3. ECB President Lagarde emphasised that the Eurozone economy was performing well with inflation stabilising at 2%. The Bank upgraded its inflation and growth projections for this year – a move that was widely seen as indicating the end of the current rate-cutting cycle. Headline consumer-price inflation in September accelerated to 2.2% y/y, which was above the central bank's 2% target for the first time since April, while core inflation was unchanged from August at 2.3%.

In France, Prime Minister Bayrou called a confidence vote for September 8th amid disagreements on how to reduce the budget deficit from a projected 5.4% of GDP this year to a targeted 4.6% in 2026. The government lost the vote and a new Prime Minister – Sébastien Lecornu, an ally of President Emmanuel Macron – was appointed, though difficulties in passing the budget have continued. Fitch also downgraded France's sovereign credit rating to A+ amid political uncertainty and continued tensions around reducing the country's budget deficit. Moody's and S&P rate France at AA- (or equivalent) but are due to announce the results of their ratings reviews in October and November, respectively. French 10-year spreads against Germany widened by 15bps to 82bps in Q3.

# MARKET ROUND-UP

## Equities

Global equities, as represented by the MSCI All Country World Index (ACWI) rallied by 8.1% (7.6% in euro terms) in Q3. US stocks were supported by the resumption of US rate cuts with potential for further monetary easing in the coming months, improved news flow on trade tensions, a more favourable economic backdrop and renewed optimism around the AI theme. These factors helped push the MSCI USA to new historical highs, and the index gained 8.1% (8.0% in euro terms) over the period. The MSCI Europe ex-UK rose by 2.8% (2.9% in euro terms).

## Bonds

The ICE BofA 5+ Year Euro Government bond index returned -0.5% as German Bund 10-year yields increased by 11bps to 2.71% amid a better growth backdrop and a lower likelihood of further rate cuts from the ECB, with capital losses more than offsetting return from interest-rate carry.

European investment-grade (IG) corporate bonds returned 0.9% as carry offset a 1bp rise in yields to 3.17%, while spreads narrowed by 13bps to 77bps over the period. Global high-yield bonds returned 2.2% in Q3, supported by a 16bps decline in yields to 6.10% and spreads narrowed by 13bps to 219bps.

EM local debt returned 3.0% in Q3, with yields falling by 10bps to 5.97%. EM hard debt returned 3.7% as the asset class was supported by a 34bps fall in yields over the period to 6.40%.

Meanwhile, peripheral Eurozone bond spreads narrowed as German yields rose by more than those elsewhere in the region, partly due to the large increase in government debt expected from Germany's fiscal package. Italian 10-year spreads over equivalent German bunds fell by 5bps to 82bps, while spreads for Spanish government bonds declined by 8bps to 55bps. By contrast, French spreads rose by 15bps in Q3 to 82bps amid increased political uncertainty and concerns over government debt sustainability.

# CHARTS OF THE QUARTER

## Global equities


Source: ILIM, FactSet. Data is accurate as at 30 September 2025.

## Bonds – German 10-year yield


Source: ILIM, FactSet. Data is accurate as at 30 September 2025.

# MARKET SNAPSHOT

## Market returns (EUR)

| Equity Markets (EUR) | QTD Return (%) | YTD Return (%) | 2024 Return (%) |
|---|---|---|---|
| MSCI Ireland | 2.0 | 22.4 | 22.8 |
| MSCI United Kingdom | 5.8 | 11.3 | 14.7 |
| MSCI Europe ex UK | 2.9 | 13.5 | 7.7 |
| MSCI North America | 8.1 | 1.7 | 32.9 |
| MSCI Japan | 8.1 | 6.7 | 15.9 |
| MSCI EM (Emerging Markets) | 10.8 | 13.0 | 15.3 |
| MSCI AC World | 7.6 | 4.8 | 25.9 |
| **10-Year Yields** | **Yield last month** | **2024 Yield (%)** | **2023 Yield (%)** |
| US | 4.15 | 4.57 | 3.88 |
| Germany | 2.71 | 2.35 | 2.02 |
| UK | 4.70 | 4.56 | 3.54 |
| Japan | 1.63 | 1.09 | 0.61 |
| Ireland | 2.95 | 2.63 | 2.38 |
| Italy | 3.53 | 3.51 | 3.69 |
| Greece | 3.39 | 3.23 | 3.06 |
| Portugal | 3.11 | 2.84 | 2.66 |
| Spain | 3.26 | 3.04 | 2.99 |
| **FX Rates** | **End last month** | **2024 Rates** | **2023 Rates** |
| U.S. Dollar per Euro | 1.18 | 1.04 | 1.10 |
| British Pounds per Euro | 0.87 | 0.83 | 0.87 |
| U.S. Dollar per British Pounds | 1.35 | 1.25 | 1.27 |
| **Commodities (USD)** | **QTD Return (%)** | **YTD Return (%)** | **2024 Return (%)** |
| Oil (Brent) | -0.9 | -10.2 | -3.1 |
| Gold (Oz) | 16.6 | 46.1 | 27.1 |
| S&P Goldman Sachs Commodity Index | 4.1 | 6.1 | 9.2 |

Source: ILIM, Bloomberg. Data is accurate as at 1 October 2025.

# THE ILIM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The agreement of trade deals should provide clarity and help remove uncertainty. While tariffs are higher than at the start of the year, they are at levels which should avoid a recession. Earnings forecasts have stabilised and show positive growth; consumer balance sheets are strong; and ongoing disinflation is expected through 2026, while projected Fed rate cuts and a corporate-friendly stance from the US government all should mean a favourable environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world are set to remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 19.4x against a long-term average of 16.2x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 23.0x against a long-term average of 16.5x. Equities outside the US offer better relative value in absolute terms and are trading closer to their long-term average P/E levels. Equities remain expensive against both bonds and cash given the high yields currently available on these assets.

Despite equities appearing fully valued, the outlook on a 12-month view is constructive. With growth expected to remain positive and US corporates eventually set to benefit from growth-friendly policies from the new administration through 2026, earnings are forecast to rise over the next one to two years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month timeframe.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly, some central banks can cut rates further, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.71% and 4.15% to 2.25% and 3.75%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced, and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform.

# THE MONTH AHEAD

## OCTOBER

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|---|---|---|---|
| | | | | 10<br>Italy industrial production MoM<br>Canada unemployment rate<br>US Michigan consumer sentiment (prel), monthly budget statement<br>Russia inflation rate MoM, YoY |
| 13<br>China balance of trade, exports YoY, imports YoY<br>India inflation rate YoY<br>Brazil business confidence | 14<br>Australia NAB business confidence<br>UK unemployment rate, average earnings<br>Germany ZEW economic sentiment index<br>IMF world economic outlook | 15<br>China inflation rate YoY, MoM; PPI YoY<br>Germany wholesale prices MoM, YoY<br>Euro Area industrial production MoM<br>US MBA 30-year mortgage rate; core inflation rate MoM, YoY; inflation rate MoM, YoY; CPI | 16<br>Japan machinery orders MoM, YoY<br>UK GDP MoM, goods trade balance, industrial production MoM, manufacturing production MoM<br>Euro Area balance of trade<br>Canada housing starts<br>US PPI MoM; retail sales MoM; core PPI MoM, YoY; initial jobless claims; business inventories MoM | 17<br>Korea unemployment rate<br>US building permits (prel), housing starts, export prices MoM, housing starts MoM, import prices MoM |
| 20<br>China GDP growth rate YoY, industrial production YoY, retail sales YoY<br>Germany PPI YoY | 21<br>Canada inflation rate YoY, core inflation rate YoY, inflation rate MoM | 22<br>Japan balance of trade, exports YoY<br>UK inflation rate YoY, core inflation rate YoY<br>US MBA 30-year mortgage rate | 23<br>France business confidence<br>Canada retail sales MoM final, MoM prel<br>US Chicago Fed national activity index, initial jobless claims, existing home sales | 24<br>UK Gfk consumer confidence<br>Japan inflation rate YoY, core inflation rate YoY, S&P Global PMI flashes<br>India HSBC PMI flashes<br>UK retail sales MoM, YoY; S&P Global PMI flashes<br>Germany HCOB PMI flashes<br>Canada new housing price index MoM<br>US S&P Global PMI flashes, new home sales |
| 27<br>Germany Ifo business climate<br>US durable goods orders, Dallas Fed manufacturing index | 28<br>EU new car registrations YoY<br>Germany Gfk consumer confidence<br>India industrial production YoY, manufacturing production YoY<br>US CB consumer confidence | 29<br>Australia inflation rate QoQ, YoY<br>Japan consumer confidence<br>Spain GDP growth rate QoQ flash, YoY flash<br>UK mortgage approvals, mortgage lending<br>US goods trade balance adv, retail inventories ex autos MoM adv, wholesale inventories MoM adv<br>Canada BoC interest rate decision | | |

Source: tradingeconomics.com

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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