MARKET VIEWS

Market & Strategy Update

Q4 2025

PROBUS PLEION

www.probuspleion.com

Executive summary

Economy

The US economy has defied expectations of weakening growth that stemmed from tariffs and policy uncertainty. While the labor market's recent weakness is cause for concern, other data sources are pointing towards improving growth in Q4. In Europe, the decline in sentiment due to political instability is unlikely to overwhelm the positive fiscal upswing. China continues to support its economy through monetary and fiscal channels, with the recent anti-involution campaign aimed tackling deflation. Although the current reacceleration of US inflation could complicate the Fed's monetary policy decision, it has become increasingly clear that global governments are erring on the side of monetary and fiscal largesse. This should continue to support nominal growth.

Equities

Global equities have performed well in Q3 as growth has exceeded expectations, and central banks have eased policy. While US equities continue to lag international equities YTD, Q3 has seen this gap narrow. Tech stocks have been leaders as the AI capex boom continues. Recent weeks saw market participation broaden, supporting the resilient growth narrative. Speculative excesses are evident in specific segments of the market, but sentiment readings are not yet extreme. US equity valuations provide no margin of safety in case of negative growth surprises. Foreigners remain excessively allocated to US markets, while the incentives to repatriate capital domestically are rising. Volatility will likely pick up in Q4, but investors should buy pullbacks in cyclical sectors, and international equities.

Bonds

Bond yields have been under pressure in Q3 due to growth concerns and rate cuts. But widening budget deficits and rising odds of a reflationary wave are likely to push long-term yields higher going forward. Shorter-term yields could remain pinned by concerns over political meddling in monetary policy decisions. In Europe, rate cuts appear to be off the table, while rising fiscal spending will also keep upward pressure on yields. Credit spreads are approaching historical tightness, suggesting no imminent growth concerns but also reflecting poor government finances. Either way, adding credit risks at these levels appears unwise. Rather, investors should keep looking to EM debt, where real rates are elevated and dollar weakness opens the door to rate cuts.

Currencies

The USD could see a rebound in Q4, as aggressive rate cut expectations are temporarily revised on the back of stronger data. Such a rebound should be faded, as the USD likely remains in a structural bear market.

Commodities

Despite certain pockets of strength, the overall commodity complex has been weighed down by energy, as OPEC+ has been normalizing its production. With reaccelerating inflation and growth likely to prove resilient, combined with rising geopolitical tensions, investors should keep a healthy allocation to commodities.

Precious metals

Gold has continued its relentless and historical rally, but has been outshone by other precious metals long forgotten by investors. Western investors have ramped up their purchases of the yellow metal, but there is still no sign of exuberance and pullbacks should be bought.

Market & strategy update

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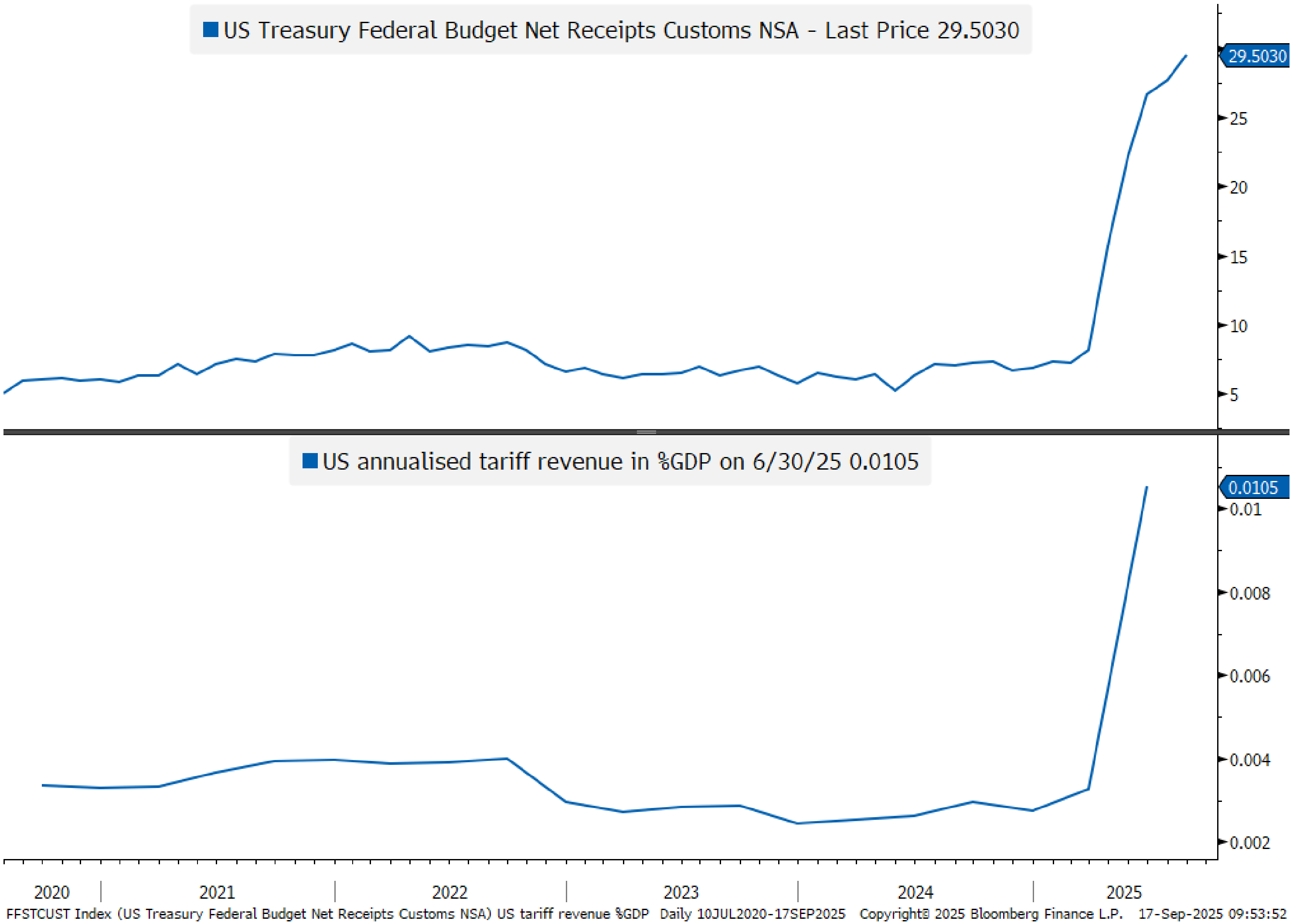
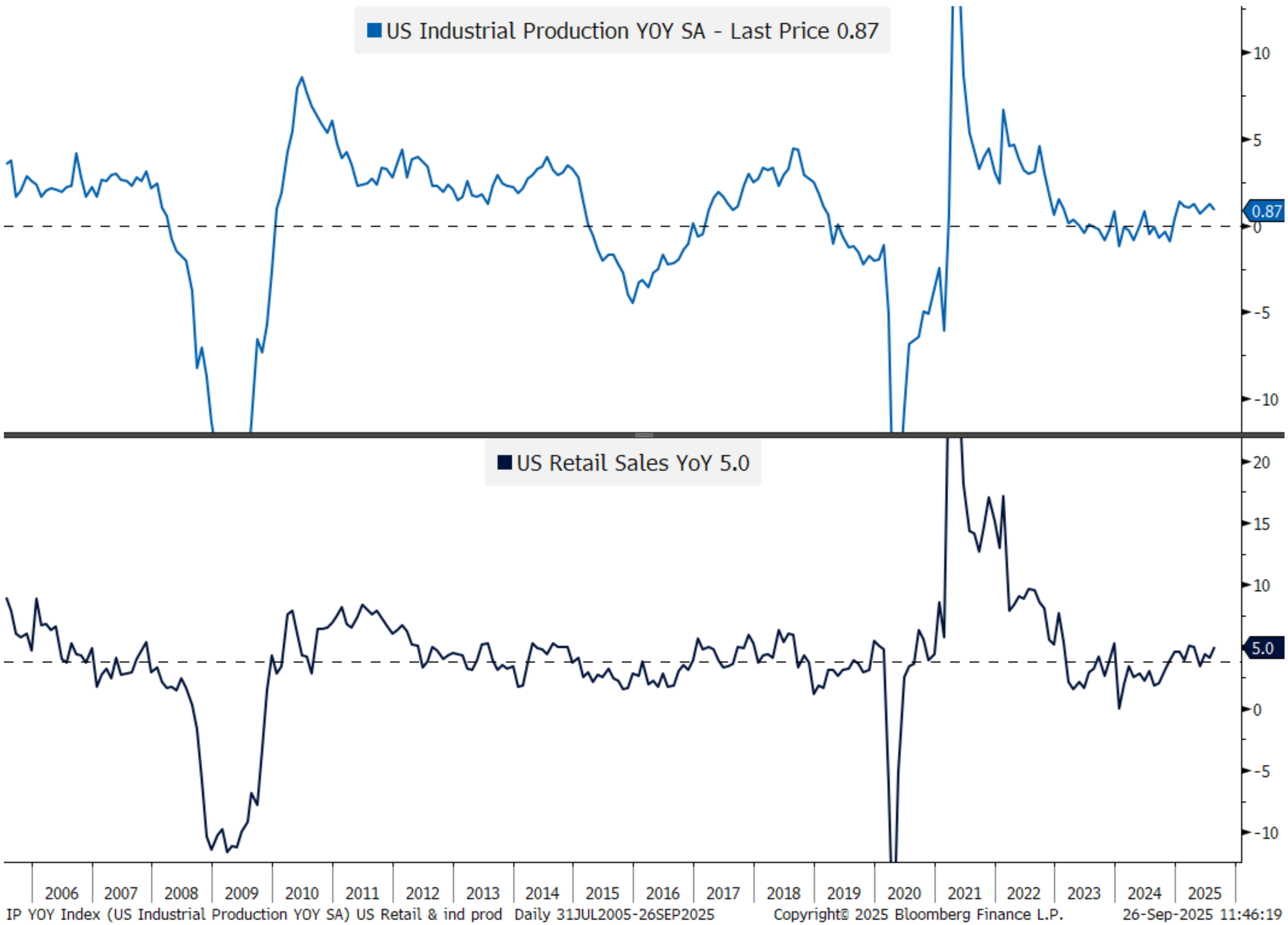
The ramp up in tariff collection has been widely expected to have an impact on the US consumer and weaken US growth…



The US economy has been resilient, and consumption has failed to weaken as feared.



Tariffs are disproportionately affecting lower income households, which do not contribute much to overall consumption…

Figure 7. Short-Run Distributional Impact of 2025 Tariffs to Date

Through August 6
Percentage points of disposable income by household income decile

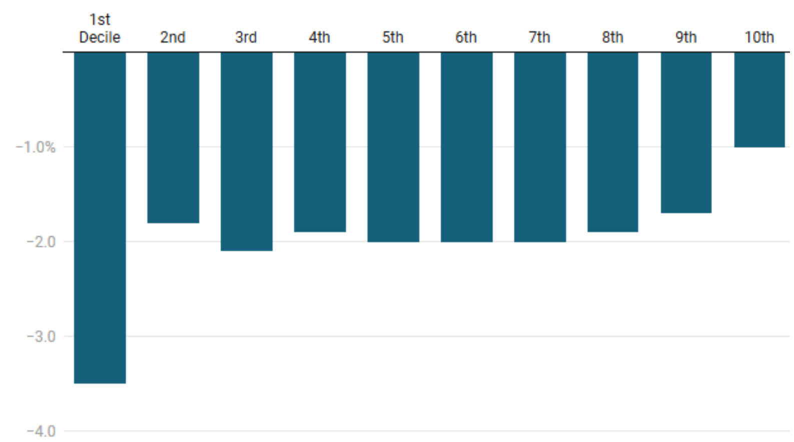
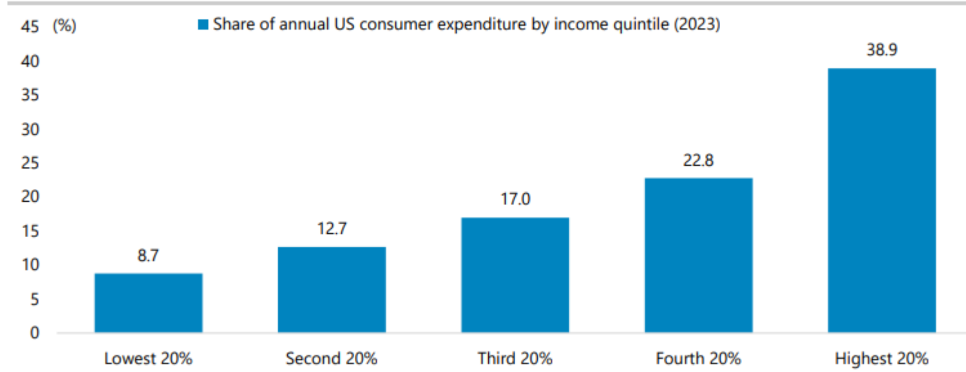


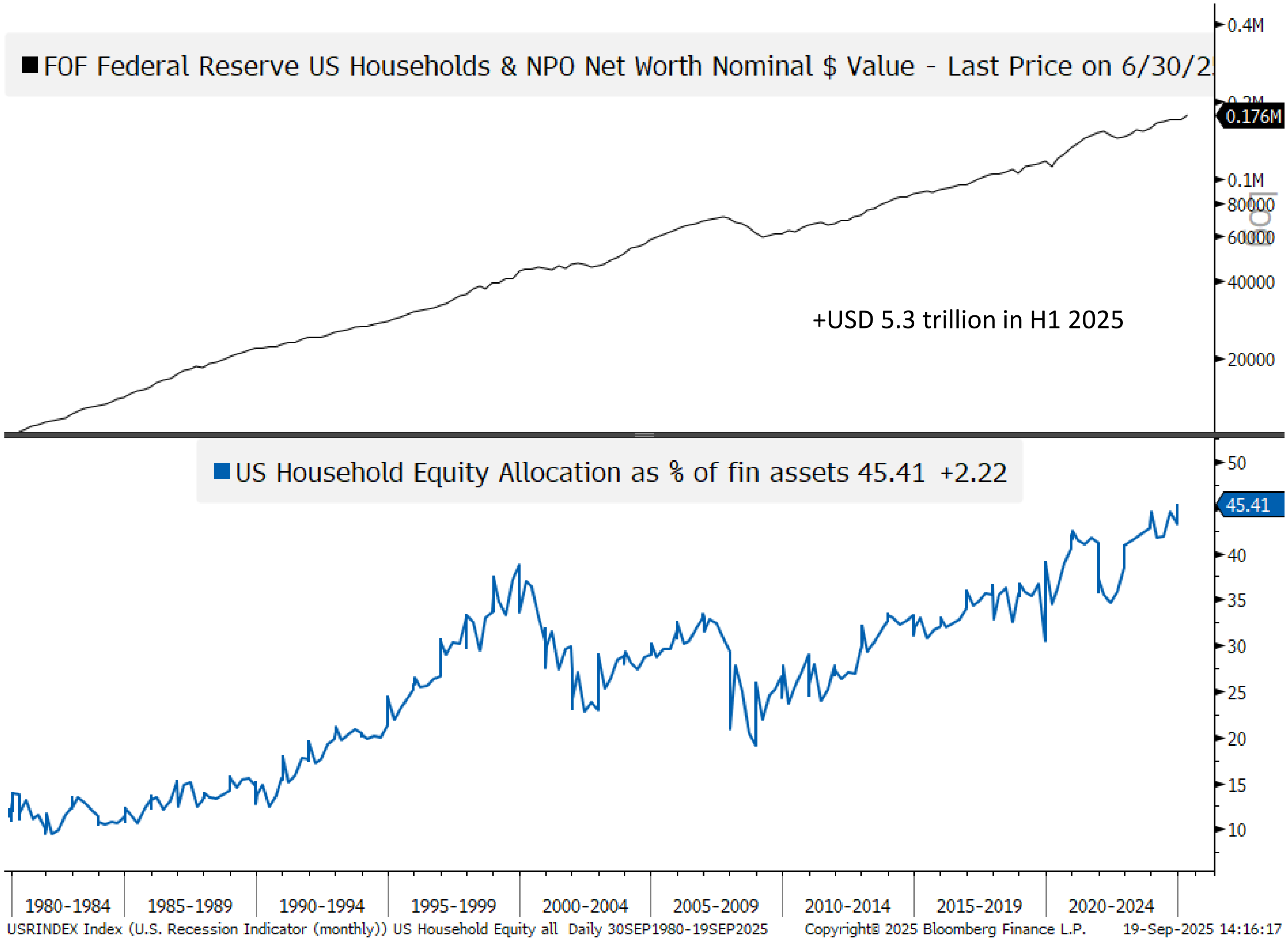
Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper

Exhibit 12: Share of US annual consumer expenditure by income quintile (2023)

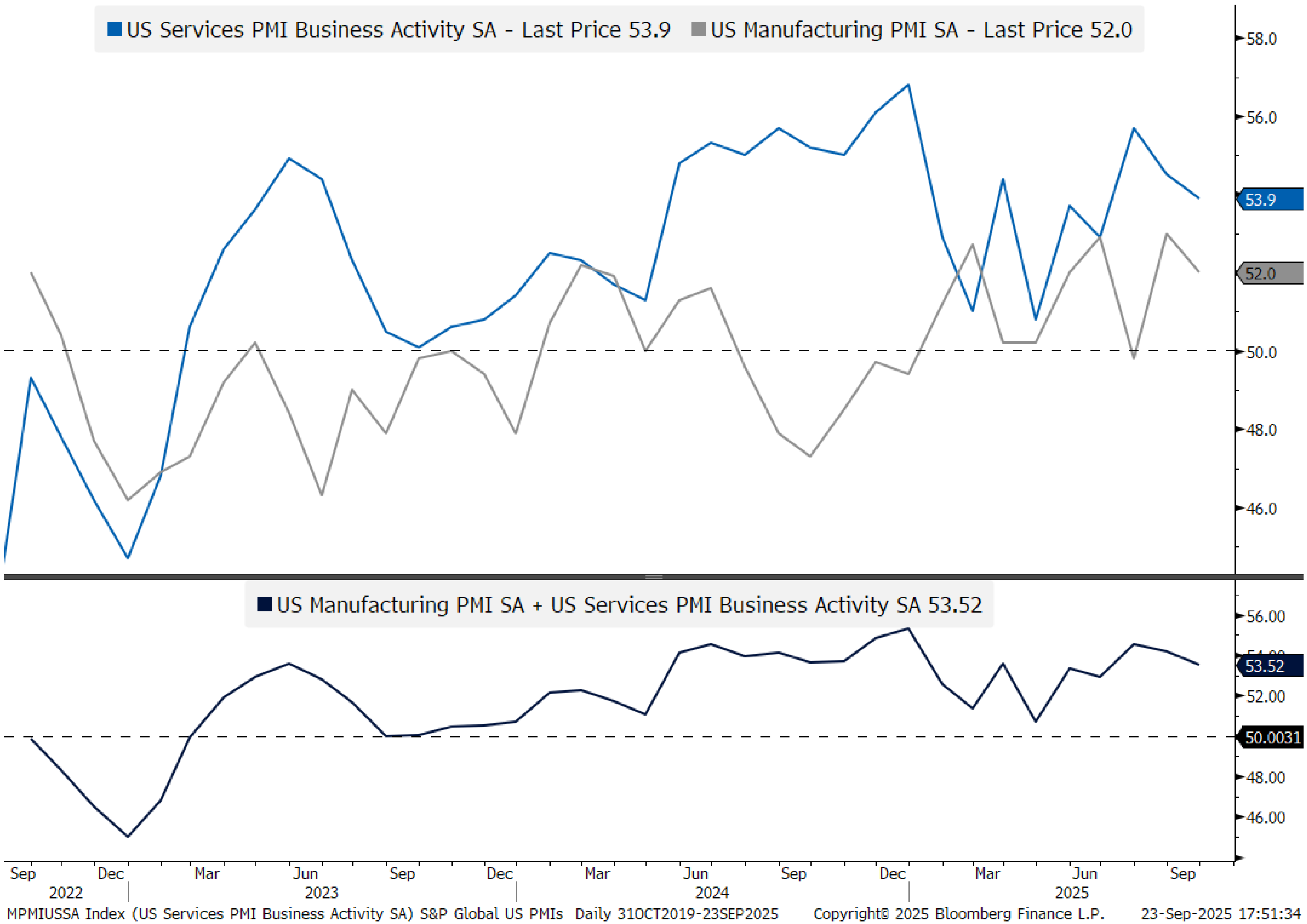


Source: Bureau of Labor Statistics, Annual Consumer Expenditure Survey

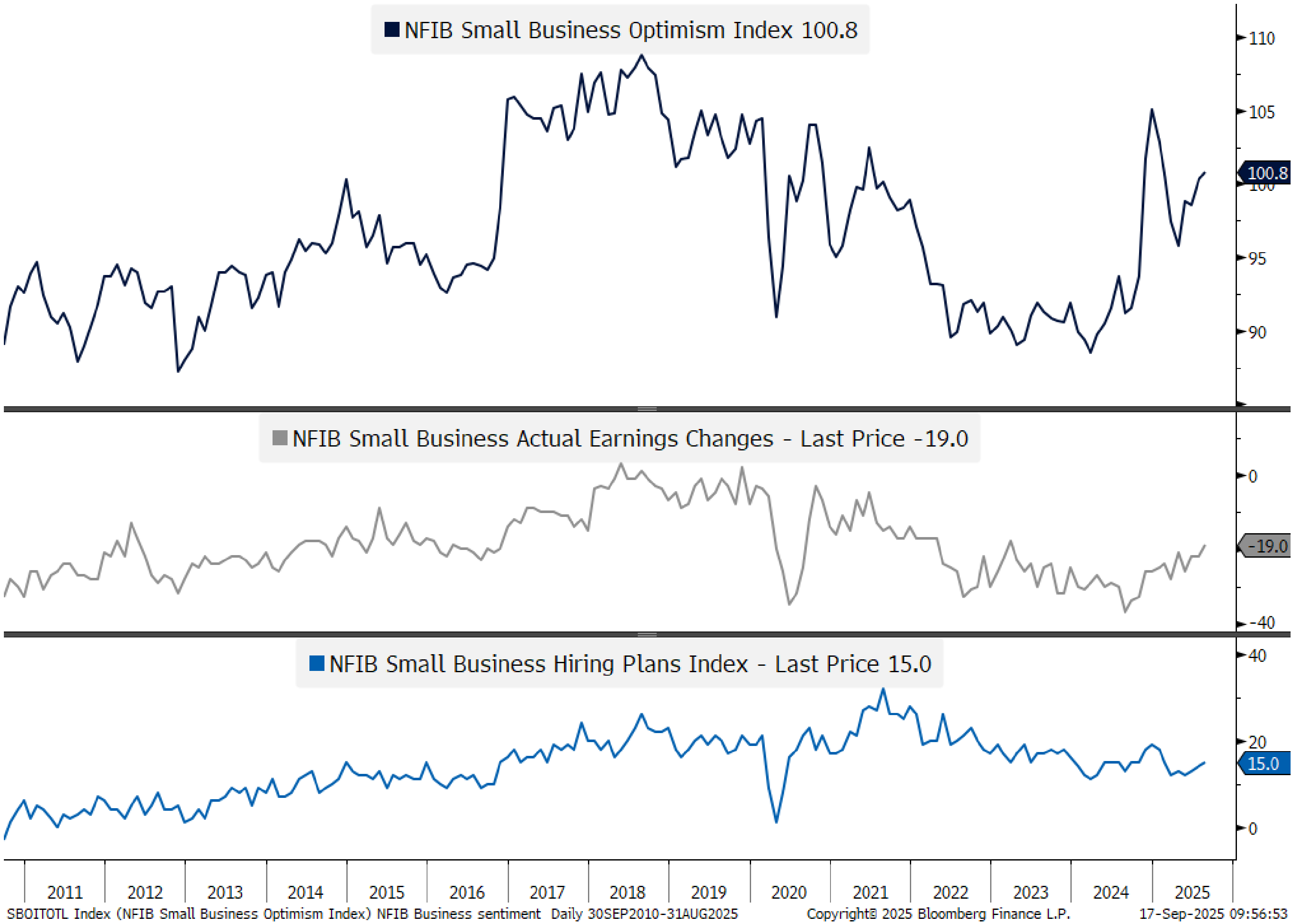
The higher income spectrum is less influenced by tariffs and benefits from high exposure to equities and the ensuing wealth effects



Recent data have been suggesting that the US economy is holding up nicely and that reacceleration is a possibility in Q4

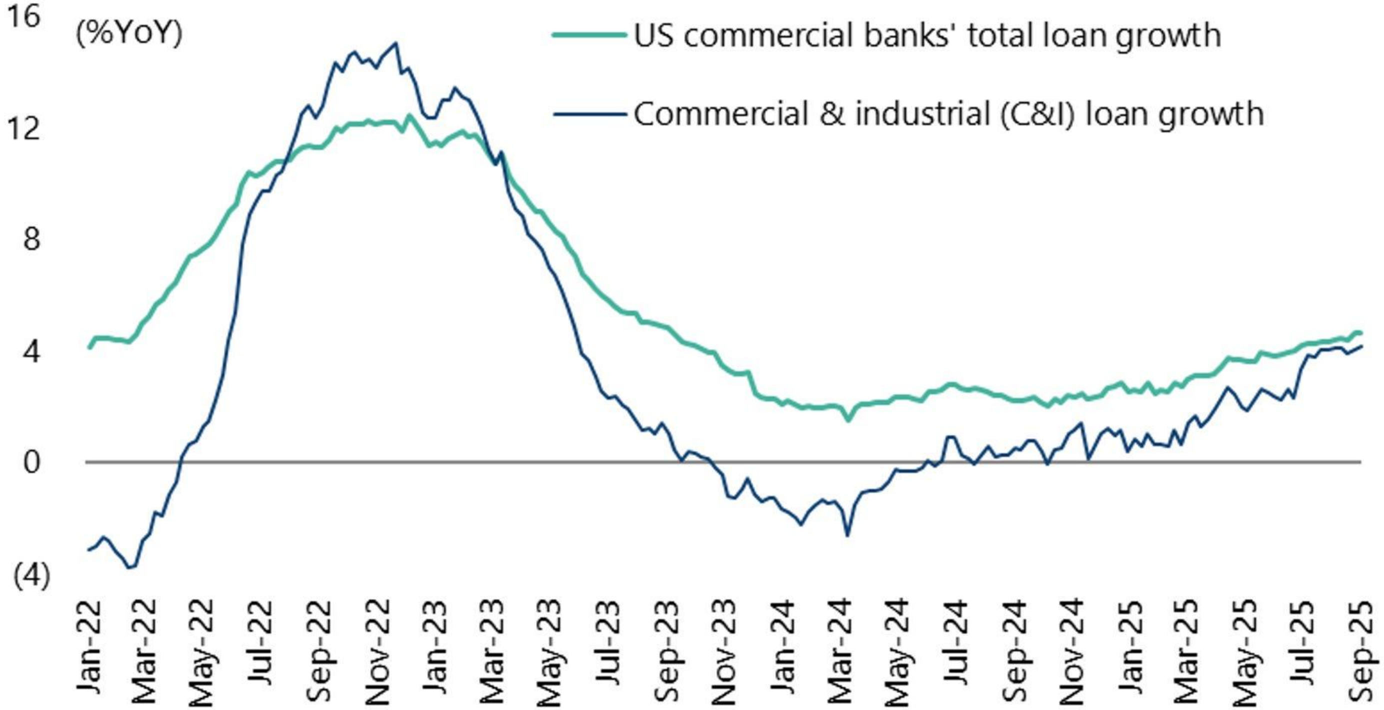


Small businesses have even become more optimistic about the economy. Earnings are improving and hiring plans have stabilized.



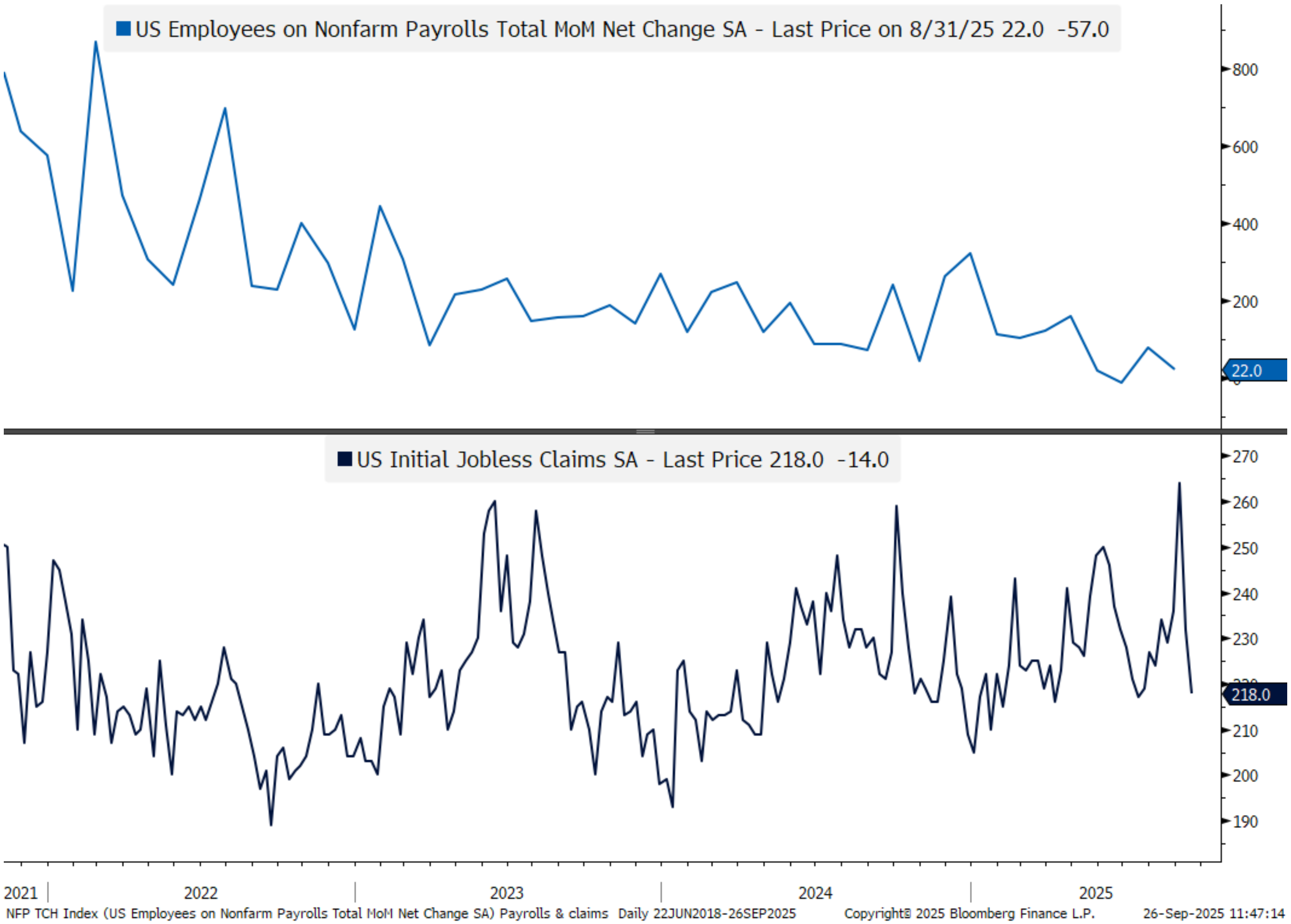
Commercial bank loan growth keeps improving

US commercial banks' loan growth

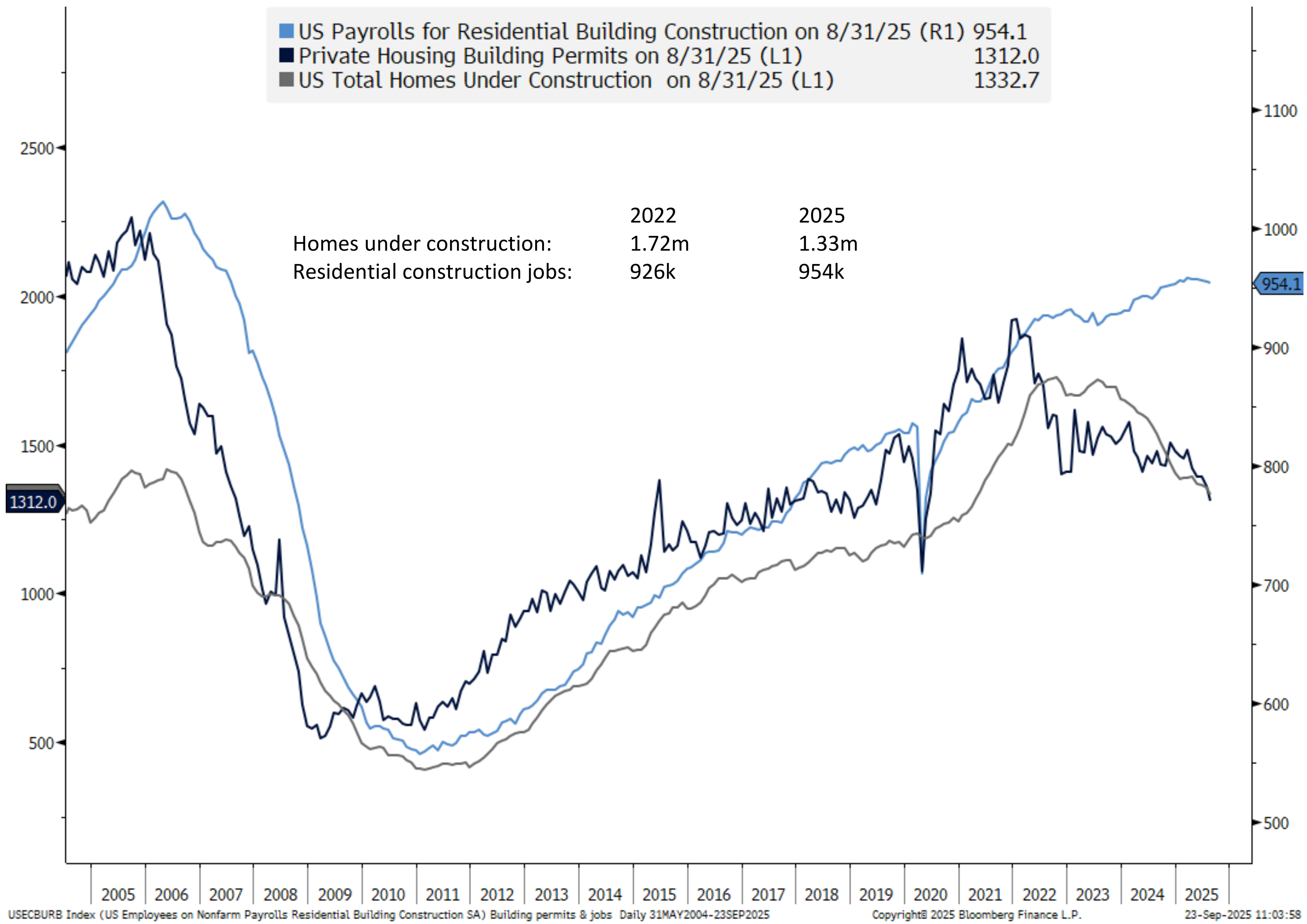


Note: Data up to the week ended 3 September 2025. Source: Federal Reserve

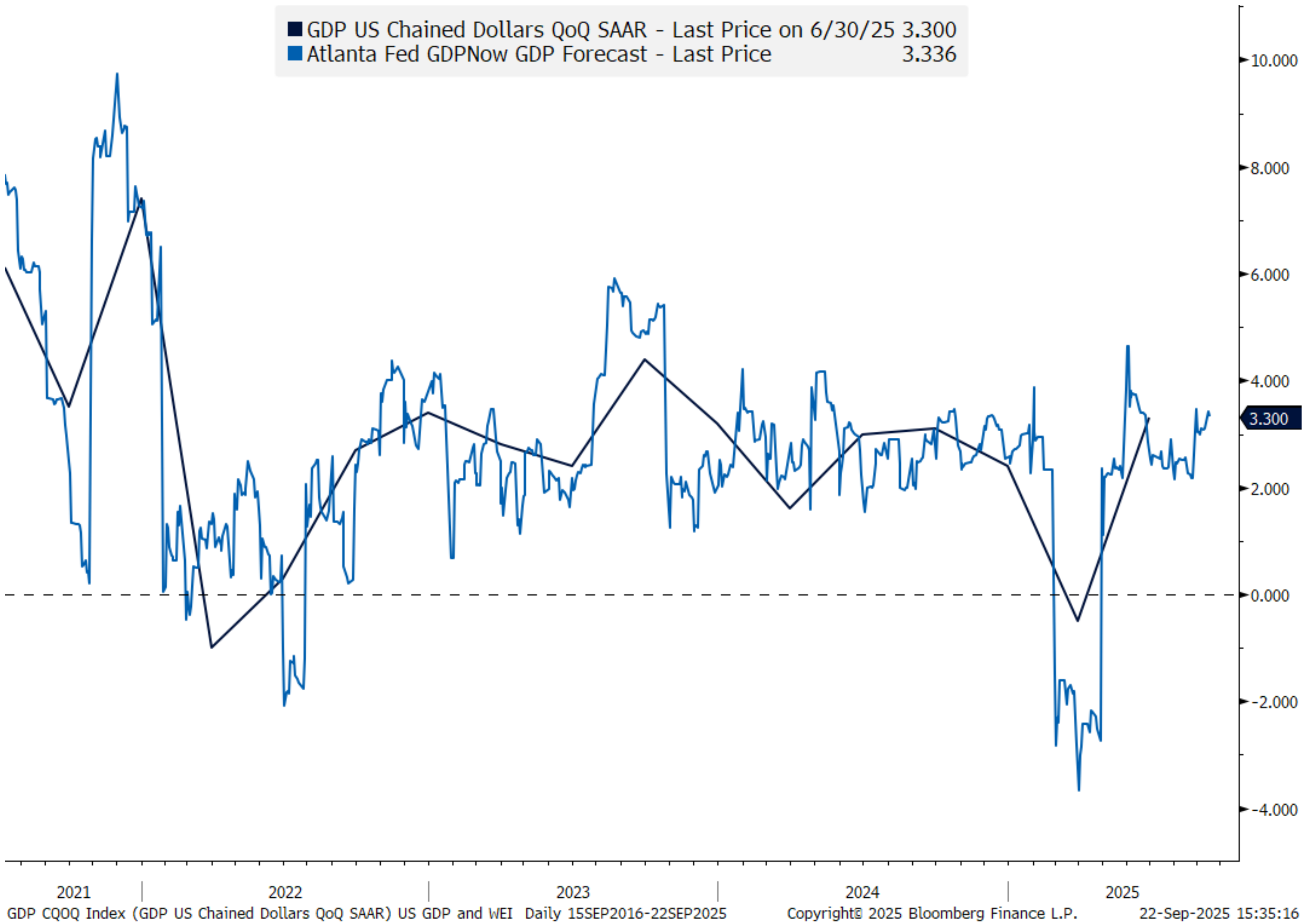
The labor market has however flashed warning signs recently as payrolls have slowed significantly. Companies are neither hiring nor firing…With net migration falling, the labor market's equilibrium may be shifting, possibly explaining lower payrolls.



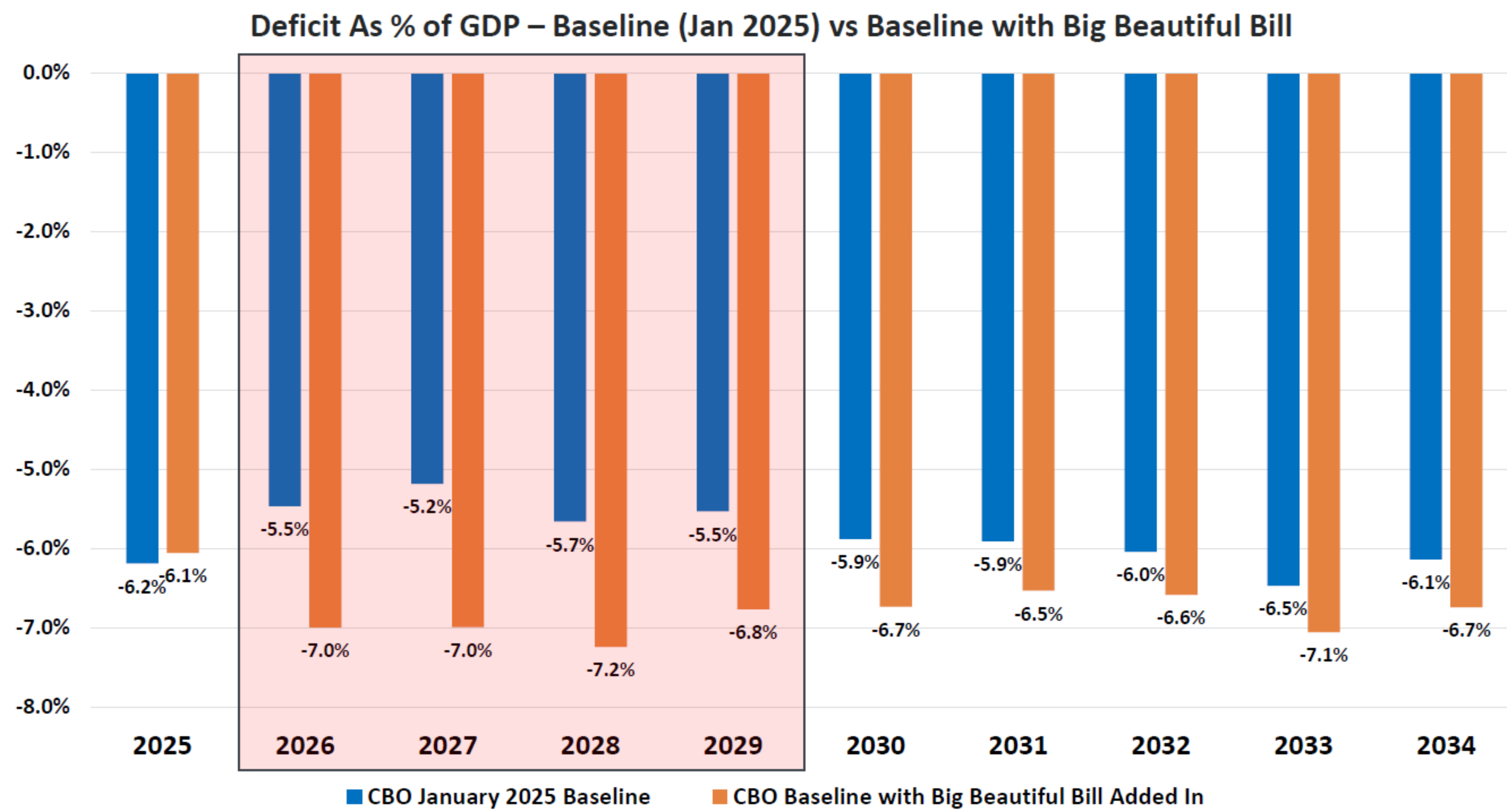
The housing market keeps on weakening and residential construction jobs have finally rolled over…



The Atlanta Fed GDP now points to stable growth in Q3



The widening budget deficit will be reflationary in Q1 2026. Tax cuts, however, will largely benefit the wealthier households

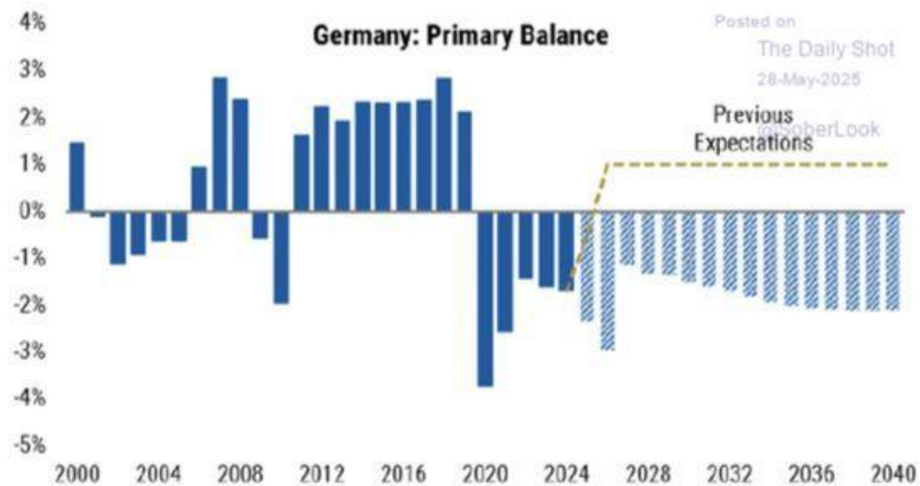


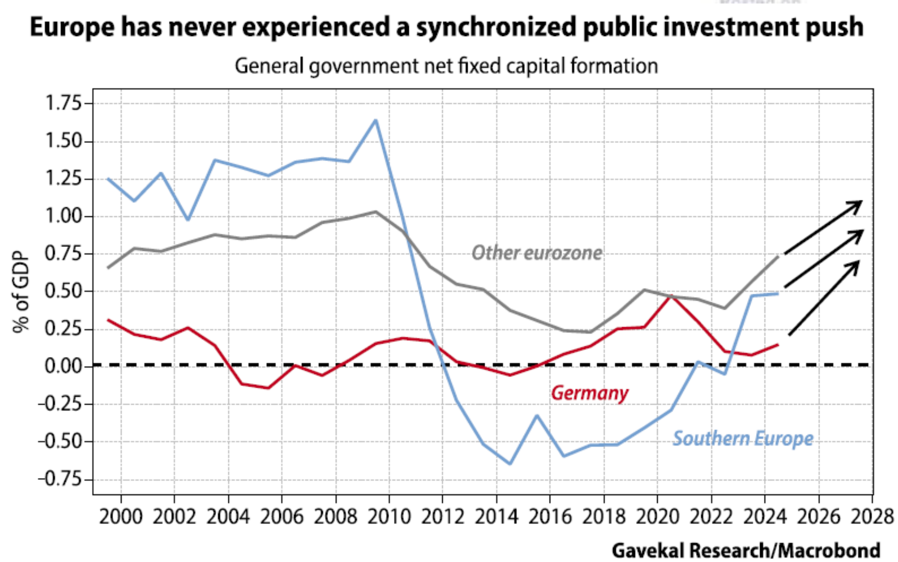
Source: Hedgeye

The run-it-hot policy

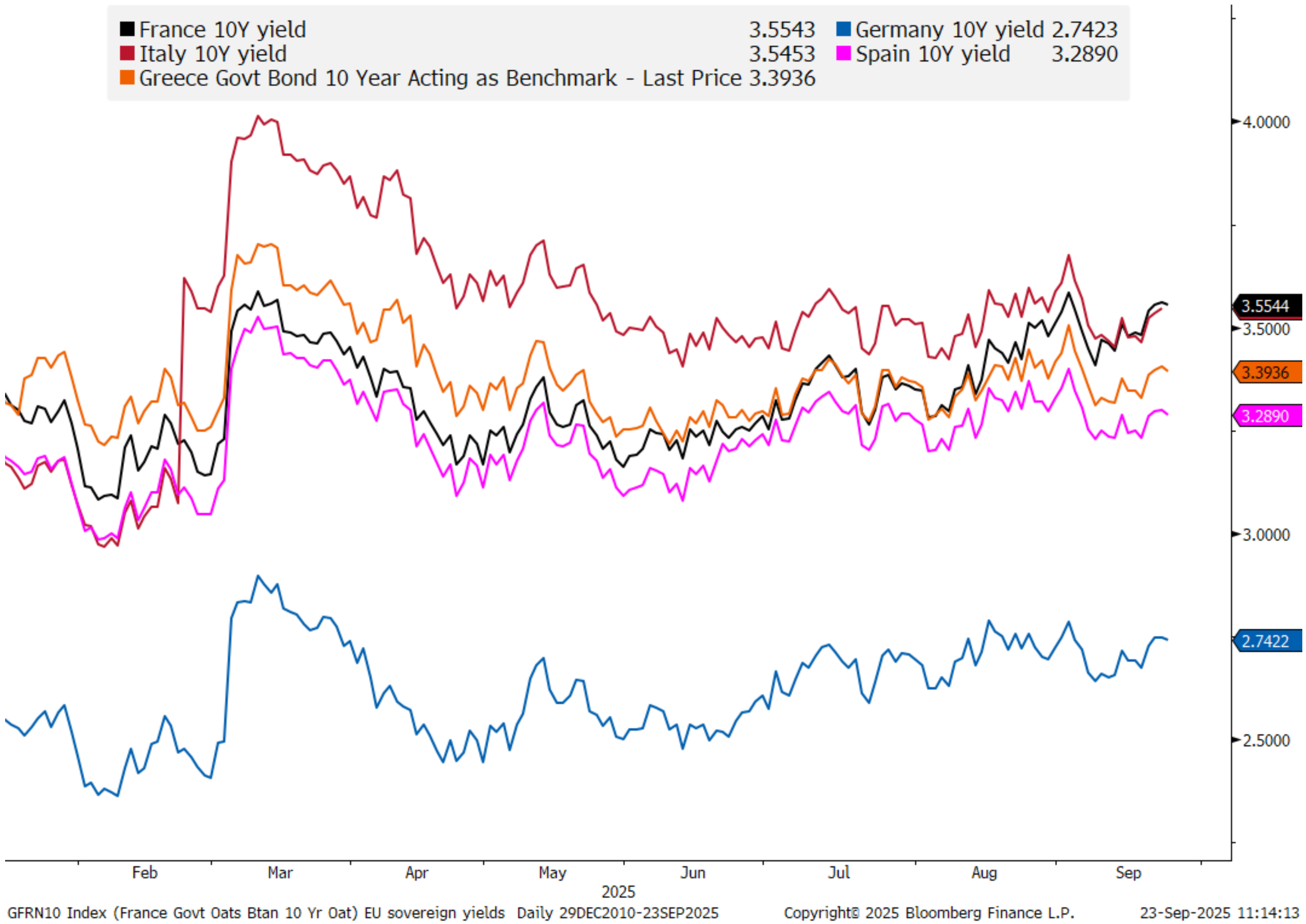
Source: Kuppy

Germany's fiscal expansion remains the main story in the EU

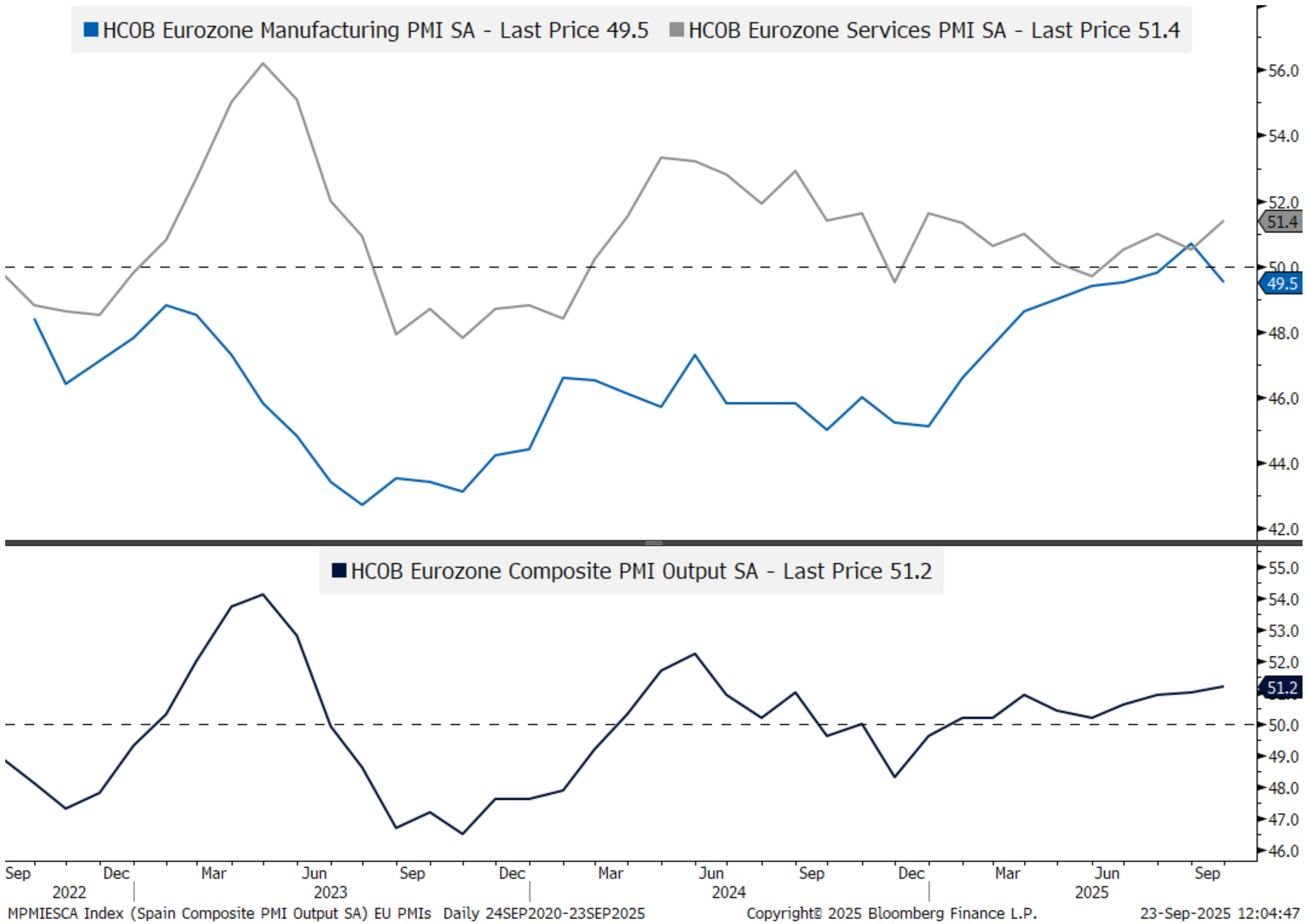




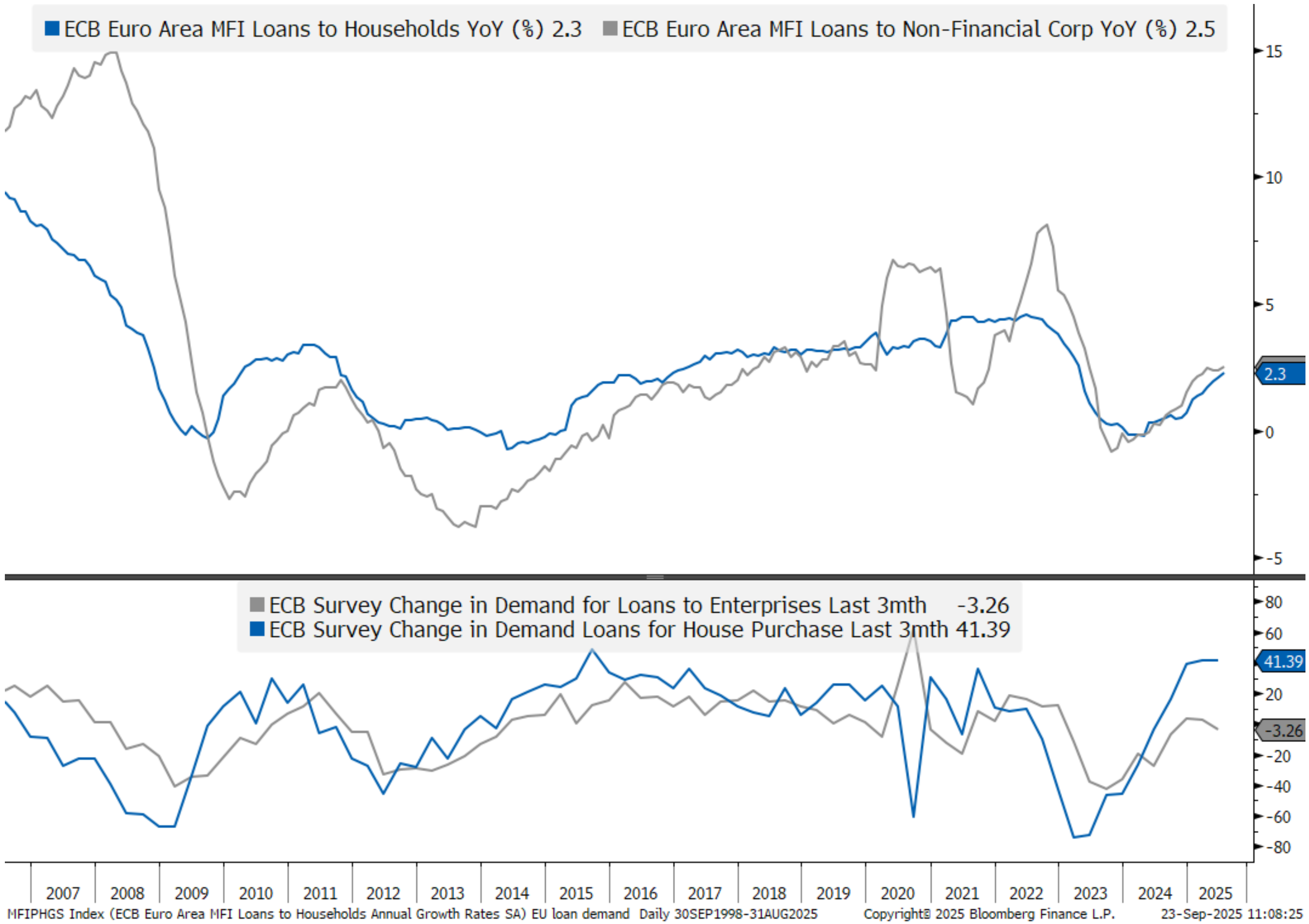
The rise in political instability is unlikely to overwhelm the current positive cyclical growth upswing – just avoid duration in the EU, particularly in France.



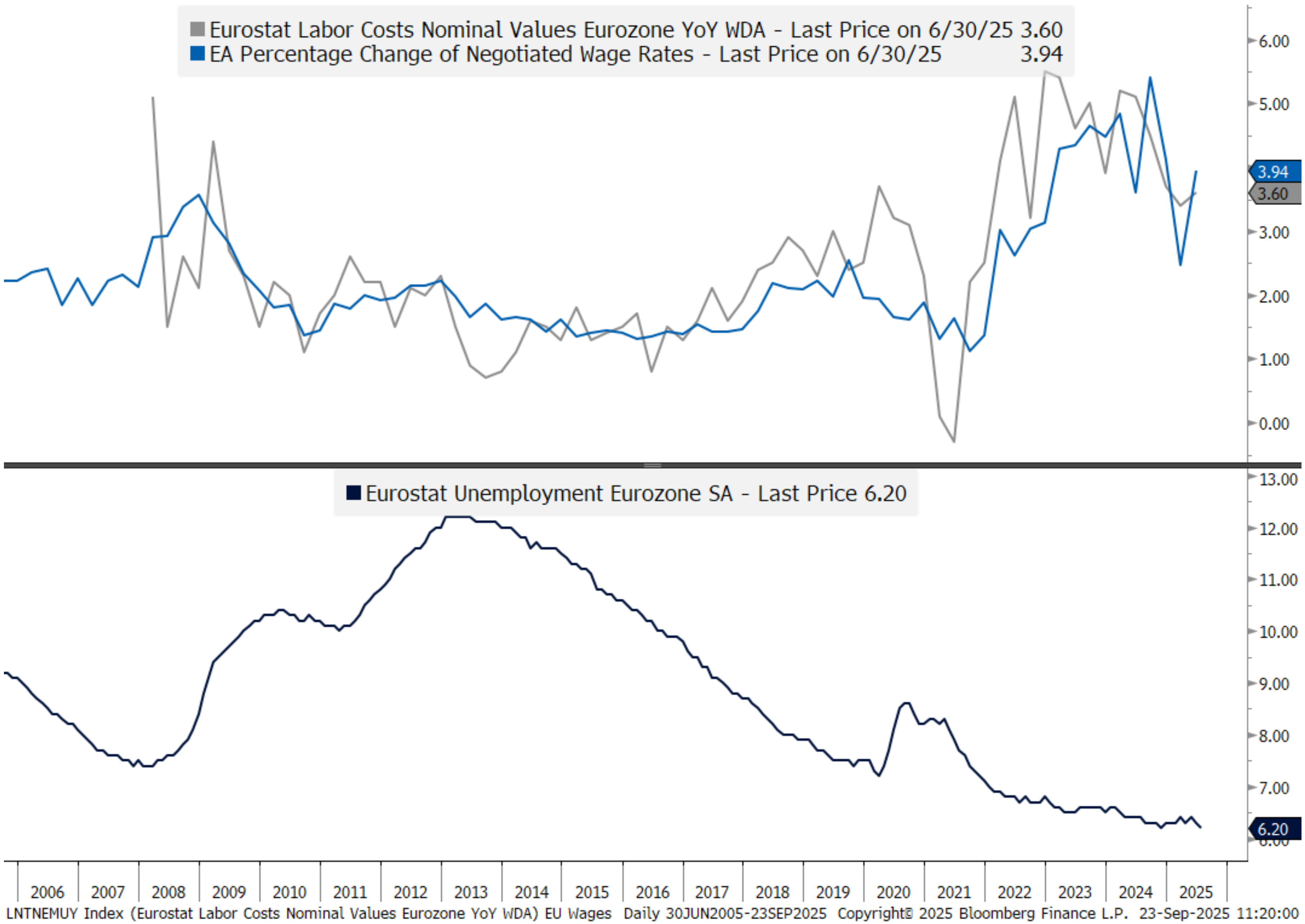
PMIs keep pointing towards solid overall growth with possible short-term weakness in manufacturing.



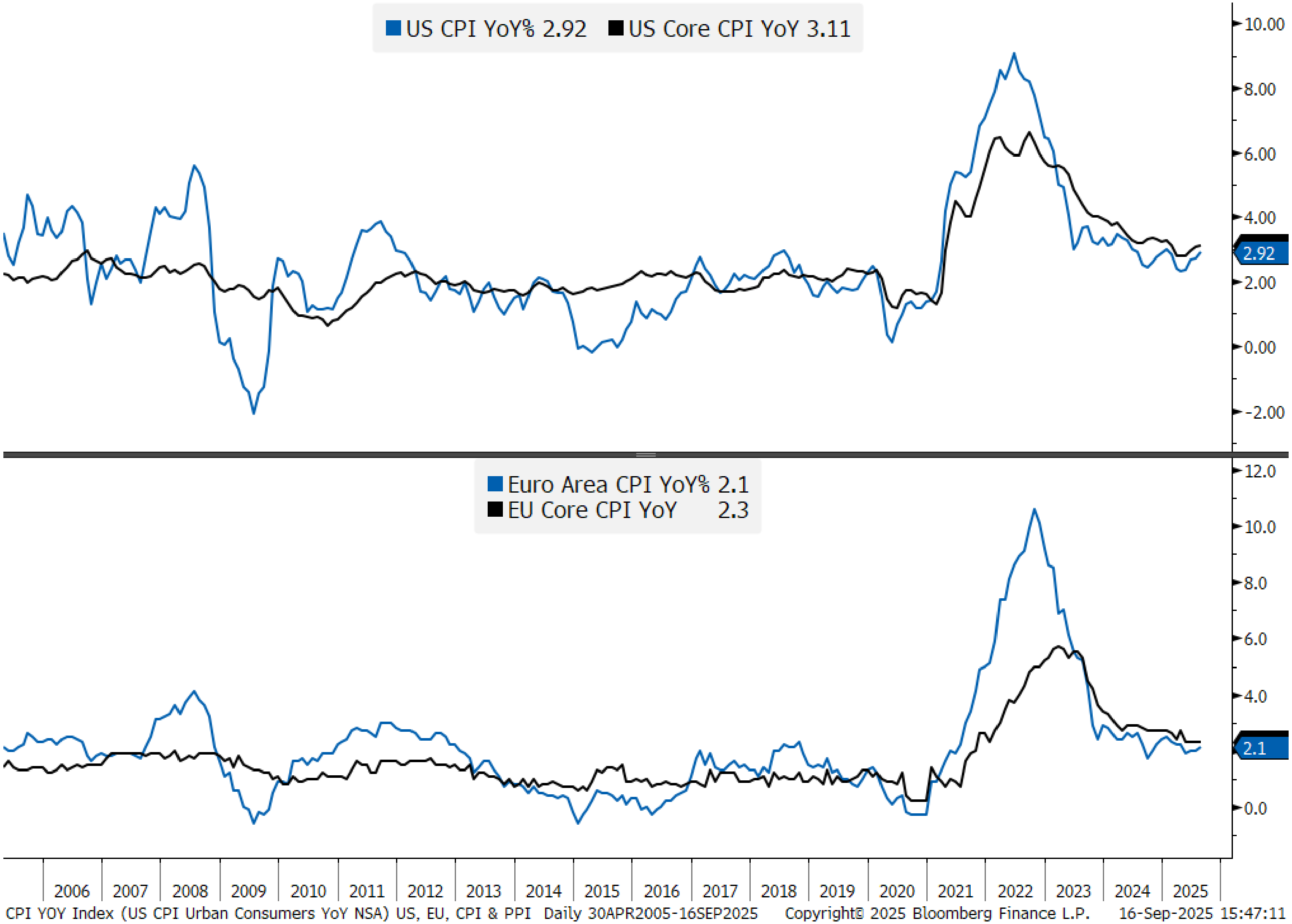
The credit cycle continues to be supportive but loan demand from corporations has softened and needs to be monitored



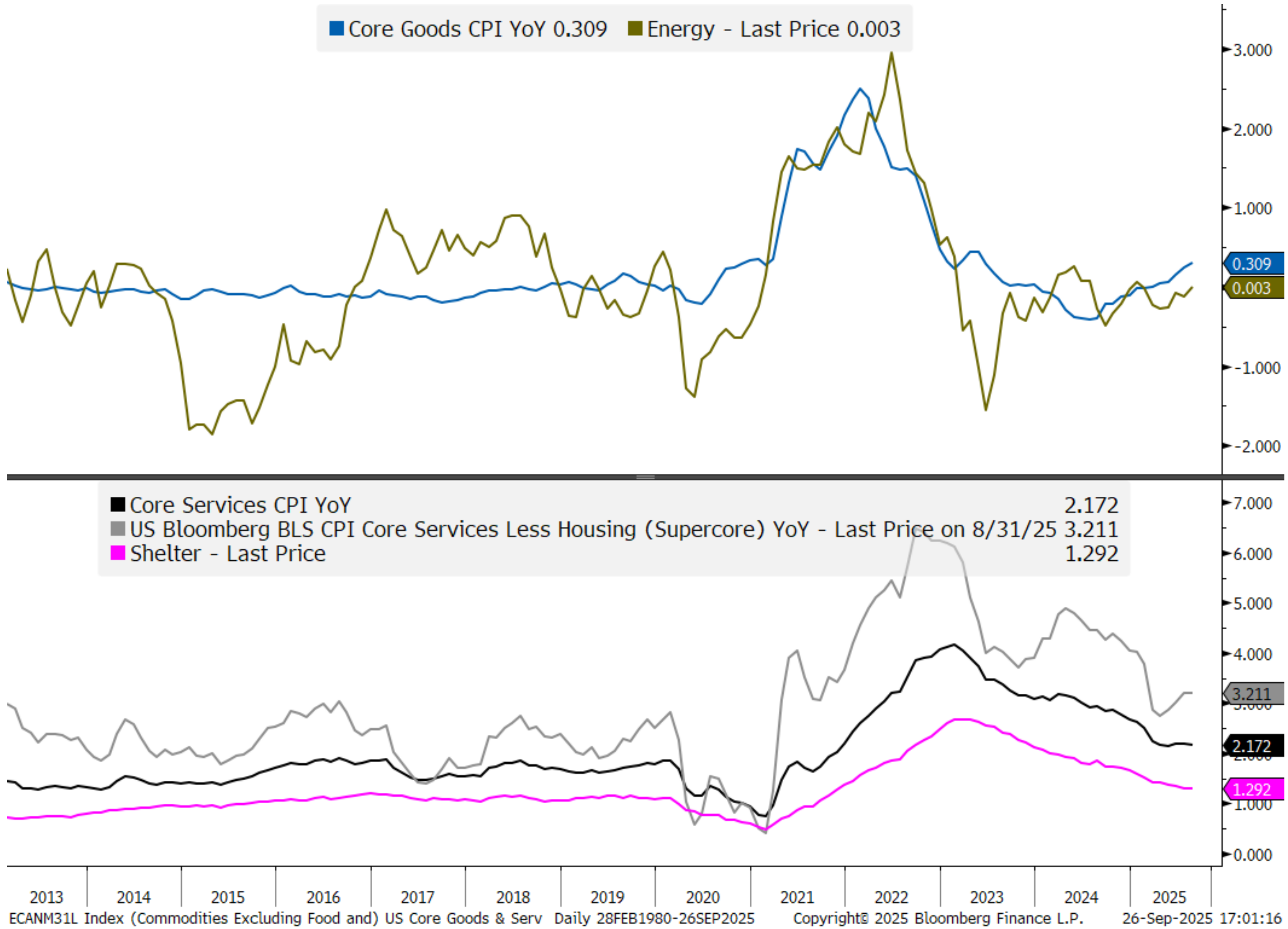
The EU labor market remains solid, with elevated wage growth and low unemployment.



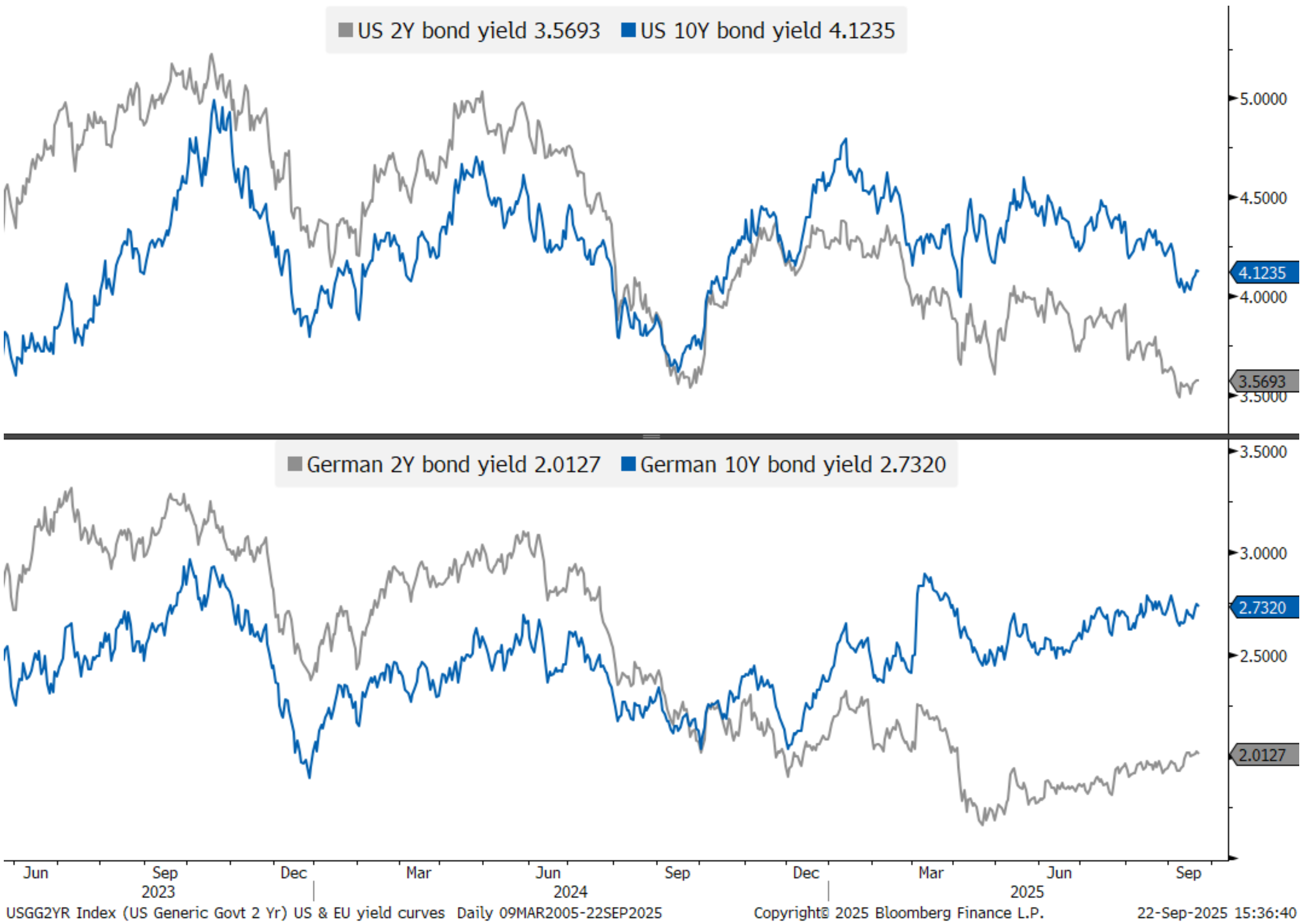
US inflation is accelerating again. In the EU, inflation has likely bottomed out, but less upward pressure should be expected.



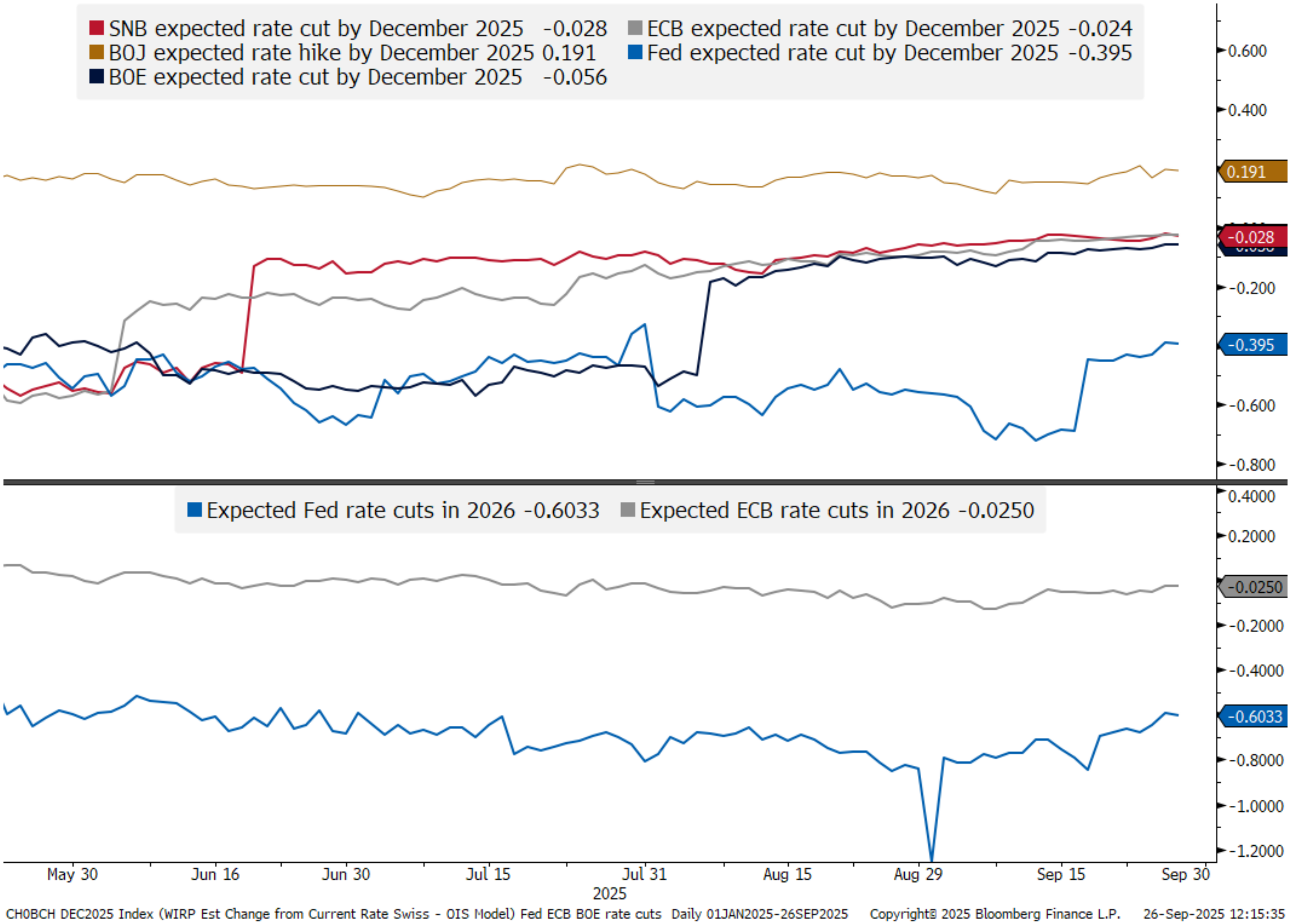
As expected, goods inflation has been the major contributor of this reacceleration, but even services price inflation has stopped falling…



US yields have fallen due to the recent weakness in labor market data, erosion of Fed independence, and consequent rate cuts being priced in. US long-term yields are likely to see upward pressure going forward. In the EU, yields are likely to keep rising.



The Fed stands out with 105bps of cuts priced in by the end of 2026; this will be challenged by reflationary forces. The ECB is done cutting.



The Fed's latest economic projections see improving growth and lower unemployment, a picture that would puts into question the magnitude of the cuts priced in and likely reflects the market's expectations of eroding Fed independence.

Variable	Median[1]				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
Unemployment rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
PCE inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1		2.0
Core PCE inflation[4]	3.1	2.6	2.1	2.0	
June projection	3.1	2.4	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4		3.0

The reason behind the US administration's urgency to lower rates

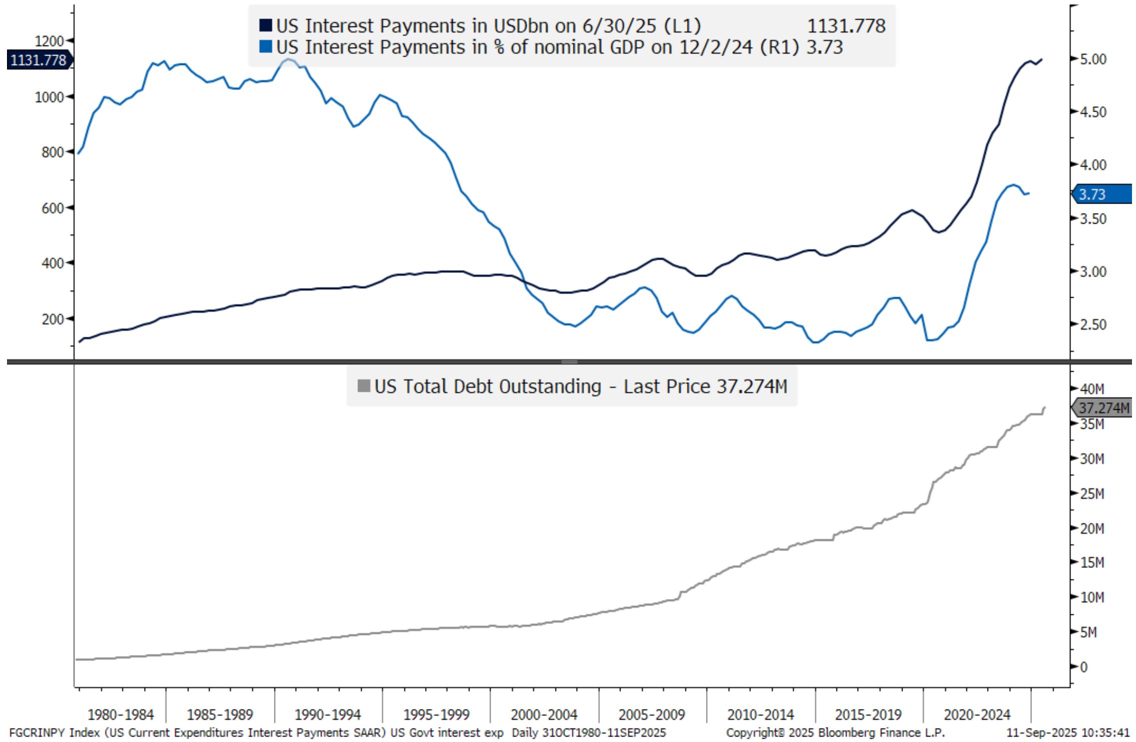
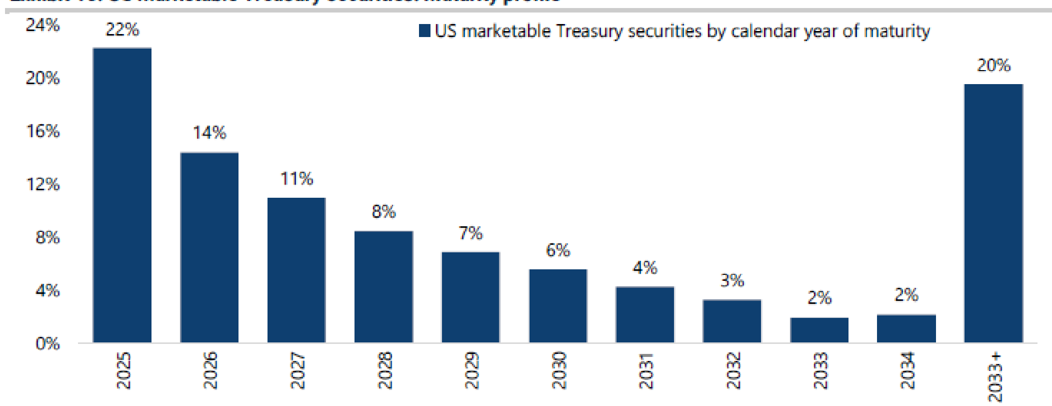
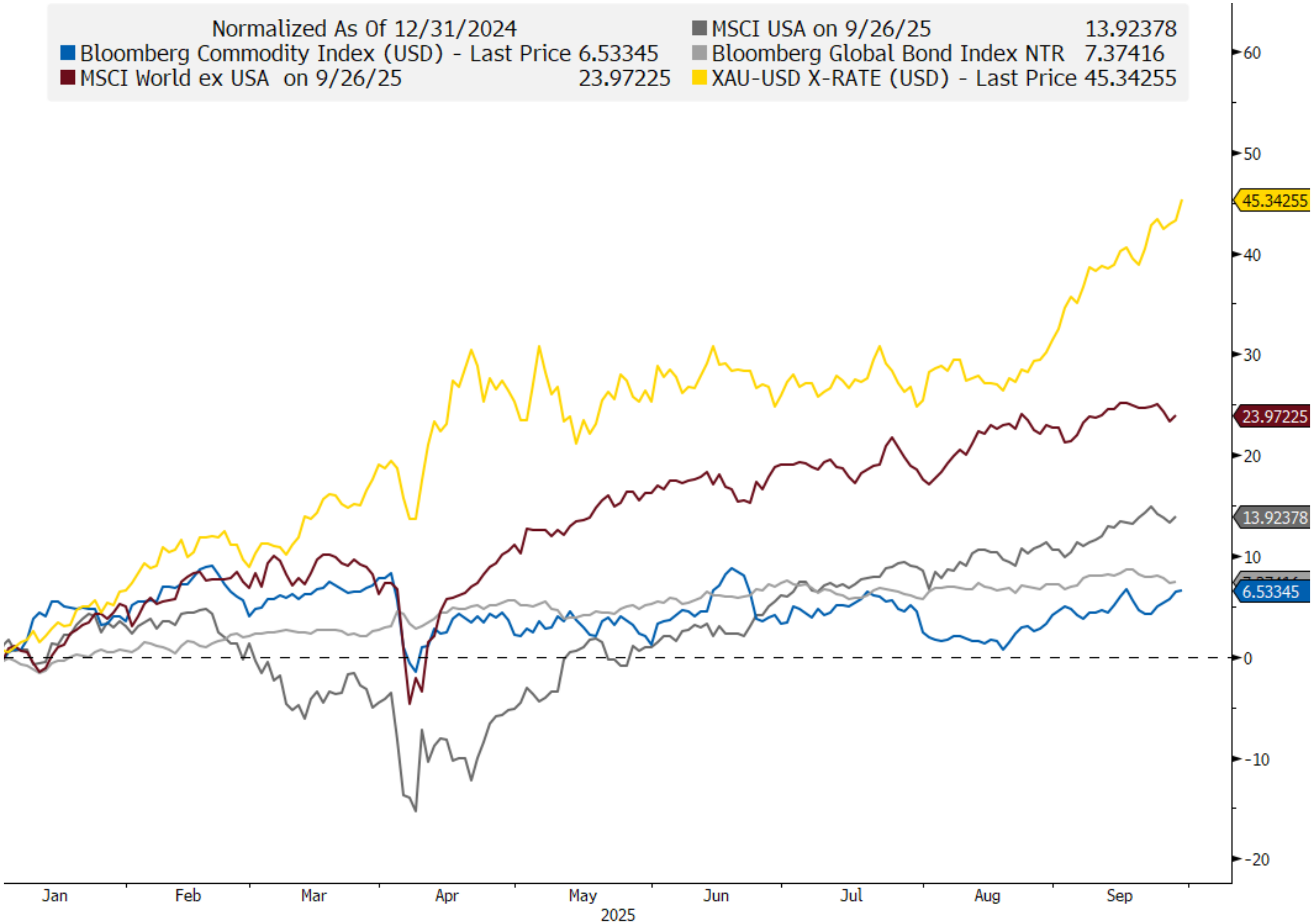


Exhibit 15: US marketable Treasury securities: Maturity profile



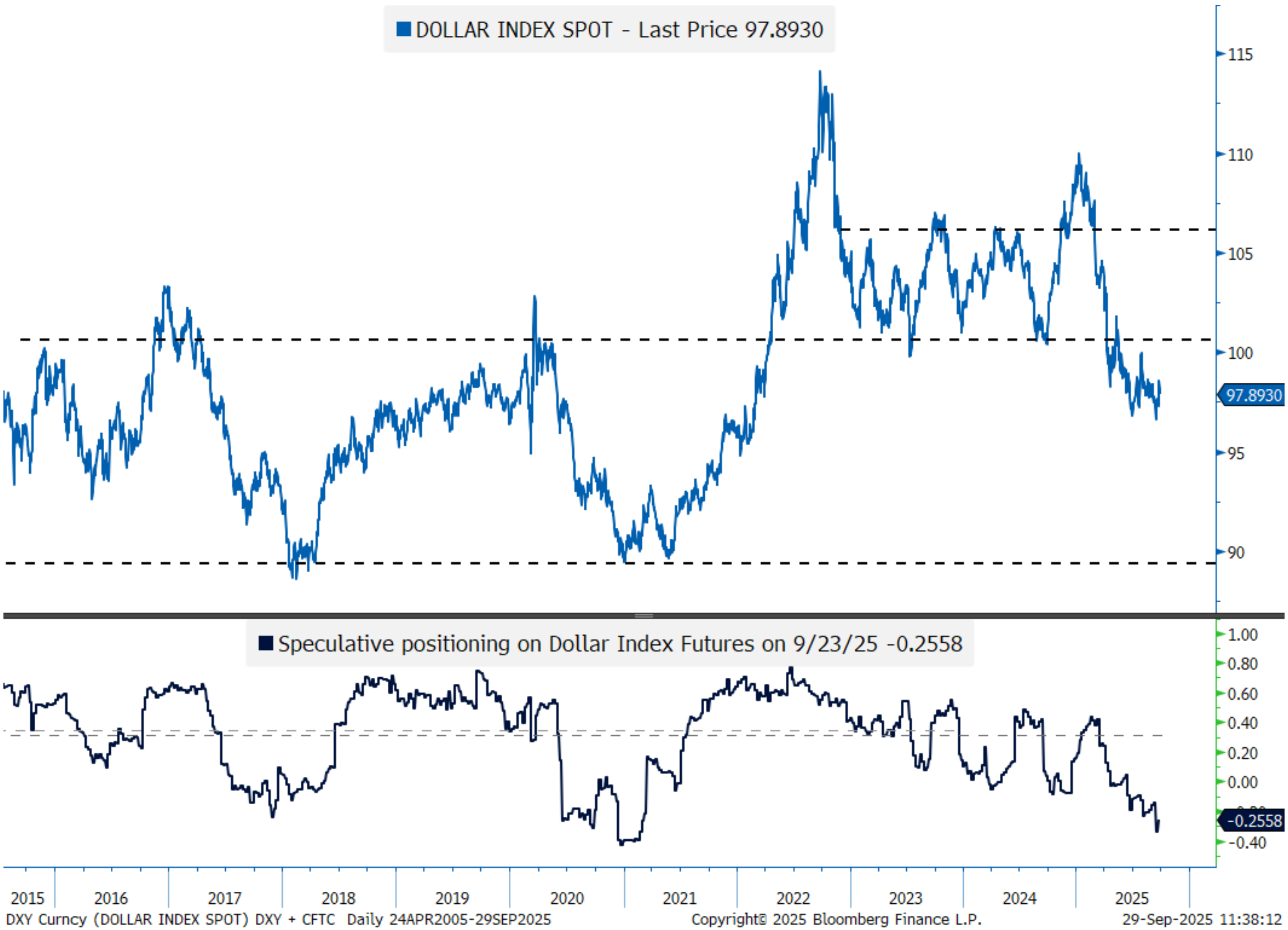
Note: Data as of 31 July 2025. Source: US Treasury

Gold continues to lead global assets on the back of fiscal and monetary largesse. Bond returns will be challenged going forward on the back of reflation, while commodities and equities will outperform.

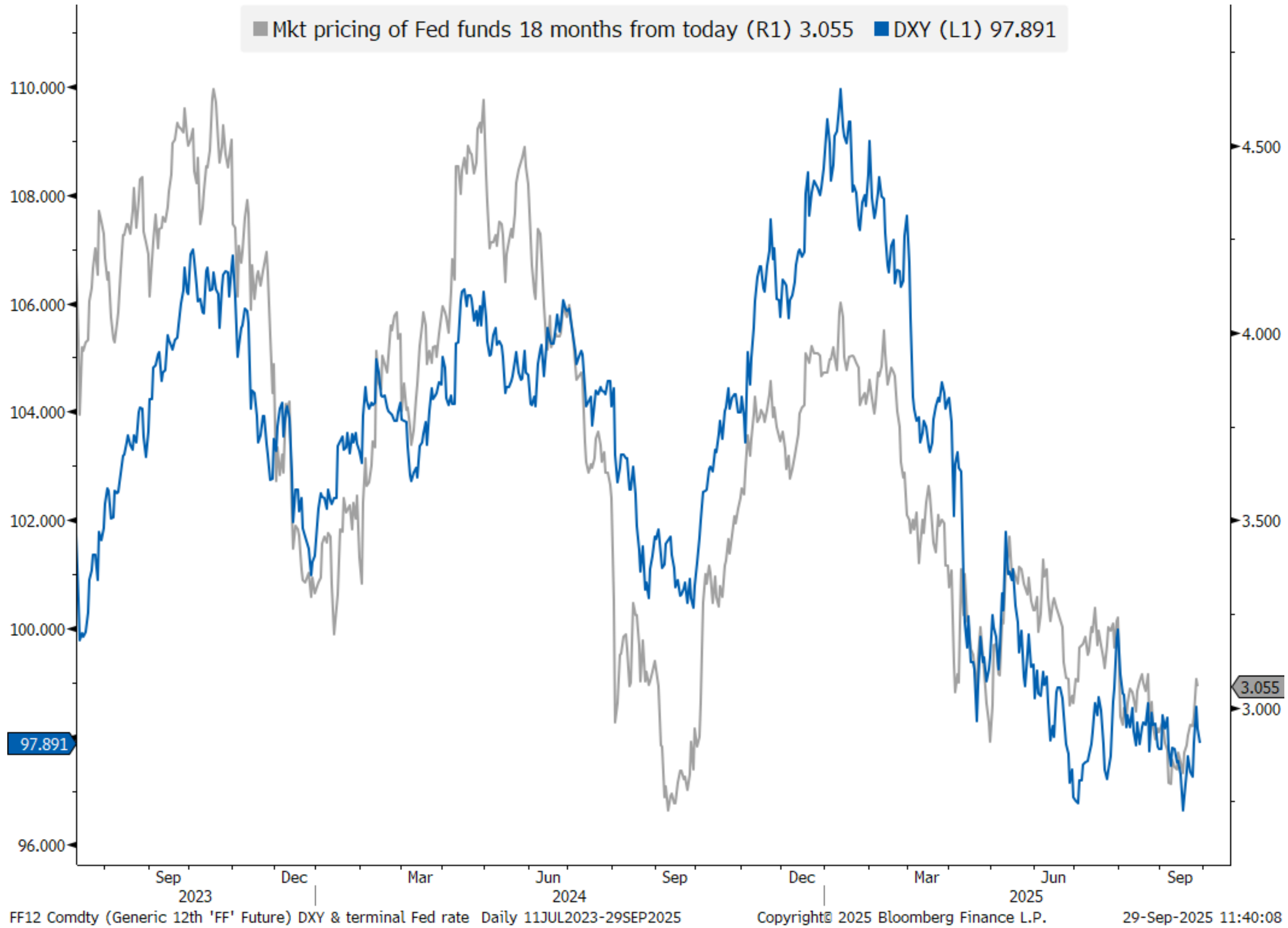


NDDUUS Index (MSCI USA Net Total Return USD Index) Asset class returns YTD Daily 31DEC2024-29SEP2025 Copyright© 2025 Bloomberg Finance L.P. 29-Sep-2025 10:49:29

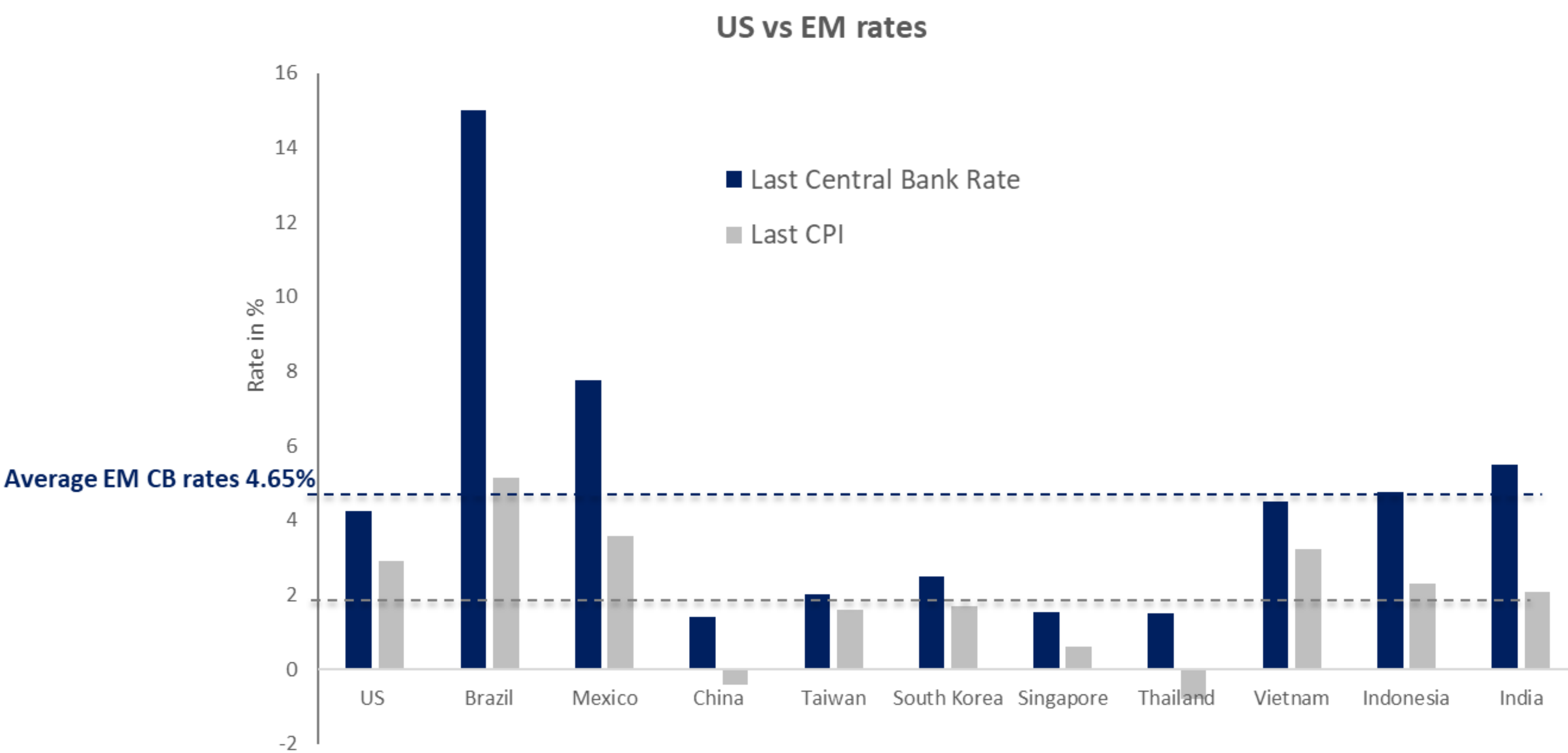
The USD has been weighed down by rate differentials and remains in a bear market, but a rebound could be brewing in the short-term.



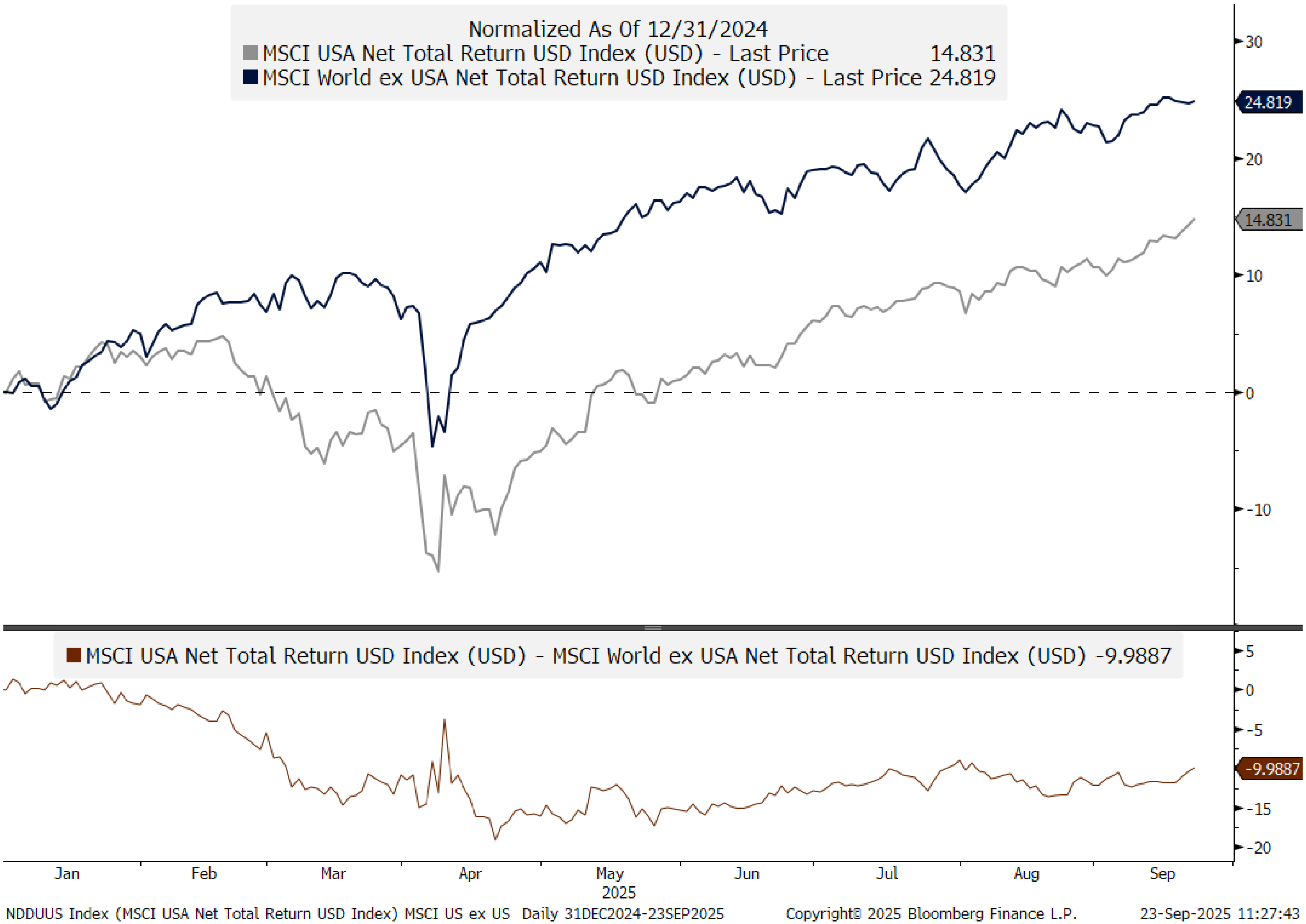
A revision of the magnitude of rate cuts on the back of reflationary forces would see the USD rebound. It should however be faded on the premise that monetary largesse will end up prevailing.



EM fixed income remains attractive on the back of a structurally weak USD, moderate inflationary pressures and elevated real rates.

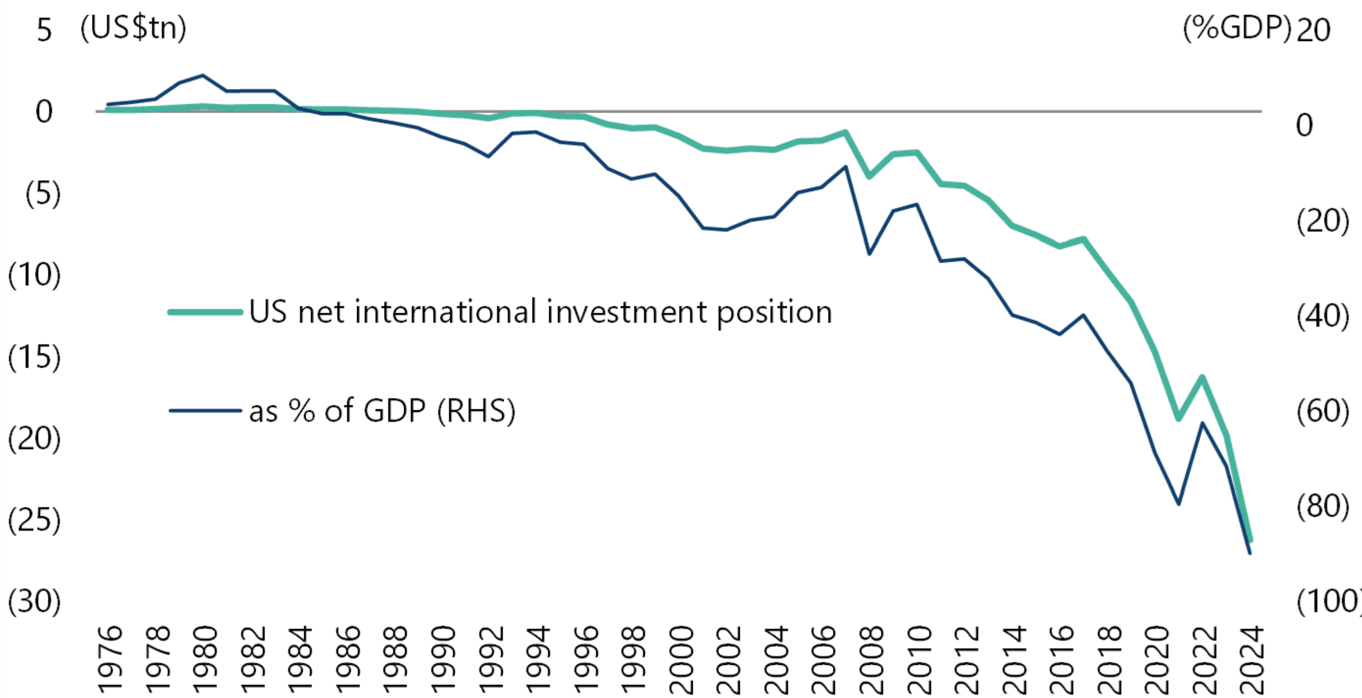


US equities have outperformed international equities in Q4 but keep lagging YTD.



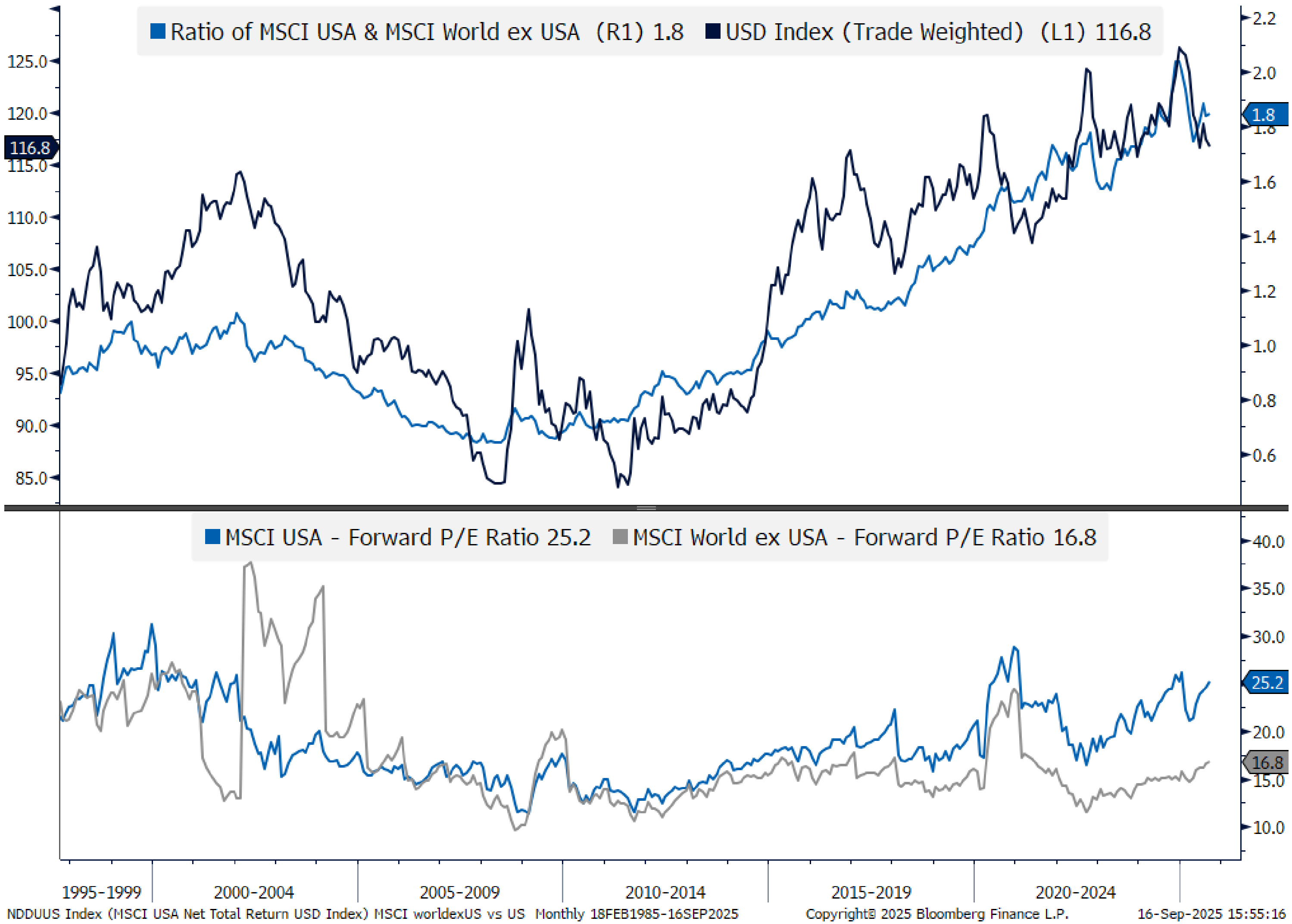
The Net International Investment Position of the US is an enormous imbalance that could keep pressure on the USD, as countries increasingly put policies in place invest more domestically.

US net international investment position

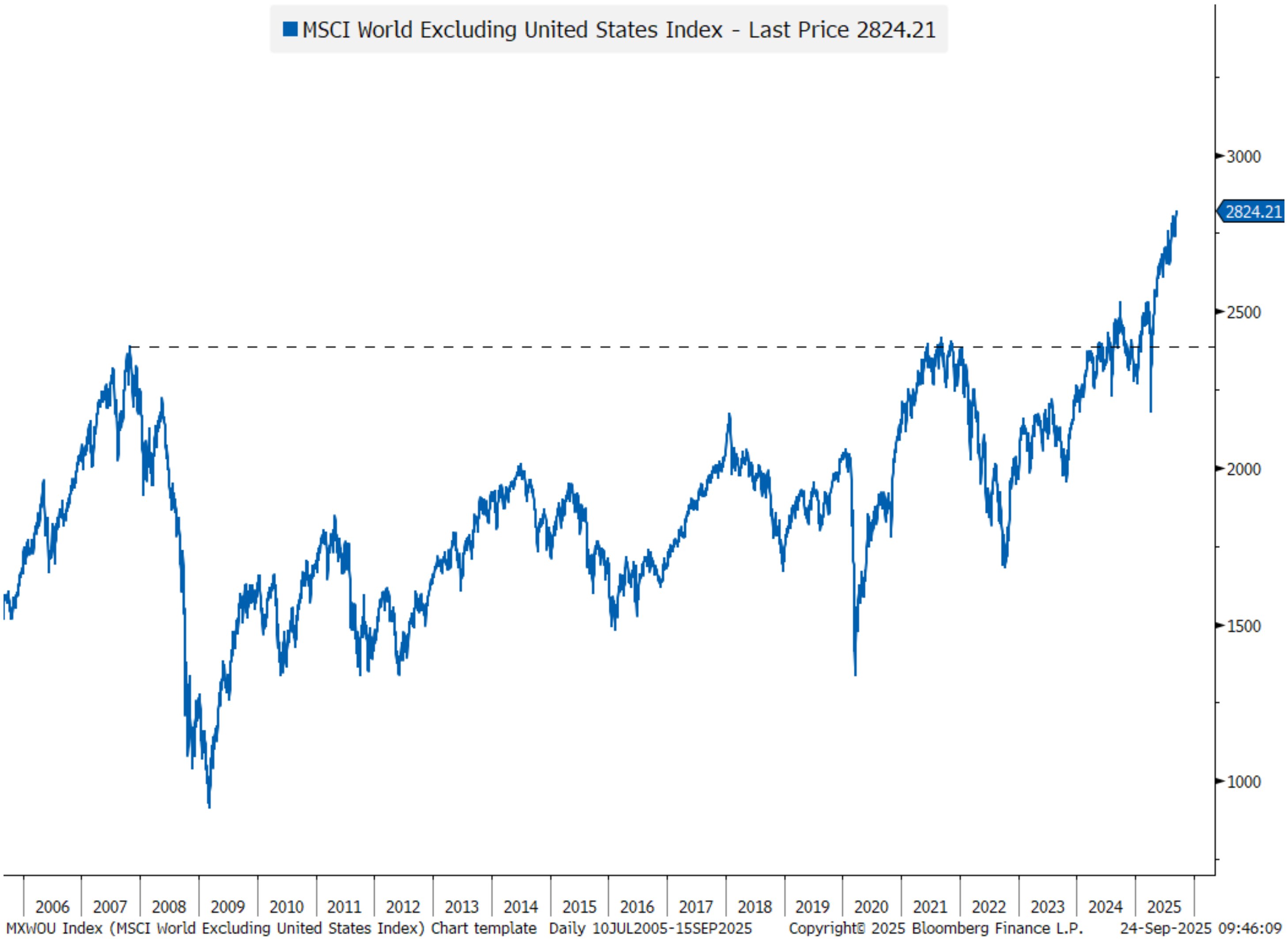


Source: Bureau of Economic Analysis

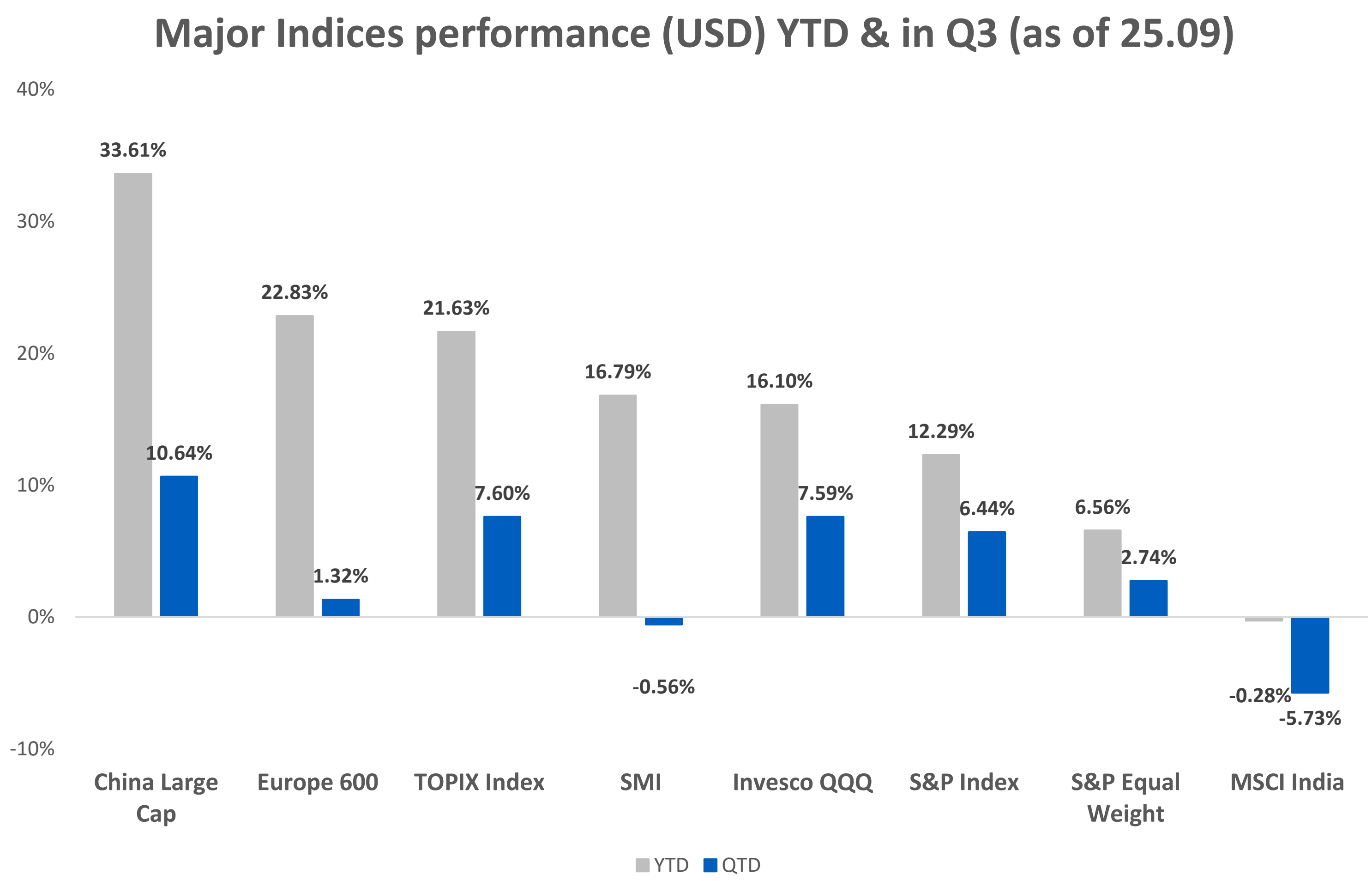
A bear market in the USD would go along with continued US underperformance



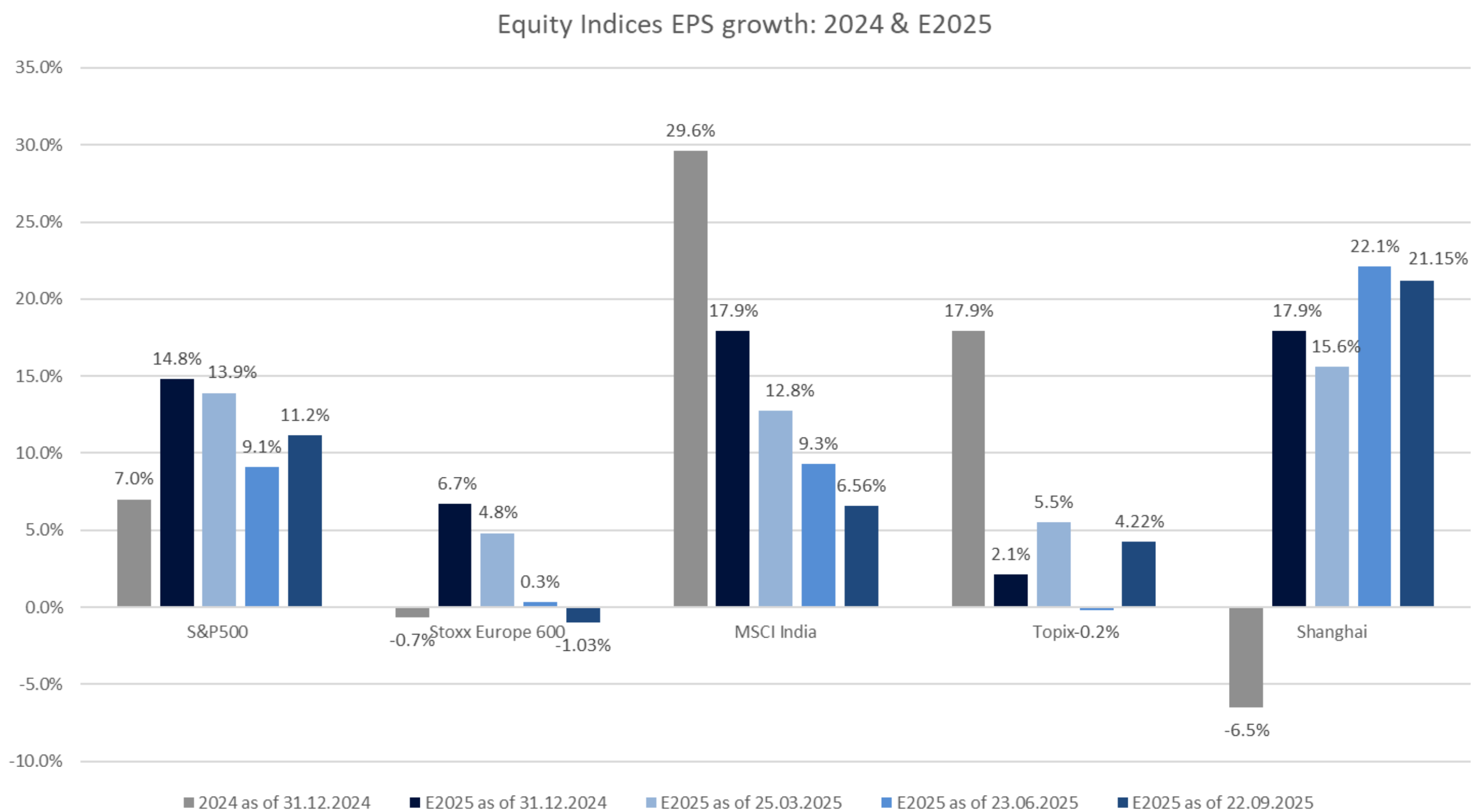
Global equities ex-US have broken out of a two-decade consolidation. Opportunities should be sought out outside of US markets in the coming years.



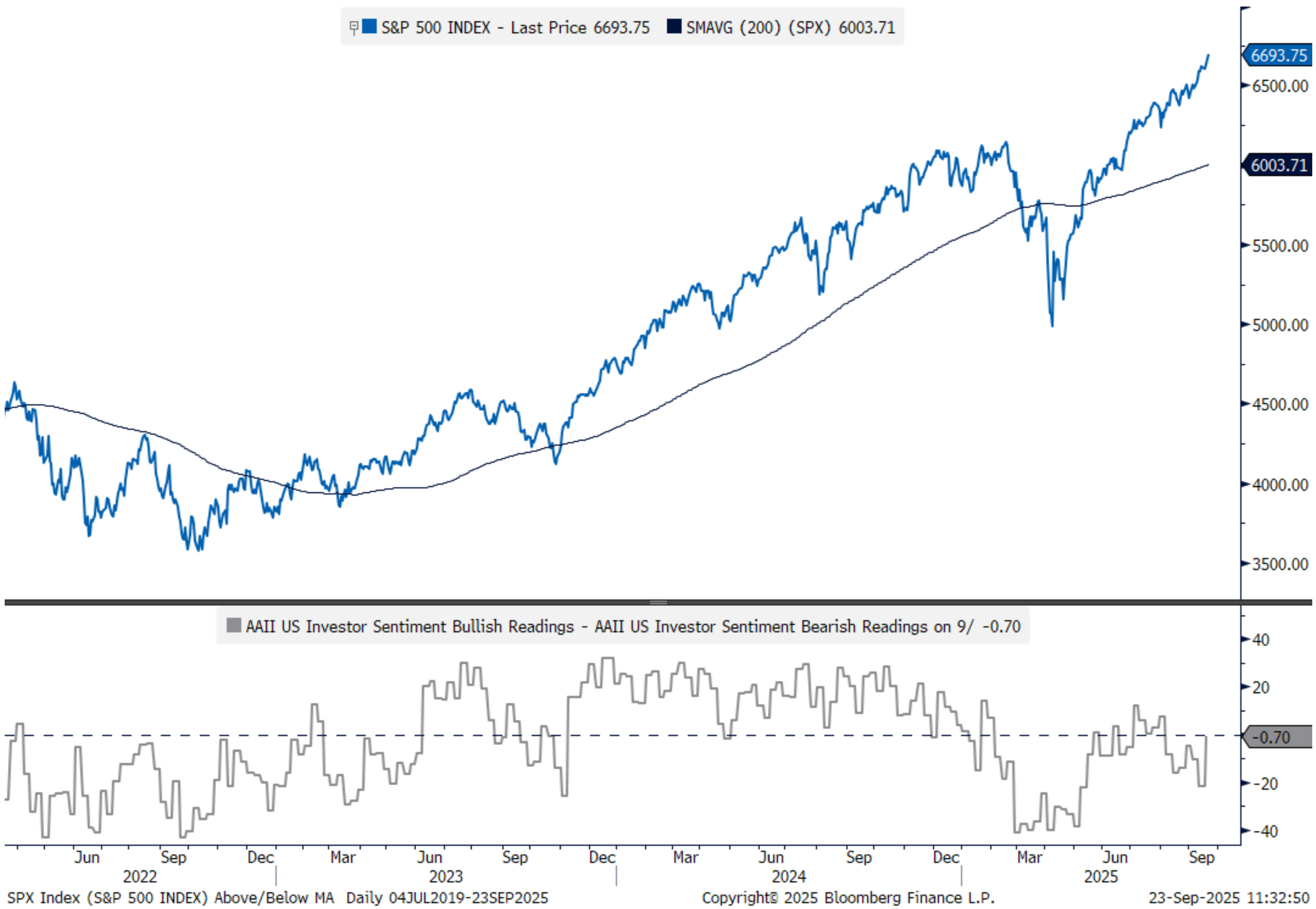
China, Japan and Europe are leading in 2025. In Q3, the US market has caught up, while Europe has largely underwhelmed.



In Q3, earnings expectations have been downgraded in India and Europe and raised in the US and Japan, aligning with market performance. Going forward, upward revisions are likely in the EU.



US equities continue to climb the wall of worry, as the economy holds up and the combination of monetary and fiscal largesse makes them more attractive them bonds. They however offer no margin of safety in case of a slowdown.



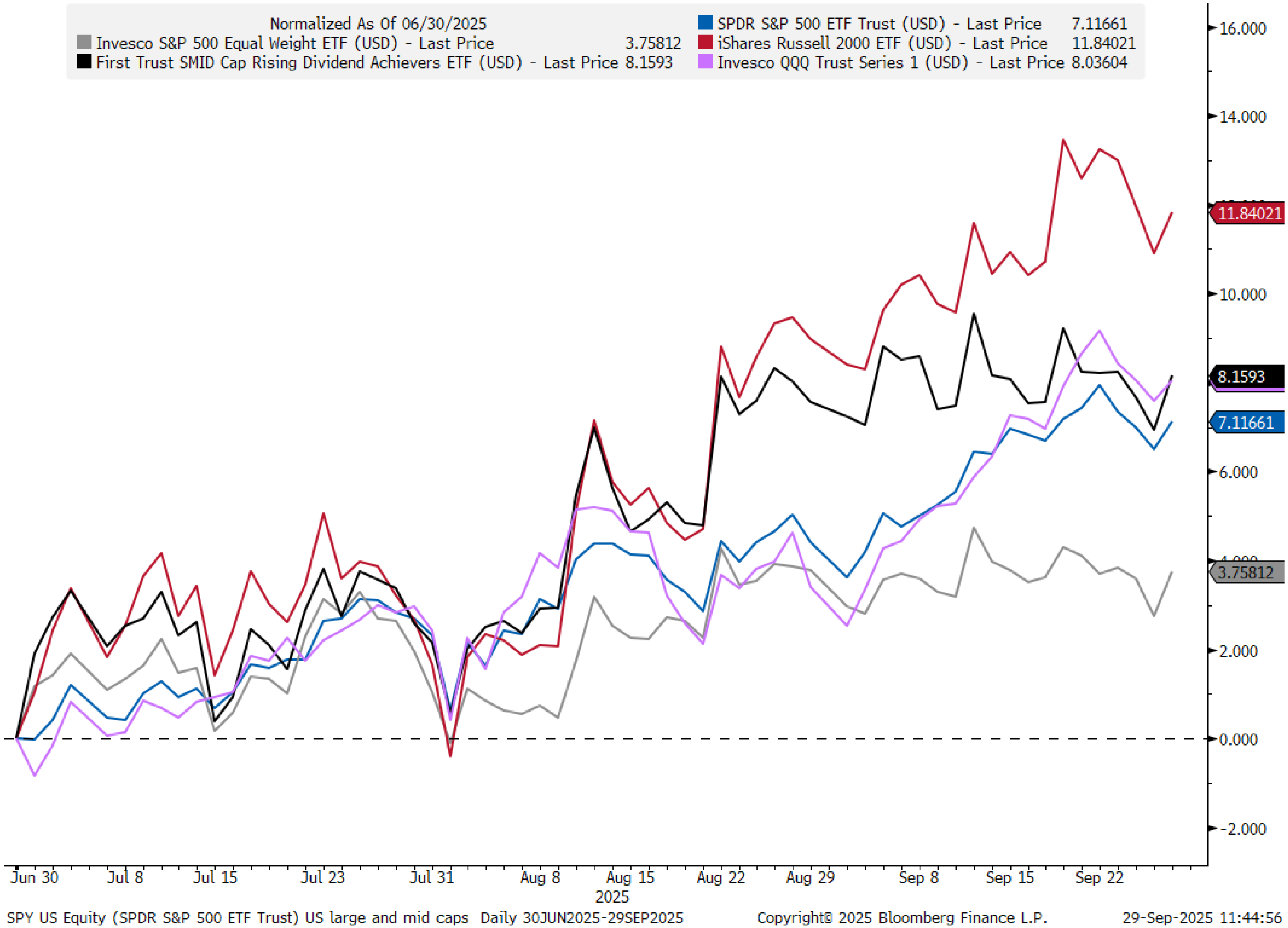
Discretionary positioning has remained muted, keeping a bid under equities as the economy holds up better than feared.

Figure 5: Discretionary vs Systematic strategies divide[2]

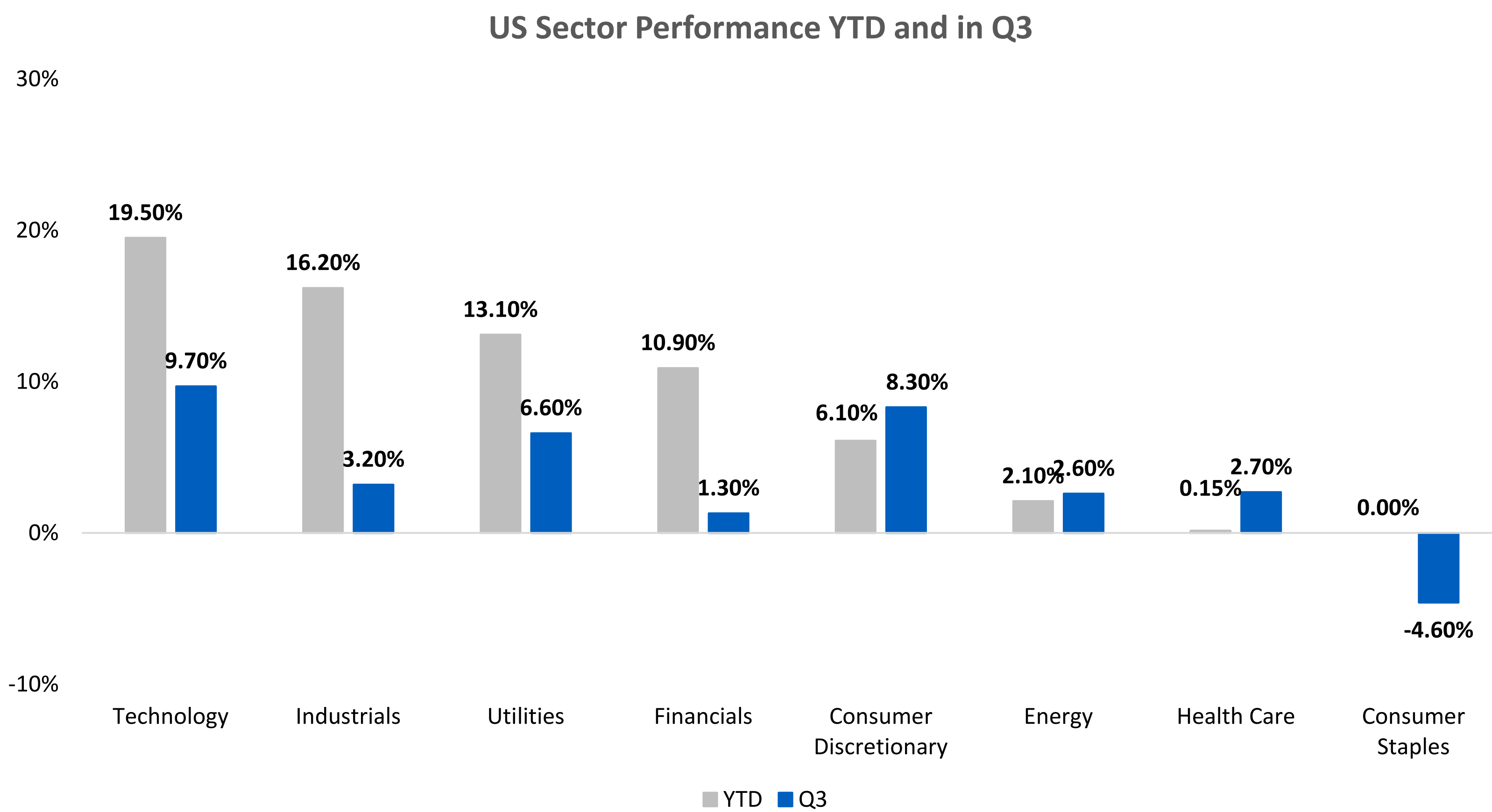
*Wtd average of Z-scores for positioning indicators, weights based on explanatory power in regression of equity performance on indicators

Source : Deutsche Bank Asset Allocation

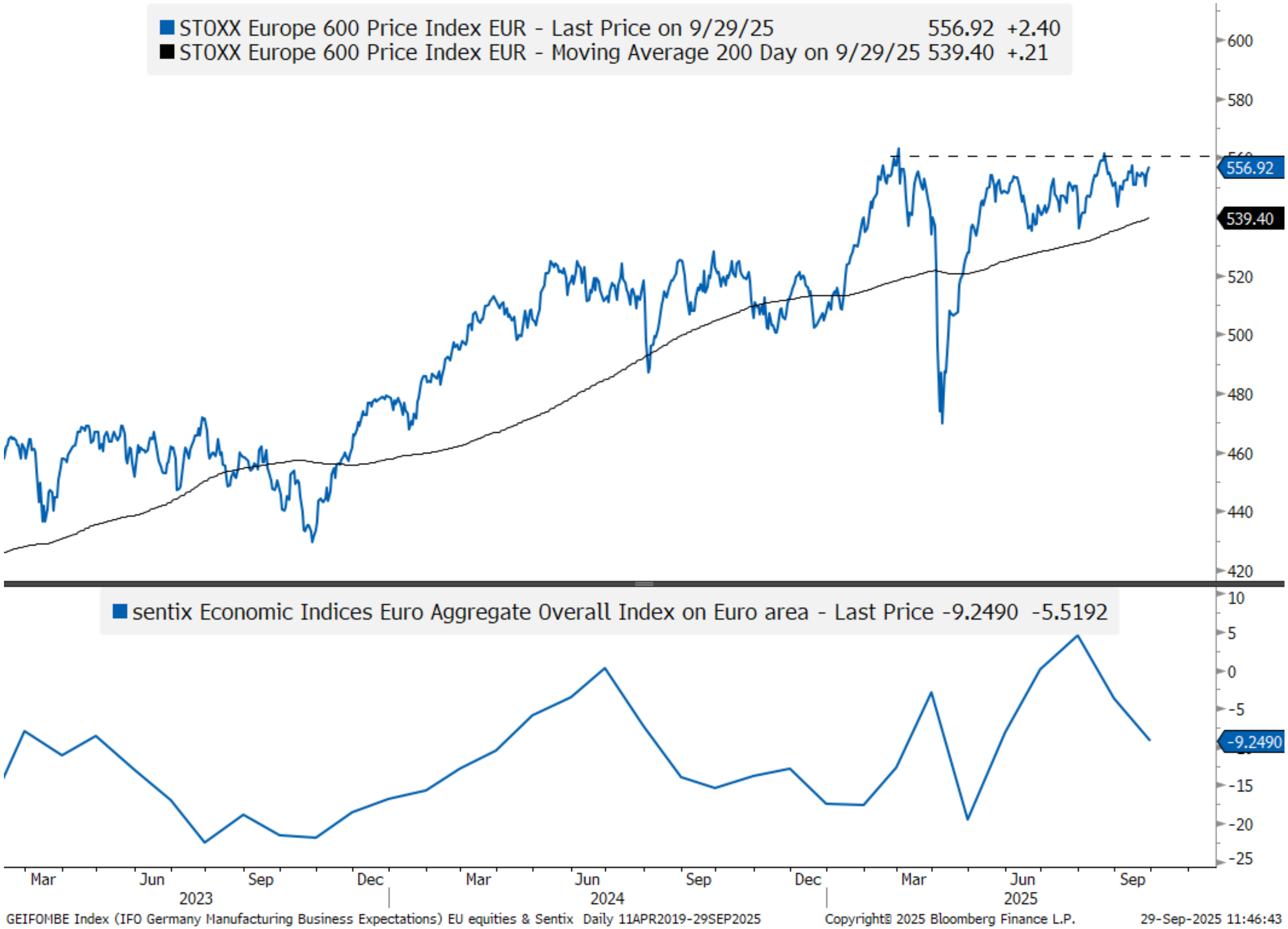
Small and mid caps have led the market in Q3, as participation has improved, which supports the economic resilience narrative.



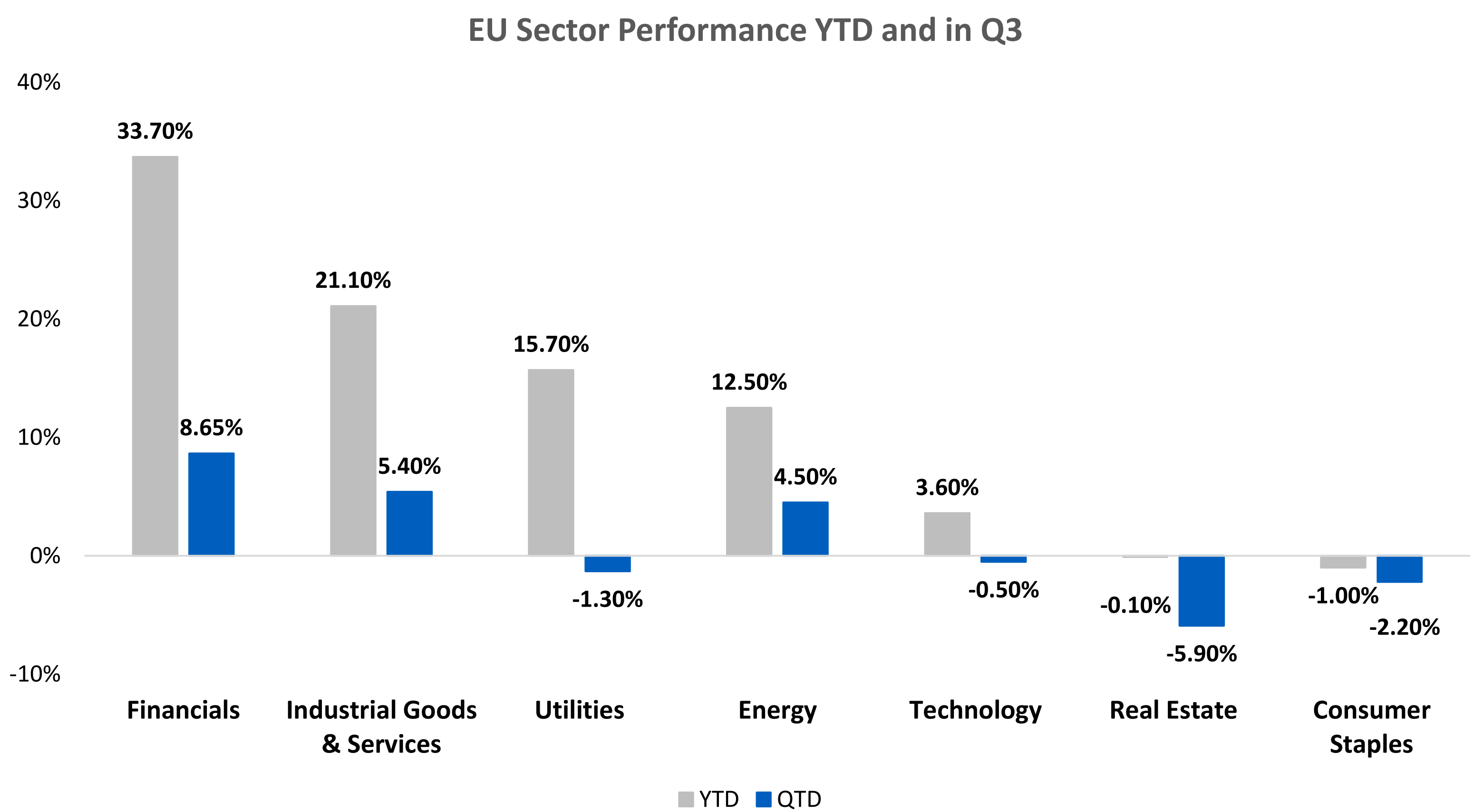
Tech has however been a major driver over the past quarter, as the AI capex boom continues. Given our reflationary views, we would be buyers of financials and industrials on pullbacks.



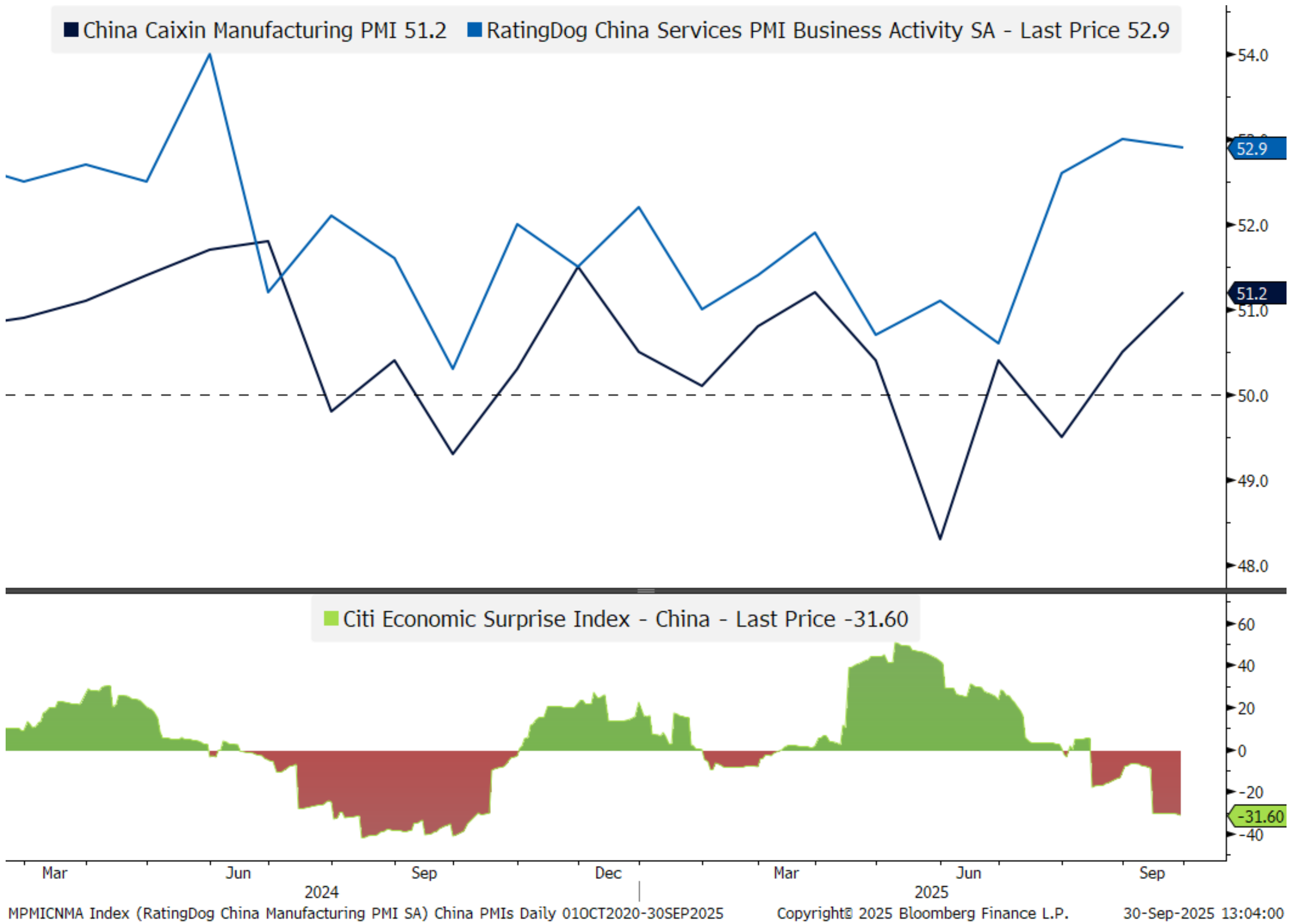
EU equities have been consolidating, as sentiment has deteriorated in the past few months. Upside resolution is the most likely but no point acting until confirmed.



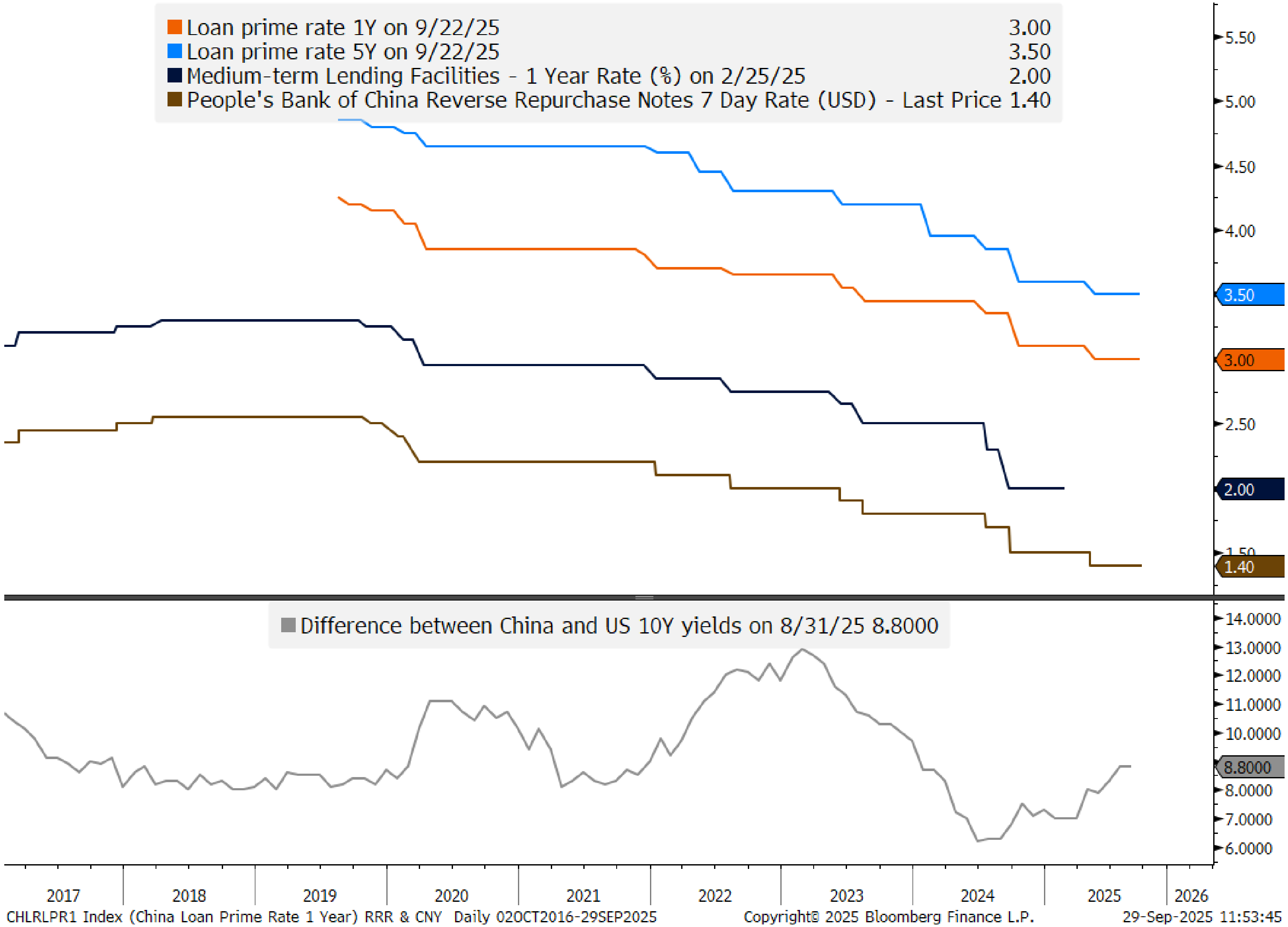
Industrials remain our preferred sector to play the increased fiscal spending in the EU and the capex boom in Asia.



Recent data has undershot expectations, including in the housing market, but PMIs are not pointing to a continued economic slowdown.

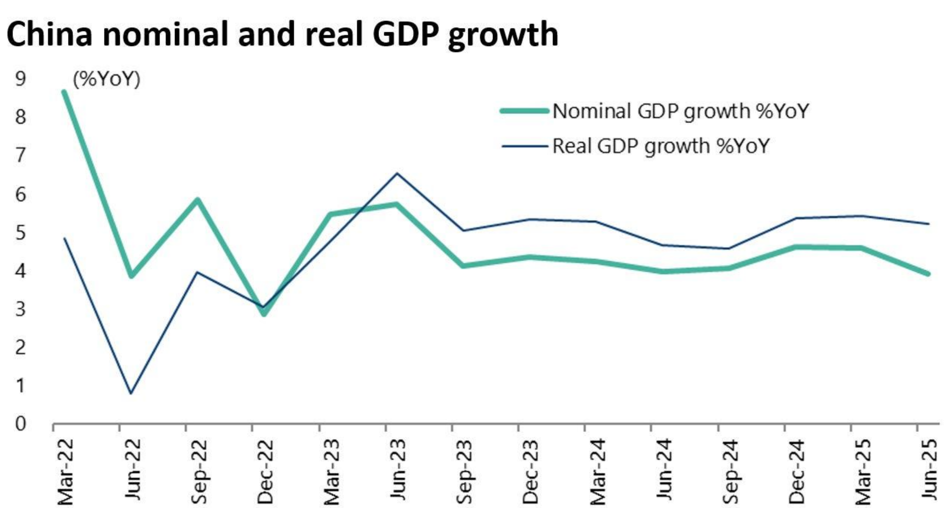


Stimulative measures continue to feed through, as money supply growth is on the rise on the back of monetary and fiscal support.



The Chinese anti-involution policy is the latest attempt at fighting deflation and boosting corporate profitability.

Source: National Bureau of Statistics

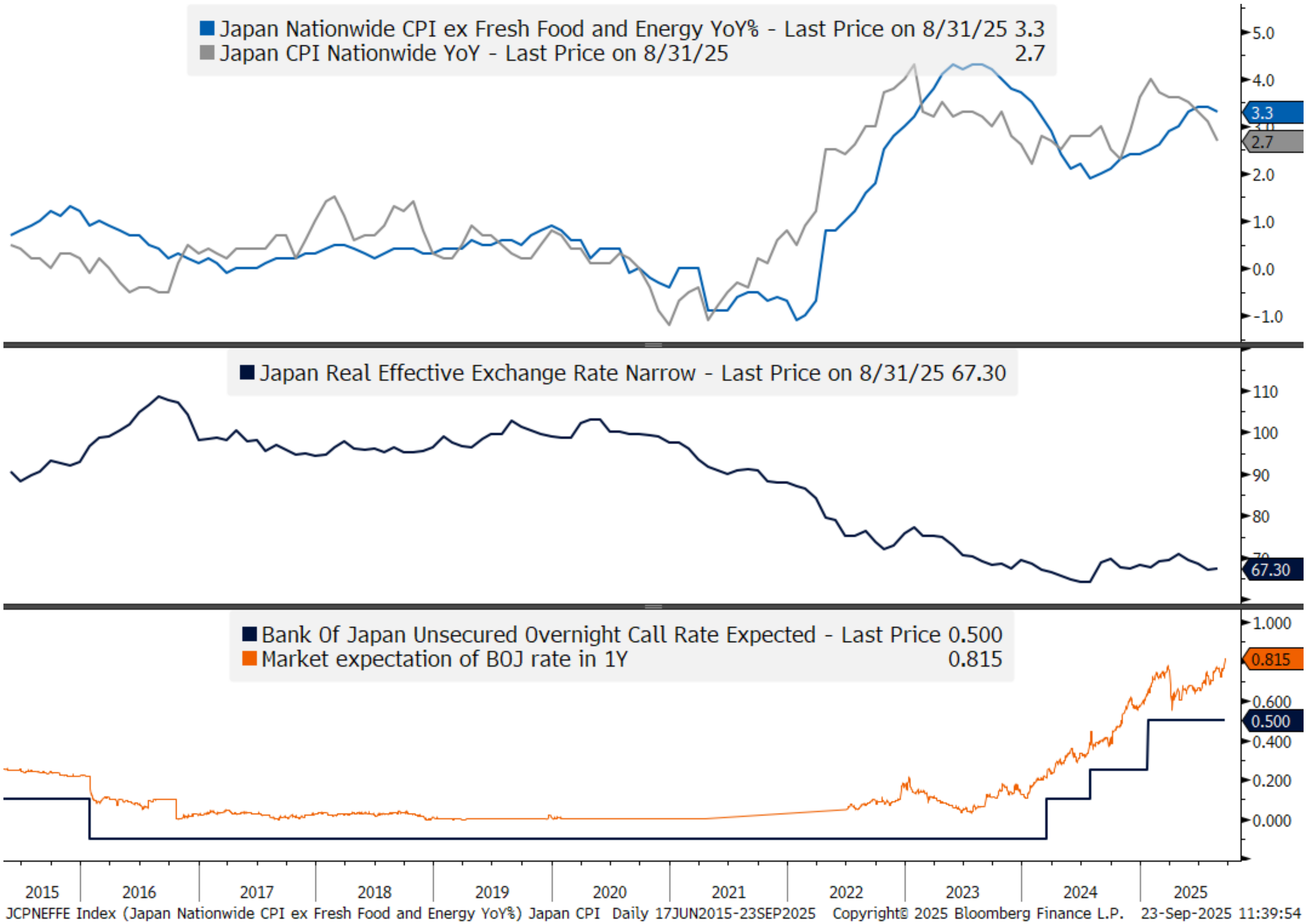


Source: National Bureau of Statistics

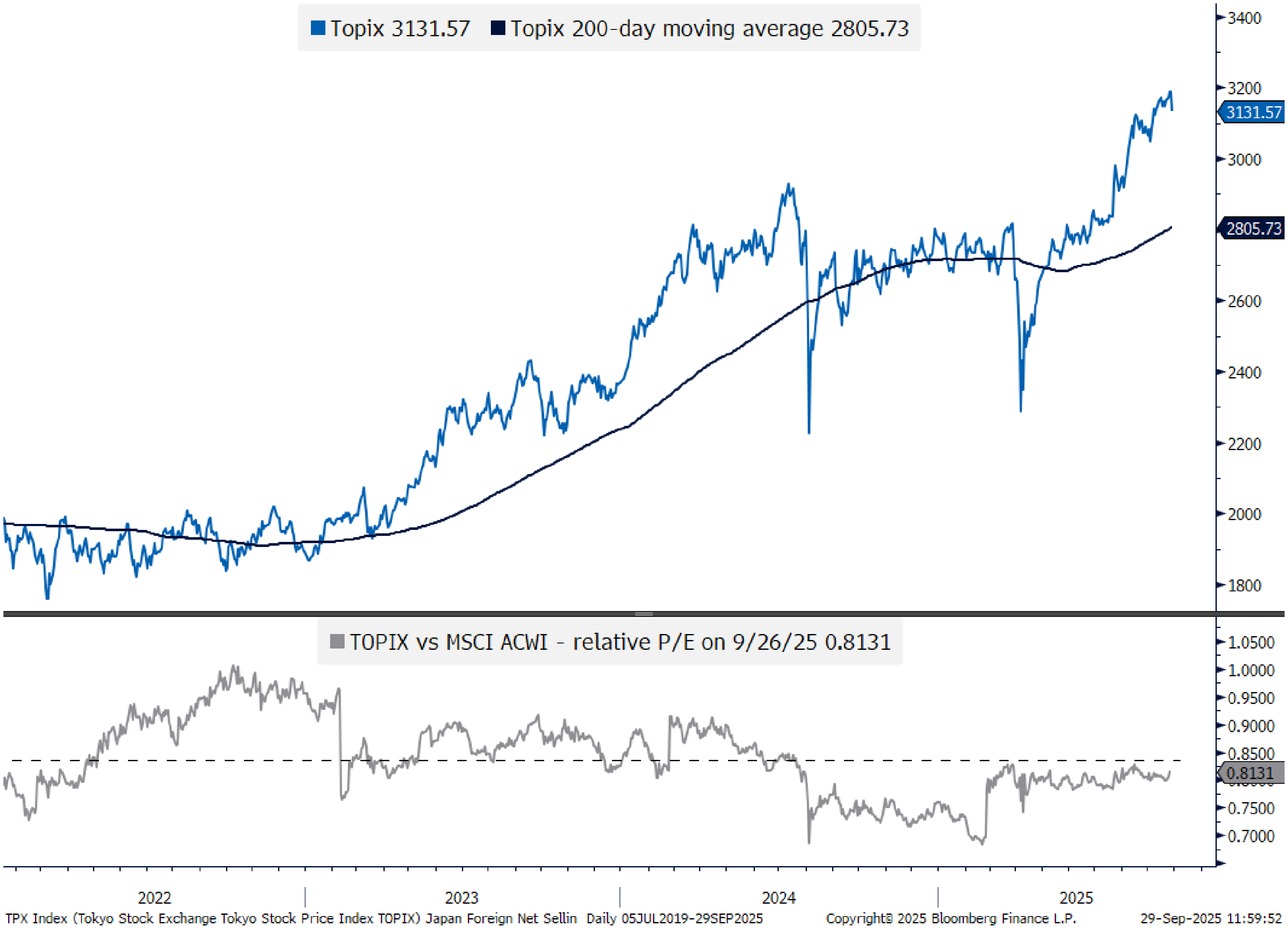
Source: Chris Wood

Chinese equities have rallied significantly and are a bit stretched short-term, but the bull market will continue. Government support remains firm, while China's leverage in trade discussions has become clear.

In Japan, despite the leadership change, the BOJ is likely to hike in the coming months. The JPY's appreciation is just a matter of time.



Japanese equities have broken to the upside after over a year of consolidation, pointing to resilient growth. Pullbacks should be bought.



Indian domestic growth drives the resilience

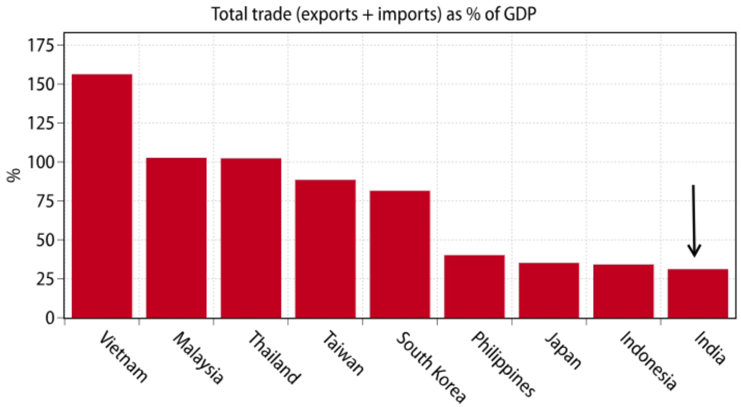
Despite global noise, India's growth is anchored at home…

Capex momentum is strong and broad based. April 2025 saw a 60% YoY surge, with private sector capex surpassing government outlay.

India's low trade dependency insulates it from global tensions – exports and imports make up <50% of GDP, among the lowest in Asia.

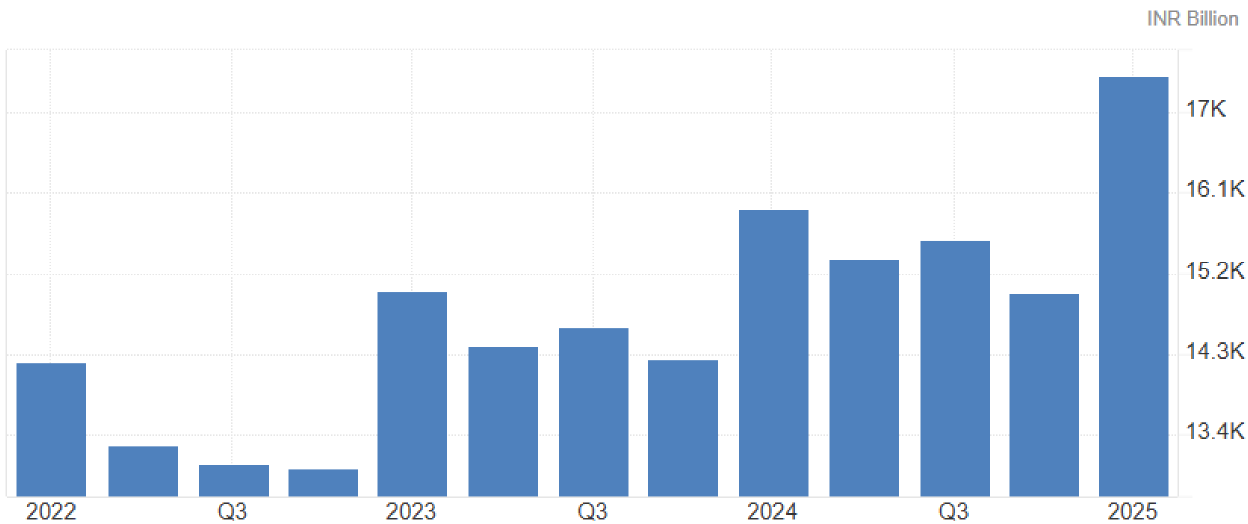
The U.S. accounts for a negligible share of India's steel exports (<3%), while domestic infra and auto demand is expected to absorb any surplus capacity.

India's trade dependency is low relative to Asian peers



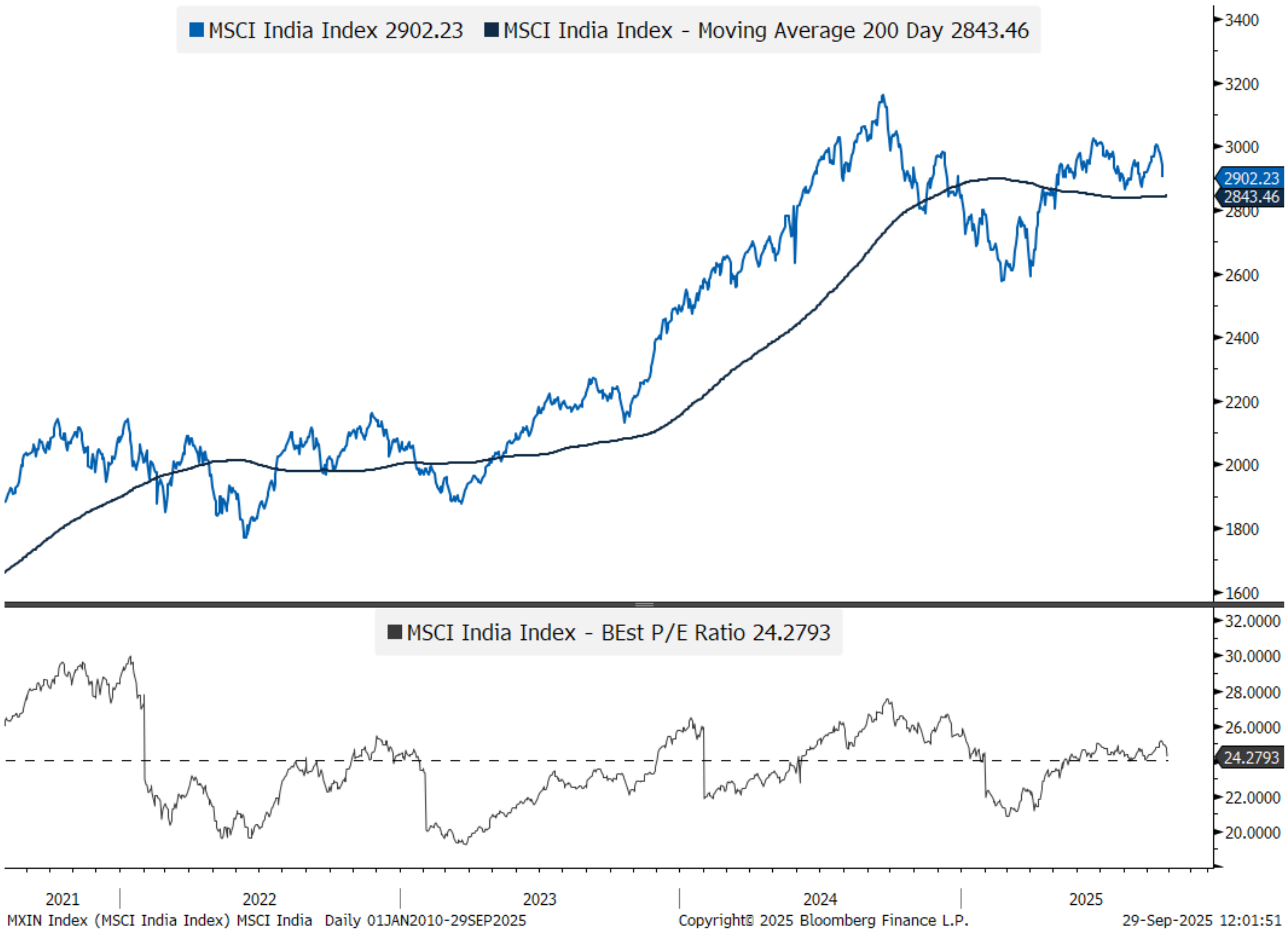
Source: Gavekal Research, 2025

India Gross Fixed Capital Formation



Source: Trading Economics

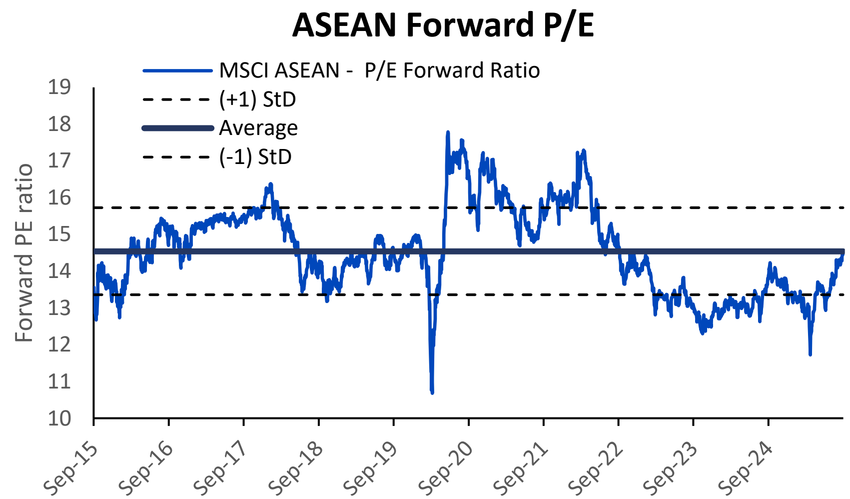
Rising geopolitical tensions and declining earnings estimates have weighed on Indian equities. This consolidation should be seen as an opportunity for under allocated investors to gain exposure.

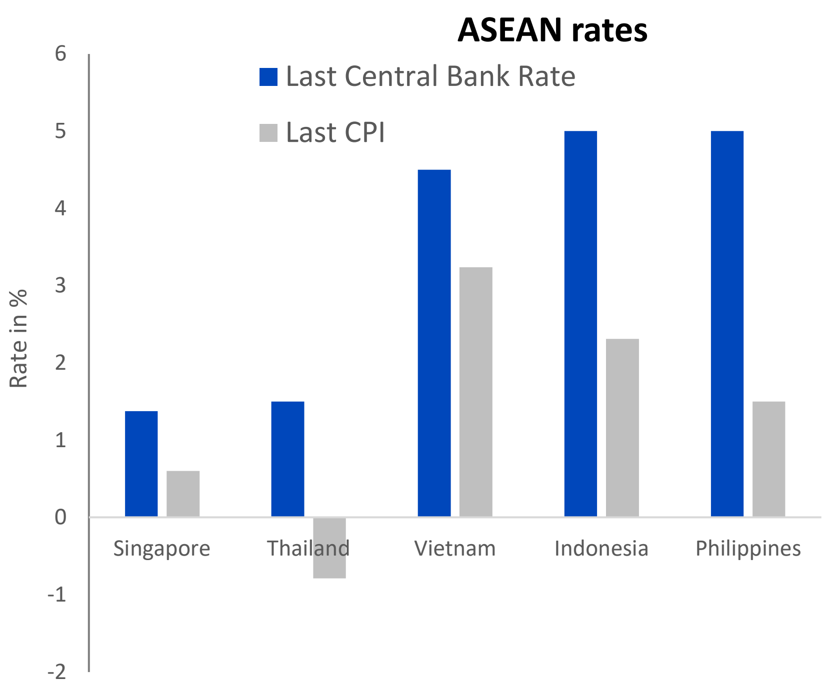


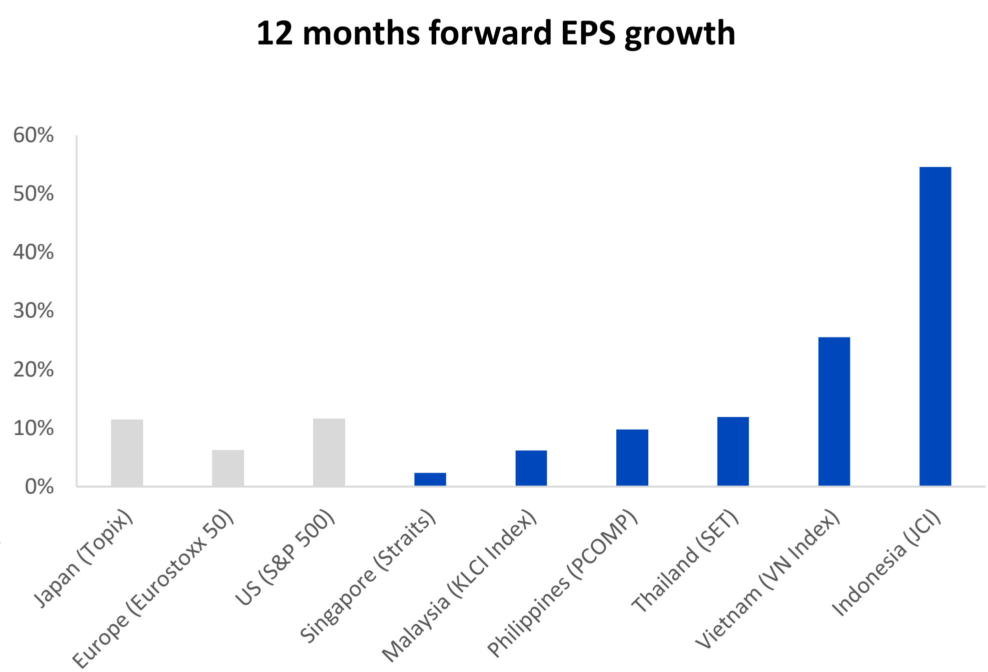
ASEAN markets have finally caught a durable bid. A combination of improving Chinese growth, weak USD, increased local trade and capital investment should keep favoring this region.

ASEAN

Inflation across ASEAN is normalizing (not sticky like US).
Central Bank rates continue to go down.
Loose monetary policies and above average growth should support the markets.
ASEAN Index forward P/Es cheap.
Some countries expect strong corporate growth.
US tariffs: deals done with the US. Between 15-20%

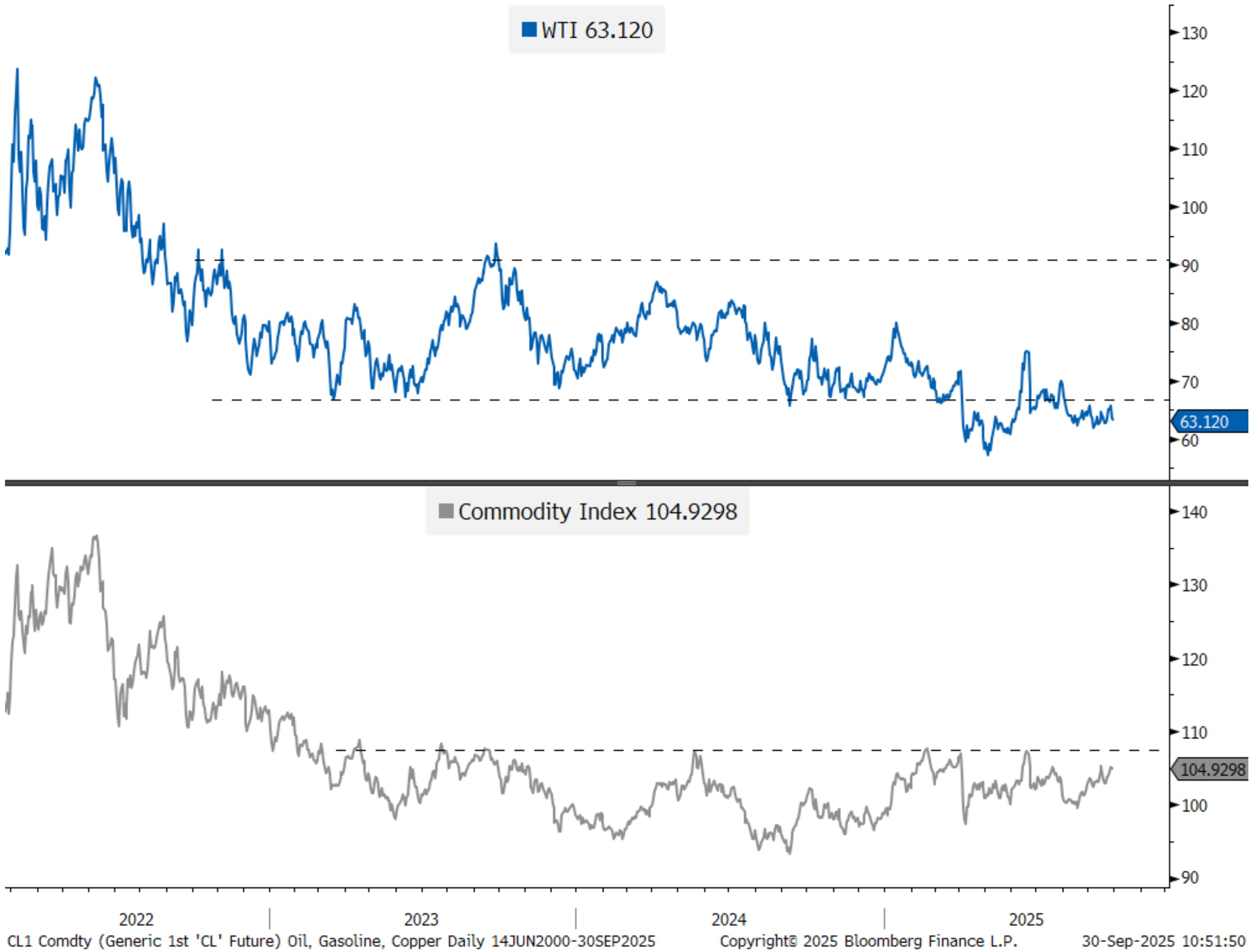




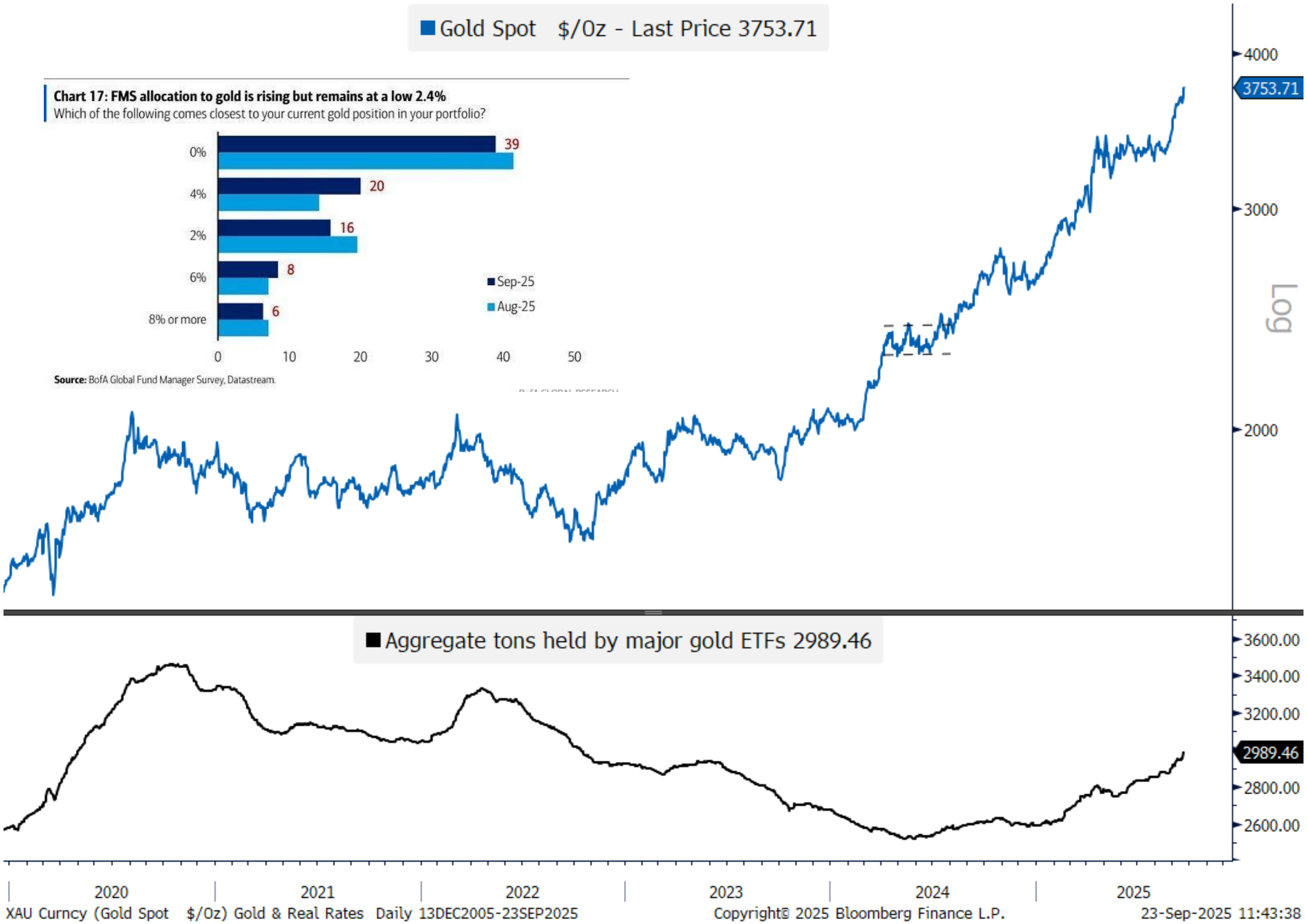


Source: Bloomberg

Despite pockets of strength, commodities have been weighed down by energy, as OPEC+ removes production curbs. Commodities are forming a major base and could break out given the upcoming reflationary wave.



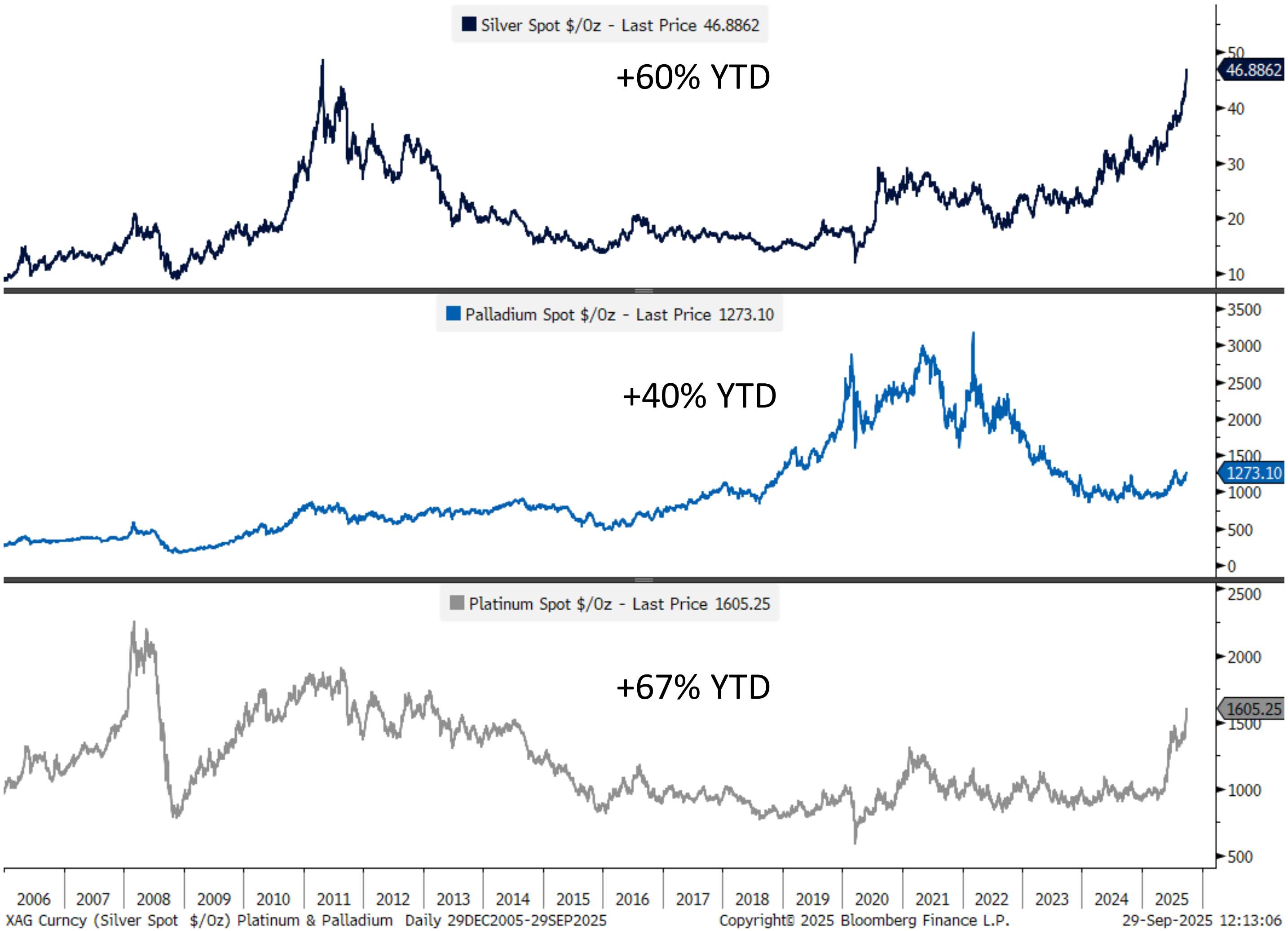
Gold's relentless bull market continues. Western investors have been buying more convincingly, but allocations remain muted. A pullback due to short-term overbought conditions would be aggressively bought.



Gold miners have rallied significantly and a bit of profit taking is reasonable at this stage.

GDX US Equity (VanEck Gold Miners ETF/USA) Gold and miners Daily 18NOV1970-30SEP2025 Copyright© 2025 Bloomberg Finance L.P. 30-Sep-2025 10:33:12

Other precious metals are making historical moves in 2025. Silver should see some resistance around current levels, while PGMs still have significant upside.



Summary table of our views

PROBUS PLEION

Q4 2025 convictions table

		Least Attractive	Neutral	Most Attractive	Comments
Equity	US Equity	○	●		
	EU Equity			●	
	Swiss Equity		●		
	Japanese Equity		○	●	Stay long JPY
	Chinese Equity			●	short-term overbought
	Asian EM		●		
Fixed Income	Cash & Short term debt			●	duration
	US Long term debt	●	○		
	EU long term debt	●			
	DM High Yield	●			
	EM Debt (Local)			●	
	EM Debt (Hard)		●		
Alternatives	Precious Metals & Miners		○	●	short-term very overbought
	Commodities			●	favor industrial metals
	REITs (EU + CH)		●		Positive in CH, negative in EU/US
	Hedge Funds		●		Favor Long-short
	Private Markets		●		Favor buy-outs (evergreen)

● Current View ○ Previous View

Forex					
EURUSD	EURCHF	EURGBP	USDCHF	USDJPY	GBPUSD
→	↑	↑	↑	↓	↓

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