TELOMERE | Capital

Market
Update

Certainly exuberant, and maybe even rational

October 2025

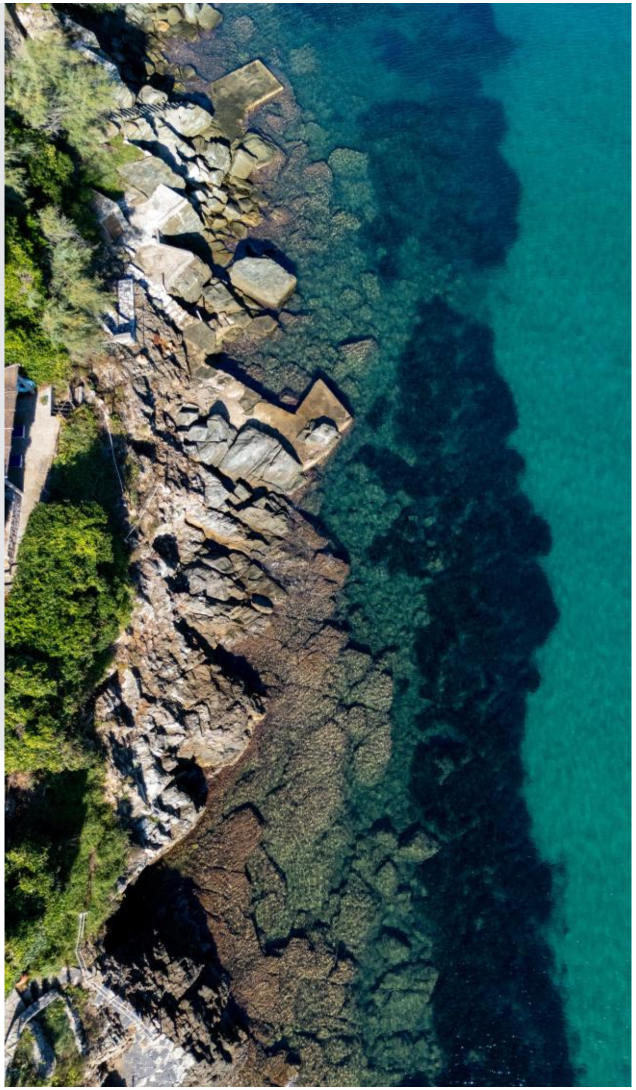
Editorial

September proved to be a pivotal month as markets grappled with competing narratives: resilient equity performance versus deepening labor market concerns; and central bank easing versus mounting fiscal anxieties. Global equities climbed to new all-time highs for the fifth consecutive month, driven by renewed optimism in artificial intelligence and Federal Reserve rate cuts.

Troubling employment revisions revealed the largest downward adjustment in decades. This disconnect between market exuberance and economic fundamentals highlights the complex environment in which investors currently operate, where traditional safe-haven hierarchies are being challenged and speculation in unprofitable technology companies raises questions about sustainability.

The outlook for the final quarter of 2025 remains nuanced. Although tariff-induced inventory front-loading may lead to weaker growth as the mini-boom transitions to adjustment, fiscal support measures expected in 2026, including US tax cuts and targeted stimulus in Germany, China and Japan, could offset this. Central banks have significant scope to ease further if economic conditions deteriorate; however, the path forward depends on whether AI-driven productivity gains can offset immigration-related jobs supply shocks and tariff pressures.

We hope you enjoy reading these updates and find them helpful for the month ahead.



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Global **Markets**

Global	Last	YTD	MTD
MSCI World	4,306.7	17.9%	3.3%
MSCI ACWI	984.8	18.9%	3.7%
MSCI Emerging Markets	1,346.1	28.2%	7.2%
United States			
Dow Jones Industrial	46,397.9	10.5%	2.0%
S&P 500	6,688.5	14.8%	3.6%
NASDAQ 100	24,680.0	18.1%	5.5%
Russell 2000	2,436.5	10.4%	3.1%
Europe			
Euro STOXX 600	558.2	13.3%	1.5%
Euro STOXX 50	5,530.0	16.1%	3.4%
DAX	23,880.7	19.9%	-0.1%
CAC 40	7,895.9	10.3%	2.7%
FTSE 100	9,350.4	17.7%	1.8%
Swiss Market Index (SMI)	12,109.4	7.7%	-0.5%

Sectors (US)			
Communication Services		26.8%	6.1%
Consumer Discretionary		5.0%	3.3%
Consumer Staples		4.1%	-1.5%
Energy		6.9%	-0.4%
Financials		12.8%	0.1%
Health Care		3.1%	1.7%
Industrials		20.4%	2.9%
Materials		12.2%	-1.3%
Real Estate		6.9%	0.5%
Technology		21.6%	7.0%
Utilities		16.6%	4.0%

Commodities & Metals	Last	YTD	MTD
Gold (XAU)	3,859.0	47.0%	11.9%
Silver (XAG)	46.6	61.4%	17.4%
Copper	485.7	20.6%	7.5%
Currencies (USD)			
EUR	1.17	13.3%	0.4%
CHF	0.80	12.2%	0.5%
JPY	147.9	6.3%	-0.6%
BTC	114,641	22.3%	6.3%
Fixed Income			
US Treasury	2,413	5.4%	0.8%
EUR Treasury	247	0.3%	0.5%
Global Aggregate	500	7.9%	0.7%
US Corporate	3,516	6.9%	1.5%
Global EM USD	1,354	8.5%	1.1%
Global High Yield	1,821	9.6%	0.7%

Interest Rates (US)		Last month	End 2024
3 Months	3.93%	4.14%	4.31%
12 Months	3.61%	3.83%	4.14%
5 Year	3.74%	3.70%	4.38%
10 Year	4.15%	4.23%	4.57%

Price / Earnings Ratios		End 2024	End 2023
S&P 500	27.83	26.52	22.87
Euro STOXX 50	17.01	14.23	12.61
Swiss Market Index (SMI)	18.33	18.09	18.07

Data at close of 30/09/2025

Macroeconomic **Indicators**

Central Banks Targets Rates	Last	Q3 2025	Q2 2025	Q1 2025
United States	4.25%	4.25%	4.50%	4.50%
Eurozone	2.15%	2.15%	2.15%	2.65%
Switzerland	0.00%	0.00%	0.00%	0.25%
United Kingdom	4.00%	4.00%	4.25%	4.50%
Canada	2.50%	2.50%	2.75%	2.75%
Japan	0.50%	0.50%	0.50%	0.50%
China (3M SHIBOR)	1.58%	1.58%	1.63%	1.92%

Inflation (CPI - YoY)	Last	Q3 2025	Q2 2025	Q1 2025
United States	2.90%	N/A	2.70%	2.40%
Eurozone	2.20%	2.20%	2.00%	2.20%
Switzerland	0.20%	0.20%	0.10%	0.30%
United Kingdom	3.80%	N/A	3.60%	2.60%
Canada	1.90%	N/A	1.90%	2.30%
Japan	2.70%	N/A	3.30%	3.60%
China	-0.40%	N/A	0.10%	-0.10%

Unemployment	Last	Q3 2025	Q2 2025	Q1 2025
United States	4.30%	N/A	4.10%	4.20%
Eurozone	6.30%	N/A	6.30%	6.40%
Switzerland	2.90%	N/A	2.90%	2.70%
Canada	7.10%	N/A	6.90%	6.70%
Japan	2.60%	N/A	2.50%	2.50%
China	5.30%	N/A	5.00%	5.20%

Gross Domestic Product (YoY)	Last	Q3 2025	Q2 2025	Q1 2025
United States	2.10%	N/A	2.10%	2.00%
Eurozone	1.40%	N/A	1.40%	1.40%
Switzerland	1.20%	N/A	1.20%	1.80%
Canada	0.90%	N/A	0.90%	1.80%
Japan	4.70%	N/A	4.70%	5.10%
China	5.20%	N/A	5.20%	5.40%
India (Real GDP)	7.81%	N/A	7.81%	7.38%

Producer Price Index (PPI - YoY)	Last	Q3 2025	Q2 2025	Q1 2025
United States	1.90%	N/A	1.90%	0.80%
European Union	0.10%	N/A	0.10%	0.30%
Switzerland	-1.80%	N/A	-0.70%	-0.10%
Canada	4.03%	N/A	1.88%	4.53%
Japan	2.70%	N/A	2.70%	4.30%
China	-2.90%	N/A	-3.60%	-2.50%
India	0.52%	N/A	-0.19%	2.25%

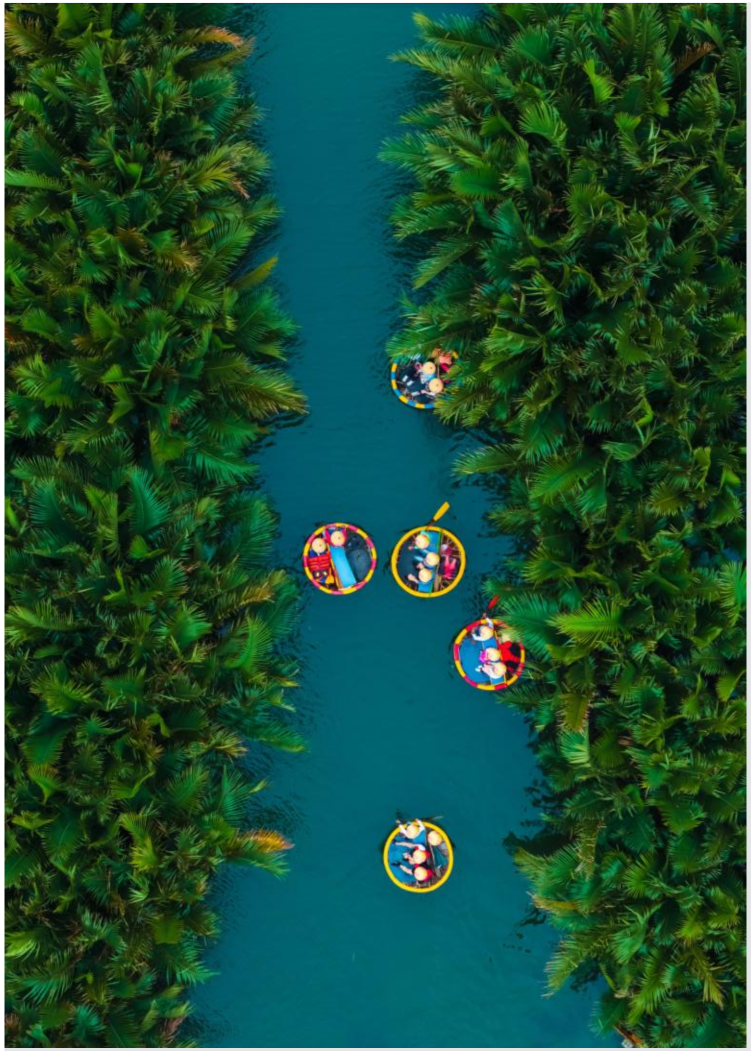
Purchasing Managers' Index	Last	Q3 2025	Q2 2025	Q1 2025
United States	49.1	49.1	49	49
Eurozone	49.8	49.8	49.5	48.6
Switzerland	46.3	46.3	49.6	48.9
Canada	47.7	47.7	45.6	46.3
Japan	48.5	48.5	50.1	48.4
China	49.8	49.8	49.7	50.5
India	57.7	57.7	58.4	58.1

Core Inflation (Core CPI - YoY)	Last	Q3 2025	Q2 2025	Q1 2025
United States	3.10%	N/A	2.90%	2.80%
Eurozone	2.30%	2.30%	2.30%	2.40%
Switzerland	0.70%	0.70%	0.60%	0.90%
Canada	2.40%	N/A	2.60%	2.40%
Japan	1.60%	N/A	1.60%	1.60%

Consumer Spending (PCE - YoY)	Last	Q3 2025	Q2 2025	Q1 2025
United States	2.91%	N/A	2.81%	2.67%

Data as of 03/10/2025
N/A: Not yet reported or Public Holiday

September **Macro News**



- The US Federal Reserve delivered its first rate cut since December 2024, reducing the federal funds rate by 25 basis points to 4.00-4.25%. Chair Jerome Powell characterized this as a "risk management" cut, signaling a fundamental shift in the Fed's dual mandate focus from inflation concerns to labor market deterioration.

- In France, Prime Minister François Bayrou's government collapsed on September 8th following a crushing confidence vote defeat of 364-194. Bayrou's downfall stemmed from his 44 billion austerity budget proposal aimed at reducing France's ballooning deficit.

- September concluded with the United States entering its first government shutdown since 2018-19, officially beginning on October 1st. The shutdown resulted from irreconcilable partisan disagreements over federal spending levels, adding another layer of policy uncertainty at a time when markets were already grappling with questions about Federal Reserve independence, labor market deterioration, and the trajectory of monetary policy.

Gold's **Reign**

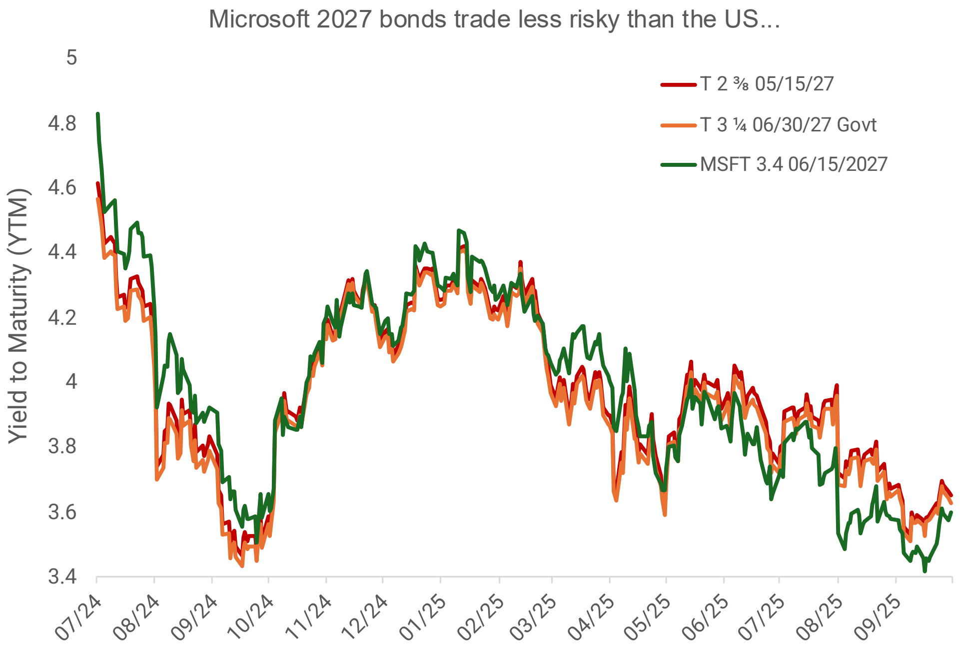
Something rather unusual is playing out in bond markets right now. Microsoft's corporate bonds are yielding less than equivalent-maturity U.S. Treasuries. A phenomenon that flips traditional financial logic on its head.

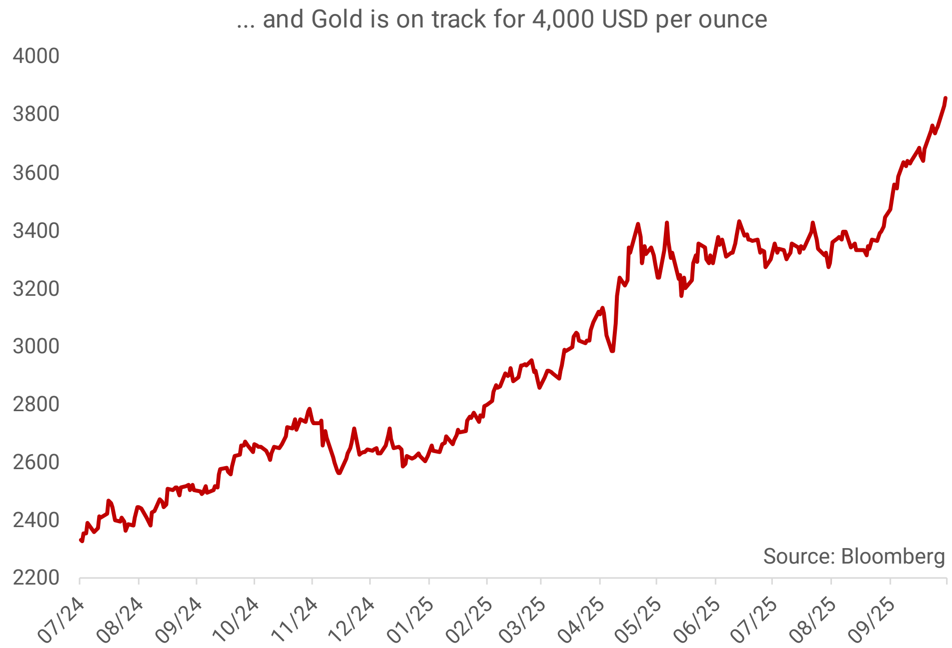
September delivered what many are calling gold's finest hour since 2011, as the precious metal surged through multiple all-time highs to finish the month at USD 3'859 per ounce. A stunning 47% year-to-date gain. Think of this rally as a direct vote of no confidence in traditional fiscal anchors.

This reflects three converging pressures on Treasury markets. First, the enormous volume of Treasury supply, amounting to USD 30 trillion of federal debt (now equating to about 122% of GDP), is pushing prices down and pushing yields up. Second, Microsoft's corporate balance sheet strength simply outshines government's fiscal position in the eyes of many investors. Third, we're observing negative swap spreads, which historically have been reliable indicators of fiscal stress and market dysfunction.

The pattern is consistent: when fiscal stress indicators rise and debt sustainability worries intensify, investors systematically rotate into gold as an alternative safe-haven asset. Central banks have been aggressive buyers, ETF inflows have been strong, and the weaker dollar has provided additional tailwinds.

Gold's rally isn't speculation; it's recognition that traditional safe havens aren't as safe as they once appeared.





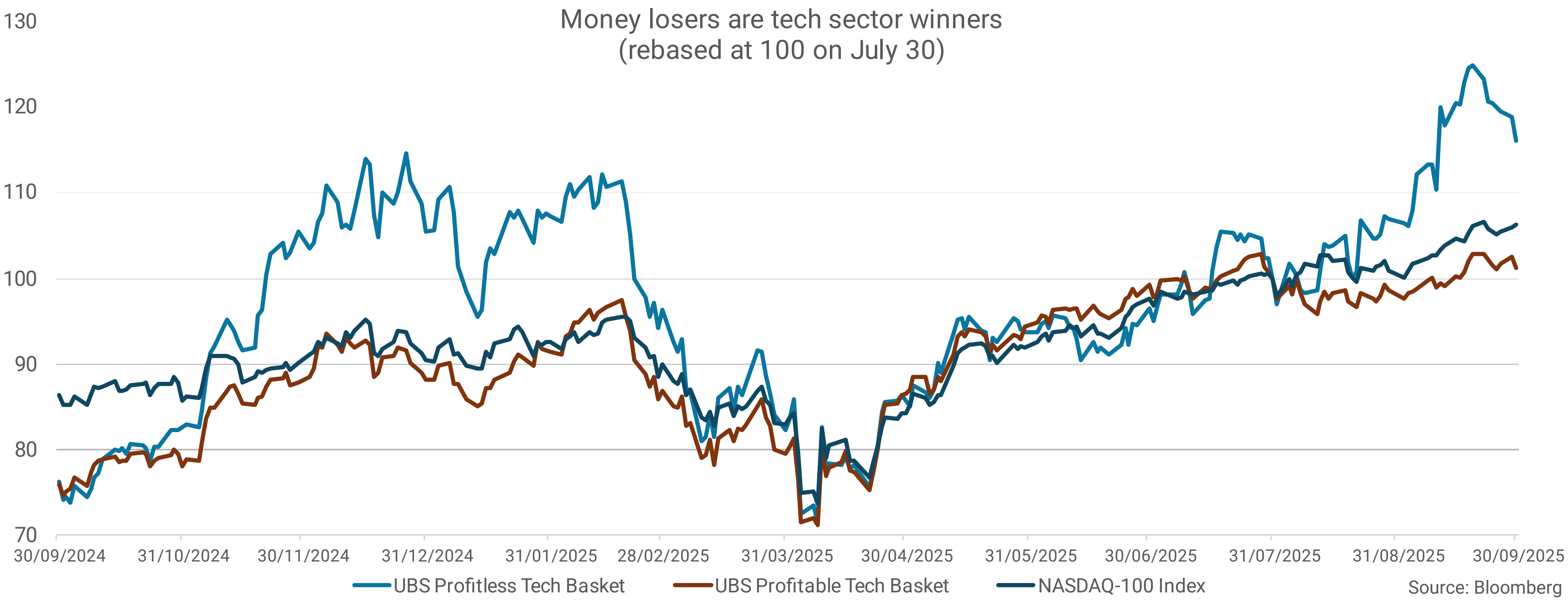
Unprofitable **Tech's Moment**

The riskiest corner of the technology sector has been on a tear. Unprofitable tech companies have jumped 16% since the end of July, vastly outpacing the 1.2% advance for profitable tech peers and the Nasdaq 100 Index's 6.3% advance.

This isn't necessarily a bubble territory, though the parallels are unsettling. Unlike the dot-com era, today's unprofitable tech firms operate in a world where the "Magnificent 7" have already proven that technology can generate massive and sustainable profits. If AI were somehow exposed as overhyped, these established giants would likely retain their value; a fundamentally different scenario from the internet companies that collapsed in 2001. The current rally feels more like rational exuberance about genuine technological transformation than pure speculation.

A major risk to monitor is an AI-related disappointment or surprise (remember DeepSeek back in February). If sentiment around AI shifts dramatically, it would likely trigger significant market volatility, but the impact would be asymmetric. AI infrastructure providers and smaller speculative plays would suffer most, while established tech leaders would likely retain substantial value.

Unlike the internet companies of the late 1990s, today's major tech firms generate massive cash flows, have dominant market positions, and possess real earnings power. If AI were somehow deemed overhyped, Microsoft, Google, and Amazon wouldn't collapse to zero, a very different scenario from Pets.com



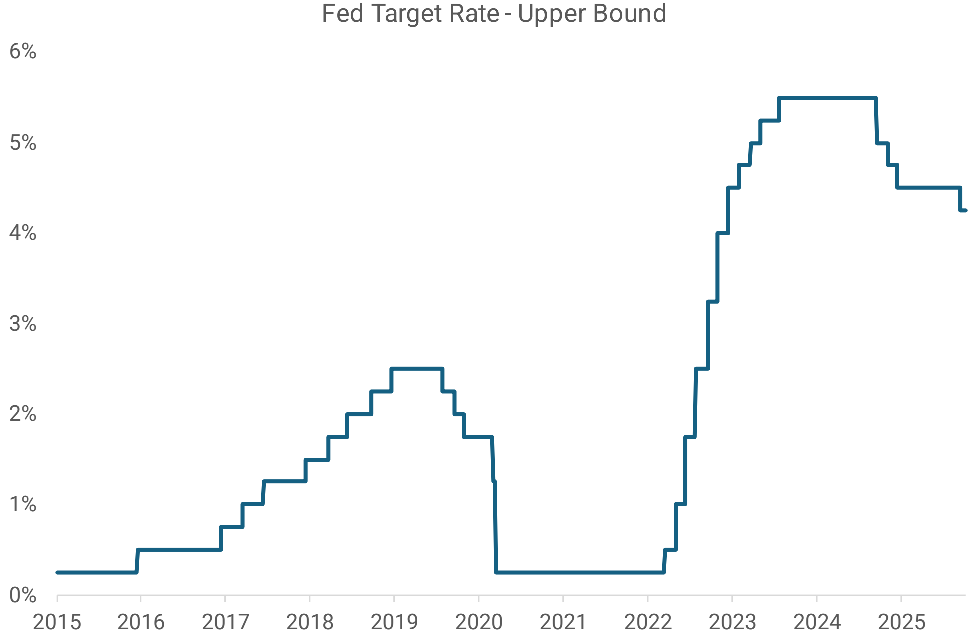
Labor Market **Crossroads**

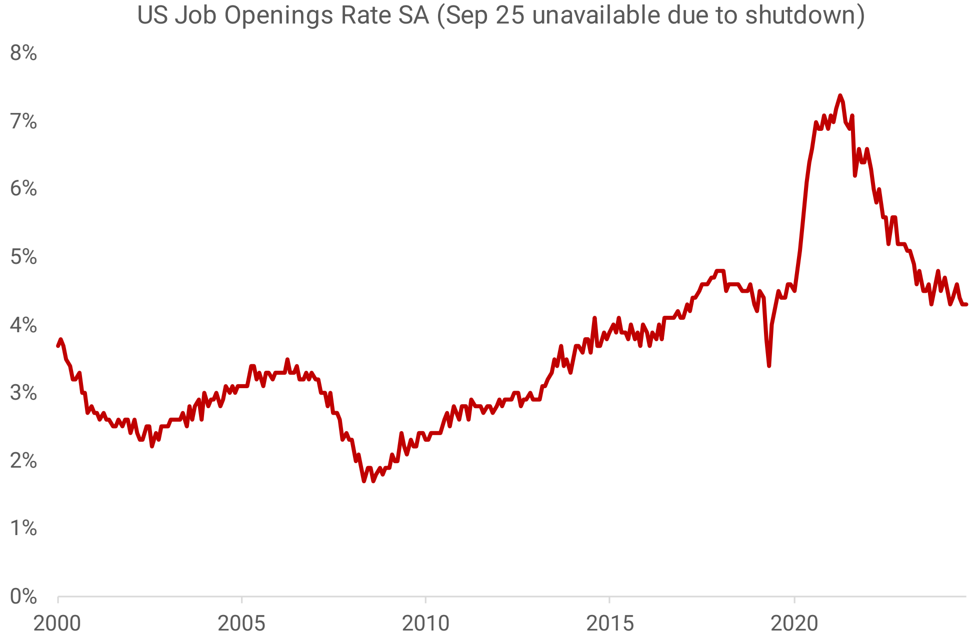
The Fed initiated a new rate-cutting cycle in September 2025 with a 25 bps "risk management" cut, bringing the policy rate to 4.00 - 4.25%.

What caught everyone's attention was the rising risk profile in U.S. labor markets, which ultimately prompted the Fed to pivot from its singular focus on tariff-induced inflation risks toward balancing its dual mandate. The employment picture beneath the headline numbers seems to be considerably weaker than it appears.

The surface numbers tell one story: unemployment at 4.2% through August, payroll gains averaging 75,000 monthly year-to-date. But beneath that facade lies troubling evidence of a labor market under stress. The BLS establishment survey has likely overstated job gains by 700,000 to 900,000 positions, and when adjusted for probable continued overestimation plus expected government payroll declines, we're looking at potential monthly job losses averaging 8'000 year-to-date, something that has never occurred outside recession.

Given these developments, it's reasonable to assume the Fed will deliver additional cuts later this year, with market expectations pricing in two more 25bps reductions this year.

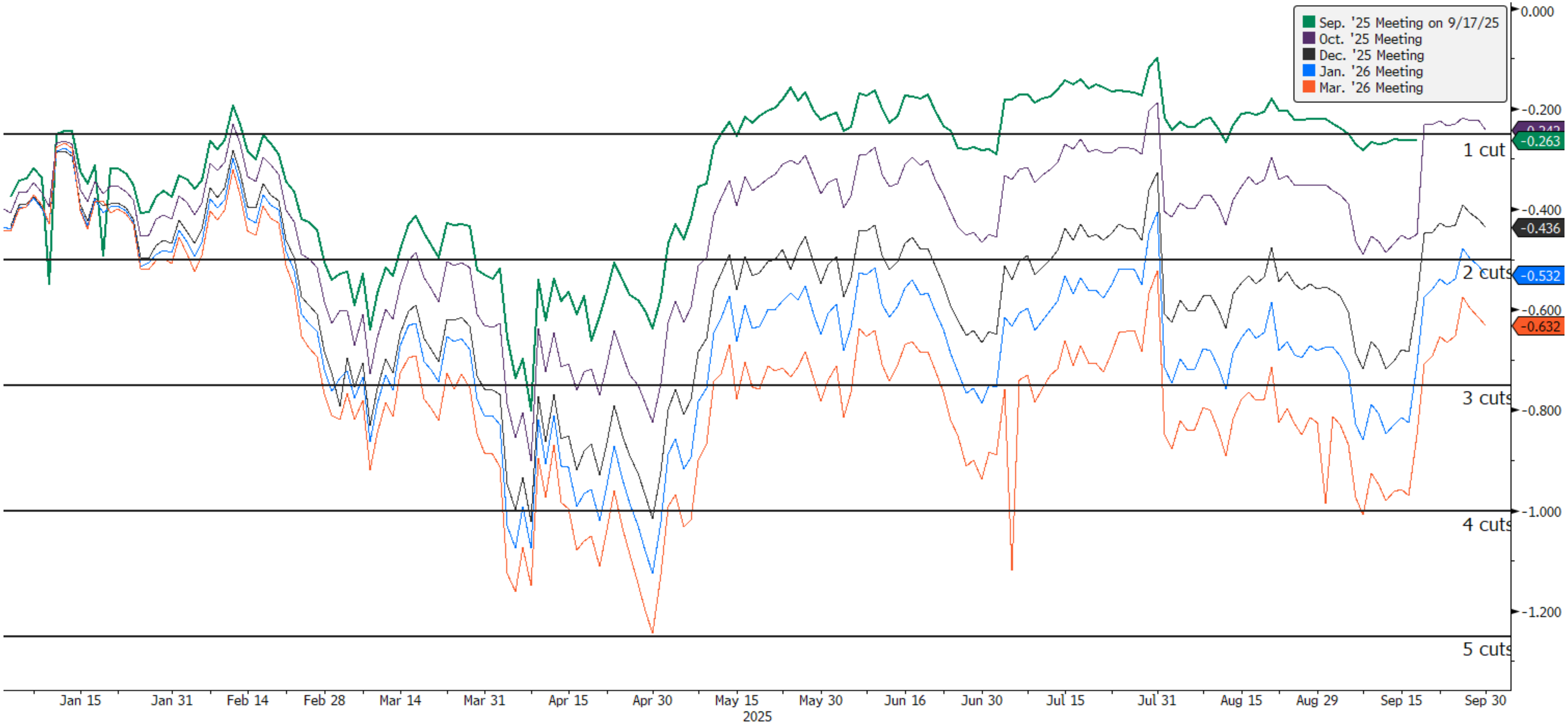




Source: Bloomberg

Short Term Rates **Expectations**

In September 2025, the Fed initiated a new rate-cutting cycle with a 25 bps "risk management" cut. Given the worrying picture regarding the job market, it's reasonable to assume the Fed will deliver additional cuts later this year. Market expectations are pricing in about two more 25 bps reductions this year.



Key **Investment Themes**

- Uncertainty over trades policies and the volatility spikes that can accompany disappointing market releases on top of high valuations reinforce our conviction that **diversification is a core strategy** - particularly important as geopolitical uncertainties persist, whether in the Red Sea, the Middle East, Ukraine or Taiwan.

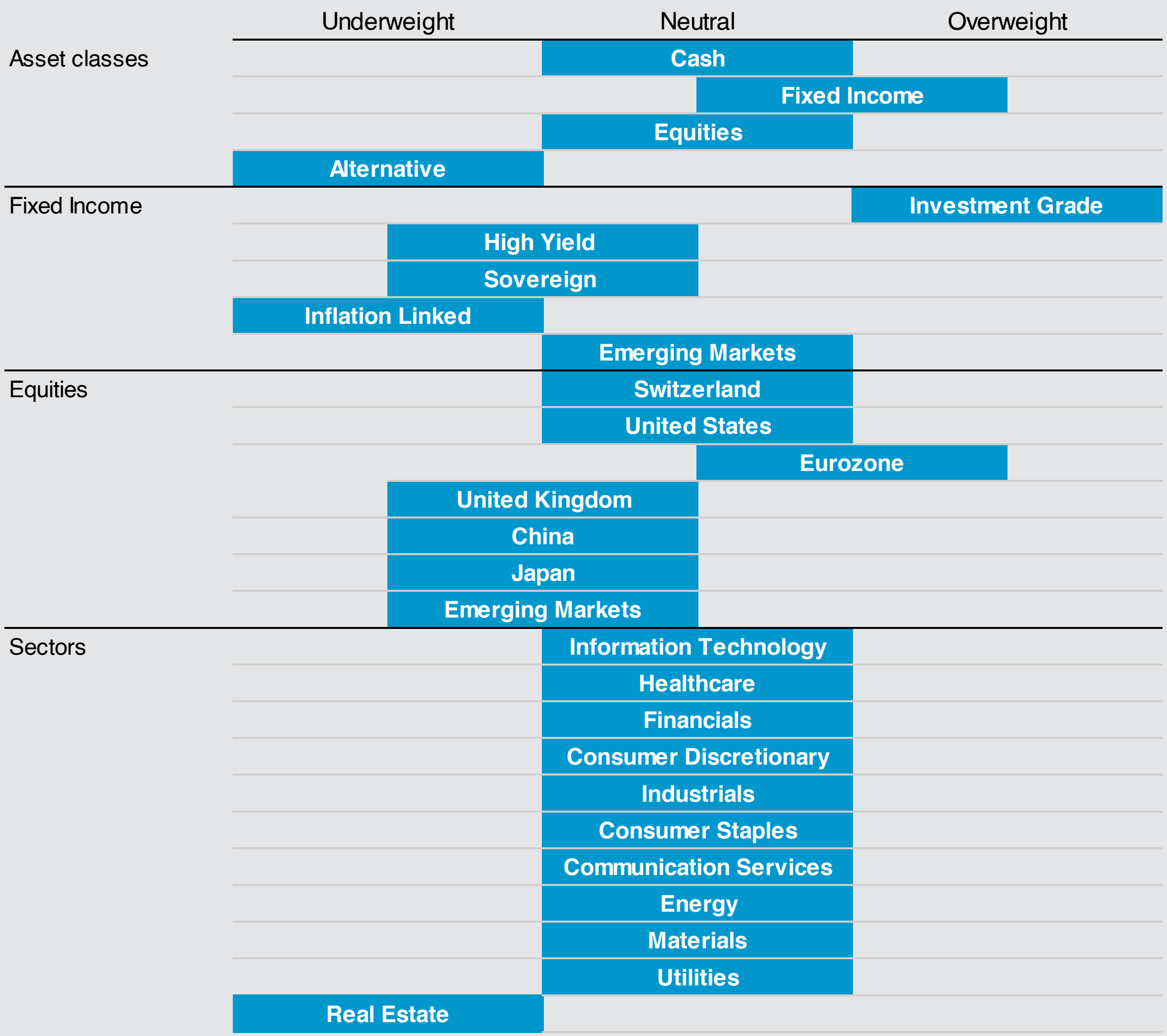
- The inflation target could well become the floor in this new economic cycle, with core inflation expected to remain above the 2% target by the end of 2025 but its trajectory is highly uncertain as it could be revived by the ongoing tariff war.

- Our recommendation is to focus on **quality stocks** with solid balance sheets and a long-term vision.

- On the **fixed-income** side, corporate bonds are facing higher interest costs overall, and potentially refinancing difficulties in the high-yield segment. Our preference at this stage of the cycle is **for higher-rated companies** rather than high yielding issuers.

- In the current interest-rate environment and within the broader policy dynamics of central banks in developed markets, our approach remains focused on carry strategies via bonds. We therefore maintain an **underweight in the alternative class**, capitalizing on the stability and predictable returns offered by bond instruments. However, we remain attentive to the opportunities offered by alternative investments, with their potential for returns uncorrelated with traditional markets.

Asset **Allocation**



Fixed-income allocation

Our selection focuses on the highest-quality issuers offering attractive risk-adjusted returns.

Equities

This context leads us to a more neutral approach to equities, where sector and regional diversification is more important than ever. We also keep a neutral stance on the United States following the ongoing turbulence caused by the new administration, with a slight bias towards Europe.

Alternative investments

In the current interest rate environment, our approach remains focused on carry strategies through bonds. We thus maintain an underweight allocation to alternative investments, capitalizing on the stability and predictable returns offered by bond instruments. Nevertheless, we remain attentive to opportunities offered by alternative assets, given their potential for returns uncorrelated with traditional markets.

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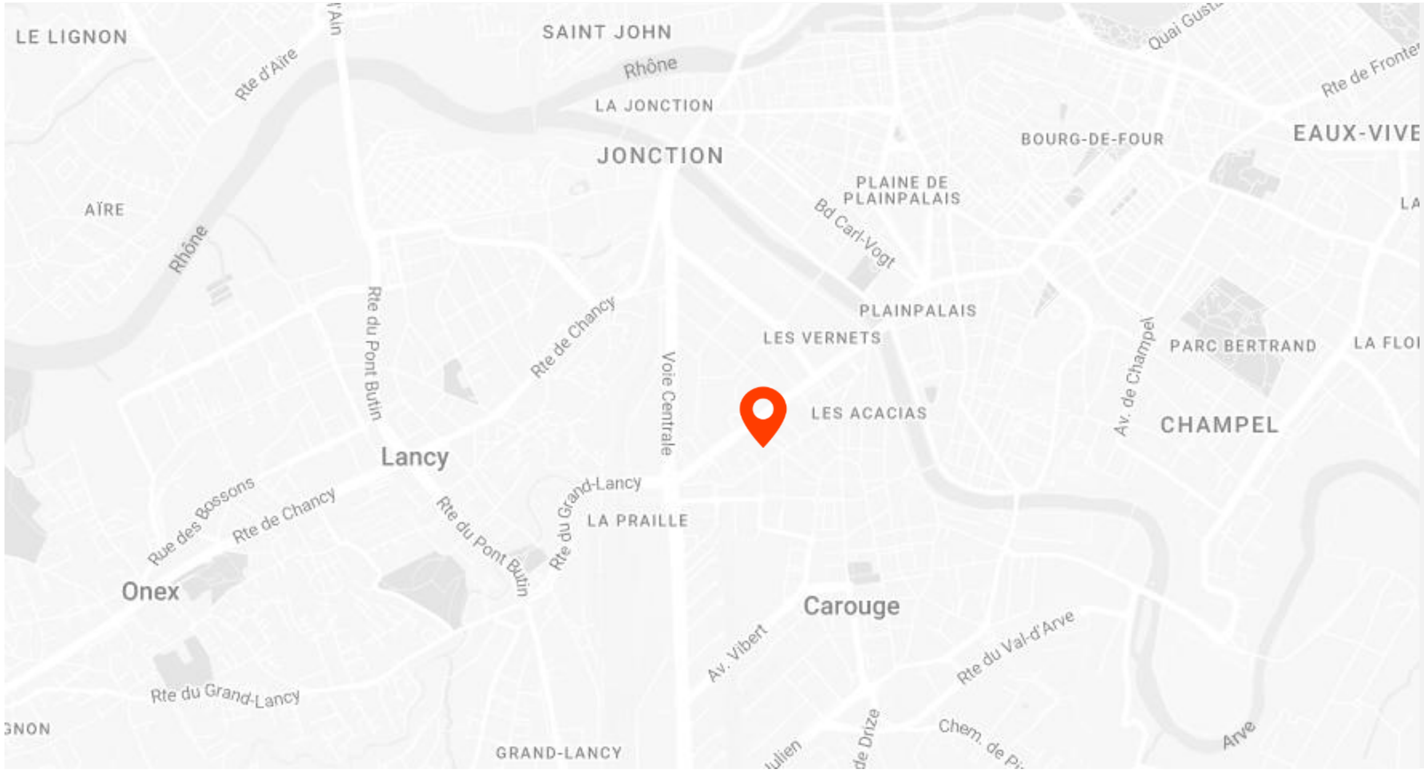
A DIFFERENT APPROACH TO WEALTH MANAGEMENT



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