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With Profits Growth Fund

Q3 2025 Review

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Market Review and Outlook

Solid quarter for global markets despite tariff concerns

Despite concerns about US tariffs, it was another solid quarter for markets, with many leading stock market indices hitting record highs. The US Federal Reserve (Fed) cut interest rates for the first time since last year and signalled more reductions are on the way. While there are signs of the US economy slowing and the labour market cooling, unemployment is still near record lows.

In this update, we'll reflect on this and take a look at some of the highlights and lowlights of the quarter, as well as bring our usual funds' view and outlook from our Investments team.

Global market overview

Global stock markets delivered robust gains over the period, supported by solid corporate earnings, hopes of easing trade tensions and expectations of lower interest rates. In July, US equities advanced further, driven by strength in the technology sector and revived confidence in trade talks.

Big tech stocks were the main drivers of market growth, helped by demand for artificial intelligence (AI) and strong earnings results from major companies.

Optimism on tariffs also lifted sentiment, as President Donald Trump unveiled several trade agreements.

Wall Street climbed to fresh records in September after the Fed delivered its first rate reduction in nine months. Leading up to the cut, equities enjoyed a strong run as data on jobs and inflation provided the US central bank with enough leeway to resume its rate reductions.

Earnings season added further momentum, with companies beating forecasts in record numbers. Robust results lifted investor sentiment, with AI-focused firms continuing to set the pace. After a difficult start to the year, the US dollar also steadied.

UK shares stumbled in early July amid speculation that Chancellor Rachel Reeves might resign but quickly regained ground. Later in the month, the FTSE 100 hit a record high as investors looked past trade war worries, with the benchmark index climbing above 9,000 points for the first time. The London stock market has benefited from investors diversifying away from US stocks due to concerns over Trump's trade policies.

Asian stocks climbed in August after Trump issued an executive order delaying additional tariffs on Chinese goods for 90 days. The region also drew support from a wider shift of capital out of US assets.

A trade pact between the US and EU added to the positive momentum for global markets. However, European markets wobbled amid political unrest in France but quickly regained ground following the Fed's decision to lower interest rates.

Bond markets

It has been a volatile year so far for government bond markets, with tariffs and shifting interest rate expectations causing yields to fluctuate. Global bond yields climbed sharply in August, with Japan's 30-year bonds setting a record and UK gilts reaching their highest level since 1998.

Meanwhile, in the eurozone, German and French 30-year yields rose to their highest since 2011, reflecting mounting concerns over fiscal policy and borrowing. US Treasury bond yields also remained elevated over much of the period but dipped ahead of the Fed rate cut.

Inflation and interest rates

The Fed cut interest rates for the first time since last December, lowering its key lending rate by 0.25 percentage points. The move brings the target range down to 4% to 4.25%, its lowest level since late 2022. Fed officials indicated they expect two more quarter-point rate cuts this year. Meanwhile, US inflation rose slightly in August to 2.9%, up from 2.7% the previous month, as firms started to pass on tariff costs to consumers.

The Bank of England held rates at 4% at its meeting in September after cutting them in August. It was the fifth cut since last summer and took borrowing costs to their lowest since March 2023. UK inflation held steady at 3.8% in August, while food prices rose for the fifth month in a row. The Bank expects inflation to peak at 4% in September, driven by food price rises. One reason food prices have been rising is that supermarkets have been passing on government increases in the minimum wage and National Insurance contributions to shoppers.

The European Central Bank (ECB) kept rates on hold at 2% in September for the second consecutive meeting, arguing the economy remains resilient despite higher tariffs from the US. The ECB has cut the interest rate eight times since

June 2024, bringing it down from 4%. Eurozone inflation was stable at 2% in August for the third month running, in line with the ECB's target. As economic growth remains robust, it is unlikely we will see any more cuts soon.

US economy defies tariff pressures with strong growth

The US economy remains surprisingly resilient despite the predicted damage of tariffs. The economy expanded by 3.8% in the second quarter, its fastest pace in nearly two years. Consumer spending also continues to be strong, with retail spending rising for the third month in a row in August.

The US has made progress on trade, announcing agreements with South Korea, Japan and the EU, while also resuming negotiations with India and reaching commercial terms with China over TikTok. The labour market, however, showed signs of strain. Only 22,000 jobs were created in August, fuelling concerns of a slowdown, though unemployment stayed close to historic lows at just above 4%.

Concerns are mounting over the UK economy, with most economists expecting Chancellor Rachel Reeves to raise taxes in the Autumn Budget as sluggish growth and rising borrowing costs complicate her efforts to meet fiscal targets. Growth slowed to 0.3% in the second quarter, down from 0.7% in the first, though still above forecasts.

Meanwhile, the jobs market appears to be cooling. UK unemployment ticked up to 4.7% in the three months to July – the highest rate in four years. The number of vacancies in the economy was also down by 119,000 from the previous year.

After months of negotiation, the EU and US agreed a trade deal with 15% tariffs for European exports to America, half the 30% import tax rate Trump had threatened to implement. The bloc's economy slowed in the second quarter after a strong start to the year, with GDP rising just 0.1% between April and June, compared with 0.6% in the first quarter. Even so, demand remains firm despite economic challenges. Retail sales remain high, supported by strong consumer confidence, and employment is still relatively stable.

The US and China extended their trade truce in August for another 90 days until 10 November. It means the US will hold tariffs on Chinese imports at 30%, while China will keep its 10% tariff on American goods. China's economy lost momentum during the period, with domestic

weakness and trade headwinds fuelling concern over the world's second-largest economy.

China's exports in August rose at their slowest rate in six months, as tensions with the US continued to cloud the outlook. Consumer prices also slipped back into deflation, adding to the signs that the economy is slowing. Despite Beijing's stimulus measures, sluggish consumption remains a drag on growth.

sales, property and investment all hit by the trade war. Deflation also continues to be a problem, with consumer prices falling for a fourth straight month in April. As tariffs continue to affect the economy, policymakers announced new measures in May to help stimulate growth, including interest rate cuts and a major liquidity injection.

Please note that past performance is not a reliable guide to future performance and the value of your investment, and any income can go down as well as up, so you could get back less than you invested.

If you have any queries or would like more detail about Wesleyan's With Profits Growth Fund please speak to your adviser.

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