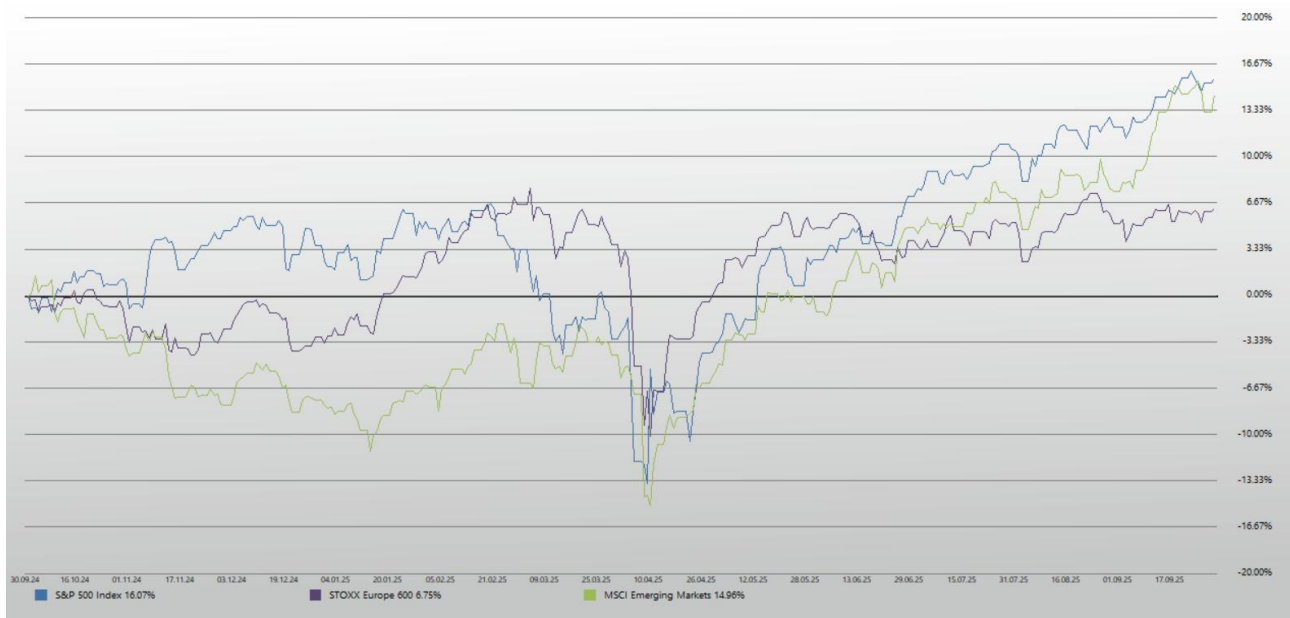


## Quarterly Financial Market Update, September 2025

During the third quarter of 2025, we witnessed continued, steady strengths in the financial markets overall, despite higher economic uncertainties, ongoing geopolitical unrest and implementations of tariffs in the US. Investors continued to focus on the positives, setting aside the mounting negatives that could soon come back under the spotlight.

Stocks remained well oriented generally speaking, with the MSCI AC World Index gaining 7.7% in 3Q. This rise was led by US stocks (7.8% for the S&P 500 Index), as well as by a weak US dollar, favouring emerging markets. The MSCI Emerging Markets Index rose 10.9%. Europe lagged behind, with the STOXX Europe 600 Index up 3.1%.

### Equity Index Performance, rolling 12 months (%)



Source: Kestrel Wealth Management

This performance was mainly due to strong corporate earnings in general. The majority of S&P 500 companies beat analysts' expectations when they reported their quarterly results. Furthermore, increasing spending in the Artificial Intelligence (AI) space profited companies such as NVIDIA Corp. That said, from a macroeconomic standpoint, the activity varied greatly from one sector to the other. For example, the manufacturing side of the economy is in contraction, as expressed with the ISM Manufacturing Index (below 50) and durable goods orders (in negative territory). At the other end of the spectrum were the services and consumption that continued to support the overall US economy.

In this context, the Federal Reserve (Fed) became more accommodating and implemented a 25-basis point interest rate cut to 4.25% for the upper limit. More decreases in its benchmark interest rate could occur by the end of the year, though the pace and magnitude will remain data-dependent. On the one hand, the labour market presented some signs of weakness over the past few months. Furthermore, the figures released in spring for the US non-farm payrolls were significantly revised down, causing the wrath of President Trump. Future cuts in interest rates will thus help the labour market and de-facto the economy if this is translated into consumer spending. On the other hand, US inflation is still on the rise, coming in at 2.9% and up from 2.4% a quarter ago. Investors should also bear in mind that the reciprocal tariffs have been implemented only recently and many companies have built up inventories before this occurred. Therefore, it will take a few months before the full impacts of tariffs will hit the economy and in turn the inflation rate.

Mr. Trump maintained an extremely critical position on Fed's Chairman Jerome Powell. The US President appointed Stephen Miran as board member, in an attempt to lead to big cuts in interest rates despite the danger of higher inflation following the implementation of tariffs. This move also raised significant concerns about the independence of this institution, especially if Mr. Powell is in the future replaced by a chairman devoted to Mr. Trump.

Putting all of the above into perspective with equity valuation, we believe a neutral stance is now warranted. The S&P 500 Index trades at a forward estimated P/E of 23x. However, this relatively unattractive valuation is concentrated through a handful of giant companies (Apple Inc., NVIDIA Corp., etc.). The rest of the market trades at a more reasonable valuation, based on our readings. That said, analysts expect corporate earnings to grow about 8% already. Given the current overall context, we doubt that this expected growth will be significantly revised upward, which in turn should limit the upside potential in stock prices.

On the bond side, we also have a neutral stance, because we focus only on half the market. Indeed, we are not significantly exposed to the so-called High Yield segment, characterised by low quality debtors. Healthy balance sheets and sound finance are paramount to us when it comes to investing in bonds, in order to avoid any risks of default in a period of below-average economic growth. Therefore, bonds directly held in our portfolios are in the Investment Grade segment only.

Yields have declined during the quarter, driven by the cuts in benchmark interest rates at central banks, such as the Fed, the Bank of England and the European Central Bank. This decline has been particularly felt in short-term rates. For example, the yield on the US 3-month treasury bill stands at 3.9%, down 30 bps since the end of the second quarter, whilst the yield on the US 10-year treasury note stands at 4.14%, down only 9 bps over that period. The overall declines in rates have led bond prices slightly higher on average (0.6%) in the third quarter.

Although not directly impacting the world's economy for the moment, what is happening in Ukraine and in Israel cannot be overlooked. Regarding the evolution of the conflict in Gaza in 3Q, there was no sign of an imminent ending, unfortunately. On the contrary, in its fight against Hamas, Israel conducted strikes in Doha. As far as the war in Ukraine is concerned, Presidents Trump and Putin met in Alaska, raising hopes of ceasefire. However, these hopes evaporated in the following weeks, as nothing concrete evolved. Worse still, NATO countries such as Poland, Estonia, and Denmark reported violations in their respective airspaces, believed to be deliberate provocations by Russia.

Concerns around inflation, war and institutional independence kept investors cautious overall. Gold prices surged to record highs, reflecting a widespread flight to safety, as well as profiting from a decline in short-term interest rates. At the time of writing, the price of an ounce of gold trades at USD 3'843.-, up from USD 3'294.- at the end of the second quarter.

In our opinion, the last quarter of the year and early next year will be a period of renewed volatility. Aside from questions regarding the state of the world's economy and the impacts from the tariffs that will hit consumers, there are many additional elements that will drive investors' sentiment.

Amongst them, negotiations with China, which is still benefitting from the delay of the USA implementing adverse tariffs, will take place. We will also see an increasing news flow regarding the legality of the tariffs implemented so far. If they are declared illegal, Mr. Trump already warned that he has a plan B. Irrespective of what this plan might be, this will raise some questions and unforeseen consequences. Finally, the situation of the wars will continue to make the front pages, creating some noise in the financial markets. Given the recent developments, we fail to see how things could de-escalate in the near-term. However, as long as they do not affect something vital for the world's economy, such as oil price or trade routes, the impacts from the wars on corporate earnings will remain minimal.

#### Risks Warning and Disclaimer

This publication is intended for information purposes only and should not be construed as an offer or recommendation or solicitation for sale, purchase or engagement in any other transaction. Tax treatment depends on individual circumstances and may be subject to change in the future. Kestrel Wealth Management SA does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client circumstances and needs. Clients should obtain independent legal and tax advice on the implications of the products/services in their respective jurisdiction and on the suitability of products and services before investing. Kestrel Wealth Management SA does not provide any warranties or representations for the content of this presentation, in particular with respect to its accuracy, completeness or fair balance, and no liability is accepted. The products mentioned in this presentation are not suitable for all recipients. The investor acknowledges that a risk of loss exists in the case of all investment mandate types, including a cautious and conservative investment. A movement of exchange rates may affect, favourably and unfavourably, any gain or loss on an investment. Kestrel Wealth Management SA does not assume any liability for the attainment of a given return or any liability for the preservation of the assets under management. Therefore, the investor may not get back the amount invested. Investments in any financial product should only be made after a thorough reading of the most recent relevant legal documentation taking into consideration any sales restrictions and risk factors mentioned. Subject to copyright with all rights reserved.