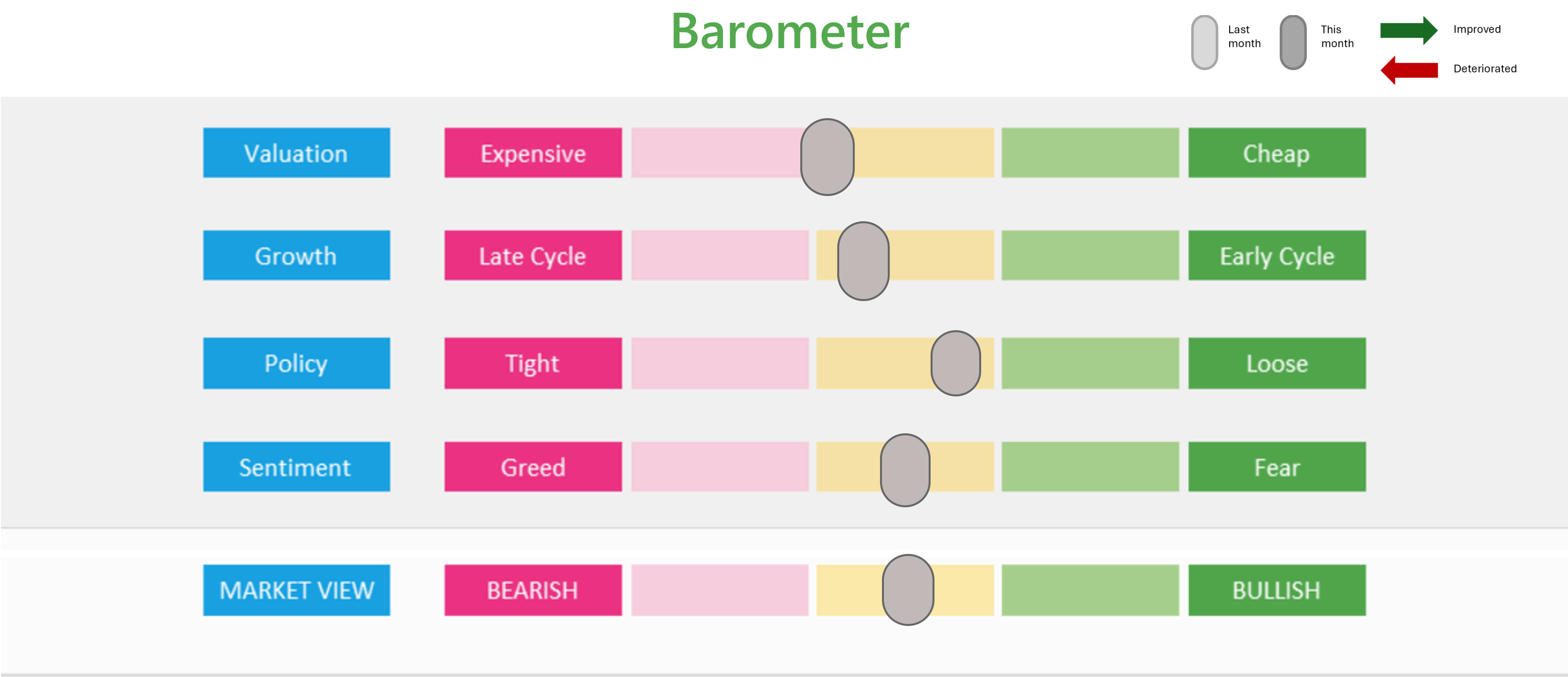
OCTOBER 2025

CCLA GOOD INVESTMENT

Market Barometer



Politics Trumps Economics

Market fundamentals remain robust.

Leading indicators are solid (p15). US Services PMIs are running 52-55 with flash PMI Sept 54, US Manufacturing also robust. Eurozone is out of the recession zone. Global PMIs are 51-53 (p16), and all this despite the tariffs which are being viewed as a one-off level re-set. We are, however, closely monitoring the weakening US labour market (p7).

Earnings growth is 10% (US), 15% in EM, 5% in the rest of DM (p18). Revisions breadth has hooked up everywhere and the world is now in net positive revision (p19).

Credit remains well behaved (p11) despite the news of the First Brands bankruptcy as we go to print.

In our **Charts of the Month** we look at:

- **The unusual state of the S&P500**, where just seven companies account for 33% of market cap and a record low percentage of stocks are outperforming.
- What this has done to market valuation. **The S&P500 CAPE is now 37**, pointing to a very thin equity risk premium.
- Against this, t**he Fed is very likely to cut rates** further. The market expectation of nearly four more 25bps rate cuts over the next year are likely to be met, we think ...
- ... almost r**egardless of the fact that inflation continues to run hot**.

Our market view remains sanguine.

Contents

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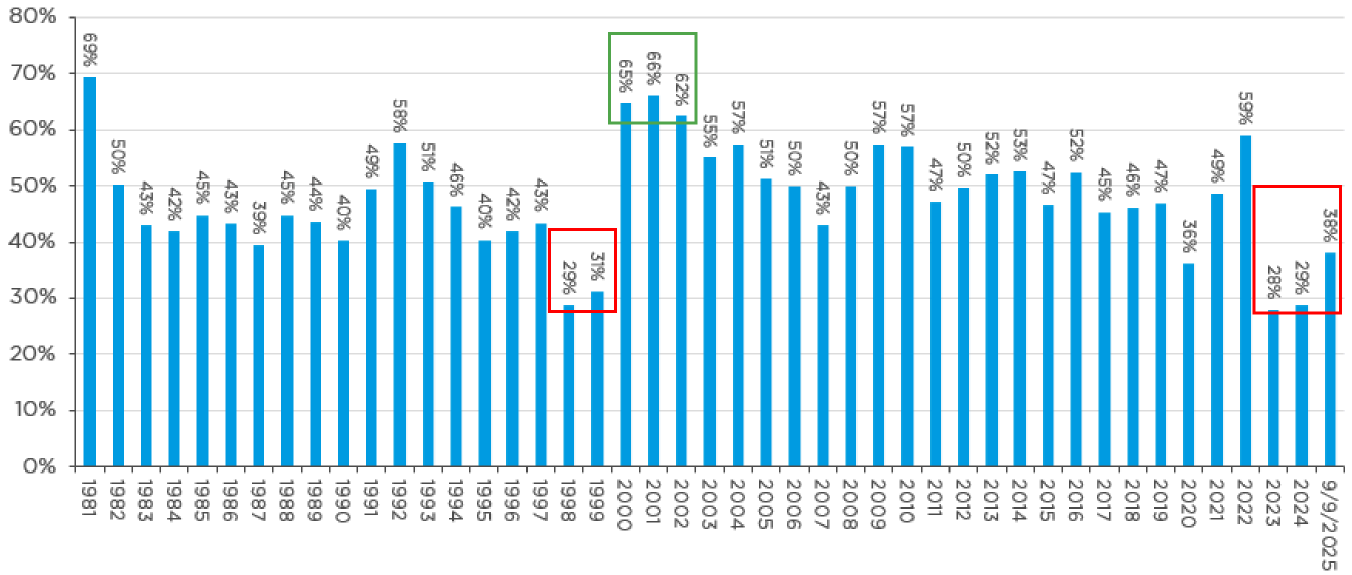
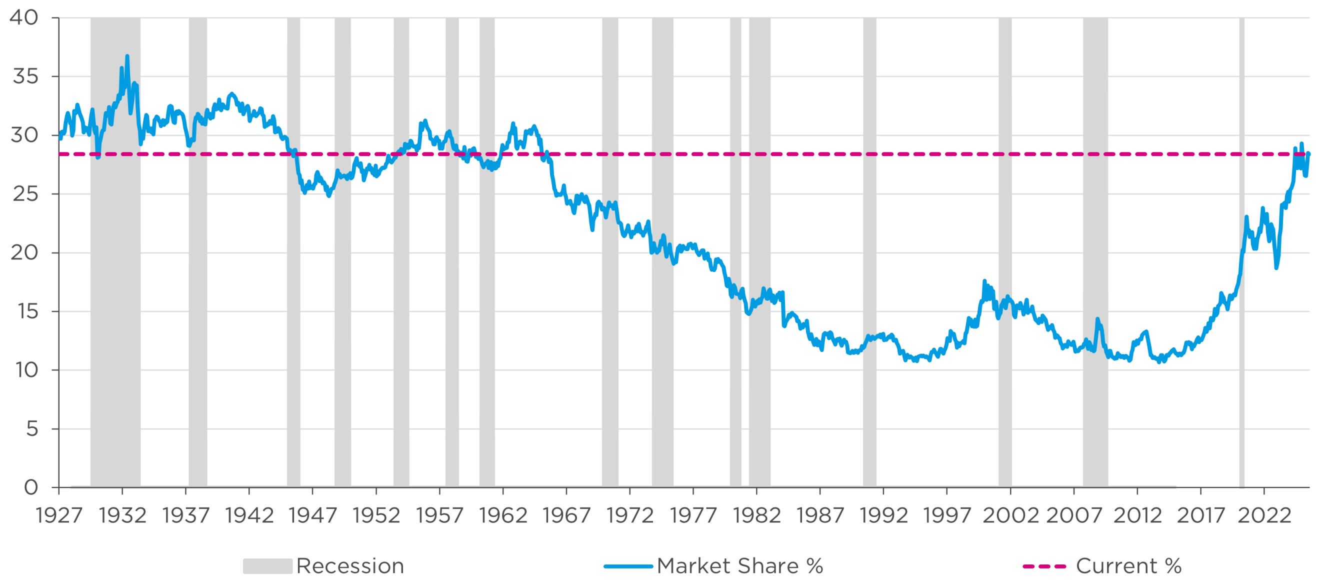
Charts of the Month (1 of 4)

It's an extraordinarily concentrated market. The top seven companies account for 24% of MSCI World, 28% of total US market cap, and fully 33% of the S&P500. A record low share of stocks outperformed the S&P500 in 2023 and 2024, and year to date only 38% of stocks have outperformed. Not shown below, but retail flows are dominating index performance. The day trader's trading venue of choice, Robinhood Markets, has seen its stock price rise 10x since the end of 2023. The day trader's instrument of choice, so-called "zero day to expiry options" (which provide a leveraged one day "bet" on stocks and indices) accounted for 62% of S&P500 options volume in August, according to the CBOE (formerly the Chicago Board Options Exchange), with volumes 72% higher than a year ago. On this short time horizon, good news is immediately rewarded, bad news immediately punished. **Momentum is king. The iShares Momentum ETF (MTUM) is up 23% YTD, far outperforming the S&P500.**

Percentage of S&P 500 stocks outperforming the index



Share of the US equity market capitalisation from the largest seven stocks



Sources | CCLA, Bloomberg. Data as at Sept 2025.

TOP OF MIND

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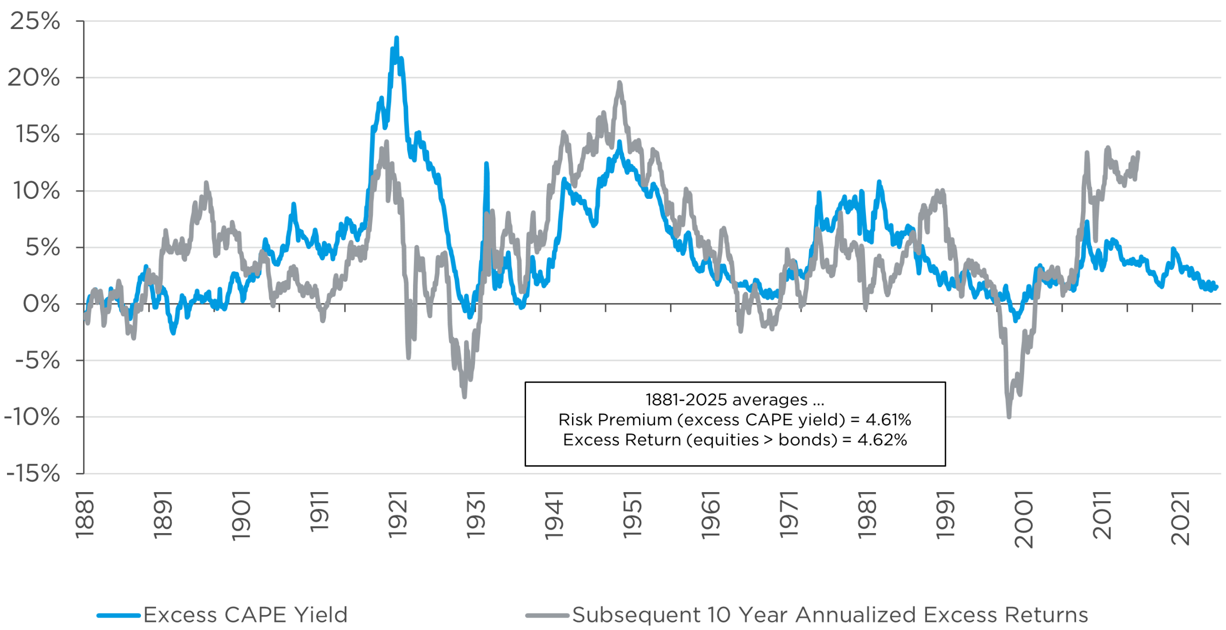
Charts of the Month (2 of 4)

This retail momentum has driven US equity market valuations back to the 2021 highs reached in the post lock-down euphoria. A CAPE (Cyclically-Adjusted PE) of 37 means an earnings yield of 3. Subtract a 10 year real bond yield of 1.75% and that leaves a risk premium of 1.25%. That means that US equity should outperform US government bonds by... 1.25% annually over the next 10 years. The data in the second chart are interesting - the average risk premium since 1881 has been 4.61%, the average ten year annualised outperformance by equity has been 4.62%. Valuation works for predicting stock performance in the long term, then. In the meantime, we are seeing the first articles of this cycle arguing for a "re-basing" of valuation models to account for higher ROE than in the past (despite the fact that it's already accounted for in the E of the PE). **We are in another "new normal" that, like its predecessors, is unlikely to stand the test of time.**

S&P500 CAPE (Cyclically Adjusted PE)

Excess CAPE yield (risk premium) and 10 year annualised excess returns



Sources | Top chart: CCLA data as at Sept 2025. Bottom chart: Empirical Research data as at July 2025.

TOP OF MIND

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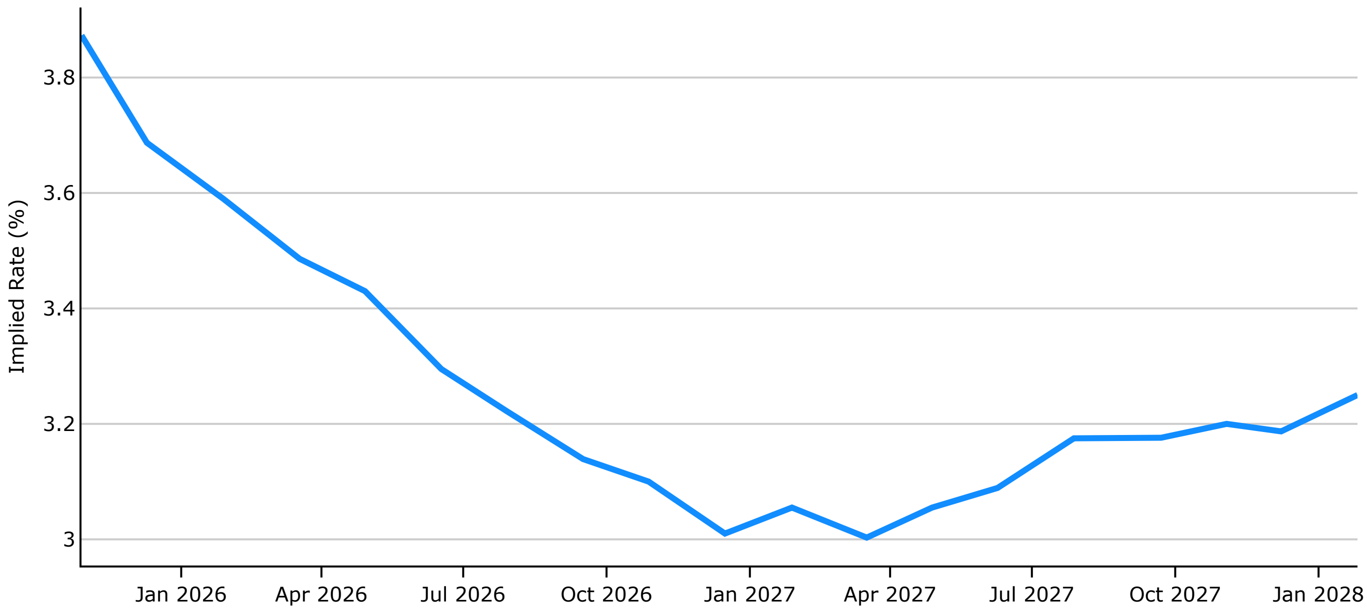
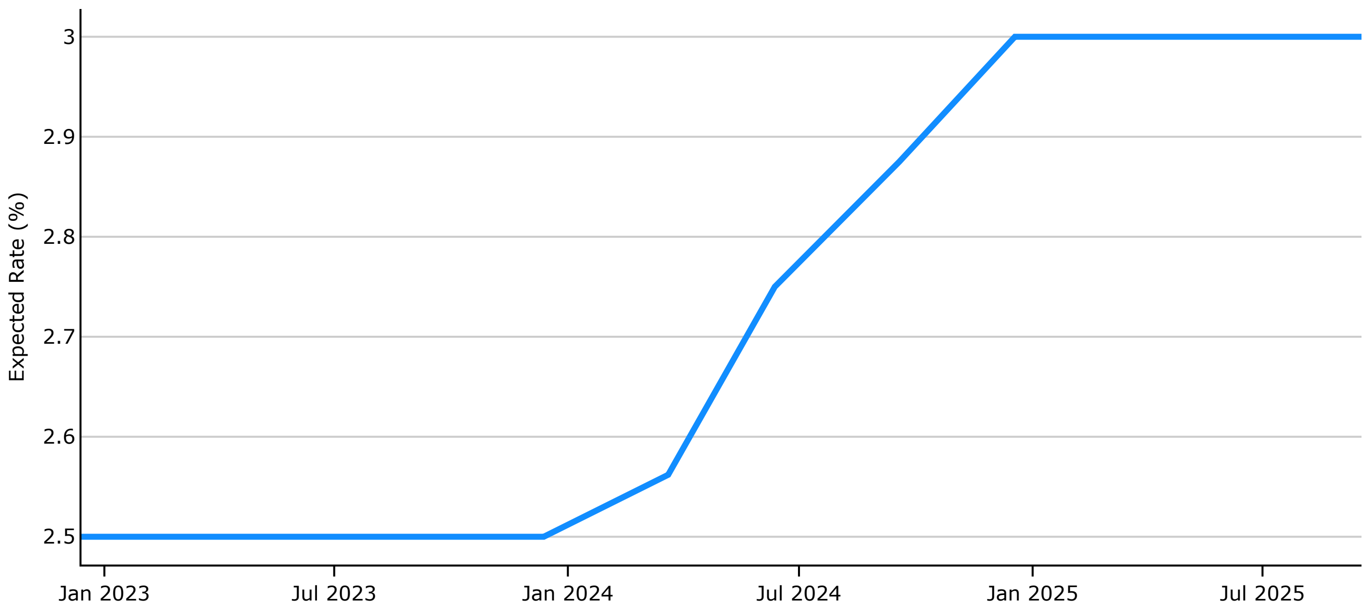
Charts of the Month (3 of 4)

However, the Fed is becoming more accommodative. Despite FOMC members raising their estimate of the neutral interest rate from 2.5% to 3%, per the lower chart below, the forward interest rate curve now reflects four more 25bps cuts to the Fed funds rate to reach that 3% neutral level by the end of next year. Reputable economists are now making the case for even more accommodation. The changing membership of the FOMC committee, with the arrival of Trump's appointee Steven Miran, makes it likely that market expectations for cuts are met, regardless of the economic case. **This can continue to drive risk assets higher, for the time being.**

Market implied US federal funds rate



Median long term (i.e. neutral) federal funds rate



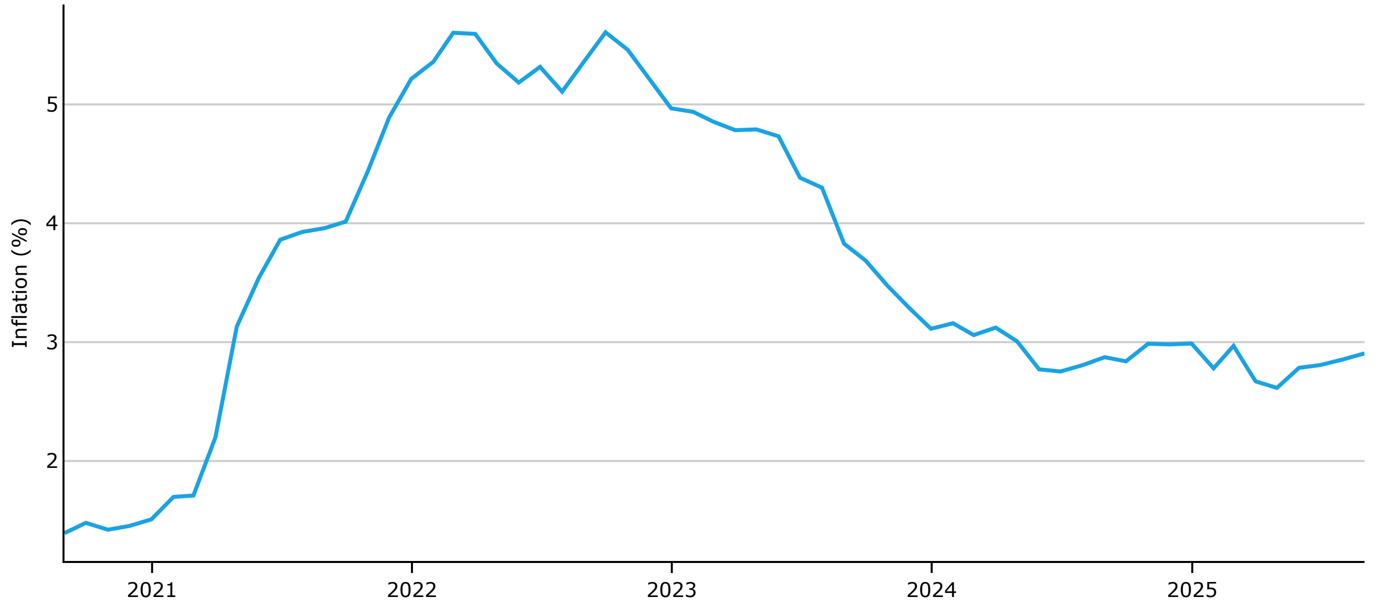
Sources | CCLA, Bloomberg, Federal Reserve as at Sept 2025

CCLA

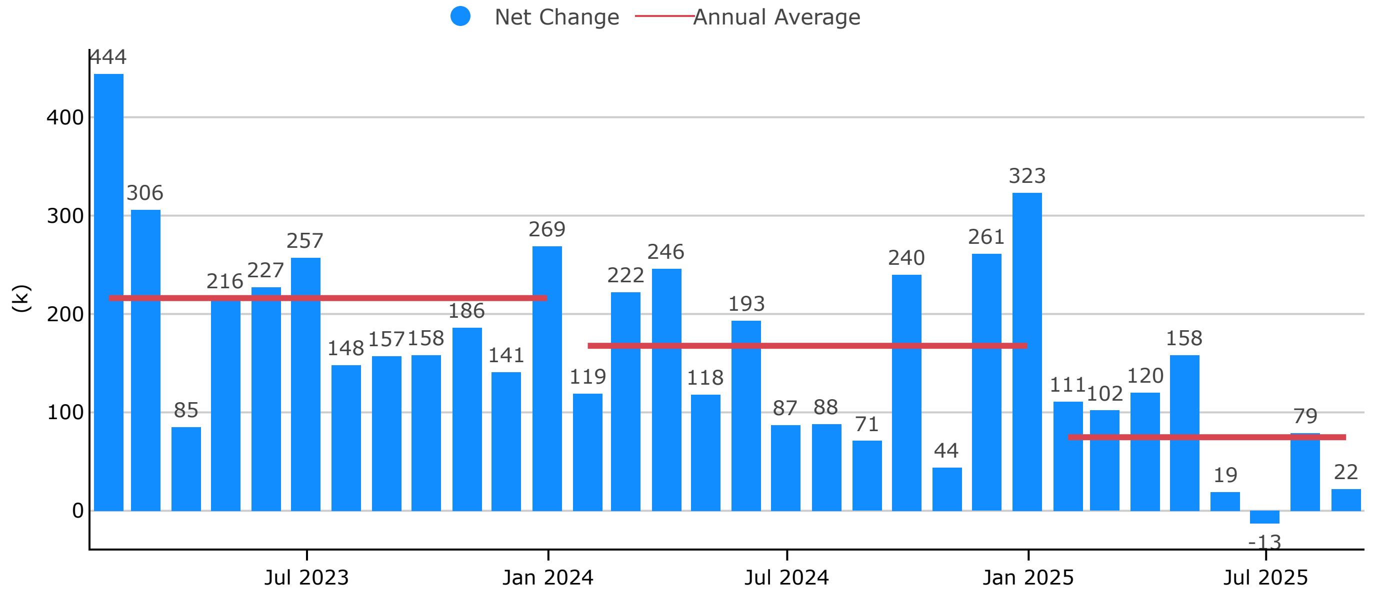
Charts of the Month (4 of 4)

The Fed does face a tough choice. Its dual mandate is to target full employment and price stability. While the unemployment rate (4.3%) is almost a full percentage point above its cycle lows (3.5%, reached just prior to the pandemic and again in the recovery from the pandemic), and job creation has been weak (see lower chart), inflation remains sticky (upper chart) and notably above the 2% target. The Fed's bind is that both demand for and supply of new labour is weak - meaning that wage inflation continues to run hot (3.7% annual rate on average hourly earnings, higher even than pre-pandemic when the labour market was fully employed). But the politics seems to be "trumping" the economics. **Rate cuts are to be expected.**

US personal consumption expenditure YoY (PCE)



Nonfarm payroll monthly net changes



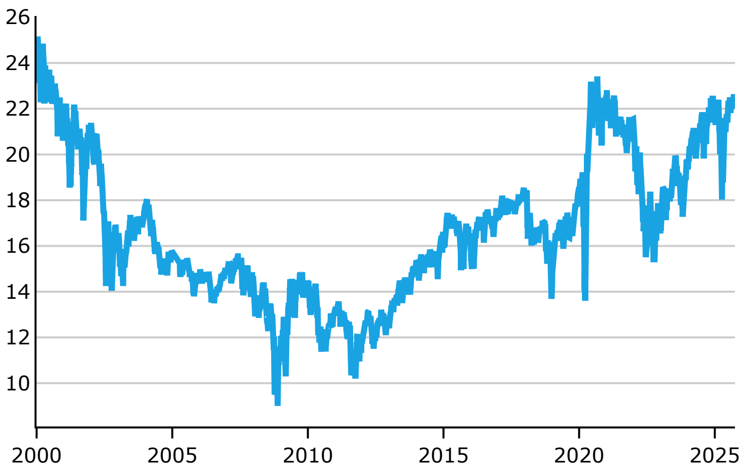
Equity | USA

As noted on page 5, the S&P 500 looks expensive on P/E, Shiller PE, and Market Cap to GDP, all with elevated 20Y z-scores. Yet valuations reflect a structural shift: asset-light sectors now make up 49% of the index, versus 14% in 1980 and 31% in 2005. Earnings growth remains strong, projected at 10.8% in 2025, 13.8% in 2026.

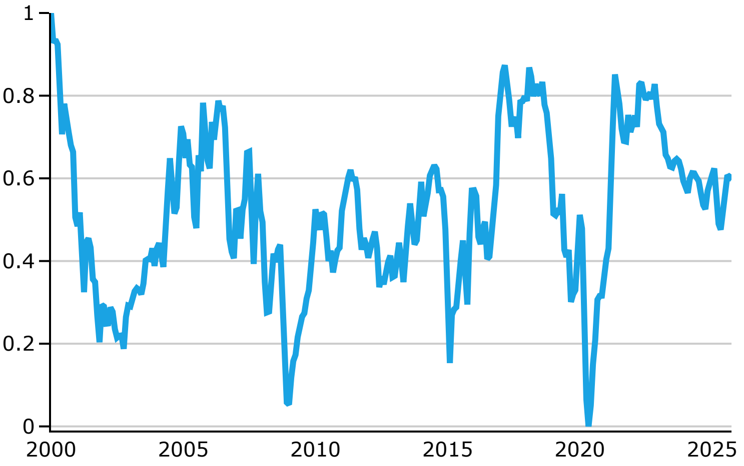
Recession fears are fading, with 87% fewer calls citing the term in Q2 than Q1 (16 vs. a 10-year average of 61). **The macro backdrop is improving, with rate cuts, fiscal support, deregulation, and stabilising trade. Risks include labour market strain and weak returns from the capex boom, though neither appears imminent.**

S&P 500 Valuations

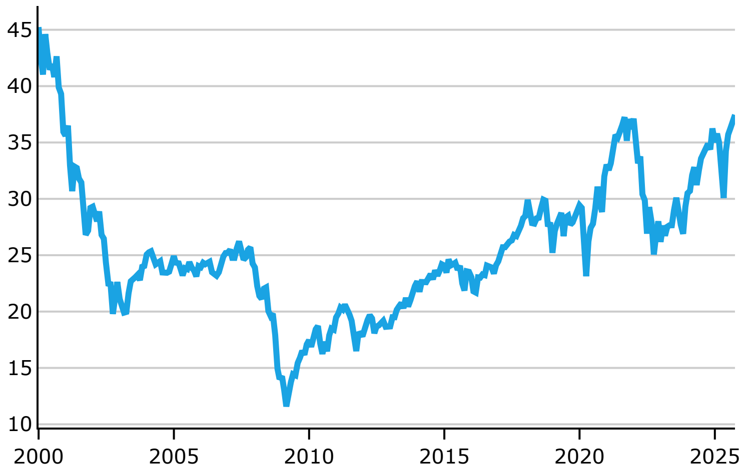
S&P 500 Forward PE



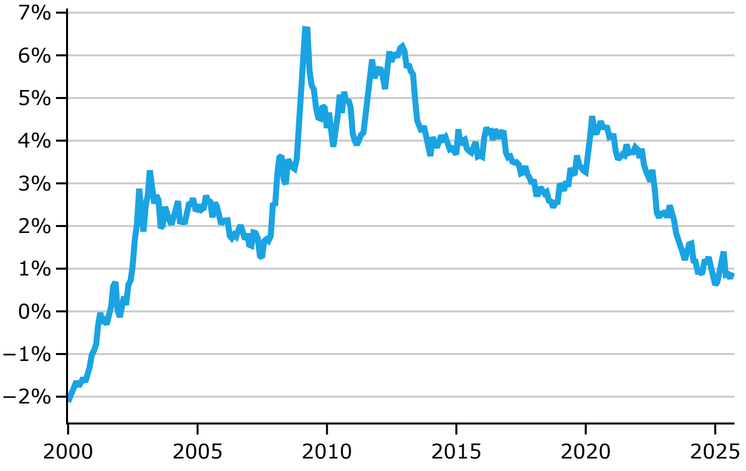
Composite Value Indicator Model



CAPE / Shiller P/E



S&P 500 Equity Risk Premium



Note | Composite Value Indicator was built at Morgan Stanley in 1997 and is published with permission. It is an aggregate of seven equity yields adjusted for bond yield, T bills yield and inflation, and is expressed here in its percentile range. The CAPE / Shiller PE is today's price divided by the average earnings of the last 10 years. The Equity Risk Premium is calculated as the Shiller earnings yield minus the real bond yield.

Sources | S&P 500 PE: Bloomberg as at Sep 2025. CVI Model: CCLA as of Sep 2025, Shiller PE/CAPE: Morgan Stanley, Equity Risk Premium: CCLA as of Aug 2025.

VALUATION

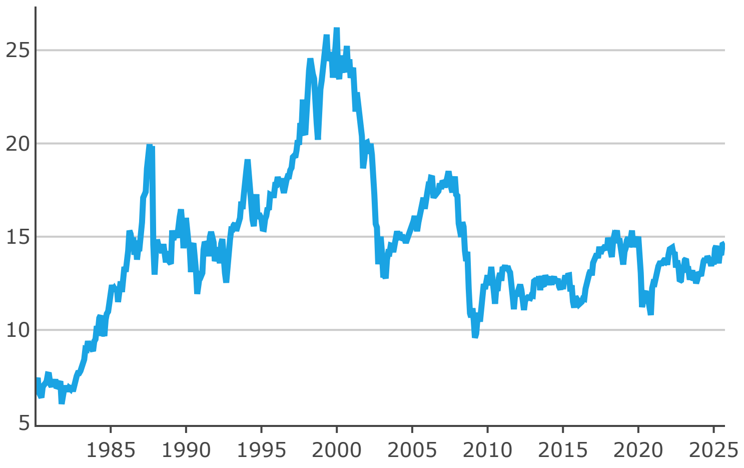
Equity | Regional

India's equity market remains a structural growth story, supported by resilient supply and demand. From 2003 to end-2024, the Sensex returned 17% annually (14% in USD), beating the S&P 500's 11.2%. Yet India is facing its weakest one-year relative performance vs. MSCI EM since 1996, alongside a fall in foreign ownership from 22% in 2019 to 16% today[1].

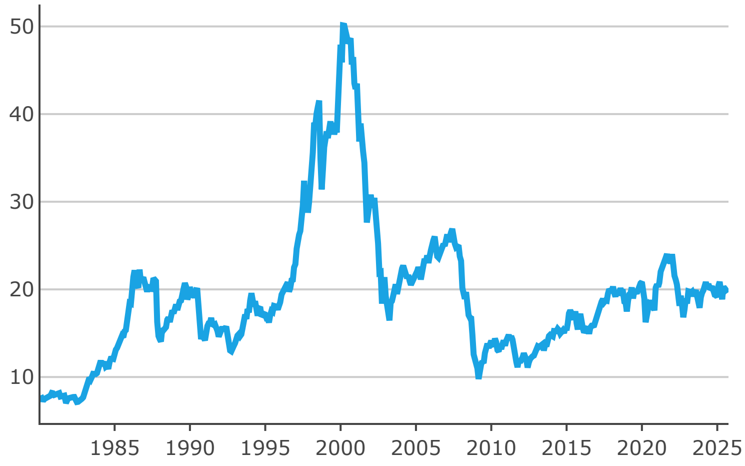
Still, domestic demand is strong enough to absorb issuance. On the supply side, corporates and PE continue to raise capital at favourable valuations. **The macro backdrop - tax reforms, monetary easing, and stimulus to offset tariff damage (see p16) - likely supports MSCI India sustaining its high forward earnings.**

Europe

UK | Shiller P/E

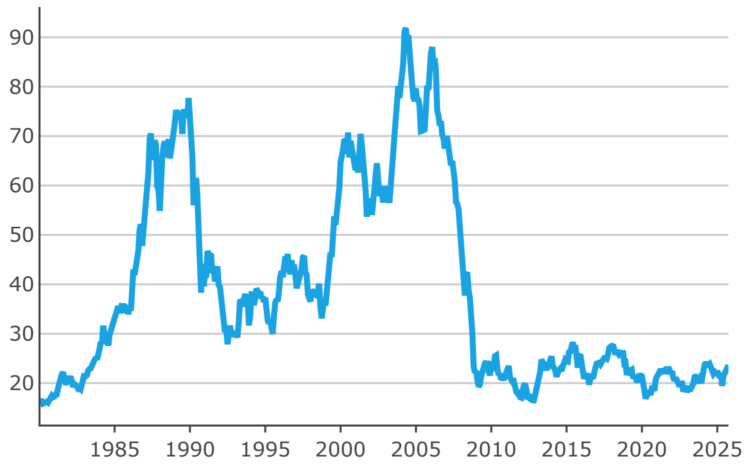


Europe (Ex-UK) | Shiller P/E

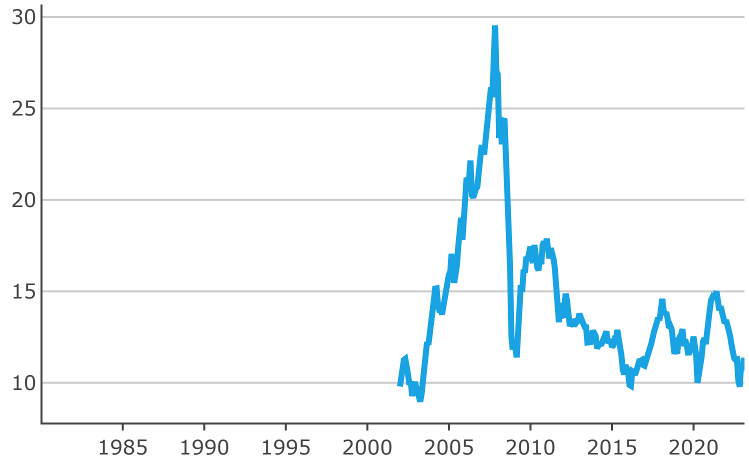


Asia & Emerging Markets

Japan | Shiller P/E



EM | Shiller P/E



Sources | Shiller P/Es: Morgan Stanley as of July 2025. Shiller P/E is calculated as today's price divided by the real average earnings of the last 10 years. 1. Jefferies - Greed & Fear: 18 Sept 2025

VALUATION

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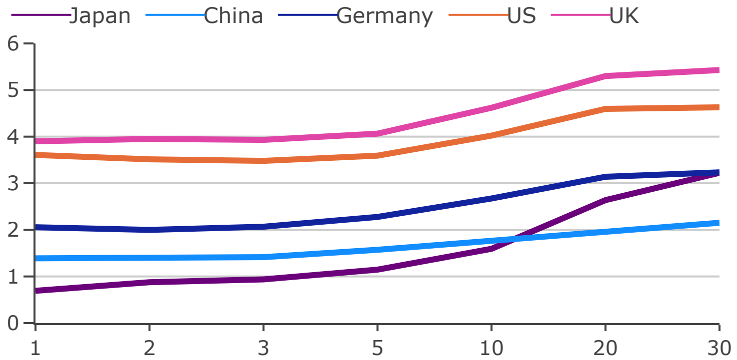
Bonds - Sovereigns

Global debt has surged to ~325% of global GDP[1], with interest costs climbing to ~3.3% of GDP[2]. Rising servicing costs raise concerns over debt sustainability, especially in advanced economies. A useful framework compares the effective interest rate (r) with nominal GDP growth (g) (with sustainability broadly requiring r ≤ g) and monitors the primary balance.

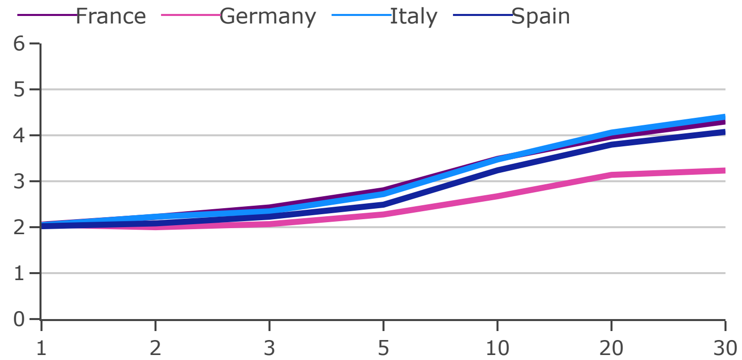
In the UK, r is ~3.7%[3] versus g at ~3.6%[3], with a widening primary deficit, pointing to vulnerability. This underpins the necessary fiscal rule to balance the primary account over the parliament, while simultaneously buying time for rates to fall. Yet growing debt in a high-rate setting risks compounding costs and eroding fiscal stability.

Global Government Yields

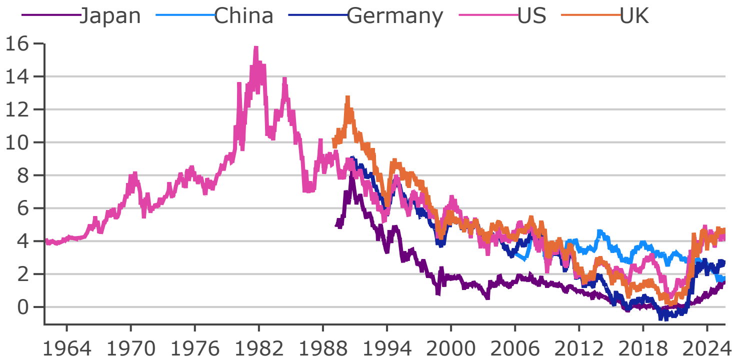
Global Treasury Yield Curves (Term vs %)



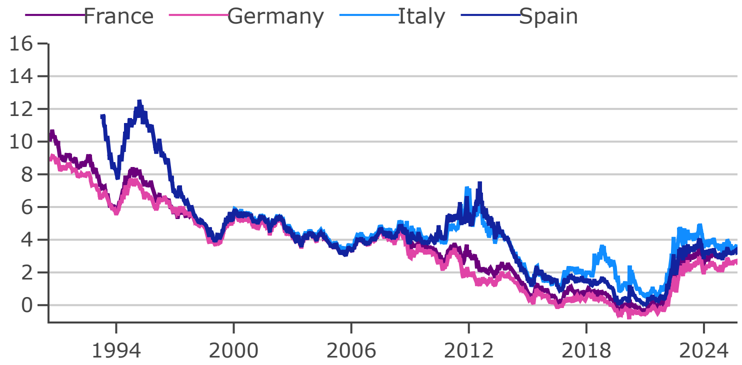
European Treasury Yield Curves (Term vs %)



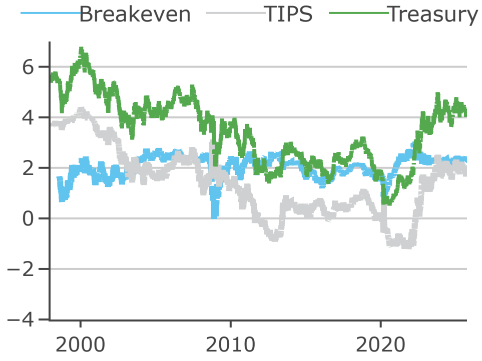
Global 10Y Yields %



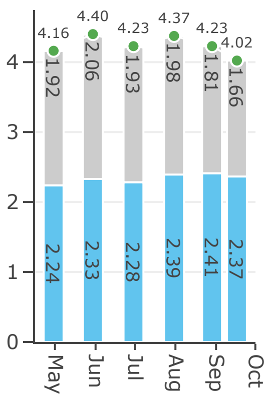
European 10Y Yields %



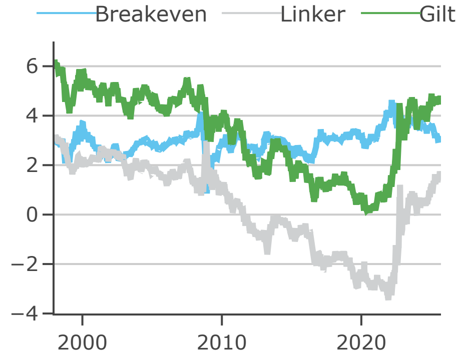
US 10Y Yields Breakdown %



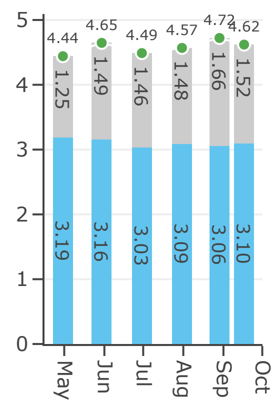
Last 6 Months



UK 10Y Yields Breakdown %



Last 6 Months



Sources | CCLA, Bloomberg as at Sept 2025. 1:Reuters 'Global debt hits record of over $324 tr...' May 6 2025. 2: OECD: global Debt Report 2025 3: OBR: 2025-26 debt interest estimate at 3.7%; and potential output growth averages 1.6% (March 2025 Economic Outlook) plus 2% long term inflation expectation.

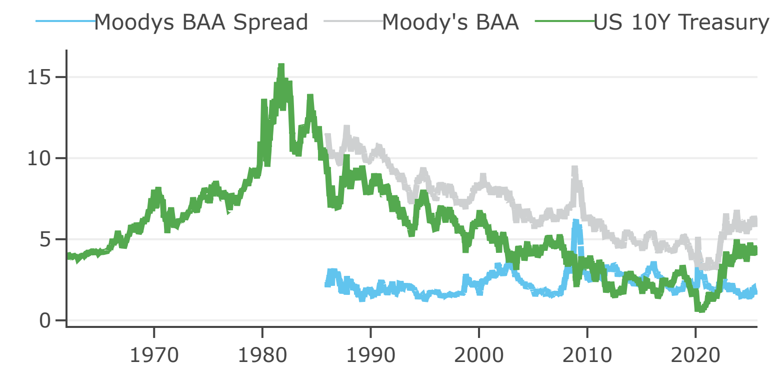
Bonds - Credit

Credit investors remain rational despite buoyant markets, favouring high quality, defensive issuers and securing elevated yields while shunning riskier junk bonds. US investment grade spreads are at their tightest since 1998[1], raising concerns of potential risk mispricing amid excess liquidity. Technical factors, (strong demand for quality debt against limited supply, mainly for refinancing), are further compressing spreads.

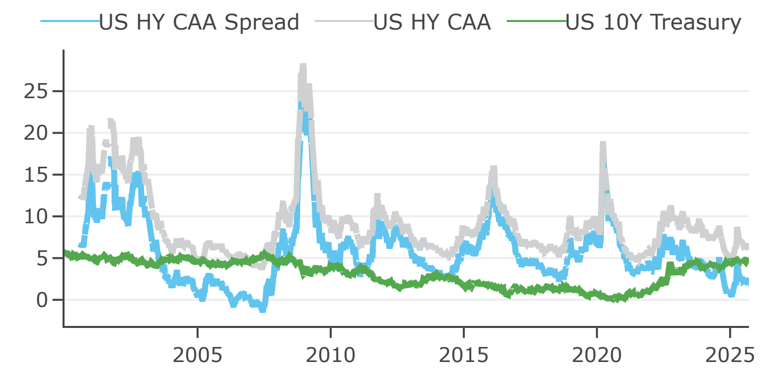
Notably, AA and A-rated bond spreads are extremely close (21bps), whereas CCC and B-rated junk spreads remain wide (388bps), reflecting selective risk appetite[1].

Global Credit Yields

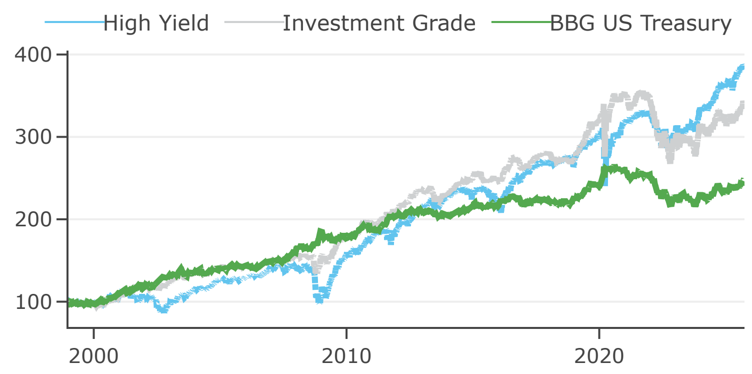
US Corporate Investment Grade Yield %



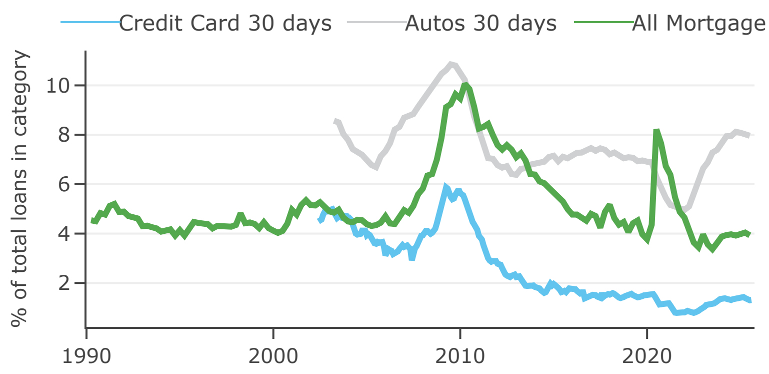
US Corporate Sub-Investment Grade Yield %



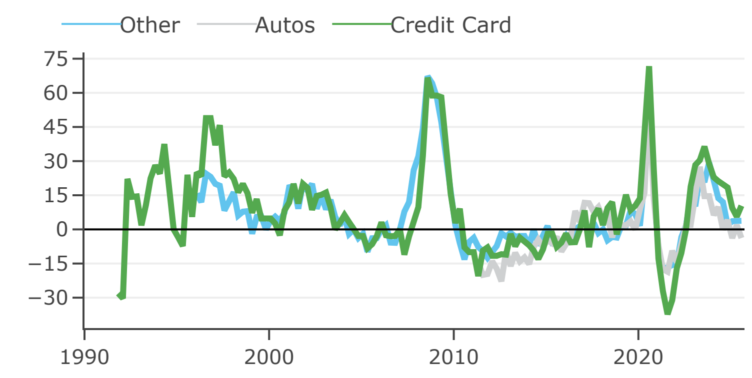
US Tr. vs IBoxx IG and HY Total Return $ (100= 31 Dec '98)



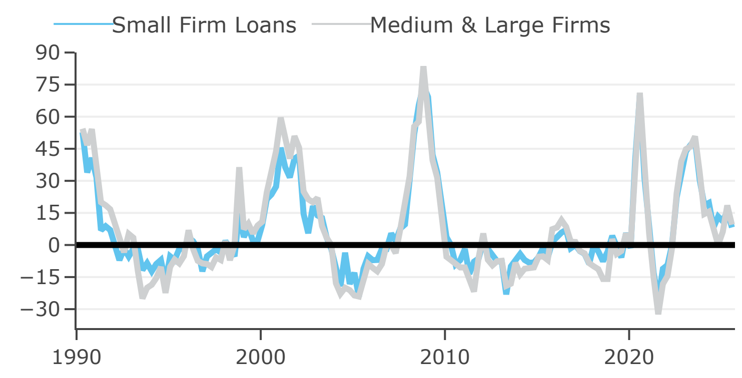
US Delinquencies %



Net % of Banks Tightening Consumers Credit Conditions



Net % of Banks Tightening C&I Credit Conditions



Sources | Federal Reserve, Senior Loans Officers Survey, CCLA, Bloomberg as at Sept 2025. 1: Bloomberg as at Aug 2025

Alternatives

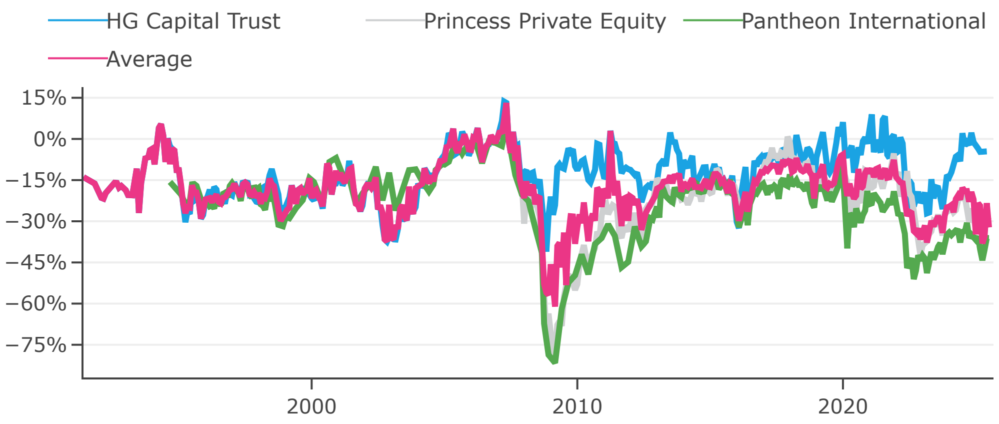
Private equity (PE) has struggled in recent months as pensions and endowments trim allocations and exits remain scarce. In this context, the US President's August executive order allowing 401K plans to hold illiquid assets (including PE, private credit, and crypto) is a double-edge sword. While it could unlock a major pool of retail capital, concerns focus on valuations.

The risk: PE funds, reluctant to write down investments acquired during pandemic-highs, may use retail inflows to offload overvalued assets through continuation funds. Potentially leaving retail investors exposed. Worth noting, safeguards like independent valuers exist, and the executive order is only a directive at this stage, thus the policy is dependent on regulatory body reviews/approvals.

Global Valuations

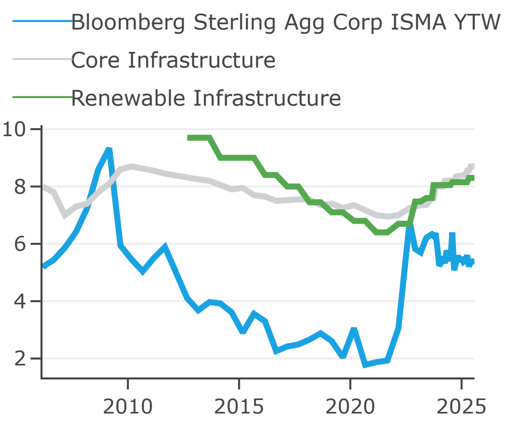
Listed Private Equity

Discount To NAVs



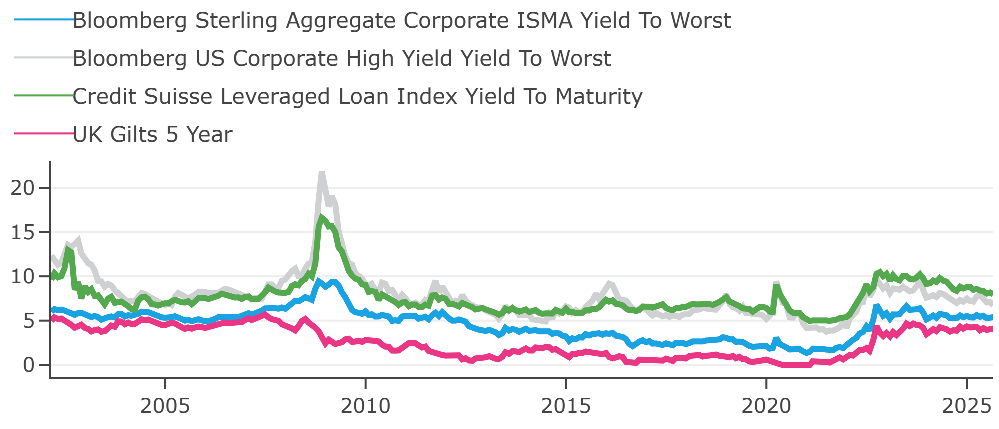
Infrastructure

Infra. Discount Rates vs Bond Yields



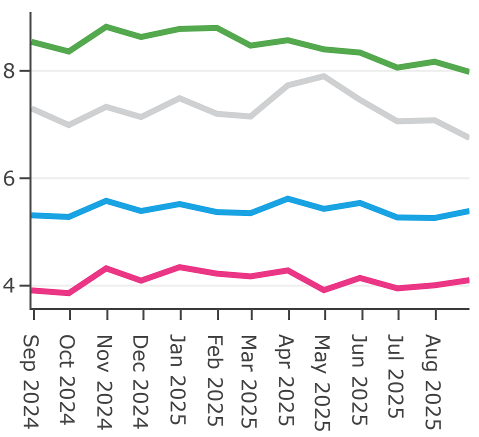
Contractual Income

Income Yields



Last 12 Months

Income Yields



Sources | Infrastructure: CCLA, Bloomberg; Private Equity: Bain Global Private Equity Report, Bloomberg, Pitchbook; Contractual Income: Bloomberg, Pitchbook. Data as of Sep 2025. Listed Private Equity Discount to NAV graph: We have used these three securities to give a broad market representation, data as of July 2025.

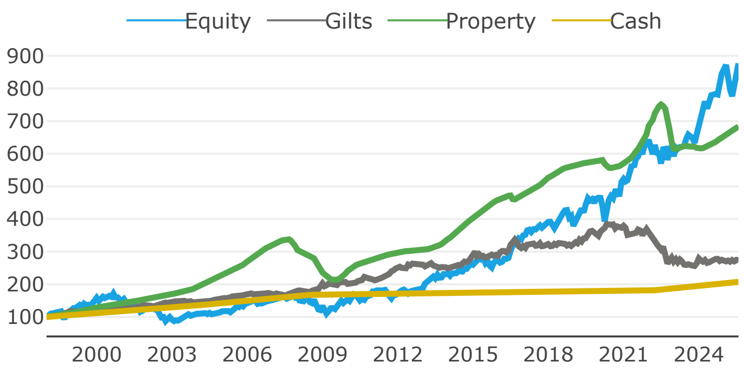
Property

UK property returns have transitioned this year, with initial gains driven by rental growth and dragged by capital depreciation; the latter has now stabilised. Transaction activity has normalised, and capital values appear to have bottomed out; total returns are now showing early signs of recovery.

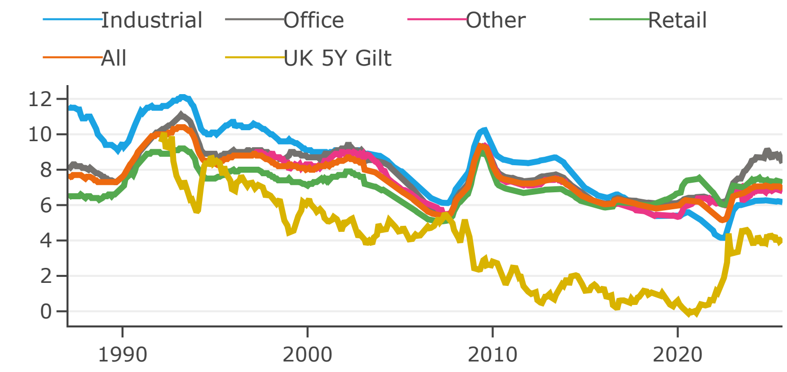
The sector is benefitting from an improving credit environment, courtesy of easier commercial lending standards and anticipation of further rate cuts. **Given an equivalent yield around 7%, the asset class remains compelling to us.**

UK Commercial Property Market

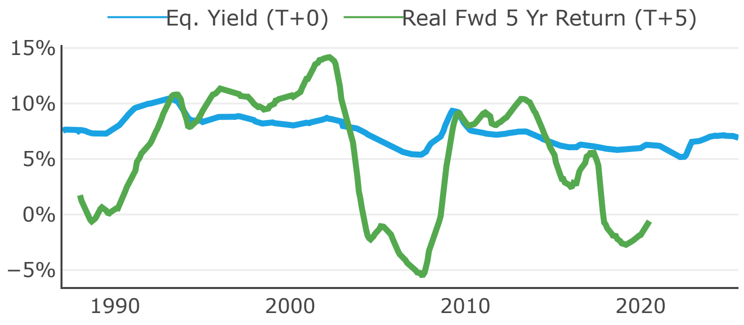
25 Years Of Return 1998=100



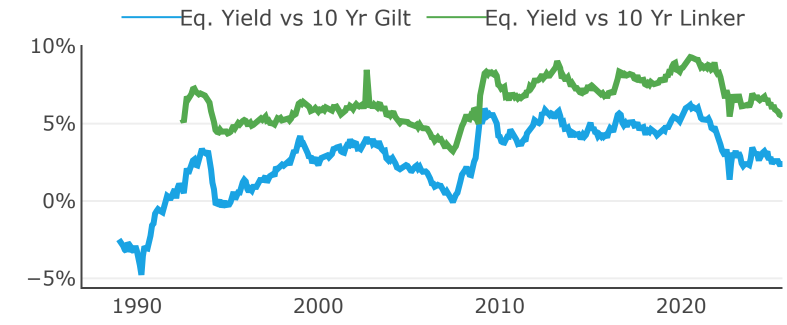
Equivalent Yields vs Gilt Yields %



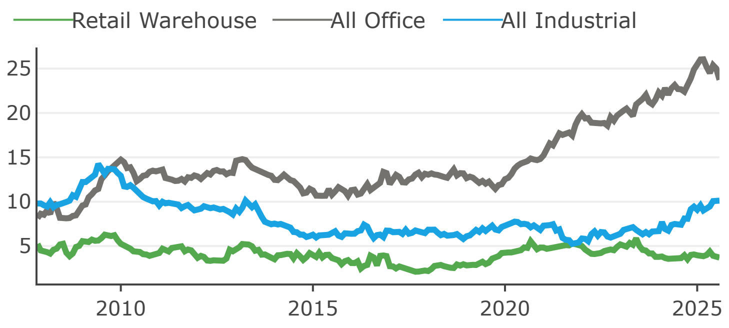
MSCI UK All Property Monthly TR Index %



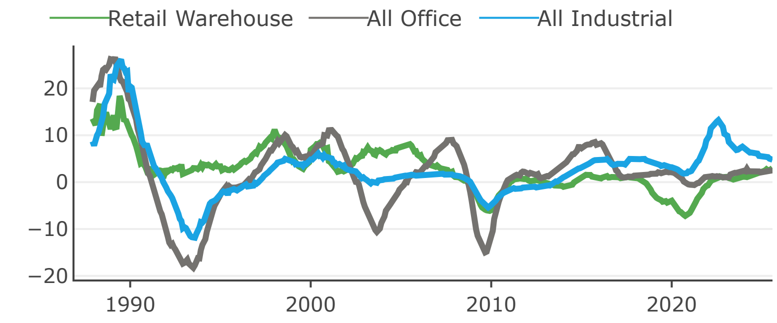
MSCI UK All Property Index - Equivalent Yield Spreads



Vacancy Rate %



Nominal Rental Value YoY Growth %



Sources | Equivalent Yields, Vacancy Rate, and Nominal Rental Value charts: MSCI UK Monthly Property Index as at Aug 2025. 25 Years of Return, All Property Monthly TR Index as at Aug 2025.

VALUATION

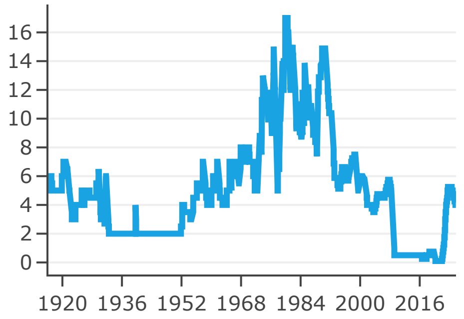
Cash

Amid fiscal pressures, the UK must prioritise growth by boosting productivity through domestic investment. Progress is underway, though less visible in headlines. Three key updates stand out. **Planning reforms:** councils are applying the unofficial "Grey-belt" status to overturn some rejected proposals, unlocking housing and data centres. **National Wealth Fund:** significant energy commitments - Sizewell C, Fidra Energy and AMP[1] - delivered over £2bn in joint investment this summer. **Green energy:** from 31 Dec. '25, onshore wind and solar will be classed as "Nationally Strategic Infrastructure Projects," enabling faster approvals of more ambitious projects.

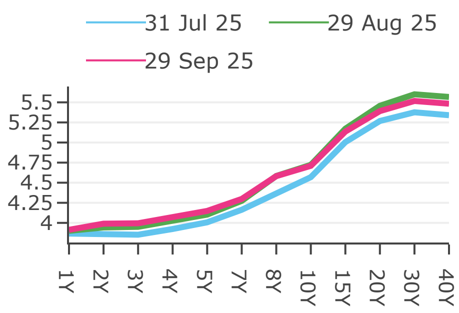
While the near-term impact on GDP is likely modest, a positive assessment to long-term forecasts by the OBR could improve growth expectations and even expand fiscal headroom.

UK Sterling Market

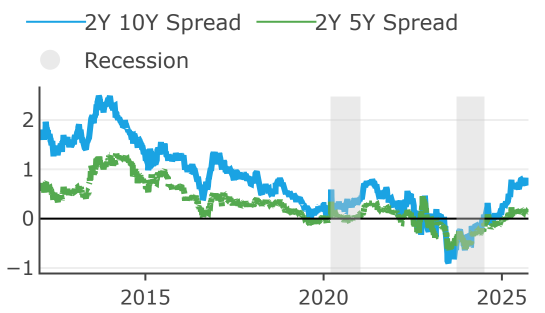
Official Bank Rate



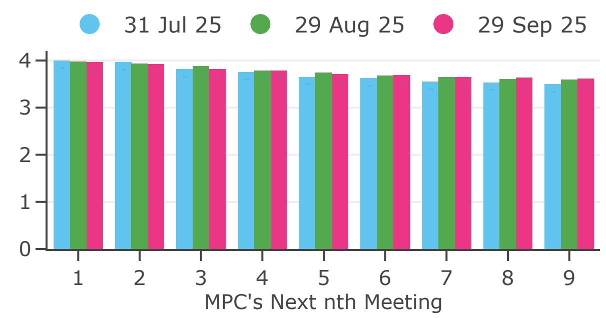
UK Gilt Curve



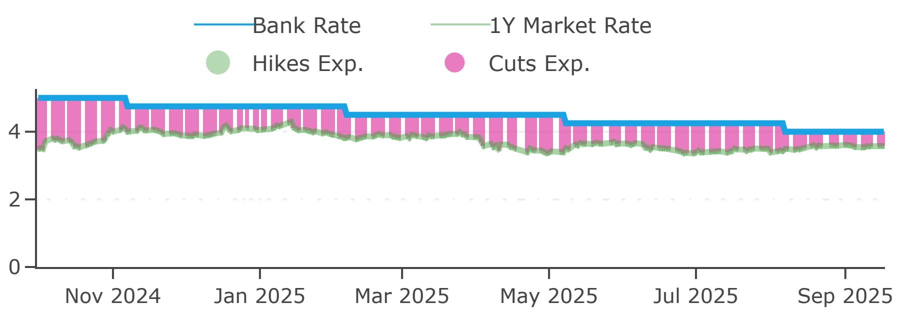
Gilt Spreads



Rate Expectations For Future MPC Meetings



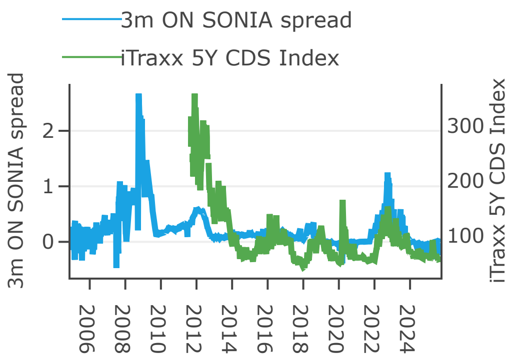
1Y Forward Market Rate Expectations



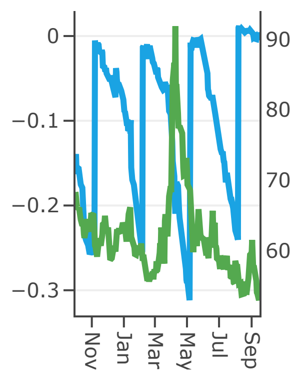
Inflation Readings YoY% | Colour by 10Y Z-Score*

Year	2025				
	April	May	June	July	August
RPI	4.50	4.30	4.40	4.80	4.60
CPI	3.50	3.40	3.60	3.80	3.80
CPI Core	3.80	3.50	3.70	3.80	3.60
CPI Services	5.40	4.70	4.70	5.00	4.70
CPI Goods	1.70	2.00	2.40	2.70	2.80
Priv. Wages	4.90	4.90	4.60	4.50	

Market Stress



Last 12 Months



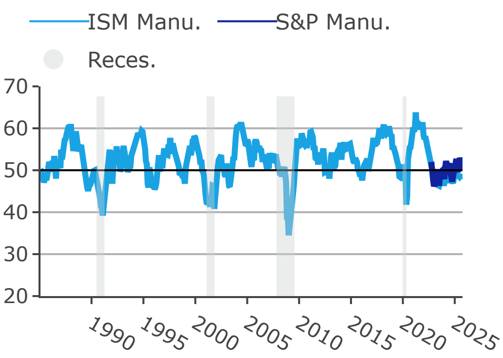
Sources | ITraxx CDS is the Markit iTraxx Europe Senior Financial Index, comprising 30 equally weighted credit default swaps on IG European entities. *10 year z-score applied on each series, coloured using gradient with score of 0 as green, at least +/- 2 standard deviations away scores as red. Bloomberg for all charts, as of Sept 2025.
1: Aggregated Micro Power

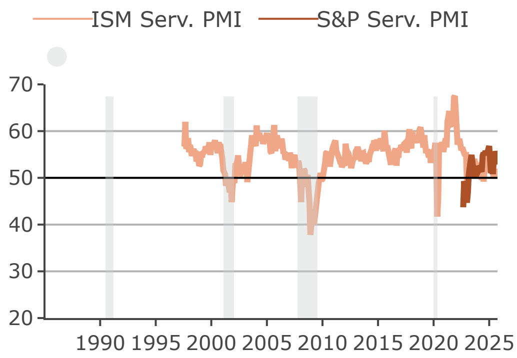
Global PMIs

US Composite flash PMI held at 53.6, signaling expansion. Services led growth, though domestic demand softened. Manufacturing export activity rose modestly. Input costs in both industries stayed high due to tariffs, but firms struggled to pass these on, resulting in sharply lower goods price inflation and weaker service inflation, pressuring margins.

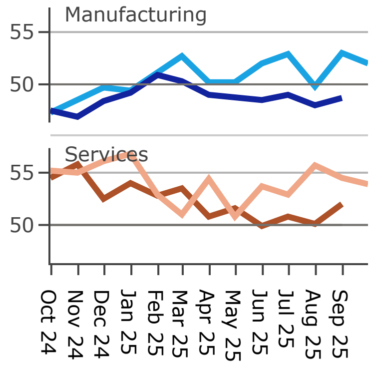
UK Composite flash PMI dropped to 51, a four-month low, highlighting a slower rate of expansion. Services saw margin pressure from higher costs and tighter client budgets, limiting pricing power. Manufacturing slumped to a five-month low (46.2), mainly due to automotive supply issues, weak order books, and falling employment demand.

United States

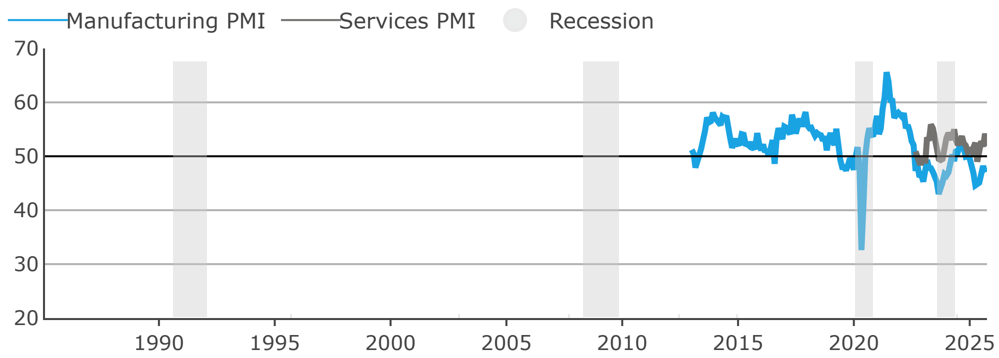




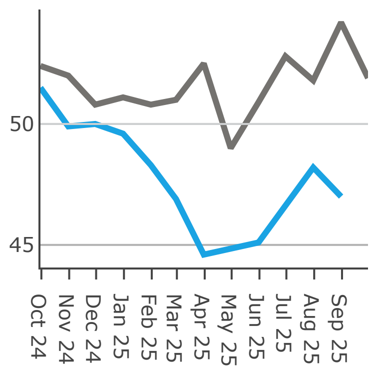
Last 12 Months



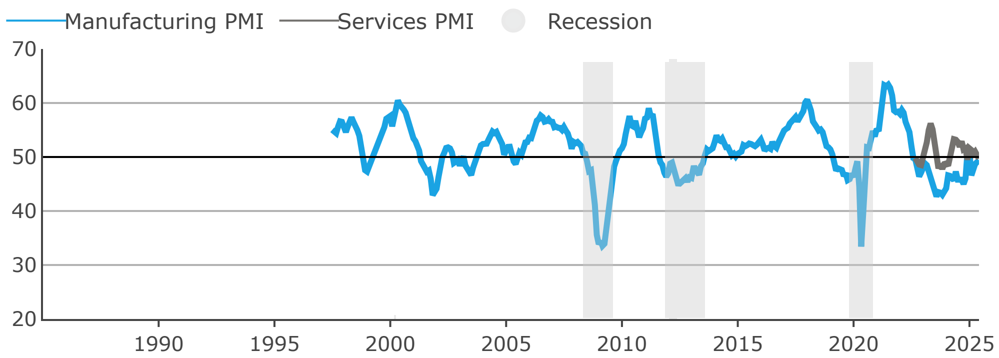
United Kingdom



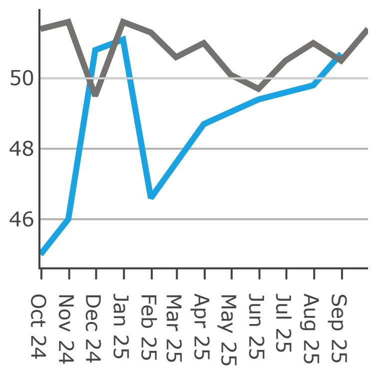
Last 12 Months



Eurozone



Last 12 Months



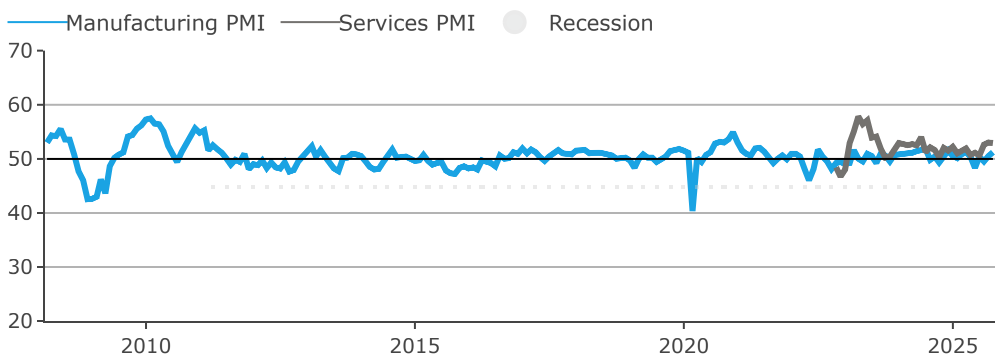
Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of Sept 2025. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP

Global PMIs

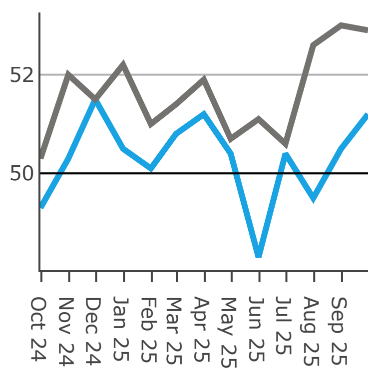
The US tariff agenda has triggered a range of responses globally. The UK has opted for a conciliatory approach, while the EU initially sought collective strength before yielding, and China has chosen retaliation. India, now facing tariffs as high as 50% - the highest in Asia - has seen its labour-intensive exports (such as textiles and jewellery) to the US fall by roughly 30%.

In response, the Indian government is proposing a support package, incl. collateral-free loans and subsidised interest rates. Initially worth $255m and potentially totaling $3bn over six years. Additionally, exploring support for traders diversifying out of the US and into Africa and Latin America, to mitigate the impact of declining US trade.

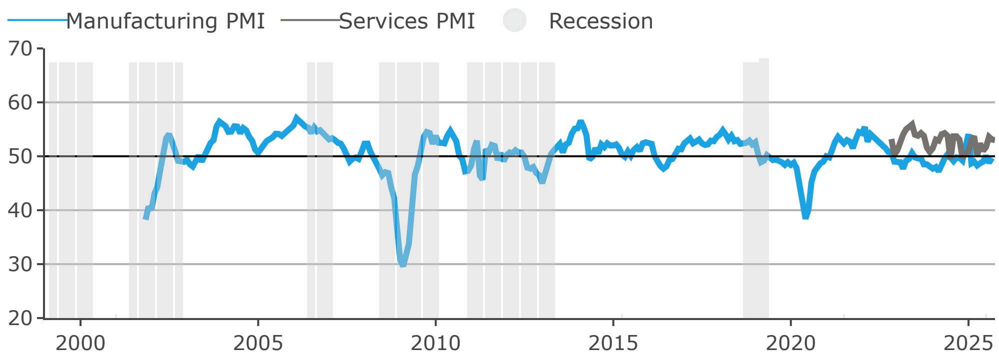
China



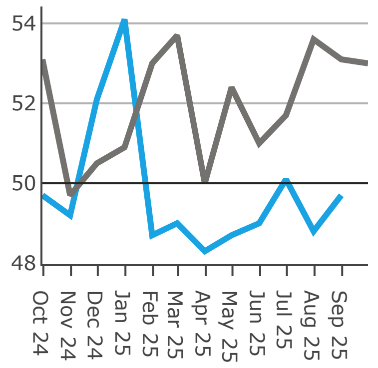
Last 12 Months



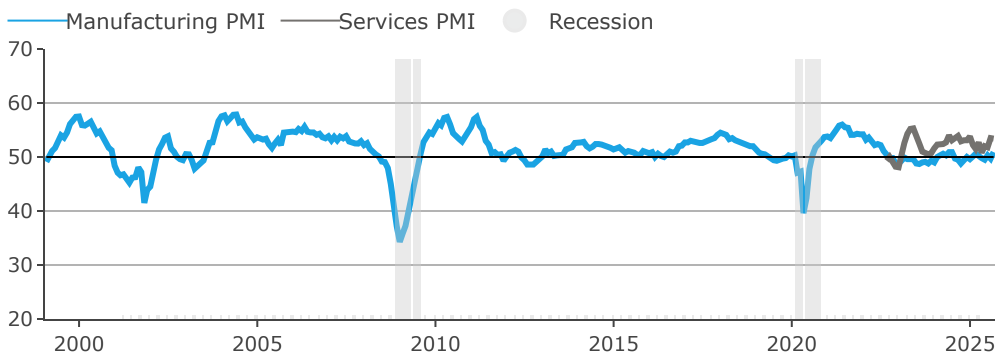
Japan



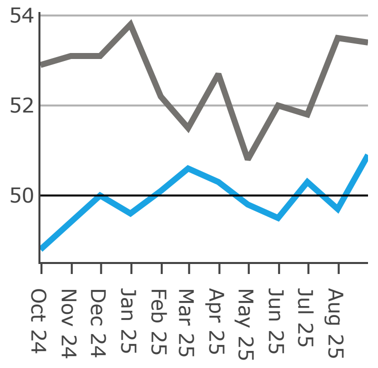
Last 12 Months



Global



Last 12 Months



Sources | US Services and Manufacturing: ISM; All other countries including global: S&P Global as of Sept 2025. Recession defined as two consecutive negative quarters of GDP, recession ends with two consecutive positive quarters in GDP.

GROWTH

CCLA

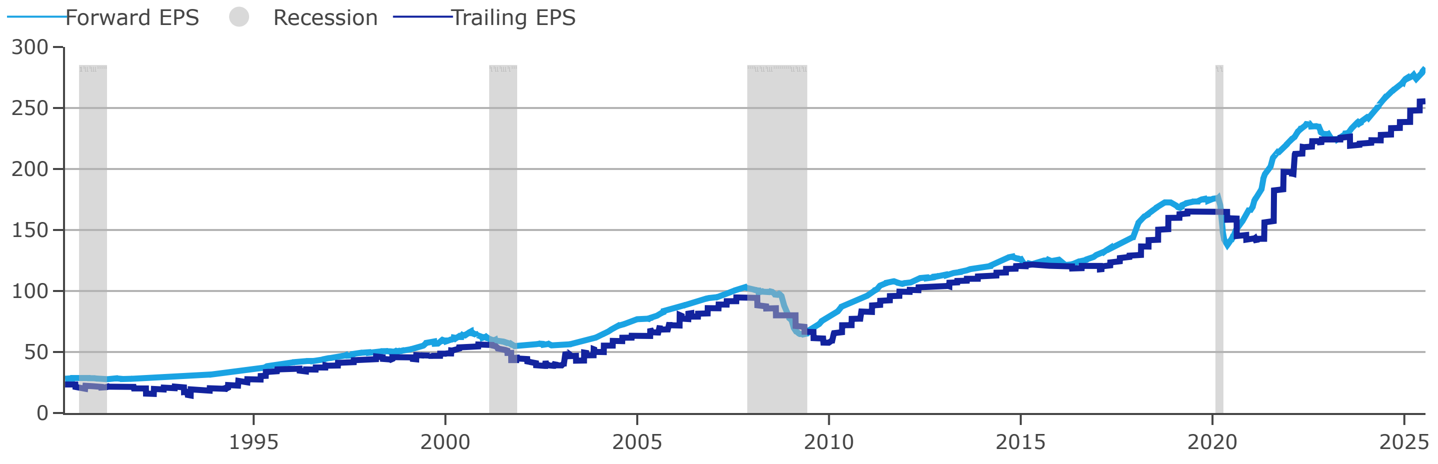
Earnings | USA

S&P 500's Q2 earnings ended at 12%, far higher than the original estimate ~4-5%. S&P 500's earnings growth for Q3 2025 is tracking at 7.9% - higher than the 7.3% estimate on 30 June. This was driven by upwards EPS revisions in six out of eleven sectors.

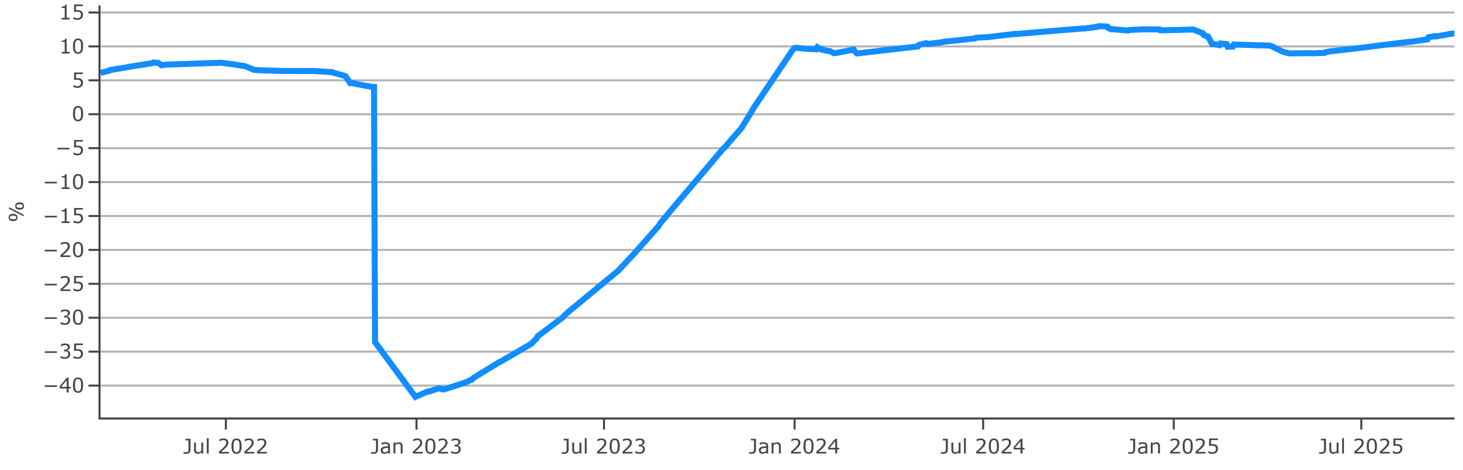
With revenue growth estimate for Q3 ~6.3% YoY, the market is still expecting margin expansion. The PMI story (see p15) suggests weaker margin growth. Something we will be keeping our eye on. Full-year 2025 earnings growth forecast have increased to ~10.8% broadly in line with long-term averages.

S&P 500

Bloomberg Est. EPS & 12M Trailing EPS



Rolling Forward EPS Growth Forecasts



Sources | S&P500 12M Forward EPS using Bloomberg BF transformation, 12M Trailing EPS from Bloomberg as at Sept 2025. Data for commentary taken from: Factset: 'S&P 500 Earnings Season Update': 26 Sept 2025.

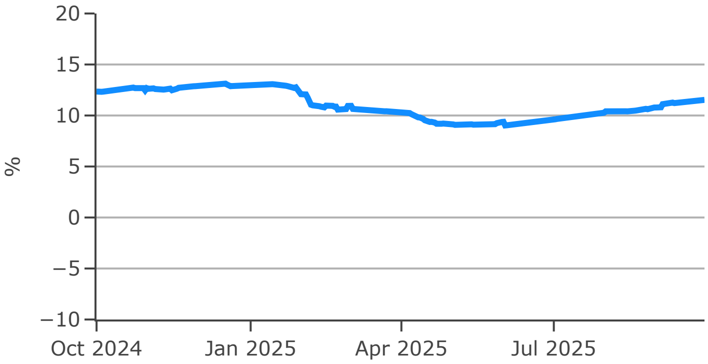
Earnings | Regional

Developed markets have seen a slow down in their forecasted blended 12M forward EPS growth rates. USA is now ~10%, falling from the January peak. Europe (ex UK) and UK are following a similar pattern, however, now reaching if not surpassing their previous peaks.

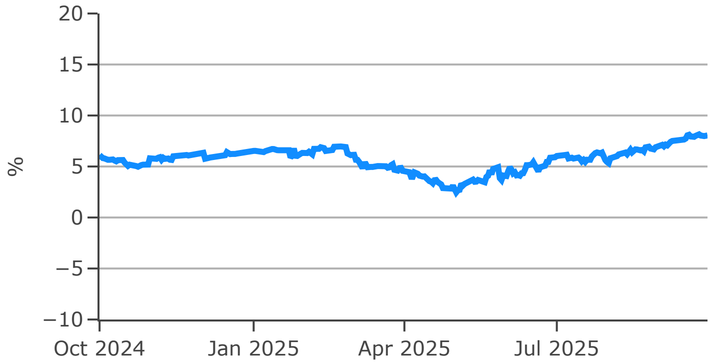
Emerging Markets are showing signs of improving with an EPS growth rate close to 15% - higher than any other region.

Regional Rolling 12M Blended Forward Earnings Growth

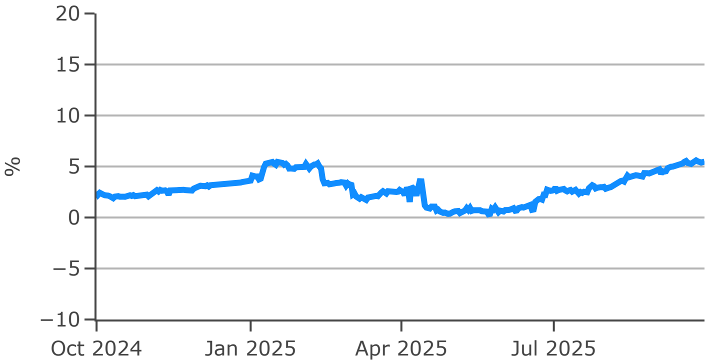
MSCI USA



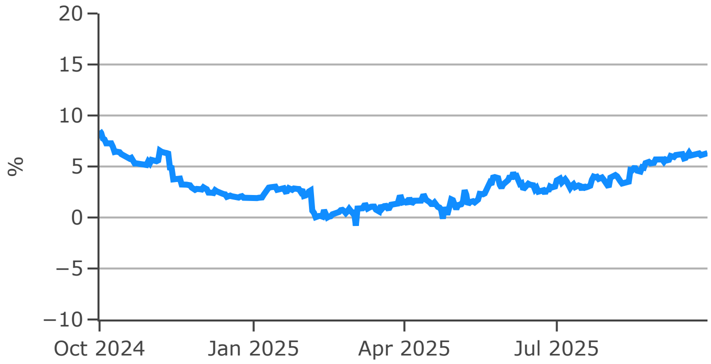
MSCI EU ex UK



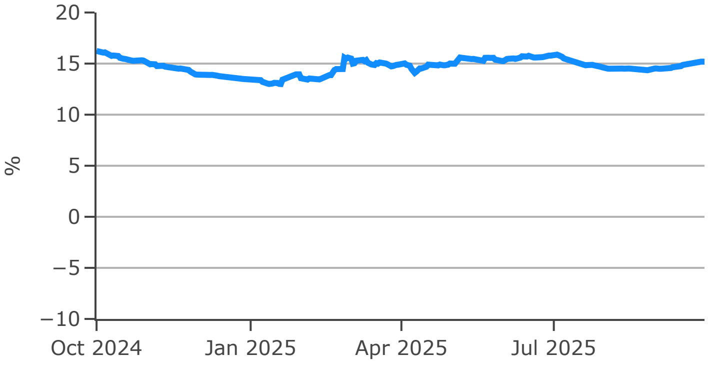
MSCI United Kingdom



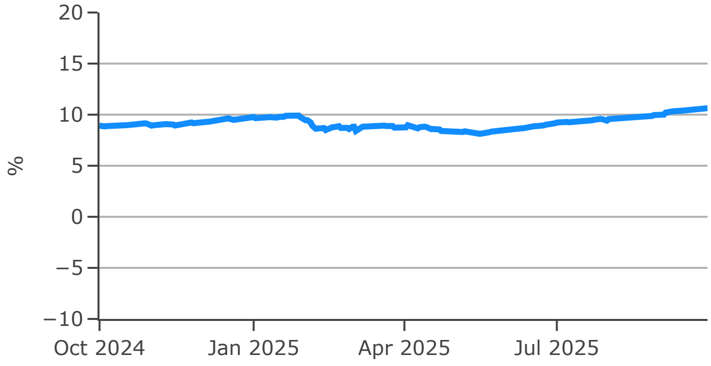
MSCI Japan



MSCI Emerging Markets



MSCI World



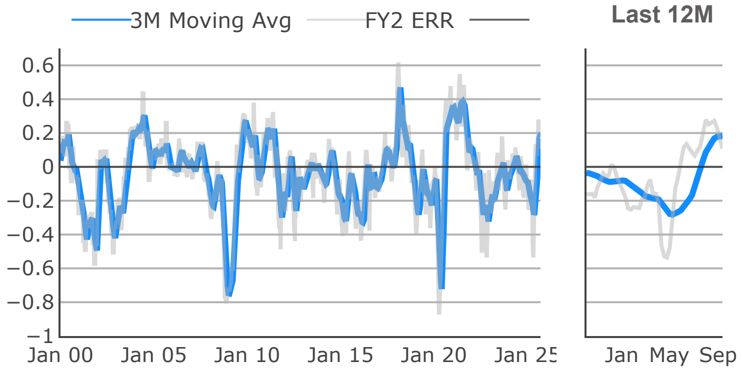
Sources | MSCI regional index 12M Forward EPS using Bloomberg BF transformation with YoY growth as at Sept 2025.

Earnings Revisions

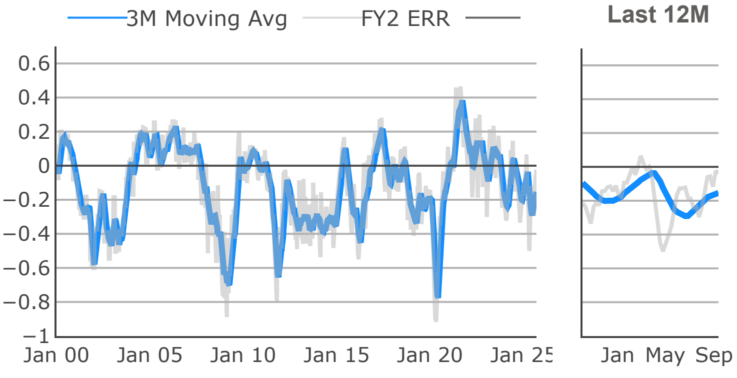
These charts show the breadth of earnings revisions, i.e. # upgrades minus # downgrades / total estimates, so it is a directional measure showing how widespread upgrades or downgrades are. Historically, troughs in revisions breadth have been favourable times to add risk.

Global Earnings Revisions Ratios

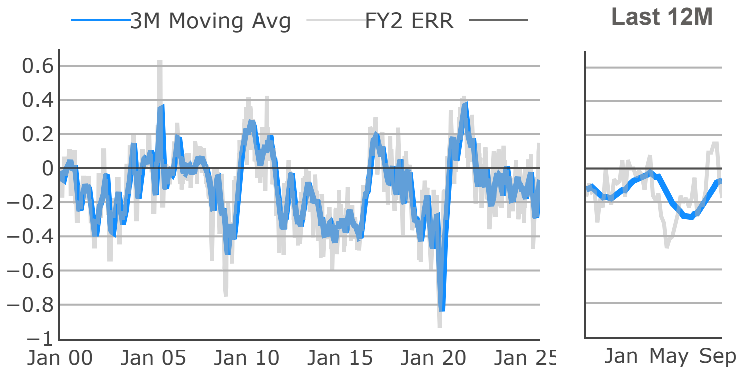
USA



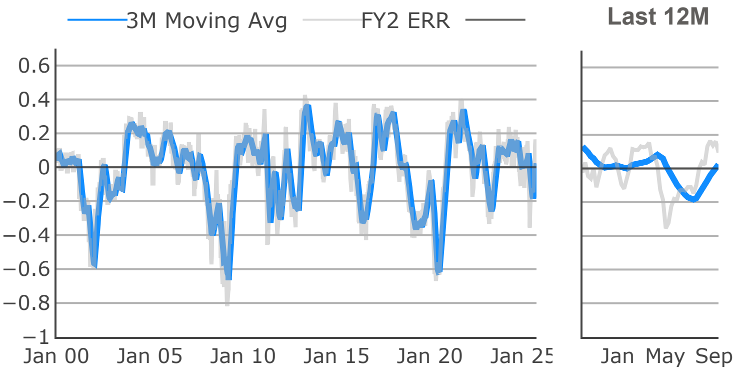
Eurozone



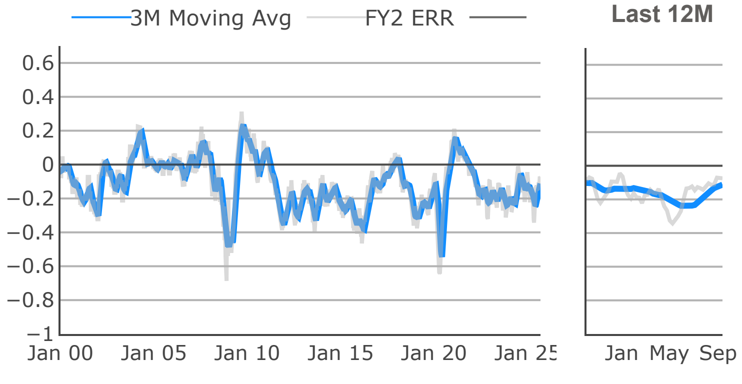
UK



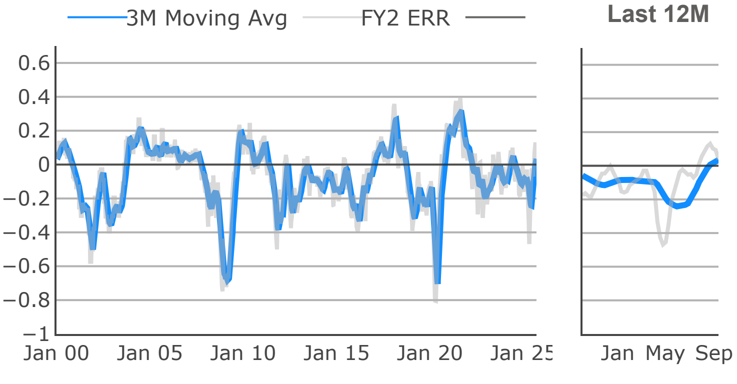
Japan



Emerging Markets



World



Sources | Eikon, the MSCI index has been used for each respective region, as at Sept 2025.

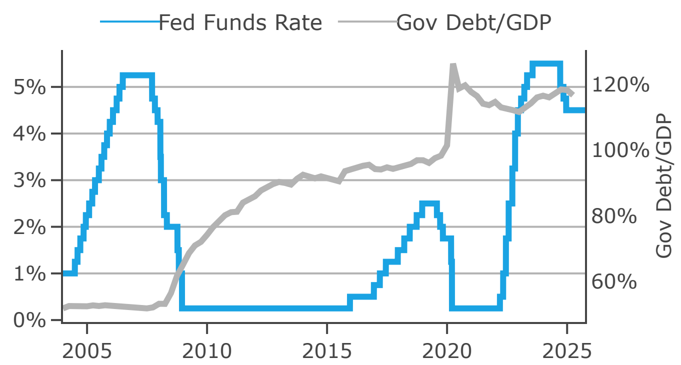
POLICY

Interest Rates

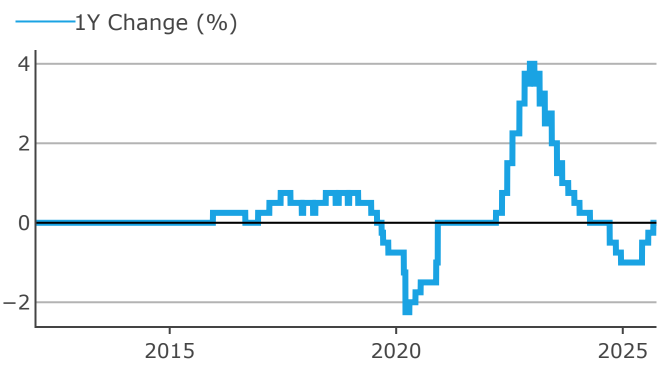
Achieving Scott Bessent's 3% real GDP growth target hinges on lower short-term interest rates. The administration has aggressively sought to sway FOMC members, including efforts to replace officials with loyalists like Stephen Miran.

Powell's remarks at the Jackson Hole symposium suggested openness to a rate cut, a view echoed in September's meeting when rates were lowered to 4.25%. **Outside of Miran's ~2.9% rate expectation; the median dot plot is ~3.6% by 2025 year-end.**

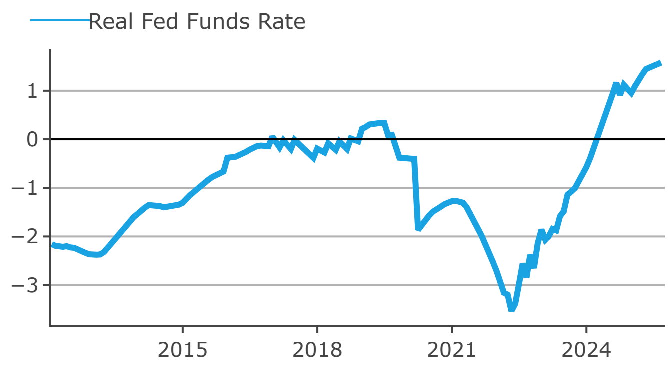
Fed Funds Rate



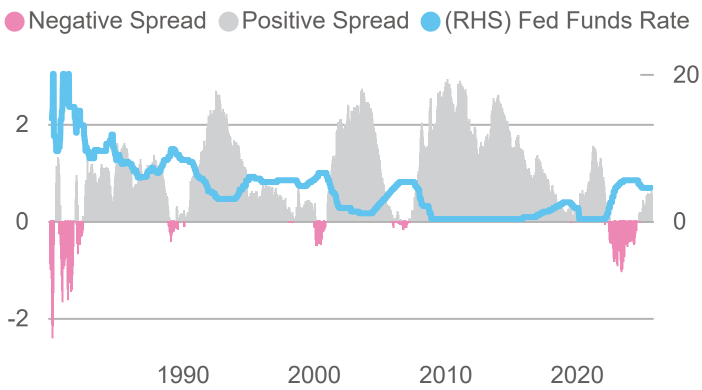
Change in Fed Funds Rate



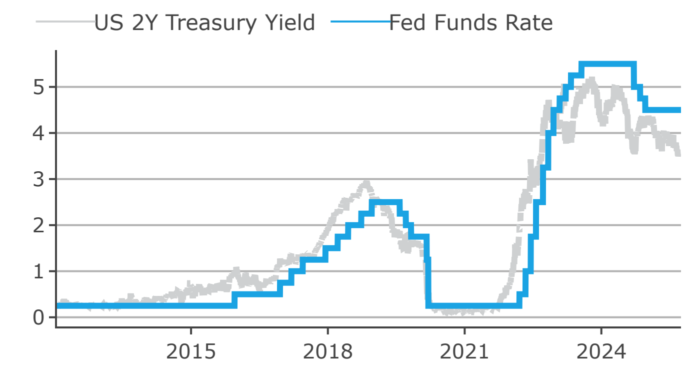
Real Fed Funds Rate (Using 2Y MA CPI)



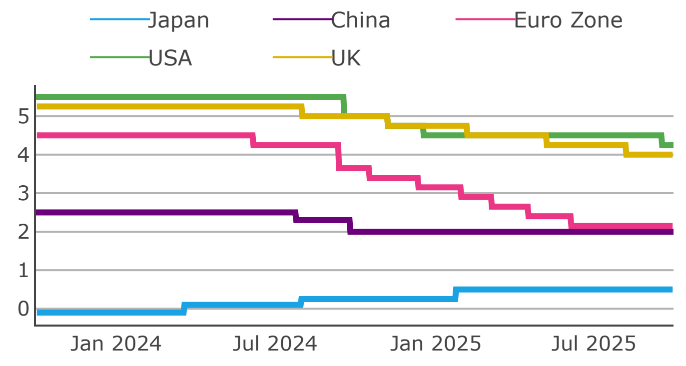
Fed Funds Rate vs 2s10s Curve



Fed Funds Rate vs 2Y Treasury



Global Comparison



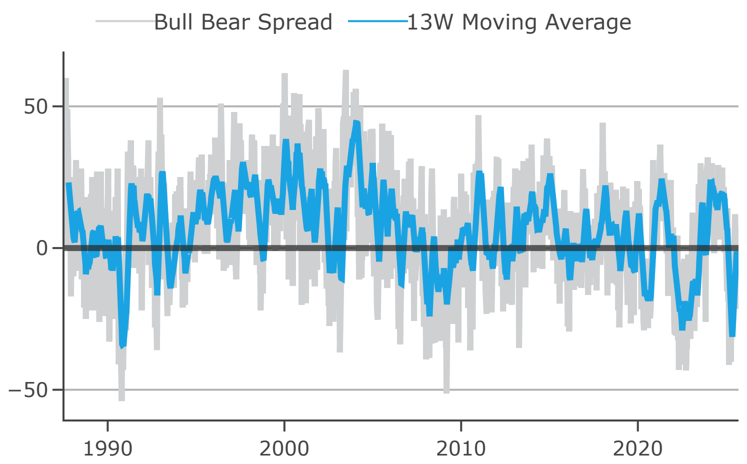
Sources | Bloomberg for all charts, as of Sept 2025.

Sentiment

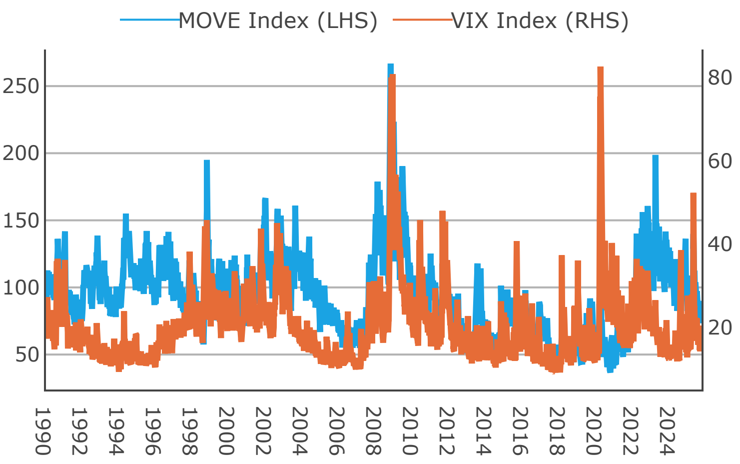
The BAML Hartnett Bull & Bear Indicator has stayed around the 6-handle (6.2), slightly lower than last publication's 6.4. The value can be attributed to strong inflows in EM equity and continued strong techincals in credit. On the other hand, hedge fund flows remain subdued.

US Equity Indicators

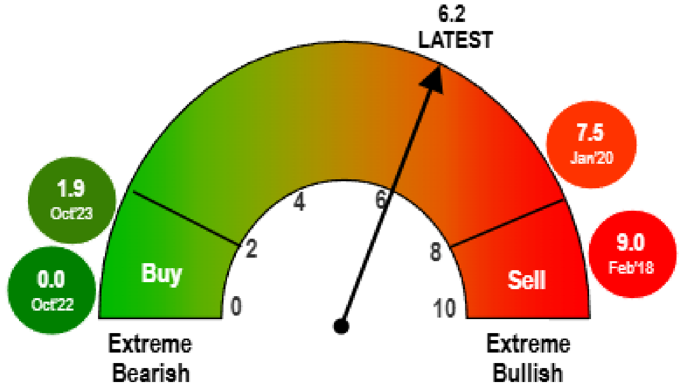
AAII Bull Bear Spread



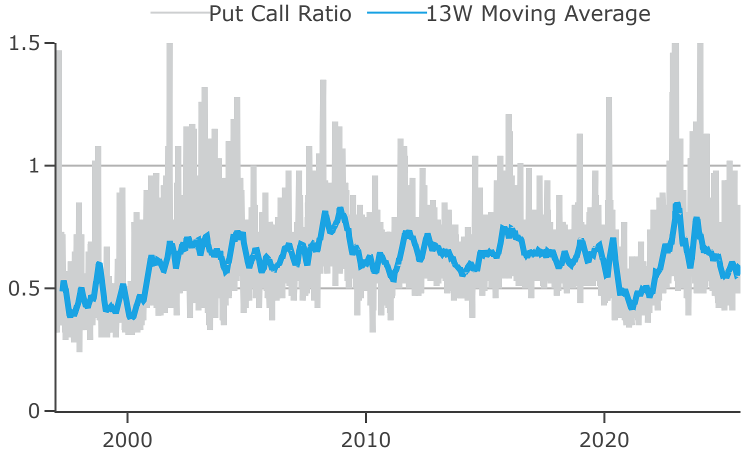
Equity vs. Bond Sentiment



Michael Hartnett's Bull & Bear Indicator (BAML)



Equity Put Call Ratio



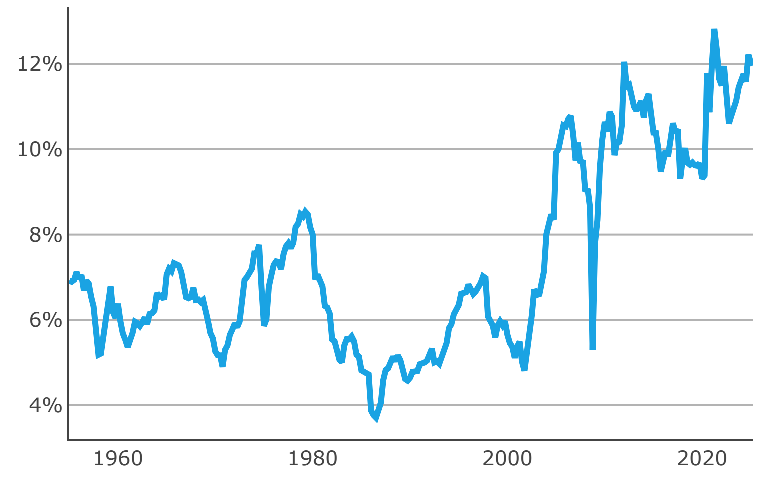
Sources | Bull Bear Spread, VIX and Equity Put Call Ratio: Bloomberg. Michael Hartnett's Bull & Bear indicator by kind permission from Bank of America, as of Sept 2025

The Big Picture

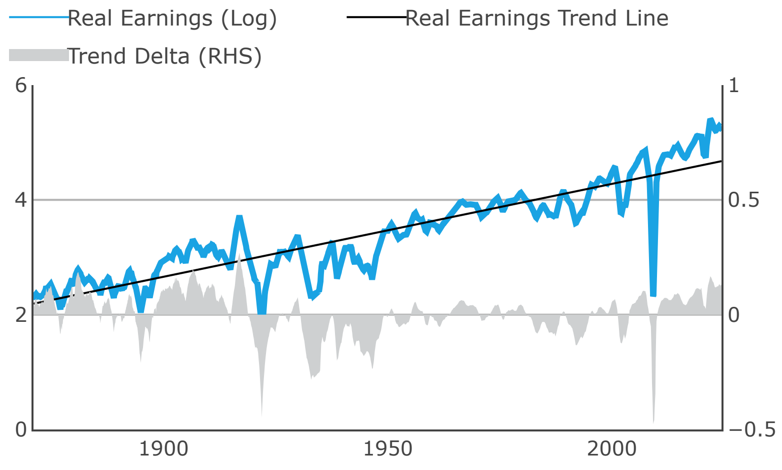
Here we highlight some longer-term imbalances that, **should** they correct, would have an outsized impact on risk asset returns. We don't make predictions but we do watch these. US corporate profit is just off the highest share of GDP that it has ever been since 1929. Its corollary (not shown) is that the wage share is at the lowest level it has been in almost as long. Allied to this, the top right chart shows that earnings are as far above their long run trend in absolute terms as they have also been since 1929. Domestic non-financial debt is also extremely elevated. All of this suggests that if old relationships hold and we get mean reversion, forward 10 year returns could be much lower than suggested by the ERPs.

Long Term Inbalances

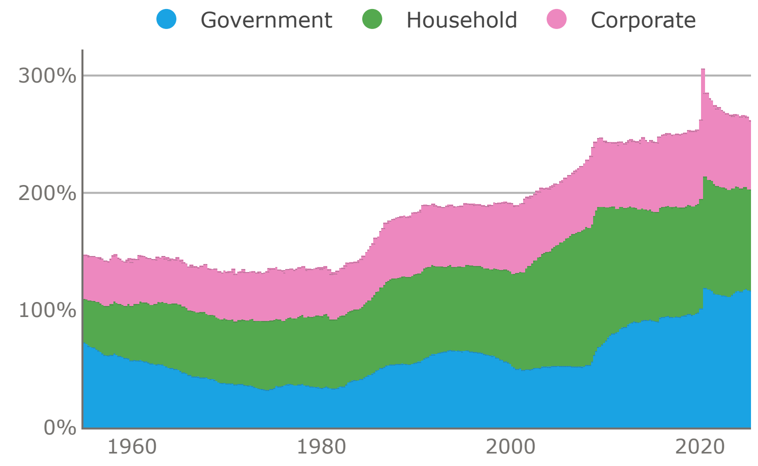
Profit Share of GDP



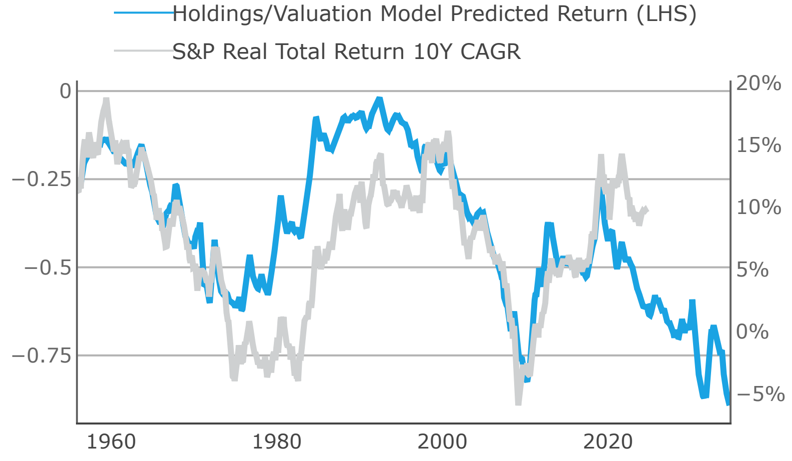
Earnings Deviation From Trend



Non Financial Debt as Share of GDP



S&P 500 10Y Forward Returns



Sources | Profit Share of GDP, and Non Financial Debt as Share of GDP: Federal Reserve Economic Data (FRED); Earnings Deviation From Trend: CCLA using Shiller CAPE data from Yale.edu; S&P 500 10Y Forward Returns: Holdings/Valuation Model uses three inputs: Tobin's Q, Shiller CAPE and Household Equity Holdings to predict 10Y forward returns. All data refreshed as at June 2025.

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