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Investment Committee Series

Q4 Outlook - November 2025

Q1



Q2



Q3



Q4

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01

Introduction

Markets continued to soar, supported by strong economic growth and the re-start of a Fed rate-cutting cycle. However, the third quarter showed two contrasting trends in the global economy. Business investment jumped – something few expected given concerns about tariffs and trade uncertainty. We also saw labour markets start to show signs of weakness. This is unusual because, historically, strong investment normally goes hand in hand with a strong job market.

A big reason for the surge in investment is the heavy spending by technology companies on artificial intelligence (AI) infrastructure. Meanwhile, corporate profitability remains resilient, further supporting investment appetite.

Turning to employment, while much of the focus has been on the US, it is important to recognise that labour market softness is a global phenomenon. Despite this, unemployment rates have not risen materially, due to constrained labour supply, particularly from reduced immigration flows.

In this environment, we expect the equity rally to persist. As the saying goes, “Bull markets don’t die of old age; they are killed by the Federal Reserve or a recession.” With the Fed currently in an accommodative stance and a recession less likely, the rally appears to have further room to run.

Germany stands out as a region we particularly like. The recent change in fiscal budget marks a shift in policy direction and we anticipate that fiscal stimulus will begin to support growth meaningfully in the coming quarter and into next year.

Globally, inflation remains stubbornly above target levels, and it now seems unlikely to fall meaningfully below the 2.5%-3% range without a recession. A sharp resurgence also seems improbable with energy costs remaining contained. Out of all regions, the UK, in our view, is in the most challenging position, while services inflation remains sticky, growth has been weakening. This environment makes the Bank of England’s position particularly difficult.

Eren Osman
Managing Director,
Wealth Management



02

Decisions we made

Over the past quarter we have made four core changes to our portfolios:

- Decreased government and corporate bonds, and introduced Emerging Market Local Currency Debt
- Increased global equities, adding German exposure
- Enhanced diversification through catastrophe bonds and hedge funds
- Hedged some GBP exposure to EUR.

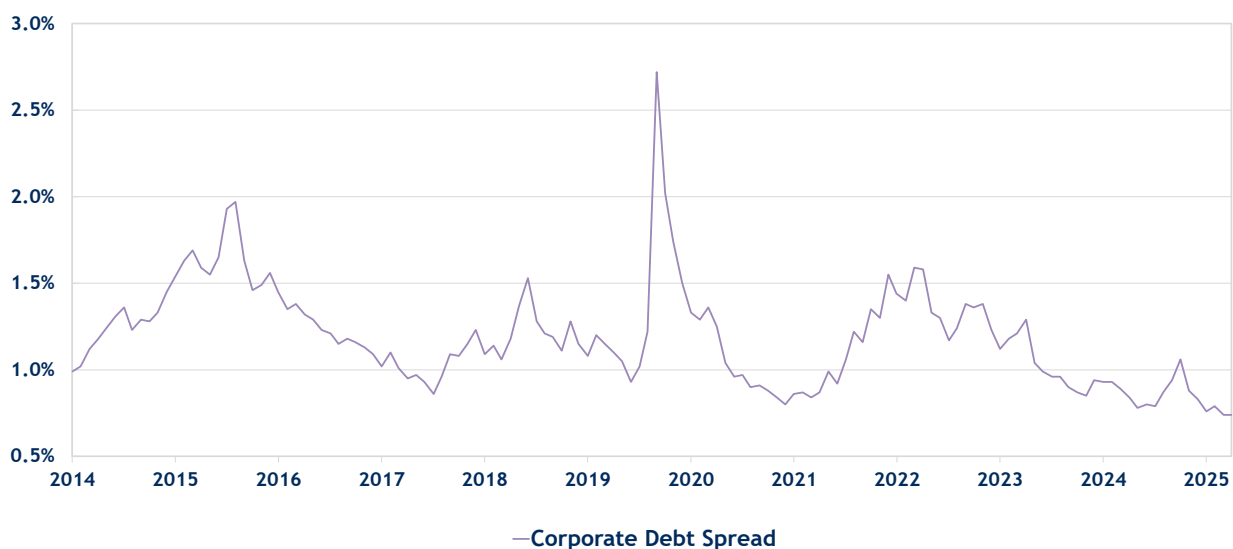


We remain optimistic about the long-term impact of AI, which continues to drive innovation.”

Peter Doherty
Director, Head of Investment Research



Credit spreads remain tight, offering poor risk-adjusted returns



Source: Bloomberg

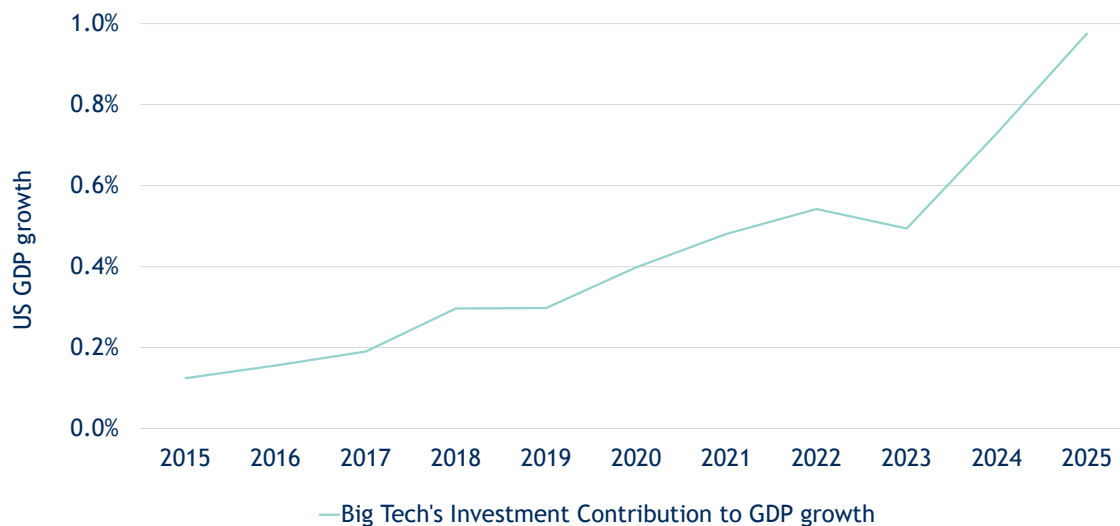
Decreased government and corporate bond allocation, introduced Emerging Market Local Currency Debt in our portfolios

We have trimmed our government bond exposure in favour of global equities, taking on a bit more risk given the solid growth outlook. Furthermore, in the short term we expect sticky global inflation will continue to be a headwind for government bonds. Within our bond allocation, we have reduced UK gilt exposure following a recent fall in yields. The UK economy has the traits of an economy in stagflation: growth is slowing, and services inflation remains high, making rate cuts from the Bank of England harder to justify. Ahead of our Investment Committee series, we saw a rally in UK bonds and used the opportunity to lock in gains.

We also cut our corporate bond allocation. Credit spreads (which is the additional income investors receive from lending to riskier corporates relative to governments) are extremely tight as shown in the chart above, meaning investors are not being compensated enough for the risk taken. Instead, we see better risk-adjusted returns in alternative asset classes, such as hedge funds and catastrophe bonds.

Within our bond allocation we have also initiated a new position in Emerging Market Local Currency Debt, which adds diversification to our bond portfolio and tends to benefit from a weaker US dollar (see p10 for more on this opportunity).

Big tech AI investment added around 1% to US GDP growth in H1 2025



Source: Bloomberg

We have increased our allocation to global equities, added German domestic exposure

Our increased equity allocation reflects our confidence that the current rally has room to run in a backdrop of solid economic growth and a Fed easing cycle. We remain optimistic about the long-term impact of AI, which continues to drive innovation and investment across sectors. Our exposure to US equities remains overweight to large-cap technology sectors, as these companies are leading the AI transformation. Their elevated spending appears well-supported by strong balance sheets and there are no signs of overcapacity in the AI market, suggesting the investment cycle is still in the early stages. Initial estimates show that AI investment has contributed about 1% to GDP growth in the first half of 2025, highlighting its increasing impact on the economy.

In Europe, we have rebalanced our allocation by reducing exposure to an active growth manager and shifting capital toward German domestic companies. These businesses are well-positioned to benefit from Germany's fiscal expansion and a stronger euro, which should support earnings growth.

Within our Emerging Market and Asia allocation, we trimmed our Emerging Market active manager following a strong rally and reallocated to Chinese tech. We see earnings momentum and increased AI investment as key tailwinds, and expect AI-driven gains similar to those seen in US tech.

We also initiated a new position in a global 'quality' equity fund, which has recently underperformed wider global equities. Quality companies – known for strong fundamentals like low debt, high return on equity, and stable earnings – tend to outperform across market cycles. This allocation adds diversification while still offering meaningful upside potential.

Added to catastrophe bonds and hedge funds to enhance our diversification

Despite solid economic growth, we have rotated some capital into positions less correlated with equities to boost diversification in case of a slowdown or recession. Insurance-linked catastrophe bonds offer an attractive yield – currently 6% above cash – and are largely uncorrelated with political, economic, or other market events, making them a valuable diversifier.

Within hedge funds, we have increased allocations to merger arbitrage and convertible bond arbitrage strategies. We see supportive tailwinds for merger and acquisition activity, particularly under the more relaxed regulatory stance of the Trump administration. Convertible bond strategies also offer a compelling mix of equity upside and fixed income downside protection, particularly attractive in a market where growth remains strong, but volatility could rise.

Hedged GBP exposure to EUR

We introduced a currency hedge on 1.5% of our sterling government bond exposure to euros. Currencies tend to weaken when the economic outlook deteriorates. We believe that the difficult fiscal situation that the UK is going through will lead to an increase in taxes, which ultimately will dampen economic growth. This will likely lead to a weakening of the pound. We have selected to hedge back to the euro as we see the economic growth in Europe to be supported by the game-changing fiscal policy.

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What does the future hold for investors?

This quarter marked a shift in market dynamics. In the first half of the year, investor attention was largely focused on US policy developments and their economic impact. Markets have become less sensitive to political shifts, with investor attention now turning to the surge in AI-related investment. Some even argue that without the boost from AI, the US might already be in a recession. While we do not know for sure, it is clear that AI is having a real impact.

We are closely monitoring its impact, while continuing to track other key economic fundamentals like the labour market, which has shown some signs of softening and could be a potential area of concern should it deteriorate further in the US or UK.

One area where our view has evolved is inflation. Earlier in the year, we expected price pressures to ease steadily. However, recent data has challenged that view. We now believe that global inflation returning to target levels will be difficult without a significant slowdown, and this has made us more cautious on our bond allocations.

It is encouraging to see new investment opportunities outside the US after years of American dominance. We are excited about the return potential in recent allocations such as German domestic equities and Chinese technology.

Even though we are positive on growth, we are still aware of risks permeating from a weakening labour market and trade tensions. Hence, we are taking a balanced approach – we want to stay exposed to the upside to capture wealth creation, supported by strong earnings and AI momentum, but also protect the portfolio in the event the economy slows unexpectedly.

To do that, we have added positions that do not move in sync with equities, like catastrophe bonds, hedge funds and quality aligned companies. These help reduce risk and add resilience if growth slows or markets become more volatile.

04

Around the world

Japan

Following the election loss and mounting internal pressure, Japan's Prime Minister Ishiba resigned in early September. Sanae Takaichi won the LDP leadership contest on 4 October, becoming the party's new president and Japan's first female prime minister. Her leadership marks a shift toward more conservative policies and a renewed focus on economic security.

China

Trade relations between China and the US worsened in Q3, with both sides imposing new tariffs and export restrictions. The US threatened 100% tariffs on Chinese goods and tightened export controls, while China responded with restrictions on rare earth exports and retaliatory port fees. Despite the escalation, talks resumed at the end of October, resulting in an agreement to reduce tariffs and ease restrictions on rare earth metal exports.

France

France faced deep political instability in Q3, marked by the collapse of multiple governments, mass protests, and a failed confidence vote over austerity measures. President Macron's reappointment of Sébastien Lecornu as Prime Minister was seen as a last-ditch effort to restore order. A hung parliament, rising debt, and unpopular pension reforms have left the country in prolonged economic uncertainty.

Gaza

After two years of devastating conflict, Israel and Hamas agreed to a US-brokered ceasefire as part of a 20-point peace plan led by President Trump. The deal includes a halt to fighting, exchange of hostages and prisoners, partial Israeli withdrawal, and humanitarian aid to Gaza. While the agreement marks a major diplomatic breakthrough, tensions remain high and key issues – like Hamas's disarmament and Gaza's governance – are yet to be resolved.

05

Emerging Market Local Currency Debt: A high yield opportunity

Emerging Market (EM) Local Currency Debt has been largely out of favour in recent years. However, the narrative is shifting and our recent allocation reflects this renewed optimism and the belief that EM Local Currency Debt is entering a more constructive phase. By Edward Johnstone, Director, Head of Investment Management, and Ricky Nayee, Associate Investment Research Analyst.

What is Emerging Market Local Currency Debt?

EM Local Currency Debt refers to bonds issued by EM governments or companies that are denominated in their own currencies i.e. the Brazilian real, South African rand or Indian rupee. Investors generate returns from three main sources: income coupon payments, potential currency appreciation, and the value of the bonds themselves increasing or decreasing in value. EM Local Currency Debt can enhance returns of portfolios as they typically provide higher income when compared to the bonds of developed markets such as the UK or US.

Beyond the yield and return potential, EM Local Currency Debt enhances portfolio diversification. It provides exposure to 19 different economies, each with distinct growth drivers, monetary policies, and currency dynamics.

It is important to highlight that EM Local Currency Debt is traditionally seen as a riskier asset compared to other bonds and we have sized our position appropriately reflecting this.

Currency appreciation potential amid dollar weakness

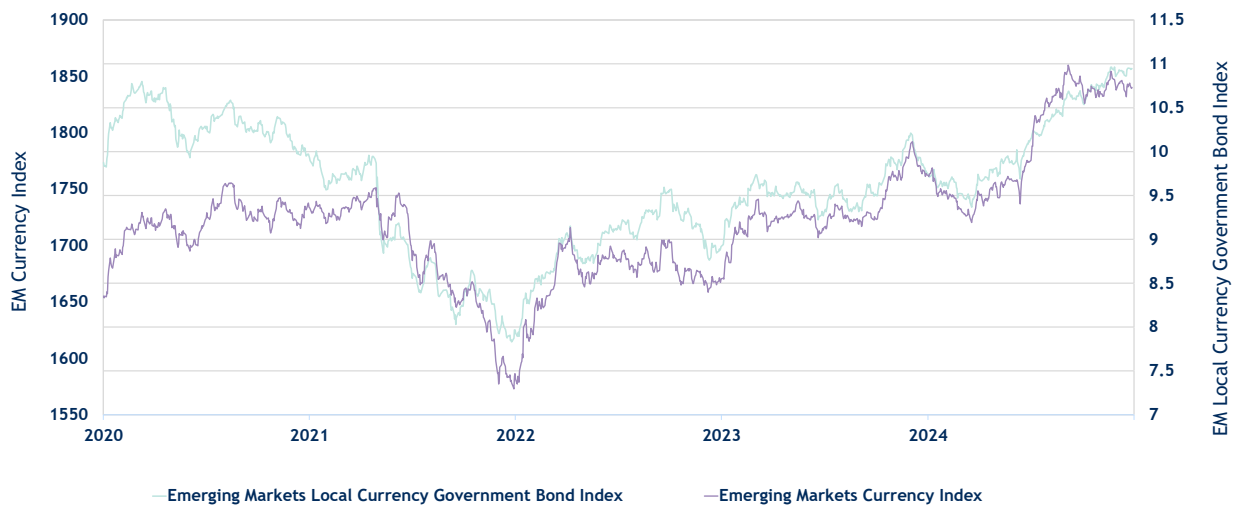
Strong EM currencies normally leads to higher EM Local Currency Debt investors returns (see chart). So what drives EM currencies? The dollar is the biggest driver. We typically find when the dollar weakens, EM currencies do well. With the US dollar currently in a downturn, and on track for its worst calendar year in nearly two decades, this provides a tailwind for EM currencies. We believe forward looking returns for the dollar are somewhat challenged, further supporting EM currencies.

Inflation moderation and monetary easing

Emerging Markets have made strides in improving their economic frameworks over the last decade. Many now operate under inflation-targeting regimes for monetary policy, with independent central banks and more predictable policy responses.

This was evident post-Covid where central banks were more proactive in addressing inflation, with many increasing interest rates well ahead of their developed market counterparts.

Stronger Emerging Market currencies, stronger Emerging Market currency debt



Source: Bloomberg

Countries like Mexico and Colombia began increasing interest rates as early as 2021, giving them room to now cut rates as inflation moderates. This contrasts with developed markets, where central banks took a lot longer to increase rates leading to large overshoots in inflation.

Many EM countries have now started cutting interest rates, which is good news for local currency bonds. Combined with high income, this creates a potentially robust return profile for the asset class.

Strengthening debt fundamentals

Following the pandemic, EM countries generally avoided the fiscal spending seen in developed markets. As a result, their debt-to-GDP ratios remain stable, and credit rating agencies are expected to issue more upgrades than downgrades. These improvements support a more favourable risk profile for investors lending money to these countries, which has translated to lower volatility in EM bonds compared to those in developed markets.

Attractive valuations

Real yields (yields after the impact of inflation) on EM Local Currency Debt are well above long-term averages. In Latin America, countries such as Brazil, Mexico, and Colombia offer some of the highest real yields globally. Currently, EM Local Currency Debt is yielding 6.27% in comparison to 3.37% for developed market bonds.

Importantly, where emerging economies have improved fundamentals, this has translated into similar or lower levels of bond market volatility with developed markets. As a result, we can achieve higher yield with similar risk compared to developed market bonds.

An attractive and growing asset class

With over \$6 trillion in value and a growing number of investment-grade countries, EM Local Currency Debt is no longer a niche play. It represents a maturing asset class that offers both diversification and return potential in a world of increasingly correlated markets. As global macro conditions evolve, we believe EM Local Currency Debt is well-positioned to deliver attractive risk-adjusted returns.

Helping you go further

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