



Wealth  
Management

# Quarterly report

Q3 2025 market review



Forward-looking  
for generations



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**Cover image**  
Bauer brothers, Hortus Botanicus, detail from  
"Lilium," 1776/1804  
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Despite persistent challenges such as softening US labour markets, ongoing inflationary pressures and global trade uncertainty, equities delivered strong returns in the third quarter.

Sanjay Rijhsinghani, Chief Investment Officer

## Summary: Q3 2025

US equities climbed higher in the third quarter led by artificial intelligence (AI)-related technology companies, although the rally extended beyond the US, with China, Japan and the UK all posting strong returns. Europe, after a strong first half of the year, trailed other markets as political turmoil in France impacted investor sentiment.

A combination of robust earnings, easing tariff tensions and falling US bond yields helped lift equities globally. In September, the Federal Reserve (Fed) cut rates for the first time this year and signalled further cuts were imminent, reflecting concerns the US labour market is softening. Short-dated bonds delivered strong returns, while long-dated government bonds lagged.

### At a glance

- Global equity rally broadens in Q3
- Continued AI investment benefits technology shares
- Fed cuts rates for first time this year as labour market weakens
- Further cuts expected with further politicisation of the Fed
- Global yield curves steepen



# Macro summary

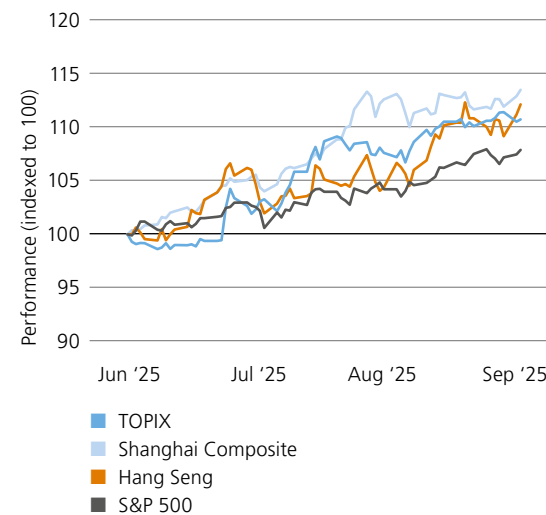
## Equities rise despite weak jobs data

The S&P 500 finished the quarter up 8.1% and the tech-heavy Nasdaq Composite rose 11.4%. However, a disappointing July jobs report weighed heavily on equities in early August, as the US added fewer jobs than expected and unemployment rose. Previous months' payroll gains were revised lower, amplifying concerns about the labour market as President Donald Trump's economic plans took hold.

Jobs growth remained muted with nonfarm payrolls – an important measure of monthly job creation – increasing by just 22,000 in August, down from 79,000 in July and below the 75,000 expected. Additionally, the Bureau of Labor Statistics revised down employment figures for April 2024 to March 2025 by nearly one million jobs, an average of about 75,000 fewer jobs per month.<sup>1</sup>

UK and European equities had a solid quarter, with the FTSE 100 rising 7.5% and STOXX 600 3.5% in Q3, but the standout was China. The Shanghai Composite advanced 13.9% in the third quarter and Hong Kong's Hang Seng gained 12.5%, as renewed optimism over Chinese technology companies buoyed equities. Japan also posted solid performance ahead of a crucial leadership election for the governing Liberal Democratic Party (LDP) which could lead to significant changes in fiscal and monetary policy. The Topix rose 11% in local terms in the quarter.

Topix, Shanghai Composite, Hang Seng, S&P 500



Source: Bloomberg

## Earnings saw significant AI spend and tariff impact

Companies reported strong earnings fuelled by the AI boom. Indeed, some of the world's largest companies are investing sums greater than the GDP of many mid-sized countries to capitalise on this opportunity. However, it remains unclear when this investment will deliver sustained top-line expansion.

## Tariffs trickle through to inflation data

Alongside weak jobs data, the Fed faced inflationary pressures from tariffs, which became more evident in pricing data. The latest Consumer Price Index (CPI) figure published on 11 September rose to 2.9% from 2.7%, underscoring ongoing Fed challenges in bringing inflation back to its 2% target. While tariffs typically cause a temporary rise in inflation, the jury is still out on what medium-term impact tariffs will have on inflation.

“Companies reported strong earnings fuelled by the AI boom but it remains unclear when this investment will deliver sustained top-line expansion.”

Sanjay Rijhsinghani, Chief Investment Officer

<sup>1</sup> Deutsche Bank



## Central banks pass on the baton

The quarter saw a shift in central bank policy. The Bank of England (BoE) – which cut rates in August by 0.25%, representing the third cut this year and bringing rates to 4% – held firm at their September meeting, and indicated they may keep rates steady for the foreseeable. Meanwhile, after holding rates all year despite pressure from the White House, the Fed finally lowered rates by 0.25% and signalled more cuts are likely before year-end.

During the quarter, dissent grew among Fed members over the direction of interest rates. Trump was outspoken on social media in advocating for rate cuts, and his latest pick to join the Fed appears ready to deliver. In his first meeting, Stephen Miran dissented and voted for a 0.50% cut, later saying that interest rates should come down to around 2.5% down from 4.25%.<sup>2</sup> Trump's ongoing pressure to lower rates has reignited the debate surrounding the Fed's independence. As the quarter ended, the US government shut down after failing to compromise on the budget, which will see key labour data delayed, further complicating the picture for the Fed.

## Short-dated bonds rise

Short-dated government bonds had a strong quarter. While two-year Treasury yields rose to near-

ly 4% in July, they fell back down to 3.6% at the end of quarter. Similarly, the benchmark 10-year Treasury yield rose to 4.48% earlier in the quarter before declining to 4.15% following the Fed's September rate cut. In contrast, long-dated government bonds were little changed in the US. Globally, yields on longer maturity debt rose as fiscal concerns flared up in France when President Emmanuel Macron had to elect a new prime minister following discontent surrounding the proposed budget cuts. This underscored the difficulties governments face in implementing spending cuts across developed economies.

## Conclusion

Despite persistent challenges such as softening US labour markets, ongoing inflationary pressures and global trade uncertainty, equities delivered strong returns in the third quarter due to robust corporate earnings and easing tariff concerns. Central banks signalled a more accommodative stance, yet divergences remain as policymakers navigate a complex macroeconomic backdrop. As we enter the final quarter of the year, investors will be watching closely for further clarity on monetary policy, the robustness of corporate profitability and the evolving impact of geopolitical developments.

<sup>2</sup> Miran Says Interest Rates Should Fall to 2.5 Percent - The New York Times

# Fixed income

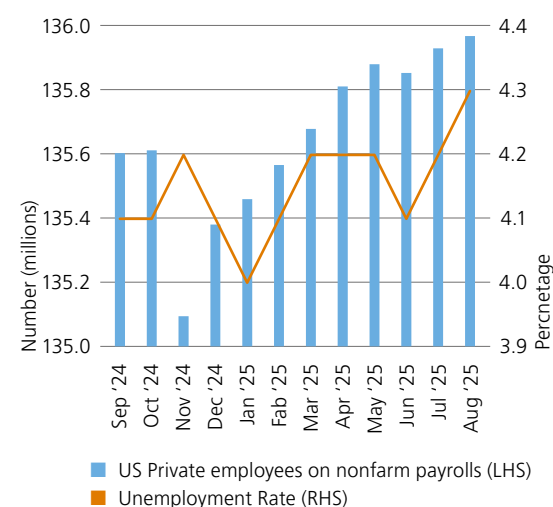
In the third quarter, investors moved beyond tariffs and shifted their focus towards the broader state of the US economy. While most economists expected a few quarters of slower growth as the economy adapts to a new global trading regime, growth defied expectations.

The Atlanta Fed GDPNow, a model that predicts economic growth based on recent data, indicated that US growth started the quarter at a solid 2.5% annualised rate but accelerated to an even more impressive 3.9% by quarter-end. While trade agreements help explain some of the change, the enormous amount of expenditure to fund the AI arms race has resulted in a material boost to the US economy. But despite the optimism surrounding the AI wave, concerns are building elsewhere, notably about the state of the US labour market.

The closely watched nonfarm payrolls data showed subdued levels of job creation over recent months, resulting in the unemployment rate rising moderately over the summer. Furthermore, revisions to historical data, which resulted in nearly one million fewer jobs created between April 2024 and March 2025, only added to concerns. Other measures, such as the so-called “quits” rate, which measures those voluntarily leaving their jobs, dipped to cycle lows, indicating that wage growth remains subdued. In contrast, overall price levels in the economy ticked up with core Consumer Price Index (CPI) moving back above 3%, and market participants expect this figure to remain elevated as tariffs feed through to the economy.

This complicates the picture for the Fed which has a dual mandate of seeking maximum employment and stable prices. Over the quarter, the Fed appeared more focused on supporting employment rather than maintaining price stability. Market participants saw a change in tone from Fed Chairman Jerome

US labour market:  
nonfarm payrolls vs unemployment rate



Source: Bloomberg

Powell at the closely watched Jackson Hole symposium, where he highlighted concerns over the employment market. This opened the door to a September rate cut which was delivered.

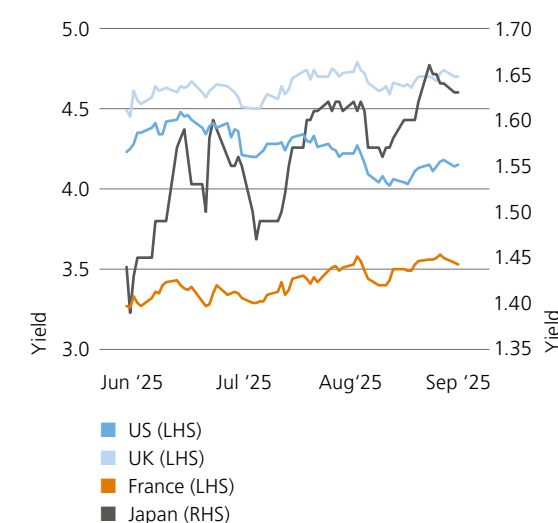
In its so-called “Dot Plot” – a chart the Fed uses to show where its officials believe interest rates will go in the future – the Fed’s median expectations guided towards another two 0.25% cuts this year. This is where the political interference of the Fed was most prevalent, as newly confirmed Fed member Miran stated his desire to cut rates by 0.50% at every meeting for the rest of 2025. Furthermore, Fed governor Lisa Cook is still under investigation and Chair Powell’s term is due to end in May, so it seems likely the Trump administration will continue to try to influence the Fed.

In the UK, the BoE cut interest rates by 0.25% to 4% in August but held rates steady in September. It indicated that elevated inflation – CPI remained un-

changed at 3.8% YoY – will likely mean a slower path of cuts going forward, representing a shift away from the one-cut-per-quarter pace.

This longer hold was accompanied by changes to the BoE’s approach to its balance sheet. In September, it announced it would reduce its balance sheet by GBP 70 billion in the year starting from October, down from GBP 100 billion the year prior. This reflects the significant amount of balance sheet reduction completed to date but also highlights the impact that asset sales may have on gilt yields. Over the quarter, gilt yields have risen while US Treasury yields have fallen.

10-year government bond yields over Q3



Source: Bloomberg

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**Demand for corporate bonds remained strong, driving the spread between corporate bonds and their respective government bonds to the tightest levels in decades.**

Jeremy Sterngold, Deputy Chief Investment Officer

Muddying the outlook for the BoE is the upcoming budget in November. Recent inflation data shows that the increase in National Insurance contributions has fed through to food prices – grocery chains are large employers and heavily impacted by this policy. The uncertainty about the upcoming fiscal event may add to the pressures for the BoE to keep rates steady for an extended period.

In contrast, the European Central Bank (ECB) was on the sidelines. After cutting rates by 1% in the first half of the year to 2%, the ECB has adopted a more hawkish tone over the third quarter. Inflation remains around its 2% target, but the German stimulus potentially complicates the outlook.

The market moved from pricing an additional 0.25% rate cut this year at the start of the quarter to pricing no further cuts out to September 2026. The ECB also had to contend with a deteriorating French political situation as the failure to get a budget agreed upon resulted in the prime minister resigning. Fitch downgraded French sovereign debt from AA- to A+ which saw yields move higher than Italy’s for the first time since the euro’s creation.

While the Bank of Japan (BoJ) held rates steady, it established a plan to reduce existing holdings of exchange traded funds invested in equities and local real estate. The glacial path of tightening has led to rising yields on longer-dated debt and contributed to steepening yield curves globally.

Demand for corporate bonds remained strong, driving the spread between corporate bonds and their respective government bonds to the tightest levels in decades.



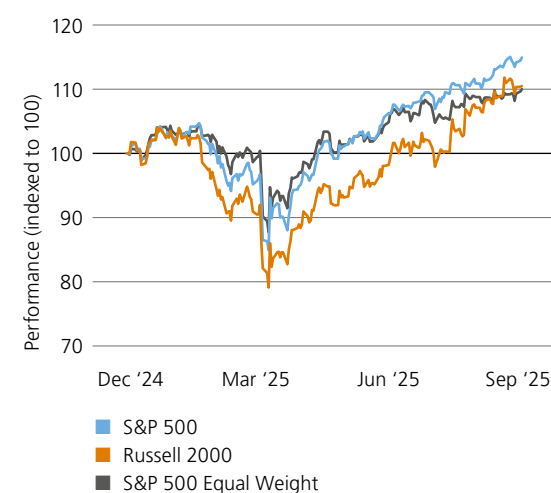
# Equities

## International equities

For the past few years, gains in the stock market – especially in the US – have been driven by just a handful of large technology companies while others struggled to keep up. But in the third quarter, other industries started to join the rally: the S&P Equal Weight Index – where each company is given the same importance regardless of size – rose 5% while the S&P 500 gained 8%. Even more surprising was how well smaller companies performed during the quarter, with the small cap Russell 2000 Index rising 12%, surpassing the tech-heavy Nasdaq Composite's 11%.

To be clear, the big technology names still dominated. The IT sector of the S&P 500 gained 13% in Q3 after jumping 24% in Q2, and the mostly tech communication services sector (think Facebook/Meta) rose 12%. Other companies within the Magnificent Seven posted exceptionally strong gains. Tesla jumped 40% in Q3, boosting its market value by USD 460 billion. Alphabet surged 38%, adding USD 800 billion in market capitalisation. Nvidia rose 18%, increasing its market value by USD 700 billion, while Apple gained 24% and added USD 680 billion to its market cap.

### US equity rally broadens



Source: Bloomberg

But there is no question the performance is broadening out beyond the usual technology names, with four different sectors – industrials (5%), energy (6%), utilities (8%) and consumer discretionary (10%) – all posting solid gains in the quarter. At first glance, the move by the normally defensive utilities sector in a 'risk-on' market was unusual, except that the eye-watering potential demand from data centres means that they too are caught up in the AI trade.

The only sector that declined in the quarter was the more defensive consumer staples sector, where investors are concerned about lower growth and the potential longer-term impact on their sales from wider usage of GLP-1 anti-obesity drugs. These drugs, which can affect appetite, may contribute to shifts in consumer purchasing patterns, including reduced demand for convenience foods and sugar-sweetened beverages, all of which are sold by companies in the consumer staples sector.

US returns were eclipsed however by Asia, with the Shanghai Shenzhen CSI 300 Index rising 19% and the Shanghai Composite up 14%. Hong Kong's Hang Seng rose 13% and Japan's Topix Index gained 11%, driven by fading concerns over the US government's tariffs, and their own tech and IT stocks following the same path as their American counterparts. This was despite the headwind Japanese exporters faced by a 4% appreciation of the yen against the dollar over the quarter. Headline inflation of 3.1% and 2.7% in July and August for a country with a back-story of three decades of deflation remains startling, especially compared to lower inflation across Asia. In fact, zero inflation in July and price declines in August suggest that China is the new Japan when it comes to deflation.

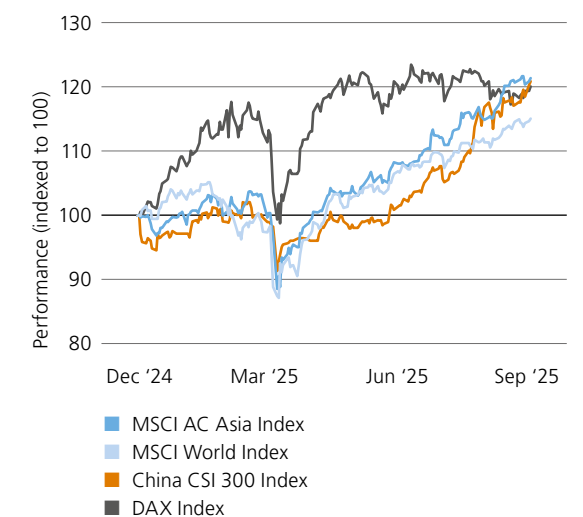
Meanwhile, the lack of technology names in Europe meant that the German Dax fell slightly, and France's CAC rose only 3%.

With three quarters now completed, it remains to be seen whether the slight broadening of the US market and the leadership from Asia will continue, and whether non-AI stocks will start to drive equity market performance.

“There is no question the performance is broadening out beyond the usual technology names.”

Russell Harrop, Head of Equities

### Global equities continue to rise



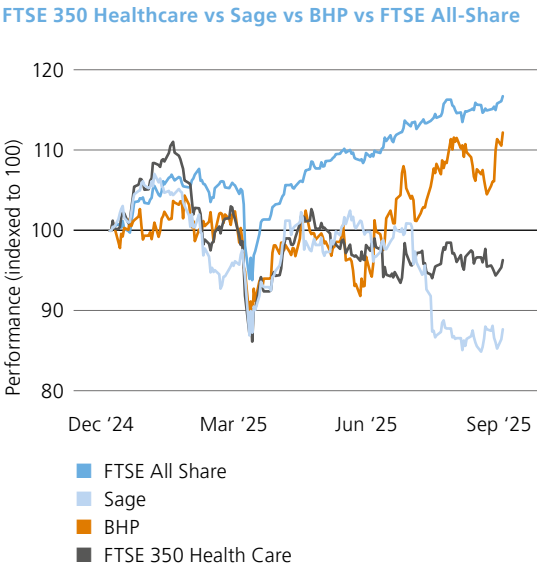
Source: Bloomberg

UK equities

The UK might not have been the ‘life and soul’, but it definitely joined the Q3 2025 party, with the broad FTSE All-Share Index rising 7% over the quarter. This resulted in the basic materials sector adding close to a quarter to its market cap, and the cyclical industrials sector rising 10%. Mining behemoths BHP and Rio Tinto gained 18% and 15% respectively as concerns around global growth started to fade into the background once Trump’s so-called Liberation Day tariffs were replaced by country-by-country trade agreements, ‘Art of the Deal’ style.

The healthcare sector (which includes pharmaceuticals) rose 9% but this was only after having fallen by the same amount over the previous four quarters. Given almost all these gains came on the last day of the quarter, when a complicated and detail-free deal between the US administration and US drug company Pfizer to avoid tariffs was announced, it is far too early to forecast the future direction for UK and global pharmaceutical stocks.

Despite attractive valuations, the highly anticipated takeover rush for cheap UK assets from overseas buyers never materialised. And while the 9% fall in the FTSE All-Share IT sector looks like a mistake, it is more a reflection of the fact that there are simply not any AI, data centre or chip stocks here in the UK. Instead, it was dragged down by accounting software company Sage Group and IT and software and services provider Softcat falling 12% and 8% respectively as investors locked in gains following impressive earnings at both companies. Despite the multibillion-dollar Dragon’s Den-style co-investment announcements from the Nvidia CEO on his recent visit to the UK, the relative lack of AI data centre investment is among the reasons why the UK’s utility sector fell 1% over the quarter.



“Despite attractive valuations, the highly anticipated takeover rush for cheap UK assets from overseas buyers never materialised.”

Russell Harrop, Head of Equities

Key market data

Key market data (as at 30 September 2025)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
FTSE All-Share (GBP)	10815	1.86	6.87	11.56	16.17	49.98	84.14	16.58
S&P 500 (USD)	12739	3.65	8.12	19.96	17.60	95.01	114.30	14.83
Euro Stoxx 50 (EUR)	2609	3.42	4.57	7.86	14.09	83.42	101.70	16.12
Nikkei 225 (JPY)	40487	5.88	11.79	27.29	20.82	83.67	114.92	14.68
MSCI World (USD)	3106	3.27	7.59	17.99	17.28	86.04	104.68	14.96
MSCI AC Asia Pacific ex Japan (USD)	756	5.75	11.51	21.22	18.17	66.78	55.18	22.73
MSCI Emerging Markets (USD)	74347	7.08	12.49	21.64	19.66	67.14	54.54	24.96
10 year bond yields **								
UK	4.70	-0.03	0.21	0.03	0.70	0.56	4.48	0.13
US	4.15	-0.08	-0.08	-0.06	0.36	0.35	3.47	-0.42
Germany	2.71	-0.01	0.11	0.01	0.59	0.58	3.23	0.34
Japan	1.63	0.02	0.19	0.11	0.77	1.39	1.61	0.54
Commodities (USD)								
Gold	3840.80	10.57	16.59	22.99	45.70	131.04	102.13	46.08
Oil	67.02	-1.61	-0.87	-10.33	-6.62	-23.81	70.66	-10.21
Currency								
GBP-USD	1.35	-0.36	-1.76	4.30	0.37	20.60	4.13	7.49
GBP-EUR	1.15	-0.74	-1.85	-4.12	-4.67	0.55	3.93	-5.27
EUR-USD	1.17	0.38	0.10	8.78	5.28	19.94	0.20	13.47
USD-JPY	147.68	0.59	2.24	-1.24	3.25	2.03	39.95	-6.03

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor’s, Stoxx Tokyo Stock Exchange

\* Performance is given on total return indices, but the levels are for the main indices.  
\*\* Displayed as absolute changes in yields, rather than percentages.

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The closely watched nonfarm payrolls data showed subdued levels of job creation over recent months, resulting in the unemployment rate rising moderately.

Jeremy Sterngold, Deputy Chief Investment Officer

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