Markets mixed amidst hawkish Fed and constructive Trump-Xi meeting

- **December Fed cut not a foregone conclusion though QT to end as of 1 December**
- **Investors cheered by thawing relations following Trump and Xi meeting**
- **Our positioning remains slightly cautious risk on valuations and slowing US economy**

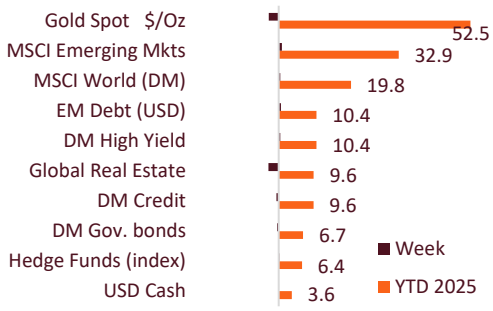
Last week was volatile on global markets even though returns remained subdued in the five days thorough Friday. Cyclical assets were still sought after on overall constructive top-down news, robust corporate earnings, and confident central banks. Global stocks printed gains, led by US tech and Japan. Safe bonds were under a bit of pressure with rising US Treasury yields, which also supported the dollar and gave markets reason to continue to take profits on gold.

Top-down drivers were going in the right direction. President Trump and President Xi inked a partial truce on trade with an agreement on key items - from soybeans to rare-earth materials - reducing the effective tariff rate by 10% for the coming year. Flash PMIs were robust overall, especially for the West, where the Eurozone also surprised positively with a slightly better than expected Q3 GDP growth. Three major central banks held their policy meetings and their message was quite aligned: with no red flag on activity and acceptable levels of inflation, there is no reason to commit to more cuts. Both the Bank of Japan and the ECB stayed on hold and didn't provide explicit forward-looking guidance. The Fed delivered a widely expected 25 basis points cut but Chair Powell clearly said that the December decision was certainly not a done deal. This explains the move on US Treasury yields and the dollar.

The earnings season was in full swing with big tech. Markets were scared by massive AI spending from Meta and to some extent Microsoft, while enjoying results from Alphabet and Apple. Amazon was the best performer: beyond their quarterly numbers, it was about the mark-to-market gain of their participation in Anthropic and their announcement of layoffs, seen by some as the first productivity gains from AI.

The week ahead will provide more earnings, as well as final PMIs for all regions and some (private) data on the US labor market. We will also hold our monthly investment meeting. Have a great week.

Asset Classes USD % total. Return, Week and YTD 2025



November 3rd, 2025

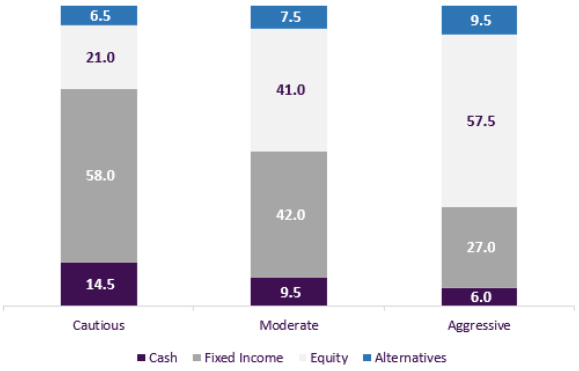
Cross-asset Update

Although chair Powell gave an unexpectedly hawkish message at last week's FOMC meeting, saying that a December cut is "not a foregone conclusion", the end of Quantitative Tightening as of December 1 was announced as well. We can only infer that on the one hand Powell tried to convey a reassuring message of no urgency for rate cuts given the conditions of the economy, while on the other it was acknowledged that liquidity had been shrinking excessively, and it was about time for the central bank to step in. The Fed has been stepping hard on QT, reducing the size of its balance sheet and in the process withdrawing liquidity from the economy that has manifested as falling bank reserves. This process has now gone so far as to cause some US money market gauges to flash red, pointing to the early stages of a cash crunch. The Fed had no choice but to announce the end of QT, as indicated by the repurchase rate rising above the effective Fed funds rate on Friday, a sign of market stress. The tightening is supporting the US dollar, currently at the highest levels since August this year, and pulling the rug from under cryptocurrencies, with bitcoin lingering at the lower end of its trading range. Equities could eventually be impacted as well, most likely once the earnings season draws closer to an end. The flip side of less liquidity has been underwhelming US economic surprises, now trending lower than global economic surprises according to Citigroup indices.

Market volatility would be temporary and gradually restored as the Fed stops the shrinking of its balance sheet. Meantime, investors should remain focused on emerging market trends that are likely to be relevant in the years ahead. Year-to-date EM and Japanese equities are comfortably outperforming the US market despite the ongoing AI frenzy, and the dollar has weakened significantly, a sign that investors could be starting to diversify away from US assets. We think this to be indeed the case, and that it is likely to continue in the medium-to-long term in our view. The dollar is quite overvalued against peers, and still vulnerable, and the same holds for US equities. Global trends ranging from rising inflationary pressures, stronger global growth underpinned by fiscal dominance, deglobalization, as well as the shift from a savings glut to an investments glut, all point to the outperformance of ex-US equities. Dollar weakness has historically gone hand in hand with outperforming overseas markets, as well as with stronger commodities, in turn a logical consequence of the spate of new investments announced globally for data centers, reindustrialization, and for reshoring.

While investors may continue to be mesmerized by the wonders of AI, they should diversify and look elsewhere to catch secular trends that are just in the making.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.		=	
DM Credit	<		
DM H. Yield		=	
EM Debt		=	
DM Equity		=	
EM Equity		=	
Gold			>>
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

The Federal Reserve implemented a rate cut with a hawkish tone last week. Chairman Powell, in his initial remarks prior to taking questions from the press, emphasised that an additional reduction in the policy rate at the December meeting is by no means certain, stating it is "far from" a foregone conclusion. He also mentioned that the data the Fed does continue to have access to during the current Government shutdown would allow officials to know if something material were developing in the economy. The decision saw two dissenting votes—one member advocating for a pause and another supporting a more substantial cut. This is the first three-way split vote since 2019. Following the announcement, three Federal Reserve officials publicly expressed their opposition to a December rate cut, including one who will participate in the upcoming FOMC vote. Additionally, the Federal Reserve confirmed it will cease reducing its asset portfolio as of 1 December, effectively concluding the quantitative tightening programme initiated in 2022. Despite this hawkish shift we think that we will see another cut in December.

The yield curve flattened with the front end going up by 10bps on the decision date while the long-end went up by 8bps. The 10-year is back above 4%, trading at 4.09%. However, we expect a steeper curve with higher term premium. The US economy is in a state of balance at the moment. However, the Services inflation and other surveys indicate the economy slowing down. We need tier 1 employment data to confirm this though. Fiscal Deficit of the country is expected to be lower than anticipated with roughly $350bn of tariff revenue anticipated. We expect US Treasury is a good buy with 10-year treasury at price points around 4.2%.

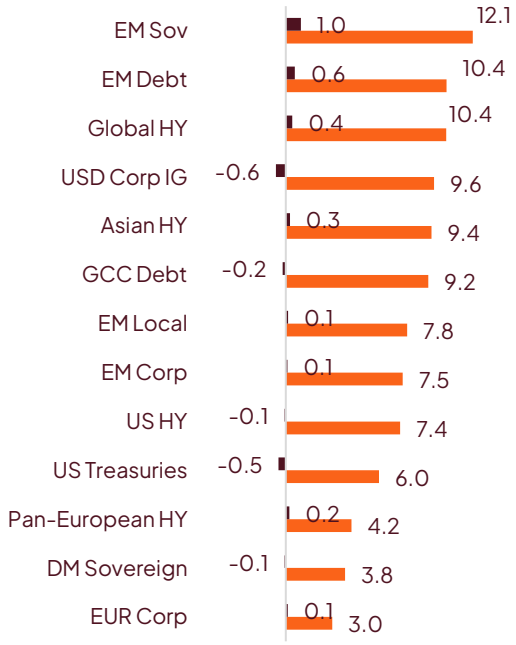
The credit markets are focused on the earnings season which has been very strong. With almost 63% of the S&P having reported, EPS growth is near 11% with most sectors reporting double digit EPS growth so far. In the absence of top tier data, this has supported the credit spreads. The AI mania is catching up in the credit space as well. For example, META raised $30bn last week in regular bond transaction. We would be careful about such transactions especially the pricing remains tight.

GCC bond primary market is off to quick start in November, with several institutions announcing new mandates for various debt instruments, highlighting a diversity of offerings. Gulf International Bank (GIB KSA), rated A2 by Moody's and A- by Fitch, has issued a mandate for a Perpetual Non-Callable 5.5-Year Tier 1 Capital Note. Similarly, AviLease, rated Baa2 and BBB by Moody's and Fitch respectively, has announced a mandate for a 5-Year Senior Unsecured Bond. Meanwhile, Alinma Bank, holding a BBB rating from Fitch, is offering a 10NC5 Tier 2 sukuk. Ittihad International Investment, rated BB- by both S&P and Fitch, has also joined the fray with a mandate for a 5NC2 senior unsecured sukuk, while Sharjah Islamic Bank (SIB), rated A- and BBB+ by S&P and Fitch, has announced a 5-year sukuk. Additionally, the State of Qatar has opened books for its Senior Unsecured 3Y Bond and 10Y Sukuk, anticipated to receive ratings of Aa2, AA, and AA from Moody's, S&P, and Fitch, respectively.

FIXED INCOME KEY CONVICTIONS (2024)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US$ TR, YTD, Last Week)



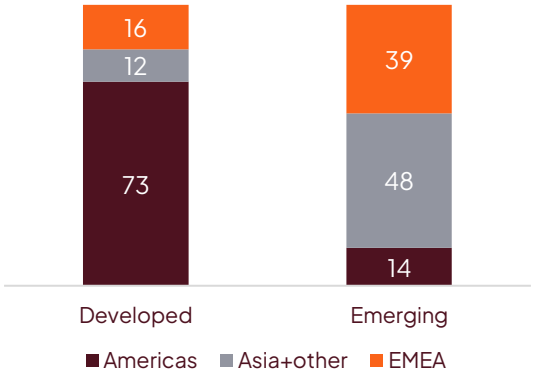
Equity Update

Global equities in aggregate ended October with firm gains, closing a month that showcased the strength of corporate earnings and the steadiness of market tone across regions. The broad global index advanced 2.2% in October and added another 0.5% last week, with developed markets up 0.5% and emerging markets gaining 0.9%. The S&P (+0.7%) reached new records midweek driven by tech shares before settling lower into Friday's close. The week was shaped by a dense flow of corporate earnings within tech that kept sentiment constructive. About 64% of S&P 500 companies have reported, with 83% exceeding earnings forecasts, the highest rate since 2021. Earnings are tracking 5.3% above expectations, setting the index on course for its fourth consecutive quarter of double-digit profit growth. Revenues have also surprised positively, underscoring that demand across major sectors remains healthy. Nvidia's unrelenting momentum continued to power semiconductor stocks, its market value exceeding $5 trillion after fresh supply agreements across Asia. Boeing lagged after taking a $4.9 billion charge tied to renewed delays in its 777X aircraft, weighing on aerospace peers. Amazon delivered one of the week's strongest reports, with net income of $21.1 billion and AWS revenue up 20% year-on-year, sending its shares more than 13% higher. Alphabet posted $87.5 billion in quarterly revenue, an 11% increase led by 33% growth in its cloud division, and Microsoft again outperformed with double-digit Azure expansion. Apple reported revenue of $102.5 billion, up 7.9%, though a 3.6% drop in Greater China sales tempered enthusiasm. Meta fell 11% after outlining higher capital spending plans to scale its AI operations. In Europe, Deutsche Bank rose 5% on stronger trading and wealth management income,

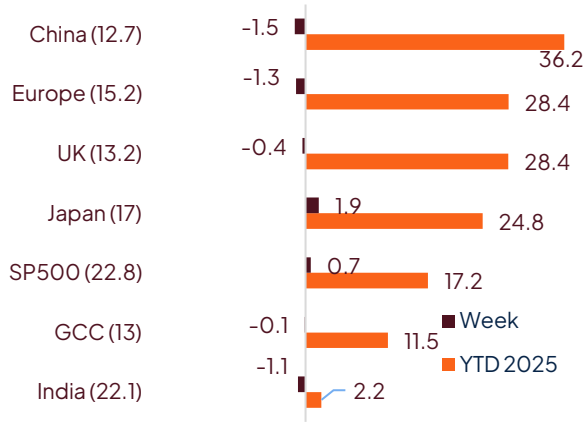
Across Europe, equities paused for breath after a strong run, with the MSCI Europe index down 0.6% for the week. Financials and industrials remained firm as corporate results continued to support confidence across the region. Banks benefited from solid earnings earlier in the week, led by Deutsche Bank and Erste Group. In Asia, Japan remained the focal point of regional strength. The Topix gained 1.9% for the week to the level of 3332, completing its best month in 35 years driven by exporters, chip equipment manufacturers, and automakers. Prime Minister Sanae Takaichi's meeting with U.S. President Trump reaffirmed Japan's alignment on trade and defense, giving markets additional reassurance about the policy outlook. The yen strengthened modestly, yet equities continued to climb as earnings maintained momentum. The MSCI China index declined 1.5% as profit-taking emerged in large internet and electric vehicle stocks such as Alibaba and BYD after a strong October performance.

The week ahead brings another wave of major corporate results that will guide early November trading. Aramco and BP are due Tuesday, providing key insights into global energy earnings and investment plans. Novo Nordisk, Qualcomm, Toyota Motor, and DBS Group report later in the week, followed by Pfizer, Palantir, Uber, Ferrari, and ArcelorMittal. The next phase of the earnings season will help determine whether profit momentum can broaden beyond technology and consumer leaders into energy, healthcare, and manufacturing. After a 2.2% monthly rise and a firm start to November, global equities enter the new month in a position of strength, driven less by speculation and more by the steady cadence of results that continue to validate the rally.

Equity Recommended Regional Positioning

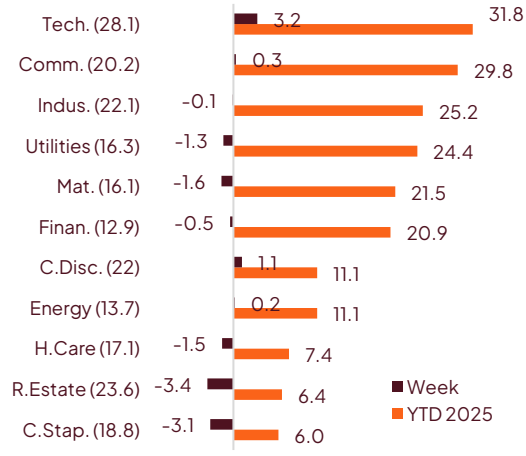


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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