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ACT MA People & Planet

Earnings Soar, Fed Cuts and Trade Tensions Cool

- Strong Earnings Propel October Market Rally
- Fed Cuts Rates Despite Lack of Key Economic Data
- US-China Relations Improve After High-Level Diplomatic Talks

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What's happening?

The global economy is entering autumn in a state of fragile calm. Yet, global equity markets posted another month of gains, driven by the tech sector, the Fed's rate cut, and the temporary trade truce between the U.S. and China. However, the U.S. government shutdown offers little insight into the short-term trajectory of the American economy. The Fed appears to share this cautious stance. In the euro area, economic activity has proven more resilient than expected, and inflation remains broadly in line with the target.

Analysis of the U.S. economy remains limited due to the ongoing federal government shutdown, with current assessments relying solely on private data. The October ISM Manufacturing Index dipped slightly to 48.7, while the Services Index improved to 52.4. The Fed cut its policy rate by 25 basis points (to 3.75-4%) but emphasized that another cut in December is "not a given." Private sector hiring has resumed at a moderate pace. On the political side, the D. Trump and X. Jinping meeting extended the trade truce but failed to resolve deeper tensions. Washington agreed to partially reduce tariffs in exchange for a temporary suspension of export restrictions on rare earths.

The Euro area growth slightly exceeded expectations in Q3, rising by 0.2% q/q, though disparities between countries remain pronounced. France surprised on the upside with a 0.5% increase, while Germany and Italy stagnated. Headline inflation eased slightly in October to 2.1% y/y, and core inflation held steady at 2.4% y/y. The ECB kept its deposit rate unchanged at 2% during its latest meeting and reiterated its data-dependent approach for future decisions. The Governing Council remains in a wait-and-see mode, tolerating below-potential growth in the hope of a continued recovery and potential fiscal stimulus in Germany. In France, Prime Minister S. Lecornu's government survived a no-confidence vote and a draft budget has been submitted, which is currently under parliamentary negotiation.

China's economic growth slowed to 4.8% y/y in Q3, weighed down by weak consumption and investment. Retail sales growth decelerated to 3.0%, well below the May peak of 6.4%. In contrast, industrial production accelerated to 6.5% y/y in September, driven by the tech sector, after dipping to 5.2% in August. The Fourth Plenary Session confirmed Beijing's strategic focus on technological self-sufficiency in response to ongoing geopolitical tensions.

We expect upcoming policy decisions to be shaped by the prolonged US government shutdown, while in Europe fears over fiscal deterioration and renewed French political uncertainty will weigh on sentiment. European states agreed after

marathon negotiations that lasted through the night, to reduce greenhouse gas emissions by 90% by 2040 compared to 1990 levels. This deal marks a crucial step between the EU's current target of a 55% reduction by 2030 and its legally binding goal of carbon neutrality by 2050. Despite fiscal concerns in several countries and lingering inflation apprehensions, bond markets rallied amid central bank rate cuts.

Portfolio positioning and performance

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	<i>Dec-24</i>	<i>Sep-25</i>	<i>Oct-25</i>
Net Equity	69,3%	67,8%	70,4%
Equities	69,3%	67,8%	70,4%
Equities derivatives	0,0%	0,0%	0,0%
Risk Mitigation Strategies	0,0%	0,0%	0,0%
Fixed Income	26,5%	31,4%	28,4%
Govies	6,9%	9,1%	8,0%
Bond Derivatives	16,8%	9,5%	4,5%
High Yield Credit	1,5%	1,0%	1,0%
Investment Grade	16,5%	19,6%	18,1%
Emerging Debt	1,5%	1,8%	1,4%
Diversification	0,0%	0,0%	0,0%
Cash & Money Market	4,1%	0,8%	1,2%

Equity markets continued their upward trajectory in October, with the portfolio delivering a stronger performance than in the previous month. Gains were notably driven by Real Estate, Healthcare, Technology, and Utilities, reflecting a broadening of market leadership beyond growth-centric sectors. The increased allocation to equities proved timely, as excess return increased significantly compared to September. This was supported by resilient Q3 corporate earnings and growing investor confidence in a soft-landing scenario for the U.S. economy. The Technology sector remained a key contributor, buoyed by sustained momentum in AI and semiconductor demand.

Fixed income allocations were moderately reduced during the month, yet performance improved relative to September. The portfolio benefited from a continued preference for Investment Grade credit, which outperformed amid stable spreads and a supportive macro backdrop. The decline in long-term yields, driven by dovish signals from central banks and signs of moderating inflation, provided a tailwind to bond prices. High Yield exposure was selectively trimmed, reflecting a more defensive stance.

Throughout the month, portfolio activity was more opportunistic, capitalizing on shifting market conditions. Equity exposure was tactically increased, particularly in sectors with strong earnings momentum and structural tailwinds. Meanwhile, fixed income positioning was adjusted to lock in gains and maintain a higher concentration in Investment Grade bonds, which continued to deliver attractive risk-adjusted returns. Cash levels were slightly reduced to fund equity allocation, while maintaining sufficient liquidity to respond to potential volatility.

Focus stock of the month:



: Taiwan Semiconductor Manufacturing Company (TSMC) is the world's largest dedicated semiconductor foundry, established in 1987, and plays a crucial role in the global semiconductor industry by manufacturing chips for various applications. Headquartered in Hsinchu, it is considered as the largest company in Taiwan and its customers include large

tech players such as AMD, Apple and Nvidia. TSMC has the broadest range of technologies and services in the Dedicated IC Foundry segment of the semiconductor manufacturing industry.

TSMC made notable contributions to sustainable development and innovation in recent months through:

7.2: TSMC has committed to the Science Based Targets Initiative (SBTi) and aims to achieve net-zero emissions by 2050, with intermediate goals of 60% renewable energy usage by 2030 (RE60) and 100% by 2040 (RE100). In 2024, the company launched the “Maximal Renewable Energy Installation Project,” achieving 3.61 billion kWh of green electricity usage. Overseas operations have already reached net-zero for Scope 1 and 2 emissions, and TSMC continues to improve process energy efficiency, doubling it within five years of volume production for each node.

9.5: TSMC invested over 7% of its revenue into R&D in 2024, maintaining leadership in semiconductor scaling. It filed over 9,000 global patents and registered more than 130,000 trade secrets. The company also collaborates with academic institutions to cultivate future talent and deepen industry-academia ties.

12.2: TSMC operates ISO 14001-certified facilities and has established Zero Waste Manufacturing Centres in Taiwan. The company actively recycles solvents, reuses sludge, and recovers electronic-grade chemicals. 89% of waste contractors achieved this certification or equivalent in 2024. It also restored over 2 million cubic meters of groundwater and maintains a landfill disposal rate below 1% for the tenth consecutive year.

Outlook:

“When you see one cockroach, there are probably more”. This metaphor was coined by JPMorgan CEO Jamie Dimon after the US regional bank Zions Bancorporation revealed it has been defrauded of around \$60 million through manipulated loan structures. The fear is that multiple frauds surfacing in quick succession may indicate deeper systemic weaknesses, especially in some corners of the private credit markets. In recent weeks, the bankruptcy of First Brands Group – a privately held US auto parts manufacturer with opaque off-balance sheet financing – and the collapse of Tricolor Holdings – a subprime auto lender accused of fraud – certainly raised investors’ concerns about the risks of poor governance in more marginal parts of the financial system. This last episode of fraudulent activity briefly rattled credit markets and focused concerns on vulnerabilities in the private credit ecosystem.

We remained invested but quiet tactically on Credit markets for some time now, as we considered spreads to be too tight, offering an unattractive risk/reward, but we are not worried about an imminent credit crisis. At below 2%, the non-performing loans ratio of US banks remains far from levels seen in the aftermath of the GFC (it peaked at 7.5% in 2010). The loose covenants and light regulatory environment in parts of the private credit market are not new and can be traced back to deregulatory trends that began during Donald Trump’s first term..

After six months without a daily correction of more than 2% for the S&P500, equities experienced a return of volatility on Oct 10 when President Trump, using social media, berated a hostile trade attitude from China relating to their actions on rare earths and export controls. In a classic Trump gesture, he first threatened a massive increase in tariffs on Chinese products, only to finally appease markets later by confirming he will be meeting Xi Jinping in South Korea, the first time since Trump returned to the White House. As tariff uncertainty made a comeback, the positioning reduction from volatility-controlled strategies and discretionary investors was well absorbed by the market judging by the limited drawdown in the S&P500. This is especially important considering that the return to a higher volatility regime also triggered some profit taking in high momentum trades which have been retail favourites since the market rally began in late April.

In our view, the hyperbolic rise in the price of Gold and other precious metals in the past weeks is another expression of the speculative trend which was fuelled by substantial inflows on ETFs from individual investors as well as price insensitive

demand from central banks, rather than a higher expression of defiance towards US Treasuries and the Dollar. Being most overbought in 45 years, the selloff in Gold that followed reflects a positioning wipe out rather than a macro shock.

We view the recent reduction in investor positioning as a constructive development. From a fundamental standpoint, the macro and micro backdrop remains supportive. Earnings continue to send a constructive message overall in both the US and Europe. The beat rate for the S&P50 is higher than usual, above 80% at time of writing and EPS is on pace to exceed 10%, assuming the historical trend of estimate revisions. The combination of looser monetary policy in a non-recessionary economic environment, enthusiasm around AI adoption, ongoing fiscal stimulus, and resilient corporate earnings creates a favourable setting for risk assets into year end.

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