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Optimal Income Strategies

Markets Rise on Profits, Fed Eases and US-China Thaw

- Robust Corporate Earnings Drive Market Gains in October
- Federal Reserve Cuts Rates of a quarter Amid US shutdown
- US-China Trade Tensions Ease Following High-Level Talks

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What's happening?

The IMF's latest World Economic Outlook has revised global GDP growth for 2025 upward to 3.2%, from 3.0% in July, reflecting a surprising degree of resilience in the face of ongoing trade tensions. While China's growth forecast remains unchanged at 4.8%, other major economies have seen upgrades, with the Euro area and India gaining 0.2 percentage points and the US 0.1 percentage point.

In the US, the IMF now expects a slight acceleration in 2026, with growth projected at 2.1%, up from 2.0% in 2025. A surge in tech-related investment, supported by accommodative fiscal policy, is likely to keep GDP growth above potential. However, we remain slightly more cautious, anticipating a moderation to 1.9% next year.

The Euro area continues to feel the impact of the US-China trade rivalry. In the three months to August, goods exports declined by 0.1% year-on-year, with sharp drops to key markets: -11.7% to the US, -11.3% to China, and -5% to ASEAN countries. This export weakness underscores the region's vulnerability to global trade shifts. On the import side, Chinese exports accelerated in September, rising from 4.4% to 8.3% year-on-year.

China's GDP growth slowed to 4.8% year-on-year in Q3, down from 5.2% in Q2, driven by weaker fixed asset investment and softening household consumption. Recent fiscal support from the Ministry of Finance and the National Development and Reform Commission is expected to stabilise investment activity in Q4 and early 2026. Against this backdrop, we continue to expect China to meet its 5% growth target for the year.

As inflation pressures ease, central banks are gaining room to manoeuvre. The Federal Reserve is expected to deliver a series of insurance cuts, lowering its policy rate to 3.0% by Q3 2026. The ECB is likely to cut once more to 1.75% in March 2026 to maintain a balanced stance. The Bank of England is projected to reduce its Bank Rate to 3.5% by end-2026, from 4.0% currently. In contrast, the Bank of Japan is expected to raise rates to 0.75% in January, supported by a robust domestic backdrop.

Portfolio positioning and performance

	GLOBAL OPTIMAL STRATEGY			OPTIMAL STRATEGY			DEFENSIVE OPTIMAL STRATEGY		
	Dec-24	Sep-25	Oct-25	Dec-24	Sep-25	Oct-25	Dec-24	Sep-25	Oct-25
Net Equity	87,9%	96,2%	97,9%	76,3%	80,7%	82,4%	34,6%	44,8%	44,5%
Equities	79,7%	71,5%	71,4%	72,9%	66,0%	66,8%	37,0%	31,7%	36,5%
Equities derivatives	13,9%	25,9%	30,2%	5,2%	15,4%	18,9%	-2,4%	13,1%	8,0%
Risk Mitigation Strategies	-5,7%	-1,2%	-3,7%	-1,8%	-0,7%	-3,3%	0,0%	0,0%	0,0%
Fixed Income	5,0%	13,1%	13,0%	23,6%	25,7%	25,1%	62,9%	20,0%	57,4%
Govies	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	0,3%	0,3%
Bond Derivatives	45,0%	27,9%	12,4%	27,4%	11,8%	8,9%	10,4%	3,0%	3,0%
High Yield Credit	1,0%	2,5%	2,3%	5,6%	4,8%	4,6%	16,3%	24,1%	21,0%
Investment Grade	3,9%	10,4%	10,3%	17,6%	21,0%	20,4%	46,0%	-4,8%	34,8%
Emerging Debt	0,1%	0,2%	0,4%	0,3%	0,0%	0,2%	0,5%	0,4%	1,3%
Diversification	11,6%	9,4%	6,4%	2,2%	1,7%	2,6%	5,9%	5,2%	4,0%
Cash & Money Market	-4,4%	-18,6%	-17,2%	-1,9%	-8,2%	-10,1%	-3,4%	30,0%	-6,0%

We remain firmly overweight global equities, looking past recent volatility. Strong Q3 earnings and resilient alternative data reinforce our confidence, even as the US government shutdown delays official indicators. While concerns around credit quality have resurfaced following another regional bank fraud, we view this as a healthy reset—clearing excess optimism and setting the stage for a continued grind higher into year-end.

Our equity positioning remains diversified and tactical. We continue to support the AI-driven momentum within the S&P 500 and have initiated a relative value trade: long Utilities versus short Energy. Utilities benefit from grid investment and falling rates, while Oil & Gas majors face headwinds from weak supply-demand dynamics. In addition, we have introduced more defensive stocks and targeted healthcare trades, where we saw a strong rebound this month. In Europe, EU banks offer compelling value, and in China, technology stands to gain from renewed domestic stimulus aligned with strategic innovation goals.

To hedge against rising credit stress and systemic risk, we hold short-dated German bonds. Sovereign curves have flattened as investors seek safety, and we believe the ECB's hawkish stance is increasingly misaligned with soft exports, strong currency, and subdued energy prices. The Eurozone also risks being caught in the crossfire of US-China tensions, facing weaker exports and deflationary imports redirected from China.

We've taken profits on gold following its strong run and elevated levels, seeing limited near-term upside. In turn, we've introduced copper and uranium stocks into the portfolio, reflecting our constructive view on industrial metals. With growing demand from electrification, infrastructure, and AI-linked data centers, copper and uranium offer strategic exposure to long-term structural trends.

Outlook

Recent developments in the US credit landscape have reignited concerns about governance and transparency in the more opaque corners of the financial system. The revelation of fraud at Zions Bancorporation—estimated at \$60 million—has raised fears of broader systemic vulnerabilities, echoing JPMorgan CEO Jamie Dimon's warning: "When you see one cockroach, there are probably more." This follows the bankruptcy of First Brands Group, a privately held auto parts manufacturer with off-balance sheet financing, and the collapse of Tricolor Holdings, a subprime auto lender accused of fraudulent practices. These events have cast a spotlight on the private credit ecosystem, where light regulation and loose covenants—rooted in deregulatory trends dating back to Trump's first term—continue to pose risks.

Despite these headlines, we do not see signs of an imminent credit crisis. The non-performing loan ratio for US banks remains below 2%, far from the 7.5% peak seen during the aftermath of the Global Financial Crisis. While governance risks in private credit deserve scrutiny, they are not new. What's more important is that broader credit markets have shown resilience, with recent volatility contained and systemic spillover limited. The repricing of risk in certain segments may even prove healthy, helping to recalibrate expectations and reinforce discipline.

Equity markets, meanwhile, have entered a more volatile phase after months of calm. The S&P 500 saw its first daily drop of over 2% in six months following renewed trade tensions between the US and China. President Trump's social media threats over rare earths and export controls briefly unsettled markets, but the announcement of a meeting with President Xi helped restore confidence. The market's ability to absorb positioning reductions—particularly from volatility-sensitive strategies and momentum unwind—without significant drawdown underscores its underlying strength. This episode reflects not fragility, but a maturing rally adjusting to a more complex geopolitical backdrop.

The recent surge and sharp correction in gold prices further illustrates the speculative nature of current market dynamics. Gold's hyperbolic rise was driven more by ETF inflows and central bank buying than by genuine macro stress. Its subsequent selloff—marking the most overbought conditions in 45 years—was a positioning reset, not a signal of broader defiance toward US Treasuries or the dollar.

Looking ahead, we view the recent reduction in investor positioning as a constructive development. Fundamentally, the macro and micro backdrop remains supportive. Earnings continue to surprise positively in both the US and Europe, with beat rates above 80% and EPS growth on track to exceed 10%. The combination of looser monetary policy, resilient economic activity, ongoing fiscal support, and enthusiasm around AI adoption creates a favourable environment for risk assets into year-end. While pockets of stress and volatility will persist, they are not derailing the broader narrative of recovery and opportunity.

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