



SIGMA
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Q3 2025 MARKET REVIEW AND OUTLOOK

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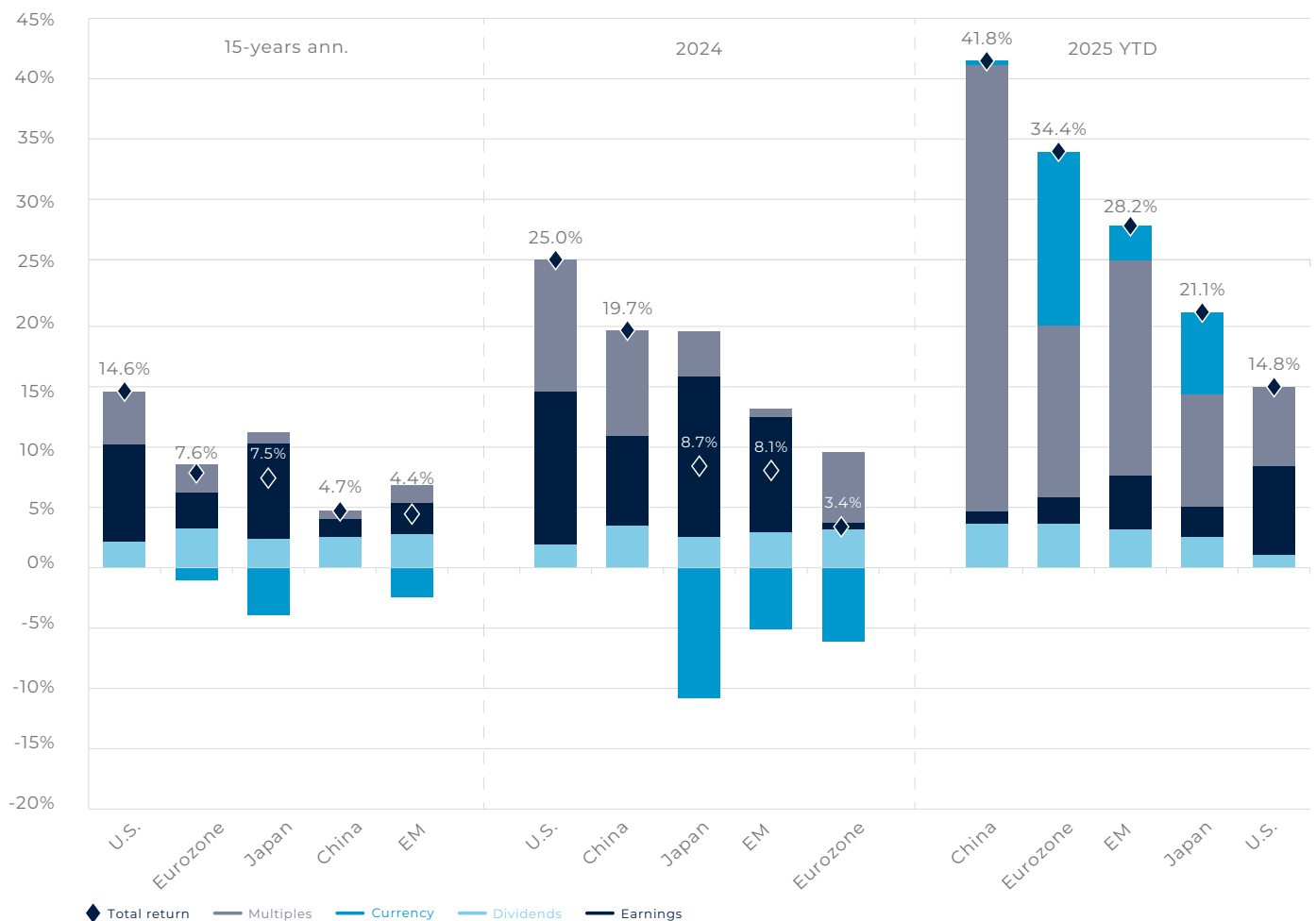
The third quarter once again disproved some of the equity markets' most enduring seasonal myths. The old saying 'sell in May and go away' would have missed a powerful summer rally, while September, historically the weakest month of the year, instead saw the S&P 500 advance 4.5%, marking its best September since 2010. The MSCI World rose 7.4% over the quarter, taking year-to-date gains to fresh highs.

Beneath the surface, performance once again varied by region. As we wrote last quarter, following a sharp reversal of Q1, US equities extended their rally, with the S&P 500 up 7.9% in Q3 and the Nasdaq 100 rising 12.2%, supported by resilient earnings growth and renewed optimism around Fed interest rate cuts. European indices saw more modest returns, with the STOXX Europe 600 up 3.1% in local currency terms.

However, there remains a perception among investors that US equities have underwhelmed year to date. When looking at the headline returns in USD, this is true. As shown in Chart 1, as of 30th September, Eurozone equities have risen 34.4% in USD terms year-to-date compared with 14.8% for the S&P 500. Yet, as Chart 1 illustrates, the drivers have been very different. Europe's strength has largely been the product of a strong euro and a substantial re-rating in multiples, while earnings growth has contributed relatively little. The US, by contrast, has delivered its gains primarily through earnings growth, a more durable driver of long-term equity returns.

CHART 1 BREAKING DOWN THE COMPONENTS OF GLOBAL EQUITY RETURNS

Sources of global equity returns*
Total return, USD



Source: FactSet, MSCI, Standard & Poor's, J.P.Morgan Asset Management. Data as of September 30, 2025.

In the third quarter, with EUR/USD broadly flat, performance was more reflective of fundamentals. US equities pushed higher on the back of stronger earnings and improving sentiment, while European returns were more subdued without the earlier currency support and fading optimism. As Chart 1 also illustrates, over longer horizons currency effects tend to be minimal as currencies mean revert; in the breakdown of 15-year annualised returns, earnings and dividends account for most equity market gains. Exchange rates can distort results in the short term, but what endures is the strength of corporate profitability, which has been far more evident in the US than in Europe.

With the Federal Reserve now playing catch-up on easing, the gap in interest-rate differentials between the US and the rest of the world is likely to narrow. At its September meeting, the Fed cut rates by 25bp to a target range of 4.00–4.25%, resuming its cutting cycle after almost a year on hold, and signalled that further reductions are likely by year-end. This marks a clear shift away from the singular focus on inflation towards a more balanced stance that includes employment and growth. The ECB kept its benchmark rate steady at 2% through both July and September, while the Bank of England remained cautious in the face of persistent inflation. The Swiss National Bank held at zero. Despite these differences, the overall direction of policy has shifted. Central banks are now in a gradual easing phase, moving from restrictive stances toward more normal levels, with the aim of sustaining growth rather than responding to recession risk.

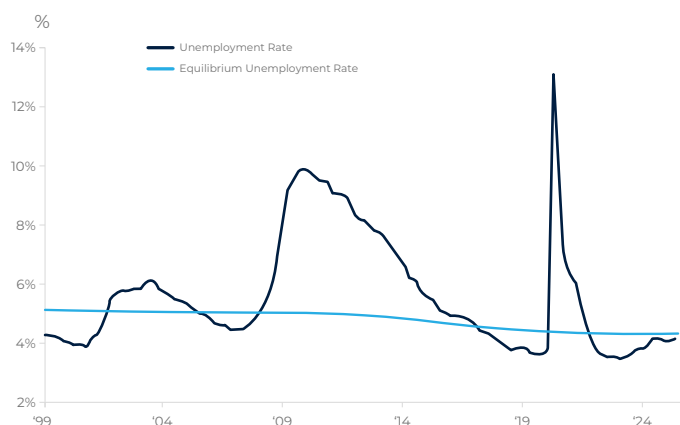
The most notable shift in US economic data over the quarter has been seen in the labour market. The Bureau of Labor Statistics' annual revision in September showed nearly one million fewer jobs created over the past year than first estimated, around 75,000 fewer per month. Furthermore, job openings have slipped to their lowest level since 2021, while

unemployment claims have risen to their highest in almost a year. As a result, the unemployment rate has edged higher but as highlighted in Chart 2 remains below its estimated equilibrium, suggesting that while conditions are softening, they are not collapsing.

Meanwhile, inflation has been less of a constraint for the Fed. Headline CPI rose to 2.9% and core to 3.1% in August, both in line with expectations. The recent upward pressure has been concentrated in goods, much of it linked to tariff effects, but there is little evidence of this spilling over into services. As services account for the vast majority of the US economy, their continued moderation has kept the broader disinflation trend intact and reinforced the Fed's ability to look past one-off price shocks.

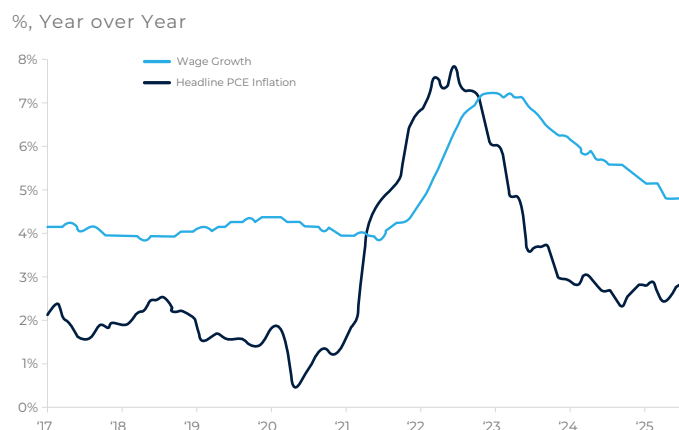
Importantly, growth has held steady. Retail sales rose 0.6% in August, triple consensus expectations, underscoring that spending momentum is still intact. Consumers remain resilient, supported by real income growth. As Chart 3 shows, wage growth, while moderating from post-pandemic peaks, continues to outpace inflation, lifting purchasing power. Additionally, household balance sheets are also in strong shape. Debt as a share of net worth has fallen to historically low levels, while the value of financial assets held by US households has risen to record highs (Charts 4 and 5). Even as the labour market softens at the margin, data suggests households appear well positioned to sustain demand. Our view is that the US economy remains stable and continues to grow, despite the uncertainty introduced by tariffs. The overall picture is one of moderation rather than stress; a labour market that is cooling, inflation that is contained, and consumers that are still spending. For markets, that distinction matters as it is the difference between an economy adjusting to slower growth and one slipping into outright recession.

CHART 2
US UNEMPLOYMENT RATE IS RUNNING CLOSE TO EQUILIBRIUM



Source: Congressional Budget Office, Haver Analytics, J.P.Morgan Private Bank. Data as of June 30, 2025.

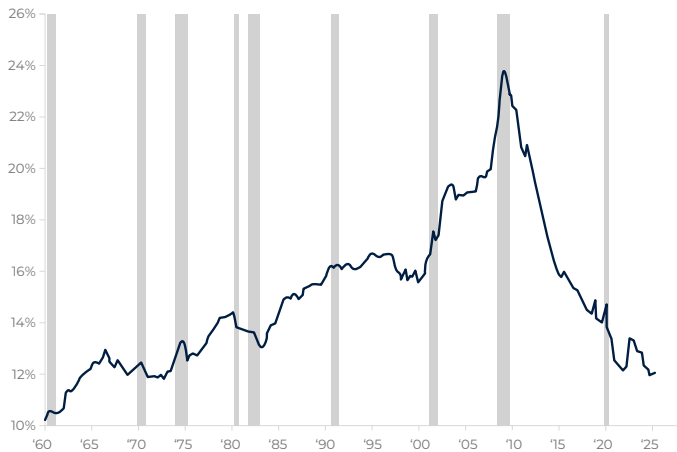
CHART 3
WAGE GROWTH HAS RETURNED TO MORE MODERATE LEVELS BUT REMAINS ABOVE INFLATION, DRIVING CONSUMER SPENDING



Source: Atlanta Federal Reserve, Haver Analytics, J.P.Morgan Private Bank. Data as of July 31, 2025.

CHART 4 DEBT AS A SHARE OF NET WORTH HAS PLUMMETED

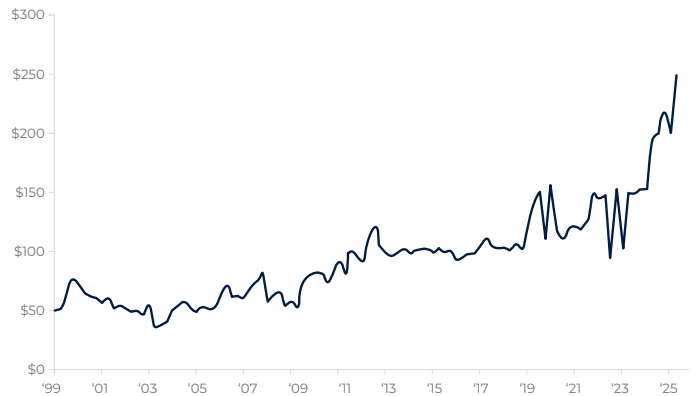
Household debt as a % of household net worth



Source: Federal Reserve Board, Haver Analytics, J.P.Morgan Private Bank. Data as of March 31, 2025.

CHART 5 THE VALUE OF US FAMILY STOCK MARKET HOLDINGS HAVE MULTIPLIED IN THE LAST 25 YEARS

Current median value of family's stock market investments,
\$ thousands



Source: University of Michigan, J.P.Morgan Private Bank. Data as of June 30, 2025.

Historical precedent reinforces this point. Bloomberg, citing Ned Davis Research, shows that the S&P 500 has averaged a 15% gain in the year after the Fed resumes cutting following a pause of six months or more, stronger than the 12% gain after a first cut in a typical easing cycle. This cycle has tracked that playbook closely; since the initial 50bp move last September, the S&P 500 has gained nearly 18%, broadly in line with the ~17% average rise across prior non-recessionary cycles. As in those periods, earnings growth has been the decisive tailwind.

Fixed income markets also reflected the change in policy direction. After two years of drawdowns, global bonds have delivered positive returns this year, with the Bloomberg Global Aggregate index up +6.2% year-to-date on a total return basis through 30th September 2025. In the US, the 10-year minus 3-month yield curve spread first moved back above zero on 13th December 2024, ending one of the longest inversions in recent decades. It continued to rise through early January before easing, and by the end of Q3 it was again meaningfully positive at +0.14%. Europe is further along; at quarter-end, the spread stood at Germany +0.96%, the UK +0.56%, France +1.55%, and Italy +1.71%.

As for Japan, the curve has steepened for very different reasons. Rather than cuts, it reflects a return to monetary normality after years of ultra-loose policy. Since the Bank of Japan ended negative rates and yield-curve control in March 2024, the 10y–3m spread has widened by ~30bps. Long-term yields have risen as investors demand higher term premia, inflation has run above target, and the BoJ has scaled back bond purchases, allowing more price discovery. The result is a more market-driven curve that gives banks greater scope to lend profitably and has coincided with a more resilient domestic economy supported by consumption and investment.

Globally, the steepening of the yield curve spread matters because it determines how credit flows through the economy. Banks typically borrow short and lend long; when curves invert, margins compress, and credit supply tightens. When they steepen, lending becomes profitable again and well-capitalised banks are more willing to extend credit. That willingness to lend supports business investment, housing and employment, helping the monetary transmission mechanism function more normally after years of distortion.

Direct beneficiaries not only include financials, which see margins widen as curves steepen, but also cyclical sectors such as industrials, construction and consumer discretionary, all of which tend to thrive when loan growth accelerates. Capital-intensive businesses, which faced headwinds during the tightening phase, also find it easier to finance expansion in a steeper-curve environment.

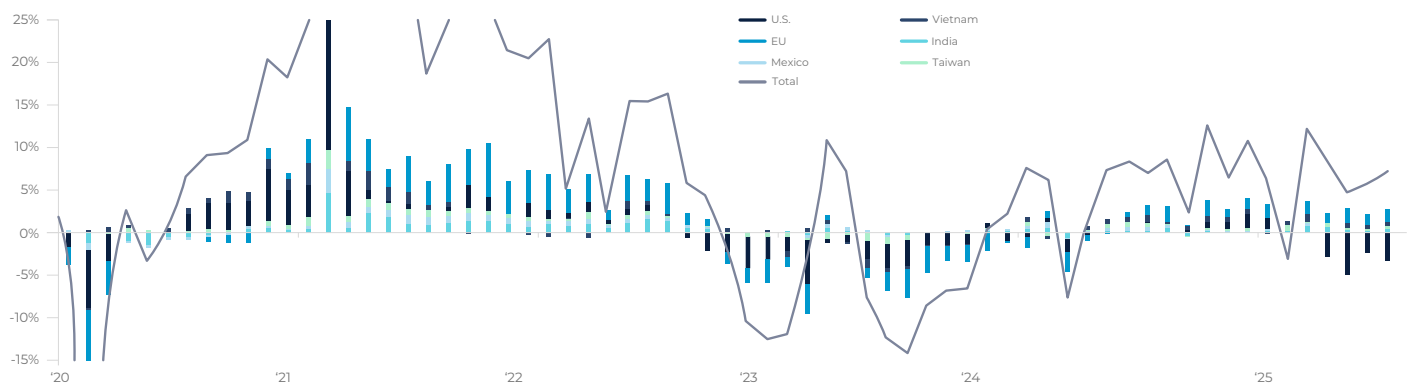
There are important second-order effects as well. Many large-cap technology leaders are debt-light themselves but benefit indirectly as healthier credit conditions support demand from their customers, notably corporates, governments and data-centre operators financing large investment cycles in AI, semiconductors and digital infrastructure. Healthcare and biotech firms also gain as capital-raising becomes less punitive, sustaining innovation pipelines.

The market has already started to reflect these dynamics. The MSCI Europe Financials Index (EUR) has climbed around 32%, while the STOXX Banks Index (EUR) is up over 50% year-to-date; cyclical value sectors like utilities have also posted double-digit gains. Crucially, much of this performance has been price-led rather than earnings-led, with investors re-rating sectors in anticipation of stronger profits and from depressed starting levels after years of underperformance. Together, this underscores how markets pre-price changing conditions in the most exposed sectors. It also shows how quickly prices can move on expectations well ahead of earnings; a reminder that markets often anticipate improving fundamentals, and that market timing has historically hurt performance far more than it has helped.

Finally, China remains a mixed picture. Exports have proven more resilient than feared, with sharp US declines offset by redirection to South-East Asia, as shown in Chart 6, where rerouted flows kept overall export growth positive despite tariff pressures.

CHART 6 CHINA'S TRANSHIPPING EFFORTS THROUGH SOUTH-EAST ASIA OFFSETS LARGE DECLINES IN EXPORTS TO THE US

China export growth by destination, YoY %



Source: China General Administration of Customs, Haver Analytics, J.P.Morgan Private Bank. Data as of July 2025.

However, domestic data remains somewhat weak as property continues to contract, retail sales have cooled, and deflationary pressures persist. But none of this is new. More importantly, credit growth remains positive, regulatory headwinds have eased, and expectations are already very low. Against that backdrop, even modest stabilisation in activity or trade could deliver positive surprises for markets.

For long-term investors, the lesson of Q3 is clear. Markets moved higher despite persistent worries over tariffs, labour market revisions, and global growth slowdowns, showing once again that it is the gap between expectations and reality, not the headlines, that is the directional driver of returns. Those who stayed invested were rewarded with strong gains and new all-time highs, a reminder that compounding works best when investors remain patient, disciplined, and focused on fundamentals rather than short-term noise.

We look forward to updating you again next quarter and thank you for taking the time to read our Market Review & Outlook.

Sigma Investment Committee

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