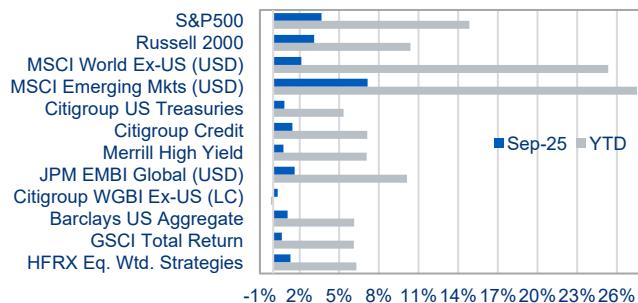


Global Market Review

Global advanced and emerging equity markets posted solid returns in September and are up strongly so far this year. The gains have been broad based across the U.S., Europe, and Japan, as well as emerging markets in Asia, Europe, and Latin America. AI ascendancy is everywhere apparent. Although it is not the only force driving equity markets higher, AI is a dominant factor. AI-related investments are also contributing importantly to economic growth. U.S. and Chinese equities have especially benefitted from the AI frenzy, but the tech sector is a prominent driver of returns across many non-U.S. advanced and emerging equity markets. The U.S. equity market has also been emboldened by the prospect of further Fed rate cuts and continued fiscal stimulus, notwithstanding mounting government debt, continued high levels of policy uncertainty, and a government shutdown. These concerns have, however, weighed on the U.S. dollar, which has depreciated this year against most major currencies, while gold has soared.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



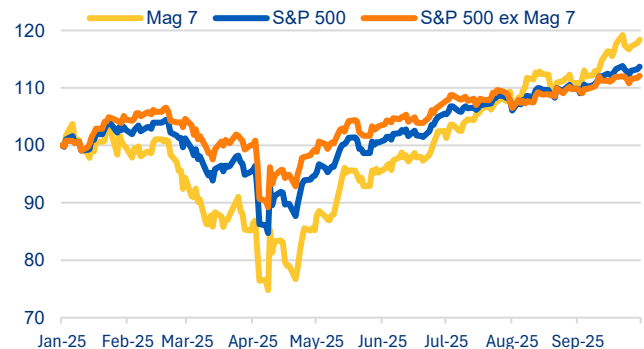
AI-fueled rally continues.

AI Ascendancy in the Markets and the Economy

With September's gain of 3.7%, the S&P 500 is up nearly 15% in the first nine months of the year (Exhibit 1). While September's strong performance was broad based, the ascendancy of AI was apparent. All sectors except consumer staples and materials generated positive returns in September but stocks in the communications and IT sectors handily outpaced all others, as they have for much of the year. Moreover, tech-heavy growth stocks (+5.1%) led value (+1.5%) by a wide margin in September. In the first nine months of the year growth was up 16.8% versus value's 11.5% return.

Exhibit 1. AI Leads Broad-Based U.S. Equity Rally

Source: Bloomberg. Index January 1, 2025 = 100. The Mag 7 index: Apple, Amazon, Microsoft, Alphabet, Meta, NVIDIA, and Tesla.



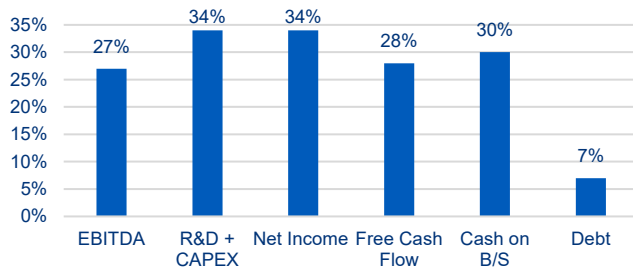
AI ascendancy constitutes the dominant market narrative, a story that lionizes AI's potential to unleash a golden age for profits, productivity, and prosperity. It is also reflected more concretely in the share of the Mag 7 across select financial indicators. The Mag 7 accounts for roughly 30% of the broader market's capitalization, earnings, R&D and capital expenditure, free cash flow, and cash on the balance sheet, but only 7% of debt (Exhibit 2).

AI-related capital expenditure is also having an outsized impact on GDP growth. AI related investment accounted for the bulk of output growth in the first half of the year. AI is also indirectly supporting consumer expenditure through the wealth effect of a highly valued equity market. Strong appreciation across equities as well as other assets is supporting consumer expenditure, especially among the wealthy. The top fifth of the U.S. income distribution is driving total household

consumption, while the spending of the bottom four fifths has barely kept pace with inflation. A highly concentrated market and an economy heavily dependent on AI as a driver of capital expenditure and, indirectly, household consumption are vulnerable to an unravelling of the AI narrative.

Exhibit 2. Mag 7 Takes the Lion's Share

Source: BlackRock. Mag 7 as a share of the S&P 500 ex. financials.



AI Propels Chinese Equity Market Higher

Strands of the same narrative fueling the strong rally in U.S. equities are also driving a surge in the Chinese equity market, which is leading all other major markets so far this year. The Hang Seng tech index of the 30 largest tech stocks listed on the Hong Kong exchange is up 48.4% so far this year. The rally is driven by DeepSeek's breakthrough in increasing AI efficiency as well as the adoption of policies by the Chinese government to promote domestic chip production and other aspects of AI development. Buoyed by the resurgent tech sector, the broader Chinese market rose 9.8% in September and is up 41.6% so far this year, despite persistent deflationary pressures, and sluggish factory output, retail sales, and job growth.

The MSCI World ex-U.S. index of advanced economy stocks also rose in September but by a more modest 2.1%. The index is up 25.3% so far this year (Exhibit 3). Emerging equity markets rose 7.2% in September, reflecting strong gains across Asian and Latin American markets, and are up 27.5% so far this year.

Exhibit 3. Chinese Equities Outperform Other Markets

Source: Bloomberg. Index January 1, 2025 = 100.



Fed Chooses Growth Over Price Stability

Mae West once remarked that faced with a choice "between two evils, I always pick the one I never tried before." Faced in

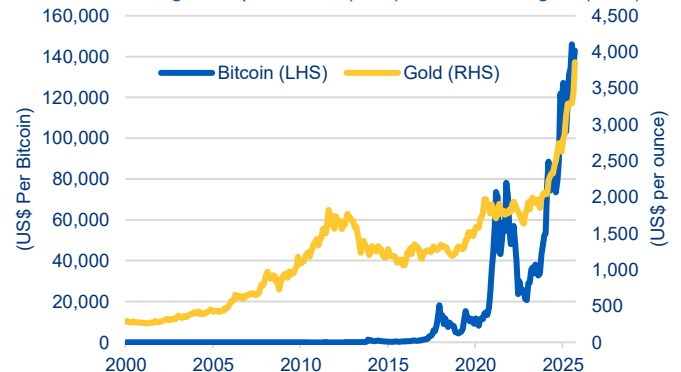
its September meeting with a choice between an economic downturn or rising inflation, the Fed, to no one's surprise, chose growth over price stability. Commenting on the dilemma facing the Fed, Chair Powell observed that "in the near term, risks to inflation are tilted to the upside and risk to employment to the downside, a challenging situation." Noting that the current pace of job growth was barely sufficient to keep the unemployment rate from increasing, Powell observed that the "marked slowing in both the supply of, and demand for, workers is unusual."

Despite persistent above-target inflation and surprising economic resilience, the Fed's dot plot of FOMC member projections of key economic indicators and interest rates suggests that there will be two further 25 basis point rate cuts this year. However, the range of opinions on the future path of the Fed funds rate is unusually wide. At one extreme, the most recently appointed FOMC member is projecting a Fed funds rate of 2.8% by year end, a decline of 125 basis points. At the other, one FOMC member envisages that rates will need to be raised by 25 basis points before the end of the year. The futures market, for its part, attaches a 99% probability to a 25-basis point cut in rates in October and an 87% chance that rates will be reduced by the same magnitude in December.

The prospect of lower interest rates coupled with soaring fiscal deficits and debt levels and declining confidence in the reliability of U.S. economic governance have contributed to a 10% depreciation of the U.S. dollar index this year. Gold and bitcoin prices, in contrast, have soared. Gold is up 47% so far this year, while Bitcoin has gained 22% (Exhibit 4).

Exhibit 4. Gold Glitters as the Dollar Loses Its Luster

Source: Bloomberg. US\$ per bitcoin (LHS) and ounce of gold (RHS).



Performance of Major Market Indices through 09-30-2025

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	3.7%	8.1%	14.8%	17.6%	24.9%	16.5%
Russell 2000	3.1%	12.4%	10.4%	10.8%	15.2%	11.6%
MSCI World Ex-US (USD)	2.1%	5.3%	25.3%	16.0%	21.6%	11.6%
MSCI Emerging Mkts (USD)	7.2%	10.6%	27.5%	17.3%	18.2%	7.0%
Citigroup US Treasuries	0.8%	1.5%	5.3%	2.1%	3.6%	-1.3%
Citigroup Credit	1.5%	2.8%	7.1%	3.9%	7.1%	0.4%
Merrill High Yield	0.8%	2.4%	7.1%	7.2%	11.0%	5.5%
JPM EMBI Global (USD)	1.6%	4.4%	10.1%	7.8%	11.4%	2.2%
Citigroup WGBI Ex-US (LC)	0.3%	-0.4%	-0.2%	-0.4%	1.5%	-2.4%
Barclays US Aggregate	1.1%	2.0%	6.1%	2.9%	4.9%	-0.4%
GSCI Total Return	0.6%	4.1%	6.1%	10.1%	4.7%	17.6%
HFRX Eq. Wtd. Strategies	1.3%	3.1%	6.3%	6.6%	5.3%	3.6%