

MONTHLY REVIEW – SEPTEMBER 2025

OUR PERSPECTIVE

“Monetary policy works with long and variable lags” ~ Milton Friedman, American Economist and Nobel Prize Winner.

America’s supposed jobs juggernaut just hit a wall, with preliminary benchmarking slashing an estimated 911,000 positions from the year through March 2025 and revealing a labour market far weaker than the glossy headlines ever let on. Under the surface, the story is uglier still: hiring cooled through 2024–25, and the “resilience” was largely an illusion created by survey noise now corrected by hard tax records.

Policy made it worse, not better, at the margins where it hurts most. Broad tariff shocks and policy whiplash raised costs and uncertainty for trade-exposed industries, while slower net immigration and tighter financial conditions squeezed both labour supply and demand – especially for lower-wage workers and small firms. The result is a two-speed economy: multinationals and incumbents with pricing power adapt; service employers and thin-margin manufacturers retrench.

Productivity is the optical illusion of this cycle, and AI is the magician’s hand. Output per hour has been revised up even as payrolls flatline, with enterprise AI rollouts and data-centre capex enabling more production from fewer hours, keeping headline growth afloat while the hiring engine coughs. That arithmetic explains why unemployment has merely edged higher, even as low-wage job formation and broad wage gains quietly erode beneath the surface.

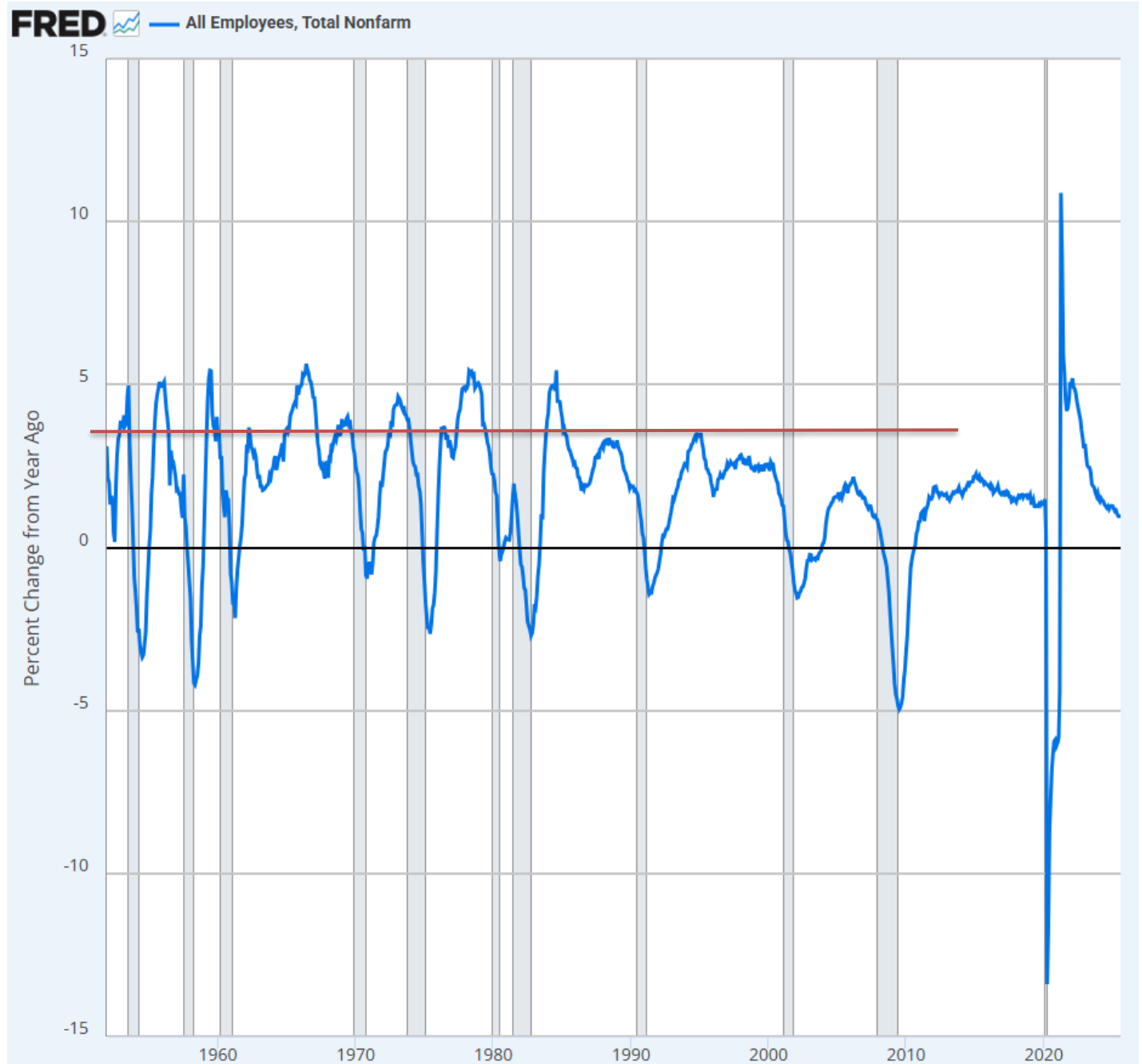
Yes, the Federal Reserve finally cut rates, citing a weakening job market, but the honest question is

Non-Farm Payrolls (NFP) is a key U.S. economic indicator released monthly by the Bureau of Labor Statistics. It measures the net number of jobs gained or lost in the economy, excluding farm work, government and non-profits. Markets track NFPs closely as it signals economic strength and guides Federal Reserve policy.

whether the move came in time to prevent an outright recession. Even Fed officials now concede downside risks to employment are rising, and the debate inside the central bank is shifting from whether to ease at all to how quickly easing must proceed to avoid a deeper labour shakeout. If the goal was a soft landing, policy waited until the plane had already bounced off the runway.

Call it creative destruction - or call it something starker - but the distributional math is brutal: AI-linked productivity gains are being harvested first by those who own the capital, data, platforms, and IP, not by the workers whose tasks are being re-engineered or displaced. The productivity-pay gap widens, the labour share compresses, and the “efficiency dividend” is privatised by incumbents just as tariffs and tighter conditions tax the bottom of the ladder. This is what the long and variable lags of restrictive policy look like in the AI era - fewer jobs than advertised, stronger productivity than expected, and a labour market that appears resilient in aggregate while growing brittle where it matters most.

Exhibit 1: Non-farm Payrolls fell below 1% YoY growth following downward revisions from the U.S. BLS. Below 1% has historically been a key indicator of economic weakness setting in!



Source: U.S. Bureau of Labor Statistics via FRED®, 30/09/2025

MARKET REVIEW

Deflationary Boom Assets (Equities, Corporate Bonds, EMD)

Equity markets rallied again in September, with broad-based gains led by mega-caps and emerging markets. The Bloomberg World Equity Index rose +3.61% (USD), while growth names outpaced value: the Growth index gained +4.14% (USD) versus +2.37% (USD) for Value. The “Magnificent 7” pocket delivered a blowout +9.01% (USD), driving much of U.S. strength alongside the Nasdaq (+5.68%). Emerging markets also outperformed, with the EM Index up +6.46% (USD) and China leading at +7.65% (USD). The outperformance of equities was underpinned by resilient corporate earnings, ongoing liquidity, and the belief that central banks are on the cusp of an easing cycle. Corporate bond markets also participated: the U.S. Corporate Bond Index gained +1.50% (USD), and EM hard currency debt added +1.11% (USD), as credit spreads tightened modestly amidst continued investor confidence.

Deflationary Bust Assets (Government Bonds)

Government bonds had a softer month, though returns were modestly positive in many markets. The U.S. Treasury Index rose +0.85% (USD), and the Global Aggregate index gained +0.65% (USD). U.K. Gilts posted +0.68% (GBP), while Euro government bonds returned +0.41% (EUR). Inflation-linked bonds had more dispersion: U.K. linkers gained +1.71% (GBP) but remain in negative territory YTD due to the long duration profile; Euro linkers rose +0.37% (EUR). The relatively tepid gains reflect the tension between deflationary demand risks and sticky inflation expectations, which continue to anchor nominal yields and limit duration upside.

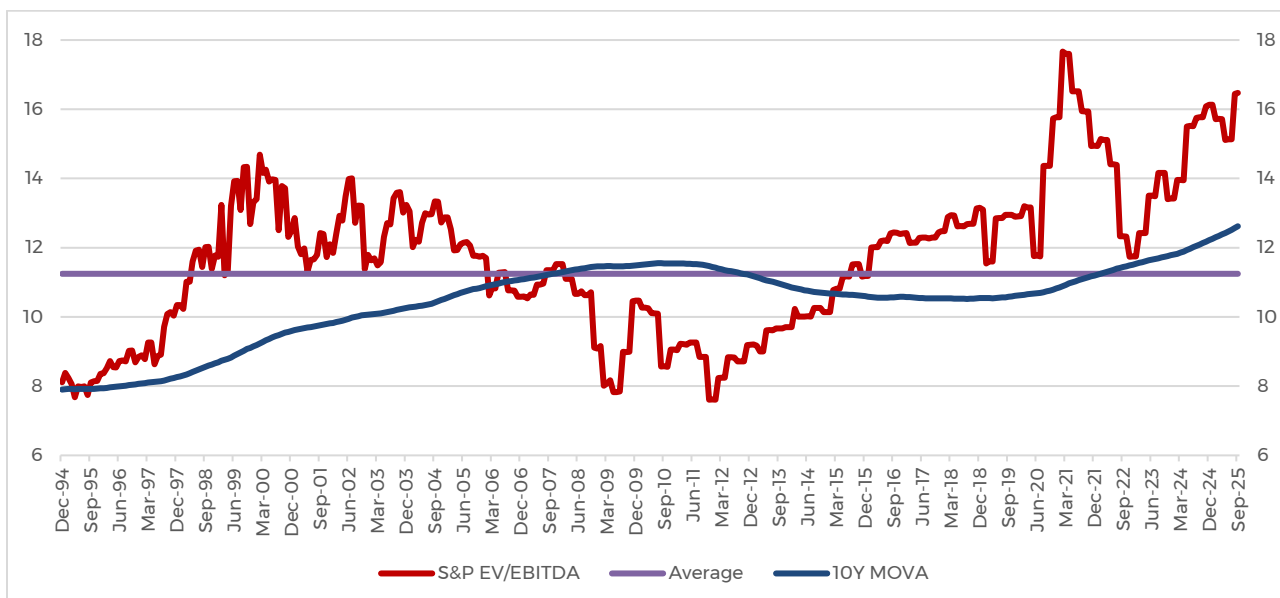
Inflationary Boom Assets (Managed Futures, CTAs, Commodities excl. Precious Metals)

Managed futures strategies rebounded strongly in September. The SG CTA Index rose almost 4% (USD) and the SG Trend Index gained well over 5% (USD), as trend signals re-emerged across rates, FX, and commodity markets. Among commodities, industrial metals showed healthy gains: copper up +4.11% (USD) and the Industrial Metals index +3.30%. The broader commodity energy complex was more muted: the Bloomberg Energy index lost -0.73% as Brent fell -1.61% (USD), reflecting demand concerns in some regions.

Inflationary Bust Assets (Precious Metals & Inflation-Linked Bonds)

This was the strongest regime in September. Gold jumped +11.92% (USD), and the Bloomberg Precious Metals index rose +11.21% (USD), as investor flows shifted toward inflation hedges amid renewed inflation scares and monetary uncertainty. The strength in gold and precious metals was broadly supported by weaker real yields and safe-haven demand. Inflation-linked bonds, particularly in the U.K. and Europe, partially benefited from these dynamics (as noted earlier), although their performance was more muted relative to gold. This divergence underscores how precious metals remain among the most responsive inflation hedges in volatile environments.

Exhibit 2: On an Enterprise Value-to-EBITDA multiple, the downside risk on US equities is very significant!



Source: Bloomberg L.P., 30/09/2025

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For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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