

What we liked



- **US Federal Reserve:** Cut benchmark rate by 0.25% to 3.75%–4%. Chair Powell suggested an additional cut anticipated by markets this year may not occur.
- **US JOLTS Job Openings:** Reported 7.227M vs 7.190M expected (prior 7.184M) – a modest upside surprise amid mixed US employment data.
- **China Trade Data (September):** Imports and exports beat expectations, signaling stronger domestic and external demand. Exports +8.3% YoY (vs +6% est.); imports +7.4% YoY (vs +1.5% est.).
- **China Economic Activity:** Industrial production +6.5% YoY (vs +5% est.); retail sales +3% YoY (vs +2.9% est.) – both indicating continued economic improvement.
- **China NBS Non-Manufacturing PMI:** Rose to 50.1 in October (vs 50 prior, 50 est.), showing slight expansion and modest improvement in domestic demand.
- **Japan:** Central bank held benchmark rate steady at 0.5% in its first meeting under new Prime Minister Sanae Takaichi.

What we didn't like



- **Australia CPI:** Annual inflation rose to 3.2% in Q3, above the RBA's 2–3% target and market expectations of 3%. The reading likely rules out further rate cuts this year and may delay any easing into next year.
- **US ISM Services PMI:** Fell to 50.0 (vs 51.6 expected; prior 52.0), signaling stagnation in the key services sector and hinting at a broader slowdown in US economic activity.
- **US ISM Manufacturing PMI:** Fell to 48.7 (vs 49.5 expected; prior 49.1), signaling continued contraction in US manufacturing activity and continued headwinds from tariff uncertainty. The positive in the data was lower prices paid than expected and stronger new orders than the previous months reading.
- **UK Labour Market:** Jobless rate edged up to 4.8% (vs 4.7% expected), while wage growth softened in the three months to August, indicating a slight weakening in employment conditions.
- **China Manufacturing PMI:** Declined to 49 in October (from 49.8 in September), remaining in contraction and marking a setback after recent signs of recovery in manufacturing demand.

BASE CASE

Our view of the most likely scenario for markets over the coming months, for which our portfolios are currently positioned.



79% Probability

Markets remain cautiously optimistic—supported by resilient global earnings, fiscal stimulus, and strong liquidity—though elevated volatility is expected in the short term, driven by tariff risks, inflation dynamics, geopolitical shifts, and seasonal patterns. This could be further accentuated following a strong run up in equity prices already this year.

Our forecast for subdued inflation in the first half of 2025 has proven accurate. Nevertheless, global inflation—excluding China—is likely to remain elevated compared to the past decade. This uncertain trajectory may spark further volatility later in the year, particularly if the effects of tariffs begin to show up in global inflation data.

The US administration's recent tariff announcements have heightened downside risks to our baseline forecast, as they create headwinds for global growth and market sentiment. On the other hand, the "One Big Beautiful Bill"—a sweeping tax and spending package in the US—appears more stimulatory than initially anticipated, particularly when paired with deregulation efforts. Together, these developments support a constructive medium-term outlook for economic activity, though elevated government deficit risks remain a concern.

Central banks—especially the US Federal Reserve—face a delicate balancing act. Easing supports growth and stability but risks weaker currencies and higher yields; tightening curbs inflation but threatens contraction and strains financial systems. In the US, the Federal Reserve cut the cash rate by further 25 basis points in October. This is consistent with many major central banks globally, who are also in a rate cycle. We generally expect such a trend to be supportive of economic expansion and valuations over the medium-term.

We remain flexible in our positioning—able to pivot defensively and hold cash reserves to seize market dislocations. Though global liquidity has grown unevenly, this provides some reassurance and remains a key factor underpinning our constructive stance on risk assets. With strong demand for both new and rollover debt expected through the rest of 2025 and into 2026, continued liquidity support is essential to sustaining our positive outlook.

We remain constructive on global economic activity and risk assets—especially inflation hedges like precious metals—but our baseline case faces greater risks if U.S. tariffs are fully implemented or if significant liquidity support from the People's Bank of China or the U.S. Federal Reserve fails to materialise as expected in the short-term.

We expect additional liquidity injections in the coming months, offering medium-term support to financial markets. Although short-term volatility may persist, this supportive liquidity backdrop should remain favourable for risk assets through year-end. Structural growth themes—particularly AI infrastructure and expanding energy infrastructure—are likely to bolster equity markets. At the same time, globally lower interest rates and continued fiscal stimulus should broaden earnings growth across sectors.

This environment supports a pro-growth, medium-term bias toward risk assets, accepting elevated volatility as opportunity. On pullbacks, we will increase exposure to sectors tied to economic and structural growth. Our asset allocation remains tilted toward growth, guided by macro developments, valuations, and central bank policy.

BEAR CASE

Our worst-case scenario for the coming months, which we are prepared to position for should conditions deteriorate.



9% Probability

Global consumer demand is softening more sharply than expected, with the U.S. economy slowing and limited signs of recovery elsewhere. If U.S. tariff policies prove more aggressive or enduring than anticipated, renewed inflationary pressures could reverse the global trend toward interest rate cuts. This would likely trigger corporate earnings downgrades and raise the risk of a technical recession in the U.S., Europe, or Australia, leaving richly valued risk assets vulnerable to significant downside.

Renewed banking sector strains—similar to those seen in March 2023—could emerge amid heightened credit market volatility, tightening lending conditions further. At the same time, growing concerns over sovereign debt sustainability may prompt bond investors to demand higher yields, compounding financial stress. Any stall in global liquidity growth would add to these pressures and threaten currently resilient employment conditions.

Rising geopolitical tensions could disrupt supply chains and energy markets, intensifying inflation and forcing central banks to maintain restrictive policies. Meanwhile, persistent wage pressures and elevated housing costs risk becoming embedded, eroding corporate margins as input and debt servicing costs rise amid softening demand.

This combination of elevated inflation and tightening financial conditions may compel central banks to hold or raise rates even as growth slows. A premature withdrawal of liquidity support or more constrained fiscal policy—given high public debt levels—could further undermine consumer confidence and spending, weakening both corporate and household balance sheets.

In China, fragility in the property sector continues to pose deflationary risks. If stimulus measures fail to stabilise property prices or revive confidence, high debt levels may further suppress growth, with negative implications for Australia's resource-dependent economy.

A sharp escalation in geopolitical tensions or a major credit event in a rising-yield environment could trigger a rapid sell-off in risk assets. In such a scenario, we would adopt a more defensive positioning—elevating cash holdings, reducing equity exposure, and focusing on resilient sectors such as healthcare, consumer staples, and utilities. In an environment of rising bond yields, a selective approach would be favoured, targeting companies best positioned to benefit from such conditions.

BULL CASE

Our most optimistic view for markets over the coming months.



12% Probability

In a more favourable scenario, developed economies surpass current growth expectations as policy clarity improves. Easing supply chain pressures, resilient labour markets, and rising productivity drive inflation lower, while diplomatic progress reduces the impact and duration of trade tariffs and keeps regional geopolitical tensions contained. Faster adoption of technological advances—such as “Agentic AI”—further lifts corporate productivity, supporting stronger global growth and upside potential for corporate earnings.

Lower input costs and rising demand underpin robust earnings growth, with profit margins remaining high or improving. The integration of new technologies, particularly artificial intelligence, enhances labour efficiency and profitability, reinforcing the positive earnings outlook.

Governments are shifting away from fiscal austerity, increasing spending to accelerate economic growth. Although this may create some inflationary pressure, nominal growth is expected to outpace inflation, fostering a supportive environment for risk assets. This momentum is strengthened by deregulation and fiscal stimulus.

In Australia, higher government spending and recent interest rate cuts are bolstering domestic growth. While the global recovery remains uneven, coordinated stimulus measures—such as China’s new economic package—together with healthy corporate and household balance sheets, are driving a notable acceleration in activity. Prudent leverage among households and businesses is further amplifying this recovery.

If central banks resume efforts to maintain interest rates below inflation and expand liquidity support, financial markets could enter a renewed uptrend, boosting demand for growth assets in a low or negative real rate environment.

We will maintain a growth-oriented asset allocation with minimal cash holdings and, should leading indicators show continued improvement, increase exposure to cyclical sectors most sensitive to economic expansion.



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