# What we liked

- **US Services PMI:** The Institute for Supply Management (ISM) released its October Services Purchasing Managers' Index (PMI), with the headline composite index at 52.4. This was higher than the forecast of 50.7 and puts the index at its highest level since February. A level above 50 indicates expansion in activity levels.

- **US employment (good):** Nonfarm payrolls increased by 119,000 in the month, up from the 4,000 jobs lost in August following a downward revision. The Dow Jones consensus estimate for September was 50,000. Further supporting this data was average hourly earnings increased 0.2% for the month and 3.8% from a year ago, compared to respective forecasts for 0.3% and 3.7%.

- **China retail sales:** October's retail sales data slowed to 2.9% year on year, down only 0.1% from September's reading. That's a little stronger than market expectations. Year-to-date, retail sales are up 4.3% YoY, and should still be able to close 2025 stronger than last year's 3.5% growth.

- **China inflation:** China's producer price deflation eased in October and consumer prices returned to positive territory. A positive inflation read is a plus, as their risks are different to other economies. Signs of inflation reduce signs of a debt/deflation spiral caused by their weak and highly levered property market.

# What we didn’t like

- **Australia CPI:** Inflation jumped to 3.8% in October, up from 3.6% in September. This unwelcome increase makes another interest rate cut less likely, and brings the possibility that the next move may be an increase back to the table.

- **US employment (bad):** Unemployment rate edged higher to 4.4%, the highest it's been since October 2021.

- **US retail sales:** US retail sales saw a smaller than anticipated increase in September, hinting at potential consumer fatigue as prices remain elevated. Retail sales edged up by 0.2% in September, following an unrevised 0.6% increase the previous month. Economists' forecasts anticipated a 0.4%. Weaker retail sales at this time of year can also be seasonal as consumers await Black Friday sales.

- **German sentiment**: German investor morale unexpectedly fell in November, the ZEW economic research institute said on Tuesday, reporting a decrease in its economic sentiment index to 38.5 points from 39.3 points in October. Analysts polled by Reuters had pointed to a reading of 41.

- **UK retail sales:** Retail sales fell 1.1% month on month in October, the first fall since May.

- **China property:** An already pressured property market in China saw 70 city property prices continue to exhibit downward pressure. New home prices fell by -0.45% month-on-month, the steepest decline since October 2024.

BASE CASE

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

# 78% Probability

Markets could experience some volatility in the short-term, as recent global liquidity level reductions create potential headwinds, further accentuated following a strong run-up in equity prices already this year. Over the medium-term, markets are expected to remain well supported by resilient global earnings, fiscal stimulus, and expected liquidity injections.

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 as we move into 2026, particularly if the effects of tariffs begin to show up in global inflation data.

The "One Big Beautiful Bill"—a sweeping tax and spending package in the US, is expected to be supportive of economic activity in the US, particularly when paired with deregulation efforts. While we expect continued negative impacts from tariff uncertainty, positive impacts from the US spending bill are expected to overwhelm these negative effects.

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. Central banks globally are expected to remain on the side of cutting rates further at the margin, but this impulse is expected to weaken as economic growth improves and inflation remains above target over the coming months. This should generally continue to be supportive of markets but could also see elevated volatility should expected rate cuts not be forthcoming.

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 continue to 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 into 2026. 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 remains supportive of a medium-term bias toward risk assets, accepting short-term volatility is likely. 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.

# 10% Probability

Global consumer demand softens 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.

Should 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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