

QUARTERLY INSIGHTS – Q3 2025

INTRODUCTION

The third quarter of 2025 unfolded under the shadow of what we call the Kindleberger Trap – a dynamic first identified by economic historian Charles Kindleberger in his seminal work on the Great Depression. His warning was clear: when the global economic hegemon retreats and rising powers are either unwilling or unable to assume leadership, the world drifts toward fragmentation, liquidity shortages, and self-reinforcing crises.

Today, that trap looms large once again. The established economic order is fracturing as protectionism spreads, trade flows recede, and fiscal orthodoxy gives way to policy improvisation. What begins as tariff retaliation and industrial subsidy quickly morphs into capital scarcity, shrinking liquidity, and ultimately, a loss of global coordination. In this sense, Q3 marks another step along the path from inflationary anxiety to deflationary vulnerability.

In this letter, we explore three dimensions of this transition:

On Politics and Policy:

The global economy is entering a new age of mercantilist rivalry. Tariffs, subsidies and industrial policy have become the main instruments of power. Yet fiscal capacity is eroding – especially in the U.S., U.K., and Europe as debt-servicing costs climb and elections heighten political uncertainty. The outcome: a world of higher political risk premiums and greater reliance on fiscal activism to sustain growth.

On Inflation:

Beneath the surface of “sticky inflation,” the deflationary undertow is growing stronger. The first-round effects of tariffs may lift prices, but retaliation and contracting trade volumes are inherently disinflationary. We argue that the global system is edging toward a Kindleberger-style feedback loop – falling trade, falling liquidity, falling demand – the very conditions that deepened the 1930s downturn. Financial repression, in this context, is not a policy choice but an inevitability.

On Economic Growth:

Global growth remains modest at 2-3%, but fragility is rising. The U.S. still looks resilient, yet cracks are spreading through the labour market, and downgrades are accumulating. Meanwhile, opportunity is emerging where few expect it: in Europe, where rising defence spending could spark a long-overdue innovation cycle, and in China, where targeted support for private-sector technology and entrepreneurship is quietly reshaping sentiment.

Taken together, these themes form a coherent narrative: the world is shifting from an era of abundance and integration toward one of fragmentation and scarcity – not of capital, but of confidence. For investors, the message is to prepare for a regime defined by policy-driven markets, asymmetric risks, and selective opportunity.

Exhibit 1: In this AI-generated image, the ornate archway represents global stability and order. A grand but slightly crumbling pillar of the "Established Hegemon" is visibly in decline. On the other side, a growing but not yet fully formed pillar of the "Rising Powers" is moving into position but hasn't reached full support. The arch itself is visibly breaking, as stability is compromised between the shifting powers – this is known as the Kindleberger-trap!

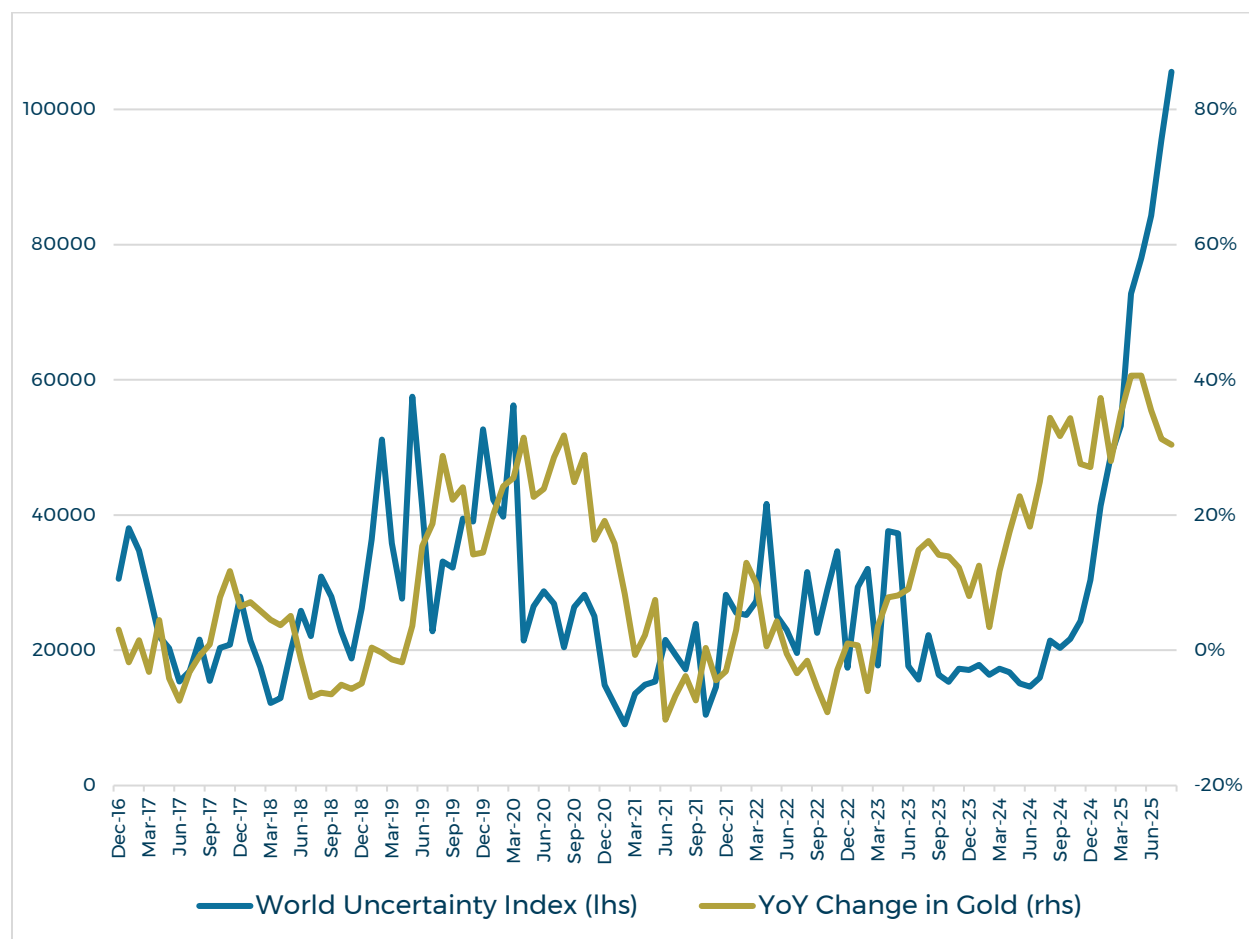


Source: Perplexity, 30/09/2025

ON POLITICS AND POLICY

Despite a continued rally in risk assets and equity markets, the third quarter of 2025 was not one of easing global tensions. Instead of dissipating, trade conflicts have metastasised into something larger, harder, and more entrenched. For investors and policymakers alike, the message is simple: the world is not moving toward freer trade or cooperative globalisation, but toward a new age of mercantilist rivalry, fiscal intervention, and political uncertainty.

What does that mean? As we highlight below, it culminates in the inevitability of financial repression. This implies a greater premium on gold. That has been our view for several years, and nothing in Q3 has changed it.

Exhibit 2: When uncertainty rises... so does gold

Source: <https://worlduncertaintyindex.com/>, Morningstar, LBMA, Shard Capital, 30/09/2025

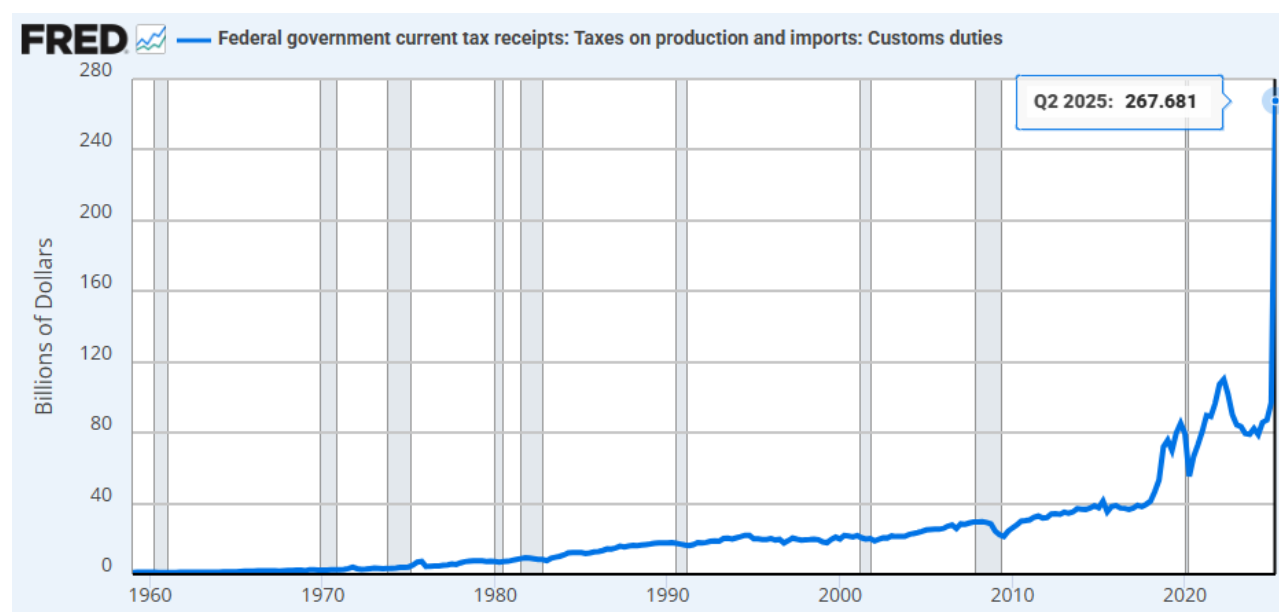
Tariffs: From Tactical Skirmish to Strategic War

What began as a tactical ploy in Donald Trump's first term has hardened into a structural weapon. The U.S., EU, and China are now locked in tit-for-tat tariff escalation, particularly in industries deemed strategic for the next decade: technology, electric vehicles, semiconductors, rare earths, and battery metals. These are not peripheral sectors – they are the arteries of the 21st-century economy.

Below is a great source from [Reed Smith](https://www.tradecompliancesourcehub.com/2025/09/25/trump-2-0-tariff-tracker/) to track tariffs over time:

<https://www.tradecompliancesourcehub.com/2025/09/25/trump-2-0-tariff-tracker/>

The losers are obvious: export-driven manufacturing hubs in Asia, electronics supply chains, and European auto exporters who rely on U.S. and Chinese consumers. The winners are equally clear: domestic producers inside protected markets – U.S. EV makers, European clean-tech supply chains, Chinese semiconductor champions – sheltered by tariff walls and state subsidies. For investors, tariffs are no longer a tail risk. They are a structural reality – one built on shifting political sand.

Exhibit 3: The end of 'free trade'.

Source: U.S. Bureau of Economic Analysis via FRED®, <https://fred.stlouisfed.org/>, 30/09/2025

Fiscal Support vs Fragility

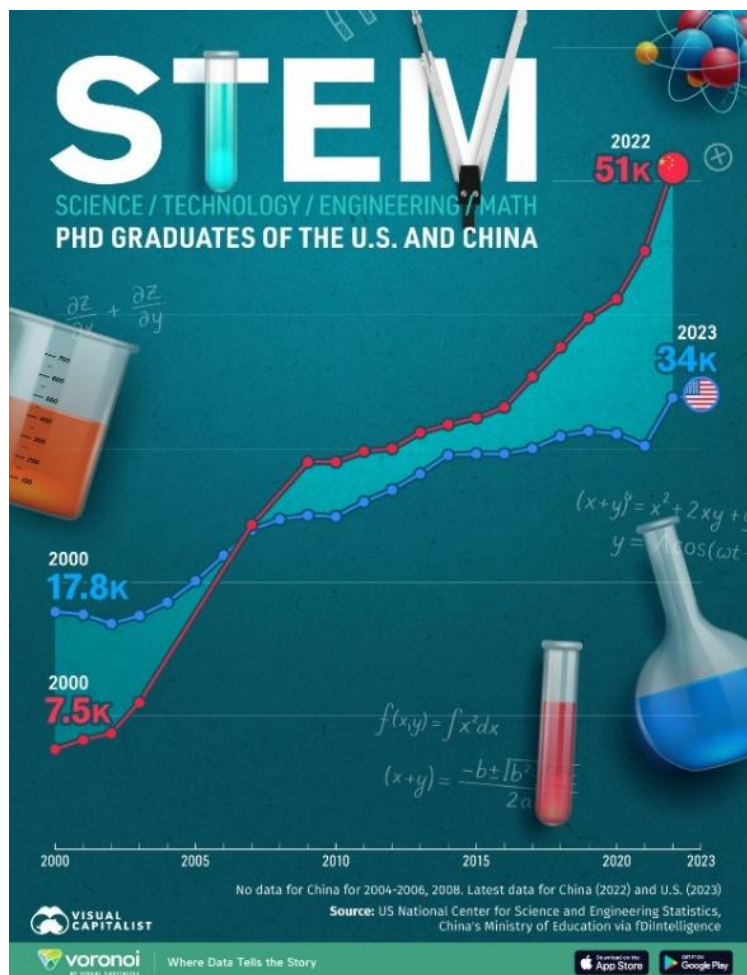
If tariffs are the stick, fiscal stimulus is the carrot. From Washington to Brussels, Beijing to Tokyo, governments are outspending one another in industrial policy. Climate transition and energy security remain the lodestars, but geopolitical flashpoints – from Middle East volatility to the frozen Russia/Ukraine conflict – ensure that energy remains the ultimate risk variable.

Europe, forced by threats from the East and withdrawal from the West, is now expected to significantly increase defence spending. Paradoxically, this could provide an unexpected spark, with industrial spillovers and entrepreneurial momentum fuelling the innovation cycle Europe has lacked for decades. More on that below.

China, meanwhile, has doubled down on coordination between fiscal and monetary levers. Confronted with weak exports, property malaise, and rising trade friction, Beijing has resurrected the “old economy” – infrastructure, employment, and regional development as stabilisers. But this time, something is different: support for the private sector and innovation is more explicit and targeted. From Alibaba and Tencent to new AI startups like DeepSeek and Pony AI, confidence is improving in ways Western markets continue to underestimate.

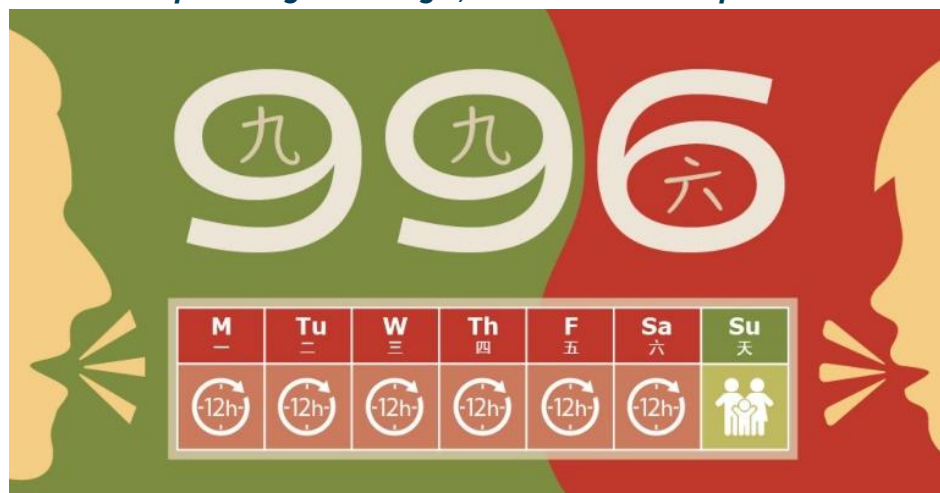
We know China doesn't have a shortage of exceptionally smart, ambitious individuals, willing to work hard and push the boundaries in cultural, technological and even political ways.

Exhibit 4: STEM graduates in China continue to rise at a pace far exceeding any other country!



Source: Visual Capitalist, <https://www.visualcapitalist.com/charted-u-s-vs-chinese-stem-grads/>

Exhibit 5: Despite being found illegal, China's 996-culture persist as workers are lured by opportunity:

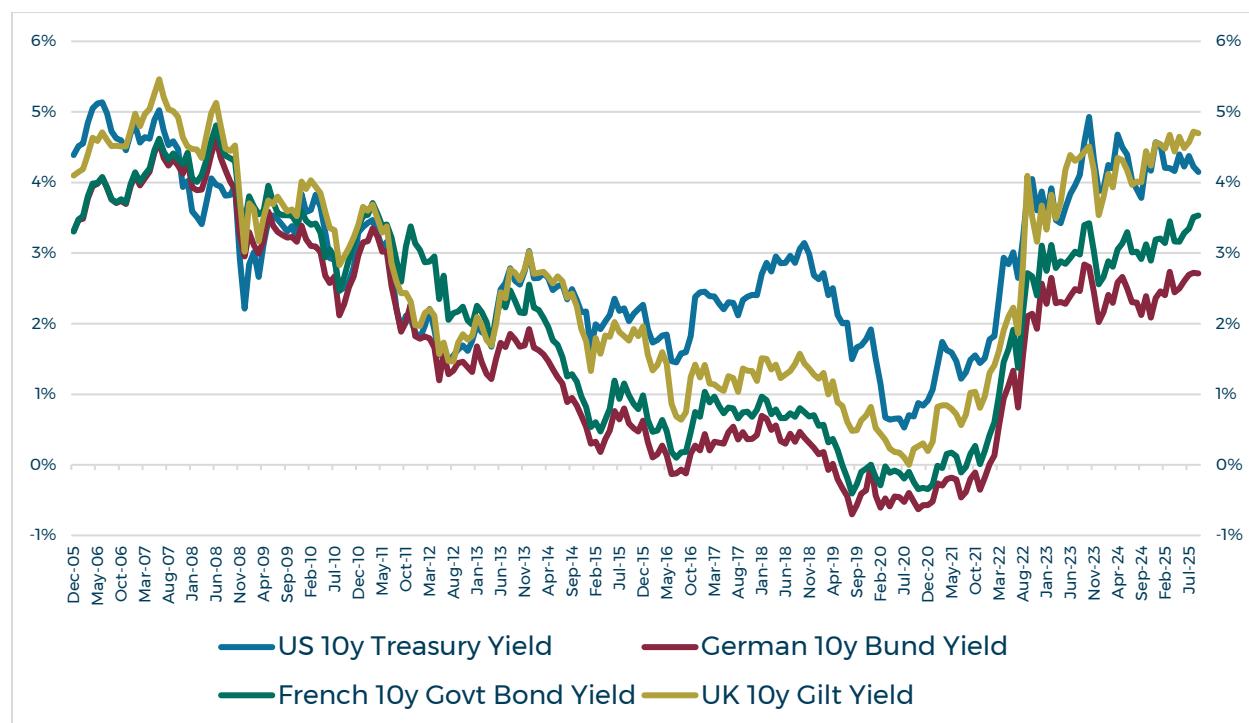


Source: Pandaily, <https://pandaily.com/top-chinese-governing-bodies-call-996-work-culture-illegal>

Fiscal Fragility: The West's Weak Spot

But fiscal largesse has limits. The U.K., U.S., and parts of Europe are staring at deficits and debt burdens that look increasingly unsustainable. Bond markets have begun to take notice. The era of cost-free fiscal intervention is over, and with elections looming across Europe, Asia, and the U.S., greater bond-volatility is likely the new normal.

Exhibit 6: "The cost-of-capital is not zero" ~ Free Markets:



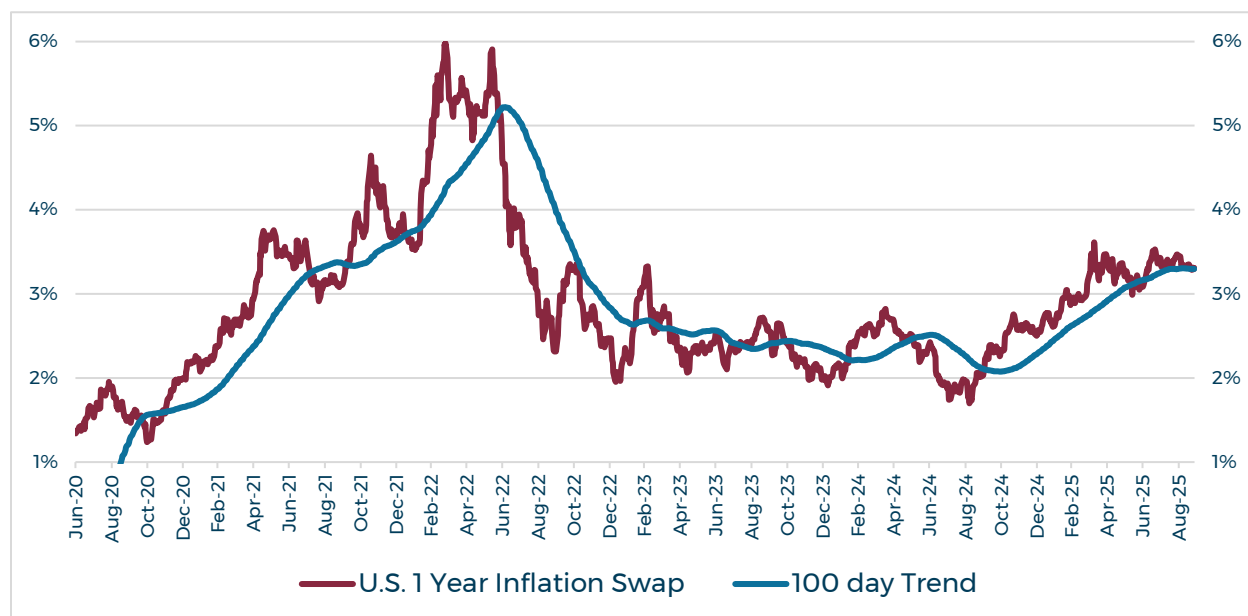
Source: Bloomberg L.P. , Shard Capital, 30/09/2025

This is the story of Q3: politics and policy are no longer background noise – they are the climate. And that climate is inflationary on the surface, but deflationary beneath it. Which leads us to the next chapter.

ON INFLATION

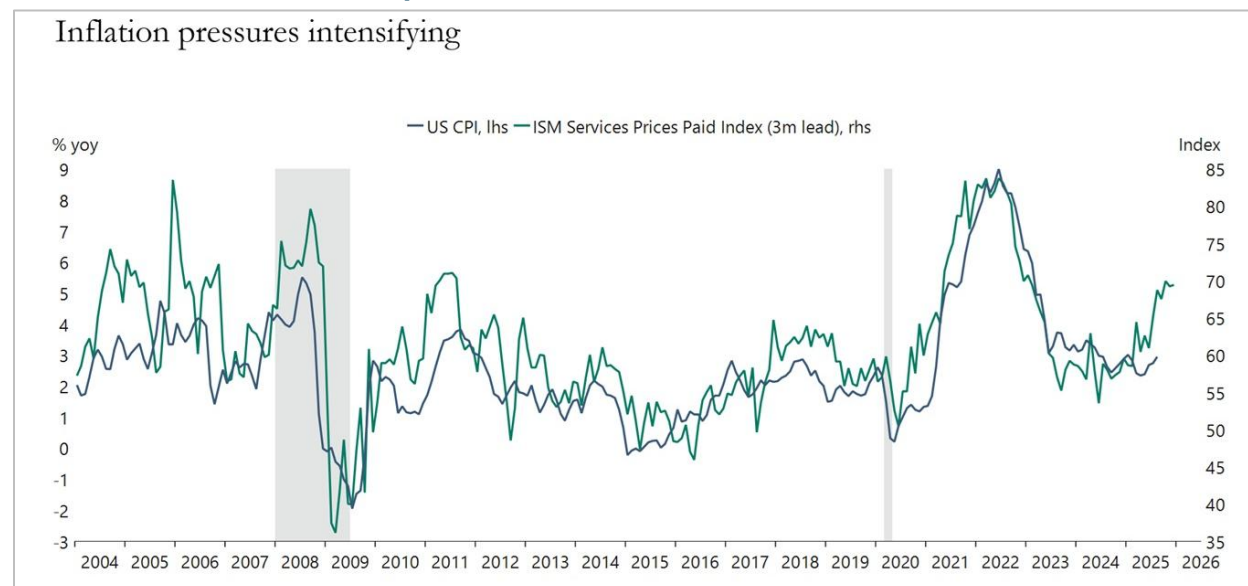
At first glance, the narrative is one of “sticky inflation.” U.S. and U.K. consumer prices remain elevated, fuelled by tariffs and fiscal largesse. Central banks have paused but not yet pivoted, wary of another wave of supply-driven inflation if geopolitical shocks ricochet through energy markets. But this framing risks missing the deeper danger: the real threat is not runaway inflation, but a deflationary spiral and an entrenched debt trap.

Exhibit 7: Inflation expectations, as measured by 1y inflation swaps, continue to climb higher:



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

Exhibit 8: The close correlation between ISM Services Prices Paid and realised CPI confirms that near term risks to inflation is to the upside



Source: Institute for Supply Management (ISM), US Bureau of Labor Statistics (BLS), Macrobond, Apollo Chief Economist, <https://www.apolloacademy.com/>, 08/10/2025

Tariffs highlight this paradox. Yes, the first-round effect is inflationary, raising input costs. But the second-round effects are deflationary. Retaliation and demand elasticities crush trade volumes, compress corporate margins, reduce employment, and curtail investment.

Imports fall and the current account improves – but only superficially – at the cost of weaker capital inflows. Dollar liquidity drains from within the system just as global financing needs rise. The feedback loop resembles what Charles Kindleberger described in the 1930s: falling trade, falling liquidity, falling demand. In short, tariffs risk sowing the seeds of their own deflationary bust.

Labour markets in the U.S. and U.K. are already softening, and shelter inflation is fading. Technology-driven deflation is accelerating. China’s property slump and export weakness drag further, while in many other countries in Europe and Asia, inflation is already trending below target. Fiscal fragility compounds the problem: governments across the U.K. and Europe lack the headroom to respond credibly with stimulus. That is the makings of a debt-deflation trap: falling prices eroding nominal GDP and tax revenues, just as debt loads become harder to service.

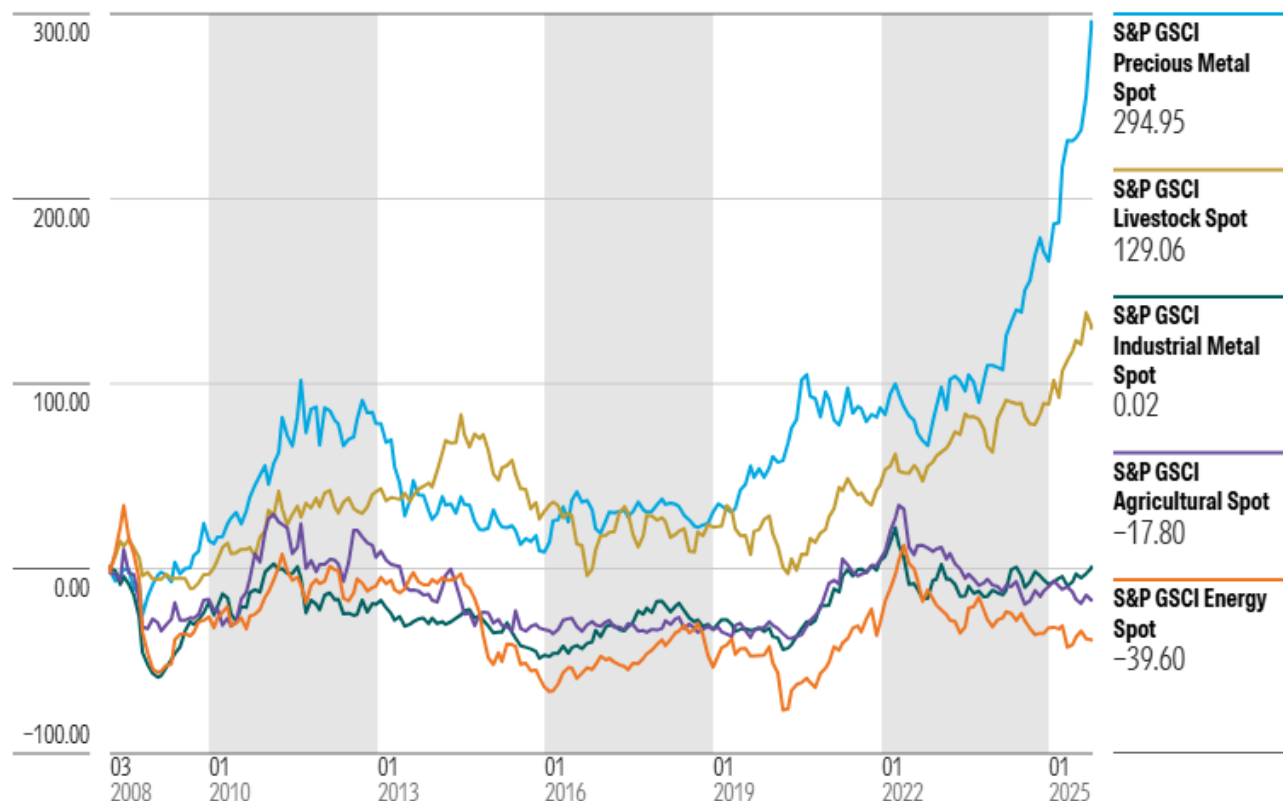
Exhibit 9: Rising yields are causing pain. The US is not alone, as the UK, Canada, Japan and many others all spend more on debt servicing cost than on defence.



Source: US Treasury, <https://fiscaldata.treasury.gov>, 30/09/2025

Thus, the irony of Q3: what looks like inflation on the surface is, in reality, the staging ground for a deflationary spiral. This is why we continue to believe financial repression is not a choice but an inevitability.

Exhibit 10: Whilst precious metals and livestock prices continue to trend higher, generally commodity prices across agriculture, energy and industrial metals continue to show signs of weakening demand. Seemingly what you really want to own post-GFC is golden eggs!



Source: Morningstar Direct, 30/09/2025

And it is within this treacherous balance – high headline inflation masking deflationary undertows – that the growth picture must be understood.

ON ECONOMIC GROWTH

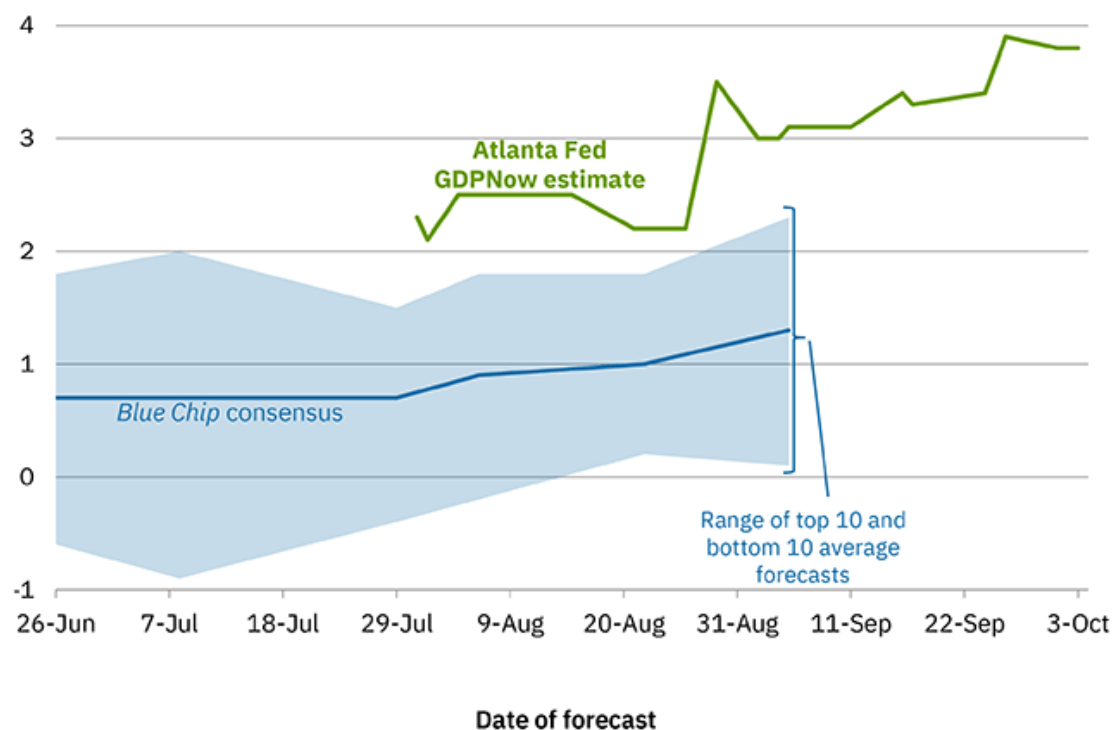
If politics sets the rules of the game and inflation defines the cost of playing it, then economic growth is the scoreboard. And in Q3, the scoreboard tells a sobering story. Global growth is running at 2-3%, decent by historical standards, but increasingly fragile. Protectionism, labour shortages, and debt overhangs weigh on long-term potential, even as pockets of structural opportunity emerge.

The U.S. still looks relatively rosy on the surface, with strong travel data, upbeat sentiment, and ongoing capex in AI and digital infrastructure. Indeed, the Q3 GDPNow from the Atlanta Fed, suggests Q3 GDP out of the US could be almost 4%! But here too, cracks are widening. Payroll revisions and weaker hiring point to demand softening. With the long and variable lags of monetary policy only now taking effect, growth downgrades are accumulating. The U.S. may appear resilient, but the risk is that it becomes the first domino to fall, exposing just how vulnerable overstretched valuations really are.

Exhibit 11: The Atlanta Fed GDPNow has consistently outpaced sell-side estimates in Q3. We are not getting any new data for a while, however.

Due to the government shutdown, the GDPNow update scheduled for Thursday, October 9, will be deferred until a new monthly data release is available for the model.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q3
Quarterly percent change (SAAR)

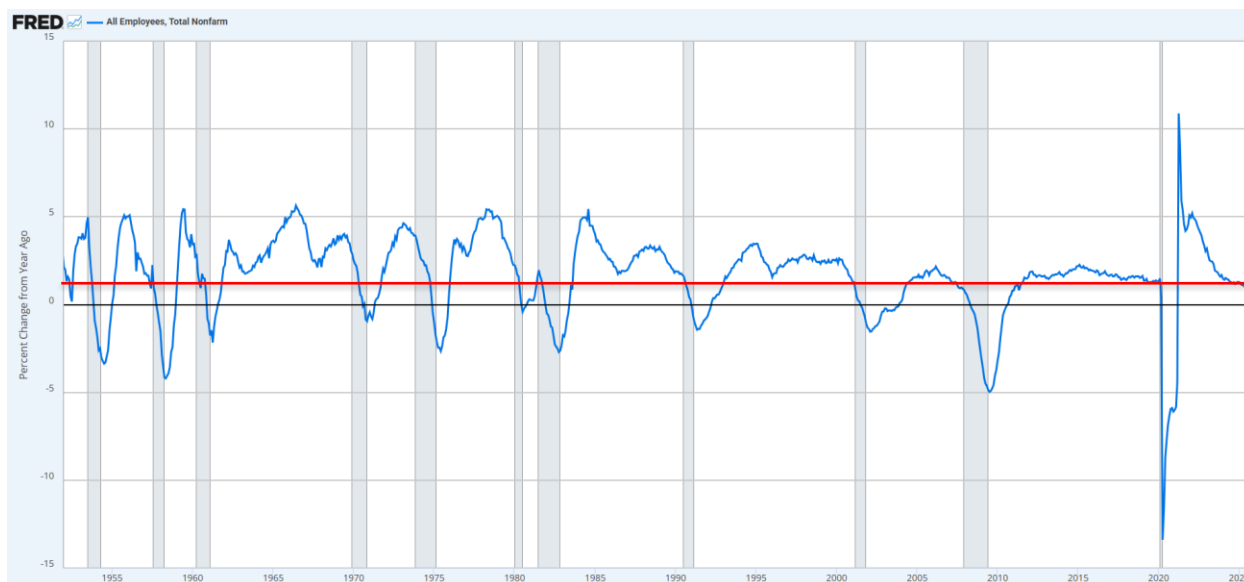


Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: <https://www.atlantafed.org/cqer/research/gdpnow>, 07/10/2025

Exhibit 12: US Non-Farm Payrolls increased 0.9%, YoY over the last 12 months. Historically crossing that 1% level to the downside has been a bad omen!



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

Exhibit 13: Like the housing market, the labour market is marching towards a standstill, where workers are not getting hired or voluntarily changing jobs.

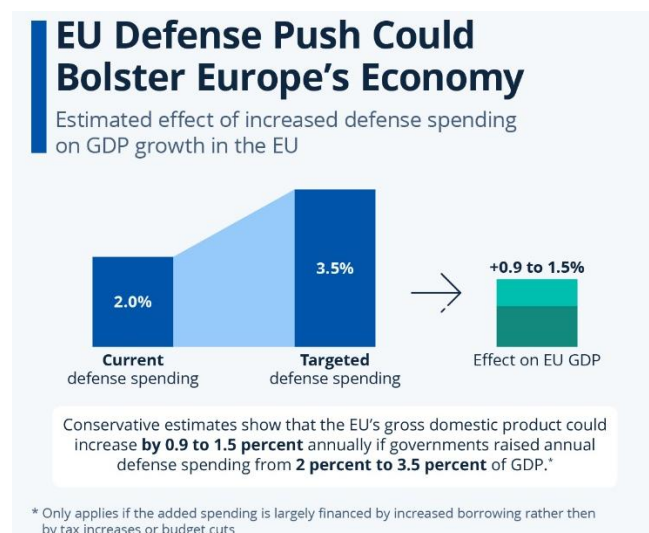
Hiring rate and quits rate are very low



Source: US Bureau of Labor Statistics (BLS), Macrobond, Apollo Chief Economist, <https://www.apolloacademy.com/>, 07/10/2025

Europe, long derided for stagnation, now has an unusual opportunity. Defence spending is spilling into the broader economy, bolstering industrial bases and potentially seeding an innovation cycle that has been absent for decades. If this momentum sparks entrepreneurial dynamism, Europe could surprise to the upside – precisely when consensus is most dismissive.

Exhibit 14: Increased defence spending could add as much as 1.5% to GDP, and historical evidence suggest it might significantly lift the long long-term trajectory!

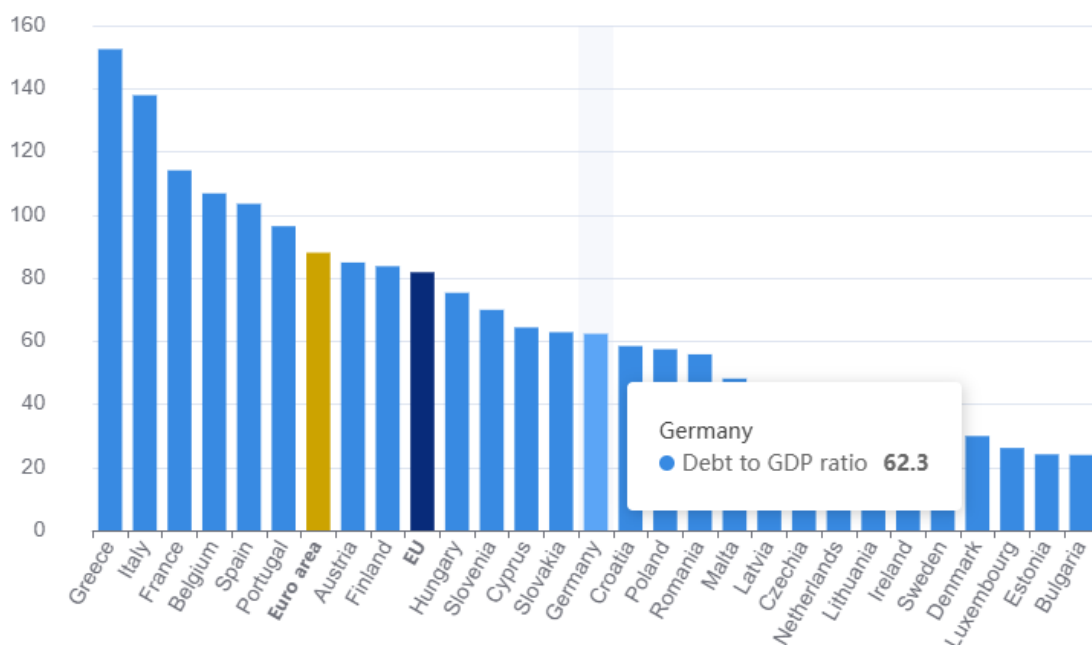


Source: Kiel Institute, Statista, Shard Capital, 30/09/2025

Exhibit 15: Indeed, Germany has significant more room to increase its balance sheets than most other major economies, including the US and UK.

General government gross debt to GDP ratio, 2025Q1

In percentage

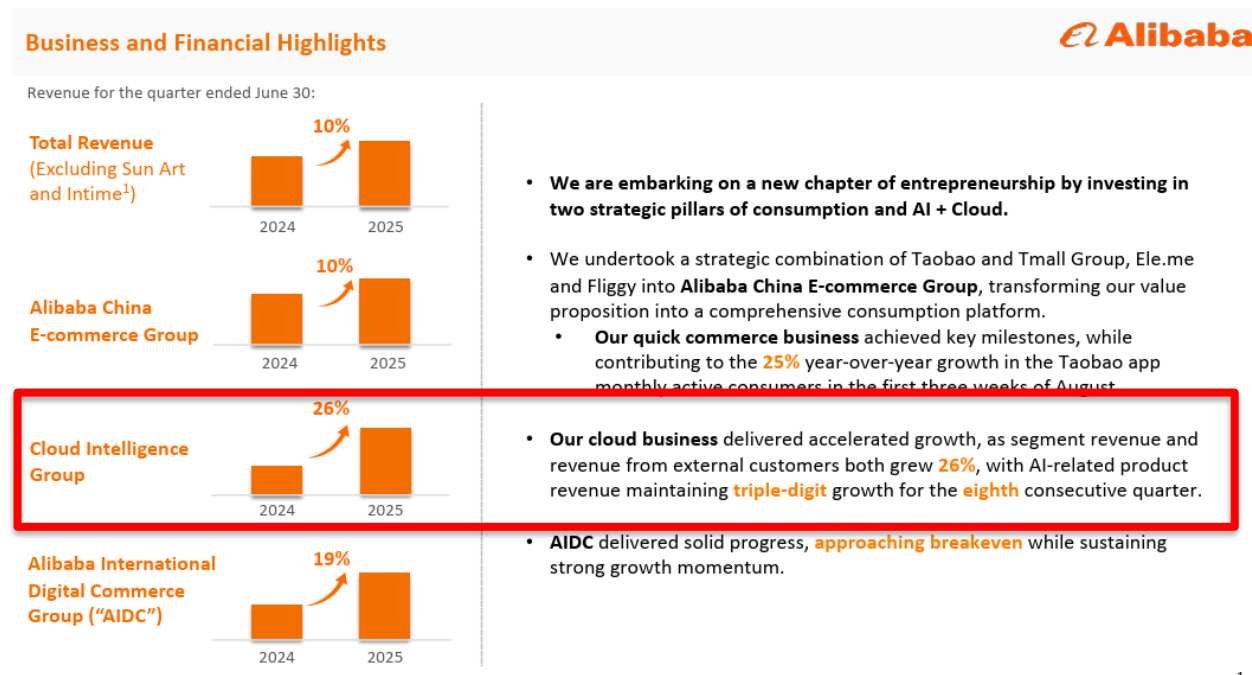


eurostat

Source: Eurostat, 07/2025

China, for all its fragility, also presents selective opportunity. Deleveraging and weak sentiment remain headwinds, but Beijing's policy tilt toward supporting the private sector and innovation is real. The last 12 months have already rewarded those willing to look past the "uninvestable" narrative. We expect this divergence to continue — but only with active management, as the line between winners and losers is stark.

Exhibit 16: Alibaba's Q3 earnings exemplified its growth trajectory.



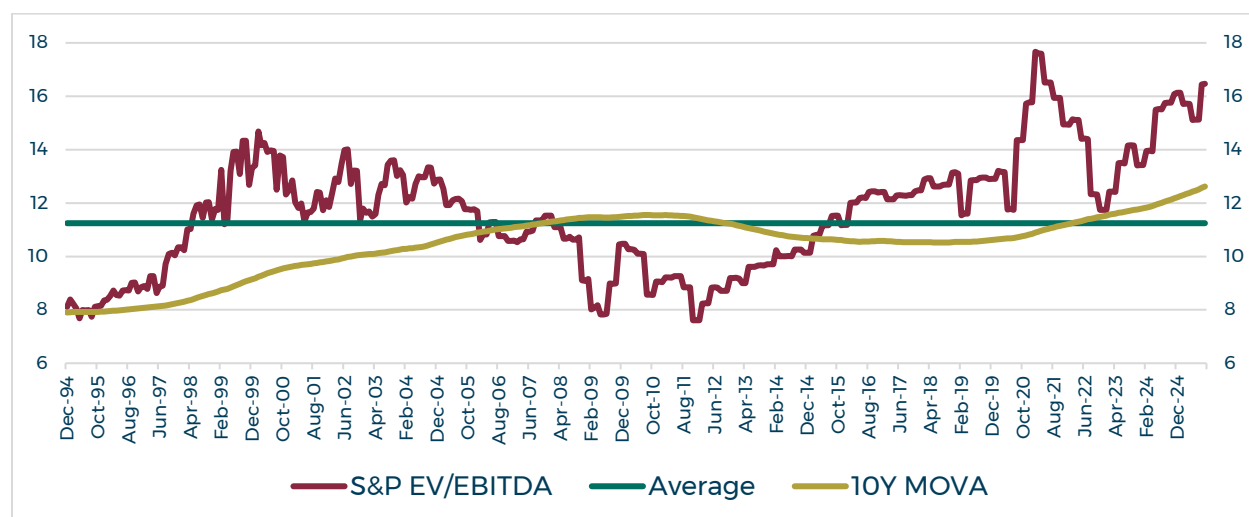
Source: Alibaba, Q3 2025 Earnings Report

Elsewhere, Asia is uneven: Japan and Korea are showing improving PMIs, India continues to shine with robust structural growth, while Latin America lags under weaker export demand and tariff uncertainty. The U.K. remains stuck in near-stagnation, its fiscal fragility compounding structural malaise.

The paradox of Q3 is clear: the U.S. still looks strongest but risks breaking first, while the rest of the world, especially Europe and China look weakest but may offer the most upside. For forward-looking investors, the scoreboard is shifting — away from the comfortable and obvious, toward the overlooked and contrarian.

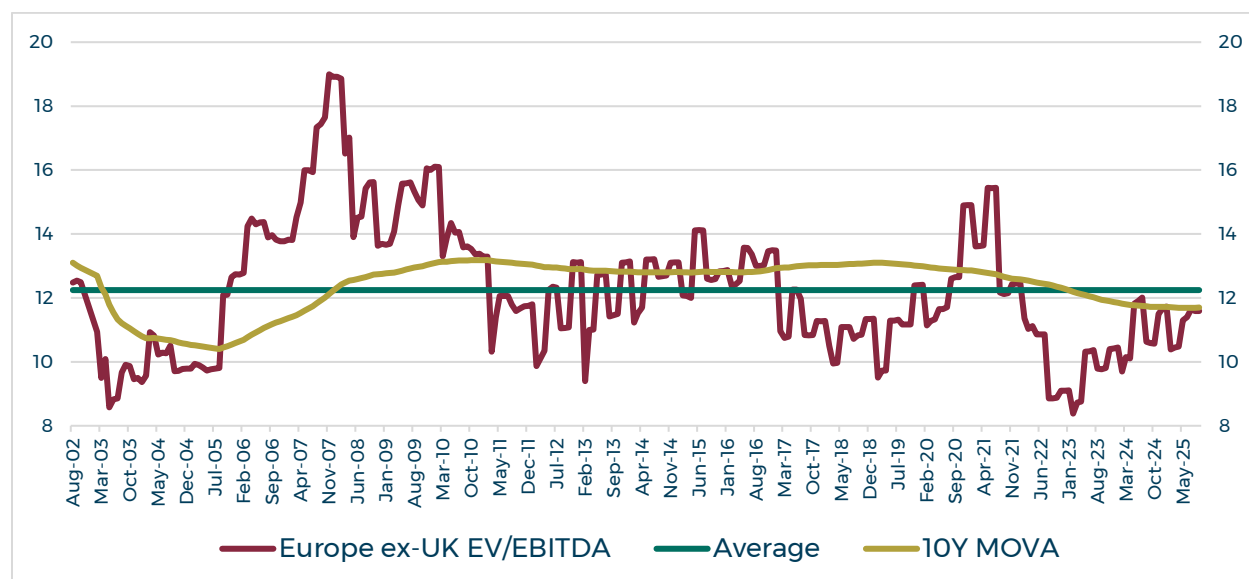
ON VALUATIONS

Exhibit 17: Below is the EV/EBITDA multiple over the last 30 years for the S&P 500. The reality is that the US equity is very expensive! To put it in context, if multiples were to normalise to the average of the last 30 years, there is over 30% downside. If growth slows, corporate typically experience some margin contraction, and equity market overshoot on the downside. The downside risk is very material...there is no positive convexity left at market level!



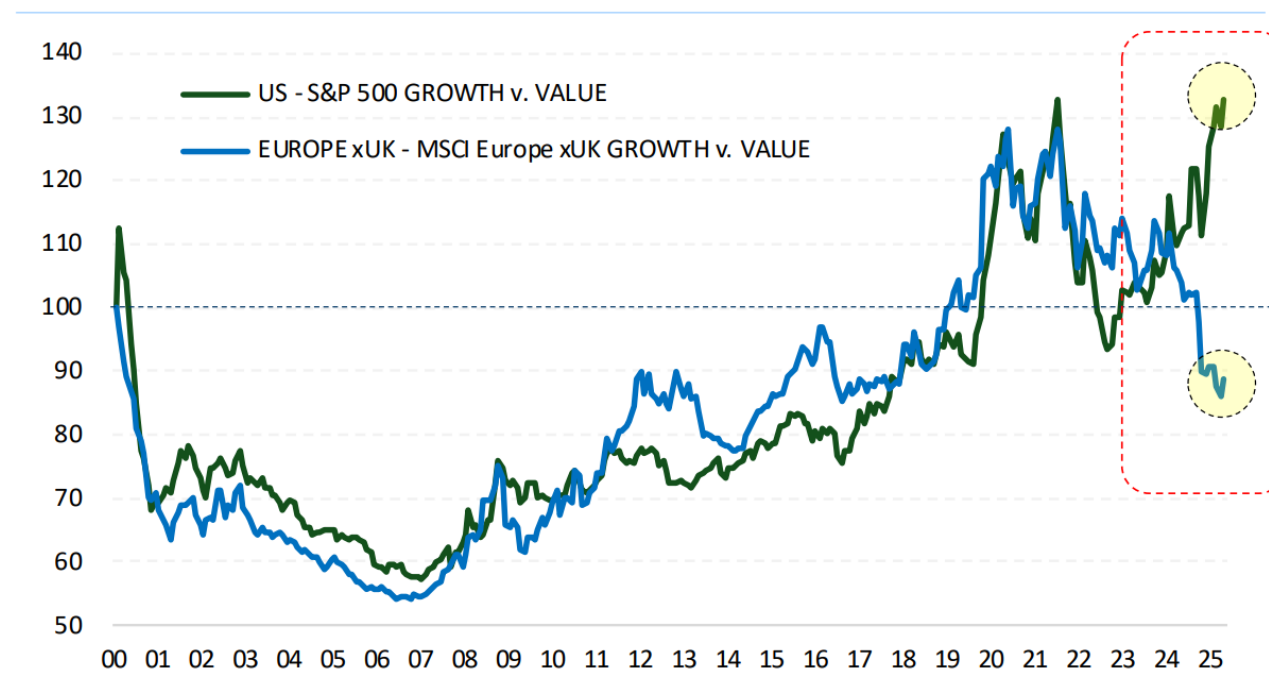
Source: Bloomberg L.P., Shard Capital, 30/09/2025

Exhibit 18: Europe on the other hand remains undervalued. If we see government expansion and investment going into R&D and infrastructure via rising defence budgets, growth might surprise to the upside, and multiples move closer to that of U.S. peers. Unlikely their U.S. peers, we believe there are many opportunities in Europe that displays positive convexity!



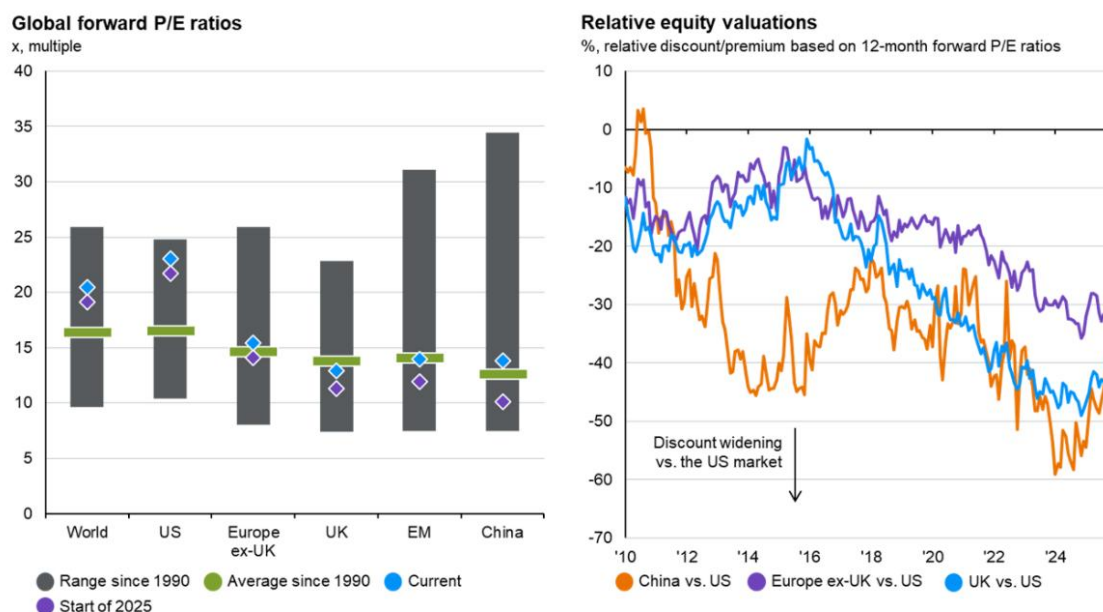
Source: Bloomberg L.P., Shard Capital, 30/09/2025

Exhibit 19: The below chart from Montanaro highlights the valuation opportunity in European quality-growth companies specifically. In the post-Covid world investors only wanted growth stocks in the U.S....and value stocks in Europe!



Source: [Montanaro Q3 2025 Smaller Companies Chartbook](#), 30/09/2025

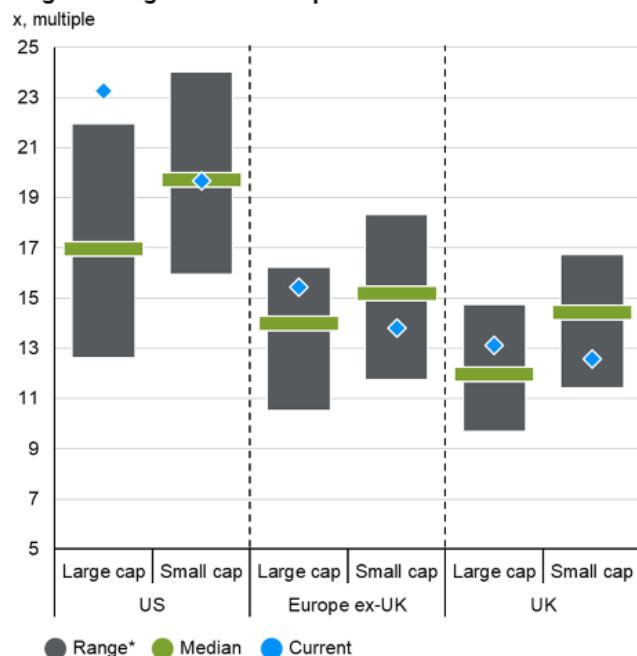
Exhibit 20: The below chart from JP Morgan's Guide to the Market highlight the differential between the U.S. and the rest of the world!



Source: [JP Morgan Guide to the Markets](#), 30/09/2025

Exhibit 21: The opportunity for investors is, almost universally, in small and midcaps

Regional large and small cap forward P/E ratios



Source: [JP Morgan Guide to the Markets](#), 30/09/2025

Exhibit 22: This is confirmed by Montanaro's Q3 Smaller Companies chartbook: on a dividend yield basis, smaller companies have typically had a lower yield, primarily because as an asset class they have lower payout ratios and greater reinvestment opportunities. However, they currently yield 1.28x that of Global Large Caps...an extreme based on standard deviation!

MSCI World SMID v. LargeCap - D/P (12m Fwd)
(MSCI World SMID v. MSCI World Large Cap Index)



Source: [Montanaro Q3 2025 Smaller Companies Chartbook](#), 30/09/2025

Exhibit 23: Chinese 'growth stocks used to trade in-line with U.S. growth stocks. But since the emergence of AI a gap has opened up. Whilst Chinese companies did not lead the revolution, they have now caught up...and the potential in both Chinese AI beneficiaries and AI enablers are not being priced in

Growth stock valuations: China vs. US

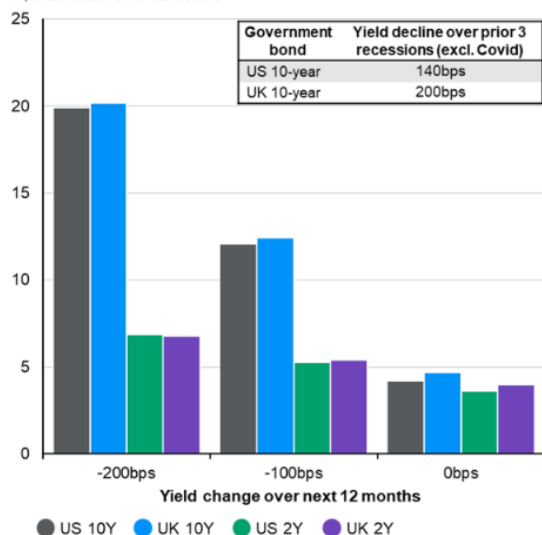


Source: [JP Morgan Guide to the Markets](#), 30/09/2025

Exhibit 24: It is easy to dismiss bonds as not part of the new normal. However, government bonds typically come with positive pay-off profiles during recessions. Not that a recession is imminent, but alongside attractive yields, this should be seen as 'protection' that also pays a nice coupon

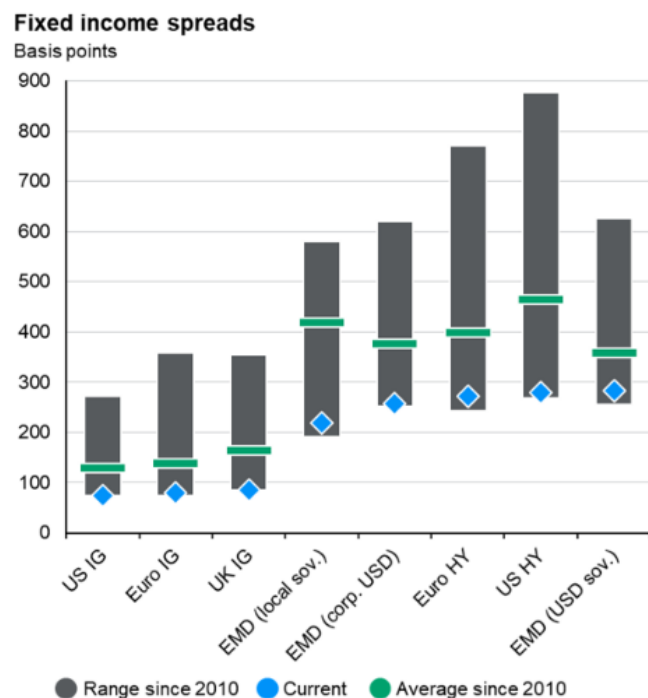
Government bond return scenarios

%, total return over 12 months



Source: [JP Morgan Guide to the Markets](#), 30/09/2025

Exhibit 24: Based on recent history, there are NO value in credit markets!



Source: [JP Morgan Guide to the Markets](#), 30/09/2025

Exhibit 25: Below we dissect our expectation for various equity markets around the world, and come up with an expected annualised return. A guide to where we see value...

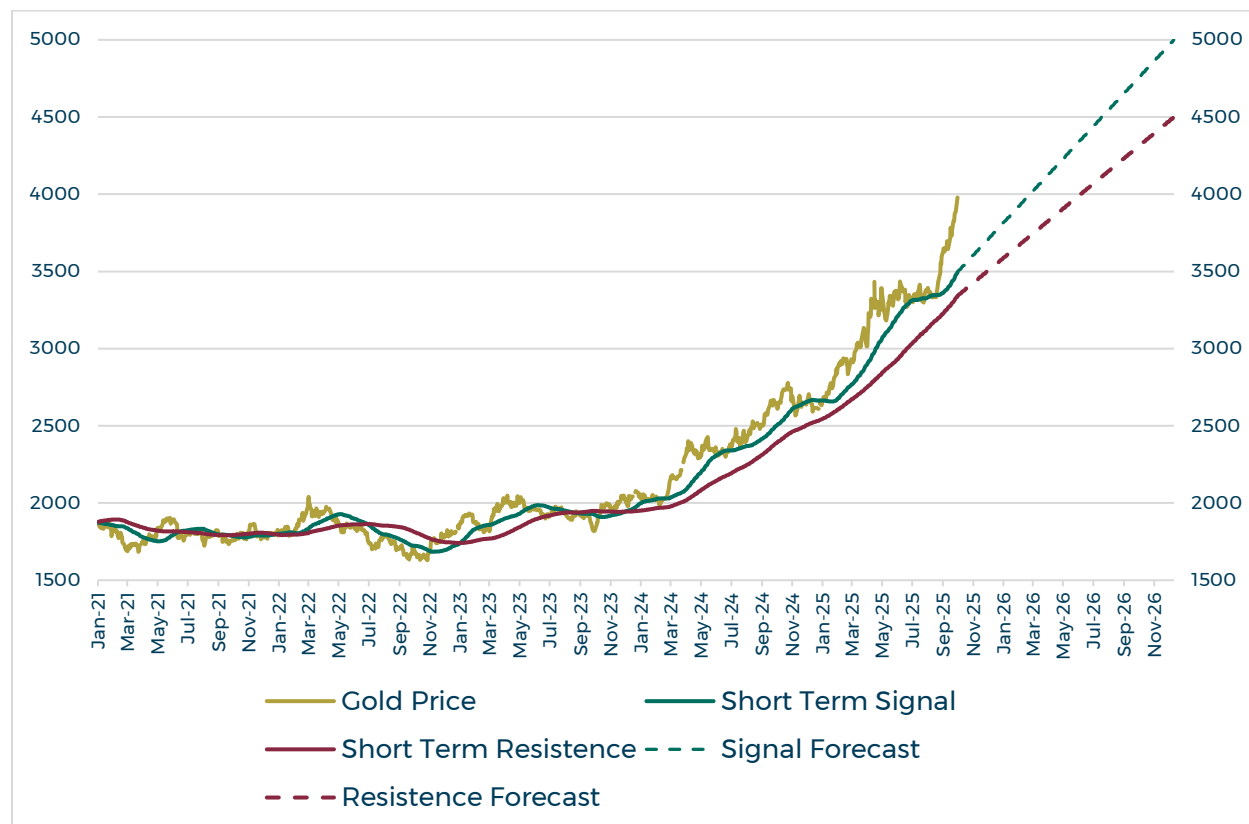
US Equity		UK Equity	
FCF Yield	2.58%	FCF Yield	6.06%
EPS Est CAGR	7.00%	EPS Est CAGR	5.00%
Multiple Expansion - 10Y MOV	-5.19%	Multiple Expansion - LTAVE	4.22%
5y Ann Expected Total Return	4.06%	5y Ann Expected Total Return	16.06%

EU ex-UK Equity		Japan Equity	
FCF Yield	5.88%	FCF Yield	4.42%
EPS Est CAGR	5.00%	EPS Est CAGR	7.00%
Multiple Expansion - LTAVE	1.10%	Multiple Expansion - LTAVE	5.54%
5y Ann Expected Total Return	12.40%	5y Ann Expected Total Return	17.92%

China Equity		EM ex-China Equity	
FCF Yield	5.88%	FCF Yield	4.53%
EPS Est CAGR	7.00%	EPS Est CAGR	10.00%
Multiple Expansion - LTAVE	-2.82%	Multiple Expansion - LTAVE	-0.86%
5y Ann Expected Total Return	10.09%	5y Ann Expected Total Return	13.99%

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

Exhibit 26: Finally, on gold. We do not have an expected return or expected value for gold. Indeed, we believe the ONLY way to value gold is through the use of technical. We use three signals, one of them shown below. All three has been positive since January 2024 and remain so. The recent breakout vindicate that market participants continue to buy gold despite higher prices. I suspect this trend will remain for a while...



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

ON ASSET ALLOCATION

Please refer to our [monthly review](#).

“Qui Curat Vincit”

CONTACT US

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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