

MONTHLY REVIEW – OCTOBER 2025

Dear Clients, Colleagues and Partners

OUR PERSPECTIVE

“There is nothing so disturbing to one’s well-being and judgment as to see a friend get rich.” ~ Charles Kindleberger, American Economist and author of *Manias, Panics, and Crashes: A History of Financial Crises*

October reinforced a growing paradox in the U.S. economy. On the surface, America still looks remarkably strong: GDP growth remains near 4%, consumer sentiment is firm, and corporate investment in AI, infrastructure, and defence continues at a brisk pace. Yet beneath that surface lies a deepening fragility: a two-speed economy sustained by fiscal stimulus at the top, and the hope of AI-led economic boom at the bottom.

This imbalance captures what economic historian Charles Kindleberger once described as the hegemonic trap: when the global leader turns inward whilst rising powers fail to assume the mantle of stability, the world slips into fragmentation, liquidity shortages, and self-reinforcing deflationary stagnation. The risk is that the United States, through a mix of tariffs, populist fiscal policy, and political paralysis, is edging closer to that very trap.

The divergence between perception and reality is striking. The top tier of consumers and corporations continues to thrive on government spending, AI-driven productivity, and asset inflation. Meanwhile, small businesses and lower-income households face rising financing costs, weakening labour markets, and declining real income growth. What looks like resilience on paper increasingly resembles bifurcation in practice - an economy overheating at one end and cooling at the other.

Inflation remains superficially sticky around 3%, but the underlying trend is undeniably disinflationary. Tariffs are raising costs initially, yet the retaliatory trade measures and weakening demand are inherently deflationary. Global trade volumes are falling and real activity is softening, echoing the same feedback loop Kindleberger chronicled during the 1930s: falling trade, falling liquidity, falling demand.

The Kindleberger Trap: *the risk that a fading world power lacks the ability, but the ascendant power lacks the will, to provide the world with vital public goods – such as stable international money. In 1931, the Bank of England (BoE) was not able, but the Fed was not willing, to serve as lender of last resort to Austria. As a result, the crisis rolled on to Germany, Britain, and ultimately the US. The Kindleberger Trap caught the “world in depression”, as Charles Kindleberger (1973) titled his seminal work.*

Source: cepr.org, May 2025

Fiscal fragility is adding to the pressure. U.S. interest payments now exceed defence spending, and political appetite for consolidation is virtually non-existent. The fiscal impulse that drove the post-pandemic boom is losing power, even as its cost compounds. The most likely consequence is that of financial repression - a world where money is indirectly transferred from savers to the government.

For investors, this transition is profound. The inflation scare of 2022-2024 is giving way to disinflation and, potentially, outright deflation risk. That shift makes U.S. Treasuries and U.K. Gilts, particularly longer-dated maturities, increasingly attractive. In the current environment duration perhaps carries positive convexity, especially as the next policy move is more likely to be easing than tightening.

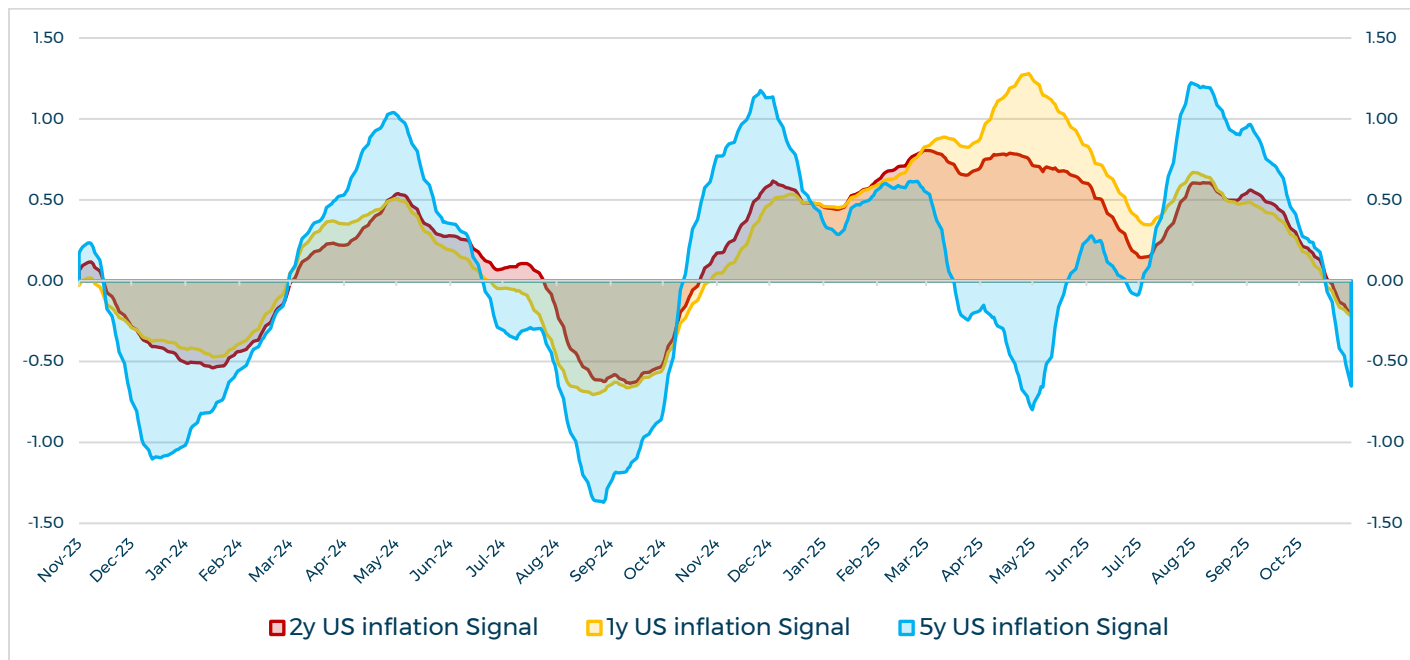
In many ways, the Kindleberger trap defines today’s investment landscape: geopolitical fragmentation, fiscal exhaustion, and liquidity scarcity starting to spread across borders. Yet within that instability lies opportunity. As the world shifts from fiscal expansion to restraint, U.S. Treasuries may prove to be not just a hedge, but the defining trade of 2026.

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October 2025

LeifBridge
powered by Shard Capital

Exhibit 1: Our inflation signals have turned down during the month of October, which implies inflation risks has moved to deflation risks, as priced by institutional investors.



Source: Shard Capital, 31/10/2025

MARKET REVIEW

Deflationary Boom Assets

Global equities extended their advance in October, supported by resilient corporate earnings and cooling inflation data. The Bloomberg World Equity Index gained +2.23% (USD), with growth stocks (+2.84% USD) outperforming value (+0.89% USD). U.S. equities rose +2.35% (USD), led by the Magnificent 7 (+4.93% USD) as falling bond yields lifted long-duration assets. Japan added +3.86% (USD), while Europe ex-UK gained +0.60% (USD) amid softer PMI data. China gave back some of its YTD gains and fell -2.44% (USD), driven by renewed property-sector strains. Credit markets remained constructive: U.S. corporates advanced +0.38%, sterling corporates +2.20%, and EM hard-currency debt +1.72%, as spreads tightened and issuance slowed.

Inflationary Boom Assets

Industrial metals led commodity gains, with copper up +6.33% and the broader Industrial Metals Index +4.52% on renewed optimism for Chinese infrastructure spending. Energy was mixed: Brent crude fell -2.91% despite geopolitical tensions, but the Bloomberg Energy Index rose +8.63% (USD), driven by natural gas strength. Managed futures rebounded modestly, with the SG CTA

Index +1.47% (USD) and SG Trend +1.91% (USD), helped by directional gains in fixed income and currencies.

Inflationary Bust Assets

Gold climbed +3.73% (USD) to a new record above \$4,000/oz, supported by falling real yields and robust central bank buying. The Bloomberg Precious Metals Index gained +3.20% (USD). Inflation-linked bonds also advanced, with UK linkers +3.66% (GBP) and Euro linkers +1.07% (EUR), as breakeven rates stabilised. The strong showing across precious metals underscored investor preference for real assets amid ongoing fiscal expansion and policy uncertainty.

Deflationary Bust Assets

Government bonds staged a broad rally as yields retreated from multi-year highs, driven by signs of moderating inflation and dovish central-bank rhetoric. The U.S. Treasury Index gained +0.62% (USD), while UK Gilts surged +2.87% (GBP) on lower inflation prints. Eurozone government bonds also improved (+0.87% EUR), aided by stabilising growth data. Global aggregates were marginally weaker (-0.25%) due to currency effects. The overall tone reflected market positioning for rate cuts in 2026, even as growth momentum remained uneven.

Exhibit 2: The Shard Capital Long-Term Total Return expectations for various regions:

US Equity	
FCF Yield	2.53%
EPS Est CAGR	7.00%
Multiple Expansion - 10Y MOV	-5.13%
5y Ann Expected Total Return Fixed Income	4.08%

UK Equity	
FCF Yield	5.81%
EPS Est CAGR	5.00%
Multiple Expansion - LTAVE	4.18%
5y Ann Expected Total Return Global Equities	15.75%

EU ex-UK Equity	
FCF Yield	5.67%
EPS Est CAGR	5.00%
Multiple Expansion - LTAVE	1.15%
5y Ann Expected Total Return US Equities	12.24%

Japan	
FCF Yield	4.21%
EPS Est CAGR	7.00%
Multiple Expansion - LTAVE	5.50%
5y Ann Expected Total Return US Equities	17.64%

China	
FCF Yield	5.89%
EPS Est CAGR	7.00%
Multiple Expansion - LTAVE	-4.29%
5y Ann Expected Total Return US Equities	8.44%

EM ex-China Equity	
FCF Yield	4.26%
EPS Est CAGR	10.00%
Multiple Expansion - LTAVE	-0.74%
5y Ann Expected Total Return US Equities	13.84%

Source: Shard Capital, 31/10/2025

ASSET ALLOCATION

The below tables set out our current tactical asset allocation views and the investment thesis behind these.

	Positioning	Investment Thesis
FIXED INCOME		
DM – Government Bonds	OVERWEIGHT	Whilst inflation risks resulting from strong liquidity, M2 growth, and interest rate risks from a supply-demand mismatch and term-premia for longer duration U.S. Treasuries remain, we note the disinflationary trend and downside risks to economic growth. We recommend an overweight position in government bonds, both nominal and inflation linked. We still find short-dated TIPS attractive with high real rates relative to history, whilst duration in the U.K. Gilt market looks more attractive as we believe long-term growth and inflation expectations remain too high.
DM – Corporate Bonds	UNDERWEIGHT	The risk-reward profile remains unattractive given tight credit spreads and macroeconomic risks.
EMD – Government Bonds	NEUTRAL	The weaker US Dollar and attractive yields have boosted EM Govt bonds in H1 2025. Whilst we believe the current administration will ensure a weaker US Dollar prevail, the US Dollar looks to be breaking out of its weakening trend.
EMD – Corporate Bonds	NEUTRAL	Risks include negative economic shock, FX-mismatch. Attractive security specific / RV opportunities, where we prefer high quality, short-duration and hard-currency credit.
ALTERNATIVES		
Property & Infrastructure	NEUTRAL	We retain conviction behind infrastructure, especially in digital infrastructure and electrification where attractive and sustainable tailwinds persist. We believe infrastructure that provides long-term CF's and inflation protection offer attractive opportunities at current levels. Property markets remain uncertain and less attractive. Whilst there are perhaps niche / specific property assets with attractive characteristics, cap rates and valuations broadly do not reflect a higher interest rate regime we entered post-pandemic.
Commodities	OVERWEIGHT	We remain positive on precious metals, in particular gold, as geopolitical and economic uncertainty remains high, with optionality driven by policy missteps. We note recent strength might be an opportune time to take profit, but we retain conviction in our long term view. Whilst near-term demand remains uncertain, energy security, climate change, Asian growth, and AI-driven long-term demand characteristics, could provide attractive opportunities to increase exposure to the energy complex.
Private Equity	UNDERWEIGHT	Listed PE is always vulnerable to liquidity risks during periods of increased market dislocations. Furthermore, the risks of a high cost-of-capital and difficulties in refinancing we believe are not fully reflected in private markets. We remain Underweight.
Alternative Strategies	OVERWEIGHT	Uncertainty behind inflation and economic growth drive the opportunity for uncorrelated investment propositions, e.g. Hedge Funds. However, investors should consider the absolute opportunity relative to T-Bills. Attractive strategy specific opportunities exist with i) lower volatility, ii) uncorrelated profiles, iii) attractive risk-adjusted return expectations, and iv) long-volatility pay-off profile. We are especially bullish on CTA's and trend-following Managed Futures.

	Positioning	Investment Thesis
DEVELOPED MARKET EQUITY		
North America	UNDERWEIGHT	US equity market outperformance over the last 15 years has been significantly supported by multiple expansion, and valuations remain elevated on both absolute and relative levels. Despite the longer-term benefits from the AI revolution, we believe risks to profit margins remain significant. Whilst valuations in small and midcaps looks marginally more attractive, policy uncertainty and weakening sentiment we believe are major headwinds to U.S. small and midcaps.
UK	NEUTRAL	Whilst equity valuations, especially in the small and midcap market are attractive, political uncertainty, deteriorating economic outlook and inflation risks remain material. We retain a preference for high quality and stability and note the opportunity in small and midcap companies.
Europe ex-UK	OVERWEIGHT	Whilst FX and Stagflation risks remain material, we belief the changing European fiscal regime represents a major macroeconomic and policy shift in European policy. Valuations remain relatively attractive; however, we note a preference for quality and pricing power.
Japan	OVERWEIGHT	Attractive valuation, macroeconomic tailwinds and ongoing market reform all underpin the opportunity in Japan. Corporate Japan's strong balance sheet and low valuations make for attractive risk-reward profile. We believe the Japanese Yen is significantly undervalued, and exposure to Japan should not be hedged.
EMERGING MARKET EQUITY		
Asia ex-Japan & China	OVERWEIGHT	We retain a preference for Asian emerging economies over non-Asian EM, driven by better fundamentals and lower reliance on externalities. However, we note the risks of contagion as China embark on a local deleveraging cycle and economic growth slows. India remains one of our highest conviction opportunities in the region, but valuations are stretched.
China	OVERWEIGHT	Overly pessimistic outlook and sentiment towards China are reflected in valuations. Whilst question marks with regards to demographics, real estate, debt, policy and alignment remain, sentiment is showing signs of turning less negative. The risk-reward remain very attractive, and selectively attractive long-term opportunities have emerged.
Latin America	OVERWEIGHT	The changing political and macroeconomic environment, specifically the benefits from the 'near-shoring' of supply chains and the consequences of deteriorating China-US relations, creates attractive opportunities in Central and South America. Some uncertainty remains in the near term from US-policy and the outlook for global growth.
EMEA	UNDERWEIGHT	Preference for Asia & Latin America.

“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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