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Investment Management

Window on the World

NOVEMBER 2025

Autumn is now truly upon us, and to accompany the change in the weather, equity market volatility spiked in mid-October to levels last seen in April, primarily due to ongoing concerns about an escalation in tariffs and trade restrictions between the U.S. and China. However, these worries proved unfounded (at least for the time being) following a meeting between President Trump and Xi in Korea. As was expected, the meeting saw both sides progress talks on trade and agree on some relaxation of tariffs. Time will tell if this is nothing more than a temporary truce, but for now, the bulls have the upper hand, and equities have continued their positive run since the lows of April.

October report

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	4.1	7.3	24.1	22.5
US Equities	2.3	8.2	21.4	17.5
European Equities	2.5	6.7	21.0	19.1
Japanese Equities	6.2	14.3	26.7	22.4
Emerging Market Equities	4.2	13.3	28.6	33.6
UK Gilts	2.9	2.4	3.8	4.6
UK Corporate Bonds	2.2	2.6	7.6	6.4
UK High Yield Bonds	0.4	1.5	9.0	7.8
US Corporate Bonds	0.5	3.0	6.8	7.5
US High Yield Bonds	0.2	2.2	8.0	7.3

Source: Bloomberg, Verso Investment Management, as of end October 2025. Returns in local currency

October saw both bonds and equities deliver positive returns over the month, with the former benefiting from the Federal Reserve's decision to cut interest rates again. Inflation has been a concern, but with it surprisingly on the downside, there was enough confidence for the U.S. central bank to ease monetary policy. "Actions speak louder than words" is a familiar quote, but not when uttered by the Fed chairman – the accompanying statement from Chairman Powell was more hawkish, indicating that a further cut in December was not a given, and as intended, this had a dampening effect on market expectations. Meanwhile, the ongoing Government shutdown in the U.S., which has entered its second month, means economic data is patchy, and the longer it continues, the more likely it is that it will weigh on U.S. economic activity, potentially signalling that the latest cut was partially an insurance cut.

For once, U.K. Government bonds were a standout performer in the fixed income space, with yields on the 10-year gilt falling by 30 basis points over the month to an 11-month low of 4.4%. The catalyst for the decline in yields can be linked to lower inflation, weaker economic data, and a more dovish tone from Andrew Bailey, the Governor of the Bank of England, suggesting to investors that further interest rate cuts next year are likely. In a supporting role, there is also a growing sense of confidence among investors about the Government's fiscal plans as they approach the release of the Budget on 26 November. Declining gilt yields also helped provide a platform for U.K. equities to deliver positive returns over the month, offering a tailwind to domestic and interest-rate-sensitive sectors.

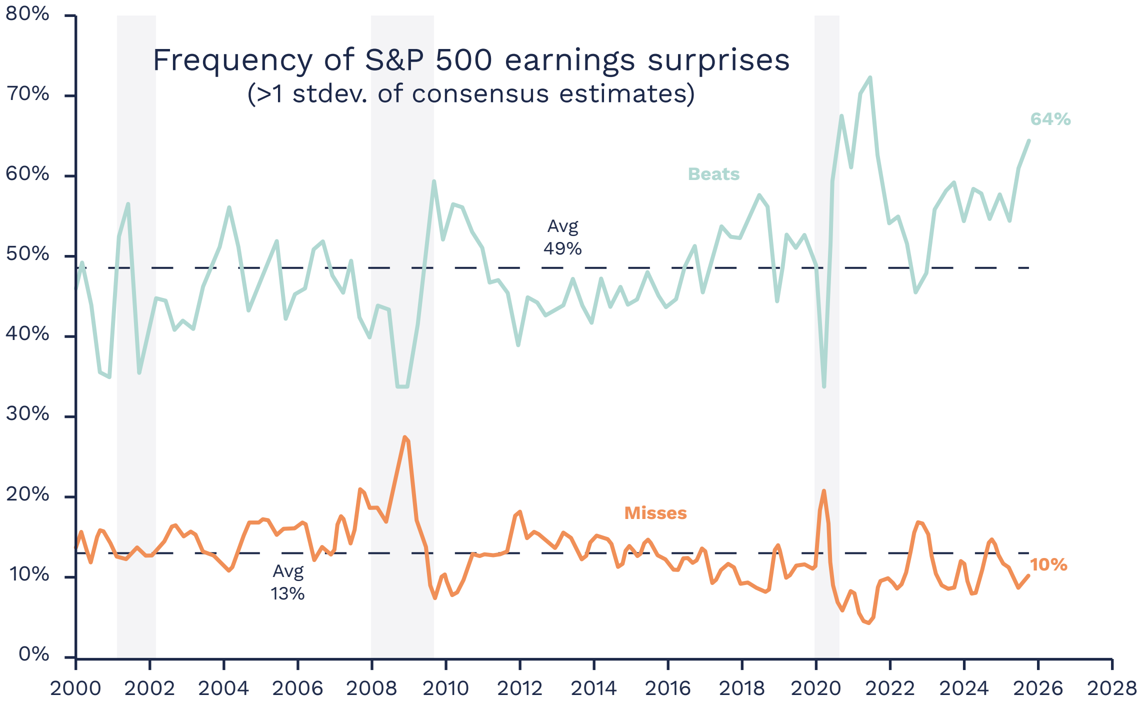
Outside of Government bonds, a series of high-profile bankruptcies in the U.S. prompted JP Morgan Chairman and CEO Jamie Dimon to warn, "When you see one cockroach, there are probably more", highlighting concerns about hidden risks in the private credit market, which has ballooned in recent years. Not surprisingly, it was a more muted month for credit markets, and while returns were positive, high yield lagged investment grade credit, with some slight spread widening over the course of the month.

Japanese equities led global equity markets, rising by more than 6%, with the confirmation of Sanae Takaichi as the country's Prime Minister acting as the catalyst to boost the market. Investors expect the new Prime Minister to pursue expansionary fiscal and monetary policies, which is seen as a continuation of the successful policies of one of her predecessors, Shinzo Abe. This also drove some weakness in the Japanese yen, which provided a further boost to the nation's exporters.

Strong performances from Korea, Taiwan, and Argentina helped drive emerging market equities higher over the month, and constructive progress on trade discussions between China and the U.S. proved particularly beneficial for the North Asian countries, which are heavily integrated into the global technology chain. In Argentina, midterm election results cemented the position of the current President, Javier Milei, and led to a sharp rally in Argentine stock indices.

Once again, U.S. technology companies led U.S. equities higher over the month, with the Nasdaq outperforming broader U.S. equities by around 2%. Positive third-quarter earnings results also provided an underpin to markets, with a higher number of companies than usual reporting results which exceeded expectations. Market concentration remains a keenly watched feature with ongoing investor interest in AI continuing to propel related stocks and sectors higher.

THE NUMBER OF U.S. CORPORATES REPORTING EARNINGS ABOVE EXPECTATIONS IS RUNNING AT LEVELS NOT SEEN SINCE POST-COVID.



Source: Goldman Sachs Global Investment Research

European equities moved higher but lagged behind most of their international peers over the month, due to ongoing political concerns in France and limited exposure to areas that rallied globally, such as technology and commodities.

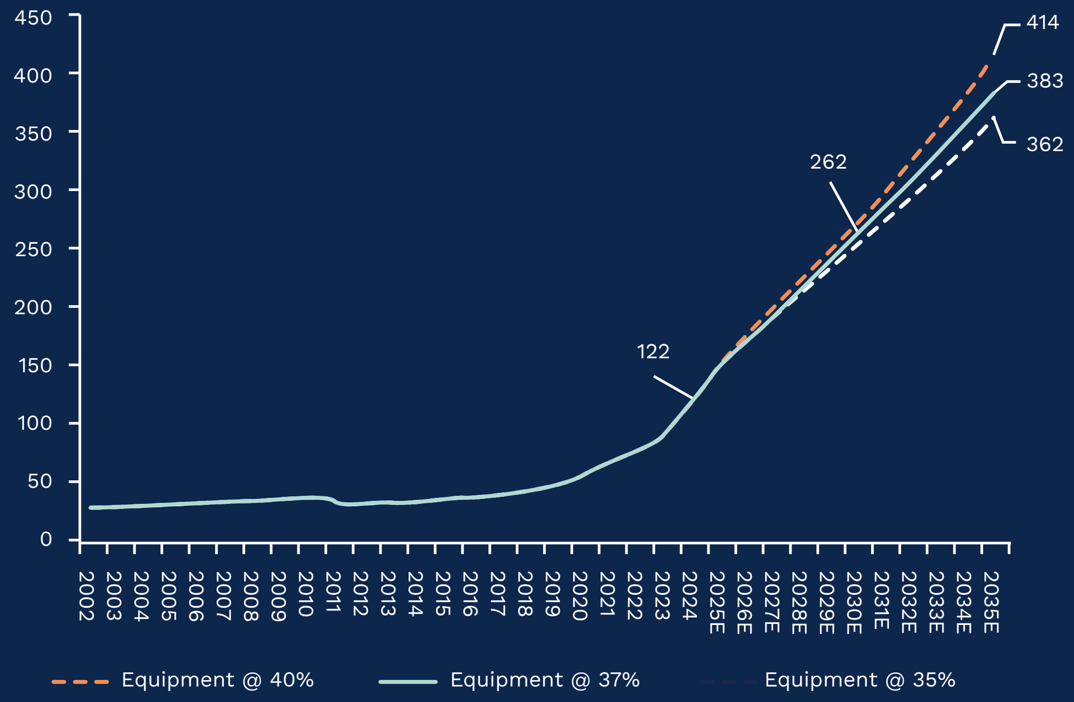
The case for defence

The ongoing war in Ukraine and regional conflicts in the Middle East, coupled with a tougher stance from President Trump on NATO spending and doubts over U.S. security guarantees, have galvanised interest in defence as an investment theme over the past couple of years. The aerospace and defence sector has been a key beneficiary of this, with stock prices rising dramatically as a result.

Despite this rally, we believe there remains a strong structural case supporting the sector, even with the re-rating in stock prices. For many years, defence spending was curtailed, leading to pronounced underinvestment, leading in many cases to a decline in military capability globally, but particularly in Europe. The world has changed, and Governments globally have committed to dramatically increasing defence expenditure.

In the case of Europe, NATO members have agreed to spend more than 2% of GDP on core defence this year, increasing to 5% of GDP on defence by 2035, a considerable shift higher. This could result in a near 3.5x increase in defence procurement by 2035. In turn, this lays a strong foundation for the fundamentals in the defence industry on a multi-year view, where revenue growth could run at double digits annually over the next decade.

\ DEFENCE EQUIPMENT SPENDING FOR EUROPEAN NATO MEMBERS COULD REACH BETWEEN €362 AND 414 BILLION BY 2035, FROM €122 BILLION IN 2024



Source: Rothschild & Co Redburn, NATO

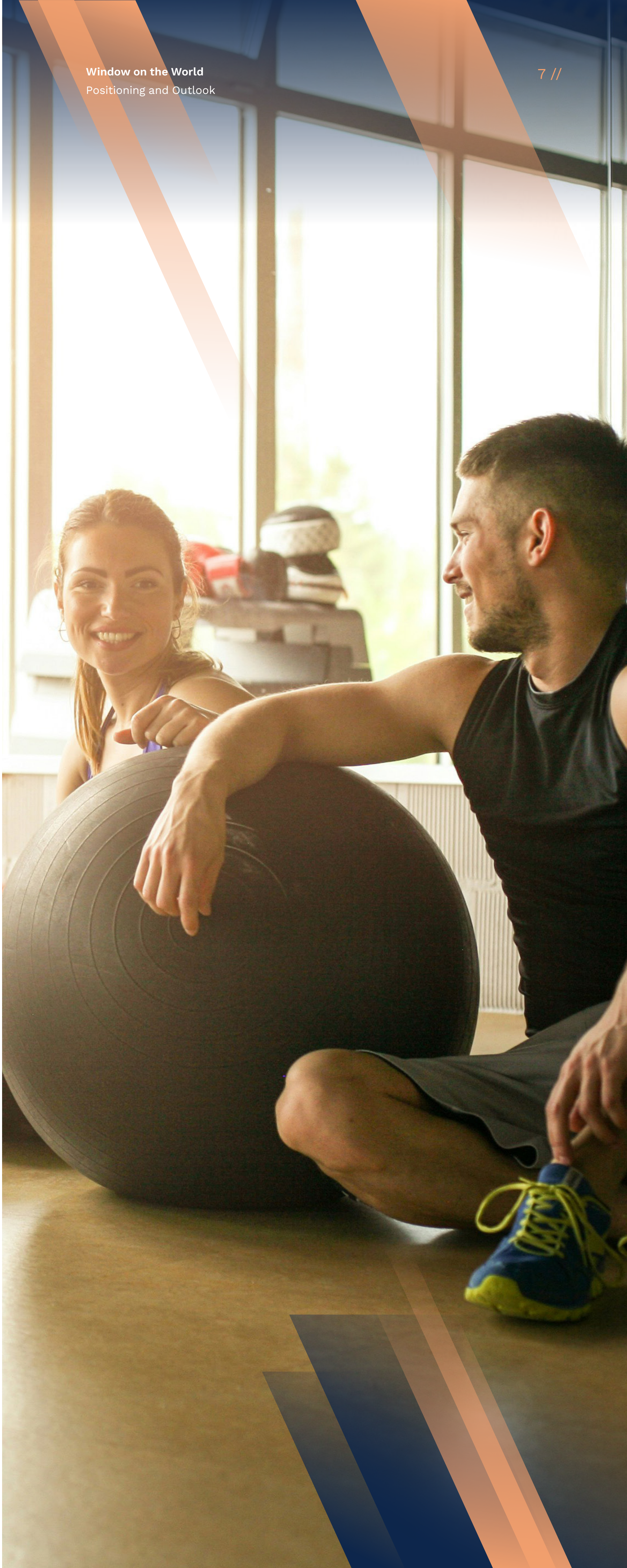
In a world which now openly questions whether the U.S. will defend its allies unless defence spending is increased, countries have responded by offering longer-term commitments to raise their defence spend, making it a strategic imperative and no longer an optional decision. Consequently, this increase in expenditure is structural rather than cyclical in nature. In practice, this means that companies in the space are likely to trade at higher multiples with the establishment of national champions, which we believe represents a multi-year theme for long-term investors.

Unsurprisingly, attitudes toward the sector have evolved, with regulatory support for defence investment bolstered and it increasingly being seen as a public good. In the U.K., the FCA has specifically stated that none of its rules around sustainability prevent investment in the sector, with the German Government also outlining a similar stance in its sustainable finance regulation. Do get in touch if you would like to understand further how we are positioned in the area across our portfolios.

Positioning and outlook

The negative headlines surrounding tariffs have created uncertainty, which still persists albeit to a lesser degree. However, investors have looked beyond this noise and focused on the underlying fundamentals of the global economy, where the risk of a recession has faded. This, coupled with significant enthusiasm for AI, has helped drive a solid performance from equity markets year to date. There are, though, some signs of froth in parts of the technology space, where valuations are stretched, and as such, the prospect of more market volatility has risen. This leads us to remain focused on those areas and regions where valuations are less demanding; consequently, within equities, we retain a preference for the 'rest of world' over the U.S. In fixed income, we remain cautiously positioned, focusing on U.K. Government bonds and short-dated credit.

Rory Smith
Chief Investment Officer



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