



Asset Allocation Outlook

October 2025

- US growth remains strong
- Fed switches to cutting interest rates
- Markets in optimistic mood
- Equity allocation in line with strategic weight

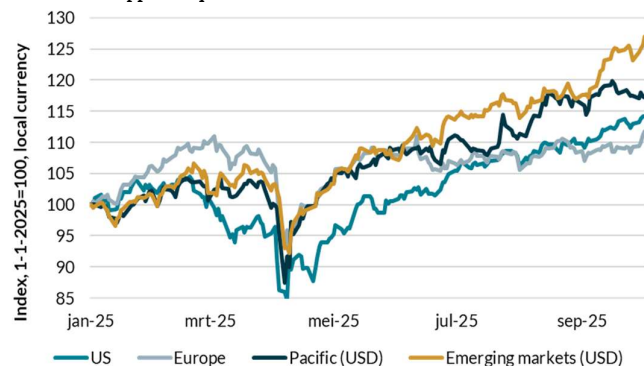
Financial markets remained in optimistic mood in September. Equity markets noted gains, with emerging markets leading the way. A sound upturn was visible in the US as well. It was the fifth month in a row in which US equities earned positive returns. The Pacific region and Europe climbed by smaller amounts. Real estate and commodities were up too, albeit by less than equities. Spreads on credits remained at historically tight levels; spreads on emerging market debt contracted. This optimism is primarily being driven by persistent growth in the US, which is in turn positive for earnings expectations. The limited impact – so far – of the trade war on the economies in the Eurozone and emerging markets is also helping. As are the Fed's cut to interest rates and the prospect of further cuts.

effects of the trade war are still only visible to a minor extent, but equities have greatly anticipated this and are pricing in a scenario of positive growth and inflation. We continue to hold an underweight in US investment grade credits and overweights in Eurozone investment grade credits and Eurozone government bonds.

US economy seemingly unstoppable

Political turmoil in various forms, high and even additional import tariffs and a central bank that continues to pursue a restrictive interest rate policy. And yet the US economy keeps on growing. Based on the economic data over the third quarter published so far, the Atlanta Fed predicts growth of 3.9% versus the previous quarter. According to US tradition, this is an annualised figure. If the economy were to grow at this pace in four quarters, this means growth of 3.9% over a year. This rate of growth is far above the trend rate for the US. The data over the first six months of 2025 have been revised. The new data still contain significant fluctuations due to businesses anticipating the import tariffs, but the growth in final domestic demand (economic activity excluding foreign trade and the build-up of stocks) turned out to be higher than previously estimated. There remains a visible slowdown in growth from an average of 3.3% annualised quarterly growth in 2023 and 2024 to 1.9% in the first half of 2025, but this slowdown is less pronounced than in the data published earlier in the year. It was mostly an upturn in consumer spending in the second quarter that pushed up the figures, although a sharp increase in investment in infrastructure for artificial intelligence contributed as well.

Tech sector supports equities

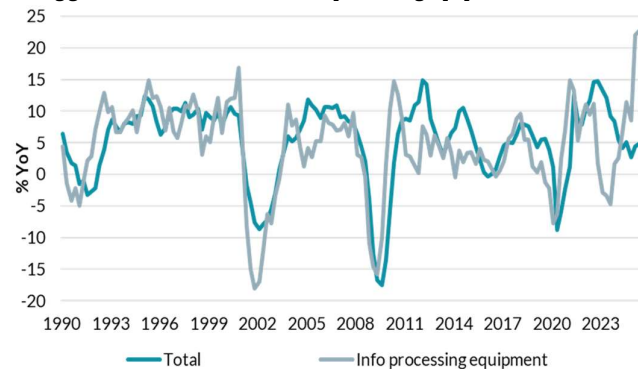


Source: Van Lanschot Kempen, LSEG

We've retained our neutral position in equities. US growth was better than expected in the third quarter and the

We believe the US will be unable to keep up such a high rate of growth. Investment in data centres will remain high. The major builders of these, the so-called hyperscalers, including Alphabet, Amazon, Meta, Microsoft and Oracle, have shown themselves determined not to lose this race. Yet growth in this investment will decline: this year the hyperscalers are expecting growth of almost 30%, in 2026 the figure will be just 10%.

Strong growth in US investment in info processing equipment



Source: Van Lanschot Kempen, LSEG

As far as consumers are concerned, the signs are mixed. Nominal income growth has declined compared to the high levels of 2023 and 2024 but remains respectable at 4.7% in August. Stubborn inflation is taking a substantial bite out of this though. Growth in real disposable income stood at 1.9% in August. Income trends have been especially moderate since May. This is related to the cooler job market. Consumers are worried about this and about inflation. Consumer confidence declined in September according to two major surveys and remains weak. This weak confidence hasn't affected the growth in consumer spending yet. In fact, this growth has recently accelerated, at the expense of a lower savings ratio. The latter is low (4.6%), certainly by European standards.

The slowdown on the job market has persisted. In the six months up to and including August, employment grew by an average of 64,000 new jobs per month. This is the lowest rate of growth since December 2010 when the economy was still recovering from the financial crisis. Excluding jobs in the public sector and healthcare, job growth has largely come to a complete standstill. The declining dynamics on the job market can also be seen from the smaller number of unfilled vacancies and smaller number of employees voluntarily resigning from their jobs. Unemployment rose for the second consecutive month in August to 4.3% but remains low.

The declining dynamics on the job market aren't just coming from the demand side. Although the data are erratic, we can see a downward trend in the growth of the working

population. This is due to declining population growth, but recently also to the Trump administration's anti-immigration policy. Immigration has dropped sharply, and the number of deportations has increased. The limited number of jobs linked to the operation of data centres for artificial intelligence could have contributed to the disconnect between economic growth and employment growth too. The scarcity on the supply side of the job market is certainly making businesses cautious about laying off workers. The low number of weekly jobless claims likewise points to a job market that is reasonably in balance, albeit at a lower level than before.

In the meantime, the political turmoil persists. Republicans and Democrats failed to reach agreement on the budget before the 30 September deadline. The upshot is a partial shutdown of the federal government. This includes national parks, passport offices, research institutes and statistics bureaus. The army, air traffic control, border forces, prisons and postal services continue to operate, as do Medicare, Medicaid and Social Security. The latter because these come under expenditure enshrined in law. Non-essential federal workers have been placed on leave, while essential federal employees will continue to work but only be paid once the shutdown has ended. This type of shutdown has a negative effect on the economy. How big an effect of course depends on the length of the shutdown, but it's generally minor. This is mainly because employees receive their salaries in retrospect. President Trump has threatened mass redundancies among federal workers in the event of a shutdown. This would increase the negative impact, but we need to wait and see whether this threat will indeed be carried out. In contrast to the debt ceiling being reached, a US government shutdown has no direct consequences for the bond market. The US government can keep issuing bonds to cover the budget deficit.

Acceleration in growth in the Eurozone?

Italy's central bank has a similar indicator for the Eurozone to the one used by the Atlanta Fed for the US. This €-coin indicator closely mimics growth and points to an acceleration in the third quarter to growth of 0.5% versus the second quarter. The Eurozone economy grew at a faster rate in the first quarter of this year, but this was mainly due to a strong increase in exports in the run-up to the US trade war. In the second quarter, when the effect of the trade war had partially reversed, Eurozone growth dropped back to 0.1%. Growth of 0.5% per quarter is robust for the Eurozone and the signal issued by the €-coin indicator is therefore a surprise.

An acceleration in retail sales since August 2024 could be one explanation for this. High wage growth following the wave of inflation after the coronavirus pandemic and

declining inflation have helped consumers. Yet a sharp downturn was visible in retail sales in July. The tailwind from the significantly higher wages and declining inflation is in fact now abating. Households in the Eurozone accrued sizeable savings during the coronavirus pandemic, but with consumer confidence pointing to stagnating retail sales, it's unclear whether these savings are now being spent.

The Eurozone economy has nevertheless shown itself to be resilient following the introduction of high US import tariffs. And the most recent tariffs, for example on pharmaceutical products, don't apply to the European Union because the US and EU reached a deal in which a general tariff of 15% applies. The only exception here is for steel and aluminium. These are affecting industry. In September, the purchasing manager index (PMI) for this sector fell to 49.8, which points to contraction and completely cancels out the upturn in August. Order book levels remain low at industrial companies in the Eurozone. September's unexpected downturn in Germany's Ifo index also fits in with the series of data pointing to moderate growth.



The service sector, which makes up about 70% of the European economy, appears to be doing better again. The PMI there climbed to 51.4 in September. France's service sector index remains weak, which may be related to the political situation.

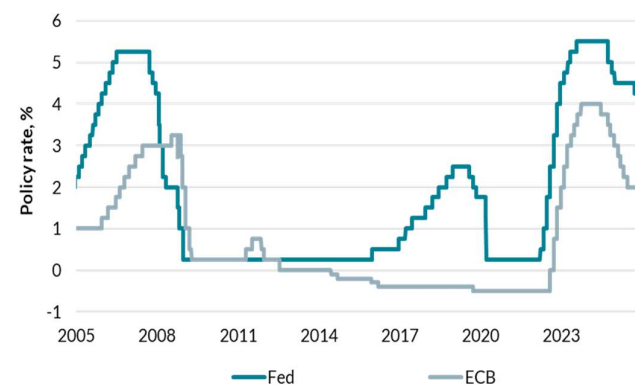
Overall, we anticipate growth in the Eurozone. The interest rate cuts implemented by the ECB will help. Whether growth will accelerate depends in part on the impact of the fiscal spending plans in Germany.

Fed cuts interest rates, more cuts to come

After the annual meeting of Fed governors in Jackson Hole in August, it came as no surprise when the Fed reduced interest rates by 0.25 percentage points in September. This followed a pause of nine months. During those months, the

central bank observed an economy that was holding up well and decided to wait and see how much US import tariffs would affect inflation. Headline inflation stood at 2.7% and core inflation at 2.9% in August. The rate of inflation hasn't come down this year on balance. Goods inflation has increased slightly but less than had been feared in view of the tariffs. According to Fed Chair Powell, it's reasonable to assume that the higher inflation is temporary. After all, this is a one-off increase in tariffs. Or rather, a limited period within which tariffs have been raised. Yet Powell also mentioned the risk of tariffs pushing up inflation for longer, which means there's an upward risk for inflation. The weaker job market data were therefore the deciding factor in cutting interest rates. These data increased the downside risk for the economy and prompted the Fed to cut interest rates in September. Interest rates were still viewed as moderately restrictive at the time.

Fed resumes rate cuts, ECB on hold



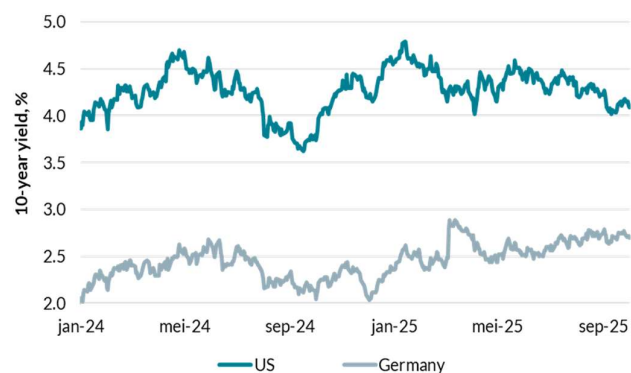
It was interesting to see that the two policymakers appointed by Trump and who deviated from the majority in July by arguing in favour of a cut to interest rates voted in line with the majority this time. Nor did the two erstwhile dissidents stand out in the projections for the rest of this year, in which nine of the nineteen members of the policy committee foresee a further two interest rate cuts. This provides some reassurance about the Fed's independence. There was still one policymaker with a sharply different opinion though. Stephen Miran, a former economic advisor to Trump and temporarily appointed to a vacant position, voted in favour of a rate cut of 0.5 percentage points. And Miran is also likely to be the policymaker who argued in favour of a further five cuts to interest rates this year (the estimates for growth, inflation and interest rates are anonymous). It's hard to take this seriously though.

Looking ahead, the two further interest rate cuts predicted by the biggest group of policymakers this year could well materialise. Markets are pricing in these cuts as well. Yet for these to happen the rate of inflation will need to stay low

and the job market will need to slow slightly more. This is because the Fed's heart isn't really in these cuts. Powell talked of risk management on cutting interest rates, which doesn't immediately point to a series of cuts. Moreover, seven policymakers don't want to cut rates any further this year and two only expect one further cut. The five interest rate cuts that markets are pricing in up to the end of next year are at the upper end of the bandwidth indicated by policymakers. We find this on the aggressive side.

As a result, we believe there's little potential for long-term bond yields to come down in the US. Ten-year bond yields have fallen towards 4% in the last few months, which we view as about the lower limit for the coming months. If the Fed cuts interest rates further, short-term yields will come down too, which will generate a steeper yield curve.

Limited potential for lower US and German yields



Source: Van Lanschot Kempen, LSEG

In the Eurozone, headline inflation climbed to 2.2% in September. This is a slight increase from the trend rate of 2.0% in recent months. Core inflation remained stable though at 2.3%. However, inflation in the service sector rose slightly to 3.2%. A debate has arisen in the last few weeks on the ECB's pause in cutting interest rates. This is partly because in its projections the ECB anticipates core inflation falling to just below the target rate of 2% in 2026 and 2027. We think it's premature to conclude that the ECB will need to cut rates further to stop inflation from dropping too far. Firstly, at least some of the interest rate cuts the ECB has already implemented have yet to have an effect on economic growth and inflation. Then there's the large-scale fiscal stimulation in Germany that will boost growth to some extent. We don't expect any increases to policy interest rates either, which leads us to anticipate little movement in German 10-year bond yields.

Positive mood on the markets

We referred to the positive mood among investors in the introduction. The recent performance of emerging market equities is particularly noticeable in this respect. Since the

start of this year, out of the larger countries the equity markets of Korea (+34%), Mexico (+29%) and Brazil (+22%) have displayed sizeable upturns measured in local currency. China (+14%) and Taiwan (+12%) have performed in line with Europe (+12%), while India has underperformed at 3.5%. These are remarkable gains. After all, Brazil, India and China face high US import tariffs. In most of the emerging markets for which a PMI for industry is available, this was down in September. The index in most of these countries is also pointing to contraction. In contrast, the GDP-weighted average continues to point to moderate growth. China is still having to contend with moderate domestic growth. Consumers are taking it easy, and investment is being squeezed. The new government policy aimed at tackling the fierce competition in industry is unlikely to be much help. China's real estate sector is still in crisis. Earnings are barely growing. There is, however, optimism about developments in artificial intelligence in China, which is giving tech companies there a boost. Korea is profiting from the presence of Samsung. Yet expected earnings growth has ground to a halt overall in the Korean equity market. In Brazil, expected earnings have fallen by almost 7% since the start of the year; in Mexico they remain unchanged. We don't view the rally in emerging market equities as a reason to increase our allocation to this asset class.

Improved earnings dynamics and the fact that the Fed has reverted to cutting interest rates have had a positive effect on US equities. Yet the US market has anticipated this positive scenario of sound growth and low inflationary pressure by increasing valuations. Import tariffs could still drive prices upwards, which would then put the number of Fed interest rate cuts under pressure. Earnings dynamics remain weak in Europe, waiting for an acceleration in economic momentum. On balance, we hold a neutral position in equities. This is in line with the strategic weight for the longer term.

In our opinion, spreads on both investment grade and high yield credits are tight. We don't expect a high number of defaults or insolvencies, but spreads only need to widen by a small amount for credits to underperform versus government bonds. Within credits, we prefer investment grade credits from the Eurozone. Corporate balance sheets are generally slightly more robust and banks are in good shape in Europe. Furthermore, European investment grade credits are marginally less sensitive to interest rates than their US counterparts. Finally, spreads account for a larger portion of the total interest compensation in Europe.

We hold a neutral outlook for real estate and commodities. The oil price has been in a gentle downward trend for years now. Supplies are adequate and moderate growth in China and global industry, as well as the transition to alternative energy sources, mean that growth in demand is low. For an

upturn in metals, we would mostly like to see stronger growth in China. The price of gold stabilised between April and August but has since resumed its upward path. Central banks continue to buy gold. Interest rate cuts by the Fed have provided a further boost. The turbulent political climate in the US, resulting in the temporary closure of many government bodies, has shored up the gold price. Nevertheless, gold is now extremely expensive compared to e.g. bond yields or oil.

Gold rallies again, lower oil price



Source: Van Lanschot Kempen, LSEG

Tactical outlook

Asset class	
Equities	Neutral
The mood was positive on the equity markets in September. The MSCI global equity index, listed in US dollars, climbed by 3.5%. Emerging markets led the way at an upturn of 7.0%, followed by the US at 3.5%, both in US dollars. The Eurozone lagged behind these regions at 1.5% in euros, while the Pacific region was up by 0.9% in US dollars. We retain a neutral outlook for this asset class. Economic growth is holding up better than expected and the Fed is cutting policy interest rates, but markets have risen quickly against this background and there's still uncertainty about the outcome of the trade war, with potentially more inflationary pressure in the US. Earnings dynamics have improved in the US but remain weak in Europe. We think the weaker earnings dynamics in emerging markets are at odds with the sharp upturn in equities.	
Government bonds	Overweight
The Fed's cut to interest rates in September didn't come as a surprise. Nor did the fact that many of the policymakers anticipate a further two cuts. US 2-year bond yields were largely unchanged in September. Ten-year yields declined marginally but stayed just above 4%. We think the Fed will cut rates further this year. Weaker job market data will be the deciding factor here. For next year, we find the number of rate cuts expected by the market to be rather aggressive. If these expectations are adjusted, this will push up 10-year yields. US yields may appear attractive, but hedging the exchange risk is relatively expensive. This is why we don't hold any US government bonds in the portfolio. In the Eurozone, the ECB's cycle of interest rate cuts has ended for the time being. Moderate economic growth and inflation at about the ECB's target rate mean that no further cuts to interest rates are being priced in. We view this as reasonable as the ECB has already implemented a series of cuts and the effects are already becoming visible. We think there's little capacity for lower 10-year bond yields in Germany given the country's more expansive budgetary policy. Our small overweight in government bonds is mainly driven by the tight spreads on credits.	
Investment grade credits	Underweight
Spreads on investment grade credits in the US and Eurozone remained virtually unchanged in September, just like they did in the preceding months. The picture of historically tight spreads therefore persists. Low growth without a recession and inflation coming down traditionally create a climate in which investment grade credits flourish. Yet we think the spreads on credits are too tight in US dollars and have therefore retained our underweight in the US. In the Eurozone, spreads are less tight in relative terms and on top of this spreads account for a larger portion of the total interest compensation. Moreover, corporate balance sheets are slightly more robust in the Eurozone and balance sheets in the European banking sector have also been strengthened. This is why we still prefer investment grade credits to government bonds in the Eurozone. The underweight in the US is bigger than the overweight in the Eurozone and we therefore hold an underweight overall in this asset class.	
High yield credits	Underweight
Spreads on US high yield credits likewise remained almost unchanged in September, while those on their Eurozone counterparts tightened by 11 basis points. Spreads are historically tight in both the US and Eurozone, far below the average of the past five years. Even if the US and European economies continue to grow over the coming quarters, we still view the spreads as too small. This is because companies will also face higher interest charges. The default rate has declined in Europe but remains high when viewed historically. Furthermore, we know that if the solid sentiment on this market deteriorates, the liquidity of these bonds will quickly dry up and spreads will widen. The tight spreads mean there's also less upward potential for high yield credits than for equities.	
Emerging market debt	Neutral
Spreads on emerging market debt issued in US dollars tightened by 14 basis points in September. Combined with a small downturn in underlying yields on US government bonds and coupon payments, this led to a positive result. Growth in emerging markets is holding up well enough on average but being squeezed by the trade war. The uncertainty for these countries derives primarily from the US government. The desire for a weaker US dollar isn't negative, but US tariffs could lead to weakening growth dynamics. The interest compensation on a basket of emerging market debt issued in local currency remained unchanged in September. Markets were looking at the options open to central banks in emerging markets for cutting interest rates in the event of lower growth. Yet in the case of a marked slowdown in growth, interest rates in these countries could in fact rise if investors demand higher risk premiums. We think average interest compensation of 5.9% is low in general versus yields in developed countries. Moreover, local currencies could be squeezed by the US import tariffs.	

Asset class

Listed real estate

Neutral

At 0.7% (in euros), global real estate in developed countries noted smaller gains than global equities. This asset class climbed in the US and traded flat in Europe. Now that there's greater clarity surrounding Trump's trade policy, real estate has reverted to moving more in line with interest rates. Since the picture for interest rates underwent a reversal in August thanks to Fed Chair Powell's speech at the conference in Jackson Hole, markets have priced in a large number of interest rate cuts in the US. As a result, for the first time US real estate was able to recover to above the levels of early April. In Europe, market interest rates were largely unchanged in September. US trade policy is having a mostly deflationary effect on the Eurozone, although there's also pressure on yields from Germany's higher fiscal expenditure. We retain our neutral outlook for this asset class. Vacancy levels have increased slightly, especially in the US. In the long term, however, rental growth in real estate will be boosted by a smaller supply of new properties. Greater inflationary pressure and in turn pressure on yields in the US deriving from the import tariffs is a risk. In Europe, we see little potential for yields coming down from present levels following previous announcements of fiscal expansion in Germany. We think global real estate valuations are expensive compared to interest rates, while Europe has a neutral valuation.

Commodities

Neutral

The Bloomberg general commodity index climbed slightly in September. This upturn was primarily driven by the higher price of gold. The gold price is at a historical high. The increase was partly due to the cut to US interest rates, persisting geopolitical instability and uncertainty surrounding the position of the US dollar caused by Trump's fickle policies. We believe that the price of gold is mainly being shored up by demand for gold via the gold purchases of central banks, in addition to extra gold purchases by investors (via ETFs). It's impossible to predict how long this will persist. Gold is an interesting investment at times of uncertainty but given its high price a large amount of uncertainty and/or lower interest rates have already been priced in. Oil prices remained relatively stable in September. Although geopolitical risks could push up the price of oil in the short term, we expect structural trends to have a downward effect on oil prices in the long term, with higher production by OPEC+ countries and a slowdown in the global economy and trade. Metal prices remained reasonably stable. In the shorter term, there's a slowdown in (Chinese) economic growth, with a downward effect on demand for metals and on prices. In the longer term, copper looks especially well positioned for structural trends such as the energy transition and AI.

Market review

Equities

	Index	Past month	Past 3 months	From 31-12-2024
Global (MSCI AC)	1346	3.5%	7.3%	17.1%
Developed markets (MSCI World)	4307	3.1%	7.0%	16.2%
Emerging markets (MSCI EM)	1346	7.0%	10.1%	25.2%
United States (S&P 500)	6688	3.5%	7.8%	13.7%
Eurozone (EURO STOXX 50)	558	1.5%	3.1%	10.0%
United Kingdom (FTSE 100)	9350	1.8%	6.7%	14.4%
Japan (Topix)	3138	2.0%	10.0%	12.7%
Netherlands (AEX)	943	5.1%	3.2%	7.3%

Government bonds (10-year)

	Yield (%)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	4.15	-8	-8	-43
Japan	1.65	4	23	57
Germany	2.71	-1	12	35
France	3.53	2	26	35
Italy	3.56	-5	7	4
Netherlands	2.87	-4	7	27
United Kingdom	4.70	-2	21	13

Investment grade credit

	Risk premium (bp)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	76	-4	-10	-6
Eurozone	78	-5	-13	-23

High yield bonds

	Risk premium (bp)	Past month (bp)	Past 3 months (bp)	From 31-12-2024 (bp)
United States	280	-2	-16	-12
Eurozone	272	-11	-38	-39
Emerging markets (USD)	284	-14	-38	-41
Emerging markets (Local currency)	219	-3	-3	17

Real estate

	Past month	Past 3 months	From 31-12-2024
Global	0.6%	3.5%	8.2%
North-America	0.5%	3.6%	1.7%
Europe	-0.1%	-5.2%	0.8%

Commodities

	Past month	Past 3 months	From 31-12-2024
Bloomberg index	1.8%	2.6%	5.9%
Base metals	3.3%	-0.9%	4.9%
Brent oil (USD per barrel)	67.08	-1.6%	-10.2%
Gold (USD per troy ounce)	3834	11.4%	16.7%

Returns in local currency

bp = basis point (0.01%)

Data as of 30 September 2025

Source: LSEG, Van Lanschot Kempen

Author

Joost van Leenders
Senior investment strategist
j.vanleenders@vanlanschotkempen.com
M +31 6 82 83 11 89

Van Lanschot Kempen Investment Strategy & Tactical Asset Allocation

Pieter Heijboer – Head Investment Strategy
Luc Aben – Chief Economist
Joost van Leenders – Senior investment strategist
Jorn Veeneman – Senior investment strategist
Danny Dekker – Investment strategist

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INVESTMENT MANAGEMENT

Beethovenstraat 300
1077 WZ Amsterdam
Postbus 75666
1070 AR Amsterdam

T +31 20 348 80 00
vanlanschotkempen.com/investment-management