Market Review

Quarterly Report

Q3 2025

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Key Indicators at a Glance

Index (Local Currency)		Q3	YTD
Equities		Total Return	
UK Large-Cap Equities	FTSE 100	7.52%	17.70%
UK All-Cap Equities	FTSE All-Share	6.87%	16.58%
US Equities	S&P 500	8.12%	14.83%
European Equities	EURO STOXX 50 Price EUR	4.51%	15.38%
Japanese Equities	Nikkei 225	11.79%	14.68%
EM Equities	MSCI Emerging Markets	10.64%	27.53%
Global Equities	MSCI World	7.27%	17.43%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	-0.62%	1.87%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	-2.39%	-1.95%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	-1.32%	-1.89%
UK Index-Linked Gilts Over 15 Ye	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	-3.28%	-6.40%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	-0.22%	0.28%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	1.51%	5.36%
EM Gov Bonds (Local)	JP. Morgan Government Bond Index Emerging Markets Core Index	2.75%	15.05%
EM Gov Bonds (Hard/USD)	JP. Morgan Emerging Markets Global Diversified Index	4.75%	10.66%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	0.86%	4.47%
European Corporate Investment	Bloomberg Pan-European Aggregate Corporate TR Unhedged	0.66%	2.19%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	1.83%	4.17%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	2.60%	6.88%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2.54%	7.22%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	-1.65%	-5.18%
GBP/USD	GBPUSD Exchange Rate	-2.08%	7.43%
EUR/USD	EURUSD Exchange Rate	-0.45%	13.33%
USD/JPY	USDJPY Exchange Rate	2.69%	-5.92%
Dollar Index	Dollar Index Spot	0.93%	-9.87%
USD/CNY	USDCNY Exchange Rate	-0.59%	-2.44%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	3.66%	19.74%
Private Equity	S&P Listed Private Equity Index	1.71%	4.44%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	5.68%	9.77%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	6.30%	3.85%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	-2.69%	-6.17%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-0.87%	-10.21%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	-4.43%	-9.08%
Gold	Generic 1st Gold, USD/toz	16.12%	45.43%
Copper	Generic 1st Copper, USD/lb	-3.45%	20.61%
Gold	Spot gold price quoted in USD per troy ounce	16.83%	47.04%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	1.26%	0.06%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	4.01%	-16.41%
Arabica Coffee	Front-month ICE Coffee "C" Arabica futures contract	22.20%	17.23%
Sector Indices			
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	7.78%	22.15%
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	9.36%	4.74%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	-2.90%	2.04%
S&P 500 Health Care	S&P 500 Health Care sector	3.27%	1.20%
S&P 500 Financials	S&P 500 Financials sector	2.86%	11.49%
S&P 500 Energy	S&P 500 Energy sector	5.26%	4.27%
S&P 500 Industrials	S&P 500 Industrials sector	4.56%	17.07%
S&P 500 Utilities	S&P 500 Utilities sector	6.84%	15.13%
S&P 500 Communication Service	S&P 500 Communication Services sector	11.82%	23.69%
S&P 500 Real Estate	S&P 500 Real Estate sector	1.72%	3.47%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested.

Executive Summary

- Dorset performance was **+4.8% versus a strong benchmark +6.1% in the third quarter**. Over 1 year Dorset is +10.1% versus +14.0% benchmark. Although our performance lags benchmark, these are **exceptionally strong benchmarks returns** in a stretched equity market and some of these underperformance issues are quite commonplace among managers today. That said there are two factors to take note of: firstly, we are lagging the benchmark over all the longer term time periods, but secondly and more comforting, the returns the fund has achieved have all been in excess of the discount rate in the range of a very acceptable 7.5-10%.
- At the last quarterly meeting, Dorset took **a historic decision to join the LPPI Pool**, along with 5 other Brunel client funds. I have confidence that LPPI has already been operating in line with the government's Fit for the Future consultation, and is best placed to deliver the outcomes that Dorset requires.
- The **priority is a smooth transition of the assets by April 1st 2026**. Operationally, the transition is not straightforward because 6 Brunel clients are going to LPPI, 3 to Central and 1 to London CIV. The untangling of the Brunel Partnership has many legal and operational complexities. Multiple parties…..Dorset, the Brunel clients, LPPI and Brunel itself….have to manage the transition such that it is equitable and low-cost. I advise the Pension Committee to seek assurances from the Dorset officers, LPPI and Brunel that this interim transition period is being managed with appropriate care.
- As mentioned above, equity market have been very strong, in a **US-driven AI bubble**. This has been likened to the internet bubble of 1999/2000 and the similarities are striking. The difference this time is that the mega-cap US technology protagonists are highly profitable, which was not true in 2000. However they are making eye-watering investments in developing AI capability, and the pay-off is very unclear. I continue to be nervous about this. Via Brunel and their managers, we are underweight the big US tech companies, and I do not believe we have much, if any, exposure to the smaller company speculative end of the AI bubble. I expect a correction, until the future profits from AI become clearer. In the meantime if AI corrects, then funds like Low Volatility should prove defensive.

- Within the Brunel portfolios, we have a **7% exposure to Brunel Global Smaller Companies** fund which is having ongoing performance issues, specifically in the last 12 months the index is +13.7% but the Brunel portfolio is only +4.0%. This is very disappointing, especially as we have been anticipating that smaller companies would start to perform better; they have but we haven't participated. Too much exposure to cheaper European small companies, and too much "quality" is given as the reason. One manager excludes Mining stocks which have been top performers. If the under-performance relates back to the earlier speculative issues around AI, then they can be partially forgiven as this will no doubt reverse at some point, but we should ask Brunel for clear explanations.

- The **UK budget** will have been delivered by the time of the Committee meeting and there is much speculation at the time of writing, so I will hold off comments on the UK's challenging fiscal position until the meeting.
- We are starting to work on Dorset's **Strategic Asset Allocation** with LPPI following the conclusion of the 2025 triennial valuation. LPPI already offer this service for existing clients in line with Fit for Future.

General Market Commentary on Q2

- The third quarter of 2025 was eventful, with a combination of market euphoria and macro-economic fragilities intertwined. Q3 started with optimism: AI-driven equity rallies, a fragile US–China trade truce, and a global economy that was still expanding, if unevenly. The quarter ended with the main stock indices having hit all-time highs, the US government shutting down, sovereign CDS spreads widening, and geopolitical tensions simmering. Risk assets were rewarded over the period, while Gilts and sterling were weak. Eurozone held rates steady at 2% throughout the quarter. In contrast, the BoE made one 25bps cut in August, bringing its policy rate to 4%. Meanwhile, the Federal Reserve made its first rate cut since 2024 in September by lowering the federal funds rate by 0.25% to a range of 4.00%–4.25%. US CPI remained stable at 2.7 and 2.9% in July and August, respectively. In comparison, UK CPI averaged 3.8% over the same period, while the Eurozone maintained a relatively low average of 2.1% through the quarter. The Dollar Index rose slightly by 0.9% during Q3, though it remains down 9.9% YTD. The pound depreciated 1.7% against the euro and 2.4% against the dollar. The US economy maintained stable annual GDP growth of 2.1% in Q2. The UK economy saw a slight slowdown, with annual GDP declining to 1.4% from 1.7%. Meanwhile, the Eurozone experienced a modest decline in momentum with annual GDP growth falling to 1.5% from 1.6%. Japan, however, maintained a steady annual GDP growth of 1.7% over the quarter. The US composite PMI increased slightly from 52.9 to 53.9 over the quarter.
- Equity markets delivered strong returns across the board. The S&P 500, Nasdaq, Dow Jones, and Russell 2000 all reached new peaks, with 15 of the G20 countries' main indices hitting record highs, including the FTSE 100, Nikkei 225, CAC 40, and BSE Sensex, while market concentration, notably in U.S. tech, became even more pronounced. AI optimism also drove the Hang Seng Tech Index up by 22.1% and Taiwan's tech-heavy market up by 14.7%. Global equities the quarter by +7.3% (+17.4%. YTD), led by the Nikkei (+11.8%, +14.7% YTD), emerging markets (+10.6%, +27.5% YTD), the US (+8.1%, +14.8% YTD), and the UK (+7.5%, 17.7% YTD). Europe had more modest gains comparatively (+4.5%). Government bonds'

performance varied across regions. Only US (+1.5%) and emerging markets (+4.8% in dollar terms) bonds ended the quarter in positive territory, while UK (-0.6%) and Eurozone (-0.2%) bonds posted modest declines. Across the US, UK, and Europe, both high yield and investment grade credit outperformed. Bitcoin finished the quarter up +6.3% reaching $114,056 as of September 2025.

We highlight the following themes impacting investment markets:

- **Government Credit Sovereign Risk Repricing:** While financial conditions remained broadly accommodative, sovereign credit risk rose sharply. US CDS spreads climbed to levels comparable with BBB-rated sovereigns, driven by Moody's US debt credit downgrade, debt ceiling volatility, and tariff-related inflation risks. Italian and Greek spreads remained elevated but stable. France saw a rise in spreads, with their five-year CDS pricing approaching 40bps amid EU-wide fiscal concerns. Turkey, Argentina, and South Africa saw CDS spreads widen and bond yields spike (Turkey's 10Y reaching 15%). EM Debt generally was supported by dollar weakness and rate cuts. US High Yield outperformed European High Yield. CDS trading volumes rose, particularly around geopolitical flashpoints and U.S. fiscal events.
- **Mixed Signals in Europe:** Eurozone equities delivered solid gains overall in the third quarter, with strength in financials and healthcare. Banks were buoyed by strong earnings, helping lift overall market sentiment. Germany, Italy, and Spain saw encouraging expansion in their services sectors, reflecting underlying economic resilience. France, however, continues to be a source of concern. Political instability has deepened significantly: Prime Minister François Bayrou stepped down after his proposed austerity measures failed to gain parliamentary support. His successor, Sébastien Lecornu, has now resigned just 26 days into the role - the fifth prime ministerial departure under President Macron in just two years. The problems for France's economy include sluggish growth, a recent credit rating downgrade, and rising uncertainty around fiscal planning and borrowing costs. Meanwhile, foreign demand for European goods remains subdued. Export orders declined for the 28th consecutive month, underscoring persistent global trade challenges. August inflation aligned with the ECB's 2% target, though September figures are expected to come in slightly higher. However, despite headwinds from US-imposed trade tariffs, the eurozone performed better than expected, with moderate growth impacts and limited inflationary spillover.

Regional Commentary

- In the US, the Federal Reserve cut rates by 25bps in September, its first move of the year, responding to a cooling labour market and modest inflation. The S&P 500 total return was +8.1% (+14.8% YTD). Unemployment in the US edged up slightly from 4.1% in June to 4.3% in August and core inflation remained elevated at 3.1% in August. The quarter ended with a full government shutdown, triggered by a breakdown in budget negotiations, and 750,000 federal workers were furloughed. Key economic data releases were suspended. Markets rotated into safe-haven assets; gold surged, Treasury yields fell, and equity momentum paused. The Manufacturing PMI decreased to 52.0 and The Services PMI increased to 54.2 in September (both 52.9 in March).
- In Europe, the Euro Stoxx 50 delivered a strong quarterly return of +4.5%, bringing its year-to-date performance to +15.4%. In France, political reshuffling saw PM Bayrou replaced by Lecornu. Equities gained modestly (+3.3%), but fiscal consolidation remains uncertain. Meanwhile, Germany continued to underperform (-1.2%) amid industrial stagnation and weak exports. The ECB did not implement any rate cuts during the quarter, maintaining its policy rate at 2%, while core inflation averaged 2.3% over this period.
- UK equity indices rose. The FTSE All-Share rose 6.9% (+16.6% YTD), and the FTSE 100 was up 7.5% (+17.7% YTD), supported by UK companies' global exposure and a weaker sterling. Yet, 30-year Gilt yields hit their highest since 1998, reflecting inflation and fiscal concerns. The BoE implemented a 25bps rate cut in August, bringing the policy rate down to 4%, despite persistently high core annual inflation, which stood at 3.6% for the month. Labour market conditions continued to soften, with the unemployment rate rising to 4.7% in July and job vacancies declining further. Business activity also weakened, with the manufacturing PMI falling to 46.2 from 47.7 in June, while the services PMI dropped to 50.8 (52.8 in June). UK gilts posted a modest decline of 0.6%, broadly in line with the previous quarter, but long-duration gilts (15 years) saw a shaper drop of 2.39%.
- Japan was the strongest-performing developed market in Q3. The Nikkei advanced by 11.8% (+14.7% YTD), benefitting from a new U.S. trade deal and continued yen weakness. Business activity was mixed, the manufacturing PMI decreased to 48.5, whereas the services PMI increased to 53.3 from 51.7 in June. The Bank of Japan kept rates at 0.5%, following a hike earlier in 2025. GDP growth in Q2 held steady at 1.7%, unchanged from Q1.
- Emerging market equities performed well (+10.6%), delivering a YTD return of +27.5%, led by Mexico, Brazil, and India. In China, the US–China trade truce held, boosting sentiment. Chinese tech stocks (Hang Seng Tech Index) rallied 22.1% and the Shanghai Shenzhen CSI 300 Index China 300 outperformed over the quarter.
- In commodities, the S&P GSCI index was up 1.3% (YTD: 0.1%), with Brent crude ending down 0.9% (YTD: -10.2%) despite geopolitical tensions, as surplus expectations weighed on sentiment and talks of OPEC increasing supply. Natural gas fell by 4.4%. The Bloomberg

Commodity Index rose +3.7% in Q3. Gold rallied on safe-haven demand, inflation fears, and central bank easing, ending the quarter at $3,841 per troy ounce (+16.1%, YTD +45.4%). Silver: Surged to $46/oz, up 45% YTD, driven by industrial demand and structural supply deficits. Copper peaked mid-quarter then eased, ending the quarter by -3.5%. In the agricultural sector, cocoa hit record highs due to West African crop failures, while coffee & sugar supplies tightened. The arabica coffee front-month ICE Coffee "C" Arabica futures contract rose by 22.2% over the quarter.

- Global real estate shares strengthened during the quarter, with the FTSE EPRA NAREIT Global Index (GBP) rising 6.3%, bringing YTD gains to 3.9%. UK nationwide house price index rose 1.1% during Q3.
- Equity volatility remained subdued throughout the quarter, with the VIX largely holding in the mid-teens despite occasional spikes around geopolitical flare-ups and tariff headlines. Since March, markets have shown a remarkable ability to climb higher while largely shrugging off political tension, trade friction, and policy uncertainty. This steady backdrop has kept implied volatility anchored at historically low levels, a sign that investors remain confident, or perhaps a touch complacent. With equities at or near record highs and yields edging up, the current calm may not last. As ever, it may be wise to keep an eye on the VIX as experience tells us it has a habit of waking up suddenly when investors least expect it.

Charts and Data

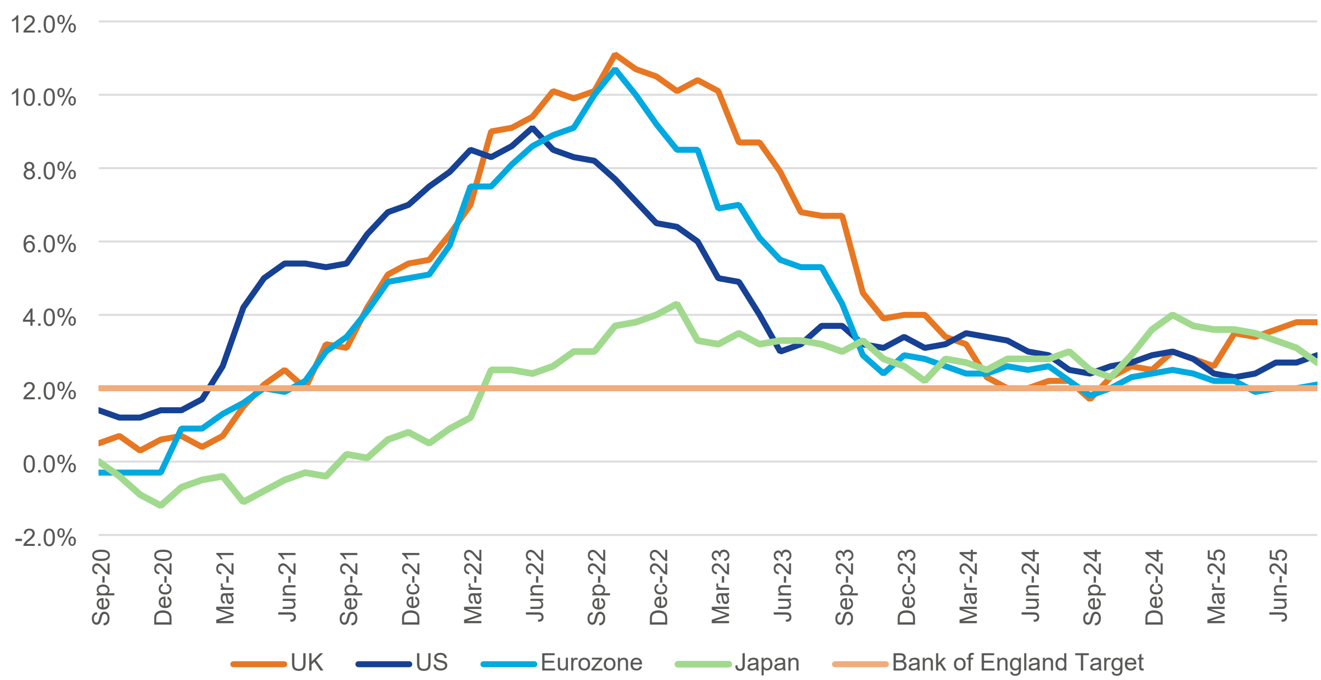
Economic Indicators

Table 1: Quarterly Real GDP Growth and Monthly CPI

%	GDP		CPI		
	Q2 2025	Q3 2025	Jul	Aug	Sep
UK	0.3	-	3.8	3.8	-
US	0.9	-	2.7	2.9	-
Eurozone	0.1	-	2.0	2.1	-
Japan	0.5	-	3.1	2.7	-

Source: Bloomberg; Trading Economics.
CPI: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)
GDP: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGDP)

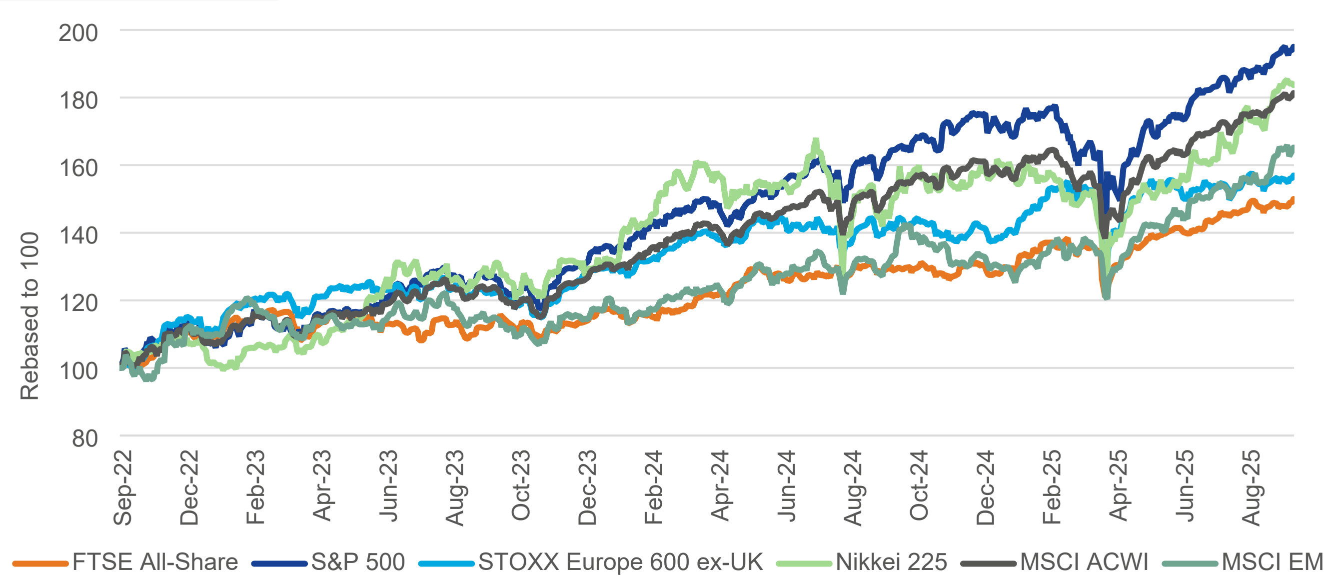
Chart 1: CPI – Annual rate of Inflation - Five Years to Sep 2025



Source: Bloomberg
Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

Equities

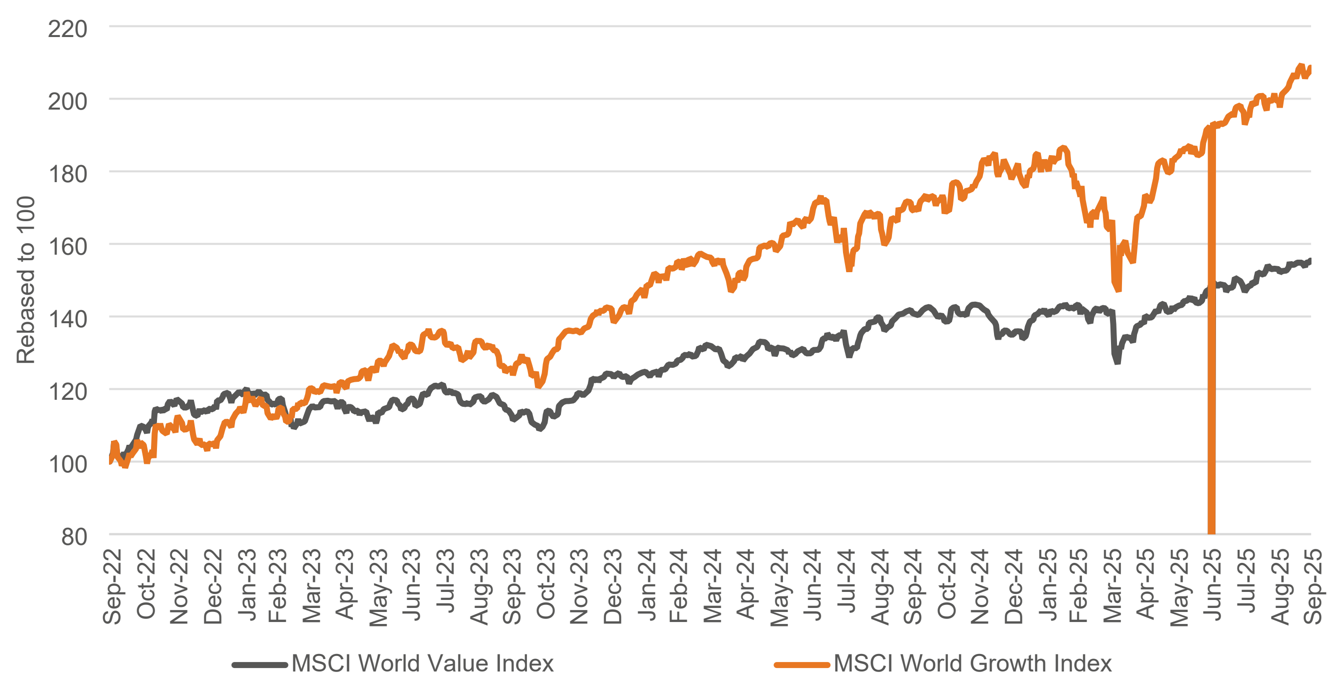
Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currencies

Notes: FTSE All-Share Index (Ticker: ASXTR Index); S&P 500 Index (Ticker: SPXT Index); STOXX Europe 600 (Ticker: SXXG Index); Nikkei 225 Index (Ticker: NKYTR Index); MSCI World Index (Ticker: DLEACWF Index); MSCI Emerging Markets (Ticker: M1EF Index)

Chart 3: Global Equity Markets, Growth vs Value



Source: Bloomberg

Notes: MSCI World Value Index (Ticker: MXWO000V Index); MSCI World Growth Index (Ticker: MXWO000G Index)

Table 2: MSCI ACWI Composition

Region	Q2 2025 (%)	Q3 2025 (%)
US	64.7	65.0
UK	3.3	3.2
Europe (ex-UK)	11.7	11.1
Japan	4.9	4.9
Developed Asia-Pacific	2.5	2.4
Emerging Markets	9.8	10.1
Other	3.1	3.2

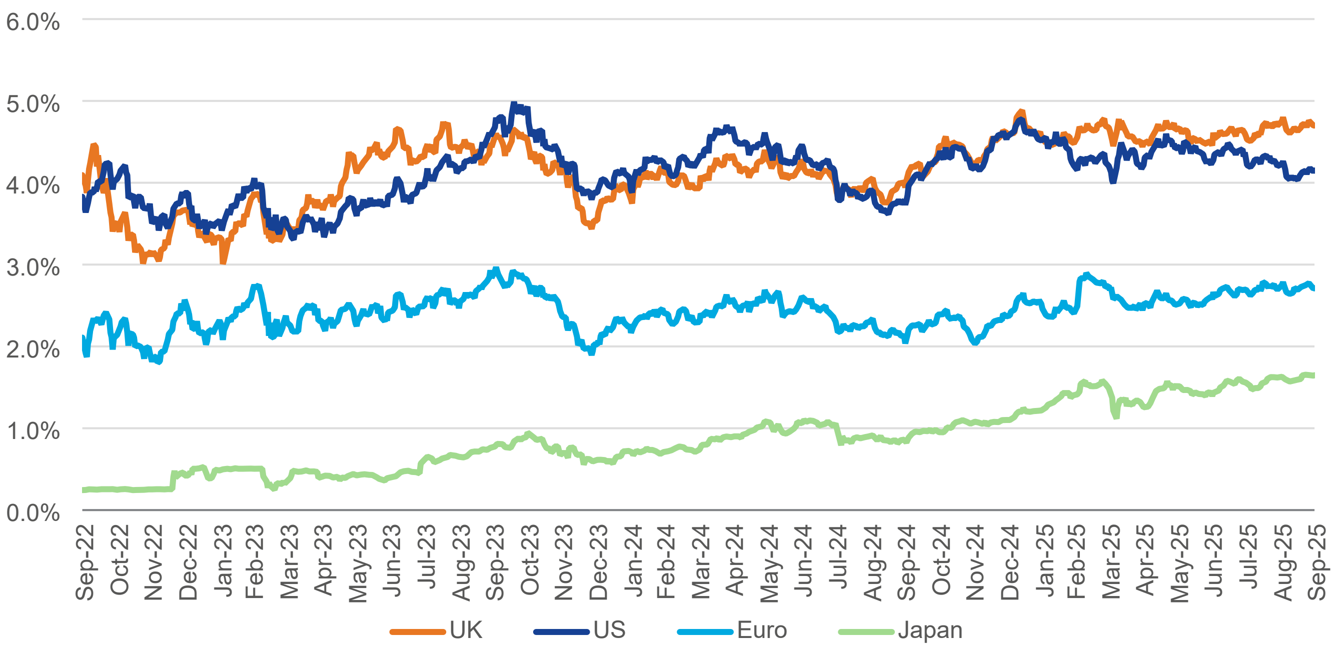
Source: iShares MSCI ACWI ETF

Fixed Income

Chart 4: US Corporate Bond Spreads

Source: Bloomberg
Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

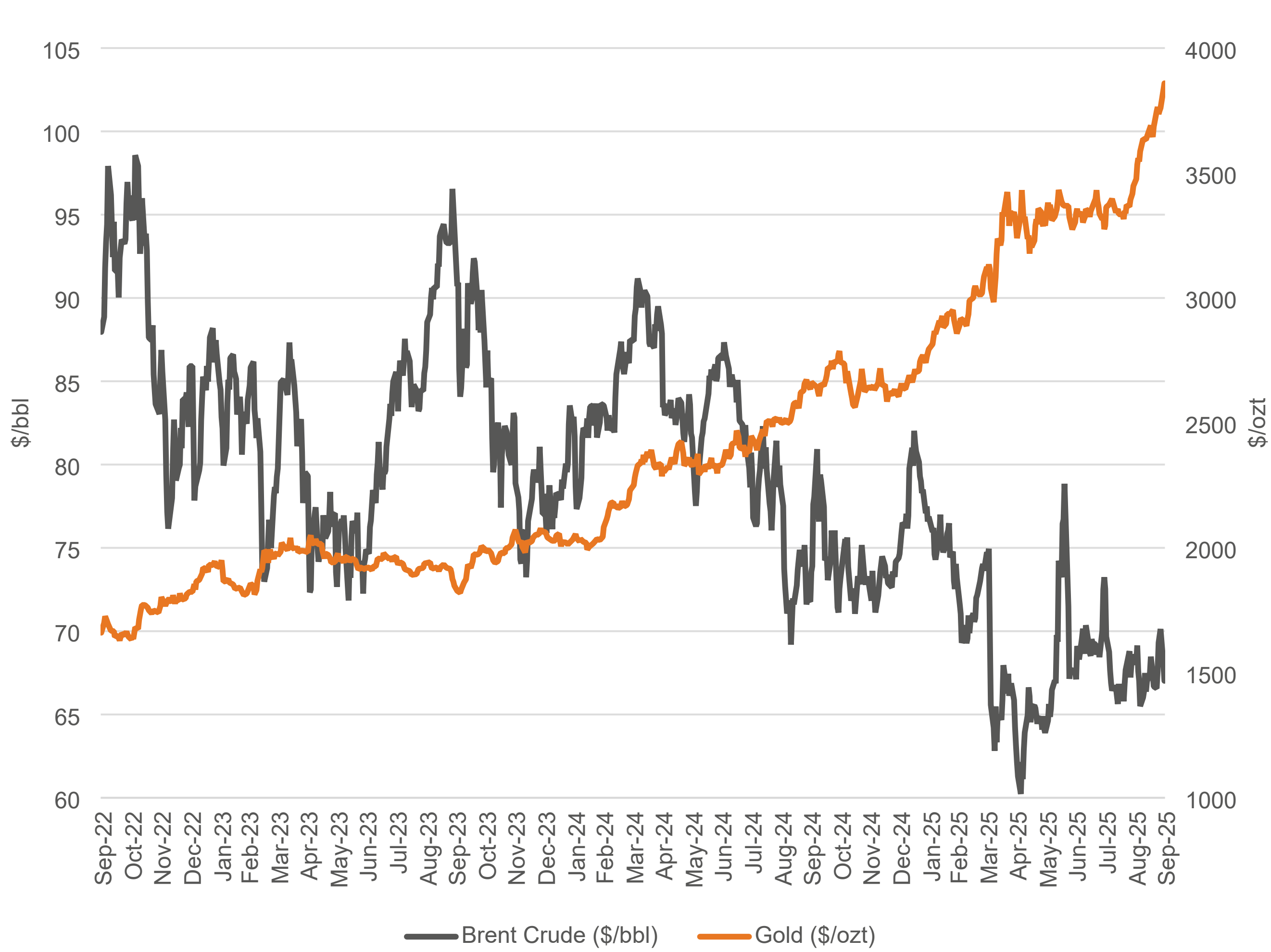
Chart 5: Government Bond Yields



Source: Bloomberg
Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index); Japan Generic Govt Bond 10 Year Yield (Ticker: GJGB10 Index)

Commodities

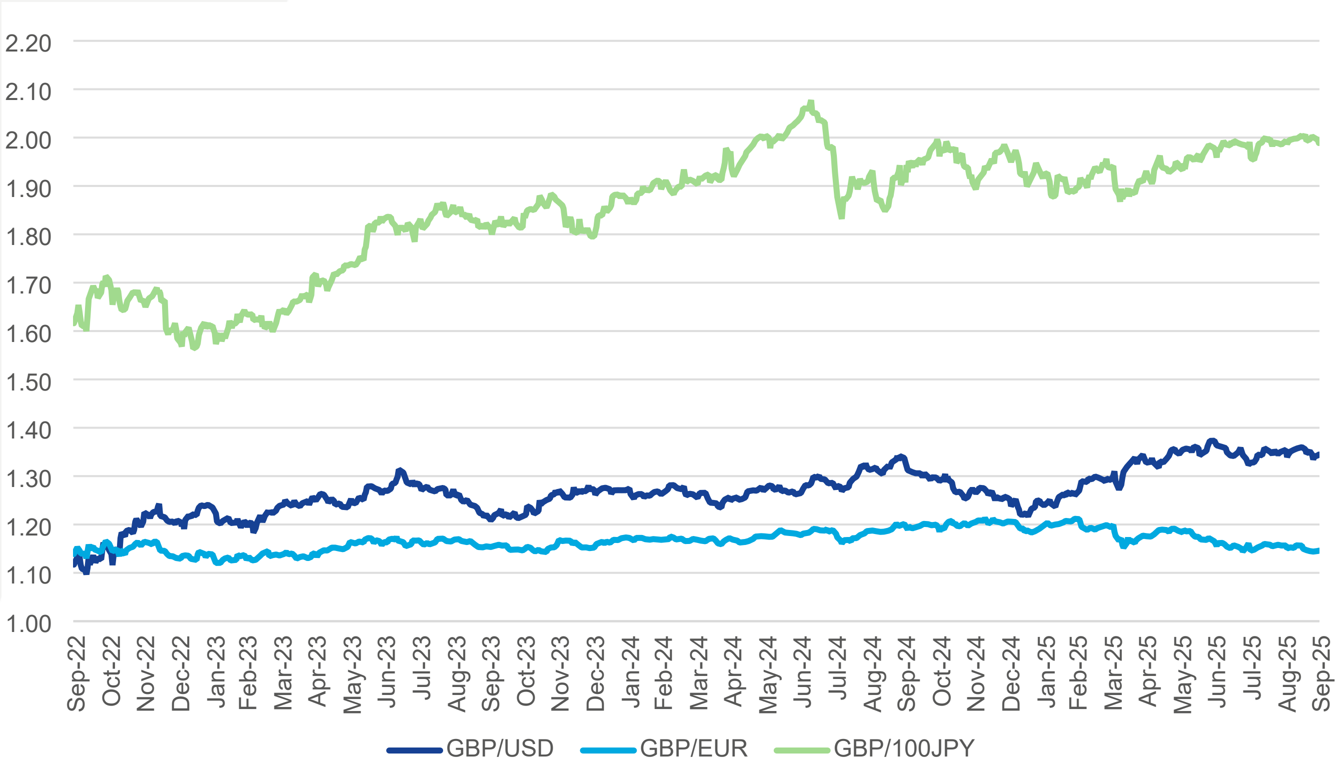
Chart 6: Gold and Brent Crude Oil Prices



Source: Bloomberg
Notes: Gold USD Spot (Ticker: XAU Currency); Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

Currencies

Chart 7: Three-Year Currency Rates of Major Currencies vs Pound Sterling



Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); GBPJPY Spot Exchange Rate (Ticker: GBPJPY Currency)

Table 3: Currency Rates as of 30 June 2025

Pair	Q3 Value	% Change Over Quarter
GBP/EUR	1.1459	-1.65%
GBP/USD	1.3446	-2.08%
EUR/USD	1.1734	-0.45%
USD/JPY	147.9	2.69%

Source: Bloomberg

Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); EURUSD Spot Exchange Rate (Ticker: EURUSD Currency); USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)