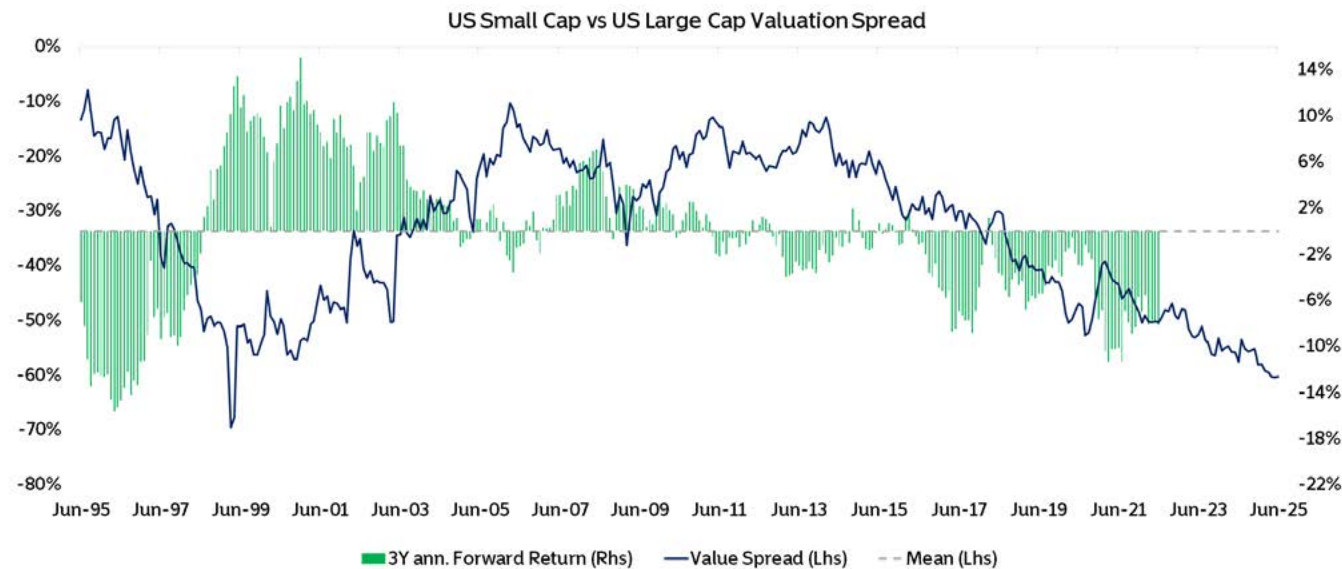


Chart of the Week

1 September 2025



Source: Bloomberg Finance L.P., data as at 30 June 2025.



Small Opportunities

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What this chart shows

Markets have had an eventful year to date with ongoing geopolitical tensions, Trump's tariff threats and questions over Fed independence. Risk assets have largely shrugged these off as equities across the board have posted strong returns. US equities dominated headlines, with the S&P 500 recently hitting new highs. As a result, US large cap valuations look stretched at the headline index level, leaving investors searching for value. There may be more attractive opportunities if one is willing to venture further down the market capitalisation spectrum. Smaller US companies (measured by the Russell 2000 index) have lagged larger caps in recent years, creating a significant valuation gap. Today, US small caps trade at historically wide discounts, suggesting meaningful relative upside.

This chart shows the valuation spread (blue line, a composite of price-to-book and price-to-sales) of small versus large caps. Small caps have typically traded at around 30% discount to large caps over the past 30 years but currently sit at over 60% - near record levels. The chart also shows that small caps tend to outperform when discounts are unusually wide, as shown by the green bars, which represent the subsequent 3-year annualised relative performance versus large caps.

Why this is important

While it is difficult to ignore the strong run of large and mega cap stocks, these trends rarely last forever. An allocation to small caps at this opportune time could enhance returns over the medium to longer-term.

The Russell 2000 index has outperformed the S&P 500 over the past three months (to 27th August 2025) - potentially signalling the start of a reversal.

For small caps to deliver meaningful returns, a catalyst is needed for the valuation gap to narrow. Whilst it is difficult to predict the exact timing, there are a few factors that could be supportive. Further expected US rate cuts should benefit smaller companies, which are typically more rate sensitive due to higher leverage. Easing trade tensions, more clarity around tariffs, and likely more lenient regulatory policies under the Trump administration (such as deregulation and tax cuts) could also provide a more supportive environment. These factors may spur corporate activity, such as M&A, which again will be particularly beneficial for smaller businesses.

We acknowledge the risk that the valuation gap may persist, so remain cautiously optimistic. However, for patient investors, the medium to long term opportunity could prove worthwhile.

Weekly market update

week ending 29 August 2025

momentum

global investment management

Markets danced between resilience and fragility, as strong US growth and AI optimism clashed with inflation stickiness, political volatility in Europe, and speculative surges in China. Central banks now face a delicate balancing act heading into September, with rate cuts, fiscal discipline, and global trade tensions all in play.



US

- » Q2 GDP revised up to 3.3%, driven by stronger domestic demand and investment.
- » Core PCE inflation rose to 2.9% YoY, the Fed's preferred gauge, fuelling rate cut debates.
- » Tech stocks softened, with the "Magnificent 7" declining amid cautious sentiment.
- » NVIDIA earnings beat expectations, reaffirming AI's dominance in capital flows.



UK

- » FTSE 100 saw its biggest weekly drop in 5 months, led by sharp declines in bank stocks on tax concerns.
- » 30-year gilt yields surged to 5.64%, highest since 1998, tightening fiscal headroom.
- » Unemployment projected to hit 5%, with labour market indicators flashing red.
- » Chancellor Reeves may need to raise as much as £27 billion in Autumn Budget amid stagflation fears.



Europe

- » France faced political volatility, with a lost confidence vote spiking bond yields.
- » Eurozone economic sentiment dipped, reflecting caution amid trade and inflation concerns.
- » ECB monitored trade fallout, especially from US tariff shifts and China tensions.
- » Germany's Ifo Business Climate Index rose slightly in August due to improved expectations among companies.



Rest of the World/Asia

- » In China the CSI 300 surged 3%, driven by retail investors reallocating record household savings.
- » Chinese property giant, Evergrande delisted (Aug 25), a symbolic marker in the property cleanup, with crisis overhang persisting.
- » India's Q1 FY26 GDP hit 7.8%, beating expectations despite global tariff headwinds.
- » Russia-Ukraine tensions escalated, with missile strikes affecting oil markets and investor sentiment.

Cumulative returns					
Asset Class / Region	Currency	Week ending 29 August	Month to date	YTD 2025	12 months
Developed Markets Equities					
United States	USD	-0.1%	2.0%	10.5%	16.6%
United Kingdom	GBP	-1.4%	1.5%	15.6%	13.3%
Continental Europe	EUR	-2.0%	1.1%	10.7%	6.4%
Japan	JPY	-0.8%	4.5%	12.0%	17.1%
Asia Pacific (ex Japan)	USD	-0.4%	1.5%	18.3%	17.8%
Australia	AUD	0.2%	3.1%	12.3%	15.4%
Global	USD	-0.3%	2.6%	13.8%	16.6%
Emerging Markets Equities					
Emerging Europe	USD	-3.4%	0.8%	41.3%	31.7%
Emerging Asia	USD	-0.7%	0.7%	17.6%	17.7%
Emerging Latin America	USD	1.1%	8.2%	34.3%	13.2%
BRICs	USD	-1.4%	2.6%	17.3%	19.4%
China	USD	-0.6%	4.9%	29.0%	49.6%
MENA countries	USD	-1.4%	-1.5%	1.8%	3.8%
South Africa	USD	-2.4%	6.7%	39.0%	29.0%
India	USD	-3.6%	-1.9%	1.3%	-6.5%
Global emerging markets	USD	-0.8%	1.3%	19.0%	17.3%
Bonds					
US Treasuries	USD	0.2%	1.0%	4.4%	1.9%
US Treasuries (inflation protected)	USD	0.3%	1.5%	6.2%	4.3%
US Corporate (investment grade)	USD	0.0%	1.0%	5.4%	3.9%
US High Yield	USD	0.4%	1.2%	6.2%	8.1%
UK Gilts	GBP	-0.2%	-1.0%	1.2%	-1.7%
UK Corporate (investment grade)	GBP	-0.1%	-0.5%	3.2%	3.2%
Euro Government Bonds	EUR	-0.2%	-0.4%	-0.2%	1.0%
Euro Corporate (investment grade)	EUR	0.0%	0.0%	2.4%	4.5%
Euro High Yield	EUR	-0.1%	0.0%	4.0%	7.0%
Global Government Bonds	USD	0.1%	1.3%	6.6%	2.3%
Global Bonds	USD	0.1%	1.5%	7.5%	3.7%
Global Convertible Bonds	USD	0.5%	2.6%	15.9%	20.9%
Emerging Market Bonds	USD	0.0%	1.5%	7.8%	7.2%

Cumulative returns					
Asset Class / Region	Currency	Week ending 29 August	Month to date	YTD 2025	12 months
Property					
US Property Securities	USD	1.0%	4.4%	2.8%	-0.3%
Australian Property Securities	AUD	0.5%	4.1%	12.0%	11.9%
Asia Property Securities*	USD	-0.8%	0.8%	18.4%	17.5%
Global Property Securities	USD	0.0%	4.1%	10.4%	5.6%
Currencies					
Euro	USD	-0.2%	2.4%	13.1%	5.6%
UK Pound Sterling	USD	-0.1%	2.2%	7.9%	2.5%
Japanese Yen	USD	-0.1%	2.6%	7.1%	-1.3%
Australian Dollar	USD	0.9%	1.8%	5.8%	-3.8%
South African Rand	USD	-1.1%	3.1%	7.1%	0.8%
Swiss Franc	USD	0.3%	1.6%	13.6%	5.9%
Chinese Yuan	USD	0.5%	1.0%	2.4%	-0.5%
Commodities & Alternatives					
Commodities	USD	0.9%	0.2%	3.8%	6.5%
Agricultural Commodities	USD	0.1%	3.1%	-1.7%	2.5%
Oil	USD	0.6%	-6.1%	-8.7%	-14.8%
Gold	USD	2.3%	4.6%	31.4%	36.5%

*data to 1 August 2025. Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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