

Quarterly Market  
Overview and OutlookMarkets are currently trading slightly  
above fair value

Markets are currently trading slightly above fair value, with almost 40% of total capitalization concentrated in just ten mega-cap names—most of which are closely tied to the continuing build-out of artificial intelligence. This level of concentration leaves



little margin for error if AI forecasts fail to deliver as expected.

Looking ahead, the global economy is walking a tightrope. The positive momentum from AI investment and anticipated monetary easing is only just balancing the drag from inflationary pressures and weaker macroeconomic trends. AI-related spending is still underpinning growth that might otherwise have faltered, while the Federal Reserve is expected to cut rates twice

before year-end. Longer-term yields should gradually decline, with the 10-year Treasury projected to average around 3.9% in 2026. However, over the next few quarters, softer consumption, weak housing starts, and fading stimulus measures are likely to weigh on economic momentum.

## Trade and Tariffs

Trade policy remains a key wildcard. The latest round of U.S.–China tariffs has had limited and short-lived effects on inflation so far, but forecasts suggest core inflation (PCE) could edge up to 3.0% in 2026 before easing. Typically, these tariff shocks trigger a brief sell-off followed by recovery within days, showing that global markets remain resilient despite persistent geopolitical tension. That said, sticky inflation could eventually curb U.S. consumer spending and ripple into other economies. It now seems likely that tariffs between China and the U.S. will remain a permanent fixture.

## China

China's slowdown continues to be a concern. Weak domestic demand, sluggish industrial output, and a deepening property crisis have combined to dampen growth. Structural challenges—such as high youth unemployment (currently around 21%) and lingering overcapacity from past stimulus—add to the strain. Importantly, China doesn't need to collapse to cause global disruption; a mere stagnation in its growth rate has broad consequences.

## Defence Sector

Defence spending has accelerated sharply across the U.S. and Europe, with multi-year procurement contracts supporting strong results from leading arms manufacturers. This trend is expected to continue for several years as the West and Russia compete technologically. As mentioned earlier this year, those holding Defence-related positions have seen solid gains, and the sector remains well-positioned given ongoing geopolitical uncertainty. With no clear end in sight to the war in Ukraine and continuing distrust between Europe and Russia—compounded by Washington’s reluctance to underwrite Europe’s security—the case for sustained Defence expenditure remains robust.

## Market Recap

President Trump’s recent announcement of new tariffs on China briefly wiped \$2 trillion off global market value, with the S&P 500 falling 2.7% and the Nasdaq 3.6%—their worst single-day losses since April. The Dow Jones also dropped 879 points, the sharpest decline since May. However, futures rebounded swiftly after Trump’s assurance that “U.S.–China trade will all be fine.” Another headline resolved—for now.

## Outlook

The remainder of 2025 and the start of 2026 will likely remain positive overall, provided no major geopolitical shocks occur. Tariffs may temporarily slow growth, but the broader investment environment still offers selective opportunities, particularly in sectors benefiting from long-term structural themes.

As always, I continue to monitor markets daily and will adjust portfolios where appropriate.

If you have any questions about your portfolio or the current environment, please don’t hesitate to contact me.

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The research for this was obtained from various publications including Bloomberg and Morningstar