Q3 2025 Overview – Countrywide Assured plc Balanced Managed Pension/Life Investing Fund

This report is provided by our Fund Manager Schroders and covers the portfolio activity on our main investing funds the Countrywide Balanced Managed Pension/Life Investing Funds, together with their short-term economic outlook. The report describes the current economic background and Schroders' perspective of this and how it impacts their management of the Countrywide Balanced Managed Pension/Life Investing Fund. It also covers all individual asset class sectors (UK & Global Equities; fixed interest; Property and cash).

Your policy will be invested in a specific customer fund of your choice which has its own fund objectives (see fund list and specific fund objectives) www.countrywideassured.co.uk/fund-centre/understanding-my-funds/fund-objectives/. All customer managed funds are invested in the Countrywide Balanced Managed Pension/Life Investing Funds, to a greater or lesser extent depending on the nature of the fund objective. If you're invested in an individual asset class sector fund, although no specific commentary is provided for these funds, the report does cover individual markets and other asset classes, which is consistent with the fund managers reasoning.

Portfolio Activity

The SUTL Countrywide Managed Balanced fund delivered positive performance in the third quarter of 2025. Both equity and fixed income allocations contributed positively to performance.

Most major asset classes continued to grind higher over the summer as tariff-related uncertainty subsided. While market reactions to President Trump's rhetoric became more muted, suggesting investors increasingly viewed such announcements as negotiation tactics, the risk of underestimating the administration's willingness to implement higher tariffs remained. Inflation concerns also intensified, driven by fiscal stimulus and pressure on the US Federal Reserve (Fed) to cut rates, prompting a reassessment of rate cut expectations. Despite these macro risks, resilient consumption and stable labour markets led us to assign a low probability of a near-term US recession.

In equities, the tilt in favour of emerging market equities was maintained over the quarter, supported by a weaker US dollar and favourable policy developments across several countries. Towards the end of the quarter, a tilt in favour of Chinese equities was added to the portfolio. The US-China trade negotiations resulted in a further 90-day suspension of tariffs, which provided near-term support for the market. Additionally, the government's continued emphasis on anti-involution policies—aimed at curbing excessive price competition and reducing overcapacity in key industries—has supported Chinese equities.

We closed our overweight position in US healthcare versus US consumer staples added last quarter after the trade hit its stop-loss. The US healthcare sector's recovery lagged expectations, hindered by ongoing uncertainty around pharmaceutical tariffs and reduced research funding in the US. In contrast, consumer staples saw strength in select names such as Walmart, which benefited from consumer resilience.

We maintained an overweight position in US financials, driven by the potential for a catch-up opportunity following the sector's sharp losses during the 'Liberation Day' turmoil. The sector also stood to benefit from a potential steepening of the yield curve and remained relatively insulated from tariff-related risks. However, the position was closed in mid-August due to rising concerns over negative growth surprises, particularly on the labour market side, and stretched valuations.

An underweight position in US energy equities was added to the portfolio at the start of August. Rising supply from both OPEC and non-OPEC producers, combined with slowing seasonal demand, raised concerns about a potential decline in oil prices. Further increases in supply were likely to push the market into surplus. The position was closed later in the month to book profits.

An overweight position in US small caps was also added at the end of the quarter. This allocation aims to capture the reflation narrative supported by rate cuts from the Federal Reserve, as small-cap stocks have historically shown greater sensitivity to interest rate movements. Additionally, the earnings outlook has become more encouraging, with a growing number of companies experiencing positive revisions.

In fixed income, we held an underweight position in US 5-year government for much of Q3 before then rotating into an underweight position in US 10-year government bonds. This reflected our concerns regarding inflation risks and term premia repricing, particularly at the long end of the curve. The underweight position in US 10-year treasuries was therefore the cleanest expression of this view. Both positions were used to fund overweight equity allocations over the period.

In July, an overweight position in German 10-year bunds relative to US treasuries was implemented, following April's policy shock which highlighted the diminished defensive qualities of US bonds amid persistent inflation. In contrast, German bunds continued to offer reliable protection in risk-off environments. We also added a Canadian 10-year vs US 10-year position, driven by a strong belief that Canadian bonds were undervalued due to market overreaction, and supported by expectations of further rate cuts from the Bank of Canada. However, this position was closed after the Bank of Canada maintained a cautious outlook. Despite confidence in the trades' fundamentals, shifting market attention to signs of a softer US labour market introduced uncertainty around US yield trajectories, prompting us to exit both positions in mid-August.

In currencies, the overweight Japanese yen versus US dollar position was closed in July. Our conviction in the Japanese yen had faded due to weaker economic data, and the elections in Japan also weighed on the currency's performance The overweight euro versus US dollar position was maintained, with the size of the position increased mid-quarter. We have retained our negative view on the US dollar, as its safe-haven role has diminished amid the unpredictable nature of the current US administration. The weakening of the US dollar was driven mainly by increased hedging of US assets by foreign investors, rather than the outright selling of those assets. This contrasts with improved sentiment towards Europe. Additionally, a position in the Brazilian Real versus the euro was implemented, as the currency appears undervalued and it also offers an attractive carry.

Outlook

As we move into the final quarter of 2025, the global investment landscape continues to be defined by market divergence and policy recalibration. Despite persistent geopolitical noise and policy uncertainty, global growth remains robust, supported by looser financial conditions and ongoing fiscal stimulus in key economies. Inflation pressures, while moderating in some regions, continue to linger, particularly in the US, keeping the outlook delicately balanced between optimism and caution.

Global activity has largely brushed off early-year turbulence from tariffs and policy frictions. Growth is expected to reach 2.5% in 2025, edging higher to 2.6% in 2026. The balance of risks has shifted from downside growth shocks to policy execution risk, as markets test the limits of central bank patience and fiscal capacity.

The US continues to anchor global momentum, supported by strong household balance sheets, tight labour markets, and expansionary fiscal policy. However, recent weakness in labour market data has allowed the Federal Reserve to begin a cautious rate-cutting cycle, adding some upside risk to inflation and keeping policy guidance data-dependent. In Europe, activity is strengthening as trade uncertainty eases following the EU-US deal, while Germany's fiscal expansion adds further support. Inflation is moving closer to target, but persistent services inflation limits the room for the European Central Bank (ECB) to make further rate cuts. The UK remains constrained by structural supply issues and persistent services inflation, keeping the Bank of England steady at 4%. In China, growth is stabilising around 4.5%, as fiscal support and export resilience offset housing weakness. Across emerging markets, looser monetary policy, lower inflation, and a softer US dollar are underpinning stronger domestic demand.

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Our baseline scenario envisions continued global growth without a US recession, though risks remain two-sided. On one hand, aggressive US rate cuts - potentially politically driven - could trigger a short-term reflationary boost to growth and risk assets, but at the cost of higher medium-term inflation and renewed tightening. On the other, tariff escalation or a global fiscal crisis could sharply tighten financial conditions, curbing investment and trade. Among alternative paths, the “Dollar Down” scenario remains the most constructive: a 20% US dollar depreciation could ease global liquidity constraints, lower imported inflation, and drive renewed capital inflows into emerging markets.

Our multi-asset positioning reflects the combination of resilient global growth and diverging policy paths. Equities remain our preferred asset class - not least because the current combination of a low probability of recession and a shift into a rate-cutting regime historically provides a favourable backdrop. Indeed, when easing occurs without an economic contraction, equity markets tend to post strong returns over the following year, supported by lower discount rates, credit expansion, and improved sentiment. We favour the US, supported by resilient growth dynamics, and emerging markets, where valuations remain attractive and domestic demand is strengthening, while remaining neutral on the UK given structural headwinds. We have moderated our view on European equities as earlier optimism around fiscal stimulus has faded, with investors now awaiting more concrete policy measures to tackle structural challenges such as elevated energy prices and labour costs.

Government bonds remain less appealing, particularly long-duration US treasuries, where valuations look stretched amid rising term premia and debt concerns. Similar concerns apply to European government bonds, where fiscal expansion and increased bond supply are putting some upward pressure on yields, suggesting limited scope for outperformance in the near term. In credit, spreads are tight but supported by solid corporate fundamentals and liquidity conditions; we maintain a neutral stance across investment grade and high yield, preferring Europe and select EM issuers for their carry and manageable refinancing risks.

We hold a neutral stance on commodities, with gold as a core allocation and preferred hedge against policy volatility and fiscal fragility. Its performance continues to benefit from lower real yields, central bank demand, and a weaker dollar. Energy markets are likely to shift into surplus as supply rises, while industrial metals gain from Asian restocking. In currencies, we remain negative on the US dollar, favouring long positions in the euro and select EM currencies, as political and fiscal uncertainty undermines the dollar’s safe-haven appeal.
Overall, we maintain a balanced but risk-aware posture. Portfolio diversification across regions and asset classes remains critical, as policy uncertainty - not economic weakness - will likely be the dominant market driver into 2026. Our positioning reflects confidence in the durability of the cycle, tempered by vigilance toward policy missteps.

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