GTC
Global Trust Company

Steady Momentum

Markets showed strength in August, supported by resilient global activity and controlled inflation.

MARKET REVIEW
AUGUST 2025

Steady Momentum

August proved broadly supportive for markets, with sentiment buoyed by evidence of resilient global activity and contained inflation, even as softer US labor data weighed on headlines. Yet much of this optimism is already embedded in equity valuations, which remain elevated relative to long-term averages, particularly in the US. Against this backdrop, investors should prioritize diversification across regions and asset classes to guard against risks of a slowdown and the potential resurgence of inflation as tariff increases filter into consumer prices.

Equities: In August, developed market equities delivered solid gains, rising 2.6%. Japan led the way as the TOPIX index advanced on the back of supportive economic data and a new US-Japan trade deal. The US market also posted positive results, with the S&P 500 up 2.0%. Despite mid-month volatility tied to weaker labor data and skepticism over AI's revenue impact, strong earnings and upbeat manufacturing PMI supported equities. The administration's announcement of a 10% stake in Intel to bolster domestic semiconductor production also added momentum. In Europe, the MSCI Europe ex-UK gained 1.2%, although French equities were a drag amid political turbulence and a vote of no confidence in the government. Emerging markets advanced over the month, with strength in China helping the MSCI Emerging Markets Index gain 1.5%. Sentiment was buoyed by the extension of the US-China trade truce through November 10th, which provided a tailwind for export-oriented companies.

Forward P/E as % of 20-Year PE (U.S. Stocks)

	Value	Blend	Growth
Large	123.6%	138.2%	153.3%
Mid	110.0%	109.6%	139.6%
Small	108.2%	105.8%	113.0%

Source: JP Morgan Asset Management. As of August 31, 2025

Active manager outperformance has steadily declined in 2025, falling from 60% in Q1 to just 40% by the end of July. The main driver has been the sharp rebound of mega-cap names, most notably Nvidia, which now represents 8% of the S&P 500. Because active managers rarely allocate such a large weight to a single stock, they have struggled to keep pace with the benchmark. This trend highlights both the challenges for active strategies in today's market and the increasing concentration risk within the S&P 500, which now resembles a concentrated portfolio rather than a broadly diversified index.

Fixed Income: Overall, August featured Treasury strength, Fed-driven repricing of policy expectations, corporate credit softness, and broad outperformance in securitized products. Yields fell at the front end of the curve, with the 2-year and 10-year dropping 34 and 15 basis points, respectively. The 30-year edged slightly higher, and futures priced in two quarter-point cuts by year-end following Fed Chair Powell's comments at Jackson Hole. Corporate credit lagged Treasuries after briefly touching their tightest levels in nearly three decades, with industrials and financials underperforming; valuations, particularly in industrials, remain stretched given inflation concerns. By contrast, securitized sectors outperformed. Agency RMBS led, supported by low-interest rate volatility and Powell's tone. CMBS also outperformed while ABS continues to benefit from strong demand. Bond market vigilantes have begun stirring overseas, but conditions in the U.S. have remained comparatively steady. The Fed is expected to follow other central banks and begin easing monetary policy in September.

U.S. Treasury Yield Changes

	YTM	Change from Previous Month
3 Month	4.14%	-0.20%
1 Year	3.83%	-0.26%
2 Year	3.62%	-0.34%
3 Year	3.58%	-0.32%
5 Year	3.70%	-0.28%
10 Year	4.23%	-0.15%
30 Year	4.93%	+0.03%

Source: Bloomberg

Real Assets: In August, REITs outperformed broader equities, with the FTSE NAREIT All Equity REITs Index rising 3.3%. Healthcare leads sector performance year-to-date, followed by diversified and gaming. Commodities also ended the month mostly higher despite volatility, as energy markets reacted to OPEC+ and U.S. shale developments and grains found support from strong demand and export competitiveness. Gold surged to nearly $3,400 per ounce, lifted by a dovish Federal Reserve, a weaker dollar, and increased geopolitical tensions, alongside strong central bank and ETF demand.

When U.S. tariffs were first announced, companies faced uncertainty about how long and how severe the policy would be. To avoid alienating customers with immediate price hikes, many firms initially absorbed the costs within their profit margins. Some also relied on stockpiled inventories of imported goods purchased before tariffs took effect, which allowed them to maintain pre-tariff pricing temporarily and shield consumers from higher costs. That early buffer, however, appears to be fading. As inventories decline and tariff levels become clearer, businesses are being forced to make tougher decisions about whether and how much of these costs to pass on to consumers. The extent of pass-through will vary widely depending on product type and market dynamics. Companies selling goods with inelastic demand have more room to raise prices without losing customers, while those targeting more price-sensitive buyers will face greater challenges. Ultimately, tariff effects are likely to be uneven, shaped by factors such as demand elasticity, competitive pressures, and pricing power, producing a gradual and partial transmission of costs to consumers rather than a uniform shift across the economy.

Diversifying Strategies: Hedge funds delivered their fourth straight month of strong gains in August, supported by rising equity markets, falling bond yields, and expectations for Fed rate cuts. Equity Hedge strategies led performance, with the HFRI Equity Hedge (Total) Index up +3.3%, driven by standout results from healthcare and fundamental equity specialists. Event-

Driven strategies also performed well, gaining +2.0% for the month and +8.8% over the past four months. Macro funds advanced +1.5%, supported by both discretionary thematic and systematic diversified approaches, while Relative Value strategies rose +1.1%, helped by strength in convertible arbitrage and sovereign debt sub-strategies. Year-to-date, Equity Hedge remains the top-performing category, up +10.9%.

Public markets have recently dominated attention, with the S&P 500 hitting record highs and putting pressure on private markets to keep pace. Preqin data through Q1 2025 shows private equity still ahead on a 10-year basis (266% cumulative return vs. 225% for the S&P 500), but a slowdown in exits has weighed on more recent performance, creating a growing disconnect. In contrast, infrastructure and private debt have shown resilience in volatile conditions. Over the year ending Q1 2025, infrastructure returned 9.2% and private debt 7.9%, both falling neatly within or above investors' typical target ranges. The difference in roles is increasingly clear. Private equity seeks to deliver outsized returns but faces near term headwinds from high rates and exit delays. Infrastructure and private debt, while unlikely to outpace equities over the long-term, serve as a diversifier and complement to traditional income assets. For investors, the challenge lies in balancing return targets, liquidity needs, cost, and risk preferences in private assets.

Exhibit 1: Asset Class Returns (2016 – YTD 2025)

2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD
High Yield 17.1%	Intl Equity 27.2%	IG Bonds 0.0%	US Equity 31.5%	US Equity 18.4%	US Equity 28.7%	Cmdty 16.1%	US Equity 26.3%	US Equity 25.0%	Intl Equity 21.6%
US Equity 12.0%	US Equity 21.8%	High Yield -2.1%	REITs 23.1%	60/40 14.0%	REITs 27.2%	Diversifying -1.7%	60/40 18.0%	60/40 15.5%	US Equity 10.8%
Cmdty 11.8%	60/40 14.5%	60/40 -2.6%	60/40 22.4%	Intl Equity 10.7%	Cmdty 27.1%	High Yield -11.2%	Intl Equity 15.6%	Diversifying 9.8%	REITs 10.1%
60/40 8.3%	REITs 11.4%	US Equity -4.4%	Intl Equity 21.5%	Diversifying 8.4%	60/40 16.6%	IG Bonds -13.0%	High Yield 13.5%	High Yield 8.2%	60/40 8.5%
REITs 5.0%	Diversifying 7.5%	Diversifying -4.7%	High Yield 14.3%	IG Bonds 7.5%	Diversifying 9.8%	Intl Equity -16.0%	REITs 10.9%	Intl Equity 5.5%	Cmdty 7.1%
Diversifying 4.8%	High Yield 7.5%	REITs -4.7%%	Diversifying 8.9%	High Yield 7.1%	Intl Equity 7.8%	60/40 -16.1%	Diversifying 7.4%	Cmdty 5.4%	High Yield 6.4%
Intl Equity 4.5%	IG Bonds 3.5%	Cmdty -11.3%	IG Bonds 8.7%	Cmdty -3.1%	High Yield 5.3%	US Equity -18.1%	IG Bonds 5.5%	REITs 2.0%	Diversifying 5.8%
IG Bonds 2.7%	Cmdty 1.7%	Intl Equity -14.2%	Cmdty 7.7%	REITs -8.2%	IG Bonds -1.5%	REITs -24.4%	Cmdty -7.9%	IG Bonds 1.3%	IG Bonds 5.0%

Source: IG Bonds = Bloomberg US Aggregate; US Equity = S&P500; Intl Equity = MSCI ACWI xUS; High Yield = Bloomberg US Corporate High Yield; REITs = FTSE EPRA/NAREIT Developed; Cmdty = Bloomberg Commodity; Diversifying = HFN Hedge Fund Aggregate; 60/40 = 60%S&P500/40%Bloomberg US Aggregate

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