

Tactical Asset Allocation: Markets scale the wall of worries

- ▶ **Global economy is slowing but not stalling – manufacturing weak while services stay resilient.**
- ▶ **Inflation deviates across economies; but monetary policy should be easing over the next year.**
- ▶ **Geopolitics and trade policy remain key for whether the growth stabilizes or deepens.**
- ▶ **Our asset allocation remains unchanged in October; we update our cross-asset focus lists.**

Growth outlook: an uneven slowdown

Global growth momentum softened in September, with the composite PMI, as well as the services and manufacturing indices, all edging lower. Importantly, they remain in expansionary territory, but the slowdown highlights a more fragile backdrop. Manufacturing activity is hovering just above neutral, with the global PMI at 50.8. Output and new orders are still expanding, though at a slower pace, while employment slipped marginally into contraction. Optimism, however, improved to a three month high. Regionally, the US and Europe both saw weaker manufacturing conditions, largely due to tariff concerns and softer new orders, while the Eurozone slipped back into contraction. The UK also reported weaker output, citing subdued confidence and elevated costs. In contrast, China recorded its fastest expansion in six months, supported by stronger orders and output, while India's growth moderated but remained above average. The services sector continues to show greater resilience, with a global PMI of 52.8. Although this was down from August, it still points to expansion and has consistently outperformed manufacturing since early 2023. The Eurozone saw its best services reading in nine months, led by Germany, while the US experienced a slowdown in new orders and hiring. The UK reported sluggish demand and further staff reductions, while China and India both saw slower but still positive growth. Looking ahead, IMF now expects global GDP growth to be 3.2% in 2025 (slightly slower than the 3.3% growth of 2024), reflecting the drag from higher US tariffs. However, for Q4'25, on a YoY basis, GDP is expected to contract by 0.1% primarily led by weakness in Germany, UK, and Canada. In the US, growth is forecast at 2.0% for 2025, with tariffs weighing on consumption and investment before a gradual reacceleration to 2.1% in 2026. The euro area is projected to grow by 1.2% in 2025, while China and India are expected to grow by 4.8% and 6.6% respectively this year.

Inflation outlook: easing but uneven

At the sectoral level, price pressures in manufacturing eased in September, with both input and output costs rising more slowly. In the US, input costs remain elevated but moderated compared to August, leading firms to slow the pace of output price increases. In services, however, input costs rose in both the US and Europe, suggesting tariffs are beginning to filter through to the sector. Interestingly, many firms appear reluctant to pass these higher costs on to customers, which implies a squeeze on profit margins rather than consumer prices. According to the latest IMF World Economic Outlook, global headline inflation is projected to ease to 4.2% in 2025 and 3.7% in 2026, though trends diverge across key economies. In the US, inflation is set to rise in late 2025 as tariffs feed through to consumers, before returning to the Fed's 2% target in 2027. The UK faces a temporary inflation pickup in 2025 from regulated price changes, with moderation expected by end-2026 as wages and labor markets cool. In the euro area, inflation is projected to decline steadily. By contrast, inflation in China and India is expected to slow, reflecting softer food, energy, and administrative prices.

Monetary policy: further easing on the cards

Against this backdrop, central banks are adjusting policy cautiously. In the US, we think the Federal Reserve is set to deliver two more 25bp cuts in October and December, with the possibility of a larger 50bp move if the labor market weakens further. Two additional 25bp cuts are projected in the first nine months of 2026, bringing the rate to a range of 3.00%–3.25%. However, we see the neutral rate at 3% and the Fed may have to take rates below that level in late-2026 or early 2027 to extend the current cycle. In line with the recent guidance, we believe the Fed will likely stop its balance sheet runoff early 2026. The risk is that could happen sooner. The European Central Bank is seen as having completed its cutting cycle, though risks remain tilted to the downside. Therefore, we believe that the next move from ECB will still be cut rather than a hike and we do not rule out further easing in the next 12 months. In the UK, notwithstanding the recent hawkish commentary, Bank of England will need to cut rates further as the labor market continues to soften. In China, accommodative policy is likely to continue, with subdued inflation giving policymakers room to support growth despite structural overcapacity challenges. In India, we expect one more rate cut over the remainder of the year; and the recent indications from the RBI support our view.

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Risks: to keep an eye on

Geopolitical and policy risks remain central to the outlook. US tariffs are the dominant global risk, weighing on manufacturing orders, raising costs, and creating uncertainty for investment. While there has been limited evidence of tariffs contributing to higher consumer price inflation, things could change materially over the next couple of months. Broader US policy uncertainty, including fiscal pressures, Fed independence, and the risk of government shutdowns, adds to the fragile environment. Fiscal strains are also evident in other major economies such as the UK, France, and Japan, with potential implications for markets. Meanwhile, geopolitical tensions continue to shape the global landscape. Conflict in the Middle East (which now appears to have subsided), strained US China relations, and the unresolved Russia Ukraine war all contribute to uncertainty. Businesses continue to exhibit caution, with overall optimism remaining below historical norms. Investment activity is expected to remain limited until there is greater certainty regarding trade and policy matters. Notably, corporate investment shows a pronounced disparity between AI-related sectors—which have experienced significant capital inflows—and non-AI sectors, where investment has been comparatively minimal.

Tactical Asset Allocation: unchanged for October

Markets remain in a 'risk on' mode, driven by optimistic growth expectations from AI and dovish Fed outlooks, although this time dovishness stems from weak labour markets rather than low inflation. The business cycle is slowing, but recession risks are contained as policies ease, fostering positive conditions for risk assets. Historically, equities have performed well during late-cycle slowdowns with policy support, as seen in the late 1990s and mid-1960s. Despite strong market gains, investor sentiment and positioning remain muted. As we see limited chances of a recession over the next 12 months, we remain constructive on the risk outlook over the medium-term. However, in the near-term, risks with policy, politics, and geopolitics could weigh on the market sentiment especially given elevated valuations. Earnings growth should remain supportive. Our neutral stance with an overweight bias on equities remains unchanged (exhibits 1 and 2).

Cross-asset focus list: taking profits on copper and US MBS; reinitiating US small caps and silver

We made the following changes (exhibits 3 and 4) to our focus lists since last publication.

1. We close our long position on Copper with a c27% gain. As we argued in our recent note ([The Great Divergence: precious metals shine, energy softens, October 09, 2025](#)), we now expect copper prices to be range-bound around current levels at least till end of next year.
2. Our position in silver has hit its 20% target twice (September 22 and October 15) and we initiated a renewed position for the third time as we remain constructive on the outlook (see [The Great Divergence: precious metals shine, energy softens, October 09, 2025](#)).
3. In equities space, our position in US small caps hit its target return of 20% on October 6 and we reinitiated a similar position subsequently.
4. We took profits on our position in US Mortgage Backed Securities after the position hit its target return of 5% on September 5.

Tactical Asset Allocation

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Tactical Asset Allocation

Exhibit 1: Tactical Asset Allocation with a 3m-6m view

Asset Class	Positioning					Balanced		
	SUW	UW	N	OW	SOW	SAA	TAA	Active
Equities						41.2	43.1	1.9
North America						25.8	26.8	1.0
US Homebuilders						0.0	2.0	2.0
Europe						7.0	7.0	0.0
Japan						2.3	2.8	0.5
APac ex Japan						5.0	3.8	-1.2
EM ex Asia						1.0	0.7	-0.3
Fixed Income						58.8	56.9	-1.9
DM Treasuries IG						32.9	32.9	0.0
DM Corporate IG						12.5	12.5	0.0
EM USD Sovereigns IG						0.8	0.8	0.0
EM LCY IG						5.1	4.5	-0.6
EM Corporate IG						0.6	0.3	-0.3
Global HY						5.0	5.0	0.0
Cash						2.0	1.0	-1.0
Alternatives						0.0	0.0	0.0

Colour legend



Current



Previous

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, LSEG Workspace, and ADCB Asset Management | Notes: *Positioning recommendations: SUW = Significant Underweight; UW = Underweight; N = Neutral; OW = Overweight; SOW = Significant Overweight. **Based on balanced risk profile. SAA = Strategic Asset Allocation; TAA = Tactical Asset Allocation; Active weight = TAA weight – SAA weight. Weights may not sum to 100% due to rounding.

Exhibit 2: Strategic Asset Allocation

	Cautious	Balanced	Aggressive
Investment objective	Capital Preservation & Moderate growth	Growth & Income	Growth & Moderate Income
Investor Suitability	Moderately Conservative	Moderate	Moderately Aggressive
Asset Allocation			
Equity	20%	35%	65%
Fixed Income	65%	50%	20%
Alternatives	15%	15%	15%

Source: ADCB Asset Management

Tactical Asset Allocation

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Cross-asset focus lists

Exhibit 3: Our high conviction tactical investment themes – open positions

New/Open positions	Asset class	RV?	Date opened	Current date	Performance	Target	Stop
Silver	Commodities		15-Oct-25	15-Oct-25	0.0%	20%	-10%
US Small Caps (Russel 2000)	Equities		6-Oct-25	15-Oct-25	1.3%	20%	-10%
US Homebuilders	Equities		2-Sep-25	15-Oct-25	-4.5%	20%	-10%
Indian equities	Equities		11-Apr-25	15-Oct-25	8.3%	20%	-10%
Average					1.3%		

Source: Bloomberg, and ADCB Asset Management

Exhibit 4: Our high conviction tactical investment themes – closed positions

Closed positions	Asset class	RV?	Date opened	Closed date	Performance	Target	Stop
Silver	Commodities		22-Sep-25	15-Oct-25	20.4%	20%	-10%
Copper	Commodities		15-Jun-23	15-Oct-25	26.5%		
Silver	Commodities		10-Jun-25	22-Sep-25	20.6%	20%	-10%
Gold	Commodities		14-Nov-22	14-Jun-23	9.7%		
Commodities average					19.3%		
US Small Caps (Russel 2000)	Equities		6-Mar-24	6-Oct-25	20.2%	20%	-15%
High dividend yielders index	Equities		6-Mar-24	10-Jun-25	15.1%	15%	-10%
Gold miner equities	Equities		17-Mar-25	2-Jun-25	20.8%	20%	-10%
SPW relative to SPX	Equities	Yes	6-Mar-24	10-Apr-25	-5.7%	15%	-10%
Gold miner equities	Equities		25-Nov-24	17-Mar-25	22.3%	20%	-10%
HK equities	Equities		14-Nov-22	13-Nov-24	13.3%		
Chinese hotels & leisure	Equities		14-Nov-22	13-Nov-24	-18.6%		
Chinese semiconductors	Equities		22-Mar-23	13-Nov-24	9.0%		
Dow Jones World Cons. Goods	Equities		25-Aug-23	6-Mar-24	1.5%		
Indian equities	Equities		22-May-23	6-Mar-24	31.3%		
Cybersecurity	Equities		22-Mar-23	6-Mar-24	26.9%		
Gold miner equities	Equities		14-Nov-22	14-Jun-23	13.1%		
US Div.banks over US Regional	Equities	Yes	13-Mar-23	13-Jun-23	24.8%		
Equities average					13.4%		
US Mortgage Backed Securities	Secur. credit		11-Apr-25	5-Sep-25	5.2%	5%	-5%
UK gilts over other DM Sov.	Rates	Yes	14-Nov-24	1-Sep-25	-2.5%	5%	-5%
UST (7Y-10Y) over other DM Sov.	Rates	Yes	5-Jul-22	13-Nov-24	-1.1%		
EU IG Corp over US IG Corp	Credit	Yes	9-Jan-23	13-Nov-24	6.0%		
Asia investment grade credit	Credit		9-Jan-23	14-Jun-23	1.8%		
Fixed Income average					1.9%		
USDJPY	FX		6-Mar-24	26-Apr-24	-6.0%		
GBPUSD higher	FX		15-Jun-23	20-Sep-23	-3.4%		
USDJPY lower	FX		9-Jan-23	14-Jun-23	-6.1%		
GBPEUR lower	FX		9-Jan-23	14-Jun-23	-2.9%		
FX average					-4.6%		

Source: Bloomberg, and ADCB Asset Management

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