CITY OF LONDON
Investment Management Company Limited

Developed Markets Quarterly Outlook

November 2025*

Overview

Bubbles and Sovereign AI

Global equities hit new highs in October, driven by Fed cuts, easing US-China tensions, and sustained investment in artificial intelligence (AI). While concerns of froth have resurfaced – as evidenced by a rise in "AI bubble" Google searches - our core themes remain intact. We expect near-term volatility amid macro uncertainty, but pullbacks offer opportunities to add exposure to AI and USD-weakness trades. Despite short-term headwinds, including delayed US data and tariff risks, we see long-term upside in AI-linked sectors and growing sovereign support for the industry. The USD remains overvalued, reinforcing our view that non-US equities should outperform as the currency weakens.

Global equities reached new highs in October supported by Fed cuts, a US-China truce, and ongoing AI-related spending. The strong performance has reignited concerns of market froth and Google trend terms such as "AI bubble" have risen sharply – arguably making the term itself a bubble (see chart 1). Some market choppiness is likely in the coming weeks following recent equity strength and a series of upcoming macro events. However, our core themes are unchanged, and market volatility or pullbacks should provide opportunities to re-engage in trades linked to AI and USD weakness.

Some short-term market headwinds include the ongoing US government shutdown, which is delaying economic data. Unsurprisingly, the FOMC lacks a strong consensus for a December cut given the limited availability of labour market and inflation data. In addition, the US Supreme Court could rule on the Trump administration's use of the International Emergency Economic Powers Act (IEEPA), potentially reigniting tariff uncertainty. Finally, some brief weakness in major AI stocks and USD strength have added to market jitters.

Looking ahead to 2026, we expect demand for AI compute will continue to support AI-linked industries and supply chains. The October Bank of America Merrill Lynch Fund Manager survey suggests our view is somewhat contrarian, with 54% of respondents saying AI is a "bubble". Admittedly, the term is open to interpretation, and we agree there is reasonable risk that US hyperscalers' capex spending will eventually lead to overinvestment in some areas (see chart 2). However, there is equal or greater upside risk that spending will continue accelerating for years and sentiment continues to broaden beyond the Mag-7 stocks.

Nvidia CEO Jensen Huang recently predicted that the annual global data centre expenditure could reach $3-4 trillion by 2030. Sell-side estimates are more modest, but directionally similar. The scale of spending increases will be difficult for private sector to sustain alone, but sovereigns will likely play a greater role. For example, the US government has begun to emulate elements of China's industrial policy by taking a 10% stake in Intel stock. Also, at the time of writing, OpenAI's CFO reportedly asked the government for loan guarantees to reduce the cost of borrowing. The ongoing US-China AI race provides a strong incentive for sovereigns to maintain spending and leadership as underinvestment and losing ground in AI pose national security risks. While the two countries appear to have a reached a one-year truce, the ongoing geopolitical tensions surrounding rare earth exports further reinforce the importance of national security as an important economic and market driver.

The year-to-date depreciation in the US dollar paused in recent months, with the currency experiencing a modest rebound. The short-term path for the dollar is difficult to forecast. Some commentators have highlighted the rise in the Treasury General Account (see chart 3) as a source of dollar liquidity drain as bank reserves fall, potentially adding some upward dollar pressure. Beyond the next few months, we continue to believe the risks to the US dollar are tilted to the downside, as outlined in our special report *USD Dollar Weakness: A Crowded Idea, Uncrowded Trade* (July 2025). The greenback remains overvalued on long-term valuation metrics and appears to be in the early stages of downcycle following a 15-year uptrend. Historically, non-US equities tend to outperform in periods of US dollar weakness (see chart 4).

Global Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
US	-		■			
Canada	-		■			
Eurozone	-			■		
Switzerland	-				■	
UK	-		■			
Japan	-				■	
Australia	-		■			
EM	-				■	

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: CLIM

International Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Canada	-		■			
Eurozone	-			■		
Switzerland	-				■	
UK	-		■			
Japan	-				■	
Australia	-		■			
EM	-				■	

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: CLIM

**This publication reflects asset performance up to 31 October 2025, and macro events and data releases up to 7 November, 2025, unless indicated otherwise.*

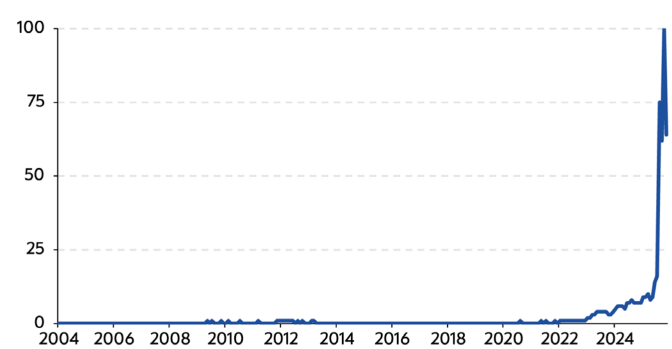
Market Strategy:

Our views are unchanged from the previous quarter. We continue to expect global central bank easing and looser financial conditions to support global equities. Underlying this trend, USD weakness should encourage a rotation toward non-US stocks and DM ex-US small-cap equities. In addition, further AI spending should support the broader supply-chain and key companies within that ecosystem.

We do acknowledge growing systemic risks from increased use of "vender financing" and leverage in the technology sector. While the consensus view that AI is a "bubble" may hold some merit, further private or sovereign spending will be a tailwind for the AI supply-chain, and we believe strategic investors should hold some exposure. Our positive views on EM, Japan, and Netherlands fit within this theme. We also note that the AI theme is broadening beyond Mag-7 stocks this year, providing opportunities at more compelling valuations. For example, the EM 'HATTS' have outperformed the Mag-7 in 2025 following underperformance in prior years (see chart 5).

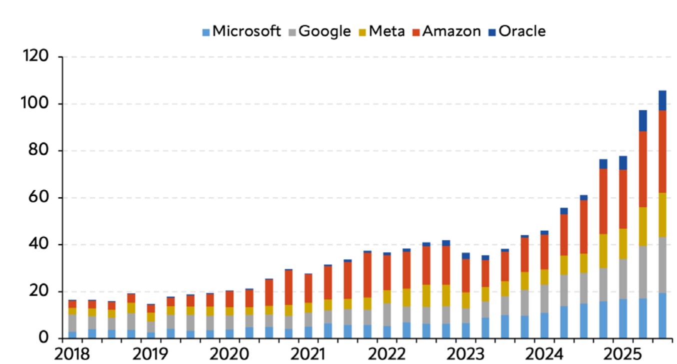
Justin Kariya
*November 7, 2025***
*** The document includes contributions from Tom Traill.*

Chart 1: Google Search Trend "AI Bubble" (Index)



Source: Google Trends

Chart 2: US Big Tech Quarterly Capex ($bn)

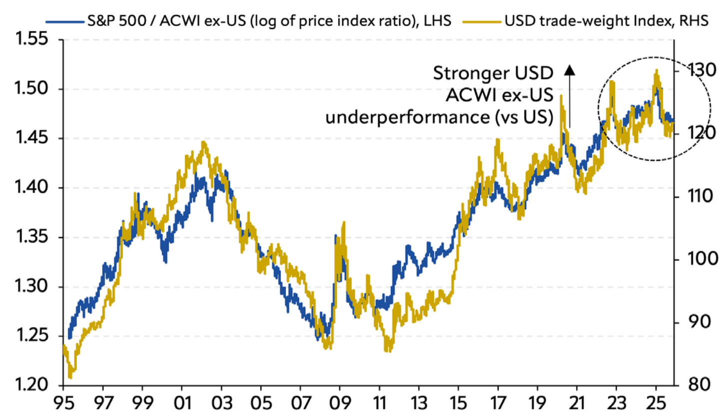


Source: Bloomberg

Chart 3: US Treasury General Account (TGA) balance at the Fed ($bn)

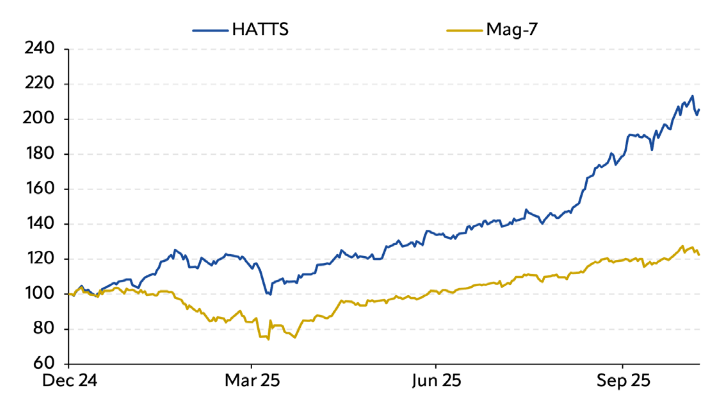
Source: Bloomberg

Chart 4: US Equities (vs RoW) and the US Dollar



Source: Bloomberg

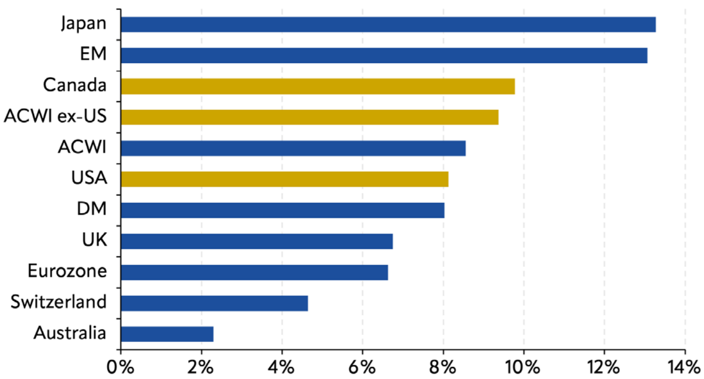
Chart 5: 'HATTS' have outperformed Mag-7 in 2025



Source: Bloomberg

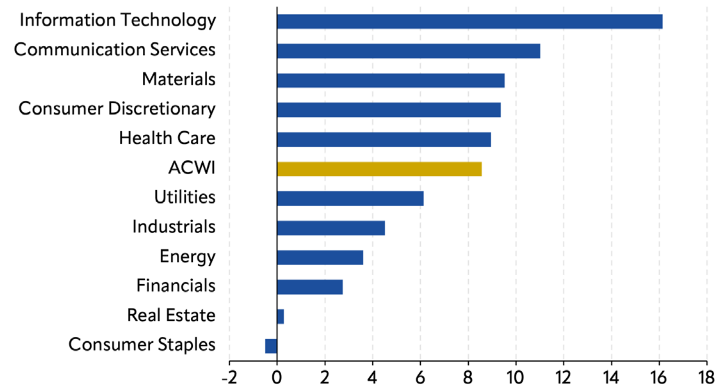
Note: Total return index, equally-weighted in USD.
HATTS = Hynix, Alibaba, TSMC, Tencent, and Samsung
Mag-7 = Microsoft, Apple, Alphabet, Amazon, Meta, Nvidia, and Tesla

Chart 6: ACWI, Net TR USD, Aug-Oct, %



Source: Bloomberg

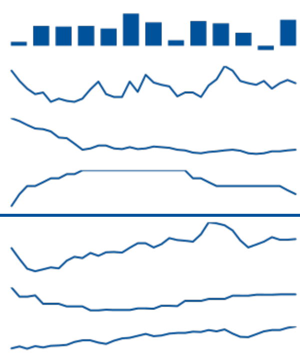
Chart 7: ACWI Sectors, Net TR USD, Aug-Oct, %



Source: Bloomberg

United States

UW (Global Index)



	3Y history	Latest	
GDP, % qoq saar		3.8	Q2
PMI, index		48.7	Oct
CPI, % yoy		3.0	Sep
Policy rate, %		3.88	Oct
MSCI USA*		-0.4%	Oct
EPS, % yoy		11.7	Oct
Trailing P/E		29.1	Oct

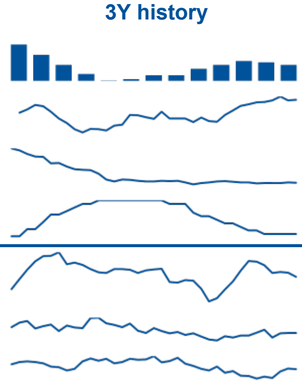
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- US earnings are expected to grow strongly in 2026, supported by continued economic expansion and relatively accommodative monetary and fiscal conditions. This backdrop could see the index rise in absolute terms. However, further Fed rate cuts and structural factors are likely to weaken the dollar, a move that historically correlates with US underperformance versus global peers.
- The US tech sector remains a key driver of market concentration. Mega-cap firms lead in AI innovation and have dominated index performance, but questions persist about their ability to monetize AI effectively and translate capital expenditure into sustainable earnings growth.
- Several labour market indicators have softened, and tariff-related uncertainty continues to weigh on sentiment. Valuations remain elevated - by most measures, US equities trade well above historical averages. If the dollar continues to weaken and revenues fall short of expectations, the index is likely to underperform. We therefore maintain our small *underweight* position in US equities.

Eurozone

NW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.3	Q3
PMI, index		50.0	Oct
CPI, % yoy		2.1	Oct
Policy rate, %		2.15	Oct
MSCI Eurozone*		-1.9%	Oct
EPS, % yoy		0.6	Oct
Trailing P/E		15.2	Oct

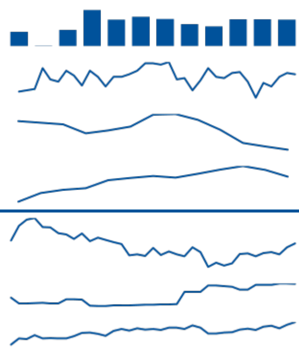
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- The European economy is gradually improving; the Eurozone PMI is low but above 50 and trending higher. Inflation has stabilised near target, and the ECB rate cuts should support the markets with a lag. In some cases, notably France, political uncertainty has increased, but there is a broader push across the bloc to boost defence spending.
- While a weaker dollar typically benefits international stocks, a stronger euro may create headwinds for the large-cap exporters. Small-caps are likely to outperform if euro appreciation resumes. Eurozone earnings are projected to grow slightly slower than the global aggregate in 2026 and 2027.
- We continue to favour advanced tech exposure, and maintain an *overweight* in Netherlands, where the IT sector makes up over 40% of the index. Against this we continue to hold a small *underweight* in the rest of the bloc, keeping our *neutral* position in the Eurozone overall.

Emerging Markets

OW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		4.9	Q2
PMI, index		51.1	Oct
CPI, % yoy		2.5	Sep
Policy rate, %		6.63	Oct
MSCI EM*		4.5%	Oct
EPS, % yoy		14.5	Oct
Trailing P/E		17.0	Oct

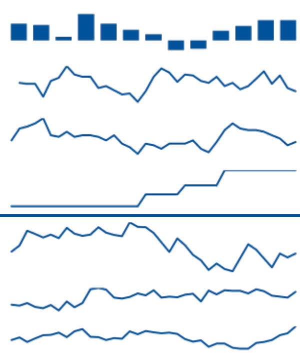
**US$ total return relative to MSCI ACWI. Latest is three-month return. Economic indicators are GDP-weighted with the exception of PMI, which is value-added-weighted.*

Source: Bloomberg

- AI and the associated hardware remain in a structural growth phase. EM – particularly Korea and Taiwan – are leading manufacturers of both semiconductors and high-bandwidth memory chips and are well positioned to benefit from ongoing demand in this area. In many cases these companies have significant market power and are comparatively cheaply valued relative to their US counterparts.
- Although US tariffs seem likely to remain elevated, measures of policy uncertainty have eased, and trade talks suggest there is room for exemptions. Easing US monetary policy has helped weaken the dollar, creating conditions that typically favour EM.
- EM earnings growth is expected to be robust, driven in part by the strength of the tech sector. The index is also likely to benefit from a weaker dollar. We therefore continue to hold an *overweight* position.

Japan

OW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.7	Q2
PMI, index		48.2	Oct
CPI, % yoy		2.9	Sep
Policy rate, %		0.50	Oct
MSCI Japan*		4.7%	Oct
EPS, % yoy		13.8	Oct
Trailing P/E		18.9	Oct

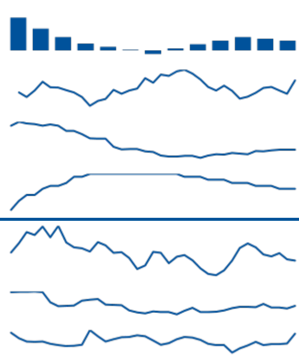
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- Japan's new Prime Minister, Sanae Takaichi, is broadly pro-market, but her lack of a stable majority in both houses of the Diet may constrain progress. Nevertheless, the Tokyo Stock Exchange's initiative to improve corporate governance and efficiency remains on track. Continued progress should warrant a re-rating of Japanese equities.
- Macro indicators remain supportive. Japan's composite PMI is in expansionary territory, and inflation is showing signs of persistence. The yen remains undervalued, offering potential upside for dollar-based investors. Additionally, stable energy prices are a net positive for Japan as a major energy importer.
- The equity market has good momentum, buybacks are becoming more widely used, valuations are undemanding relative to global peers, and Japan offers diversification benefits amid potential moderation in U.S. exceptionalism. We see sufficient macro and structural tailwinds to support continued outperformance. We remain *overweight*.

United Kingdom

UW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.4	Q2
PMI, index		49.7	Oct
CPI, % yoy		3.8	Sep
Policy rate, %		4.00	Oct
MSCI UK*		-1.8%	Oct
EPS, % yoy		3.0	Oct
Trailing P/E		15.9	Oct

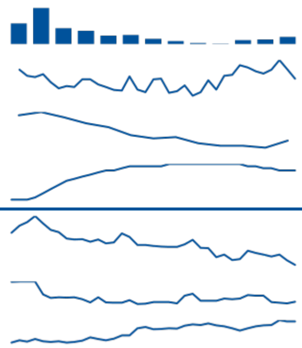
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- MSCI UK is heavily weighted toward Energy, Financials and Consumer Staples. Energy appears unlikely to outperform given an oversupplied oil market and the US's desire to keep prices contained. The financial sector also faces potential headwinds as policy rates drift lower. Staples are likely to lag if AI-driven momentum pushes global equities higher. The market has lagged in recent periods and is currently trading in line with its five-year average.
- We expect UK small-caps to outperform large-caps. A weaker USD environment tends to favour more domestically exposed firms, and UK small-caps offer compelling valuation opportunities.
- While the MSCI UK Index may see positive absolute returns, we expect it to underperform other DMs. Earnings expectations are negative for 2025, and subdued for 2026. We therefore stay *underweight*.

Australia

UW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.8	Q2
PMI, index		49.7	Oct
CPI, % yoy		3.2	Sep
Policy rate, %		3.60	Oct
MSCI Australia*		-6.3%	Oct
EPS, % yoy		-8.2	Oct
Trailing P/E		20.8	Oct

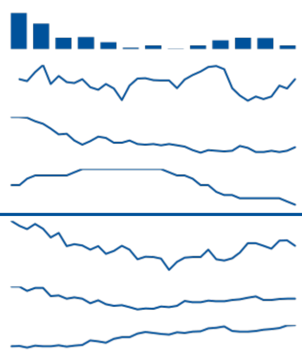
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- The financial sector accounts for over 40% of the MSCI Australia index. This sector has outperformed the aggregate year-to-date and now trades at elevated valuations. Falling DM policy rates are likely to put pressure on net interest margins. Largely due to the strength of the financial sector, the MSCI Australia Index is richly valued, while earning expectations are very weak for both 2025 and 2026.
- The weaker USD environment favours commodity strength, a backdrop that traditionally benefitted Australia. Copper – historically correlated with the Australian index – is expected to be in demand, driven by increased global electrification. However, Australia's main commodity exports (iron ore and coal) may lag relative to previous cycles due to persistent weakness in Chinese property demand.
- Given weak earnings expectations and elevated valuations, we maintain our *underweight* position.

Canada

UW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.2	Q2
PMI, index		49.6	Oct
CPI, % yoy		2.4	Sep
Policy rate, %		2.25	Oct
MSCI Canada*		1.2%	Oct
EPS, % yoy		4.0	Oct
Trailing P/E		21.0	Oct

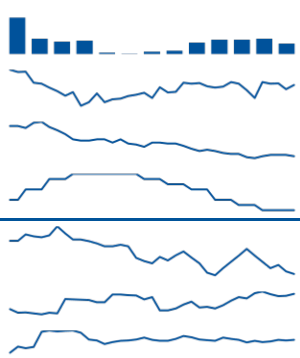
**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- Financials and Energy combined account for approximately half of the MSCI Canada Index. Both sectors face headwinds. Lower policy rates typically compress bank net interest margins, while the global energy market faces a surplus of oil supply.
- Materials form the third largest sector and include gold and uranium miners – two subsectors that delivered significant outperformance this year. While we maintain a constructive outlook on global miners, overbought conditions should limit further strength.
- Canada remains exposed to US tariffs and no new trade deal has been reached. However, many Canadian exports are covered by the existing USMCA framework.
- The MSCI Canada Index continues to trade at elevated valuation levels, and the large weight of the richly priced financial sector may be a drag on performance. We therefore stay *underweight*.

Switzerland

OW (Global and Global ex-US index)



	3Y history	Latest	
GDP, % yoy		1.3	Q2
PMI, index		48.2	Oct
CPI, % yoy		0.1	Oct
Policy rate, %		0.00	Oct
MSCI Switzerland*		-3.9%	Oct
EPS, % yoy		21.0	Oct
Trailing P/E		19.4	Oct

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

- Switzerland, a historically defensive market, is likely to outperform in the event of a market pullback. Recession risks have faded, and our allocations have tilted more pro-cyclical this year. However, we have maintained our Swiss exposure, as valuations appear attractive and a rebound looks increasingly likely following several setbacks.
- One reason the market remains cheap is its heavy weighting to the Health Care sector (around one third of the index). This sector has underperformed in recent periods, but now appears to be rebounding from depressed levels. In addition, Switzerland was unexpectedly hit with 39% US tariffs earlier this year, which has weighed on sentiment.
- We keep our *overweight* but may look to downgrade in the future following some mean reversion in valuations.

GLOBAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS

	Developed Markets	Macroeconomic Data: % change on year ago: Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Latest 12 months: Budget Balance % of GDP 2025F**	Trade Balance	Current Account Balance	Foreign Reserves 2025 Latest	Foreign Reserves 2024 Year ago	Currency vs $ 2025 Latest	Currency vs $ 2024 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	Market Performance: % MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/24 US$	Change since 12/31/24 Local	Forecast†: 2025 P/E Forecast	3-month Currency vs $ +/-
		%	%	%	%		$ Bn	$ Bn	$ Bn	$ Bn			%		Oct 31, 2025	Oct 31, 2025	%	%		
Overweight	EMERGING MARKETS	4.9	n.a.	4.7	2.5	-4.7	1208	827	8194.73	8004.18	1837.19	1756.92	6.63	n.a.	10.96	762.49	32.86	30.02	15.8	n.a.
	JAPAN	1.7	2.2	3.4	2.9	-3.4	-22	200	1165.06	1112.93	153.51	154.67	0.53	A+	4.89	10755.81	24.80	22.33	18.8	+
	SWITZERLAND	1.3	0.4	-0.1	0.1	0.3	74.3	67.0	911.66	847.50	0.81	0.88	-0.06	AAA	1.98	21692.73	22.26	8.30	18.6	+
	NETHERLANDS	1.6	1.6	0.0	3.1	-2.2	n.a.	94	7.68	6.19	1.15	1.07	2.03	AAA	1.08	35269.82	35.96	22.63	21.2	+
Neutral	DENMARK	0.9	1.6	-5.8	2.3	2.1	45	53	111.99	100.62	6.47	6.95	1.60	AAA	0.39	42218.09	-20.55	-28.63	14.9	+
	EUROZONE	1.3	0.8	1.1	2.1	-3.2	2	5	372.30	299.38	1.15	1.07	0.66	n.a.	7.65	593.23	34.31	20.58	16.5	+
	HONG KONG	3.8	2.8	0.9	1.1	-2.7	-51	56	421.41	423.31	7.78	7.78	3.43	AA+	0.44	74620.39	32.11	32.20	15.0	-
	ISRAEL	1.5	-3.9	10.1	2.5	-5.2	-39.3	13.6	227.25	215.81	3.26	3.73	4.44	A	0.23	257.81	25.15	17.33	13.2	-
	NEW ZEALAND	-0.6	-3.6	4.7	3.0	-2.8	-1	-10	24.01	17.32	0.57	0.59	2.15	AA+	0.04	597.60	0.33	-1.84	41.1	-
	NORWAY	-1.3	2.4	5.0	3.6	12.2	68.3	85.9	81.03	80.34	10.19	11.08	4.24	AAA	0.12	12372.77	26.72	12.88	12.7	+
	SINGAPORE	2.9	5.8	16.1	0.7	0.9	196.4	102.1	378.44	370.39	1.30	1.33	1.39	AAA	0.38	1982.62	30.56	25.81	16.6	+
Underweight	SWEDEN	1.4	2.0	10.9	0.9	-1.4	6.3	36.4	44.90	43.19	9.54	10.86	1.95	AAA	0.78	40618.88	30.89	14.94	20.4	+
	UK	1.4	1.2	-0.7	3.8	-4.4	-38	-102	122.09	106.80	1.31	1.29	4.02	AA	3.17	10919.30	28.39	22.39	14.5	+
	UNITED STATES	2.1	3.8	0.9	3.0	-6.1	-1058	-1315	39.21	37.81	1.00	1.00	3.67	AA+	64.73	19718.96	17.34	17.34	26.0	uc
	AUSTRALIA	1.8	2.4	-1.9	3.2	-1.0	33	-37	42.18	39.96	0.65	0.66	2.70	AAA	1.43	6330.06	14.71	8.50	20.4	+
	CANADA	0.7	-1.6	0.8	2.4	-1.6	-22	-21	97.14	99.09	1.41	1.39	2.26	AAA	2.87	11096.58	27.16	23.88	18.7	+

*Note: All data shown are as at November 5, 2025 unless otherwise stated. S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast.*
****MSCI All Country World Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg.*
†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results. This is Stage Two of City of London's three-stage asset allocation process.

Source: Bloomberg, CLIM

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Disclosures