Passive Plus Managed Portfolio Service

Quarterly report – Q3 2025

Brewin Dolphin

Introduction

Welcome to the RBC Brewin Dolphin Passive Plus MPS investment review. In this report, we cover information and events that influenced performance during the third quarter of 2025.

The third quarter saw major central banks begin to chart different courses. In the U.S., the Federal Reserve (the Fed) cut interest rates by 0.25% in September, paving the way for further reductions in 2025 and beyond. The Fed has prioritised supporting the jobs market, even as inflation remains above target. In contrast, the Bank of England (BoE) and the European Central Bank (ECB) have kept rates steady. The BoE is concerned by persistent inflation, while the ECB thinks inflation and interest rates are currently at a stable level.

The quarter saw political drama that tested markets' confidence in the Feds independence. Events included President Donald Trump's vocal pressure of Fed Chair Jay Powell to lower interest rates, the president's attempt to fire Fed Governor Lisa Cook, and his appointment of Stephen Miran, a Trump loyalist, as Fed governor.

The U.S. jobs market softened over the quarter, with slowing job gains, falling vacancies and easing wage pressures. The slowdown could be part of a natural rebalancing after the post-COVID-19 hiring surge, when job openings far exceeded the number of unemployed. It may also reflect temporary caution from companies amid lingering tariff uncertainty.

Although a weaker job market increases economic risks, our view is that it's not sinister enough to trigger a recession. Other economic data was encouraging; household spending and retail sales remained resilient, wages continued to outpace inflation, and business optimism is improving.

This 'temperate' economy – where the economy remains on solid footing despite some weak patches of data – is referred to by economists as a 'Goldilocks economy' – not too hot and not too cold. A too hot economy would force the Fed to keep rates high, while a too cold economy would risk an economic contraction.

The 'Goldilocks economy' is positive for markets as it eases financial conditions (although the Fed considers interest rates of 4.25% restrictive, the neutral rate being estimated at 3% implies there's room for future cuts). Real wage growth and tax cuts also continue to support household spending and the case for a broadly resilient economy heading into 2026.

Corporate earnings have been better than expected, with technology continuing to lead the way. AI-related investments and infrastructure spending are translating into real revenue and profit growth. Companies exposed to cloud services, semiconductors and enterprise software are particularly reaping the rewards.

Market overview Q3 2025

- Equity markets rose strongly over the last quarter, driven by optimism about artificial intelligence (AI)'s long-term potential to boost productivity. Whether that optimism is fully justified will take time to reveal, but for now, markets are responding positively to significant capital investment being made by major tech companies. The strongest contributors were Asia and Emerging Markets, Japan, and North America, which all rose by 10% or more.
- Microsoft, Meta and Alphabet have announced hundreds of billions of dollars in capital expenditure over the coming years and have seen their share prices rise. More recently, we've seen Nvidia invest $100 billion in OpenAI, the maker of ChatGPT, underlining the optimism in technology.
- Developed Europe ex-UK added 5%, while the UK market delivered a solid 6.9% uplift. This broad-based equity rally helped lift portfolios.
- In Alternatives, the standout performer was gold, which advanced 18.4% during the quarter. Property also contributed 5.1%, while Absolute Return added a more modest 1.6%.
- Bonds made more modest gains, supporting lower-risk portfolios in particular. This was partly due to the U.S. Federal Reserve cutting interest rates under pressure from U.S. President Donald Trump, who appointed a trusted adviser, Stephen Miran, to its board.
- Global Corporate Bonds rose 2.2%, while Global Inflation-Linked (+0.8%) and Global Sovereign (+0.7%) were flat-to-positive. The only negative was UK Sovereign Bonds (-0.6%), reflecting higher gilt yields. UK Corporate Bonds managed +0.8%.

Passive Plus MPS performance

Passive Plus MPS performance	Q3	2025 YTD	1yr	2yr	3yr	4yr	5yr	2024	2023	2022	2021	2020
Cautious Portfolio	3.7	6.3	6.7	19.4	22.8	9.6	17.6	6.2	6.6	-10.8	4.5	4.2
Cautious Higher Equity Portfolio	4.4	6.9	7.8	21.8	26.5	13.6	25.0	7.6	7.5	-10.5	7.2	3.4
Income Portfolio	5.1	7.4	8.8	23.8	29.6	17.3	31.8	8.9	8.2	-9.9	8.7	2.5
Income Higher Equity Portfolio	5.6	7.8	9.9	26.0	33.6	22.4	40.8	10.5	9.3	-9.0	11.2	1.9
Balanced Portfolio	6.1	8.1	10.8	27.9	36.9	26.9	49.5	11.8	10.1	-8.3	13.8	2.4
Growth Portfolio	7.2	8.9	12.5	31.4	42.8	33.7	63.3	14.0	11.3	-7.4	17.1	2.4
Global Equity Portfolio	8.3	9.7	14.5	35.5	50.3	41.7	79.6	16.7	13.0	-6.9	20.4	0.9

All figures shown above are calculated to 30 September 2025.

Performance Calculation: All income is reinvested. Performance is shown inclusive of underlying fund charges but gross of RBC Brewin Dolphin's investment management charge. Deduction of this charge will have the result of reducing the illustrated performance. Neither simulated nor actual past performance are reliable indicators of future performance.

Passive Plus MPS performance highlights Q3 2025

Asset allocation

What worked and why?

Lower risk portfolios in particular benefitted from the overweight position to gold, which soared to new highs during the third quarter.

What didn't work and why?

Being underweight corporate bonds was unhelpful as credit spreads (the amount investors are paid for taking additional risk over government bonds) remained near historically low levels.

Fund selection

What worked and why?

The Schroder Global Cities strategy, which holds commercial property through listed real estate investment trusts, outperformed.

What didn't work and why?

After a strong performance in Q2, the HSBC FTSE 250 index fund, which has exposure to UK mid-caps, underperformed this quarter. We believe that valuations in this part of the market remain attractive.

The value of investments can fall and you may get back less than you invested.

Passive Plus MPS portfolio changes Q3 2025

Asset allocation

The Asset Allocation Committee made no changes in July and September. In August, it voted to raise the overweight to global inflation-linked bonds slightly, from 1% to 1.5%. This was paid for by cutting our position in global conventional government bonds from 0.5% overweight to neutral.

The decision was made in light of the announcement of U.S. tariffs on more than 90 countries around the world. Tariffs are likely to put upward pressure on prices, leading to inflation at least over the next year or so. Currently, markets are only pricing in an expectation of inflation being around 2.4%, but this figure could turn out to be higher.

Fund selection

The Marshall Wace TOPS Global Titans fund was added to the MI Select Managers Alternatives fund over the quarter. The strategy constructs a long-short equity portfolio by aggregating analysts' views from across the financial industry.

Information is provided only as an example and is not a recommendation to pursue a particular strategy.

Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.

↑ Cash

We hold an overweight in cash, which provides some ammunition we can deploy when the outlook for other typically higher-yielding asset classes improves.

↓ Bonds

Our sense is that the greater risk is that global bond yields rise rather than fall from current levels.

With Japan set to get a new prime minister who's in favour of a more proactive fiscal policy, this should help further solidify the re-emergence of inflation, eventually leading to additional Bank of Japan rate normalisation, and further upside in Japan government bond yields.

In Europe, French bonds deserve to be trading on a bigger risk premium given the political backdrop and ugly debt arithmetic, in our view.

In the U.S., in our base case scenario (which sees economic growth slow, but not excessively), there's limited room for Federal Reserve interest rate expectations to move lower. Meanwhile, we expect the U.S. term premium and inflation expectations to rise.

UK gilts should outperform, but we acknowledge the risk that the Labour party does something to disappoint the bond market. We continue to favour government bonds over corporate bonds.

With spreads tight, and given our desire to stick with a small equity overweight, our bond positioning acts as a partial portfolio hedge against recession risk.

↑ Global Equities

We expect the global economy to continue to expand, which is consistent with corporate profits going up. We also believe there's potential for artificial intelligence (AI) themes to drive both strong economy-wide productivity and continued solid profit gains among the AI pick-and-shovel plays.

However, we believe only a small equity overweight is appropriate. For one, there's limited room for cyclical economic growth. Most economies are close to full employment and there isn't much scope for labour force participation to rise. Meanwhile, U.S. President Donald Trump's immigration clampdown is weighing on U.S. labour force growth. The upshot is that there's limited room for jobs growth.

Further, U.S. equity valuation multiples, concentration risk, and growth expectations among the AI plays are all elevated, and signs of froth have emerged. Finally, the large increase in U.S. tariffs should weigh on global growth and result in higher U.S. inflation than would otherwise be the case.

↓ Alternatives

We retain a small overweight in gold. We expect central banks to continue to diversify their reserve holdings out of the dollar and other developed world currencies. Meanwhile, there's scope for retail investors to raise their allocations to gold. The yellow metal also acts as a partial portfolio hedge against several risks.

First, the impact of tariffs. While most economists believe that the large increase in U.S. tariffs will weigh on growth and result in higher inflation than would otherwise be the case, the magnitude is highly uncertain. If the impact ends up being stronger than the consensus expects, gold should do well.

Another risk is longer-term in nature. Deglobalisation, a changing age structure of society that results in fewer workers relative to consumers (pushing up wage growth), and persistently high government deficits could result in somewhat higher inflation than central banks are targeting. Gold, being a real asset with a limited supply, would do well in this environment.

Finally, while we attached a low probability to this risk, gold would likely soar in the event that China invades Taiwan.

UK Equities

UK relative performance should continue to be closely linked to global value vs growth style performance. Some exposure to the value plays that the UK is so heavily weighted in is appropriate, in our view.

Although the domestic economic outlook is less important for UK equity relative performance given the high international exposure of the names that make up the UK large cap index, it still matters. Indeed, there's a positive relationship between the performance of UK vs global gross domestic product (GDP) and UK vs global equity performance. The UK economic growth outlook appears lacklustre. This is offset somewhat by the fact that the equity market trades on very undemanding valuation multiples.

U.S. Equities

The U.S. should maintain the productivity growth advantage it has enjoyed against the rest of the developed world.

Meanwhile, the U.S. equity market has outsized exposure to surging demand for AI goods and services. Nevertheless, we hold a tactical neutral position in the U.S., for several reasons. While the mega-cap digital names are trading on relatively high valuation multiples, this is less of an issue if they can continue to strongly expand profits. But that will be challenging, not least given how big these companies already are. In addition, the S&P 500 (excluding the 'Magnificent Seven') also trades on a large price-to-earnings premium to the World ex U.S. market.

While the dollar has stabilised from a short-term oversold position, our sense is that it has scope to decline further over the medium to longer term. A weak dollar would weigh on U.S. equity relative performance in common currency terms.

Weaker labour force growth due to the Trump administration's immigration clampdown, and the potential for tariff-related pain, are additional concerns.

Europe ex-UK Equities

We remain modestly overweight Europe ex UK. The region's valuation metrics are significantly less demanding than those of the U.S.

The euro exchange rate remains cheaply valued vs the dollar (relative to estimates of the purchasing power parity conversion rate), which suggests it has scope to strengthen further over the longer term. If correct, that would support Europe ex UK equity relative performance in common currency terms.

We expect only modest corporate profit growth given European economic growth prospects are subdued. A big boost to German defence and infrastructure spending should help close the growth gap with the U.S. somewhat.

Europe would also perform relatively well if some of the hot air comes out of the AI trade, as the region has relatively low exposure to it.

Japan Equities

Japan has implemented shareholder-friendly reforms, which could help drive a further expansion in relatively depressed price-to-book multiples.

Japan is now experiencing a healthy dose of inflation, with wage growth strengthening. Importantly, inflation expectations have also picked up. However, demographics amount to a major structural headwind for Japanese equity relative performance.

Meanwhile, with the unemployment rate low and labour force participation high, Japan doesn't have much scope to put idle economic resources to work to drive cyclical growth.

Asia ex-Japan Equities

China continues to battle multiple structural headwinds. That said, various revelations this year in areas like AI and electric vehicles have served as good reminders that China excels at innovation.

Chinese productivity growth has been much stronger than any other major country over the years, and that's likely to remain the case going forward. In addition, there's been a thawing in the relationship between the Chinese Communist Party and big business.

Finally, with deflation a much bigger risk than inflation, there's lots of scope for the authorities to pursue more stimulative monetary and fiscal policy.

In Asia ex Japan more broadly, we're drawn to the structural growth that India offers, not least because it's still at a very early stage of development, with lots of upside. Another attraction is Taiwan and the exposure to semiconductors that comes with it, which can be bought more cheaply than the U.S.-exposed names.

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