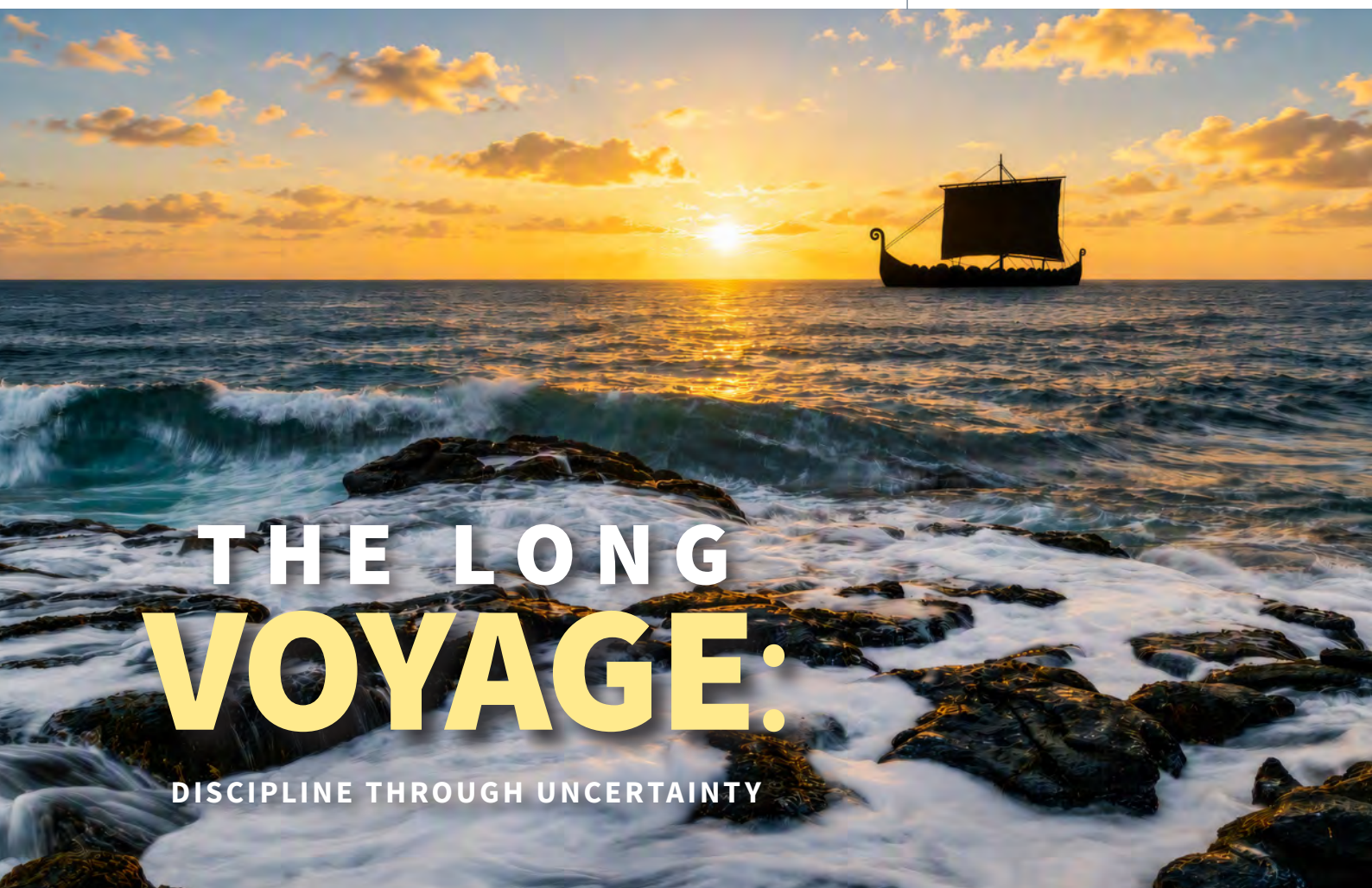


INVESTMENT STRATEGY QUARTERLY

LETTER FROM THE
CHIEF INVESTMENT OFFICER
page 2



THE LONG VOYAGE:

DISCIPLINE THROUGH UNCERTAINTY

What is inflation? ■ page 4 Q&A: The US national debt ■ page 7

A new industrial revolution? ■ page 9 The return of income: Bonds reclaim their role ■ page 12

UK Budget: Burnham's plans collide with fiscal reality ■ page 16

Budget 2026: What could come under the microscope? ■ page 18



Letter from the Chief Investment Officer

The long voyage: Discipline through uncertainty

Few stories have endured like *The Odyssey*. At its heart is a lesson that investors know well: The journey toward an important destination is rarely straightforward. Odysseus faced storms, distractions, false paths and unexpected setbacks that repeatedly threatened to push him off course. More than 3,000 years later, investors can probably relate to those tribulations. This year has presented no shortage of challenges. Geopolitical conflict, trade tensions, rising energy prices, shifting interest rate expectations and an increasingly active political backdrop have each taken turns dominating the sirens of headlines. Yet despite these obstacles, the economy has continued to expand, corporate profits have marched higher and markets have climbed one wall of worry after another. At its core, *The Odyssey* is a story about staying focused on the destination despite the distractions. Successful investing often requires the same discipline. That idea serves as the foundation for our fourth-quarter outlook.

The economy is the ocean investors must navigate. Some days the waters are calm. On other days they are rough. And while investors often focus on the waves above the surface, it is the currents below that ultimately determine where the voyage leads. Growth, inflation, employment, consumer spending, productivity and energy prices all influence those currents. The goal is not to predict every storm. It is to understand where the economy is headed and position portfolios accordingly.

As we enter the fourth quarter, those currents continue to point toward an economic expansion. In the US, consumer spending has cooled but remains healthy and the labour market continues to create jobs. Meanwhile, US investment tied to artificial intelligence, data centres, infrastructure and productivity-enhancing technologies remains a powerful tailwind and is increasingly gaining international traction too. Taken together, these forces support our expectation for US economic growth of ~2.3% in 2026 and global growth of around 3%.

That does not mean the waters are free from hazards. Inflation has remained above the Federal Reserve's (Fed) 2% target for more than six years and is on a rising trend around the world. Oil prices remain vulnerable to geopolitical disruptions, US gasoline has risen back above \$4 per gallon, and sharply higher pump prices are also apparent in the UK and across Europe. Central bank policy expectations continue to shift, while the approaching US Congressional midterm elections add another layer of uncertainty. In the US conditions may become choppy as the support from tax refunds fades, but the economy continues to demonstrate enough underlying strength that we see only limited recession risk as we move toward 2027.

Navigating treacherous economic waters remains one of a central bank's most difficult tasks. One of the most memorable moments in *The Odyssey* comes when Odysseus must traverse a narrow strait with dangers lurking

on both sides. The lesson does not relate specifically to the monsters on either side of the channel. It is more about navigating competing risks when there is no perfect path forward. A central bank faces a similarly delicate challenge. Cut rates too quickly and inflation could reaccelerate. Keep policy restrictive for too long and growth and employment could weaken. Like Odysseus, monetary policymakers are not attempting to eliminate risk, they are trying to navigate between competing risks while keeping the economy on course.

Adding another dimension to that journey, we expect Federal Reserve Chair Kevin Warsh to draw on the work of five recently created task forces as part of what appears to be an evolution, not a revolution, in the central bank's policy framework, decision-making process and communication strategy. While changes are likely to be gradual, investors should expect continued efforts to strengthen policy effectiveness and adapt the institution to an increasingly complex economic landscape. For now, the path appears manageable. US growth remains positive and job creation continues, but elevated inflation remains a concern. As a result, after raising rates in September, we expect one more rate hike before year-end in this mid-cycle adjustment. Progress towards suppressing inflation could eventually create room for lower rates at the tail end of next year, but absent a more meaningful deterioration in the labour market, policymakers are unlikely to move quickly.

If the economy represents the ocean, bonds represent the ship that helps investors navigate it. They may not always be the most exciting part of a portfolio, but periods of uncertainty often serve as a reminder of their value. An important shift in the investment landscape has been the return of attractive income opportunities. After years of near-zero yields, high-quality fixed income once again offers compelling income, diversification and stability. Over the next 12 months, we expect the 10-year Treasury yield to be in the range of 4.50% to 4.75% (and the 10-year gilt-edged at

4.50%) and continue to favour investment-grade corporate bonds. Importantly, investors do not need to move down in credit quality to generate attractive income.

While fiscal deficits, rising debt levels and elevated bond issuance remain long-term considerations, current yields provide a meaningful cushion against the threat of volatility while enhancing portfolio income. Strong demand for both government bonds and corporate debt should also help limit upward pressure on interest rates. Still, the story of the Trojan Horse offers a reminder that some risks build quietly over time. Deficit spending can support growth in the short run, but rising debt burdens, higher interest costs and reduced fiscal flexibility may eventually emerge as unintended consequences. For now, however, investors are well compensated for those risks. In our view, fixed income is no longer simply a source of diversification; it has once again become a source of return.

Cash, meanwhile, continues to offer an attractive yield and a sense of safety. But safety and opportunity are not always the same thing. Holding too much cash for too long can create reinvestment risk if interest rates move lower and may cause investors to miss opportunities elsewhere. A harbour can provide shelter during a storm, but it is rarely where a successful voyage ends.

When it comes to equities, another lesson from Greek mythology may be useful. Today's market leadership looks a lot like Achilles: powerful, dominant and central to the market's success. AI continues to drive earnings growth, capital spending, productivity gains and market performance. Technology remains the market's Achilles.

Naturally, investors continue to search for Achilles' heel. For some, that means concerns about valuations, or index concentration, or the market's dependence on a handful of mega-cap technology companies to drive aggregate profitability. Yet the reality is that the fundamentals remain remarkably strong. Earnings growth across many technology companies has outpaced share price appreciation, leaving valuations at some of their most attractive levels in nearly a decade. Just as importantly, visibility into future earnings remains unusually strong, with consensus expectations calling for earnings growth above 25% throughout 2027. On a valuation-to-growth basis, Technology remains one of the most compelling opportunities in the market.

More broadly, our outlook for US equities remains constructive, though not complacent. Corporate earnings continue their comfortable expansion, outlooks remain favourable and market participation is gradually broadening beyond a narrow group of companies. As a result, we forecast the S&P 500 moving toward 8,450 over the next 12 months.

Against that backdrop, our preferred US sectors remain Technology, Industrials and Consumer Discretionary. Industrials stand to benefit from ongoing investment in infrastructure, power generation, construction and defence. Meanwhile, the currently underperforming Consumer

Discretionary sector should be supported by a resilient labour market, rising incomes and continued consumer spending.

Turning from a sectoral perspective to a geographic one, our preferred destination remains the United States, supported by stronger economic growth, superior earnings momentum, leadership in artificial intelligence, and, in our view, a still-attractive valuation backdrop. But as Odysseus discovered, not every destination offers the same opportunities. Outside the US, we continue to favour Japan over Europe, reflecting Japan's greater exposure to technology, improving earnings trends and renewed emphasis on corporate governance and shareholder value. We also remain constructive on emerging markets and view Emerging Asia as well positioned to benefit from the AI-driven investment cycle. In our view, international investing is becoming less about broad regional allocations and more about identifying the markets best positioned to benefit from the secular and cyclical forces shaping the global economy.

Ultimately, every investor has an Ithaca, a destination they are working toward. For some, it is a comfortable retirement. For others, it is preserving wealth, generating income, building a legacy or simply having confidence that a long-term financial plan remains on track. The challenge is that the journey is rarely linear. Markets will always test conviction with uncertainty, volatility and unexpected developments. The most successful investors are not those who anticipate every twist and turn correctly. They are the ones who remain focused on their destination when distractions and detours inevitably arise.

One of the enduring lessons of The Odyssey is that success comes from keeping sight of the destination despite inevitable obstacles. Guided by Athena's wisdom and perspective, Odysseus remained focused on Ithaca. Alongside your wealth manager, we seek to do the same: to help investors look beyond today's distractions and stay focused on what matters most.

As we enter the fourth quarter, our message remains unchanged: Successful investing is not about predicting every gust in the sail. It is about maintaining perspective, staying disciplined and keeping your eyes on Ithaca. Markets will test patience and conviction, but long-term success comes from tuning out the noise and remaining focused on the journey's ultimate destination.

Wishing you a steady voyage into year-end.



Lawrence V. Adam, III, CFA, CIMA®, CFP®
Chief Investment Officer



What is inflation?

Eugenio J. Alemán, PhD, *Chief Economist*, Raymond James
Giampiero Fuentes, CFP®, *Economist*, Raymond James

Many times, when the price of a good or service increases, we hear that the increase is, by default, inflationary. While this can sometimes be true, it is not always the case. The distinction is more nuanced than many realise. Terms such as “food inflation” or “egg inflation,” for example, are frequently used to describe increases in the prices of specific goods, even though such price increases may not increase the price level, i.e., do not necessarily increase the rate of inflation. So, what is inflation? Inflation is defined as “a sustained increase in the general price level of goods and services in an economy over time”. The key phrase here is “general price level”. Inflation is not simply an increase in the price of a particular good or service, or many of those goods and services; rather, it refers to a sustained and broad-based increase in prices across the economy.

A VERY BASIC EXAMPLE OF INFLATION

To illustrate this concept, consider a simplified example. We will ignore factors such as seasonality and the relative weight of each item in the consumer price index. Assume a consumer purchases the same quantity of goods each month with a monthly budget of £100. In the first month, the consumer spends the entire £100 budget purchasing the goods shown in Scenario One.

The following month, the consumer goes back to the supermarket and the petrol station and buys the same quantities of the same goods as shown in Scenario Two.

Although the prices of several goods have changed, the consumer still spends exactly £100. How is this possible? The answer is that

prices moved in different directions, i.e., some prices went up, some down and some remained unchanged. In this example, petrol and cereal prices fell, while bread, milk, beef, eggs and fizzy drink prices increased. This is typical of what happens in real life.

Petrol prices, for example, often change significantly from month to month while the prices of other goods may rise or fall for a variety of reasons.

Even though almost all prices increased, the overall price level remained unchanged because the increases were offset by price declines elsewhere. Thus, inflation between the two months was 0%. In this simple example, there was no inflation even though many of

the goods purchased by the consumer became more expensive. It is also important to point out that, in this very simple example, the consumer did not have to sacrifice the quantity of goods purchased in the previous month. If petrol prices had fallen even further, the overall price level would have declined and there would have been a negative rate of change in prices, which is called deflation.

Next, we are going to look at a scenario where the prices go up so much that the consumer is faced with the choice of either decreasing the number of goods purchased or spending more than the budget allows. Let's say that the price of five of the goods remains the same as in the previous example, but the poultry industry is struck by bird flu, and the price of eggs increases further, while the price of petrol increases again. As we can see from the table below, now the consumer needs to decide whether to either stay within budget, which would be an adjustment in purchases, or borrow money from a bank,

or dip into a rainy-day fund, i.e. savings. If the consumer borrows money and/or uses a rainy-day fund to purchase the same number of goods as before at higher overall prices, it is validating this increase in the price level between one month and the next and thus, the rate of inflation during this month will be 5%.

If the consumer would like to continue to live within the budget, then he/she will probably have to either drive less and/or purchase fewer

Inflation is a sustained increase in the general price level of goods and services across the economy, not just a rise in the price of one product.

goods. This will reduce their consumption of petrol and/ or reduce their consumption of, for example, fizzy drinks, which is typically a discretionary item. The consumer could also shop around and look for cheaper alternatives or brands (i.e., generic products) that would keep him/her within budget. For simplicity, we are not going to contemplate this valid alternative in this example. In this case, the possibility that the consumer could access extra funds, either via borrowing or a rainy-day fund, makes inflation possible.

A CENTRAL BANK'S ROLE

Here is where a central bank (such as the Federal Reserve, Bank of England or European Central Bank) could help control inflation, or the increase in the price level.

A central bank can help bring inflation under control by increasing interest rates and thus reduce the rate of growth of the money supply as banks reduce lending. If a central bank increases interest rates, then

SCENARIO 1

Original prices and quantities

ITEM	PRICE (P)	QUANTITY (Q)	P x Q
Bread	£3.00	4	£12.00
Milk	£2.50	4	£10.00
Petrol	£4.00	7.5	£30.00
Cereal	£4.50	3	£13.50
Beef	£5.50	3	£16.50
Eggs	£3.00	3	£9.00
Fizzy drinks	£4.50	2	£9.00
Total budget:			£100
Actual expense:			£100

SCENARIO 2

Different prices, same total

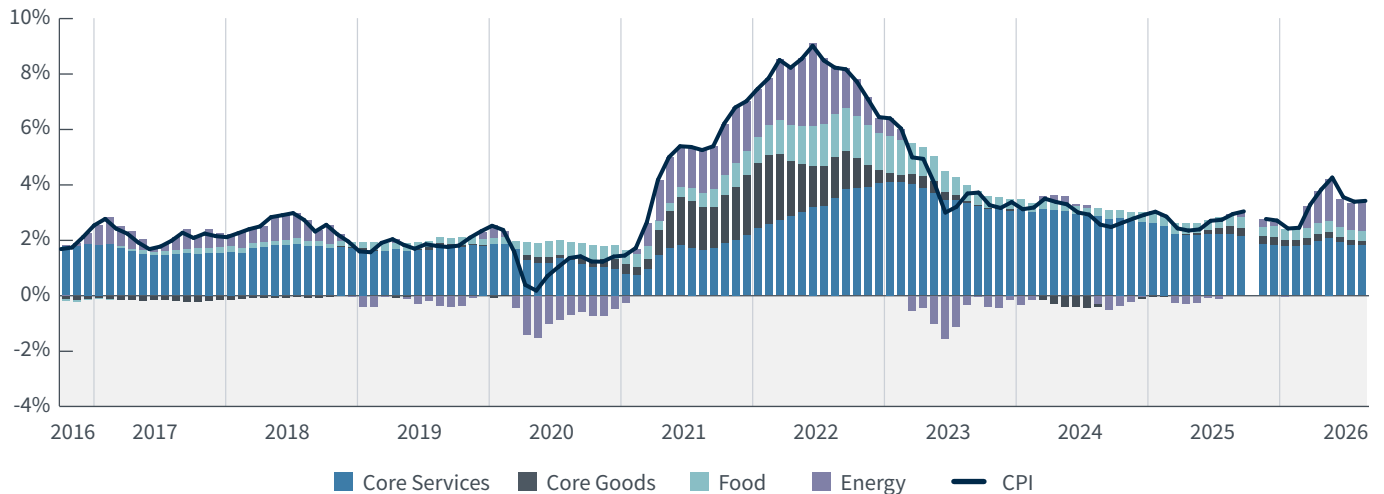
ITEM	PRICE (P)	QUANTITY (Q)	P x Q
Bread	£3.10	4	£12.40
Milk	£2.55	4	£10.20
Petrol	£3.59	7.5	£26.93
Cereal	£4.00	3	£12.00
Beef	£5.60	3	£16.80
Eggs	£3.50	3	£10.50
Fizzy drinks	£5.60	2	£11.20
Total budget:			£100
Actual expense:			£100

SCENARIO 3

Different prices, higher total

ITEM	PRICE (P)	QUANTITY (Q)	P x Q
Bread	£3.10	4	£12.40
Milk	£2.55	4	£10.20
Petrol	£3.75	7.5	£28.12
Cereal	£4.00	3	£12.00
Beef	£5.60	3	£16.80
Eggs	£4.76	3	£14.28
Fizzy drinks	£5.60	2	£11.20
Total budget:			£100
Actual expense:			£105

Contributions to CPI (Year-over-year)



Source: Bloomberg; monthly dates as of 8/1/26

borrowing becomes more expensive and reduces the incentives for consumers to access credit to make purchases. At the same time, the rate of interest is, in some sense, what determines whether we consume today and don't save or save more today and consume more tomorrow. Thus, by increasing interest rates, a central bank reduces the incentive to consume today and increases the incentive to save more, also contributing to lower consumption, and thus, lower inflation.

Higher interest rates reduce incentives to borrow and spend, helping cool demand and easing inflationary pressures over time.

BOTTOM LINE

The fact that the price of one good, or of many goods, increases doesn't mean that it is inflationary, as there is a possibility that other goods' (or services') prices are declining during the same period of time and the overall net effect may be inflationary, deflationary or even show no change in the rate of inflation.

What is important is that a central bank has the tools to address inflation when it moves away from its target. It does that by increasing the short-term interest rate, such as the UK base rate, which reduces the rate of growth of money supply, helping to reduce the rate of inflation over time. This is what is at the heart of Milton Friedman's famous quote "inflation is always and everywhere a monetary phenomenon."

KEY TAKEAWAYS

- Inflation is not the same as a price increase. Inflation occurs when there is a sustained increase in the overall price level across the economy, not simply when the price of a single item or several items rises.
- Individual prices move in different directions. Some prices rise, some fall and others remain unchanged. Inflation depends on the net effect of these changes on the overall price level.
- Inflation affects purchasing power. When overall prices rise faster than income, consumers must either spend more, save less, borrow and/or reduce consumption.
- A central bank fights inflation through interest rates. By raising short-term interest rates, a central bank makes borrowing more expensive, slows spending growth, and helps bring inflation back toward its target.



■ Q&A: The US national debt

Eugenio J. Alemán, PhD, *Chief Economist*, Raymond James
Giampiero Fuentes, CFP®, *Economist*, Raymond James

Rising national debt levels across many developed global economies are back in the news and concerns that we might have reached a tipping point are reflected, at least in part, by the widespread rise in government bond yields. Bond market pricing adjustments are clear in the UK, France, Japan and elsewhere, but from a systemic perspective, fears are greatest in the United States where the national debt is often treated as a political scorecard. The central challenge, however, has less to do with the United States' ability to pay than with the political system's willingness to put its fiscal account on a sustainable path.

Q: Who actually owns the US national debt – and does it matter to whom the money is owed?

A: First, we need to separate gross federal debt from debt held by the public. Gross debt includes Treasury securities held within the federal government, particularly in trust funds such as Social Security. These are assets to one government account and liabilities to another, so they do not directly represent financing raised from outside the federal government. Debt held by the public, by contrast, is owned by outside investors, including households, funds, banks, insurers, the Federal Reserve and foreign investors, and is the more economically relevant measure. This debt must be financed in capital markets, requiring the government to continually attract investors and make interest payments. As it grows, it can increase borrowing costs, consume a larger share of federal tax revenues and potentially compete with private investment for

capital. Today, net interest payments on the federal debt exceed \$1 trillion annually, more than four times the roughly \$240 billion paid just a decade ago.

Who owns the debt matters, but the cost of financing it matters more. In profoundly interconnected financial markets, the US relies on a broad mix of investors to buy Treasury securities and refinance debt as it comes due. As long as there is strong demand for Treasuries, the government can continue to borrow and refinance its obligations. The bigger concern is what happens when interest rates rise, because refinancing becomes more expensive and interest payments take up more of the federal budget. For investors, the key factor to watch is the ability and the willingness of the US government to commit the resources necessary to pay the interests on its debt.

Q: How much national debt is too much? Is there a number where we should genuinely start to worry?

A: There is, generally, no universally accepted dollar total or debt-to-GDP ratio that automatically triggers a crisis. A large economy, such as the US, with deep markets, its own currency and strong demand for its bonds can support more debt than a smaller, less credible borrower. The nominal debt total alone is therefore an incomplete signal. A better question is whether the burden is becoming harder to service relative to the economy and federal revenue, and persistent primary deficits (the deficit without including interest payments on the debt) require borrowing not only to refinance old debt, but also to fund ongoing operations. A debt ratio near (or above) 100% of GDP is not a precise cliff; it simply signals a smaller margin for error. Any combination of recession, war, financial crisis, pandemic or rate shock can add to an already elevated fiscal deficit, which adds to an already elevated base. Higher interest costs can create a loop: more borrowing increases debt, raises future interest expense and requires still more borrowing.

The level of debt becomes a problem for any country when the cost of servicing it requires fiscal adjustments large enough to meaningfully weaken the economy. For example, if a government is forced to raise taxes, or increase tax revenues by improving tax collections, or reduce spending so aggressively to meet rising interest costs, it could push the economy into recession, and a vicious cycle could emerge: weaker growth reduces tax revenues, increases fiscal pressures and makes the debt burden even harder to stabilise.

The key distinction lies between the ability and willingness to pay. The US is in a unique position because it borrows in its own currency, thus avoiding a common source of sovereign default risk: owing debt in a foreign currency while collecting taxes in US dollars. The US also has another important advantage: compared with many other developed economies, it has greater capacity to

raise additional revenue through higher taxes or just by collecting those taxes that have not been collected for lack of resources, if needed. However, higher taxes and/or higher tax collection are sometimes bad for elections, and politicians are typically unwilling to do what is needed. The challenge is whether the political system is willing to make the necessary choices, through higher tax revenues, slower spending growth, or some combination, to put the debt on a sustainable downward path.

Q: Could the United States ever actually pay off the national debt, and should that even be the goal?

A: The United States could improve debt substantially through one, or a combination, of the following: sustained primary surpluses, stronger growth, slower spending growth, higher tax revenues, higher taxes and/or lower financing costs. Completely eliminating the debt is theoretically possible, but is neither necessary nor clearly desirable. However, the more realistic goal is sustainability: stabilise publicly held debt relative to GDP by slowing down growth in government expenditures and/or collecting more taxes and then allow the economy to grow faster than the growth in the debt so the debt falls as a percentage of GDP.

Achieving that goal will require difficult choices and trade-offs. Slower government spending growth and higher tax revenues can improve the fiscal outlook, but they may also weigh on economic activity and gains in economic well-being, particularly if implemented too aggressively. The good news is that there is room to increase federal tax revenues as a share of GDP, particularly relative to many other developed economies including the UK. For investors, the national debt is not a bill that must someday be paid in full, but a continuing financing obligation that must remain credible and affordable. The goal is not to eliminate the debt, but to manage it with probity while keeping it from growing faster than the country's capacity to support it. ■

“ For investors, the national debt is not a bill that must someday be paid in full, but a continuing financing obligation that must remain credible and affordable. ”



A new industrial revolution?

Ed Mills, *Managing Director, Washington Policy Analyst, Equity Research*

We look to tailor articles written by our US colleagues for an international readership. The following article is very much focused on the US but makes for relevant and interesting reading, especially in the context of a developed and open economy such as the UK.

Over the last decade, a series of policy decisions in DC support the reindustrialisation of the United States. Key policy movers include investments in infrastructure, tax policy that allows significant tax benefits for corporate capital expenditures (capex) and domestic research and development, the CHIPS & Science Act and tariff policies, especially the sector-specific 232 tariffs. Recent data is promising but is concentrated in the buildout of AI; longer-term questions remain on the impact on inflation and continuity of government policy for businesses to make these investments.

TAX POLICY DRIVING CAPEX AND R&D?

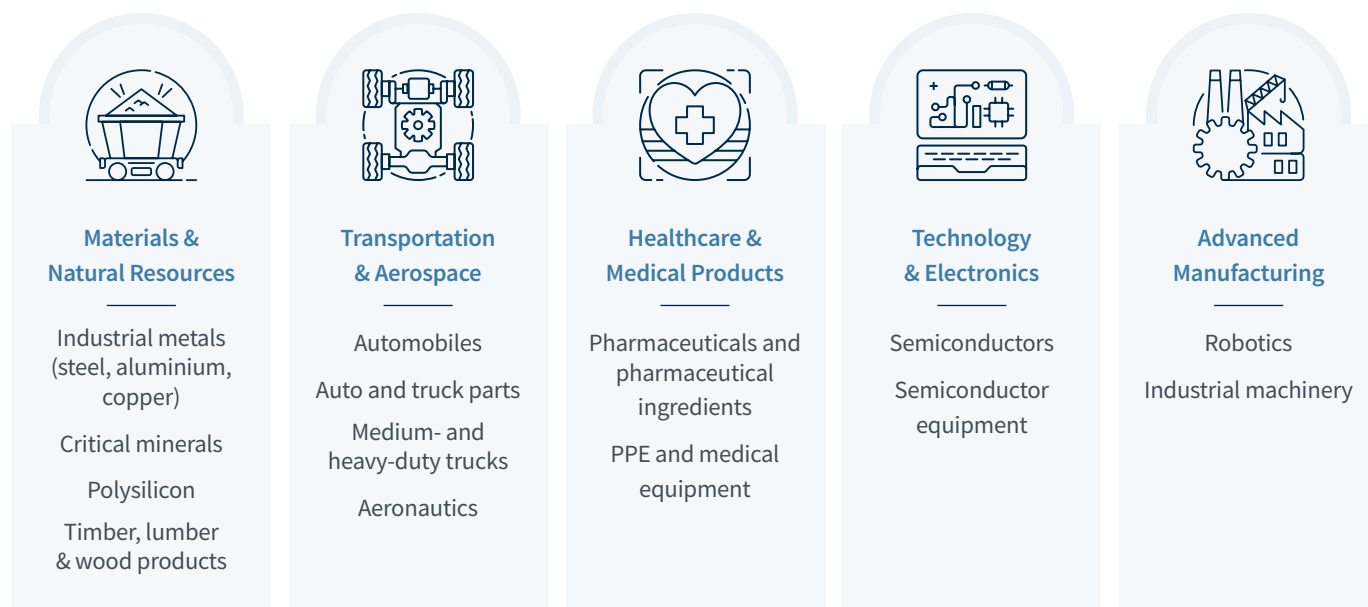
The 2025 tax bill, known as the One Big Beautiful Bill Act (OBBBA), included significant tax incentives for businesses investing in the United States. The law includes a permanent 100% bonus depreciation for capital expenses (capex) and immediate expensing for domestic research and development (R&D) costs. Both provisions had been features of the 2017 Tax Cuts and Jobs Act but had expired. Supporters of these provisions argue that they will incentivise corporations to invest in the United States and focus more of their R&D expenditures domestically, promoting innovation.

According to data compiled by the Federal Reserve (Fed), capex investments rose to an annual rate of 11% in the first quarter of 2026, following a 5.5%

increase in 2025. Much of this growth is tied to building the infrastructure to support AI technology, especially the construction of data centres. The Fed notes that outside AI-related categories, capex investment, particularly for offices and manufacturing structures, has “been fairly weak”.

While the robust increase in headline annualised capex expenditures is promising, the longer-term impact of these tax provisions will need to be closely monitored to determine their impact on the reindustrialisation of the US. This will be particularly important to monitor given the significant increase in data centre moratoriums, which could slow some of the annualised increase in capex observed by the Fed.

Section 232 tariffs reach critical industries across the US economy



TARIFF POLICY DRIVER OF US INVESTMENT?

Traditionally, tariffs have been used as a tool to protect domestic industries, but can a tariff policy promote the onshoring of manufacturing and increase production of key goods and services?

The trade deals that the Trump administration has been negotiating call for significant investments in the US, tariff reductions by other countries, reduced trade barriers and increased market access for US-made goods. The Trump administration argues that these trade deals will make US-made goods more competitive globally, increasing the incentives for expanded domestic production.

The sectorial tariffs, known as Section 232 tariffs, are targeted at industries that the Trump administration has determined have a strategic and/or national security importance to the US.

We have described the Section 232 tariffs as the industries needed for the US economy to function if key trading partners shut off access to these products. The supply chain shocks of COVID-19 brought many of these issues to the forefront and the increased tensions between the US and China have exposed significant vulnerabilities.

The industries covered by the Section 232 tariffs include: steel, aluminium, automobiles, auto parts, copper, timber, lumber and wood products, medium- and heavy-duty trucks, truck parts, critical minerals, pharmaceuticals and pharmaceutical ingredients,

semiconductors and semiconductor equipment, aeronautics, polysilicon, robotics and industrial machinery, personal protective equipment and medical equipment.

While we are still waiting for final decisions on some of the Section 232 tariffs, announced tariffs range from 25-100%. However, these tariffs can be avoided if an importer is committed to onshoring production. These onshoring plans require Commerce Department approval, which comes with strict benchmarks and penalties for non-compliance. Recently, the Trump administration has included provisions in Section 232 tariff announcements that would allow manufacturers to import tariff-free all the equipment needed to support these onshoring plans.

One criticism of this approach is that US production is significantly more expensive than the cost of production in other countries, even when the new tariff rate is applied. In an attempt to respond to this concern, President Trump recently established price floors as part of the polysilicon 232 tariffs via a minimum import price (MIP). The goal of the MIP is to level the playing field between US producers and imported products. In the case of polysilicon, it is a base material to produce semiconductors. Semiconductor manufacturing capacity has become a significant national security focus, as seen by the passage of the bipartisan CHIPS & Science Act in 2022, providing for more than \$50 billion in funding to support the expansion of the domestic semiconductor industry.

The US remains heavily dependent on foreign sources for many rare earth and critical minerals, exposing supply-chain and national security vulnerabilities.

Lower production costs by using forced labour and excess capacity are the focus on the Section 301 tariff investigations. The Trump administration has argued that the use of forced labour artificially lowers foreign production costs, resulting in competitive distortion. For the excess capacity investigation, the Trump administration has argued that foreign government policies that create or sustain production capacity beyond domestic and global demand distort (lower) pricing, displace US production and deter investment in US production. President Trump has declared a tariff rate of 10% or 12.5% as a result of the 301 investigation into forced labour, which covers 60 economies, covering more than 99% of imports to the US. The tariff rates for the section 301 investigation into excess capacity are not yet finalised.

CRITICAL AND RARE EARTH MINERALS: A CAUTIONARY TALE

In 2025, after President Trump imposed hefty tariffs on Chinese goods, that country responded with restrictions on the export of magnets derived from rare earths. These restrictions, if not reversed, would have had a crippling impact on US industrial production. The 100% import reliance on key critical and rare earth minerals is a clear national security risk and there are efforts to correct this through 232 tariffs and other investments. The US and China have a temporary deal to keep these minerals flowing, but longer-term self-reliance and trade pacts with key allies are key to preserving access and protecting the industrial and military capacity of the US.

STICKINESS OF US POLICY & INFLATION

While tax and tariff policy are seeking to incentivise the onshoring of manufacturing, the political volatility in the US will limit some of this success. The ability of President Trump to unilaterally impose or change tariff policy and the legal limits he has exceeded make it hard for businesses to know the longer-term industrial policy of the US government.

While President Trump and his administration are hopeful that these tariff policies support the onshoring of manufacturing and expanded domestic production, the impact on American consumers and businesses also needs to be addressed. We have seen persistent inflation in recent years, remaining higher than the 2% target set by the Federal Reserve. Onshoring production, while beneficial to domestic manufacturing, could also add to inflationary pressures.

CONCLUSION

Support for the increase in domestic industrial production is a clear bipartisan policy goal that has been supported by Democratic and Republican administrations and congresses. However, it is too early to know the longer-term success of these policies and the continued volatility in DC policy outcomes further cloud the picture. ■

KEY TAKEAWAYS

- Reindustrialisation is now a bipartisan policy objective. Democratic and Republican administrations have supported policies aimed at expanding domestic manufacturing, strengthening supply chains and boosting strategic industries.
- Tax incentives are encouraging business investment. Permanent bonus depreciation and immediate expensing of domestic R&D are designed to increase corporate investment in US facilities, equipment and innovation.
- AI is currently driving much of the investment boom. Recent growth in capital expenditures has been concentrated in data centres and AI-related infrastructure, while investment in some traditional manufacturing categories remains relatively subdued.
- Tariffs are being used as an industrial policy tool. Section 232 tariffs seek to encourage domestic production in industries deemed critical to economic and national security, including semiconductors, pharmaceuticals, critical minerals and industrial machinery.
- Success is not guaranteed. Policy uncertainty, political volatility and the potential inflationary effects of onshoring production remain important challenges to a sustained US industrial renaissance.



The return of income: Bonds reclaim their role

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Alexandria White, CFA, *Managing Director, Co-Head & Investment Strategist, Eagle Income**

Oliver Faizallah, *Head of Fixed Income Research, Raymond James*

After years when yield was scarce and investors were pushed farther out on the risk spectrum, income is investable again. High-quality bonds can once more provide meaningful cash flow, portfolio stability and a credible path to total return without requiring an aggressive call on interest rates or credit. The 30-year Treasury recently moved above 5%, returning to a level not seen since before the Global Financial Crisis, while the 30-year Gilt reached its highest level since 1998. Across the broader market, US and UK government bonds, and high-quality fixed-income sectors now offer yields in the mid-4% to mid-5% range, substantially above the dividend yield available from the broad equity market with the current spread between the 10-year Treasury and the S&P dividend yield the highest it's been since mid-2002. The result is a materially different portfolio environment, one in which bonds can again serve as both a defensive allocation and a meaningful source of return.

FROM YIELD SCARCITY TO YIELD CHOICE

For more than a decade following the Global Financial Crisis (mid- 2007 through early 2009), investors seeking income faced an uncomfortable choice: accept very little from high-quality bonds or reach for yield through longer duration, lower-quality credit, dividend-paying equities and less-liquid alternatives. That environment reflected slow growth, disinflation, central-bank bond purchases and strong demand for a limited supply of high-quality assets. It lasted long enough that ultra-low rates began to feel permanent. They were not.

Although yields will continue to move with the economic cycle, we believe the equilibrium has shifted higher. Larger fiscal deficits, heavy

government bond issuance, more persistent inflation and a capital-intensive investment cycle are creating greater competition for capital. We also believe those forces leave longer-term yields with an upward bias, particularly as investors demand greater compensation for absorbing growing government bond supply and duration risk. Central Banks can exert considerable influence over short-term rates, but longer-term yields are set primarily by the market's view of growth, inflation, supply and term premium. Slower growth or market stress can still pull yields lower, but our base case is a higher structural range, not a return to the persistently low yields of the 2010s.

Income is no longer scarce. The challenge has shifted from finding yield to selecting the right kind of yield.

THE EQUITY-BOND INCOME HURDLE HAS RESET

The change is particularly visible in the comparison between bond yields and equity dividend yields. Treasuries, gilts, and high-quality fixed income sectors currently offer yields in the mid-4% to mid-5% range. That stands in sharp contrast to the dividend yield available from the broad equity market and represents a significant reversal from much of the post-Global Financial Crisis period.

The divergence extends beyond the index-level comparison. As of August 31, fewer than 4% of S&P 500 constituents offered dividend yields above the 10-year Treasury yield, according to Ned Davis Research, the lowest share since May 2007. In July 2016, more than 60% did. That reversal illustrates how much the current-income hurdle for equities has changed.

That does not mean bonds should replace stocks. A bond's coupon is generally contractual, subject to the issuer's ability to pay. An equity dividend is not guaranteed, but a well-selected dividend stream can grow over time, helping preserve purchasing power and participate in the

growth of the underlying business. Bonds can provide higher current income and lower volatility; high-quality dividend-paying equities can provide growing income and long-term appreciation. Both can play distinct roles in an income-oriented portfolio.

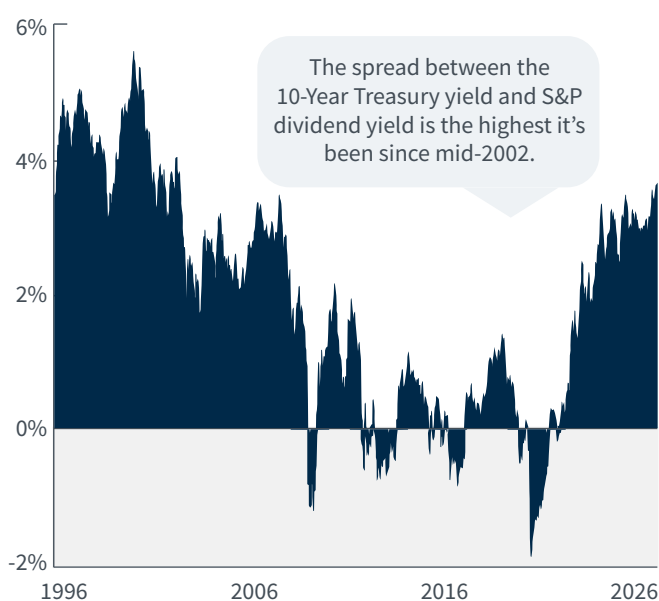
BOND MATH IS WORKING AGAIN

The scars of 2022 remain fresh because long-dated bonds failed to provide the stability many investors expected. Yields rose rapidly from an exceptionally low starting point, and coupons were too small to offset the price decline, particularly in longer-duration portfolios. Today's starting point is different after that 'rip the plaster off' moment. As of August 2026, the Bloomberg US Aggregate Bond Index had generated positive trailing 12-month returns in 35 of the prior 36 months despite continued rate volatility. Higher coupons, carry and reinvestment income have helped absorb periodic price weakness, while intermediate-maturity bonds may also benefit from roll down as they move closer to maturity.

The diversification case is also more nuanced than it was during the low-inflation era. Stock-bond correlations tend to become more positive when inflation is elevated, so bonds may not rally every time equities decline. But diversification was never solely about maintaining a permanently negative correlation. Short-dated US and UK inflation linked gilts have acted as a good hedge to rising inflation risks over the quarter, offering positive short end real yields, without the duration risk which can counteract the inflation uplift in a time of rising yields. Bonds still

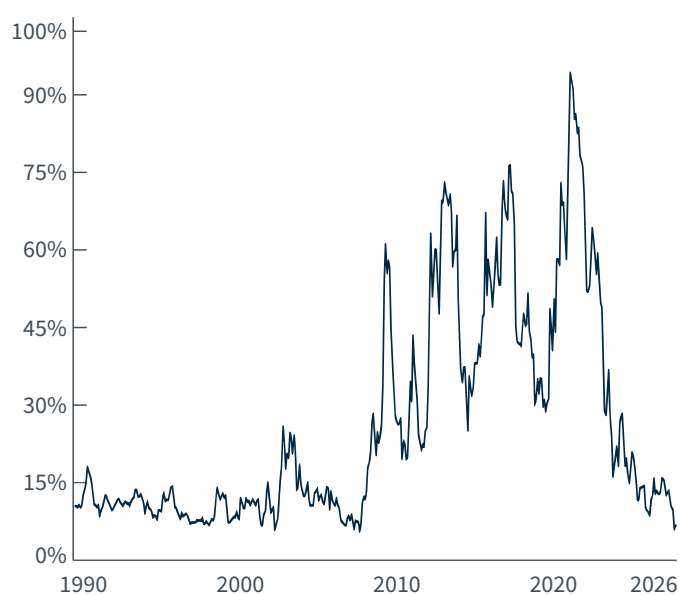
The income hurdle has reset

10-Year Treasury Yield
Minus S&P 500 Dividend Yield [3.7%]



Source: Bloomberg; data as of August 31, 2026

Percentage of S&P 500 Constituents
with Dividend Yields Above the 10-year Treasury Yield



Source: Ned Davis Research; monthly data as of August 31, 2026

provide contractual cash flows, daily liquidity and exposure to different economic risks. The protection bonds provide today, with income doing the heavy lifting, is more stable and sustainable than negative price correlations as investors can benefit over a longer time horizon. Longer government bonds can also regain their traditional ballast when growth, rather than inflation, becomes the market's primary concern. This is particularly relevant in the UK where the Bank of England is hiking against a supply-shock inflation issue, while the domestic economy faces disinflationary forces. For investors with ongoing spending needs, a high-quality bond allocation can also provide liquidity during periods of equity stress, reducing the risk of becoming a forced seller.

ATTRACTIVE YIELDS, BUT NOT EVERYTHING IS CHEAP

Investment-grade corporate bonds recently offered yields around 5.5%, but option-adjusted spreads were approximately 0.78%, well below their non-recessionary average of approximately 1.28%. Much of today's all-in yield therefore comes from the higher underlying Treasury rate rather than unusually generous compensation for credit risk. Tight spreads leave less room for deteriorating fundamentals and less potential return from further spread compression. That reinforces the case for selectivity. Investors can earn attractive income without stretching aggressively down in quality or relying on further spread tightening. We favour staying up in quality, managing duration deliberately and using periods of heavy new issuance or spread widening to add exposure more opportunistically. In addition, short duration credit offers similarly attractive yields with better protection against spread widening. Lower spread-duration means that the breakeven (the amount credit spreads need to widen before you would have been better off buying a government bond) is smaller than benchmark duration

credit. As of September-end, both benchmark and short duration US investment grade credit indices offer yields in excess of 5%, but the breakeven spread widening needed for benchmark investment grade credit is 10bps more than that of the short-duration equivalent.

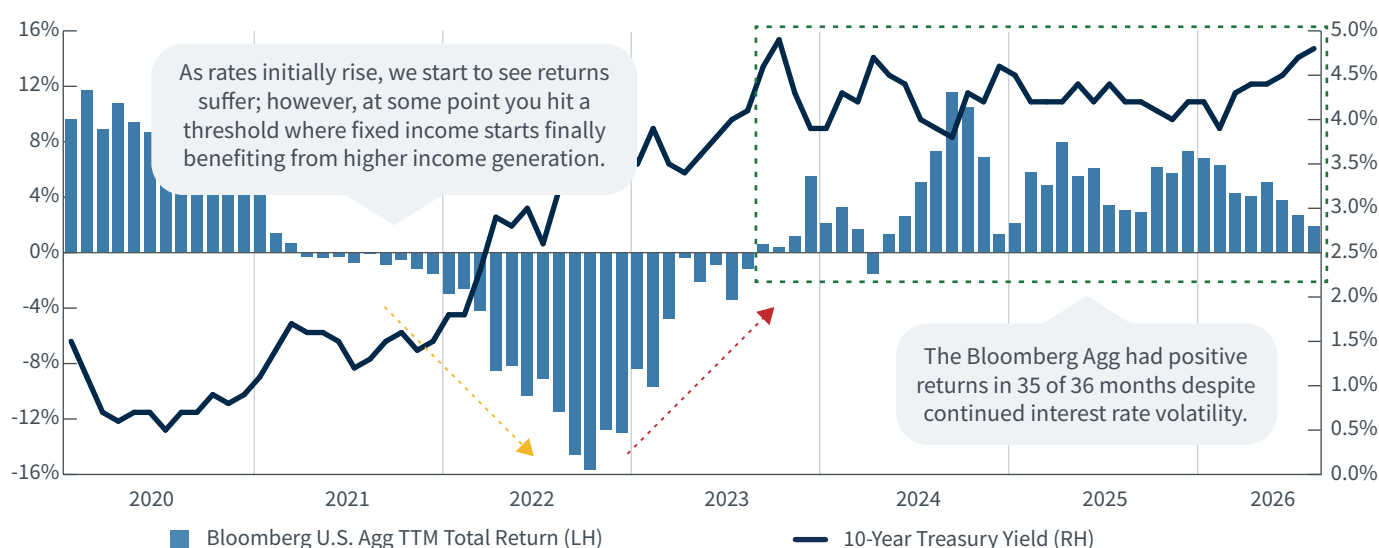
More so than corporate credit, we see value in the securitised credit space. We view highly rated (AAA) collateralised loan obligation (CLO) debt as a low volatility, low drawdown, carry opportunity for portfolios. CLO debt is when a single security is sliced into tranches and sold to investors based on varying appetite for risk and return. Owning CLO debt can enhance portfolio yield without compromising credit quality, and their modest correlation with traditional bonds and equities supports diversification in portfolios. This is particularly valuable in lower risk portfolios, where defensiveness and return consistency are key to outcomes. The asset class lends itself as an even more robust alternative or addition to short-duration investment grade credit, offering similar risk characteristics, but with higher credit spreads. The addition of the AAA CLOs in portfolios can increase credit spread carry and offer better return and diversification benefits through the asset's floating rate properties.

WHAT THIS MEANS FOR PORTFOLIOS

The rise of bonds does not demand a wholesale retreat from equities. High-quality fixed income can once again fund spending needs, provide liquidity and carry more of a portfolio's return requirement. That allows equity allocations to focus on long-term growth and dividend-growth potential rather than asking stocks to provide both current income and appreciation.

Bond math is now working in your favour

Bloomberg US Aggregate Bond Index Trailing 12-Month Returns and 10-Year US Treasury Yield



Source: Bloomberg; monthly dates as of August 31, 2026.

For investors approaching or in retirement, that liquidity can be particularly valuable. Aligning the fixed income allocation with near and intermediate-term spending needs can provide a source of capital during an equity market downturn and reduce the likelihood of having to sell stocks after prices have fallen. Forced selling can lock in losses and limit participation in an eventual recovery. With equity valuations elevated and bonds offering substantially more income than they did for much of the last decade, investors have an opportunity to build that liquidity before it is needed. The objective is not to predict the next downturn, but to structure the portfolio so that a downturn does not dictate when long-term assets must be sold.

Cash remains useful for near-term liquidity, but it is not a complete substitute for fixed income. Cash yields can reset quickly when monetary policy changes. Selectively extending into short- and intermediate-maturity bonds can lock in income for longer, reduce reinvestment risk and add the possibility of price appreciation if growth slows. With longer-term rates likely to remain elevated and potentially move higher, we continue to favour a deliberate approach to duration rather than relying on a large decline in yields to generate returns. That makes decisions around duration, credit and tax treatment increasingly important.

BOTTOM LINE

The low-rate era trained investors to think of income as scarce and risk-taking as the price of participation. Today, that trade-off looks very different. Quality fixed-income sectors offer meaningful yields, the income advantage of high-quality bonds over the broad equity market is historically wide and higher starting coupons provide a better cushion against volatility. Higher rates create challenges for borrowers and governments; for savers and income-oriented investors, they create a more investable market. Income is back. The opportunity now is to capture it with quality, discipline and flexibility. ■

KEY TAKEAWAYS

- The ultra-low-rate environment of the 2010s was exceptional, not permanent.
- Long-term rates are likely to fluctuate within a structurally higher range.
- Higher starting yields have improved bond math, but tight credit spreads reinforce the need for selectivity.
- Bonds and dividend-growing equities offer complementary sources of current and future income

Gilts: The after-tax comparison matters

Low coupon gilts deserve a prominent role for tax-sensitive investors. Gilt yields are amongst the highest government bond yields on offer in the developed world; however, the net yield can vary depending on which gilt is purchased. Many investors look to gilts as an alternative to cash in the bank. For this to be sensible, investors would have to hold the gilt to maturity so they can ignore mark-to-market volatility. As such, we can consider short dated (sub-3-year) gilts as a high yield, low tax opportunity.

For UK investors, only the income from a gilt's coupon is taxed as income, while the price change is exempt from capital gains tax. At a 45% income tax rate, not all short-dated gilts should be seen as equal. The most recently issued 2-year gilt, with a 4.00% coupon and the 'off-the-run' lower coupon 0.375% equivalent both offer a yield of around 4.80% as of end-September. If holding to maturity, and assuming a 45% income tax-rate, the higher coupon will achieve an annualised post-tax yield of 3.00% while the low coupon alternative would achieve an annualised post-tax yield of 4.63%. This results in a taxable-equivalent yield of 5.45% for the high coupon vs 8.42% for the low coupon.

Investors can find higher yielding low coupon gilts at longer maturities; however, these will have much more price volatility in them as a result of the increase in interest rate sensitivity. In addition, clients who want a steady, predictable source of income have the option of buying a longer dated high coupon gilt, or holding and rolling short-dated low coupon gilts over a longer time horizon.

Taxable-equivalent yield assumes a 45% income tax. An investor's actual taxable-equivalent yield depends on individual tax circumstances. UK investors do not pay capital gains tax on UK gilts.



UK Budget: Burnham's plans collide with fiscal reality

Prof Jeremy Batstone-Carr, *European Strategist*, Raymond James

Prime Minister Andy Burnham took possession of the keys to No 10 Downing Street on 20 July with big ambitions and plans estimated at the time to cost in excess of £45bn (1.5% of UK GDP). His overarching desire to “raise the living standards of every person in this land” is laudable, however, accomplishing this goal through the delivery of a sustainable improvement in the economy's growth rate is likely to be easier said than done. Chief among the constraints facing the Prime Minister and Chancellor John Healey is the limited amount of space afforded by the public finances. Indeed, the fiscal limitations are arguably greater now than for previous administrations. Furthermore, the Labour Party's top team have less than three years before the next scheduled General Election to deliver the promised revival in the economy's fortunes against a very challenging global macroeconomic backdrop. The risk lies in a possible focus on policies aimed at delivering quick fixes rather than those aimed at improving the country's long-term supply capacity.

THE HISTORICAL PERSPECTIVE

All new Prime Ministers arrive in office promising that this time will be different. Sadly, the historical reality is that it seldom is. Only two of the nine UK governments since 1955 have presided over periods of faster economic activity than their predecessors and one of those, the so-called Barber-Boom under the 1970-74 Conservative administration, only lifted growth for a couple of years. However, by boosting demand without lifting supply, expansionary policies contributed directly to the recessions of 1974 and 1976 under the following Labour administration. The Thatcher and Major-led administrations during the Conservative Party's

long period of office between 1979 and 1997 had greater success, largely the consequence of privatisation, labour market reform and financial market deregulation. However, the period was not a complete economic success. Recessions occurred in 1980-81 and 1990-92, and unemployment rates were high, the manufacturing sector declined and inequality increased. The reality is that policies delivering a sustained improvement in real GDP growth are typically radical (Thatcher and the trade unions) and take years to come to fruition. Essentially, the economic pain was immediate and the benefits only accrued a decade later.

THE BURNHAM DIAGNOSIS

While there is little doubt that the Middle East conflict is increasingly hampering the UK economy, the Burnham administration argues that a large part of the economy's persistent weakness is due to local authorities having insufficient power and the state more generally having insufficient control. Proposed solutions include the devolution of power to the regions, greater public control of essential services, reindustrialisation and the "regeneration of places" (building more affordable homes). It is certainly possible that the successful delivery of these foundation stones could deliver some economic benefits, but whether these factors lie at the root of the gradual decline in the economy's growth rate is more questionable. In reality, sustained low investment (and concomitant low savings) have resulted in a prolonged period of weak productivity. This might all change, after all the UK economy has yet to benefit from the AI revolution currently sweeping the United States. The Prime Minister presiding over this revolution may well benefit from a substantial productivity dividend in the future.

WEAK PUBLIC FINANCES

For now, the ability to implement policies aimed at kick-starting the economy's recovery will be constrained by the UK's weak fiscal position. The weakness of the country's public finances is nothing new, the budget deficit is on track to exceed 4% of GDP for a seventh successive year while the debt/GDP ratio at 95% stands close to the level it hit during the pandemic and not far off its highest in 63 years. Furthermore, the fiscal dynamics are poor, the interest on public debt was already on a rising trend relative to nominal GDP even before the latest rout across developed economy government bond markets. Consequently, the gilt-edged market is unlikely to tolerate any further increase in public borrowing.

It is possible that Chancellor Healey might adjust the fiscal rules sufficient both to increase public borrowing and keep the gilt-edged market onside. This might be achieved if it were to be clearly stated that any additional funds were to be used primarily for investment alongside a commitment to fiscal policy probity. In short and in the context of a highly wary government bond market already highly sensitised to the growing energy shock, Chancellor Healey cannot afford to put a foot wrong and his communication strategy on and after October 28 will be monitored closely.

THE BUDGET: SMALL, MEDIUM OR LARGE?

The Chancellor is on record as stating that he wishes the forthcoming Budget to be both "straightforward" and "well managed" while avoiding the mistakes of his predecessors. Put differently this translates as a desire to be more upbeat regarding prospects while avoiding big tax increases. An important constraint lies in the administration's pre-commitment to the Party's manifesto pledge not to raise VAT, income tax, National Insurance and certain corporation taxes (54% of the overall tax base).

Further emphasising the degree to which the Chancellor is hemmed in, he will need to fund policies initiated since the last fiscal set piece in March, including measures aimed at easing the cost of living totalling around £8bn. Beyond that, Healey will have to decide to what extent he restores the £24bn of headroom against the pre-existing fiscal mandate (perhaps costing £9-14bn) and the degree to which the coffers might be stretched to fund the Prime Minister's ambitions. At some point, most likely next March's Spending Review, the Chancellor will have to tackle the as yet unresolved issue of how to pay for an increase in defence spending from 2.7% to 3.0% of GDP (estimated to cost around £10bn).

Confronted by these pressures the Chancellor must decide the extent to which he either "goes big" or reins-in his ambitions. The attraction in a small Budget lies in the likelihood that it would not result in an increase in borrowing costs or add materially to the tax burden on households or businesses (although even under this scenario tax hikes on capital and wealth, some introduced immediately, cannot be ruled out). The net effect would likely be that the demand outlook would not be much different to where it is now.

Alternatively, the Chancellor could opt for a larger package of measures in which spending increases sharply (c.£25bn) and taxes rise by £20bn to cover the cost. A Budget of this size would roughly equal that of Rachel Reeves' 2025 measures which raised overall taxes by £26bn (but less than the £42bn raised in 2024). In this scenario the fiscal buffer might increase to around £20bn. The net economic impact would depend on the relationship between the fiscal policy/monetary policy mix, and it's thought the Bank of England is increasingly likely to raise interest rates on 5 November. Based on the Office for Budgetary Responsibility's fiscal multipliers the overall impact of a Budget this size could be to boost real GDP growth by around +0.15% over the next few years, albeit that this might prove optimistic given higher taxation.

With the Prime Minister promising change, an even bigger Budget package cannot be completely ruled out. However, the mood music emanating from No 11 Downing street indicates that a more far-reaching option is less likely for fear of upsetting the gilt-edged market. Specifically, in this scenario spending might increase by around £45bn, funded by higher taxes of £25bn and a £20bn borrowing increase. The fiscal headroom could drop to just £10bn, further unsettling the gilt-edged market.

While the likely positive impact on growth would be greater, it could exacerbate already rising inflationary pressure forcing the Bank of England into more aggressive interest rate hikes. Constrained by pre-existing tax increases and the very obvious hit to households real incomes resulting from the Middle East conflict it seems likely that Chancellor Healey's preference will be for something far less ambitious than the massive £72bn increase in spending witnessed in Rachel Reeves' 2024 Budget, perhaps accepting a lower fiscal headroom as the counterbalance for less aggressive tax increases. But adjustments there will be and in the next article we take a look at some possibilities. ■



Budget 2026: What could come under the microscope?

Harry Bell, *Director of Financial Planning*, Raymond James

A new Prime Minister and Chancellor make this an unusually interesting Budget. They will naturally want to establish their own priorities, but their room for manoeuvre is constrained. Andy Burnham has committed to honouring manifesto pledges around the main rates of income tax, National Insurance and VAT, while Labour also committed to cap corporation tax at 25% for the duration of the Parliament.

If additional revenue is required, attention is therefore likely to turn towards thresholds, allowances, pensions and taxes on capital and accumulated wealth. All have significant implications for personal financial planning, while potentially influencing wider decisions around work, saving, investment and entrepreneurship. What matters is not only what a tax change raises, but how people respond to it.

FISCAL DRAG: THE QUIETER TAX INCREASE

Some of the most significant tax increases require no change in headline rates at all. Frozen thresholds allow the tax burden to rise as nominal earnings increase, with more income becoming taxable and more people being drawn into higher tax bands.

There are also existing distortions within the system. The Personal Allowance is withdrawn by £1 for every £2 of adjusted net income above £100,000, while the High Income Child Benefit Charge introduces another income-related taper for families.

These may attract fewer headlines than a new tax, but they matter. Fiscal drag gradually pulls more people towards thresholds where the interaction of tax rates, allowances and benefits can materially change the reward from earning more. From a financial planning perspective, it can also influence decisions around remuneration and pension saving. A simpler system would not only be easier to understand, but could produce better incentives to work, save and progress.

CAPITAL GAINS TAX: RATES VERSUS BEHAVIOUR

Capital Gains Tax is likely to remain firmly in focus. Possibilities being discussed include higher rates, closer alignment with income tax, renewed recognition of inflationary gains if rates rise materially, and changes to the CGT uplift on death.

CGT is a particularly good example of why behaviour matters. Faced with a future rate increase, taxpayers may bring disposals forward, potentially providing an initial boost to receipts. Thereafter, higher rates can have

the opposite effect, encouraging investors to defer disposals or retain appreciated assets until death under the current rebasing rules.

Care is therefore needed not to create a system where retaining an investment primarily for tax reasons becomes preferable to reallocating capital to a more productive opportunity.

Entrepreneurial incentives matter too. The CGT rate for disposals qualifying for Business Asset Disposal Relief has already risen from 10% before April 2025 to 18% from April 2026. Any further CGT reform should consider the reward remaining for those accepting the risks involved in building and ultimately selling a successful business.

A WEALTH TAX: SIMPLER IN THEORY THAN IN PRACTICE

A broader wealth tax has also entered the debate. Andy Burnham has previously argued that Britain taxes work heavily relative to wealth, although his more recent language on introducing a new wealth tax has been cautious.

The attraction may appear straightforward, but implementation is considerably less so. Wealth can include property, private businesses, pensions, land and other assets where valuations may be subjective and wealth does not necessarily translate into available cash.

Unlike taxes triggered by income or a transaction, a tax based on the value of accumulated assets can create a liability without creating the liquidity with which to meet it. The concept of taxing wealth may therefore be relatively simple. Defining, valuing and taxing it consistently is considerably less so. Questions around liquidity, administration, interaction with existing taxes and how taxpayers might respond would all require careful consideration.

PENSIONS: BALANCING REVENUE WITH LONG-TERM SAVING

Pension tax relief is another perennial candidate for scrutiny, with speculation again including restrictions to higher-rate relief, a flat rate of relief and changes to tax-free cash.

Importantly, substantial reform is already under way. Most unused pension funds and death benefits enter the Inheritance Tax regime from April 2027, while changes to the National Insurance treatment of salary-sacrificed pension contributions are scheduled from April 2029.

There is a balance to strike. Pension incentives carry an immediate fiscal cost, but government also needs individuals to provide adequately for increasingly long retirements. A significant proportion of private-sector employees are already not on track to avoid a material fall in living standards at retirement.

For financial planners, these are decisions measured in decades, not Budget cycles. Continual changes risk undermining confidence in the very long-term saving we should be encouraging. If people are expected to take greater responsibility for funding their retirement, they also need reasonable confidence in the framework they are being asked to save within.

INHERITANCE: THE INTERACTIONS MATTER

Inheritance Tax cannot easily be considered independently. Pensions are entering the IHT net, Business Relief has changed, and potential changes to gifting and CGT rebasing on death have been discussed.

Increase CGT and the incentive to retain appreciated assets until death can strengthen. Change rebasing on death and that calculation changes again, alongside the consequences for estate planning. Bring pensions into the estate and the picture changes further.

This illustrates a wider challenge. **These taxes are increasingly interconnected**, meaning a change designed to alter behaviour or raise revenue in one area can produce a different response somewhere else. Reform therefore needs to consider the system collectively rather than treating individual taxes as entirely separate sources of revenue.

WAIT FOR THE FACTS

Finally, identifying what could come under the microscope is very different from predicting what will happen.

Headlines are designed to get attention. Financial plans are designed to last for decades.

Complex reforms often require time and consultation. The inclusion of pensions within IHT was announced in October 2024 but does not take effect until April 2027, with consultation materially changing how the regime will be administered. Changes to Business Relief for AIM shares similarly had around 17 months between announcement and implementation. That does not mean every future change will provide advance notice, but neither should every rumour trigger immediate action.

For financial planners, the distinction is between preparing for uncertainty and trying to predict it. Taking pension benefits unnecessarily or crystallising a capital gain solely in anticipation of a change can turn an uncertain future consequence into a certain one today.

The Budget may change the rules. Until we know what those rules are, long-term objectives should remain at the centre of the plan. ■

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Investing in small- and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

US government bonds and Treasury bills are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. US government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the US government.

While interest on municipal bonds is generally exempt from federal income tax, they may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bonds may be subject to capital gains taxes if sold or redeemed at a profit.

If bonds are sold prior to maturity, the proceeds may be more or less than original cost. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Investing in REITs can be subject to declines in the value of real estate. Economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Beta compares volatility of a security with an index. Alpha is a measure of performance on a risk-adjusted basis.

The process of rebalancing may result in tax consequences.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. Investors should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Investors should only invest in hedge funds, managed futures, distressed credit or other similar strategies if they do not require a liquid investment and can bear the risk of substantial losses. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided.

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The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The S&P 500 is an unmanaged index of 500 widely held securities. The Shanghai Composite Index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

The MSCI Emerging Markets Index is used to measure the financial performance of companies in fast-growing economies around the world. The MSCI China A Index measures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The MSCI Pacific Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in the Pacific region. The MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the US market. The MSCI Europe index is a European equity index which tracks the return of stocks within 15 European developed markets.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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