Fixed Income Commentary

October 13, 2025

Fortune favors the bold, lately also those who chased gold…

Gold's sharp move above USD 4,000/oz surprised most market participants (including us) – very few would have anticipated such a dramatic rally. Markets entered September with renewed optimism, led by expectations that the Federal Reserve would initiate a rate-cut cycle after being on hold since end of last year. Despite lingering concerns around global trade policy, geopolitical noise, and softening macro data, investor sentiment remained firm – reminding us that markets, much like nature, continuously adapt to the rhythm of change. Equity and credit markets climbed higher through most of the month, supported by cooling inflation prints and a dovish shift in tone from the Federal Reserve. Yet underneath this calm environment - weaker job data, persistent services inflation, and moderating global growth continued to shape expectations for future policy normalization. Macroeconomic fallout from the US government shutdown is expected to be short-lived, but impact could intensify as the stoppage becomes more prolonged.

The Numbers Behind the Narrative

Recent data releases have reaffirmed signs of a cooling US economy. The labor market continued to show weakness – ADP estimated that US private sector payrolls fell by 32k. However, the weakness in the ADP's jobs report needs to be taken with a grain of salt. The upcoming September employment report will be a key data point for the next policy meeting. One of the last releases that the BLS put out before the shutdown was the August JOLTS report which showed a modest uptick in job openings to 7.23mn from 7.21mn. The ratio of job openings to unemployed persons declined to around 1x, down from ~2x at its peak, reflecting normalization in the labor market tightness in recent months. With official data releases now on hold, the limited - but weaker - data available could keep the Fed on course for another 25bps rate cut in October.

Meanwhile, US personal spending rose at a solid pace in August (+0.4% MoM vs. +0.2% consensus), suggesting consumers continued to power the economy, even as the savings rate declined to 4.6%, the lowest level this year. This makes us wonder how long consumer resilience can persist amid a softening labor market and lingering tariff headwinds. Inflation metrics were mixed but directionally favorable. Core PCE, the Fed's preferred gauge, rose 0.2% MoM, while the YoY rate held steady at 2.9%. Goods disinflation continued, offset by a rise in services inflation. The ISM surveys painted an uneven picture of activity: manufacturing continued to contract (49.1) while services activity softened to 50 (vs. 51.7 consensus).

Central Bank Watch

As the growth narrative weakens, the Fed's focus has increasingly turned toward employment stabilization. The September FOMC meeting delivered a widely anticipated 25bps cut to 4.00-4.25%, with most participants signaling an openness to further easing this year. Chair Powell characterized the move as "risk management" amid rising concerns over employment weakness, while emphasizing a meeting-by-meeting approach. The Fed's updated economic projections, including the revised dot plot, painted a slightly more hawkish picture than markets expected. The median 2025 rate projection of 3.625% implies another 50bp of cuts this year, aligning with market pricing, while only one cut is anticipated in 2026. This divergence between the Fed's dots and market expectations indicates ongoing uncertainty, with the market still expecting data to push the Fed towards a more dovish stance over time.

#1 MENA Asset Manager investing in Asian G3 bonds for 2025 by The Asset Magazine

Quote of the Month

**"Gold is the money of kings.
Everything else is credit."**
— J. P. Morgan

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Globally, other central banks adopted varying stances. The Bank of Japan kept rates unchanged but surprised markets with plans to start selling ETFs and J-REITs, hinting at stronger policy normalization ahead. In Europe, Eurozone CPI came in line with expectations; the ECB is likely to remain on hold until at least end-2026. In September, longer dated US treasury yields fell, while the front-end rates remained anchored within a narrow range. Forward pricing continues to reflect a more dovish easing profile than the Fed's own projections, setting a high bar for the central bank to exceed market expectations. As of today, markets are pricing in additional ~4.5 rate cuts (~115bps) by the end of 2026. The US 5-year yield rose by 4bps to 3.74%, while 10-year and 30-year yield declined by 8bps and 20bps respectively to 4.15% and 4.73%.

Rates on the Move

Global risk assets extended their positive tone into September as monetary easing expectations gained further traction. The S&P 500 rose +3.65% (YTD +14.83%) while MSCI EM delivered one of its best months, gaining +7.15% (YTD +27.53%). Gold remained an outlier, this year, rallying over 50% YTD, supported by a ~10% decline in the US dollar index (DXY) which also boosted EM equities. Fixed income assets continued to do well in September with tighter credit spreads and long-end US treasury yields rallying between 7-20bps. The JPM Emerging Market Bond Index gained +1.62% (YTD +10.11%), while the JPM Asia IG index and JPM MECI GCC delivered +0.93% (YTD +6.53%) and +1.48% (YTD +7.8%) respectively. Credit spreads on investment grade bonds narrowed by 8-10bps while high yield spreads compressed by 15-20bps, reflecting steady investor demand and strong technical backdrop.

The Final Word

Moving into Q4, the relationship between labor market weakness, sticky services inflation, and policy easing will define the macro narrative. Markets appear positioned for additional accommodation, though risks remain – a sharper growth slowdown or renewed price pressures could quickly reshape policy rate expectations. Trade tensions, geopolitical uncertainty, and fiscal constraints remain the key headwinds. We continue to maintain a constructive stance on USD fixed income, particularly investment grade bonds, supported by resilient balance sheets and Fed easing. Nonetheless, the significant dispersion within the FOMC, coupled with tight credit spreads and late-stage business cycle, points to skewed risk-reward setup against high beta fixed income exposure.

FI Conventional Portfolio

A diversified portfolio of USD denominated securities, primarily Investment grade, both in the Middle East & North Africa (MENA) region and globally. The portfolio aims to achieve a steady level of interest income with moderate capital appreciation.

BBB+	3.89	5.17%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – September 30, 2025

	YTD	1M	3M	6M	1Y	3Y	5Y	ITD
FI Conventional Portfolio	6.68%	0.91%	2.71%	4.53%	5.97%	26.94%	21.27%	100.05%
Benchmark[1]	7.26%	1.30%	3.21%	4.66%	4.54%	20.66%	7.38%	68.43%

Global Sukuk Fund

A US Dollar denominated Shariah compliant open-ended fund that that will invest in a diversified portfolio of Sukuks globally. The Fund aims to achieve a high level of income with moderate capital growth. The fund pays a semi-annual dividend.

BBB	3.67	5.55%
Avg. Portfolio Rating	Modified Duration	Yield to Maturity

Managed Account Performance – September 30, 2025

	YTD	1M	3M	6M	ITD
Sukuk Fund[2]	6.33%	0.84%	2.45%	3.71%	6.86%
Benchmark[3]	6.55%	0.81%	2.48%	4.16%	6.68%

Notes: The Global Sukuk Fund is managed by QIC Islamic Asset Management LLC, an affiliate company of QIC Asset Management LLC (company registration no. 00602), which is also authorized and regulated by the Qatar Financial Centre Regulatory Authority (QFCRA). (1) Blended benchmark- JPM MECI JCADGCTR Index (60%) & JPM Asia JACIIGTR Index (20%) & Bloomberg US Aggregate LBUSTRUU Index (20%) (2) Assumes reinvestment of dividends. (3)Dow Jones Sukuk Total Return ex-Reinvestment DJSUKTXR Index

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