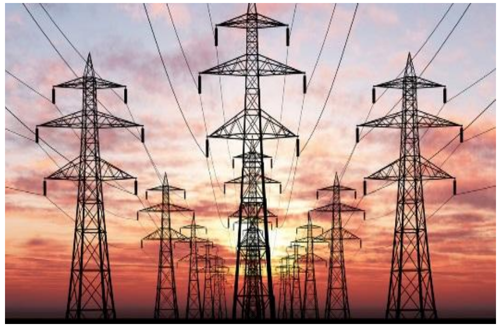
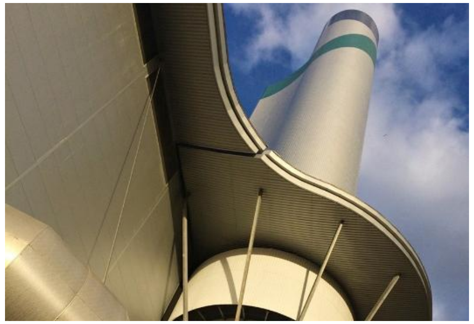









SIMCo 2025-26 economic and market outlook

30TH September 2025

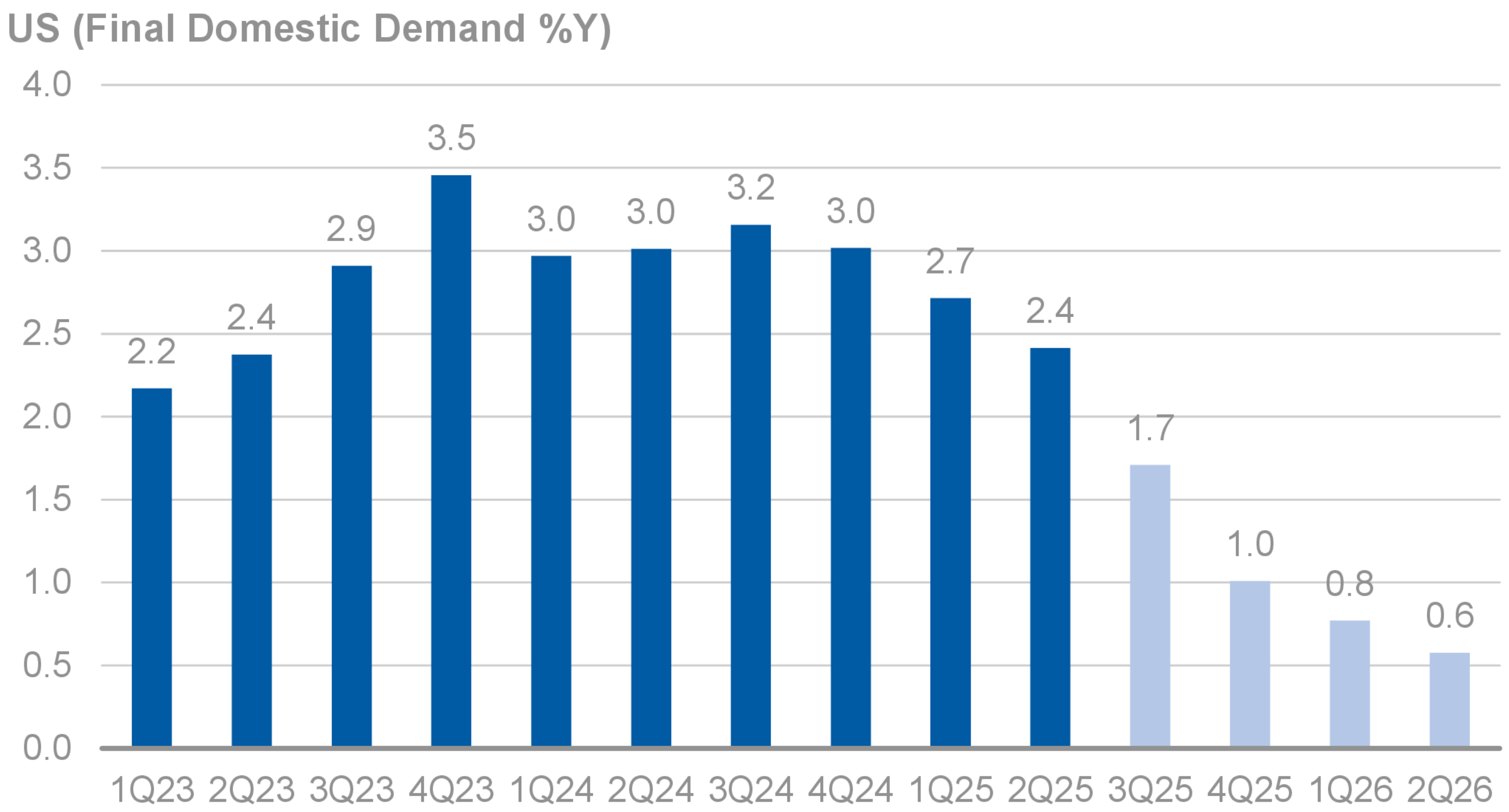
Sources: Morgan Stanley, Goldman Sachs, Bank Credit Analyst, Moody's Analytics, Federal Reserve Bank of New York, Office for National Statistics.

Conclusions

- US & UK labour markets weakening and GDP expected to slow
- Fed & BOE to cut rates
- UK 10-year gilts to rally. US 10-year treasuries to sell off moderately
- Euro area steady on growth and rates → at / near end of easing cycle

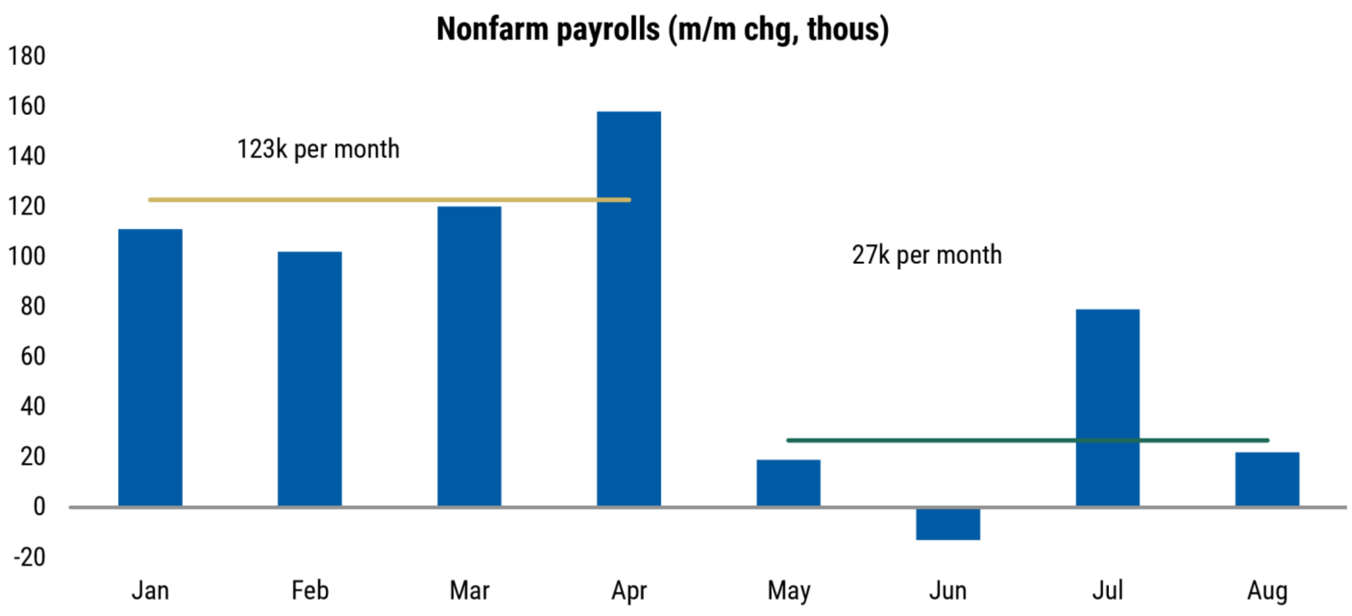
US ECONOMIC AND MARKET OUTLOOK

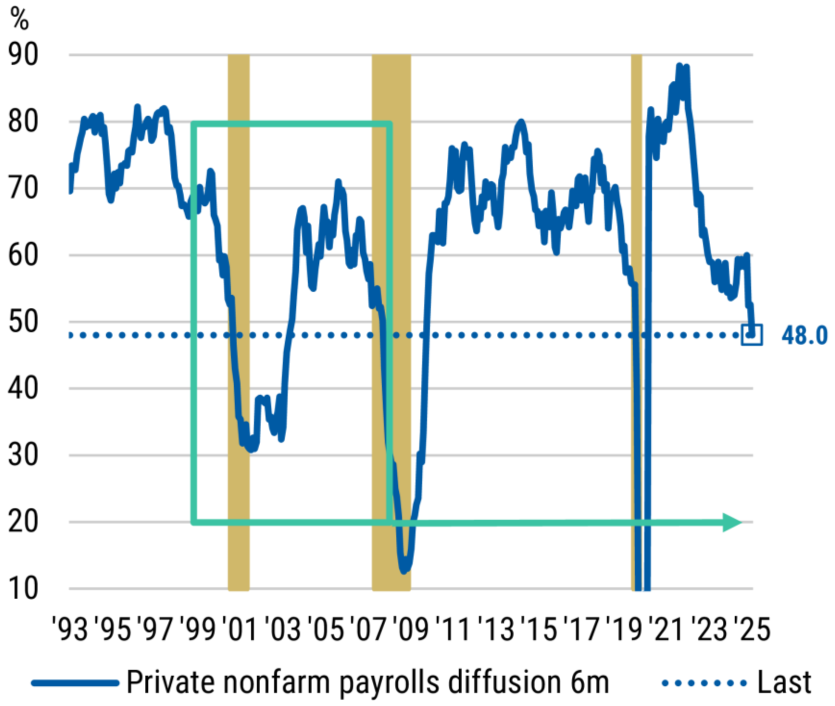
US GROWTH PEAKED IN 3Q 2024 AND IS EXPECTED TO FALL FURTHER



- Morgan Stanley's view (September 2025)

WEAKENING LABOUR MARKET





- Employment growth has downshifted

- Breadth of employment change (1)
- Historically <40-45% → recession

(1) >50 more industries adding than cutting. <50 more cutting jobs than adding.

US CREDIT EXPOSED TO WEAKER ECONOMIC GROWTH

- Other measures remain "OK"
  - Earnings growth, ISM new orders, retail sales, consumer spending (but early cracks here too)
- "Bad news is good news" is OK for economy, but "bad news" is bad for credit
- US credit exposed to unexpected weaknesses
- A top risk to credit in medium term is weaker economic data, but so far data has been mixed
- US spreads stretched at 5-10^{th} % 'tile of 20-year range
- CCCs and industrials have been underperforming → economic growth concerns

FED EXPECTED TO CUT 5-6 TIMES BY MID 2026

SIMCo

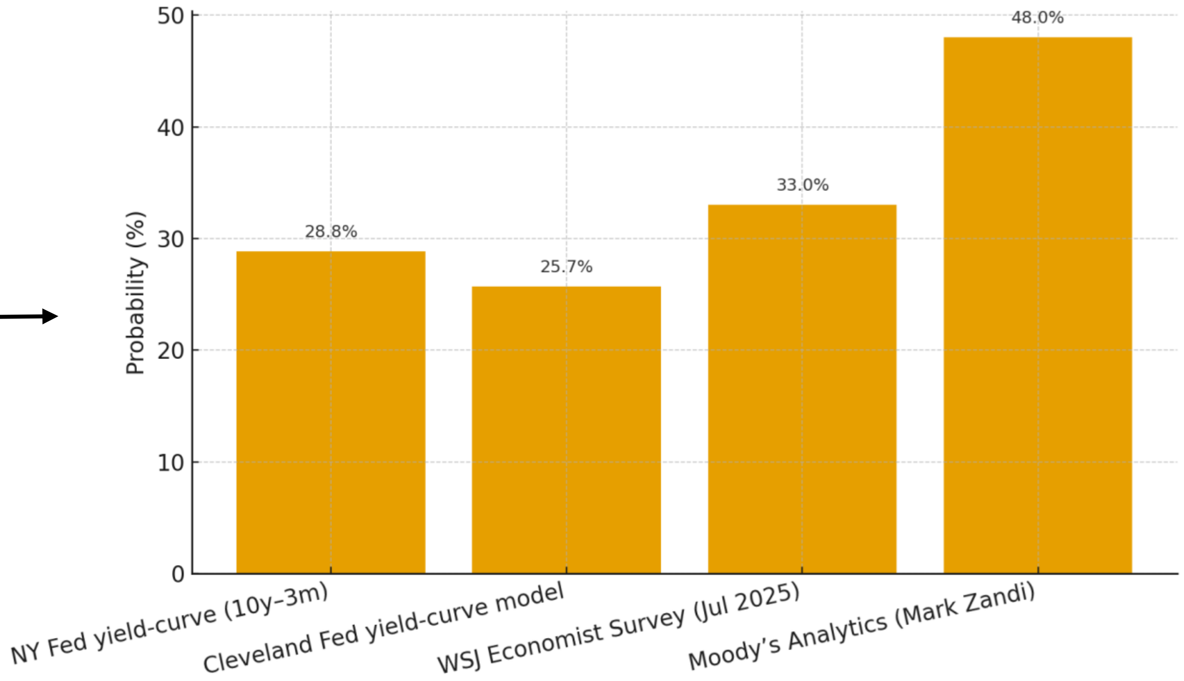
- US core PCE inflation expected in 2-3% range next 1-2 years
- Fed expected to cut 5-6 times (25 bps each) between Sept. 2025 and mid 2026. Current expected terminal rate 2.75-3.00% vs. current Fed Funds at 4.13%
- US curve (2/10s) bull steepening during 2025 on lower short-term rates
- Historically, IG and HY underperforms:

Monthly returns in different curve environments:

(Monthly)	Total Ret. ('86-)			Excess Ret. ('89-)	
UST Curve	**SPX**	**RTY**	**US HY**	**US IG**	**US HY**
Bull-Steepen	-0.2%	-1.1%	0.3%	-0.33%	-1.02%
Bull-Flatten	1.6%	1.4%	1.1%	-0.05%	-0.13%
Bear-Steepen	0.7%	1.1%	0.7%	0.31%	0.99%
Bear-Flatten	0.7%	1.0%	0.4%	0.25%	0.80%

US RECESSION PROBABILITY (NEXT 12 MONTHS)

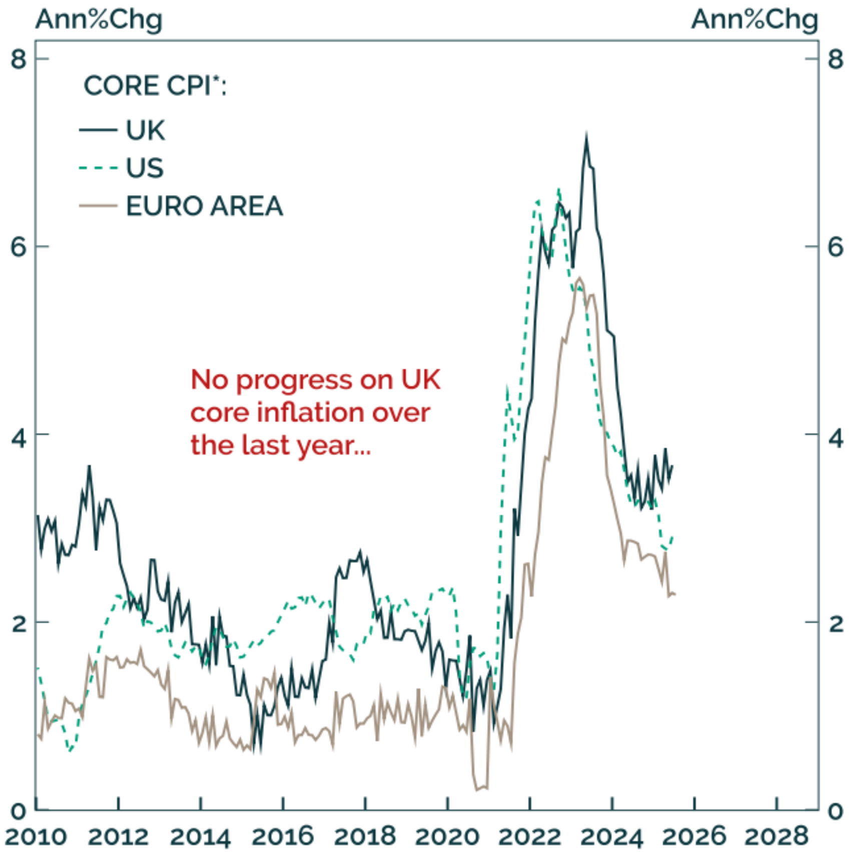
- Will rate cuts be in time to stave off recession?



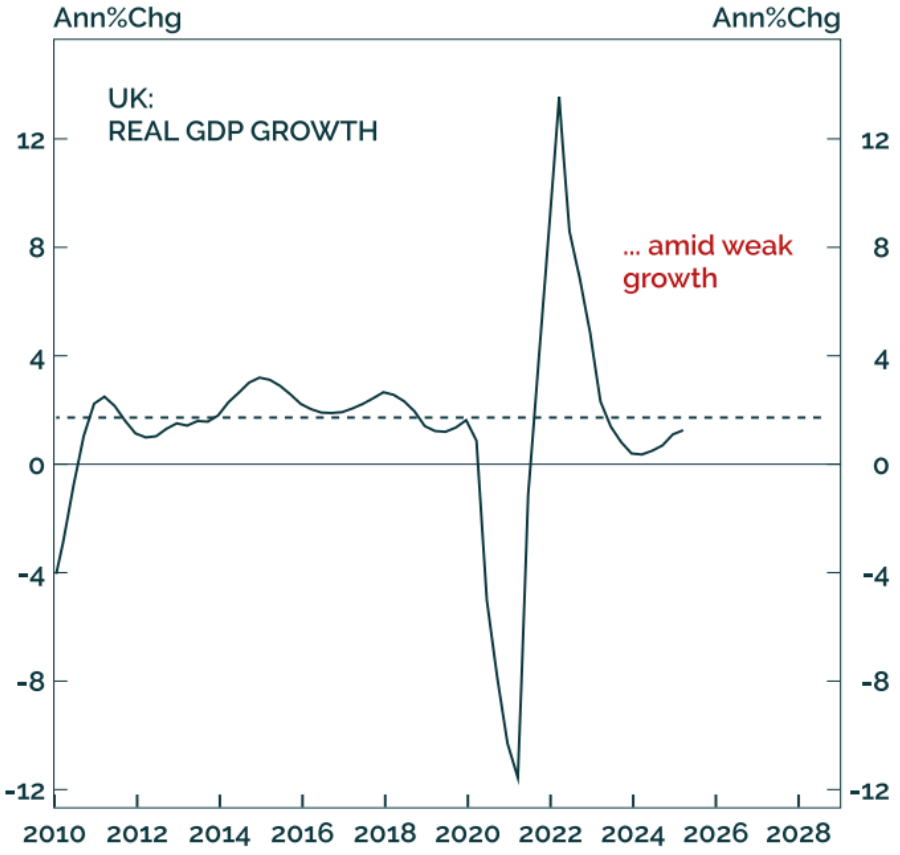
- Probability of US recession 25-35% in next 12 months, with Moody's Analytics in Sept. 2025 estimating nearer to 50%
- This probability has recently decreased from 35-45% in June 2025

UK ECONOMIC AND MARKET OUTLOOK

STAGFLATION TO DISINFLATION

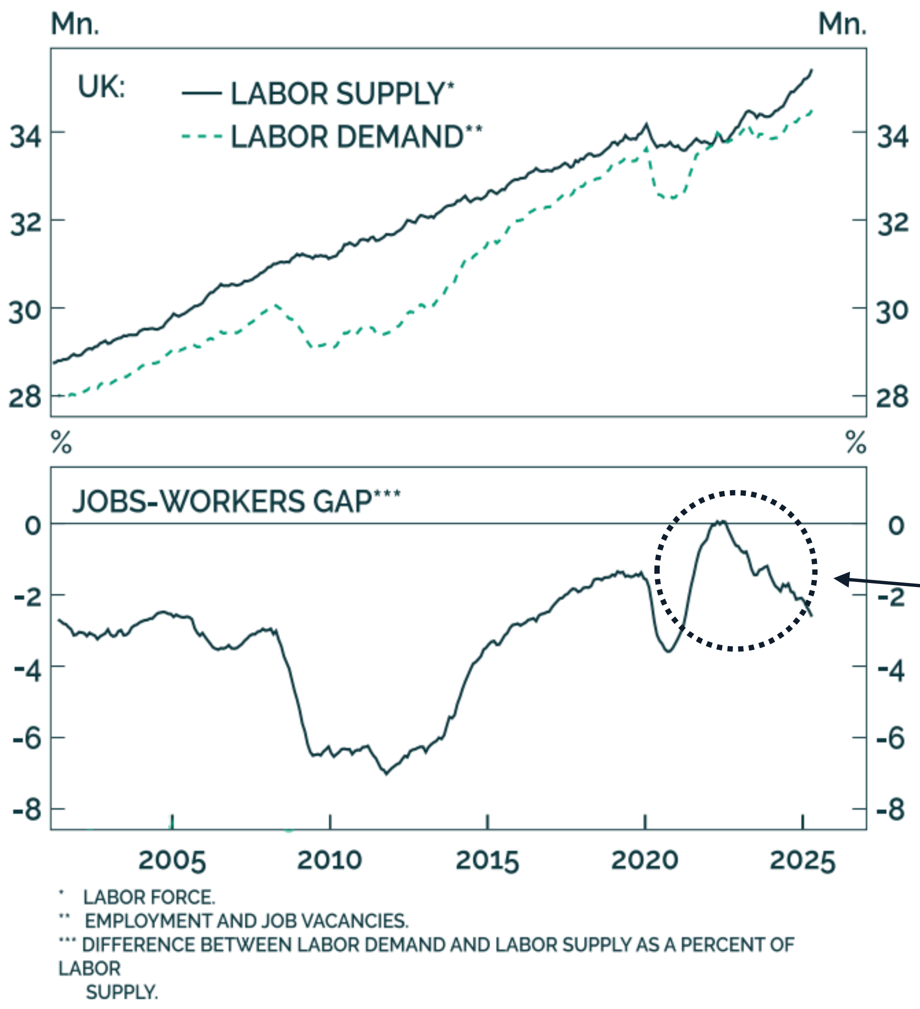


* EXCLUDES ENERGY, FOOD, ALCOHOL, AND TOBACCO.



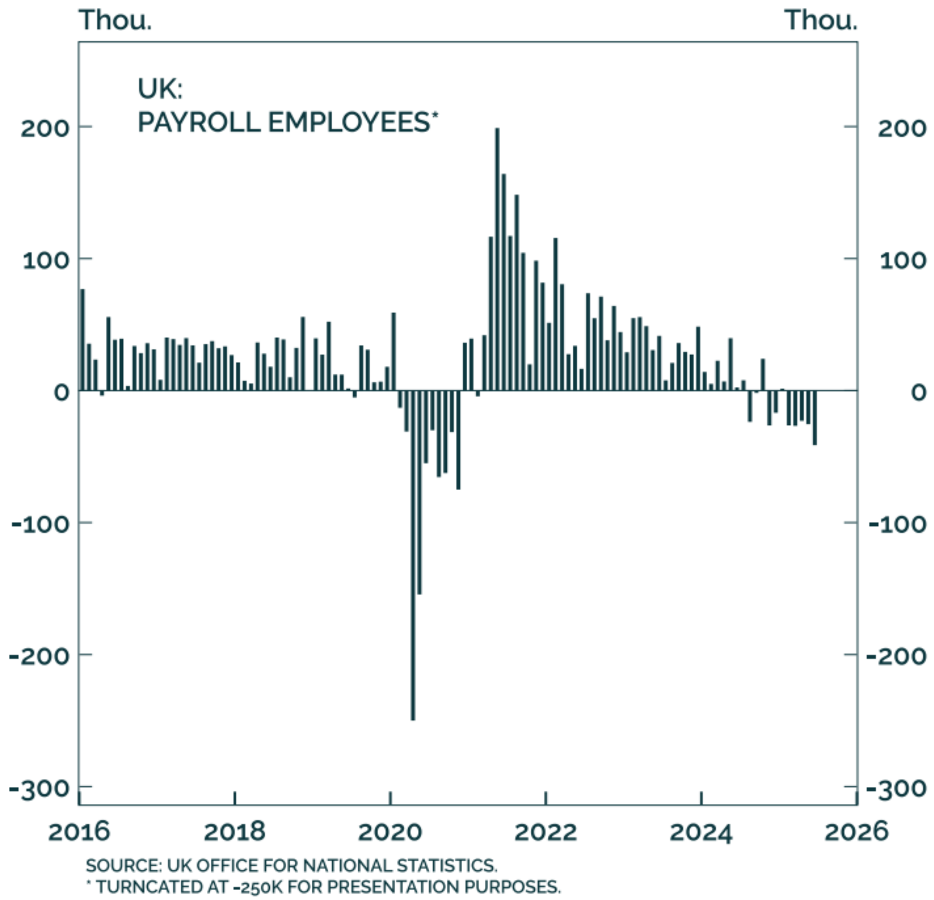
NOTE: DASHED HORIZONTAL LINE DENOTES 2010-2019 AVERAGE REAL GDP GROWTH.

STRONG INCREASES IN LABOUR SUPPLY SINCE 2023



- Increases in skilled labour immigration
- More available workers than there are jobs, after demand exceeding supply briefly in 2021-2022
- "Jobs-Workers Gap": Good correlation with inflation increase and then decrease

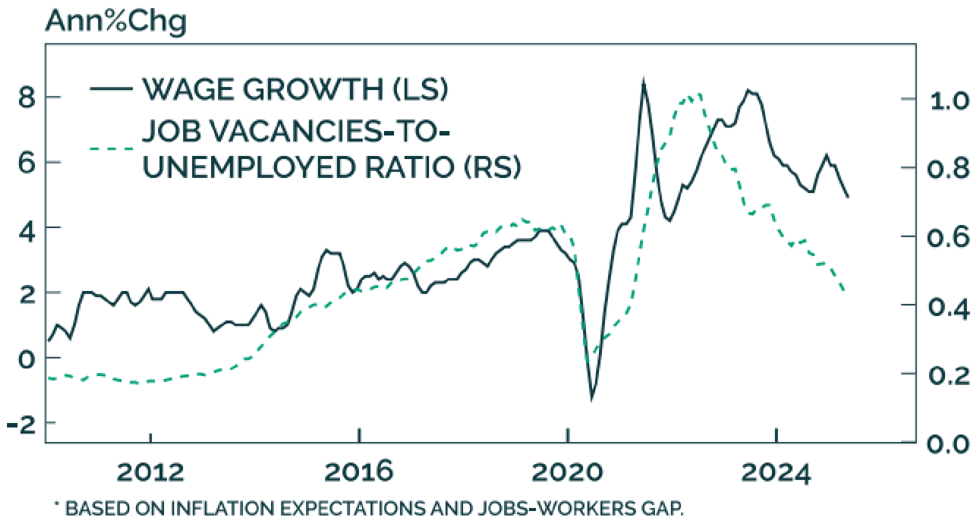
LABOUR DEMAND DETERIORATES

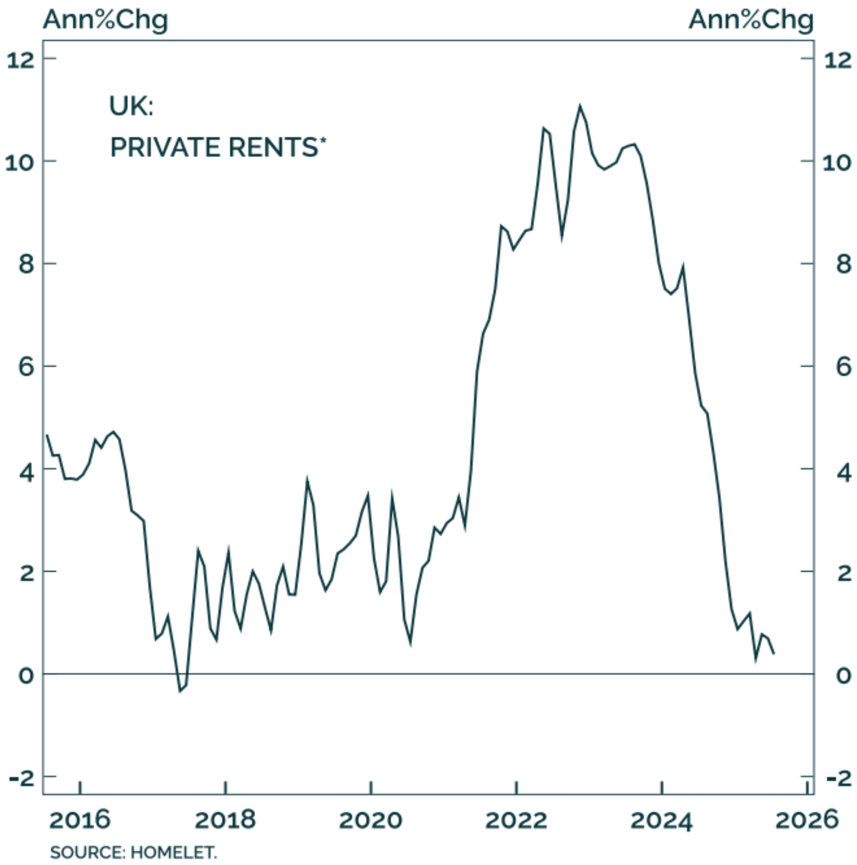


Employment shrinking…

Unemployment increasing…

TWO IMPORTANT COMPONENTS OF INFLATION SOFTENING



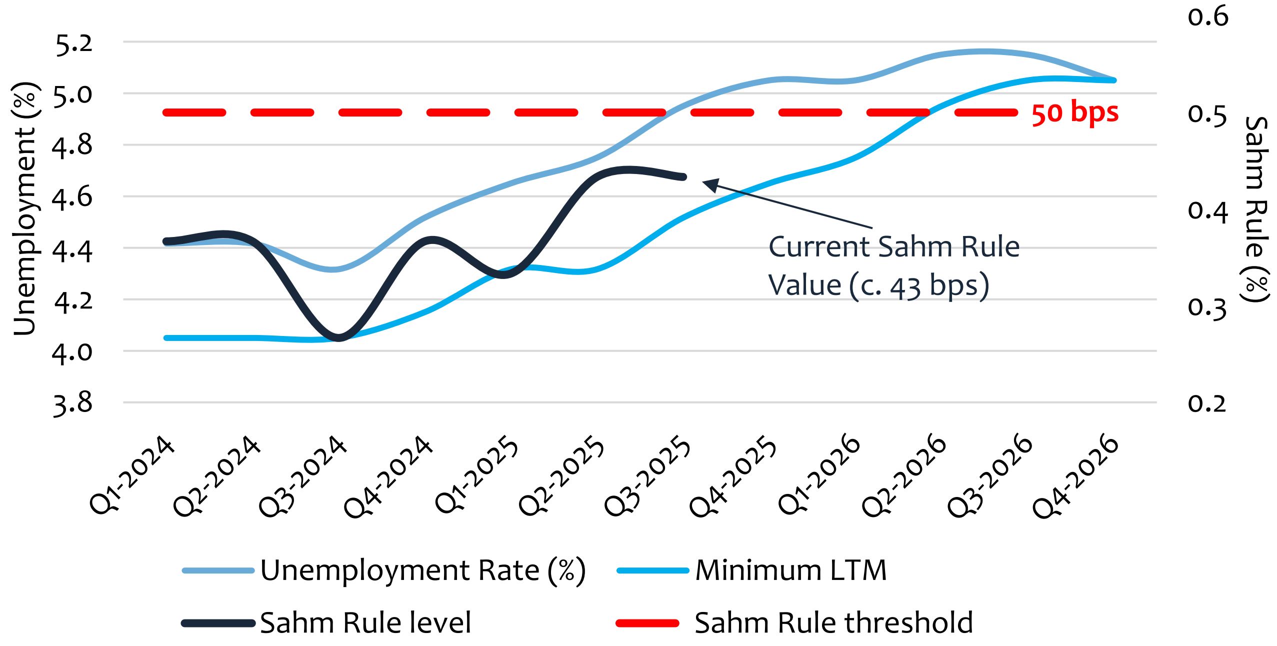


…Slack labour market → wage growth trending down. Likely to hit 3-4% pa 2026-27

RECESSION INDICATOR: SAHM RULE

Definition: indicator developed by an economist at Federal Reserve to estimate if economy is entering recession

Sahm Rule applied to UK economy (1)



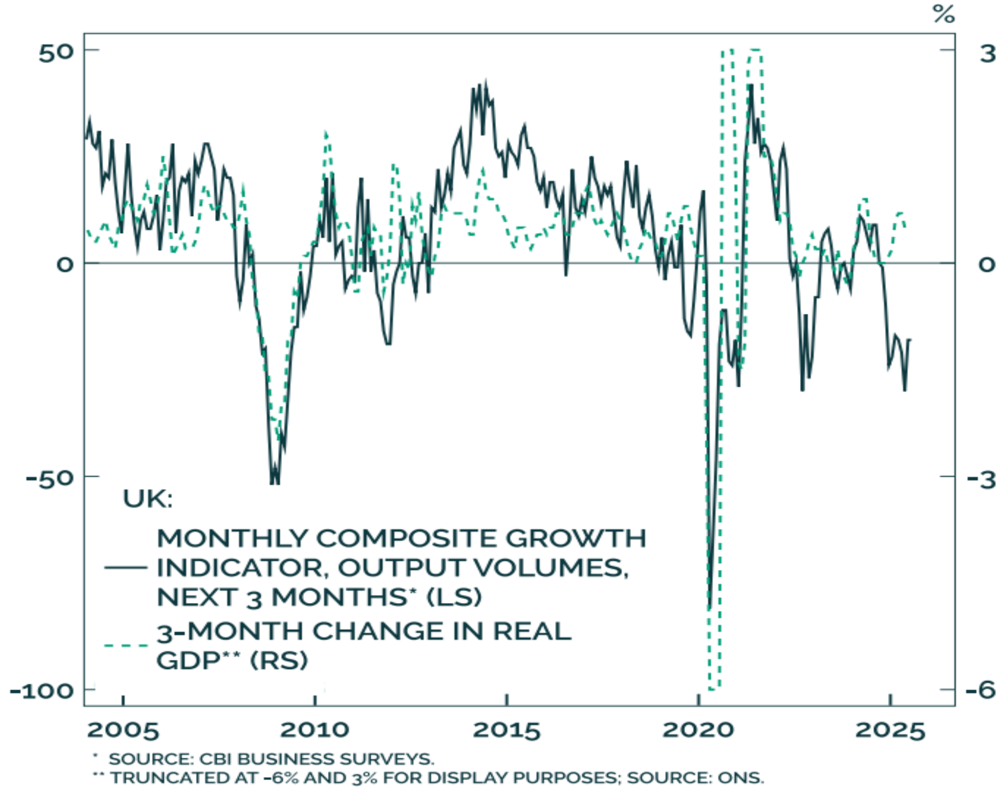
- Flags start of a recession when 3-mo. moving average of unemployment rate rises 50 bps or more above its low in past twelve months (2)
- In 2026, UK unemployment expected to rise further, peaking at 5.1% mid-year, from the 4.0% recent low in 2023
- Currently, the UK is 7 bps away from tripping the Sahm Rule (2Q2025)

(1) Source: Office for National Statistics. Forecasted unemployment data provided by Goldman Sachs Research.

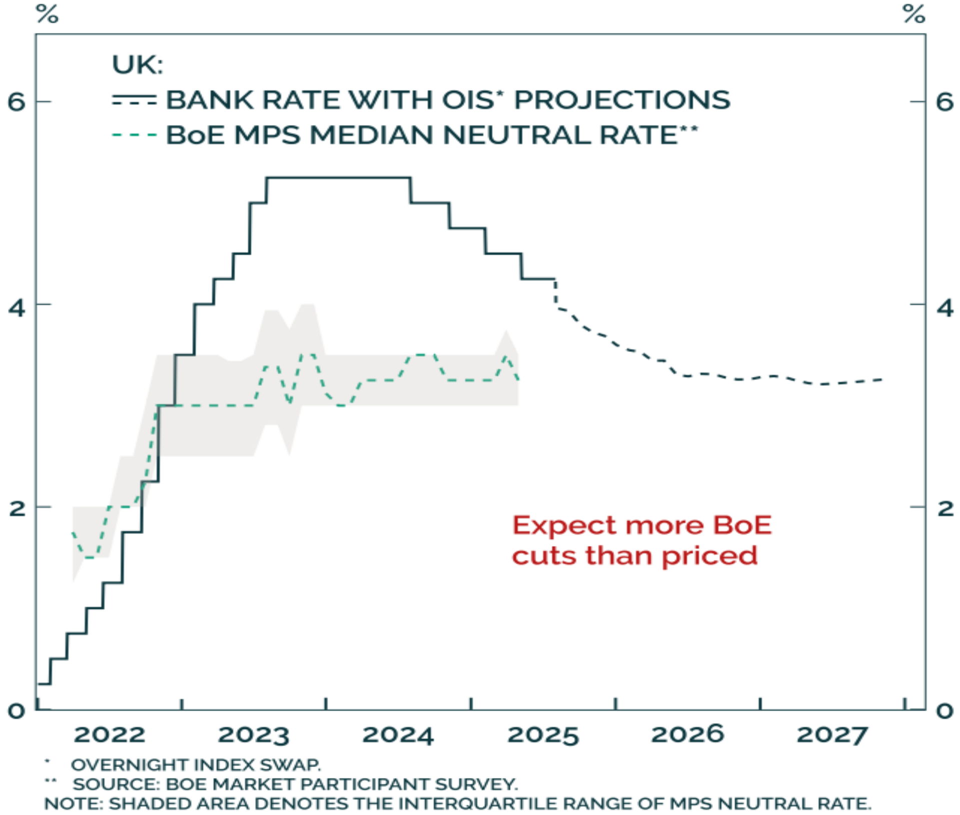
(2) **Accuracy:** 9 true positives covering all US recessions since 1960 (counting 1980 and 1981/82 as one recession). Two false positives.

WEAK LABOUR MARKET AND WEAK GDP → BOE TO CUT

3-4 quarterly cuts of 25 bps each Nov 2025 or Feb 2026 through YE 2026 to 3.0-3.25% (or lower…)



Early signal of short-term GDP trends

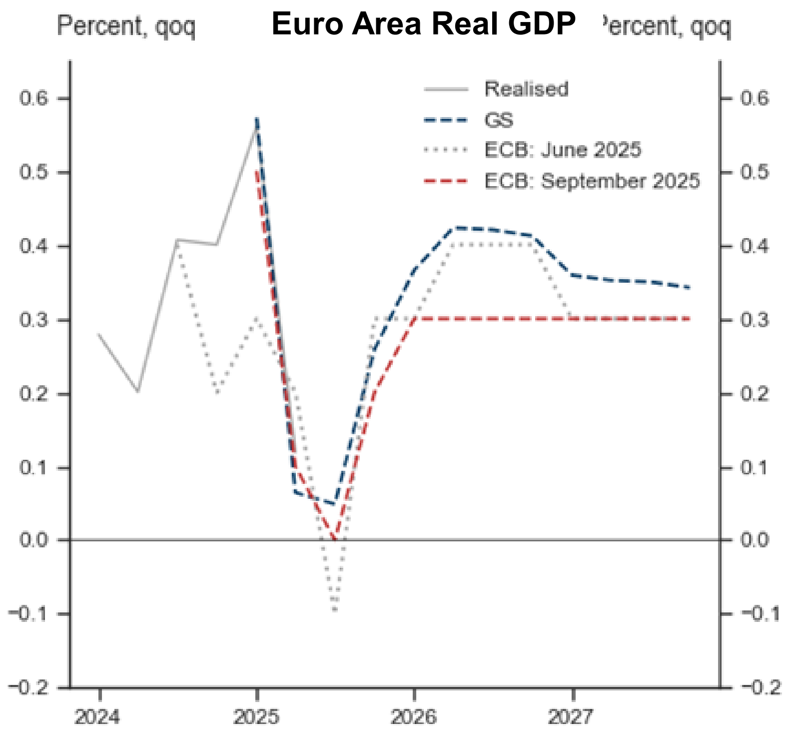


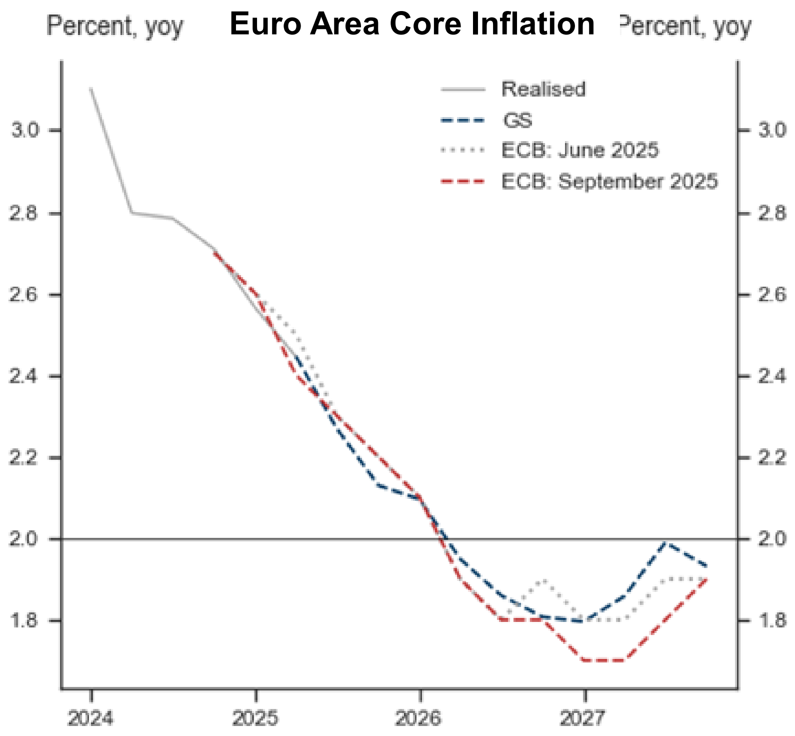
Cuts to 3.25% still leaves BoE in restrictive territory (1)

(1) UK estimated neutral rate or r* 3% (BCA). 3.25% would leave BoE policy rates the most restrictive among BoC, BoJ, ECB, Fed, RBA and RBNZ looking at their r* and expected terminal rates.

EURO AREA ECONOMIC OUTLOOK

EURO AREA GROWTH HAS STABILISED





Governing council meeting 11 September 2025:

1. Risk to growth "becoming more balanced"
2. ECB assessment of Euro area growth outlook unchanged
3. Lagarde reiterated policy rates in a good place

Some feel 25 bp rate cuts likely in Dec. 2025 and March 2026 to a 1.5% terminal rate. Inflation likely to undershoot in 2026-27