

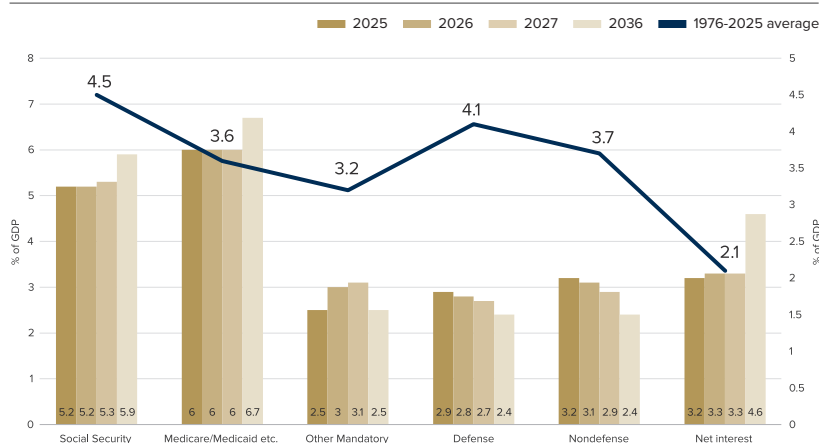
UNITED KINGDOM

Market Report

Developments in Financial and Commodity Markets

Despite the Iran conflict, crude exports have remained resilient, but higher freight, refining, and distribution costs continue to sustain inflationary pressure and policy uncertainty. Europe's push for greater energy sovereignty reflects the need to reduce dependence on vulnerable external supply chains. The September BRICS summit revealed the bloc will continue advancing the development of alternative financial institutions, reinforcing a gradual shift away from exclusive reliance on Western-led systems. Central-bank reserve data reinforces this trend, with dollar holdings remaining dominant even as incremental demand has slowed materially and non-dollar currencies and gold have gained importance.

US outlays by fiscal year as % of GDP



The US fiscal position is moving into increasingly difficult territory, with the Congressional Budget Office projecting a USD 1.9 trillion deficit in 2026, rising to USD 3.1 trillion by 2036. Rising interest costs are driving much of the increase in the fiscal deficit. The largest potential for savings lies in areas such as social and healthcare spending, which are also among the most politically difficult to reduce. With tax increases and outright default also unattractive, policymakers have dwindling options to address the debt burden and may increasingly rely on financial repression, a method by which savings are channelled into government debt while suppressing real returns. In a 2015 paper published by the IMF, this process was shown to be most effective when combined with higher inflation, which helps erode the real value of debt. Meanwhile, sovereign yields have continued rising across developed markets, including throughout Europe, reflecting the greater compensation investors are demanding for holding government debt.

Highlights

• Central Banks Continue to Diversify Reserves

Dollar holdings remain dominant, but slower demand alongside rising gold and non-dollar currency allocations point to continued reserve diversification.

• Fiscal Strain Strengthens Gold's Portfolio Role

Rising US debt, higher sovereign yields, and the risk of financial repression increase the potential for negative real returns and monetary debasement.

• Norway Wealth Fund Warns of Concentration Risk

Stress tests suggest severe trade fragmentation or an AI-led correction could erase 37% of the USD 2 trillion sovereign wealth fund.

• China Builds a Yuan-Centred Gold Market

New infrastructure is expanding China's capacity for large-scale physical gold trading outside the dollar-based system.

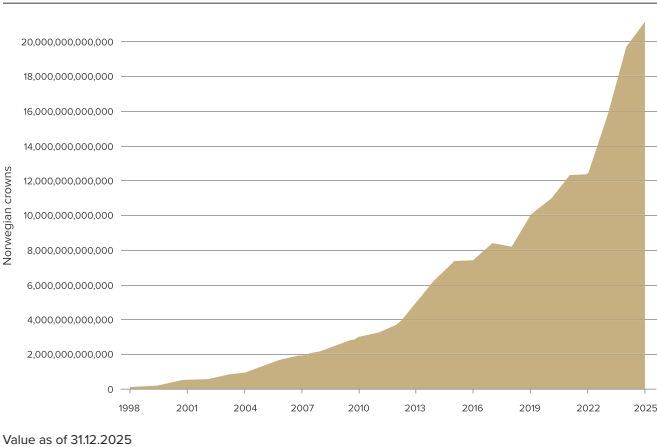
• Market Risk Signal Turns Less Defensive

Portfolio allocations have become less defensive, with increases in income, stabilisation, and growth.

At today's elevated debt levels, higher yields further increase government interest costs, increasing the pressure for in-

flationary financing. For investors, the risk is negative real returns and monetary debasement.

Market value of Norway's sovereign wealth fund



Due to the growing disconnect between market strength and mounting geopolitical, trade, and concentration risks, Norway's USD 2 trillion wealth fund CEO, Nicolai Tangen, made a rather shocking statement that the fund could one day lose all its value. The statement was framed as a preparedness exercise, with the caveat of an "extreme case" scenario rather than a prediction, citing heavy equity exposure and lessons from past market crashes. Stress tests by Norges Bank Investment Management suggest shocks such as trade fragmentation or an AI-driven correction could erase as much as 37% (roughly USD 740 billion) of the fund's value. Long regarded as one of the safest pools of capital in global markets, the fund owns about 1.5% of listed companies and now funds roughly a quarter of Norway's public spending.

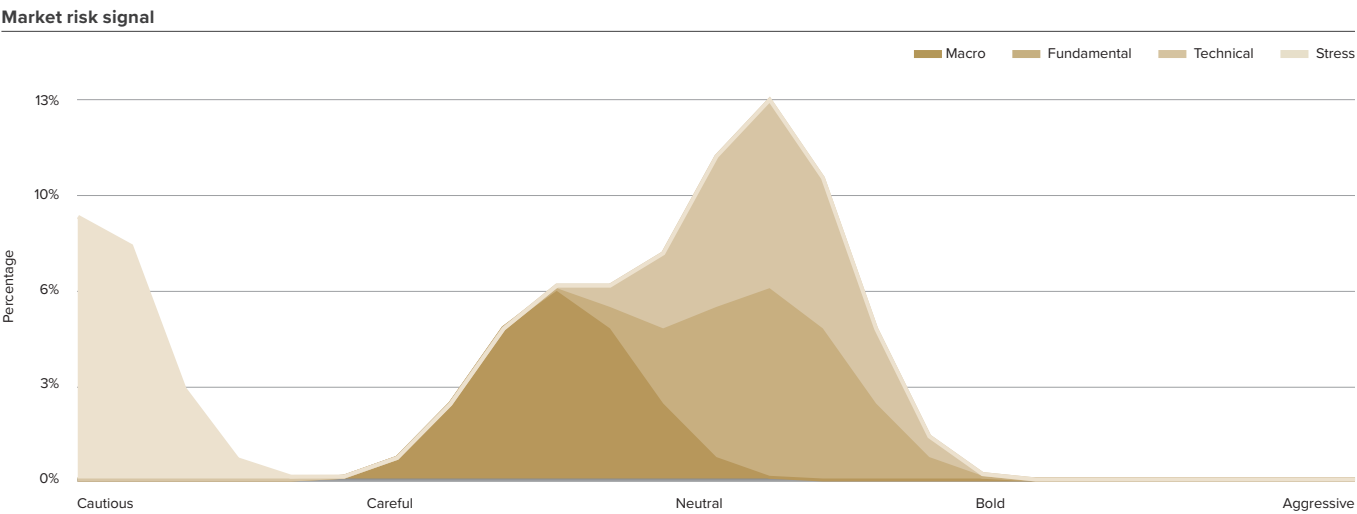
Precious Metals and Commodities

Agriculture is expected to be the main source of near-term price strength, while performance across other commodities and precious metals remains muted. Over the medium and long term, how-

ever, gains are projected to become more widespread across commodity markets.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	➔	➔	➔	➔	↗
Outlook	↗	↗	↗	↗	↗
Trend	↗	↗	↗	↗	↗

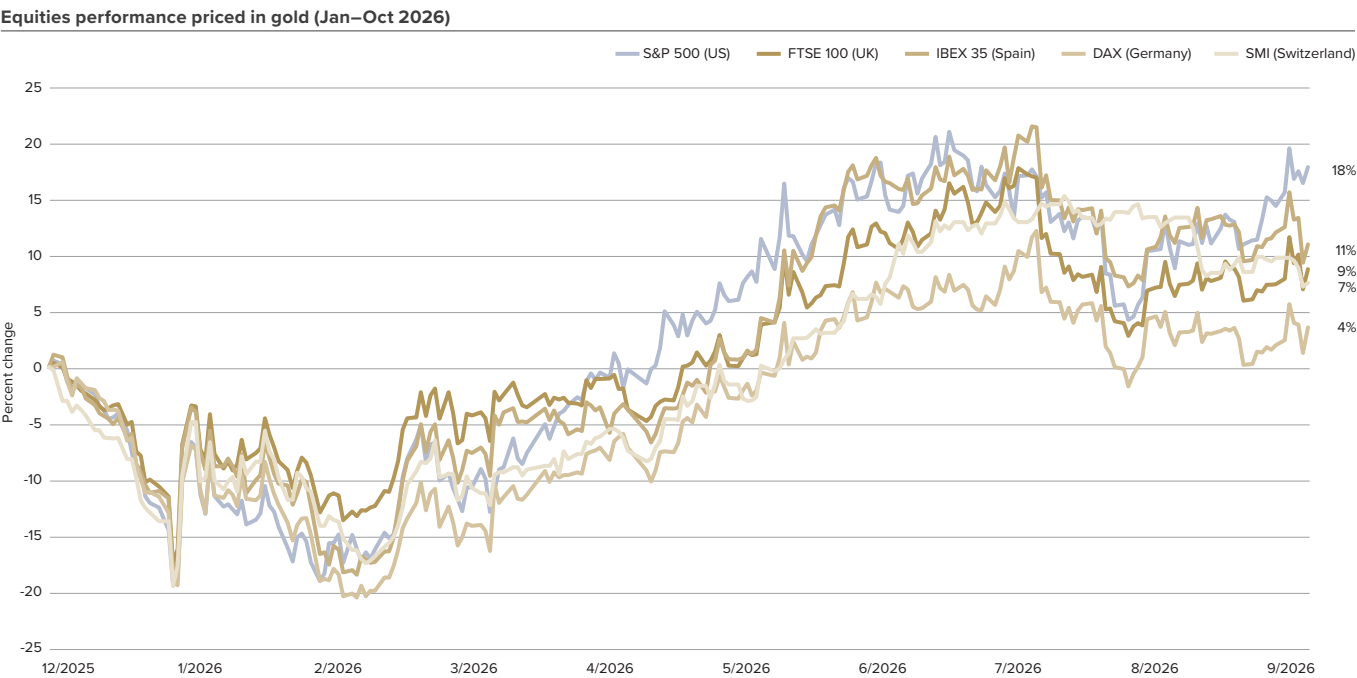
Market Risk Signal



Index Performance in Gold Terms

Measuring equities in gold terms strips out currency debasement and monetary distortion, revealing whether gains truly increased purchasing power or merely reflected inflation and FX effects. Performance is calculated using gold priced in each index's native currency.

Year-to-date performance of equity benchmarks in gold terms:
US: S&P 500: +17.6%
UK: FTSE 100: +8.64%
Spain: IBEX 35: +10.8%
Germany: DAX: +3.52%
Switzerland: SMI: +7.41%



Gold Feature

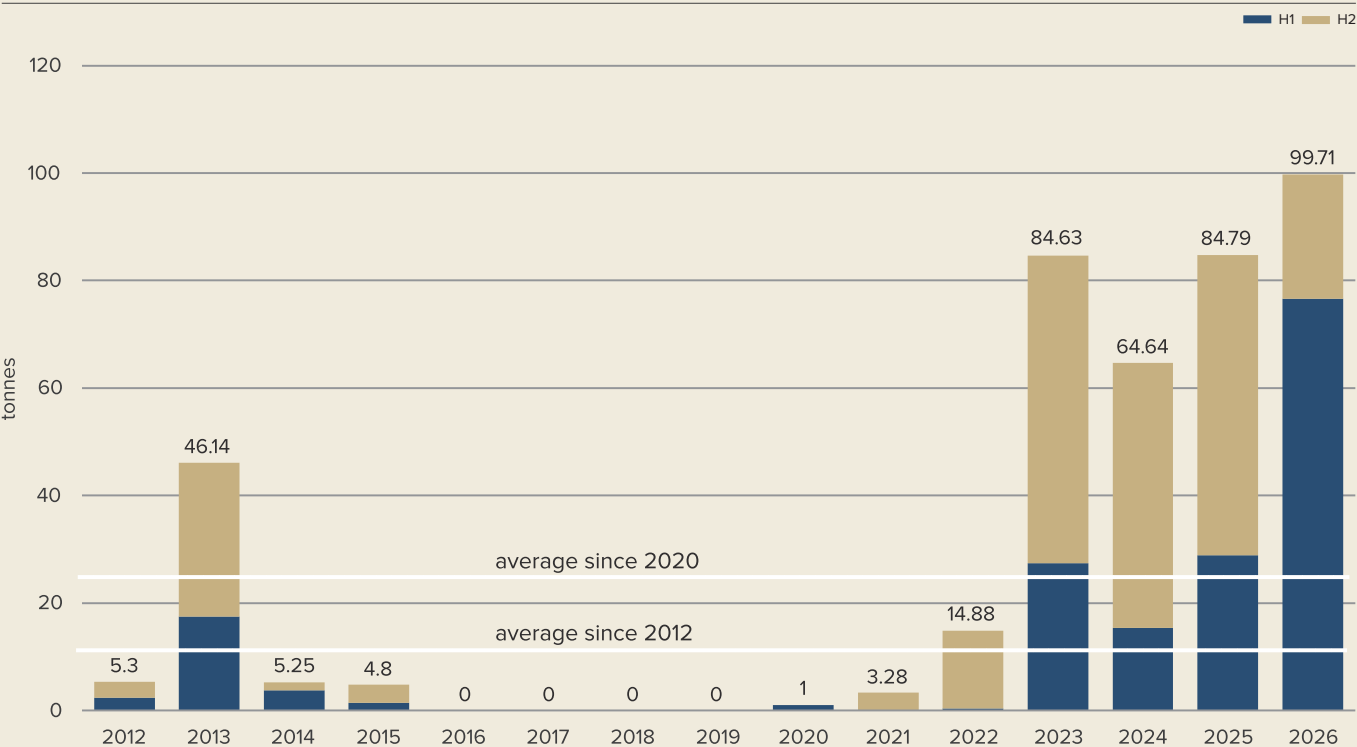
China and Hong Kong are building an Asian-centred gold market that could reduce reliance on Western financial systems and expand the yuan’s international role. Back in November 2025, the Shanghai Gold Exchange opened its first offshore vault in Hong Kong, enabling yuan-denominated purchases and delivery outside of mainland China. The vault is intended to be the first node in a 24-hour trading network linking Hong Kong, Singapore, Zurich, and Dubai. The project was advanced in July 2026 by trialling a state-owned central clearing and settlement system for physical gold, operated by the Hong Kong Precious Metals Central Clearing Company, with Bank of China acting as the settlement institution and designated vault.

The launch forms part of a broader push which includes a Bloomberg-developed benchmark, closer mainland links, over 2,000 tonnes of planned vaulting capacity, and a yuan futures contract with mainland delivery. Effectively, China is building the infrastructure for large-scale non-dollar gold

settlement, including secure storage, trusted clearing, and physical delivery. This is particularly relevant as trade among SCO members is now reportedly settled largely outside the dollar and euro system. Proposals for a gold-linked unit remain tentative, however, and should be viewed as a possibility rather than an established plan.

Gold’s physical flow reflects some of this shift. During the first seven months of 2026, Hong Kong imported almost 100 tonnes of Russian gold, nearly triple 2025 levels. With China already the world’s largest gold producer and consumer, the London-New York-Zurich dominance may be increasingly shifting eastwards. Although the Hong Kong dollar remains pegged to the US dollar, the peg itself is relatively recent, dating only to 1983, and ultimately remains a policy choice. By building a gold-market infrastructure that is increasingly connected to mainland China and yuan pricing, Hong Kong is also creating the technical capacity for a different monetary anchor should the political incentive arise.

Hong Kong’s gold imports from Russia 2012-2026



Current investment situation

Global markets have moved further into a repricing phase as persistent inflation, deteriorating fiscal positions, and geopolitical risk have pushed long-term borrowing costs higher. Despite this, equity indices remain comparatively resilient. The US 10-year Treasury yield approached 5.3% by the end of September, its highest level since 2007, while the 30-year reached levels last seen in 2002. Energy remains an important source of inflation risk, although the physical market has demonstrated greater resilience than the Iran war initially suggested. Kpler research suggests Gulf crude exports have climbed close to their pre-war levels. Refined products, however, are proving more vulnerable, with diesel flows remaining constrained, and higher logistical costs feeding through the broader economy.

Europe is responding by seeking greater energy security through alternative supply relationships and longer-term domestic capacity, including fusion, while China has adjusted both its import demand and sourcing patterns as higher

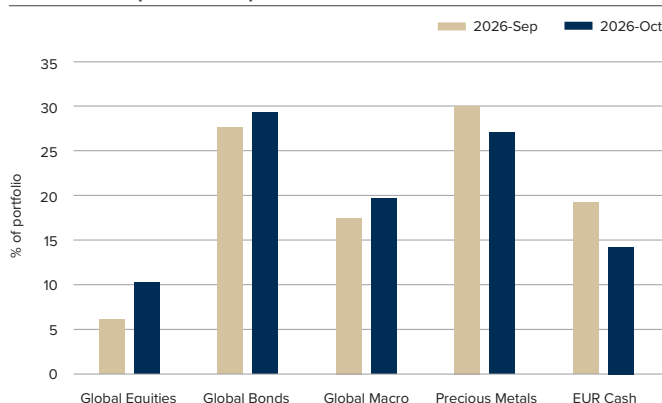
prices constrain purchases. The energy-driven inflation has prompted both the ECB and the Fed to raise interest rates. The result is a combination of elevated energy costs, higher sovereign yields, and limited room for policymakers to support growth without risking renewed inflation.

Following a steady rise in August, gold corrected sharply as the dollar strengthened, sovereign yields climbed, and markets priced further Fed tightening. Despite this, gold ETF holdings have continued to recover, suggesting some investors are more concerned about fiscal and sovereign risks than the opportunity cost of holding a non-yielding asset. Higher yields may pressure gold in the near term while simultaneously strengthening its longer-term appeal by increasing debt-servicing burdens and financial instability. The main short-term risk is liquidity stress, as widening credit spreads, refinancing pressure, and margin calls could force investors to raise cash, making gold vulnerable to temporary selling despite a stronger underlying investment case.

Allocation adjustments

Changes to the portfolio suggest a measured broadening of exposure across risk assets and diversified strategies, while maintaining significant allocations to both fixed income and precious metals. Global equities, global bonds, and global macro strategies have all increased, funded by reductions in precious metals and EUR cash. Overall, the changes point to a modest easing of the previous month's defensive positioning, rather than a wholesale shift in portfolio stance.

Allocation compared to the previous month



Allocation changes over time

Current positioning has become less defensive and more diversified across the other risk buckets. Protection has been reduced, while stabilisation, income, and growth have all increased, with the strongest relative rise in growth. This reflects a greater willingness to allocate beyond wealth preservation, while maintaining protection as the largest component and complementing it with a mix of risk and return drivers.

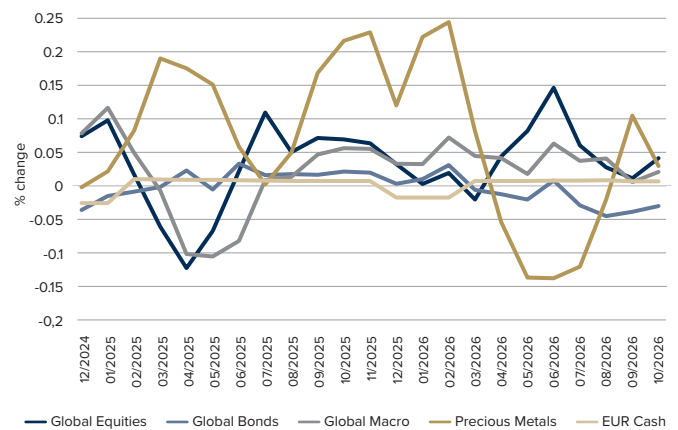
Allocation by portfolio role



Rolling three-month performance of various asset classes

Dynamic asset allocation (active rotation between equities, bonds, and gold) has consistently enhanced portfolio returns, as can be seen by tracking the rolling three-month performance. Over September, global equities have rebounded modestly after several months of moderation from their June peak and now sit slightly ahead of precious metals. Precious metals remain positive, although performance has fallen following the sharp rebound. Global macro has improved after moving close to flat last month, while global bonds have also recovered somewhat but remain in negative territory. EUR cash remains largely unchanged and close to flat.

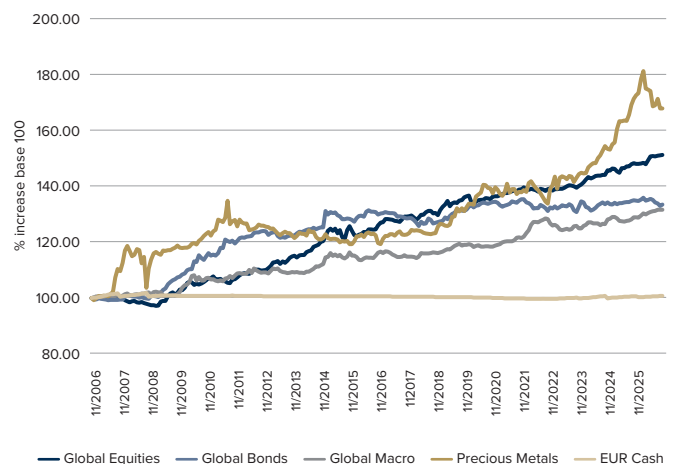
Rolling 3-month performance



Performance contribution of various asset classes

The performance contribution illustrates how much each asset class has contributed to overall portfolio performance during a given period, with relative allocation playing a key role. Precious metals remain the largest long-term contributor, although their contribution was diminished slightly over the past month and remains below its peak. Global equities edged higher and continue to rank second, extending their longer-term upward trend. Global bonds recovered slightly following recent weakness, while global macro was largely unchanged. EUR cash remained essentially flat.

Performance Contribution



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