



SARASIN

Q4 2025
HOUSE REPORT

A FOCUS ON QUALITY

Why companies built on
stability and resilience
stand the test of time

- **Economics: big questions ahead of the Autumn Budget**
- **Equities: the shifting balance of power in retail**
- **Government bonds: high supply, but no demand?**

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**STEPHEN
ROTHWELL**
EDITOR

Welcome to the latest edition of our House Report.

As we move into the final quarter of the year, after a period in which markets have been dominated by the share prices of lower quality companies, in areas such as unprofitable technology and “meme” stocks, we believe the market distortion which has characterised 2025 is on course to revert, bringing our commitment to quality back into favour.

In his lead piece, Guy Monson shares his optimism for equity markets and explains why we remain committed to quality thematic stocks at a time when markets have been led by a rush into high-beta, speculative investments. While this emphasis may mean we lag indices in exuberant phases, we remain confident in the long-term prospects of companies demonstrating strong returns on equity and stable earnings growth.

From an economist’s perspective, Adam Hamilton and Subitha Subramaniam focus on the UK ahead of the all-important Autumn Budget. They argue that without a clear vision for the role of the state and a plan to drive productivity, there is a risk of drifting into a managerial political style that keeps the numbers tidy while the economy stagnates.

Julia Shatikova in our Stewardship team provides an overview of a successful seminar we hosted recently for investors on shaping corporate accountability on ethical AI. The huge transformative effect of AI comes with significant risks and the seminar addressed these, along with the evolving tools available, the nature of questions to companies and the responses of their management teams.

Following on from his *bond myth-busting* article in our last edition, Michael Jervis examines one of the most fundamental changes in the fixed income landscape today – the reversal of the supply-demand balance. The previous regime of quantitative easing has given way to the realities of quantitative tightening, meaning new central bank bond purchases are now a distant prospect. What does this mean for portfolio positioning?

Also in this edition, Tom Kight considers the shifting environment for consumer staples as part of Sarasin’s Evolving Consumption theme. He looks at how profit pools are moving away from established food brands and towards retailers with their private label ranges.

We hope you find our insights useful and, as ever, we welcome your feedback and suggestions for future topics. Please get in touch at housereport@sarasin.co.uk.

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GUY MONSON
CHIEF MARKET STRATEGIST
& SENIOR PARTNER

View from the Chief Market Strategist

OPTIMISM FOR EQUITIES, AND A FOCUS ON QUALITY

Key points

- Strong nominal growth and healthy corporate earnings are supportive of equities.
- Perceived lower-quality equities – those companies that exhibit weaker financial strength, less consistent profitability, and higher risk characteristics – have driven the market rally this year.
- We continue to focus on quality companies with higher returns on equity, stable earnings growth, and lower leverage, which we believe will deliver for long-term investors.

Global equity markets pushed higher again in the third quarter of the year, their sixth consecutive positive month (when measured in US dollar terms).¹ Europe has pushed past its previous peak back in 2000, while Japan's peak in 1989 has finally been surpassed. We are overweight equities, and our individual holdings have tended to be higher quality. From our perspective, the reasons for this are clear: the long-term impact of tariffs, widening budget deficits, stubborn inflation, and unrelenting competition from China all continue to cloud the outlook for more cyclical and lower-quality earnings.

For now, markets have chosen to look past these concerns, with the strongest gains coming from high-beta (i.e. more volatile than the overall market) cyclical companies, unprofitable technology names, and financials. Retail investors have also continued to buy their favourites – Palantir, Tesla, and crypto-linked winners. The result has been an aggressive, liquidity-fuelled advance – one in which the more robust business models we tend to favour have lagged the wider market.

Our commitment to quality

That leaves us with a familiar choice: join the rush into high-beta, speculative equities, or stay disciplined with our quality, thematic holdings. We remain committed to the latter – defined as companies with high returns on equity, steady year-on-year earnings growth and low financial leverage. Encouragingly, the MSCI World Quality Index² has begun to show signs of recovery over the past month, even as risks build in the frothier corners of global markets (chart 1.1).

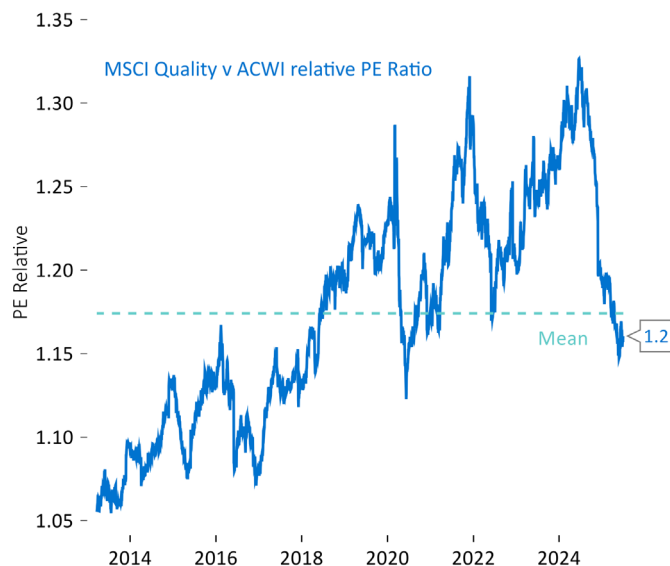
Core inflation remains sticky

Global growth remains broadly resilient, but core inflation is proving sticky. In the US, the economy is holding up well, and we predict growth of about 1.6% in both 2025 and 2026. Core inflation, however, remains elevated, with tariffs adding to cost pressures. This leaves the Federal Reserve's preferred measure of inflation, the core PCE deflator (the Personal Consumption Expenditures Price Index), at 2.9%,³ which is above policy makers' 2% target for a fourth consecutive year.

That puts Federal Reserve Chair Jerome Powell in a difficult position: US labour markets are softening,⁴ inflation is above target,⁵ and political pressure from the White House for deeper rate cuts is mounting. We forecast two further rate cuts in the fourth quarter and one more in 2026 – though this is unlikely to satisfy the President's newly appointed Governor, Steven Miran. He appears to favour a "fire-alarm" easing of up to 1.25 percentage points,⁶ which would take the Fed Funds rate down to 3%.

CHART 1.1 QUALITY IS CHEAP

The PE ratio of quality stocks relative to the wider global index (ACWI) has fallen back below the 10 -year average.

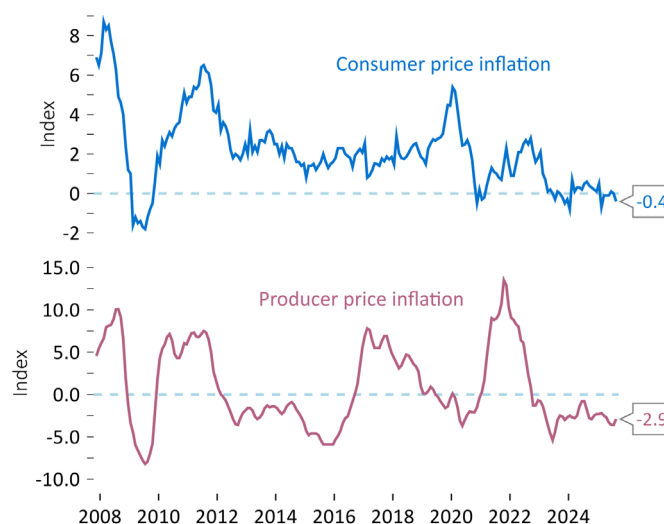


Source: Macrobond (30.09.25)

CHART 1.2 MEASURES OF CHINESE INFLATION

Deflationary forces in China make exports super-competitive, while Europe and the rest of Asia will see a profitability squeeze.

China inflation measures



Source: Macrobond (30.09.25)

China faces challenges

China faces a quite different challenge – but one that also argues for caution in equity selection. The economy continues to wrestle with structural deflation, centred on the property sector (chart 1.2). Consumer and factory-gate prices remain negative, and exports to the US have slowed. A further round of fiscal and monetary stimulus is likely in early 2026, albeit reluctantly adopted.

Meanwhile, cut-throat competition in many industries has compressed margins and left profits vulnerable even as the economy grows. This “excessive competition” – what Beijing terms involution – risks becoming a defining feature of China’s corporate landscape.

Europe’s domestic demand shift

In Europe, growth is softening as exporters work through orders brought forward to avoid US tariffs. Looking ahead, activity is likely to shift toward domestic demand, aided by higher defence spending. Headline inflation, at 2.2%, has remained relatively stable, though warning signs persist – German inflation surprised to the upside last month at 2.4%,⁷ while core inflation across the Eurozone remains sticky at around 2.4%.

In short, the global economy looks set to muddle through 2026, but the outlook remains more challenging for cyclical sectors. Steepening yield curves, persistent Chinese competition, tariff spillovers, and sticky inflation all argue for robust business models and balance-sheet strength.

Could the UK be the canary in the coal mine?

In Britain, the Bank of England looks set to keep rates at 4% well into the new year, with core inflation at 3.6%⁸ – still too high to allow meaningful easing. Growth should benefit from government spending and lower energy costs, but weak productivity remains a drag. All of this limits the Chancellor’s headroom as she prepares for the 26 November Budget – one that must respect fiscal rules without derailing Labour’s growth agenda.

UK bond markets are not wholly convinced. As of 6 October, ten-year gilt yields stood at 4.7%,⁹ roughly 20 basis points above the worst days of the Liz Truss budget crisis, while 30-year yields were near 5.5%, a 25-year high that makes long-term funding expensive. Could the bond-market vigilantes return? Quite possibly. Yes, deficits are higher in France and the US, but the former can rely on ECB support, while the latter enjoys reserve-currency privilege.

As yield curves steepen and funding costs rise, the risk of a bond market shock grows. Any simultaneous de-risking of portfolios could hit the speculative assets that have led this year’s rally particularly hard. Hence our preference for maintaining a quality-focused portfolio.

OPTIMISM FOR EQUITIES, AND A FOCUS ON QUALITY

Guy Monson, Chief Market Strategist & Senior Partner

Some signs of excess in global markets

While strong nominal growth underpins corporate profits, signs of excess are starting to emerge. September saw the largest leveraged buyout in history, as Silver Lake Management acquired Electronic Arts for \$55bn.¹⁰ The deal was led by President Trump's son-in-law Jared Kushner and Saudi Arabia's Public Investment Fund. Only a week earlier, Oracle issued \$18bn of bonds to fund its cloud and AI expansion – an offering that was five times oversubscribed. Meanwhile, US margin debt – the bank borrowings used by retail investors to finance stock purchases – hit an all-time high of \$1.06trn in August.¹¹

Equity risk appetite is rising. The *Wall Street Journal* reports that a quarter of all new ETFs launched this year are leveraged funds,¹² which amplify both gains and losses. The largest “2x” single-stock ETFs now track Tesla, Strategy Inc and Nvidia. These funds use derivatives to double the already volatile daily move in the underlying stocks – up or down.

Taken together, record margin debt, surging leveraged loans and excessive risk-taking in derivatives all point to growing market exuberance. Once again, this underlines the case for a quality bias in equity selection, despite the frustration of lagging the more speculative market moves.

Watch for a reversal in momentum

The extraordinary rally in global equities following President Trump's Liberation Day speech has been dominated by momentum trades, in other words the simple bet that recent winners will keep outperforming. Confidence in these trades has been reinforced by the President's partial retreat from his harsher trade measures and by a widespread belief in a “Fed Put” – that the central bank will accelerate rate cuts if growth slows or markets falter.

In 2025 nowhere is momentum more evident than in AI-related stocks – these stocks are up significantly.

At Sarasin, we selectively own profitable quality tech stocks as a key part of our thematic approach. It is fair to say though that many investors have begun to assume continuous, consensus-beating earnings as a given. Indeed, we have rarely seen such prodigious cash-flow growth alongside such vast investment in data-centre infrastructure worldwide.

Overweight equities but remaining selective

Despite the signs of exuberance, the fundamental underpinnings of global equities remain sound. Consensus forecasts point to around 13% earnings growth over the next 12 months, while global dividends are expected to rise by almost 10%, in addition to near-record US share buybacks. Yes, valuations are high, but profitability and cash generation remain robust.¹³

A further re-rating may be possible in the aftermath of the tentative settlement in Gaza. Our positioning therefore is overweight equities, but with a continued focus on companies with higher returns on equity, stable earnings growth, and lower leverage. This approach may lag the market in exuberant phases, but we are confident it will reassert itself in the long run.

¹ <https://www.trustnet.com/news/13459764/seven-charts-that-show-how-markets-moved-across-2025s-third-quarter>

² <https://www.msci.com/documents/10199/255599/msci-world-quality-index.pdf>

³ <https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy>

⁴ <https://www.bls.gov/>

⁵ <https://www.bls.gov/news.release/cpi.nr0.htm>

⁶ <https://www.msn.com/en-us/money/markets/steve-miran-was-the-only-fed-governor-to-vote-for-a-deeper-rate-cut-after-this-week-s-decision/ar-AA1MVdfp?ocid=finance-verthp-feeds>

⁷ https://www.destatis.de/EN/Themes/Economy/Prices/Consumer-Price-Index/_node.html

⁸ <https://www.bankofengland.co.uk/monetary-policy/inflation>

⁹ <https://markets.ft.com/data/bonds/tearsheet/summary?s=UK10YG>

¹⁰ <https://news.ea.com/press-releases/press-releases-details/2025/EA-Announces-Agreement-to-be-Acquired-by-PIF-Silver-Lake-and-Affinity-Partners-for-55-Billion/default.aspx>

¹¹ <https://www.finra.org/rules-guidance/key-topics/margin-accounts/margin-statistics>

¹² <https://www.wsj.com/finance/investing/etfs-are-flush-with-new-money-why-billions-more-are-flowing-their-way-8d9cbfb7>

¹³ Macrobond, to 30.09.25

Economist outlook

MIND THE GAP – NOT FISCAL BUT PRODUCTIVITY



**ADAM
HAMILTON**

ECONOMIST

**SUBITHA
SUBRAMANIAM**

CHIEF ECONOMIST
& PARTNER

We believe that Labour's plans for the UK economy lack vision, ambition and speed. It is fixated on budget arithmetic, but fiscal rules alone, however prudent, only slow the bleeding. Voters want cake: strong welfare, quality public services and lower taxes. To deliver this, the economy needs an urgent reset and the upcoming Budget is an opportunity.

Credit where credit's due

The Government deserves credit for sticking to the fiscal rules. They reassure investors that deficits will be contained. They are part of the reason that UK 10-year borrowing costs adjusted for nominal GDP growth are below that of France, Italy, Germany, and the US (chart 2.1).¹ Credibility is precious. What upsets most people about the fiscal rules is the reactive tinkering caused by leaving such small margins for safety. However, most previous governments can be criticised for having taken the same action.

To abandon the fiscal rules would be to invite another 2022 debacle, when Liz Truss and Kwasi Kwarteng's 'mini-budget' of aggressive tax cuts led to bond market turmoil.² Any short-term stimulus the Government might imagine it can deliver in doing so will be snuffed out by higher interest rates from the Bank of England.

Yet the fiscal rules by themselves tell you little about how government intends to shape the economy, beyond keeping the bond market happy.

In this Budget, the short run is irrelevant

The Government reportedly faces a £30bn fiscal hole in November's Autumn Budget³ – roughly the sum of a productivity downgrade and the £5bn welfare rollback. Dare we say it, perhaps the OBR might be a little too harsh at least on the revenue forecast. We say this because while the productivity assumption was probably too optimistic given the current policy mix, the OBR nominal GDP and inflation assumption is too conservative. For example, the OBR forecast for nominal GDP growth over 2025 is around 3.5% whereas to Q2 2025 it is currently growing at 5.5% and has averaged 5% over past two years and around 5.5% since 2020.⁴

The Bank of England has persistently run the economy too hot while talking it down, blaming import prices or foreign supply chains. The political incentive, as in the US and Japan, is to continue doing so. This is part of the reason why we favour gold and equities. Britain's policy mix persistently delivers inflation which translates to nominal growth. But with a high share of borrowing and spending indexed to inflation – and a bond market unlikely to be fooled twice – a better strategy would

Key points

- UK public spending has climbed significantly in recent years to around 45% of GDP currently.
- Ahead of November's Autumn Budget, the Government reportedly faces a fiscal hole of around £30bn.
- We believe that productivity reform is sorely missing in Labour's agenda – the UK must rediscover a healthier appetite for risk and innovation.

MIND THE GAP – NOT FISCAL BUT PRODUCTIVITY

Subitha Subramaniam, Chief Economist & Partner, and Adam Hamilton, Economist

be to focus on boosting productivity growth. Plug the fiscal hole, let the Bank of England manage the cycle, and start fixing the structure.

The tax and spend model of the past 25 years is exhausted

Since the early 2000s, the state's footprint has widened dramatically. Public spending has swollen from roughly one-third of GDP to almost one-half.⁵ Ageing demographics, welfare and new defence pledges make it hard to deliver even modest restraint on spending growth. The recent rejection of welfare reforms shows how politically fraught the task has become.

Taxpayers are not getting value for money in many areas, and the groundwork for a serious conversation about what government can and cannot deliver has yet to be laid. Some outright spending cuts are inevitable. Sacred cows like the triple lock pension policy⁶ may be simply unaffordable.

The current tax base is too narrow and needs to be broadened. Rates are already near their practical ceiling, given global competition for capital and talent. A more efficient system would lower marginal rates, broaden the base, and shift the burden from income, capital and transactions (like stamp duty) to consumption (VAT) and

property. Taxes and spending must be viewed together for their combined distributional impact, not in isolation. We agree with the Government to make work pay. These are bolder debates than any party currently dares to have.

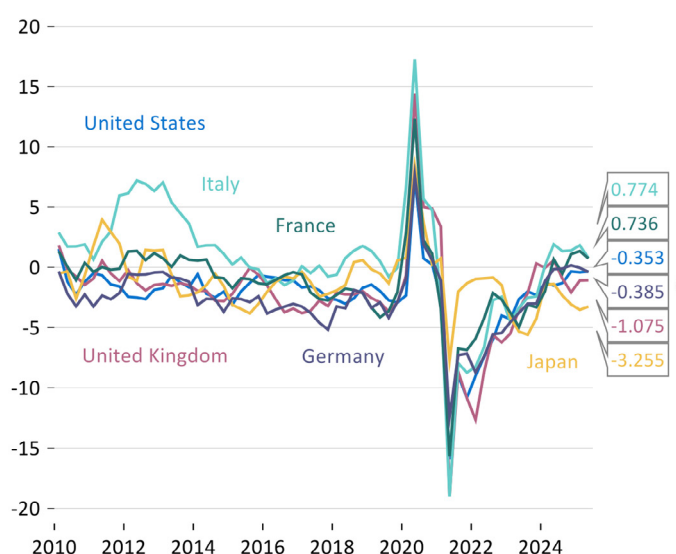
The old recipe of cake for all – more spending, hope for growth, rising debt – is exhausted.

In the long run, productivity is everything

We believe that productivity reform needs to be prioritised. The only sustainable way to lift growth, tame inflation and improve living standards is to shift the supply curve right. Often, this requires the state to do less, not more.

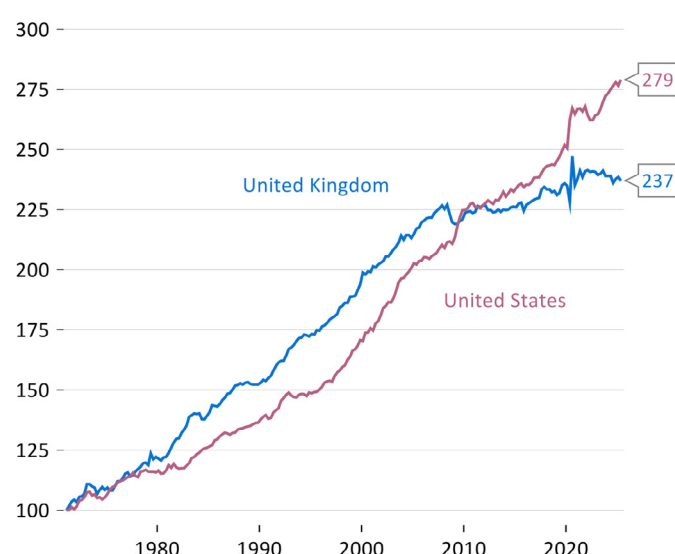
It is not just about pounds and pence spent, but about the rules and regulations that shape behaviour. The financial crisis of 2008–09 bequeathed a culture of overregulation and risk aversion that has spread well beyond the financial sector, where banks at least genuinely required better oversight. Britain has become a country where failure is stigmatised and red tape stifles entrepreneurial dynamism. Productivity has flatlined relative to the US (chart 2.2).

CHART 2.1 10-YEAR GOVERNMENT BOND LESS GDP GROWTH (%)



Source: Macrobond (09.10.25)

CHART 2.2 LABOUR PRODUCTIVITY PER HOUR WORKED (1971 =100)



Source: Macrobond (09.10.25)



From red tape to risk-taking

If the goal is to foster growth, the UK must rediscover a healthier appetite for risk. Innovation depends on tolerance for failure. Without it, productivity stagnates, capital flees, and the economy becomes ever more dependent on fiscal transfers rather than private initiative.

Artificial intelligence promises a profound transformation of work. To adapt and thrive, businesses must restructure their workforces and invest in new technologies — a dynamic process that can only occur if they can flexibly adjust the size and skills of their teams.

Regulation should *lower*, not raise, the barriers to such adaptation. The Employment Rights Bill,⁷ now in discussion, risks moving in the wrong direction. Regulators must recalibrate rules to foster, not suppress, responsible risk-taking. Taxes too should be redesigned to encourage investment in new technologies.

AI offers a once-in-a-generation opportunity to lift the economy out of its low-productivity doldrums. Labour's proposals, in our view, are simply too slow – and too timid – for the scale of the challenge.

The OBR sent this message loud and clear in March: the Government's housing planning reforms⁸ lower borrowing not by austerity but by boosting GDP. Not to mention the higher incomes and more affordable housing costs. Sometimes, less really is more.

Imagine the OBR applying the same analysis of the housing planning reforms to childcare, healthcare, transport and energy. Perhaps we could actually see prices falling like they have for TVs, computers, and cars at least in relative terms.

Unintended consequences and unseen costs

Well-intentioned policy often has unintended consequences. Take the rise in youth unemployment. It is not because young people are lazy – participation is up lately⁹ – but because policy has priced them out of work. Minimum wages rose faster than productivity. Hiring is taxed, firing restricted. Employers simply cannot afford to take them on. The irony is stark: having created the problem, government now taxes more to fund job schemes for the same youths it pushed out of the market.

Tidy numbers but a stagnating economy?

Labour's caution is understandable, and fiscal rules are necessary. But they are not sufficient. Without a vision for the role of the state and a plan for productivity, there is a risk of drifting into a managerial political style that keeps the numbers tidy while the economy stagnates.

Everyone wants cake: strong welfare, quality public services, and lower taxes. Without growth, this becomes a zero-sum game of dividing a shrinking pie. With growth, the UK can sustain both a generous welfare system and fiscal stability. The Government promised it but has not identified the right policies to deliver it.

¹ <https://tradingeconomics.com/united-kingdom/government-bond-yield>

² https://en.wikipedia.org/wiki/September_2022_United_Kingdom_mini-budget

³ <https://www.ft.com/content/efed5b1f-0a3c-4f94-9d7c-64c57445f4ad>

⁴ <https://obr.uk/efo/economic-and-fiscal-outlook-march-2025/>

⁵ <https://www.gov.uk/government/statistics/public-spending-statistics-release-may-2025/public-spending-statistics-may-2025>

⁶ <https://www.moneyhelper.org.uk/en/blog/retirement/state-pension-triple-lock>

⁷ <https://www.gov.uk/government/publications/employment-rights-bill-factsheets>

⁸ <https://bills.parliament.uk/bills/3946>

⁹ <https://commonslibrary.parliament.uk/research-briefings/sn05871/>

Shaping corporate accountability on ethical AI

Why investors must lead on transparency and safety



Julia Shatikova
Ownership Lead

In September, we held our second investor seminar on *Shaping Corporate Accountability on Ethical Artificial Intelligence (AI)*. The event brought together academics, practitioners and investors to examine the risks of AI and how stewardship can address them. Here are the main takeaways from the discussion.

AI risks are multiplying

AI is more transformative than we saw during the mass adoption of the internet and mobile phones. Its reach is so widespread that people are affected whether they choose to use it or not. Despite improvements in safety, AI outcomes remain unpredictable and the skills of malicious actors evolve quickly. Risks range from automated cyberattacks and fragile business models, to social harms such as misinformation, polarisation and job displacement.

Sharper questions for companies

Academics stressed the importance of investors asking tougher questions. Are there robust safeguards to prevent misuse? How are harmful uses filtered, and will safeguards scale to billions of users? Are boards ensuring AI models' source code is independently audited for vulnerabilities, ideally also via automated tools? Without clear answers, investors risk being blindsided by reputational and systemic failures.

Stewardship tools are evolving

Investor panellists highlighted that stewardship must be persistent and multi-layered. They should divide focus between developers and deployers. Disclosure quality is improving under frameworks such as the National Institute of Standards and Technology (NIST) or EU Digital Services Act, but comparability and quantitative data remain lacking. Voting against directors where AI oversight is absent is emerging as a powerful lever, while collaborative initiatives and benchmarks are helping to raise expectations across the market.



Systemic risks need stronger responses

The seminar also underlined broader risks. Concentration of AI power among a few companies raises systemic concerns, while rising energy use makes AI a climate issue as well as a governance one. With many AI projects underperforming, hype could fuel unsustainable investment bubbles.

What's next?

Three priorities emerged from our discussions:

- Investors must engage at three levels: with developers, deployers and policymakers.
- Strong governance frameworks and human rights impact assessments are the most promising accountability tools.
- Energy use and the lack of objective ways to measure the effectiveness of safeguards are fast becoming material issues alongside financial risk.

Sarasin & Partners will continue to press for stronger AI governance and accountability through direct engagement, collective action and policy advocacy. For investors, the stakes are clear – AI is likely to shape the future of economies and societies. Stewardship must ensure this transformation supports, rather than undermines, long-term value creation.

For more on this topic, read our article *Shaping the future of ethical AI* on pages 15–17 of our *Q3 2025 House Report*.

Investment focus

GOVERNMENT BONDS: HIGH SUPPLY, BUT NO DEMAND?

Having previously challenged some common myths around government bonds (see Q3 House Report), here we dive into one of the most fundamental changes in the 2025 landscape: the supply-demand balance being upended.

It is no secret that governments around the world are spending big. From January to June 2025, the US federal government spent \$3.6trn,¹ while both the UK and Germany are upping spend on defence and infrastructure. Of course, high government spending equals high deficits and those deficits are financed by governments selling more bonds. But to whom?

Let's take a look at what this means for demand, supply, and bond ownership going forward.

The golden era of bond demand?

First, a step back. For many years the going was good for debt management offices (those responsible for selling government bonds) with strong demand for bonds from a variety of sources.

Investors, scarred from the negative equity markets in 2008, wanted their fill. Pension schemes were large buyers, particularly of long-dated and inflation-linked bonds. This was especially the case during the decade post the great financial crisis where quantitative easing (QE) was prevalent, with large-scale central bank buying of government bonds at almost any price.

Indeed, based on the strong returns delivered in the first 20 years of this millennium, it could be interpreted that there was excess demand for bonds (chart 4.1). So where are those buyers now?

Pension funds are retreating

A major buyer has pulled back: defined benefit (DB) pension schemes. In the UK a recent publication by the OBR² highlights this point starkly.

The shift from defined benefit to defined contribution (also known as money purchase) schemes has been well documented. But the impact on demand for gilts is significant. According to the OBR, 40% of defined benefit pension assets are gilts. For newer style DC pension the figure is just 7% (chart 4.2).

But that shift will take a long time, right? Not according to Legal & General, which reported that a record number of DB pensions funds transferred liabilities to insurers in 2024.³ That trend is widely expected to continue. In short, this means less demand for government bonds.



MICHAEL JERVIS

PORTFOLIO MANAGER, MULTI-ASSET

Key points

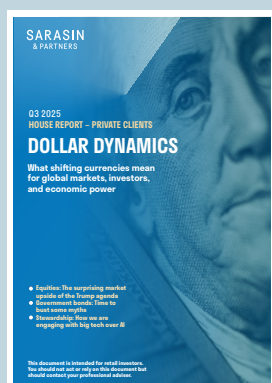
- Bond demand is structurally weaker as pension funds and central banks retreat, bringing an end to the golden era of excess demand.
- Persistent government spending ensures elevated bond supply, with issuers now needing to adapt issuance strategies to shifting investor demand.
- Bonds continue to play an important role in multi-asset portfolios, but long-term allocation to them must come with a wider understanding of trends and regimes.



GOVERNMENT BONDS: HIGH SUPPLY, BUT NO DEMAND?

Michael Jervis, Portfolio Manager, Multi-Asset

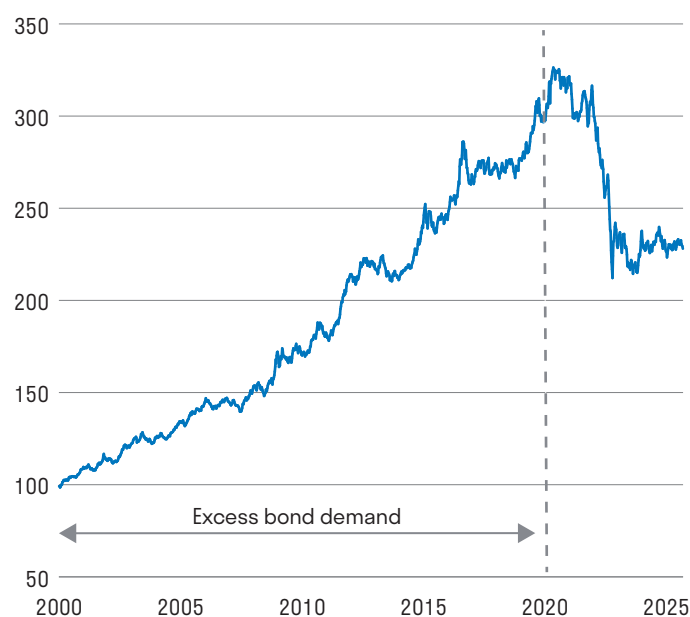
ARE WE ENTERING A NEW BOND MARKET REGIME?



In the Q3 2025 edition of the House Report, we discussed the concept of bond market regimes. In short, these are periods of time where bonds exhibit similar characteristics – both on a standalone basis and in terms of their role in a portfolio. We believe there have been three significant regimes since the 1960s. Each lasting around 20 years. With the higher interest rates we have seen since 2022, we may be entering a fourth. Time will tell.

CHART 4.1 PERFORMANCE OF UK GILTS

ICE BofAML, UK Gilt Index (01/01/2000 = 100)



Source: Macrobond (28.08.25)

The new regime: QT and inflation fears

Central banks are not buying either. Faced with the most persistent inflation in decades, central banks have switched course. QE has given way to QT (quantitative tightening) where holdings are allowed to mature or actively sold. Sure, QT is closer to the end than the start, but the point remains, active new purchases by central banks are a long way off. Indeed, the Bank of England recently confirmed it will continue actively selling Gilts for another year.⁴

The result? Another of the largest sources of consistent bond demand has disappeared, and this trend is unlikely to change anytime soon. With inflation remaining a live concern and remaining above targets, central banks are now structurally more cautious about adding to their balance sheets.

So, should you sell all your bonds then? Not so fast...

The answer lies in supply, not demand

Rather than declaring the death of the bond market, we need to think differently about how the market adjusts.

Historically, bond issuance was often demand driven. Governments issued longer-dated bonds to match pension funds' liability driven demand, or structured auctions to align with central bank operations. But today, the demand side has

weakened, and yet issuance remains high, especially given growing fiscal pressures. This calls for a supply-side rethink.

Governments and debt management offices need to adjust the composition of their issuance. Shorter maturities, careful consideration of inflation-linked debt or more flexible auctions could help absorb the supply more effectively. Just as corporates adjust to investor demand in markets, governments may have to do the same with their debt strategies.

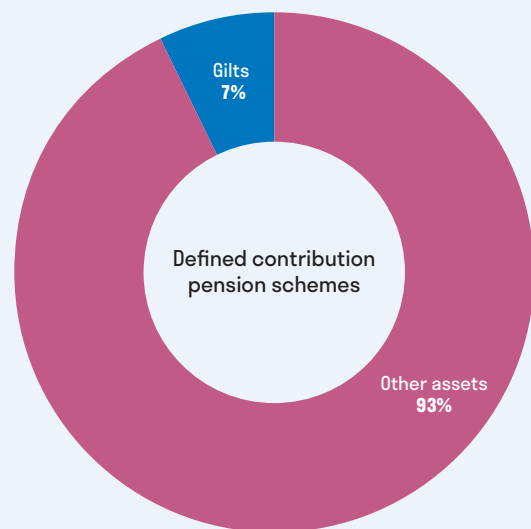
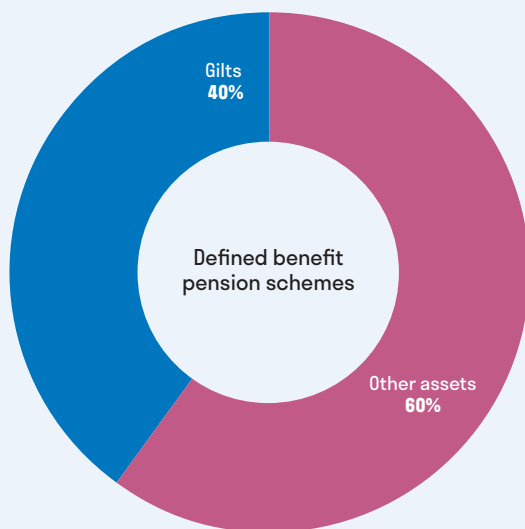
We have seen action to this effect already. In the US, the Treasury Borrowing Advisory Committee (TBAC) has taken notable steps since 2022 to reduce the proportion of long-dated issuance and increase reliance on short-dated Treasury bills.⁵ Similarly, in the UK, the Debt Management Office (DMO) has started the process of shortening the average maturity of new bond issuance.⁶

So, bonds aren't dead – but regime awareness is critical

The disappearance of QE and retreat of pension funds does not make bonds uninvestable. However, it does mean we are in a different world – one where pricing is more sensitive, liquidity is more fragmented, and supply discipline matters.



CHART 4.2 ASSET HOLDINGS OF UK PENSION SCHEMES 2025



Source: PPI and OBR, 2025

The key for investors is to focus on the dynamics that now drive bond markets: who the marginal buyer is, how supply is being managed, and where genuine demand still exists. Regime awareness, as we have argued before, is no longer optional – it is essential.

We should not forget that bonds still have many favourable characteristics. Stability of income is one that many of our clients consider important; with yields far higher than they have been for many years, the income angle remains as relevant as ever.

Sarasin's allocation to bonds

How is Sarasin responding in client portfolios? The answer is threefold.

- 1.** We are not throwing the baby out with the bathwater. Bonds still have a role to play in portfolios. Our last article covered this point.
- 2.** However, just as institutions like the Debt Management Office need to adapt, so do we. Here's how:
 - a.** In portfolios that target CPI+1 returns, we have reacted by shortening the average maturity of the bonds we own materially. These portfolios have the highest government bond allocation of all accounts we manage, so were most exposed.

b. In portfolios with higher return targets, we are actively reviewing the maturities of bonds we own, carefully balancing all of our analysis.

- 3.** We are being more selective than ever. Change breeds opportunity, and we must remain alert to this.

Bonds continue to play an important role in multi-asset client portfolios, and this is unlikely to change anytime soon. As with equities, an actively managed allocation to bonds – with a wider understanding of the trends and regimes impacting supply and demand – is vital to delivering the best long-term outcomes.

¹ <https://www.orfb.org/press-releases/treasury-confirms-spending-142-billion-2025>

² https://obr.uk/docs/dlm_uploads/FRS-2025-slides.pdf

³ <https://www.legalandgeneral.com/institutional/pension-risk-transfer/news-and-insights/reports/hy-prt-market-update-2025/>

⁴ <https://www.bankofengland.co.uk/markets/market-notice/2025/september/apf-gilt-sales-market-notice-18-september-2025>

⁵ <https://home.treasury.gov/news/press-releases/sb0213>

⁶ <https://obr.uk/box/the-changing-maturity-composition-of-gilt-issuance/>



TOM KIGHT
GLOBAL EQUITY ANALYST

Thematic investing **SMARTER CONSUMPTION AND THE SHIFTING BALANCE OF POWER IN RETAIL**

Key points

- The competitive environment in the consumer staples sector is shifting. Profit pools are moving towards retailers and away from branded consumer goods manufacturers, particularly in food.
- Private label brands are becoming a lasting part of everyday shopping, not just something people switch to in hard times.
- Within our Evolving Consumption theme we continue to prefer innovators and companies with sustainable competitive advantages.

This article has been co-authored by **Jeneiv Shah**, Global Equity Portfolio Manager, and **Colm Harney**, Investment Strategist/Portfolio Manager

Our Evolving Consumption theme examines how shopping habits change as generations, culture, and technology shift.¹ One area we are interested in is the rise of own brands (private labelled products), which we believe is symptomatic of a change in the dynamic between retailers and branded consumer goods manufacturers, and a change in the investment opportunity set.

For many years, own brands were mostly a basic, cheaper option that gained market share in hard times and faded when consumer confidence returned. That pattern is changing. Retailers sell own brand ranges that compete on quality and choice, not just price, providing consumers with a compelling value proposition. Think *Kirkland Signature* at Costco, *Finest* at Tesco, *Taste the Difference* at Sainsbury's, and *bettergoods* at Walmart.

Retailers are closer to the consumer than ever before. They have a growing abundance of information on customers' shopping habits as a result of the increasing use of online grocery shopping and loyalty programmes. This data is valuable for manufacturers to help inform product innovation, pricing and brand positioning, especially when their own sales volumes have been sluggish for some time and retailers' own-brands have become a genuine competitor.

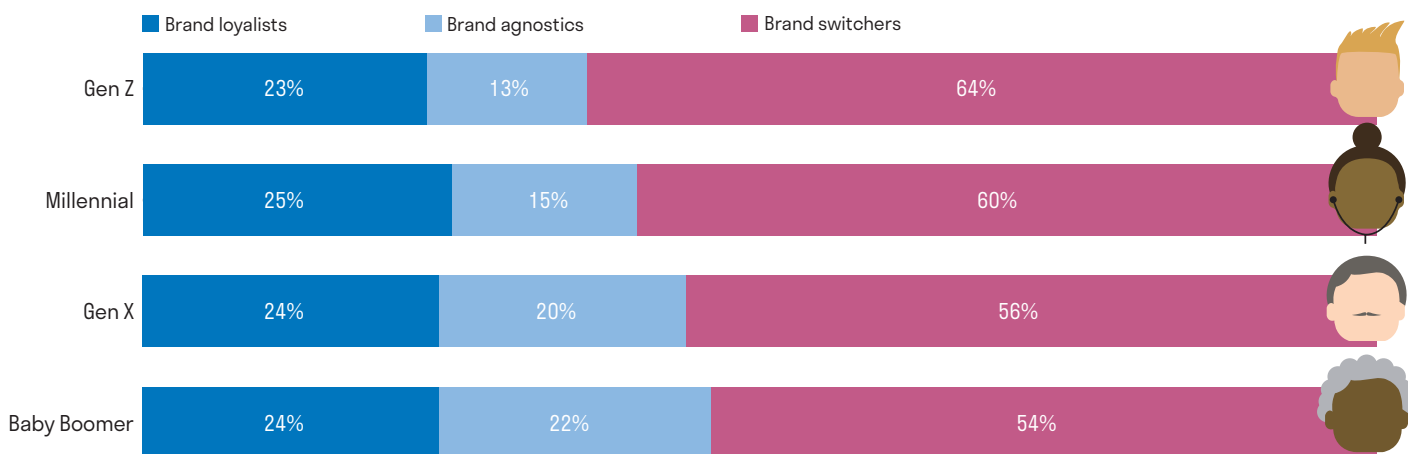
Since 2019, own brands have grown their share of US packaged goods spending led by food, where shoppers are switching into private label frozen, dairy, and snack lines.² Outside of food the picture is mixed. Home care and general merchandise own brands have edged their share higher, while the share of private label health and beauty products remain close to, or below, pre-pandemic levels.

Demographic shifts have added momentum. Younger shoppers are less attached to the incumbent brands that older consumers are loyal towards. Millennials and especially Gen Z consumers are happy to try alternatives discovered through online reviews and social media. Many higher income households have increased their purchases of retailer own brands too. This marks a shift in behaviour. Frugality carries increasing social equity among consumers tired of inflation.

A further evolution is the lowering of information barriers, making it easier for new entrants to advertise and consumers to switch between brands. Social media, online reviews, influencers and creator content have made advertising cheaper and more scalable. New entrants can now reach large audiences more easily. That increases competition for traditional manufacturers and makes old-style national advertising less effective.

SWITCHERS TAKE CENTRE STAGE GLOBALLY

Across generations, brand switchers make up the largest share of consumers, with the highest levels in Gen Z and Millennials, and the tendency to switch easing with age.



Source: www.ey.com/en_uk/insights/consumer-products/brand-relevance-era-of-endless-choice

Evolving consumption in action

These changes show up in the way people find, assess and buy products. Three forces stand out today:

- **More choice, easier discovery.** Online shopping and internet views make comparisons simple, so switching to own brands or smaller challenger brands is simpler
- **Quality at keener prices.** Own brands are no longer just the cheapest. Many ranges now offer strong quality and retailer-exclusive products helping to drive footfall.
- **Faster product cycles.** Because retailers see what sells across stores and online, they can spot trends and scale winning products quickly or sell that information to manufacturers at high margins.

Taken together, these trends mean long-established brands face greater competitive intensity due to an increased threat of substitutes from retailer own brands, and lower barriers to entry for challenger brands. At the same time, higher interest rates have made it less economical for the incumbent brands to acquire their way to growth.

How the shift shows up in practice

We can see these forces at work in how the largest retailers operate. The following three examples show how own-brand ranges, shopper data, and fast-growing retail media are shaping pricing, loyalty and profits:

- **Walmart's** own-brand is *bettergoods*. Launched in April 2024, it is the company's first new food label in around 20 years, covering frozen, dairy, snacks, drinks, pasta, soups, coffee, and chocolate. Early surveys suggest a positive reaction across income groups, which supports the idea that own brand is no longer just a cheaper substitute but also a competitive alternative on quality grounds. Combined with an average nationwide delivery time of 43 minutes for online grocery orders in the US, Walmart is offering consumers both cost and time savings; a formidable combination. By the end of 2025, Walmart will be able to deliver products to 95% of US households within three hours.³

- **Costco's** Kirkland *Signature* own-brand has become a bastion of high quality at attractive prices across, food, clothing and general merchandise. It helps the company keep prices low for members while offering strong alternatives across household and food lines. It supports loyalty without the need for heavy advertising.
- **Ahold Delhaize** has long been a leader in own-brand products. It plans to raise own-brand's share from roughly 38% to about 45% by 2028, supported by convenience factors such as providing meal kits in store.⁴ That should add value for shoppers and strengthen discussions with suppliers across Europe and the US.

Where the pressure shows up

As own brands scale and smaller challenger brands proliferate, the competitive pressure does not fall evenly across categories. Packaged food is facing some of the toughest conditions. Branded sales volumes remain soft despite promotions, while own brands continue gaining share. Packaged food demand is also pressured by the increasing use of GLP-1 medication, aggressive price increases since the pandemic, and growing scrutiny of ultra-processed foods among consumers and policymakers. Food categories in the middle aisle of a supermarket that do not require refrigeration, such as dried pasta, sauces, and cereals, are most exposed.⁵

Household and personal care is more resilient than food but not immune. Some product leaders use promotions effectively to hold or grow volumes despite own-brand competition; others are losing share to private label alternatives even with deeper discounting. In part this has been due to a lack of focus on innovation among the branded consumer goods companies since the pandemic. Consumers do not feel it is worth paying extra for the branded product for marginally improved performance compared to own brands.

SMARTER CONSUMPTION AND THE SHIFTING BALANCE OF POWER IN RETAIL

Tom Kight, Global Equity Analyst

Overall, the old 2000 to 2020 pattern – modest price increases, some volume growth, and margin improvement as fixed costs were spread over more sales – is likely to be harder to replicate moving forward. The competitive intensity for manufacturers has increased. Retailers are offering consumers attractively priced and positioned own brand goods, especially in food. A higher cost of competing puts market expectations of margin expansion at risk among the owners of weaker brands, especially those in thematically disadvantaged consumer staples categories such as packaged food.

We expect many brand owners will need to allocate more resources to product innovation to rebalance consumers' lost sense of value-for-money when paying a premium for branded goods. Manufacturers will also need to reassess marketing strategies as the return on investment in traditional media channels reduces. We suspect some of this budget will get reallocated to social media influencers and paying for prime positioning on retailers' online and physical real estate.

ESG and stewardship angles

These shifts also raise practical stewardship questions, which guide our engagement with companies:

- **Fair value and access.** Own brands can widen access to healthier, more sustainable options at lower prices. We ask for clear labels and responsible nutrition claims across these products.
- **People and productivity.** New ways of working in logistics and stores can reduce waste and physical strain, but they also change the skills needed. We engage on safe adoption, reskilling, and fair treatment.
- **Packaging and waste.** Own brands give retailers the scale to standardise recyclable or lower-impact packaging. We look for credible targets and progress.

How we are positioning portfolios

These insights inform where we place capital, and we put our view to work in three ways. First, we prefer retailers with dominant market share and leading e-commerce businesses, which provide opportunities to monetise memberships, marketplaces, advertising space, and customer insights to manufacturers.

Second, we are selective among brand manufacturers. We are careful of categories where own-brand exposure is high and discounts are rising without clear improvement in sales volumes or product innovation. We prefer areas with more durable advantages, such as select parts of household and personal care and beauty where proven product superiority helps maintain loyalty among consumers.

Third, we watch discounting trends as a live stress test. In non-food, heavier discounting has recently slowed own brand gains. In food, where discounting has eased, own brands are still taking share. We do not expect this trend to reverse as consumer confidence improves, unlike in past cycles.

It is worth noting that Sarasin has long taken an interest in this development between retailers and brands in our Food & Agriculture Opportunities Fund, a specialist fund that has consistently had limited exposure to conventional packaged food manufacturers.⁶ More recently, it has benefited from sizable holdings in retailers such as Walmart, Ahold Delhaize, Shoprite and Costco.

Smarter shopping calls for smarter investing

We believe the direction of travel is clear: own brands are no longer just a trade-down for hard times. In many aisles they are becoming part of everyday, smarter shopping, helped by changing demographics, easy access to information and retail platforms that blend stores, websites, data and advertising.

Within our Evolving Consumption theme, we continue to be selective across manufacturers, supporting real innovators and durable category leaders, and avoiding areas where own-brand pressure is rising and discounting is doing the heavy lifting.

¹ <https://sarasinandpartners.com/about/why-thematic/>

² RBC Capital Markets, Is this private label cycle different? (18 October 2024)

³ <https://www.foodbusinessnews.net/articles/28446-bettergoods-is-turning-into-big-business-for-walmart>

⁴ <https://newsroom.aholdelhaize.com/ahold-delhaize-introduces-500-new-own-brand-products-in-central-and-southeastern-europe-region/>

⁵ <https://agribusiness.purdue.edu/2025/03/31/glp-1-adoption-and-its-impact-on-food-demand/>

⁶ <https://sarasinandpartners.com/fund/sarasin-food-and-agriculture-opportunities/>

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