

Wealth Insights Q4 2025 Outlook

By KFH Capital Investment Company

Wealth Insights

Q4 2025 Outlook



KFH Private Bank Q4 Wealth Insights

Through our quarterly Wealth Insights publications, we aim to answer some of the key questions that are on the minds of our clients with respect to the global economy and financial markets.

Our Q4 publication covers the following:

- 1- A review of global asset performance to September 30th 2025
- 2- Recent trends in market recoveries
- 3- An analysis of Active vs Passive Investment Management

Executive Summary

1- A review of global asset performance to September 30th 2025

It has been a remarkable year for equities - Investors who maintained an overweight position in equities have recorded gains exceeding 15%, despite volatility stemming from tariff-related developments. Key drivers for this performance include favorable macroeconomic data and better-than-expected earnings during the first half of 2025. In contrast, GCC equities have delivered mixed results. The Saudi Tadawul, the region's largest market by capitalization, is down 4.4% year-to-date. Meanwhile, the Kuwait Premier Market has led regional performance with gains of 19.6%, followed by the Dubai Financial Market (DFM) Index, which is up 13.2% over the same period.

KFH Capital Investment Research Comments: As we write, equity markets continue to record new highs; however, recent tariff announcements have triggered declines. We firmly believe that markets will remain range-bound due to the absence of strong fundamental catalysts.

Tailwinds include resilient macroeconomic activity, better than expected quarterly earnings and the continuation of the interest rate cut cycle. On the other hand, headwinds consist of uncertain trade policies, downside risks to corporate earnings — as the full impact of tariffs has yet to materialize — and persistently high inflation levels.

Commodities have shown mixed performance. Crude oil and its derivatives have recorded price declines on a year-to-date (YTD) basis. However, precious metals have surged, with gold rising over 40% and silver gaining nearly 60% during the same period. This rally has been driven by market uncertainty, which has boosted demand for precious metals due to their inherent safe-haven characteristics.

KFH Capital Investment Research Comments: Crude oil and its derivatives are expected to remain range-bound amid weak demand and a steady increase in supply. In contrast, there is potential upside in precious metal prices, driven by ongoing uncertainty.

KFH Private Wealth maintains a strategic view favoring **gold allocation**, recognizing its role as a hedge in volatile market conditions.

In the **fixed income** space, the U.S. yield curve has exhibited bearish steepening, with long-tenor bonds experiencing a sell-off. The 30-year U.S. Treasury yield stood at 4.745%, marking an increase of over 60 basis points compared to the same period last year. Meanwhile, the 2-year U.S. Treasury yield was at 3.643%, reflecting a marginal gain of 2 basis points. Key drivers of this movement include growing concerns over the fiscal deficit and developments in the interest rate cycle.

2 - Recent trends in market recoveries

A study of historical index levels validates that indeed market recoveries have been swifter in recent years compared to historical norms.

A Brief Market Analysis: During the period from 2000 to 2013, the average recovery time from peak to peak was approximately 6.25 years (or 1,575 trading days). In contrast, during the COVID period (2019–2025), the average recovery time was significantly shorter — less than one year (approximately 8 months or 168 trading days).

Corrections during the earlier period were more severe, often exceeding 40%, and were primarily structural or fundamentals based. In contrast, market declines during the more recent period (2019–2025) have been in the 20–30% range and tended to be event-driven, such as the COVID-19 pandemic or, more recently, the Liberation Day Tariffs.

Data indicates that the depth and speed of government intervention has been a key factor in shortening the timeframe of market recoveries. The use of a combination of monetary and fiscal policy tools has significantly accelerated the pace of recovery, helping markets rebound more quickly from downturns.

Nonetheless, while market recoveries have varied in length and severity, markets have consistently rebounded and gone on to record new highs.

What it means for Investors: If investors remain calm and avoid trading their holdings during market corrections, they are often rewarded in the long run — a phenomenon known as the compounding effect.

Compounding Effect Case: If an investor had invested USD 1,000.0 in an S&P 500 Index fund as of September 30; 2022, the investment would be valued at USD 1,865.0 at end of September 30; 2025, representing a compounded growth rate of 22.9% over a 3-year period. Likewise, the same investment would be worth USD 1,988.0, reflecting a compounded growth rate of 14.7% over a 5-year period.

3 - An analysis of Active vs Passive Investment Management:

The overwhelming dominance of Index (Passive) investing within global equity markets is well known within the investment management industry. The data from active US Mutual Fund Managers clearly shows that over the last 5 years, 87% of active large cap US mutual fund managers have underperformed the S&P 500 index.

The rationale for the significant underperformance of active investing includes the management fees and the sharp positive skewness towards a single stock.

Nonetheless, Passive Investment has also had its share of underperformance during specific timeframes. Examples include the 2000–2003 period during which the Fidelity Value Fund recorded gains of 41.78%, while the S&P 500 was down 24.32% during the same period.

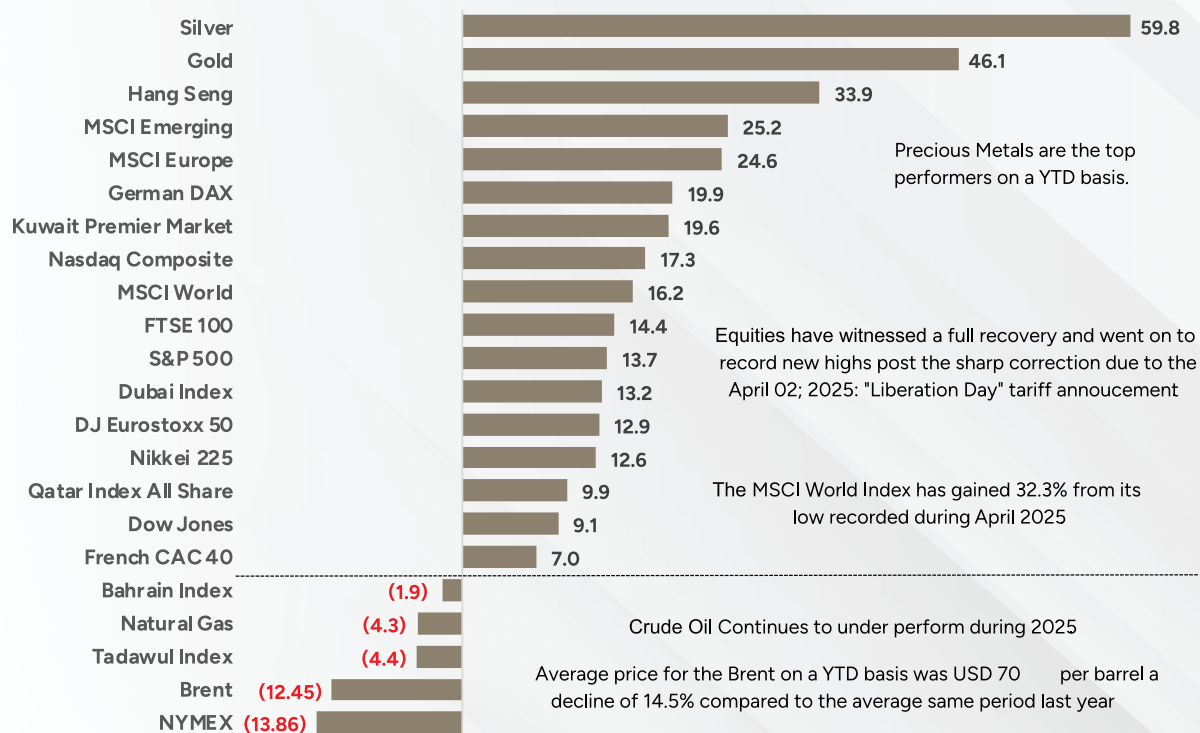
We at KFH Private Wealth adopt a blended approach of index orientated funds carefully considering the underlying index alongside an allocation to the best active managers.

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A review of global asset performance to September 30th 2025



Global Asset Performance, as of September 2025 ,30, Source: Refinitiv

Corporate Earnings: Corporate earnings surprised to the upside during the first half of 2025, posting low to mid-teens growth, well above earlier forecasts of 5–6%. However, the earnings outlook for the second half of 2025 has been mixed, reflecting increased uncertainty around margins, demand sustainability, and sector-specific headwinds.

The banking sector delivered strong earnings in H1 2025, exceeding analyst expectations. Key drivers included higher revenues from institutional trading, as trading desks benefited from increased commissions due to market volatility and portfolio repositioning to manage risk. Additionally, banks reported higher income from investment banking activities. While asset management recorded growth, it remained in single digits. Another notable development was a double-digit increase in loan impairments, reflecting cautious provisioning amid macro uncertainty. Regarding the outlook, many firms have indicated that H2 2025 is expected to remain muted, citing a challenging operating environment.

Sectors directly impacted by tariffs have reported a cautious outlook for H2 2025, as the full impact of tariffs has not yet been reflected in first-half earnings. For instance, industrial equipment manufacturers such as Caterpillar and Deere have indicated expected tariff-related costs of USD 14–15 billion for the full year. Furthermore, leading industrial machinery producers have also signaled a negative impact on margins, driven by rising input costs and supply chain disruptions linked to tariff policies.

As we write, major US banks have reported Q3 2025 earnings which have been above consensus estimates - key drivers being double digit growth in Non-Operating Income, while core operating income recorded single digit growth on a quarterly basis. Banks have revised Q4 2025 earnings guidance to the upside given this momentum in earnings. On outlook, banks declined to provide guidance for 2026, however they have indicated a cautious macro environment with focus on unemployment.

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KFH Capital Investment Research Comments: We are aligned with this view, as we believe the full impact of tariffs on corporate earnings has yet to be fully priced in. So far, the increase in input prices resulting from higher tariff rates has been absorbed, but this is unlikely to be sustainable. As a result, corporate earnings are expected to remain under pressure during H2 2025, with potential downside risks emerging as the broader effects of tariffs begin to materialize.

In the GCC region, H1 2025 corporate earnings have been negatively impacted by the implementation of the Domestic Minimum Top up Tax (DMTT), which came into effect in 2025. This has led to a sharp increase in tax outflows compared to the previous year. The banking sector reported high single-digit loan growth, while the net financing margins remained under pressure. However, earnings were positively supported by higher non-operating income, including gains from investments and fee & commission income. Meanwhile, the oil & gas and petrochemical sector, a key contributor to regional earnings, reported a decline in profitability, as crude oil and derivative prices remained muted throughout 2025.

Tariff Update: A key metric to monitor is the Effective Tariff Rate (ETR), which represents the average actual tariff burden on imported goods. In the case of the United States, a higher ETR implies increased government revenue, greater leverage in trade negotiations, and stimulation of the domestic supply chain and manufacturing, potentially leading to job creation. However, several downside risks accompany a higher ETR — most notably, an increase in consumer prices and a negative impact on corporate profitability.

According to a recent Fitch report, the expected ETR for the US is likely to be 17.5%, which is substantially higher than the 2024 level of 2.4%. The interim economic outlook report by the OECD also places the US ETR at the same level. This figure has likewise been published in the interim economic report by the IMF.

What it Means for the Markets: A higher Effective Tariff Rate (ETR) increases downside risks through macroeconomic channels such as elevated inflation and pressure on corporate margins, as companies struggle to pass rising input costs on to consumers. As a result, earnings for H2 2025 are likely to remain under pressure. Additionally, as shown in the table below, uncertainty around tariff rates persists, although the situation has improved compared to June. As we write, there has been a resurgence in tit-for-tat tariff actions between the U.S. and China, and markets have reacted negatively to the renewed trade-related tensions.

Country	Tariff Deal Details
UK	10% tariff on most goods and 10% on first 100,000 Auto exports
Vietnam	20% tariff on imports & 40% on transshipped goods & pledged to purchase billions of dollars' worth of American products
Indonesia	19% tariff on goods and Indonesia to eliminate tariffs on almost all goods. Agreed to significant purchases from the US, including USD15bn in energy products, USD4.5bn in agricultural products, and 50 Boeing jets
Philippines	19% tariff on goods, and work closer on military, but few details
Japan	15% tariff on most goods, including autos. Japanese loans & investment of USD550bn into the US economy
European Union	15% tariff on most goods, with commitments to buy USD750bn in energy over three years and invest USD-600bn in the US, while also making significant purchases of military equipment. (Europe currently buys about USD100bn in energy)
India	25% tariff on all goods with another 25% Secondary Tariffs. That said, it seems as if negotiations are still happening in the background
South Korea	15% tariff on most goods including autos, with commitments to make USD350bn in investment into the US, and USD100bn in gas imports, while opening up access to US
Mainland China	Truce extended for another 90 days until November

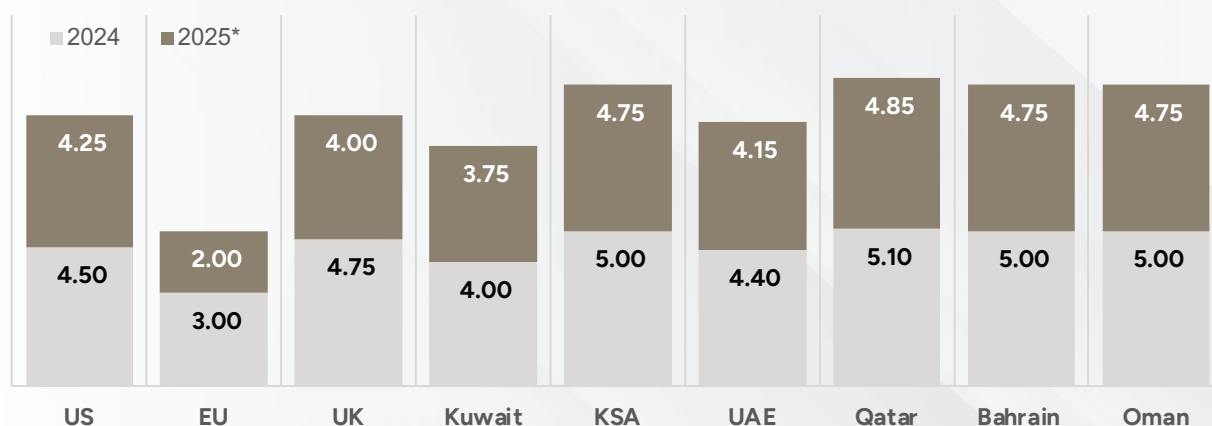
Source: BMI; Fitch Solutions

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Interest Rates: As shown in the graph below, rate cuts have been mixed on a year-to-date (YTD) basis. On a geographical basis, Europe has been more dovish, with ECB rates lowered by 100bps, while the Bank of England has reduced its target rates by 75bps. The US Fed has initiated rate cuts, starting with a 25bps reduction in September. In the case of GCC central banks, they closely follow the US Fed's policy cycle due to the USD peg.



Source: Central Banks; * as of September 2025

KFH Capital Investment Research Comments: We would characterize the monetary policy stance of major developed central banks as cautiously dovish, with approaches likely to remain varied across regions. Key drivers influencing policy decisions include inflation, unemployment, and GDP growth, which continue to shape the pace and direction of rate adjustments.

I. European Central Bank (ECB): According to ECB projections, headline inflation expectations for 2025 stand at 2.1%, which is within the central bank's target range of 2%. Unemployment remains well below the long-term average, and GDP growth is expected to reach 1.2%, an upward revision from earlier estimates of 0.9%. Based on these indicators, we believe the ECB is likely to hold interest rates at current levels, with no further rate cuts expected in 2025.

II. Bank of England (BOE): In the case of the UK, the Consumer Price Index (CPI) rose by 3.8% in August 2025 on a year-over-year basis, unchanged from July 2025. Inflation remains elevated. Unemployment during the same period stood at 4.7%, which is above the Bank of England's target rate of 4.0%. Therefore, further rate cuts in the UK can be expected.

III. US Federal Open Market Committee (FOMC): The US CPI was up 2.92% year-over-year in August 2025, rising from 2.7% in July. Inflation levels have been increasing since April 2025. US unemployment stood at 4.3% in August, up from 4.2% in July, but still within the Fed's target range of around 4.0%.

The rate cut by the FOMC in September, despite elevated inflation, is viewed as a risk management strategy. The rationale behind the move included signs of a weakening labor market, as indicated by rising unemployment, and slowing economic growth.

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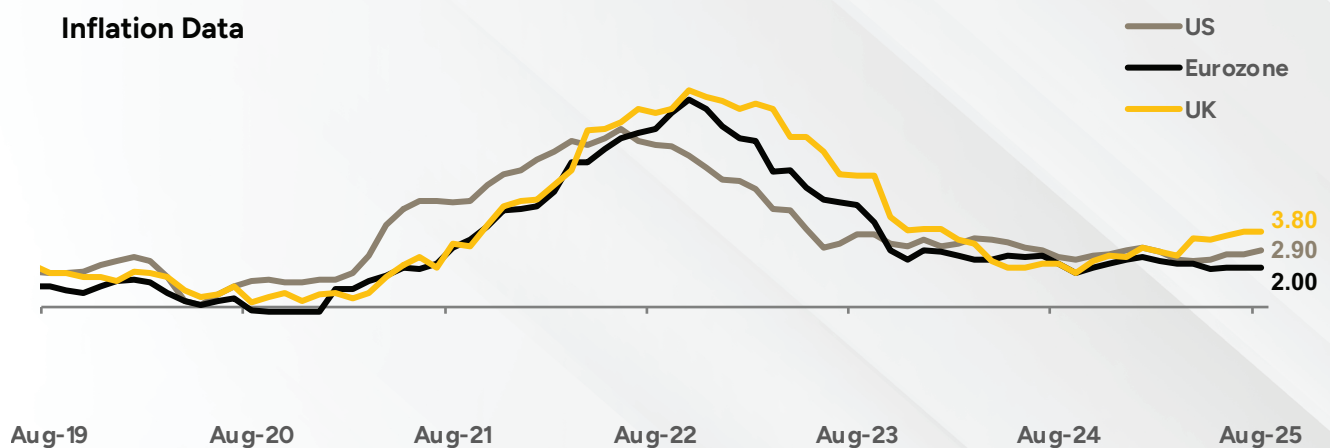
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According to the Summary of Economic Projections released in September, U.S. GDP growth is forecasted at 1.6% for 2025, down from the 2.1% projection made in December 2024.

The monetary policy outlook for the US has turned dovish for 2025, with expectations of 50bps in rate cuts, which is in line with our view. As stated earlier, GDP growth faces downside risks, followed by rising unemployment rates. The committee is likely to prioritize these two factors when considering further rate cuts, while inflation may take a back seat.

The Dot Plot analysis shows that over 50% of FOMC participants believe the ideal Fed rate for 2025 is in the range of 4.00–3.75%. For 2026, 47% believe rates should be in the range of 3.50–3.25%. Overall, this is positive for markets. As stated earlier, GCC central banks closely follow the US Fed policy cycle due to the USD peg.



Source: Bloomberg

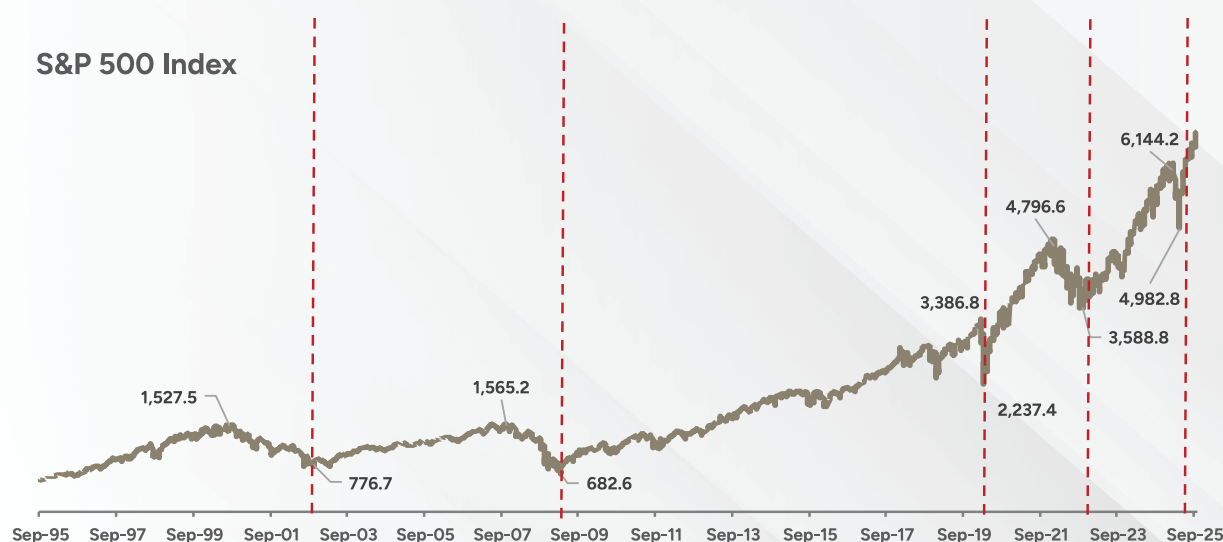
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2 - Recent trends in market recoveries

Market corrections are difficult to define or measure, as they depend on how far back in history one looks. A Full Recovery is characterized by markets moving from a peak to a bottom and back to the previous peak. This complete cycle (i.e. peak-bottom-peak) is termed a full recovery. The duration of market recoveries is difficult to forecast, as it depends on many moving parts, including fundamentals, geopolitics, and other factors. Nonetheless, markets have always recovered and gone on to record new highs (see graph below).



Source: Bloomberg

Market Recovery Time Trends: As shown in the graph, the recovery timelines for the S&P 500 have been inconsistent and have shortened considerably. However, our analysis suggests that the timeline is generally a function of the depth of the corrections, as well as fundamentals, macroeconomic conditions, and geopolitical factors. For instance, in early 2000, after recording a new high, the S&P 500 corrected by over 40% and remained in a downward trend until 2002.

The prolonged bearishness was due to a combination of fundamental and geopolitical factors:

- I. Dot-com bubble (Fundamental): A major financial bubble centered around the rise and dramatic fall of internet-based companies
- II. Corporate Scandals (Fundamental): The famous Enron accounting fraud which resulted in the bankruptcy of Enron Corporation during 2001
- III. 9/11(Geopolitical): The coordinated terrorist attack carried out on the United States

The Index took 7 years for a full recovery i.e. from Peak to Peak, while it took 5 years for the market to recover from the bottom. The correction was due to combination of fundamentals and geopolitical, which explains the prolonged market recovery.

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The 2008 Financial Crisis: During the Global Financial Crisis, markets recorded a decline of over 50% from their peak. The index managed a full recovery in 5.5 years from peak to peak, while the recovery from the market bottom took 4 years. Key highlights of the market decline included the Lehman Brothers bankruptcy, a rise in subprime loan defaults, and a near-collapse of the US banking sector. Initiatives to support the markets included massive stimulus packages for the financial sector, quantitative easing, and the initiation of interest rate cuts, among others. The correction was driven by more fundamental and structural issues.

COVID-19 Pandemic: The pandemic triggered a rapid market correction of over 30%. However, the recovery was equally swift. The peak-to-peak recovery occurred over 6 months, while the recovery from the market bottom took just 4 months, marking it as the fastest recovery in market history. The impact of the pandemic was offset by interest rate cuts, massive stimulus packages to support the deteriorating macroeconomic environment, and increased liquidity, among other measures.

2022 Market Declines: The S&P500 index witnessed a correction of over 20% during early 2022, key drivers were a surge in inflation which resulted in Central Banks raising interest rates aggressively. The US Fed and the European Central Bank raised rates over 10 consecutive times to address the surge in inflation (US Inflation rates were 9% during 2022). There is a negative correlation between the interest rate hikes and markets. Further, the markets witnessed the start of the Russia-Ukraine conflict during the same period. Thus, a combination of macro fundamentals coupled with geopolitics impacted the markets negatively. The recovery was swift; it took a year for the market to fully recover from Peak-to-Peak while the recovery from the market bottom was within a quarter.

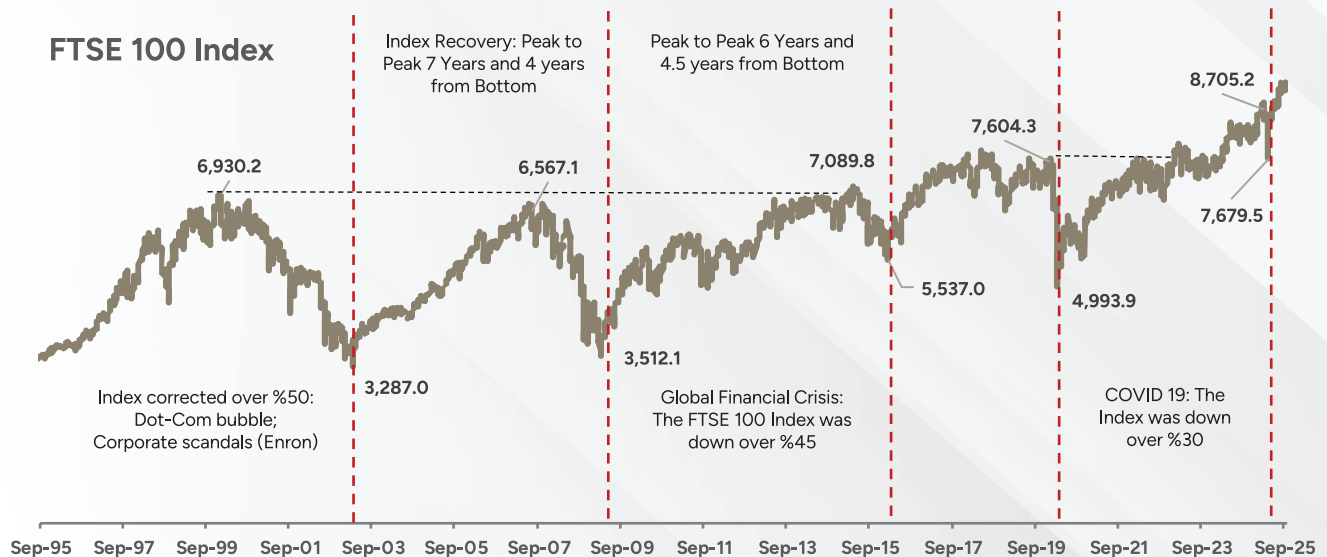
Liberation Day Tariffs: During 2025 the S&P500 witnessed a correction close to 20% caused by the sweeping trade policies announced by the newly elected US administration. The impact was more at the macro level as higher tariff rates are likely to impact on economic activity, increased consumer prices etc. The tariff uncertainty continues to have an impact on the markets as we write. Nonetheless, markets managed to recover fully to previous peak levels within 6 months and have since recorded new highs.

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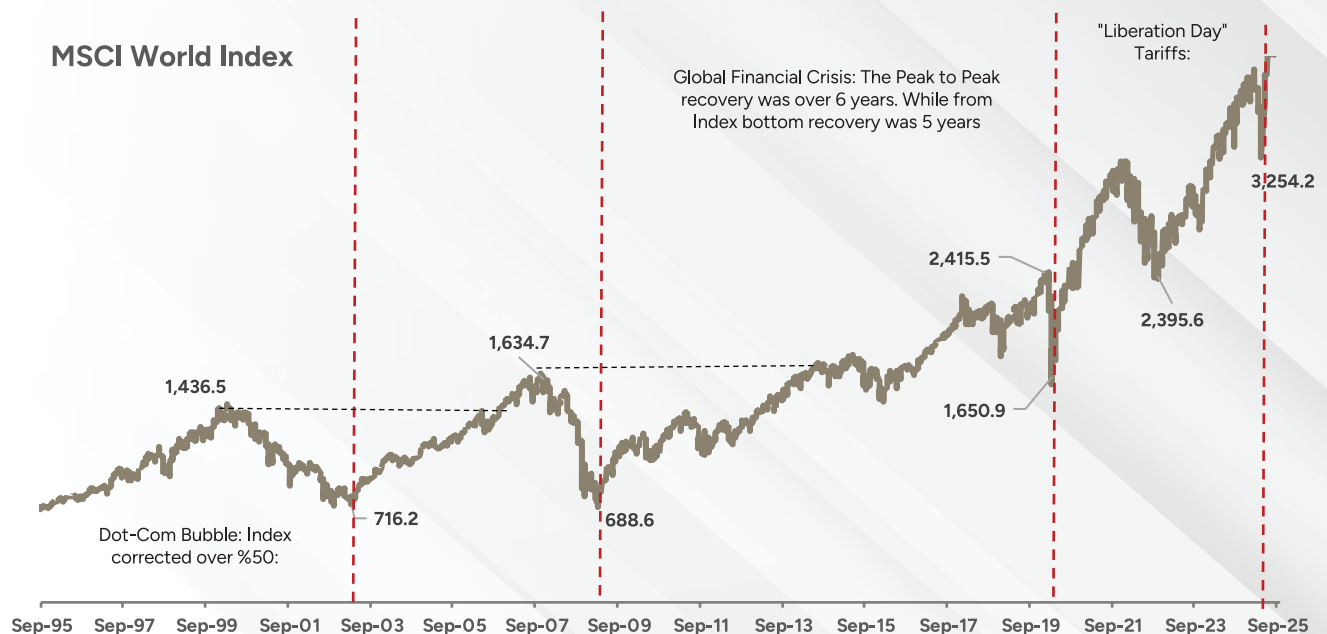
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The phenomenon of swift market recoveries is not limited to the S&P500 it is witnessed across global markets as shown in the following graphs for the UK FTSE 100 Index and the MSCI World Index.



Source: Bloomberg



Source: Bloomberg

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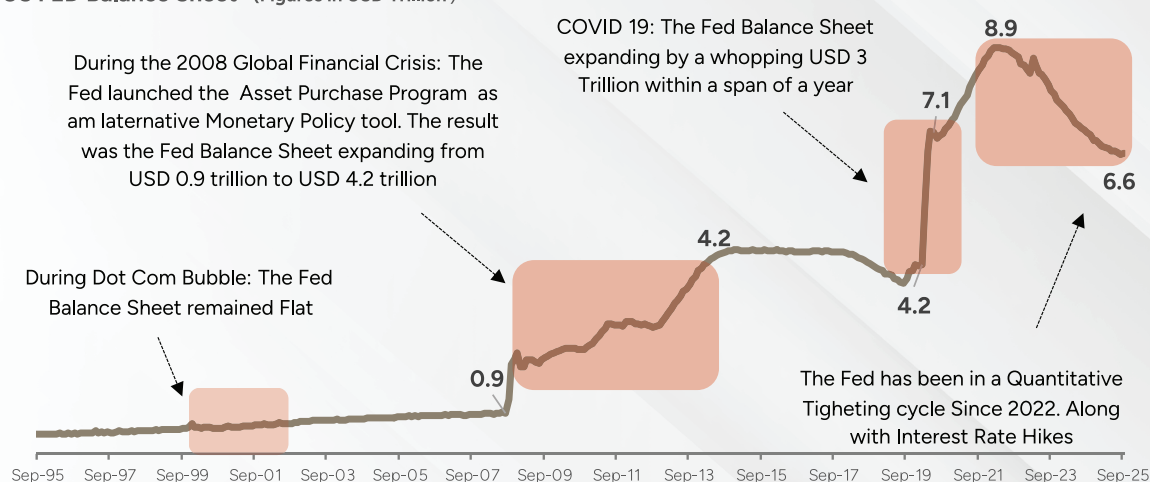


Is Government Intervention fundamental to Swift Market Recoveries? Historical data indicates that indeed it is the depth and speed of government intervention that has reduced the timeframe of market recoveries. Capital Markets are supported by a combination of monetary policy tools or channels, for instance during the 2008 Global Financial Crisis the US Fed initiated the Asset Purchase Program (Quantitative Easing) which resulted in increased liquidity or cash reserves in the market and concurrently initiated the interest rate cutting cycle.

Quantitative Easing (QE): An indicator that the Central Bank is committed to supporting markets and the economy. Through QE, the Central Bank buys government backed securities (e.g. US Treasuries) and other securities from banks (e.g. Mortgage-Backed Securities – MBS) and injects cash or liquidity in the economic system.

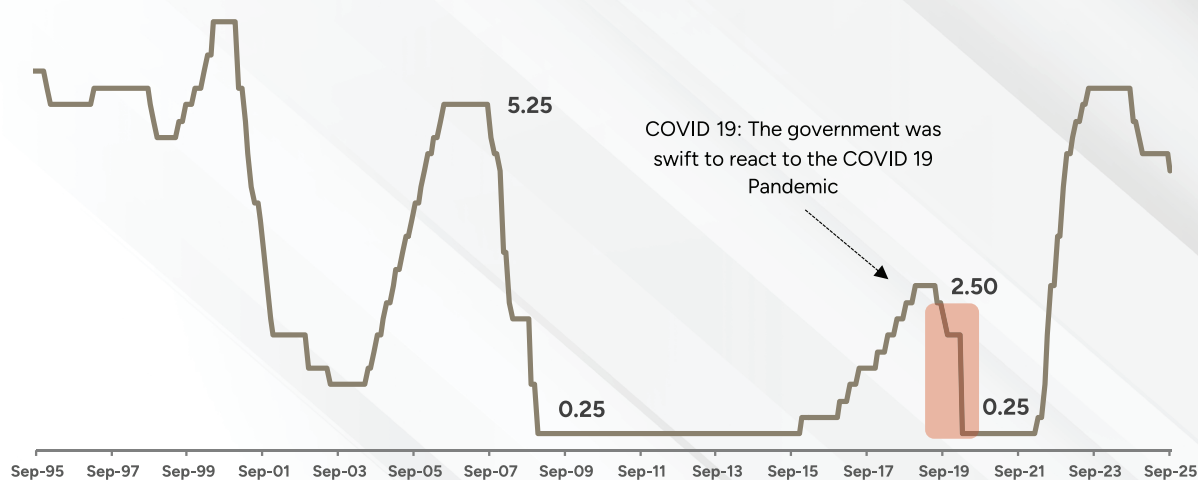
What does QE do: It supports through various channels; it encourages investors to invest into riskier assets like Equities for higher returns. As it involves buying US Treasuries, through QE, the Central Bank pushes the long-term bond prices higher, resulting in lower yields. This reduces borrowing costs for consumers and corporates alike, thus stimulating economic activity.

US FED Balance Sheet (Figures in USD Trillion)



Source: Bloomberg

US INTEREST RATES (%)



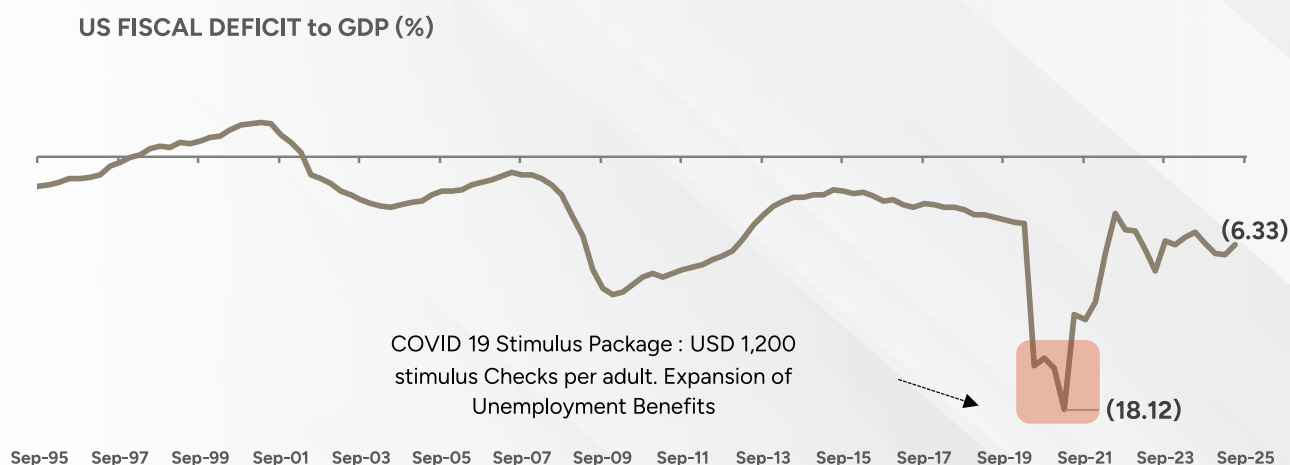
Source: Bloomberg

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Loose Fiscal Policy: An indicator of government spending or tax cuts to support economic growth. Government Spending can be through social programs (e.g. handouts), subsidies, infrastructure projects, whilst Tax cuts can involve lowering Income Tax rates.



Source: Bloomberg

Conclusion: The Dot Com Bubble resulted in the markets correcting close to 50% and it took around 7 years for the markets to recover. The prolonged recovery can be a combination of limited government intervention, corporate scandals and geopolitics. Government Intervention was limited to the US Fed embarking on an aggressive Interest Rate Cut cycle.

During the 2008 Global Financial Crisis, the government intermediation was extensive in the form of increased market liquidity along with rate cuts. The US Fed expanded its balance sheet through the Asset Purchase Program along with aggressive interest rate cuts. Both were further supported by a fiscal stimulus which was through tax policy adjustments. Though the market recovery was shorter than the Dot Com Bubble, nevertheless it took over 5 years for a complete recovery which was predominantly due to the momentum of the longwinded government intervention.

In the case of the COVID 19 pandemic (which triggered a rapid market correction of over 30% with an equally swift recovery in 6 months), the sharp recovery can be attributed to the accelerated momentum in the government intervention which supported the markets. Aggressive Quantitative Easing (QE) resulted in enhanced liquidity of USD 3 trillion within a span of a year. Followed by an equally aggressive interest rate cut cycle and add to it the Fiscal Deficit of 18% as a percentage of GDP.

Where do we Stand Now: The US Fed continues with the Quantitative Tightening Cycle which commenced during 2022. As of September 2025, the Fed has reduced its balance sheet size by USD 2.3 trillion from the peak, a clear decline in market liquidity. Further, the Fed has commenced the interest rate cutting cycle, albeit at a slower rate, and the Fiscal Deficit as a percentage of GDP stands at 6.3%. Overall, a hint cue to a relatively unsupportive Central Bank stance along with uncertainties on the tariffs.

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3 - An analysis of Active vs. Passive Investment Management

The overwhelming dominance of Index (Passive) investing in global equity markets is well known within the investment management industry. For example, the Investment Company Institute estimates that over 60% of US equity funds are now passive. This is reflected in huge flows into index tracking products – mainly Exchange Traded Funds (ETFs).

The data of active US Mutual Fund Managers clearly shows that over the last 5 years, 87% of active large cap US mutual fund managers have underperformed the S&P 500 index (as shown in the table below). Note for large capitalization stock investing, the cost of owning the S&P 500 can now be as low at 0.03%.

US Mutual Fund Active Managers - Percentage of US equity managers underperforming their benchmarks to end June 2025

Fund Category	Benchmark Index	1 Year (%)	3 Years (%)	5 Years (%)
All Large Cap Funds	S&P 500	72	65	87
All Small Cap Funds	S&P SmallCap 600	41	30	62
Real Estate Funds	S&P REIT	81	85	83

Source SPIVA, As of June; 2025 (REITS to end 2024)

The above data is sourced from **SPIVA (S&P Indices Versus Active)**, a division of **S&P Dow Jones Indices** that publishes detailed scorecards comparing the performance of **Actively Managed Funds** against their relevant Benchmark indices across global markets. The data is an analysis of the performance of active funds versus benchmarks for a period of over 20 years. They account for survivorship bias – which reflects the fact that it is very common for poorly performing funds to be closed or merged into other funds. This data is added back into the results. S&P also carefully measures fund returns versus an appropriate benchmark, accounting for both size and style classification. For example, if the fund invests in small cap value stocks, they will measure the returns against a small cap value index rather than the industry standard S&P 500 index.

The underperformance of active managers in US equities is well understood and has led to continuous flows into index funds (especially ETFs) at the expense of active funds. The table below shows this continuing in 2025. At the time of writing, outflows from active US equity funds of USD 364bn are offset by ETF (mainly index focused) inflows of USD 864bn.

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Figures USD Million	YTD	Wk. % of AUM
Total Equities	500,014	0.1%
Long-Only Funds	364,973	0.0%
ETFs	864,422	0.2%
Total Emerging Markets	38,791	0.3%
Brazil	1,042	1.2%
India	3,040	-0.1%
China	10,060	0.7%
Total Developed Markets	461,222	0.1%
US	24,126	0.1%
Europe	50,698	0.1%
Japan	7,424	0.1%
International	70,447	0.2%

Source: BoFA Global Research; Total Equities = Total EM + Total DM

The underperformance of active funds is well documented in the US, but what about other regional equity markets?

Global, Emerging Markets and MENA Mutual Fund Active Managers - Percentage of equity managers underperforming their benchmarks to end June 2025

Fund Category	Benchmark Index	1 Year (%)	3 Years (%)	5 Years (%)
Global Funds	S&P World	75	80	90
Emerging Markets	S&P/IFCI Composite	64	63	78
MENA	S&P Pan Arab Composite	43	38	58

Source SPIVA as of June; 2025

It should be less surprising that global managers are also struggling versus standard indices, reflecting the fact that US equities now comprise 70% of the standard global equity benchmarks. The Emerging Market (EM) data surprises many given the wide range of countries, currencies, and companies. There may be many factors involved including ill-timed macro biases versus China, Mexico etc., and the higher fees involved in EM portfolio management may also be a factor. SPIVA is a very pure measure of active versus passive investing with a comparison of funds with fees versus no fees index with a comprehensive addition back of closed / merged funds (which are typically poorly performing funds).

In an alternative study, Morningstar compares performance of funds versus active index funds (with fees). This does not make much of a difference for US equities where low-cost index ETFs are available for as low as 3bp (0.03%). However, EM index funds are much more expensive, for example fees can be 70bp (0.7%) or higher in some cases.

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Emerging Markets Mutual Fund Active Managers - Percentage of equity managers underperforming their benchmarks to end June 2025

Fund Category	1 Year (%)	3 Years (%)	5 Years (%)
Emerging Markets SPIVA Study	64	63	78
Emerging Markets Morningstar Study	65	50	68

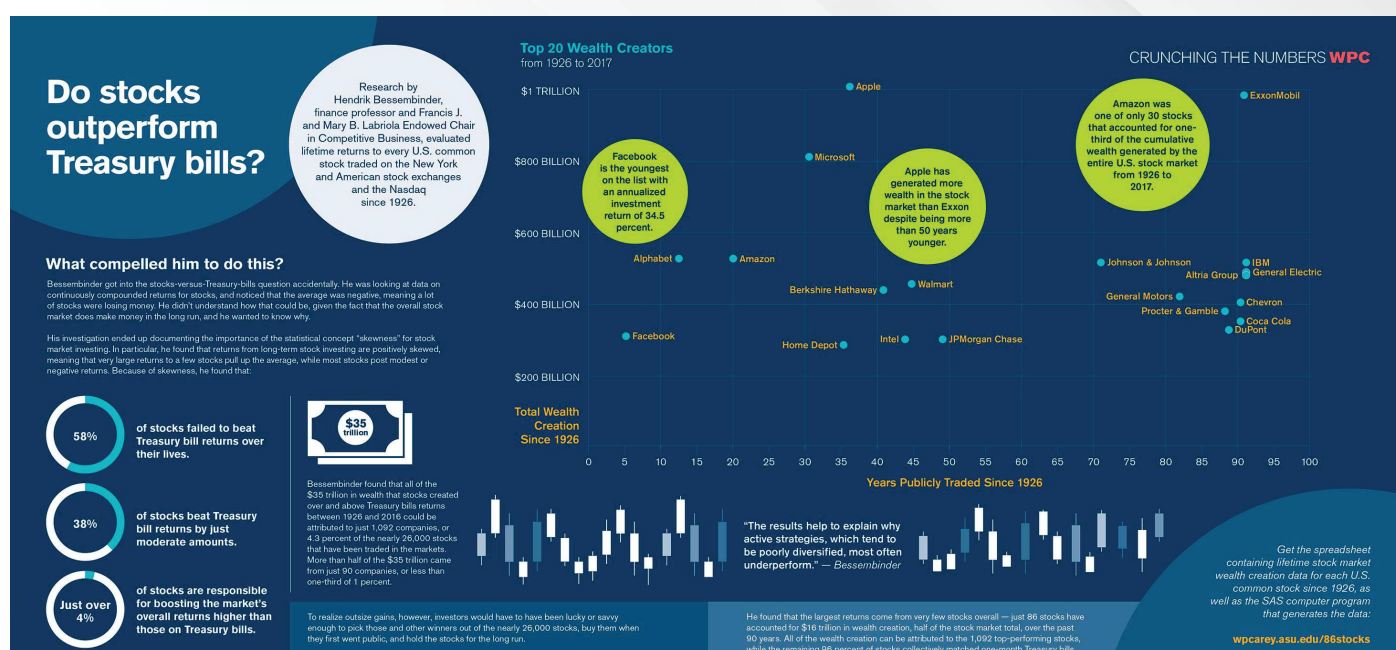
Source SPIVA as of June; 2025

The difference reflects the fact there are some 59 EM passive funds with both relatively large fees and difficulty in tracking the index. Consequently, based purely on historical data there is a case for active management in EM mandates in contrast to large capitalization US stocks where it is hard to make a case for active management.

What are the reasons for the poor history of Active Portfolio Management?

I. Management Fees: Higher fees detract from returns and make the active managers' job much more difficult. There is some evidence that low fee segregated account mandates have been moderately more successful, indicating the importance of low fees.

II. Positive Skewness: Only a small number of stocks outperform in the long run. Based on the study titled **"Do Stocks Outperform Treasury Bills?"**, Bessembinder analyzed the lifetime returns of every U.S. common stock traded from **1926 to 2016**. Hendrik Bessembinder is a finance professor at Arizona State University. He found that only 4% of the stocks account for all of the US stock market gains over that time. Thus, his study suggested that a tiny subset of stocks generated extraordinary returns while majority of them underperformed.



Source: Hendrik Bessembinder's research

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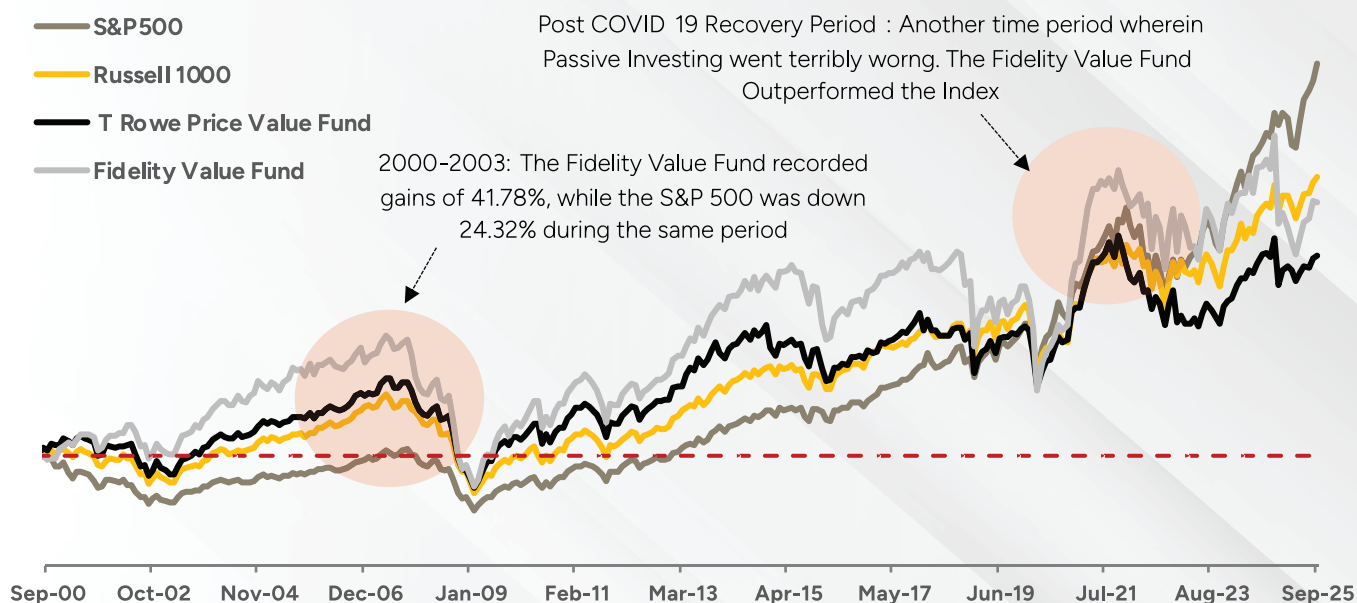


This analysis indicates three approaches:

- I . Have an investment process which helps to identify these winners – hard to do – look for long term compounders, more recently the likes of Nvidia.
- II . Take an index tracking approach to investing – this way you will own the 4% winners.
- III . Look for a portfolio style that can work over shorter periods of 3 to 5 years which are differentiated from the longer term e.g. a value approach.

Why Active at all (An Argument for Active Investing)?

- I . What if the future is not like the past – a common message from active managers.
- II . Diversification from concentrated standard indices.
- III . **What If Passive goes terribly wrong:** Our first example stems from historical data following the end of the dot com bubble (i.e. 2000 to 2003).



Source: Bloomberg; Graphs are Rebased; as of September 30; 2025

The above is a rebased chart mapping actively managed funds. It includes the T. Rowe Price Value Fund which uses a value oriented strategy wherein fund managers select stocks they perceive as undervalued. The other is Fidelity Value Fund, another actively managed mutual fund. Both are benchmarked against the main S&P 500 and the Russell 1000 index. Notice the highlighted period (2000-2003) when the S&P 500 & the Russell 1000 Index underperformed compared to actively managed funds.

The other period where passive went terribly wrong was post the Japanese boom of the 1980s and the long bear market from 1990 onwards. Unfortunately, data is hard to find from that period, but the indices were dominated by very high Bank weightings where shareholder return evaporated. For example, in 1990, unprofitable IBJ bank was valued at circa USD 100 billion versus fairly valued Toyota at UDS 50 billion. Large market weight companies like IBJ shareholders realized close to zero, whilst relatively dull industrial stocks soared. Given that standard market capitalization, Japanese equities have only recently returned to 1990 levels, and it is quite incredible how strong the performance has been of relatively dull companies like Honda, Toyota, Sony and Mitsubishi corporation.

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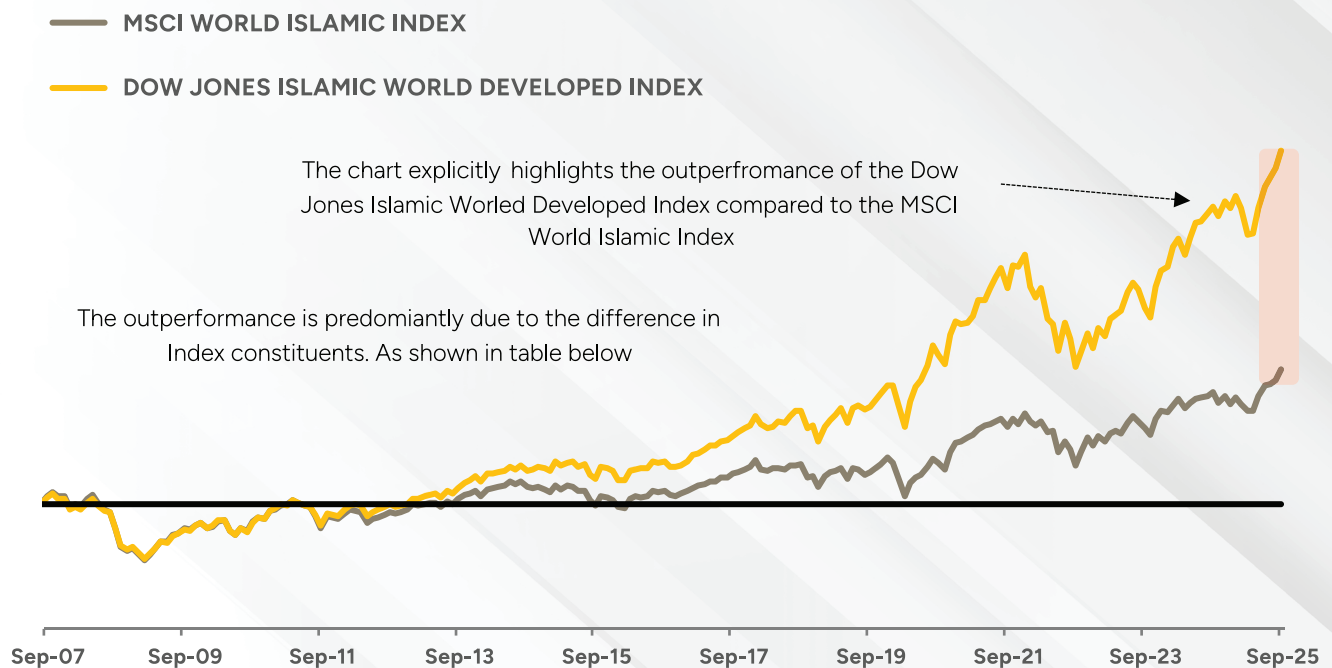
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Source: Bloomberg; Graphs are Rebased; as of September 30; 2025

Chart: the remarkable performance of blue-chip Japanese stocks versus the index

What about Islamic equity indices and active management?



Source: Bloomberg; Graphs are Rebased; as of September 30; 2025

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MSCI World Islamic Index	Down Jones Global Islamic Index
Microsoft 14.2%	Nvidia 8.3%
Tesla 6.4%	Microsoft 7.2%
Exxon 2.4%	Apple 6.9%
Johnson & Johnson 2.2%	Amazon 4.0%
ASML 1.9%	Broadcom 3.1%
Proctor & Gamble 1.8%	Meta 2.9%
Chevron 1.5%	Alphabet A 2.7%
Cisco 1.4%	Tesla 2.3%
Advanced Micro Devices 1.3%	Alphabet c 2.2%
Novartis 1.2%	Eli Lilly 1.2%

Source: MSCI; iShare MSCI World Islamic Index; Down Jones

As can be observed from a straightforward comparison of these indices, the DJ index has more of the “magnificent 7” in particular Nvidia and Broadcom which are up 12x and 9x respectively over the last five years.

Active Versus Passive Investment Management: KFH Private Wealth View:

We at KFH Private Wealth adopt a blended approach of index orientated funds, carefully considering the underlying index alongside an allocation to the best active managers. Whilst more recently an index focused approach has been successful, we are aware (as our data shows) that when index investing suffers, the results are dramatic as per in Japan or post the dot com bubble (2000 to 2003).

Conclusion

This Q4 Wealth Insights publication underscores the dynamic nature of global markets and the critical role of policy intervention in shaping recovery trajectories. Historical episodes -from the Dot-Com Bubble to the COVID-19 pandemic - highlight how swift and substantial government action (particularly through monetary and fiscal channels), can dramatically shorten recovery periods and stabilize investor sentiment. In contrast, periods of limited intervention have led to prolonged downturns and slower rebounds.

Looking ahead, the investment landscape remains complex. While the US Federal Reserve has begun easing rates, its ongoing quantitative tightening and reduced fiscal stimulus suggest a more cautious stance. Coupled with persistent tariff uncertainties, this environment calls for strategic portfolio positioning.

At KFH Private Wealth, we continue to advocate a balanced approach - leveraging a blend of both active and passive strategies - to navigate volatility and capture long-term growth opportunities across global markets.

Wealth Insights

Q4 2025 Outlook



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