

Q3  
2025

### Overview

The themes influencing investment markets over the past three months have mirrored those of the first two quarters. Most of the ‘noise’ has continued to come from America (not only at the Ryder Cup – well done, Europe!) as President Trump continues to use the weight of the world’s largest economy to reach settlements on tariff rates first announced in April. In some cases he has rowed back on the most extreme levels, but in others – most notably India, where 50% has been set to try to deter the purchase of cheap Russian oil – levels have remained penal. Domestically, his vitriol towards his political opponents, members of the Federal Reserve Bank (Fed) and others he ‘doesn’t like’ has contributed to a bipartisan Congressional disagreement on funding and a shutting down of non-essential government at the end of the period.

More fundamentally, interest rates and inflation have continued to dominate. Having changed its focus from inflation (2.9% Aug) to unemployment levels (4.3%), the Fed made its first 0.25% cut in interest rates this year. The UK’s Monetary Policy Committee also cut by 0.25%, despite inflation (3.8% Aug) persisting above the 2.0% target. Some of the inflationary pressure has been self-induced by the government’s increase in Employers’ National Insurance and the National Living Wage in the last Budget. The European Central Bank made no change, with inflation in the region staying at 2.0%. Generally, interest rate expectations remain for further cuts to come.

Economic growth during the second quarter was led by the US, with GDP up 3.8% – recovering from contraction of 0.6% in the first quarter. The UK’s growth rate slowed from 0.7% in the first quarter to 0.3% this time, while the eurozone grew by 0.1%. Japan saw a pick-up to 0.5%, and even China, up 1.1%, was relatively modest over the period. Broad gauges of activity, measured through Purchasing Manager Indices, continued to exhibit the same patterns as earlier in the year, with service sectors showing expansion (above 50) and manufacturing showing contraction (below 50).

The UK’s Labour government has rapidly lost popularity as promised growth has failed to materialise. The main concern is the pending Budget, due on 26th November. The economic position is fragile, debt levels are high, and the Chancellor continues to say she will stick to her fiscal rules. With little room for manoeuvre, it seems likely that we will see yet more tax increases. Uncertainties are disliked, as a consequence of which personal savings levels have been climbing and are likely to continue to do so until the outlook is clearer.

Regrettably, the geopolitical situation does not improve – although Trump is currently trying to force a ceasefire in Gaza. Ukraine continues to be under attack from Russia, despite itself having had some success in hitting targets inside Russia. Recent suspected Russian drone activity inside sovereign territories in the Baltic region is unhelpful.

| Index                 | 30/06/2025 | 30/09/2025 | Q3 Change |
|-----------------------|------------|------------|-----------|
| CBOE UK 100           | 875        | 937        | 7.1%      |
| CBOE UK All Companies | 15,317     | 16,315     | 6.5%      |
| CBOE UK 250           | 19,153     | 19,280     | 0.7%      |
| MSCI Private Balanced | 1,974      | 2,078      | 5.3%      |
| MSCI Private Growth   | 2,262      | 2,415      | 6.8%      |

### Markets

The recovery in global equity markets following the ‘Liberation Day’ sell-off in April has continued, with technology stocks again leading the way. Many markets around the world have reached all-time highs at the time of writing, despite uncertainties around global growth as the impact of Trump’s tariffs kick in. This uncertainty has been better reflected in the bond markets, where 10-year government bond yields have remained elevated. The US 10-year Treasury yield stood at 4.14%, while the UK 10-year Gilt yield has reached 4.8%.

The technology leaders, known as the Magnificent Seven, had mixed performance. Google owner Alphabet and Tesla both enjoyed gains of 38%, with Apple (+27%) and chip maker Nvidia (+15%) also faring relatively well. However, Microsoft (+3%), Amazon (+0.8%) and Meta (+0.7%) were more pedestrian. Japan has again performed well – in spite of another political change, with a new Prime Minister due for election imminently. There has been a decent recovery from many Asian markets as the impact of tariffs has become clearer.

In the UK the bank sector (+13%) continued to rise. The oil sector (+9%) also did well. But the outstanding performance came from the mining sector, with precious metal producers (+47%) benefiting from the gold price (+17%) reaching record levels. House builders (-11%) despite the government’s desire to build 1.5 million homes during this parliament, were a drag, as was property (-7%). In addition, mid-cap (+0.7%) and small cap (+0.7%) stocks performed poorly, reflecting the weak domestic economy and despite takeover activity – especially from foreign buyers that can see value in this end of the market.

### Outlook

With US market valuations looking fairly stretched, the impact of tariffs on economies not yet fully reflected in economic numbers and general economic and political uncertainties to contend with, our view on the outlook is little changed from last time. For long-term investors we maintain diversified portfolios while holding quality companies for the duration. We acknowledge that volatility in markets is normal and, given all the uncertainties mentioned above, expect to see it again in the future.

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