INVESTMENT UPDATE

SEPTEMBER 2025

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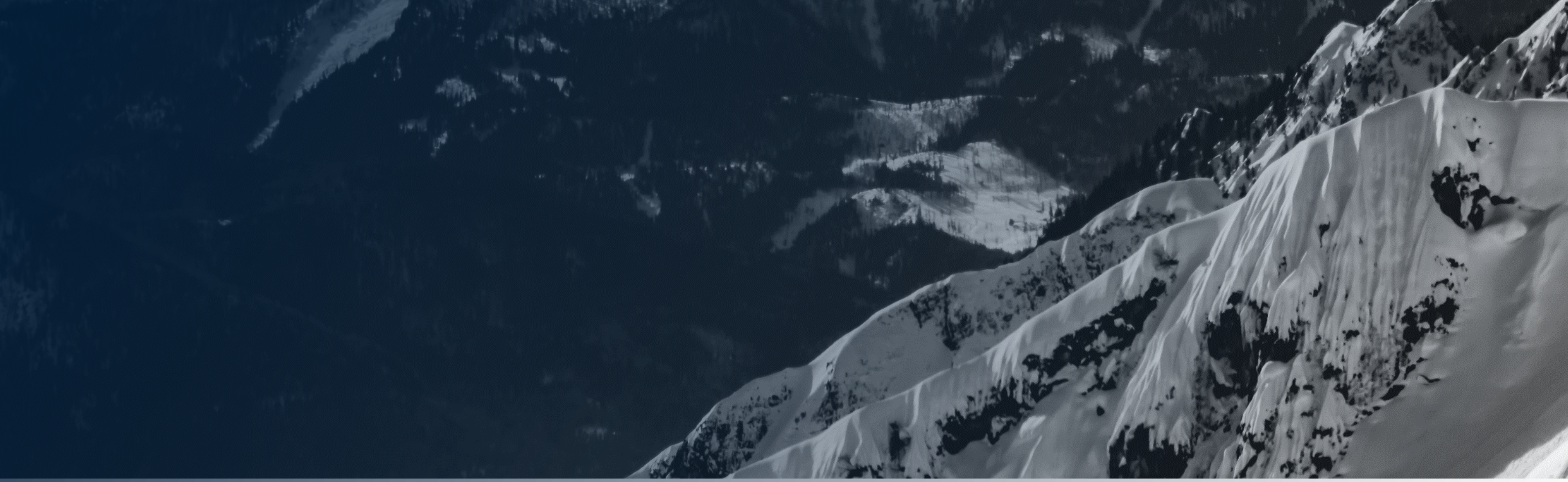

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Index	Level 31 July	Level 31 August	Change*
S&P 500	6339	6460	+1.9%
FTSE 100	9132	9181	+0.5%
Euro Stoxx 600	546	550	+0.7%
Nikkei 225	41069	42718	+4.0%
Shanghai	3573	3857	+7.9%
US 10 Yr Treasury Yield	4.36%	4.23%	-0.13
UK 10 Yr Gilt Yield	4.57%	4.73%	+0.16
Bund 10 Yr	2.69%	2.72%	+0.03

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

It was another positive month for portfolios, as equity markets generally ended the month higher. Portfolios diversification beyond the US was rewarded once again, with China, Japan, Asia Pacific and Europe* leading returns, as they have since the start of the year. The latter's performance was all the more impressive, given that the German and French markets struggled due to poor economic news coming out of Germany and with the French Prime Minister calling for a vote of confidence. AI dominated the headlines once again and technology-related stock performance reflected this, with the tech-heavy NASDAQ index setting new highs, assisted by positive news on corporate earnings.

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Politics is never far removed from equity markets, but they now seem more resilient to negative news coming out of the White House on this front. This even extended to Trump's continued attempts to undermine the independence of the Federal Reserve, as we discuss in detail below.

However, politics is having an impact on many long-term government borrowing rates, which continue to creep up. This was particularly true of the UK, where there seems to be an increasing lack of confidence both in the UK government's ability to rein in spending and stimulate economic growth, while the Bank of England faces headwinds in addressing more persistent inflation. The country is increasingly looking like an outlier on this front amongst the G7 nations and this is reflected in the poor relative performance of its bond market this year. Conversely, the FTSE 100 continues to demonstrate its more global, rather than domestic, earnings focus, as the index is one of the top performers this year.

Notwithstanding this, our approach of applying wide diversification in bonds, as well as equities, is paying off, with even lower risk portfolios, which tend to have a higher allocation to the asset class, delivering positive returns over the month.

(*as measured by the broader FTSE Europe All Cap Index – up 3%)

US

While AI and technology related stocks took up the headlines, optimism over lower interest rates following doveish comments from the Federal Reserve's Chair, Jerome Powell, led to a strong rally in the more domestic economy centric, and thus interest rate sensitive, Mid and Small Cap indices, with the latter up over 7%.

On the subject of the Federal Reserve, Trump continued his assault on the institution by firing Fed governor Lisa Cook, after allegations were made about her committing mortgage fraud. Cook's lawyer claimed that the President had no authority to fire her and that he would be filing a lawsuit to contest the decision. This was widely interpreted as an attempt to get a majority of Trump-leaning governors on the board of 12 and to further undermine the Chair.

With many agreements now made on US tariffs, these took a bit of a back seat during the month, although India found itself incurring Trump's wrath over their reluctance to replace oil sourced from Russia with that sourced from the US (the fact that the types of oil produced by the two are different and require different refining processes didn't seem to register apparently). Consequently, he announced a 50% tariff level on all imports from India.

There was some positive news on the tariff front for President Trump from the Congressional Budget Office, which suggested Tariffs (if permitted to stand) could reduce the deficit by $4tr over the next decade, offsetting tax cuts recently announced in the One Big Beautiful Bill. This led him to quickly claim that his decision to impose them was justified.

However, that estimate of deficit reductions relies on tariffs remaining in place over the long term, something which may be less likely following the US Court of Appeal ruling that Trump's tariffs were unlawful. Naturally, this was quickly condemned by Trump, and they will remain in place pending an appeal to the US Supreme Court, but naturally this could mean a major blow to him if upheld.

Notwithstanding the political backdrop, US corporate earnings continued to be strong and although dominated by technology firms, these saw a widening out into the broader market and with solid GDP growth numbers of 3.3% together with expectations for an interest rate cut in September, all lent support to the continuing post Liberation Day rally.

UK

Optimism following the Bank of England quarter percent rate cut, was short lived as it was soon followed by the announcement of a higher-than-expected inflation rate of 3.8%, thus potentially leaving little room for future cuts. With a GDP growth rate of 0.3%, the stagflationary backdrop seems confirmed.

With long term government borrowing rates the highest in the G7, and therefore interest payments increasing, the Chancellor faces an unenviable task of balancing the books at the Autumn budget. Without increases to personal taxation, speculation is growing over the possibility of property taxes and 'windfall' taxes on banks; the latter leading to a sell-off of bank stocks during August. The increase in long term bond yields is in part reflecting the precarious nature of the economy, but is also partly structural, due to both the Bank of England and UK pension funds being net sellers of bonds, as well as reflecting a general lack of appetite globally for longer dated securities.

Europe

The continent's peripheral markets, such as Spain and Italy, took up the running in August, as the French and German markets struggled following negative news on the political and economic front.

In France, Prime Minister Francois Bayrou took the decision to call for a vote of confidence following the rejection of his latest austerity plan, which saw government borrowing rates rise steeply and the stock market fall. With a vacuum forming in parliament, there are fears over the impact of the political crisis on the economy.

Germany's market had previously been driven by optimism over the potential for a stimulus to the economy from increases in government spending on defence and infrastructure. However, this optimism was dented when GDP growth numbers showed that the economy had contracted by 0.3%, which suggested the stimulus is yet to filter through to the real economy. Exports have fallen, as any boost from 'front running' of US tariffs by customers earlier in the year is now reversing. With a sense of realism over the impact of government spending kicking in, it is increasingly felt that, somewhat like the UK, the bureaucratic hurdles that stand in the way of the money being disbursed also need to be addressed by the government.

Japan

The bull run in Japanese equities continued its momentum, with both foreign buyers increasing their exposure and the level of company share buybacks continuing to increase. Indeed, the latter is no doubt providing confidence to foreign investors that corporate Japan is not just paying lip service to better looking after the interests of shareholders. The introduction of an ISA-like scheme plus the return of inflation has also encouraged retail investors into the market, as equities increase their attraction to cash. Sentiment was also helped by a modest rebound in Japanese GDP to 1%, which provided support for an interest rate increase, deemed necessary to address the country's higher inflation.

Asia and Emerging Markets

It was another good month for Asian stocks, led by both China, which had an excellent month, as well as the continued rally in technology-related stocks elsewhere in the region. Despite the overhang of deflation and the imposition of tariffs (at a level still yet to be determined), the market is now one of the better-performing year to date. Sentiment was buoyed by another scheme announced by the government designed to stimulate the economy; individuals will now receive a 1% discount on consumer loans up to $7000 and businesses in certain sectors will receive a similar subsidy on loans up to $140 000. These are clearly designed to stimulate domestic consumption, which using interest rates in a deflationary environment, is not necessarily going to achieve. This follows on from the recently announced $500 baby subsidy

Latin America followed a similar theme, with the S&P Latin America index up over 8%. However, a recent corruption scandal surrounding President Milei's government took the shine off his recent economic successes. The Merval index was down over 14% as a consequence.

Summary

Diversification across global markets continues to be rewarded, even as the likes of the Magnificent 7 achieve new highs. While their earnings performance has been supportive of this, their shares are priced accordingly. However, earnings are improving away from these stocks and valuations are not so challenging.

Short term performance suggests investors may be realising this, as the equally weighted version of the S&P 500 (where every stock in the index gets a similar weighting) outperformed the capitalisation weighted version (where the Magnificent 7 make up 35% on their own). The equally weighted version still stands at a substantial discount. Markets other than the US are also at a discount and not trading near their valuation highs. This suggests continuing a policy of not relying on the US heavyweights still has merit as we move beyond the summer.

Rockhold Asset Management, with contributions from 7IM, Marlborough and LGT, September 2025

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