

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	1.8%	6.1%	9.5%	12.2%
Global Equities	3.8%	9.2%	14.8%	15.7%
UK Gilts	0.7%	-0.6%	-0.8%	-5.3%
UK Property	0.3%	1.2%	2.5%	5.4%
Gold	11.8%	18.8%	17.6%	45.0%
Commodities	0.1%	4.0%	-4.8%	9.8%
Sterling	-0.5%	-1.6%	-0.4%	-1.3%

Returns to 30th September 2025. Source: Refinitiv

Market Overview

September saw many stock markets touch new highs, as hopes of further interest rate cuts, particularly by the US Federal Reserve Bank, encouraged money to flow into equities. Additionally, the Artificial Intelligence (AI) steamroller showed no signs of stopping, with continued large investment commitments being made. This has overshadowed concerns about tariffs and their impact on growth and inflation. Indeed, the OECD has just reported that growth, globally, remained robust in the first half of the year and upgraded its growth expectations for the year. The big wobble in the month was in bond markets, selling off early on due to political uncertainty, ballooning fiscal deficits and attacks on central bank independence. This has resulted in some companies being able to issue debt at lower rates than their own government's sovereign bonds! Thankfully, nerves were calmed and longer dated bond yields fell later in the month, albeit still at high levels.

The exceptional move was from gold, up more than 10% in September, unusual when stock markets have been so strong. Dollar weakness, expected cuts in US interest rates and central bank buying of gold for reserves, have all been feeding the run to record highs. It does, also, reflect that risks to growth and geopolitical stability are at elevated levels and that its traditional hedge against risk is still very much alive. Although the failure to agree a spending package by the US government, has just shut down some of their functions, this is not that unusual and typically lasts only a few days. What is different is an executive that is willing to be much more confrontational; again, risks are elevated.

We will shortly be entering the third quarter earnings season (in the US) and it will be interesting to see what impact tariffs are having. In the UK we await the budget in just under a couple of months, to give some certainty on outlooks. Otherwise, we are roughly three years on from two seminal events. The Truss mini-budget, that brought 'bond vigilantes' back to life and the launch of Chat GPT, putting AI into the hands of the masses. The latter is undoubtedly going to have a profound impact, but so might the former if governments fail to get their budgets in order.

OPEC+ continues to raise production quotas, with the price of oil currently settled around the high \$60s per barrel. The market looks well supplied into 2026 but is obviously sensitive to Middle East hostilities and sanctions on Russia. European gas prices have eased helping their inflation outlook, with storage filling nicely ahead of winter. Industrial metal prices have seen some spikes following several significant mine disruptions and closures. Gold continues to rise on its haven status. Food prices are creating some problems this year, as harvests look to be down on yield in the northern hemisphere.

Global supply chains have improved after a long period of disruption, but not back to the level of efficiency pre-Covid. Now tariffs are causing disruption to the global supply chain as other suppliers or alternative demand are sought. China has become the dominant supplier in several crucial areas, such as rare earth metals, where they control ~90% of global processed supply, and have used that advantage to counter US trade restrictions.

A global interest rate cutting cycle (bar Japan) is still in place. Although there are different views on the pace and extent of cuts, they will help small companies' finances and households with mortgages. The yields on long bonds have been more affected by sensitivity to the growing levels of government debt across the western world, than weak economic outlooks. Along with tariff uncertainty, this continues to act as an impediment against long term investment decision taking.

Property fund mergers in 2024 have been followed by a significant number of takeovers for property REITs as their large discounts to underlying asset value has attracted international interest. With rents continuing to rise and vacancy rates at low levels, property still looks attractive, where share price discounts remain. Listed infrastructure trusts also trade on wide discounts, renewable energy focused ones still face uncertainty on generation levels and prices, but new regulations should provide more certainty on long term power pricing. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

Political policy continues to be fluid, with plenty of U-turns both here and abroad. France has been forced to replace their Prime Minister and Japan will get a new one shortly. The shift towards nationalist politics remains, but markets are now more focused on fiscal policy and budgets. In the US Trump's 'Big, Beautiful Bill' has passed into legislation, cementing significant deficits for the foreseeable future, with the federal shutdown a first victim.

Economic recessions (two successive quarters of economic contraction) have largely been avoided in Europe; however, economic activity and confidence remain subdued, and many governments are struggling to achieve lift-off speed. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. Softness is now beginning to emerge in the employment market, although real wages have grown after a long period of erosion and a rise in household savings means consumer finances are generally quite healthy, even if confidence isn't.

Company results this year have held up well in general, with aggregate reported profits still advancing. This has been especially true for the dominant US tech companies driving the push of AI, but more mixed elsewhere. Some companies are already forecasting significant tariff costs, as rates start to be implemented. Consumers have been showing greater price sensitivity, and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

Despite hopes a ceasefire between Israel and Hamas can be arranged, conflict continues to rage elsewhere, and lasting peace feels some way-away. This has led to a substantial policy shift in Europe, with recognition that there will need to be a significant increase in defence spending, to 'be prepared'. Some companies will be beneficiaries of this, but with spending cuts elsewhere needed to try and balance the books, there will also be losers. Looking through all the uncertainty, we still see positive investment returns but expect bumps along the way.

Market Outlook

Equities	Stock markets continued to touch new highs in September, shrugging off worries about tariffs, as AI demand and hopes of interest rate cuts encouraged positivity. A cut in US interest rates is expected to be followed by more this year, as economic data reports point to weaker employment trends and inflation remains contained. President Trump continues to press on with US tariff implementation, which have yet to fully impact on trade and prices, further pressuring economic growth and company profits in turn.
Fixed Interest	Following the Bank of England interest rate cut in August, they are currently on hold as inflation proves troublesome. The US Fed picked up the baton with a cut in September, with more expected to follow. However, bond markets took a wobble last month as worries grew over ever-expanding fiscal deficits, both here and abroad, as well as attacks on the Federal Reserve's independence. Steepening yield curves impinges on long term investment decisions and are unhelpful to encouraging investment in infrastructure.
Commercial Property	There has been a marked pick-up in M&A activity in property trusts (REITs), as market stabilisation and steep discounts to quoted asset values have attracted takeover offers. This has probably been aided by a growing consensus that supply, and demand have settled down and rental yields for good quality property are rising. Additionally, with higher build costs and higher energy standards required, it is currently cheaper to buy, than to build new.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, some with attractive inflation linked contracts, and growth tied to improved connectivity and de-carbonising economies; although build costs are high. Debt costs, that weighed on the valuations of private equity and infrastructure trusts, remain an issue but de-gearing is taking place. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly. Gold continues to shine.
Cash	The investment return on cash and cash like instruments has peaked and is expected to gradually decline through this year.

Thorntons Investments

2nd October 2025

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