THORNTONS INVESTMENTS

Markets Review - to end October 2025.

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	3.5%	5.7%	14.1%	18.2%
Global Equities	4.8%	9.2%	23.4%	18.7%
UK Gilts	2.8%	2.4%	0.1%	0.0%
UK Property	0.3%	1.2%	2.5%	5.5%
Gold	6.3%	21.6%	22.3%	42.1%
Commodities	3.5%	2.7%	8.8%	10.4%
Sterling	-1.4%	-1.2%	-2.2%	-0.7%

Returns to 31st October 2025. Source: Refinitiv

Market Overview

October continued to put more icing on the rising cake of financial assets values that has occurred since the Trump 'Liberation Day' tariff shock back in April. Third quarter corporate results in the US have confirmed the Artificial Intelligence (AI) juggernaut shows no signs of slowing, with further huge spending commitments being made. Open AI, the company behind Chat GPT, launched just three years ago, has announced $1 trillion of infrastructure deals in the last few months. Nvidia, the prime AI chip beneficiary of this investment had a valuation of $400bn three years ago and now it stands at $5tr; the first company to reach this milestone. Apple and Microsoft reached $4tr valuations for the first time. The gravitational pull of AI has done most of the heavy lifting for stock markets, again, this year.

There feels like an arms race in AI. Bigger is better and more is more. Tech companies back this up with reports that demand is insatiable and they lack the computing power to meet demand. But the market has also shown some discrimination with Meta (Facebook) being knocked after announcing a large debt raise to help fund spending. The real question, over whether the vast investment will make an economic return, has yet to be answered.

Bonds also had a good month, particularly UK gilts. The US Federal Reserve duly delivered an expected interest rate cut at the end of the month and generally benign inflation data also helped. Indeed, a lower-than-expected September inflation number in the UK opened the possibility of a Bank of England rate cut before the end of the year.

Tension over tariffs also settled down over a series of meetings and deals in Asia by President Trump, but uncertainty is rising back in the US as a Federal shutdown rolls into a second month, impacting payments and data publications.

Although there is a degree of nervousness ahead of the UK budget at the end of the month, many companies have demonstrated resolve and robustness in dealing with uncertainty. This has been further reflected in takeovers of UK companies this year, reflecting their low valuations. These attractions should not be nixed by the budget.

OPEC+ continues to raise production quotas, but US sanctions on two Russian oil companies is keeping oil in the mid $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. The gold price soared close to $4,400/oz in October, but probably suffering from altitude sickness, pulled back to $4,000, still up on the month.

Global supply chains have continued to be challenged, post Covid and Ukraine, as tariff disruption, re-shoring and security concerns further disturb, with the latest flash point being the supply of chips to car manufacturers by a European company owned by the Chinese. China has become the dominant supplier in a number of 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 also eased recently, despite being sensitive to the growing levels of government debt across the western world. If we get some tariff certainty, and lower costs of debt, it might encourage some long-term investment commitments.

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.

Politicians are having to tread a careful line on fiscal policy, with a reluctance or inability to cut costs and substantial budget deficits adding to national debt, testing bond markets' willingness to provide the finance. In the US tariffs are meant to fill some of the hole, whilst elsewhere tax increases are looking increasingly likely; none more so than here in the UK with the budget looming at the end of the month.

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.

A fragile ceasefire between Israel and Hamas is just about holding, but conflict continues to rage elsewhere, and lasting peace feels distant. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. 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.

THORNTONS INVESTMENTS

Markets Review - to end October 2025.

THORNTONS WEALTH

Market Outlook

Equities	The sheer weight and momentum of AI continues to drive equities forward. Stock markets around the world made new highs, seemingly unperturbed by siren voices warning of a bubble. Third quarter corporate earnings growth has been particularly strong in the US and encouraged expectations of continued growth into 2026. A one-year standstill on tariffs between China and the US has also contributed to a more positive outlook. However, investment returns on the vast AI capex spend need to be watched carefully.
Fixed Interest	Another interest rate cut in the US, was followed by a more equivocal view by the Fed on a further cut before the year end. Meanwhile a better-than-expected inflation print in the UK has opened the door to a possible rate cut from the Bank of England. Gilts responded very positively in October, being one of the best performing sovereigns, but probably now await the budget before any further significant moves. In the meantime, government debt continues to grow at pace in developed markets, testing available demand.
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 next year.

Thorntons Investments **4th November 2025**

This information is provided by Thorntons Investments on behalf of Thorntons Wealth. It is not guaranteed as to its accuracy and is published solely for information purposes. It does not in any way constitute investment or tax advice. The value of an investment and income from it can fall as well as rise, past performance is no guarantee of future performance and you may not get back the amount originally invested.

Thorntons Wealth is a trading name of Thorntons Investment Management Limited (SC438886) and Thorntons Wealth Management Limited (SC241755). Both companies are registered in Scotland and the registered address is Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU. They are authorised and regulated by the Financial Conduct Authority.