

# Market commentary September 2025



Global stock markets recovered from some early-month weakness to finish August slightly higher, with the MSCI All Country World Index rising 0.4% (all returns are total, for August and in sterling, unless otherwise stated). For sterling investors, returns would have been higher but for adverse currency moves, as the pound rose 2.2% against the US dollar. Fiscal concerns weighed on bond markets, with a broad-based gilt benchmark declining by 1.1%.

Events across the Atlantic were the dominant driving factor for global equities, as tends to be the case given the 65% US weighting in the MSCI All Country World Index. The July US non-farm payrolls report was the catalyst for the declines at the start of August while Federal Reserve (Fed) chair Jerome Powell's Jackson Hole speech near the end of the month helped lift the market back close to all-time highs.

## July jobs worries

The 73k reading for the July US job report was lower than expected, but it was more the largescale downward revisions to previous months that raised concerns about the health of the labour market. The May and June figures were lowered by a combined 258k, marking the largest two-month revision since April 2020 at the height of the Covid-19 pandemic. Although the downward revisions were dramatic, they are in keeping with what we have seen throughout 2025 with every one of these jobs numbers being subsequently lowered, suggesting a worrying trend of the underlying data being worse than it initially seemed.

Since US President Donald Trump's trade tariff announcement in early April, economists and investors have been on high alert for signs of weakness in the world's largest economy. Before the July employment report was released, there had been some slight signs of softening but, on the whole, economic data and corporate results had held up better than feared. The latest release challenges this narrative and suggests that perhaps things were weakening beneath the surface for a number of months. There could also be lagged effects from tariffs as businesses stockpiled inventory in the first few months of the year in an attempt to front run the levies.

## Trump targets BLS and Fed

Unsurprisingly, Donald Trump was less than happy with the data release and responded by firing the head of the Bureau of Labour Statistics (BLS), claiming that the numbers had been manipulated for political purposes. The move raises further questions as to Trump's overreach and attempts to influence independent organisations after repeated attacks on Fed chair Powell in a bid to get lower interest rates.



Past performance is no guarantee of future returns.

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Trump escalated his Fed attacks later in August, announcing he would fire Fed governor Lisa Cook due to alleged mortgage fraud. Cook has refused to leave her position and is taking the fight to the courts in what could be a landmark ruling on the degree of influence the White House can exert over the central bank. Central bank independence has long been a cornerstone of stability for financial markets. Investors view a central bank that is able to set monetary policy solely in pursuit of its objectives — in the Fed's case, to promote stable prices (IE controlled inflation) and maximum employment — as a major positive, and if this credibility is threatened by political influence, then they may demand some compensation. This could come in the form of higher bond yields, as investors want to be compensated for the increase in political risk.

### BoE cut rates

The Bank of England (BoE) cut interest rates from 4.25% to 4.0% in a knife-edge five-to-four vote. The decision required a rare second vote, highlighting divisions among rate setters. However, Governor Andrew Bailey made it clear that the path for rates remains downwards, signalling a priority to support growth and jobs despite the messy vote.

Hiring conditions have been softening for months in the wake of employer National Insurance changes and a cooling economy. Earnings and employment data for July 2025 shows the UK economy losing momentum. Early estimates indicate that the number of payrolled employees was 30.3m, down 0.5% from July 2024, equivalent to 164,000 fewer employees.

The BoE faces a fine balancing act. Inflation remains at 3.6%, fuelled by housing and transport costs, but signs of slack in the labour market are becoming harder to ignore. With the MPC split on the pace of easing, recent data could tip the balance towards further cuts to shore up the economy. Short-dated bonds fared better during August with returns falling as you move out along the maturity spectrum. Gilts 0-5yr returned 0.1%, Gilts 5-15yr -0.7% and Gilts 15yr+ -2.7%. 2025 returns up to the end of August were a little better and showed a similar pattern with Gilts 0-5yr 3.5%, Gilts 5-15yr 2.6% and Gilts 15yr+ -3.4%.

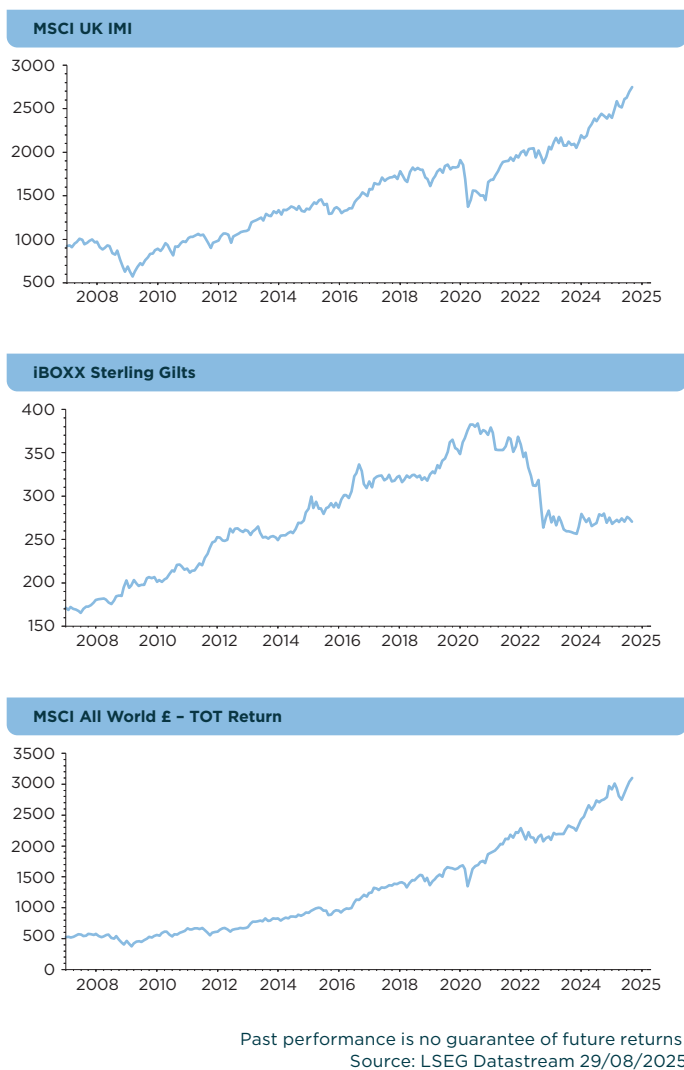
### Long-dated bonds in the headlines

The yield on UK 30-year government debt has reached its highest level since 1998, with long-term borrowing costs increasing due to economic outlook concerns, both domestically and overseas. The yield has moved up to 5.6% (yield moves inversely to price) comfortably above the 5.1% peak seen during the Liz Truss “mini-budget” fallout.

However, it should be noted that the speed of recent moves are far more controlled and measured than the sharp rise seen in October 2022. While gilts are making headlines, a peer comparison reveals that although markets may be concerned about the government's spending and borrowing plans, these concerns are not unique to the UK. US, France and Japan have also seen yields rise on plans to increase fiscal deficits.

### Summary

As we approach the three-quarter mark of the year it is easy to overlook that financial markets have delivered fairly strong returns despite a seemingly near-constant barrage of negative headlines. The MSCI All Country World Index is up 6.3% through the end of August, MSCI UK up 15.5%, MSCI Europe ex UK up 16.8% and MSCI North America up 3.2%. This is all the more impressive given that currency moves have weighed on US investments due to a 7.9% appreciation in sterling versus the dollar, through the end of August.



Bond investors have also seen a positive return for 2025 through August, despite slower central bank cuts than expected and growing concerns around fiscal policy. We believe the level of gilt yields on offer is attractive compared to much of the last 15 years. Yields in excess of 5% represent a sizable return for a perceived risk-free asset. Index-linked gilts are currently offering an opportunity to lock in yields in the region of 2.0%-2.5% above inflation for 20 years which is a historically attractive level.



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