Investment Review – October 2025

Highlights

- The US Federal Reserve made its second consecutive rate cut in 2025, lowering the Fed Funds rate to 3.75%–4.00%, but suggested a December cut "is not a foregone conclusion".[1]
- The European Central Bank held its Bank Rate at 2.00%, with the bank's president announcing, "From a monetary policy point of view, we are in a good place."[2]
- The Japanese stock market surged as the country's new president was confirmed in office, switching coalition partners.
- Buffeted by US–China trade battles and concerns about AI-related capital expenditure, it was a volatile month for US shares, which still landed in positive territory largely due to technology stocks.
- The Korean stock market had an outstanding month, jumping by almost a fifth.
- Government bond yields changed little in the US and Eurozone, but fell in the UK on better-than-expected inflation data.
- As the month ended, the US government shutdown was on course to break the previous 35-day record, also under a Trump presidency. So far, investors remain unconcerned despite the disappearance of most government economic data.

Global equity markets generally rose in October, helped by the cut in US short-term interest rates. Donald Trump continued to change tariffs, seemingly randomly, by adding 10% on imports from Canada not under the United States-Mexico-Canada Agreement (USMCA), apparently triggered by an advertisement funded by Ontario featuring Ronald Reagan criticising tariffs. Gold jumped over $500 by 20 October before losing momentum and ending the month up 4.4%,[3] at a shade under $4,000 an ounce.

United Kingdom

The backdrop for the month was a relentless flow of speculation and think tank reports on the upcoming Budget. This was compounded by constant HM Treasury pitch-rolling, which saw the month ending with suggestions that a core Labour manifesto pledge could be broken by a rise of up to 2p on income tax and an increased corporation tax surcharge for UK banks.

The spectre of higher taxes had no apparent impact on the FTSE 100, with the index rising 3.9% by the end of October, closing just below a new all-time high established the previous day. The more domestically focused FTSE 250 was predictably more influenced by Budget rumours and closed the month up 0.7%, again close to an all-time high established in the final week of the month.

The inflation numbers for September were better than expected. The consensus, which included the Bank of England, had been for a 4% figure, but the outturn was unchanged from August at

3.8%. September is widely expected to mark a short-term inflation peak, as the impact of administered price increases (e.g. the energy price cap) unwinds.

The consumer price index undershoot encouraged the gilt market and raised the odds that the Bank would cut Bank Rate at its meeting in early November, rather than wait to deliver a post-Budget Christmas present. Over the month, the 10-year and 30-year gilt yields dropped by about 0.3%. That was potentially good news for the Chancellor, given that debt interest is currently running at over £110 billion a year and will be one of the more significant lines in the Office for Budget Responsibility's calculations on 26 November when the Budget is unveiled.[4]

United States

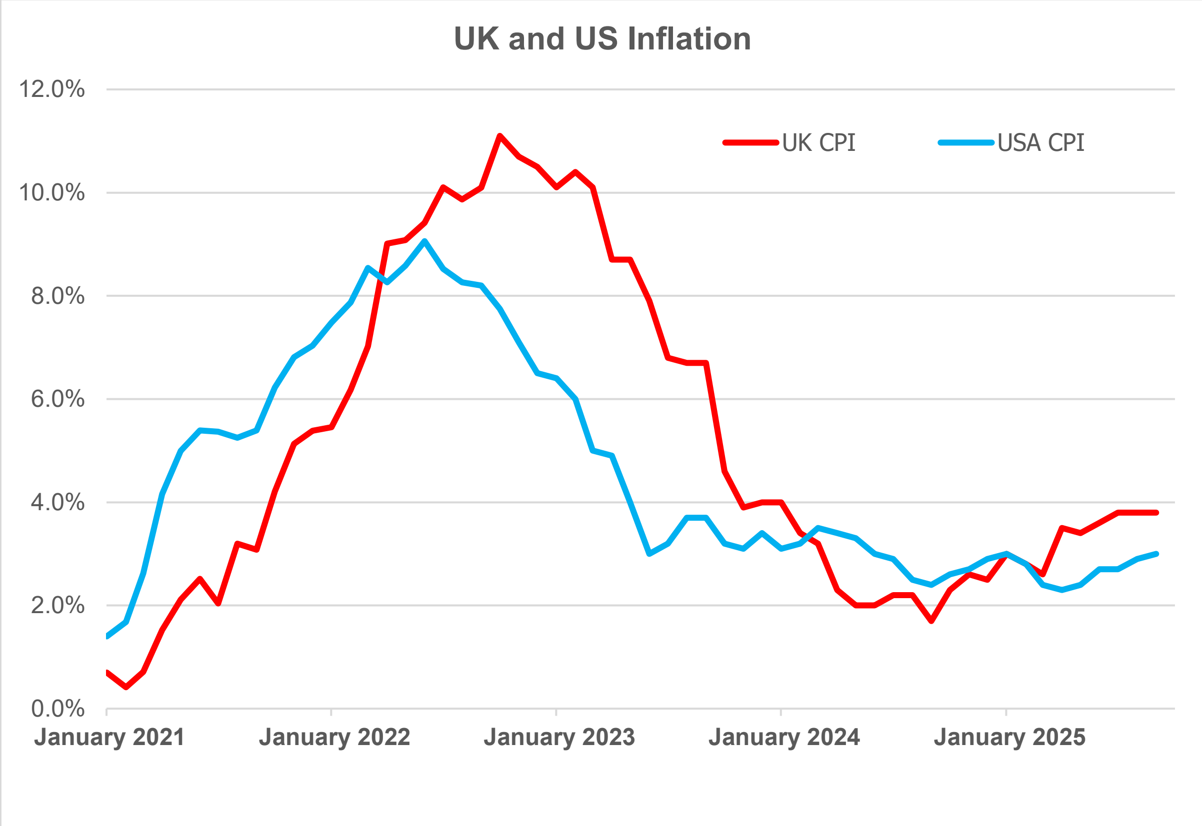
The S&P 500 posted its sixth consecutive month of increases in October. The rebound from April's 'Liberation Day' drama was the longest positive run since 2021. However, the NASDAQ went one better, ending seven consecutive months in the black, its best streak in eight years.[5]

The strong performance came despite the market's sharpest fall in six months on 10 October. The plunge was a response to Donald Trump's rekindling of his tariff wars, with a fresh 100% tariff on China in response to its toughened restrictions on rare earth exports. By month's end, a 100-minute meeting with Chinese President Xi Jinping at the Asia summit meeting in Busan, South Korea,[6] rated "12 out of 10" according to Donald Trump, resulted in a new 'deal', which included China restarting purchases of soybeans from the US. Notably, on closer inspection the deal is more like a 12-months' truce in the two countries' trade battles – and not necessarily a truce that will hold in the views of some commentators.

News of the deal came the day after the Federal Reserve cut interest rates for a second consecutive meeting, bringing the Fed Funds rate to 3.75%–4.00%. The move had been widely expected as September US inflation data (delayed by the government shutdown) came in slightly below forecast at 3.0%.[7] However, in the press briefing after the Fed announcement, Chair Jay Powell poured cold water on hopes for a third consecutive cut in December, highlighting the tension between the still-above-target inflation and a cooling labour market. That was enough to push US Treasury yields up about 0.1% across almost the entire yield curve.

On the US equity market, the final two weeks of the month were marked by results from six of the Magnificent Seven, which now account for 35% of the S&P 500.[8] The reports rekindled concerns about the level of capital expenditure on AI projects among the tech leviathans – for example, Microsoft reported that its capex was $34.9 billion, a 74% increase over the previous year.[9] Meta's comments in its after-hours results announcement of higher capital expenditure were rewarded with an 11% share price fall the following day.

The one member of the Magnificent Seven that will not report until mid-November, stole headlines for other reasons. Nvidia became the first company to achieve a valuation of over $5 trillion based on expectations that exports to China of its Blackwell AI chips would be allowed by Trump. In the event, Trump did not discuss the chips with Xi and, by the end of the week, Nvidia was back to being valued at $4.92 trillion – about 8% of the S&P 500 (and 6% of the MSCI World Index).[10]



Source: ONS, FRED[11]

Europe

European markets had a reasonable month, with the Euro Stoxx 50 up by 2.4%. The reappointed French Prime Minister, Sébastien Lecornu, survived the month and ended with a victory in the National Assembly on the contentious subject of a wealth tax. The CAC 40 rose by 2.9% in the month.

In Germany, the DAX edged up 0.3% over October, held back by disappointing Q3 results, such as those from VW Group, which recorded its first operating loss in five years.[12] The Spanish equity market's strong run continued, with the IBEX 35 again up 3.6% across the month. The Netherlands stock market added 3% in October as a general election changed the political leaning of the government towards the centre.

Eurozone government bond yields were marginally lower over the month as the European Central Bank left its rates unchanged at 2.0% for a third consecutive meeting. Subsequently, the eurozone flash consumer price index for October came in 2.1%, down 0.1%.

Asia

The Nikkei 225, a widely quoted but technically flawed Japanese equity market index, reached a new milestone in October, crossing 50,000 for the first time. It soon left that threshold behind, closing the month up 16.6%, bringing its increase for 2025 to 31.4%. October's performance is largely attributable to optimism about the policies of the new Prime Minister, Sanae Takaichi. She quickly found a new coalition partner for her party after Komeito, her former coalition partner, resigned and was confirmed in her role a week before the Nikkei 225 reached that 50,000 peak.[13] Japanese government bond yields were little changed over the month, with the 10-year bond yield at 1.66% and the 30-year at 3.04%, despite a 0.2% rise in inflation to 2.9%.[14]

Hong Kong's Hang Seng index ended a five-month winning streak with a 3.5% fall in October,[15] brought down by a variety of factors including worries about the US-China trade deal and weak Chinese Purchasing Managers Index data. The Taiwan stock market index added another 9.5% over September, helped by a strong performance of the dominant technology sector.

Emerging Markets

The MSCI Emerging Markets Index was up 4.7% over the month in dollar terms, helped by a strong performance from its Asian components, other than China. While data published during the month showed that Chinese Q3 economic growth was 4.8% year-on-year,[16] the figure was down from 5.2% in Q2. Export growth, despite the US-China trade war, and high-tech manufacture, offset a weaker domestic market. The latter was underlined by month-end data showing that Chinese factory activity had declined for the seventh consecutive month in October.[17]

The star performer helping the MSCI EM Index was Korea (12.7% of the Index),[18] where the Korea Composite Stock Price Index rose by just shy of 20% over the month. Korea, like Taiwan, is benefitting from the AI boom/bubble. For example, SK Hynix, a Korean semiconductor manufacturer specialising in memory, rose by over 60% in October, while the Korean semiconductor giant, Samsung, added 24.8%.[19]

And also…

"My antenna goes up when things like that happen. And I probably shouldn't say this, but when you see one cockroach, there are probably more…I suspect when there's a downturn you will see higher-than-normal downturn type of credit losses in certain categories."[20]

In this instance, the person wheeling out the cockroaches' cliché mattered. The words were uttered last month on an analysts' call by Jamie Dimon, CEO of JPMorgan Chase, the largest bank in the US. Dimon was commenting on a $170 million charge that his bank had incurred from the failure of Tricolor Holdings, a subprime auto lender. Tricolor's bankruptcy was followed in short measure by the demise of FirstBrands, a supplier of auto parts.

Tricolor's problems seem to have arisen partly from the nature of its business. It sold cars primarily to low-income Hispanic borrowers and provided the necessary finance. In turn, Tricolor borrowed from the big banks, such as JPMorgan, with the individual car loans subsequently bundled into asset-backed bonds for yield-hungry investors. The Trump regime's immigration crackdown had the unwelcome effect of encouraging a percentage of Tricolor's borrowers to drive across the border to Mexico in their cars/collateral, making repossession difficult. At that point, questions began to be asked about whether the emigrant cars were collateral for the securitised bonds, the banks or both. FirstBrands is a different story, but ends up in a similar place with various categories of lenders uncertain about the validity of their collateral.

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A couple of days after Dimon's cockroach comments, his prediction appeared justified when two US regional banks, Zions Bancorp and Western Alliance, announced problems with potential fraud on loans. The sums involved, reportedly $60 million and $100 million,[21] were not life-threatening for the banks concerned, but hit market confidence in regional banks, dragging down their share prices.

Inevitably, there have been comparisons drawn with the 2007/08 global financial crisis, which started with subprime lending problems and the emergence of unexpected financial interconnections. So far, the sums involved are on a much smaller scale and, at this late stage in the credit cycle, some defaults are to be expected. Nevertheless, it has given pause for thought on the rush into private credit seen over recent times.

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