

Investment Review – September 2025

Highlights

- The US Federal Reserve made its first rate cut of 2025, bringing the Federal funds rate down to 4.00%–4.25%, with at least one more reduction expected by the year-end.
- The Bank of England's Bank Rate held firm at 4.00%, as Consumer Price Index (CPI) inflation remained unchanged at 3.8%, and estimates for the November Budget black hole moved up towards £30 billion.
- Overall, European markets were up over the month. Despite the replacement of yet another French prime minister, the French market rose, while in Germany matters were more stable and the Dax was virtually unchanged.
- After August's particularly strong performance, Chinese mainland markets were up over 10% in September.
- Government bond yields stabilised in developed Western markets, although 30-year yields remain close to their 2025 highs.
- At the end of September, the US government shutdown, yet again, with equity and bond markets seemingly unruffled by the news.

Global equity markets generally rose in September, helped by the cut in US short-term interest rates. Donald Trump continued his unpredictability on tariffs, loading 25% on imports of kitchen cabinets and upholstered wooden furniture under a law designed to counter national security threats. Gold jumped 12.3% across the month to \$3,827 as central banks favoured the metal over the dollar and private investors followed in their wake with gold exchange-traded funds (ETF) purchases.

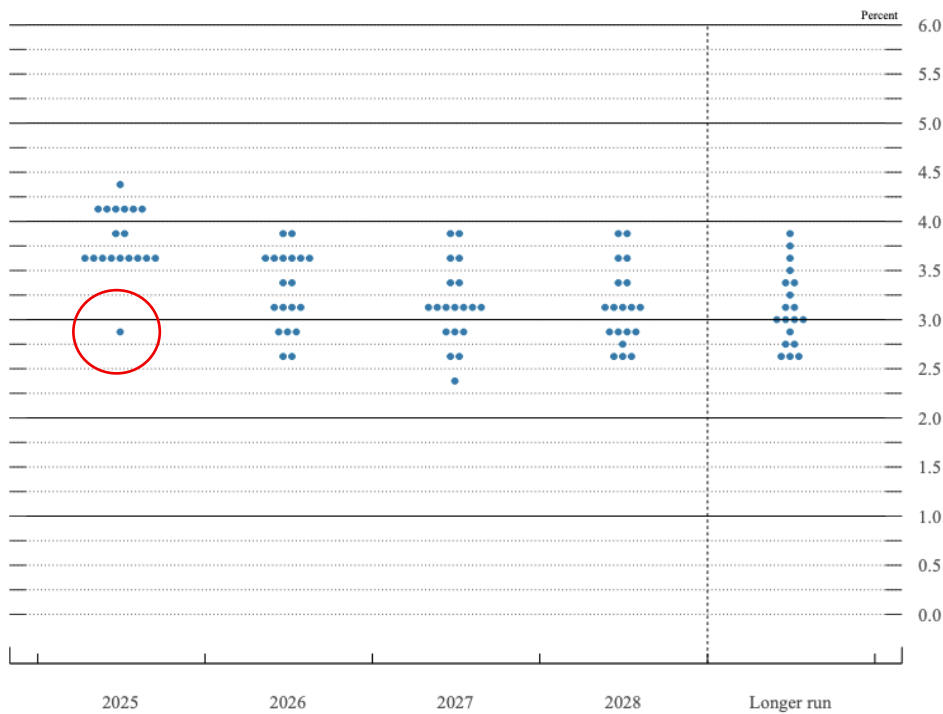
United States

The month's spotlight largely fell upon the Federal Reserve and the Trump administration's efforts to exert greater control. His attempt to dismiss Lisa Cook as a governor was – for the time being – countered by the judicial system. As a result, Cook was one of the Federal Open Market's Committee members who voted in favour of a 0.25% rate cut in the middle of the month.¹ There was one solitary vote in favour of a 0.50% cut from Steve Miran, Trump's latest, temporary, Fed appointment.

Miran was also assumed to be behind the rogue dot (see below²) on the Fed's 'dot plot' of expected future rates, somehow anticipating another 1.25% cut across the final two meetings of the year.³ The market is nowhere near Mr Miran's predictions, looking for one or possibly two more 0.25% cuts before the end of 2025.

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As has been the manner of the markets recently, they continued business-as-usual despite continued drama from the administration. This included paying little attention to an announcement towards the end of the month, and still to be clarified, of 100% tariff on branded pharmaceutical products, along with a 25% tariff on heavy trucks and wooden furniture.⁴ When the end of the month arrived, Congress had not agreed a controversial budget and a government shutdown was confirmed from 1 October. It is the first shutdown since 2018, when Trump presided over a 35-day closure during his first presidency.⁵ The market's main concern is the impact on public data, such as labour statistics.

For all the noise, the S&P 500 closed the month up over 3.5%, just short of another new high established on 22 September. Over the month, the NASDAQ Composite 5.8%, underlined the tech-driven nature of the market rally. The Fed's interest rate cut, with the hope of more to come, saw the Russell 2000 index of smaller companies, posting a 3% gain, adding to August's strong performance.

The 2-year and 10-year Treasury bond yields fell marginally, while the 30-year yield dropped nearly 0.2%, drawing it further away from the 5% trigger point. However, the focus of the month was not on Treasuries, but the commercial loan and private debt markets. Here, there were two corporate failures, which caused anxious commentators to hark back to the 2007/08 financial crisis:

- First came Tricolor Holdings, which sold cars and related finance to mostly the Hispanic, and sub-prime, community. Tricolor collapsed into bankruptcy amid suggestions of fraud, along with big names, such as J P Morgan and Fifth Third, on the list of secured creditors.
- Shortly afterwards, First Brands, a supplier of car parts, filed for bankruptcy protection, brought down by over \$10 billion of long-term debt, and invoice and inventory financing.^{6,7}

United Kingdom

Shortly after September began, Chancellor Rachel Reeves revealed that her big fiscal event of the year would be held on 26 November, about as late as possible for a (meteorologically defined) Autumn Budget. The announcement fired the starting gun for 10 weeks of speculation on how big the black hole would be – up to £30 billion is the current consensus – and what taxes would rise to fill it.

Despite the gloomy backdrop, UK equity markets made some progress over the month, with the FTSE 100 up 1.8%, ending at a new all-time high. The rise was not confined to the major index, with mid-cap and smaller companies indices recording a similar monthly increase. By the end of the third quarter, the FTSE100 was up 14.4% on the year, which, perhaps surprisingly, puts it ahead of the S&P 500's 13.7% rise. The gap between the two markets widens further when the dollar's weakness is added to the calculations.

The Bank of England's September meeting kept the Bank Rate steady at 4%, although the governor did subsequently suggest "a further journey down" was possible if inflation fell.⁸ Markets are assuming that there will be no further cuts this year. The Bank's own forecast is for CPI to peak at 4% in September (data to be released on 22 October). The Bank's Monetary Policy Committee has only one meeting between the late Budget on 26 November and the end of the year – it is unlikely to move at its 6 November meeting, before the Chancellor speaks.

Gilt yields moved slowly over the month, although the Debt Management Office encountered some difficulty with bond sales, which saw a demand for 5-year and 30-year issues reach their lowest level for at least two years.⁹

Europe

European markets had a generally good month with the Euro Stoxx 50 up by 3.3%. The new French Prime Minister, Sébastien Lecornu, was already under threat from the Socialist party for his budget proposals, but the CAC 40 rose by 2.5% in the month.

In Germany, the DAX was down 0.1% over the month. While the politics is more stable in Germany than France, it also has higher inflation (2.4% against 1.2% in France and 2.0% for the Eurozone) and lower growth (-0.3% against +0.3% and +0.2% respectively).

The Spanish equity market's great run continued, with the IBEX 35 up 3.6% in September and 10.6% over the quarter.

The Danish stock market returned to a downward spiral – it was the worst performing in Europe in September, as Novo Nordisk once again retreated.

Eurozone government bond yields were little changed over the month as the European Central Bank left its rates unchanged at 2.0% amid growing talk that the bank's rate-cutting cycle could be at an end.

Asia

The Japanese equity market continued to the strong performance that started with the post-Liberation Day bounce back. Over the month, the Nikkei 225 rose 5.2%, bringing growth in the third quarter to 11%. That performance has occurred despite the resignation of Prime Minister Shigeru Ishiba in early September, after less than a year in office. One of his potential successors, Sanae Takaichi, has called for the reinstatement of 'Abenomics', a period of ultra-low interest rates and loose finances.

Japanese government bond yields stabilised over the month, with the 10-year bond yield at 1.65% and the 30-year at 3.14%, helped by another 0.2% decline in inflation to 2.7%. When former Prime Minister Shinzo Abe stepped down in September 2020, all three rates were below 1%.

Hong Kong's Hang Seng index added 7.1% across September, driven by tech stocks and big IPOs, such as the \$3.2 billion trading debut of Zijin Gold. The Taiwan stock market index added another 6.6% over September, helped by a strong performance from TSMC, the chip manufacturer, which represents about 30% of the Taiwan Weighted Index.

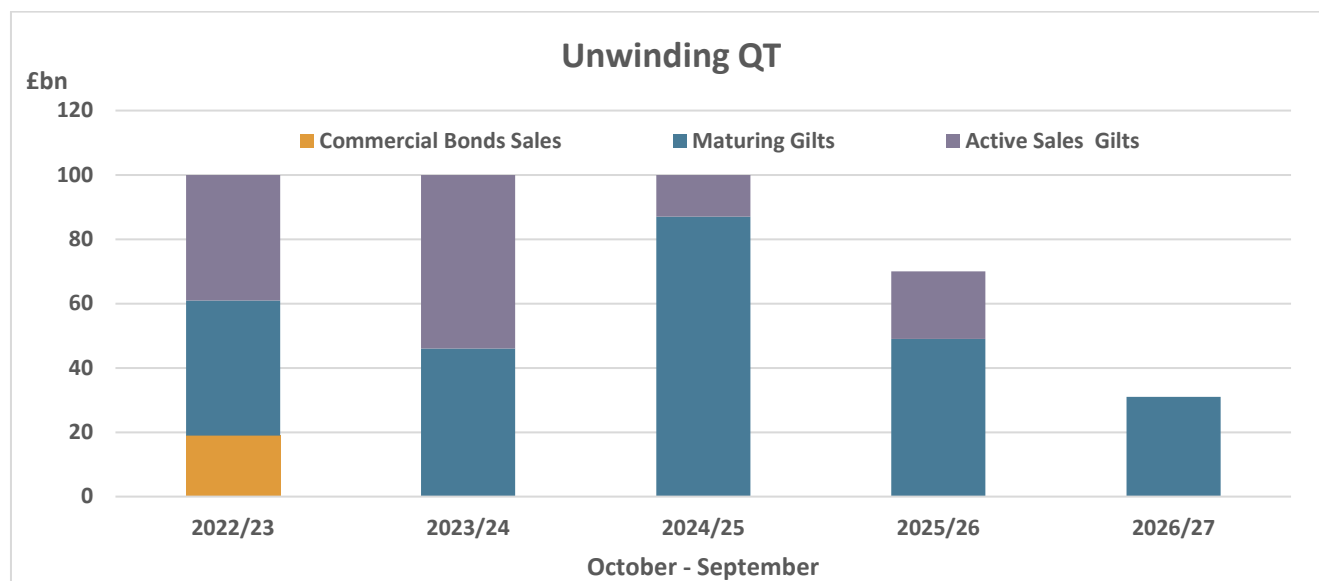
Emerging Markets

The MSCI Emerging Markets Index was up 7.0% on the month in dollar terms, as US tariff disruption continued without the serious impact that some had feared. Over the quarter, the MSCI index added 10.1%, taking the year-to-date figure up to just over 25%. The weakness of the dollar has helped emerging markets generally by improving their current account balances – many imports are priced in dollars – and reducing the value of dollar-denominated external debt.

A major driver behind this positive monthly return was China, which accounts for about 30% of the MSCI Index. Chinese mainland (H) shares were particularly strong, up over 12% in dollar terms.

The Korean market also had a good month with a rise of 7.5%. While the BSE Sensex rose 0.6% over the month, the Indian rupee continued to weaken, recording its fifth monthly decline against the US Dollar.

And also...



Source: Bank of England¹⁰

September's widely anticipated no-change rate announcement from the Bank of England was not the most interesting decision to emerge from the Monetary Policy Committee (MPC) for gilt market investors. Of more immediate relevance – and much less certain in outcome – was what the Bank would reveal about its plans for quantitative tightening (QT).

A quick reminder about QT is probably worthwhile. After the financial crisis and subsequently during the pandemic, the Bank of England spent £895 billion buying bonds, all but £20 billion of which were gilts, under a programme of quantitative easing (QE). The aim of the exercise was to boost liquidity and hold down long-term interest rates. Since February 2022, the Bank has been gradually running down this bond stockpile by two methods:

- Allowing holdings to mature without replacement; and
- Actively selling holdings.

As at the end of August, the Bank still held gilts with a total redemption value of £495 billion, which had cost it £585 billion in reserves to purchase. As the graph shows, for the past three years, the Bank's QT operations have been running at £100 billion a year, with over 85% of that originating from maturing stock in the year to 30 September 2025 (the year for QT accounting purposes). What the gilt market was anxious to learn from the September MPC announcement was whether that £100 billion unwinding would be maintained for 2025/26.

The decision for the Bank of England was finely balanced. In 2025/26, only £49 billion of the Bank's holdings will mature, meaning that it would have had to sell £51 billion of gilts to hit a £100 billion target, nearly four times as much as in 2024/25. However, the Treasury still has about £135 billion of gilts to sell by the end of March 2026,¹¹ and faces nearly another £150 billion of maturing stock in 2026/27, as well as possible government borrowing of around £100 billion.¹²

Before the MPC revealed its decision, the market consensus was QT of about £72 billion according to the Bank of England, although there was a wide variance from the £49 billion baked in by maturities to another year of £100 billion. In the event, the MPC opted for £70 billion and the gilts market remained unphased.

The next QT question to be answered is on 26 November in the Autumn Budget. As part of its economic and fiscal forecast, the Office for Budget Responsibility will have to project the level of QT out to 2030/31. To date, it has been able to see a regular £100 billion pattern, which is near enough what it assumed (wrongly) for 2025/26. Now, it has a less obvious path to follow for future years.

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