

Hymans Robertson Investment Services (HRIS)

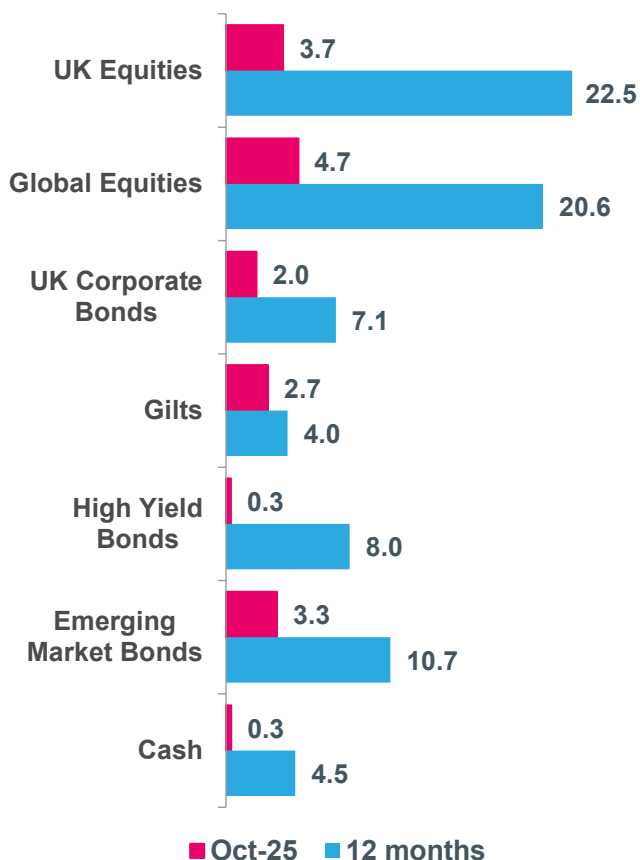
Market digest

October 2025

Monthly highlights

- Progress with a US-China trade deal, as well as strong corporate earnings in the US, boosted investor sentiment.
- Equities continued to deliver strong performance while bond returns were also positive.
- On page 3 of this document, we provide market commentary to cover the 12 months to 30 September 2025.

Asset class returns (%)



Source: Morningstar. Figures to 31 October 2025. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Market summary

- Our model portfolios typically invest in a combination of the asset classes shown in the left-hand chart.
- October saw a continuation of the strong equity momentum we have seen since April. After a short-lived escalation of trade tensions between the US and China, the two countries agreed to a one-year trade deal which eased concerns with investors.
- There was significant focus on the large US tech companies' earnings reports. Although mixed, most instilled further confidence with investors.
- The election of Japan's new prime minister led to strong equity performance in that region while dissipating trade tensions boosted Asian market more generally.
- Softer inflation allowed the Federal Reserve to cut interest rates in October but remarks from the Chairman indicated a December rate cut was not assured.
- Softer inflation in the UK also helped to push down government bond yields and drive positive performance (bond prices rise as yields fall).
- Emerging Market (EM) bonds outperformed other bond markets and have generated very strong performance over the year-to-date.
- With equities outperforming bonds in Q3, higher risk portfolios typically performed better than lower risk portfolios, over the period.

Outlook and topical market themes

- The growing dominance of US Big Tech in the market cap index, alongside high equity valuations, necessitates strong portfolio risk management.
- The rumour mill for the Budget is going into overdrive. Outside of gilts and the pound, we still expect the impact on asset prices to be limited.

Big Tech's dominance necessitates strong portfolio risk management

Artificial Intelligence (AI) has been one of the key investing themes over the past 2-3 years. This has helped drive outstanding equity market returns of late – global equities are up over 20% in the past year alone. However, after a period of strong performance, it's important to reassess where risks may lie in your portfolio and ensure they're being managed appropriately.

In the case of AI, these risks manifest in two ways. First, the surge in US mega-cap tech stocks has led to increased market concentration. A decade ago, the US accounted for around 53% of the global equity market. Today, that figure is closer to 65%. Within the US market itself, concentration has risen sharply too: the top 10 stocks now make up over 40% of the S&P 500, compared to less than 20% ten years ago. This means that a relatively small group of companies now has a disproportionate influence on overall market performance. Second, the exuberance around AI has pushed valuations higher. The price-to-earnings (P/E) ratio of the global market, a measure of how expensive stocks are relative to their earnings, is above its historical average. Importantly though, valuations are being stretched almost exclusively by the US market. Other regional markets look more reasonably valued.

Both these risks (concentration and valuation) can be managed through sensible diversification. For instance, rather than following a market-cap weighted approach, investors may benefit from a more balanced allocation by, for example, not following the market's weighting to US equities or using multi-factor funds alongside active and passive funds to reduce stock concentration risk.

A fiscal tightening at the Budget will be painful for taxpayers but supportive for gilt investors

It is widely accepted that this Autumn's Budget will require tax increases and/or spending cuts to meet the Chancellor's fiscal rules. The options for restoring the headroom on these rules include either a combination of several smaller taxes or a more significant, manifesto-breaking increase in income tax rates. The latter now looks increasingly likely after the Chancellor's apparent openness to it in recent statements. While this option would be challenging for taxpayers, markets have taken comfort from the Chancellor's commitment to fiscal discipline. Her resolve to maintain her fiscal rules has helped support gilt markets in recent weeks, increasing confidence that the UK will avoid another 'Liz Truss moment'.

For more on the upcoming Budget, please read our latest [article](#).

Table of the month

Select tax policy options for the Chancellor at the Budget and the estimated amount of tax revenue

Policy	Estimated amount of tax this would raise
Freeze all income tax bands for another two years	£9.2bn
Add 1% to all income tax rates	£10.8bn
Limit tax relief on pension contributions to 30%	£3bn
Additional gambling taxes	£3bn

Source: IFS, JPM, IPPR



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Annual market summary: covering the 12 months to 30 September 2025

The start of the period focused on the re-election of Donald Trump. A close election result was expected, but what we got was an emphatic victory for Trump. Markets quickly pivoted towards 'Trump trades' reflecting the expected winners and losers from Trump's expected policy agenda.

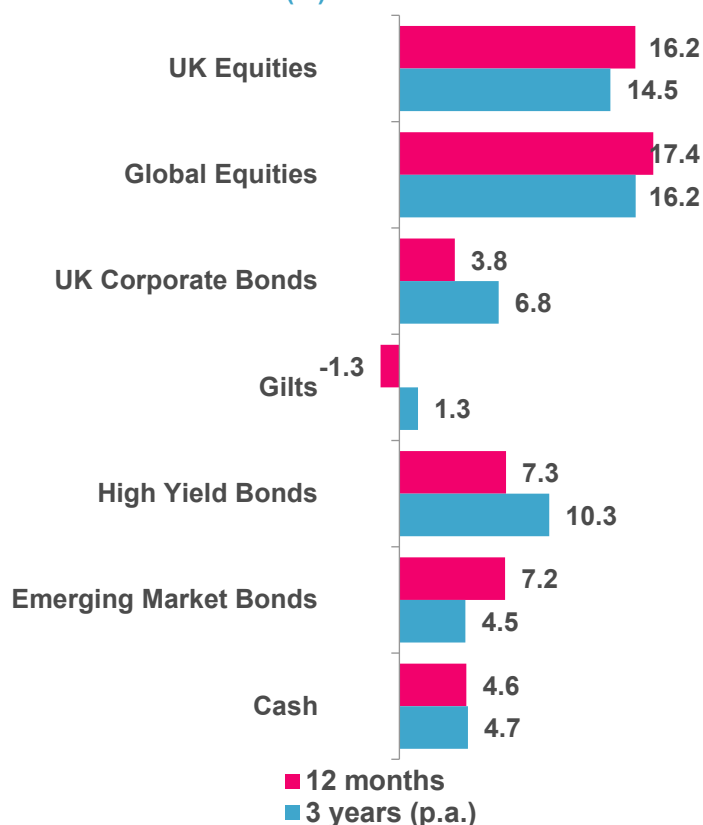
However, investors' early enthusiasm for President Trump's policy agenda started to wane in early 2025, and then completely evaporated, as Trump prioritised implementing heavy tariffs on trade partners. "Liberation Day" at the start of April further disrupted markets with no economy seemingly safe from Trump's tariffs. Markets recovered quickly following a postponement of the announced tariffs and indications of positive trade talks, but volatility persisted. This recovery continued over the third quarter of 2025 as better-than-expected corporate earnings, strong performance in the technology sector and the Federal Reserve resuming interest rate cuts increased investor confidence.

Central banks continued their path towards lower interest rates. The Bank of England cut by 1% over the period to 4%. However, expectations of further cuts this year were lowered as inflation approached 4%. In September 2025 the Federal Reserve resumed rate cutting, cutting rates by 0.25%. This was the first cut since December 2024 and marks a 0.75% reduction over the period to 4.25%. Investors are expecting additional rate cuts in the US this year as early signs of a weakening labour market appear.

Overall, the 12 months to September 2025 were positive for equity performance, despite the tariff driven volatility. The US equity market ended the period as the top performing region, recovering from the falls seen earlier this year.

Bond performance was mixed across the different markets. Government bonds struggled, as investors remain concerned over government debt levels and the ability of the Federal Reserve to manage inflation while under pressure from Trump to cut interest rates further. Corporate bonds outperformed government bonds over the period, supported by strong earnings growth. High yield bonds delivered even stronger 12 month returns as credit spreads fell over the period (bond prices rise as spreads fall) and emerging market bonds benefitted from a weakening of the US dollar.

Asset class returns (%)



Source: Morningstar. Figures to 30 September 2025. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.