

INVESTMENT COMMENTARY

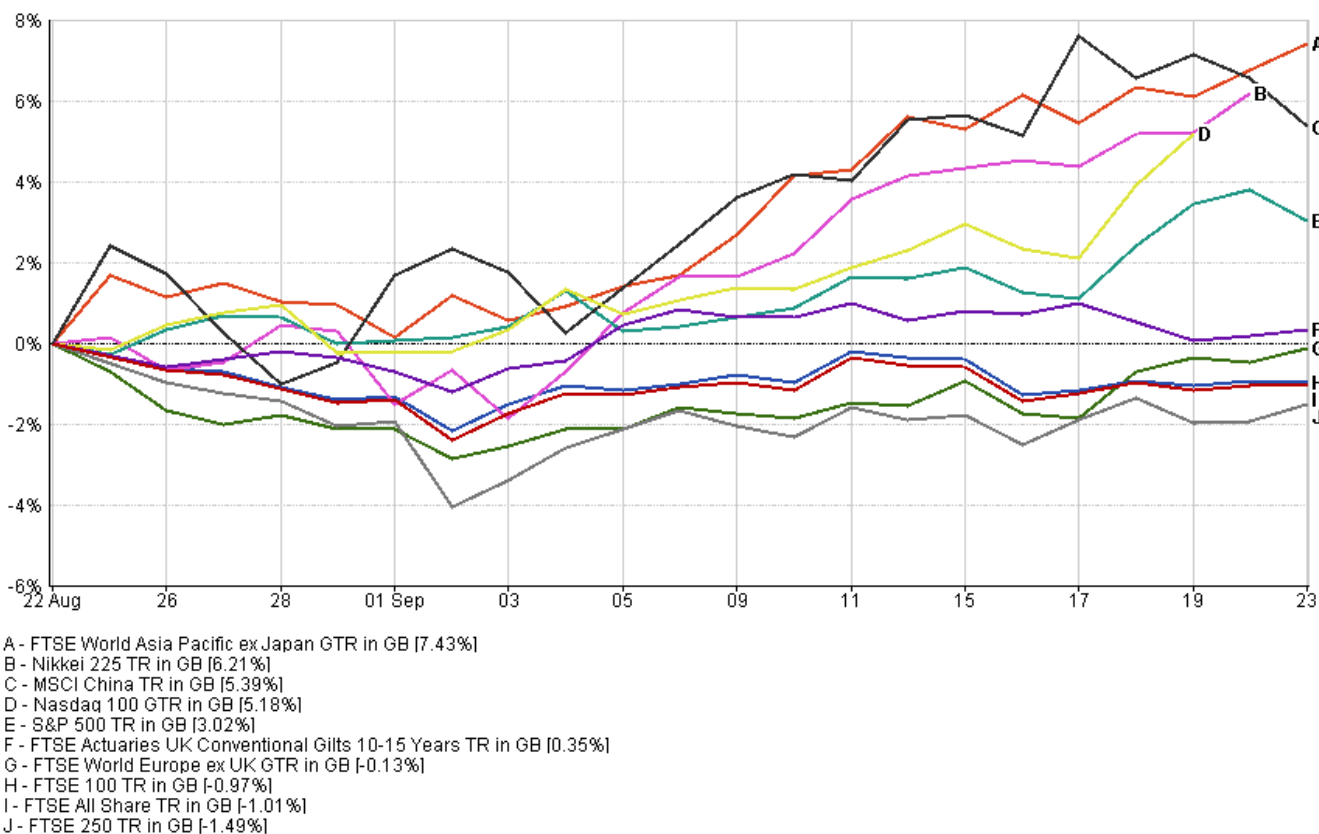


23 SEPTEMBER 2025

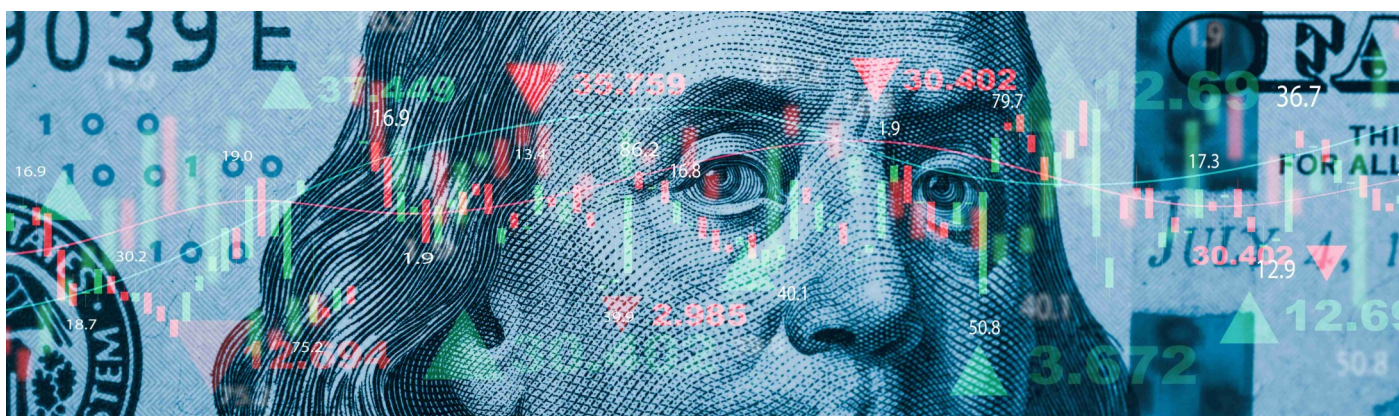
OVERVIEW

Global equity markets produced strong returns over the past month with China, the Asia Pacific region and the US performing well. The expectation that the US Federal Reserve (Fed) would cut interest rates in the face of a weakening jobs market was highly supportive of investment sentiment in general. Chinese equity market returns were driven by the anticipation of further economic stimuli in the face of ongoing deflation, the problematic property market, weak domestic demand and falling export levels. The deadline for a China/US trade agreement was extended to November 2025 which was also beneficial for market sentiment, coupled with the focus on China further developing its own technology capabilities.

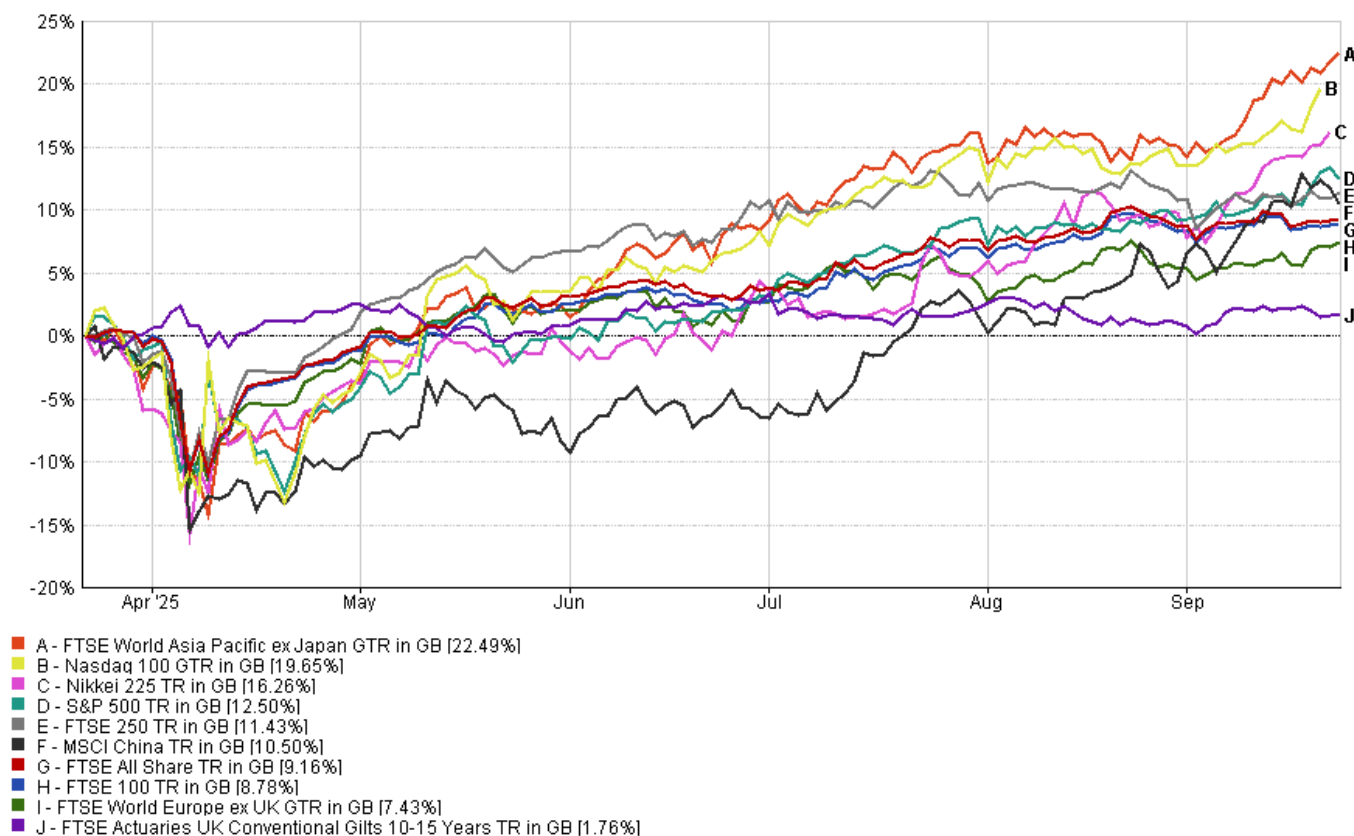
ONE MONTH INVESTMENT MARKETS STERLING TOTAL RETURNS



22/08/2025 - 23/09/2025 Data from EE fundinfo2025



SIX MONTH INVESTMENT MARKETS STERLING TOTAL RETURNS



21/03/2025 - 23/09/2025 Data from FE fundinfo 2025

As largely expected the Fed cut interest rates by 0.25% at its recent meeting. The likelihood of a reduction had been supportive of the equities; markets appear to be expecting at least one more cut before the end of 2025. The Fed is charged with managing monetary policy with the dual aims of maximum employment and price stability. Whilst US economic growth remains resilient at an annualised rate of 3.3% in the second quarter, the jobs market is showing signs of softening with fewer jobs created than expected and the unemployment rate ticking up to 4.3% in August. Initial jobless claims reached their highest level since October 2021 earlier this month. The Fed acknowledged that “downside risks to employment have risen”. The other part of the mandate is price stability, but the inflation rate has not yet fallen to the Fed’s 2.0% target. However, the Fed feels that inflation is not likely to increase dramatically from August’s level of 2.9%, so has capacity to cut rates. It remains to be seen if the hikes in tariffs will be mainly absorbed by companies or passed on to consumers. The Fed may well consider tariffs as a one-off rather than ongoing source of price increases. Second quarter US corporate earnings showed resilience, with more than 80% of S&P 500 companies beating analysts’ estimates on earnings. This positive news was highly supportive of equities as it appears that the tariffs have not had an immediate impact. US companies seem to have been adept at managing their balance sheets, although the jobs data may be indicating that costs are being cut.

After a series of interest rate cuts, the European Central Bank (ECB) held its deposit rate at 2.0% once again, as expected, at its most recent meeting. ECB President, Christine Lagarde, commented that the eurozone was “in a good place” with inflation around target and unemployment falling slightly. The ECB expects inflation to remain at 2.1% and economic growth to tick up to 1.2% this year, so it is likely this interest rate cutting cycle is at an end. Nevertheless, the impact of US tariffs, together with political/fiscal uncertainty in France could perhaps see ECB cut rates again.

The Bank of England (BoE) kept Bank Rate on hold at 4.0% at its September Monetary Policy Committee meeting, with perhaps little scope for a further cut in Bank Rate in 2025. Inflation increased to 3.8% in July from 3.6% in June, with services inflation rising to 5.0% from 4.7%. Wage growth rose to 4.7% in the three months to the end of July. UK GDP expanded 0.4% in June, with second quarter growth slowing to 0.3% from 0.7% in the first quarter. Much of the expansion was driven by the increase in government spending, whilst the private sector struggled. Business investment dropped sharply by 4.0% as uncertainty persists about possible tax hikes in the November 2025 budget. The unemployment rate remained at 4.7% - the highest level since July 2021 – with the number of payroll employees dropping for the seventh consecutive month. The mid cap part of the UK equity market struggled due to the undoubted challenges facing the domestic UK economy to which it is largely exposed.



UK borrowing costs are the highest in the G7, as investors worry about the UK's creditworthiness - but the apparent need to increase taxes is the function of the UK's own fiscal rules, intended to ensure it remains creditworthy. Currently the average interest rate that the UK is paying on its debt is around 2.3% - higher long-term bond yields are reflecting the cost of future borrowing, but most of the UK's debt was issued when interest rates were much lower. Nevertheless, government borrowing costs will drift upwards as new borrowing becomes an increasing proportion of the outstanding debt – hence the need to stick to the fiscal rules. The Chancellor faces difficult decisions in the coming Budget, with taxes likely to be increased. The BoE also announced at its recent meeting that it will be slowing its sales of bonds on its balance sheet (quantitative tightening). This will provide some relief for the gilts market as buyers will be required for substantial gilt sales in the coming months. It will also provide considerable relief for HM Treasury as the BoE is selling these bonds at massive losses. The government has agreed to compensate the Bank of England for these losses – so a slower pace of 'quantitative tightening' eases the Chancellor's budget deficit. Critics argue that the BoE's quantitative tightening programme is either unnecessary (or premature) and that HM Treasury should not have agreed that the taxpayer should compensate the BoE for its losses. The Bank of England argues the latter to be necessary if fiscal credibility is to be maintained but it is acting far more strictly than other central banks. Certainly, the bank's actions are questionable during a period of fiscal tightening* and monetary squeeze.

*(*Taxpayers/consumers/businesses are enduring fiscal tightening through higher taxes to finance a government which is spending more heavily. This increasing public expenditure is partly finding its way back into the economy although largely to areas which will add little to improve general economic prospects. A significant proportion is being used to service existing government debt.)*



Japan's economy has grown at a faster rate than expected at 2.2% on an annualised basis over the second quarter. Capital expenditure remained relatively robust whilst private consumption was better than predicted. The trade agreement with the US has led to improved investor sentiment. Inflation remains above the Bank of Japan (BoJ) 2% target as it rose by 2.7% pa in August from 3.1% in July. Wage growth increased to 4.1% pa ahead of the 3.0% estimate. The BoJ kept interest rates at 0.25% at its latest meeting but there remains the expectation that the BoJ is likely to increase interest rates if inflation stays above target.

The Chinese equity market has been supported by the further extension for finalising a China/US trade agreement. Investors have been seeking higher returns than cash which has boosted the price of domestic equities. The Chinese authorities are pushing to develop their own technology solutions which has driven returns from the domestic technology sector recently. Deflation is a key concern for the Chinese authorities, as producer prices continue to decline, as does economic activity. The pace of retail sales growth slowed as consumer demand remained weak. Chinese trade with the US continues to decline – exports to the US fell 33% in August but have increased to other regions - South East Asian exports rose 22.5% and by 10% to the European Union. Against this difficult economic backdrop, it is expected the Chinese authorities will announce stimulus measures in the coming months to support the economy in achieving its official 5% growth target. The possibility of significant economic stimulus measures has propelled the equity market higher. The government is promising to penalise over-production and to improve pricing power, as current deflationary conditions disincentivise economic activity.



OUR VIEW



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Equity markets have provided strong returns in recent months which have been supportive of portfolio returns. It appears that the risk of recession in the US is currently low and corporate earnings are likely to remain resilient. As the US employment market continues to weaken, the Fed looks likely to loosen monetary policy even with inflation still above target. Stimulative US fiscal policy coupled with lower interest rates should continue to offer support to the global equity market. A relatively weak dollar should prove beneficial to developing economies which have borrowed in US dollars. We maintain fully diversified portfolios with global equity exposure positioned accordingly to risk tolerance.

The current strength in global equity markets is perhaps seen as a 'growth' rally as the values of US mega-tech stocks continue to increase, backed by the AI boom - as they are rewarded for their superior earnings growth. Around 75% of a global equity index comprises US equities with the other 25% diversified across the globe. Outside the US, equity market performance has been largely driven by the performance of 'value' and 'high dividend' stocks over the past year. These types of stocks had seen their prices at historically low levels from which they have been improving,

as earnings strengthen against a background of lower interest rates and potential economic growth, leading to some attractive returns. The equity elements of our portfolios comprise funds of varying investment styles so offering further diversification through value/income, growth and blended funds.

There are always risks, not least that of markets getting ahead of themselves, with actualities defying optimistic expectations, so leading to investor disappointment and crises of confidence. Presently, our approach is very much one that equity market risk is likely to be rewarded over the shorter/medium term, but also that it will be important to consolidate gains along the way. Fixed income positions are generating decent yields presently and have their part to play in income generation and overall portfolio stability.



OUR VIEW continued

Although there are tariff and 'Presidential' uncertainties, investors should not despair of the US. US businesses are so often global, dominant or quasi-dominant participants in so many areas of the global economy. Many of them are ambitious and growth orientated to an extent only Chinese enterprises typically rival. Earnings growth expectations for US companies are far more optimistic than those for their European equivalents – which so far are being realised. The astounding growth in value of the companies has been justified by actual earnings to date.

Of course, diversification is always necessary and there are sound opportunities elsewhere – but the US economy and financial markets are by no means out of steam.

**If you have any queries
please do not hesitate
to contact your
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