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INVESTOR INSIGHT

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A look at the markets by RSMR
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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

Risk assets soar amid uncertainty.

The global economy looks set to grow at around 3% until the year end, according to the International Monetary Fund (IMF), Euromonitor and Morgan Stanley. This is slower than 2024 reflecting challenges including trade tensions, tariffs costs, policy uncertainty, uneven central bank policies, fragmented supply chains, and the Ukrainian war.

All this is creating greater price variation between asset classes, commercial sectors and developed and emerging markets, which performed better than their developed counterparts during the summer.

Europe, the UK and the US lowered interest rates while Japan, where inflation was 2.7% in August, raised them.

The US cut had been factored in by equity markets leading to new highs.

Trade tariffs and a weaker dollar are not encouraging for manufacturers exporting to the US and the recent rush to trade there to beat tariffs is fading.

China, which is struggling to boost consumer spending, and the US initially made progress on improving trade relations with compromises on media (TikTok), chip production and access (Nvidia), although President Trump has been known to change his views at short notice.

“Europe, the UK and the US lowered interest rates while Japan, where inflation was 2.7% in August, raised them.”





The asset classes – a quick round-up

EQUITY MARKETS

Many observers have been surprised by the strength of equity markets when the factors to drive them have been less than consistent.

Trump's tariffs policy has made investors aware of broader economic news and reaction to his comments and Truth Social tweets could have caused a mass sell off. Instead, asset prices reached all-time highs but the conditions behind this are fragile in an unstable global political climate.

Many investors believe some markets and sectors are overvalued but they are supported by quarterly company earnings, even if some fear we are entering a bubble where prices exceed their true value.

There has been a move towards private equity investing and support for this is available as more retail products enter the market.

In the UK, where the Bank of England (BoE) kept interest rates at 4% in September, Gross Domestic Product (GDP) is up about 1.2% compared to 2024 (source: ONS) while Consumer Prices Index (CPI) inflation was around 3.5% in June.

Investors appear to be accepting the prospect of monetary easing, strong corporate earnings in technology and Artificial Intelligence (AI), and continuing fiscal support.

FIXED INTEREST

After a long tussle with the White House, the US Fed cut interest rates by 0.25% to 4.25% in September after jobs data weakened enough to justify the decision. Even though the cut has not had the expected effect on returns due to concerns about government debt levels, debate is now focussing on how many more cuts there will be this year and next.

While fixed interest markets have been relatively quiet, government debt has been under pressure as yields have remained high, despite the greater threat of interest rate cuts. Capital values from longer term UK and US bonds have fallen.

The ratio of UK debt to GDP has risen significantly during the past five years and is estimated to reach 96% by the end of the year. Based on current trends, the long-term trajectory is not reassuring for long-term investors.

Governments are issuing more debt, to manage deficits and refinance maturing bonds, which increases supply in bond markets. Demand for government debt appears stable, valuations look attractive, and the UK still has many levers it can pull to improve the situation before we face a debt crisis.

We expect current trends to continue. Now that the US has started to cut rates, the market is focusing on the next 12 months, which will determine the strength of conviction in the economy and risk assets in general.

ALTERNATIVE INVESTMENTS

Investing in alternatives is becoming more common as mainstream assets, such as bonds and equities, often appear connected and unable to offset wider economic shifts. But trends in commodities are also influenced by supply and demand factors and markets are sensitive to policy changes, such as trade tariffs or sanctions, supply disruptions due to conflicts and investor confidence shaped by inflation and the US dollar. Other global factors influence commodity prices and China's 18-month economic slowdown adversely affected commodity data as the country is a major consumer of energy, metals, and agricultural goods.

Precious metals, a 'safe haven' asset, have done well. Gold has been the star performer, hitting record highs, backed by central bank

buying, increasing uncertainty created by political disruption, tariff negotiations, US dollar falls, and a lack of new supply.

In this environment, investors are moving towards alternative assets for diversification, inflation protection, and reliable yields. Infrastructure offers a compelling mix of stable cash flows and growth due to long-term trends, property presents income-rich opportunities in select regions, and precious metals continue to provide a protective ballast amid uncertainty.

Infrastructure, especially in the private sector, is showing relatively stable returns and continues to act as a defensive 'real asset' anchor against more volatile investments.

Property has performed reasonably well but has lacked the momentum that investors require before committing to greater capital levels.

RSMR Global round-up



- EU unemployment is forecast to stay around 5.9% in 2025.
- Economic growth in Asia is projected to remain subdued at 4% in 2026 and 2027.
- India has been the star emerging markets economy but now faces more challenges than a year ago, including US tariffs.
- Japan's economy is improving after a long stagnation according to the Bank of Japan's 'Tankan' survey (June 2025).
- Growth among emerging markets is expected to slow to 4.5% this year from 5% in 2024.
- The top 10% of Americans, by earnings, is responsible for 49.2% of the country's consumer spending.
- The new US-EU trade agreement implies higher tariffs on EU exports to the United States.
- The US dollar remains weak meaning that there is less benefit for sterling investors holding US stocks.
- Spain has rebounded and now looks likely to reach around 2.7% GDP growth this year.



“Japan's economy is improving after a long stagnation.”



“ The tariff policy is starting to deliver strong cashflow to the US government’s coffers allowing flexibility for future tax cuts and fiscal stimulus.”

SO, WHAT’S NEXT?

The global trade disruption which started with US tariffs has faded, although negotiations continue between some countries and the US. Global equity markets regard this as a one-off event and have bounced back strongly but Trump’s approach to tariffs has led governments worldwide to re-evaluate their trading relationships with, and beyond, the US.

New alliances have been formed, notably between China and Russia. Meanwhile other Asian countries have found new trading partners, including India, where the UK has just completed a two-day trade mission.

The global economic outlook is mixed. Most equity markets are strongly positive with the US lagging because the dollar is down around 10%. Valuations are very high, particularly technology stocks, and AI is the strongest investment theme.

Probably the most compelling trend is the more extreme variations in values – a wider gap between winners and losers – within asset classes including the equity, bond, commodities and property markets. This makes it harder for investors to pick winners and so the best approach is to manage a diversified portfolio across a range of asset classes.

For most people, uncertainty is the biggest single restriction to investing. To get the best returns we have to accept risk, but when that risk is unpredictable, investors tend to seek greater safety.

This environment has been created by the current US government. Political problems reverberate globally with the Ukrainian war, drone attacks on NATO countries, and the newly announced ceasefire in Gaza fuelling trepidation. Yet risk assets continue to break new records. It seems tricky for investors to get a true sense of where we are heading in the long term.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our ‘R’ fund ratings – this rating is given to

investment funds that meet our stringent research criteria. We don’t limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a ‘snapshot’ of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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