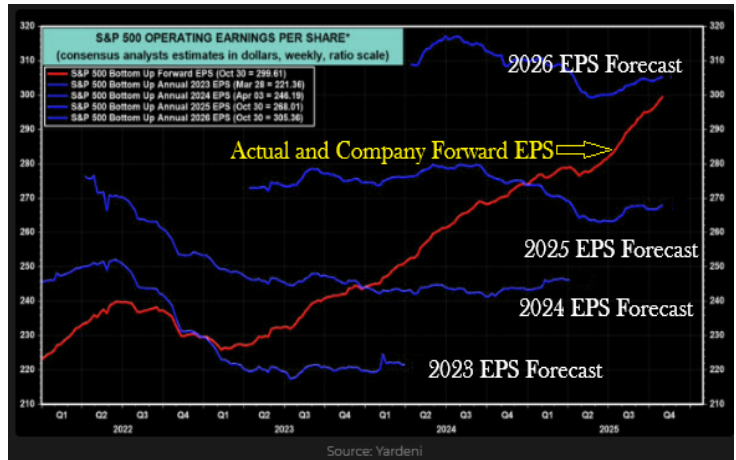
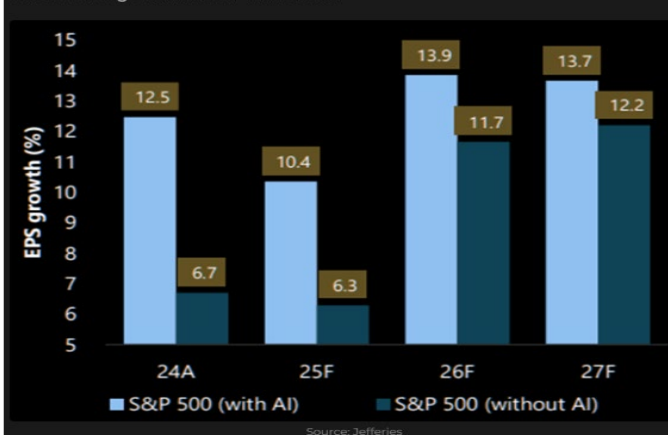


October has historically been the most difficult month for markets, this time the three key market drivers, interest rates, inflation and earnings growth have all been positive factors. Artificial Intelligence remains the dominant market theme and AI related stocks continued to make progress in the month. However, there are increasingly loud voices highlighting the comparison to the 1999 internet bubble with many stating that AI will implode and markets will crash. The problem with forecasting stock market crashes is that, by definition, a crash can only occur when it is least expected! The reality of long-term stock market investing is that at some stage a crash will occur, proper financial advice (adequate cash reserves) and investment management (risk control) means that any impact on a client's lifestyle should be minimal. Forecasting a crash is easy, there will be one, forecasting when and why, not so. What is important is planning appropriately for the inevitable and not missing out on the growth in the meantime.

One of the unusual and concerning aspects of the markets in October was the activity occurring within the US financial system. US banks engaged in substantial borrowing from the Federal Reserve's short-term money market facilities. This situation has developed due to decreased liquidity caused by the recent US government shutdown. The Federal Reserve's most recent interest rate decision resulted in a 0.25% cut but also stated that another cut in December is "not guaranteed." However, the Federal Reserve did end its policy of Quantitative Tightening (QT) thereby helping the credit markets and easing monetary conditions. Reductions in interest rates and the cessation of QT are favourable for equity and bond markets. One of the key aspects from the recent very good corporate earnings season was the strong recovery in non-tech earnings. As AI related shares become expensive and investors nervously wait for the companies to deliver some return on the trillions of cap ex the "the rest" remain valued at way below long-term averages and yet the growth is coming through and much better than expected.

Earnings Growth

S&P500 EPS growth with or without AI.



The rotation out of technology and into other sectors is building momentum. The rationale for this shift is that AI stocks have become expensive, although future returns appear promising, there remains considerable uncertainty. For markets, not only the level but also the rate of change in future earnings growth is critical. "The Rest" are now beating expectations, with upward revisions to their future earnings growth figures. As illustrated by the first chart, these sectors are experiencing accelerating earnings expectations while AI growth is plateauing. By 2026 and 2027, analysts forecast the earnings growth of the other sectors to match AI, yet these companies are valued at more than 50% less. The second chart highlights the primary driver of the current bull market, earnings growth. The Blue lines represent historical and forward-looking analysts' expectations, while the red line shows companies' own forward projections, which tend to be conservative. Notably, company forecasts for 2025 already exceed analyst expectations for 2026. This pattern reflects analysts' characteristic caution at this stage of the cycle, resulting in markets being more attractively valued than they may initially appear.

UK Budget

The UK Budget, scheduled for 26 November, has attracted significant attention in the media, with widespread speculation regarding tax increases. Of particular importance to both the UK bond and stock markets was the recent press conference held by Rachel

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Reeves, which appears to have shifted market expectations in a new direction. Previously, as discussed in an earlier Market View, it was expected that the Chancellor's focus would be on increasing wealth taxes, such as inheritance and pension taxation rather than raising National Insurance, Income Tax, or VAT, which would have been preferable from the markets' perspective. However, the scale of the revenue required now seems so great that Rachel Reeves may have little choice but to consider the three major tax-raising options as the only practical way of raising the huge sums needed. An increase in these areas would provide the markets with a degree of certainty, from which they can accurately price Gilts. Additionally, if Income tax is prioritised over VAT and Employers' National Insurance then these measures will not be inflationary, unlike the previous Budget. This would allow market interest rates to decline and so thus mortgage rates. Currently, UK gilts and equities are beginning to regain favour with investors and a Budget that brings clarity to the government's future revenue stream would further support UK markets and help dispel ongoing uncertainty.

US Dollar



One of the key tenets of Donald Trump's economic policy is to weaken the US dollar. So far, he and his team have been very successful, as this chart of the DXY index which calculates the dollar against a basket of global currencies (notably the yen and euro) shows. Since the introduction of tariffs, the dollar has been weak. But just recently the dollar seems to have found a steadier level. Partly this can be explained by political issues in Japan and Europe (France) but perhaps also by the US Government shutdown causing turmoil in the short-term money markets. A lack of liquidity means money must go "home" i.e. to the US dollar and US Treasury bonds.

Gold



The other side of this trade is gold. Dollar goes down, gold goes up and vice versa. Gold is not technically an investment as it does not pay interest, a coupon, or a dividend, it is a purely speculative asset. Central Banks do buy it as hedge of their dollar exposure and there is steady buying from the emerging middle classes of China and India. Nevertheless, the big moves occur when the dollar changes direction. The suspicion is that recent gold weakness and dollar strength is related to the US Government shutdown. Theoretically neither US political party will want the shut down to be continuing anytime close to Thanksgiving. A resolution to the current dollar/gold conundrum, should be imminent.

Markets

November traditionally marks the start of favourable seasonality for markets. However, this year there are two significant events that could impact markets. Firstly, Nvidia, the US semiconductor company responsible for producing key AI data centre chips, will release its earnings on 19 November. Investors will closely monitor the results for sustained sales growth and an expanding order book. Secondly, attention will focus on the ability of the Democratic and Republican parties to reach consensus on a US Budget and facilitate the reopening of the government ahead of the important US Thanksgiving holiday. Political precedent suggests a timely resolution is likely, enabling backpay to be processed. Presently, there is tightening liquidity in credit markets, as reflected in recent movements in the dollar and gold prices. In the United Kingdom, taxpayers nervously await what will be a particularly challenging Budget. From a financial markets' standpoint, should the Chancellor fail to present a clear fundraising strategy that limits the impact on inflation and growth there could be negative repercussions for UK assets.

November 2025

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