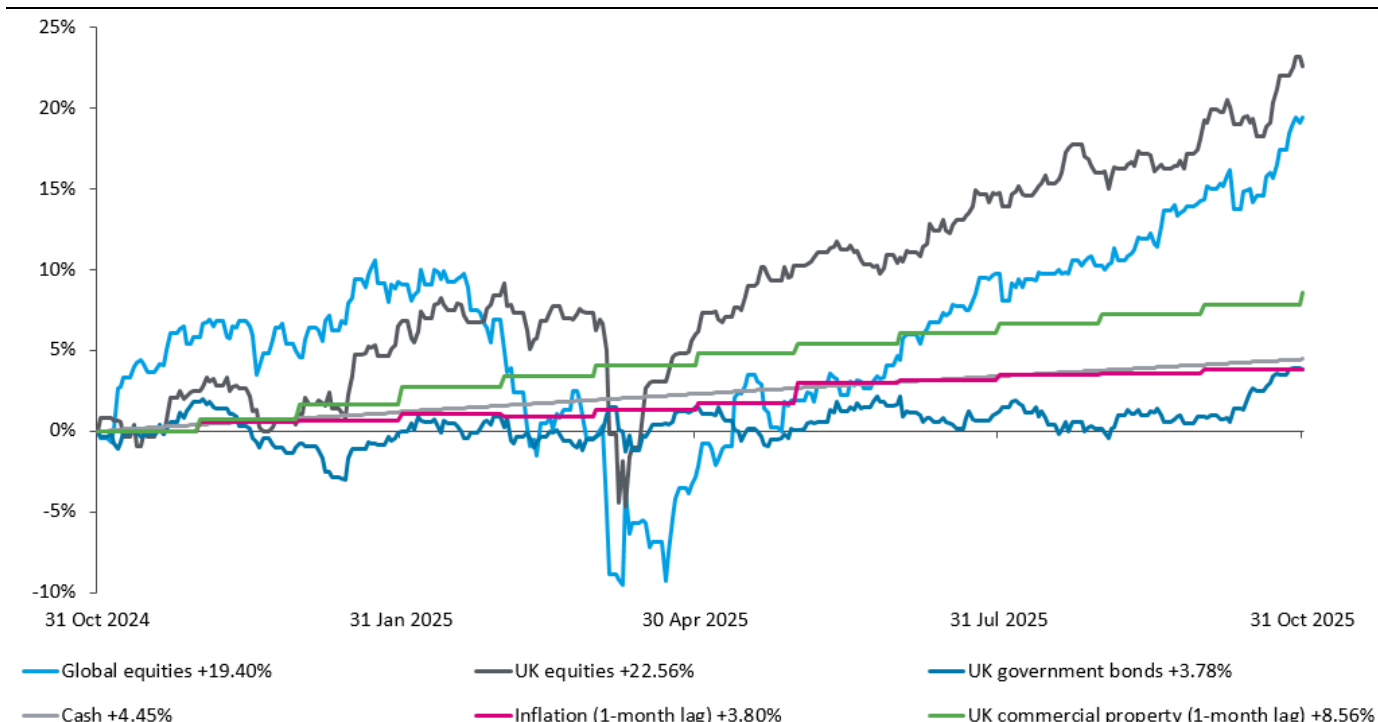


Market report

The headlines

- ▶ **Solid earnings reports and looser monetary policy boosted share prices in October.**
- ▶ **Stock market concentration, share price volatility and retail investor participation also rose.**
- ▶ **Interest rate cuts and governments' budgetary efforts led to lower bond yields in October.**

Market returns: Stock markets have reached record highs for several months in a row.



Sources: Bloomberg, in pound sterling, as of 31 October 2025. Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. UK inflation index (31 October 2024 = 0%) as per the Office of National Statistics' Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

World share prices rose 4.5% in October, in pounds sterling.⁽¹⁾ Many stock markets recorded all-time highs, but their volatility also peaked during the month. US and eurozone share prices rose 2.4% in October, and UK share prices 3.8%, all in their local currencies.

The pound sterling continued to weaken, from \$1.34 to \$1.32 against the US dollar, and from €1.15 to €1.14 against the euro. This boosted returns from international investments, in pounds sterling.

Short-dated and long-dated bond yields in all three major economies mostly fell, as America's central bank cut its main interest rate for a second month in a row.⁽²⁾

United States

Several US stock market indices rose to all-time highs in October, including the broad S&P500 index and Dow Jones Industrial Average, the tech-heavy Nasdaq 100 index and the Russell 2000 small-cap index.

The best performers included NVIDIA competitor AMD, which concluded supply agreements with Open AI and Oracle, and Micron Technology, a semiconductor firm that posted strong quarterly results. The share price of J.B. Hunt, a trucking firm, jumped after the company reported success in its \$100m cost-cutting effort.

Companies that missed their forecast earnings were the worst performers during the month. These included health care insurer Molina Healthcare, investment firm Alexandria Real Estate and payments firm Fiserv.

What drove the continued rally in US stocks?

- In September, the Fed had cut interest rates for the first time this year, and market participants expected another cut in October. Employment growth had slowed in recent months, and US consumer price (CPI) inflation remained a modest 3.0%, year on year (yoy), in September. As a result, the Federal Reserve (Fed) delivered a 0.25% interest rate cut, as expected.
- US firms continued to report solid earnings and the tech sector performed particularly well. NVIDIA became the first company worth more than \$5 trillion and Microsoft's market value passed \$4 trillion. As a result, stock market concentration continued to peak in October. At the end of the month, the so-called Mag-7 accounted for 38% of the S&P500's market cap.
- On the trade front, US-China relations improved after President Trump and China's Xi Jinping met at a summit in South Korea. Among other things, the US cut tariffs on China, China will make it easier for the US to buy so-called 'rare earths', and the two leaders agreed to pause trade hostilities for a year.

Negative headlines, meanwhile, did little to hold back the rampant stock market.

- The VIX index, a volatility index that some investors consider a stock market 'fear gauge', spiked in the middle of October, after President Trump announced 'massive increases in tariffs', compounded by concerns over the US government shutdown and possible cracks in private credit.
- The US government 'shut down' on 1 October, after Republicans and Democrats in Congress couldn't agree on a 2026 budget. As a result, many government departments reduced their service levels, which included those that provide statistical information. This means, for example, that we received no September data for the Fed's preferred inflation gauge, core PCE (Personal Consumption Expenditure). The nonpartisan Congressional Budget Office projects that every four weeks of shutdown reduces US gross domestic product (GDP) by 0.25 percentage points.
- Payment problems at auto parts supplier First Brands and car dealership Tricolor left creditors with hundreds of millions of losses. JPMorgan CEO Jamie Dimon remarked that 'when there is one cockroach, there's probably more'. This episode raised fears for unrecognised and hard-to-trace

credit losses, which led to a 'credit crunch' in 2008. However, so far, 2025 is nothing like 2008. After a few years of increasing lending volumes, more credit problems may well emerge. But the volume of these problems has remained limited, and banks now have more significant buffers to bear credit losses than during the Global Financial Crisis.

In the bond market, the benchmark 10-year US Treasury yield fell slightly, from 4.16% at the start of October to 4.11% at the end of the month. Investors now expect the Fed to cut interest rates another three times over the coming year.

The extra yield that US corporate bonds offer over US Treasuries rose somewhat during the month. It remained near historical lows, however, as demand for corporate bonds remained solid.

United Kingdom

UK share prices rose 3.8% during October, with notable risers such as mobile operator Airtel Africa, retailer Next and London Stock Exchange Group.

The FTSE 100 share index registered record highs during October. Strong corporate earnings reports helped, but so did sector-specific considerations: the pharmaceutical sector benefited from news of more favourable price regulation in the US and the UK. Prices for commodities (in particular: gold) advanced strongly. And the oil price recovered to just over \$64 per barrel during the month.

Sterling weakened during October, from \$1.34 to \$1.32 versus the US dollar, which boosted returns on foreign assets and the foreign-currency income of British firms that report in pounds sterling.

Inflation remained at a lower-than-expected 3.8% yoy during September. The Bank of England (BoE) held no monetary policy meeting in October, so interest rates remained unchanged. The BoE is set to announce its next rate decision on Thursday 6 November.

The BoE has, so far cut rates from 4.75% at the beginning of the year to 4.00%. During October, investors came to expect more significant cuts ahead, which led to significant falls in, e.g., 10-year gilt yields, from 4.76% to 4.48%.

Lower gilt yields significantly help the UK government's Autumn Budget (on 26 November), which looms large over the economy. Investors speculate that the Chancellor may have to find £10 billion–£30 billion in additional revenues or cuts to achieve her budget goals. Tax rises are likely, counter to the government's electoral promises just over a year ago.

Other markets

Eurozone share prices rose 2.4% during October, in euro terms, and broad indices such as the pan-European Stoxx Europe 600 hit all-time highs.

Eurozone inflation rose modestly, to 2.2%, yoy, in September, but the macroeconomic background is

supportive. The European Central Bank held interest rates at their relatively low levels during the month. On the fiscal front, the German government's budget deficit is expected to rise to 3.3% of GDP this year, which should boost the eurozone economy.

Chinese share prices slumped 3.9% during October, after the central government's efforts to boost economic growth disappointed investors. China's trade war with the European Union (EU) intensified, as the country announced tariffs on European brandy and the EU decided to tax imported Chinese electric vehicles.

The total number of trips taken during China's Golden Week holiday rose this October, compared to last year. But average spending per trip fell to a three-year low. Consumer prices fell 0.3%, year on year, in September, continuing China's deflationary cycle.

Japanese shares advanced another 7.9% in October, after their 5.2% rise in September. Incoming prime minister Sanae Takaichi raised hopes of significant fiscal stimulus among investors. Japanese shares continued to benefit from the worldwide tech rally.

Japan's headline inflation rate rose to 2.9%, yoy, in September, significantly above the Bank of Japan's 2% target, but the Bank kept interest rates on hold.

⁽¹⁾ Source: MSCI (total return, net of withholding tax, in local currency), except where stated

⁽²⁾ Sources: US Federal Reserve, Bank of England, European Central Bank

⁽³⁾ The 'Magnificent 7' or 'Mag 7' are seven of the world's biggest tech companies: Apple, Amazon, Google parent Alphabet, Meta Platforms, Microsoft, NVIDIA and Tesla.

Looking ahead

Several positive trends continue to boost stock markets:

- The profits that investors expect S&P500 companies to earn in the 12 months ahead have risen 11% this year. This growth rate supports companies' rising valuations.
- In addition, companies' cost of capital is falling. The Fed cut rates in September and October, and investors expect three more rate cuts in the coming 12 months. In addition, the Fed will stop its 'quantitative tightening' from December. I.e., it will start reinvesting the funds it receives from the bonds that it holds, when those bonds mature.

- Looser monetary policy supports share prices, and monetary policy may become even looser after the current Fed chair, Jay Powell, is replaced by a Trump nominee in May 2026.

Because of these fundamentals, we continue to invest in line with our strategic asset allocation, e.g. we hold c. 75% of most of our multi-asset portfolios in equities.

However, our positioning within equities is significantly different from the broader market, which looks increasingly speculative:

- Stock market concentration has reached new record highs for several months in a row. At the end of October, the 'Mag 7' represented c. 38% of the S&P500 index.
- Zero-day-to-expiry options, the short-term retail speculator's instrument of choice, now make up nearly two-thirds of total US equity option volume. That's just one symptom of the record \$780 billion retail money, mostly financed by debt, that has flowed into the US market over the past 12 months. Commission-free retail investment platform Robinhood is this year's biggest share price gainer in the S&P500 index, outperforming all tech firms including the Mag 7.
- In the year to date, loss-making companies in the S&P500 have significantly outperformed profitable ones.

The current shape of the stock market involves significant risks. As a result, we mostly invest in so-called 'quality' shares. Our equity portfolios have, for example, cash flow returns on investment around four percentage points higher than the broader market. Quality shares have lagged the broader stock market in the year to date. Historically, however, they have outperformed the broader market over the long term.

Glossary

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