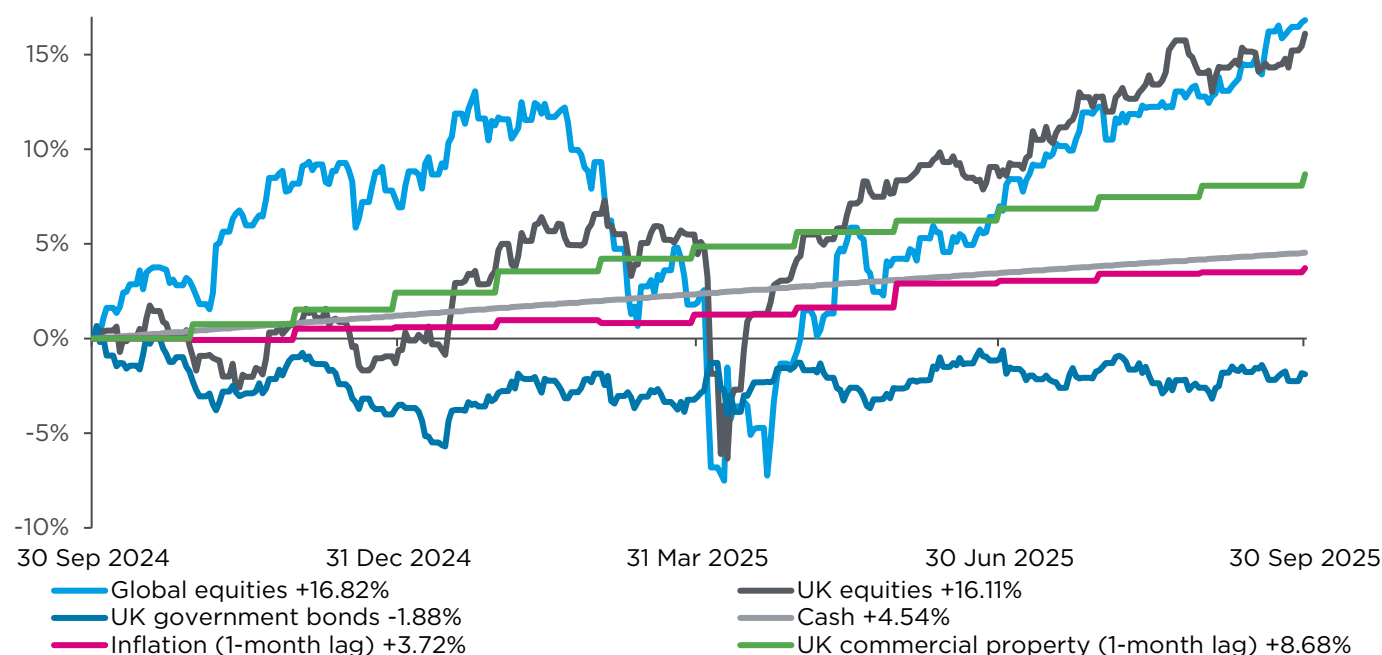


Market report

The headlines

- ▶ **Share prices continued to rise in September, helped by the American central bank's first interest rate cut since 2024 and by positive company news.**
- ▶ **The concentration among stock market winners continues to increase. Just 38% of shares in the S&P500 index have accounted for all the index's gains this year.**
- ▶ **In the UK, the US and the eurozone, short-dated bond yields rose in September, as investors reduced their expectations of how much central banks will cut interest rates.**

Market returns: this year's rally has survived a historic tariff shock and several Middle East conflicts.



Sources: Bloomberg, in pound sterling, as of 30 September 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 (30 September 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 3.2% in September⁽¹⁾, helped by the US Federal Reserve's ('the Fed's') first interest rate cut since December 2024.

US share prices rose 3.6% during the month, UK share prices rose 1.8% and eurozone share prices rose 2.8%, all in local currency.

Short-dated interest rates rose in the US, the UK and the eurozone, but long-dated interest rates fell.⁽²⁾

The pound sterling weakened somewhat versus the US dollar, from \$1.35 at the end of August to \$1.34 at the end of September. This boosted returns from dollar-denominated assets in pound sterling.

United States

Historically, September is a poor month for financial returns. But this September was different.

The month started with price falls in US financial markets, after a court ruled that only Congress, not President Trump, has the authority to implement tariffs. The possibility that the Trump Administration might have to reimburse some of its tariff revenues also weighed on US government bonds ('Treasuries') and raised yields. (Bond yields rise when bond prices fall.)

After that short dip, however, share prices rose for the rest of September, to gain 3.6% over the month. This rally was helped by the Fed's first rate cut this year and by helpful company news.

The Fed's preferred inflation measure, core personal consumption expenditure (PCE), remained above its 2.0% target in August, at 2.9%, year on year (yoy). But the Fed has a second goal, to maximise employment. And the US labour market had weakened in previous months, losing 13,000 jobs in June and gaining only 22,000 in August. As widely expected because of these numbers, the Fed cut interest rates in mid-September, from 4.25%-4.50% to 4.00%-4.25%.

Company news continued to support share prices as well: database and cloud computing company Oracle reported that its cloud infrastructure revenue would grow 77% by May 2026 and, from there, multiply eightfold by 2030. Imaging software company Adobe, chipmaker Micron and retailer Costco all reported higher-than-expected earnings. And film studio Paramount Skydance reportedly wants to buy media conglomerate Warner Bros. Discovery, which boosted the latter's share price nearly 60%.

Unsurprisingly, communications and technology were the best-performing stock market sectors during the month, followed by consumer discretionary firms. Concentrated gains among the largest stocks boosted the market value of the seven largest US shares (the so-called Mag-7⁽³⁾) to 37% of the S&P500 index.

This record level of concentration concerned some observers. In addition, investors worried about inflation, which remains above the Fed's target. This might hold back further interest rate cuts. Slowing jobs growth, on the other hand, may weigh on consumer sentiment and lower earnings outlooks. Finally, as the month progressed, fears rose for another US government shutdown, the first since 2018, if Republicans and Democrats can't agree on a government spending bill.

In the bond market, two-year US Treasury yields rose from 3.59% to 3.63% over September, mainly due to persistent inflation. Ten-year Treasury yields fell from 4.23% at the start of September to 4.15% at the end of the month, mainly because of poor recent jobs data.

The difference between short-term bond yields and long-term yields had been growing for most of 2025, so September was a reversal of that trend. But further

rate cuts and persistent inflation may increase the gap between short- and long-dated bond yields again soon.

United Kingdom

UK share prices rose 1.8% during September, led by mining companies Fresnillo, Antofagasta and Anglo American.

Prices for precious metals, such as gold and silver, rose to record highs during September, as inflation continued to be a concern for many investors. Prices of industrial metals, such as copper, continued to rise as renewable energy and data centres drove demand, while supply remained constrained. Anglo American's merger with Canadian copper producer Teck helped lift its share price by over 22% in September.

UK consumer price (CPI) inflation remained at 3.8%, yoy, during August, the same level as in July. Despite this level of inflation – nearly twice the Bank of England's target – the Bank chose to keep its Official Bank Rate on hold during the month, at 4%. In the Bank's opinion, 'underlying' inflation continues to fall, helped by moderate wage growth. The bank expects headline inflation to rise somewhat in September, before falling to 2% in 2026.

As in the United States, two-year gilt yields rose during September, because investors now expect fewer rate cuts than they did a few months ago. Ten-year gilt yields fell, after peaking over budget concerns at the beginning of the month.

During the month, Chancellor Rachel Reeves announced that she will deliver her Budget on Wednesday 26 November, a month later than last year. Tax rises are expected for the Chancellor to meet her fiscal targets, i.e. a) to balance the budget by 2029/30, b) to have net financial debt falling by 2029/30, and c) to cap welfare spending (excluding pensions, among other items) at £194.5 billion by 2029/30.

Other markets

Eurozone share prices rose 2.8% in September, in euro terms, helped by stable inflation and low interest rates. Inflation remained stable at 2% in August, for the third month in a row, so the European Central Bank kept interest rates on hold in September.

Eurozone growth remains modest, at around 1.5% in the second quarter of 2025, yoy. Its best stock market performers, therefore, included firms that benefit from global trends. Those included semiconductor firm ASML, consumer technology group Prosus and luxury goods conglomerate Kering.

Share prices in **China** rose 0.5% during September. After a rally that lasted several months, investors took a more cautious stance during September. Investors became more sceptical about domestic Chinese AI breakthroughs, and manufacturing continued to contract in September, albeit at a slower pace. Formal recommendations for the country's next five-year plan (2026-2030) will start to be set out in autumn.

From 1 October, China starts its Golden Week holiday, typically a good time to gauge domestic consumer sentiment. Despite economic growth of 5.2% in the second quarter of 2025, Chinese consumer prices fell 0.4%, yoy, in August. It remains to be seen how soon the country can re-establish a level of inflation in line with its economic goals.

Japanese shares advanced 5.18%, helped by the global boom in AI and semiconductor manufacturing, by reforms to corporate governance that have improved shareholder returns, and by the Fed's rate cut.

Japan's inflation rate fell from 3.1%, yoy, in July to a 10-month low of 2.7% in September. The Bank of Japan therefore left its policy rate unchanged at 0.5% during September. It is aiming to gradually raise interest rates, but without returning the country to the systematic deflation that has plagued it since the 1990s.

⁽¹⁾ Source: MSCI (net total return 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

This year's share price rally has survived a historic tariff shock, several Middle East conflicts, and an attempt to interfere with the Fed's independence. Impressive.

And in our analysis, the economic backdrop is solid enough to sustain this rally. Recent purchasing manager index ('PMI') readings for the US, UK and the eurozone indicate economic expansion. Second-quarter earnings growth for firms in the S&P500 was an impressive 12%. And the Fed's September rate cut shows that, for now, it prioritises jobs over inflation.

But this year's share price rally has been remarkable. Only 38% of companies in the S&P500 have made up all of the index's gains. In the US, the seven largest companies now make up 37% of the S&P500 index, the highest proportion ever. This raises concerns for investors with diversified portfolios, like us:

- Valuations have returned to their 2021 post-lockdown highs. NVIDIA's price-to-earnings ratio of 53x aside, buying this market implies investing in

Tesla at over 250 times its earnings or surveillance firm Palantir at over 600 times earnings!

- These valuations mean that the equity risk premium (the outperformance, over government bonds, that stock market investors can expect) has fallen to 1.25% p.a., versus its historical average of 4.61% both after inflation.
- Retail investors now dominate the stock market, and they are more subject to sudden reversals. 'Zero-day-to-expiry' options, the day trader's leveraged instrument of choice, accounted for 62% of S&P500 options volume in August, 72% higher than one year ago.

Every now and then, small cracks appear in this AI-driven rally, such as when OpenAI's Sam Altman considers investors 'overexcited about AI'. Or when renowned tech investor James Anderson points out that some of the \$100m that NVIDIA invested in OpenAI will flow back to it as revenue, akin to the 'vendor financing' that preceded the dotcom crash. Nobody can tell when this AI rally will end – but it will.

Our analysis continues to favour investing in equities, so our portfolios remain invested in shares in the same proportion as their benchmarks. But our bottom-up research continues to lead to a selective stance.

- We select quality shares, characterised by higher returns on equity, more stable earnings growth and lower debt levels than the broader market.
- As a result, the cash flow return on investment of the companies in our portfolios is around four percentage points higher than those in the index.
- Historically, such quality shares have outperformed growth shares over the long run, and they have been more stable than growth shares in a downturn.

Glossary

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