GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - August 2025

FTSE 100	**9,046**	S&P 500	6,238
Resistance	9,140	Gold	$3,357
Support	8,720	GBP/EUR	1.1477
VIX	20%	GBP/USD	1.3275

Introduction:

We've heard the current stock-market rally referred to as *"the most-hated rally in history"*. Indeed, it has endured wars, high interest rates, inflation, huge government budget deficits and American tariffs. So yes, there are plenty of reasons to think stocks shouldn't keep heading north - and yet they do. But take all of the above and boil it down to one thought: the higher stocks go, the greater the likelihood that they will eventually correct. That simple logic is driving current sentiment from the *"smart money"* corporate insiders - sentiment that has been cautious for several weeks, but now has taken a big bearish jump. On a scale where any reading above 6 is bearish, the NYSE One-Week Sell/Buy Ratio from Vickers Stock Research is currently 10. Time will tell if this worrisome sentiment has legs - but it is well worth acknowledging, especially as we are squarely in the weakest quarter of the year for stocks.

Market Outlook:

Over the long term *(since 1962), the FTSE All-Share has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at equalweight. The stock market has rallied as investors swung back to optimism on the growing sense that tariffs will be minimally impactful to economic growth, the balance of power in the Middle East has shifted away from Iran and investor interest has revived in the AI economy.

A major concern remains - the health of the American consumer. If they sharply reduce their spending due to tariff-driven price hikes, their contribution to GDP (70% of total) could be diminished, leading to below-trend economic growth and falling stock markets. In addition, the annual change in core inflation remains stalled in the *"last mile"* between 3% and 2%. The Fed will be getting inputs in coming months - on inflation, consumer spending, and economic growth - that could actually make it more hesitant to cut rates. That would weigh on already-lofty stock market valuations. The White House has not been shy about prompting the Fed to cut rates aggressively. With more trade deals taking shape, at least on a preliminary basis, the nature of these *"suggestions'* could intensify.

One positive from the 2025 sector map is impressive breadth, with growth and defensive sectors regularly handing off and regaining leadership. As a result, nearly every sector has appreciated year-to-date, and no sector is running away from the pack. This kind of balance and breadth creates a positive set-up that

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Market Outlook (cont):

could enable the market to build on existing gains into year-end.

But few investors anticipate a smooth ride higher from here. The June-September period is typically a quiet time for stocks. Still, a sleepy summer for stocks may be upended as tariffs, tax policy and geopolitics all disturb the calm.

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Recommended Investment:

Xtrackers GBP Overnight Swap Rate ETF

Money market funds look to deliver a return over and above the Bank of England's base rate or the Sterling Overnight Index Average (SONIA), a benchmark for short-term lending between financial institutions. As the base rate is still relatively high, this represents an attractive return for risk-averse investors. Whilst the returns on money market funds are generally not as high as bond funds, they do seek to provide stability and can therefore play an important role in your portfolio.

Because money market funds only invest in high quality assets with short maturities, they are considered to be very low risk. Money market funds can be used in the following situations:

i-Short-term goals. Money market funds are useful for short-term goals, such as saving for a holiday, a wedding, or a deposit for a house. In these cases, it may be more important that your savings hold their value over the shorter time period in a liquid investment.

ii-Maintaining an emergency reserve. Having money outside of pension plans can act as a personal safety net to get through financial hurdles, such as a period of unemployment or an unbudgeted large expense. We recommend an amount that covers three to six months of expenses.

iii-Parking cash. A money market fund may be used as a holding place while waiting for other investment opportunities to arise (such as a pullback in the stockmarket).

Money market funds are considered to be investments and not deposits. As such, they are not protected by the Gibraltar Deposit Guarantee Scheme, which covers up to EUR100,000 per depositor, per bank. Also, money market funds are not suitable for long-term investing. Even when interest rates are high, the returns of a money market fund typically won't outpace inflation. Over a long-term time horizon, stocks (or a combination of stocks and bonds, depending on one's risk tolerance) provide a higher return potential when compared with cash. Of course, when interest rates start falling so will the yield on the fund.

We recommend Xtrackers GBP Overnight Swap Rate ETF, a fund listed on the London Stock Exchange (XSTR.L) that offers an income comparable to short-term sterling interest rates. With a benchmark of SONIA, it can be traded throughout the trading day and the fund settles T+2 so the fund can be sold at the same time as any new securities are purchased.

It uses a synthetic structure to match the index performance rather than holding actual bonds or cash. The performance of the benchmark is guaranteed by entering into a "swap" with various investment banks such as Barclays and Deutsche Bank, which prevents overexposure to a single counterparty. To manage counterparty risk, the ETF holds a substitute basket of high-quality securities (bonds) lodged by the counterparties. This allows full or over-collateralisation to guarantee the performance of the index.

The TER is just 0.1% and the current yield is 4.1%, significantly above the current account deposit rate of any high street bank. The fund pays dividends in March and September each year. We charge 0.1% (subject to a £45 minimum) to buy and sell the fund.

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Post of the Month:

When President Donald Trump was re-elected, the consensus seemed to be that he was at least good for markets. With hindsight, that looked a little too generous. Though the S&P 500 has recovered from the 'liberation' day, the dollar has not, losing 8% since Trump's inauguration.

At first, it was on/off tariff threats that rattled markets; today, it is the role of the Federal Reserve. In his latest salvo, Trump said that though he would not try to fire Fed chair Jerome Powell, he *"would love it if he lowered interest rates"*.

Threats to oust Powell will probably be another case of all bark and no bite, yet recent history warns us against any form of political interference with 'independent' central banks. In 2021, Turkey's president Recep Tayyip Erdogan fired the central bank governor after he increased interest rates in response to rising inflation. Within a year, the lira had lost 50% of its value against the US dollar, inflation hit 60%, and Turkish bond yields skyrocketed.

The outcome would be less extreme in a big, advanced economy such as the US - but research still suggests that interference would be destructive. Economist Thomas Drechsel looked at interactions between US presidents and Fed chairs between 1933 and 2016. He found that political pressure increased inflation strongly (in part because politicians agitate for lower rates) and the effects lingered. Even worse, rate cuts in response to political pressure didn't work in the way that 'normal' rate cuts did: inflation rose with no corresponding boost to the economy. TS Lombard economist Dario Perkins says that given all the evidence, *"you would have to take a very myopic view to believe that firing Powell - or replacing him with a Trump loyalist - is 'good' for risk assets"*.

Higher inflation due to an eroded Fed would reduce household spending power and eat into earnings growth. Berenberg economists warn that this could trigger a market correction *"in an already overvalued US equity market"*. Given the high exposure of US households to the stock market (around 33% of US adults own shares outside of their pension, compared with 8% in the UK), this would have the potential to hit the economy hard.

A compromised Fed would also unsettle bond markets. Analysts think that two-year yields would dip as markets digested the impact of a more dovish Fed chair who would presumably advocate for lower rates. At the same time, 10-year rates would rise: investors would start to demand greater compensation for locking their money away in the face of expected higher inflation - and perceived reluctance from the Fed to tackle it.

The dollar would probably fare even worse. Global investors are already nervous about the currency's safe haven status, and any threat to the Fed's independence will only accelerate a flight away. Analysts at ING warn that we could see *"a highly toxic mix for the dollar"*, with damage proving permanent. Currencies with ample liquidity and staunchly independent central banks could stand to benefit, and analysts highlight the euro, the Japanese yen and the Swiss franc. Trump's Fed threats could be good for some markets - just not US ones.

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Quote of the Month:

"Be fearful when others are greedy and greedy when others are fearful" - Warren Buffett

With equities near record highs this summer, fuelled by AI optimism and easing expectations, greed dominates. This isn't a call to sell everything - but a reminder to temper risk. Late-cycle rallies often mask fragility. Prudent investors can rebalance by trimming overextended winners, rotating into undervalued sectors, and keeping dry powder ready. Fear and greed cycles don't vanish; positioning against euphoria prepares you for the inevitable pullbacks.

Economics:

It seems the UK is on the up in terms of economic growth. The International Monetary Fund ("IMF") has predicted some strong economic growth in light of softened US tariffs – 1.2% this year, and 1.4% in 2026. According to the IMF, the UK will be the third fastest-growing economy in 2025 and 2026, closely trailing the US and Canada. Meanwhile, The Recruitment and Employment Confederation ("REC") Jobs Outlook survey, which questioned 703 employers, shows that confidence in the UK economy rose by 15 percentage points in Q2. This improvement suggests that a tentative turnaround could be underway. Confidence in making investment and hiring decisions also increased. This is the first time in several quarters that this measure has returned to positive territory, and REC says this is feeding through to stronger hiring plans across all types of jobs.

The economic growth of the euro area nearly came to a halt in the second quarter as uncertainties triggered by US tariffs took a toll. Q2 GDP increased by 0.1%, down from 0.6% the previous quarter. The Trump administration recently raised the steel and aluminium tariff for imports from the EU to 50%. *"The erratic tariff policy of the USA is hitting Europe's economy hard - especially Germany"*, said Gunnar Groebler, CEO of German steelmaker Salzgitter. The EU and the US later reached a deal to impose a 15% tariff on nearly all European imports, avoiding a worst-case scenario of a 30% levy threatened by US President Donald Trump. But the agreement has drawn scepticism, with critics warning that even a 15% tariff will inflict serious damage on the European economy. *"The deal agreed is not a good deal - it is appeasement,"* said Julian Hinz, an international trade expert at the Kiel Institute for the World Economy. *"While the EU may avert a trade war in the short term, it is paying a high price in the long term by abandoning the principles of the multilateral, rules-based world trade system of the WTO, which has been instrumental in guaranteeing Europe's prosperity to date"*.

The US economy grew at a much stronger-than-expected pace (3%) in the second quarter, powered by a turnaround in the trade balance and renewed consumer strength. *"The anti-Trump story has been that we're going to have a recession or a depression because of the tariffs, which are going to jack up prices and cause consumers to run for the exits"* Kevin Hassett, National Economic Council director, said. *"In fact, every single thing about this GDP release has shown strength"*. Indeed, the GDP tally showed strength across key areas of the economy, as well as evidence that inflation is ebbing though not eradicated. Trump responded to the GDP report with a fresh demand for the Federal Reserve to lower interest rates. *"2Q GDP JUST OUT: 3%, WAY BETTER THAN EXPECTED!"* Trump posted on Truth Social. Using his nickname for Fed Chair Jerome Powell, the president added *"'Too Late' MUST NOW LOWER THE RATE. No Inflation! Let people buy, and refinance, their homes!"*

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Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

The January Barometer

Historically, the returns in January have signalled the returns for the rest of the year. If they are positive, the returns for the whole year tend to be positive and vice versa. First mentioned by Yale Hirsch in the Stock Trader's Almanac in 1972, a variant has it that returns for the whole year can be predicted by the direction of the market in just the first 5 days of the year. Judging by the first 5 days, 2025 is likely to be a positive year for the stock market.

August

August is the 7th best performing month, rising 59% of the time, with an average return of 0.4%. It can, however, also see large falls. As it's a month for holidays, trading volumes tend to be low, which in some years can lead to some increased volatility.

Third Quarter

The FTSE 100 has risen 26 of the 41 years (63%) between 1984 and 2024, posting an average gain of 0.6%.

Sell in May and go away; don't come back till St Leger Day

Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

First-Year US Presidential Cycle

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Snake

Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *In Chinese astrology, the Snake symbolises wisdom, caution, and strategic thinking. These traits might culturally inspire investors to adopt a more analytical or conservative approach. Interestingly, this is the Wood Snake Year, which comes about every 60 years. Wood represents expansion, innovation, and flexibility. This could favour industries like tech, renewable energy, and AI, which thrive on evolution.*

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Investment Calendar:

7th August	BoE Meeting. The BoE is widely expected to announce its first rate cut of the year - from 4.25% to 4.00%, supported by signs of a softening UK labour market and cooling inflation. US Tariffs come into force, impacting global trade, supply chains, and inflation outlooks.
9th August	Full Moon (markets tend to reach a low point around this time)
12th August	US CPI (core inflation data). Critical for rate expectations
15th August	Options Expiry Day
23rd August	New Moon (markets tend to reach a high point around this time)

Technical Analysis:

The FTSE 100 rose 224 points (2.5%) last month, reaching all-time highs. Yet we are still cautious. Not only are we in the weakest half of the year, we are now firmly in the weakest quarter. On a positive note, the RSI has unwound its overbought level and is positively bullish at 56%. The ADX at 39 is also suggesting the market is in a strong trend, currently a bull market judging from the upward-sloping 200-day moving average. But we feel the market is overbought is and not reflecting the all-too-real risks. Increased geopolitical tension emanating from Russia, instability in the Middle East, stubborn inflation and unease surrounding the new US tariff regime are a potentially lethal concoction. The quiet summer months are often associated with increased volatility. Traders should prepare themselves accordingly.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

20 day moving average (signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)

50 day moving average (signifies the medium-term direction of the security)

200 day moving average (signifies the long-term direction of the security - whether it is in a bull or bear market)

(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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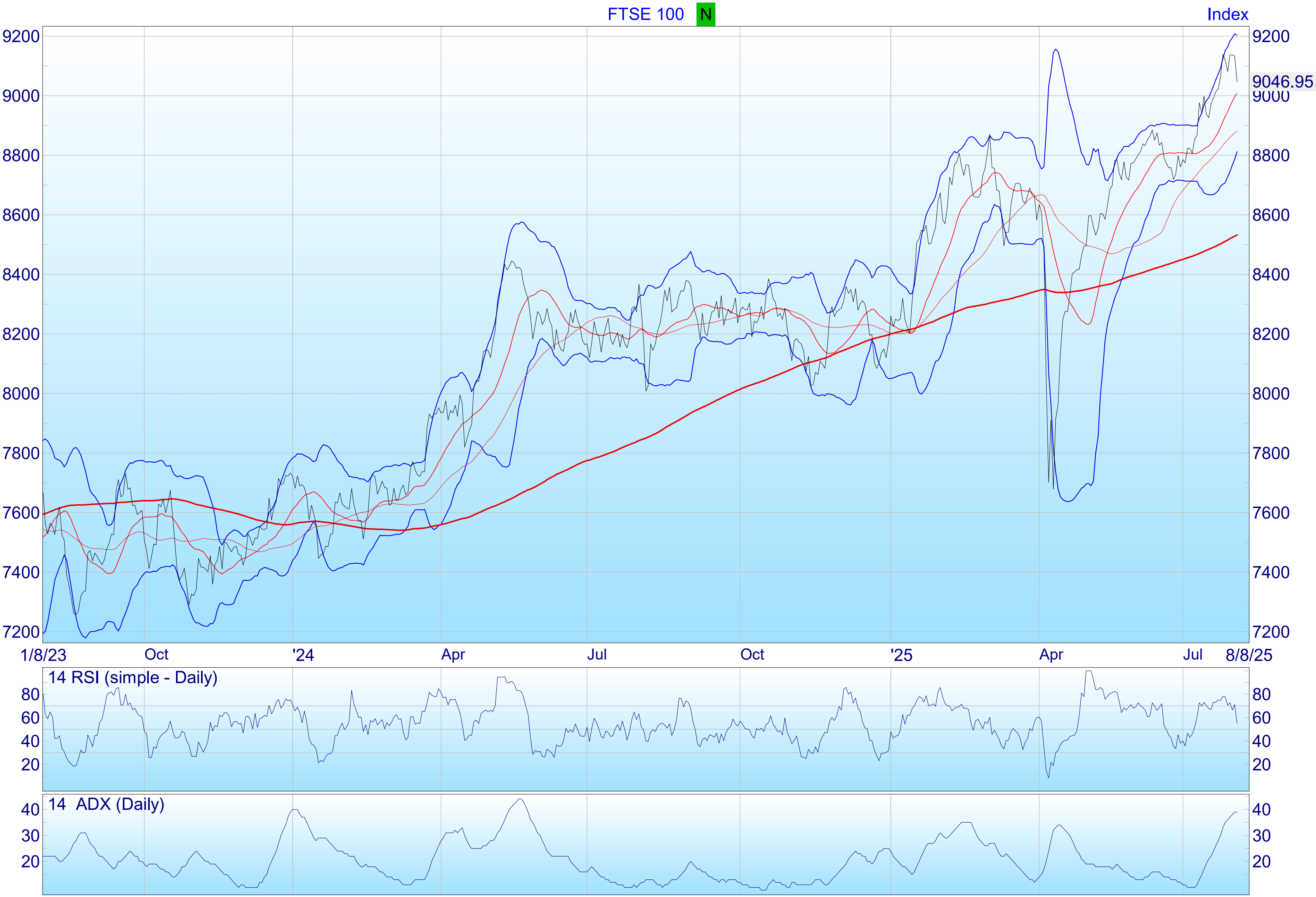
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