GIBRALTAR ASSET MANAGEMENT
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - October 2025

FTSE 100	**9,491**	S&P 500	6,715
Resistance	9,500	Gold	$3,887
Support	9,115	GBP/EUR	1.1475
VIX	17%	GBP/USD	1.3435

Introduction:

Investing and gambling are not the same. Investors have access to relevant information, such as a company's competitive advantages, cash flow and earnings. Ironically though, this difference can make people feel more confident in betting on the markets. After all, if you can make informed decisions about the market, then a gamble on it becomes more akin to investing, right? Not quite. Though we can make informed investing decisions, the truth is that we have cognitive biases. We place too much weight on events that easily come to mind, on information that confirms our pre-existing beliefs, and on what others are doing. When it comes to investing, we have things like portfolio diversification and a long-term time horizon that can help mitigate the effects of our mistakes. With a *"yes-no"* gamble on what the market will do on a given day, each mistake is total and cannot be recouped.

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 moves to overweight. As of 30th September, the S&P 500 was up 14% year-to-date. Whilst historical performance has limited value as a forecasting tool, seasoned investors are well aware that the market's calendar tendencies can shape trading behaviour in the absence of superseding events or policies.

The S&P 500 has delivered annual capital appreciation averaging 10.6% for all years from 1980 through 2024. Almost half of that gain is derived in the final three months of the year (4.8% in Q4 vs 5.7% in the first three quarters). In 18 of those 45 years, the S&P 500 has been up in double-digit percentages as of the close of September. Average capital appreciation for those 18 years is extremely strong at 18.3%.

In those years, the market is moving like a freight train, and any remaining bears know they need to capitulate or get steamrolled. Of course, much can happen between now and year-end. But with the AI trade back in vogue, and with investors buying into sectors that have been ignored in recent years, it is not unreasonable to assume additional capital gains as the year winds down.

Meanwhile, earnings performance year to date has been good, which has kept valuations from soaring to excessive levels. Stocks are not cheap, but do not appear overvalued. And lower interest rates are expected

Market Outlook (cont):

to stimulate the economy. That has encouraged investors to continue liking a stock rally that is otherwise showing signs of fatigue. Equally, investors with "*market memory*" know that the stock market tends to rise in periods when central banks are cutting rates. Positive GDP growth is also contributing to a case of FOMO (Fear Of Missing Out) for many investors.

Market Commentary

Recommended Investment:

Xtrackers USD Overnight Swap Rate ETF

This money market fund delivers a return matching the performance of a daily rolled deposit earning the federal funds effective rate, which is the short-term money market reference in the US. 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 stock market).

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 USD Overnight Swap Rate ETF for investors holding US Dollars, a fund listed on the London Stock Exchange (XFFE.L). 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 3.99%, 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 currency equivalent minimum) to buy and sell the fund.

Market Commentary

Post of the Month:

"With UK inflation sitting at 3.8%, there is actually a rationale for higher interest rates. George Brown, senior economist at Schroders, says that "the balance of risks is drifting towards renewed tightening given persistent domestic inflationary pressures".

An influential piece of economic kit also implies that UK interest rates should be higher. The Taylor rule looks at the natural rate of interest, how far inflation is above target and how far an economy is from full capacity, to generate a rule of thumb for where base rates should be. Given our high rate of inflation, the Taylor rule suggests that the base rate should actually be somewhere between 5% and 6%.

This doesn't necessarily mean that the BoE is getting things wrong with rates currently set at 4%. Economists suspect that our inflation expectations actually matter more than the recorded rate. If people assume that price growth will come back down again, they are less likely to ask for inflation-busting pay increases, and businesses are less likely to raise their prices in response. If expectations are well anchored, central banks don't need to hammer demand with high interest rates - instead, they can sit the price spike out.

This is a big if. We are far more sensitive to some prices than others. The cost of clothing and footwear, for example, is only increasing at a rate of 0.2% year on year. But we don't really notice flat prices - we buy these items relatively rarely, and can often 'trade down' to cheaper options. Food, on the other hand, is a regular and inevitable purchase. And food prices have increased 5% over the past 12 months, outstripping the overall inflation rate.

The BoE's inflation attitudes survey suggests that inflation expectations are rising in the UK. In September, respondents expected inflation to average 3.4% over the next 12 months. Yet, the BoE forecasts that inflation will be back in the region of 2% by next year. BoE Governor Andrew Bailey has said *"the increase in CPI inflation is still expected to be temporary"*, highlighting the cooling labour market. Rising unemployment leaves workers with less bargaining power, reducing the chance of inflation becoming embedded in the economy through higher wage demands.

Crucially, the Monetary Policy Committee still implies that its next policy move will be downwards. Traders also expect further easing: market pricing implies two further rate cuts before the end of 2026.

Market Commentary

Quote of the Month:

"The four most dangerous words in investing are: This time it's different." - Sir John Templeton

Buying at all-time highs embeds perfection into prices: strong growth, easy policy and flawless execution. When expectations are stretched, any disappointment can trigger sharp drawdowns, while upside is limited because much of the good news is already priced in. Elevated valuations compress future returns via mean reversion, and investors are vulnerable to behavioural traps like recency bias, herding and FOMO, leading to poor timing. At peaks, risk rises invisibly as volatility is low and liquidity abundant. A better play is to demand a margin of safety, average in over time, and let price come to you instead of chasing ever-rising stock prices.

Economics:

UK GDP growth slowed to 0.3% in Q2, from 0.7% in the first three months of the year. Yet Britain's economy was the fastest growing among the Group of Seven large advanced economies in the first half of this year. But some of that expansion was due to one-off factors - including a rush of exports before US import tariffs took effect - and the Bank of England forecasts growth in 2025 overall will be a modest 1.25%. *"Looking ahead, the second half of the year will be tougher going than the first six months,"* Thomas Pugh, chief economist at accountants RSM UK, said. He predicts quarterly growth of 0.2% for the remainder of the year as wage growth slows and inflation looks set to rise to 4%, double the Bank of England's target. *"The wildcard is how much speculation about tax rises in the upcoming budget will dent consumer and business confidence"* Many economists expect Reeves will have to raise taxes by tens of billions of pounds in the budget on November 26, on top of an even bigger rise last year, to meet her deficit reduction goals.

EU inflation rose 2.2% last month, from 2% in August, slightly above the ECB's 2% target. The figure was in line with predictions by analysts surveyed by Bloomberg. Economists widely expect the current uptick in inflation to prove temporary however, with price growth rates projected to decline sharply at the beginning of next year. The central question currently debating within the ECB is not whether inflation will temporarily fall below target, but rather how far below 2% it might drop and whether such undershooting could become persistent. The ECB faces a delicate balancing act. Maintaining restrictive monetary policy helps ensure that inflation remains anchored at the 2% target and prevents any re-acceleration of price growth. However, overly tight policy could unnecessarily suppress economic activity and push inflation uncomfortably below target for an extended period.

The economic consequences of the current US government shutdown hinge critically on how long it lasts. If it is resolved quickly, the costs will be small, but if it drags on, it could send the US economy into a tailspin. That's because the economy is already in a precarious state. While most of the 20 shutdowns that occurred from 1976 through 2024 lasted only a few days to a week, there are signs the current one may not be resolved so quickly. The economy would definitely take a direct hit to GDP from a lengthy shutdown, but it's the indirect impacts that could be more harmful. The question now is not will the Fed cut rates, because it likely will, but whether that cut will help, particularly if the shutdown lasts weeks or more. Monetary policy alone cannot overcome the uncertainty created by tariffs, the lack of fiscal restraint, companies focused on cutting costs by replacing people with technology, the effect of the shutdown and the fears of consumers about the future.

Market Commentary

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.

October

Despite its reputation for volatility (since 1984, seven of the ten largest one-day falls in the market have occurred in the month of October), for the most part the market posts a positive return - rising 0.2% on average 63% of the time. This strength may not be unconnected with the fact that the strong six-month period of the year starts at the end of October (part of the Sell in May Effect) and investors may be anticipating this by increasing their weighting in equities during October.

Fourth Quarter

The FTSE 100 has risen 30 of the 41 years (73%) between 1984 and 2024, posting an average gain of 3.4%

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 October	Full Moon (markets tend to reach a low point around this time)
15th October	US CPI. Expect inflation readings (headline and core) to be focal
16th October	UK GDP
17th October	Options Expiry Day
21st October	New Moon (markets tend to reach a high point around this time)
29th October	FED Meeting. Markets are pricing in a 98% chance of a rate cut to 3.75%
30th October	ECB Meeting. The ECB is anticipated to keep rates steady at 2%
	US GDP. Forecasts vary; closely watched for recession/growth signals

Technical Analysis:

The FTSE 100 rose again last month - by a staggering 283 points (3.1%), reaching yet new all-time highs. To us, the market looks overextended. The RSI has reached 70, suggesting the market is overbought. There is only blue sky above current levels with nothing to aim for. Yet, the 200-day moving average is lying at 8,750 (nearly 700 points or 7% below the current level). Key downside risks include a hawkish surprise from the Fed or ECB, an upside CPI shock, and a sharp rebound in sterling. We cannot advise traders entering long positions at this time, despite the favourable seasonal factors. On balance, however, long-term investors should stay invested.

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

Chart Legend:

(red dashed line)	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
(red line)	50 day moving average	(signifies the medium-term direction of the security)
(thick red line)	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
(blue line)		(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).

World Trade Center, Suite 5.28, Gibraltar. Telephone: +350 200 75181. Website: www.gam.gi

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