GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - September 2025

FTSE 100	**9,208**	S&P 500	6,481
Resistance	9,325	Gold	$3,614
Support	9,000	GBP/EUR	1.1518
VIX	16%	GBP/USD	1.3512

Introduction:

Bond vigilantes are piling the pressure on chancellor Rachel Reeves. Global factors initially prompted the sell-off, with German and French bond yields hitting their highest levels since 2011. But Keir Starmer's mini re-shuffle is making bond traders nervous that Reeves is being managed out and replaced with more left-leaning members of the Labour Party. In the City, there are two sharply diverging views as to the reasons behind the sell-off. Some say this is an *"anomaly"* and a shift in the narrative should ease the pressure soon. Others think tax hikes have damaged the UK's investment appeal so much that the gilts market is heading towards a full-blown crisis because of fiscal sustainability concerns. Though the UK is less indebted than some other major developed nations, it pays the highest long-term borrowing costs in the G7. Britain's large trade deficit leaves it reliant on the kindness of strangers. By contract, the eurozone runs a collective current account surplus.

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. Stocks hit their (so far) 2025 trading year lows in the aftermath of President Trump's *"Liberation Day"* tariffs announced early in April. Stocks have since staged a five-month rally with many indices hitting all-time highs.

In what we see as a positive shift, growth sectors have moved to the sidelines after their dazzling Q2 run. Investors have since been buying stocks in defensive and rate-sensitive sectors. As a result, most sectors have appreciated year-to-date, and no sector is running away from the pack. We regard ongoing sector rotation as healthy, helping sustain broad market rallies.

But currently, the stock market and the economy have become almost two separate forces, with the megacaps storming higher due to the AI explosion, while the real economy is just muddling along. There is a massive disconnect between the performance of the major indices and GDP. Central banks use their policy tools - mainly changes in the base rate - to serve its double mandate of maintaining full employment while keeping inflation around the 2% level. A weak employment environment coupled with resurgent inflation makes the dual mandate difficult to balance.

Market Outlook (cont):

This has left many investors scratching their heads. Trading volume of late has been very low, as we were firmly in the *"dog days of summer"*, which can explain irrational stock market moves. We still believe the current stock market environment provides a reasonably strong basis for further stock-market gains into year-end, even if the road is bumpier than before.

But looking immediately ahead, we note that September historically is the worst month of the year for stocks - falling on average 0.7%, 54% of the time. It is even worse for the mid-caps with the FTSE 100 historically outperforming the FTSE 250. Interestingly, although the average return is bad for the month, about half of all Septembers do have positive returns. The problem is that when the market does fall in this month, the falls can be very large. Many analysts are expecting a jump in volatility and a pullback in stocks so we would advise caution before the start of the traditionally-strong fourth quarter.

Recommended Investment:

Chainlink

Chainlink was created in 2017 by Sergey Nazarov and Steve Ellis. It raised $32 million during its launch and went live on the Ethereum blockchain in 2019. Since then, it has become one of the most important pieces of technology in the cryptocurrency world. Its native token, LINK, is used to keep the network running smoothly and to reward people who provide services on it.

At its heart, Chainlink is a connector. Blockchains (like Ethereum or Bitcoin) are very secure but closed systems - they can't pull in outside information on their own. For example, a smart contract can't check the weather, a stock price, or a sports score directly. Chainlink solves this problem by acting as a *"decentralised oracle network"*. Think of it as a trusted middleman that delivers real-world data into blockchains so smart contracts can function properly.

Chainlink is already used widely in *"Decentralised Finance" ("DeFi")*. Apps like Aave and Synthetix use Chainlink to obtain accurate price data for cryptocurrencies. Every time the apps request data, Chainlink *"node operators"* deliver it. Node operators are paid in LINK tokens for their work. This means the more people use the apps, the more data requests go through Chainlink, and the more LINK flows through the system. To run a node, operators also stake LINK as collateral to prove they'll act honestly. This locks up LINK, taking it out of circulation and increasing the value of remaining tokens.

Beyond DeFi, Chainlink helps with insurance (for example, paying out automatically if there's bad weather), online games (providing random numbers to ensure fairness), and even supply chain tracking. Its new system, called CCIP (Cross-Chain Interoperability Protocol), lets different blockchains talk to each other - something the crypto world has struggled with for years.

<u>The Bull Case for Chainlink</u>
i-Big Demand for Data: As more industries use blockchains, they will all need reliable data feeds. Chainlink is the leader in this space.
ii-Strong Network Effects: The more projects that use Chainlink, the harder it is for competitors to catch up. It's like how everyone uses Google for search - it becomes the default choice.
iii-CCIP Could Be Huge: Chainlink is positioning itself as the messaging standard between blockchains.
iv-Big Partnerships: Chainlink has worked with companies like Google Cloud and SWIFT (the global banking network). This shows it's not just for crypto insiders - big institutions see its value too.

Chainlink isn't just another cryptocurrency. It's the plumbing of the blockchain world - the tech that allows smart contracts to actually interact with real life. LINK is the cryptocurrency token used inside the Chainlink network and is the asset you can trade on exchanges. To use Chainlink's services (like price feeds or weather data), developers and companies must pay in LINK tokens. More usage = more demand for LINK to pay for those services.

For those investors without access to crypto trading platforms, we recommend obtaining exposure via the 21Shares Chainlink ETP, which holds physical LINK tokens and can be purchased via a regular stockbroking account. Note this investment is suitable only for high risk investors who have passed an Appropriateness Assessment.

Market Commentary

Post of the Month:

Economists like to think economies follow a cycle. First, the economy grows until output reaches a peak and plateaus. Next, it contracts. We enter a downturn and businesses close. After this painful period, green shoots appear: growth returns and the business cycle begins anew.

Downturns are unpopular, and governments have tried to remedy them with tax and spending policy since before the Second World War. The Office for Budget Responsibility (OBR) characterises UK government policy in the face of recent shocks such as the pandemic and the energy price spike as *"relatively generous by international standards"*. It has also been expensive: debt has risen from 80% of GDP in 2019 to 95% today. Interest alone costs around £100bn a year.

In theory, a difficult government finance position should start to recover as output picks up. As economies grow, tax revenues should increase, out-of-work benefits should fall, and the budget deficit should 'automatically' begin to shrink again. A strong recovery could even move it into surplus, allowing the government to chip away at the debt it accrued in previous years. But it is becoming painfully clear that this is not how today's economy looks at all.

It may feel as though the Covid-19 pandemic only just happened. In business-cycle terms, it was an age away: the subsequent US economic recovery is already the seventh-longest on record. This appears to be a trend: business cycles are lasting longer than they used to. The record is held by the 130-month expansion that spanned the end of the financial crisis and the onset of lockdowns.

With hindsight, it's no surprise that we see longer business cycles. Given the unpleasantness of economic downturns, governments stand willing to intervene, extending the cycle even further. This spares considerable pain, but comes with its own costs. Once the government has intervened once, it is hard to withhold support next time.

This largesse also leads to a breakdown in the old relationship between the state of the economy and the government's budget position: the government doesn't have a chance to rebuild its fiscal buffers during the 'good times'. Many advanced economies now see the kinds of deficits typically reserved for wartime during times of peace.

Nor can we maintain that they are only cyclical: analysts think there is a large structural component, too. In last month's fiscal risks report, OBR economists warned that higher defence spending, an ageing population and pressure on healthcare would push annual borrowing to 20% of GDP by 2070, and the stock of debt to 270%. These pressures would be helped by a burst of high growth, but not resolved entirely.

According to Deutsche Bank's summer market survey, just 12% of respondents expect the US deficit to impact markets over the next year. But this rises to 52% at the five-year horizon, and analysts speculate that we could be nearing the end of this era of long cycles and ever-growing deficits. There is no specific threshold at which government debt becomes unsustainable, but we seem to be edging closer to it. Governments can't afford to beat the business cycle forever.

Market Commentary

Quote of the Month:

"Liquidity is a coward - it disappears at the first sign of trouble" - Trader's adage

This trader's proverb highlights a risk many underestimate. In normal times, assets seem liquid-buyers are plentiful, and trades execute quickly. But in times of stress, liquidity vanishes as participants rush for the exits. Spreads widen, bids evaporate, and even *"safe"* assets can become difficult to sell. The 2008 financial crisis and the March 2020 pandemic shock were vivid examples. For investors, the warning is clear: don't rely on always being able to sell when you want. Managing liquidity risk with cash buffers, staggered maturities, and realistic assumptions about exit options is essential for survival.

Economics:

Bank of England policymaker Alan Taylor believes the British economy is getting closer to a *"soft landing"*, but that monetary policy needs to be carefully assessed in the coming months as it is at a "fragile" moment. *"Despite being buffeted by new shocks, we are getting closer to that soft landing, but we are also in a fragile moment, and monetary policy will need to be carefully calibrated in the coming months to keep us on track,"* Taylor said in his annual report to parliament's Treasury Select Committee. *"My main concern has been to get inflation sustainably back to the 2% target, maintaining monetary policy restrictiveness as long as necessary but no longer, whilst being alert to two dangers,"* he said in the annual report. *"The greater danger is that we get behind the curve, stay too tight in the short-term ... and thus ... end up in with the opposite problem: inflation actually undershooting the target and economic activity weak or in recession."*

The eurozone economy grew just 0.1% in the second quarter, compared to a growth rate of 0.6% in the first quarter. Meanwhile, the German economy contracted by 0.1%. It comes after European Central Bank president Christine Lagarde said the eurozone was *"resilient"* but not *"thriving"*, adding that she expected 1% growth in 2025. Concerns over tariffs and their impact were among the significant fears threatening European economies. The reciprocal tariffs announced by US President Donald Trump went into effect in April, coinciding with the start of the second quarter.

The US jobs engine is sputtering and looks to be in danger of stalling. US employers added just 22,000 jobs in August. The unemployment rate inched up 4.3%. Revised figures also show there was also a net loss of jobs in June for the first time since 2020, in the midst of the pandemic. The US has now had four months in a row of pretty anaemic job growth. Average job growth between May and August was down 75% from the same period a year ago. Separately, the Labor Department reported that for the first time in more than four years, there are more people looking for work than there are job openings. Weakness in the job market is likely to prompt the Federal Reserve to lower interest rates when policymakers meet later this month. Investors widely expect the Fed to cut its benchmark rate by a quarter percentage point.

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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.

September

After the summer lull, things get exciting again for investors in September in what is historically the worst performing month of the year, falling on average 0.7%, 54% of the time. It is even worse for the mid-caps with the FTSE 100 historically outperforming the FTSE 250. However, although the average return is bad for the month, about half of all Septembers do have positive returns. The problem is that when the market does fall in this month, the falls can be very large.

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 September	Full Moon (markets tend to reach a low point around this time)
11th September	ECB Meeting. The overwhelming consensus is for rates to remain at 2%
17th September	FED Meeting (decision released 6pm UTC). A 0.25% rate cut is widely anticipated
18th September	BoE Meeting (decision released 12 noon UK time). Rate expected to remain at 4%
19th September	Options Expiry Day
21st September	New Moon (markets tend to reach a high point around this time)

Technical Analysis:

The FTSE 100 rose again last month – by a staggering 162 points (1.8%), reaching yet new all-time highs. Yet we are still cautious. We are in the weakest half of the year, the weakest quarter of the year, and now, the weakest month of the year. On a positive note, the RSI is still bullish at 56%. The ADX at 29 is also suggesting the market is in a strong trend, currently a bull market judging from the upward-sloping 200-day moving average. However, a looming threat comes from speculation about targeted tax hikes, particularly on banks. This has rattled investor confidence, as such measures could signal policy volatility and dampen appeal across the broader market. To us, the market looks overextended. There is very little that looks attractive. Perhaps only private equity and other alternatives such as real estate and infrastructure. But certainly not general equities. Investors should position 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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