



MARKET UPDATE

October 2025

The Minster Partnership

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Global markets experienced a shaky first quarter in 2025 as they began to focus on concerns about the level and scope of pending US tariffs, with most major indices sliding consistently through February and March. This was immediately followed by further sharp falls in global stock markets in the aftermath of President Trump's "Liberation Day" announcements in early April, prompted by fears over the potential impact on inflation and the global economy, and the real prospect of full-blown trade wars.

Trump's policies on imposing tariffs are undoubtedly inflationary, and he initially introduced these much more aggressively than many expected. Since then, Trump has been forced to reconsider the level and basis of tariffs, ultimately after the US bond market clearly signalled its concern through significant increases to US government bond yields (the cost the US Government pays to borrow). This created a huge issue for the Trump administration, given the rising levels of US government debt and on ongoing need to refinance this debt. This was a clear indication that investors feared that Trump's policies significantly increased the risk of both a recession and higher inflation.

The pressure from bond markets caused a monumental U-turn from the White House on 9th April, with a pause on reciprocal tariffs for most countries, including China eventually (after almost daily tit-for-tat hikes to tariffs from both sides). This marked a turning point for most major markets and sparked a monumental recovery rally in investment markets through the late spring and summer as they breathed a collective sigh of relief. During the second and third quarters of 2025, several trade deals were announced between the US and major trading partners, including the UK, Japan, and the EU. These trade deals have been more warmly received by financial markets, with a broad-based rally in share prices in most regions.

Despite tariff policy being dialled back, the increase in the US tax take from tariffs remains significant under the current basis, and a large increase from pre-Trump levels. Tariff costs are likely to ultimately be passed on to consumers, resulting in higher inflation and it is these inflationary pressures that remain a concern to economists and investors alike. Higher inflation is likely to mean cuts to interest rates may be slower than previously expected in most regions, as central banks aim to keep inflation under control whilst maintaining economic growth. In the UK, CPI (inflation) was 3.8% over one year to August 2025, almost double the Bank of England's 2.0% target.

Our broad expectation for the next 12 months is for further global interest rate cuts; however, these may not be as aggressive as policymakers would ideally like due concerns over inflation.

This year has been a roller coaster ride for stock markets; however, most have already regained the losses suffered in the aftermath of 'Liberation Day' and are trading at or close to all-time highs. The recovery in global markets is reflected in the returns achieved for investors across the risk spectrum. Looking forward, a climate of falling interest rates is usually a positive for stock market performance, and bond markets should also be supported by further cuts to interest rates.

Markets are likely to remain volatile, and this will be best navigated by holding a suitably diversified portfolio. Volatility is always the price paid for the prospect of higher long-term returns, and this year has demonstrated the importance of remaining invested in times of turbulence. With interest rates available on cash already substantially lower than a year ago, and with further cuts expected, many investors will continue to rely on risk assets to drive long term income and growth potential.

Despite the intense uncertainty and disruption over the last few years, historical performance across all periods remains attractive for most investors. The acceptance of risk has provided superior returns to cash and inflation over the medium and longer term, demonstrating that investor patience is generally rewarded over time.