



Market 2 Market

A forward view of the global economy
and financial markets

September 2025

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Ministerial Residences

"I don't think that anyone has stayed long at Chequers without falling in love with it".

Margaret Thatcher



Source: Wikipedia

In the last few months Ministerial Residences have been in the spotlight. We learnt that Angela Rayner had to give up her flat in Admiralty House when she resigned as Deputy Prime Minister. A great many photographs were taken of David Lammy, when foreign secretary, fishing without a licence with Vice President Vance at Chevening. Only last week, Sir Keir Starmer hosted Donald Trump at Chequers during the latter's state visit.

The Prime Minister has the discretion to assign ministerial houses, which include number 10 and 11 Downing Street, the £25m house in Carlton Gardens and three flats in Admiralty House. Accommodation is also provided at Hillsborough Castle and Stormont for the Northern Ireland Office ministers when they are on duty there.

There are also three stately homes; Chequers, Chevening and Dorney Wood, which are available for ministerial use, in accordance with the wishes of their former owners. These properties are not owned by the government but are administered by trustees. In the case of Chequers, the 1,000-acre estate in the Chilterns was gifted to the nation in 1917 by Sir Arthur Lee when MP for Fareham, the objects of the gift were set out in a schedule to the Chequers Estate Act 1917. The general cost of running the estate falls to the trustees, but the Prime Minister's Office pays an annual grant-in-aid to the Trust to cover staff salaries and maintenance, which came to over a £1m in the last financial year.

Over the years there has been some internal squabbling between senior ministers as to who gets the use of which country house, and the Prime Minister can use his discretion to either reward or not reward senior ministers. It certainly was useful to be able to host the President of the USA at Chequers, which kept him out of London, making security much more straightforward.

The briefing paper in the House of Lords Library states that the Ministerial Code sets out the rules and guidance on the official use of residence. Government property is not generally allowed to be used for political purposes; however, the Ministerial Code makes an exception for official residences. If a minister hosts Party or political events in these residences it has to be at their own or Party expense with no cost falling to the public purse.

Boris Johnson wanted to build a treehouse for his children with power and water in the grounds of Chequers for £250,000, which was going to be funded by an anonymous donor who presumably wanted a peerage. Thankfully the Trustees said no. Liz Truss disputed a bill for £12,000 which she was given for her use of Chevening when she was the Foreign Secretary. Apparently £120 of the bill was for bathrobes that had been removed.

There is no doubt that the Prime Minister needs Chequers both for his family, as he lives in pretty tight accommodation at Number 10, and to entertain foreign leaders who would draw large protests if hosted in London. It is also good that the country estates are run by Trustees rather than a government department.

Richard Harper
Head of Asset Allocation
GHC Capital Markets Limited

In which **Tim Harris**, the Chair of our Asset Allocation Committee, describes the factors influencing our latest Asset Allocation decisions

Not So Good Inflation Data

US and UK price pressures remain sticky and complicate the outlook for monetary policy. The US five-year inflation expectation is 3.9%, marking its highest level since 2011. This raises the risk that inflation will become more entrenched and may limit the Federal Reserve's ability to ease policy without reigniting price instability. However, the Fed still has scope to cut rates. This is necessitated more by the weakness in the labour market than by confidence in falling inflation. Job growth has slowed, and unemployment has ticked higher. Inflation, especially core, remains stubbornly high. Further rate easing will hinge on clear signs that inflation is falling in a sustained way.

The US consumer may struggle to support growth even with lower interest rates.

Consumer debt levels in the US and UK have reached historic highs, underscoring growing financial stress across households. Total outstanding US credit card balances now stand at a record \$1.21 trillion, with delinquency rates rising steadily over the past year. The increase in delinquency rates is most pronounced among younger borrowers and lower-income households, where higher interest rates are biting hardest. Auto loan delinquencies have also crept higher, while student loan repayments are adding fresh pressure to disposable incomes. Mortgage debt remains the largest single component of consumer debt, but with home purchases slowing and refinancing largely frozen due to high rates, new credit formation in housing has stalled. Despite still-low unemployment, the accumulation of high-cost debt is constraining consumer spending, which is already showing signs of fatigue in retail and discretionary categories. This shows that it is not just the inflationary impact of tariffs that is affecting consumer behaviour.

Technology dominance and US equity market concentration

However, markets have regained their "liberation day" poise. The outperformance of the technology sector is the defining theme of 2025. The strength in tech stocks once again is pushing market concentration to levels not seen in decades, raising structural concerns about the breadth and sustainability of the rally. The top ten companies in the S&P 500 now account for 40% of the index's total market capitalisation, up from just 17% in 2015. This concentration is reflected in relative performance. The equally weighted S&P 500 index has delivered only around half the total return of the market cap weighted index over the past two years, highlighting how narrow the leadership truly is. Most of the performance has been driven by a handful of mega cap tech names. The risk is clear: if the tech sector fails to deliver on these expectations or faces valuation compression, the broader equity market could struggle, given its extreme dependence on a narrow set of names.

The UK valuation gap to other markets is enticing international buyers, but not domestic investors

This valuation gap is particularly striking, considering how companies of the same growth bands are valued in Europe and the US. Foreign investors remain buyers and private equity too is buying, as it sees value. For a real turn though, we need to see more encouragement of domestic fund flows (household/pension and insurance companies); so far signs have only been tentative. Key issues to watch in the UK are consumer and wholesale pricing pressures and fiscal uncertainty. The run-in to the Budget on 26th November could be turgid – already the housing and real estate markets have gone on hold.

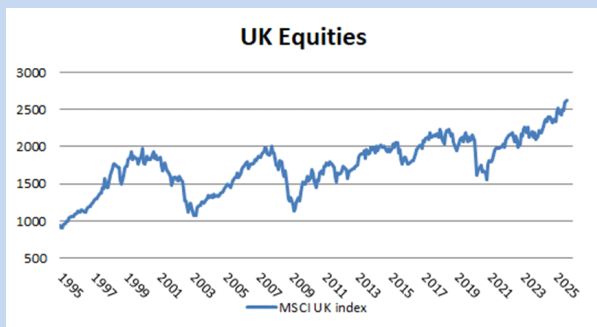
The Gold rally has accelerated since August

Gold has delivered a +12% return over the past month, supported by rising futures positioning and ETF inflows, as well as a seasonal pick-up of central bank demand. While the recent dovish rate policy repricing combined with a weaker dollar are tailwinds for Gold, the recent rally indicates some overshoot relative to its implied beta to macro pricing across assets. Speculative positioning has picked up materially. Meanwhile, the Oil price has fallen over the past 12 months and may decline further in 2026, due to strong supply growth.

For the equity rally to sustain, rate cuts must encourage broader participation across sectors

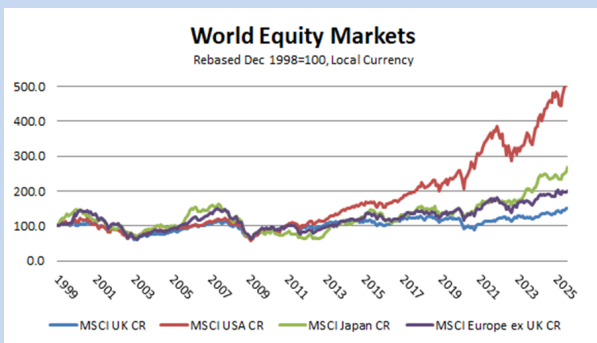
The continued strength in the gold price, even as equities hit new highs and bond yields remain subdued, signals some overall market caution is warranted. It suggests that investors remain circumspect beneath the surface, and that confidence in the breadth and durability of this market cycle is far from universal. We remain modestly pro-risk on a 12 month horizon, but are tactically Neutral in our asset allocation. We expect equity markets to be 5-10% higher on a one-year view. On rates, we expect 10-year Gilt yields to reach 4.4% by year-end. We remain bullish on gold and bearish oil.

Markets at a Glance



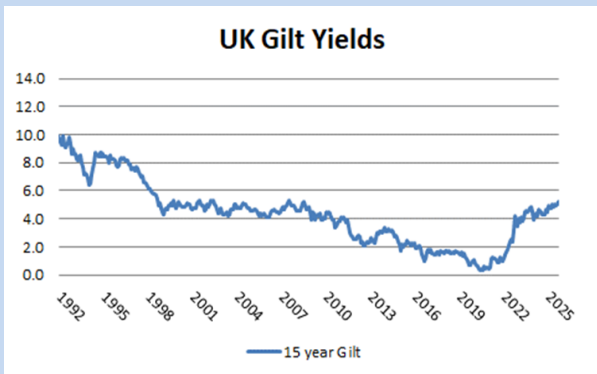
Source: Lipper for Investment Management

UK equities are seeing an improvement in current activity indicators. With respect to the autumn Budget we are probably at, or close to, peak uncertainty; once this passes and assuming some modest improvement in fundamentals (especially inflation) improvements in domestic activity should have positive effects into equity markets - particularly the more domestic-exposed FTSE 250. We think the UK valuation gap to other markets is enticing buyers. This valuation gap is particularly striking, considering how companies of the same growth bands are valued in Europe and the US. Foreign investors remain buyers and private equity too is buying, as it sees value. For a real turn though, we need to see more encouragement of domestic fund flows (household/pension and insurance); so far policies toward this have only been tentative.



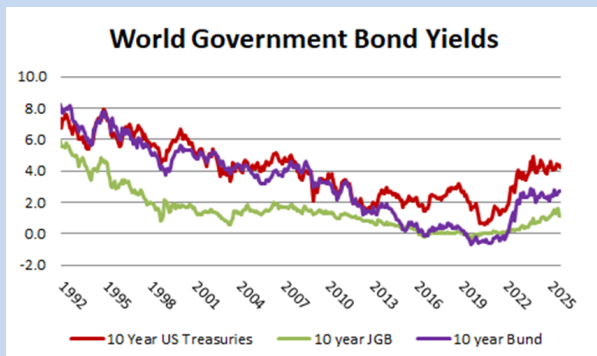
Source: Lipper for Investment Management

The US equity market has caught up other developed markets since its tariff-led sell-off of the second quarter. However, we prefer to invest in non-US equity assets and identify three key risks as a negative growth shock, an interest rate shock and a weaker dollar. As the Federal Reserve kicks off a rate easing cycle, we note that over the last 40 years, the S&P 500 has seen a median 12-month return of 15% when the Fed resumed cutting against a backdrop of continued economic growth. Earnings have driven the recent recovery in the S&P 500 and global markets after "liberation day". However, light investor positioning suggests potential tactical upside if the macro backdrop remains favourable. Even after a strong year-to-date performance, many emerging markets remain interesting.



Source: Lipper for Investment Management

The UK is facing significant fiscal challenges, with the government's deficit and public debt now towards the upper end of the range among advanced economies. Moreover, UK government bond yields are the highest across major economies — especially compared with GDP growth — as sticky inflation has prevented the Bank of England from normalising policy rates. As a result, the UK needs to attain a primary surplus of 1% of GDP to stabilise debt, requiring a fiscal consolidation of around 3% of GDP. The structure of UK debt has become less favourable, with a high share of inflation-linked debt, a rising portion held by foreign investors and a shorter average debt maturity due to QE. These shifts make gilts more vulnerable to inflation, rising global bond yields and changes in investor sentiment. A durable reduction in inflation risk and fiscal credibility are needed for the market to put a lower probability on stagflation.

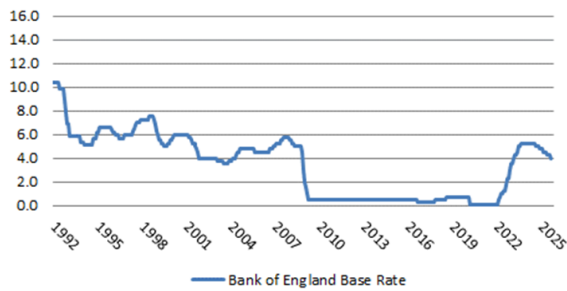


Source: Infront

The reduction in pricing of Fed rate cuts has reintroduced some value at the front-end of the US curve. There is a risk that a US government shutdown temporarily limits visibility into the trajectory of the labour market slowdown, which complicates the near-term pricing. However, the historical precedent for shutdowns as a clear driver of yield moves is weak. Europe remains in a holding pattern, but we think stabilization in volatility will correspond to gentle upward pressure on medium dated yields. EU issuance risks are skewed higher, but are offset by the benefits of EU market deepening and improving liquidity. The approaching LDP presidential election in Japan may have a bearing on near-term JGB curve behaviour, with the increased conviction in hikes and continued supply adjustments recent sources of relief to long-end underperformance.



Bank of England Base Rate

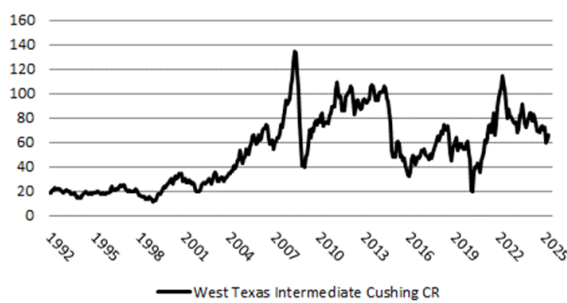


Source: Lipper for Investment Management

After cutting the base rate five times over the last year to 4.0%, the Bank of England's MPC is likely moving to a holding position in the autumn. The lack of growth in the UK economy and a labour market that has a low participation rate are weighed against input cost and consumer price inflation that is not trending down and a labour market that has a low participation rate. Following higher employment market costs, business rates and the impact of tariffs on trading partners, we expect a split MPC to remain on hold through to the end of the year.



Spot Crude Oil Price

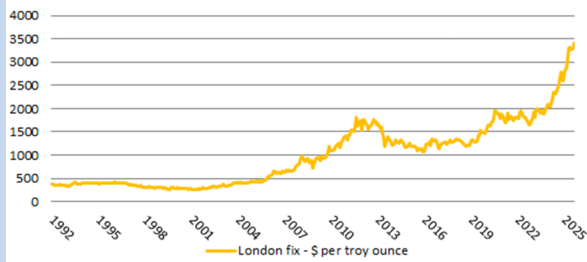


Source: Lipper for Investment Management

Oil has undershot its implied macro pricing over the past 12 months, due to strong supply growth. That said, most oil-exposed assets have outperformed oil prices year-to-date, supported by the macro Goldilocks backdrop and Emerging Market credit spreads. We expect the Brent crude price to decline further to a 2026 average of \$56 per barrel on over-supply concerns. Global inventories have risen and we maintain an expectation of a 1.0 million barrel/day surplus this year. However, downside is limited by OECD stocks remaining lower than expected. An expectation of lower prices in 2026 reflects an offset between a boost from higher long-dated prices and a hit from a wider 1.7mb/day 2026 surplus, as we believe OPEC+ is likely to unwind all its 2.2mb/day of agreed cuts.



Gold Bullion Price



Source: Lipper for Investment Management

The continued bull market in gold prices is driven by central banks buying record quantities of gold and investors increasing their asset allocations into the precious metal. Gold has delivered a +12% return even over the past month, supported by rising futures positioning and ETF inflows, as well as a seasonal pick-up of central bank demand. While the dovish rate policy repricing combined with a weaker dollar are tailwinds for Gold, the recent rally indicates some overshoot relative to its implied beta to macro pricing across assets. Speculative positioning has picked up materially. Gold is a critical hedge against the major inflation shocks that can hit equity-bond portfolio returns. It also hedges against losses in central bank and fiscal credibility (e.g. fiscal expansion, pressure on the Fed) and often generates positive returns if equities and bonds lose money.



Note that where an MSCI Index has been used for illustration. This has been sourced with permission from MSCI Inc.

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