

Market Commentary 7th of October 2025

September delivered broad-based gains across most asset classes, with emerging markets and Japan standing out as top performers. The S&P 500 reached another milestone, marking a record high for the fourth consecutive month and advancing 3.5% in September. The Federal Reserve's first interest rate cut since 2024 fueled optimism, triggering rallies across U.S. equities, emerging markets, and fixed income. Technology stocks continued to perform well, despite a brief end-of-month pullback likely tied to profit-taking after strong earlier gains. In Europe, equities also advanced, with the Eurostoxx 50 Index gaining 3.19%, while the UK's FTSE 100 Index rose 1.78%. Japan's Nikkei delivered an exceptional performance, climbing 5.18% to a new all-time high. The surge was supported by enthusiasm over the Fed's rate cut, a new trade deal reducing tariffs on Japanese auto exports, and political developments following the resignation of Prime Minister Shigeru Ishiba.

Fixed income markets strengthened as yields declined. The Bloomberg U.S. Aggregate Bond Index returned 0.65%, with the 10-year Treasury yield easing from 4.23% to 4.16%.

Gold extended its powerful rally, rising 11.92% in September to reach a new record high, its strongest monthly performance since 2011. The metal's safe-haven status was reinforced by ongoing geopolitical tensions, currency volatility, and renewed debate around central bank independence. Year-to-date, gold has gained 47%, marking its best performance since 1979, when high inflation similarly drove demand for defensive assets.

The U.S. dollar, as measured by the DXY Index, ended the month little changed but remains down 9.87% for the year. Bitcoin advanced 5.05% in September, maintaining its upward momentum alongside broader risk assets.



What next?

Major equity markets recently reached all-time highs in the US, UK, Europe and Japan. This has prompted questions from many clients if the rally is sustainable. The below Q&A's address the most usual questions:

Are we due a correction of 5-10%, when would it come, what would trigger it, and how will Elgin react?

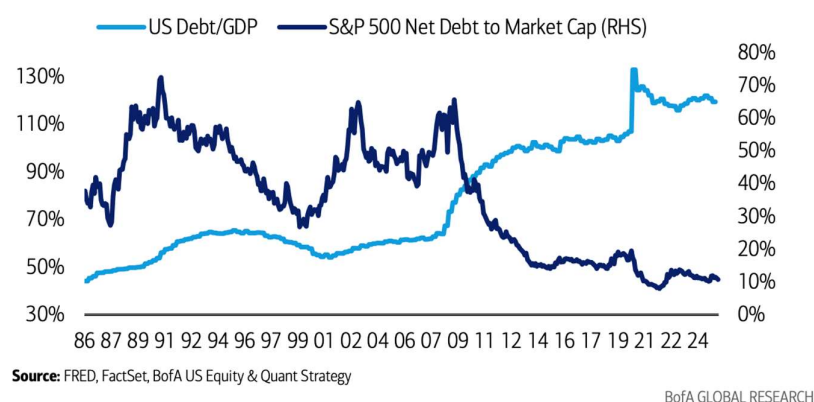
A short-term correction of that magnitude would not be surprising. Markets have rallied strongly, valuations are stretched, and sentiment indicators show optimism levels near extremes. Such conditions often precede temporary pullbacks. The fall may be triggered by changes in geopolitical tension, interest rate expectations or earnings expectations, and timing these moves is nearly impossible. Because we focus on quality companies with strong fundamentals, we do not intend to sell as such positions tend to recover faster than the broader market.

Are we due a larger fall of 20%+, when would it come and what would trigger it, and how will Elgin react?

A deeper market decline usually requires a structural catalyst — such as a global recession or major policy errors. Or a collapse, whether temporary or not, of the “AI trade”. It may come from “known unknowns or unknown unknowns”. Geopolitical instabilities are visible and could rupture. But core fundamentals of the strongest companies in the world remain unchanged. Some of these companies have market caps that are larger than the economic output of entire countries, and continue to demonstrate strong earnings and balance sheet resilience.

Despite record government debt levels, **S&P 500 companies' net debt relative to market capitalisation remains near multi-decade lows**, highlighting the underlying financial resilience of corporates versus sovereign balance sheets.

S&P 500 Net Debt to Market Cap and US debt to GDP (1986-08/2025)





So while we might make some adjustments by reducing some losing positions, by and large we have conviction that our choices are sound. If anything, we would buck the trend and buy into any major drawdown.

If markets do not fall now, is there more meaningful upside from here?

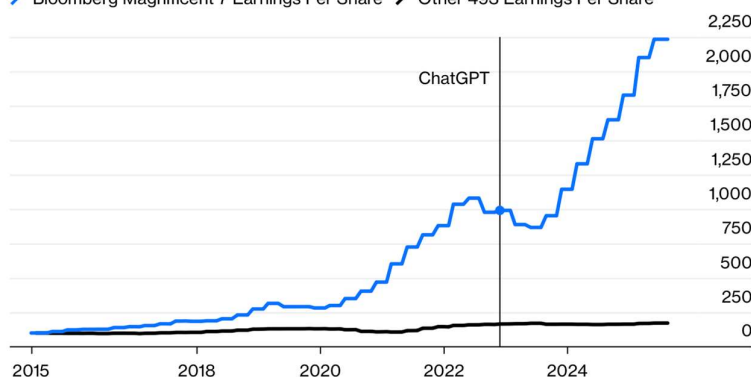
The backdrop to the markets is still supportive. There is strong liquidity, promising earnings growth, a healthy consumer with modest leverage, a record amount of cash on the sidelines, a favourable corporate tax regime, a deregulation tailwind, and supportive fiscal and monetary policies. And all this before we mention potentially transformative productivity gains from AI. So while markets are stretched, with potential bumps ahead, they might keep going higher. Generally, the discipline to hold high quality companies through periods of volatility without reacting emotionally to short term market moves, has proven to be a rewarding approach for investors in the longer term.

We must add that the recent market strength continues to be driven by a narrow group of large technology names, whose earnings have surged, while the rest of the market has shown more modest growth.

Magnificent Earnings Growth

Since ChatGPT, Big Tech earnings have been in another stratosphere

— Bloomberg Magnificent 7 Earnings Per Share — Other 493 Earnings Per Share



Source: Bloomberg
Data is normalized with factor 100 as of April 30, 2015.

How is Elgin positioning our portfolios?

Elgin remains moderately constructive but selective.

We continue to:

- Maintain core equity exposure in high-quality, cash-generative global leaders.
- In some cases, hold short-duration, high-yielding fixed income to capture attractive real yields and reduce volatility.
- Keep moderate cash buffers to take advantage of market pullbacks.

In short, we remain invested but disciplined — expecting volatility, yet viewing it as an opportunity rather than a threat.



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