The Tatton Weekly

Uneasily positive

24 October 2025

This week's topics:

Autumn but no fall

Private markets a concern, not a crisis

What Britain can learn from Korean markets

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Charles seeks divine family counselling, Morten Morland, 22 October 2025

Autumn but no fall

Capital markets started the week calmer than they have been, and are ending with yet more all-time-highs. However, investors remain uneasily positive. The mid-week saw more wobbles, and this patch of increased volatility could continue – thanks to tariffs, credit troubles and tighter liquidity.

Volatility does not mean investment portfolios are in real danger. We have had a long rally in risk assets which can naturally lead to pullbacks. People can sell to realise those gains – especially when there are "known unknowns" on the horizon: the APEC summit, the US Supreme Court ruling on tariffs, the UK budget and so on.

The longer-term outlook it still positive. Indeed, we have noticed a disconnect between people's economic pessimism and recently strong investment returns. The latter give plenty of reasons for optimism. Global inflation has been surprisingly lower than expected (this week's UK and US inflation data were cases in point) while business confidence has been stronger than expected (as exemplified by today's flash Purchasing Manager Index data, again particularly in the UK, US and Germany).

The bond outlook is a welcome reprieve

Nowhere is the 'better-than-it-seems' narrative truer than in the UK. While global stocks struggled on Wednesday and Thursday, the FTSE 100 pushed ahead. UK government bond yields fell more sharply than any other major market too, after September's inflation came in lower than expected. Economists are starting to think that UK inflation has peaked, and money markets are now odds-on that the Bank of England will cut interest rates 0.25 percentage points in December. Despite the recent gloom, Rachel Reeves could not have asked for a much better build-up to the autumn budget.

The US Federal reserve, meanwhile, is a racing certainty to cut rates at next week's meeting. The only question is how big that cut will be – 0.25 percentage points at least, but with a small chance of 0.5. Markets expect a dovish Fed (preferring lower rates) partly because of recent US credit stress, which we cover in a separate article.

Recent Fed dovishness has helped bond yields come down all over the world. Some felt the bond market had become over-reliant on Fed commentary, given the lack of hard US economic data since the government shutdown in September. It is now clear that the extended shutdown is dragging down US economic activity. Today's release of the US September CPI data has continued the narrative of lower-than-expected price pressures: both core and overall CPI were at 3% year-on-year, with core actually falling from August's 3.1%. Treasury 10-year yields remain below 4%.

That has helped investment portfolios. Stocks have wobbled in recent weeks, but bond prices (the inverse of yields) have rallied – providing the balance they are supposed to. With signs that inflation is slowing globally, that should continue. Lower yields – and hence, easier borrowing conditions – are why markets are not overly concerned about a credit crunch.

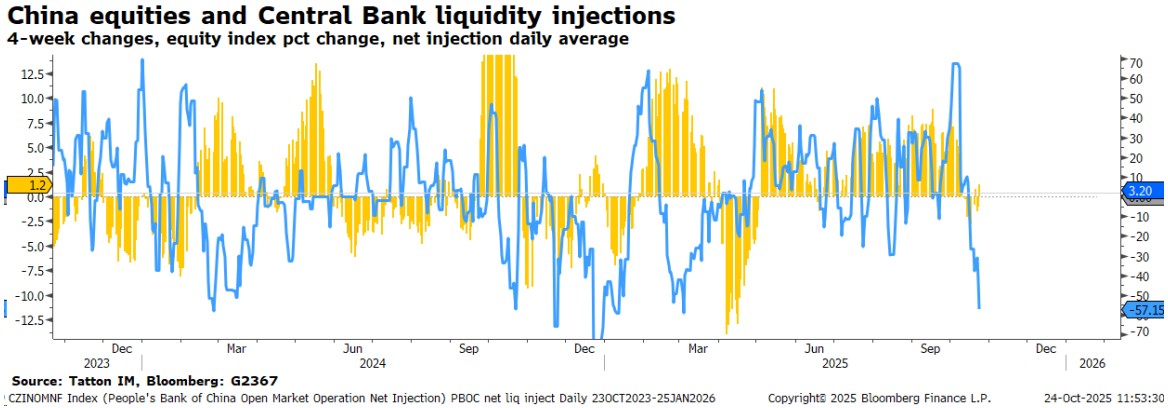
Does gold's pullback point to trouble in China?

Equity investors are not the only ones occasionally realising profits. Gold prices end the week nearly 6% down from Monday's all-time high of $4381.52 per troy ounce. On Tuesday, it briefly reached $4004. After the blistering rally over the last few months, technical signals suggest overexcitement in gold markets. Some pullback is to be expected.

The interesting thing for us is that gold's sell-off coincided with a drop in Chinese tech stocks, after a strong run. The connection is a speculative, but we know that Chinese investors are heavily invested in gold – so a sell-off in the tech stocks could have prompted some profit-taking in gold markets.

This is related to Chinese liquidity conditions. We China's plentiful liquidity before (while western markets have been showing signs of tightening), which supported its strong equity run. Now, it has tightened sharply. Perhaps the government wants to support its currency value and avoid its stock market running hot.

China has been spending to support its ailing economy for over a year and, while measures have been small, they add up. One of these has been a significant injection of liquidity. While growth



languished, liquidity boosted its stock market. Now, the cheapening of the cost of capital appears to be helping the economy. At 1.1%, the Q3 GDP annualised growth data was stronger than expected and Beijing is now almost certain to exceed its 5% growth target for 2025. With the third Plenum now finished, the government may reduce some stimuli. Market-based measures are the most likely candidates.

Better the tariffs you know

After next week's Fed meeting, market's next flashpoint will be the US Supreme Court's ruling on whether Donald Trump's tariffs are legal, set to begin on 5 November. Trump's camp is publicly bullish, but the White House seems to be quietly preparing for defeat. They have pointed to potential workarounds, like sector-specific tariffs under Section 232 of the existing Trade Expansion Act.

If tariffs are bad for markets, conventional wisdom says tariffs being struck down should be good. Things are, unfortunately, not so simple. The revenues collected from Trump's existing tariffs have gone some way to plugging the US budget deficit. Without them, US bond yields would almost certainly rise – removing a key support. Then there is the unpredictability of Trump's response. There is every chance that Section 232 sectoral tariffs would disrupt global supply chains worse than the current regime.

It is not clear how stock markets would respond. On the one hand, not having to pay import taxes will help businesses. On the other, potentially higher long-term rates and supply chain uncertainty are a dangerous combination.

Uncertainty is more important now than it was over the summer. Liquidity is tighter, meaning losses in one area may cause profit-taking in other areas. The recent bout of volatility may not be over just yet, and things will be continue to be uneasy. At the same time, though, the global economy is experiencing a welcome capital expenditure boost, partly in response to higher tariffs. As such, we are positive about the long-term outlook for stocks.

Private markets a concern, not a crisis

Concerns keep mounting about private credit markets. Last week, it was JP Morgan CEO implying that private credit firms were cockroaches, after bankruptcies at US auto lender Tricolor and auto parts supplier First Brands. This week, Bank of England governor Andrew Bailey rang his "alarm bells" over private lending practices, comparing them to what we saw before the 2008 global financial crisis.

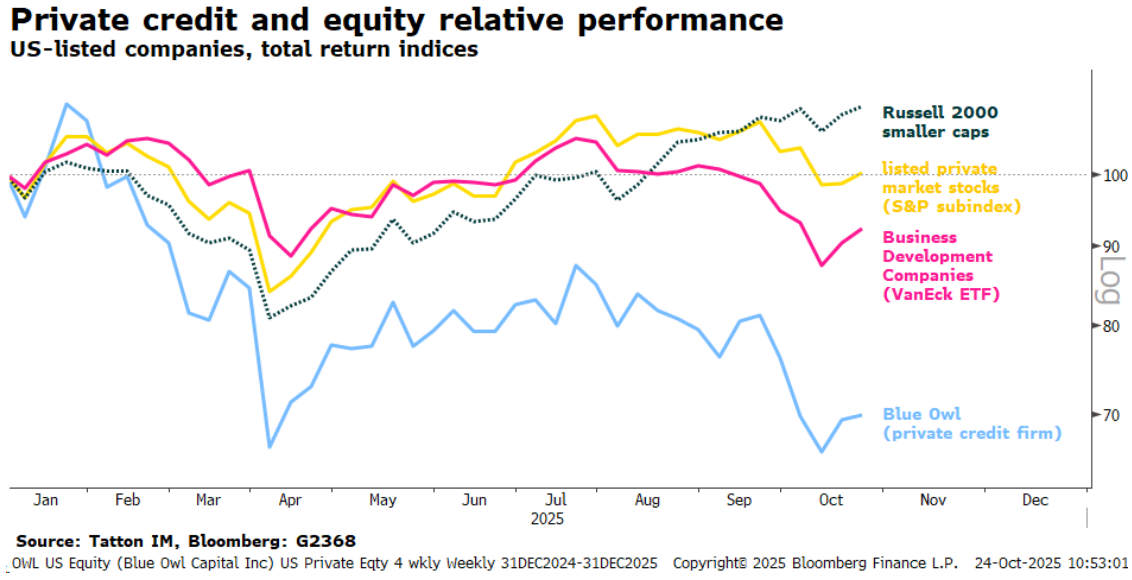
We should not get carried away with these comparisons. While the mood in private markets might get worse before it gets better, private credit is not likely to blow up the financial system.

Private credit firms increasingly do Banks' role – but it's not clear how well

Private markets have grown have grown rapidly over the last couple of decades. This is perhaps clearest on the private equity side, where the deals have become so lucrative that some of the biggest companies prefer not to list shares on public markets (not to mention the allure of keeping your company's affairs out of the public eye). But, private credit has expanded too, with non-bank lenders now taking on much of the financing role typically reserved for banks. Private credit providers often market themselves on their ability to run credit checks on a more in-depth, bespoke basis than banks can.

Much of the recent focus has been on Business Development Corporations (BDCs) in the US. These are closed-end investment companies which provide financing (both loans and equity) to small and mid-cap private companies. BDCs are somewhere between private equity and private credit, and are designed to bridge the gap between early-stage venture capital and public markets. BDC shares have historically been correlated with private equity stocks, but also behave somewhat like high-yield bonds.

People have been worrying about private markets for years, but the collapse of First Brands and Tricolor – after reports of fraud and financial mismanagement – have led to a minor panic. The worry is that industry-wide credit standards have slipped, that perhaps those in-depth credit checks are not actually being done. As JPMorgan's Jamie Dimon quipped, "When you see one cockroach, there are probably more…"



As the chart above shows, private market firms (in yellow, most involved in both equity and credit) are still up from the Liberation Day sell-off. BDCs (pink, represented by the largest ETF) and shares in private credit-related companies (Blue Owl is an example, in blue) have borne most of the brunt.

Has anyone done the homework?

Andrew Bailey's comments are the latest in a series of high-profile warnings on private credit. International Monetary Fund (IMF) officials have warned repeatedly about the shift of financing from banks to non-banks and the risks that this brings. IMF chief Georgieva Kristalina told reporters last week that private credit troubles keep her awake at night.

Private credit firms themselves have been defensive about their standards – preferring to point the finger back at banks. The problem is not that private credit is uniquely bad; it is that its standards are opaque and it has come to take up such a huge section of the overall lending market. We have written previously about how there is not excessive leverage in capital markets – certainly not compared to the Global Financial Crisis (GFC). But we always have to caveat this by saying *public* markets. Leverage in private markets is much harder to track, and many have speculated that post-GFC rules have merely shifted these risks.

The growth of private credit also creates a free rider problem. With so many private credit firms running their checks, it becomes easier for individual firms to copy each other's homework. This becomes especially problematic when the fees from individual deals become so lucrative that they outweigh (in the short-term) the benefit of the deal as a long-term investment. That is precisely what happened before the GFC: in order to give others confidence in a deal, the lead arrangers would also be a lender. However, they made so much more commission from completing deals that they stopped worrying about the borrowers' capacity to pay.

There isn't a money supply problem

To be clear, we do not think private credit problems mean another GFC is coming. Analysts at Morgan Stanley point out that the First Brands and Tricolor problems are well-contained, and markets seem to agree. Investors are concerned about private credit, but for now, at least, it feels like private credit concerns are a reaction to stock market jitters, rather than a cause of them.

Of course, banks saying things are fine is not itself a reason to think they are. But, as we see it, the main reason this is not 2008 all over again is that the growth of private credit has not been driven by private money creation. That is what we saw before the GFC, and it is why markets became so self-referential.

The private credit furore could lead to a bit of a credit crunch, making it harder for both good and bad corporate borrowers to access capital.

Private credit firms will become pickier about the borrowers they lend to, and may remove capital from others – after doing the credit checks they should have done in the first place.

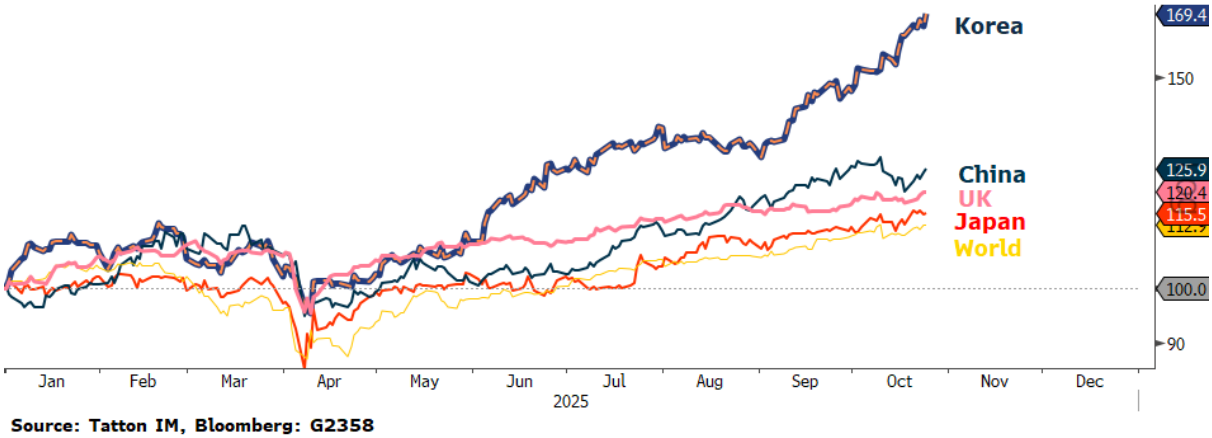
They may also find it more difficult to get investors to give them additional capital. Anecdotally, we have noticed private market firms reaching out to more retail-focussed institutional investors like ourselves, which suggests they may be finding it harder to get money from their traditional sources such as family offices, sovereign wealth funds and large pension funds.

But unlike in 2008, ultimately the nature of private markets is that (most) money will remain in the system. We should not be complacent, but that money supply is why a private credit crunch is likely to be a wobble, not a collapse.

What Britain can learn from Korean markets

South Korea has been one of the world's best performing stock markets this year. The KOSPI index is up an astonishing 70% since the 'Liberation Day' global sell-off in April. That rally has picked up pace this month and shows no sign of stopping. This has been unscored by supportive government reforms, which could be a lesson for the UK's beleaguered equity market.

South Korea equities and peers
Bloomberg indices, large and mid cap total return GBP terms YTD



Source: Tatton IM, Bloomberg: G2358
KRL Index (Bloomberg South Korea Large & Mid Cap Price Return Index) Korea equity peers YTD Daily 31DEC2024-31DEC2025 Copyright© 2025 Bloomberg Finance L.P. 24-Oct-2025 11:27:01

Investors' aversion turns to adoration

The KOSPI soaring through all-time highs would have seemed like a pipe dream a year ago. It was only last December that former president Yoon Suk Yeol declared martial law, attempted to arrest political rivals (including some in his own party) and essentially upend the democracy that has lasted since 1987.

The National Assembly quickly moved to impeach the president, but the ensuing legal process was long and damaging for the ruling People Power Party. South Korea went through three acting presidents before an election was held in June of this year. When it finally came, the centrist Democratic Party won the presidency.

Korean stocks were the most heavily sold of all emerging markets earlier this year, according to data from Daishin Securities Co. and Bloomberg. That was more about Donald Trump's tariffs than the domestic government; foreign investors reportedly sold around $10 billion worth of Korean shares after April's 'Liberation Day'.

Since then, Korea has become one of the most sought after markets, with $9.2bn foreign inflows since the start of autumn. It is “the leading emerging-market rally”, according to analysts at Franklin Templeton. Much of that is focussed on Korea’s tech sector, particularly its chipmakers. The biggest names, like Samsung and SK Hynix, have benefitted from the AI investment theme. But unlike US brands, Korean tech companies still have relatively low valuations – suggesting there is further room run.

Market reforms reinforce the rally

It is not all about chips. Korea’s rally has broadened in recent weeks – reflected in the KOSPI’s surge. Sentiment has been helped by the IMF’s upgraded growth forecast for 2025, and news that a US-Korea trade deal is close. President Trump said as much this week, and will head to Korea for the APEC summit at the end of this month.

Underlying this positivity has been a strong reform push from Korea’s government. In the summer, Seoul passed corporate governance reforms which expand company directors’ duties to shareholders. This accountability should ultimately mean greater profitability for Korean companies. We have written about Japan’s corporate reforms recently, and how they are finally benefitting both share prices and the wider economy. Korea is now in a similar process.

Just this week, there were reports that the government wants to change its capital markets framework (by applying its dividend tax framework to high dividend funds, rather than just individual stocks). The idea behind this reform is to encourage Korean retail investors to buy the domestic stock market, rather than hold their savings in low-yielding bank deposits.

If it works, this should create a virtuous cycle. The recent rally, combined with reforms, should prove the value of equity ownerships to Korean savers. Once more of the savings pool goes to domestic companies, they have easier access to finance and more opportunity for growth. That, in turn, makes those companies even more attractive to foreign investors.

Lessons for the UK?

This dynamic might sound familiar. The UK government is currently trying to start that cycle here, in the hope of curing the malaise in UK equity markets. As we have written before, the UK’s stock market problems essentially trace back to a lack of trading liquidity: there is not enough money in the market to buy up stocks quickly, which makes those stocks riskier. That added risk hurts equity valuations, making the UK a less attractive place for companies to list their shares. This is why so many British companies are opting to list abroad, particularly in New York.

There have been improvements on this front. The government clearly wants to encourage Britons to buy domestic stocks – and recently announced that newly listed companies would be exempt from the trading stamp duty for two years. A better way to encourage liquidity would be to remove stamp duty altogether, as is the case in other major stock markets. For those of us who invest over the long-term, a brief stamp duty holiday does not make much difference.

Now, making stocks cheaper to trade does not automatically mean people will want to buy them. Korea's rally was also tied to its globally competitive chipmakers, for example. But Britain certainly has attractive companies – as evidenced by the FTSE 100's strong performance this year.

In the run-up to the autumn budget, the Treasury has floated a proposal to reduce the amounts that can be held in cash ISAs. This might have the effect of pushing retail savings towards longer-term savings, but is more stick than carrot.

To reinvigorate our equity market, we need reforms to ensure more liquidity. Those reforms will look different to Korea's, but it is a strong reminder that making trading conditions more attractive – and incentivising people to invest their savings – can benefit everyone.

Tatton
Investment Management

24 October, 2025

Global Equity Markets	24-Oct			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	9602	+2.5	+2.5	↗ ↗	3.2	14.4	13.2	12.8
UK FTSE 250	22421	+2.8	+2.8	→ ↗	4.0	14.0	12.5	13.6
UK FTSE All-Share	5192	+2.5	+2.5	→ ↗	3.3	14.3	13.1	12.9
FTSE Small x Inv_Tsts	6171	+2.7	+2.7	→ ↗	4.2	18.2	11.4	11.4
France CAC 40	8204	-0.0	+0.4	↗ →	3.2	17.0	15.7	13.9
Germany DAX 40	24219	+1.2	+1.6	→ ↗	2.4	17.6	15.7	13.2
US Dow	47142	+2.4	+3.1	↗ ↗	1.6	22.2	20.4	17.6
US S&P 500	6797	+2.6	+3.3	↗ ↗	1.2	25.7	22.6	18.8
US NASDAQ comp	23210	+3.0	+3.7	↗ ↗	0.6	37.1	29.8	25.1
Japan Nikkei 225	49300	+3.5	+2.8	↗ ↗	1.5	24.3	23.0	18.2
World Bloomberg	2329	+2.2	+2.9	↗ ↗	2.2	18.5	16.1	14.6
China mainland	4661	+2.5	+3.3	↗ ↗	1.6	22.8	20.3	17.3
Emerging Bloomberg	1526	+2.1	+2.8	↗ ↗	2.4	18.1	14.8	12.4

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
London Stock Exchange	+14.5	Edenred	+25.6	Tech	+2.0	Staples	+0.2
Rentokil Initial	+10.6	Intuitive Surgical	+24.0	Financials	+1.8	Energy	+4.1
Howden Joinery	+9.2	Halliburton	+22.0	Health	+1.8	Materials	+1.0
Segro	+8.4	Las Vegas Sands	+19.3	Discretionary	+3.1	Utilities	-0.1
Persimmon	+7.9	Metso Oyj	+18.7	Industrials	+3.0	Real_Estate	+1.7
Barclays	+7.8	General Motors	+18.7	Communication	+1.0		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Fresnillo	-7.2	Pop Mart International	-15.7	UK Govt 5yr Gilt	3.90	-0.08
Endeavour Mining	-6.4	Molina Healthcare	-14.1	UK Govt 10yr Gilt	4.43	-0.10
Coca-Cola HBC	-2.5	STMicroelectronics	-12.5	UK Govt 15yr Gilt	4.83	-0.12
easyJet	-1.3	Dassault Systemes	-11.8	US Govt 10yr Treasury	4.00	-0.01
Diageo	-1.2	VeriSign	-10.9	France Govt 10yr OAT	3.43	+0.07
Antofagasta	-1.0	Deckers Outdoor	-10.8	Germany Govt 10yr Bund	2.63	+0.05
				Japan Govt 10yr JGB	1.65	+0.03

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	24-Oct	24-Sep
USD per GBP	1.334	-0.7	Oil Brent $:bl	66.38	+8.7	UK BoE base rate	4.00	4.00
GBP per EUR	0.872	+0.4	Gold $:oz	4108	-3.6	2yr fixed	4.12	4.13
USD per EUR	1.163	-0.2	Silver $:oz	48.72	-6.7	3yr fixed	4.20	4.12
JPY per USD	152.83	+1.5	Copper $:lb	509.2	+3.0	5yr fixed	4.13	4.14
CNY per USD	7.128	+0.0	Alumnm $:mt	2871	+2.9	10yr fixed	4.62	4.49
USD per Bitcoin	110,839	+4.2	Agriculture BBG	54.89	+1.5	Standard variable	6.86	6.86

Prices taken today's current level and final close last week.
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.
Mortgage estimates are derived from sterling swaps markets and moneyfacts.co.uk

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Lothar Mentel