



A VIEW FROM THE SQUARE

SEPTEMBER 2025

Diverging Interest Rates

A widely held view is that geopolitics does not often deeply affect market sentiment. However, Autumn could be an interesting test for markets as the approach of Autumn, and the return of holidaying investment professionals often leads to a review of accepted views. September and October can be tricky months for market securities. This year we seem to be witnessing something resembling a coalition of militarized nations who are not behaving as if they have the West's best interests at heart. The inconsistent behaviour of our strongest ally, the United States is creating further anxiety.

President Putin appears to have no desire to stop his unjustifiable invasion of Ukraine and continues to make dire threats should the West attempt to interfere directly. Articles continue to appear regarding the acceleration of the expansion of China's navy, and the unstable regime of North Korea is being brought in from the cold by these two superpowers. The retiring head of the UK's armed forces Sir Tony Radakin offered some balance to these concerns by indicating that he thought Europe was relatively safe for the next few years. However, economic professors maintain that military spending, which Europe plans to increase substantially, has one of the lowest catalytic factors to economic growth in a major economy.

With US and UK debt standing at an alarming proportion of each nation's Gross Domestic Product (GDP), and both nations' domestic budget deficits increasing, there is a growing threat to financial stability. Interest rates have recovered substantially from Covid levels and debt interest is consuming an alarming proportion of tax revenue of both countries. The short term remedy of reducing interest rates produces an immediate salve to this burden, but the market is sending out a signal that this is not sustainable in the long term as interest rates on 30 year maturity bonds seem to rise inexorably.

While these forces seem to suggest that a recession of some kind cannot be put off indefinitely there are some useful havens providing shelter. We have mentioned before short dated Government bonds standing at a discount to their maturity or repayment value. Such potential gains (although relatively modest) have the benefit currently of being tax free to private individuals whose funds are not sheltered in ISAs or private pensions. We have also mentioned Gold as a store of value and this investment option continues to appeal in the current climate. Equities still have their place but increasingly attention has to be paid to current valuation levels. We continue to believe that attractively priced shares can offer shareholders an attractive distribution yield (both a decent immediate dividend yield and also employing a meaningful share buyback policy). The US has, until now, also offered an interesting alternative of providing growth stocks that appear to be growing fast and offering apparent value in historic terms. This may continue for a while, particularly if interest rate cuts can be delivered, but memories of the dotcom boom suggest that a degree of caution is required here.

We believe that on balance the element of core portfolio security should be strengthened and particularly where conservative strategies have been agreed. As mentioned above other opportunities do exist and we will be focusing on these options as they arise to also offer growth opportunities for your portfolio.

William Forsyth
Executive Chairman & CIO
8th September 2025



Important Information

Opinions constitute our judgement as of this date and are subject to change without warning. Neither CS Managers Ltd, Charlotte Square Investment Managers nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon any information contained in this document.

Charlotte Square Investment Managers is a trading name of CS Managers Ltd, 43 Charlotte Square, Edinburgh EH2 4HQ. CS Managers Ltd is authorised and regulated by the Financial Conduct Authority CSFP20 0925

43 Charlotte Square
Edinburgh EH2 4HQ

T. 0131 624 7709
investments@csmanagers.com