

Another brick in the wall “Feel the fear and do it anyway” has paid off in stock markets



John Wyn-Evans, Head of Market Analysis

A well-worn stock market adage is that a bull market climbs a wall of worry. For now, it seems, the more courses of bricks that are added the better, because many equity markets around the world have reached new all-time highs over the past month.

Sovereign bond markets also found some support, despite persistent concerns about high government debt. And yet, the strongest commodities during the third quarter were silver and gold, precious metals considered safe havens in times of stress. The worst was oil, which might seem improbable, given Middle Eastern events – but the price was kept down by plentiful supplies. This has been a helpful restraint on inflation expectations.

From a fundamental investment perspective, the best news has been companies' consistent ability to generate profit growth. The latest company results season showed this once again. US technology companies have led the growth. Investors regard their adoption of artificial intelligence (AI) as an increasingly important component of this.

Owners of financial assets continue to benefit from rising stock markets. None more so than in the US, where government sources reported a near \$7tn increase in

household net worth in the second quarter of 2025. The collective US household balance sheet is in rude health. But we're seeing weakness in some areas of the economy, with signs of increasing defaults on things such as credit card debt, and car and student loans.

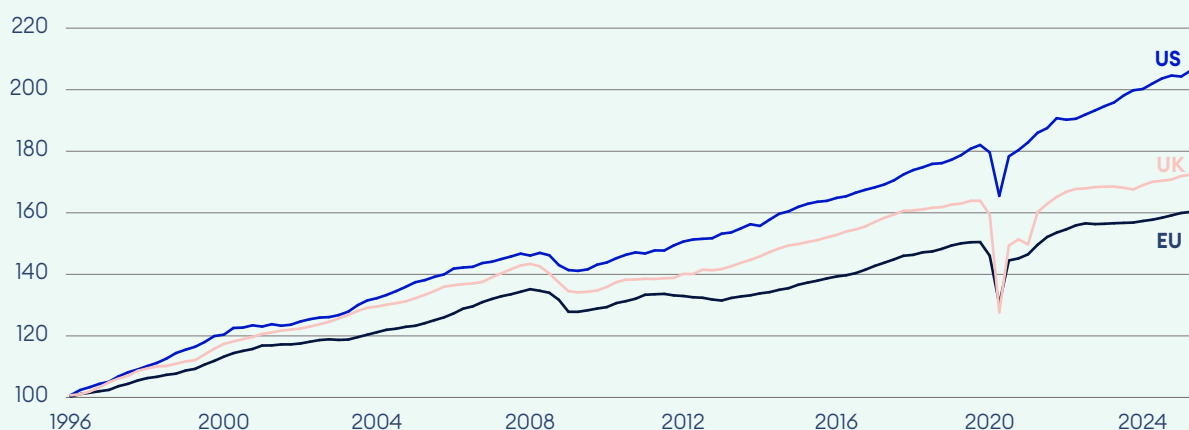
US: poles apart

Republicans and Democrats weren't able to agree on spending commitments in the new fiscal year that started in October, so the government went into a shutdown. That's not quite as extreme as it sounds, but it does mean furloughing around three-quarters of a million federal workers.

A shutdown is by no means a rare event, in the historical sweep – and it promises to become more frequent in an increasingly polarised political environment. Much of the disagreement is based on Republicans' desire to reduce various healthcare benefits, which Democrats strongly oppose. Although the proposals passed the House (which has a small Republican majority), they're now stuck in the Senate, where 60 votes are required to overcome a filibuster. The Republican majority is 53-47. Historically, shutdowns have averaged eight days, but the last one (in 2018) lasted 34. A rule of thumb is that a week-long shutdown trims around 0.1% to 0.2% from

Figure 1.1: Turning around the supertanker

GDP growth in the European Union lags the US. Implementing the Draghi report could help close the gap.



Source: LSEG, Rathbones. Rebased to 100.

GDP growth. Usually, an off-ramp is found, allowing both sides to claim some sort of victory.

UK: careful with that axe, Rachel

Most UK investors are focused on the Budget, arriving 26 November. That leaves time for both the UK's economy and its fiscal situation to deteriorate further (or, to look on the bright side, possibly improve). Capital Economics, a consultancy, expects a fiscal shortfall relative to previous expectations at £20bn-30bn. So there will have to be either tax increases or spending cuts – probably a combination.

In any event, Chancellor Rachel Reeves is under pressure to produce a Budget that calms the nerves of bond investors while not weighing too heavily on growth, which is already sluggish. In the weeks ahead, we'll publish much more on both the financial market and financial planning implications. Please keep an eye on the website for updates.

Europe: high hopes

The European economy is like a supertanker: it tends to remain on a defined course for ages and then needs a long time to turn around. It also takes a while for messages from the captain to be transmitted to the crew, who then argue amongst themselves about how they should be implemented (admittedly, not on the best-run ships).

The captain, in this case, might be former Italian Prime Minister and ex-President of the European Central Bank, Mario Draghi. He delivered a stinging report in 2024, with strong recommendations about how to improve EU investment, innovation and productivity – and through that, GDP. As at September 2025, only 43 of 383 recommendations had been fully implemented,

with another 77 partially so and 176 “in progress”.

That leaves 87 awaiting attention. Even so, for now, we retain a positive stance on European equities and the euro. Reasons for this include fiscal expansion by Germany, the continent's largest economy, the partial federalisation of broader investment in defence, and strong equity market momentum.

The final cut

We came into this year highlighting the potential for portfolio appreciation in line with long-term averages, but with increased volatility. That's how things are turning out. Even so, it would have been easy to be scared out of risk assets along the way. But even when things looked most gloomy, we've always tried to ask ourselves “what could go right?”

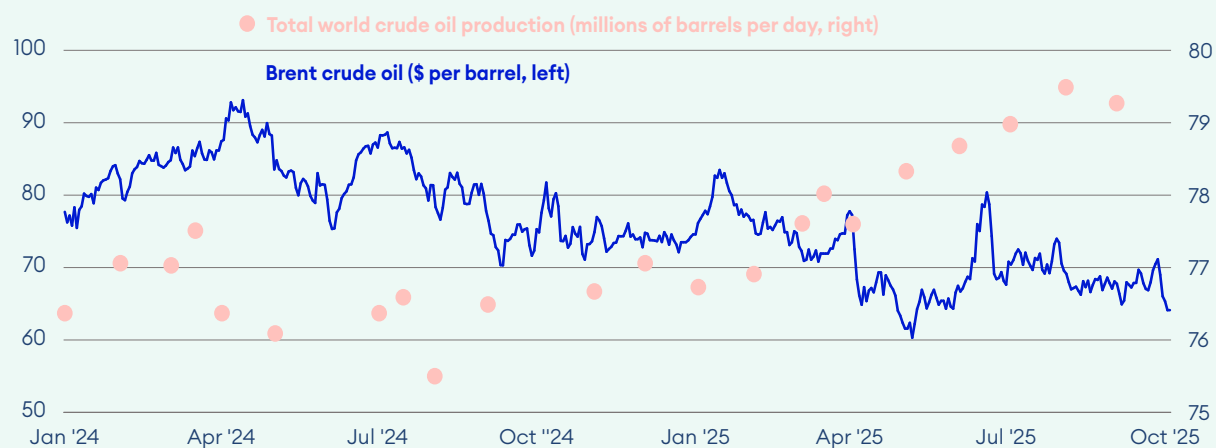
For all the problems he causes financial markets at times, President Trump is interested in higher financial asset prices – or at least attempts to halt a major bear market. Although inflation hasn't returned to target in the world's largest economy, it's well off its highs. Central banks have scope to cut rates should they need to. The AI spending boom looks set to persist. It will be surprising if this doesn't boost productivity in the long run, even with caveats about short-term adoption.

Investing is more like a steeplechase than a flat race, although the obstacles tend not to be placed at regular intervals. While it's tempting to spring between them, it's just as important to conserve enough energy to clear the hurdles, if not more so. Diversified portfolios fulfil this imperative, whether through a suitable mix of different asset classes or exposure to different types of company and industry.

With my thanks (and apologies, in one case) to Pink Floyd for help with the subheadings.

Figure 1.2: Sloshing around

The oil price is weak because of strong supplies.



Source: LSEG, US Energy Information Administration, Rathbones

Seeking experience

Growth opportunities in the travel and leisure sector



Richard Board, Equity analyst for travel and leisure

Even with inflation and slowing growth in some regions, travel and leisure spending has held up well. The industry is adapting fast, with digitisation, new business models and evolving consumer behaviour all playing their part. For investors, this landscape creates both opportunities and risks to watch closely.

What are the key trends shaping the sector?

Spending on travel and leisure has rebounded strongly since the Covid pandemic, proving resilient even in the face of cost-of-living headwinds. Consumers are seeking experiences over material goods.

The result is structural growth in many different markets, including live events, dining out, gambling and hotel stays. Business travel has also recovered, but seems to have settled at a structurally lower level than before. That's because the move towards online meetings reduces the need for frequent corporate trips. This has been partly offset by the rise of trips that combine business and leisure.

Digitisation continues to reshape the industry more generally. Companies such as Booking.com and Airbnb have strong positions in accommodation search and booking, taking share from traditional bricks-and-

mortar travel agents. Hotels also continue to invest in technology to improve their offering to guests, from mobile check-ins to digital room access.

In the future, AI-driven searches will streamline the booking process and personalise trips and experiences. AI can analyse past searches, bookings and reviews to suggest hotels, flights and experiences that fit a traveller's preferences and budget. For gambling companies, digitisation is making it easier for customers to place bets online, giving them more ways to bet, and creating more markets. It's also making the experience of buying concert tickets easier and more personalised.

What developments should clients know about?

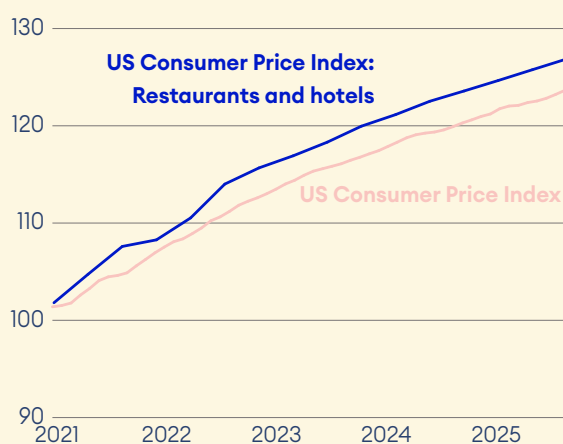
Prices are higher than before the pandemic. This reflects capacity constraints, cost inflation and strong consumer demand. Hotels have managed to maintain strong average daily rates because of healthy numbers of bookings, aircraft are full and demand is high for restaurants and live events. Although there's structural growth in the sector it's still largely a cyclical business, so we need to monitor how the sector will be affected by weakening economic data. For example, recent US data has softened slightly, with worries about the labour market, though US demand for travel and leisure remains strong.

How are these trends affecting valuations?

This is an incredibly diverse sector, so there are always pockets of strength and pockets of weakness. Investor sentiment is usually strongest for companies with attractive business models and clear paths for profitable growth. Hotel chains that are adding rooms and new hotels, and restaurant chains adding new outlets, fit this description. So too do online travel agents and gambling stocks. These businesses tend to trade at higher valuations, such as higher price-earnings ratios, than more cyclical or capital-intensive parts of the sector. The major hotel brands are capital-light because they don't own their hotels – instead they operate franchise models. In contrast, sentiment is weaker in areas where earnings are volatile and where cost-of-living pressures are greater. Revenue at airlines and package holiday companies is often hit when household finances are under pressure.

Figure 2.1: Healthy appetite

Restaurants and hotels in the world's largest economy have kept pricing power.



Source: OECD, US Bureau of Labor Statistics, Rathbones

Are there any emerging risks or opportunities?

Digitisation is an opportunity, with AI and mobile channels improving personalisation and the customer experience. But also it raises the risk that online travel platforms could be cut out, as Google and other technology companies aim to capture more of the booking life cycle. Concerns about sustainability and social issues could affect consumer demand and result in regulations that pose challenges for companies. An example is laws restricting short-term rentals to reduce overcrowding in tourist hotspots and pushing locals out of the property market.

Are there parts of the sector that are particularly promising for investors?

Online travel agents continue to gain market share from both bricks-and-mortar agents and direct hotel bookings. The sector has a duopolistic market structure, with Booking.com and Expedia dominant. They have attractive business models that are highly scalable and high profit margins. We also see attractive opportunities in live event ticketing, which benefits from a similarly favourable market structure and business model. Franchised hotel chains have good earnings visibility: they have a fairly clear idea of what their growth rates will be over the next two or three years as the number of new hotels and rooms added to their systems is agreed years in advance.

What's the best investment strategy?

When it comes to client portfolios, we suggest staying selective, concentrating on the less cyclical stocks.

Booking habits

"I haven't spoken to a travel agent in years because I do all my research on destinations, hotels and activities online, using travel platforms or tools like ChatGPT. I can't remember the last time I stepped into a travel agency or picked up the phone to book a holiday. The convenience, breadth of choice and user reviews make these platforms hard to replicate, underlying their competitive strength. Looking ahead, I hope AI can help me quickly find the best hotel or holiday tailored to my own interests and requirements."

Richard Board

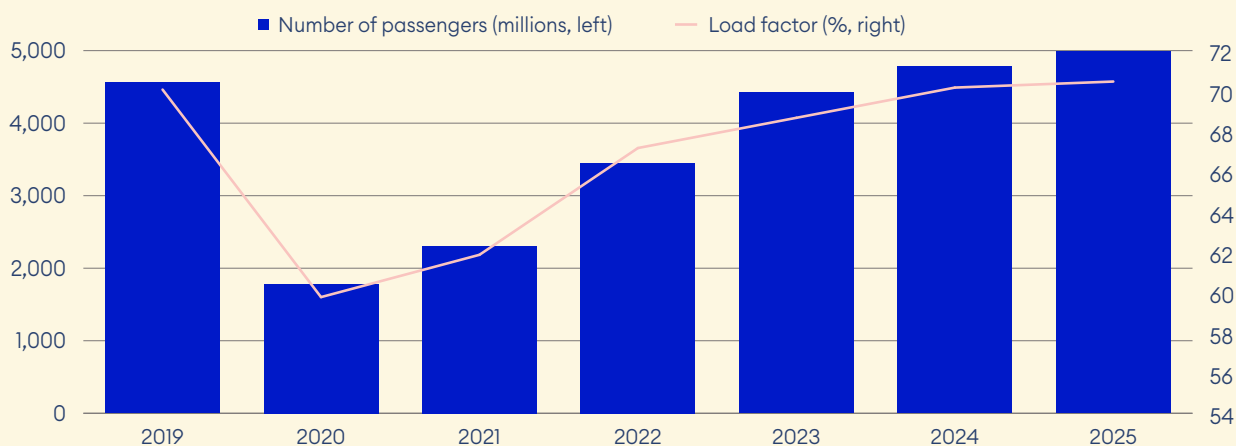


What are we watching in the short term?

We're keeping an eye on how resilient consumer spending is. So far this has stayed strong despite softer economic data and relatively high inflation in many countries, driven partly by US tariffs. We'll monitor booking volumes for hotels, airlines and live events to see how they're affected by the economy. We'll keep a watch on whether tariffs are putting pressure on profit margins.

Figure 2.2: Taking off

More people are flying and planes are more full, though we're wary of the industry's cyclicalities.



Passenger numbers measure 'segment passengers: a single flight between two cities with a single flight number. A passenger's complete journey may involve multiple connections, meaning multiple segments. The 'load factor' shows how full a flight is. Figures for 2024 are estimates and for 2025 are forecasts.

Source: International Air Transport Association, Rathbones

Counting the cost

Why a wealth tax looks unlikely and what might happen instead



Oliver Jones, Head of Asset Allocation

Adam Smith, founding father of economics and epitome of an absent-minded professor, may not have been great at making a cup of tea. He once put bread and butter in a teapot, drank the result, and decried it as the worst cup he'd ever tasted.

But Smith wrote a great deal of sense about tax in *The Wealth of Nations*, his 1776 magnum opus. A good tax should, wrote the brilliant Scot, be both cheap to collect and levied in a way “convenient for the contributor.” In other words, it should keep their practical and administrative cost, in time and money, to a minimum.

How does the wealth tax recently proposed by 37 MPs measure up? Collecting a recurring wealth tax would require the accurate valuation of all manner of assets, for a large number of people – and every year. This includes things that may, unlike shares traded on the stock market, have no clear market price. Examples are art, intellectual property and private companies.

The burden would be high, and the scale of such costs has often been cited as a reason for scrapping wealth taxes elsewhere.¹ Many people who ultimately

do not pay the tax would need to obtain valuations to determine their (non-)eligibility. Experts have estimated the initial set-up cost for the government at nearly £600mn, with compliance and administrative costs to taxpayers of £700mn a year. This assumes a tax on wealth above £10mn, but the cost could be higher still if the threshold were set at a lower level of wealth (figure 1).

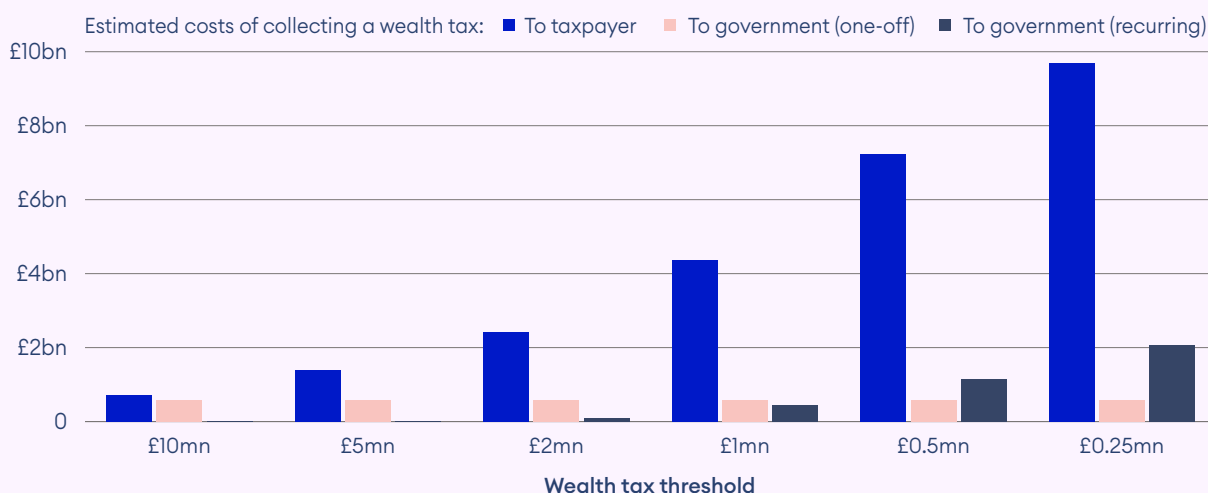
Wealth taxes are also particularly *inconvenient* for the contributor, to borrow Smith's phrase. People with wealth tied up in illiquid assets could find it hard to pay in any given year. Two studies from Norway and one from a wider set of countries show that private firms whose owners are subject to wealth taxes pay their owners substantially higher dividends, to help them meet tax liabilities. Because of this, those firms invest less and therefore grow less.²

Displeasing distortions

Taxes incentivise people to change their behaviour, in ways that sometimes cause problems. Wealth taxes may encourage people to move elsewhere, or to shift into assets treated relatively favourably by – or exempt from – the tax. The scale of these distortions is

Figure 3.1: An idea weighed down by costs

A UK wealth tax would be expensive to collect and to comply with.



Source: *A wealth tax for the UK* by Arun Advani, Emma Chamberlain and Andy Summers (2020), Rathbones.

extremely hard to predict, with the range of estimates from recent international experience very large. In by far the most detailed study of a potential wealth tax in the UK, the authors argued that a “well-designed” wealth tax of 1% would shrink the taxable base of assets by between 7 and 17%.³ That’s a very large distortion – equivalent to at least £100bn shifting outside the UK or into less productive assets. And the effect could plausibly be much larger. The wealth tax proposed recently has a 2% rate, not 1%. And the UK’s history as a popular destination for wealthy people, and investment, from overseas suggests that the stock of wealth here may be particularly mobile.

Learning from international experience

In part because of these downsides, wealth taxes have become rarer in high-income countries (figure 2). In the early 1990s, twelve levied one. Now there are just three: Spain, Norway and Switzerland. Spain and Norway raise comparatively little revenue through their limited wealth taxes, far less than UK advocates anticipate. Switzerland’s wealth tax takes in much more money (1.2% of GDP). But we don’t think Switzerland’s wealth tax is a realistic model for the UK, because the rest of its tax system is completely different. Tax on income, dividends, and inheritance is minimal, and there’s no capital gains tax on most non-property assets. Its wealth tax is levied *instead* of other taxes, not *in addition* to them as it would be in the UK.

What are the alternatives?

The Chancellor’s tough fiscal situation and commitment not to raise taxes on “working people” leaves no easy options for the Autumn Budget, but a wealth tax still doesn’t look an appealing option. When the Labour government of the 1970s pledged to introduce one, then-Chancellor Denis Healey

eventually concluded that it was “impossible to draft one which would yield enough revenue to be worth the administrative cost and political hassle”.

We cannot know for sure what the Chancellor will choose to do instead. She may be tempted to make further changes to inheritance tax, following the reduction of various exemptions in the 2024 Budget. Another alternative not directed at “working people” is higher taxes on property, especially higher-valued property. When France abolished its wealth tax in 2018, it replaced it with a property tax. There would be no need for the new, complex valuation apparatus that a wealth tax would require. And property is the hardest form of wealth to shift beyond the taxman’s reach.

One idea that’s reportedly being considered is charging national insurance on rental income. Another is to reform or entirely replace council tax so that the most valuable properties are taxed much more. That would be a continuation of the trend we identified in our [Don’t bet the house](#) report, of progressively tougher taxation for investors in bricks and mortar. As we argued there, it’s another reason why we think that a diversified portfolio of financial assets makes more sense for most investors than relying on property.

Sources and further reading

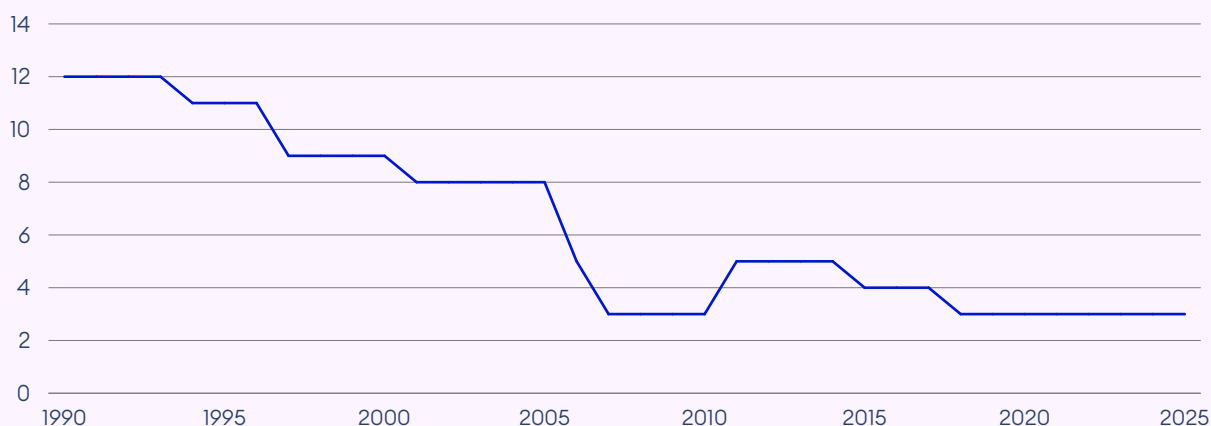
¹ *Why were most wealth taxes abandoned and is this time different?* by Sarah Perret (2021)

² *Shareholder illiquidity and firm behaviour: financial and real effects of the personal wealth tax in private firms* by Janus Berzins (2022); *Liquidity effects of the Norwegian wealth tax* by Jens Christian Ebeltoft and Nicolai Johnsen (2022); *Individual wealth taxes and corporate payouts* by Raúl Barroso, Donald N’Gatta and Gaizka Ormazabal (2023)

³ *Behavioural responses to a wealth tax* by Arun Advani and Hannah Tarrant (2020)

Figure 3.2: Wealth taxes on the wane

The number of OECD countries levying a wealth tax today is much lower than a generation ago.



Source: OECD, Rathbones

Snapshot

The global economy and markets

Figure of the month

28%

The proportion of German intercity trains more than 10 minutes late. This rate is worse than the UK's at 22%, and reflects Germany's crumbling transport network. German plans to increase infrastructure spending – including €10.5bn on the rail network in 2025 – are likely to boost its economy, presenting investment opportunities.

At a glance

4–4.25%

US Federal Funds Rate

2.9%

Annual rise in US consumer inflation

45.6%

Year-to-date rise in gold price to end of September

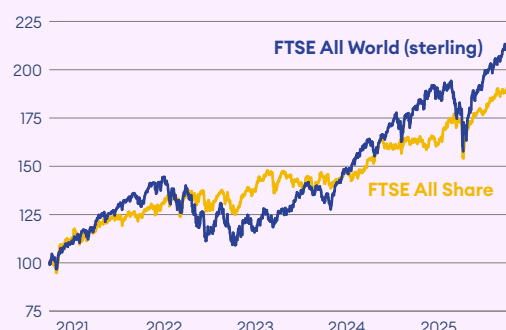
0.5%

Annual decline in number of UK payrolled employees

Key market indicators

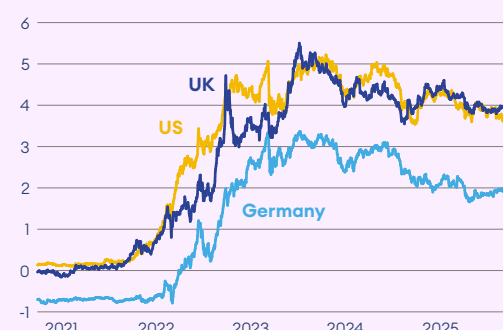
Equities

Total return in local currencies (1 Oct 2020 = 100)



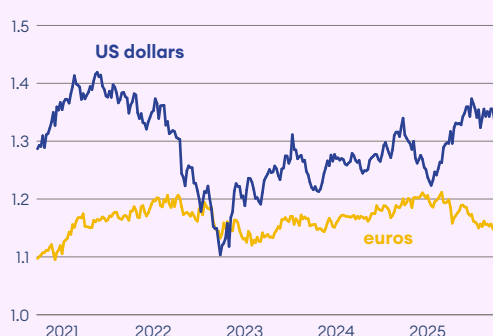
Government bonds

2-year yields (%)



Sterling

Value of £1 in US dollars and euros



Corporate bonds

Option-adjusted spread over government bonds (pp)



Sources: Bank of England, Factset, LSEG, ONS, Rathbones

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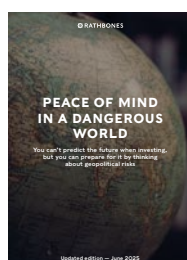
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