



# Investment Insights

Our monthly look at what's driving global markets

**Nervous optimism**

\$5 trillion and counting

**No golden opportunity**

Why we don't recommend cryptoassets for portfolios

**Building prosperity**

Five ways to boost UK investment and growth

# Quicktake

## In this month's issue

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### **Nervous optimism**

#### **\$5 trillion and counting**

Global equities rose again in October, driven by the strength of major US technology stocks and continued enthusiasm for artificial intelligence.

US chipmaker Nvidia briefly reached a \$5 trillion market valuation.

Despite stretched valuations, earnings growth remains solid, though gains are concentrated in a handful of large tech companies.

Political tensions between the US and China caused brief market volatility but were quickly eased after a summit meeting.

With most major central banks cutting rates, markets are still climbing, supported by optimism but shadowed by concentration risk and fragile sentiment.

Read the full story on page 3.

### **No golden opportunity**

#### **Why we don't recommend cryptoassets for portfolios**

Bitcoin has delivered average annual returns of 61% over the past five years, but such performance masks extreme volatility and risk.

Cryptoassets have failed to become a practical means of exchange or a reliable store of value, with bitcoin use in everyday transactions remaining negligible.

Their prices appear driven mainly by speculation rather than fundamentals, often reflecting gambling-like behaviour among investors.

The relative anonymity of cryptoassets has also fuelled demand linked to sanction evasion and other illicit activity, adding to their instability.

Overall, cryptoassets tend to move in line with equities but with far greater volatility, offering no diversification benefits and little value for long-term investors.

Read the full story on page 5.

### **Building prosperity**

#### **Five ways to boost UK investment and growth**

Rachel Reeves faces major constraints ahead of the 26 November Budget, with high debt, rising borrowing costs and growing demands on health, pensions and defence spending limiting her options.

Weak economic growth is reducing tax revenues and heightening the risk of a vicious cycle where higher taxes further slow growth; boosting productivity through greater investment is the only sustainable solution.

The UK consistently lags its peers in both corporate and government investment, underscoring the need for policies that channel more capital into productive assets.

The article sets out five recommendations: encourage pension funds to invest in private assets; reject a wealth tax; reform business taxes to support growth; improve infrastructure and planning; and reduce property transaction taxes.

Taken together, these steps could strengthen long-term growth, attract investment, and make the UK economy more dynamic and competitive.

Read the full story on page 7.



### **Snapshot**

#### **The global economy and markets**

Key facts and figures from around the world, including China's dominance in rare earth refining, recent inflation and employment data, and movements across equities, bonds and commodities.

Find out more on page 9.

# Nervous optimism \$5 trillion and counting



John Wyn-Evans, Head of Market Analysis

Last month, we commented on equity markets climbing a wall of worry. They've continued to scale new heights, albeit with the odd wobble.

The latest height is \$5 trillion – note the 't'. US chipmaker Nvidia briefly topped this in October, with two other US tech companies, Apple and Microsoft, above \$4tn.

These numbers are too big for many to compute. But to give some context, only the US and China have economies that are bigger (using 2024 numbers) than Nvidia's peak value.

The main driver behind the relentless rise of the largest US stocks is still artificial intelligence (AI), although Apple's recent surge has more to do with strong demand for its latest iPhone (perhaps through which customers will access AI-related services).

Although valuations are elevated, with the S&P 500's forward price/earnings ratio now at 23x, it's hard for the bears to argue with the fact that earnings growth remains strong. The narrowness of returns is a concern, but not sufficient reason to be negative.

Even so, the lack of support from the parts of the market not supported by AI needs monitoring. The equal-

weighted version of the S&P 500 index (if each stock makes up one five-hundredth of the index) has risen just 2% over the last three months, while the market cap weighted measure is up 8%. The Magnificent Seven ultra-valuable US tech stocks are up 17% over the same period, with the other 493 only 5% higher.

Investor nervousness about the US market, as shown in surveys from US investment bank Goldman Sachs and others (figure 1.1), highlights growing unease. Sooner or later, they'll want to see tangible evidence that the benefits of AI are reaching the companies paying for it, not just those providing the technology or the materials used to build data centres.

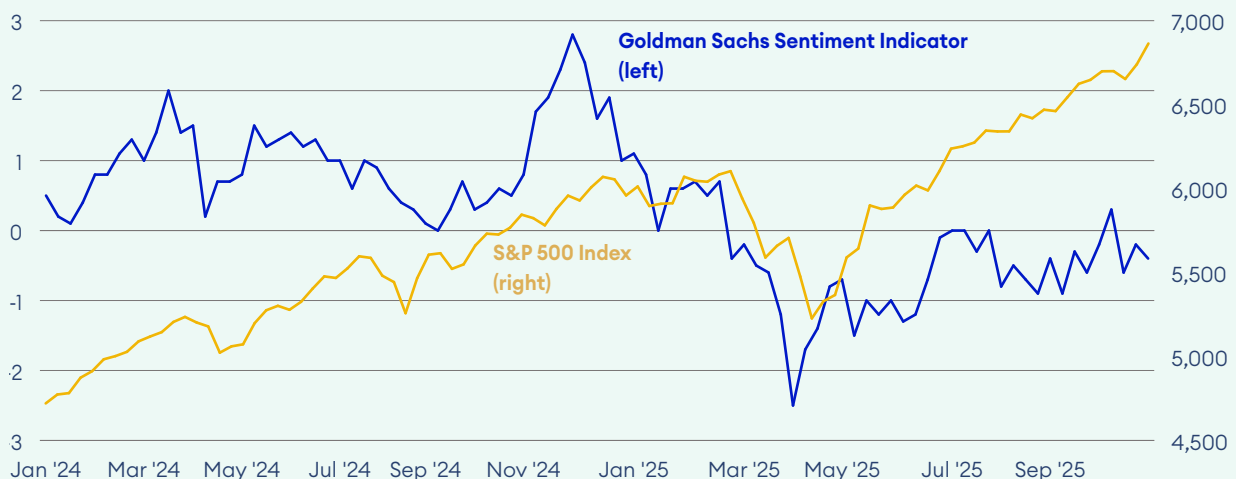
### Clear and President danger

The three key people driving global market sentiment are Presidents Donald Trump of America, Xi Jinping of China and Vladimir Putin of Russia. The latest escalation of trade tensions involving the first two of these men was the cause of October's biggest market upset, although that bomb was quickly defused at a summit meeting between them.

China holds a very strong card: a dominant position in the global production and refining of rare earth

**Figure 1.1: Climbing the wall of worry**

US stocks have continued rising, despite bearish sentiment.



Source: Goldman Sachs, Rathbones

minerals, which are crucial in the manufacture of many high-tech products. Although there's a race on to diversify supplies, it will take time to establish a new supply chain. It's also worth noting that the US's last rare earth mining and refining assets were closed because of their negative environmental impact, so one might expect some opposition to restoring them, although not from Trump.

China, on the other hand, still needs important technology and defence components from the US and so as a quid pro quo it withdrew its rare earth export restrictions, according to media reports. It also agreed to stem exports of the chemical ingredients for fentanyl production (as opioid drugs continue to inflict huge damage on US society) and to buy more soya beans from US farmers. The new pact is set to run for a year.

**Hawks vs doves**

With the notable exception of Japan, which has exited a multi-decade period of deflation, the majority of the world's central banks have been cutting interest rates. The main question is not if, but how soon or how far. The US Federal Funds rate set by the Federal Reserve (Fed) remains the most important for global investors; the Fed delivered its second quarter-point cut of the year in October. However, this was accompanied by a statement from Chair Jerome Powell that a further cut in December was not a foregone conclusion, much to the market's surprise.

It's possible this was an attempt by the Fed to assert its independence amid pressure from the White House to loosen monetary policy more aggressively, but there are unusual signs of division amongst the voting members rather than the usual unanimity. It certainly seems counterintuitive that interest rates are being

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We're sticking to our guns,  
by investing in 'quality'  
companies  
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cut with the stock market at all-time highs, but there are signs of weakness in the labour market as well as financial stress among lower-income households.

The market for interest-rate futures sees the effective Fed Funds rate as close to 3% by the end of 2026, vs 3.87% today. The UK base rate is also heading lower. Market pricing suggests another three quarter-point cuts over the next year to 3.25%. Cuts could well be accelerated if the Budget imposes heavy fiscal tightening. We've seen some evidence of that expectation being priced in, through the recent fall in the value of the pound vs the dollar and the euro.

With the European Central Bank having cut more aggressively already, against a background of weaker growth and lower inflation, investors are putting the odds of another cut (from 2%) at just 50/50.

Falling interest rates don't guarantee rising prices in financial assets. However, in the absence of concrete reasons to think otherwise, we should consider rate cuts as creating a helpful tailwind.

**Polarised exploration**

The investment landscape is increasingly polarised and confusing. Poor sentiment clashes with buoyant share prices. There are worrying signs of speculative activity reaching unsustainable levels, but the momentum of markets remains positive and this is rarely worth fighting too aggressively – if markets are tending to go up, it can take a lot to change this.

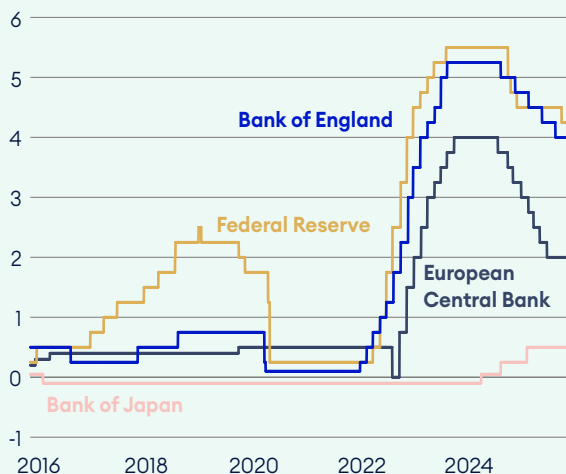
Valuations are certainly high in the US (and in pockets elsewhere), but there is some justification for that, in the current levels of profitability in the here and now, and the potentially attractive outlook for all things related to AI. And yet sorting out the long-term AI winners from the losers remains tricky.

Against this background, as we navigate this polarised world, we continue to find it very hard to stray far from benchmarks, in terms of our risk appetite in balanced portfolios. We're also sticking to our guns, by investing in 'quality' companies: businesses with low debt, stable earnings and strong market positions.

There really is no such thing as an all-weather portfolio that can outperform indices and benchmarks in all market conditions, ranging from abject fear to rampant speculation. However, if judged over the cycle, our consistent approach will, we believe, deliver clients' investment objectives without assuming undue risk.

**Figure 1.2: Policy easing**

Most of the world's major central banks have been cutting interest rates for the past couple of years.



Source: LSEG, Rathbones

# No golden opportunity Why we don't recommend cryptoassets for portfolios



Oliver Jones, Head of Asset Allocation

Cryptoassets have delivered extraordinary returns over the past five years: an average annual rate of 61% for bitcoin, for example. But this alone shouldn't be a reason to invest – rarely has the old warning “the value of investments can go down as well as up” been more salient.

Our analysis of the key drivers behind how cryptoasset prices behave – and why – makes us highly sceptical about their value to most of our clients as investments.

## Means of exchange?

One reason for the existence of traditional currencies, such as the pound or dollar, is because they're a means of exchange. They're a way of selling or buying something without having to exchange goats centuries ago or sourdough bread today.

But we don't think cryptoassets are likely to play a big role in day-to-day mainstream financial transactions, though we do see a potential role for stablecoins.

Bitcoin, the cryptoasset with the greatest total global value – \$2.3tn in late October – is now 16 years old. But there's still no clear evidence of its regular use in day-to-day transactions, beyond El Salvador. This

## The language of crypto

We distinguish between:

- Cryptocurrencies whose value fluctuates, such as bitcoin. We'll call these cryptoassets.
- Cryptocurrencies whose values are tied to a conventional currency, such as the dollar. These are called stablecoins – the clue is in the name.

small Central American nation adopted bitcoin in 2021 as legal tender. But it later conceded that businesses would no longer have to accept bitcoin after seeing that most people had stuck to the US dollar, the country's other legal currency.

## Unstable store of value

Advocates of cryptoassets argue that they protect against economic hazards such as inflation or bond defaults. But we don't think this claim stands up. For example, the price of bitcoin fell more than 70% in late 2021 and early 2022, when inflation in developed markets rose sharply.

There are also no grounds for the claim that states are widely adopting cryptoassets as reserve assets, aside from El Salvador. The Strategic Bitcoin Reserve, established in March 2025 by the US, isn't an example of this – it will only hold bitcoin assets seized by law enforcement agencies, with no commitment to buy bitcoin.

## Speculative asset

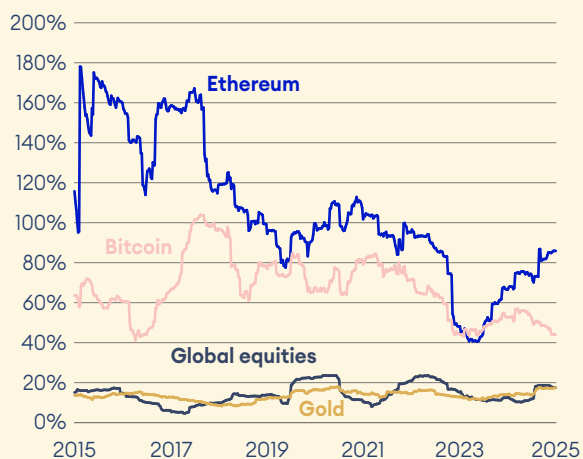
If cryptoassets aren't true stores of value and have only niche appeal as a means of exchange, why have their prices risen so far recently?

We think the cause is sociological: it reflects broader changes in US society. Cryptoassets are vehicles for speculation – we might even call it gambling. We're referring not to their practical use in illegal gambling, but to the use of cryptoassets themselves as the items whose prices are being gambled on.

In the US, online gambling has exploded, with the 2018 legalisation of online sports betting and the pandemic – and it's still growing rapidly, even now. Several studies

**Figure 2.1: Crypto's wild ride**

Annualised volatility over 52 weeks has consistently been much higher for cryptoassets than for stocks or gold.



Source: LSEG, Rathbones

show that cryptoasset traders are also more likely to be gamblers than the average person.

Reflecting this trigger for dabbling in cryptoassets, individual holders typically cite high expected returns as their key reason for participating, rather than fear of inflation or distrust of the financial system.

**Crypto crime**

Another source of demand for cryptoassets derives from the relative anonymity possible with cryptoasset use. This makes it easier to circumvent the rules, such as businesses’ ‘know your customer’ requirements. Cryptoassets are also often used to evade sanctions, including those introduced following Russia’s full-blown invasion of Ukraine.

Taking the broader view, the importance of opaque demand trends from the less seemly side of the global economy is hardly a stable prop for cryptoasset prices.

**Performance anxiety**

If the primary motive for owning cryptoassets is speculation, it’s not surprising that, in performance terms, they’ve behaved like more extreme versions of speculative stocks. That includes positive correlations to equities: they’re more likely than not to follow stocks in the same direction. It also includes periodic huge drawdowns – cumulative falls from peaks. It makes sense that an asset driven primarily by speculation would be significantly positively correlated with equity prices, but many times more volatile, as cryptoassets have been. This means they provide no diversification – but investors always need to build portfolios of assets that behave differently.

How would a balanced portfolio have performed with and without cryptoassets? To illustrate this, we

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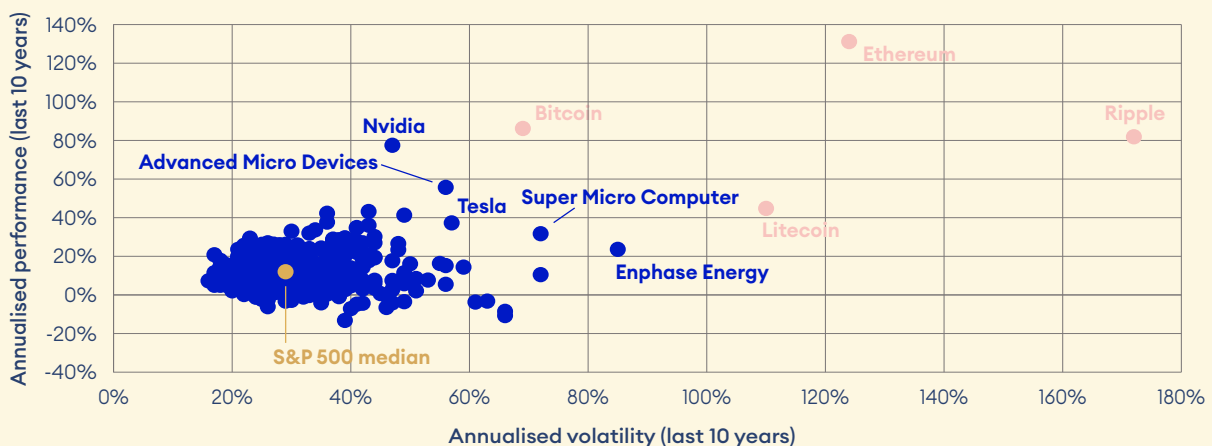
look at a portfolio with the same mix of assets as our standard Risk Level 4 (our maximum is 6). (We rebalance it monthly, buying or selling different assets so that the mix of assets returns to our targeted mix of assets). We consider the effect of switching 10% of the portfolio from stocks to either bitcoin or ethereum (the next largest cryptoasset) over the past five years.

Returns would have been stronger, because returns from cryptoassets have been much greater than those from stocks during that time. But annualised volatility would have increased significantly, from 8.3% to 11.8% with the addition of bitcoin. And staying the course would have been difficult, because the portfolio’s biggest drawdown experienced would have been much larger too, from -9.6% to -15.2% with bitcoin added. In a similar vein, average returns in the worst 5% of months would have been significantly lower with cryptoassets: from -4.3% without them to -5.2% with bitcoin. All these numbers would have been more extreme if adding ethereum rather than bitcoin.

In a nutshell, we don’t see a stable source of demand for cryptoassets. We also think claims don’t hold up that they protect against economic risks such as inflation. Without that stability, we think they’ll always be highly volatile assets that no one can rely on to protect and steadily build their wealth. Investing money in crypto and hoping you’re at the bottom rather than the top of the wild ride isn’t much of an investment strategy.

**Figure 2.2: Crypto tops the risk league**

10-year data on annualised return and volatility shows cryptoassets are more volatile than nearly all large US equities.



Source: LSEG, Rathbones

# Building prosperity

## Five ways to boost UK investment and growth



Adam Hoyes, Senior Asset Allocation Analyst

British Chancellors are usually in an unenviable position, but there is perhaps even less reason than usual for her fellow politicians to harbour jealousy towards Rachel Reeves.

Her options for the 26 November Budget are shaped by high government debt and strong spending pressures. An ageing population requires more outlay on health and retirement benefits. Geopolitical tensions mean defence spending must rise. And the cost of borrowing is up.

Lacklustre economic growth makes managing these pressures harder. It's slowed growth in tax revenues, creating pressure to increase tax rates so the government can stick to its fiscal rules. This could become a vicious cycle. Higher tax rates could weaken economic growth, which would slow growth in tax revenue, possibly prompting even higher tax rates, and so on.

The way out of this dynamic is to boost labour productivity, the amount each worker produces. In the long run, that's the only way to make countries richer. This requires investment.

But if we look at what proportion of the economy is devoted to corporate investment, the UK consistently ranks among the bottom fifth of OECD countries. For government investment, since at least the mid-1990s, it's been in the bottom third every year, bar 2022. To boost investment and improve the UK's economic growth rate, we have five suggestions.

### 1. Boost investment in productive assets through the pension system

Pension funds' long time horizons make them well-suited to invest in assets such as private equity and credit that require patience but can help address smaller businesses' funding gaps.

The Pension Schemes Bill aims to encourage fund mergers, giving them the scale needed to invest in private assets. It provides a legal enforcement mechanism too, for funds' voluntary commitment to invest more in domestic assets. But the Chancellor may also be mulling making the tax treatment of pensions less favourable. That might include scrapping higher-rate and additional-rate tax relief on contributions, in favour of a single 25% rate of relief.

This matters because people adjust how much they put into their pensions when tax treatment becomes more or less generous. Our conservative estimate is that cutting higher and additional rate tax relief to 25% could reduce UK pensions contributions by £50bn over the next five years, making it harder for businesses to secure the financing needed to invest.

### 2. Resist calls for a wealth tax

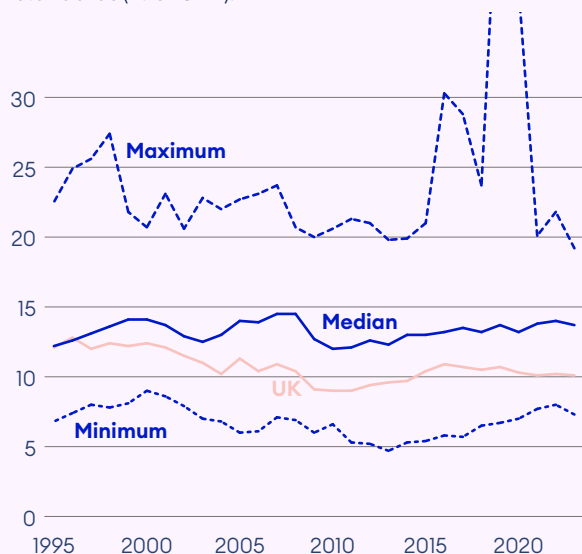
To recap a recent *Investment Insights* piece on this, wealth taxes are expensive to administer. They can also force private firms whose owners are liable for wealth taxes to pay much higher dividends to help them meet tax liabilities, so that those firms invest less and therefore grow less. They also encourage people to shift into assets that do much less to promote economic growth, or quit the country and invest elsewhere. We think a wealth tax could transfer at least £100bn out of the country or into less productive assets.

### 3. Reform business taxation to encourage entrepreneurship and investment

Business rates tax the rental value of commercial

**Figure 3.1: Back of the pack**

UK corporate investment is low by international standards (% of GDP).



Source: OECD, Rathbones

property. They can inhibit growth by penalising upgrades to premises: improvements increase values, which increases tax. In 2024, a new ‘improvement relief’ reduced the problem. We welcome reports that this might become more generous.

Moving towards a system where only the value of commercial land is taxed, not the value of the buildings atop it, would entirely remove the tax penalty for upgrading premises.<sup>1</sup>

We also think the government should make capital allowances and other tax incentives that encourage investment more liberal. This should mean ‘full expensing’ for all business investment, such as buildings, software, and research and development.

Doing so would reduce tax revenue in the near term. But it should improve the UK’s long-term growth prospects. The long-term boost to UK GDP could be 2% or more, ultimately making the fiscal position more sustainable.

#### 4. Invest alongside businesses in the regions and sectors where it’s needed most

Our public infrastructure has glaring weaknesses.

Public transport outside London is poor by European standards and projects such as HS2 have faced spiralling costs and delays. And industrial electricity prices are the highest of the International Energy Agency’s 24 member states, in part because not enough is invested in other forms of generation and storage to fill the gap left by lower domestic gas production.

Our labyrinthine planning system is at least partly to blame. So, alongside maintaining its commitment to public infrastructure spending, the government should pass its Planning and Infrastructure Bill soon and resist attempts to dilute it.

The bill would reduce how often projects can be challenged in court and the length of statutory pre-consultation periods. It would also reform how projects mitigate environmental impacts to avoid situations like HS2’s infamous £100mn ‘bat tunnel’. Assuming the bill does pass, it’s also vital to fund the planning system enough to prevent bottlenecks. Under a quarter of major planning decisions are decided within the statutory 13-week timeline.

#### 5. Don’t let transaction taxes gum up the housing market

Stamp duty on homes disincentivises people from moving. And it’s risen – particularly for more expensive houses. The buyer of the average London home would have to pay eleven times more in stamp duty today than in 1995, after adjusting for inflation. That’s one reason why the share of UK households with multiple spare bedrooms has jumped from 39% to 72% over a similar period. Downsizing has become much less appealing.

Reeves is reportedly considering charging capital gains tax (CGT) on sales of homes worth above £1.5mn. This would only make the situation worse. An even larger tax bill when downsizing would lead even more people to conclude it’s not worth the cost and stay put.

This would make it harder for younger people to move to suitable, affordable housing, and tougher for firms to find the workers they need to expand. Restricted housing supply has limited the growth of centres of innovation like Cambridge.<sup>2</sup>

We think Reeves should look for ways to remove and replace, not increase, taxes on property transactions.

Please visit the [Knowledge and Insights](#) section on our website to read an in-depth version of this piece.

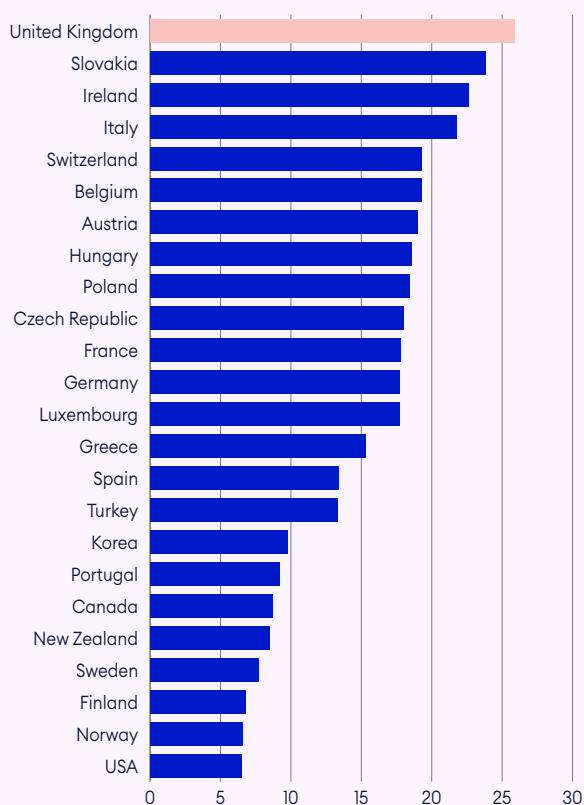
#### Sources and further reading

<sup>1</sup> Adam, S. “Submission to Treasury Committee inquiry: the impact of business rates on business” (2019).

<sup>2</sup> Ministry of Housing, Communities & Local Government and Department for Levelling Up, Housing & Communities.

**Figure 3.2: Top of the pack**

Industrial electricity prices are the highest of any International Energy Agency member state (pence per kWh, 2023).



Source: House of Commons Library, ONS, Rathbones

# Snapshot

## The global economy and markets

### Figure of the month

# 92%

China's share of rare earth refining in 2023. The US and other countries are concerned about China's dominance in mining and processing these 17 chemical elements, essential for products such as magnets, lasers and steel. Rare earths have become caught up in the trade wars, with China announcing sweeping export controls in October, though reports later suggested a delay.

### At a glance

# 2.2%

Eurozone inflation in year to September (provisional)

# 1.66%

Yield on 10-year Japanese government bond

# 32,000

September fall in US private sector employment

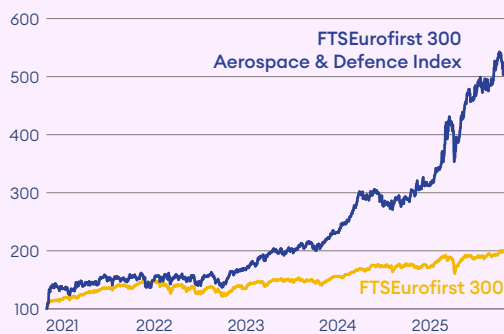
# 5%

UK wage growth (three months to August 2025 vs August 2024)

### Key market indicators

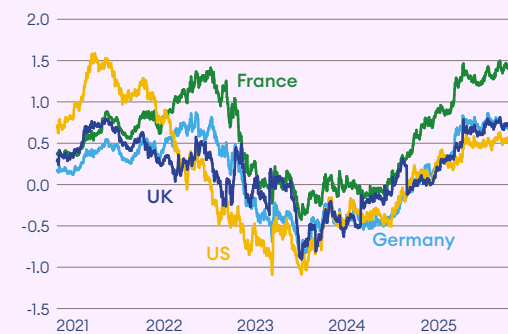
#### Equities

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



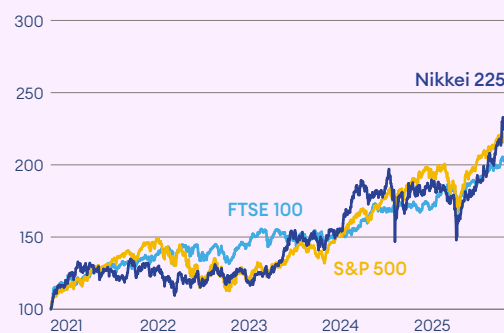
#### Government bonds

Difference between 2- and 10-year yields (%)



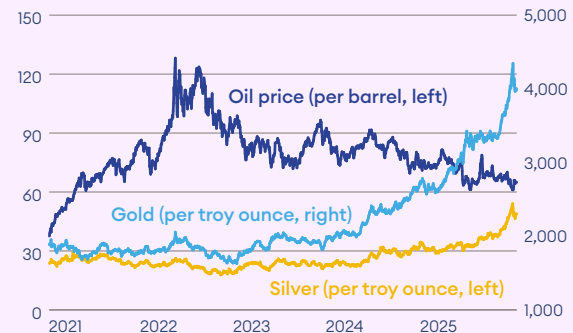
#### Equities

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



#### Commodities

Oil, gold and silver prices in US dollars



Sources: ADP, Factset, LSEG, Rathbones

# Find out more Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets and the outlook for investment returns. To explore more, visit [www.rathbones.com/en-gb/wealth-management/knowledge-and-insight](http://www.rathbones.com/en-gb/wealth-management/knowledge-and-insight)



## Video updates

Stay informed with regular update videos from Ed Smith, our Co-Chief Investment Officer, that explain how geopolitical tensions, market movements and global economic trends could affect your portfolio.



## Weekly and monthly digest

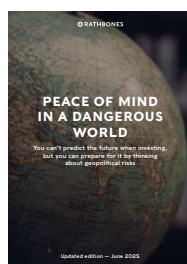
Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

## Research reports

In line with our focus on long-term investing, we produce in-depth reports. These publications reflect the thinking behind our portfolio decisions and explore how structural trends, risks and opportunities could affect investors over the long term.



The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities and why we believe the extraordinary outperformance of the US could end.



Geopolitical risks have risen in recent years, from conflict in the Middle East to tensions in the Taiwan Strait. *Peace of mind in a dangerous world* outlines the four risks we monitor most closely, the warning signs we look for, and how we prepare portfolios to help protect your investments.

## Experience and expertise

Rathbones has a large and experienced in-house research team, covering global equities, fixed income, multi-asset strategies and responsible investing. With specialists dedicated to analysing market trends, sectors and individual securities, our team brings deep insight and rigorous discipline to every portfolio. This depth of knowledge allows us to uncover opportunities, manage risk effectively and respond quickly to changing conditions, helping you to invest with greater confidence.

You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies and specialist services for complex needs. To find out more and for details of your local office, visit [www.rathbones.com/en-gb/wealth-management/contact-us](http://www.rathbones.com/en-gb/wealth-management/contact-us)



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