



**Q4
2025**

Overview

Investors faced a number of uncertainties at the start of 2025. These included Donald Trump's inauguration and pending tariff-setting agenda, the continuing conflicts in Ukraine and the Middle East and an uncertain economic outlook.

Nonetheless, equity markets have performed remarkably well. The volatility we anticipated did occur, with global equities falling by 17%, at their nadir, in reaction to Trump's "Liberation Day" tariffs announcement. However, this proved short-lived, and markets began to rally. Initially driven by the technology titans, the recovery broadened out such that the UK market (+21.5%) and Japan's Nikkei (+26.2%) outstripped the American market indices over the year, while European markets matched the US.

Other features for the year included the gold price (+66%) hitting record highs, while the oil price fell 18%. The US dollar was generally weak, down over 7% against sterling. This weakness and the gold price move could reflect reaction to Trump's tariff policy – particularly against China, a large holder (and probable seller) of US debt. India, despite having the best-performing major economy over the year, suffered heavy tariff penalties, and the equity market was relatively

disappointing (+8.6%). On the other hand, China, where the economy continues to struggle, managed to gain over 16%. Many smaller markets, especially in the Far East, performed well, benefiting from falling interest rates and the weaker dollar.

Further modest falls in inflation in most regions during the final quarter meant that central banks were again able to cut interest rates (the exception being Japan, where they rose to 0.75%). The Federal Reserve Bank, under pressure from Trump and with unreliable data due to a prolonged government shutdown, cut rates from 4.50% to 3.75% in September. The UK also cut rates, from 4.0% to 3.75%, while the European Central Bank held steady at 2.15%. The reductions were reflected in 10-year treasury bond yields, with US yields falling from 4.57% to 4.14% and UK yields from 4.67% to 4.57% over the year. Other economic numbers suggested a slight weakening of growth, but Purchasing Manager Indices generally remained above 50 and in expansion mode.

The following table sets out the market movements for the past quarter and for the 12 months to 31st December 2025.

Index	30/09/2025	31/12/2025	Q4 Change	2025 Change
CBOE UK 100	937	994	6.1%	21.4%
CBOE UK All Companies	16,315	17,239	5.7%	20.1%
CBOE UK 250	19,280	19,556	1.4%	8.3%
MSCI Private Balanced	2,078	2,140	3.0%	10.5%
MSCI Private Growth	2,415	2,493	3.2%	12.2%

Markets

UK equities were very much out of favour at the start of 2025, and investors continued to withdraw money from what was already a cheap market. In spite of this, a 6% gain in the final quarter completed a very respectable return (+20.1%) for the year, and the UK market was one of the best performers globally. However, the concentration of returns has remained a feature, with the bank sector up over 18% in the quarter. The sector was helped by the relief that no additional taxes were imposed in November's Budget and rose by a significant 61% for the year. Gold and other precious metals were very strong, with the sector up 35% in the quarter and more than 230% for the year. Fresnillo (+426%) led the charge, but even after this rise its market capitalisation reached only £25bn – two thirds that of the smallest bank, Standard Chartered (+84%).

The lack of breadth in the UK market remains visible in the disparity between the performance of the top 100 companies and the rest. Mid-caps were up 3% over the quarter and 9% for the year; small-caps were up 4% over the quarter and 10% for the year; and the AIM market was down -2% for the quarter and up 6% for the year, remaining largely out of favour. Mid-sized and small-sized companies, many of which are more domestically focused, have taken a particularly heavy hit from higher minimum wages and changes to National Insurance contributions brought in by the government's past two Budgets.

There has been much debate about whether we are in an AI-led bubble, and for once the so-called "Magnificent Seven", which have been such a driving force behind the American market over recent years, were relatively subdued. Alphabet (Google) did manage a 29% gain over the quarter, but Netflix (-22%), Meta (-10%) and Microsoft (-5%) all fell, while the others rose by less than 10%. Such huge amounts of money have been committed to investment in AI over the coming years that the bubble debate has been emboldened. Some are likening the current position to the technology, media and telecom bubble of 1999, following which there was a three-year bear market. The numbers do appear quite different this time, with these large companies being profitable and expected to show decent profit growth in 2026. However, bubbles can inflate over a long time period, and the consequences could be significant if a change in sentiment sets in.

Outlook

With many of the world's equity markets starting the year at record highs, there seems a degree of complacency that this will be another good year for risk assets. There are undoubtedly some encouraging signs. Inflation continues to fall, and further interest rate cuts can be expected. Earnings growth is still forecast. Economic growth, albeit relatively modest, is in evidence. Things to watch out for remain the impact of tariffs and whether trade wars intensify. Trump's declining popularity – his tariffs are proving inflationary in America as we head to November's mid-term elections – could restrict his powers in his last two years in office. In the UK, meanwhile, a government with a massive majority has lost its popularity and will be lucky to preside over much growth in the short term.

Geopolitics will remain close to the surface. Despite Trump's efforts, both the Ukrainian and Middle Eastern situations drag on. China continues to threaten its neighbours, and Japan's new Prime Minister is taking a hard line that does not help tensions. In addition, to greet the New Year, America's audacious capture of the Venezuelan President has raised the possibility of other actions around the world – the ongoing furore over Greenland being at the heart of one of them.

Any of these issues could inject volatility and possibly drive sharp sell-offs in markets. We continue to believe that holding a diversified portfolio of good-quality stocks within the appropriate asset allocation will provide good outcomes for our clients over the long term.

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