Q4 Market Commentary

Global equities rose in the final quarter of 2025, despite concerns over tech spending plans and the US government shutdown. Bond markets were little changed, with the UK outperforming after its long-awaited Budget.

Q4 2025

Marketing material.

Markets remained resilient in Q4 2025 despite volatility from US tech capex guidance, renewed US China tariff tensions, and the aftermath of the First Brands Group and Tricolor bankruptcies, which weighed on private credit sentiment. Meanwhile, we experienced the longest US government shutdown on record, which delayed the release of important economic data.

Tech was front and centre during earnings season once again, with the market reacting negatively to announcements from Meta, Amazon and Oracle that they were issuing debt to fund part of their AI capex spree. This contributed to a November sell-off, with peak-to-trough drawdowns of 5.5% and 8.4%[1] in the S&P 500 and Nasdaq 100, respectively.

Improving Central Bank expectations were a key driver in reversing the underperforming equity market, as the Federal Reserve (Fed) cut the policy rate by 25 basis points (bps) at both the October and December meetings. Other Central Banks charted divergent courses, as the Bank of England (BOE) cut rates by 25bps in a close call December meeting, the European Central Bank (ECB) held rates at 2%, whilst the Bank of Japan (BOJ) hiked rates by 25bps to 0.75%, a 30 year high.

In Japan, Sanae Takaichi was appointed as the Prime Minister in late October, advocating for 'proactive fiscal policy' helping Japanese equities to be the best performing region in the quarter. The UK economic backdrop was significantly influenced by Chancellor Rachel Reeves's Autumn Budget, which created £22 billion of fiscal headroom, initially sparking volatility but ultimately proving supportive for UK assets.

Continued uncertainty was positive for haven assets gold and silver which rose 12.8% and 52.6%[1] across the quarter respectively. Brent crude saw its price fall 9.2%,[1] driven by strong supply from both OPEC+ and non-OPEC producers, as well as the potential for Russian barrels to return to global markets after positive Ukraine talks took place in Berlin.

Equities

US

US equities posted positive returns in the final quarter of the year, with the S&P 500 and Nasdaq 100 both rising 2.3%[1], whilst the Russell 2000 small cap index rose 1.9%[1], recovering from volatility surrounding AI capex funding, tariff escalations and Fed policy.

Healthcare outperformed the broader market, after several major pharmaceutical companies announced promising clinical trial results and investors rotated into more defensive parts of the market, marking a strong reversal from the underperformance

About Cazenove Capital

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- Founded 200 years ago and built on lifelong partnerships with our clients
- Discretionary fund management for advisers

*Correct as of December 2024.

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it had suffered for much of the year. Tech underperformed the broader market in the final quarter, as investors reacted negatively to announcements by Meta, Amazon and Oracle, indicating they were issuing debt to fund part of their capex spend, having relied solely on cash to date. Oracle shares fell nearly 11%[1] on the news, and would end the quarter down 30.7%,[1] with Meta falling 10.2%[1] in the same period.

The Magnificent 7[2] lost ground on the market for the first time since March, particularly after Nvidia fell following reports that Meta was in talks to purchase Google's AI Tensor Processing Unit (TPU) chips, potentially challenging Nvidia's dominance. Alphabet, the parent of Google, was the best performer of the group, up 28.8%,[1] after the successful release of Gemini 3, their competitor to ChatGPT, which is now widely regarded as the best large language model (LLM) available. OpenAI's compute spending and funding model drew attention after a tense public exchange between Sam Altman and BG2 host Brad Gerstner, reinforcing investor focus on the economics of AI infrastructure.

November's jobs data revealed the unemployment rate ticked up to 4.6%, a four-year high, whilst payroll data indicated a continued softening of the labour market, keeping the door open for potentially further monetary easing in 2026, although inflation risks remain. As expected, the Fed delivered its third consecutive 25bp rate cut on December 10th, taking the target range to 3.50-3.75%, whilst also announcing the end of its quantitative tightening (QT) program, further boosting financial conditions.

International equities

The UK equity market delivered strong performance during the quarter. The FTSE 100 advanced 6.2%,[4] outpacing global equities, as soft economic data saw the Bank of England cut rates by 25bps to 3.75% in December.

European equities delivered solid returns in December with the MSCI Europe index gaining 5.8%,[5] outperforming global equities, with European markets benefiting from signs of progress in Ukraine peace

Japanese equities were the best performing region in the quarter, with the Nikkei 225 rising 12%[6] and the broader TOPIX gaining 8.6%,[6] demonstrating remarkable resilience despite significant bond market volatility following the Bank of Japan's rate decision.

The BOJ hiked its policy rate by 25bps to 0.75% on December 19th, the highest since 1995, while signalling that further rate increases were likely as real interest rates remained 'at significantly low levels.' Japanese 10-year treasury yields rose following the decision, reaching 2.06% by quarter-end after peaking around 2.10%, the highest level since 1999.[3]

Emerging markets delivered positive returns in December with the MSCI Emerging Markets index rising 5.2%,[7] though performance varied significantly across the region with Indian and Latin American equities performing strongly, up 5.9%[9] and 6.6%[7] respectively, whilst Chinese equities faced headwinds as the Hang Seng index declined 4.6%,[7] although mainland Chinese equities rose 2.2%.[7]

Fixed Income

UK gilts outperformed other major government bond markets with the ICE BofA UK Gilts All Stocks Index delivering a robust 2.3% return during the quarter, significantly ahead of US treasuries which fell 0.1%. Despite both central banks cutting rates in the quarter, there was greater market concern around inflation in the US given strong economic growth and potential tariff related effects, with neither effecting the UK. Gilt yields fell post the Autumn budget as fiscal concerns eased with the tax rises, whilst US treasury yields rose after commentary from Jay Powell highlighting the upside inflation potential. The market is currently pricing in 50bps worth of cuts in both the UK and US although both have the potential to reprice if inflation begins to rise. The global government bond market lost ground, with the ICE BofA Global Government Index declining by 0.5%, reflecting the varied monetary policy approaches across major economies. Emerging Market Debt was also down 0.5%.[8]

Outlook

The global economic backdrop for 2026 is encouraging. Growth has held up well across major regions – the US consumer is still spending, Europe is stabilising, and even the UK and China have delivered better results than many expected. Our forecasts remain above consensus through 2026 and 2027, and this constructive backdrop should provide fertile ground for risk assets. However, the combination of robust growth and populist policymaking means sticky inflation remains a risk, particularly in the US.

We are entering 2026 slightly overweight equities, reflecting the continued support from resilient global growth, still-loose financial conditions and improving market breadth. But we are increasingly mindful of the concentration and valuation risks that have built up – particularly in the US, where exuberance around artificial intelligence has driven a narrow and sometimes speculative market rally. We have been broadening our exposure beyond the US, adding to emerging markets and Asia ex-Japan, where earnings growth expectations for 2026 are accelerating and valuations are more attractive. We also continue to like Japan, which offers one of the best combinations of structural reform, improving shareholder returns and moderate valuations.

We are less positive towards bonds, maintaining an underweight position and a bias to shorter dated bonds. While yields remain more attractive than they have been for much of the past decade, we see limited scope for capital gains given global growth is holding up and inflation is likely to remain sticky. The balance of risks continues to argue for caution in extending duration, as both fiscal pressures and rate expectations pose potential headwinds.

We have entered 2026 more positive on alternatives than we have been in recent years, although remain slightly underweight. While traditional assets such as cash and bonds offer better income potential, alternatives continue to play an important role in diversification, inflation protection, and return generation in a world where fiscal risks, geopolitical tensions, and structural imbalances persist. We continue to favour assets with low correlation to traditional markets and to each other. This includes gold, which we view as an effective hedge against geopolitical risk and inflation shocks.

The question for 2026 isn't whether risks exist – they clearly do. Solid economic growth, with support from government spending and lower interest rates, should keep earnings growing – and may allow stretched valuations to persist. But disappointment over AI or a bond market upset could bring the market's run to a halt. We're positioned for the former while prepared for the latter – and remain open-minded about what 2026 will bring.

Please find more on our 2026 outlook using the following links:

https://library.cazenovecapital.com/view/789108104/

https://www.cazenovecapital.com/en-gb/uk/wealth-management/wealth-management-outlook-2026/

[1]LSEG Workspace Price return in USD [2]Magnificent 7 stocks: Alphabet, Amazon.com, Apple, Meta, Microsoft, Nvidia, Tesla [3]LSEG Workspace [4]LSEG Workspace price return in GBP [5]LSEG Workspace Price return in EUR [6]LSEG Workspace Price return in JPY [7]LSEG Workspace Price return in local currency [8]LSEG Workspace ICE BofA Emerging Market Sovereign Bond index price return in local currency

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