Quarterly review

GBP Global Medium Portfolio

Market highlights

Q4 2025

Summary

Tariff turbulence dominated headlines earlier in the year but by the fourth quarter, momentum shifted as investors broadened their focus beyond mega-cap technology companies, fuelling strong annual performance across Europe and Japan.

The Federal Reserve (Fed) and Bank of England (BoE) both delivered rate cuts as labour markets softened and inflation moderated. Over the quarter, we saw the yield curve steepen further, as 10-year Treasury bond yields were largely unchanged while two-year Treasury bond yields continued to decline as rates were cut. The Bank of Japan (BoJ) raised interest rates to the highest level in three decades.

As markets rallied, geopolitics added new levels of uncertainty, with events that could reshape regional dynamics. In January, Venezuela entered a period of heightened instability after President Nicolás Maduro was seized by US forces, raising questions about regional stability and signalling more assertive government behaviour going forward.

After a year that saw many major indices hit record highs despite tariff-induced instability, the fourth quarter was more muted for US equities. The S&P 500 and the Nasdaq each gained 2.7% in the final three months of the year. These gains nevertheless helped propel both the S&P 500 and the Nasdaq's 2025 gains to 17.9% and 21.2% respectively. These are impressive returns, but most major global indices outperformed the S&P 500 last year, as a 9.4% decline in the dollar index weighed on non-US investors' portfolios.

European equities benefitted from ongoing optimism over economic support, policies and stimulus, which helped drive investors towards European companies, which are less highly valued than their US counterparts. The STOXX 600 rose 6.5% in the fourth quarter, bringing its 2025 gains to 20.7%. The MSCI UK rose 7.1% in the fourth quarter, lifting its yearly returns to 25.8%. In dollar terms, these returns are even more impressive.

Japan had a strong year, with the Topix's 8.8% Q4 gains contributing to 2025 returns of 25.5%, as the country continues to benefit from ongoing corporate reforms and stimulus expectations. In Hong Kong, equities were down in Q4, but only after a phenomenal year that helped lift the Hang Seng up 32.5%. The Shanghai Composite gained 2.7% in the fourth quarter to bring its 2025 gains to 21.7%. Precious metals, particularly gold and silver, posted strong returns last year.

The fourth quarter began with a jolt, as a 43-day US government shutdown – the longest in history – clouded economic visibility. Despite only having a partial view of how the economy was performing, the Fed lowered rates at both the October and December meetings, bringing interest rates to 3.75% by year-end. While the Fed is prioritising its maximum employment mandate, it maintains that inflation warrants close monitoring if tariff-induced price pressures remain sticky. The US unemployment rate ticked up to 4.6% in November, up from 4% at the start of the year, and the Fed stands ready to act should the unemployment rate rise further.

Japan made history as Sanae Takaichi became the nation's first female prime minister, a leadership change that could redefine fiscal priorities. Takaichi, a protégé of former Prime Minister Shinzo Abe, was initially expected to adopt a significantly looser fiscal stance. However, higher borrowing costs and a weak currency limit her ability to implement her policies compared to her mentor. She also only has a minority government, so her power may be constrained.

Looking ahead, geopolitical turbulence underscores the importance of maintaining a globally diversified, long-term portfolio rather than reacting quickly to events, however dramatic they may appear in the moment.

Fixed Income

Volatility in global fixed income remained elevated in the fourth quarter as inflation faded and growth slowed. Central banks eased at differing speeds, driving divergent government bond yields, while resilient corporate earnings and tight credit spreads continued to support risk assets.

In the US, government bond markets navigated a late cycle environment characterised by moderating growth, cooling but still above target inflation, and a Federal Reserve that had clearly shifted its focus toward supporting the labour market. Through the quarter, incoming data pointed to slower payroll growth, a gradual rise in the unemployment rate and softer labour demand, while the temporary US government shutdown added further uncertainty to the outlook and reinforced the case for a more cautious policy stance. Headline and core inflation continued to ease, giving the Fed room to adopt a measured easing bias without undermining its inflation fighting credibility.

Against this backdrop, US Treasuries delivered positive returns. Short dated yields fell as markets priced in further, albeit gradual, policy rate cuts into 2026. Medium term maturities benefitted from the combination of softer inflation and a less restrictive policy outlook, while longer dated bonds were more influenced by ongoing fiscal concerns. Inflation linked Treasuries remained a useful portfolio diversifier, as the level of inflation premium within them moved higher.

In the UK, fixed income markets contended with the uncomfortable mix of still elevated inflation, lacklustre growth and persistent fiscal concerns. Over the fourth quarter of 2025, the Bank of England maintained a cautious easing stance, having already reduced rates several times since 2024 and delivering a further 25 basis point cut in December, while stressing that additional moves would remain highly data dependent. While headline inflation drifted lower from earlier peaks, sticky core services and wage pressures left the BoE less willing to move as decisively as some peers.

Against this backdrop, UK rates nonetheless performed well over the quarter. Gilt markets reflected the policy and fiscal tensions, but long dated yields rallied meaningfully, with thirty year yields moving around 30 basis points lower. Short dated yields were supported by the prospect of additional, albeit gradual, policy easing. Meanwhile, the relative richness of the long end term and inflation premium kept the UK curve relatively steep and contributed to ongoing volatility in long dated Gilts.

In the Eurozone, government bond markets were shaped by weak growth, moderating inflation and an increasingly steady European Central Bank. Having lowered rates earlier in 2025, the ECB left policy unchanged over the fourth quarter, signalling that monetary conditions were now appropriately accommodative and that further cuts were unlikely in the near term. Headline and core inflation continued to move closer to the 2% target, while activity data pointed to subdued, uneven growth across member states. Against this backdrop, yields on core sovereigns such as German Bunds moved only modestly, with curves remaining relatively flat and term premia compressed.

From a portfolio perspective, the fixed income allocation delivered strong returns over the quarter. UK government bond exposure, particularly Gilts, was the standout contributor, with duration positioning adding significant value. **The UK 2051 Gilt was the best performing holding, returning 7% over the quarter,** while our other Gilt positions also benefitted as yields moved lower across the curve.

Turning to credit markets, credit spreads in both investment grade and high yield corporate bonds widened marginally over the quarter but remain tight by historical standards. Resilient corporate earnings, a benign default environment, and strong demand for yield in a market where policy rates are falling helped support credit markets over the quarter. **In the portfolio, AXA US Short Duration High Yield was the portfolio's best credit position as the fund's yield continues to provide attractive returns.** Muzinich Global Tactical Credit, a strategic bond fund comprising mostly of investment grade credit, also performed strongly over the period.

Equity

US equities delivered positive absolute returns during the quarter, though performance within growth and technology was notably volatile and dispersed. Following a strong rally, investor sentiment became more sensitive to valuation, earnings visibility, and the scale of capital expenditure commitments, particularly within large-cap technology. **The fact that Alphabet returned +29% in the fourth quarter, in contrast to -10% for Meta (not to mention the -31% for the AI-related Oracle) illustrates that the market's perception of winners and losers is extremely dynamic** and investing in this space requires investors to be selective and diversified. This environment proved challenging for our US growth manager, Jennison US Growth, which underperformed during the quarter. T Rowe Price US Structured Research was more resilient, benefitting from broader diversification and a more balanced growth profile. Exposure beyond the largest technology stocks helped partially offset volatility.

European equities continued to perform well during the quarter, supported by improving confidence in the region's economic outlook and a more constructive view on interest rate policy. Financials remained a key driver of returns, as expectations for a slower pace of rate cuts reinforced the earnings outlook for banks. **Our dedicated European allocation, Ardtur Continental European, was a key contributor during the quarter**. Holdings such as Commerzbank and Deutsche Bank continued to outperform as investors responded to improving capital ratios, resilient net interest margins and growing confidence in capital return potential.

Equity performance across Asia was divergent during the quarter. Indian equities delivered positive returns, supported primarily by strength in the banking sector. Indian banks outperformed as credit growth remained robust, asset quality continued to improve, and earnings momentum proved resilient. Schroder Asia Total Return's holding in HDFC benefitted from this dynamic. In contrast, Chinese equities declined during Q4, weighed down by ongoing concerns around the property sector, subdued domestic demand, and limited policy support. These structural headwinds continued to pressure investor sentiment, resulting in weaker market performance despite selective pockets of resilience.

Japanese equities delivered positive absolute returns, although relative performance varied by exposure. Large-cap exporters continued to benefit from supportive currency dynamics and external demand, while domestically focused companies lagged somewhat, reflecting ongoing sensitivity to domestic consumption trends and input costs. **Chikara Income & Growth participated in the broader market rally but underperformed the Japanese market overall** due to its greater allocation to domestically focused companies. While these holdings offer attractive longer-term fundamentals, they lagged exporters during the quarter as domestic consumption trends remained uneven, and investors favoured globally exposed earnings streams.

Performance among our global core equity managers was mixed during the fourth quarter, with narrow underperformance overall. Lazard Global Equity Franchise underperformed over the quarter, driven by disappointing stock selection. In contrast, our other value manager Schroder Global Recovery has taken advantage of the tailwinds outside of the US by having an underweight to the region and as a result, outperformed for the quarter. BlackRock Global Unconstrained experienced a more volatile quarter, consistent with its concentrated and high-conviction portfolio construction but ultimately delivered returns in line with the benchmark.

BlackRock Natural Resources delivered a positive contribution in Q4, benefitting from its exposure to commodity-linked equities amid a backdrop of resilient energy and precious metals prices. The strategy's focus on high-quality natural resource companies positioned it well as commodity markets responded to both supply-side discipline and improving demand fundamentals. Energy majors such as Exxon Mobil – one of the largest weights in the portfolio – helped anchor performance as oil and gas equities held up relatively well.

Alternatives

All components of our alternatives exposure delivered positive returns during the quarter. **The Winton Trend Fund was the standout performer delivering +4.4% in Q4** bringing year-to-date returns to +1.8%. This is pleasing as the fund struggled in the first half of the year as markets remained range-bound, lacking directionality in terms of fundamentals and themes. Since then, the fund has made profits on long positions on equity indices and on its currency trading. Commodities have also been profitable due to long trends in gold and other precious metals although some reversals were seen later in the quarter.

Macro strategies generally struggled in the year against a volatile backdrop as shifting policy expectations and ongoing geopolitical tensions shaped investor sentiment. The Graham Macro Fund delivered +1.1% in the quarter bringing return for 2025 to +0.3%. The majority of gains were made on fixed income trades with some additional profits on tactical currency trading.

Brevan Howard Absolute Return delivered +1.5% in the quarter, bringing returns to +1.3% for the year, as the team continues to trade tactically, taking advantage of short-term dislocations and asymmetries within the fixed income and equity markets. The fund remains a good diversifier within our portfolio, offering differentiated returns in a complex and uncertain macro landscape..

Portfolio Changes and Asset Allocation

During the quarter we reviewed our equity allocation, where we continue to maintain our equity overwieght and moved to take advantage of opportunities in our global active managers, as well as alter our emerging market exposure.

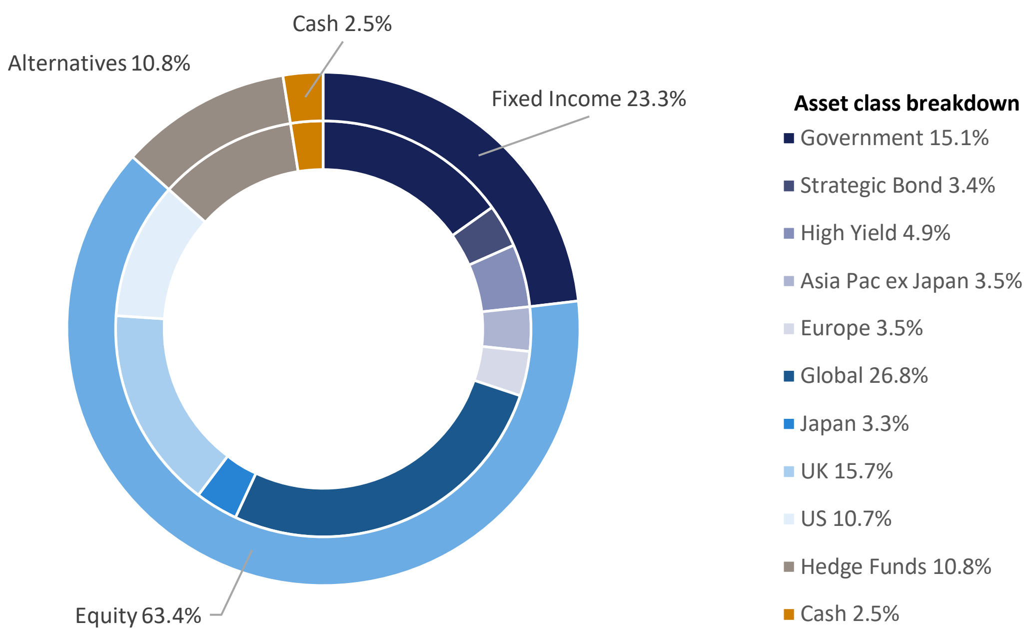
We sold our holding in the MSCI All Country World Index ETF, initially brought in last year to increase the beta of the portfolio. With the proceeds of this sale, we allocated to three of our active quality global managers – BlackRock Global Unconstrained Equity, Brown Advisory Global Leaders and Fidelity Global Dividend. All three of these funds are high conviction, active managers that invest in quality companies. Quality as a factor underperformed in 2025, and so we wanted to reallocate the proceed of the sale to these quality managers which we have conviction in and are attractively valued.

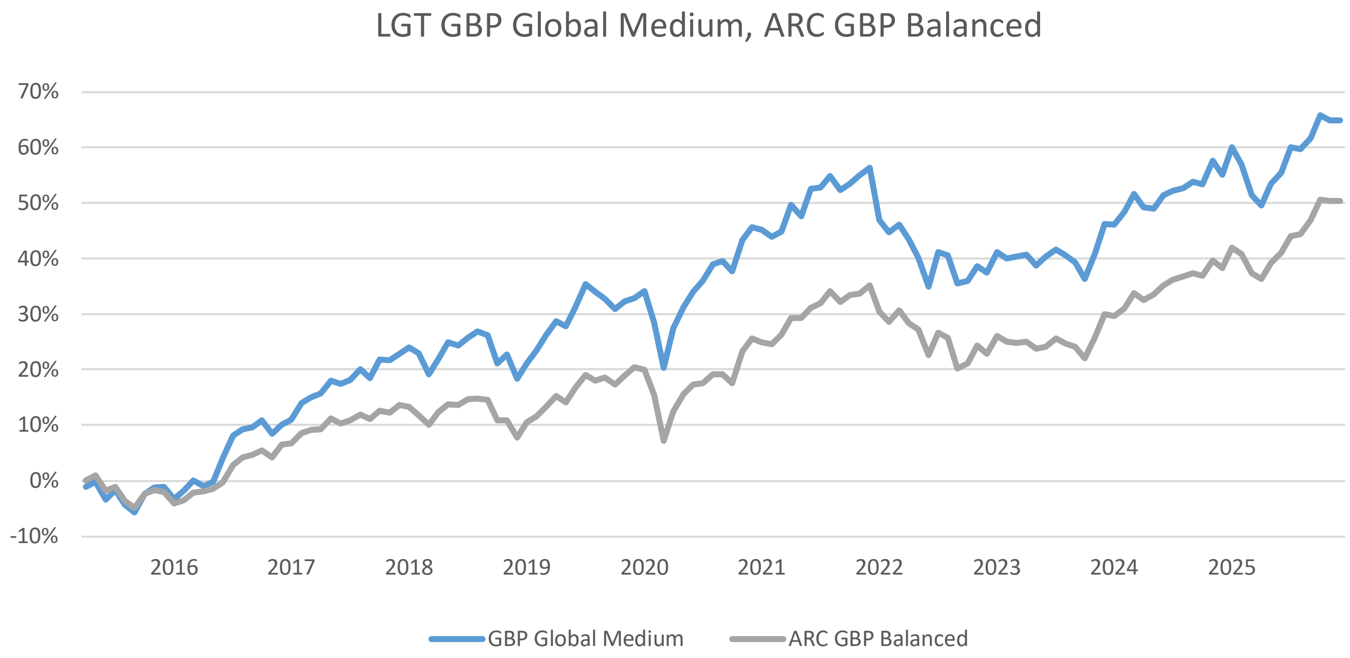
Simultaneously, **we initiated two new positions in Robeco Emerging Market Stars and Polar Emerging Market Stars**. Emerging markets are a region that we believe will stand to benefit from several macroeconomic tailwinds this year, all the while being attractively priced relative to other areas of the market. The Robeco funds take a value approach to investing, and we wanted to complement this with a more growth style focused manager in Polar Capital. This allows us to manage our style risk, while gaining exposure to different types of companies within the emerging market regions. **These purchases were funded by the full sale of Morgan Stanley Asia Opportunities and a reduction in Schroder Asia Total Return.**

We maintained our fixed income allocation, **remaining overweight to UK Gilts** and maintaining our credit and US government bond allocation. Within credit, we are invested in US Short duration High Yield and a global credit fund, managed by Muzinich.

We remain overweight in alternatives, funded by our Fixed Income allocation, where we remain underweight relative to our benchmark.

Portfolio Positioning





Conclusion

At times of historic market change, it is important that, as investors, we do not lose sight of the bigger picture. The shift from a US-dominated unipolar world, to a multipolar world defined by competing 'spheres of influence' seems to have happened gradually and then suddenly. This transition is forcing the hand of governments worldwide to adopt more fiscally loose policies, both to ensure they are defended but also to maintain competitiveness. The main beneficiaries of this shift are outside of the US, where more attractive starting valuations and strong market momentum are driving a reversal of the decades-long period of US relative outperformance. We expect this trend to continue in 2026, especially with the US market sitting at the higher end of historical valuation ranges and facing a more uncertain policy outlook.

At the same time, we see renewed value in companies with high-quality characteristics. Markets have recently preferred cyclical and more speculative areas, often overlooking the benefits of strong balance sheets, resilient earnings and consistent business models. History suggests that such periods rarely persist indefinitely. Many of these higher-quality companies now trade at more reasonable valuations than they did several years ago, yet their long-term prospects remain intact. We believe that maintaining exposure to businesses capable of compounding steadily over time remains an important foundation for portfolios, especially in these uncertain times.

The mega-cap US technology stocks have dominated performance (and the market conversation) for several years, causing some to sound caution of a potential bubble. With valuations already elevated and attractive opportunities available elsewhere, we prefer to be selective rather than heavily concentrated in this one area of the market. We will not let the index drag us into an undiversified stance. As we saw in the fourth quarter, at a minimum we would expect some divergence in performance going forward for the group.

The identity of the next Chair will loom larger for markets over the coming weeks. While there is some concern that political influence could erode the Fed's independence, we think the institutional checks and balances make a disorderly scenario less likely. The Chair must still guide a committee of twelve, and if the Chair's view is seen as overtly political, they will struggle to take the committee with them. A more realistic path is one where the Fed adopts a slightly more dovish tone, if the economy allows, without rushing back to the policies of the pandemic period. Indeed, if growth remains steady and inflation proves persistent, the greater risk is that US interest rates do not fall at all in 2026.

Closer to home, we believe UK government bonds can increasingly trade in line with interest rate expectations, rather than being dominated by political risk. In recent years, gilt yields have sometimes reacted more to Westminster headlines than to economic data. Today, however, there is clearer recognition of the fiscal constraints under which the government operates. The decision to increase fiscal headroom, alongside softer economic numbers, has helped gilts to perform better since October. We think bonds can continue to play their traditional role as a portfolio hedge if growth slows or an external shock occurs.

Credit markets, meanwhile, continue to offer opportunities, provided investors remain thoughtful. Yields remain appealing even though credit spreads are relatively tight, supported by broadly stable company fundamentals. Much of the concern has focused on parts of the private credit market where more flexible payment structures have emerged. Public credit, however, still shows generally manageable levels of leverage and only a gradual rise in expected defaults. In this environment, we believe the income on offer is worth capturing, but success will come from selectivity rather than simply buying the entire market