



Investment Update Q4 2025

Global equity markets closed 2025 on a strong footing, marking a third consecutive year of double-digit gains. While headlines were often dominated by political uncertainty and shifting economic signals, markets demonstrated resilience, supported by falling inflation, moderating interest rates, and improving corporate earnings across major regions.

Investment Commentary

UK and European equities were standout performers, with both regions comfortably outpacing the US over the year. Sterling strength played a supporting role — its 7.7% appreciation against the US dollar boosted returns for UK investors — but even excluding currency effects the performance gap remained notable. Government spending commitments on defence and infrastructure provided a tailwind for European shares, while the UK benefited from higher commodity prices and robust results from its sizeable financials sector. Although valuations rose, they generally remained below US levels, offering a comparatively attractive entry point.

In the US, growth continued to defy earlier dreary forecasts. Earnings per share rose by 12% despite a year shaped by political tension, shifting tariffs, and the longest government shutdown on record. Lower interest rates, coupled with resilient consumer demand, helped sustain activity. Although tariff uncertainty triggered temporary volatility in early April — when US indices fell more than 10% in a

matter of days — markets recovered quickly, reaching fresh highs in the weeks that followed.

Fixed income also delivered a solid performance. Gilts returned 5.0% over the year, supported by multiple Bank of England rate cuts and cooling inflation. The most favourable segment was the 5–15-year maturity range, which returned 5.9%. Corporate bonds were similarly constructive, with UK investment-grade credit returning 7.3%. While yields remain appealing relative to much of the past decade, investors should remember that inflation risks and questions surrounding government debt sustainability are likely to keep bond markets attentive.

Domestically, the Autumn Budget landed with less drama than expected. Several tax measures were delayed, meaning they may not take effect until after the next election. The chancellor's priority appeared to be rebuilding fiscal headroom rather than stimulating growth, which the OBR noted would remain subdued. The UK economy, while still one of the stronger performers among the G7 in 2025, showed signs of cooling late in the year

as unemployment ticked higher and inflation eased from 3.6% to 3.2%. These developments encouraged the Bank of England to lower the base rate to 3.75% by year-end, marking six reductions since August 2024.

Looking ahead, the global economic picture appears more balanced than it did a year ago. Although risks remain — ranging from geopolitical tensions to inflation surprises — the probability of recession has fallen, and companies across several major regions continue to project steady earnings growth. Europe and Emerging Markets, in particular, look well placed, supported by improving fundamentals and more modest valuations. In contrast, parts of the US market, especially technology, appear more fully priced after a prolonged period of outperformance.

We remain constructive but measured in our outlook. Diversification continues to play an essential role, especially following the volatility witnessed around policy announcements last year. While there is considerable long-term potential in areas such as artificial intelligence and automation, valuations in leading segments require selective positioning. Fixed income remains an important component of balanced portfolios, with yields offering a useful counterweight to equity risk.

As always, maintaining perspective is key. Markets have delivered strong returns despite frequent noise, and disciplined investment decisions — grounded in fundamentals rather than short-term reaction — remain central to long-term success.

What have we been doing?

The following note represents an example from our latest trade ideas to best position our bespoke portfolios for the prevailing market conditions. We look forward to commenting on these and more in individual commentaries we prepare that are tailored to your own accounts. If you would like any further information ahead of such time, please do get in touch and we will be delighted to talk you through our activities.

We undertook a sale of shares in the JP Morgan American Trust in November, reinvesting the proceeds in the Fidelity US Quality Income ETF. This move repositions our client exposure to developments in the North American equity markets and seeks to capture improved returns with lower volatility.

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