20th January 2026

Quarterly Market Update

Performance Summary

Portfolios produced a strong positive return in the final quarter of 2025, albeit these returns were generated almost entirely during the month of October. Pleasingly, portfolios also ended the year up strongly, posting annual returns well in excess of the peer group.

This outperformance has been primarily driven by 3 factors; our stock picking, asset allocation and active management.

- **Stock picking:** We have seen the likes of Alphabet, LVMH, Thermo Fisher, ASML and Legal & General up 29%, 24%, 20%, 11% and 10% respectively over the quarter. This compares to the 'Magnificent 7' (the seven largest US tech companies) which were unchanged (with Meta down 11%) and the S&P 500 index which was up just 2%. Our longstanding exposure to healthcare and biotech was the standout on the quarter, with our biotech trust up 26% (45% on the year) and our healthcare fund up 15%.

- **Asset Allocation:** Our decent allocations to the UK and Europe were very helpful, with the FTSE 100 and Eurostoxx indices up 6% and 5% over the quarter, well ahead of the US S&P 500 index (up 2%), continuing the trend we have seen for the year. Our good weighting in gold was also very helpful, with further gains of 12% on the quarter, meaning that it finished the year up 51%. It is worth noting that around a third of our holding of MI Alternatives Fund is held in physical gold and therefore benefitted from this.

- **Active management:** Our activity has been very helpful throughout the year, firstly by raising cash ahead of the falls we saw in March and April, which we then put to work at market lows. This meant that we had much better downside protection and also benefitted from the recovery. More latterly, we have taken profits from our technology and more highly valued investments, rotating into more defensive or attractively valued investments. Our new investments of Novartis and Intercontinental Exchange are already up 12% and 15% since November.

Quarterly Recap

The key themes that influenced markets this quarter:

1. **President Trump dominated headlines again this quarter, from a protracted US government shutdown to escalating confrontations in Venezuela and renewed claims over Greenland.**

2. **The Federal Reserve's (The Fed) interest rate cuts which continued the easing of conditions.**

3. **US Equity Valuations continued to make investors nervous.**

Much like the rest of 2025, President Trump dominated the headlines in the final 3 months of the year. Successfully brokering a ceasefire in Gaza, as well as bringing Russia and Ukraine back to the negotiating table following years of unsuccessful talks, (briefly) reducing geopolitical risks looking forward into 2026. Despite his controversial tactics, FIFA awarded him their (newly created) Peace Prize at the 2026 World Cup draw. Donald Trump also broke presidential records in the final quarter of 2025, he is now the sitting President during the longest ever shutdown of the Federal Government, as Republican and Democrat politicians disagreed over the federal budget and government spending plans.

Towards the end of the quarter President Trump authorised the raid and capture of the corrupt, Venezuelan dictator Nicolas Maduro and his wife, whilst simultaneously threatening NATO members and Denmark with the potential use of force to take control of Greenland. These actions have raised serious concerns regarding International Law and have left geopolitics precariously positioned for the rest of 2026.

Moving to the global economy, and despite the record long government shut down in the US, the economic data that has been available shows that growth in the largest economy in the world was slowing (albeit still positive). With this backdrop, it enabled the Federal Reserve to cut interest rates and help support equity markets to the end of the year, with scope to reduce interest rates further in 2026. One critical datapoint to watch in 2026 will be the labour market, as a deteriorating consumer can quite quicky turn a slowing, but sustainable growth dynamic, into a contracting one.

The UK economy also finished the year with particularly weak economic data, although the UK stock market has continued to rally to an all-time high, demonstrating the difference between the UK economic situation and the performance of its stock market. A large proportion of the weak economic data in the UK was owing to the delay of the UK budget announcement, which came with a huge amount of pessimism. As a result, business investment stalled and property transactions dropped as people waited to see what tax plans the Chancellor had in store over the next 12 months.

When we wrote to clients in October, we highlighted our concerns about valuations in the US technology sector, particularly those companies developing or benefitting from artificial intelligence. These concerns started to reverberate around markets in this quarter, resulting in broad market declines in November and little in the way of recovery in December (despite the usually positive seasonality). As we had hoped, portfolios delivered better returns through the final few months of 2025 and recorded above average returns for the calendar year.

Outlook for 2026

Making short term predictions within this investment environment can be perilous, particularly if you are trying to predict a change in market dynamics or leadership. For the past 3 years, despite rising geopolitical risks, abnormal stock pricing and a weakening economic outlook, predicting the status quo has been the most effective way to appear very clever in what has been an increasingly unpredictable environment.

Following over a decade of market leadership, 2025 showed the early signs of cracks in the appeal of US assets. Donald Trump’s actions are deterring many governments and corporate institutions from investing in US Dollars, which in turn is reducing the demand for US equities and bonds. We see this dynamic continuing in 2026, allowing further opportunity for international equities and alternative assets like gold and precious metals to outperform. It is also likely that the relationship between corporate earnings and share valuations will favour both ex-US equities, as well as medium and smaller companies over the next 12 months. Some of the largest companies in the world now have extremely high expectations embedded in their share price.

Nvidia for example is expected to sell 250 billion GPUs in 2027, having sold (just) 100 billion units in 2025. Whilst Nvidia have made a habit of exceeding the loftiest expectations over the past few years, this scale of production now places execution risk not just on Nvidia, but on all of its supply chain companies. It is important to note that we are not artificial intelligence disbelievers, we just think that the price you pay for a company is always relative to its earnings outlook, and the opportunity for exceeding expectations may lie in areas of the stock market that have been completely overlooked for many years.

Whilst economic growth in the US is slowing, we believe it remains well underpinned by AI infrastructure spending and domestic consumption. Domestic consumption will continue to be determined by both a buoyant jobs market, as well as the “wealth effect” where consumer confidence is driven by the valuation of their properties and investments. As a result, we believe that the economic backdrop remains supportive for US equities over the next 12 months, although perhaps more in favour of companies outside of the “mega-cap” classification.

We believe there is a good opportunity for other Western economies, particularly that of the UK, to outperform expectations this year, considering the extremely low sentiment across most of Europe. Governments are starting to advocate for more deregulation, which alongside interest rate cuts and the high levels of cash savings should begin to act as tailwinds to economic performance going forward. In addition to this, the potential redirection of investment from the US market to other well regulated, western economies, could be a strong driver of returns for developed market stocks in 2026.

In summary, we are confident that 2026 will deliver good, positive returns for portfolios. The global economy is well underpinned by investment and consumption, and there are many pockets of global stock markets that represent very good value and the opportunity to outperform very conservative expectations. Diversification is becoming both an opportunity for outperformance, as well as protection from market volatility. We believe this is an environment in which selective active management can add meaningful value, allowing us to access investments at attractive valuations – often with strong, sustainable income streams – that can help cushion portfolios during market drawdowns while delivering returns in excess of inflation.

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