



INVESTMENT UPDATE

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INVESTMENT UPDATE

Index	Level 30 Nov	Level 31 Dec	Change*
S&P 500	6849	6846	-0.04%
FTSE 100	9720	9951	+2.4%
Euro Stoxx 600	576	592	+2.8%
Nikkei 225	50253	50339	+0.2%
Shanghai	3889	3968	+2.0%
US 10 Yr Treasury Yield	4.02%	4.16%	+0.14
UK 10 Yr Gilt Yield	4.44%	4.47%	+0.03
Bund 10 Yr	2.69%	2.86%	+0.17

*all returns in local currency terms. Past performance is not a guide to future returns.

Overview

December rounded off what was a truly eventful 2025 with generally positive returns. Indeed, stock market returns for the year as a whole were extremely positive, despite the obvious headwinds caused by geopolitical events across the world. This does serve as a reminder not to allow our investment approach to be driven solely by short term, news-driven events. If we consider that during the year we had martial law declared in Korea, the very real decline of German heavy industry, snap elections called in both France and Japan, a UK economy seeming mired in relative decline, oh and the not so insignificant implications of

President Trump's 'Liberation Day' tariff announcements along the way, this illustrates why an approach of staying invested, whilst diversifying investments globally, pays off over the longer term.

To add weight to this argument, in 2025, Korea, Europe, Japan and the UK were among the top-performing markets despite the aforementioned events. It was also the year where the US market lagged many others, despite delivering positive returns along the way, as the weakness of the dollar, a lasting effect of Liberation Day, reduced these returns for overseas investors.

Certain equity markets were undoubtedly driven by the AI spending boom, and Alphabet's (Google's) share price return of over 60% helps to evidence this, as well as the performance of markets such as Taiwan and Korea, which produce much of the equipment required for AI infrastructure. AI spending also contributed significantly to US GDP growth.

However, other markets were powered by their attractive relative valuations, such as the UK, Europe and Japan, with the latter two markets' attraction being aided by governmental plans to significantly increase domestic spending. These diverse drivers of return can only be regarded as positive, since they reduce our reliance on a single theme.

We also saw strong positive returns from fixed interest markets, with bond prices rising, as we saw interest rates declining in most major markets. Again, this was despite the apparent headwinds of increased levels of government borrowing and uncertainty over inflation. Although it was bonds issued by corporate borrowers that led the returns, again demonstrating the importance of diversifying investments across different markets in this asset class too.

So, all in all, it has been a good year for investors, and we shall examine the prospects for 2026 at the conclusion of this update.

US

There was not much in the way of earnings news in December and with the post-Thanksgiving lull, US markets were pretty quiet. However, one company's share price performance perhaps showed the consequences of those companies which are caught up in the AI spending boom, which might disappoint on the earnings front. Oracle, which produces cloud-based AI applications, reported earnings only slightly below analysts' expectations (\$16.1bn vs \$16.2bn). However, despite the tiny margin of difference, their share price immediately fell 20% on the news.

The US Federal Reserve (Fed) announced a widely expected quarter-point cut to interest rates, but this failed to galvanise markets. Attention was drawn to the Fed's decision meeting notes, which suggested that members were divided between protecting a weakening job market and the persistent threat of inflation from still strong economic growth. This was reinforced when third-quarter GDP was reported to be 4.3%, over 1% higher than analysts' estimates. As mentioned previously, it should be noted that AI infrastructure spending (software, servers, data centres) is estimated to have been a significant contributor to this growth.

UK

The FTSE 100 continued its run of strong performance in 2025, briefly breaching the psychologically significant level of 10,000 and making it one of the best-performing markets globally. Given the dominance of earnings from overseas for the index's constituents (over 75%), it is unlikely that much of the performance

this month was generated from the quarter-point interest rate cut by the Bank of England (BOE). It was more a case of individual companies in finance and mining being the main contributors. However, the FTSE Mid 250's performance of over 1.5% was probably attributable to the cut, as companies in this index are more exposed to the domestic economy. This index underperformed its larger peer by around 50% in 2025 and is therefore arguably a better reflection of the UK economy.

Speaking of the economy, there wasn't much in the way of positive news on this front to buoy investors or the government. Retail sales fell, GDP is still flatlining, declining 0.1% in October, whilst unemployment rose to the highest level since early 2021 at 5.1%. However, this weakness probably helped contribute to a surprise fall in inflation to 3.2%, which would also have helped the BOE in its decision to cut rates. It has also increased speculation that there will be further rate cuts in 2026, which is positive news for borrowers and possibly the economy.

Europe

As mentioned earlier, European indices defied the negatives affecting the likes of Germany (Chinese competition and high energy price led threats to its industrial base) and France (political turmoil), as well as the significant impact of tariffs, preferring to focus on the positives of increased domestic spending. This was especially so in Germany and particularly around defence.

Rheinmetall, the country's main defence contractor, saw its share price treble over the year as a consequence. This theme was also influential across the Euro region. However, it was the countries once described unflatteringly as 'PIGS', Portugal, Italy, Greece and Spain, that generated the highest returns, as their economies exhibited robust economic growth and/or investors were attracted by their low relative valuations. All these factors combined to make the region one of the top performers globally.

Japan

The Nikkei index closed 2025 at over the 50,000 level for the first time and was among the best performing markets over the year, with a near 30% return. There were a number of drivers that led to this performance: a low relative valuation against a backdrop of genuine corporate governance reform, an end to decades long deflation (which increases the appeal of risk assets) and a newly elected prime minister with her eye firmly on stimulating the economy through domestic spending, tax reforms, boosting defense and creating a business friendly Growth Strategy Council.

On the economic front, the country faces numerous challenges, in no small part caused by the level of inflation now being experienced. This has caused domestic unrest, as food prices soared and created a problem for the Bank of Japan, which is the only major central bank to have increased interest rates to combat rising prices. It must balance the requirement to do this against the country having one of the largest fiscal deficits in the world, as increasing rates increases the cost of servicing this debt.

There were fears that the increased appeal of Japanese bonds would create sales of overseas government bonds and cause the yen to strengthen, in turn weakening Japanese competitiveness. However, this turned out not to be the case, as the yen stayed weak and Japan remains the largest holder of US treasuries. This most likely helped sustain the equity market rally, although long dated government bond yields reached multi-decade highs, putting downward pressure on prices (prices move inversely to yields).

Asia and Emerging Markets

Over the year, emerging market indices were the best performing, something they hadn't achieved since 2017. The region shook off Trump's tariffs, focussing more on regional alliances as well as the AI spending boom, of which many companies, particularly in Southeast Asia, were major beneficiaries. Korea experienced corporate governance reforms akin to Japan's and the resurgence of the AI trade in December, which meant that these factors combined to make it one of the world's best-performing stock markets in 2025.

Taiwan's TSMC, as the major producer of AI-related chips, continued to perform well and, as a major constituent of many emerging market indices, was a significant contributor to the high regional returns. The Chinese stock markets' initial enthusiasm for governmental stimulus and its participation in the AI rally waned in the third quarter, as the country is still faced with the deflationary pressures of the depressed domestic property market and the country's over reliance on exports.

Latin America's proximity to the US and its high exposure to much needed raw materials, also allowed it to shrug off US tariffs, making the region's performance greater than even that of Southeast Asia. Although Argentina tended to grab all the international attention, following the drastic economic reforms and political successes of Javier Milei, the Merval index's return of 20% paled into insignificance compared to the likes of Brazil and Colombia, with their returns of over 30% and 50% respectively.

Summary & Outlook

Whilst much of the news around markets revolved around AI spending and talks of a 'bubble', our portfolios were not reliant on that theme to generate returns in 2025. Whilst there may be uncertainty about the returns that may be generated from the technology, it is certainly something companies continue to invest in, even if it's simply based on the fear of missing out. Many stocks relating to the theme are certainly expensive, by historical standards, but many companies, such as Nvidia, are currently generating earnings growth to support these valuations.

Meanwhile, many stocks in the US are not so richly priced and with a backdrop of lower taxation and possibly lower interest rates, there is no reason currently to suggest a recession, which bodes well for sectors outside of tech. Indeed, healthcare stocks were the strongest performers in the last quarter of 2025.

We also saw themes as mentioned above, specific to certain geographies, that are providing support for markets outside the US, and we expect the global economy to muddle through while valuations are not excessively high here either. Fixed interest stocks, whilst sensitive to government spending levels, should respond well to any further interest cuts, although we must be aware of the risks to longer dated securities.

All of which suggests, provided we maintain our discipline of diversification across all asset classes, we should weather any short-term volatility from further geopolitical shocks, which, although it feels almost inevitable, is not assured.

Rockhold Asset Management, with contributions from 7IM, January 2026



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