

Monthly Markets Update

31 December 2025



FUTURE PLANNING

- Equity markets finished the year with strong returns
- UK Equity Income continued to outperform in December
- Sterling strengthened against the US dollar



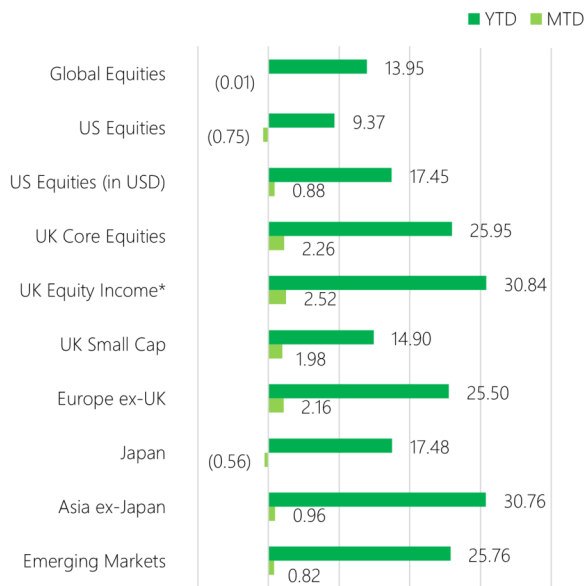
Key points

1. Sterling strength weighed on overseas returns despite positive local market performance in several regions.
2. Bond markets saw yields move higher, with UK and US 10 year yields rising modestly.
3. US growth surprised to the upside and inflation continued to moderate, while UK growth remained subdued. Geopolitical risks remained elevated.

Equities

Global Equities closed the month flat. US equities were up +0.88% in local terms, but down -0.75% in GBP term, while UK equities rose by +2.26%. UK Equity Income was the strongest performer, gaining +2.52% MTD. Asian and Emerging Market equities also delivered positive returns of +0.96% and +0.82% respectively, all in GBP terms.

Equities performance (GBP) as at 31-Dec-25

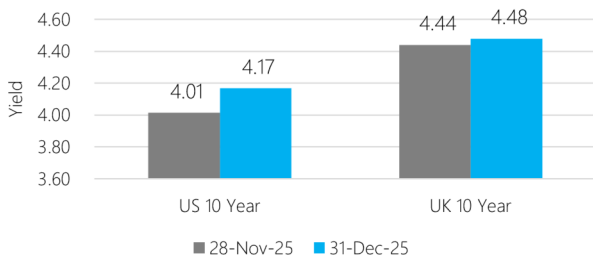


*Elston Indices

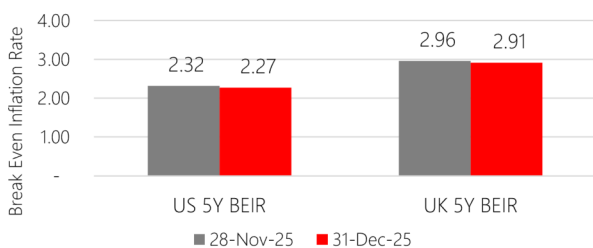
Bonds

UK 10-year Gilt yields edged up from 4.44% to 4.48%. US 10-year Treasury yields increased from 4.01% to 4.17%. UK 5-year breakeven inflation moved lower from 2.96% to 2.91%. Within bonds, UK Inflation Linked bonds were the strongest performer, returning +0.68% MTD, while unhedged Global Aggregate bonds posted a negative return of -1.12% MTD.

US & UK 10Y Govt Bond Yields

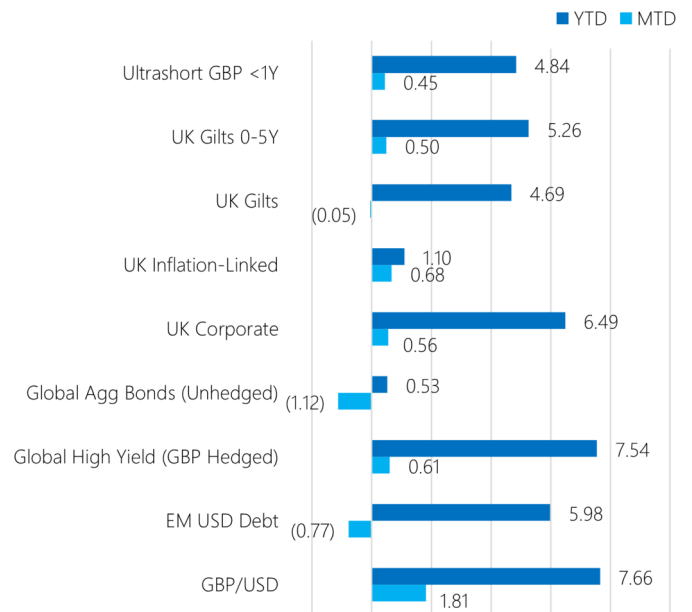


US & UK 5Y Breakeven Inflation Rates



Source: Elston research, Bloomberg data

Bonds performance (GBP) as at 31-Dec-25



Currency

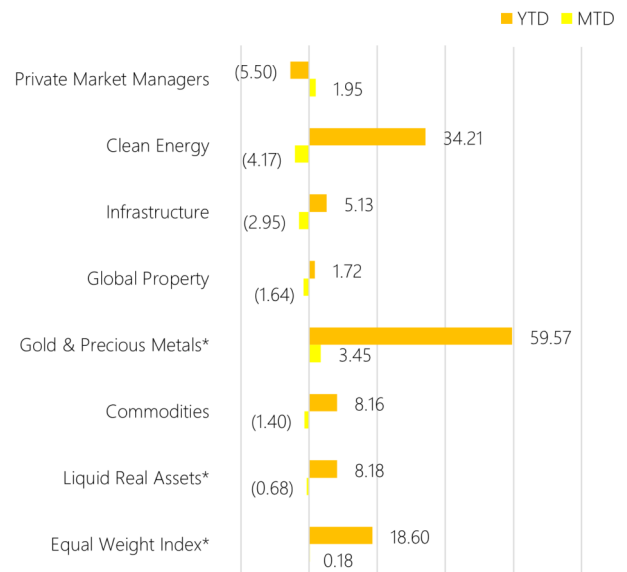
Sterling strengthened against the Dollar (+1.81% MTD). £1 buys \$1.3475.

Alternatives

Alternative Assets: Gold and Precious Metals gained +3.45% MTD. Commodities were down -1.40%. Private Market Managers fell by -5.50%.

Alternative Strategies, an Equal Weight 4-asset index strategy was up +0.18% for the month.

Alternatives performance (GBP) as at 31-Dec-25



*Elston Indices

Month in review

We summarise key drivers and data points in the last month for markets, the economy and geopolitics.

Markets

EQUITIES

Global Equities

Global equities were broadly flat over the month, ending December down -0.01% in GBP terms, but finished another year with strong returns of 13.95% marking 3 years of consistent double-digit performance. Market performance was mixed across regions, with gains in Europe ex-UK and UK equities offset by flat returns from US equities. Currency effects were a meaningful drag for UK-based investors, with sterling strength weighing on overseas returns despite positive local market performance in several regions.

US Equities

US equities declined -0.75% MTD in GBP terms. In local currency terms, US equities rose +0.88%, highlighting the impact of sterling appreciation against the US dollar. Market leadership narrowed toward year-end, with weakness in large-cap technology and growth stocks offsetting resilience in other sectors.

UK Equities

UK equities performed strongly, supported by a combination of currency effects and sector composition. UK Core Equities rose +2.26% MTD, while UK Equity Income gained +2.52%. UK Small Caps also advanced, up +1.98% over the month. Performance reflected continued investor preference for value-oriented and income-generating stocks.

BONDS

UK Bonds

UK 10-year gilt yields rose modestly over the month, ending December at 4.48% compared with 4.44% at the end of November. Shorter-dated gilts also delivered positive returns, with UK Gilts 0-5Y up +0.50% MTD. UK inflation-linked bonds rose +0.68% MTD. The UK 5-year breakeven inflation rate edged lower to 2.91% in a welcome sign of inflation risk moderating.

Global Bonds

US Treasury yields increased during the month, with the US 10-year yield rising to 4.17% from 4.01% at the end of November. Global aggregate bonds (unhedged) declined -1.12% MTD in GBP terms, reflecting a combination of higher yields and adverse currency moves. Global high yield bonds (GBP hedged) delivered a positive return of +0.61% MTD.

ALTERNATIVES

Gold and Precious Metals rose +3.45% MTD, extending strong year-to-date performance. Broader Commodities declined -1.40% over the month, while Liquid Real Assets fell -0.68%. Clean Energy equities underperformed, down -4.17% MTD, while Infrastructure and Global Property also declined, reflecting sensitivity to higher bond yields and year-end risk reduction.

CURRENCIES

Sterling strengthened notably against the US dollar, with GBP/USD rising +1.81% over the month. Currency moves were a key driver of relative asset class performance in December, amplifying UK equity returns while detracting from overseas equity/bond returns in GBP terms.

Economy

Growth

US GDP growth for 3Q25 was released in December following earlier delays caused by the government shutdown. The data showed the US economy expanding at an annualised rate of 4.3% (+2.3%yy), significantly stronger than trend. Growth was supported by resilient consumer spending, while investment remained mixed.

UK monthly real GDP fell by 0.1%mm in October, following weakness in September. On an annual basis, GDP grew +1.3%yy. Services activity softened, while production output remained weak, reflecting ongoing pressures in manufacturing. Overall growth momentum remained subdued heading into year-end.

Inflation

US headline CPI eased to 2.7%yy in November, confirming continued disinflation following the resolution of data disruptions earlier in the quarter. Core inflation remained sticky, while the September PCE inflation reading stood at 2.8%yy, reinforcing the Federal Reserve's cautious approach to policy easing.

UK headline CPI slowed to 3.2%yy in November, down from October levels and below market expectations. Core CPI also eased to 3.2%yy. The moderation was driven by easing energy and housing-related components, while services inflation remained elevated relative to target-consistent levels. Forward looking inflation rates have moderated.

Rates

Markets moved to fully price a December Fed rate cut following confirmation of easing inflation pressures and the release of delayed GDP data. Expectations centred on a gradual easing path rather than an aggressive cycle, with policy remaining data dependent.

In the UK, softer growth data and continued moderation in inflation reinforced expectations that rate cuts would begin in early 2026 rather than December. The ECB left policy rates unchanged as inflation remained close to target and growth subdued. In Japan, the Bank of Japan raised rates as expected to 0.75% as higher inflation readings continued to support expectations of future rate hikes and normalisation.

Geopolitics

United Kingdom: Parliamentary debate in the UK underscored perceived threats from China, Russia, Iran and North Korea to British national security, with lawmakers stressing the importance of strengthening democratic resilience and counter-interference measures.

United States: Tensions with Venezuela escalated late in the month as the United States imposed sanctions on multiple Venezuelan entities and vessels, citing links to the Maduro government and narcotics trafficking, while a blockade of sanctioned oil tankers was announced as part of the pressure campaign.

Asia: China conducted extensive live-fire military drills around Taiwan in late December, simulating blockades of key ports and demonstrating joint operational capabilities of naval, air and amphibious units. Taiwan condemned the exercises as a threat to regional stability, and Japan expressed concern over rising tensions. The timing of the drills coincided with a significant US arms package for Taiwan, exacerbating strategic competition in the Indo-Pacific.

Russia-Ukraine: Washington hosted talks in mid-December aimed at advancing a negotiated settlement to the Russia-Ukraine conflict, with officials publicly stating that a deal on security guarantees was closer than ever, though substantive agreement remained elusive.



Bottom Line

Global markets ended December with diverged regional equity returns and the continued influence of currency movements on returns. Stronger US economic data contrasted with subdued UK growth, while inflation continued to moderate. Sterling strength remained a key driver of relative performance for UK investors, supporting domestic equities but weighing on overseas assets. Geopolitical risks remained elevated through year-end, contributing to ongoing market uncertainty.

What does this mean for portfolios?

While portfolios should have clear long-run strategic allocation to match a given risk profile, adapting portfolios to align to changing market and economic conditions can help mitigate near- to medium-term risks and help navigate the markets.

Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

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Notice

Investments carry risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.



Contact us

For more information, please contact your financial adviser.

NOTICE

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