

MONTHLY UPDATE

Latest views from the investment team



2025 Review & 2026 Outlook

2025 marked a shift from campaigning to governing. Trump's return put tariffs back in focus – initially unveiled theatrically, before being paused and diluted through negotiations. The US also passed a pro-growth but debt raising tax and deregulation package. In the UK and Europe, higher spending implied higher taxes, while growth slowed and inflation kept central banks cautious on rate cuts. Despite this noisy backdrop, both equities and fixed income produced solid results over the year.

With the prior year dominated by elections, 2025 was when politicians moved from campaigning to governing. In the US, Donald Trump's return brought renewed focus on trade tariffs (taxes). In spring, Trump unveiled his "fair and reciprocal" list of who was getting whacked with what. He did so in a manner more reminiscent of an 80s game show host than President of the United States - via a large, printed board in his garden.

This was followed by a bout of global hysteria. Especially upset were the poor penguins of the Heard and McDonald Islands, a remote Australian territory near Antarctica, unexpectedly included despite being uninhabited by humans. Thankfully, Mordor and Narnia were spared. Whilst the world wailed, markets shuddered and Trump paused his tariff bonanza. Negotiations followed with major partners, and the end result was watered down measures, with exemptions, delays and carve outs. This may have been the plan all along, but who really knows.

Staying with the States, 2025 also saw the passing of Trump's humbly named "One Big Beautiful Bill". In essence, it keeps taxes low, encourages companies to invest and make things in the US, and reduces regulation to support growth and profits. However, it also means the government collects less tax, so borrowing rises.

In the UK, Labour was keen to place the country's tricky financial position on events outside its control, with Brexit, global shocks and the Conservatives all receiving honourable mentions. It was only with admirable restraint that references to the French Revolution and the Battle of Hastings were avoided. After the Autumn Budget, whilst some measures were softened or delayed, the direction of travel was clear: higher spending would need funding, via higher taxes. Europe, often criticised for inertia, surprised many by loosening fiscal rules and increasing defence and infrastructure spending, supporting activity and confidence.

Economic growth slowed but avoided recession, with the US cooling, Europe outperforming low expectations and the UK muddling through. Inflation remained stubborn, particularly in services and wages, keeping central banks cautious about cutting interest rates too quickly. Looking ahead, 2026 is likely to be shaped by an unsettled political backdrop, with US midterm elections, trade and fiscal policy in focus, and UK and European governments under pressure from tight budgets, ageing populations and rising defence commitments.

Bottom Line

2025 was a year where nothing quite went to plan, but nothing went badly wrong either. Inflation was tempered but refused to go away, interest rates came down only cautiously, and markets learned to live with it. As for the year ahead, the dominant US stock market remains richly priced and concentrated in a few companies. Diversification across geography, sector and currency is therefore likely to remain a friend to investors in 2026.

Month by numbers

Change in various markets over the month:

Asset	Change	Value
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Equities

UK	↑	2.24%
Europe	↑	2.70%
US	↓	-0.02%
Emerging Markets	↑	2.61%
Japan	↑	0.99%

Bonds / Rates

* Absolute change (%)

UK Base Rates	↓	-0.25%	3.75%
Fed Funds Rate	↓	-0.25%	3.75%
UK 10-Year Yield	↑	0.03%	4.47%
US 10-Year Yield	↑	0.00%	4.16%

Currencies

GBP / USD	↑	1.67%	\$1.35
GBP / EUR	↑	0.35%	€1.15
DXY (USD Index)	↓	-1.13%	98.32

Commodities

Gold	↑	2.00%	\$4315.09
Oil (Brent)	↑	-3.72%	\$60.85

Noteworthy

Silver	↑	21.67%
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December Update

Data as of 31st December 2025

Q&A

What's on your mind?

What did fixed income do in 2025 and what to expect in 2026?

Overall, 2025 could be considered a positive year for fixed income. A combination of global central bank interest rate cuts and relatively moderate growth provided a supportive backdrop for bond markets. With high starting yields, returns were driven primarily by income over the year. Government bonds in the US and UK delivered returns of around 4% to 6% in GBP terms. Corporate bonds, which carry an additional layer of risk, returned approximately 6% to 7%. The riskiest segments of the market, high yield and emerging market bonds, delivered returns of around 10%, with strong investor risk appetite proving supportive. Looking ahead to 2026, the outlook for fixed income remains reasonable. Yields are still attractive by historical standards and provide a solid income cushion. Further rate cuts could offer some upside, but expectations should remain measured. Bonds may not be exciting, but they have rediscovered their usefulness.

What did stock markets do in 2025 and what to expect in 2026?

If an investor fell asleep at the beginning of 2025 and woke up in December, they might be reasonably happy to discover that global equities returned around 14% over the year in GBP terms, with UK and European markets up more than 25%. The lived experience, however, felt quite different. The defining moment came in early April, when President Trump delivered his second round of tariffs, sending global equity markets into a spin. Yet more striking than the roughly 20% fall seen in some markets over just seven trading days was the subsequent rebound of around 25% to 40% from mid-April to year end. 2025 was also a year when regional diversification paid dividends. The market poster child of recent years, the US, underperformed most major global indices. The UK, Europe, Japan, China and emerging markets all beat the US's roughly 10% return in GBP terms, benefiting from lower starting valuations and improved sentiment. As 2026 comes into focus, three questions are likely to be on investors' minds: how company profits fare in a period of potentially lower growth, how AI investment affects efficiency and employment, and whether the enormous spending by technology companies will ultimately be justified by higher profits.

What did real assets do in 2025 and what to expect in 2026?

2025 was a mixed year for real assets. Within commodities, the standout performers were precious metals, with gold and silver reaching record highs. The rally was driven largely by increased central bank purchases and geopolitical uncertainty. Oil experienced its steepest annual decline since the pandemic, and headwinds may persist into 2026 due to excess supply and moderating economic growth. Political pressure to maintain low energy costs, particularly in the US, also remains a significant influence. Infrastructure performed well in 2025, underpinned by structural tailwinds including AI driven demand for data centres and power, the energy transition and sustained government investment. These multi-year themes could provide long-term support for the asset class. Nonetheless, valuations for certain AI related companies now appear elevated, warranting caution. It was another lacklustre year for real estate equities, with higher interest rates and the work from home trend continuing to weigh on the sector. Looking to 2026, lower global interest rates should reduce financing costs and may provide a much needed boost for the asset class.

For more information, please contact your adviser.

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