

December Market Overview

December brought a more moderate close to the year, with global equities and bonds both posting modest declines in dollar terms as markets paused after a strong final quarter. International equities once again outperformed their US counterparts, reinforcing a theme that defined much of 2025, while sterling's rally against the dollar provided an additional boost to UK-based hedged investors. Volatility remained a feature of markets, particularly as the year drew to a close, but the overall tone was one of consolidation rather than concern, with investors taking stock after a year of solid gains.

Softer inflation data across the US, Europe and the UK helped reinforce confidence that global disinflation remains intact, even if uneven. Central banks used their final meetings of the year to cut interest rates while maintaining a cautious tone, tempering year-end rallies but providing reassurance that further easing lies ahead in 2026. Macro developments supported this balanced backdrop, with cooling but resilient US growth, stable energy prices in Europe and calmer gilt markets in the UK. Against this setting, gold and silver continued to perform strongly, underlining their role as effective diversifiers as investors navigated a more thoughtful and measured market environment.

Portfolio Positioning

The Enhanced Passive models posted negative returns in December, extending the consolidation seen in November as markets reassessed the outlook for monetary policy and growth into year-end. US large caps detracted, with continued profit-taking across technology and AI-related equities, particularly within semiconductors, where positioning remained crowded. Emerging markets also declined, in part due to ongoing weakness in Chinese equities, as policy support measures continued to fall short of restoring confidence. UK equities detracted modestly, as financials and energy names faced headwinds from flatter yield curves and softer oil prices.

Fixed income returns were mixed, with sovereign yields edging higher as markets further repriced the path of monetary easing, offsetting carry benefits. Credit spreads widened modestly amid risk appetite. Overall, the Enhanced Passive range remains well diversified across regions and assets, positioned to participate as macro clarity improves and markets transition into the new year.

February Market Outlook

As we look ahead to February 2026, narrowing inflation paths, a projected buoyant earnings season and central bank policies are creating a broad and attractive opportunity set for global investors whilst we see enthusiasm around AI continuing to propel markets higher. In Europe, the prospect of progress towards a peace framework in Ukraine could arrive soon which would likely lift sentiment towards EU equities. In the US, markets should be buoyed by Trump's recent tax cuts which should start to show up in consumer spending patterns and corporate earnings. We expect speculation around further cuts to US rates to cool as we move through Q1 as the current and outgoing FED chair dampens expectations of further cuts into the end of his tenure.

The principal risk to this short-term outlook remains the concentration of market leadership within a small group of AI pioneers and an upset to this. Should January earnings come through shallow with a focus on missed tech earnings we would envisage a volatile Q1 but this remains an outlier of the money risk this early into 2026. Looking beyond AI, we see a broad universe of real-world businesses across sectors such as energy, healthcare, banking and industrials that stand to benefit as AI productivity gains spread more widely through the economy. A rotation towards these companies is something we expect to see continuing in February's performance.

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