ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

December 2025

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/12/2025	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	220.42	+0.1%	+1.8%	+6.6%	+15.6%	+11.3%
ARC Balanced	Medium Risk	284.37	+0.0%	+2.3%	+8.7%	+22.3%	+19.7%
ARC Steady Growth	Medium High Risk	348.09	-0.1%	+2.4%	+9.1%	+26.2%	+24.9%
ARC Equity Risk	High Risk	415.69	-0.2%	+2.5%	+9.5%	+29.6%	+30.0%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/12/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	9931.38	2.2%	6.2%	21.5%	33.3%	53.7%
UK All Share	UK	5350.38	2.1%	5.7%	19.8%	31.3%	45.6%
Dow Jones Ind Avg	US	48063.29	0.7%	3.6%	13.0%	45.0%	57.0%
S&P 500 Index	US	6845.50	-0.1%	2.3%	16.4%	78.3%	82.3%
Nikkei 225	Japan	50339.48	0.2%	12.0%	26.2%	92.9%	83.4%
MSCI Europe Ex UK	Europe	233.95	2.7%	5.8%	16.8%	40.1%	46.5%
MSCI Asia Ex Japan	Asia	913.42	2.6%	4.0%	29.7%	47.5%	8.4%
MSCI Emg Mkts (£)	Emg Mkts	851.29	1.5%	4.8%	24.4%	41.0%	24.8%
MSCI World Index (£)	Global	4430.38	0.7%	2.9%	19.5%	70.2%	64.7%
UK Conventional	Gilts	3177.51	0.2%	3.1%	5.0%	5.3%	-23.9%
UK Index-linked	Gilts	3751.22	0.5%	3.3%	1.3%	-6.2%	-35.1%
UK Real Estate Investment Trusts	Property	1926.13	0.6%	4.4%	6.0%	-5.3%	-21.6%
WTI Crude ($/Barrel)	Oil	57.42	-1.9%	-7.9%	-19.9%	-28.5%	18.3%
Gold Spot $/Oz	Commodities	4319.37	1.9%	11.9%	64.6%	136.8%	127.5%
£1 = US$	Currencies	1.3475	1.8%	0.2%	7.7%	11.5%	-1.4%
£1 = €	Currencies	1.1472	0.5%	0.1%	-5.1%	1.6%	2.6%
£1 = Yen	Currencies	211.21	2.2%	6.2%	7.3%	33.3%	49.6%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	31/12/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	14,072.94	1.6%	3.0%	12.8%	21.4%	9.1%
Latest Weighted Average Discount	-12.5%						
12 Month Weighted Average Discount	-14.1%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

December proved an apt end to the year with markets broadly up across the board. European, UK, and Asian equities led the way, while there were also strong returns for bond and real estate investors.

The degree to which our wealth management peers have leant into passive investing can be shown by the negative returns of the two riskier ARC indices. Many firms' asset allocations now rely so heavily on US equities that even if this is the only area with negative returns for the month, these supposedly diversified portfolios are also negative. This is why we typically prefer a much more diversified and balanced approach, preferring to be more active than our peers.

Elsewhere, sterling had a strong month, appreciating against most major peers. Investment companies also closed the year on a positive note with discounts narrowing further.

UK Commentary

On the monetary front, the Bank of England delivered a 0.25 percentage point rate cut to 3.75%, even as Governor Andrew Bailey cautioned that further reductions might be a "closer call" due to persistent service sector inflation risks.

The banking sector received a significant boost as the Bank of England's Financial Policy Committee reduced the required tier-one capital ratio from 14% to 13%. This move is expected to release approximately £30 billion in capital, significantly boosting lending capacity and potential profits for major banks like Barclays. This regulatory easing follows a Budget where banks successfully avoided a sector-specific tax raid (many of them reportedly promising to publicly support the Budget in exchange), though wider business concerns remain regarding a projected £5 billion annual cost from the new employment rights bill.

Economically, the UK is showing signs of a modest recovery, with November PMI data hitting 51.2, suggesting a steadying of growth after a period of pre-Budget uncertainty. However, the labour market remains a point of concern; unemployment rose to 5.1%, its highest level in four years, while wage growth of 4.7% remains well above the central bank's target.

North America Commentary

North America is currently experiencing notable corporate consolidation and shifting fiscal expectations. A massive $83 billion takeover of Warner Bros Discovery by Netflix aims to create a global entertainment powerhouse, though the deal faces ongoing competition from Paramount and potential regulatory scrutiny from the Trump administration (which has ties to Paramount) due to market share concerns.

Economically, the U.S. labour market appears resilient despite some cooling; jobless claims recently fell to their lowest level in three years, and job openings saw an unexpected jump to 7.67 million in October.

The Federal Reserve recently lowered interest rates by 25 basis points to a range of 3.50% to 3.75%, a decision marked by internal disagreement as three members dissented in favour of different paths. While the Fed cuts rates at the short end, investors are closely watching the U.S. 10-year Treasury yield, which has risen 0.5% higher than when the Fed first began its easing cycle, signalling either confidence in avoiding a recession or growing fear over national debt.

Deregulation remains a central theme, with expectations that easing rules could unlock up to $2.6 trillion in lending capacity for U.S. banks. While technology and AI adoption are expected to drive a long-term productivity boom, the region continues to grapple with an affordability crisis in housing and healthcare, which is likely to dominate political debates heading into the 2026 midterm elections. These elections will be key for Trump and the US alike. A swing towards the Democrats could undermine Trump's agenda and significantly impact his ability to enact his plans.

Meanwhile, Canadian Prime Minister Mark Carney has faced some backlash after the former vehement supporter of renewables embraced fossil fuels in an attempt to counter Trump's tariffs. In scrapping an EV sales boosting scheme, removing consumer carbon taxes, and signing deals to boost oil & gas supply, Carney aims to offer an olive branch to an industry he has spent much of his career criticising. Predictably, this U-turn has been widely used as a line of attack by political opponents.

Europe Commentary

Eurozone inflation unexpectedly climbed to 2.2% in November, exceeding the European Central Bank's 2% target for a third consecutive month. This rise was largely fuelled by Germany, where inflation reached 2.6%. This isn't unexpected given Germany's large increase in government spending (focussed on defence and infrastructure).

The ECB voted to keep interest rates steady at 2% once again. President Lagarde cited a resilient economy and stated neither hikes nor cuts were discussed as all policymakers were happy with the current level of interest rates.

Meanwhile, the FT has been running a series of stories on the internal barriers faced to trade in the so-called European "single market". Reporters note that "invisible" trade barriers are creating a drag on the economy equivalent to a 44% tariff. These protectionist rules even impact simple trades, such as breadmaking or the labelling of toys.

In a significant corporate move, the Magnum Ice Cream Company completed its demerger from Unilever, listing as a separate entity on multiple exchanges.

Asia Pacific Commentary

Japan's bond yields have reached their highest point since 1999 following the central bank's decision to hike short-term interest rates to 0.75%, a three-decade high. This "normalization" process under Governor Kazuo Ueda aims to address rising wages but has also sparked concerns regarding Japan's fiscal sustainability under Prime Minister Sanae Takaichi's expansive spending plans

Meanwhile, the Nvidia H200 chip has become a focal point of trade tension; while the Trump administration granted permission to ship the chips to China with a 25% surcharge, Beijing has signalled it may limit access to this technology to promote its own semiconductor self-sufficiency.

China's trade surplus in goods reached a historic $1 trillion this year, even amidst ongoing tariff wars. Trade data shows a significant increase in Chinese exports to other Asian nations, as well as Mexico, as companies seek workarounds for US tariffs.

Emerging Market Commentary

Emerging Markets were the standout performers of 2025, with equities in the region returning 33.5% in dollar terms. This broad-based success included strong recoveries in Latin America, which saw 58.4% returns as regional currencies like the Mexican peso and Brazilian real strengthened against the U.S. dollar. Emerging market debt also outpaced other fixed-income sectors, returning around 13.5%.

However, the outlook for commodities is mixed; while precious metals like silver hit record highs above $79 an ounce due to supply shortages and investor demand, the oil market is facing a potential "super glut". New supply projects in Brazil and Guyana are expected to collide with slowing demand from China, where a massive shift toward electric vehicles is reducing global petroleum needs.

Chart(s) of the month – 2025 Market Returns

Range 12/31/2024 - 12/31/2025 Period Daily No. of Period 365 Day(s) Table

Security	Currency	Price Change	Total Return	Difference	Annual Eq
1) MXWO Index	GBP	11.20%	13.20%	-12.55%	13.20%
2) UKX Index	GBP	21.51%	25.74%	--	25.74%
3) SPX Index	GBP	8.32%	9.69%	-16.06%	9.69%
4) SX5E Index	GBP	24.84%	28.90%	3.16%	28.90%
5) MXEF Index	GBP	21.52%	24.97%	-.77%	24.97%
6) MXJP Index	GBP	13.73%	16.45%	-9.29%	16.45%

The above chart from Bloomberg shows the returns of major global equity benchmarks in 2025 in sterling terms. It was undeniably a very strong year by historic standards, despite volatility.

There is no doubt the weakening US dollar impacted these returns massively, with the S&P 500 the worst performing index and Emerging Markets (which often issue debt in US dollars and whose currencies appreciated particularly markedly against the US dollar) among the strongest. This second chart (below), also from Bloomberg, speaks to this. It shows how all sixteen major global currencies appreciated against the US dollar in 2025, and the significance of some of those moves.

Investment Team's thoughts

Despite high levels of volatility following "Liberation Day" in April, 2025 was an exceptionally strong year for markets. It was also particularly interesting to see the US, despite all the talks of AI stocks, lagging peers in sterling terms. This was partly down to the US dollar's devaluation, which lost ground against all 16 major peers over 2025.

We spent much of 2023 and 2024 talking about a potential change of leadership in the markets as the US had seemed the only game in town for a while. We are pleased to have seen this broadening out of returns in 2025. It is too early to say, however, whether this represents the forming of a new long-term trend or merely a blip.

Data from the US is mixed, with labour market data pointing in both positive and negative directions, and GDP data positive, but weaker than previously and somewhat distorted by tariff-related disruption. This is something we continue to monitor closely, while both trying to capture the strong returns from the US markets at the same time as avoiding being overexposed to pockets which may be overvalued by historic norms.