

## Highlights

- 2025 ended on a quiet note in markets.
- Most major equity markets edged up over the month – there was no great Christmas rally.
- Over the year, the picture was better, with many markets posting double-digit gains.
- Both the Federal Reserve and the Bank of England cut interest rates by 0.25%, while the Bank of Japan added 0.25%.
- Government bond yields did not change much in the UK and Eurozone, but rose at the longer end in the US, further steepening the yield curve.
- Silver outshone gold, rising by 24% in December alone, having at one point been up nearly 37% from the start of the month<sup>1</sup>.

December was an unexciting month for global equity markets as the traditional Christmas rally was in short supply. Given that most markets had enjoyed solid performances – the MSCI AC World index was up 20.6% in dollar terms in 2025 – a cautious finale was to be expected, with investors banking their profits.

The US and the UK central banks continued to cut interest rates, but on both sides of the Atlantic there is now uncertainty about how much further rates will fall in 2026. Discussion about the level of the neutral rate – one that neither stimulates nor constrains the economy – are likely to grow in the New Year.

## Europe

European markets had a generally good month, with the Euro Stoxx 50 up by 2.1%, taking the year's growth to 18.3%. In Germany, the DAX ended up 2.7% across December, finishing close to its all-time high. For the year, the Dax gained 23.0%. The saga of the French budget reached an interim solution as the government introduced a special law, effectively rolling over 2025 spending limits and tax-raising powers into 2026<sup>2</sup>. The CAC 40 was virtually flat across the month and posted a rise of 10.4% over the year.

Spain's IBEX 35 had its own Christmas rally – as if one were needed. For the final month of 2025, it rose 5.7% while for the full twelve months it posted growth of 49.3%. At the opposite end of the scale was Denmark, which saw its equity market produce a 25% fall in 2025<sup>3</sup>, as a result of the fall from grace of its dominant company, Novo Nordisk (of Wegovy fame).

Eurozone government bond yields rose marginally over the month. The European Central Bank left rates unchanged in December and may not budge from its 'good place', as stated by President Christine Lagarde, of 2.0% in 2026<sup>4</sup>.

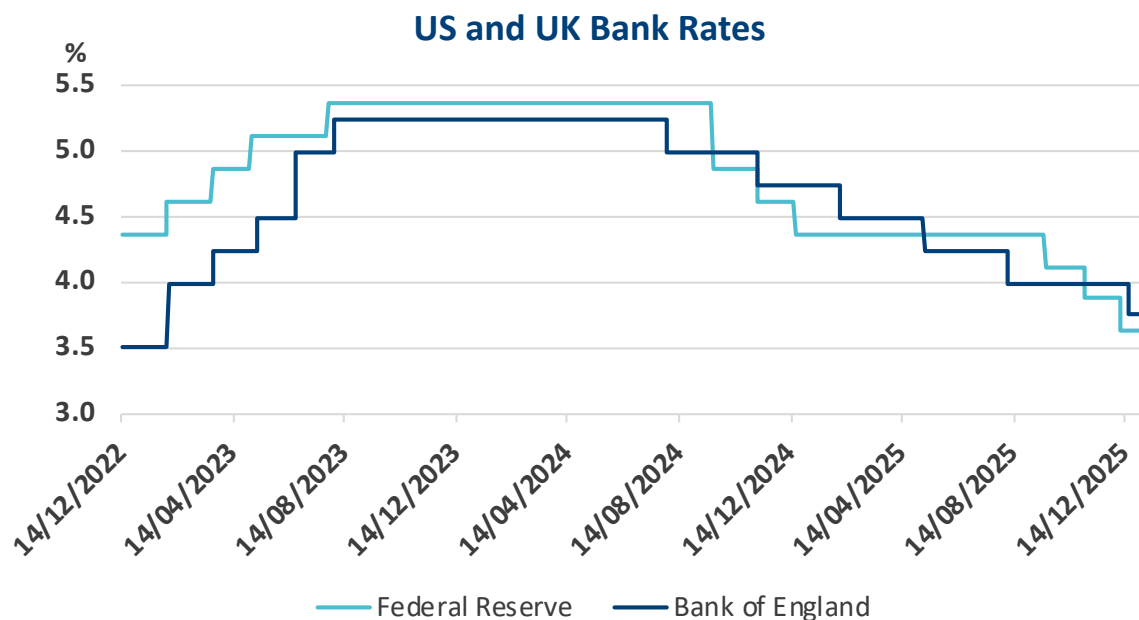
## United States

In December, the S&P 500 fell a mere 0.05% short of recording an eighth consecutive month of gains as the traditional December rally failed to emerge. Nevertheless, across the year, the index rose by 16.4%, making it the third consecutive year of double-digit returns. Viewed from the bottom of the Liberation Day drop in early April, the S&P 500 had risen by 37.4% at year-end<sup>5</sup>. This explains suspicions in the market that investors were taking profits and adjusting their portfolios ahead of 2026 rather than driving prices higher.

Across 2025 the index's performance was once again skewed towards a handful of large tech stocks, with the equal weighted S&P 500 up 9.3% over the year. The NASDAQ Composite suffered a second losing month, although the decline was only 0.5%. Over 2025, the index added 20.4%, and benefitted from its technology weighting. After outperforming the larger counterparts in November, smaller cap stocks fell back in December, with the Russell 2000 down 0.7%. For the year, the index added 11.3%.

The fallout from the US government shutdown – which might return soon – meant that the Federal Reserve was short of hard data when it made its interest rate decision on 10th December. Its 0.25% cut, the third consecutive reduction and the third of the year, had been widely anticipated. Three members voted against the move – two favoured no change and Stephen Mirran (Trump's latest appointment) again called for a 0.5% cut. December was a 'dot plot' month, but the latest edition was virtually unchanged from September's figures. The median forecast for rates at the end of 2026 remained at 3.4%, implying that there will be only a single cut in the year. Given that President Trump's chosen successor to Jay Powell as Fed chair will be in situ from May, the dot plot points to continued friction with the White House.

Alongside the rate cut, the Fed announced that it would be resuming bond purchases in 2026, starting with \$40 billion in January. The move was 'needed to maintain an ample supply of reserves on an ongoing basis'.<sup>6</sup> Although there were no dissenting votes, outside observers inevitably questioned whether the move was an intent to return to quantitative easing (QE). Allowing for the deficit that Trump will be running in 2026, some help from the Fed in absorbing debt supply would be welcome by Scott Bessent, the Treasury Secretary.



Source: Federal Reserve, Bank of England<sup>7</sup>

## United Kingdom

Despite the £26.6 billion of extra tax raised by the Budget at the end of November<sup>8</sup>, the FTSE 100 rose by 2.2% in December and, just before the month ended, came within 60 points of the magic 10,000. While the run-up to the Budget appeared chaotic at times, as investors absorbed its contents, they were relieved by the absence of any blow-ups and the newly bolstered head-room of £21.7 billion<sup>9</sup>. In theory, the wider margin for error means fewer concerns about the next fiscal event (since confirmed as the Spring Forecast – not Statement – on 3 March).

The Footsie's December performance marked the end of a good year, with the index rising 21.5% – the highest of the last five profitable years. The Footsie beat the S&P 500 comfortably, even before considering that sterling rose by 7.6% against a weak dollar over 2025. However, the story of the FTSE 100 was not echoed as strongly in the mid-cap tier, with the FTSE 250 up 9.0% in 2025. Smaller caps stock fell between the two as the FTSE Small Cap gained 10.1%.



The Chancellor was given some help in December by November's lower-than-expected Consumer Price Index (CPI) inflation reading of 3.2%, which arrived a day before the Bank of England announced a 0.25% cut in Bank Rate to 3.75%. As in November, there was a 5-4 vote in the Monetary Policy Committee, but on this occasion, the Governor, Andrew Bailey, chose to side with the doves. After four cuts (1% in total) in 2025, the current outlook for 2026 is for half that number, at best<sup>10</sup>. The Bank's own judgement is that 'Bank Rate is likely to continue on a gradual downward path. But judgements around further policy easing will become a closer call.'<sup>11</sup> In sympathy, gilt yields were almost unmoved over the month.

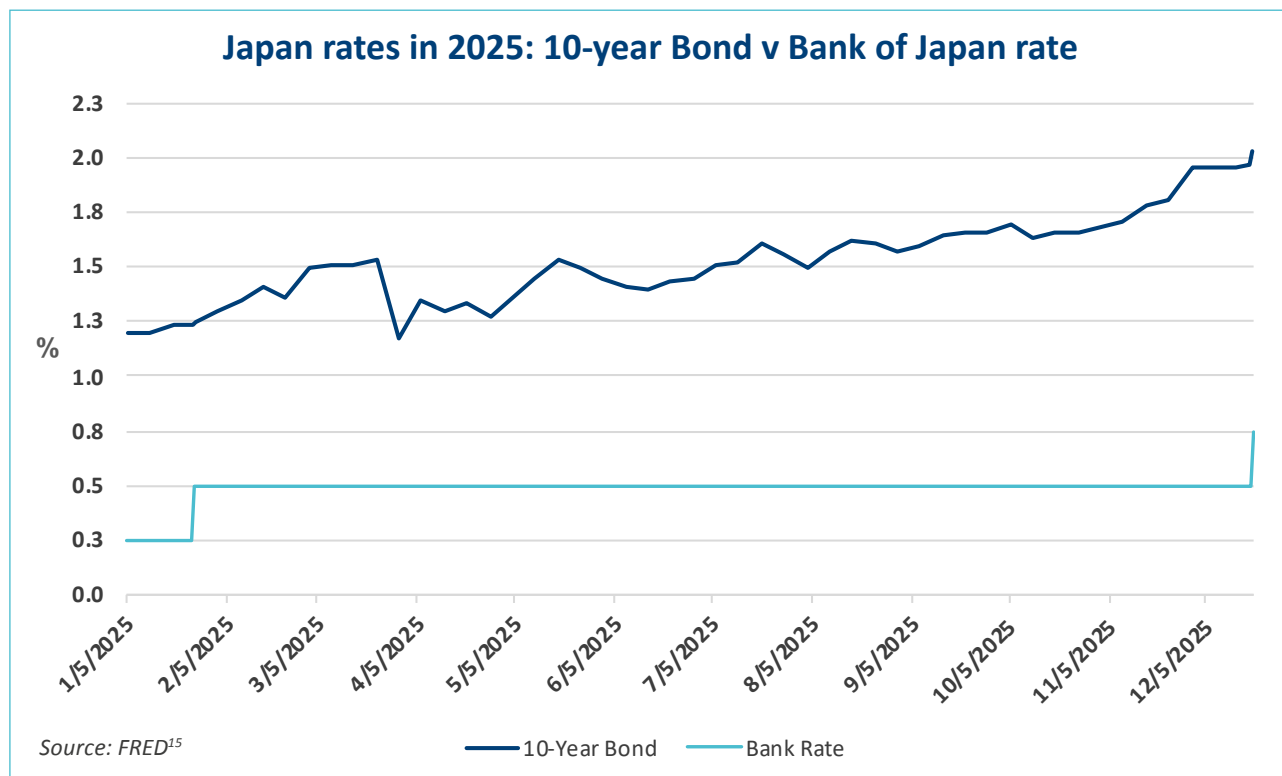
## Emerging Markets

The MSCI Emerging Markets Index rose by 2.7% over the month in dollar terms, supported by good performance in China (a 2.6% rise for the Shanghai Composite) and Korea (up 7.3%). For the year, the corresponding figures were 31.6% (helped by that weak dollar), 18.4% and an AI-induced 75.6%.

One of the few disappointing emerging markets was India, which saw the BSE Sensex falling 0.6% in December, while rising 9.1% across the year. It was hard to find an emerging market which fell over 2025, but the candidates – depending upon the index and currency chosen – included Indonesia and Thailand.

## Asia

Two months of volatility, which took the Nikkei 225 past 50,000, were followed by a December which delivered a 0.2% increase. Nevertheless, over the year the index rose by 26.2%, a performance diluted for non-US dollar investors by the weak Yen. To end the year, the Bank of Japan (BoJ) made its second 0.25% increase of 2025 in response to inflation of 2.9% in November. More rate rises are expected from the BoJ later in the new year<sup>12</sup>. Japanese government bond yields rose over the month, with the 10-year bond yield ending at just above 2%, a level last seen in 2006<sup>13</sup>. The 30-year bond ended the month above 3.4%<sup>14</sup>, having started the year at 2.25%.



Hong Kong's Hang Seng index made it a hat trick of monthly losses, falling by 0.9%. Over the year, the index gained 27.8%, helped by a heavy crop of initial public offerings and follow on capital raising which total about \$75bn, more than three times the 2024 figure. The Taiwan stock market recovered its vitality in December after its earlier AI concerns and rose 4.8% over the month. For the year it was up 25.7%.

### And also...

It is the season of forecasts for the year ahead. In recent times, the exercise has been regularly marked by in-year adjustments as events have unfolded. That might explain why some investment advisers have adopted a different approach to gazing into the crystal ball.

Attempting to predict where an index will end up in another 12 months is a generally thankless task. There has been a growing trend towards horizon-scanning for the kind of knowable events that, though unlikely, would have a major global impact. These 'grey swans' are theoretically predictable, unlike their better-known black swan cousins, and carry warning signs and potentially underestimated risk that could up-end the currently fragile status quo. Further pandemics, geopolitical realignments and technological and climate failures are among the potential hazards.

A trio from the 2026 flock are:

- **Japanese interest rate disruption:** Two years ago, the Bank of Japan's (BoJ) main policy rate was still languishing at -0.1%, the level it had been cut to in January 2016<sup>16</sup>. The 10-year Japanese government bond was yielding a similarly enticing 0.6%. Move forward to the start of 2026, the BoJ has recently upped its rate to +0.75% and the 10-year bond is yielding just north of 2%, its highest point in nearly 20 years.

Japan's new prime minister, Sanae Takaichi, has announced a ¥21.3 trillion stimulus programme, requiring bond issuance higher than 2025's ¥28.6 trillion. Meanwhile, the latest inflation reading is 2.9%; Japan last saw its famed deflation in August 2021<sup>17</sup>. This points to Japanese interest rates continuing to rise across the board. If those higher domestic yields prompt Japanese investors, institutional and retail, to pull their money back home, the result could be significant disruption, especially for US markets.

- **Yet another prime minister:** May 2026 will see parliamentary elections in Wales, Scotland and local elections in England. The media consensus appears to be that the Labour Party will be in for a 'shellacking', to borrow Barrack Obama's description of his 2010 mid-terms defeat<sup>18</sup>. If that leads to an attempt by Labour MPs to replace Kier Starmer, however short-term, UK equity and government bond markets could take fright. Labour is much less practised at PM replacement than the Conservatives and a prolonged period waiting to see who might be the new resident of 10 Downing Street would be unnerving for investors.

- **SCOTUS, IEEPA, tariffs and refunds:** Early on in 2026 the Supreme Court of the United States (SCOTUS) should give its judgement on the tariffs which Donald Trump imposed under the International Emergency Economic Powers Act (IEEPA). The Court heard oral arguments in November, and these did not appear to go well for the President. US prediction markets reckon the President will lose.

While Trump is widely expected to use other statutes to reimpose any tariffs ruled illegal, none will give him as much scope and immediacy as IEEPA. Depending on the fine print of the SCOTUS judgement, the White House could also face calls for immediate tariff refunds, for which the IEEPA statute specifically provides. The impact on US government finances, already deeply in the red, would potentially unsettle the US Treasury market.

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