DRUMNOR INVESTMENTS

Markets Review - to end November 2025.

THORNTONS WEALTH

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	0.0%	5.4%	10.1%	15.8%
Global Equities	-0.8%	7.9%	16.8%	11.9%
UK Gilts	-2.1%	1.3%	1.4%	-1.9%
UK Property	0.3%	1.2%	2.5%	5.5%
Gold	4.7%	24.4%	30.1%	51.5%
Commodities	-0.9%	2.7%	7.8%	5.1%
Sterling	0.7%	-1.2%	-2.4%	-0.3%

Returns to 30th November 2025. Source: Refinitiv

Market Overview

November saw financial markets take a rain check, in what has been a strong year for nearly all assets, apart from longer dated bonds. Third quarter corporate results in the US have completed, with Artificial Intelligence (AI) showing exceptional growth, particularly in spending commitments. The gravitational pull of AI has done much of the heavy lifting for the US market, again, this year, however, having attained record valuations, many AI stocks pulled back on speculation that a bubble in AI had formed. Notably Apple, the most cautious spender on AI has retained its $4tr valuation.

Outside of AI, business momentum feels distinctly more muted, although still positive despite the disruption created by US tariffs. In the main company profitability has continued to hold up, but many report demand weakness and a cautious outlook. This is being reflected in some weak economic data reports and signs of a cooling employment market, although US economic reporting has been badly disrupted by the Federal shutdown.

The UK Budget at the end of the month was the main economic event in the UK and after the circus of confusion and uncertainty in the lead-up to it, there was maybe a sense of relief it was finally over. Gilts certainly offered a sigh of relief but could also reflect a paltry growth outlook to the end of the decade, confirmed by the OBR. Sadly, there was little in the budget to stimulate growth. Both the UK and US are now expected to lower interest rates this month, which has helped buoy sentiment.

The standout performer in November, yet again, was gold. The prospect of lower interest rates and dollar weakness support the move, but there is also a move to decouple from the dollar by central banks in countries facing restrictions by the US. Despite recent moves to engineer peace talks between Russia and Ukraine, there is still a sense that risk remains elevated (reflected in the sharp drop in crypto over the last week).

Despite an uninspiring economic outlook, we remain positive on investment returns, especially UK equity, where stocks still trade at a discount to international valuations, there is a higher dividend yield, and interest rates cuts should help heavily discounted smaller companies.

OPEC+ has agreed to hold production quotas going into 2026, as the oil market looks like it will be in surplus. Speculation about brokering peace talks between Russia and Ukraine has also helped lower gas, as well as oil prices. Industrial metal prices have seen some spikes following supply restrictions following several significant mine disruptions and closures. The gold and silver prices remain close to record highs.

Global supply chains have continued to be challenged, as tariff disruption, re-shoring and security concerns further disturb, with the latest flash point being the supply of chips to car manufacturers by a European company owned by the Chinese. China has become the dominant supplier in a number of crucial areas, such as rare earth metals where they control ~90% of global processed supply and have used that advantage to counter US trade restrictions.

A global interest rate cutting cycle (bar Japan) is still in place. Small companies along with households should be the prime beneficiaries. The yields on long bonds have also eased recently, despite being sensitive to the growing levels of government debt across the western world. If we get some tariff certainty, and lower costs of debt, it might encourage some long-term investment commitments.

2025 has seen a significant number of takeovers for property REITs with large discounts to underlying asset value attracting interest. Listed infrastructure trusts also trade on wide discounts, renewable energy focused ones face uncertainty on generation levels and prices. Despite windfall taxes and higher debt costs there is still plenty of room to grow.

Politicians are having to tread a careful line on fiscal policy, with a reluctance or inability to cut costs and substantial budget deficits adding to national debt, testing bond markets' willingness to provide finance. In the US tariffs are meant to fill some of the hole, whilst elsewhere tax increases are looking increasingly likely; none more so than the UK budget significantly raising taxes for a second time.

In the UK and Europe economic activity and confidence remain subdued, and many governments are struggling to get their economies to achieve lift-off speed. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. Softness is now beginning to emerge in the employment market, although real wages have grown after a long period of erosion and a rise in household savings means consumer finances are generally quite healthy, even if confidence isn't.

Company results this year have held up well in general, with aggregate reported profits still advancing. This has been especially true for the dominant US tech companies driving the push of AI, but more mixed elsewhere. Some companies are already forecasting significant tariff costs, as rates start to be implemented. Consumers have been showing greater price sensitivity, and some industrial companies have reported demand weakness, this is particularly true of car companies, who have been slashing their forecasts.

Despite a ceasefire between Israel and Hamas, and US brokered peace discussion between Russia and Ukraine, conflict continues, and lasting peace feels distant. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. Some companies will be beneficiaries of this, but with spending cuts elsewhere needed to try and balance the books, there will also be losers. Looking through all the uncertainty, we still see positive investment returns but expect volatility to be a regular partner as well.

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Market Outlook

Equities	Third quarter corporate earnings growth has been particularly strong in the US and encouraged expectations of continued growth into 2026, although valuations have been questioned. Despite increases in input costs and demand disruption from tariffs, corporate profitability has remained quite stable. However, investment returns on the vast AI capex spend need to be watched carefully.
Fixed Interest	With signs of labour market weakness, both the Bank of England and the Federal Reserve Bank, in the US, are expected to cut interest rates this month. Following a year of seesawing sentiment on bonds, there is now a little more certainty on outlook and an expectation that UK interest rates will continue to decline in 2026. In the meantime, government debt continues to grow at pace in developed markets, testing available demand.
Commercial Property	There has been a marked pick-up in M&A activity in property trusts (REITs), as market stabilisation and steep discounts to quoted asset values have attracted takeover offers. This has probably been aided by a growing consensus that supply, and demand have settled down and rents for good quality property are rising. Additionally, with higher build costs and higher energy standards required, it is currently cheaper to buy, than to build new.
Alternative Assets	Infrastructure investment funds offer benefits for exposure to physical assets, however, a recent suggested change to inflation measures dinged assets with inflation-linked contracts. Debt costs, that weighed on the valuations of private equity and infrastructure trusts, are easing. Absolute Return strategies have shown some defensiveness but generally offer low returns and we continue to choose sparingly. Gold continues to shine.
Cash	The investment return on cash and cash like instruments has peaked and is expected to gradually decline through next year.

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2nd December 2025