

## Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	2.1%	5.7%	12.1%	19.8%
Global Equities	-0.5%	3.5%	13.0%	12.6%
UK Gilts	-0.1%	0.6%	0.0%	0.3%
UK Property	0.5%	1.4%	2.4%	5.3%
Gold	1.4%	12.9%	34.1%	53.4%
Commodities	-2.1%	0.4%	4.5%	-2.3%
Sterling	0.8%	0.0%	-1.6%	0.2%

Returns to 31<sup>st</sup> December 2025. Source: Refinitiv

## Market Overview

Firstly, a Happy New Year to all our clients. As I write this the FTSE 100 has started the year flirting with 10,000 for the very first time. This follows a year of strong stock market returns globally, with many recording new highs, despite heightened uncertainty, exemplified by President Trump's executive 'Liberation Day' tariffs. The strength of equities, however, was overshadowed by the extraordinary run up in the price of gold and associated precious metals. Despite some extreme volatility in thin market trading at the end of the year, silver (sometimes called the 'devil's metal' because of its wild price movements) finished the year up nearly 150%.

Not everything appreciated in 2025, most notably oil fell by 20% as rising production and forecast surplus supply overcame sanctions and geopolitical worries – remember the 12-day missile exchange between Israel and Iran? Bonds particularly longer dated ones also struggled, as persistently high government fiscal deficits in developed countries test the willingness of investors to buy their debt without requiring a higher yield in return. Finally, the US dollar, down 9% on a trade weighted basis, was notably weak. In part this reflected a desire by the Trump administration to see a lower dollar but also concern about the implications of executive threats to Federal Reserve Bank independence.

2025 was also a year of economic resilience in the face of disruption from tariffs, sanctions and physical wars. Although growth was paltry in the UK and across Europe, it could have been much worse and demonstrated the ability of economies and companies to adapt to difficult circumstances, particularly the uncertainty surrounding tariffs. Excitement and investment in AI was also a positive driver of growth, especially in the US. This is likely to remain the case in 2026.

Although there are a host of uncertainties as we enter 2026, there is a glass-half-full feel to it. Inflation has eased, helped by lower energy costs, and further interest rates cuts are expected in the UK and US. Wage growth remains ahead of inflation and fiscal spending plans, notably in Germany and Japan, should help stimulate growth. Although we cannot promise returns like 2025, we wish everyone a prosperous and hopefully peaceful New Year.

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 been strong following supply restrictions after several significant mine disruptions and closures. Gold and silver prices continue to record new highs.

Global supply chains have continued to be challenged, as tariff disruption, re-shoring and security concerns further disrupt, with the US declaring 60 minerals being critical and vital to the US economy. 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 and Australia) is still in place. Small companies along with households should benefit. The yields on long bonds have steadied 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 saw 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 plays face uncertainty on generation levels and prices. Despite windfall taxes and regulatory uncertainty 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. There is some softness beginning to emerge in the employment market, although real wages continue to grow 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 in 2025 held up well in general, with aggregate reported profits advancing. This has been especially true for the dominant US tech companies driving the push of AI, but more mixed elsewhere, with the full impact of tariffs yet to filter through. Consumers have been showing greater price sensitivity, and some industrial companies have reported demand weakness, this is particularly true of car companies, who have slashed their forecasts.

Despite a ceasefire between Israel and Hamas, and US brokered peace discussions between Russia and Ukraine, conflict continues around the world, 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 obvious beneficiaries of this, but this will need to be paid for, either with spending cuts elsewhere, tax increases or even more debt issuance. Looking through all the uncertainty, we still see positive investment returns but are alert to negative surprises and expect volatility to be a regular partner as well.

## Market Outlook

Equities	Many stock markets finished the year at, or close, to all-time highs. Economies remain robust enough to allow further earnings growth expectations which, along with anticipated interest rate cuts, underpin forecasts of continued positive investment returns in 2026. A lot is riding on AI though, and valuations are elevated (especially in the US), any earnings disappointment, or economic slowdown would likely see markets unwind some of the gains made.
Fixed Interest	Both the Bank of England and the US Federal Reserve Bank cut interest rates in December, but both decisions were finely balanced. 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, likely testing investor demand at times during the year.
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 have had a tricky year. Small changes to underlying assumptions, including the cost of debt, that sit behind their valuations have had marked impacts, particularly in the case renewable energy based vehicles. Gold and metals remain sought, as we continue to see national security trump other concerns.
Cash	The investment return on cash and cash like instruments is 'safe' but expected to gradually decline through 2026.

Drumnor Investments

 2<sup>nd</sup> January 2026

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