Winter 2025/26

INVESTOR INSIGHT

A look at the markets by RSMR

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Welcome to the latest edition of our 'Investor Insight' which provides high-level commentary on the global markets and how these might be affecting your investments.

Ken Rayner, CEO, RSMR

The global economy: What's going on?

Momentum carries markets forward.

The global economy slowed in 2025 but avoided the recession many feared. Inflation continued to ease, allowing central banks to begin cutting interest rates again, firstly in Europe and the UK, and later in the US.

Growth remains modest, but stable. The US slowed but stayed strong thanks to consumer spending whilst Europe and the UK benefited from lower energy costs and falling interest rates. Japan continued its slow move away from ultra-low interest rates, China struggled with a weak property market but offset some of this with strong exports and emerging markets delivered mixed but often encouraging results.

Global stock markets had a good year overall, but the gains were uneven. Technology and AI-related companies continued to lead the way, especially in the US, but concerns are growing that a small number of stocks are doing too much of the work. Toward the end of the year, investors began spreading money into other regions and sectors, helping Europe and emerging markets to perform particularly well.

For UK investors, returns from US stocks were reduced by a weaker dollar, making European and emerging markets more attractive in sterling terms.

Fixed interest was relatively stable with company debt outperforming government debt. The interest on the debt was the largest element of the return with little capital improvement.

> "Technology and AI-related companies continued to lead the way, especially in the US."

The asset classes – a quick round-up

EQUITY MARKETS

The UK economy grew slowly but steadily. Inflation fell faster than expected late in the year, allowing the Bank of England to cut interest rates twice. The UK stock market had a solid year, helped by strong performances from banks and mining companies, which benefited from rising gold and copper prices. With global investors starting to look beyond the US, the UK could attract more attention in 2026.

The US economy surprised many with strong growth mid-year, but momentum faded as consumer confidence weakened. Inflation fell faster than expected, allowing the Federal Reserve to start cutting rates late in the year. Politics and trade tariffs created frequent market swings, and the US dollar weakened, reducing returns for overseas investors. Even so, the US remains the world's most important growth engine going into 2026.

Europe experienced modest but steady growth, supported by falling energy prices and lower interest rates. Stock markets performed well, particularly banks, industrials, and energy companies. Looking ahead, Europe's outlook is stable, with opportunities in infrastructure, green energy, and advanced manufacturing.

In Asia, China's stock market rebounded strongly despite ongoing problems in property whilst India underperformed, partly due to trade tensions and a weaker currency. There was resilience in southeast Asia as inflation eased and domestic demand improved. Emerging markets remain attractively priced compared with developed markets and could benefit if global growth stabilises in 2026.

FIXED INTEREST

Bond markets started 2025 with hopes that falling interest rates would boost returns. However, inflation proved more persistent than expected, especially in services across developed economies, meaning rate cuts were slower to arrive. As a result, bond price gains were limited and most returns came from income rather than capital growth.

Many managers favoured shorter-dated bonds, as their prices are less sensitive to interest rate changes. In the UK, gilt performance varied by maturity – shorter-dated gilts performed relatively well, supported by high yields early in the year and later by growing expectations of Bank of England interest rate cuts. They were also seen as a safer option in a volatile market. Longer-dated gilts struggled, as yields rose sharply, reaching multi-decade highs due to concerns over government finances and global bond market repricing, which reduced prices.

Corporate bonds delivered stronger returns. Demand remained high for high-quality credit, and company balance sheets were generally in good shape. Sterling corporate bond markets produced positive returns as spreads narrowed over the year. High-yield bonds were the best performers, helped by strong demand and low default rates, although there were periods of volatility linked to economic and geopolitical concerns.

Emerging market bonds also performed well, particularly those issued in local currencies. These benefited from attractive yields and stronger currencies, with some indices delivering close to double-digit returns in US dollar terms.

ALTERNATIVE INVESTMENTS

Infrastructure assets have become more popular in recent years as they tend to behave differently from traditional property investments, although they are still sensitive to interest rate changes. Performance improved toward the end of the year as inflation eased and interest rates stabilised. Infrastructure also benefited from its steady, defensive income, with areas such as utilities, transport, and energy networks performing well. Listed infrastructure proved resilient during market volatility, and falling bond yields later in the year helped support valuations, particularly for long-term assets.

Commodity markets were influenced by global economic trends, creating clear winners and losers. Gold stood out as the strongest performer, reaching new highs due to central bank buying, geopolitical uncertainty, and expectations of lower interest rates. In contrast, energy and agricultural commodities were weaker. Oil prices were volatile but broadly flat, as weaker demand was offset by supply controls and geopolitical risks. Overall, commodities offered selective opportunities rather than broad gains, while continuing to provide diversification benefits.

Property markets remained challenging but showed signs of stabilisation. Returns varied by sector, with strong investment into data centres driven by AI growth, while office and retail markets remained under pressure. Easing interest rates in the second half helped support activity, but overall returns remained modest, driven mainly by income rather than rising prices.

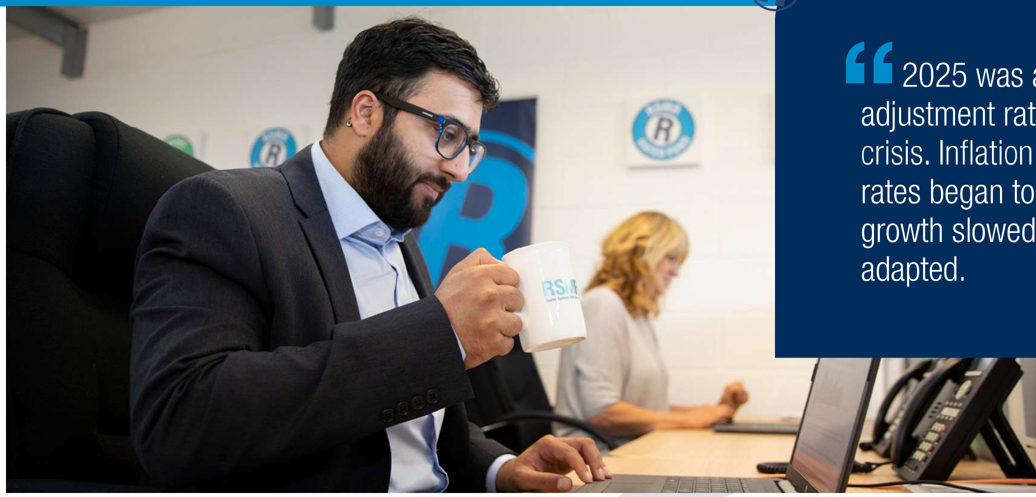
Alternative investments continue to expand, and managers are increasingly using them to help balance portfolio risk—a trend we expect to continue.

RSMR Global round-up

- Global equity markets delivered strong returns in 2025, with Europe and emerging markets outperforming for sterling investors due to a weaker US dollar.
- Developed markets remained concentrated in certain sectors and stocks suggesting a ‘bubble’ environment.
- The UK economy grew steadily but modestly, constrained by fiscal pressures, political uncertainty, and lingering inflation, though rate cuts in the second half of the year supported sentiment.
- The US economy remained the strongest among developed markets, growing faster than expected, but faced policy uncertainty, tariff disruptions, and weakening confidence indicators.

- Emerging markets showed resilience overall, but performance varied widely, with China and parts of Latin America rebounding while India and frontier markets lagged.
- Corporate credit made positive returns this year with high yield and emerging market debt having the strongest returns.
- Alternatives played a growing role: commodities were mixed with gold outperforming, infrastructure providing defensive returns, and property stabilised but offering a range of returns from different sectors.

“The US economy remained the strongest among developed markets”



"2025 was a year of adjustment rather than crisis. Inflation fell, interest rates began to ease, and growth slowed, but markets adapted."

SO, WHAT'S NEXT?

2025 was a year of adjustment rather than crisis. Inflation fell, interest rates began to ease, and growth slowed, but markets adapted.

With financial conditions improving and many investors still cautiously positioned, the outlook for 2026 is cautiously optimistic, though risks remain from geopolitics, trade disputes, and China's property market.

As always, staying diversified and focused on long-term goals remains key.

About RSMR

Independent specialist research.

RSMR was formed in 2004 to meet a growing demand from financial advisers for specialist and impartial investment research.

The RSMR team is made up of individuals with expertise from across all areas of the financial industry – from asset management, strategy and fund research through to business development, strategic planning and market research.

We are best known within the financial industry for our 'R' fund ratings – this rating is given to investment funds that meet our stringent research criteria. We don't limit ourselves to just looking at performance – we also look carefully at the people, processes and capabilities that are required to make effective investment decisions.

We work in partnership with your financial adviser, providing the benefit of our broad industry insight and rigorous research. This quarterly market summary is designed as a 'snapshot' of the more thorough and lengthy commentary that we provide to your adviser on a quarterly basis.

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