

Hymans Robertson Investment Services (HRIS)

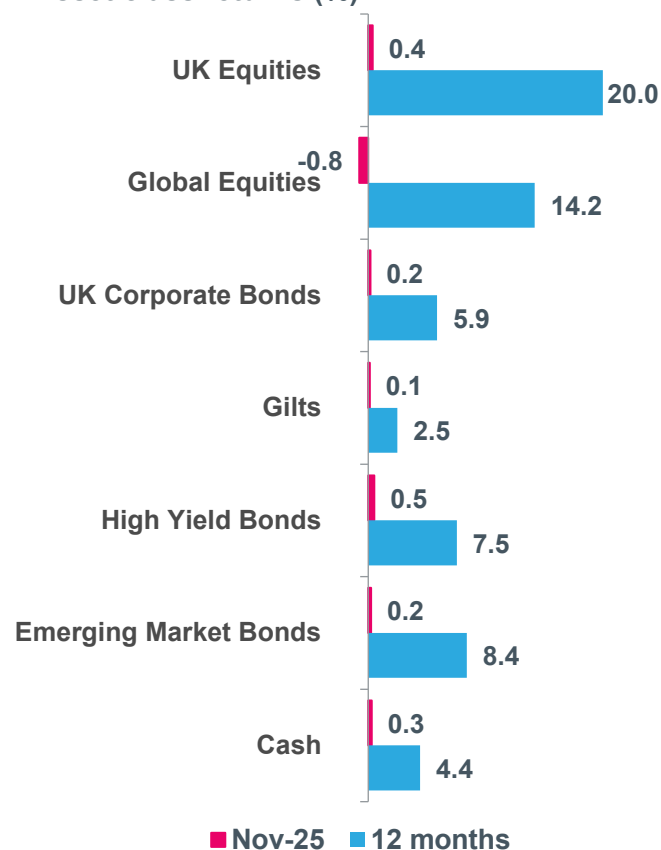
Market digest

November 2025

Monthly highlights

- Worries over tech company valuations put a halt to the strong equity returns we have been seeing in past months.
- UK equities and bond markets generated a small positive return, but global equities were slightly negative.
- On page 3 of this document, we provide market commentary to cover the 12 months to 30 September 2025.

Asset class returns (%)



Source: Morningstar. Figures to 30 November 2025. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Market summary

- Our model portfolios typically invest in a combination of the asset classes shown in the left-hand chart.
- The sharp rally in markets, that we have seen over the past few months, stalled as investors paused for breath amid expensive US tech equity valuations.
- Despite strong earnings growth in the US, expectations were high, as were valuations, meaning US equities fell over the month. The Asia-Pacific region was the worst performing, due to Taiwan and Korea's high exposure to tech. However, UK and European equities still generated positive returns.
- Equity market returns over the 1-year period remain very strong, especially for UK equities.
- Anticipation around the Budget meant a volatile month for gilts. In the end, less gilt issuance than expected, as well as greater headroom against fiscal rules, helped to support the market, which ended flat over the month.
- The Bank of England elected to hold interest rates flat at 4.0% but look set to cut in December after better-than-expected inflation data.
- High-yield bonds were the best performing asset class over the month, owing to strong yields on offer.
- With bonds outperforming equities in November, lower risk portfolios typically performed better than higher risk portfolios, over the period.

Outlook and topical market themes

- Higher headroom and less gilt issuance meant the Budget settled the nerves of gilt investors. However, the back-loaded nature of the tax increases may mean credibility weakens over time.
- In 2026, we expect AI to face growing investor focus. Credit markets may also go through additional periods of scrutiny. U.S. policy offers both support and risks, including the Fed leadership transition.

Budget calmed gilt investors, for now

Investors may have been a bit caught off guard by the early leak of the Office for Budget Responsibility's ("OBR's") report, but markets ultimately digested the Budget well. Confidence was supported by the Chancellor's £22bn fiscal headroom over her fiscal rules (more than double the previous figure). The Debt Management Office's ("DMO") announcement of lower gilt issuance, particularly for longer-dated bonds also supported the gilt market. However, there will be lingering doubts around the credibility and back-loaded nature of the tax rises.

Recently, the Bank of England noted that the Budget could trim up to 0.5% off inflation in the short-term, thanks to policies such as the fuel duty freeze and cut to energy prices. However, this is just a one-off drop in inflation, and the BoE may decide to "look-through" it, focusing more on the medium-term outlook where higher government spending may sustain inflation. We continue to expect a rate cut in December but a cautious approach going into next year.

Looking ahead to 2026

In 2025, markets swung from tariff-driven volatility to strong Artificial Intelligence ("AI") led equity gains, while political and fiscal developments shaped regional performance.

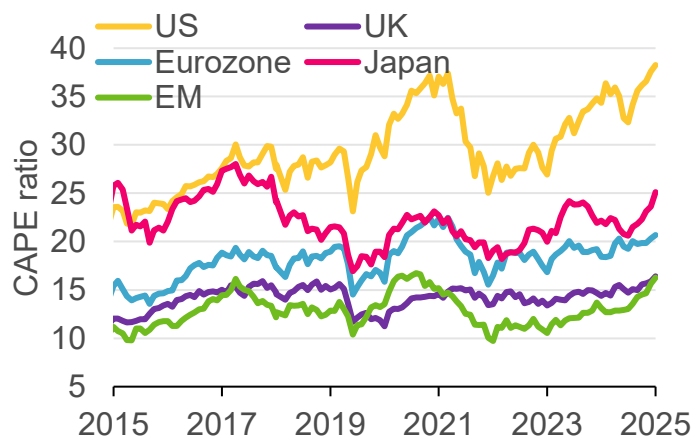
As we look ahead to 2026, we expect AI to face growing investor scrutiny. Investors should anticipate greater differentiation among AI stocks, with market participants now demanding clearer paths to revenue growth rather than simply rewarding large capital expenditure. Credit markets may also face increased periods of uncertainty, especially following high-profile bankruptcies in the US private lending sector. U.S. policy offers both support and risks as the economy is set to benefit from easing fiscal and monetary policy. However, the transition to new leadership at the Federal Reserve may put into question the inflation fighting credibility of the institution if they are seen to be too aligned with President Trump.

When building portfolios, we continue to draw on experience and learnings from when we've seen market conditions like this before. In terms of portfolios, performance remains strong. We maintain our diversification across sectors and regions, and continue to see return potential, especially where valuations are less stretched.

For more on our outlook for 2026, please read [our full article](#).

Chart of the month

Although the US equity market offers growth potential, it is expensive. Value remains elsewhere.



The chart shows the Cyclically Adjusted Price-to-Earnings Ratio (CAPE) for several equity regions. This is a measure of equity market valuations – the higher the number the more expensive the market.

Strong earnings growth potential in the US, powered largely by AI, has naturally resulted in higher valuation by historical standards. The good thing for investors, however, is that this is not the case for other equity regions, particularly the UK and Emerging Markets, where valuations still look reasonable.

Source: Hymans Robertson LLP



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Annual market summary: covering the 12 months to 30 September 2025

The start of the period focused on the re-election of Donald Trump. A close election result was expected, but what we got was an emphatic victory for Trump. Markets quickly pivoted towards 'Trump trades' reflecting the expected winners and losers from Trump's expected policy agenda.

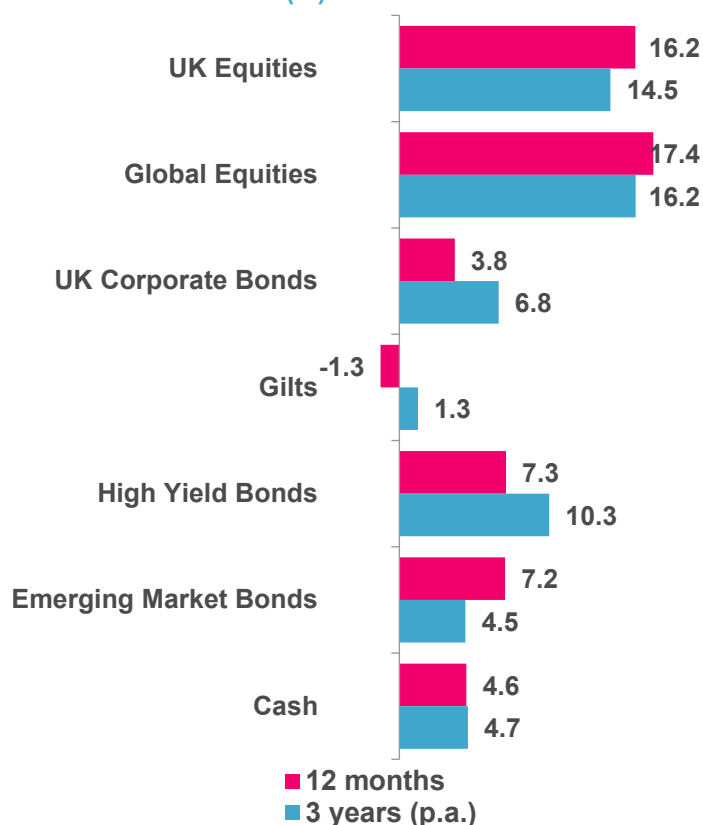
However, investors' early enthusiasm for President Trump's policy agenda started to wane in early 2025, and then completely evaporated, as Trump prioritised implementing heavy tariffs on trade partners. "Liberation Day" at the start of April further disrupted markets with no economy seemingly safe from Trump's tariffs. Markets recovered quickly following a postponement of the announced tariffs and indications of positive trade talks, but volatility persisted. This recovery continued over the third quarter of 2025 as better-than-expected corporate earnings, strong performance in the technology sector and the Federal Reserve resuming interest rate cuts increased investor confidence.

Central banks continued their path towards lower interest rates. The Bank of England cut by 1% over the period to 4%. However, expectations of further cuts this year were lowered as inflation approached 4%. In September 2025 the Federal Reserve resumed rate cutting, cutting rates by 0.25%. This was the first cut since December 2024 and marks a 0.75% reduction over the period to 4.25%. Investors are expecting additional rate cuts in the US this year as early signs of a weakening labour market appear.

Overall, the 12 months to September 2025 were positive for equity performance, despite the tariff driven volatility. The US equity market ended the period as the top performing region, recovering from the falls seen earlier this year.

Bond performance was mixed across the different markets. Government bonds struggled, as investors remain concerned over government debt levels and the ability of the Federal Reserve to manage inflation while under pressure from Trump to cut interest rates further. Corporate bonds outperformed government bonds over the period, supported by strong earnings growth. High yield bonds delivered even stronger 12 month returns as credit spreads fell over the period (bond prices rise as spreads fall) and emerging market bonds benefitted from a weakening of the US dollar.

Asset class returns (%)



Source: Morningstar. Figures to 30 September 2025. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS. This document is based on using data at the time of the relevant preparation and analysis, sourced where appropriate. Whilst HRIS uses reasonable efforts to obtain information from sources which it believes to be reliable, HRIS makes no representation that the information in this document are accurate, reliable or complete.