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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

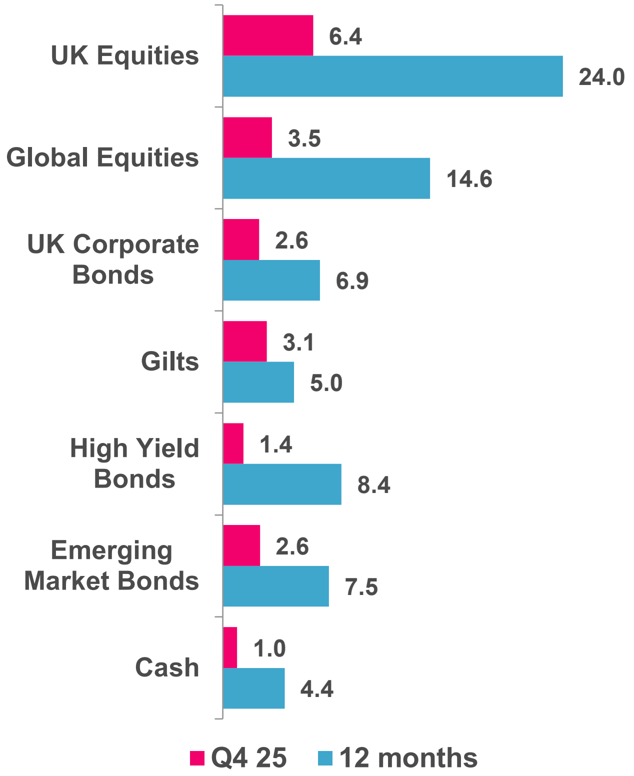
Market digest

Q4 2025

Quarterly highlights

- Central banks continued interest rate cuts in the UK and US. However, market momentum weakened over Q4 as concerns grew over technology company valuations.
- Despite these concerns, both equity and bond markets generated positive returns over the quarter.
- On page 3 of this document, we provide market commentary to cover the 12 months to 31 December 2025.

Asset class returns (%)



Source: Morningstar. Figures to 31 December 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.
- Equity markets delivered positive returns over the quarter for all regions. Increased concerns around technology companies' valuations and the increased spending on Artificial Intelligence ("AI") infrastructure impacted returns throughout November and December. However, returns were boosted by strong performance in the healthcare and financial sectors.
- Asia-Pacific ex Japan and Europe were the best performing regions over the quarter and 1-year period.
- In bond markets, the Budget initially put pressure on the gilt market, but investors were ultimately satisfied with the lower-than-expected gilt issuance.
- The Bank of England cut interest rates by 0.25% over the quarter, to 3.75% as inflation fell more than expected. The US Federal Reserve (the Fed) cut interest rates by 0.5% to 3.5-3.75%.
- Gilts outperformed corporate and EM bonds over the quarter as a result of falling gilt yields However, gilts continue to underperform over longer time periods.
- With equities outperforming bonds in Q4, higher risk portfolios typically performed better than lower risk portfolios over the period.

Outlook and topical market themes

- The US captured Venezuela's President Nicolas Maduro in a covert operation. The market impact at present is limited but it opens the door to further geopolitical uncertainty.
- While AI remains a key market driver, we expect the sector to face greater investor scrutiny throughout 2026. The Bank of England is expected to pause rate cuts soon, but a change in Fed leadership means US monetary policy is less certain. Fiscal spending in the US should continue to support economic growth.

Nicolas Maduro's capture has minimal direct impact on investors

The year began with the dramatic capture of Venezuelan President Nicolas Maduro, by US forces. As with most geopolitical developments, the world's initial focus will primarily be on the humanitarian and political implications of this news. That said, investors may also be wondering what impact, if any, this could have on their portfolios.

The direct impact is negligible. Our portfolios have no Venezuelan equity exposure. Some underlying funds may hold a small amount of US dollar denominated Venezuela government bonds (the value of which increased over the past week or so). However, more widely, markets have seen minimal reaction aside from a brief uptick in some US energy stocks (Venezuela has the largest known oil reserves of any country in the world – see chart below). The bigger question for investors is what this may signal in terms of further geopolitical developments, in particular President Trump's ambitions for Greenland and what impact this may have on US-European relations.

Market outlook: Three themes for 2026

As we start 2026, there are three key things that we are considering when looking at our portfolios.

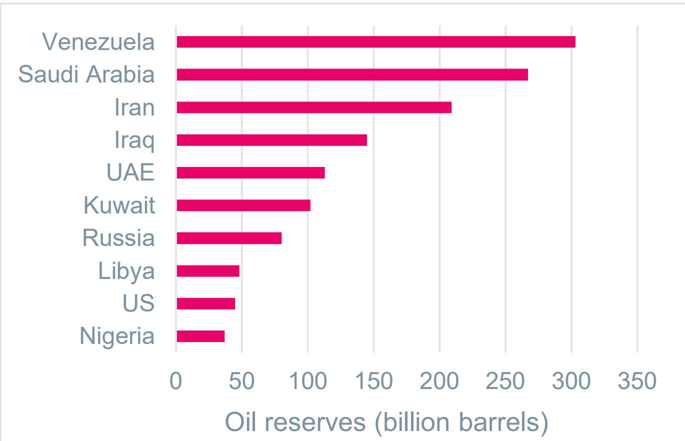
Artificial Intelligence (AI) is likely to continue to drive equity markets. For much of 2025 we saw an 'everything rally', but as the year progressed, investors began to punish firms that lacked a clear path to earnings growth, or where firms were starting to increase their reliance on debt to fund capex spending. We think this may continue in 2026, especially as US tech valuations look more stretched. For this reason, we continue to favour a broader regional allocation, while avoiding overly concentrated positions.

The **path of interest rates** in the UK and the US is another area of focus. The Bank of England (BoE) looks to be approaching the end of its rate cutting cycle, unless there is a significant downward shift in inflation expectations. Investors are less certain with the Federal Reserve (Fed). President Trump, who wants rates to be significantly lower, is due to appoint a new Fed Chair. How much control the new Chair can exert on the Fed committee is unclear at this time and is something that we (and all investors) are monitoring closely.

Finally, **fiscal largesse** in the US (but also some European countries like Germany) should continue to support economic performance in general. Tax breaks from President Trump's One Big Beautiful Bill will feed through the economy in 2026. Geopolitical risks may add to short-term equity volatility, but if 2025 taught us anything, it's that markets can continue to generate strong performance despite increasingly elevated political uncertainty.

Chart of the month

Venezuela has the largest proven oil reserves of any country in the world



Venezuela has the world's largest oil reserves. However, its energy sector has suffered from years of mismanagement, lack of investment and US sanctions. Production is just a third of what it was two decades ago and barely 10% of what Saudi Arabia produces.

President Trump wants US firms to control these vast reserves, but these structural challenges explain why Maduro's capture hasn't moved the oil price much. There is no guarantee production will increase much in the short-term.

Source: World Population Review, OPEC

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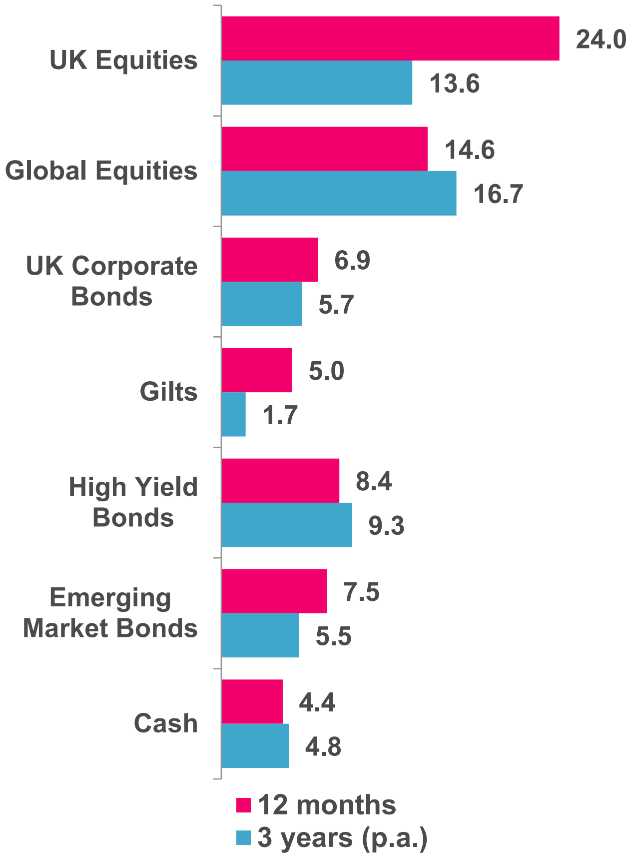
Annual market summary: covering the 12 months to 31 December 2025

The start of the period focused on President Trump's tariff policies which sparked fears of a global trade war and saw increased market volatility. In April, "Liberation Day" 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. Over the final quarter of 2025, optimism within the technology sector started to fade as concerns grew around the high valuation of these companies and the level of spending on AI infrastructure, which impacted overall market returns.

Central banks continued their path towards lower interest rates. The Bank of England cut by 1% over the period to 3.75%, with markets now expecting a further cut in early 2026, following the lower-than-expected November inflation data. The Federal Reserve resumed rate cutting in late 2025, cutting rates by 0.25% in September, October and December. These were the first cuts since December 2024 and marks a 0.75% reduction over the period to 3.75%. Investors are expecting rate cuts in the US to continue over 2026 (subject to inflation remaining under control), as data points to a weakening labour market.

Overall, the 12 months to December 2025 were positive for equity performance, despite the tariff driven volatility and concerns within the technology sector. The Asia-Pacific ex Japan and European markets ended the period as the top performing regions, recovering from the falls seen earlier this year.

Asset class returns (%)



Source: Morningstar. Figures to 31 December 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.

Bond performance was positive across the different markets. Gilt returns were positive as a result of falling gilt yields (bond prices rise as yields fall) as inflation started to recede in the final quarter of the period.

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 (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall) and emerging market bonds benefitted from a weakening of the US dollar.