



The year that was

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If there is one activity that benefited hugely from pandemic-induced lockdown, it's birdwatching! Hours of enforced gazing out of the window at the birdbath or feeder encouraged great numbers to take more interest in our feathered friends, and autumn is a favourite season for the committed birder.

Blown in on mid-Atlantic storms, numerous unusual breeds are often to be spotted clinging to remote crags, regularly drawing large crowds of ornithologists eager for a rare sighting. The financial markets have endured a storm of their own in recent weeks, unusual at a time of year more commonly regarded as one of the best for investment returns. Gyrating global stock markets are nothing new of course, long-term investors are more than used to the ups and downs of jagged financial asset pricing, but they are a rarity at this time of year. Equally unusual, a sharp fall in global investor sentiment, not a crisis by any means but giving rise to

an oxymoronic "active inertia" as unfazed investors look through periods of elevated volatility to the prospect of better times ahead.

Over a year unlike almost any other investors have learned to expect the unexpected. Almost every blithely accepted assumption has been challenged one way or another as 2025 progressed, so the fact that the final quarter of the year is not following the historical analogue should hardly come as a surprise. Despite the sudden and sharp nature of the recent stock market pull back, few holders of

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broadly diversified portfolios will be overly concerned. Buoyed by a giant wave of liquidity, in part a function of 139 global central bank interest rate cuts this year alone and the promise of more to come including, almost certainly, from the Bank of England and US Federal Reserve, 2025 has already delivered another year of positive returns.

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None of which is to say that those returns have not been hard earned. The evolution of the artificial intelligence era is not going without its challenges, from China’s DeepSeek revelations in January through a cautious analysis by the Massachusetts Institute of Technology in August to the latest concerns regarding the financing and future returns from vast-scale industry capital expenditure. Unlike the “dot.com” bubble era the technological giants of today are highly profitable and extremely cash generative, notwithstanding credit market fears that it might not be enough. The US is an industry leader of course, but it is facing a big challenge from fast-developing China. Although the technology sector has delivered strong returns year to date, notably so following early April Post-“Liberation Day” lows, arguably the greatest surprise of 2025 has been that a “global rebalancing” theme has outperformed US exceptionalism. US trade, industrial and geopolitical initiatives have suppressed the oil price, and boosted gold but simultaneously, new government spending, in China (to boost growth), Europe (to boost defence) and now Japan (to end decades-long deflation) have resulted in strong returns from other international stock markets too.

The challenge presented by event risk after event risk has been confronted and overcome. The Department of Government Efficiency (DOGE) in the United States, NATO in Europe, Liberation Day and

US trade policy, One Big Beautiful Bill, war (Ukraine and the Middle East), truce (China) and behind it all a rise in populism manifest most obviously in the rise of Mr Zohran Mamdani to mayor of New York City and the plunge in the Labour Party’s popularity closer to home.

Indeed, Chancellor Ms Rachel Reeves faced a tough challenge in her second, much debated Budget, smoothing ruffled feathers on her own Party’s backbenches whilst placating a twitchy City with a recommitment to sound financial management. Although the big day started badly, leaked details ahead of the speech leaving Ms Reeves visibly angry, it got better. Unlike last year the measures announced, although eye-catching, were not as tight, in the round, as had been feared, the tax take not as big and the implications for the growth and inflation outlook comparatively benign. The independent Office for Budgetary Responsibility may be chastened by its leak, but it gifted the Chancellor a more generous assessment of the UK economy than had been expected including, notably, no fiscal black hole despite lowered productivity estimates. This provided the Treasury sufficient latitude to increase spending and raise the “buffer” against the fiscal rules to almost £22bn, all paid for by a range of higher taxes (£26.1bn in 2029/30 taking the overall tax burden to 38% of GDP, but still lower than feared). Media headlines may have been critical, but the financial markets are satisfied, both by the recommitment to fiscal probity and lower than expected long-dated gilt-edged issuance. Easing inflation over the months ahead, further Bank of England rate cuts and lower long-term borrowing costs should help both the Chancellor and the markets going forward.

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Remarkably, despite myriad global challenges, the internationally focused index of leading one hundred companies (75% of revenues generated outside the UK) has surged over 2025. Less remarkably, the more domestically focused index of two-hundred and fifty medium-sized companies has stagnated. But both indices stand at a material discount to international counterparts and may benefit, in tandem with the gilt-edged market, from a generally favourable City reaction to an economically benign Budget package.

2025 has been a tough year to navigate, yet despite all the obstacles broadly diversified investment portfolios are on track to deliver another exceptionally good year. The expertise and experience provided by wealth managers well used to life on the jagged edge of financial decision-making should provide investors with a high degree of comfort as we all prepare for life on the other side of the New Year.

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