

Market wrap

December 2025

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.



The UK Autumn Budget offered a mixed outlook

The UK government entered the Autumn Budget with £22B of budget headroom, helped by the decision to extend the freeze on income tax thresholds until 2030/31. This would raise funds for the government, given more people will gradually move into higher tax bands as wages rise but tax thresholds stay the same. Even so, the Office for Budget Responsibility (OBR) warned that the UK's public finances remain vulnerable, meaning there isn't much room to absorb future economic surprises. Recent data underline that uncertainty. Wage growth has slowed, unemployment has edged higher and Q3 economic growth was weaker than expected. But there are positives too: household spending rose in Q3, the savings ratio stayed elevated at 10.7%,¹ and banks continued to report growth in retail deposits.² This last data point suggests that UK consumers still have a cushion of savings that could be spent or invested. This mixed picture has made the path for interest rates less clear. Inflationary pressures remain uncomfortably high, leading the Bank of England (BoE) to keep interest rates at 4% after a tight 5-4 vote in November. We expect a 0.25% cut in December, with markets pricing around two more 0.25% interest rate cuts in 2026, which would bring interest rates below 3.5%.³ This looks reasonable, in our view, given the balance of inflation and labour market risks. However, with high levels of uncertainty around both of these factors, there's a significant chance that interest rates could be cut by more or less than investors currently expect.



AI and earnings support sentiment

The Q3 earnings season wrapped up in November and confirmed the strong trend seen earlier in the year. In the US, 81% of S&P 500 companies beat earnings expectations, with technology companies standing out.⁴ Expectations for 2025 earnings-per-share (EPS) growth for the Magnificent Seven – a group of large and influential US tech companies – have risen to over 22%, up from around 15% seven months ago.⁵ A similar pattern is visible for 2026, where EPS forecasts have increased to 22.5% growth compared with around 11% for the rest of the US stock market.⁶

Even so, broad US stocks rose only 0.2% in November.⁷ Markets didn't overly reward the strong earnings season, suggesting that investors were more focused on potential downside risks and that they now want to see companies deliver on their ambitious growth targets. Concerns about a possible 'AI bubble' added volatility during the month. An AI bubble refers to the risk that share prices in AI-related companies rise too far, too fast, compared with their actual earnings. Investors aren't walking away from the theme, but they are becoming more selective and looking across the wider economy – including energy infrastructure and clean tech – for companies that could benefit from broader AI adoption.

Thanksgiving week brought a rebound in US mega caps – the largest companies in the stock market measured by their total market value (the combined value of all of their shares) – as worries about tech company valuations and AI spending eased. Developments such as the release of new AI models reinforce the strength of the ongoing AI build-out heading into 2026. Overall, we remain constructive on US tech companies over the long term, given their strong earnings growth and structural tailwinds for the industry, most notably from AI adoption.



Events on our radar in December

December is an important month for interest rate decisions, with the US Federal Reserve (Fed), the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Japan (BoJ) all announcing their latest moves.

The Fed cut interest rates by 0.25% at its 10th December meeting and while the interest rate cut had been widely anticipated by investors, the Fed signalled a more cautious path forward, with a higher bar for further interest rate cuts. Markets expect roughly two more 0.25% rate cuts in 2026,⁸ but speculation about who will become the next Fed chair has also added uncertainty.

1 Source: Office for National Statistics (ONS), as of September 2025. **2** Source: Barclays, as of November 2025.

3 Source: Bloomberg, as of 11 December 2025. **4,5,6,7** Source: JP Morgan, as of 1 December 2025. **8** Source: Bloomberg, as of 11 of December 2025.

Performance of stock and bond markets, 2020-2025 YTD

	2020	2021	2022	2023	2024	2025 YTD
US stocks (S&P 500 Index)	18.4%	5.4%	-18.1%	26.3%	25.0%	17.8%
US tech (MSCI USA Information Technology Index)	45.6%	-8.2%	-30.1%	55.1%	36.3%	26.7%
MSCI USA Mega Cap Select Index (USD)	26.3%	-4.4%	-25.9%	41.5%	36.2%	21.1%

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: Bloomberg, as of 11 November 2025.

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