JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary October to December 2025

Despite ongoing geopolitical tensions and issues, the October to December 2025 Quarter continued the positive trend, of the previous two Quarters, for World Equities. The final Quarter of the 2025 calendar year saw broad gains across Global Listed Equity markets with the MSCI World Index gaining 3.1% (in US$ terms). Generally positive company earnings; moderating inflation; continued positivity towards technology stocks (particularly in Asia); together with expectations of, and actual, interest rate reductions by the US Federal Reserve all supported Listed Equity markets.

While the United States S&P 500 Index advanced by a further 2.7% there were larger gains across all of European, United Kingdom, Japanese, Asian and Emerging Markets. In addition to regional/local factors this was likely influenced by elevated US valuations (see also the Market Commentary for July to September 2025); less elevated valuations elsewhere; investors rebalancing and diversifying their Listed Equity exposure. By the end of 2025 US Listed Equities, as measured by the Shiller cyclically adjusted price to earnings ratio applied to the S&P 500 Index was higher than at any time in history except just before the dotcom bubble burst in 2000. However given the increasing importance of the Communications/Technology Sectors within the Index and in particular the surging values of Artificial Intelligence (AI) related stocks during 2025 there are increasing concerns amongst some market commentators that the US Listed Equity market is increasingly vulnerable to a change (reversal) in investor confidence in Technology and in particular AI going forward. Notwithstanding the potential transformative impact of AI its actual impact remains unclear and uncertain. Investor sentiment, particularly if it becomes clearly more positive or alternatively negative, relating to Technology and in particular AI may weigh significantly on US Equity markets going forward. However, by the end of 2025 market commentators anticipated some further cuts to interest rates by the US Federal Reserve in 2026, and the nine largest Investment Banks, surveyed by the Financial Times in December 2025, forecast, on average, that the S&P 500 Index would increase by around 10% in 2026.

US Equities, as measured by the S&P 500 Index, advanced by 2.7% over the Quarter. There were some clear indications of economic concerns/issues as demonstrated by both consumer confidence and unemployment. Consumer confidence as measured by the respected University of Michigan “Index of Consumer Sentiment” was 52.9% at December 2025 compared to 55.1% in September 2025. Over the year January 2025 to December 2025, it fell from 71.7% to 52.9%. Unemployment rose from 4.0% in January 2025 to 4.4% in December 2025. Indeed the November 2025 figure of 4.5% (the last actually released during the Quarter) was the highest since October 2021.However, US Equities were supported by strong US corporate earnings reports, a clear relaxation in trade tensions between the United States and China as a result of a meeting at the end of October between Presidents Trump and Xi, and anticipated and actual rate cuts by the US Federal Reserve (which were however somewhat mitigated by comments made by Federal Reserve Chair Jay Powell at his 29 October Press Conference). Nine of the eleven Sectors of the S&P 500 Index gained over the Quarter.

As widely anticipated the meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) which concluded on 29 October 2025 reduced the Federal Funds rate (interest rates) by 0.25% to a "*target range*" of 3.75% to 4.0%. However, at his Press Conference following the meeting Chair Jay Powell was clear that a further reduction in December was far from certain stating that "*…In the Committee's discussions at this meeting, there were strongly differing views about how to proceed in December. A further reduction in the policy rate at the December meeting is not a foregone conclusion—far from it…"* The S&P 500 Index clearly advanced from the beginning of October until the 29 October when the FOMC made its rate cutting announcement, doubtlessly influenced (in part) by high expectations of an interest rate reduction. However following Chair Powell's statement regarding divisions within the FOMC expectations of a December rate cut fell rapidly, and at the same time the S&P 500 retreated. Interestingly, however, following comments favouring a December interest rate cut by FOMC Members John Williams and Christopher Waller the S&P 500 began to reverse its decline as markets became increasingly confident of a December rate cut. At the FOMC meeting which concluded on 10 December 2025 the Federal Funds rate "*target range"* was cut by 0.25% to 3.5% to 3.75%. However, there was clear dissent within the FOMC with only 9 of the 12 decision makers voting for the 0.25% reduction (two members voted for no rate cut while one member voted for a 0.5% reduction), making this the most fragmented vote at the FOMC since 2019.

In a context of continuing low interest rates (the European Central Bank having reduced its headline interest rate to 2% in June 2025), low inflation, stable employment, strong corporate earnings, and a rotation by investors towards Europe the Quarter saw European Equities clearly advance. The MSCI EMU Index gained over 5% (in both Euro and US$ terms). As in the two previous Quarters the Financial sector experienced clearly positive performance.

As widely expected, the European Central Bank (ECB) Maintained the headline "*deposit rate"* at 2% at both the October and December 2025 Governing Council meetings. At her Press Conference following the October meeting Christine Lagarde President of the Governing Council stated *"…The robust labour market, solid private sector balance sheets and our past interest rate cuts remain important sources of resilience…"* At her Press Conference following the December Governing Council meeting Christine Lagarde stated "*…The economy has been resilient…The economy is benefiting from a robust labour market…Real incomes are set to rise further…Business investment and substantial government spending on infrastructure and defence should increasingly underpin the economy…"* Eurozone inflation remained close to the ECB target of 2%.

UK Equities, again advanced very positively during the Quarter with the FTSE All Share gaining 6.4% while the FTST 100 (large cap) Index gained 6.9%. While gaining 2.9% the more domestically focussed FTSE 250 clearly lagged behind the internationally focussed FTSE 100 as it had in the previous Quarter. The FTSE 250 was likely again disadvantaged, compared to the FTSE 100, by concerns regarding the UK economy including domestic taxation and economic prospects. The FTSE 100 again benefitted from its significant allocations to Banking, Mining, and Defence stocks all of which clearly advanced during the Quarter. UK Equities, and in particular certain sectors of the FTSE 100, appear likely attractive to foreign investors seeking to diversify their holdings into the UK Listed Equity market given its relatively low valuations and its clearly limited orientation towards Technology orientated stocks compared to the US market. Market perceptions of the approach of the Bank of England to monetary policy (interest rates) during the Quarter were likely positive (rather than negative) for UK Equities.

At the Bank of England Monetary Policy Committee (MPC) meeting which concluded on 5 November 2025 the Committee voted by the narrow margin of 5 to 4 against a cut in Bank Rate. Andrew Bailey, the Governor of the Bank, voted against a cut but wording reflecting his views, as recorded in the Minutes of the meeting gave markets a clear signal that a rate cut in December could occur *"…if the durability in disinflation is confirmed…"* As the December MPC meeting approached there were increasing indications that there could be a rate cut based on improved inflation figures and a weakening employment market. At the meeting which ended on 17 December 2025 Governor Andrew Bailey joined the four Members who had previously voted for a rate cut. Consequently, by a majority of 5 to 4 the MPC voted to reduce Bank Rate by 0.25% to 3.75%.

Japanese Equities experienced another very positive Quarter with the Nikkei 225 Index advancing by 12%. Japanese markets have benefitted from a perception of becoming increasingly shareholder friendly in the context of corporate governance reforms, share buy backs and increasing dividends. Also, the Japanese Equity market is not closely correlated to the US market. Additionally, over the Quarter reported corporate earnings were positive. There were broad gains across the Index during the Quarter with Financials and Industrials continuing their clear upward trend and the Technology sector posting a strong gain at the Quarter end.

However, the gains over the Quarter appear to have been particularly linked to the victory of Sanae Takaichi in the Liberal Democrat party (LDP) leadership election and her subsequent appointment as (the first female) Prime Minister of Japan. In early October Sanae Takaichi was elected leader of her party and on 21 October Prime Minister of Japan following the agreement of a coalition deal between the LDP and the Japan Reform party. On both occasions the Nikkei 225 surged on the expectation of what has become known as the "Takaichi trade." This includes expectations of expanded fiscal stimulus, increased defence spending, industrial expansion, and pressure on the Bank of Japan to maintain extremely low interest rates (even in the context of inflation above the Bank's target of 2%).

The Monetary Policy meeting of the Bank of Japan which concluded on 30 October 2025 maintained short term rates at 0.5%, but with two of the nine members voting for an increase to 0.75% as they had at the September meeting. However, at the meeting which concluded on 19 December 2025 short term rates were increased, unanimously, by 0.25% to 0.75% the highest level for thirty years! This increase was expected by markets following two statements from Governor Kazuo Ueda early in December hinting at a rate rise. This increase was made in the context that "*…it is highly likely that the mechanism in which both wages and prices rise moderately will be maintained…"* according to the Statement issued by the Bank after the meeting. Additionally, the Statement also reiterated that "*…Real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity."*

Asian (excluding Japan) and Emerging Markets both experienced another clearly positive Quarter. Both the MSCI Asia (ex Japan) and the MSCI Emerging Markets Indices gained clearly in excess of 4% (in US$ terms). In broad terms Asian/Emerging Markets benefitted from indications of and actual US Federal Reserve interest rate reductions (in mid September, October and December); and also from clear relative "cheapness" compared to US Listed Equity markets; as well as far less impact from President Trump's approach to tariffs than appeared likely earlier in the year.

The important South Korean and Taiwan markets gained significantly based on continued enthusiasm for Technology and in particular Artificial Intelligence (AI) related products. Manufacturers of semiconductors, chips, power equipment, and other AI related components clearly advanced. Latin America had a clearly positive Quarter with, for example, generally moderating inflation and high commodity prices (including copper, gold, and lithium) benefitting a number of countries including Chile, Mexico, Peru, Brazil, and Argentina.

Chinese Equities experienced a negative Quarter in the context of weak economic data including concerns regarding levels of fixed asset investment, industrial output, domestic (retail) sales, low consumer confidence, uncertainty over China's future growth prospects, and property market issues. In late November and December concerns regarding the property sector (again) intensified with the near default of Vanke one of the largest and best known Chinese residential developers. Market commentators also suggested that "profit taking" after the significant gains by Chinese Equities earlier in the year was another contributary factor to their underperformance in the October to December 2025 Quarter.

This Quarter, in contrast to the July to September 2025 Quarter, was positive for UK Gilts with prices rising (and therefore Yields falling) across 2, 10, and 30 Year Gilts. UK inflation though still at levels well above the Bank of England target stabilised and fell during the Quarter. The November Bank of England Monetary Policy Committee meeting indicated a potential interest rate cut at the December meeting, which was delivered. The UK Budget delivered on 26 November was received not unfavourably by markets. This was in the context of a larger than expected "fiscal headroom" of £22 billion and an announcement of a smaller issuance of new Gilts than expected. US Treasuries experienced a mixed Quarter with the shorter term 2 Year Yield falling, the 10 Year Yield remaining (almost) stable, and the 30 Year Yield rising. German Bund Yields rose over the Quarter across all of the 2, 10, and 30 Year maturities. A clear negative influence on Bunds was likely the huge fiscal stimulus plans of the German Government and the decision of the German Parliament to approve a 525 billion Euro Federal Budget for 2026 including approximately 180 billion Euros of borrowing to fund defence and infrastructure projects.

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6 February 2026