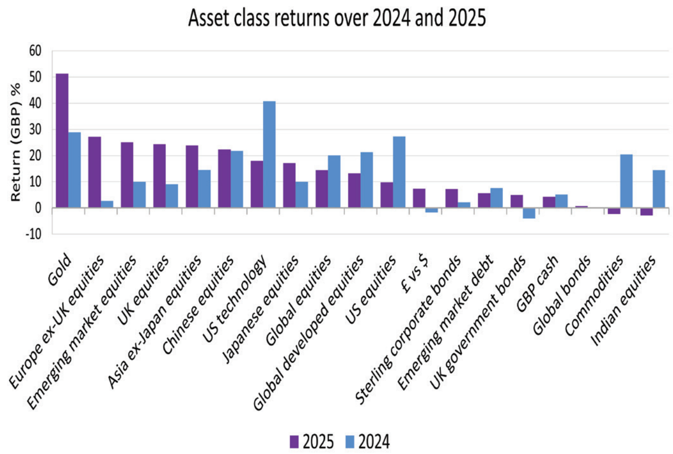
BROMPTON
ASSET MANAGEMENT

Annual review for the year to 31 December 2025

5 January 2026

Gill Lakin
Chief investment officer

Global equities and bonds gained 14.41% and 0.72% respectively in sterling during 2025, with US technology stocks outperforming, up 18.03%, fuelled by enthusiasm about artificial intelligence (AI), The tech sector gain would have been greater but for the dollar's 6.89% fall against sterling in response to President Trump's erratic policy-making and preference for a weaker currency.



Elsewhere, dollar-weakness fuelled outperformance by equities in emerging markets and Asia excluding Japan, up 25.10% and 23.86% respectively in sterling. In Europe, UK equities gained 24.31% while equities in Europe excluding the UK, gained 27.19% in sterling, with local currency returns boosted on translation by the euro's 5.61% rise against the pound. Continental European stocks benefited from Germany's commitment to heavy infrastructure and defence spending as President Trump's transactional approach to diplomacy signalled the end of the Pax Americana and the need for greater European self-reliance.

Some commentators were cautious about the near-universal enthusiasm for US tech stocks, which appeared priced for perfection. The significance of AI seems clear but the opportunity may have been fully reflected in year-end share prices. Nvidia ended 2025 with a near monopoly in high-end graphics processing units (GPUs), which are best suited to AI applications. It seems likely, however, that over the longer term Nvidia's customers will seek cheaper sources of supply while US proprietary large language models may be challenged by open-source competitors such as DeepSeek, a Chinese AI company that provided the code behind its model free. Increased capacity and competition may reduce margins and returns on capital investment, leading to lower valuations. US stocks appeared fully valued overall at the year end, with likely returns close to the returns available from low-risk assets such as short-dated US Treasury bonds.

Chinese stocks rose 22.37% in sterling, buoyed by a better-than-expected Sino-US tariff deal. Longer-term prospects for Chinese equities appear uncertain, however, because of high public sector borrowing and government intervention in quoted companies through so-called "common prosperity" policies. Chinese economic growth has slowed and its property sector is deeply troubled, fuelling fears that China may face a Japanese-style era of economic stagnation.

By contrast, Indian equities lagged, down 2.89% in sterling as a result of US tariffs and the rupee's 11.31% fall against the pound at a time when Indian stocks were trading on high valuations. In August, the US doubled the tariff on some goods from 25% to 50% in response to its trade deficit with India and Indian purchases of Russian oil and military equipment. Tariffs and higher bullion prices led to a big rise in India's trade deficit. Foreign investor flight was partially offset, however, by domestic retail demand as India's central bank cut its policy interest rate from 6.5% to 5.25%, increasing the attraction of equities compared to cash deposits. The government also announced a zero income tax band on annual earnings up to 1.2 million rupees, about £10,000. Indian companies, in particular those serving domestic customers, have good growth prospects because of strong economic growth, business-friendly policies, favourable demographics and increasing affluence.

Emerging market indices are dominated by China, Taiwan, India, Brazil and South Korea, which account for three-quarters of market value. Yet equity investments

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with lower allocations to big index constituents such as Taiwan Semiconductor, the leading high-end chip maker, Tencent and Alibaba, China's social media and e-commerce giants, and Samsung, South Korea's leading conglomerate, may have greater long-term prospects. In particular, better opportunities may be available in less well-researched markets such as South Africa, Indonesia, Vietnam, the Philippines and the United Arab Emirates.

Japanese stocks rose 17.13% in sterling, with local currency returns muted on translation by the yen's 6.64% fall against the pound. The Bank of Japan increased its policy interest rate by a quarter percentage point in January and in December as inflation moved above the BoJ's 2% target. Activist investors found good opportunities to engage with company directors to unlock shareholder value as corporate governance reform sparked a takeover boom.

The Federal Reserve, European Central Bank and Bank of England eased their policy rates in 2025. The Fed made three quarter-point cuts, taking its rate to 3.75%. US inflation remained sticky, however, and tariffs and immigration restrictions may mean rates stay higher for longer. Valuations appear stretched in some parts of the credit markets, with officials such as Andrew Bailey, the BoE governor, highlighting the risks of defaults in private debt markets following two big bankruptcies and likening these developments to events preceding the 2007-08 crisis.

Gold rose 51.28% in sterling. Gold tends to be a diversifier because prices typically behave differently from equity and bond prices. Last year, investors bought gold as a safe-haven asset at a time of geopolitical uncertainty and to diversify away from the dollar. At the same time, central bankers increased their gold reserves at the expense of dollar assets. Much of the world's gold is tied up in jewellery so higher demand can have a large impact on prices.

Over the coming months, there are grounds to be positive on prospects for equities in developing economies and Europe because, by contrast with the US, expected returns appear likely to compensate investors for the additional risk of investing in equities compared to the returns on offer from safer assets such as shorter-dated government bonds. Monetary easing should prove expansionary. January's US intervention in Venezuela, which has the world's largest oil reserves, may in the long term lead to increased oil production and lower energy prices. Cheaper energy should stimulate the global economy and help keep energy-price inflation in check.

In fixed income markets, high valuations and rising risks in credit markets mean that inflation-linked government bonds, which should provide some protection if inflation proves stickier than expected or overall financial markets fall, appear more attractive. Gold also provides diversification and some protection for capital should equity and bond markets fall.

Brompton Asset Management Ltd, 1 Knightsbridge Green, London, SW1X 7QA