

Quarterly review

for the three months to 31 December 2025



Gill Lakin
Chief investment officer

Global equities and bonds rose 3.46% and 0.33% respectively in sterling over the fourth quarter of 2025. UK equities led the way, up 6.49%, followed by equities in Europe excluding the UK, up 6.15% in sterling. Equities in emerging markets and Asia excluding Japan also outperformed, rising 4.88% and 4.43% in sterling respectively despite a 7.27% fall by Chinese stocks. US stocks, however, lagged, up 2.75% in sterling, although the technology sector did slightly better, rising 3.19%.

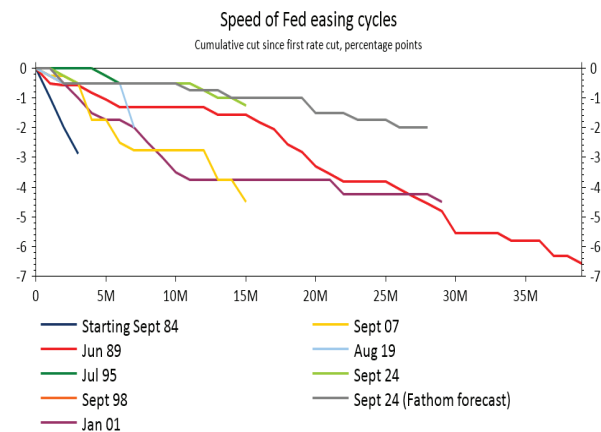
Gold gained 12.32% in sterling, bringing its year-end rise to 51.28% as retail investors and central bankers sought diversification from the dollar, which fell 6.89% against the pound, and a safe-haven amid geopolitical uncertainty. The US adoption of Basel III banking regulations in July may also have contributed to demand. Gold is now classed as a tier-one, high-quality liquid asset, a significant shift in the way regulators view it. This means US banks may count gold at 100% of its market value in their core capital reserves whereas it was previously classed as a tier-three asset, marked down by 50%.

Monetary policy eased over the quarter as the Federal Reserve cut its policy interest rate by a quarter of a percentage point in October and December, taking it to 3.5-3.75%. The Fed trod a fine line between the competing demands of its dual mandate to maintain full employment and price stability, easing policy on signs of weak jobs data notwithstanding elevated inflation.

The Fed's chosen inflation measure, the personal consumption expenditure index, showed price rises at 2.80% in September, the latest month for which data is available, well above its 2% target. In January 2026, the University of Michigan said consumers expected inflation to rise to 4.2% in a year's time. Consumers were less concerned about tariffs but were cautious on business conditions and jobs. The Fed has been more cautious in reducing rates in this rate-cutting cycle than previously, as shown in the chart opposite.

The slow pace of rate cuts has brought down President Trump's ire on Jerome Powell, the Fed chairman, who retires in May when he will be replaced by a sitting Fed governor of Trump's choosing, subject to a Senate confirmation vote. Trump's criticism has spooked investors, who fear the Fed's independence could be compromised. January's news that Powell faces a criminal investigation over a \$2.5 billion refurbishment

of the Fed's headquarters was described by Janet Yellen, the former Fed chair, as "extremely chilling".



Source: LSEG Datastream

The Bank of England reduced Bank rate in December by a quarter point to 3.75%. The monetary policy committee (MPC) vote was close, with five members voting in favour while four voted against. UK consumer price inflation fell from 3.8% in September to 3.2% in November, the latest month for which data is available, and Bank staff expect inflation to be closer to its 2% target in the second quarter of 2026.

By contrast, the European Central Bank (ECB) left its policy rates unchanged in December for a fourth consecutive meeting, with the rates for the deposit facility, main refinancing operations and marginal lending facility held at 2%, 2.15% and 2.4% respectively. The ECB said inflation should stabilise at its 2% target in the medium term.

Just after New Year, Venezuela's president, Nicolas Maduro, was kidnapped by US forces. Donald Trump said he would take control of Venezuela's untapped oil reserves, the world's largest, and invest in infrastructure to increase production, thereby reducing the oil price. In the longer term, a lower oil price could boost global economic growth and lower inflation but it may take years for production to ramp up after decades of under-investment. The charts overleaf show Venezuela's share of oil production is at odds with its share of world reserves.

In January 2026, Trump threatened additional tariffs of 10%, rising to 25% in June, on imports from the UK and some other European countries whose governments failed to support his plans to take control of

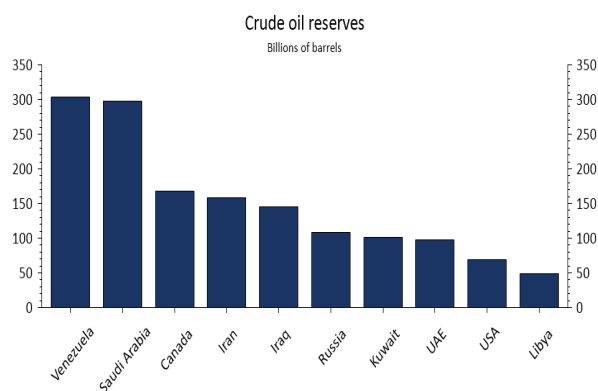
Quarterly review (continued)

for the three months to 31 December 2025

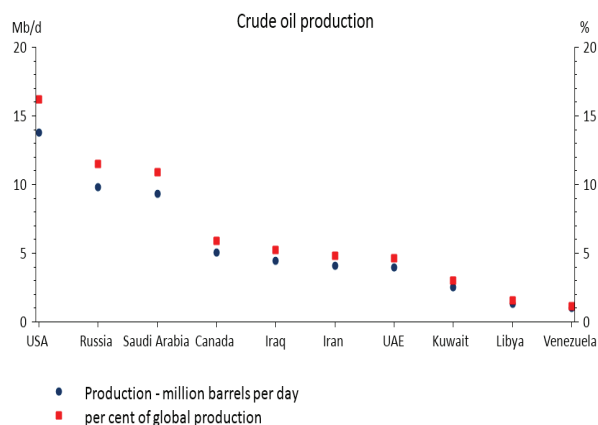
Greenland before abandoning his threats and opting for consolation at Davos. Trump covets Greenland because of its strategic location, making it a matter of US national security, and its mineral resources. While

electronics, renewable energy, electric vehicle and defence products. China is estimated to account for almost 70% of the world's production of rare earths.

There are grounds to be positive on the overall outlook for equities, with more lowly-valued equities in Europe and emerging markets appearing more attractive than highly-valued US stocks. In bond markets, there are grounds for caution because inflation may prove stubborn because of Trump policies such as higher tariffs and tighter immigration restrictions. This makes shorter-dated sovereign inflation-linked bonds more attractive than conventional bonds. Gold may rise further in 2026 as some central banks diversify away from dollar assets such as US Treasury bonds in response to Trump's mercurial policy-making and his preference for a weaker dollar. Gold is also regarded as a safe-haven asset in times of heightened geo-political risk as at present.



Source: LSEG Datastream



Source: LSEG Datastream

making no comment on US plans to take Greenland, the sovereign territory of Denmark, by force if necessary, Trump has used rhetoric consistent with his determination to secure US self-sufficiency in strategically-important components and commodities. In October, he threatened a 100% tariff increase on Chinese goods when Beijing restricted exports of rare earth minerals essential to making advanced

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