



## Summary Investment Commentary

Overall, 2025 delivered strong investment returns despite heightened geopolitical tensions. Equity markets extended gains in the fourth quarter, led by Europe and key Asian markets such as Japan, Korea, and Taiwan. Performance was supported by solid corporate earnings, resilient global growth, and generally lower interest rates, despite inflation remaining above some central bank targets. Geopolitical risks have intensified amid a more assertive U.S. stance on defence and technology, while elevated valuations and high debt levels pose ongoing risks. Corporate activity, particularly M&A, remains strong, and market sentiment could benefit from upcoming IPOs and U.S. fiscal stimulus ahead of the November mid-term elections. Periods of volatility are likely, reinforcing the importance of diversification in managing portfolio risk.

## Summary of portfolio changes

We rebalanced the VIP model portfolios across all platforms on 30<sup>th</sup> January.

The asset allocation remained broadly similar with a small reduction in fixed interest by 1% and 0.5% in VIP Cautious and VIP Cautious Balanced respectively and a corresponding increase in equities. For higher risk portfolios we reduced alternatives adding between 0.5% - 1% to equities.

In terms of individual fund changes, we:

- sold the holdings in iShares Overseas Government Bond Index, thereby further reducing duration, reallocating to short date inflation-linked bonds;
- added exposure to natural resources through JPM Natural Resources, complementing the gold mining exposure following profit-taking on the rebalance;
- added Argonaut Absolute Return to the Balanced model, reducing other absolute return holdings;
- switched RM Alternative Income to Lazard Global Listed Infrastructure Equity and M&G Global Target Return in Balanced Income;
- switched to a lower fee share class which had recently become available for Fidelity Global Technology

We continue to focus fixed income on higher quality and shorter duration, a value tilt in equities with an underweight to the US supplemented with thematic exposure, and a general overweight position in alternatives particularly absolute return strategies.

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## Current Thinking

### Economic growth

The latest forecast from the International Monetary Fund for global growth continues to be relatively robust at 3.3% in 2026 if with regional disparities with US growth currently running above trend.

### Earnings

Analysts expectations for company profits are supportive for share prices with earnings growth of c. 12-14% in most regions globally. Such forecasts at the start of a calendar year often prove optimistic and can leave room for disappointment.

### Inflation

The rate of inflation is likely to stay above the central bank target of 2% in the US, the UK and Japan, if moderating and oscillating in the 2.5%- 3.5% range, while in the eurozone the rate is around 2%. There is potential for inflation to pick up again towards the end of the year.

### Interest rates

The Federal Reserve is expected to cut rates twice in 2026; the Bank of England should also cut again, while the European Central Bank possibly and the Bank of Japan almost certainly will raise their interest rates. Longer term yields may rise gently over the course of the year.

### Liquidity

Financial conditions remain accommodative with a weaker US Dollar, real rates close to zero, deficit spending and a further fiscal impulse expected in the first half ahead of mid-term elections. Corporate credit spreads unlikely to tighten further.

### Valuations

Valuations have risen globally whilst more varied at a sector level where software businesses are coming under pressure from AI and asset heavy businesses are re-rating. Regionally the US in aggregate remains rich largely due to the multiples of its largest companies.

### Geopolitics

The America First policy is likely to result in increasing self-reliance for both the United States, Europe and China leading to increased investment in technology, defence and manufacturing capabilities whilst also attempting to ensure security of supply, particularly of raw materials.

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## Asset Class Outlook

Current asset class position	-	=	+	Comments
Fixed income - current				Cautious on long dated bonds given government debt levels and spending intentions. Preference for short dated gilts & high quality corporate bonds as better yields available and growth sluggish. Credit spreads fairly tight.
Equities - current				Potential for increased volatility with geo-political uncertainty whilst expectation for positive returns given global growth
Alternatives - current				Increased dispersion and volatility can favour absolute return and trend following
Cash - current - current				Interest income modestly attractive relative to bonds, while preserving optionality to reinvest

Current equity position	-	=	+	Comments
Asia ex Japan - current				Favouring income generation in region with distinct commodity-led business cycle
Emerging Markets - current				Favouring value and frontier markets; China slowing though may opt for reflation; weaker \$ supportive of EM growth
Europe ex UK - current				Expecting improved growth and rerating due to flow of funds
Japan - current				Corporate restructuring unlocking value, wage inflation signalling revival in domestic demand
North America - current				Era of rising valuations (esp. for 'big tech') drawing to a close, though earnings continue to remain robust; positioning mitigated by thematic
United Kingdom - current				Rerating expected and increased corporate activity, though growth drivers remain patchy
Thematic - current				Favouring global insurance, technology, gold miners and natural resource producers

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