



Year-End Investment Review and Outlook

Q4 2025 | Markets, Geopolitics and the Road Ahead

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Introduction

As we conclude 2025, it is clear that the past twelve months have been shaped as much by politics and geopolitics as by traditional economic drivers. Markets have navigated a complex environment marked by renewed uncertainty following President Trump's return to office, ongoing conflict in Europe, rising tensions in the Middle East, and persistent questions around inflation, growth, and interest-rate policy.

Despite this backdrop, investment markets have delivered broadly positive outcomes. Returns across most asset classes have been encouraging, albeit accompanied by greater volatility and more frequent periods of market pullback. This review provides an overview of the forces that shaped markets during 2025, how portfolios have responded, and how I currently view the outlook as we move into 2026.

2025 in Review: Risks Materialised, Markets Proved Resilient

Entering 2025, investors faced a familiar set of concerns: inflation proving sticky rather than transitory, debate over the risk of economic slowdown, uncertainty around US domestic and foreign policy, and fears that prolonged conflict in Europe would continue to weigh on global growth.

Over the course of the year, many of these risks did indeed materialise. Inflation remained closer to 3% than the 2% target in many developed economies. Growth felt constrained rather than robust. Geopolitical tensions intensified, particularly with the continuation of the war in Ukraine and renewed instability in the Middle East.

And yet, markets proved remarkably resilient. Global equity markets continued to move higher, repeatedly reaching new highs. Corrections were generally shallow and short-lived, with investor appetite to deploy capital remaining strong. In hindsight, 2025 may be remembered less for the scale of the risks and more for the market's ability to absorb them.

This resilience reinforced a key investment principle: **short-term uncertainty does not preclude long-term progress**, and reacting defensively to headlines often proves more damaging than remaining invested through periods of volatility.

Political and Geopolitical Influences

The United States and Policy Uncertainty

The return of President Trump to office was a defining influence on market sentiment throughout the year. Initial optimism around pro-growth policies, deregulation, and fiscal stimulus was frequently offset by the unpredictable nature of policy announcements and shifts in foreign-policy posture.

Markets were required to continually reprice risk in response to:

- Abrupt changes in trade and diplomatic rhetoric
- Uncertainty around fiscal discipline and long-term debt sustainability
- A less predictable approach to global alliances

While none of these factors derailed markets outright, they contributed to a more volatile investment environment and reinforced the importance of diversification and risk management.

Global Tensions

Beyond the US, geopolitical developments remained a persistent source of uncertainty. The war in Ukraine continued to influence European energy markets and defence spending priorities, while tensions involving Iran periodically affected energy prices and risk sentiment. Strategic competition in other regions further underscored the fragile nature of the global order.

Collectively, these dynamics supported selective investment themes, particularly in defence, infrastructure, and energy, while also reinforcing the case for maintaining exposure across regions rather than relying on any single economic or political outcome.

Asset-Class Performance

Equities

Equities delivered solid returns in 2025, supported by resilient corporate earnings and continued investor confidence. However, leadership remained concentrated in a relatively narrow set of sectors and companies, particularly those linked to technology and artificial intelligence.

While this concentration supported performance, it also introduced an important risk. For markets to deliver sustainable returns over the medium term, leadership must broaden. A narrow market can remain strong for a time, but it becomes increasingly vulnerable to shifts in sentiment if expectations are not met.

Fixed Income

Fixed income once again played a constructive role in portfolios during 2025. As interest-rate expectations stabilised and inflation showed signs of levelling out, bonds provided more reliable income and improved diversification benefits. Selective exposure to corporate credit and inflation-linked securities proved particularly valuable.

Currencies and the US Dollar

Currency dynamics were an important undercurrent throughout the year. While the US dollar continued to benefit from its status as the world's reserve currency, it also faced periods of weakness driven by fiscal concerns, policy unpredictability, and shifting global capital flows.

The global financial system is entering a phase in which US dominance is becoming less absolute. Although the US dollar remains firmly entrenched as the world's reserve currency, any shift away from this status would occur over many years rather than abruptly, and markets should expect intermittent volatility during this adjustment process.

Looking ahead, the erratic nature of US policy direction — including the potential for renewed military action in the Middle East or unconventional geopolitical initiatives — may continue to influence dollar stability.

Looking Ahead to 2026: Broadening Opportunity, Measured Optimism

My base-case expectation for 2026 remains **constructively positive**, but with a more measured tone. Global growth is likely to continue at a moderate pace, supported by easing inflation pressures, eventual interest-rate cuts, and ongoing investment in productivity-enhancing technologies.

A key theme for 2026 is likely to be a **broadening of market leadership**. Recent performance has been driven by a narrow group of companies and sectors. For returns to remain sustainable, participation across regions, sectors, and asset classes will be increasingly important. This reinforces the case for diversified portfolios rather than reliance on any single investment narrative.

Key Risks and Portfolio Discipline

One of the principal risks for 2026 lies not in the failure of innovation, but in the possibility that expectations — particularly around artificial intelligence — run ahead of realised economic returns. Investment in AI infrastructure has already reached enormous levels, and markets will increasingly focus on when and how this spending translates into sustainable profitability.

In such an environment, periods of reassessment and volatility should be expected. This underscores the importance of maintaining balance within portfolios, avoiding excessive concentration, and remaining disciplined through market cycles.

Conclusion

2025 has been a year that rewarded patience, diversification, and disciplined portfolio management. Despite heightened political and geopolitical uncertainty, markets delivered positive outcomes and demonstrated a notable capacity to absorb risk.

As we move into 2026, I remain cautiously optimistic. Well-constructed portfolios should continue to benefit from global growth and broadening investment opportunities, while acknowledging that volatility is likely to remain elevated. My focus remains on protecting capital, capturing long-term growth, and navigating uncertainty in a structured and pragmatic manner.

As always, clients are encouraged to view short-term market movements within the context of their longer-term objectives and financial plans.

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