The *Monthly Edit*

December 2025

We examine the markets daily, and our monthly update is a selection of key global stories explained through an investment lens.

Market headlines

Global equities end the year on a strong note

Despite some late-December volatility, global equities posted nearly +20% for the third consecutive year. Returns broadened across regions and sectors. European markets gained over 20%, UK large-caps and Japan advanced more than 25% in 2025.

Inflation cooled across major economies

US inflation for November eased to 2.7% year-on-year. In the UK, inflation slowed to 3.5%, its lowest level since March, driven by softer food, transport and housing costs.

US Federal Reserve (Fed) cuts rates but signals caution ahead

The Fed lowered rates by 25 basis points (bps) to 3.50–3.75% in December, but the split vote and projections for only one more cut in 2026 underscored a hawkish tone.

Gold shines as safe-haven demand builds

Macro uncertainty drove gold prices up 65% in 2025, marking one of its strongest annual performances and reinforcing its role as a hedge in a shifting rate environment.

The big topics

Broadening market leadership amid year-end rally

Global equities ended December on a positive note, with gains extending beyond the artificial intelligence (AI)-driven mega-cap companies that dominated much of 2025.

MSCI All Country World rose +0.8%, while MSCI All Country World ex-US gained +2.2%, supported by strength in both Europe and Asia. In the US, the technology-heavy Nasdaq Index underperformed the broader market, signalling a rotation away from mega-cap companies as investors took profits.

This broadening of leadership slightly eased concerns over market concentration, which had been a recurring theme throughout the year. However, valuations in certain areas remain elevated, suggesting that while breadth improved, selectivity will remain critical heading into 2026.

Central bank policy divergence shapes outlook

The Fed delivered a third consecutive 25 bps cut, bringing rates to the range of 3.50–3.75%, but its relatively 'hawkish' tone and divided vote with three dissenters tempered expectations for aggressive easing in 2026.

In contrast, the Bank of England followed with a modest cut, while the European Central Bank opted to hold rates steady. The Bank of Japan surprised markets with a hike, citing inflation persistence.

These contrasting actions underscore the uneven progress on inflation globally and suggest that policy paths will remain asynchronous, creating opportunities and risks across currencies and fixed income markets.

AI momentum meets valuation scepticism

AI-related themes continued to dominate market headlines in December, but signs of fatigue have emerged.

While enthusiasm for generative AI remained strong, profit-taking in mega-cap tech and commentary from prominent investors highlighted concerns over ambitious profitability assumptions. This dynamic fuelled a modest rotation into undervalued sectors, as investors sought balance between growth potential and valuation discipline.

The debate over whether AI-driven productivity gains can justify current valuation multiples is likely to persist into 2026, making sector allocation decisions increasingly nuanced amid shifting sentiment and evolving fundamentals.

Mixed macro signals and geopolitical undercurrents

Economic data painted a complex backdrop for markets.

US Q3 Gross Domestic Product (GDP) surprised to the upside at +4.3% annualised (versus 3.3% expected), yet softer labour market prints and cooling inflation suggested a gradual slowdown. European Purchasing Managers' Indexes (PMIs) hinted at stabilisation, while Japan's inflation uptick supported its policy shift.

Geopolitical risks lingered as trade tensions and tariff threats persisted. Gold extended its rally, up nearly 65% in 2025, as investors hedged against uncertainty, while oil prices drifted lower on demand concerns. These crosscurrents reinforced the need for diversified positioning as markets navigate late-cycle dynamics and geopolitical complexity.

Important information

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