

Transcript

Financial Market Commentary – Review of 2025 and Outlook for 2026

Simon Lewis on 19 January 2026

Hello and thank you for joining our latest financial market commentary. I'm going to provide a review of how global financial markets fared in 2025 and set out our thoughts regarding the investment prospects for 2026.

Review of 2025

Dealing firstly with last year, it was certainly an eventful one. It is a year that reminded investors of the importance of taking a calm and measured approach to financial decisions rather than making knee-jerk reactions to events.

2025 began with a steady take-off and ended with a smooth landing, with many financial markets at or close to their all-time highs at the end of the journey. But it was a white-knuckle ride as financial markets were battered from what seemed like all directions by the turbulence created by Storm Donald.

The turbulence began in the run-up to the end of February when financial markets realised that Trump was serious about tariffs. The subsequent Liberation Day announcement in April exceeded financial markets' worst fears, with the resulting capitulation in financial values for most types of investment. However, Trump famously backed down (you might remember my reference to the 'TACO' trade (Trump Always Chickens Out) in previous commentaries and financial markets found their feet again.

The growing confidence was largely the result of the euphoria developing about the potential monetisation of the increasingly capable artificial intelligence applications that were proliferating. Financial markets were also buoyed by the fact that, in September, the US Federal Reserve started to cut interest rates because of increasing evidence that US inflation was moderating.

As I referenced in my previous market commentary, there was a lot of talk in the financial media about a stock-market bubble and fear of it bursting but I explained the reasons why we were not expecting a near-term sustained correction in financial markets. This proved to be the correct call and it's a useful reminder to nervous investors that more money is often lost sitting on the sidelines than because of market corrections, when they do occur.

While U.S. equities delivered solid gains over 2025, the benefit to non-U.S. investors was partially offset by sustained weakness in the U.S. dollar. This depreciation, consistent with one of President Trump's stated economic objectives, reflected a reduction in confidence among certain market participants regarding the dollar's traditional role as a safe-haven asset during

periods of market stress. In particular, countries that have a fractious relationship with the US took note of the US confiscation of Russia's US dollar assets.

The broad optimism that swept through financial markets in the second half of the year had an outsized impact in places where there was no headwind of US Dollar depreciation. Some very good investment returns were achieved. Of note is the rebound that we saw in UK and European stock markets, which narrowed their discount to the US. Such investments made a strong contribution to PMW client portfolios over the course of the year.

I am pleased to report that a typical PMW Balanced portfolio generated an underlying profit of nearly 10% in 2025. It was an excellent risk-adjusted return which builds on the strong and steady growth achieved in 2023 and 2024.

Outlook for 2026

It's far too easy to be overly pessimistic about the prospects for 2026.

In the UK it seems that we have a dysfunctional government that is only adding to the uncertainty created by our long-term structural problems. We're not alone. France has a similar problem. And across the Atlantic we have an assertive, controversial president. However, although the detail of his policy is subject to unpredictable variation, there is no doubting the direction of travel. Policy decisions are inclined to place American interests ahead of all others.

Sometimes we get too distracted by the negatives with the result that we overlook the positives. It's human nature. But there are positives visible to those that want to see them.

This explains why, from an investment standpoint, we have entered 2026 with measured optimism. While the geopolitical backdrop remains volatile and unpredictable, it is important to remember that financial markets are not arbiters of morality or fairness. Their purpose is to assign a present value to future cash flows—whether from corporate profits or interest payments on corporate and government debt—while incorporating a premium for all forms of risk, including geopolitical uncertainty. For investors, opportunities continue to emerge, even in challenging environments.

And the conditions to support a positive outcome for financial markets are in place, driven by macro-economic conditions in the US. The US economy is resilient and is expected to continue to achieve strong GDP growth, having grown at the rate of 4% per annum in the third quarter of last year. Some are predicting that when published, the figures for the final quarter will show a further acceleration in GDP growth to an annualised rate in excess of 5%. Compare this with the sclerotic growth of the UK and Euro Area economies.

In the US, recent disappointments about the number for new jobs created are most likely the result of an ageing US demographic and a significant reduction in immigration. The acid test is the unemployment numbers, which are not rising.

An acceleration in GDP growth at a time when the number of people in employment is not growing significantly implies an increase in productivity. This might have a lot to do with the rapid adoption of AI in US businesses, enabling them to do more without the need to employ extra staff.

The worst fears for the impact of tariffs have not materialised. This has a lot to do with the fact that the effective overall tariff rate has settled at around 14% which is well below the eye watering rates implied when they were first announced. Nevertheless, tariffs are already acting to reduce the US trade deficit, and the weaker dollar is driving an increase in US exports.

US household balance sheets are healthy by historical standards and corporate profit growth is strong. Furthermore, US interest rates are likely to fall again, although perhaps not quite as much as hoped for by some.

Another factor that should not be underestimated is that the US mid-term elections are on the horizon. Trump needs to improve his ratings if he is not to lose his majority in Congress, the Senate or both. His tax bill, which he named the Big Beautiful Bill, will provide a windfall in tax rebates for individuals and corporates alike in April, helping to support economic activity. The overall increase in tax rebates is forecast to be as high as \$90 billion in 2026 and will likely help drive already strong consumer spending.

For these reasons we expect the US stock-market to outperform its major peers in 2026. The relative outperformance of others in 2025 was most likely a one-off catch-up in company valuations resulting from the negative sentiment towards US foreign policy.

From a geo-political perspective 2026 has already provided much to think about. The effective US takeover of Venezuela was probably more about geopolitics than economics. The US simply decided it was no longer prepared to tolerate a country in its own backyard being used as a platform by Russian, Chinese and Iranian spy networks.

Venezuela might have the world's largest oil reserves, but the oil is heavy and therefore both difficult and expensive to extract. The current cost of extraction is around \$80 a barrel which is higher than the current oil price. Of course, there are efficiencies that can be made to bring this extraction cost down because Venezuela's oil exploration infrastructure has suffered decades of corruption-related neglect. But there probably aren't any quick bucks to be made, which explains why US oil executives are looking nervously down at their shoes when Trump talks about the US leading an investment led production renaissance.

And more recently the craziness has continued with heavy-handed threats to the sovereignty of Greenland. There's some irony in that during the year the US celebrates 250 years of independence it is considering depriving other nations of theirs.

Our expectation is that this dispute will blow over. Dating back to an agreement reached in 1951, the US already has the right to establish and maintain the additional military presence it needs to place in Greenland as the Arctic continues to melt. Once Trump secures some concessions regarding access to mineral and rare earth deposits he's likely to move on to other

issues. So, any market volatility resulting from this war of words is unlikely to have reason to persist.

In summary, although we should expect investment volatility to persist, we are confident that our diversified strategy and conservative approach will deliver good returns for PMW clients over the course of 2026.

That's all for now. I'll provide a further update after the end of the first quarter. I hope that you have found this update helpful and as ever, thank you for listening.

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