Wealth
Management

Quarterly report

Q4 2025 market review

Forward-looking
for generations

Cover image
Bauer brothers, Hortus Botanicus, detail from "Lilium," 1776/1804
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> “As markets rallied, geopolitics added new levels of uncertainty, with events that could reshape regional dynamics.
>
> Sanjay Rijhsinghani, Chief Investment Officer

Summary: Q4 2025

Tariff turbulence dominated headlines earlier in the year, but global equity markets defied the noise to close 2025 with double-digit gains. By the fourth quarter, momentum shifted as investors broadened their focus beyond mega-cap technology companies, fuelling strong annual performance across Europe and Japan.

The Federal Reserve (Fed) and Bank of England (BoE) both delivered rate cuts as labour markets softened and inflation moderated. Over the quarter, we saw the yield curve steepen further, as 10-year Treasury bond yields were largely unchanged while two-year Treasury bond yields continued to decline as rates were cut. The Bank of Japan (BoJ) raised interest rates to the highest level in three decades.

As markets rallied, geopolitics added new levels of uncertainty, with events that could reshape regional dynamics. In January, Venezuela entered a period of instability after President Nicolás Maduro was seized by US forces, raising questions about regional order and signalling more assertive government behaviour going forward.

At a glance

- Global equities positive despite tariff uncertainty
- Legal challenges to tariffs in focus
- Leadership broadens beyond US mega-cap technology
- Central banks cut rates as inflation moderates
- Japan raises rates as new prime minister eyes fiscal loosening

Macro summary

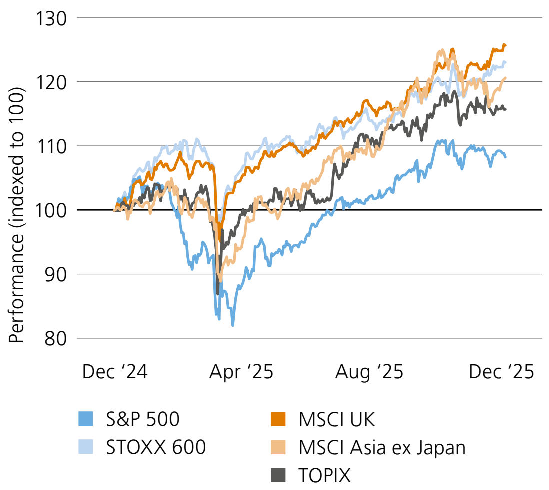
Global markets break free from tech dominance

After a year that saw many major indices hit record highs despite tariff-induced instability, the fourth quarter was more muted for US equities. The S&P 500 and the Nasdaq each gained 2.7% in the final three months of the year. These gains nevertheless helped propel both the S&P 500 and the Nasdaq's 2025 gains to 17.9% and 21.2% respectively. These are impressive returns, but most major global indices outperformed the S&P 500 last year, as a 9.4% decline in the dollar index weighed on non-US investors' portfolios.

European equities benefited from ongoing optimism over economic support, policies and stimulus, which helped drive investors towards European companies, which are less highly valued than their US counterparts. The STOXX 600 rose 6.5% in the fourth quarter, bringing its 2025 gains to 20.7%. The MSCI UK rose 7.1% in the fourth quarter, lifting its yearly returns to 25.8%. In dollar terms, these returns are even more impressive.

Japan had a strong year, with the Topix's 8.8% Q4 gains contributing to 2025's overall returns of 25.5%, as the country continues to benefit from ongoing corporate reforms and stimulus expectations. In Hong Kong, equities were down in Q4, but only after a phenomenal year that helped lift the Hang Seng by 32.5%. The Shanghai Composite gained 2.7% in the fourth quarter to bring its 2025 gains to 21.7%. Precious metals, particularly gold and silver, posted strong returns last year.

Global equities in sterling terms in 2025



Source: Bloomberg

Political upheaval and policy pivots

This quarter, we witnessed several events suggesting the US has renewed its focus on influencing the wider Americas.

Argentina faced financial turmoil ahead of its national midterm elections in late October, which led to the US government offering a USD 20 billion lifeline to calm Argentina's currency.[1] On 26 October, President Javier Milei led his party to a decisive victory, which will make it easier to push ahead with his programme to slash state spending and deregulate the economy.[2]

Just as investors were digesting Argentina's election outcome, Mexico added another twist – approving a package of new tariffs in December that will impact

[1] Trump says US will not 'waste our time' helping Argentina if Milei loses - BBC News
[1] Argentina elections: Javier Milei and his 'chainsaw' austerity win big - BBC News

hundreds of products, many of which come from China. This appears to be an attempt to appease US concerns about tariff rerouting. The levies are due to take effect from 1 January, and will apply to goods like metals, cars, clothing and appliances.[3]

In the first days of 2026, Venezuelan President Nicolás Maduro and his wife were seized in Caracas by the US military.[4] Investors will be closely watching whether the new leader, Delcy Rodríguez, can orchestrate a smooth transition with Trump. Market reaction has so far been muted.

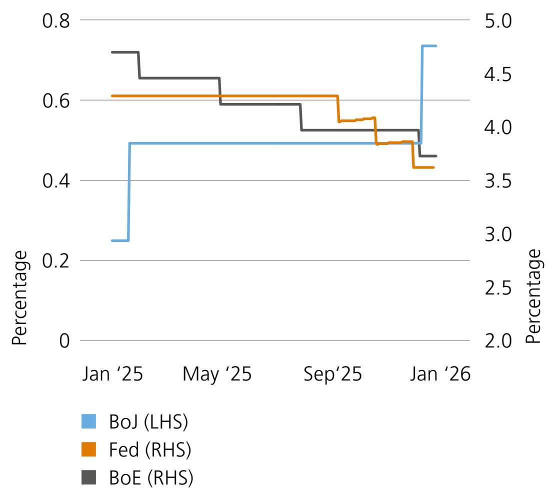
Fed: cutting rates despite limited data

The fourth quarter began with a jolt, as a 43-day US government shutdown – the longest in history – clouded economic visibility. Despite only having a partial view of how the economy was performing, the Fed lowered rates at both the October and December meetings, bringing interest rates to 3.75% by year-end. While the Fed is prioritising its maximum employment mandate, it maintains that inflation bears close monitoring if tariff-induced price pressures remain sticky. The US unemployment rate ticked up to 4.6% in November, up from 4% at the start of the year, and the Fed stands ready to act should the unemployment rate rise further.

Close vote at the BoE

On 26 November, Chancellor Rachel Reeves presented her budget to Parliament, which included an additional GBP 26 billion in tax rises to go along with the GBP 40 billion in tax increases from the prior year's budget. In December, the BoE lowered rates to 3.75%, while the unemployment rate rose to 5.1% this year from 4.4%, indicating a sluggish labour market. Should this trend persist, it could prompt further action from the central bank.

Fed rates vs BoE rates vs BoJ rates in 2025



Source: Bloomberg

[3] Mexico approves up to 50% tariffs on China and other countries - BBC News
[4] Spies, drones and blowtorches: How the US captured Maduro - BBC News

Historic leadership shift in Japan

Japan made history as Sanae Takaichi became the nation's first female prime minister, a leadership change that could redefine fiscal priorities.

Takaichi, a protégé of former Prime Minister Shinzo Abe, was initially expected to adopt a significantly looser fiscal stance. However, higher borrowing costs and a weak currency have limited her ability to implement her policies compared to her mentor. She also only has a minority government, so her power may be constrained.

The BoJ has been contending with above-target inflation for years. Investors will closely monitor whether Takaichi's fiscal stance and higher government borrowing will continue to put pressure on the yen and government bonds. At its most recent meeting, the BoJ raised interest rates to 0.75%, the highest in three decades, to support the currency. Japanese government bond yields have continued to rise over the year, with the 10-year benchmark rising by a considerable 1% in 2025.

Tariff escalation and fragile truces

The trade side of events saw further developments in the fourth quarter, when on 10 October, Trump announced he would impose an additional 100% tariff on China from 1 November.[5] However, following a meeting in South Korea between Trump and Chinese President Xi Jinping on 30 October, the two leaders agreed to extend the tariff truce, reduce the US fentanyl tariff on China from 20% to 10%, and postpone export restrictions.[6] Meanwhile, a Ukraine deal remains elusive.

Tariffs face legal tests in the Supreme Court

During a hearing in November, Trump's sweeping tariffs faced sharp questioning and scepticism from the Supreme Court. Most justices, including several conservatives, expressed doubts about the White House's justification for import duties, which Trump claims are necessary to restore America's manufacturing base and fix its trade imbalance. Billions of dollars in tariff payments are at stake, and if the US administration loses, the government could have to refund some of the billions of dollars it has collected from companies, which would add jitters to bond markets.[7]

Resilient markets in an interventionist world

Against a backdrop of moderating inflation, diverging central bank policies and an increasingly interventionist geopolitical environment, global equity markets delivered robust returns. Leadership broadened beyond US mega-cap technology companies, with Europe, Japan and other emerging markets outperforming.

Looking ahead, geopolitical turbulence underscores the importance of maintaining a globally diversified, long-term portfolio rather than reacting quickly to events, however dramatic they may appear in the moment.

[5] Trump threatens to impose additional 100% tariff on China - BBC News
[6] United States and China Agree to Trade Truce | Council on Foreign Relations, Deutsche Bank
[7] Supreme Court justices sharply question Trump tariffs in hearing - BBC News

Fixed income

Central banks carried on lowering interest rates in the fourth quarter as the global monetary easing cycle continued, although Japan stood out for taking the opposite approach. Inflation softened further across major economies, but central banks remained attuned to the delicate balance between inflation and labour markets.

Fed maintains easing bias

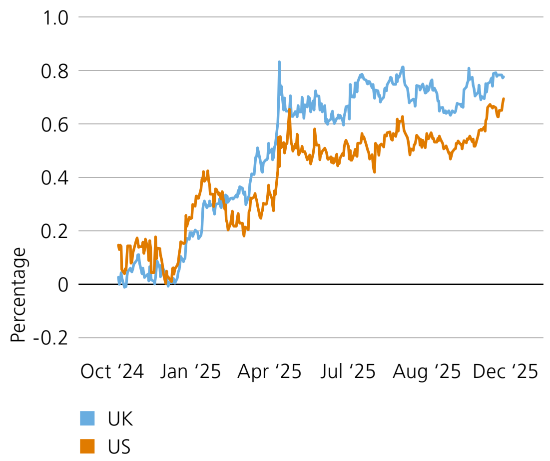
The Fed continued its easing campaign in Q4 despite the government shutdown. At its December meeting, the Federal Open Market Committee (FOMC) lowered rates to 3.75%, marking the third straight rate cut in 2025. The decision followed earlier reductions that brought the policy stance from the mid-4% range towards more accommodative levels, responding to labour market concerns. Meanwhile, inflation faces conflicting pressures: easing housing costs are pulling it down while tariff policies are pushing goods prices up.

The Fed indicated a median expectation of one cut for 2026, but markets are pricing in at least two, as Chairman Jerome Powell's term ends in May, with a successor due to be nominated in early 2026. This, coupled with the legal issues facing Fed Governor Lisa Cook – which could see her replaced – underscores the pressure the central bank is facing from the Trump administration to deliver deeper interest rate cuts. If the White House increases its influence over the central bank, investors may start demanding higher yields to own Treasuries.

Liquidity tightened as the Fed's quantitative tightening (QT) reduced reserve levels. The US government shutdown worsened the situation by forcing spending cuts. In response, the Fed brought QT to an end over the quarter after previously scaling the programme back. From December onwards, the Fed will now reinvest maturing Treasuries and gradually expand its balance sheet again, marking a shift back toward supporting market liquidity.

Short-term Treasury yields declined as markets priced in further cuts. Ten-year Treasury yields remained unchanged, but longer-dated yields moved modestly higher as the curve steepened over fiscal deficit concerns, representing an increase in the so-called "term premium."

2025 spread between 10- and 2-year yield for the US and the UK



Source: Bloomberg

> "Inflation faces conflicting pressures: easing housing costs are pulling it down while tariff policies are pushing goods prices up.
>
> Jeremy Sterngold, Deputy Chief Investment Officer

BoE eases gradually as inflation moderates

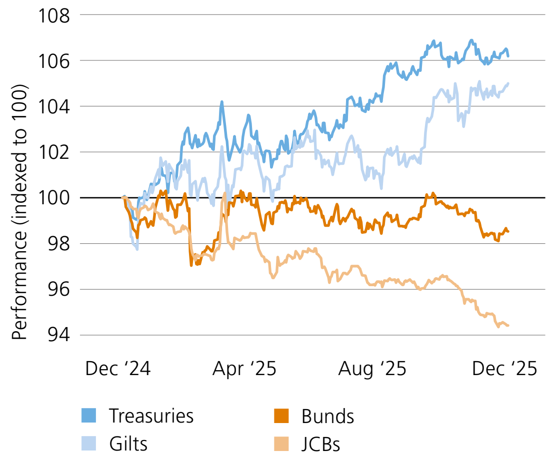
In the UK, the BoE delivered a 0.25% cut in December, reducing the Bank Rate to 3.75% after skipping a quarterly cut in November. The decision was solidified following a carefully calculated budget in late November and a faster decline in price pressures. Over the quarter, the Consumer Price Index (CPI) fell from 3.8% to 3.2%. The latest budget measures will have a temporary downward impact on inflation and could shave around 0.5% on an annualised basis from the second quarter.

The decision was a narrow 5–4 split, with Governor Andrew Bailey casting the deciding vote. This emphasised the committee's caution, given that headline inflation remained above its 2% target, while also underscoring their concerns about persisting wage pressures.

Nevertheless, the move was consistent with the BoE's gradual easing stance throughout 2025 as policy shifted toward supporting growth and reducing restrictive financial conditions. Further easing is expected over 2026, but incoming data will determine the pace and extent of cuts.

Gilt markets outperformed their global peers as the increased fiscal headroom from measures announced in the budget, and the lack of a Labour leadership contest, saw further investor support in the quarter. Ten-year gilt yields declined by 0.22% to 4.48% over the quarter, with larger declines for both short- and longer-dated bonds.

2025 total returns of Gilts vs Treasuries vs Bunds vs Japan in local currency terms



Source: Bloomberg

ECB holds but remains data-dependent

The European Central Bank (ECB) entered Q4 with its key deposit facility rate unchanged at 2%, a level maintained through the end of the year. The ECB had already lowered rates by 1% in 2025 as disinflation allowed it to shift policy to support growth.

Investors initially expected that the ECB would cut rates at some point in 2026. However, President Christine Lagarde pushed back, emphasising that the central bank is not on a predetermined path. She reinforced some of the hawkish comments from other ECB members, who endorsed raising rates at some point in the near future.

This drove German bund yields higher over the quarter, with ten-year maturities rising 0.14% to 2.85%. Meanwhile, French government bonds saw their spreads decline over German peers despite the government remaining weakly placed amid ongoing budget discussions.

Normalisation continues for BoJ

Japan stood out among major central banks during Q4 as the BoJ continued its gradual exit from decades of ultra-loose policy. The BoJ raised its policy rate to 0.75% in late 2025 as inflation remained persistently above target. The new government's desire for a looser fiscal stance has unnerved investors, driving a sharp repricing of government bonds. Ten-year notes rose 0.41% to 2.07% over the quarter, nearly doubling from the start of 2025.

A discerning credit market

Corporate bond markets were well supported during the quarter, despite the limited pick-up in yields relative to government bond equivalents. Demand for yield was a key determinant and the increase in supply was well received, with spreads near unchanged levels over the quarter. The market saw large issuance from Meta and Alphabet, totalling USD 30 billion and USD 24 billion, as the enormous AI expenditure saw companies tap bond markets.

Dispersion across issuers and sectors was another central theme, highlighting varying levels of credit quality following years of abundant liquidity. Two notable bankruptcies – First Brands and Tricolour – illustrated this trend. First Brands failed due to excessive borrowing, while Tricolour suffered from weak consumer trends in the subprime car loan market. Although there does not appear to be any contagion from these events, it nevertheless prompted JPMorgan's CEO Jamie Dimon to say, "When you see one cockroach, there are probably more."

These cases reinforce the importance of credit selection and issuer quality, particularly in lower-rated segments, where company fundamentals drive outcomes rather than broader policy trends.

Equities

International equities

Market broadening – when stock market gains spread beyond a narrow group of leading stocks to include a wider range of companies and sectors – was the story of the fourth quarter, although the details reveal something more nuanced. In the US, the broadening was more illusion than reality, led by a rotation within mega-cap tech stocks. Meanwhile, the more interesting story was unfolding internationally, where most markets delivered solid returns without leaning on AI at all.

Search giant Alphabet rose 29% in the quarter after the latest iteration of its Gemini AI engine saw near-universal agreement that the company was back near the top of the AI tree. The USD 800 billion in market cap added in the quarter would be enough to buy outright the three largest companies in the UK index (AstraZeneca, HSBC and Shell) and have a few billion left over. Investors also chose to focus on Alphabet's Q3 revenue rising 16% year-on-year rather than operating profit increasing only 9%. By contrast, AI chip designer Nvidia had a rare flat quarter and Meta and Microsoft both fell.

> "In 2025, the more interesting story was unfolding internationally, where most markets delivered solid returns without leaning on AI at all.
>
> Russell Harrop, Head of Equities

Only two of 11 sectors increased more than the 2.7% on the S&P 500: healthcare (11.7%), and communication services (7.3%, of which Alphabet is the largest constituent). Apart from real estate, which fell 2.9%, all but one of the other sectors were between flat and up 1.5%. Financials did marginally better, at 2% for the fifth consecutive positive quarter as US rate cuts continue to be gradual and signs of credit stress appear isolated and limited. This is good news for the mega banks such as JPMorgan and Bank of America. Small-cap stocks, however, failed to follow up the few quarters where they outperformed the S&P 500; the Russell 3000 rose just 2.4% in Q4.

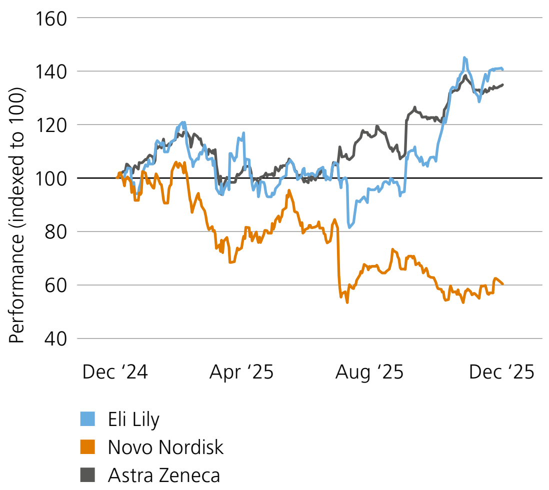
Most major indices from the rest of the world outperformed the S&P 500 in the final quarter and throughout 2025, even without significant exposure to AI-related stocks. There were two exceptions. Firstly, the tech-heavy Kospi index in Korea rose an astonishing 23% in Q4 and 79% in 2025, driven by Samsung Electronics and key AI supplier SK Hynix, the first of which more than doubled over the year, and the latter almost quadrupled.

Secondly, although the Hang Seng index in Hong Kong fell 4% in Q4, it rose 32% over 2025. The Hang Seng is dominated by mainland Chinese names now full of AI flavour, such as SMIC, Tencent and Alibaba. Despite China's BYD becoming the newly crowned electric vehicle (EV) leader, outselling 2024's champion Tesla by 2.3 million EVs to 1.6 million in 2025, its share price fell 13% in Q4. The Topix index in Japan rose another 9% in Q4 and 26% in 2025, helped by the election of the country's first female prime minister, who is expected to both stimulate the economy and enact business-friendly reforms.

The non-AI MSCI Europe rose 6% in total return terms in Q4, with its 2025 return of 20% better than the S&P's 18% in local currencies. European financials rose 10% in Q4 and 46% in 2025, as decades of bloated cost structures have continued to be brought under control. In addition, there were no significant rises in bad debts, and many banks increased their dividend or share buyback programmes.

Five other sectors in Europe rose more than 5% in Q4, and more than 10% over the whole of 2025. This included the utilities sector (11% in Q4 and 34% in 2025), as Europe, despite not having much direct AI exposure, was expected to see robust energy demand from AI-driven data centres. The MSCI Europe Healthcare sector managed just a 7% gain in 2025, even after an 11% rise in Q4, mainly due to weight-management drug maker Novo Nordisk almost halving as slower weight-loss outcomes from its drugs led to market-share losses to US rival Eli Lilly, which returned 40% in 2025. Other big European pharma companies such as Roche, the UK's AstraZeneca, and Novartis rose 9% or more in Q4 and 33%, 35%, and 28% respectively in total return terms for the full 2025 year, the first two not far off Nvidia's 39% 2025 return.

Eli Lilly, Novo Nordisk, AstraZeneca 2025 total return



Source: Bloomberg

UK equities

The MSCI UK had a strong Q4 (7%) and 2025 (26%) in total return terms, well above the S&P 500's 18% return in 2025. Yet the gains were concentrated at the top: the MSCI UK Small Cap Index rose only 3% in Q4 and 13% for the full year. In most years, 13% would be considered superb performance – just not when measured against the mega-cap surge of 2025.

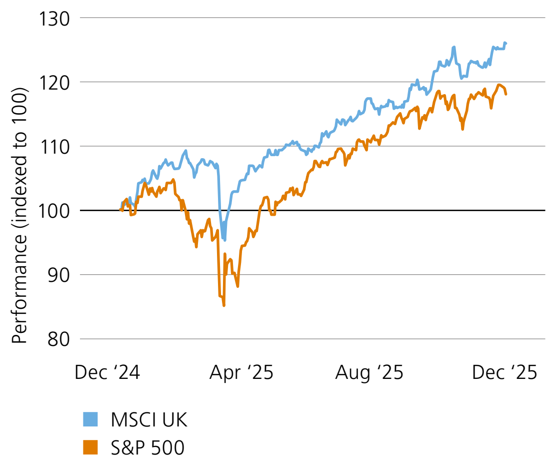
Just like in Europe, healthcare drove returns, reporting double-digit gains in Q4 and nearly 30% for the full year. AstraZeneca was a key reason for this, along with GSK, which rose 16% in Q4 and over a third in 2025. Expectations that US tariffs on pharmaceutical imports might be sidestepped through deals with the White House, helped drive returns in the second half of the year.

Financials in the UK followed the same narrative as their European counterparts, even as economic growth was hard to come by. Lloyds rose 88% in 2025, Barclays 82%, and NatWest (previously Royal Bank of Scotland Group) 71%, with all three gaining 15% or more just in Q4 in total return terms.

Another echo of 1999 was UK telecoms provider Vodafone, which, after no less than seven years of negative returns, gained 52% in 2025.

It is worth bearing in mind that healthy dividends in the UK accounted for 15% or so of total returns in 2025.

MSCI UK total return vs S&P 500 total return over 2025



Source: Bloomberg

> "In most years, a 13% rise for the MSCI UK Small Cap Index would be considered superb performance – just not when measured against the mega-cap surge of 2025.
>
> Russell Harrop, Head of Equities

Key market data

Key market data (as at 31 December 2025)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
MSCI United Kingdom (GBP)	2832	2.24	7.09	15.42	25.81	48.31	90.11	25.81
S&P 500 (USD)	6845	0.06	2.66	11.00	17.88	86.11	96.16	17.88
Euro Stoxx 50 (EUR)	5791	2.25	5.15	9.95	22.10	68.26	90.33	22.10
Nikkei 225 (JPY)	50339	0.28	12.18	25.41	28.65	104.41	102.03	28.65
MSCI World (USD)	3434	0.56	3.45	11.30	18.94	78.92	88.28	18.94
MSCI AC Asia Pacific ex Japan (USD)	871	2.33	4.52	16.55	28.27	60.63	40.05	28.27
MSCI Emerging Markets (USD)	87315	2.64	5.68	18.88	32.06	65.60	40.68	32.06
10 year bond yields **								
UK	4.47	0.03	-0.22	-0.02	-0.09	0.81	4.28	-0.09
US	4.17	0.15	0.02	-0.06	-0.40	0.29	3.25	-0.40
Germany	2.86	0.17	0.15	0.26	0.49	0.32	3.43	0.49
Japan	2.07	0.25	0.44	0.63	0.98	1.65	2.05	0.98
Commodities (USD)								
Gold	4325.60	2.54	12.62	31.30	64.52	137.71	128.49	64.52
Oil	60.85	-3.72	-9.21	-10.00	-18.28	-29.17	17.47	-18.28
Currency								
GBP-USD	1.35	1.51	-0.09	-1.85	7.40	11.82	-1.60	7.40
GBP-EUR	1.15	0.31	-0.04	-1.90	-5.31	1.61	2.51	-5.31
EUR-USD	1.17	1.20	-0.05	0.05	13.42	10.04	-4.01	13.42
USD-JPY	156.74	0.45	6.13	8.52	-0.26	18.80	51.82	-0.26

Source: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange

* Performance is given on total return indices, but the levels are for the main indices.
** Displayed as absolute changes in yields, rather than percentages.

> Inflation softened further across major economies, but central banks remained attuned to the delicate balance between inflation and labour markets.

Jeremy Sterngold, Deputy Chief Investment Officer

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Quarterly report contributors

Sanjay Rijhsinghani, Chief Investment Officer
Jeremy Sterngold, Deputy Chief Investment Officer
Russell Harrop, Head of Equities

Media relations

Chloe Poole
Phone +44 (0)203 207 8466, chloe.poole@lgt.com

LGT Wealth Management
14 Cornhill, London EC3V 3NR
Phone +44(0)20 3207 8000, info-uk@lgt.com

www.lgtwm.com

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