



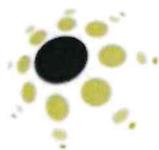
Quarterly Investment Bulletin

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Headlines

- ❖ Global equity markets delivered strong returns in 2025, with Europe and emerging markets outperforming for sterling investors due to a weaker US dollar, despite solid US equity gains in local terms.
- ❖ Developed markets remained concentrated in certain sectors and stocks suggesting a 'bubble' environment.
- ❖ Emerging markets and European stock markets produced the best returns for sterling investors.
- ❖ The UK economy grew steadily but modestly, constrained by fiscal pressures, political uncertainty, and lingering inflation, though rate cuts in the second half of the year supported sentiment.
- ❖ In December the Bank of England lowered interest rates to 3.75%.
- ❖ UK inflation fell surprisingly to 3.2% in November.
- ❖ The US economy remained the strongest among developed markets, surprising on growth, but faced policy uncertainty, tariff disruptions, and weakening confidence indicators.
- ❖ In December the US Federal Reserve lowered interest rates to 4.00%-4.25%.
- ❖ Japan raised interest rates to 0.75%, the highest since 1999.
- ❖ Japan delivered modest economic and equity growth, with cautious monetary normalisation, subdued inflation, and selective sector outperformance.
- ❖ China's economy remained constrained by a prolonged property downturn, but exports, tech innovation, and policy support drove strong equity market gains.
- ❖ Emerging markets showed resilience overall, though performance varied widely, with China and parts of Latin America rebounding while India and frontier markets lagged.
- ❖ Corporate credit made positive returns this year with high yield and EM debt having the strongest returns.
- ❖ Alternatives played a growing role: commodities were mixed as with gold outperformed, infrastructure provided defensive returns, and property stabilised but remained sector dependent.



General Economic Overview – Quarter 4 2025

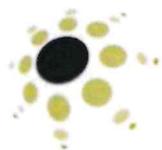
There was no ‘Santa rally’ in western markets at the end of the year as other concerns weighed on investors’ minds. Despite this and general uncertainty surrounding the global geopolitical situation, investors have been rewarded for continuing to back risk assets in the quarter and over the year. In the US, double digit returns for the third consecutive year has started to cause some anxiety for investors as the odds of a downturn or pull back seem more likely after such a strong period of market growth. Added to this we have been left devoid of data in the world’s largest economy thanks to the US government shutdown, which although now resolved seems to be developing into an annual showdown between the two main political parties.

The same core themes from the rest of the year have been maintained in the final quarter, including the battle with stubborn inflation in the west causing higher interest rates to be held for longer, although this has started to change as economic data has weakened. By the end of 2025, Europe and the UK had moved further into easing cycles as growth slowed and inflation moderated, while the US Federal Reserve has shifted from a prolonged ‘wait and see’ stance to gradual easing, delivering rate cuts in the final quarter of the year as labour market momentum softened. Japan, by contrast, maintained a cautious tightening bias, marking a continued break from decades of ultra-loose policy. US equities extended gains and finished the year at or near record highs but returns for global investors were diluted by a weaker US dollar. Trade policy uncertainty and tariffs weighed on global manufacturing sentiment, with earlier front-loading of exports into the US fading as 2025 progressed. US economic data remained mixed: employment indicators softened further, while consumer spending proved more resilient, reinforcing a late-cycle environment and justifying a gradual, data-dependent policy approach by the Fed.

Other key themes that will almost certainly extend into 2026 are technology related, focused on AI and what it may bring to global productivity and profitability. Stock markets around the world have seen technology stocks related to AI benefit significantly and this has been most obvious in the US. Valuations and stock market concentration in these stocks are causing investor caution and in the last quarter we have seen capital move to other sectors and regions with emerging markets benefitting more than most from this shift.

At the end of 2025, the global economy is characterised by slowing but resilient growth, easing inflation, and increasing policy divergence. The US economy is decelerating, with softer labour markets but robust consumer spending, prompting cautious monetary easing. Europe and the UK are growing modestly as lower interest rates support activity, while Japan continues a gradual normalisation of policy. China remains constrained by a prolonged property downturn, offset partly by strong exports and targeted stimulus. Emerging markets show mixed performance, with domestic demand and reform momentum supporting some economies. Overall, global growth is below pre-pandemic trends, with trade frictions, geopolitical risks, and fiscal constraints shaping a late-cycle environment.

Equity Markets



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There is no doubt that equity market returns in 2025 have been very positive for those willing to take the associated risk. The strongest returns for a sterling investor have come from Europe and emerging markets as the weakened dollar has taken its toll on returns from US holdings, even though the S&P 500 was up over 16% in dollar terms. European and UK equities benefited from easier monetary policy and stabilising inflation, while Japanese equities lagged amid cautious policy normalisation. Emerging markets were uneven: China rebounded on stimulus and tech sector gains, whereas India and some frontier markets underperformed. Looking ahead into 2026, equities face a cautiously constructive outlook, supported by low rates, earnings recovery, and under-ownership, though risks remain from geopolitics, trade frictions, and property sector weakness in China.

UK

Like many economies outside the United States, the UK is growing at a steady but unremarkable pace. While the government is keen to provide additional economic support, a significant gap in the public finances must first be addressed before further spending is possible and options are constrained by commitments made in the election manifesto. Meanwhile, the expansion of tariffs, even where the UK receives relatively favourable treatment, continue to pose challenges for exporters, although the US remains a less important market than Europe. Politically it has been a difficult year for the government, which has failed to gain confidence in its leadership after several forced changes and concerns over certain roles. As in other developed economies, all eyes have been on the path of interest rates which have had to remain stubbornly high as higher inflation has maintained its grip on the economy. As we moved towards the end of the fourth quarter the data was more supportive of a lower rate path into 2026, and we saw two rate cuts in the second half of the year. Inflation had a surprisingly large fall in November reducing from 3.6% to 3.2% after predictions of no change, which helped the Bank of England to reduce rates in December.

The economic outlook for the UK has been less rosy than many other developed countries as our reliance on Europe as our largest trading partner has been weakened by tariffs and competition from China. That said, the UK stock market has made good headway this year, and for sterling investors has been more advantageous than the US which has led developed markets for most of the last few years. The UK market has mainly advanced through the top 100 companies and has benefitted from a shift towards commodities such as gold and copper, with mining companies having a higher weight in the FTSE 100, combined with the performance of financial stocks. 2026 may see a change of fortune for the UK market as global investors diversify away from the US.

US

To the surprise of many economists, the US economy grew at 4.3% in the third quarter well ahead of the 3.2% predicted by economists polled by Reuters. The main source of growth was healthcare (adding 0.8%) and computing with spending on defence and an increase in exports driving this further, whilst imports fell, giving a net trade effect on GDP of positive 1.6%. It is believed this is unlikely to be sustained in Q4 as consumer confidence numbers deteriorated to the second lowest level in five years in December. Recent inflation figures have reinforced this belief as inflation fell to 2.7% in November, a larger than expected fall from the 3% seen in September. Markets have found it difficult to assess this information because data has been distorted by the recent government shutdown. As the year unfolded the main focus has been on statements from the White House and the Federal Reserve which has tended to dictate sentiment and therefore the behaviour of the stock market. There is no doubt that there was



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an inflection point in April as the first tariff levels were announced by the Trump administration, followed swiftly by a strong negative reaction in equity markets around the world. Just as quickly, tariff levels were reduced and, in many cases, deferred to allow for a period of negotiation. For the rest of the year, there have been announcements followed by retractions and markets have not reacted as sharply. Interest rates have been a second theme, with predictions varying widely as to the pace of change as economic information has fluctuated with no clear patterns emerging to suggest the Fed would cut or hold interest rates. Politics have had a damaging effect on the independence of the Fed as its Chairman has come under pressure from the White House to speed up the process of rate cutting. Other key themes over the year include AI and the valuation of companies that appear to benefit the most from its adoption. The debate as to the effectiveness of the technology and whether certain companies are overvalued has raged on through the year and will continue to do so into 2026. The final theme to reflect on is the performance of the US dollar which has been weak since early 2025, reducing returns for global investors.

The US has finished the year as it started, leading the prospects for global growth in developed markets. It forms a significant percentage of most global equity and bond portfolios so is core to positive returns being achieved in 2026.

Europe

The European economy experienced moderate growth of around 1.1% in 2025 (source ECB) amid easing inflationary pressures and supportive monetary policy. The European Central Bank maintained a cautious stance, gradually lowering interest rates as headline inflation moderated, helping stabilise consumer demand and business confidence. Energy costs, which had been a major source of uncertainty, eased over the year, providing relief to households and businesses alike. Domestic consumption rebounded moderately, supported by fiscal measures and improved wage growth in some economies, while investment remained selective, focusing on technology, renewable energy, and infrastructure projects. Export performance was mixed, constrained by slower global demand and the lingering effects of trade tensions, though competitiveness in high-value sectors such as industrial machinery, chemicals, and automotive helped offset broader weakness. Employment remained stable, but wage growth was modest, limiting strong consumption-driven momentum.

European equities delivered solid returns in 2025, supported by easing rates, stabilising earnings, and selective sector strength. Financials benefited from policy clarity and recovering credit demand, while industrials, energy, and technology sectors outperformed amid structural investment themes. Market performance varied across countries, with Germany and France seeing steady gains, while peripheral markets experienced more muted returns.

Looking ahead into 2026, Europe's economic outlook remains cautious but constructive. Continued monetary support, stabilising energy prices, and targeted fiscal initiatives are expected to underpin growth, while certain investment opportunities in green technology, infrastructure, and high-value manufacturing provide potential upside. Equities are likely to see measured gains, driven by earnings recovery and sector-specific strength, though geopolitical risks, slower global trade, and structural constraints could limit broader upside.

Asia & Emerging Markets



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Emerging market economies have shown resilience in 2025 despite slower global growth, geopolitical tensions and tariff issues. Inflation has generally moderated, allowing several central banks to pause or begin easing monetary policy, supporting domestic demand. Economic performance has diverged widely, with parts of Asia benefiting from supply-chain shifts while others face pressure from weak exports and currency volatility. Emerging market stock markets have been mixed: China and parts of Latin America have rebounded on policy support and valuation re-ratings, while India and some frontier markets have lagged. Overall, equities remain selectively attractive, with valuations below developed markets and earnings growth expected to improve into 2026.

The economy in China dominated sentiment in Asia. In early December 2025 the China Economic Work Conference reflected priorities similar to a year earlier, notably managing ongoing weakness in the property sector. Stimulus introduced in late 2024, amounting to around 1-1.5% of GDP, initially stabilised growth, but from the third quarter of 2025 the economy softened again as the property downturn re-intensified. Falling house prices have delivered a significant deflationary shock, and while authorities periodically act to limit the damage, they appear unwilling to reignite a property boom. Growth is now estimated at around 4%, below the official 5% target, with weak momentum, subdued consumer confidence, and soft retail sales.

Externally, China continues to post a widening goods trade surplus, with imports flat in nominal terms since 2022. Despite expectations that US tariffs would weaken exports or force a currency devaluation, exports have remained resilient. China has redirected trade through trans-shipment and leveraged technological advantages to expand exports to Europe and emerging markets. This has contributed to disinflationary pressures abroad, particularly in Europe and parts of Asia. China's dominance in rare earths is likely to persist for several years, and its current account surplus has risen to around 4% of GDP, increasing the risk of international tensions. While Western economists call for larger fiscal stimulus and currency revaluation, Chinese policymakers remain cautious.

Despite this, equity markets have performed strongly as low interest rates and falling property prices have redirected household savings toward stocks – over 2025, the CSI 300 rose about 17% and the Hang Seng nearly 30% (source Blackrock). Technology stocks were re-rated following the rise of DeepSeek, and sectors such as telecoms, materials, IT, gold mining, and biotech led gains. Looking ahead to 2026/27, double-digit earnings growth is forecast, valuations may expand further, and under-ownership by global investors suggests continued upside, underpinned by confidence that authorities will prevent economic or market free fall.

The equity market in India, the second largest economy in Asia, has lagged its Asian peers this year and this has been amplified in US-dollar terms by a sharply weaker rupee. Currency pressure has been intensified by renewed trade tensions with the United States which imposed tariffs of up to 50% on Indian exports, partly in response to India's purchase of discounted Russian oil, while trade negotiations have stalled. These measures threaten labour-intensive sectors such as textiles, and Prime Minister Modi has resisted opening agricultural and dairy markets to US imports to protect farmers, a key political constituency. Although high-profile investments from firms such as Amazon, Microsoft, and Apple continue, overall foreign direct investment inflows are at three-year lows. Manufacturing remains stuck at around 17% of GDP, far below India's long-term targets, while wage growth has been weak.

In response, the government has launched a renewed reform push including liberalising foreign investment in insurance, opening nuclear power to private players, simplifying customs duties, cutting GST rates, enacting labour code reforms, and allowing banks to finance mergers and acquisitions.



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Despite robust GDP growth above 8%, corporate earnings have come under pressure, with weaker volumes following earlier price rises. Growth is expected to moderate to around 6.6%, underscoring the need for successful reforms, stronger private investment, and improved trade relations to unlock India's long-term potential.

ASEAN economies outside of China and India have shown mixed but generally resilient performance amid a challenging global backdrop. Countries including Indonesia, Vietnam, Thailand, Malaysia and the Philippines have benefited from easing inflation, relatively stable currencies, and the gradual recovery of domestic demand. Monetary policy across the region has remained cautious, with most central banks holding rates steady to balance growth support against financial stability risks.

Manufacturing trends diverge across the bloc. Vietnam and Malaysia continue to gain from supply-chain diversification, particularly in electronics and export-oriented manufacturing, although Chinese competition remains intense. Indonesia's growth is supported by commodities, downstream processing, and infrastructure investment, while the Philippines is driven largely by consumption, remittances, and services. Thailand's recovery has lagged somewhat, constrained by weak tourism momentum relative to pre-pandemic levels and subdued investment.

Overall growth across ASEAN is expected to remain solid but below pre-2020 averages, with domestic demand and fiscal spending offsetting softer global trade. Structural reforms, demographics, and foreign direct investment remain key longer-term supports.

Japan

In 2025, Japan's economy exhibited steady but modest growth, underpinned by resilient domestic demand and a relatively stable export sector. While global economic uncertainty and slowing growth in major markets weighed on external demand, Japan's manufacturers benefited from continued technological competitiveness and a weaker yen in the early part of the year, supporting export profitability. Inflation remained subdued, reflecting long-standing structural disinflationary pressures, and wage growth was modest, limiting a boost in household consumption. Consumer confidence fluctuated, influenced by global geopolitical tensions and domestic policy adjustments, while investment picked up slightly in capital-intensive and technology-driven sectors. The Bank of Japan maintained a cautious approach, gradually normalising monetary policy while keeping a focus on supporting growth and ensuring financial stability. Its data-dependent stance reflected uncertainty over the strength of the domestic recovery.

The Japanese stock market delivered modest gains in 2025, lagging major global indices but supported by exporters and some industrial and technology firms. Sectors sensitive to global trade and innovation outperformed, while domestically oriented sectors faced slower growth due to restrained consumer spending. The market's relative underperformance also reflected cautious investor sentiment amid policy shifts and external risks.

Looking ahead into 2026, Japan's economic outlook is expected to remain stable but subdued. Gradual policy normalisation, continued technological innovation, and selective corporate profitability gains provide potential upside for both the economy and equities. Export-oriented companies and sectors benefiting from structural reforms are likely to be the main drivers of growth, while domestic consumption is expected to recover slowly, constrained by moderate wage growth and persistent



demographic headwinds. Overall, Japan offers measured but selective opportunities for investors in 2026.

Fixed Interest

Bond markets started 2025 with higher expectations of capital returns on the back of a more rapid reduction in interest rates. As the year progressed it became apparent that this would not be the case as inflation remained stubbornly high, especially in the services sectors of developed economies. The spreads between government bonds and investment grade bonds were tight with little room for improvement which meant a significant element of returns came from the coupon. Overall, it was a better year for corporate credit and higher risk areas as selective regions and sectors offered strong returns and currency played an important role.

Shorter dated assets were preferred by many fixed interest managers as changes in interest rates seemed to have limited effect on bond pricing. UK gilts delivered a mixed performance across the maturity spectrum, reflecting shifts in monetary policy expectations, fiscal concerns, and changing yield dynamics. Shorter dated gilts generally outperformed longer maturities, as front-end yields remained high early in the year and then fell modestly as markets began to price in expected Bank of England rate cuts, which supported shorter bond prices. Short-dated gilts also benefited from lower duration risk and were seen as a safer entry point in a volatile environment. Longer dated gilts had more significant shifts in yields and at the very long end climbed to multi-decade highs (above 5.6%) amid fiscal concerns and global bond repricing, which weighed on prices and total returns.

Returns in corporate credit were better, even though spreads remained tight during the year, because demand was strong especially in those areas seen to offer quality and security. The Bank of England's monetary policy trajectory also influenced credit markets. Although rate cuts provided support later in the year, fiscal policy uncertainty at times pushed government bond yields higher, indirectly impacting corporate bond valuations. Sterling corporate bond indices generated positive total returns as spreads narrowed meaningfully over the year, reflecting robust demand for credit and relatively healthy corporate fundamentals. High-yield spreads also tightened at times, reflecting strong demand and low default rates, although volatility surfaced around macro risks such as trade tensions and recession fears. High yield produced the strongest returns, and emerging market debt was another of the better performing fixed income sectors, led by local currency gains and attractive yields, though returns were influenced by currency moves and regional economic divergences. Local-currency emerging market bonds were standout performers, with some broad indices returning close to double-digit gains (around 13.8% in USD terms: source-Blackrock) thanks to both bond price appreciation and currency strength against the US dollar.

We expect the trends seen in 2025 to continue into 2026. Now that the US has started to lower interest rates, the market is focusing on the path they will take in the next 12 months, especially with the change of Fed Chair in March which is likely to bring a more dovish approach to interest rate cuts.

Alternatives

The use of infrastructure assets has increased in recent years as it has been seen to have a lower correlation with other property-based assets although is perhaps more sensitive to interest rate



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changes. Infrastructure assets performed relatively well in the final quarter, benefiting from easing inflation, stabilising interest rates, and their defensive cash-flow characteristics. Listed infrastructure outperformed broader equity markets in periods of volatility, supported by regulated and contracted revenues in sectors such as utilities, transport, and energy networks. Lower bond yields in the second half of the year improved valuations, particularly for long-duration assets.

The general global themes have been the main influence on commodity markets in the final quarter, and over the year, and have caused the winners and losers to be more pronounced – for example precious metals, such as gold, have had an astonishing year, whereas energy and agricultural goods have struggled more. Commodity markets reflected slowing global growth, geopolitical tensions, and divergent demand trends. Energy prices were volatile: oil prices were broadly range-bound as weaker demand from China and Europe offset supply discipline from OPEC+ and ongoing geopolitical risks in the Middle East and Ukraine. Industrial metals struggled in the first half of the year due to China's property downturn, but sentiment improved later as infrastructure spending and energy transition demand supported copper and aluminium. Precious metals were the standout performers, with gold reaching new highs amid central bank buying, geopolitical uncertainty, and expectations of lower global interest rates. Agricultural commodities were relatively subdued, helped by generally favourable weather conditions and improved supply, though pockets of volatility emerged from climate-related disruptions. Overall, commodities provided selective opportunities rather than broad-based gains, acting as both an inflation hedge and a geopolitical risk diversifier in global portfolios.

Property has had a challenging year as prices began to stabilise but once again, like other areas, the returns have varied across sectors. Significant capital has been put into data centres to enable the AI revolution to be supported whilst office rents have lagged unless in new and upgraded developments. The sector has remained under pressure, though conditions stabilised compared with the sharp downturn of previous years. Higher interest rates earlier in the cycle continued to weigh on valuations, particularly in office and retail segments facing structural demand challenges. However, easing monetary policy in the second half of the year helped slow price declines and supported transaction activity. Overall returns were modest, with income providing the bulk of performance, while capital values broadly flatlined rather than rebounded.

The category of alternatives does cover a huge range of options. In this review we have chosen to cover the main categories but there has been a definite trend by investment managers to use more options to balance portfolio risk and we believe this trend will continue.

Summary

Over the last 12 months the global economy has navigated a late-cycle environment marked by slowing growth, easing inflation, and widening divergence across regions. The US economy decelerated but avoided recession, supported by resilient consumer spending even as labour markets softened. This allowed the Federal Reserve to pivot cautiously toward monetary easing in the second half of the year. Europe and the UK experienced modest growth, benefiting from falling energy prices, lower inflation, and interest rate cuts, though structural challenges and weak external demand constrained momentum. Japan continued its gradual policy normalisation amid subdued inflation and modest wage growth, while China remained weighed down by a prolonged property downturn, offset partly by strong exports and targeted stimulus. Emerging markets showed mixed outcomes, with parts of Asia and Latin America benefiting from domestic demand and reforms, while other areas faced currency and trade pressures.



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2025 was strong for risk assets, driven by certain sectors within each asset class. Equities performed well but this was focused on technology and AI related stocks whilst Europe and emerging market equities have seen the strongest returns thanks to a weakening dollar. The bond market has been stable with the main returns being from coupons rather than capital as yields have remained high and spreads tight. Bond have performed better in 2025 than in recent years – as inflation continued to moderate and central banks signalled or delivered rate cuts, government bond yields declined, producing positive total returns. Investment-grade credit benefited from stable balance sheets and declining funding costs, while high-yield bonds delivered more selective gains amid slower growth and rising default concerns in weaker sectors. Emerging market debt performed unevenly, influenced by currency moves, domestic policy credibility, and external financing conditions.

Overall, 2025 was characterised by a transition toward easier financial conditions and slower but more stable growth. While risks remained from geopolitics, trade tensions, and China's property sector, the combination of easing inflation, supportive monetary policy, and resilient corporate fundamentals provided a constructive backdrop for diversified investors heading into 2026.

Ken Rayner, CEO
RSMR
January 2026

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