

Record stock market highs fly in the face of heightened political risks typified by Venezuela operation



Quarter in brief

Global equity markets posted double-digit growth for a third consecutive year

Gold, silver and copper surge in the final quarter to record highs

Major central banks cut rates in the fight against a weakening labour market and slumping economy

Pension scheme funding strengthened by positive returns in growth assets

The final quarter of 2025 brought an end to a year that has been marked with geopolitical uncertainty, with the New Year picking up the baton with the extraordinary events in Venezuela. Despite this ongoing uncertainty, global equity and commodity markets surged over the quarter to all-time highs whilst major central banks have adopted more relaxed monetary policy to combat stagnating economies and slumping labour markets.

On 3 January Donald Trump conducted a military operation in Venezuela to extradite the President Nicolas Maduro who is widely believed to have remained in power illegitimately and had a reputation for human rights abuses and propagating the narcotics trade. It is understood that Donald Trump took the decision to take action on the basis of oil security, but did not have Senate approval and it is not clear whether or not he has breached international law. Given the modest contribution from Venezuela to global trade, the initial impact on markets has been modest, but again demonstrates Trump's ambitions to suppress states with commercial or ideological links to Russia and China.

Heightened geopolitical risks have become a common feature of current markets. During the quarter, the US government also experienced its longest shutdown in US history, but against this tough economic backdrop, global equity markets posted strong returns for the quarter and the third straight year of double-digit returns. The S&P 500 index finished the quarter up 2.3% as artificial intelligence stocks continued their strong run. However, investors have also been looking to diversify away from the US as Chinese, Japanese, German and UK stocks experienced strong growth over the quarter. Japan's Topix index enjoyed its highest ever year-end close, as did the UK's FTSE 100 which surpassed 10,000 points for the first time early in the new year. Emerging market indices have also rallied, boosted by a weakening US Dollar owing largely to aggressive US foreign policy.

Commodity markets were another strong performer in 2025, propelled even higher by rallies in the fourth quarter. Fears of a global shortage, supply disruption and US tariffs have fuelled copper's recent surge



Josh Pilley
Senior Investment Consultant



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Josh's video.**

to more than \$12,000 a tonne, increasing c.23% over Q4. Both gold and silver have also jumped up in price dramatically having risen 14% and 62% respectively over Q4.

Through a macroeconomic lens, the outlook for 2026 is not so positive. November witnessed the UK budget which needed to tread a fine line between raising revenue and stimulating growth. Whilst the revenue objectives were achieved mainly through freezing tax thresholds for a further three years and a cap on salary sacrifice for pension contributions, the growth ambition will be harder to realise. The UK faces economic stagnation as CPI inflation eased by more than expected to 3.2% in November but the unemployment rate climbed to a four-year high of 5.1% in the three months to October. Following a 0.25% Bank rate cut in December to 3.75%, the Bank of England (BOE) has forecast zero growth in the UK economy over the final quarter of the year. The BOE lowered interest rates four times over 2025, and swap markets suggest another one or two rate cuts are on the cards in 2026.

Whilst the European Central Bank (ECB) held their main lending rate constant at 2.4% in December, the Fed has continued its rate cutting cycle, lowering lending rates for the third time in a row to a range of 3.5% to 3.75%. The decision was highly contested given that US inflation is still running above target, but

the decisive factor to cut rates was the weakening of the US labour market as the unemployment rate rose to a four year high at 4.6% in November.

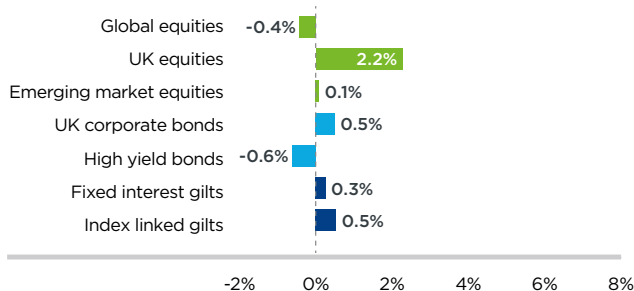
US companies issued a near record sum of investment grade corporate bonds totalling \$1.7tn in 2025. These bonds were largely used to fund artificial intelligence (AI) infrastructure, with AI-related corporate bonds accounting for 30% of net investment grade issuance. UK credit spreads finished the quarter broadly where they started as they remain at exceedingly tight levels. Long term UK borrowing costs have drifted back down by 0.3% since the start of the quarter, with the 20-year gilt yield having settled at 5.1% by year end. The downward pressure on yields outweighed the temporary rise just before the announcement of the UK's Autumn Budget. Long-term inflation expectations fluctuated during the quarter but finished modestly lower than where they started.

We estimate that significant positive returns for major growth assets will have outweighed the impact of falling long term gilt yields and would have led to a small uptick in an already strong position for aggregate UK DB pension scheme funding on a low-risk basis. However, a recalibration to the PPF Purple book published in December means that the observed funding level is slightly lower.

Market returns

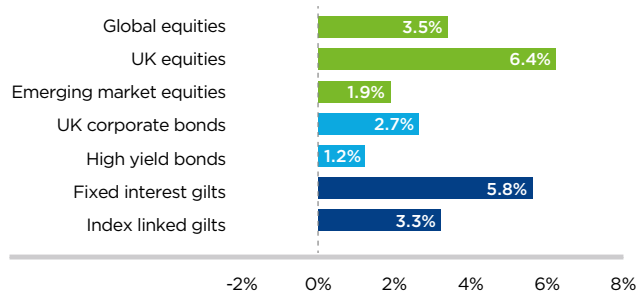
Global equity markets finished the year with another strong quarter.

1 month to 31 December 2025



Source: Refinitiv

3 months to 31 December 2025



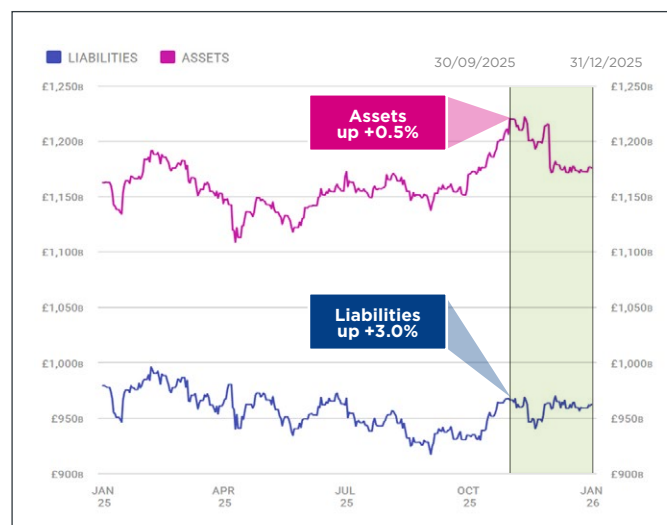
Source: Refinitiv



Continued geopolitical risk will likely lead towards structurally lower growth and higher inflation relative to an environment of freer global trade. Despite this, markets have performed incredibly positively.

Simeon Willis
Chief Investment Officer

Asset and liability progression for the DB:UK universe



Funding level progression for the DB:UK universe



Source: XPS DB:UK | www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 15.5% equities, 24.4% credit, 4.5% multi-asset, 5.9% property and 49.7% in liability driven investment (LDI) with the LDI overlay providing an 85% hedge on inflation and interest rates.

XPS Investment asset class views

Asset class	Favourable	Neutral	Unfavourable	Movement
UK Equity		●		
Developed Market Equity		●		
Emerging Market Equity	●			↑
Investment Grade Credit			●	
High Yield Credit			●	
Senior Secured Direct Lending		●		
Balanced Property	●			
Long Lease Property			●	
Private Equity		●		
Infrastructure		●		
Equity Protection Strategies		●		↓
Buy-in	●			
Cash		●		

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Simeon Willis** or **Josh Pilley**. Alternatively, please speak to your usual XPS contact.



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