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2025 - a year of Slips and Slides, (Regulatory) Sludge and (AI) Slop

It has been a staggering year for risk assets, resets, realignments and reality checks. As we come to an end of a dramatic first year of President Trump's second term in the US, certain conflicts remain, others have been sparked, and others are sitting on a precarious peace.

Norms such as long-stable geopolitical alliances, global trade partnerships, the intersection between personal and political interests, stock market diversification and the relevance of data have been questioned. There have been winners and losers in asset terms, and in society too as all talk is of a K-shaped economy that rewards the few, while consumers continue to struggle.

The past quarter saw a UK budget that saw the country diverge sharply from a low-tax, pro-growth trajectory in the US, with the highest tax regime in history. While inflation seemed to be coming into check here growth proved to be anemic and a rising concern about government debt and regulatory uncertainty led to a downbeat outlook at year end. This puts it more or less in line with its European neighbours which are similarly sluggish in growth terms, although inflation is more roundly subdued, enabling a clearer path for stimulus in the month ahead.

The US economy staved off uncertainty around AI in the past month but cannot shake the reality that it has become a play on AI and large cap tech stocks, which continue to dominate the S&P index, while individual company market caps (e.g. Nvidia) dwarf regional stock markets. The US economy continues to display exuberance (expanding an annualized 3.8% in the 2Q of 2025), with stock markets hitting new records and unemployment still relatively controlled. President Trump continues to keep the economy and the world "guessing" with bold and unorthodox economic policy but bond markets are settled, CEO confidence is high and earnings as well as consumer spending suggest that the music is very much still playing.

Emerging markets have re-emerged from underdogs to play their own part in the commodities and tech upswings, while China has started to track the tech stock trajectory as it appears as a viable threat to US tech hegemony.

Key Developments since the last quarterly update:

- **The UK sets out its budgetary stall** While well telegraphed, the high tax budget announced by Chancellor Rachel Reeves in late November led to now traditional hand-wringing about it being the nail in the coffin for growth and stimulus in the UK. Some regulatory "sludge" and uncertainty around power pricing served as a sharp upset to renewable energy companies. UK stock markets have done surprisingly well since the budget, perhaps due to the sanguine reaction by the Gilts markets, which were a lot less punishing that they have been in recent years, and due to the perception that the UK has represented overlooked value.
- **Inflation's New Higher Equilibrium** Inflation remains higher than average in the UK – at 3.6%, and even in the US it is settling at closer to 3% than the erstwhile 2% target. The cumulative effect of food price inflation has prompted President Trump to selectively drop some tariffs (e.g. on coffee, beef and tomatoes) while energy prices remain in sharp focus. This leads to a mixed picture for potential interest rate cuts at present with the US seeming poised for a downward bonanza while other central banks are wary of overheating.
- **AI bubble talk** AI has continued to fuel the equity market "fever dream" in the US and concentration by top stocks has continued to provide some concern about stock market volatility and risk profile. The unprecedented scale, revenue and income projections as well as growing web of alliances, investments and co-dependencies up and down the supply chain for AI has led to inevitable assertions of complexity. The proliferation of video tools and increasing AI "slop" that has blurred the lines of what is real and what is not have intensified the sense that this industry is moving too quickly for proper, sound, analysis to take place.
- **Unconventional Diplomacy.** While President Trump was not the recipient of the Nobel Peace Prize he continues to bring his style of unconventional diplomacy to conflicts around the world. From the war in Gaza to the Russia/Ukraine conflict business interests have formed a bargaining chip and stock markets seem to be less perturbed by conflict than would traditionally be the case.

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Current Macro Snapshot

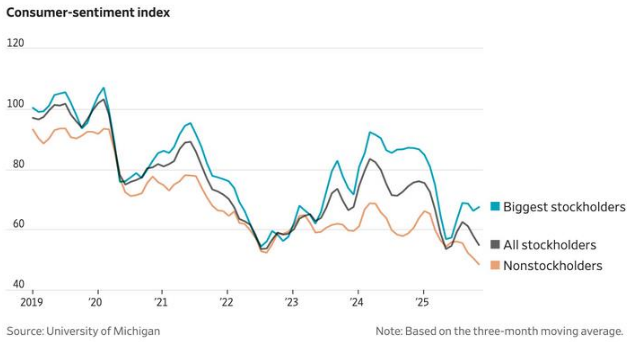
Growth persists, how much is AI?

US growth figures continue to defy expectations and the dramatic increase in AI spending has been attributed to some of the recent strength. Other markets have had more anemic but still positive numbers while inflation seems to be more subdued in some regions (Eurozone) than others (the UK). There is still considerable divergence about inflation expectations, particularly in the regions where it has become politicized (the US), with Democrats and independent voters believing inflation will rise while Republicans have been supportive of the lower inflation narrative. *Affordability* remains a key election topic in the US as confirmed by the recent wave of special elections and it was a wake-up-call following these elections that led to some relaxation of tariffs on a few core goods.

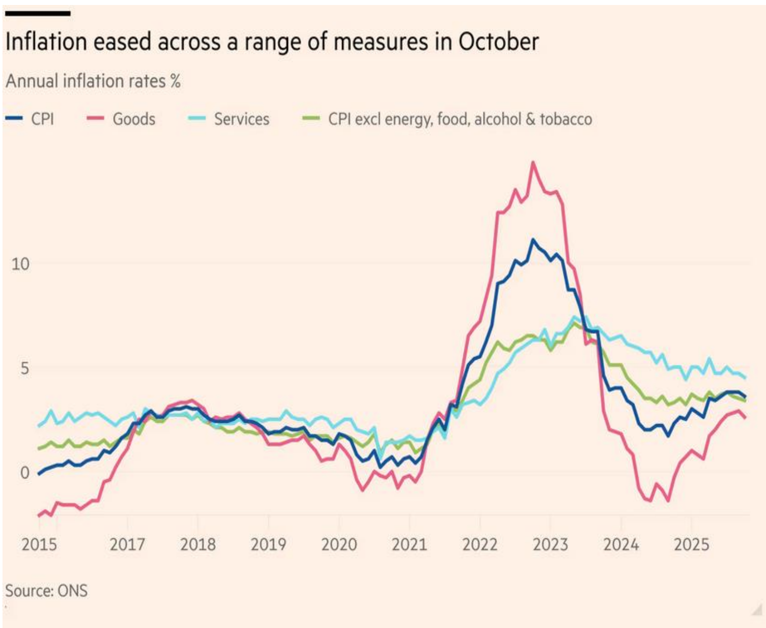
This apparent focus on affordability aligns with softer consumer sentiment numbers in the US which certainly squared with the “anecdata” around a growing inequality and K-shaped divide in the US economy. The absence of actual data (due to the US government shutdown) certainly made reading the tea leaves on employment and price data more challenging, but there has clearly been a schism between lower end and higher end consumers when it comes to wealth creation and spending power.

Inflation data - where available – has revealed a higher “resting” rate of close to 3% and a growing contribution by energy/electricity charges as shown on the chart below. This only exacerbates the focus on supply of electricity and competing demands for it – which has created tensions around data centre expansion as well as a focus on the collateral effects of AI spending.

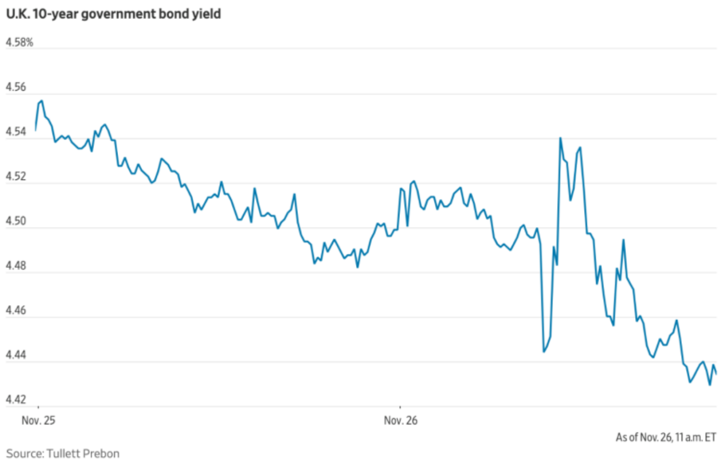
As the chart below shows consumer sentiment has been weaker in the US but notably less so when there is stock market participation underscoring that participation by retail investors is increasing and also increasing the likelihood of “Main Street” and “Wall Street” working in sync. Over 60% of US consumers have some participation in the stock market, which is notably more than in the UK and Europe, so the growing performance of stock markets does bring more distributed wealth there.



In the UK, the latest budget provoked fears of prolonged stagnation and a return to regulatory uncertainty as well as fears of a flight of wealthy taxpayers. Much of the changes will be enacted only after some delay so there have been no immediate negative market reactions - actually markets have responded positively with Gilts movement subdued. It is worth comparing this benign reaction to the Gilts crisis at the end of 2022, which was far more severe in its sell-off. The benefit of hindsight has suggested that that was very much a creature of its time – as it occurred against a hostile climate globally – while nowadays the climate is less strained. This (negatively oriented) interpretation does not read too much into the current benign response to the 2025 budget.



It is also worth noting that although the announced measures would add to the UK budget deficit by increasing government borrowing this has stoked decidedly less discontent than in the past no matter the economy in question (c.f. Japan and the US, where Debt/GDP levels run at close to 230% and 125%, respectively). Whether there is a sense that debts can be inflated away or that economies can grow their way out of debt problems, this looming problem does not appear to be a kitchen table issue affecting markets. While growth in the UK remains elusive, this "fiscal creep" as well as the growing budget deficit does not appear to be affecting sentiment – yet.



Individual Asset Class Performance.

- Equities
- Fixed income

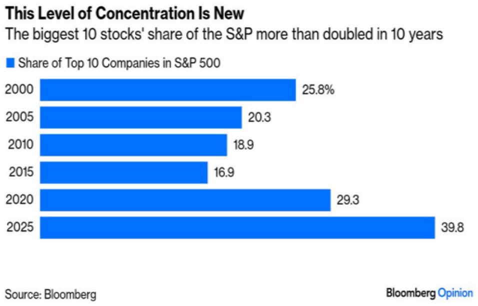
The chart below shows recent performance in main equity indices (at November 30, 2025):

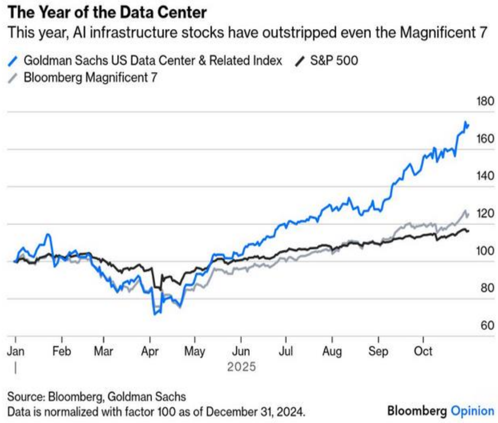
Equity Index	**Last 12 months**	**Year to date (November 30, 2025)**
FTSE 100	16.93%	18.94%
S&P 500	13.26%	16.45%
Nasdaq	22.59%	21%
Stoxx 600	11.79%	13.11%
Hang Seng	42.80%	27.24%
Shanghai Comp	16.35%	16.77%
Nikkei 225	28.02%	23.58%

US markets endured a particularly rocky month of November although ended the month broadly flat. The upset to risk sentiment was heralded by a sell-off in Bitcoin towards the beginning of the month, which has tended in recent months to indicate a receding interest in risk assets. This continued as large tech stocks sold off during the month reflecting concerns around the possible existence of an AI bubble.

While last month we showed this chart showing rising concentration among the top 10 stocks of the S&P, the rise of individual stocks in terms of their market cap has been the enduring story of 2025.

Another suggestion of breadth is the increased uptick in interest in AI adjacent sectors such as infrastructure – as shown in the chart below.





This is well depicted in the graphic below, which has attracted a lot of attention due to:

- The sheer dominance of US equity markets
- The fact that individual stocks such as Nvidia have touched a market cap of $5 trillion (while Alphabet approaches $4 trillion) – each of these stocks dwarf individual stock markets such as Canada and the UK.
- This begs the question as to what a market-cap weighted equity portfolio will look like going forward and how much one or two stocks can affect its performance – should this adjust the risk/reward expectation of a diversified equity portfolio if one stock can fall 10% in a day, while it would be highly unusual for an entire stock market – with the same market cap weighting – to do so?

Source: Visual Capitalist

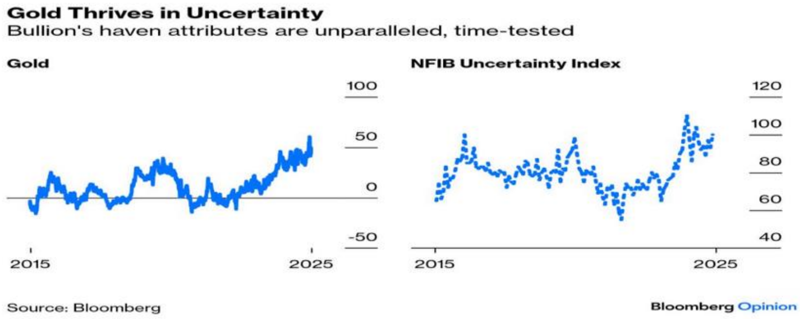
Fixed Income

Major economies have been on restrained rate cut trajectories with central banks keeping a watchful eye on the potential for overheating and a repeat of rampant inflation to occur. The background chatter around the new Fed chairman has ebbed and flowed over the quarter, and it seems that the heir apparent (as yet unnamed) will definitely be biased towards rate cuts. The chart below shows divergent rate curves for the ECB, the UK and the US and it is interesting that the Eurozone, with its most decisively low inflation number, is resting at a lower level, while the US and UK expectations remain higher, with the US rate heading lower than the UK rate in short order. Whether this is justified by fundamentals or not, it is certainly likely to lead to a divergence in economic stimulus between both regions.

Fixed income as an asset class has been bolstered by a lower-than-expected level of volatility suggesting that overall bond investors are relatively upbeat about the creditworthiness of issuers. Cash remains a decent place for dry powder while real rates are positive although there have been some isolated incidents of defaults and even fraud in the private credit area sparking fears of a broader more systemic problem that so far has not materialized. As was noted in the last quarterly letter some of this relative optimism in fixed income has been attributed to the burgeoning private credit market, which is said to be absorbing some of the less credit-worthy credits, leaving the public market for only the strongest issuers.

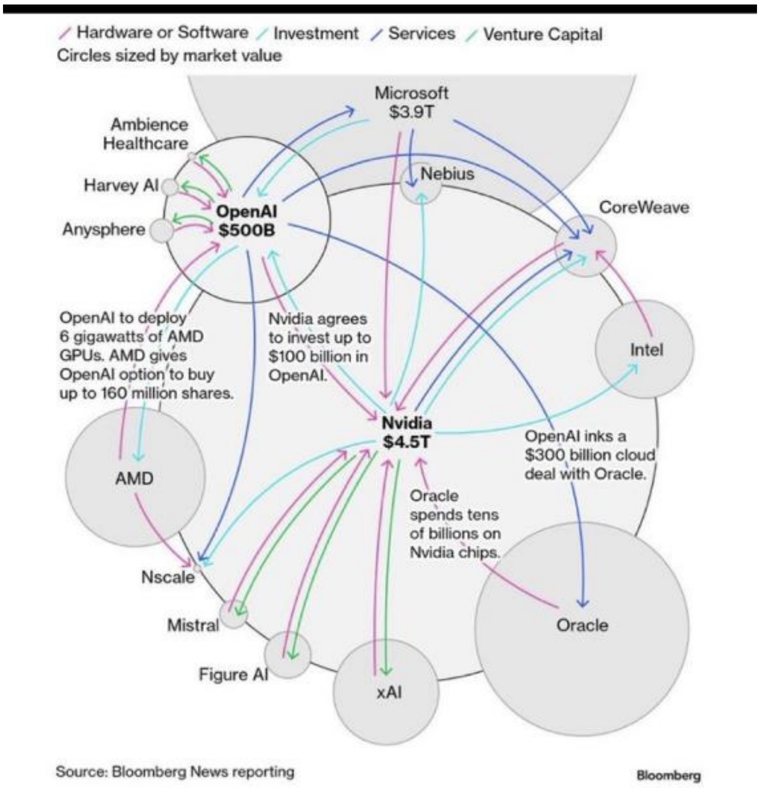
Outlook

As we look to the end of the year the chart below shows both how much "uncertainty" remains in US markets, which coincides more or less directly with the demand for gold – typically a safe-haven asset that is often used as a hedge against risk assets.



As investors learn to navigate a higher base level of uncertainty, we expect to see higher levels of volatility in the most concentrated ends of the equity markets. Over coming months we will be watching in particular:

- **Chair Chatter Builds.** The current Fed Chairman – Jerome Powell – comes to the end of his term in April 2026, and his successor will be announced long before that. Given how well telegraphed policy is likely to be, we will be watching to see whether markets discount in extensive rate cuts in advance and how markets react.
- **Bubble Redux.** The rumblings of trouble in AI paradise that rocked markets in November are likely to continue until there is definitive proof, one way or the other, of demand justifying the expenditure on capex. The broadening of market strength is likely to continue as investors seek to rebalance away from some of the most dramatic momentum stocks. The chart below was produced in November 2025 and highlights the massive interdependence and complexity of AI and related companies in the ecosystem. This will likely be redundant in a few months as more links and connections are built. This underscores the need to understand the co-dependencies and build in hedges within a portfolio.



- **The UK Budget's Long Morning After.** A strong year for the UK equity market may well start to shift the mindset around UK equity investment and it will be interesting to see if the environment of low expectations around growth really starts to stimulate change. The rally cry for investment in local investments in the UK as well as increased activity around venture capital is bound to lead to some change in this area and it is likely to be highly effective and welcome when it comes.

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A reminder that you can tune in to similar macro overviews weekly on the Markets Happy Hour youtube channel – where there are new episodes every Thursday evening.

December 2, 2025