

A GLOBAL INVESTMENT REVIEW OF 2025:

Macro Forces, Markets, Geopolitics and a perspective on likely trends for 2026

Introduction

As we prepare for some down time over the festive period, it is worth reflecting on the past twelve months and considering some of the themes that might shape the investment world in 2026.

The past year has been defined by a gradual transition rather than a clean break from prior regimes. Investors entered 2025 still grappling with the after effects of the post-pandemic inflation shock, the sharp tightening of global monetary policy, and a more fragmented geopolitical order. What unfolded instead was a year of normalisation with friction: inflation generally cooled but remained politically salient, growth proved uneven across regions, and markets were repeatedly reminded that geopolitics is no longer a background risk but a structural input into asset pricing. From an investment perspective, 2025 rewarded selectivity, patience, and an appreciation for regime change rather than broad beta exposure.



In our own UK market, public confidence in the Labour government's performance remains weak by many national metrics. Polling shows:

- Satisfaction with the government is extremely low — only -16% approve of its record, with around 69–76% disapproving — figures comparable to historically weak approval levels of prior governments.
- Ipsos polling suggests that broad majorities of the public believe Labour is not doing a good job delivering on its own five core missions – namely economic growth, NHS reform, clean energy superpower, security and improving education and skills.

These trends reflect deep public scepticism about whether the government's plans are translating into visible progress across key priorities such as living standards, public services, and economic dynamism.

Within Labour itself, members tend to be more positive about party leadership than the general electorate, suggesting a gap between internal and broader public perceptions.

The UK retains many leading global companies, and this has been reflected in the FTSE 100's strong performance this year.

Global Macro Backdrop

At the macro level, the defining theme of the year was disinflation without complacency. In most developed economies, headline inflation continued to moderate as supply chains normalised and earlier monetary tightening filtered through to demand. However, the last mile of disinflation proved difficult. Services inflation, wage pressures, and housing costs remained sticky, keeping central banks cautious even as growth slowed. This has proved particularly so in the UK where the Bank of England has cut rates slower than in the US and Europe.



Global growth settled into a sub-trend but resilient pattern. The much-feared synchronised recession never fully materialised, yet few economies delivered genuinely strong expansions. Instead, the world economy resembled a patchwork: pockets of surprising strength offset by structural weakness elsewhere. This environment favoured relative-value thinking across regions and asset classes rather than blanket risk-on or risk-off positioning.

Monetary Policy and Interest Rates

Central banks dominated the investment narrative for much of the year. The U.S. Federal Reserve, having raised rates aggressively in prior years, spent 2025 balancing two competing risks: easing too early and reigniting inflation, or holding policy too tight and damaging the labour market. The result was a prolonged period of restrictive policy followed by cautious, data-dependent signalling rather than dramatic shifts.

In Europe, the challenge was compounded by weaker growth and greater political sensitivity to high borrowing costs. The European Central Bank faced pressure to support activity even as inflation progress remained uneven across member states. Meanwhile, Japan continued its slow exit from ultra-easy monetary policy, a shift with outsized implications for global capital flows given Japan's role as a major exporter of savings.

For investors, higher-for-longer rates reinforced the return of fundamentals. Cash once again offered a meaningful yield, long-duration assets faced valuation headwinds, and balance-sheet strength became a key differentiator in both equity and credit markets.

Equity Markets: Concentration and Divergence

Global equity markets delivered mixed results, with returns heavily concentrated in specific sectors and geographies. U.S. equities remained relatively resilient, driven in large part by earnings durability among large, cash-generative companies and continued enthusiasm around artificial intelligence and productivity-enhancing technologies. However, market breadth was often narrow, raising concerns about concentration risk and the sustainability of leadership.

Outside the United States, equity performance was more uneven. European equities struggled to gain momentum amid weak growth and political uncertainty, while emerging markets once again failed to move as a single asset class. Some benefited from favourable demographics, industrial policy, or supply-chain realignment, while others were weighed down by currency weakness, fiscal stress, or exposure to slowing global trade.

Overall, 2025 reinforced that equity investing in a post-zero-rate world demands discrimination: between growth that is scarce and growth that is merely hoped for, and between companies with pricing power and those exposed to cost pressures.

Fixed Income: The Return of Income

Fixed income continued its rehabilitation after the losses of earlier tightening cycles. Higher starting yields provided a cushion against volatility and restored bonds as a credible source of income rather than just a diversification tool. Sovereign bonds, while still sensitive to inflation surprises and fiscal concerns, offered more balanced risk-reward profiles than in the prior decade.



Credit markets were broadly supported by still-solid corporate balance sheets, but spreads left little room for complacency. Investors increasingly focused on downside protection, covenant quality, and sector exposure, particularly in areas vulnerable to refinancing risk under sustained high rates. The year favoured active credit selection over passive exposure.

Currencies and Commodities

Currency markets reflected diverging growth and policy paths. The U.S. dollar remained relatively strong for much of the year, supported by yield differentials and its role as a geopolitical safe haven, though episodes of weakness emerged as expectations for future easing fluctuated. Currency volatility underscored the importance of hedging and local-currency analysis in international portfolios.

Commodities told a story of geopolitical risk and energy transition tensions. Energy markets were periodically disrupted by conflict and production decisions, while industrial metals were influenced by both slowing global growth and long-term demand linked to electrification and infrastructure investment. Gold maintained its appeal as a hedge against geopolitical uncertainty and concerns about long-term fiscal discipline.

Geopolitics as an Investment Variable



Geopolitics was not a one-off shock in 2025 but a persistent condition. Ongoing conflicts, strategic competition between major powers, and the weaponisation of trade, technology, and finance continued to reshape investment assumptions. Supply-chain resilience, national security considerations, and industrial policy became central to corporate strategy and capital allocation.

The U.S.–China relationship remained a defining axis, characterised less by outright decoupling and more by selective disengagement in sensitive sectors such as semiconductors, defence, and advanced manufacturing. At the same time, middle powers sought to navigate this rivalry by positioning themselves as alternative hubs for trade and investment, creating both risks and opportunities for global investors.

Political cycles also mattered. Elections and fiscal debates in major economies influenced expectations around regulation, taxation, and public spending, reinforcing the link between politics and asset prices.

Key Lessons for Investors

The investment lessons of 2025 were clear. First, the era of easy money is firmly behind us, making valuation discipline and cash-flow analysis essential. Second, diversification must be more than nominal; correlations can rise quickly in times of stress, while true diversification increasingly requires exposure to different economic drivers. Third, geopolitics and policy are no longer tail risks but core variables that demand ongoing attention.

2025 Summary

In retrospect, 2025 was a year of adjustment rather than transformation. Markets continued to adapt to a world of higher interest rates, greater political uncertainty, and slower but more differentiated growth. For



investors, success depended less on bold directional bets and more on thoughtful portfolio construction, regional and sectoral insight, and an acceptance that volatility is a feature, not a bug, of the current global order. As the world moves forward, these themes are likely to remain central, shaping investment outcomes well beyond a single calendar year.

Global Investment Outlook for 2026: Navigating a Fragmented but Opportunity-Rich World

As we look ahead to 2026, the global landscape is best characterised not by crisis or boom, but by persistent complexity. The era of synchronised global cycles has given way to one of divergence: between regions, policy regimes, growth models, and political priorities. For markets, this implies fewer broad, beta-driven rallies and greater reliance on selectivity, risk management, and geopolitical awareness.

Macro Environment: Slower, More Uneven Growth

Global growth in 2026 is likely to remain moderate and uneven, constrained by structural headwinds but supported by pockets of resilience. Developed economies are expected to grow below long-term averages as the cumulative effects of tighter monetary policy, high public debt, and aging demographics continue to weigh on demand. However, outright recession risks appear lower than in recent years, assuming inflation remains contained.

Inflation is expected to settle above pre-pandemic norms but well below recent peaks. Services inflation, wages, and housing costs are likely to remain sticky, limiting the scope for a full return to ultra-loose policy. This implies a world of positive real interest rates, a crucial regime shift that fundamentally alters asset valuation, capital allocation, and portfolio construction.

Monetary Policy: Easing, but with Constraints

At the start of 2026, most major central banks are likely to be in gradual easing cycles, but policy rates will remain structurally higher than during the 2010s. Central banks will remain acutely sensitive to credibility after the inflation shock of the early 2020s, making them reluctant to aggressively stimulate growth unless conditions deteriorate sharply.

For investors, this environment supports income-generating assets and disciplined valuation frameworks. It also reinforces the importance of liquidity management, as financial conditions may tighten episodically even during easing phases.



Equities: Dispersion Over Direction

Equity markets in 2026 are unlikely to deliver uniform gains. Instead, dispersion across sectors, regions, and business models should remain the defining feature. Recognising funds and fund managers that can deliver on these themes will be key.

U.S. equities may continue to benefit from structural advantages—deep capital markets, technological leadership, and relatively strong corporate governance—but valuations are elevated, leaving markets



vulnerable to earnings disappointments or policy shocks. Returns are likely to be driven more by earnings growth than multiple expansion.

Elsewhere, opportunities may emerge in markets where expectations are low, but reform momentum or industrial policy is supportive. Select emerging markets stand to benefit from supply-chain diversification, favourable demographics, and infrastructure investment, though currency risk and political stability will remain critical considerations.

Across regions, companies with strong balance sheets, pricing power, and exposure to long-term themes—such as automation, energy transition, healthcare, and defence—are likely to outperform.

Fixed Income: A Strategic Anchor

Fixed income is poised to remain a core strategic allocation in 2026. Higher yields provide both income and a buffer against volatility, restoring bonds' role as a stabilising force in diversified portfolios.

However, risks persist. Elevated sovereign debt levels, particularly in advanced economies, raise questions about fiscal sustainability and term premia. Credit markets may face pressure from refinancing needs, especially among lower-quality issuers that relied on cheap financing in the prior decade.

Active management and credit selection will be essential, with a focus on balance-sheet resilience and downside protection rather than yield maximization.

Geopolitics: A Structural Market Driver

Geopolitical risk is no longer episodic—it is structural. In 2026, the global order is likely to remain fragmented, shaped by strategic competition, regional conflicts, and economic nationalism.

The U.S.–China relationship will continue to define global geopolitics, marked by selective decoupling in critical technologies, defence, and supply chains. While a full economic rupture remains unlikely, ongoing restrictions on trade, investment, and data flows will influence corporate strategy and capital expenditure decisions.

Conflicts in Eastern Europe and the Middle East, even if contained, will continue to affect energy markets, defence spending, and risk sentiment. At the same time, rising geopolitical assertiveness among middle powers is accelerating the formation of regional blocs, complicating global trade but creating investment opportunities in “connector” economies positioned between major rivals.

Commodities, Currencies, and Real Assets

Commodities are likely to remain volatile, shaped by both geopolitical disruptions and long-term demand from energy transition and infrastructure investment. Energy markets will reflect a tension between decarbonisation goals and near-term supply realities, while industrial metals may benefit from electrification trends despite cyclical softness.

Currency markets are expected to remain active as





interest-rate differentials, fiscal trajectories, and geopolitical alignment drive capital flows. For global investors, currency management will be a meaningful source of both risk and return.

Real assets—including infrastructure and selected real estate—may regain appeal as inflation hedges and sources of stable cash flows, though financing costs will continue to constrain returns.

Conclusion: Investing in a World of Constraints

The global investment outlook for 2026 is neither exuberant nor bleak. It is defined by constraints on growth, policy, and globalisation—but also by opportunity for investors willing to adapt. Success will depend less on predicting a single macro-outcome and more on navigating a complex, politically charged environment with discipline and flexibility.

In a world of higher rates, persistent geopolitical risk, and fragmented growth, the premium will lie on selectivity, diversification across true economic drivers, and a clear understanding of how politics and policy shape markets. For investors prepared to operate within this new regime, 2026 offers not simplicity, but opportunity.

We remain confident that the diversification we input into client portfolios through specific fund selection around pre-determined risk parameters will continue to deliver good outcomes for our clients through time. Navigating a world with rapidly changing dynamics means the need for ongoing professional advice and perspective remains key to generating good returns.

We wish all our clients and professional contacts a happy, healthy and relaxing festive period and our best wishes for a prosperous and rewarding 2026.

With best wishes

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