

ROCQ CAPITAL

Fourth Quarter 2025

Global financial markets delivered a mixed but ultimately positive performance in the final quarter of 2025, as investors navigated a shifting backdrop of monetary policy decisions, volatility in technology stocks and signs of slowing economic momentum.

October saw a broad-based improvement in risk sentiment, driven primarily by the ongoing strength of large-cap US technology stocks. The MSCI World index recorded its sixth consecutive monthly gain following the tariff-related volatility earlier in the year. Once again, the “Magnificent Seven” played a central role. Better-than-expected earnings, driven by persistent demand for AI-related products and services, buoyed sentiment even as questions remained about the sustainability and eventual returns from the substantial capital expenditure programmes being undertaken by firms such as Meta. Emerging markets and Japan added to the positive tone in October. The MSCI EM index climbed +6.7% despite a continued lacklustre showing from China, while Japanese equities benefited from a wave of optimism surrounding new Prime Minister Sanae Takaichi. Viewed as pro-growth and market-friendly, she is expected to support looser fiscal policy and resist aggressive tightening from the Bank of Japan. Japanese stocks rose accordingly.

November, however, brought a shift in tone. Global equities ended the month marginally lower, with the MSCI World index slipping -0.6% in GBP terms, yet this headline figure masked considerable intra-month volatility. Prominent media commentary about a potential “AI bubble” triggered a sharp mid-month sell-off, with major equity indices falling around 5% before recovering. While the quarterly results from leading US technology firms were once again solid—most notably NVIDIA, whose revenue growth remained exceptionally strong—concerns arose about the circular nature of capital expenditure within the mega-cap tech ecosystem, as these firms invest heavily in each other’s infrastructure. Against this backdrop, strategies with larger-cap or technology tilts faced headwinds – those that did best in October typically did worst in November, reversing some of their gains, before the final few weeks of the year brought a return to quieter trading conditions and modest rises in most equity markets.

The US Federal Reserve cut rates twice during Q4, including a widely anticipated move in December that lowered the federal funds target range to 3.50–3.75%. The decision was accompanied by a split vote – a new feature of recent decisions – and cautious guidance, understandable given that the US government shutdown affected the availability of timely economic data. Still, the committee appears increasingly focused on supporting a softening labour market rather than on inflation, which is roughly one percentage point above the 2% target. In the UK, the Bank of England followed suit with a 25 basis point cut to 3.75% in December, citing subdued growth and better visibility on a downward path for inflation in 2026.

Fixed income assets provided stability throughout the quarter. Government bonds rallied strongly in October as yields fell on expectations of policy easing, then consolidated gains in November and December as central banks delivered on those expectations. Despite a busy period for policy news—including the UK Budget—market movements remained relatively muted over the final two months of the year. Credit markets continue to look resilient, supported by still-attractive yields, especially if inflation moderates next year.

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Across the quarter, markets reflected both the enduring strength of structural growth, particularly AI, and the fragility of sentiment in an environment where valuations are increasingly scrutinised. While October underscored the power of earnings momentum, November reminded investors that elevated expectations can amplify volatility before December featured a return to sedate trading conditions as the year ended.

Outlook & Portfolio Strategy

We have adjusted most of our portfolios more than usual in 2025, having reorganised our Alternatives allocation in the spring and added a US small cap fund, before switching out our long-running FundsSmith and Comgest holdings later in the year – these changes were implemented across a range of strategies. It is within the equity allocation that we have had the most dispersion of returns and the most debate within our team when reviewing our holdings. Having made several adjustments this year, we look ahead to 2026 with a constructive but measured outlook for global markets.

The past year has demonstrated both the resilience of corporate earnings and the sensitivity of valuations—particularly in the United States—to shifts in sentiment, policy expectations and the evolving narrative around artificial intelligence. We expect these dynamics will continue to shape the investment landscape in the year ahead, while the negative impact of tariffs may also come through – albeit far later than we might have expected a few months ago.

In the US, equity valuations remain at the upper end of historical ranges, especially within the large-cap growth segment. While many of the country's leading companies continue to deliver impressive profitability and maintain strong competitive positions, there is little room for disappointment given the elevated multiples at which they trade. The AI ecosystem will remain a powerful structural theme, but the considerable capital expenditure commitments made by the largest technology firms warrant ongoing scrutiny. Against this backdrop, a degree of caution is appropriate, and we expect market leadership to be more dispersed than in recent years.

Encouragingly, opportunities outside the US appear attractive on a relative basis and we believe the global opportunity set has broadened. Several developed markets are characterized by more reasonable valuations in aggregate, while emerging markets may feel an additional tailwind if the US dollar weakens, which is our central case. Japan has shown encouraging signs of continued corporate governance reform momentum, while Europe offers selective value in areas where earnings are improving and inflation dynamics appear more manageable.

In fixed income, we are satisfied with the contribution our bond holdings have made this year and remain optimistic about their prospects heading into 2026. After a period of significant interest-rate volatility, yields now sit at levels that offer both reasonable income and a measure of downside protection should growth soften or inflation continue to moderate. Despite some concerns about private credit markets, our managers' selections of publicly traded bonds appear fundamentally sound, and while spreads have tightened, overall carry remains appealing. Bonds should continue to play an important role as a stabilising force and source of returns within portfolios.

We have also been encouraged by the steady performance of our Alternatives allocation, which has done well this year, giving us confidence that the strategies can continue to perform well under a range of macroeconomic conditions. In an environment where traditional asset classes may face occasional headwinds, this diversification remains particularly valuable.

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