FIM CAPITAL

Investment Management
BRIEFING

Quarter 1 | 2026

2025: A Rollercoaster Year for Global Investors

The year 2025 was quite the rollercoaster for global investors with many ups and downs throughout. Markets swung from tariff-driven selloffs to AI-fuelled rallies, and finally to valuation concerns as optimism collided with stagnating growth. For investors, the year emphasised the importance of diversification in a global market.

Early Shocks and Tariff Turbulence

Entering 2025, the year looked promising, but things quickly began to unravel. Donald Trump was inaugurated for his second term as US President in January. Two days before he entered The White House, he launched his own meme coin, $Trump, which saw its price soar by over 300% overnight and, within 48 hours, it had become the 19th most valuable cryptocurrency in the world, with a total trading value of nearly $13 billion. Was this a sign of the madness that was to come? Quite possibly it was. Within his first few weeks in office, President Trump sent shockwaves through global markets with tariff announcements. This triggered steep declines with technology and consumer discretionary stocks bearing the brunt of the selloff. During this time, Germany announced a €500 billion fund which dramatically increased its investment in defence, infrastructure and climate protection. US trade war fears mounted, which further made Europe stand out in a relative bright spot with investors rotating from US equities to their European counterparts. Around the globe, investors were eagerly waiting to see what China's retaliation would be against US tariffs which weighed heavily on regional sentiment, reinforcing the fragility of export-driven economies. The gold rally began in the first quarter as investors sought protection from policy uncertainty.

Spring Sell-Off and Rebound

As we headed into spring, steep declines in US equities briefly pushed the S&P500 into bear market territory following the so-called "Liberation Day" tariffs. On this day, President Trump imposed a 10% baseline tariff on imports from nearly all countries, with country-specific tariff rates scheduled to begin a few days later. However, this announcement led to a global market crash and the White House responded by suspending the 9th April tariff increases to allow time for negotiation. With tariff pauses and progress in trade negotiations, it sparked a rebound in global markets led by technology stocks. **Nvidia** and **Microsoft** led the recovery, driving the S&P500 up roughly 11% by quarter end. Europe continued to shine throughout the second quarter, posting gains of about 10%. Fiscal support and investor rotation away from US volatility kept the Eurozone resilient. Despite these positive gains, risks remained. Geopolitical tensions flared in June, particularly in the Middle East, adding to volatility. Policy uncertainty persisted as Washington shifted its tariff strategy, creating sharp swings in sentiment.

Rate Cuts and AI Optimism

As we entered the third quarter, the Federal Reserve announced a the much-anticipated cut to interest rates, sparking a surge in equities. Technology stocks, already buoyed by the ever-increasing demand for AI, extended their rally, with Nvidia and Microsoft leading the way once again, pushing the S&P500 and Nasdaq higher. Commodities were a major story during this period. Gold prices continued to climb, cementing its role as a safe-haven even in a risk-on environment. Risks lingered with concerns over tariffs remaining unresolved. Central bank divergence created challenges for global asset allocation and, whilst AI optimism fuelled growth, valuations stretched higher, raising concerns about sustainability of the rally.

Overheating Markets and Safe-Haven Surge

By the final quarter, markets were strong but showing signs of overheating as US valuations continued to move higher. Growth indicators weakened, creating tension between optimism and fundamentals. Geopolitical influence, particularly defence spending in Europe and shifting US policies, shaped sector winners and, whilst AI continued to drive growth, their valuations posed risks of correction. Gold broke the $4,000 mark in October 2025, surpassing its prior inflation-adjusted peak from 1980. It continued to climb, reaching levels around $4,525 per ounce in December with its strong growth driven by economic uncertainty, a falling US dollar, and increased safe-haven demand. It saw a pullback shortly after the Christmas period settling around $4,350 per ounce.

Looking Ahead to 2026

Investors will enter 2026 with a renewed sense of optimism. The artificial intelligence theme will likely remain a dominant growth driver, fuelling productivity gains across industries. However, lofty valuations in leading tech names make diversification essential. Interest rates are expected to continue gradually declining, but not dramatically. Central banks, such as the Federal Reserve and the Bank of England, have already begun cutting rates and, while forecasts suggest modest easing will continue, factors like inflation and economic growth will determine the pace at which these cuts continue. Whatever may occur in the coming year, diversification remains the ultimate defence against uncertainty. By spreading investments across regions, sectors, and asset classes, investors can capture growth while limiting downside risk.

Charlotte Cunningham
INVESTMENT MANAGER

Peaking Out

***L'esprit de l'escalier* or 'staircase wit' is a term crafted by the French philosopher Denis Diderot to describe the perfect retort to settle an argument.**

Annoyingly, the riposte occurs to the *reposteur* only sometime after the conversation has ended, and so is somewhat pointless. Shutting the stable door after the horse has bolted is a more English way of describing the wisdom of hindsight (and one where I have achieved practical distinction over the years in a family of equine high achievers, bar me).

Of late, in an attempt to close the financial stable door in good time, analysts and journalists have been tripping over themselves to predict the timing of the next stock market bubble or, more accurately, its implosion. Many think that such an event is imminent, pointing to elevated stock market valuations in the technology sector and artificial intelligence equities ('AI') in particular, as irrefutable evidence.

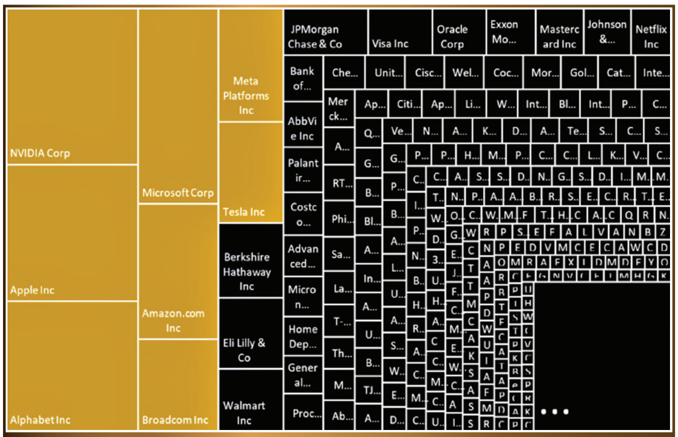
One of many unknowns facing the market today is the impact of AI. Capital Economics, a research house, suggests that AI added around 50 basis points to US GDP growth in the first half of 2025. Impressive, but at least some of this was generated by AI businesses cross-selling to each other, rather than a genuine leap in productivity. This begs the question: exactly how will all of this trillion-dollar expenditure benefit the wider business world, and when?

In a fast-moving industry such as AI, applying fundamental analysis to companies where meaningful profits lie many years into the future, if at all, is perilous. It is one thing to write a punchy article forecasting an imminent tech meltdown, another altogether when you are looking after other people's money and that sector represents a serious percentage of your investable universe.

Comparisons, inevitably, are now being made with the 'Dot-Com' bust just after the turn of the century. This event now resembles a blip in the long-term trajectory of the American NASDAQ index, the traditional home of technology companies. But it was hugely traumatic at the time. Having quintupled in value over the preceding 5 years, the NASDAQ collapsed by 75% shortly after peaking in March 2000, a level from which it took nearly 15 years to recover.

The problem then, as now, was that nobody really understood how business was going to monetise the latest advances in technology nor, really, the technology itself. In the late 1990s, economists hotly debated the future impact of the internet, personal computers and mobile telecommunications. 'Y2K' pre-dated much of what today we take for granted such as mobile devices, Google searches and fast broadband. The cutting-edge technology of the time established the framework for crucial IT development, creating winners and losers along the way. We just didn't know who they would be. After the market crash, shares in **Apple**, now worth over $4 trillion, languished at just over 20c, valuing the business at a relatively pitiful $4 billion. Apple shares have since risen by over 27,000%, but many other technology businesses were eviscerated. **Boo.com** (online clothing); **eToys.com** (online toy retailer); **Northpoint Communications** (telecoms) and many, many more. Zero market value. All gone.

The scars of 2000 had only just healed when the market lurched downwards again in 2008 as the Global Financial Crisis gripped the world. The GFC was primarily a banking and credit crisis rather than anything technology



Nvidia, Apple, Alphabet, Microsoft, Amazon, Broadcom, Meta and Tesla have a combined market capital of $23tn, amounting to 37% of the S&P500

orientated, but leverage, over-exuberance, insufficient regulations and greed were all at the forefront of both periods.

Neither the 2000 technology crash nor the 2008 banking crisis had exact parallels with the situation today. But there are some worrying similarities. Credit (i.e. debt) has been rising in both unregulated private and public markets such as leveraged exchange traded funds. Sales forecasts of the notoriously cyclical computer chip market are sky-high; profits are unevenly distributed within a narrow range of inter-related tech businesses and so on. On a macro level, nobody expects interest rates to be hiked in 2026, but what if they are wrong? If inflation is stickier than expected, if AI computer chip sales stall, if confidence in the independence of the Federal Reserve Bank dips, then the stock market will be in a very different place in 12 months' time to where it is today. These may all seem unlikely scenarios right now, but a feature of market peaks is that very few recognise when they have reached the summit.

The reference to the Fed covers an area where things are definitely different right now. The US Federal Reserve Bank has a hard-won reputation for dispassionate, fact based, data-driven decisions earning the confidence of the market. As with many other parts of America, though, the Trump administration is wilfully meddling with process and procedure at a dangerous time. Fed chairman Jerome Powell, possibly the calmest man on the planet, has been fending off political interference whilst being drawn into policy discussions with senior colleagues who are questioning official data releases as being 'phantom' or fake. Does that sound familiar?

To be clear, we are not suggesting eliminating all technology shares from portfolios. Market timing is highly subjective, and technology has been a winner over the years (which is why it is now such a huge part of global markets). We are, however, acutely aware that in the AI race to the top, there have been other parts of the market offering unusually good value which have been overlooked as the number of market leaders has narrowed. We expect the balance in our portfolios to become more diversified as we stress test the downside and look towards 2026 with slightly more apprehension than was the case a few months ago.

Russell Collister

A Growing de Tocqueville Paradox

The November budget provided further evidence that the Government did not prepare for office when in opposition and that they have no idea how they will grow the economy.

At a recent event in London, Kemi Badenoch, the Leader of the Opposition, stated that there are 6 million people of working age being paid to sit at home, which is more than the population of Norway. One in four people are reported as disabled, with GPs writing 30,000 sick notes per day. Indeed, there are more workless households than the entire population of Estonia, although this will partly be due to pandemic support acting as a catalyst. Unemployment has also risen every month since the election, with youth unemployment being particularly problematic owing to the minimum wage hike. Sadly, the financial burden falls on workers along with considerable cost of living pressures. Higher taxes have helped pay for bumper pay rises for the public sector and unfairly ensures welfare payments are inflation protected, which is not the case for take home pay, but this strategy will buy some votes. Britain has become a socialist economy, with 45% of GDP coming from state spending and the highest tax take since WWII.

It's difficult to be optimistic for working people, and this will matter when it comes to the local and regional elections in 2026. The Government is controlled by the backbenchers fighting to save their political careers and little wonder there is unrelenting talk of a leadership challenge. Starmer lost control when the Government failed to pass any welfare cuts and is now in the same predicament that Rishi Sunak was in during the final part his tenure. A further shift to the Left before the General Election appears inevitable and may prove problematic for the bond markets and sterling as the country is at its limits when it comes to interest payments. Underlying sentiment has not been helped by a recent comment from Eddie Dempsey, leader of the RMT, who at a Durham rally, when questioned on who runs Britain, answered "Us or the markets? Who elected the markets? Not me". This really feels like 70s Britain and it's therefore easy to get into a doom loop of negative thinking but surely there must be some positives.

Rupert Soames, retiring Chair of the Confederation of British Industry and former CEO of Serco Group, credited with achieving its miraculous recovery, is far more optimistic than most of us and some of his recent comments are worth reflecting upon before we become too negative. He believes the immediate negative economic and budget publicity has been overdone and it's disguising some genuine green shoots. Britain has achieved more success in both trade deals and foreign affairs recently than over the past 8 or 9 years. For the first time in decades, regulators are being challenged to ensure their actions support rather than hinder economic growth, and this may create a catalyst for economic activity. There has also been a rolling appreciation by Ministers from both this administration and past, that turning plans into action (such as planning) is far from simple, as various government departments lack dynamism and vision. There is acknowledgement that this must change but it's not easy for the current administration which lacks first hand business experience. We rightly question the Chancellor's thinking on many matters which are at odds with prioritising growth, but she does have a better grasp of economics than most of her colleagues. Regrettably, she has been learning on the job and can't undo some terrible mistakes made ahead of the election and over the first year of Parliament. Recently she even confirmed she had lost control of her office in front of a Treasury Select Committee when revealing that the Budget was not her own but prepared with Sir Keir

Alexis Henri C M Clerel Tocqueville

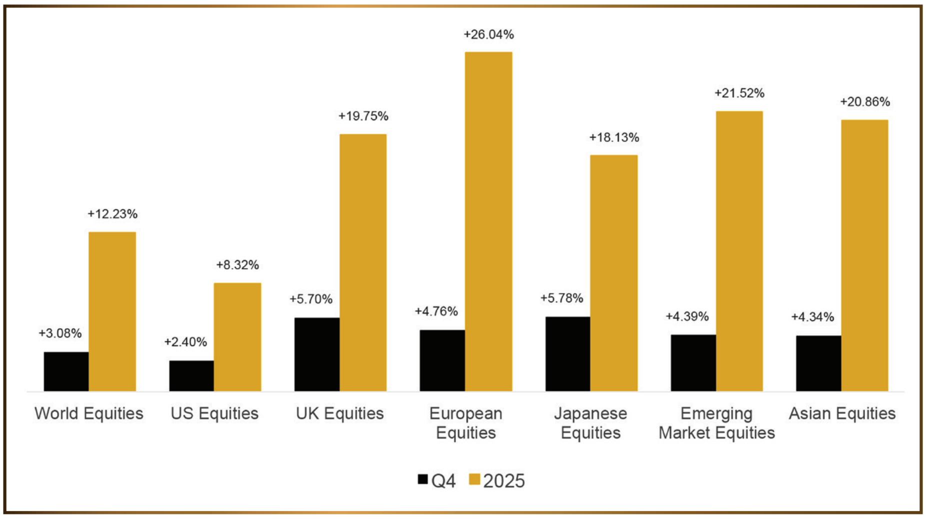
Starmer as they fight for their political life, which does dampen the optimistic tones of Mr Soames.

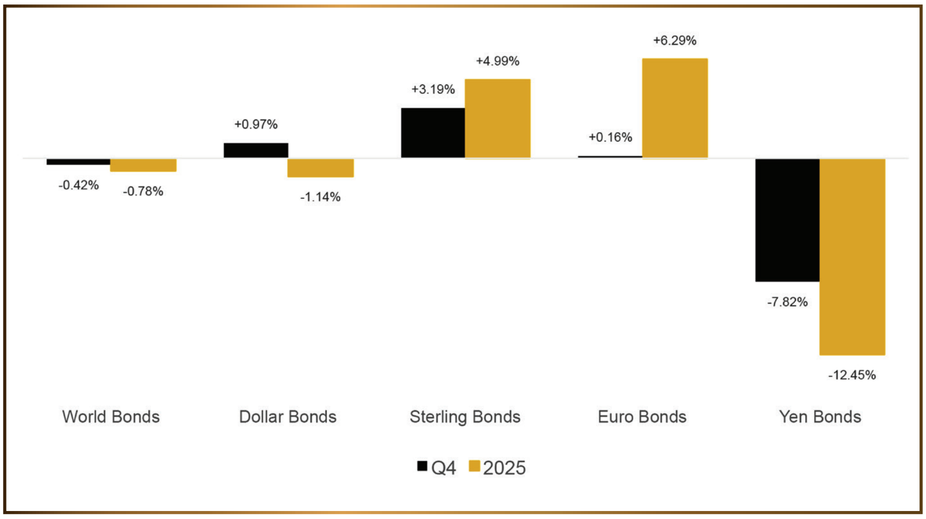
It's been said many times that we should not correlate politics with economic and market returns. There are some world leading companies in the UK which is why the UK market has become so active from a bid perspective. Mr Soames highlighted it's leading the world when it comes to pharma and defence as well as AI and tech outside the US. The market may no longer be ridiculously cheap, but it remains a cash cow, with the FTSE100 expected to have paid out more than £80bn over 2025 in terms of dividends and special dividends. Include the £56bn of share buybacks that have been announced over the year, and this takes the income return to over 6.5%. If this can be repeated in 2026 and the core sectors such as financials and cyclicals continue to benefit from some tailwinds, it could be another good year for investors even if Angela Raynor takes over at the helm.

Come the next General Election, one suspects the nation's finances may be truly strained. In theory, the party that governs will be the one that has the most credibility when it comes to restoring the health of workers' pockets, but that assumes the electorate can dissociate itself with the de Tocqueville paradox. This is the term used for when improving levels of social conditions and opportunities lead to ever greater dissatisfaction, discontent and social unrest. Populist parties prosper at such times and breaking away from such a spiral is not easy. However, if we wish to leave future generations a respectable inheritance, the textbook suggests it's time to halt the unrelenting decline of the family, community and faith whilst the state must take on a much smaller role. Populist leaders are playing this hand by supporting such core attributes which is perhaps why far-right activist Tommy Robinson organised a Carol service this Christmas. Fortunately, we live in democracy and 2029 is only three years away. As Gerry Rafferty wrote in 1979: "…if you get it wrong, you'll get it right next time", or perhaps the time after.

Paul Crocker

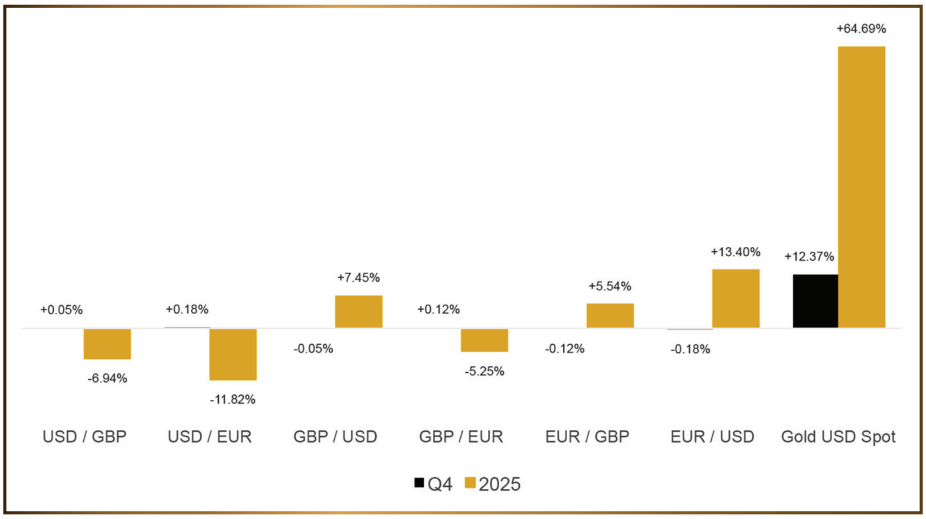
World Equity Returns (GBP)
Returns no longer driven by US outperformance as investors looked to increase diversification, with the combined support of looser monetary policy and fiscal stimulus in certain regions.





Bond Market Returns (GBP)
The UK bond market responded positively to the Autumn budget late in the year, whilst European bonds have benefitted from more rate cuts than peers. Japanese rates have been heading higher, which sends bond prices lower.

Currency Movements
Strong US equity returns have been eroded by a weak dollar for investors whose portfolios are denominated in GBP or EUR. Gold is also the ultimate hedge against dollar weakness, pushing above $4,000 per ounce for the first time in its history.



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