

# Global Asset Allocation: The View From the UK

December 2025

## Outlook

- We move to a slightly positive view across global risk assets. Despite extended valuations, earnings trends and economic growth remain favourable, with the latter supported by fiscal and monetary policies across most regions.
- US economic growth is bolstered by artificial intelligence (AI)-driven capital spending and supportive fiscal and monetary policies, although softening labour market trends remain a concern.
- Outside the US, the growth backdrop is broadly positive, with increasing fiscal support in several regions, including Europe and Japan. Lower inflation has allowed for monetary easing, helping economies offset the impacts of higher tariffs.
- Key risks to global markets include narrowness of AI trends supporting earnings and economic growth and markets, sticky inflation, potential for quickening labour market declines and ongoing geopolitical tensions.

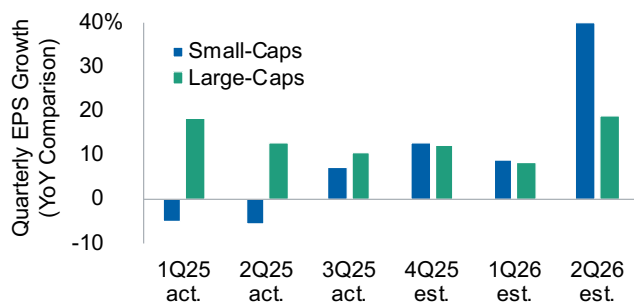
## Themes driving positioning

### All the small things

Since April's market low, small-cap stocks are outperforming large-caps, with much of that coming recently with heightened expectations for a December rate cut. Small-caps have had several bouts of outperformance over the past few years but have yet to maintain a sustained edge over the might of the AI-driven rally underpinning large-caps. This time things may be aligning a bit more in favour of small-caps. Whilst they remain relatively attractive in terms of valuations, small-cap earnings growth has lagged large-caps, but that is expected to flip in 2026. Anticipated growth in capital expenditure, fiscal spending and easing regulations could drive small-cap earnings and outperformance. Combining these tailwinds with additional US Federal Reserve (Fed) cuts should help ease refinancing concerns and support an acceleration in mergers and acquisitions (M&A) activity benefitting smaller companies. As we anticipate further market broadening in 2026, all the small things supporting small-caps are starting to add up.

### Rising to the occasion<sup>1</sup>

As of 30 November 2025



### Past performance is not a guarantee or a reliable indicator of future results.

<sup>1</sup> Sources: FactSet and S&P. Please see additional disclosures for more information. Small-caps are represented by the S&P 600 Index, whereas large-caps are represented by the S&P 500 Index. Periods with 'act.' reflect actual reported earnings per share growth; periods with 'est.' represent forward earnings per share estimates.

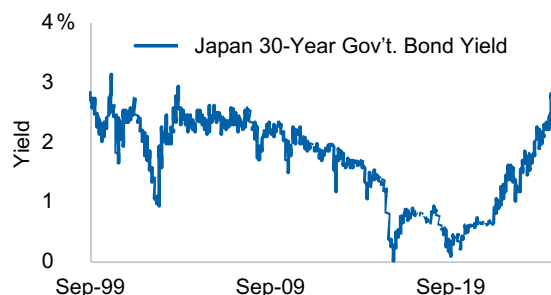
<sup>2</sup> Source: Bloomberg Finance, L.P.

### The great experiment

What had started in the US earlier this year over worries of uncontrolled fiscal spending and rising debt levels has made its way around the world, putting further pressure on long-term bond yields. The latest fears are playing out in the Japanese bond market over new Prime Minister Sanae Takaichi's aggressive stance on fiscal policy aimed at stimulating growth and defence spending. The news has pushed Japanese long-end yields to multi-decade highs and the yen lower, further complicating the Bank of Japan's path to normalisation. Investors are cautiously watching this 'fiscal experiment' closely as Japan is already one of the most indebted developed nations, and piling on more debt at now higher borrowing costs is making this a costly bet. Whilst the hope is that these fiscal measures translate into a meaningful boost to economic growth, for now, the backdrop continues to warrant caution on long-term bond yields, not only in Japan, but across the globe.

### Paying a steep price<sup>2</sup>

As of 30 November 2025



## Asset class positioning

### Equities



- We move to a small positive view on equities. This reflects equity fundamentals continuing to deliver against high expectations. Both fiscal and monetary policy is supportive across a number of major economies, and trade uncertainty has decreased. However, valuations remain elevated in many markets.
- We continued to incrementally add to small-caps as valuations remain compelling and earnings are poised to inflect positively with tailwinds from lower rates, fiscal policy, deregulation and potential for increased M&A and initial public offering (IPO) activity. We also increased exposure to UK and Japanese equity markets.

### Fixed income



- We maintain an underweight to bonds as inflation and funding requirements associated with US fiscal stimulus and continued deficits could keep upward pressure on rates, particularly at the long end.
- We have a short duration position reflected in an underweight to UK government bonds as well as US and European aggregate fixed income. We favour shorter duration assets with more attractive absolute yields, such as global high yield and emerging market debt.

### Cash



- We continue to maintain an overweight position in cash, due to reasonable yields and limited duration risk.
- This sector offers liquidity to take advantage of opportunities amidst market dislocations.

## Equity market views

	Underweight Neutral Overweight					▼ or ▲ Month-Over-Month Change
Change						
	Regions					
US	U					Valuations remain stretched as hyperscaler capex pressures sentiment, yet AI infrastructure demand supports earnings breadth. Labour market weakness and persistent inflation remain concerns.
Europe ex-UK		N				Support from attractive valuations and improving economic outlook on anticipated impacts of fiscal stimulus, but monetary policy is more advanced, with less room for further cuts.
UK				O		Valuations are attractive, and the longer-term earnings growth outlook is healthy. However, budget concerns remain a significant headwind, and the inflation outlook remains volatile.
Japan				O		Reduced trade uncertainty is a positive, but geopolitical issues remain. Solid domestic demand, governance progress and steady policy backdrop aid sentiment, though firmer valuations temper further near term upside.
Australia	U					Valuations remain elevated relative to earnings growth, and productivity is a challenge. However, earnings may have started to recover and economic activity is improving.
Emerging Markets (EM)				O		Support from stable currencies, improving policy and strong AI infrastructure demand supports EM equities—but weak global demand and trade uncertainty pose risks.
China		N				Gradual policy support and early stabilisation trends help sentiment, but weak labour markets and property headwinds persist.
	Style and Market Capitalisation					
Global Growth vs. Value <sup>1</sup>				O		US growth equity earnings continue to deliver versus high expectations, and underlying fundamentals remain strong. However, extended valuations make risk/reward less attractive. Potential for deregulation, fiscal policy, reshoring and Fed cuts provide support for value stocks. Economic growth and housing market activity are showing signs of improvement.
Global Small-Cap vs. Large-Cap <sup>1</sup>				O		Small-cap earnings and valuations supported by additional Fed cuts, deregulation, fiscal stimulus and stronger M&A and IPO activity, as well as potential for overlooked winners tied to AI buildout. Very strong and improving fundamentals, particularly within technology, have justified valuations thus far, though competitive risks are mounting.

### Past performance is not a guarantee or a reliable indicator of future results.

These views are informed by a subjective assessment of the relative attractiveness of asset classes and subclasses over a 6- to 18-month horizon.

<sup>1</sup> For pairwise decisions in style and market capitalisation, positioning within boxes represents positioning in the first-mentioned asset class relative to the second asset class.

## Fixed income market views

					▼ or ▲ Month-Over-Month Change	
					Underweight Neutral Overweight	
Change						
UK Gilts	U					UK economic growth is likely to slow down. The Bank of England is expected to cut rates in the coming year. However, gilt yields may rise in tandem with government bond yields worldwide, as stubborn inflation remains a concern.
UK Inflation Linked			N			Weakening labour market should lead to easing services inflation. We neutralised the allocation to inflation-linked gilts, partially to decrease duration.
UK Investment-Grade (IG) Corporates			N			Credit fundamentals are supportive, with spreads expensive relative to history.
US IG Aggregate	U					Fed cuts, stable growth and sticky inflation give the curve a steepening bias. Credit fundamentals are still supportive, with spreads expensive relative to history.
European IG Aggregate	U					Large, ongoing issuance of government bonds is likely to push long-term government bond yields upward. European government bond yields may rise in tandem with those of US Treasuries.
Global High Yield				O		Despite tight spreads, the sector continues to offer a healthy yield, measured default expectations and a low duration profile.
EM Dollar Sovereigns				O		Attractive yields and room to cut with lower inflation, though EMs longer-duration profile could weigh in the event of higher long-end US interest rates.
EM Local Currency				O		US dollar weakness has been a tailwind and is expected to continue; however, longer-term fiscal challenges from tariffs remain unclear.
EM Corporates				O		The sector offers a shorter duration than that of EM dollar sovereigns. Spreads are tight, but total yields remain attractive relative to some other fixed income sectors.
Currency Market Views						
GBP vs. USD			N			The dollar may soften if US economic growth decelerates. However, US growth is stronger than that in the UK, and the interest rate differentials favour the USD.
GBP vs. EUR				O		Interest rate differential favours the GBP. The GBP is attractively valued relative to the EUR. However, only a slight improvement in the French political uncertainty or European activity is needed for the euro to strengthen.
GBP vs. JPY			N			The yen is a safe-haven currency. Current valuations are attractive. However, given the recent volatility in the yen and uncertainty about Bank of Japan (BoJ) policy, we remain neutral.

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