



Window on
the World

DECEMBER 2025

As the year closes in on Christmas, there is a sense that investors will be glad to see the back of 2025, even though it's not been a bad year for returns.

November, like many other months, illustrated why 2025 has been a tough year. The key issues included the reopening of the U.S. Government following its longest-ever shutdown of 43 days, and the U.K. Budget, which was presented to parliament on 26 November. Both contributed to a rise in volatility over the course of the month, and the U.S. Government shutdown meant that economic data for the U.S., which is a critical indicator for many investors, has been patchy of late. November also saw U.S. corporate earnings seasons draw to a close, with NVIDIA's strong results failing to drive the stock higher, raising questions about the AI boom's longevity. But as always at this time of year, attention now turns to the outlook for markets in 2026.



Capital market returns in November

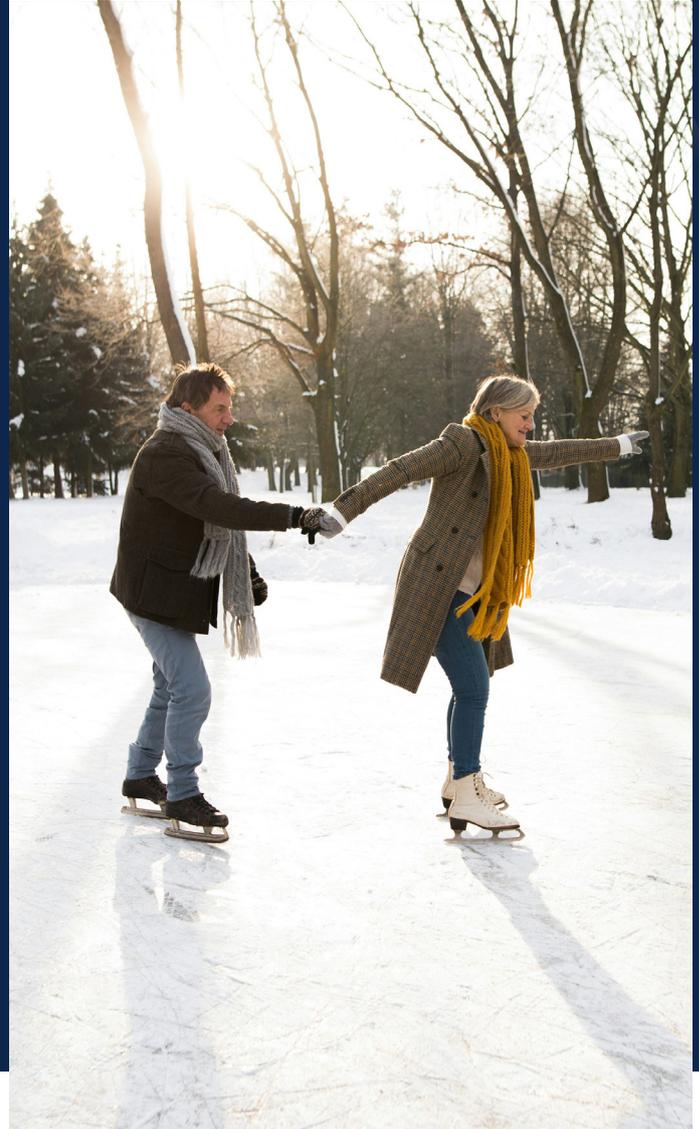
	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	0.4	6.4	21.4	23.0
US Equities	0.2	6.3	15.0	17.8
European Equities	0.3	6.4	21.8	19.4
Japanese Equities	1.4	10.9	29.2	24.2
Emerging Market Equities	-2.4	9.0	30.3	30.4
UK Gilts	0.1	3.7	2.1	4.8
UK Corporate Bonds	0.1	3.2	5.9	6.6
UK High Yield Bonds	0.0	0.7	8.6	7.8
US Corporate Bonds	0.6	2.5	6.3	8.2
US High Yield Bonds	0.5	1.5	7.3	7.8

Source: Bloomberg, Verso Investment Management, as of end November 2025. Returns in local currency

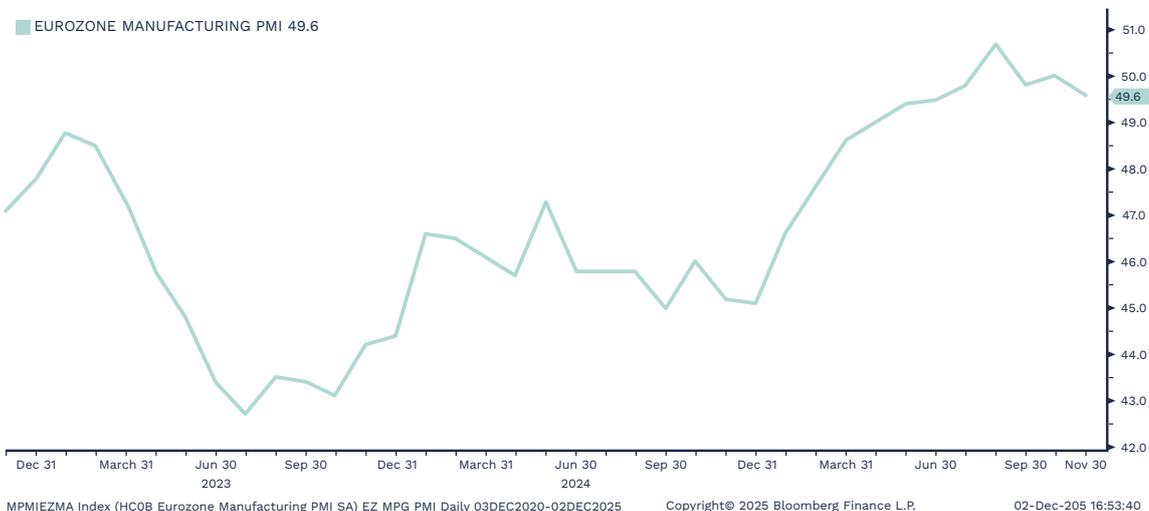
On the face of it, returns for both equities and bonds would indicate a steady month in November. In truth, though, market volatility was elevated, and a changing dynamic drove returns. In the case of U.S. equities, which were flat over the month, technology stocks took a breather, with the Magnificent Seven declining by 4% on aggregate, while more defensive areas of the market, such as healthcare and consumer staples, outperformed. This also happened globally, with value as an investment style outperforming growth by around 3.5%.

In the U.K., equities returned around 0.4%, while Government bonds were broadly flat. While much of the attention was focused on the Budget (covered in more detail later), the month also saw the Bank of England (BoE) hold interest rates at 4%. The comments and minutes from the BoE show that there was a 5-4 vote in favour of holding rates steady. This can be considered a dovish vote, suggesting that they are leaning towards a rate cut at their final meeting of the year on 18 December, but in the current market environment, things can change quickly. Elsewhere, fixed-income yields in the U.S. fell as investors priced in one more cut from the Federal Reserve this year, driving positive returns from U.S. corporate bonds.

Emerging market equities, which have been the best asset class year to date, were the weakest performing in November, dragged lower by the technology-heavy indices of Taiwan and Korea. The marginal correction seen in technology stocks in Asia and the U.S. over the past month likely reflects some profit-taking following a strong year-to-date run, as well as concerns at the margin about valuations. European equities were broadly flat, with purchasing managers' indices suggesting that European manufacturing has slipped back into contraction. Japanese equities were the standout performer in November, rising in sterling terms, thanks exclusively to a weaker yen, and likely reflecting the economic policies of the new prime minister.



EUROPEAN MANUFACTURERS HAD BEEN EXPERIENCING AN UPTURN IN FORTUNES DURING 2025 ALTHOUGH RECENT DATA HAS SIGNALLED IT MAY HAVE STALLED IN NOVEMBER



MPMIEZMA Index (HC0B Eurozone Manufacturing PMI SA) EZ MPG PMI Daily 03DEC2020-02DEC2025 Copyright© 2025 Bloomberg Finance L.P. 02-Dec-205 16:53:40

Source: Bloomberg, 2 December 2025

Assessing the Budget implications for the U.K. economy

After weeks of speculation, the Chancellor stood up in Parliament and delivered her Budget on 26 November, most of which was revealed shortly beforehand after the Office of Budget Responsibility unfortunately posted its report in advance. Putting this error to one side, the market reaction following the Budget has been broadly stable – U.K. equities have been stable, as has the pound, and yields on Government bonds are broadly unchanged. Investors are now assessing the details of the Budget and what it means for the U.K. economy and U.K. assets more generally.

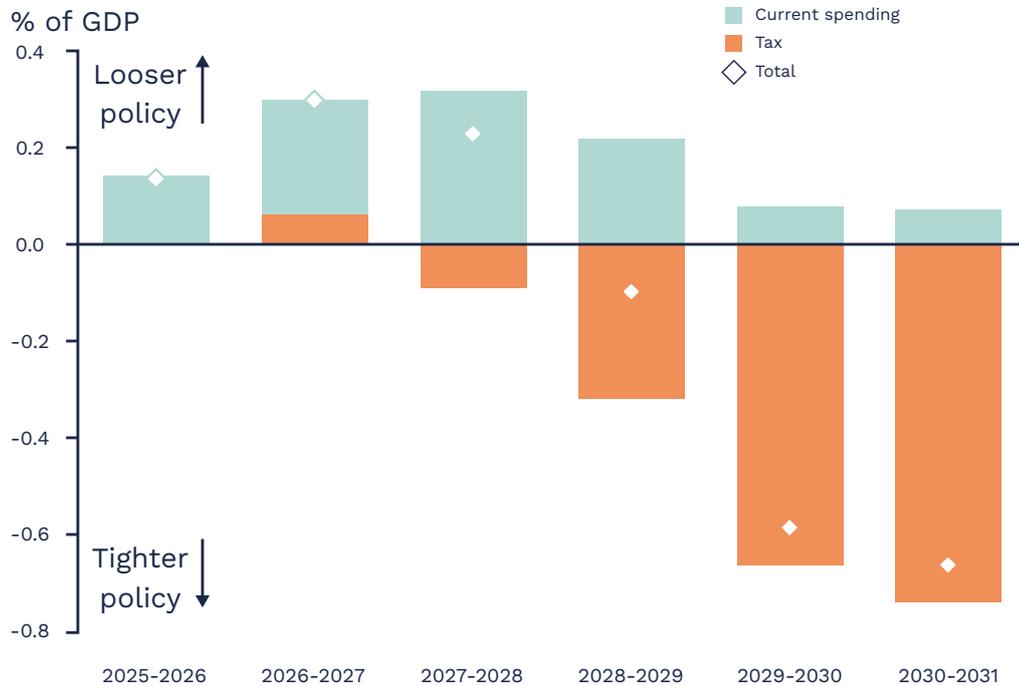
Investors were looking for the Government to confirm its economic competence and unveil measures that would provide sufficient fiscal headroom, in turn helping to calm concerns about fiscal sustainability. This looks to have been achieved – tighter fiscal policy, predominantly via targeted tax hikes and an extension to tax thresholds freezes, is expected to raise £26 billion by 2029/30. Following a small uplift in spending in 2026 and 2027 via the cancellation of the two-child benefit cap, the Government has increased its fiscal headroom by £11.8 billion to £21.7 billion. This has broadly satisfied markets and removed any near-term concerns around fiscal headroom.

Looking more closely at the economic implications, there are some key takeaways. Firstly, the fiscal tightening is back-loaded, meaning the higher tax take will kick in from 2029 onwards. Eagle-eyed investors have noted that this will likely be an election year, which raises questions about whether it will actually be enforced.



IN THE NEAR-TERM, THE BUDGET POINTS TOWARDS A NEAR-TERM INCREASE IN GOVERNMENT SPENDING, WITH TAX INCREASES KICKING IN FROM 2029 ONWARDS

UK: Budget policy decisions



Source: Oxford Economics, 28 November 2025

Secondly, slightly higher welfare spending means that over the next two years the degree of fiscal tightening is lower than previously forecast – implying less fiscal drag than originally estimated. Finally, with the Budget now out of the way and some of the uncertainty it created lifted, the foundations for a post-Budget tick-up in economic activity may have been laid.

Perhaps not surprisingly, consumers had been cautious ahead of the Budget. Still, with it now out of the way, they have begun to turn their attention to the forthcoming Christmas festivities, and it would not be unreasonable to expect a pick-up in activity over the next few months. Thereafter, the performance of the U.K. economy will be influenced by a number of factors – we should hopefully see a decline in interest rates and lower inflation, while the global economy is expected to provide a supportive backdrop – and it is anticipated that the amount people save (the savings rate) will normalise after a period of running at an above-average level. All of these factors look positive, although real income growth is likely to slow in 2026.

Current estimates are that the U.K. economy will grow by just over 1% next year, with inflation coming down to 2.5%. This does not look unreasonable in our view and may lead the BoE to cut rates further than most expect, closer to 3%. However, the ability of the economy to deliver growth of 1.5% (in line with the Office for Budget Responsibility forecasts) looks challenging in the absence of additional policies focused on growing the economy. As such, we have not made any changes to our positioning in U.K. assets post-Budget.



Positioning and outlook

Markets are closing the year in good shape. With equities having delivered strong double-digit returns despite the uncertainty created by U.S. trade policy, and latterly, a move lower in bond yields has also boosted returns from fixed income. A running theme, however, within equity markets has been that valuations look stretched in parts of the U.S. equity market. As such, we have retained a preference for the rest of the world equities over the U.S. Yields in the U.K. Government bond market remain attractive, but given long-term risks around fiscal sustainability in developed markets, we are principally invested in short-dated Gilts and credit. Our attention is now turning to 2026, and I will expand on our views here in next month's Window on the World.



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