

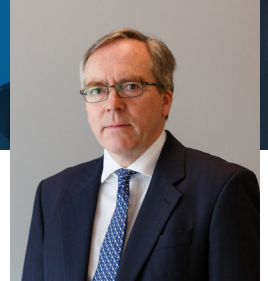
Capital Markets Monthly **FIXED INCOME**

December 2025

CHARLES THOMSON

Head of Portfolio Management

charles.thomson@caiml.com



Another solid month from global bonds

In November 2025, the US Treasury market continued with a constructive tone, despite any obvious catalysts including curtailed economic data releases, leaving investors to trade flows and positioning rather than fundamentals. The blackout period ahead of the December 10th Federal Open Market Committee meeting created a lull in official signals. Despite Chair Jerome Powell's comments after the last policy meeting—where he emphasized that a December 25bp cut was not a foregone conclusion—market pricing migrated decisively toward easing, as we suggested last month. There is now a high probability of a 25bp reduction at the upcoming FOMC meeting. The outlook for U.S. Treasury securities remains positive: real yields remain attractive to global allocators, the yield curve remains steep, and a nascent normalisation of term premia supports carry strategies amid expectations of further rate cuts. Sentiment has also been buoyed by an anticipated announcement of the next Fed Chair, with consensus increasingly pointing to economist Kevin Hassett as the likeliest nominee. The prospect of his leadership has reinforced expectations for significant easing in 2026, reinforcing positioning for 2026, especially as inflation risks fade. With a friendly macroeconomic backdrop, compelling curve dynamics, and a regime shift toward deliberate easing in 2026, U.S. Treasuries are poised to benefit from both price appreciation and strong income.

In November 2025, the Bank of England Monetary Policy Committee held rates at its Monetary Policy Committee meeting, but the 5-4 vote revealed a finely balanced committee and a clear shift toward easing. We now anticipate a very high probability of a 25bp cut at the next MPC meeting scheduled for December 18th. Gilts delivered a modest 0.15% return in November, consolidating after a very strong October rally, yet the backdrop has turned more supportive. The UK Budget on 26th November highlighted increased fiscal headroom from £12bn to £22bn, a positive for gilts as medium-term financing pressure eased, while concerns about imminent income-tax hikes look overstated in hindsight given

that tax rises were largely back-loaded, and pre-budget fears of income-tax changes were likely overdone. With an upward-sloping yield curve supporting carry, inflation risks fading, and monetary policy set to turn easier before year-end, the outlook for gilts is positive, as a deliberate easing path in 2026 is increasingly expected. UK Gilts remain the highest yield bond market in the G7. Additionally, we anticipate a significant move towards issuing more short-dated Gilts and UK Treasury Bills as this will reduce overall funding costs compared to financing through long-dated Gilts.

European government bonds underperformed cash rates in November as yield curves moved higher. The spread between French and German sovereign bonds continued to narrow modestly, reflecting reduced political risk and greater confidence in France's fiscal trajectory. Peripheral markets benefited from similar dynamics, as investors responded to signs of easing inflation and a more dovish tone from the ECB. Overall, the combination of anchored inflation expectations and contained sovereign risk premiums continues to underpin a constructive outlook for European government debt. The ECB's June rate cut may prove to have been the last of the cycle, leaving investors cautious about further policy support.

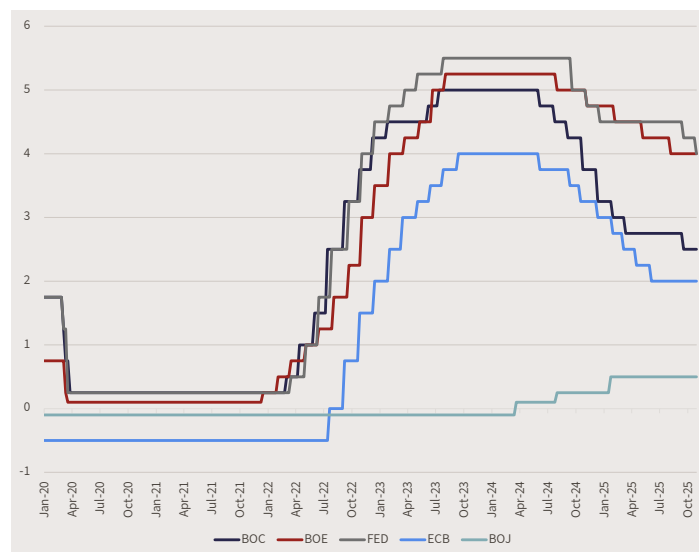
Japanese government bonds also underperformed in November, driven by continued political and monetary policy uncertainty following the recent change of government. The leadership transition has introduced an element of policy ambiguity, particularly regarding the future direction of fiscal support and potential coordination with the Bank of Japan. While inflation remains contained, investors remain wary that shifts in political priorities could complicate the bond market outlook. Recent commentary from the Bank of Japan governor Kazuo Ueda strongly hints at an upcoming hike in interest rates at the December meeting, taking the target rate from 0.50% to 0.75%. A firmer path of monetary policy tightening would likely result in a stronger Japanese yen. The steepness of the JGB curve will provide some protection in this scenario.

Chinese government bonds also underperformed cash rates last month as yields increased across the curve. Softer domestic growth data continued to reinforce expectations of targeted fiscal and monetary support, while the Chinese renminbi strengthened somewhat from 7.12 to 7.07 versus the US dollar. Chinese government bonds maintain their appeal as a defensive allocation, supported by relatively attractive real yields and low correlation with global fixed income markets.

Emerging Market bonds reversed some of their recent gains as sovereign spread compression reversed. However, investor risk appetite remained solid as US treasury yields stabilised and inflation pressures moderated across several EM economies. Overall, a combination of strong fundamentals and renewed confidence in select reform stories has reinforced the constructive outlook for EM debt. Current valuations remain expensive versus history and this calls for a degree of caution looking forward. The sovereign spread on the EMBI Global index widened from 236bp to 244bp in November.

The following chart shows the evolution of official interest rates across the G7 central Banks.

G7 Central Bank Official Interest Rates



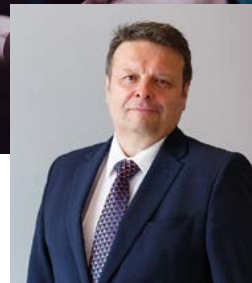
Source: Bloomberg Finance L.P., 31 October 2025.

Capital Markets Monthly FOREIGN EXCHANGE

December 2025

SLAWOMIR SOROCZYNSKI
Head of Fixed Income

slawomir.soroczynski@caiml.com



Foreign exchange market switching early into Christmas mode

November turned out to be the quietest trading month of 2025, with most G10 currency pairs moving within unusually tight ranges. The Japanese yen was the only meaningful outlier, weakening by 1.4% against the US dollar and becoming the worst-performing G10 currency. This move was the primary driver behind the observed volatility in the US Dollar Index (DXY).

The DXY opened the month with a 30 cents gap, but upward momentum was capped by the 200-day moving average, positioned just above the 100.00 level. An initial attempt to break through this resistance failed, and the index retreated, forming a base around 99.50 before making another push higher. Although the DXY briefly traded above this resistance line, the move lacked conviction. After several sessions, it slipped back below, ending the month slightly lower than where it began.

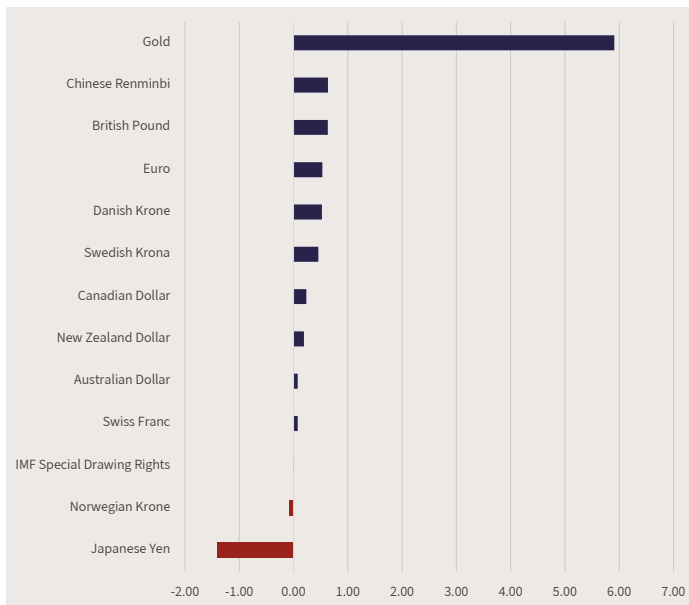
Among the top performers, the Chinese Renminbi (CNY/CNH) and the British Pound (GBP) both gained around 0.6%, while the EUR followed with a 0.5% advance. Markets were particularly cautious around the British pound ahead of the Autumn Budget, but the Chancellor ultimately passed the market test with ease, turning the event into a non-issue.

Looking ahead, market attention now turns to central bank decisions. The Federal Reserve and the Bank of England are both expected to deliver another 25-basis-point rate cut. The European Central Bank is widely anticipated to keep rates unchanged for the foreseeable future. Expectations are more divided for the Bank of Canada, and similarly for the Reserve Bank of Australia, where recent inflation data has prompted some analysts to call for a potential rate hike rather than a cut. As for rate increases, the Bank of Japan remains the most likely candidate, with markets pricing in nearly an 80% probability of a 25-basis-point hike in December.

Turning to commodities, gold delivered another exceptional month, reaching yet another all-time high and closing nearly 6% higher. Other precious metals also performed strongly, with silver, traditionally associated with the first Christmas star, adding a seasonal touch as many of us look forward to that symbol of health and good fortune for the year ahead.

Seasons Greetings.

November performance vs. USD (%)



Source: CAIM, 30 November 2025.

Capital Markets Monthly EQUITIES

December 2025



SIMON PRICE

Senior Equity Fund Manager

simon.price@caiml.com



United States

Waiting on the Federal Reserve

U.S. equities consolidated near recent highs in November, initially selling off as markets priced out a December Fed rate cut before weaker data revived expectations and fuelled a sharp recovery into month-end. AI bubble concerns persisted, with the Magnificent 7 facing selling pressure amid questions over capex funding and ROI, while trade policy uncertainty eased slightly following the Trump–Xi meeting during Trump’s Asia visit. However, legal risks resurfaced as the Supreme Court heard arguments on Trump’s use of tariffs under the International Emergency Economic Powers Act, with questioning suggesting potential overreach. Meanwhile, a record-long government shutdown ended after 43 days, with agencies funded through January 30, 2026, removing a key overhang on sentiment.

Hawkish commentary early in November, including October FOMC minutes showing “many” officials leaning against a December rate cut, initially weighed on sentiment. Several policymakers even opposed the October cut itself, though only Kansas Fed President Schmid dissented in favour of keeping rates on hold. Later in the month, dovish signals emerged as New York Fed President John Williams suggested scope for further easing, and reports that Kevin Hassett was the frontrunner for the next Fed Chair reinforced expectations of continued accommodation.

The prolonged government shutdown limited official data releases, making second tier and private surveys more influential. While the solid ADP employment report pointed to labour market resilience, the Challenger, Gray & Christmas survey highlighted stress, showing October job cuts up 175.3% year-on-year to 153,074, the highest October figure since 2003. The eventual resolution of the shutdown allowed some catch-up in data flow, but uncertainty around underlying economic momentum persisted.

Turning to corporate earnings, the third-quarter earnings season is nearly complete, with EPS growth of around 15% and sales growth improving to roughly 7%. Similar to Q2, earnings beats were largely driven by bearish estimates heading into the season, which meant that misses were punished more severely than beats were rewarded. Overall, results reinforced a picture of resilient profitability, though investor reactions were selective given elevated valuations and cautious forward guidance. In company highlights, Nvidia delivered a solid revenue beat and strong guidance for the current quarter, with its CFO even suggesting the company could surpass its ambitious \$500 billion revenue target. However, the bar was high, and the stock reversed an initial 6% overnight gain to close -3.2%, underscoring ongoing AI fatigue amid stretched sentiment and positioning. Walmart beat expectations, gaining market share and sounding positive on holiday spending and inflation trends, but this was offset by cautious commentary from peers on the U.S. consumer, particularly at the lower end. Home Depot declined after cutting its full-year outlook, adding to broader concerns about consumer strength heading into year-end.

U.S. equities gyrated before ending November slightly higher, with sector performance mixed. Pharmaceuticals provided support, while Communication Services gained on strength in Alphabet after news that Berkshire Hathaway had taken a stake and positive reviews of its new Gemini-3 AI model. Sentiment was further boosted by reports that Meta may be in talks to buy Google’s AI chips for data centres in 2027 and rent them in 2026. On the downside, Information Technology lagged as concerns over valuations, capex spending, and cash flow increased, though it remains unclear how much of the weakness reflected genuine unease versus end-of-year profit-taking.



Europe

Encouraging macro provide hopes to earnings upgrades

European equities posted modest gains in November as macro data turned more supportive, with the Euro Area composite PMI revised up to 52.5, a two-year high, signalling improving economic momentum. Sentiment was further lifted by reports of a potential U.S.-brokered peace plan in Ukraine, even though details remained scarce.

Meanwhile, Eurozone inflation eased slightly to 2.1%, reinforcing expectations that the ECB will maintain a cautious easing stance into 2026.

November was relatively muted for European equities, with mixed results across the continent leading to a modest 1% gain. Health Care was the standout performer, with strong gains on easing drug-pricing concerns, while Banks, on continued earnings upgrades, also contributed positively. On the downside, Information Technology declined amid fears of sector overvaluation, and defence stocks softened as hopes for progress in Ukraine peace talks weighed on sentiment.



Developed Asia

A more muted performance and potentially an active BOJ

Asian equities saw more muted performance in November after strong gains since April, as risk appetite cooled on softer macro data, renewed U.S. market volatility, and cautious corporate guidance, leading to declines in major indices.

Japanese equities balanced optimism around a possible ¥21.3 trillion (\$135.5 billion) stimulus package against expectations that the Bank of Japan may soon have room to raise rates. Macro data was mixed, with Q3 GDP contracting at an annualized -1.8%, better than expected, as U.S. tariffs sharply reduced exports. This backdrop promoted domestic equity outperformance, with banks benefiting from rising bond yields.



Emerging Markets

Emerging market equities underperformed their developed market counterparts on renewed US market volatility/hawkish themes at the October FOMC which saw some rotation away from high-growth tech into value sectors amid valuation concern within the regions.

Regionally, EM Latam outperformed driven by commodity strength and policy stability, with CEEMEA also seeing positive returns while EM Asia saw negative returns in USD.

IMPORTANT NOTES

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any Crown Agents Investment Management Limited ('CAIM') funds and has not been prepared in connection with any such offer.

This communication may only be used by a person in a jurisdiction where it is legally permitted to do so. The original recipient is responsible to ensure that no breach of local laws occurs in sharing its contents. This document should not be reproduced or distributed except via original recipients such as authorised financial advisers that are permitted to do so by local regulation and should not be made available to retail investors. This communication is not for distribution in the United States of America.

Any opinions expressed herein are those at the date of issue and cannot be depended on to predict future events. They do not necessarily reflect the views of CAIM. All data is sourced to CAIM unless otherwise stated. We believe that the information contained is from reliable sources, but do not guarantee the relevance, accuracy, validity or completeness thereof. Subject to UK law, CAIM does not accept liability for irrelevant, inaccurate, invalid or incomplete information contained, or for the correctness of any opinions expressed.

Past performance is not indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of the investments. The value of investments and any income from them may fluctuate and investors may incur losses. All investments involve risks including the risk of possible loss of principal. Liquidity risk may delay or prevent account withdrawals or redemptions. High volatility of fund prices can result from unstable market conditions.

The investment opportunities described herein do not take into account the specific investment objectives, specific needs, knowledge, experience or financial circumstances of any particular person and are not guaranteed.

This document is produced and issued by Crown Agents Investment Management Limited, with Company Registration No. 02169973, and its registered office at 3 More London Riverside, London, SE1 2AQ, which is authorised and regulated by the Financial Conduct Authority in the UK (No 119207). For complaints relating to CAIM's financial services, please contact enquiries@caiml.com.



3 More London Riverside, London, SE1 2AQ, United Kingdom

+44 (0)20 7489 7223

www.caiml.co.uk | CAIMinsights@caiml.com

Crown Agents Investment Management is authorised and regulated by the Financial Conduct Authority in the UK (firm reference number 02169973)