CAIM | CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly
FIXED INCOME

January 2026

CHARLES THOMSON
Head of Portfolio Management

charles.thomson@caiml.com

Mixed Returns from Global Bonds

In December 2025, the US Treasury market was shaped by a combination of monetary policy easing, shifting yield dynamics, and mixed macroeconomic data. The Federal Reserve cut rates by 25 basis points at the December FOMC meeting, a move that coincided with a noticeable steepening of the yield curve: two-year Treasury yields were broadly unchanged, while longer-dated yields moved higher, pushing the 2s–10s spread out from around 10bp to approximately 25bp. After delays, employment data for October and November was eventually released and proved weak, with October nonfarm payrolls contracting by 105,000, reinforcing concerns about labour-market momentum. At the same time, inflation data surprised to the downside, with CPI printing at 2.7% versus a 3.1% consensus expectation, providing some validation for the Fed's easing stance even as longer-term yields reflected residual inflation and term-premium concerns. However, for the calendar year, US Treasury indices delivered very solid returns. The ICE US Treasury 1–3 Year Index returned 5.1%, its strongest annual performance since 2008. Meanwhile, the full-duration US Treasury Index gained 6.2%, marking the first year since 2020 in which returns exceeded the index's coupon.

The UK Gilts market in December 2025 was influenced by a combination of expected policy easing, improving inflation data, and still-soft growth. The Bank of England cut the Bank Rate from 4.00% to 3.75%, in line with our expectations, following a significantly better inflation print: headline CPI fell from 3.6% to 3.2%, with core inflation also moderating. Despite this progress on inflation, economic momentum remained weak, with Q3 GDP growth registering just +0.1%. In the Gilt market, intermediate-maturity yields moved higher over the month, while 2-year and 30-year yields were broadly unchanged, resulting in modest curve reshaping rather than a parallel shift. For the calendar year as a whole, Gilts delivered a strong performance, with the full maturity ICE Bank of America UK Gilts Index returning 5.04% in 2025.

European government bond markets delivered a disappointing performance in December 2025, as yields rose across the region. The ICE Bank of America German Government Index fell by 0.8% over the month, bringing the calendar-year 2025 return to -1.5%. There was no change in policy rates at the December meeting of the European Central Bank, and markets increasingly judged that no further rate cuts were likely in the near term. Despite the negative headline performance, peripheral spreads versus Germany continued to narrow, including in France, while Ireland and Portugal traded effectively flat to Germany at the five-year point. At the same time, persistent upward pressure on longer-dated bonds led to a further steepening of yield curves. This pressure is expected to remain, particularly at the long end, as Dutch pension funds continue their structural transition away from long-dated European government bonds into other asset classes, including equities.

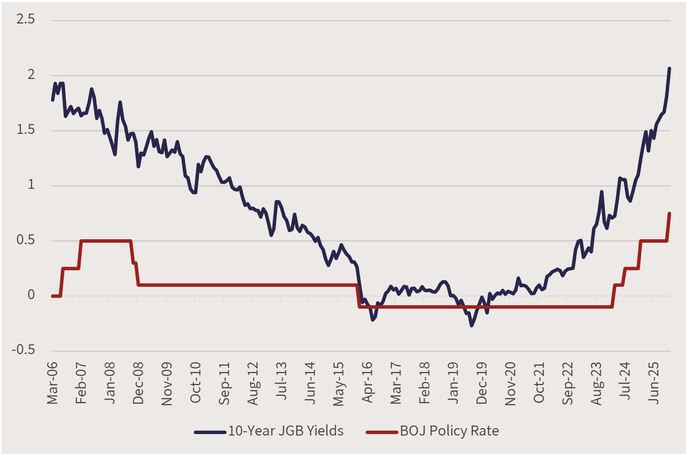
Japanese government bond markets came under renewed pressure in December 2025, with 10-year JGB yields rising above 2%, their highest level since the 1990s. As expected, the Bank of Japan raised its policy rate from 0.50% to 0.75% at the December meeting, reinforcing the view that Japan has firmly entered a tightening cycle. Further rate hikes now appear likely, and upward momentum in bond yields is expected to continue in the near term, pointing to weaker performance for JGBs. Speaking at a New Year's conference hosted by the Japanese Bankers Association, Governor Kazuo Ueda indicated that the Bank will continue to raise rates as economic conditions and inflation improve, arguing that a gradual withdrawal of loose monetary policy is necessary to achieve stable inflation and support sustainable long-term economic growth.

Chinese government bonds delivered a disappointing local-market performance in December 2025, with the ICE Bank of America China Government Index returning -0.3%, leaving the calendar-year return at just 0.1%. While 2025 marked the weakest annual outcome for this market since 2017, returns nonetheless remained positive and should be viewed in the context of the asset class's historically stable and consistently strong performance in recent years, particularly at a time when many other global government bond markets experienced significant drawdowns. As a result, Chinese government bonds continued to offer meaningful diversification benefits within global fixed-income portfolios. Adding to the supportive backdrop, the renminbi strengthened steadily against the US dollar over the year and moved to an exchange rate below 7.00 for the first time since 2023, reinforcing foreign-investor returns and overall market resilience.

Emerging market debt finished 2025 on a strong footing, with spreads continuing to compress over the course of the year. The J.P. Morgan EMBI Global spread tightened further into year-end, finishing at +231bp, the lowest level of the year, having been above 350bp as recently as April 2025. This compression reflected improved risk sentiment, resilient fundamentals across many issuers, and continued investor demand for carry. One of the more striking developments was the sharp rally in defaulted Venezuelan international bonds, albeit from extremely depressed price levels, following the dramatic geopolitical shock surrounding the arrest of President Nicolás Maduro by US authorities, which materially altered expectations around regime stability and eventual debt restructuring outcomes.

The following chart shows the evolution of the Bank of Japan's Policy Rate and the yield of 10-year Japanese Government Bonds

BOJ Policy Rate and 10-year JGB Yields



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

CAIM CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly
FOREIGN EXCHANGE

January 2026

SLAWOMIR SOROCZYNSKI
Head of Fixed Income

slawomir.soroczynski@caiml.com

A Disappointing End to the Year for the US Dollar

December brought no improvement to the US Dollar's fortunes, with the US Dollar Index (DXY) depreciating by 1.15%. The greenback weakened against all G10 currencies except the Japanese yen (JPY). Thanks to yen weakness, the DXY managed to limit its full-year loss in 2025 to a single digit, even as the euro (EUR) advanced by 13.4%.

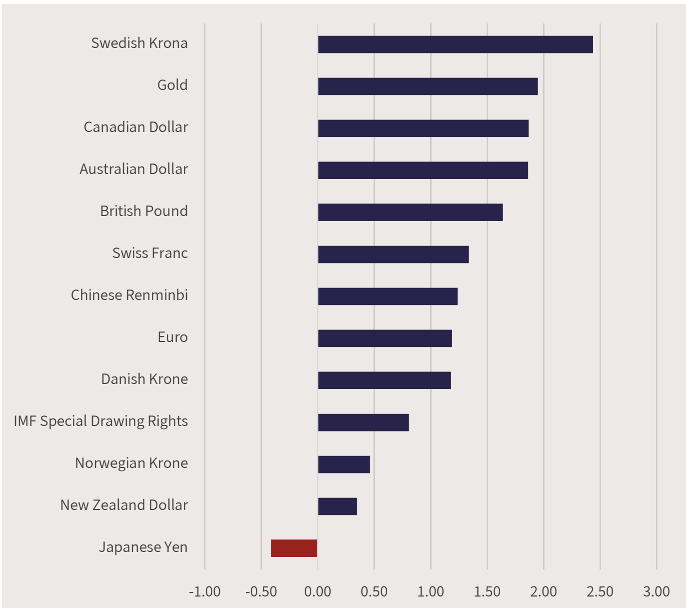
Overall, 2025 was a strong trading year for the euro and its European peers. The Scandinavian bloc performed particularly well: the Norwegian krone appreciated by 12.9%, while the Swedish krona (SEK) delivered a staggering 20.0% return, making it the best-performing G10 currency of the year. In December, the SEK also led monthly gains, rising 2.4%, followed by the Canadian dollar (+1.87%) and the Australian dollar (+1.86%). Detailed performance for the G10 currencies, SDR, and gold is provided below.

Another noteworthy development was the Chinese renminbi, which closed the year below the key psychological and technical level of 7.00 against the US dollar, adding to its annual gain of 4.5%. Diversification away from the US dollar appeared to be the dominant investment theme in foreign exchange markets throughout 2025. US domestically driven outflows coincided with globally driven geopolitical flows. Historically, emerging markets have been the main beneficiaries of such trends, and this time was no exception, with most EM currency crosses delivering double-digit gains. European EM currencies led the charge, with the Russian ruble appreciating by 43%, underscoring ongoing shifts in the global geopolitical landscape.

Before turning to 2026, it is worth highlighting the clear winner among reserve assets in 2025: gold. Driven by the widely embraced diversification theme, gold posted unprecedented gains, rising nearly 65% and reaching an all-time high of USD 4,549 per troy ounce in the final week of the year.

Looking ahead, we expect a broad continuation of the themes that dominated 2025, although some currencies may exhibit different trading patterns. A reversal in Japanese yen fortunes would not be surprising amid risk reduction or the unwinding of cheaply funded leveraged positions. The Australian dollar may also surprise to the upside, supported by its historically positive correlation with commodity prices, exposure to Asian markets, and attractive carry. For the remaining major G10 currencies, matching the strong returns of 2025 will likely prove challenging. We expect the Chinese renminbi's positive momentum to be sustained. Within the emerging-market bloc, European currencies may struggle to maintain strong gains as valuations appear stretched. Outside Europe, the South African rand (ZAR) stands out as a strong candidate to outperform again, supported by both domestic fundamentals and international capital flows.

December performance vs. USD (%)



Source: CAIM, 31 December 2025.

CAIM CROWN AGENTS INVESTMENT MANAGEMENT

Capital Markets Monthly
EQUITIES

January 2026

SIMON PRICE
Senior Equity Fund Manager

simon.price@caiml.com

United States

A consolidation following strong gains

U.S. equities consolidated in December after a strong year as mixed macro signals tempered momentum. Higher-than-expected November unemployment raised concerns, but a soft CPI print kept hopes alive for further Fed rate cuts in 2026. The Fed delivered a 25bps cut and announced Treasury bill purchases, marking the first sustained balance sheet expansion since QE ended in 2022, seen as liquidity supportive. Late-month weakness hit technology stocks, driven by concerns over financing AI-related capex and uncertain returns. Oracle was central to this shift, reporting revenue below expectations and elevated capex, followed by news that a private creditor declined to back a $10bn data centre deal, amplifying funding concerns for large-scale AI infrastructure projects.

The FOMC delivered a third consecutive cut, lowering the fed funds target range to 3.50–3.75%. The 9–3 vote saw Governor Miran push for a 50bp cut, while Goolsbee and Schmid preferred no change. The statement signalled a likely pause in early 2026, with the dot plot showing only one more cut expected next year, and new language on "extent and timing" hinted at caution. Powell emphasised the Committee is "well positioned to wait and see," noting recent easing has brought policy into a broadly neutral range.

Macro data, delayed by the government shutdown, painted a mixed picture. October payrolls were weak while November rebounded, though the unemployment rate rose to 4.6%, a four-year high. This was less alarming as the increase largely reflected re-entrants to the labour force rather than permanent job losses. November's CPI showed the lowest core reading since early 2021, but missing data and methodological quirks, such as an unusually sharp drop in shelter costs, led investors to treat the report with caution.

U.S. large-cap indices delivered a strong Q3 earnings season, with double-digit EPS and solid revenue growth led by tech, financials, and industrials. Most companies beat expectations, but cautious guidance and concerns over AI-related valuations tempered sentiment. Oracle shares fell after revenue missed estimates and management withheld an AI revenue forecast, while Broadcom declined on warnings of near-term margin pressure despite strong sales outlook, heightened by its recent valuation surge. Consensus Q4 earnings growth have been revised up to 8.1% by mid-December and full-year 2026 expectations remain robust at 14.5%.

U.S. equities gyrated before ending flat for December, with large cap slightly outperforming mid and small cap. Value stocks outperformed growth following another rate cut, though merely by staying roughly flat. Cyclical stocks continued to gain following the resumption of the Federal Reserve's rate cut cycle, with financials leading, followed by materials, industrials and discretionary and energy. All other sectors fell for the month, led lower by defensives, with utilities, real estate, staples, health care underperforming.

Europe

Encouraging macro provide hopes to earnings upgrades

European equities posted strong annual gains and edged higher in December, supported by stronger macro data, with Euro Area composite PMI revised to its highest level in over two years. This came despite hawkish tones from the ECB, which left the deposit rate at 2% but projected stronger growth and stickier core inflation. While speculation about a 2026 hike persisted, Lagarde reiterated that all policy options remain open.

European markets rounded out a strong year, continuing the rotation into cyclicals, especially banks, miners, defence, and commodities, while also benefiting from rate-cut optimism and capital rotation away from US growth stocks.

Developed Asia

The profile of future BOJ policy promotes many questions

Asian equities delivered mixed results in December following strong gains through most of the year. Hong Kong ended softer, weighed by concerns over weak Chinese domestic demand, disappointing retail sales, sluggish investment, and ongoing property market stress, alongside profit-taking after strong AI-driven gains. Japanese equities posted solid annual gains on AI momentum, fiscal stimulus optimism, and yen weakness boosting exporters. However, December saw pressure from speculation about a BOJ rate hike and rising long-term yields, though strength in banks and domestic cyclicals kept performance positive for the month.

Emerging Markets

Emerging market equities delivered strong returns in 2025, marking their first annual outperformance versus developed markets since 2017. Early-year pressure from U.S. tariffs and trade uncertainty eased as implementation dates were extended and negotiations resumed. Fed easing midyear, a weaker dollar, and fading U.S. exceptionalism further boosted EM performance. December continued these themes.

Regionally, CEEMEA led gains in December on EU-driven fiscal expansion, GDP upgrades, and a stronger euro, alongside South Africa's rally on precious metals and improving domestic conditions. EM Asia posted modest gains, while LATAM ended the month in negative territory.

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.

CAIM | CROWN AGENTS INVESTMENT MANAGEMENT

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

+44 (0)20 7489 7223

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