



Review

December was another solid month for most global equity markets, rounding out a very strong year across the board. For 2025 as a whole, the US's S&P 500 was +17.9%, Europe's STOXX 600 +20.7% and Japan's Nikkei +28.6%. UK equities performed similarly well, with a +2.26% gain in December for the iShares UK Equity Index tracker, bringing the full year 2025 return to +23.12%.

The primary focus for investors in December was central bank interest rate decisions. In the US the Federal Reserve reduced rates, as expected, by 0.25% largely in response to rising unemployment, despite the latest GDP growth numbers remaining robust. The Fed also announced the end of its quantitative tightening policy and the restarting of purchases of short-term government debt for liquidity management purposes.

Meanwhile, in Europe the ECB kept rates on hold for the fourth consecutive meeting, again as expected, with the Eurozone economy expected to continue expanding at a moderate pace and inflation remaining near target. In contrast, the Bank of Japan raised interest rates by 0.25%, to 0.75%, the highest rate in 30 years, with Governor Ueda signalling a willingness to raise rates further if economic and price trends align with their forecasts.

Finally, here in the UK, the welcome news that inflation had fallen to an eight-month low of 3.2% in November cemented the case for a further reduction in interest rates which the Bank of England duly delivered, reducing the Bank Rate by 0.25% to 3.75%, albeit with a narrow 5-4 vote split in favour of a cut. With a small contraction (-0.1%) in GDP growth in the three months to October, unemployment rising to 5.1%, a stagnating housing market, alongside the uncertainty created by the November budget, it is likely that the Bank will offer more support to the domestic economy in due course.

Fund performance / Activity

December was a much better month for our fund from a performance perspective, as we benefited from continued improvement in relative performance of many of the more cyclical areas of the market. As such, our fund gained +4.01% (share class A GBP Net Accumulation) over the period, significantly outperforming the iShares UK Equity Index tracker gain of +2.26% and the peer group average gain of +1.86%.

There were several individual positive contributors to performance in December including Atalaya Mining, Burberry, Bodycote, OSB Group, DFS Furniture, JD Sports, and SSP Group. There were also several individual negative contributors during the month including Telecom Plus, Informa, Harbour Energy, and Savills. Index heavyweight stocks that we do not own, whose share prices performed strongly, were significant detractors once more and included HSBC, Rolls-Royce, and Barclays Bank.

We were reasonably active in the portfolio during December, despite it typically being one of the quieter months of the year. We added two completely new holdings, travel retail operator SSP Group and housebuilder Persimmon, and we made one complete disposal of the balance of our holding in ICG Group. We added to holdings such as Victrex, Harbour Energy, and Telecom Plus and took profits in positions such as Zegona Communications, Kier, Atalaya Mining, and Wickes.



Market Outlook

2025 was an excellent year for most global equity markets and most major asset classes. Inevitably, following such strong performances, questions will be posed regarding the sustainability of recent progress, possible selective excessive valuations, investor complacency and more. Notwithstanding these concerns, in our view there remains much to be optimistic about for 2026 and beyond.

For several years markets have been buffeted by a rolling series of ‘shocks’ including the covid pandemic, Russia/Ukraine war, inflation shocks, interest rate shocks, trade tariff wars and more. These seemingly never-ending issues have resulted in a high degree of caution being exhibited by consumers and companies alike. Consequently, consumer savings rates, particularly in the UK, are extremely high and corporate balance sheets remain healthy, as there remains a general reluctance to invest for the medium to long term. Specifically, regarding the UK, heightened political uncertainty has compounded the sense of caution and, alongside well documented substantial reductions in allocations to the domestic equity market, has left the investing environment very far from ‘exuberant’ in our view.

Looking forward, we see significant potential, even in an environment that only becomes ‘less bad’, for substantial further progress for global equity markets. We expect growth to remain resilient, aided by further interest rate reductions, fiscal stimulus, healthy private sector balance sheets, a significant reduction in tariff uncertainty, and possible easing of geopolitical tensions. Specifically in the UK, we are hopeful that the worst of the recent political uncertainty has passed and the period of extreme private sector caution can start to alleviate. We are particularly enthusiastic about the opportunities in mid and small sized companies, which in our view have been disproportionately affected by the issues noted above, and where valuations appear extremely attractive.

Consequently, we look forward to 2026 with optimism, whilst cognisant that there exists the potential for short-term volatility spikes at any time. As we regularly remind readers, we consider it essential to focus on the medium-term potential of our investments and, in that regard, our enthusiasm for our current portfolio is substantial.

Simon Murphy, Fund Manager
James Bowmaker, Deputy Manager

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Data source (unless otherwise stated): Bloomberg, FE Analytics

Contact Details:

Fund Manager: Simon Murphy – smurphy@tyndallim.co.uk
Deputy Manager: James Bowmaker – jbowmaker@tyndallim.co.uk
Head of Distribution: Theresa Russell – trussell@tyndallim.co.uk



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Investment Manager: 5-8 The Sanctuary, London, SW1P 3JS.

