Equity Research; 2025 Review and looking ahead

COLLINS SARRI STATHAM INVESTMENTS

Research Report

Report Date

31st December 2025

Analyst

Ravi Lockyer MSc Llb ASCI
Collins Sarri Statham Investments Ltd

Key Risks to Price Target

Not applicable

Please note the risk warnings and disclaimers on the last page of this document.

2025 Review: An important year, maybe a plateau year

Equity returns in 2025 exceeded our expectations and ended in style once again proving the adage, '*equities climb a wall of worry'.*

NYSE+ 19%

US tech+ 9.2%

Frankfurt+ 23%

London+ 21.5%

Paris + 13.8%

Emerging Markets (EM)+ 29%

World Index+ 21%

Gold: $4,350+70% (New Year's Eve 2024: US$2,624/oz)

Silver: $76+ 164% (New Year's Eve 2024: US$28.85/oz)

The remarkable re-pricing of precious metals in 2025 suggests a central bank reappraisal of reserve needs and a broad realization that unpredictable times require hard assets.

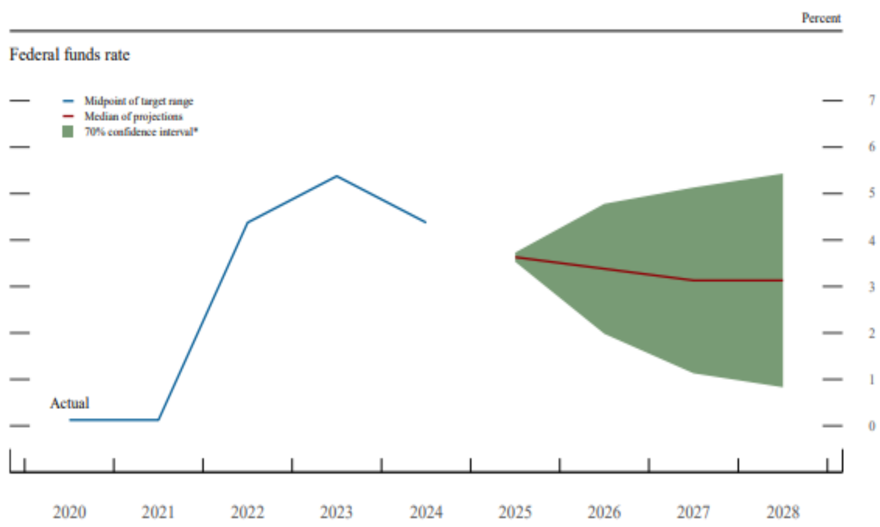
Reasons for the 2025 gains:

a) Strength of emerging markets / overall emerging markets are up 26% for 2025; this return is partly attributable to:-
   - i) Lower global interest rates (see below)
   - ii) strong China recovery with GDP 'official' growth at 5% (independent estimates at 3%)
   - iii) Increased role of India (now 4th largest economy) in the EM space. India GDP rose 6.5% in 2025 – its stock market value $5.2trn exceeds Hong Kong ($4.4trn) and comprises 16.2% of emerging market indices. Over 2025 more households in India had disposable income above US$10k than in Japan. India has a path to improved transparency and regulation, areas where it has previously fallen short.
   - iv) increasing role of Taiwan (20.5% of EM indices) helped by Taiwan Semiconductor Manufacturing.

b) Lower Global Interest Rates; in response to US tariffs, central banks were eager to soothe nerves and stimulate economies. 2025 saw the return of cheap liquidity. The accepted wisdom is for two further US rate cuts in 2026.

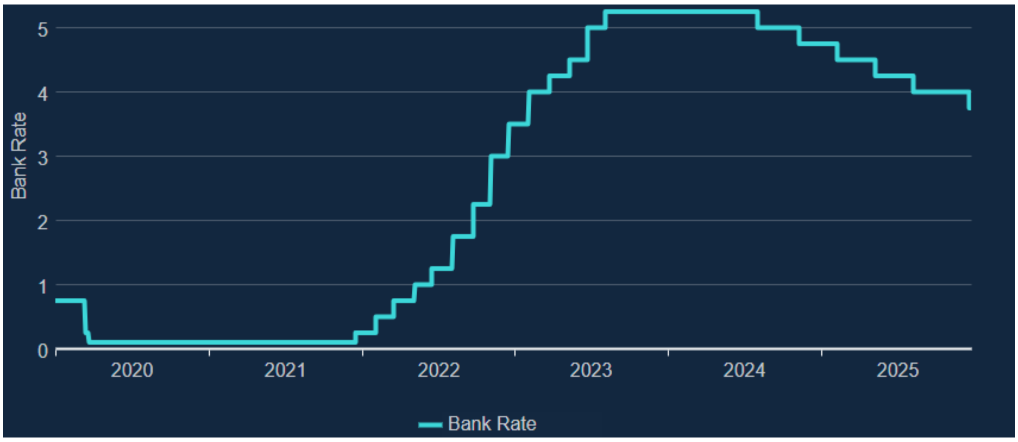
However, the downside path in interest rates seems confined to the US where expectations are 3% by end 2026.

Figure 5. Uncertainty and risks in projections of the federal funds rate



Source; US Federal Reserve Summary of Economic Projections; 10/12/25

The UK interest rate cycle looks late cycle. 2025 was curious in that the rate cut downside (-1% in total) was unmatched by CPI progress (November 2025 CPIH 12 months 3.5% was flat on November 2024 reading of 3.5%)



Source: Bank of England

Our view is 2025 saw the bulk of rate downside and the current 3.75% rate is paused for H1 2026. Further rate cuts will require far more progress on inflation in 2026 than was delivered in 2025.

Improving UK sentiment was helped by a November budget that was better than expected and delivered a stable yield curve.

Notable trends over 2025 : a) UK blue chips deliver

2025 was interesting, for the first time in a long time, the large London sectors were performing well together as opposed to netting off against each other. Hence index returns were higher than normal at 21.5%.

Mining, Banking, Insurance, Oil & Gas, Pharmaceuticals, Retailers, Utilities, even Telecoms in return terms all did well.

The top 3 performers amongst blue chips were Fresnillo, Airtel Africa and Endeavour Mining – obviously the first and third place helped by the surge in gold and silver (more on this later).

2025 saw the London blue chip earnings multiple expand to end at 19.8x (end 2024 P/E 15.7x) well above its 5 year rolling average range of 10.4x – 15.5x (5 year rolling average 12.9x / 10 year rolling average 13.3x). The current multiple suggests investors expect significant earnings growth over 2026 possibly as high as 15%. It is interesting the multiple expansion 4.1 points is a very large move for 12 months.

For UK mid-caps the P/E ends at just 13.5x and offering a 3.57% yield which still suggests decent inexpensive value to be had. London mid-caps returned 9.1% over 2025 considerably underperforming blue chips. For 2026 the index is starting with low expectations, which is always a good place to start.

A major UK bull factor was lower UK interest rates did not result in a currency sell-off or rupture the yield curve. Investors are comfortable with the UK outlook and expect GDP to accelerate from c. 1% over 2026.

London IPO pace improved over 2025. The vintage including a few winners, Shawbrook, Magnum Ice Cream and Princes Group.

Notable trends over 2025: b) US issues are in the 2026 inbox

In 2025 US equities, far from leading, were lagging global indices by the widest margin since 2009.

A game of catch-up was underway over H2, with a global re-rating occurring ex-US. This tends to happen when investors shift allocations from pricier areas to less expensive ones. According to Vanguard ETF data the US weighting in global indices declined 10% to 63% as of late 2025, still way above the US share of global GDP at 32%.

There remains concern over US tech valuations as reality replaces hype, with investors trying to locate AI related revenues.

The funding of chip purchases/ data centres requires significant cash, debt and off balance sheet debt. The build out / capex spend on AI functionality despite scant evidence of demand risks sending the US tech sector down a rabbit hole, creating white elephants.

Total capex in 2025 by leading US technology companies was c. $380bn with everyone investing in similar things.

Amazon: $100bn-$125bn on data centres/ AI support infrastructure / cloud apps/ AI Chips- AWS inferential / Trainium

Alphabet: $82.4bn- $92bn on cloud/ Gemini/ Gemini nano/Gboard Android

Microsoft: $140bn budget principally on Azure AI/ Open AI compute

Meta Platforms: $70-$72bn – data centres, GPU infrastructure, Llama 4

Open AI: FY2025 $8bn capex spend, however its multi-cloud strategy however its total commitments exceed $1.4trn in spending over 8 years in partnership deals

Oracle: $21.2bn for 2025 rising to $50bn for FY2026 (31 May 26): data centres.

In 2026 total AI capex is penciled in at c. US$570bn -US$600bn. As recently as 2023 AI/ IT capex commitments were in the US$150bn region (25% of 2026).

The need for capital spending on this scale is arguable, and plans could be scaled back, but assuming they are not, the first order effect is the highly cash generative tech giants are moving from significant net cash generation to a neutral or possibly cash burn situation in some cases.

How are trillion dollar tech valuations going to be maintained?

Will this vast AI spend be worth it? Will it reward investors and on what timetable? These are the major questions of 2025. There is no clear answer to this, it is anyone's guess.

But 2025 dispelled one major assumption, that the US tech titans could bottle up AI into a US monopoly for their exclusive benefit, leaving everyone else hunting for clues. Rather like the Manhattan Project, the US competitive advantage was initially envisaged as lasting decades, but over 18 months, the know how leaked, or stolen via espionage. The same story is now retold with Chinese tech building AI functionality or at a fraction of the US capex spend.

America authored its own issues in 2025 adding uncertainty. Investors have questioned the leadership's behaviour in alienating and provoking allies, weakening alliances, breaking international commitments and pressuring countries for inward investment. The rest of the world has now fully grasped that the US '*ancien regime*' is over and what has arrived is tangibly different from previous US norms or international norms.

It is not hard to envisage NATO and Article V on life support and further US demands being made to militarise Europe, or else. Is this course sustainable? I have a feeling 2026 will answer that question.

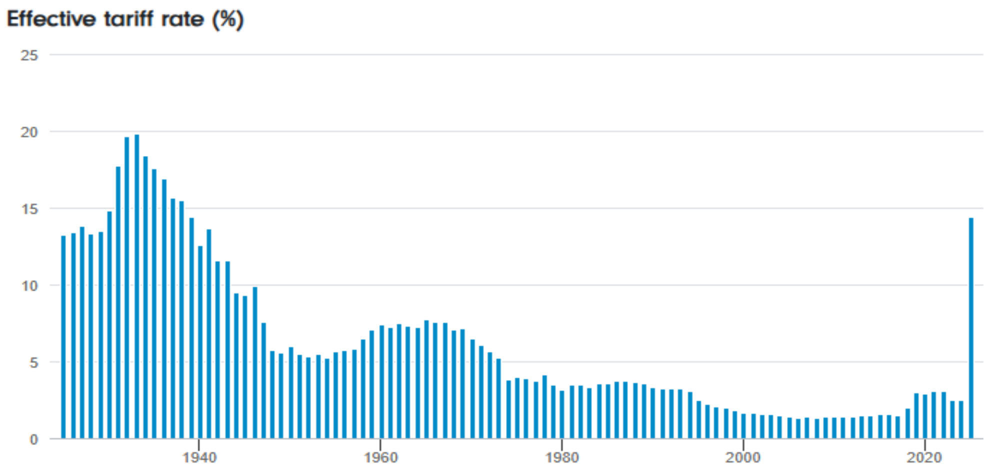
May 2026 brings a new Federal Reserve Governor likely to toe the Trump line in a similar way to Trump appointee, Federal Reserve President Stephen Miran who has publicly criticised the Fed's backward approach and demanding large rate cuts, despite the Federal Reserve not meeting its inflation goals and 4.3% US GDP growth that does require low rates. This is a total departure to the normal decorum and consensus at the US central bank.

The tearing up of the perception of Fed independence leaving monetary policy in the hands of Trump or his proxies would really hurt US credibility. It would lead to lower US interest rates and a far lower US dollar value – a Brexit scenario with no upside and a lot of downside.

2nd April 2025 'Liberation Day' / the settling down of US tariff worries

Online and press discourse, much of it highly partisan, suggested 2025 tariffs were 'not so bad', and/ or the tariff costs have been shared or negotiated down. This obscures the reality that the tariff impact has been substantial, the largest in 80 years and countries / companies were coerced to increase US investments.

Chart 4: US tariffs are at their highest level since the Second World War



Source: The Budget Lab at Yale, 17.11.25

Why did the US 'Liberation Day' 2025 / collapse of global free trade not result in multiple trade wars? as was initially presumed:-

*Other governments did not opt for retaliatory tariffs. Many fell into the 'prisoner dilemma' trap opting to negotiate individually rather than collectively retaliate. Many took the view that to raise retaliatory tariffs would hurt their own consumers and economies more and risk a further US response to retaliatory tariffs and have very uncertain outcomes. The US deadlines for negotiation effectively focused the international response to avoiding worse outcomes.

The notable exception was Canada who imposed 25% retaliatory tariffs on $29.8bn of US goods on 13th March and a 25% surtax on electricity exports from Ontario to US states. This was a relatively mild response given the US had imposed 50% tariffs on steel, aluminium, copper and 25% tariffs on all Canadian goods except energy.

*Final agreed tariffs were lower than Liberation Day indications, a good example is the final deal with the EU which negotiated a 15% tariff, half of the indicated 30% Liberation Day tariff. The EU also agreed to buy $750bn on US energy and invest $600bn in the US -these latter points are more speculative in terms of delivery.

*Exporters have shared the pain of the US tariffs by not hiking prices to the tariff adjusted rate, or via losing US market share.

*Some roll back of tariffs – on 21st November 2025, Trump removed 40% tariffs on Brazilian food, products, beef, coffee, cocoa and fruits due to their negative impact on US food prices. This demonstrated there is flexibility in the US government if/ when it hurts the Trump base.

US tariffs overall by increasing US government revenue have been touted as a Trump 'win' regardless of tariffs other failings in weakening competition, helping inferior goods and their obvious inflationary impact.

What arrived in 2025 is a world of 'realpolitik' devoid of convention, overarching ideology, practicality, economic theory or moral compass.

Geopolitical stress has become normalised

In this 21st century East/ West split, the East camp is also eager to showcase its credentials. For me, 2025 most visible glimpse of a possible future, came on 3rd September 2025 on Chang'an Avenue, Beijing with China showcasing its military prowess accompanied by 26 world leaders. This event was intended to globally telegraph that China's alliances have been enhanced by Trump's tariffs.

Premier Xi's speech 'humanity is again faced with the choice of peace or war.....China will never be intimidated by bullies' suggested the world is already in an East/West axis and possible 'pre-war' environment.

There remain many hotspots, the South China Sea islands and Taiwan where China's military is constantly conducting scoping flights probing weakness in its air defence. There is a problem with China's need to demonstrate military competence.

The US treatment of Ukraine, its vacillation and vast internal divisions, is a clear signal that the US is unlikely to defend Taiwan or want to risk a superpower confrontation on the grounds of the defence of liberty. A China invasion of Taiwan could have a similar impact to the Ukraine conflict, at least initially.

Geo-tension: Precious metals are winners in the 'debasement trade'

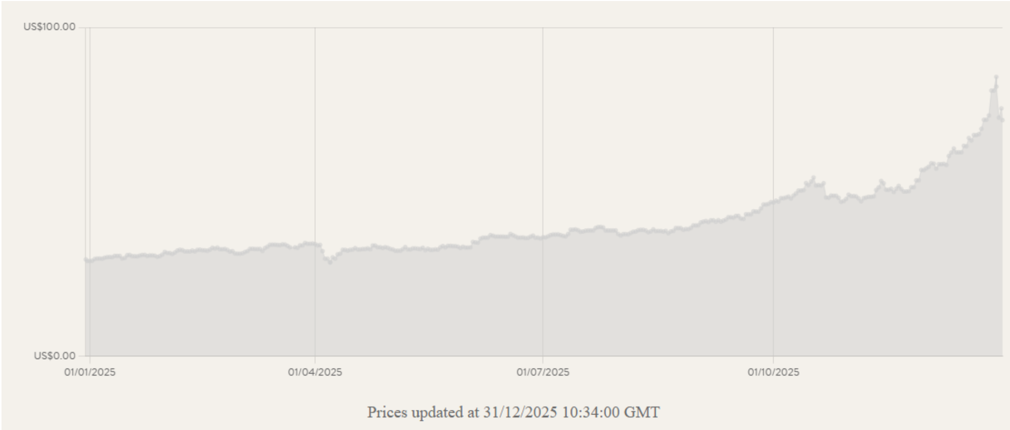
The staggering gains in gold, silver and platinum are winners in times of geopolitical stress. The 'debasement trade' has fit the narrative for 2025 perfectly, under the trifecta of growing global debt/ loss of fiscal credibility, geo-political tensions and reserve re-ordering.

The forces behind government debt, the total absence of political motivation to tackle structural imbalances i.e. the difference between government spending and income suggests a debt reset will only occur in a crisis backdrop.

Gold which is still under-owned in investor portfolios, is up 140% in the 2020's.

Prices updated at 31/12/2025 10:33:00 GMT

Silver – staggering gains in 2025



source: The Royal Mint

Gold purchases by central banks / gold ETF inflows suggest a re-allocation of portfolios to adapt to an era of high government spending, inflation, and militarisation. Precious metals are seen as less a rate sensitive trade (inverse relationship to global interest rates) to a hedge against fiscal risks / a liquid asset disconnected to government debt.

The 1960's portfolio model of a 60%/40% equity/ bond allocation is constantly evolving to reflect modern complexities and realities. If the 1970's was the decade when a 10% gold allocation 'arrived', during the 1980's gold was a portfolio drag. However this century has shown consistent returns and 2025 has been the best year since 1979. According to WisdomTree 2025 Investor Survey of 802 EU and UK participants, gold was ranked as the top safe haven asset with 41% of respondents. **The average portfolio allocation to gold stood at 5.7% which is still below 1970's norms but rising quickly**.

The survey noted gold had passed the 'why' and moved to the 'how' with 39% favouring ETF exposure to gold mining shares (19%), physical gold (20%) or futures market (19%) related exposure. The survey respondents said gold has moved to a 'core' position within standard portfolios with only 3% of investors declining to include gold.

Conclusion

Whilst 2025 returns, UK blue chips rose 21.5% in 2025 far outpacing the 5% return in 2024, were impressive (the best since 2019), the impression today is that 2025 might have overdelivered to the upside. Investors could well look back on 2025 as a watershed, when equity portfolios plateaued.

There is significant evidence a) rocketing precious metals b) Berkshire Hathaway net cash position c) BoE warnings about equity valuations d) persistent geopolitical tensions e) Bubble like valuations in US stocks (Case Shiller) suggests blue chips are on a 39.4x rating (from 37.7x). The upshot is portfolio performance will require nimbleness in 2026. Bonds look a reasonable bet in 2026 and we expect lower yield curve. **HNY 2026 to all!!**

ANALYST CERTIFICATION:

The report's author certifies that this research report accurately states his personal views about the subject securities, which is reflected in the ratings as well as the substance of the reports.

RECOMMENDATIONS:

Collins Sarri Statham Investments Ltd (CSS) does not in any of its publications take into account any particular recipient's investment objectives, financial situation, and specific needs and demands. Therefore, all CSS publications are, unless otherwise specifically stated, intended for informational and/or marketing purposes only.CSS shall not be responsible for any loss arising from any investment based on a perceived recommendation.

No publication (including recommendations) shall be construed as a representation or warranty that the recipient will profit, nor avoid sustaining losses, from trading in accordance with a trading strategy set forth in a publication.

This research is non-independent and is classified as a Marketing Communication under FCA rules detailed in their Conduct of Business Rulebook (COBS). As such it has not been prepared in accordance with legal requirements designed to promote independence of investment research and it is not subject to the prohibition of dealing ahead of the dissemination of investment research outlined in COBS 12.2.18.

RISK WARNING:

Trading in the products and services offered by Collins Sarri Statham Investments Ltd (CSS) may, result in losses as well as profits as the value of investments may go down as well as up. You may not get back the full amount you have invested. Any reference to past performance should not be viewed as an indication of any future performance. Investments held in overseas markets are subject to the effects of changes in exchange rates which will impact on the value of the underlying investment. Leveraged products such as Contracts for Difference (CFDs), derivatives, commodities & Foreign Exchange (FX), carry a higher risk to your capital and they can lose their value rapidly.

SPECULATIVE TRADING IS NOT SUITABLE FOR ALL INVESTORS.

The information contained herein is based on materials and sources that we believe to be reliable however we make no representation or warranty, either express or implied, in relation to the accuracy, completeness or reliability of the information contained herein. Please note that the figures shown may, in some instances, be rounded to the nearest penny. Prices can move sharply from those quoted in this document. Current prices can be verified by calling one of our brokers. CSS is under no obligation to update the information contained herein. Neither CSS, nor its affiliates, nor its employees shall have any liability whatsoever for any indirect or consequential loss or damage arising from the use of this document.

Collins Sarri Statham Investments Ltd. 138 Fortis Green Road, Muswell Hill, London N10 3DU

T +44 (0)20 8 057 6380 **W** www.css-investments.com **E** info@css-investments.com