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As the sounds of Auld Lang Syne fade into the distance, it's time to look back over 2025, a year in which we entered with President Trump's second term in its infancy and markets full of promise.

The focus of the year was President Trump's "liberation day" tariffs in April which sent shockwaves through global bond markets, triggering some of the biggest shifts in years.

An overview of 2025

Stocks, currencies and bonds swung wildly in the days following the announcement, as investors tried to gauge the potential fallout from a full-scale global trade war. 2025 will be remembered as a year of market resilience in the face of economic uncertainty. While global growth remained modest and policy risks persisted, financial markets delivered strong returns across both equities and bonds.

The year saw a shift from restrictive monetary policy towards cautious easing, supporting asset prices and restoring investor confidence as the year progressed.

Despite periods of volatility, particularly in the early months, markets wrapped up the year with solid upward momentum, underpinned by easing inflation trends, robust corporate earnings, and continued enthusiasm for structural growth themes such as artificial intelligence.

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Global economic growth remained steady but unspectacular in 2025. Advanced economies experienced subdued expansion, while emerging markets continued to grow at a faster pace, supported by domestic demand and improving financial conditions.

Inflation moderated gradually but remained above central bank targets for much of the year, particularly in services-driven economies. Labour markets softened slightly, easing wage pressures, while supply chains continued to normalise following disruption in previous years.

Trade and geopolitical uncertainty weighed on sentiment at times, most notably during the first half of the year when President Trump announced his plans for tariffs which triggered sharp but short-lived market selloffs. However, fears of recession ultimately proved unfounded. The impact of tariffs is yet to be determined and will be closely monitored through 2026.

Looking closer to home, the UK economy showed signs of stabilisation in 2025 following a challenging period of elevated inflation and tight financial conditions. Growth remained modest, but real wages moved back into positive territory as inflation eased, supporting household incomes and consumer confidence later in the year. The labour market gradually softened, helping to relieve domestic inflationary pressure, particularly in services. While productivity growth remained a longer-term challenge, economic momentum improved into the second half of the year.

Monetary policy and interest rates

Central banks played a pivotal role in shaping market outcomes during 2025. The Federal Reserve shifted to a more accommodative stance in the second half of the year, delivering interest rate cuts as inflation slowed and growth concerns increased.

The Bank of England followed a similar path, cutting rates by approximately 1% over the course of the year as domestic inflation eased and the labour market cooled. In contrast, the Bank of Japan began cautiously normalising policy, reflecting rising inflation expectations. The transition from tightening to easing proved supportive for both equity and bond markets, particularly given the high starting level of interest rates.

Equity market performance

Global equities delivered strong gains in 2025, with broad participation across regions. Improved financial conditions, resilient earnings, and easing policy headwinds contributed to positive momentum into year-end.

However, unlike recent years, US stocks were eclipsed by market gains in the rest of the world, as worries about high valuations, a Chinese artificial intelligence breakthrough and Donald Trump's radical economic policies contributed to a rare year of underperformance for Wall Street.

UK equities were standout performers in 2025. The UK main market recorded its strongest annual performance since 2009, rising by over circa 25%. Despite the well documented lack of technology exposure, strong sector performance from mining, energy and financials led the charge. Sterling weakness at times also supported multinational earnings. The midcaps, with greater domestic exposure, lagged earlier in the year, but recovered as interest rate cuts improved sentiment towards UK-focused businesses. UK equity valuations remained attractive relative to global peers, offering compelling income and value characteristics. Dividend yields remained a key draw for investors.

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Factor exposure

Turning to factors - Momentum, Growth and Value were the best performing over the year, with Small Cap and Quality lagging. All factors delivered strong double-digit returns, but Large Cap celebrated the best returns for another year.

Bond markets and fixed income

2025 marked a strong year for fixed income after a volatile start. Falling yields and elevated starting income levels delivered positive total returns across most bond markets. Overall, UK gilts performed well as the Bank of England moved into an easing cycle. Declining yields supported capital returns, while elevated coupons provided attractive income. There was volatility as uncertainty crept in because of the Labour budget, but this eased towards the end of the year.

Global bonds and credit

In 2025, global government bond markets were driven by changing interest rate expectations and large levels of government borrowing. Bond yields stayed relatively high for much of the year, moving around as investors debated how quickly central banks would cut rates. Returns varied by country, with some markets performing better as inflation eased. Credit markets were more stable, with company bonds delivering positive returns and default levels staying contained. Overall, bonds and credit benefited from income, but prices were sensitive to shifts in interest rate and growth expectations.

Conclusion and looking ahead

For investors, 2025 was dominated by President Trump's sweeping trade tariffs, which triggered global market turmoil early in the year and kept traders guessing for much of the remainder. But it was also a highly profitable year for investors who stayed calm, managed their emotions and stuck to their long-term plans. Portfolios benefited from the broadening of returns, and this will remain one of our key themes for 2026. US tech will continue to dominate headlines but with lofty valuations and the evolving AI landscape, we expect another volatile year. Looking ahead, risks remain - including valuation concentration, geopolitical uncertainty and fiscal constraints, but the combination of more supportive policy, improving sentiment and attractive income opportunities leaves markets entering 2026 on a more constructive footing.

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