Street Lamp News

This year has no doubt been dominated by two themes for investors – President Trump and his tariff policy, and AI. Markets stumbled at the start of the year, as Trump started to implement his high-tariff agenda. This culminated in one of the most striking periods of volatility that investors have experienced for years after the 'Liberation Day' (2nd April) announcements. At one point we saw markets swinging by up to 10% in one trading day. However, as trade tensions eased, attention shifted back to AI, a theme that has helped to drive equity markets higher for several years. This meant that, after a very shaky start, investors enjoyed a period of tremendous equity market gains. Let's hope England's Ashes campaign follows a similar trajectory.

Elsewhere, political drama added complexity, particular in government bond markets. The UK Budget kept the gilt market on edge, while France faced increasing scepticism from investors as hopes of fiscal reform faded. In contrast, investors welcomed the arrival of Japan's new leader, Sanae Takaichi. The Nikkei rose almost 5% on the day following her leadership victory. Meanwhile central banks maintained a cautious stance to cutting interest rates slowly, as inflation continues to hover above target in both the US and the UK.

Despite early turbulence, diversified portfolios delivered impressive returns over the year so far. Investors in our medium-risk portfolios would have generated returns of over 11% over the year to 30th November, with greater returns for higher risk investors. This year was an important lesson that assets can continue to deliver strong returns despite periods of heightened volatility and uncertainty.

Looking ahead to 2026

Time to take out the crystal ball. Even though it is impossible to predict events with precision, considering plausible scenarios and reflecting on past experience, is a valuable exercise. Doing this can help investors assess whether their portfolios are positioned to benefit from these possible outcomes, or at the very least avoid excessive risk on the downside. With that in mind we've outlined several possible developments for the year ahead

In the US, a major tailwind heading into 2026 is the twin-easing of fiscal and monetary policy. Tax breaks under President Trump's One Big Beautiful Bill are expected to keep the government deficit above 5% of GDP next year. A post-shutdown rebound is also expected early next year. At the same time the Federal

Reserve (Fed) is likely to cut rates by another 0.75-1%. This could be supportive for both growth and markets. However, there are also headwinds, including the continuing economic impact of tariffs. Finally, the transition to a new Federal Reserve (Fed) Chair could add uncertainty. The current Chair, Jerome Powell's, term ends in May 2026 but an announcement is expected early next year. The key consideration for investors is how much influence and pressure Trump will continue to put on the Fed to cut interest rates aggressively. Investors will find a complete loss of independence for the Fed concerning.

The UK economic outlook is more muted. Unlike the US, the UK government is raising taxes, albeit many Budget measures will not take effect for several years. Spending is front-loaded, offering a mild fiscal boost, but overall, the impact is far smaller than in the US. After the December meeting, the Bank of England may pause rate cuts, though a Q1 cut remains possible. It should be noted that the UK equity market had a stellar year in 2025, highlighting once again the disparity between the fortunes of the UK economy and equity market.

Might we finally see peace in Ukraine? Recent signs of progress toward a peace deal have raised hopes, though we should be cautious as previous attempts have failed. A resolution that ends Russia's exclusion from global markets could have significant implications for investors. Energy prices could fall if sanctions on Russian oil and gas are lifted, while European equities may rally as the geopolitical risk premium subsides (defence stocks may underperform). Investors may also be able to access Russian holdings that have been frozen to Western investors since the outbreak of the war.

Summary

2025 proved to be a volatile but ultimately rewarding one. Early market ructions driven by tariffs gave way to strong equity gains powered by AI, while political and fiscal developments shaped regional performance. Looking ahead to 2026, the outlook is mixed: AI remains a key driver but faces increasing scrutiny and expensive valuations, credit markets show signs of stress, and U.S. policy offers both tailwinds and headwinds. The UK picture is more muted, and uncertainty around Fed leadership could add volatility.

For investors, the message is clear: maintain diversification across sectors and regions and focus on quality in credit. While investors should stay alert to policy shifts and geopolitical developments, they should also understand that ultimately, markets tend to ride through most events, eventually returning to market fundamentals.

Office News

Of course, the first thing we want to say is Thank you for all the support and referrals you have given over 2025. It means a lot to us all, and also helps out charities, with our £50 donation for each referral.

For the first time, we have not sent out Christmas cards. Whilst saving paper, as part of our strategy to move towards a paperless business, we also feel that a charitable donation is more worthwhile. We have donated £500 to the Motor Neurone Disease Association. Some of our clients will understand that this charity is very close to our hearts, as we lost our colleague and friend, Brian Peacock, to this disease some years ago.

Some of you will be aware that 2026 is a big year for us, with our colleague of 40+ years, Malcolm Wright retiring. His clients will be introduced to their new adviser over the coming months.

And finally, you will notice that our Market review is now written by Hymans Robertson. Over the last 2 years we have been undergoing a very detailed review of our investment strategy and we have begun to work more closely with Hymans. This is a welcome addition to the service we offer our clients, bringing many years of expertise as a provider of Final Salary Pension Schemes, and you will hear more about them and our developing investment partnership in the coming months.

Technical News

Despite only just dotting the 'I's' and crossing the 'T's' on the Autumn Budget , the Government have today announced a further amendment to the legislation on Business Relief and Agricultural Relief, increasing the threshold for Inheritance tax from £1m to £2.5 million from April 2026.

This is as a result of continued pressure from both the farming community and businesses generally.

Raising the threshold will significantly reduce the number of farms and business owners facing higher inheritance tax bills under the reforms, ensuring that only the largest estates are affected.

Given the allowance will be transferable between spouses, a surviving spouse or civil partner will be able to pass on up to £5 million of qualifying agricultural and business assets tax-free, on top of existing nil-rate bands. This will apply to people who are widowed and have lost spouses or civil partners before the policy was introduced.

You will appreciate this is 'hot off the press' and once we have read through the fine print we will be in touch again.

Technical - Part 2

Our book club will return in January, but with the announcement today about changes to Inheritance Tax , we have extended our technical news to this column.

As of **1 December 2025**, the Financial Services Compensation Scheme (FSCS) is **increasing its deposit protection limit** — a significant development that strengthens financial safety for savers.

- The **standard protection cap** is rising from **£85,000** to **£120,000 per person, per authorised institution**.
- The limit for **temporary high balances** (e.g., proceeds from a house sale, inheritance, or insurance payout) is going up to **£1.4 million**, up from the previous £1 million.
- These elevated protections apply for up to **six months** for temporary high balances.

This change follows a formal review by the Prudential Regulation Authority (PRA), which is required to reassess the cap periodically. The increase reflects inflation since the last adjustment in 2017.

Interesting fact: The word *pension* comes from the Latin *pensio*, meaning “payment.” In medieval times, pensions were often granted by monarchs to their loyal servants or even poets as a lifetime reward.

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