



December 2025 Quarter in Review

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ECONOMIC OUTLOOKS IMPROVE IN Q4, DESPITE LINGERING CHALLENGES



Easing US-China trade tensions, resilient economic data and further monetary easing from the Fed supported a constructive outlook for the global economy in Q4.

The US government shutdown in October led to sparse official data and increased reliance on private sector indicators. European growth remained steady although saw some slowing momentum into year end. Inflation and policy rates remained stable.

Global equities posted gains amid optimism around AI and robust earnings, while bond yields rose later in the quarter on an improving growth outlook for 2026 and expectations of further policy easing being scaled back slightly. Japanese yields rose as the Bank of Japan increased interest rates, pulling global yields higher.

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US

The US government shutdown resulted in a data 'vacuum' in Q4 as economic releases were delayed, making it difficult to determine the underlying growth trend. The shutdown will have acted as a drag on growth in Q4, which should reverse in Q1 2026. Available data was mixed. Labour market releases pointed to improved but still subdued job growth, with the three-month average non-farm payroll figure up 22,000 and a rising unemployment rate, which reached 4.6% in November – the highest since 2021. Wage growth remained steady, but job gains were concentrated in defensive sectors. Consumer confidence fell to its lowest level since the announcement of new tariffs in April. Headline retail sales growth disappointed, although this was due to weaker auto sales on the back of expiring electric vehicle subsidies, and on an ex-auto basis was firm, growing 0.4% m/m. Inflation moderated significantly, with headline CPI at 2.7% year-on-year in November; data collection issues following the government shutdown, however, led to some uncertainty about the true pace of price increases, with the November figure seen as an underestimation of US inflation. Q3 GDP surprised positively, growing 4.3% annualised, driven by consumption which was up 3.5% annualised.

During Q4, developments around tariffs were again broadly constructive, with a significant milestone reached at the APEC summit in South Korea. The US and China agreed a one-year truce in the trade war with the 20% fentanyl-related tariff on Chinese exports to the US being halved, China delaying proposed controls on rare earth exports for a year and an agreement to leave all other tariffs unchanged for twelve months.

US-China trade tensions eased further, with approval for sales of Nvidia chips to China and expectations for a potential 2026 trade deal. China continued to expand exports to other Asian economies and the European Union.

The Q3 reporting season was strong, with US earnings growing 15% y/y, exceeding expectations by 7%. Post the beat, forecasts for 2025 and 2026 were increased.

In response to the perceived downside risks in the labour market, the Federal Reserve cut its policy rate by 25 basis points at both its October and December meetings, bringing the target range to 3.50–3.75%. The Fed also ended its quantitative tightening programme and began reserve management purchases of short-end Treasuries to support market functioning, though it emphasised this was not a return to quantitative easing. The policy committee remained divided, with some members concerned about persistent inflation and others focused on labour market weakness.

While there were no new high-profile confrontations between the White House and the Federal Reserve in Q4, the Supreme Court rejected President Trump's demand for the immediate dismissal of Fed Governor Cook, with arguments scheduled for January 2026. This ongoing legal dispute continued to highlight the tension between the executive branch and the central bank.

Europe

In the Eurozone, economic activity remained resilient but showed some signs of slowing momentum into year end. Q3 GDP improved to 0.3% q/q or 1.4% y/y. The Eurozone composite PMI reached a two-year high in October, but subsequent months saw softer readings, particularly in manufacturing. Inflation remained close to the ECB's 2% target, with headline and core inflation at 2.1% and 2.4% year-on-year in November, respectively.

The ECB left interest rates unchanged and suggested that the rate-cutting cycle might have ended as risks to growth have faded and the outlook for 2026 has improved, particularly with fiscal stimulus in Germany being implemented.

MARKET ROUND-UP

Equities

Global equities, as represented by the MSCI All Country World Index (ACWI) rallied by 3.7% (3.4% in euro terms) in Q4. Markets experienced a 4% correction in November due to concerns over future returns on AI and the funding of the increasing level of capex by the large hyperscalers. These concerns were eased as earnings and outlooks from AI-related companies remained strong and equity markets quickly recovered. The MSCI USA rose 2.4% (2.5% in euro terms) while MSCI Europe ex-UK outperformed, rising 5.9% (6.1% in euro terms), benefiting from hopes of a peace deal in Ukraine and an improving growth outlook in 2026. Emerging markets rose 5.7% (4.8% in euro terms) as Korea and Taiwan were strong, benefiting from the AI theme.

Bonds

The Eurozone 5-year+ sovereign bond benchmark rose 0.1% due to income carry even as the German 10-year yield rose 15bps to 2.86%. The rise in yield reflected the anticipated large increase in government debt from Germany's fiscal package, the suggestion by the ECB that the rate-cutting cycle might have ended and an improving growth outlook in 2026. Peripheral Eurozone bond spreads narrowed in Q4, with Italian 10-year spreads over German Bunds falling by 13bps to 69bps, while 10-year Spanish government bond spreads declined by 9bps to 46bps. French 10-year spreads narrowed by 11bps to 71bps on hopes for a compromise and ultimate agreement on the 2026 budget.

European investment-grade (IG) corporate bonds returned 0.2% as carry offset a 14bp rise in yields to 3.31%, while spreads were up 1bp at 78bps over the period. Global high-yield bonds returned 1.3% in Q4 due to income as yields rose 6bps to 6.16%, while spreads widened by 3bps to 222bps.

EM local debt returned 3.5% in Q4, with yields falling by 5bps to 5.92%. EM hard debt returned 2.5% as the asset class was supported by a 23bps fall in yields over the period to 6.17%.



CHARTS OF THE QUARTER

Global equities



Source: ILIM, FactSet. Data is accurate as at 31 December 2025.

Bonds – German 10-year yield



Source: ILIM, FactSet. Data is accurate as at 31 December 2025.

MARKET SNAPSHOT

Market returns (EUR)

| Equity Markets (EUR) | QTD Return (%) | YTD Return (%) | 2024 Return (%) |
|-----------------------------------|------------------|----------------|-----------------|
| MSCI Ireland | 14.3 | 39.9 | 22.8 |
| MSCI United Kingdom | 7.0 | 19.1 | 14.7 |
| MSCI Europe ex UK | 6.1 | 20.4 | 7.7 |
| MSCI North America | 2.7 | 4.5 | 32.9 |
| MSCI Japan | 3.3 | 10.3 | 15.9 |
| MSCI EM (Emerging Markets) | 4.8 | 18.5 | 15.3 |
| MSCI AC World | 3.4 | 8.3 | 25.9 |
| 10-Year Yields | Yield last month | 2024 Yield (%) | 2023 Yield (%) |
| US | 4.17 | 4.57 | 3.88 |
| Germany | 2.86 | 2.37 | 2.02 |
| UK | 4.48 | 4.57 | 3.54 |
| Japan | 2.07 | 1.10 | 0.61 |
| Ireland | 3.01 | 2.64 | 2.38 |
| Italy | 3.55 | 3.52 | 3.69 |
| Greece | 3.44 | 3.22 | 3.06 |
| Portugal | 3.15 | 2.85 | 2.66 |
| Spain | 3.29 | 3.06 | 2.99 |
| FX Rates | End last month | 2024 Rates | 2023 Rates |
| U.S. Dollar per Euro | 1.17 | 1.03 | 1.10 |
| British Pounds per Euro | 0.87 | 0.83 | 0.87 |
| U.S. Dollar per British Pounds | 1.35 | 1.25 | 1.27 |
| Commodities (USD) | QTD Return (%) | YTD Return (%) | 2024 Return (%) |
| Oil (Brent) | -9.2 | -18.5 | -3.1 |
| Gold (Oz) | 12.4 | 64.7 | 27.2 |
| S&P Goldman Sachs Commodity Index | 1.0 | 7.1 | 9.2 |

Source: ILIM, Bloomberg. Data is accurate as at 1 January 2026.

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THE ILM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The agreement of trade deals provides clarity and helps remove uncertainty. While tariffs are higher than at the start of 2025, they are at levels which should not lead to a recession. Earnings forecasts have stabilised and show positive growth; consumer balance sheets are strong; ongoing disinflation is expected through 2026; and expected Fed rate cuts and a corporate-friendly stance from the US government should mean a favourable environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world are set to remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 18.9x against a long-term average of 16.3x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 22.3x against a long-term average of 16.6x. Equities outside the US offer better relative value in absolute terms and are trading closer to their long-term average P/E levels. Equities remain expensive against both bonds and cash given the high yields currently available on these assets.

Despite equities appearing fully valued, the outlook on a 12-month view is constructive. With growth expected to remain positive and US corporates eventually set to benefit from growth-friendly policies from the new administration through 2026,

earnings are forecast to rise by double digits over the next one to two years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month timeframe.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly, some central banks can cut rates further, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.86% and 4.16% to 2.25% and 3.75%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform.



THE MONTH AHEAD

January

| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|---|---|--|---|--|
| | | | | |
| | | 14 China balance of trade; exports YoY; imports YoY US PPI and core PPI MoM (Oct and Nov); retail sales MoM; current account; existing home sales; Fed policymaker speeches | 15 UK RICS house price balance; GDP MoM; goods trade balance; industrial production MoM; manufacturing production MoM Germany wholesale prices MoM, YoY; full year GDP growth India balance of trade Euro Area balance of trade; industrial production MoM, YoY US export/import prices MoM; initial jobless claims | 16 Canada housing starts US industrial production MoM Russia inflation rate MoM, YoY |
| 19 Japan machinery orders MoM China GDP growth rate YoY; industrial production YoY; retail sales YoY; fixed asset investment (YTD) YoY; GDP growth rate QoQ Canada inflation rate YoY, MoM; core inflation rate YoY, MoM; BoC business outlook survey | 20 China loan prime rate 1y, 5y UK unemployment rate, average earnings incl. bonus Spain balance of trade Germany ZEW economic sentiment index; ZEW current conditions | 21 UK inflation rate, core inflation rate YoY; CBI business optimism index; CBI industrial trends orders South Africa inflation rate MoM, YoY US pending home sales MoM, YoY | 22 Japan balance of trade; exports YoY Canada new housing price index MoM, YoY US GDP growth rate QoQ final; GDP price index QoQ final; initial jobless claims; PCE & core PCE price index MoM; personal income MoM; personal spending MoM | 23 Manufacturing, global and composite PMI flashes for Japan, India, France, Germany, Euro Area, UK, US UK Gfk consumer confidence; retail sales MoM, YoY US Michigan consumer sentiment final Canada retail sales MoM, YoY |
| 26 Germany Ifo business climate; Ifo current conditions; Ifo expectations US durable goods orders MoM; Chicago Fed national activity index; Dallas Fed manufacturing index | 27 EU new car registrations YoY France consumer confidence Spain unemployment rate US ADP employment change weekly; S&P/Case-Shiller home price YoY | | | |

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Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.

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