



ARC

## **A world in motion**

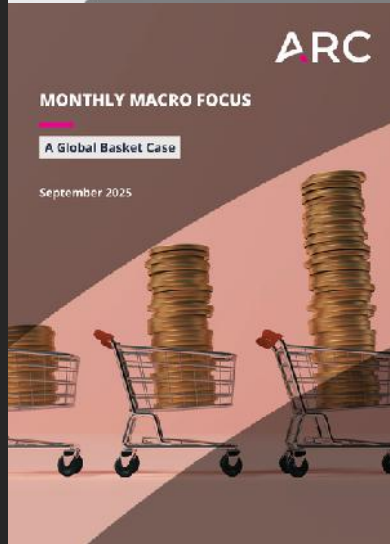
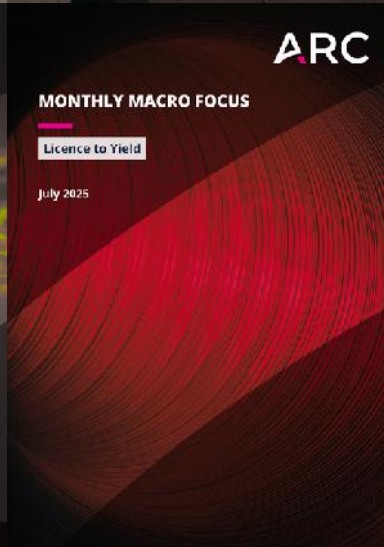
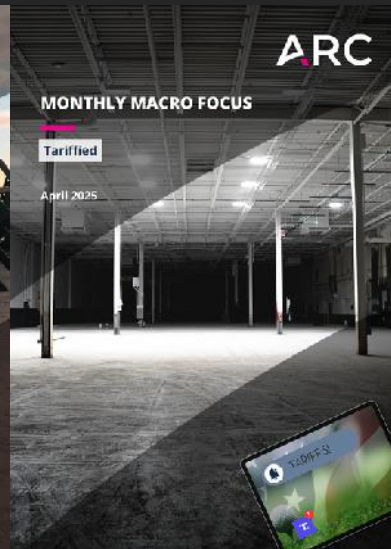
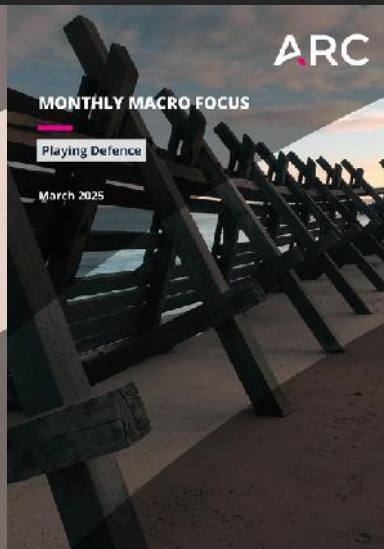
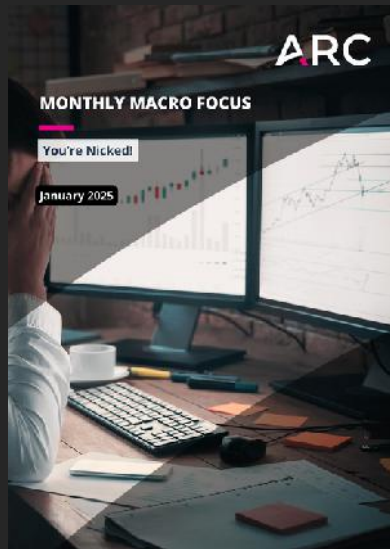
The decade, the year and the road ahead

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# Macro in a minute



## 2025

Looking back at 2025, it's fair to say that investors have enjoyed a much better year than expected given the challenging economic and political backdrop and the largely negative media headlines.

Last year can really be characterised by rising protectionist and geopolitical shocks and surprising economic and market resilience.

## 2026 outlook

### Economics

Global economic growth looks solid and should accelerate in 2026.

Inflation is a mixed picture but should not be a major issue for markets next year.

US interest rates will continue to edge downwards; in Europe likely to be relatively stable.

A more expansionary Germany will benefit the rest of Europe.

China, the world's second biggest economy, is embarking on targeted monetary and fiscal easing to improve its growth prospects.

UK is struggling with stagflationary pressures.

Geopolitics will continue to exert a powerful influence on the global economy, financial markets, capital flows and policy makers for years to come.

### Financial markets

The outlook for bonds is mixed and a focus on credit quality and shorter maturity issues remains sensible.

The equity bull market is intact but volatility will pick up.

Equity markets continue to benefit from strong corporate earnings growth.

There may well be an AI bubble but there is also the possibility that the global economy will be a huge beneficiary of AI-driven productivity growth. Bubbles can last a lot longer than people anticipate.

Europe, Australasia and the Far East may well outperform US equities again in 2026.

The US dollar is likely to continue a path of depreciation; Sterling is at risk of a "meltdown" unless fiscal prudence prevails.

Gold remains in a bull market, as do industrial commodities.

## A world in motion: the decade, the year and the road ahead

**A year is just the time the Earth takes to circle the sun. But the decade has been far less orderly than that annual orbit.**

War returned to Europe and unsettled energy and security. Famines resurfaced in fragile regions. A plague by any other name tested health systems and policy everywhere. Shipping routes were disrupted. Technology leapt forward while climate records fell. The sense that shocks can arrive from any direction became part of daily life.

Investors still hope for **no surprises**; the decade kept delivering the opposite.

### 2025 in brief

Trade policy and sea lanes dominated.

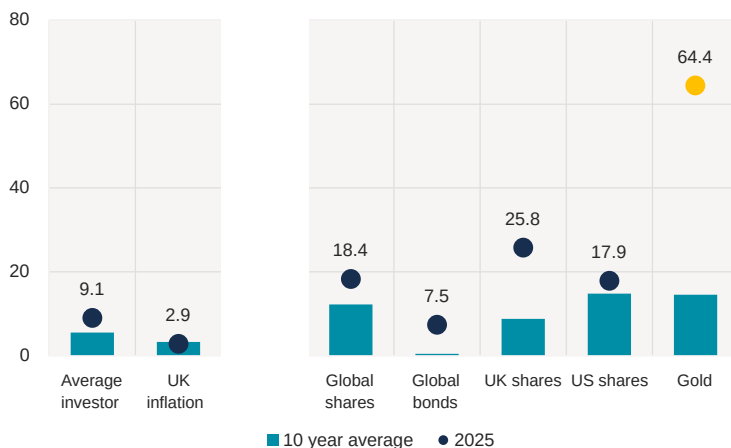
The United States introduced broad tariff measures. While well telegraphed, the game-show style announcement with questionable arithmetic delivered a negative shock.

Effective rates shifted through the year as deals and delays took effect, and uncertainty remained high, even as the IMF nudged its growth path slightly higher while warning that tariffs could still cloud inflation and activity. Firms adjusted prices and procurement to cope and investors watched margins and pass-through.

*The 2 April “Liberation Day” tariffs sparked considerable equity market volatility.*

Attacks on commercial shipping kept the Red Sea and Suez risky. Major lines detoured around the Cape of Good Hope. Asia to Europe transits lengthened by roughly one to two weeks. Insurance premia rose and lead times stretched. Adaptation at the quay became adaptation at scale across supply chains. The year left markets with **a few bruises that won't quite heal.**

Despite all this, returns overall were well above average levels with global equities delivering **18.4%**, global bonds **7.5%** and the average investor (ARC Sterling Steady Growth Private Client Index) seeing a return of **9.1%**. Real values of assets are now around those seen pre-covid.



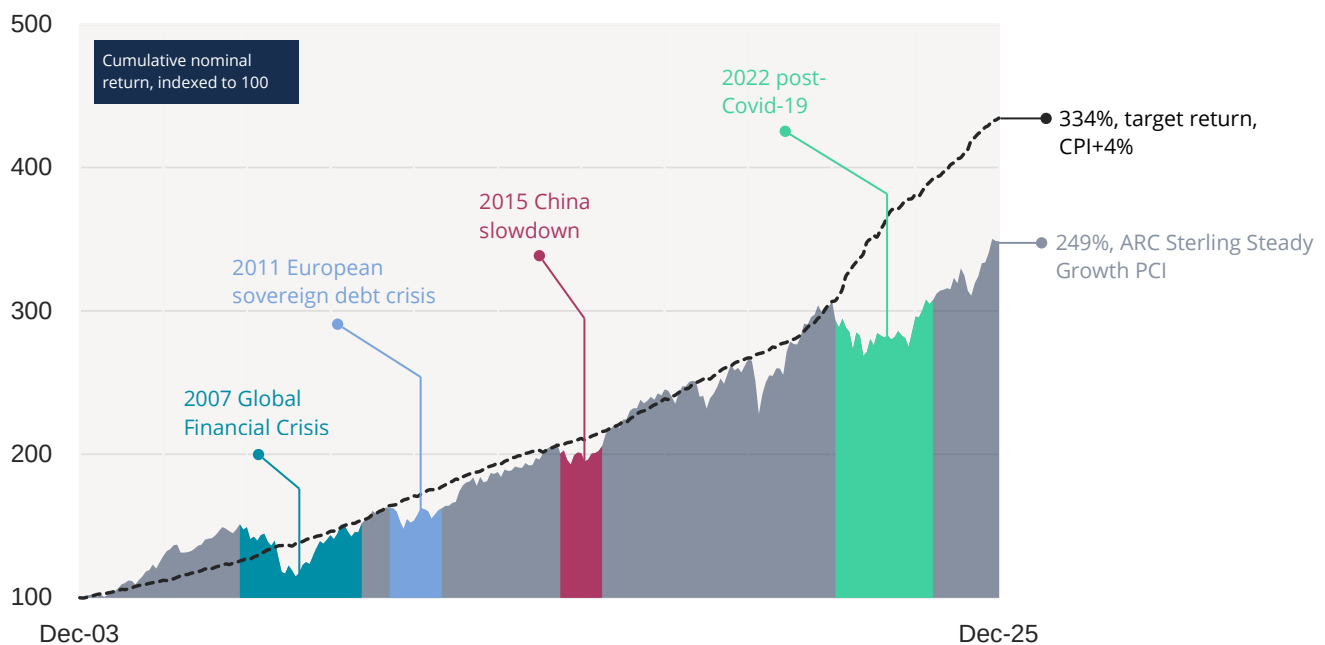
	2025	10-year average
<b>Average investor</b>	<b>9.1</b>	<b>5.6</b>
UK inflation	2.9	3.3
Global shares	18.4	12.3
Global bonds	7.5	0.5
UK shares	25.8	8.8
US shares	17.9	14.8
Gold	64.4	14.6

Source: ARC Sterling Steady Growth Private Client Index from ARC Research Limited, an S&P Dow Jones Indices company, Office for National Statistics, Lipper. All returns are shown in local currency, total return, net of fees where appropriate.

## Investors

Despite economic challenges and geopolitical events, returns in 2025 were much better than anticipated. The graph below shows average ARC Sterling Steady Growth Private Client Index returns since 2003. The ARC Wealth Indices are constructed from over **350,000** portfolios from **139** investment management firms.

Regimes with losses greater than **10%** that took more than twelve months to recover are highlighted. These include the 2007 Global Financial Crisis, the 2011 European sovereign debt crisis, the 2015 China slowdown and 2022 post-Covid-19.



*Source: ARC Sterling Steady Growth Private Client Index, total return, net of fees from ARC Research Limited, an S&P Dow Jones Indices company, Office for National Statistics*

Lasting only 10 months in our terms, the 2020 Covid-19 pandemic does not show up as a major negative event for investors.

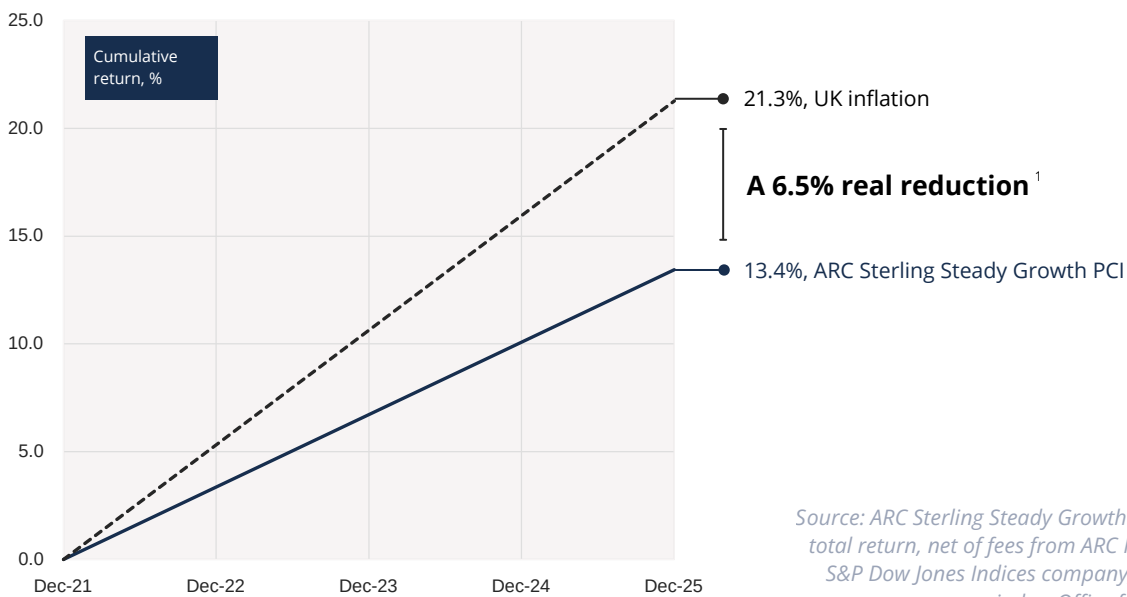
This was because, in response to the pandemic, global central banks collectively created more than **five times** the amount of new money issued during the financial crisis.

There was however a hangover effect.

The 2022 post-Covid-19 period was characterised by monetary conditions reversing, that is central banks raising interest rates and moving from quantitative easing to tightening, as well as an increase in inflation. Some of this was due to Russia's invasion of Ukraine and an increase in energy costs.

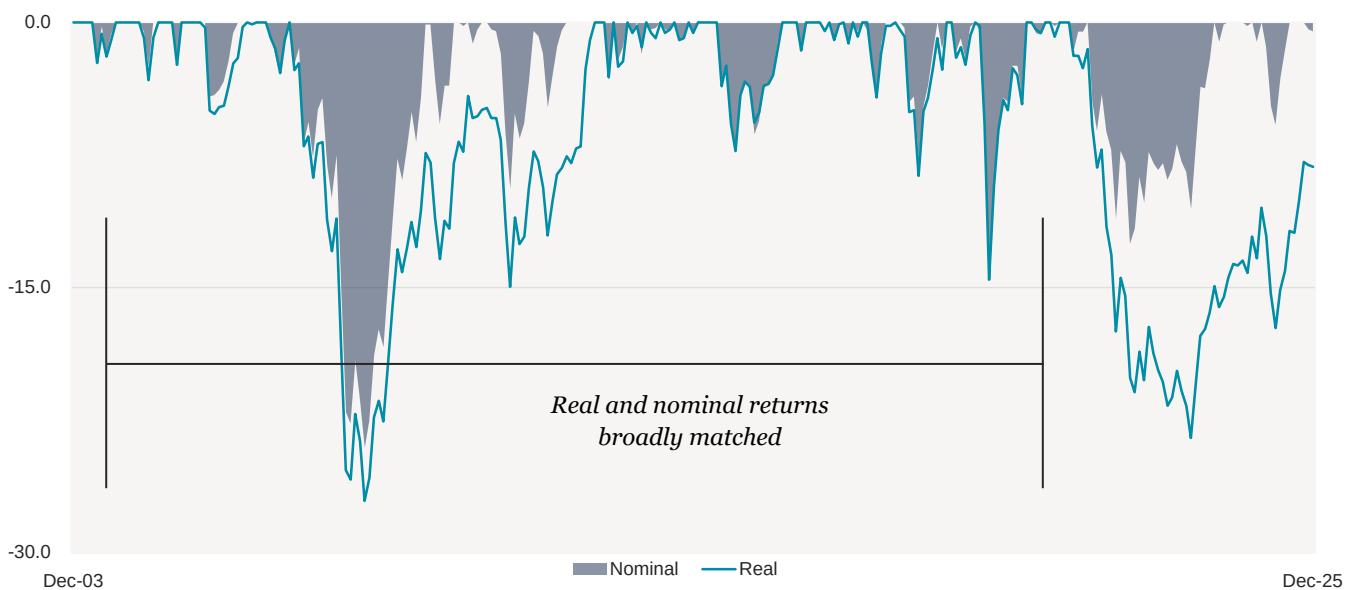
In nominal terms, many portfolios are now at all time highs.

Since the beginning of the post-Covid-19 period however, returns of Sterling Steady Growth investors have lagged target returns of inflation plus **4%**. Inflation during this period has been considerable and indeed on a real basis portfolio values have failed to keep pace. In real terms portfolio values are close to their all time highs but still **6.5%** below their year end 2021 level and **7.9%** below their August 2021 peak.



Source: ARC Sterling Steady Growth Private Client Index, total return, net of fees from ARC Research Limited, an S&P Dow Jones Indices company, UK Consumer Price index, Office for National Statistics

For decades investors have enjoyed low inflation and a focus on nominal returns has broadly matched the real experience. The drawdown chart below shows the mis-match between real and nominal returns and how significantly wealth has been impacted in the 2022 post-Covid-19 period.



<sup>1</sup> Starting with £100, a 13.4% nominal gain takes you to £113.40. Prices are 21.3% higher, so the 2025 price level is 1.213 times the 2021 level. If we deflate £113.40 ÷ 1.213 = £106.85 in 2021 pounds, a -6.5% real change relative to £100.

Source: ARC Sterling Steady Growth Private Client Index, total return, net of fees from ARC Research Limited, an S&P Dow Jones Indices company, Office for National Statistics

## 2026: known unknowns

We can list many of the risks we see. Yet history suggests surprises bite harder. Our baseline is that client portfolios we oversee are built to weather shocks from many of the themes below.

The job is to keep resilience high and complacency low. While investors may wish for **no surprises**, being prepared for a few is wiser.

### Elections

In the United States, all **435** House seats and **35** Senate seats are on the ballot on Tuesday 3 November 2026, alongside a large slate of gubernatorial and state races. With narrow margins, relatively small swings can change control, alter committee chairs and reset the policy agenda for 2027 to 2028.

Historically, the president's party tends to lose House seats in midterms. That pattern is not a law of nature, but it is common and often priced into markets ahead of time. In practice, markets tend to fret before voting and find their footing after results reduce uncertainty, though macro conditions can dominate any electoral effect.

Jerome Powell's four-year term as the Fed chair ends in May 2026. The President will nominate the next chair and Senate confirmation will follow. Year end reporting suggested that a decision on the nominee was expected early in 2026, while Powell's governor term runs to 2028, affecting the Board's composition if he stays. Policy is made by committee, so the voting line-up and incoming data will matter as much as the name on the chair. Investors want no surprises from the hand-off. The committee vote and the data will be the real reveal.

Beyond the United States, there are more than **40** national-level ballots scheduled around the world in 2026.

Brazil's general election is on 4 October with a possible 25 October run-off.

Hungary is expected to vote in April.

Colombia holds its presidential vote through May and June.

*Midterms rarely deliver no surprises; they redraw the board in small but decisive ways.*

*These can shift tariffs, energy policy and fiscal choices, so they are live sources of headline risk and opportunity, sometimes with loud calls to bring down the government, sometimes with quiet continuity.*

## Taiwan

China continues to lay claim to Taiwan, stating that unification is unstoppable. The self-governing island remains central to advanced chipmaking and therefore to AI, smartphones and data-centre build-outs. Most cutting edge capacity is still on the island, even as diversification progresses in the United States, Japan and Germany.

The People's Liberation Army has run increasingly large military drills around Taiwan, including live-fire exercises and blockade simulations. The "silicon shield" idea persists for a reason, but it is not a guarantee. Investors should assume periodic tension, contingency planning and the possibility of short-lived disruptions rather than bet on a single outcome. The knock-on impact of any supply trouble on other industries would be substantial.

*Of all geopolitical risks and tensions the future of Taiwan would be at or near the top of all global leaders' lists.*

## AI: enthusiasm, underweights and the bubble question

The top AI names drove index returns in 2025. Big Tech has signalled continued heavy capital expenditure for 2026, which can underpin orders yet raises the risk of over-build if monetisation lags. Many active managers are underweight the AI complex after a period of underperformance against concentrated indices, which itself can fuel sharp catch-up flows if earnings continue to surprise.

*The debate about a bubble is now mainstream and sensible position sizing matters, but timing bubbles is hard and they can last longer than expected.*

## Earthquake risk and catastrophe bonds

Japan's seismic advisory panel kept attention on the Nankai Trough by raising the 30 year probability for an magnitude 8–9 event to around **80%** early in 2025, then later presenting a wider **60–90%** range to reflect model uncertainty. In the San Francisco Bay Area, USGS continues to cite a **72%** probability of a magnitude 6.7 plus event within 30 years. Those statistics are long known, yet they are a reminder that tail events cluster and model error is real.

Against that backdrop, catastrophe bonds have boomed. 2025 set issuance records and took outstanding notional above **USD 60 billion**. Spreads compressed through much of the year as capital chased yield and structures evolved. It looks attractive compared with recent experience. But quake peril remains a peak loss driver and Swiss Re's sigma work underscores how quickly insured losses can run above trend in bad years. In plain English, cat bonds may carry more risk than backward-looking data suggest when you are unlucky on timing.

*A catastrophe bond is a security that pays investors to take on disaster risk, with their capital used to absorb losses if a major event hits.*

## Macro backdrop

The IMF's October outlook has global growth easing to **3.1%** in 2026, with inflation lower but not fully back to target in some economies.

The BIS highlights vulnerabilities in a world of higher real rates, heavy public debt and financial fragmentation. Those are the conditions in which known shocks sting and unknown shocks can amplify, another year when **no surprises** is a wish more than a forecast.

## Closing thought

Markets will enter 2026 with headlines about indices at all-time highs. In nominal terms that is true. Once adjusted for prices, the recovery proves illusory. The inflation pulse that followed the pandemic has eroded purchasing power to such an extent that portfolios remain about **7.9%** below their August 2021 real peak. What looks like progress in pounds is, in practice, recovery only in name.

The year ahead still carries known unknowns. Elections can shift fiscal gears. The US Fed chair hand-off will matter, though policy will remain anchored in the data. Taiwan's role in semiconductors is unchanged and AI will keep testing underweights. Catastrophe risk still refuses to sit neatly inside models. Hope for no surprises remains evergreen; experience suggests it is unwise to count on.

Portfolios built for resilience rather than celebration of nominal milestones are better suited to this landscape. The task is to protect against the unexpected, stay liquid, stay diversified and rebuild real wealth with patience.

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*As we move through 2026 we anticipate global economic growth will accelerate. Continued lax monetary policy from the FED and BoE seems likely. While this perhaps stores up problems down the road we do not see these materialising this year.*

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*Markets rarely move in straight lines. The discipline is helping clients stay on the right track.*

*Jimmy*

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