The Tatton Weekly

Bond markets win – again

5 December 2025

This week's topics:

Waiting for a Santa Rally

November asset returns review

K-shaped economy

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Seasonal considerations, MATT, 28 November 2025

Waiting for a Santa Rally

Capital markets felt a little better this week, but with emphasis on "a little". Global stocks gained incrementally through the week, putting most of the November market downdraft behind them. Underlying these moves is a genuine improvement in the economic outlook for next year. Interest rates are now certain to fall again and, even though there have been doubts over US and global growth momentum, corporate earnings have proven resilient.

All the conditions seem to be in place for a Santa rally to close 2025, but we are not seeing it yet. Fortunately, considering how strong investment returns have been since April, we do not really need one this year.

The Fed will cut, but will it regret it?

We have seen quite the turnaround in markets' expectations for the US Federal Reserve (the Fed). Two weeks ago, bond traders saw less than half a chance of a December interest rate cut. Now it is a near certainty, confirmed by ADP's weaker US employment figures from November. The US shed 32,000 private sector jobs last month, versus an expected 10,000 gain, but because the Fed set a December cut in stone, equity markets took the news well.

However, it was interesting to hear Former Fed governor Rob Kaplan, now vice chairman at Goldman Sachs, argue that another Fed cut should not come before January. Kaplan's point was that it is better to be a little late than wrong. Delaying a cut might turn out to be a tactical error that weakens employment, but that can be rectified by a catch-up cut next month. However, if the Fed cuts now and finds in January that the US labour market is tighter than it thought, it risks embedding higher inflation for a sustained period.

A deceptively tight jobs market is certainly possible, given the administration's deportation drive and lack of skilled construction and engineering labour. Indeed, data released on Thursday showed initial jobless claims well below expectations, suggesting the opposite of the ADP figures.

The Fed is struggling with both internal and external division. Trump appointee and perennial dove (preferring lower rates) Stephen Miran has reportedly lost influence on the rate-setting committee by repeating arguments the other members consider settled. But that could change, depending on who Trump appoints as Fed chair next year (bond investors told US Treasury officials they are "concerned" about Kevin Hassett's potential appointment, according to the Financial Times).

Externally, the US economy itself is split between good fortunes for big tech and owners of financial assets, and tougher times for the rest. Notably, ADP's reported job losses were concentrated among smaller businesses. This "K-shaped economy" has become a hot topic for investors, so we dedicate a separate article to it.

Santa Rally is missing its elves – private investors don't yet feel festive

Those doubts aside, rate cuts improve an equity market outlook which is already decent. Companies are starting to revise up their earnings forecasts at a stronger rate – with small and mid-cap US stocks improving particularly well. That went hand in hand with an outperformance of smaller US stock indices this week. It is too early to tell, but that could be the green shoots of the market rotation – away from mega tech toward the lesser loved names – that we suggested last week.

Investors are still concerned about equity valuations, and certain metrics (like price to sales) do show that global stocks are historically expensive – even more so outside the US, in fact. But historical valuation averages are not always a good guide to where prices should go next, particularly after years of upward trend.

Fundamentals look good and markets recovered somewhat this week, but retail investors are still not stepping in to 'buy the dip' like they used to. There is feeling that, after three years of strong returns, the party must surely be coming to an end.

The sharp sell-off in cryptocurrencies – the year's other darling asset of retail investors – might be an underrated part of this. Cryptos have a significant wealth and liquidity effect on a particular cohort of (usually) private retail investors, which this year have often also been the marginal buyers of equity. Traditional institutional investors sometimes feel a bit of Schadenfreude when cryptos

sell-off, because they doubt their fundamental asset value and long for healthy corrections. But even if that is right, billions in value being wiped out will inevitably have knock-on effects on global stocks.

2025 doesn't need a Santa rally

Plenty of UK investors seem to be in that nervous bracket. Many moved some of their investments into cash ahead of last week's autumn budget, for fear of wealth taxes and the like. We need to see that private investor capital coming back, but it has not happened yet. It seems that the negative public reception of the budget has Britons still concerned.

However valid those feelings may be on a personal level, they are at odds with the positive market reaction to the budget. International bond investors ultimately saw it as a sign of a prudent borrower and therefore win for bond stability. UK bond yields this week remained below their pre-budget levels, and stocks are holding up decently. UK retail stockbrokers anecdotally voiced concerns, that UK investors sitting in cash risk missing out on the next leg up in markets – not just for UK assets, but globally.

We said last week that all the ingredients for a Santa rally are here, and that only seems more true now. For whatever reason, it is not happening. The heartening thing for investors is that, after such a strong run, it is not needed. 2025's returns will look strong overall and provide a decent starting position for 2026.

November asset returns review

Global stocks were volatile in November, but ended the month only 0.9% down in sterling terms. Most major markets finished virtually flat, but there were some notable losses for emerging markets and US tech stocks. That was despite a fair few good news stories through the month: the US government finally reopening, central banks signalling easier monetary policy, and strong tech quarterly earnings proving that there is life in the AI investment theme yet. The table on the next page shows the returns of major assets in sterling terms.

The longest US government shutdown in history was a drain on global market liquidity, because money that could be circulating in the economy was merely piling up in the Treasury General Account (TGA – the US government's current account). Government reopening and money flowing out of the TGA improves liquidity conditions, but the effect was not immediate. It takes time for federal payments to filter into deposits, which back bank lending, which backs asset purchases. US stocks did recover well from their early November sell off, but still ended the month 0.6% down in sterling terms. The dominant tech sector fell even further, finishing 2.3% down.

Some of the early month sell-off seemed to be motivated by investors – particularly retail investors – crystallising profits after a strong run from April. The liquidity-driven profit taking is perhaps

Asset Class	Index	November	YTD	12 months	2024	3-yr rolling annualised	5-yr rolling annualised	10-yr rolling annualised
Equities	UK Large Cap	0.4	23.0	21.5	9.7	12.78	13.28	8.40
	UK Ethical Large Cap	0.4	16.3	15.4	7.9	8.7	8.8	4.5
	Europe ex-UK	0.6	23.2	22.1	1.9	12.7	9.7	9.5
	US Large Cap	-0.6	11.4	10.3	27.3	16.4	15.5	16.1
	US Technology Large Cap	-2.3	15.0	17.4	31.9	23.25	14.90	18.99
	Japan	-1.5	17.1	18.5	10.2	13.3	7.5	9.0
	Global Stocks	-0.9	14.4	13.4	19.6	14.5	12.1	12.8
	Emerging Markets	-3.2	22.6	24.2	9.4	10.7	5.2	9.2
	China	-3.4	25.4	29.9	18.8	9.5	-2.0	7.1
Bonds	UK Gilts All Stocks	0.1	4.8	2.5	-3.3	0.2	-5.1	-0.2
	£-Sterling Corporate Bond Index	0.2	6.8	6.3	2.2	5.6	-0.8	2.6
	Global Aggregate Bond Index	0.2	5.0	4.2	3.0	4.3	-0.1	1.6
Commodities	Commodity Index	-0.9	1.6	6.4	11.2	-0.1	16.2	6.5
	Brent Crude Oil Price	-4.5	-21.0	-16.7	-1.4	-13.6	5.6	4.6
	Spot Gold Price	2.8	50.6	49.8	28.9	28.5	18.8	16.2
	Spot Silver Price	9.2	76.3	68.5	23.7	31.0	19.7	15.8
Inflation	UK Consumer Price Index (% Change for period)*	0.4	3.1	3.4	2.5	-	-	-
Cash rates	SONIA 3-Month	0.3	4.1	4.5	5.3	4.8	3.0	1.8
Property	Global REITs	0.9	3.1	-3.1	4.6	2.3	5.2	5.3
Alternatives	Multi-Strategy Liquid Alternatives	-0.4	1.2	-0.5	6.5	1.9	4.0	3.9
	Bitcoin	-17.6	-8.3	-10.6	-	-	-	-

Source: Morningstar Direct to end of previous month (30/11/25). All returns in GBP.

clearest in cryptocurrencies, which saw one of the sharpest deleveraging episodes in their history. Excessive leverage and thin liquidity led to a cascade of liquidations. Cryptos are strongly tied to AI-related stocks due to the similar buying base of highly-leveraged retail investors, which is why the crypto sell-off hurt retail investors' risk appetite. But even the sinking Bitcoin managed to find a floor once liquidity started flowing back into markets, and has traded sideways within a wide range for the last few weeks.

The TGA was not the only liquidity boost. The US Federal Reserve officially ended its quantitative tightening (QT) program of bond sales at the end of November, and officials strongly signalled an interest rate cut will come in the central bank's December meeting. The Fed appeared evenly split

on appropriate monetary policy, judging by “strongly differing views” in the committee’s meeting minutes. Recently weaker US consumer signals appeared to shift the balance to dovish, though. The Bank of England also signalled lower rates, while the European Central bank indicated no move.

That pushed down government bond yields elsewhere, with the US 10-year bond yield dipping below 4% at one point. Prices (the inverse of yields) gained slightly towards the end of the month, resulting in a 0.2% gain for global bonds overall.

UK bond prices were virtually unchanged from the start of the month, up 0.1%, but there was significant variation along the way. Yields rose in the long lead up to last month’s autumn budget, then fell sharply afterwards. UK bonds were volatile on the day of the budget, thanks to the Office for Budget Responsibility hitting ‘send’ too early on its analysis, but markets quickly calmed down.

Overall, UK markets appeared to be the only entity that seemingly approved the budget: stocks gained, yields fell and sterling strengthened. There is clearly a disconnect between how Britons view their government and how international investors view it. The latter saw the budget as an acceptable balance between short-term growth and long-term fiscal health, more sustainable than some other regions like France (or even the US). Given the low domestic ownership rates of UK assets, international investors are probably a more important cohort these days.

In company news, US AI chip maker Nvidia posted strong third quarter earnings, calming the talk of the imminence of a supposed AI bubble. Taking its place were fears of weak US consumer demand, following disappointing revenue figures from the likes of Home Depot and Target. Commentators now frequently talk about the “K-shaped economy” (which we cover separately). We note, however, that earnings growth for the biggest companies just outside the ‘Magnificent Seven’ closed the gap somewhat in Q3.

Japan was one of the worst performing major equity markets, losing 1.5% last month in sterling terms. New Prime Minister Takaichi was busy in November, heightening tensions with China and pushing for looser fiscal and monetary policy. Japanese yields rose in response, while stocks fell and the currency weakened. Despite Takaichi’s wishes, however, the Bank of Japan appears unhappy with persistent inflation and looks likely to *raise* rates soon. That makes the BoJ stand out from most developed market central banks.

China is a similar outlier. Chinese bond yields rose last month and its equities fell 3.4%. The yield rise is a counterintuitive response to its persistently weak economy. Beijing is keeping policy tight to push the renminbi higher against the dollar – which is more about its international aims than economic growth. Emerging market equities fell broadly in line with China, losing 3.2%.

It is interesting that retail investors are nervously taking their profits, while institutional investors appear more bullish about upcoming rate cuts, resilient corporate profits and a wave of AI business investment. That is a role reversal from earlier this year. As we pointed out last week, this role reversal might lead to the lesser loved stocks performing better in the months ahead.

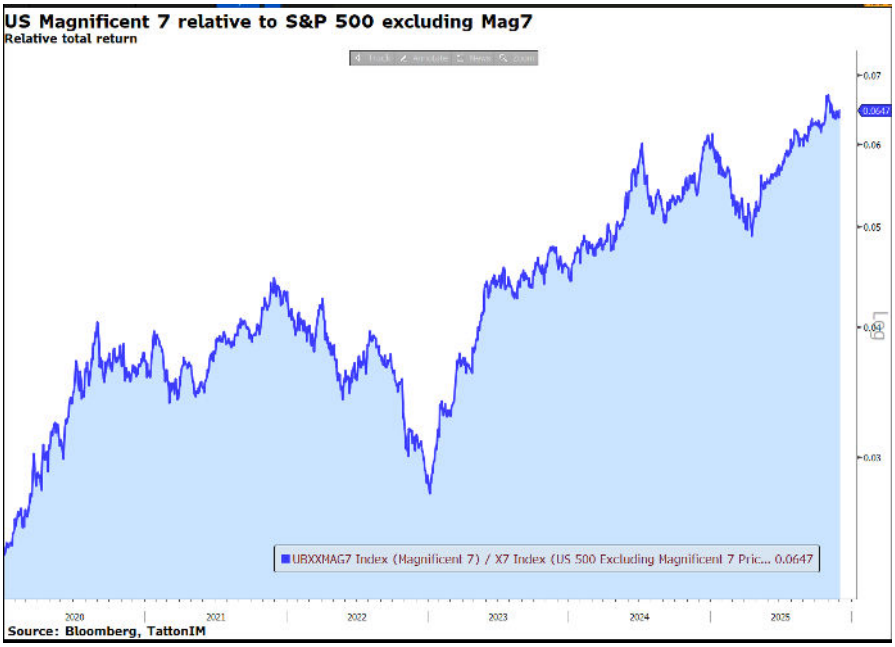
K-shaped economy

Everyone is talking about the "K-shaped economy". The idea is that all the growth is coming from AI and tech investment, while the rest of the economy languishes. One line goes up, the other goes down. This is mostly discussed in the US context, but the idea is fairly universal: the haves are doing well and the have nots are not.

A K-shaped what?

In stock market terms, the K-shaped growth story is undeniable. The biggest US tech stocks, led by the so-called 'Magnificent Seven' (Mag7 – Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia, Tesla), have vastly outperformed global small and mid-cap stocks in recent years. This outperformance has been justified by significantly stronger growth, fuelled by the build out of AI. Meanwhile, consumer-focussed US companies like Home Depot and Proctor & Gamble – staples of the world's largest economy – have warned of dwindling consumer demand.

The K-shaped narrative is not just about tech versus old industry, however. It is also about the improved spending power of high earners and asset owners, compared to stagnation for low and middle income earners. This real terms (inflation-adjusted) stagnation is hampering spending for those groups, as the consumer-focussed companies are telling us.



Last month, the Financial Times questioned how realistic the K-shaped economy narrative is, pointing out that popular measures of US wealth inequality have not significantly moved in the last few years (though the long-term trend is up). But we should bear in mind that inflation affects lower-end consumers differently – typically, more – because the price index constituents vary. Headline inflation figures try to capture price changes that best reflect the overall economy, but if you have to spend most of your discretionary money on food, it will not matter much whether the price of handbags changes.

Economic divisions feed societal divisions. We suspect one of the appeals of the K-shaped economy narrative, for market commentators, is that it ties in with increasingly polarised politics across the western world.

How long will we stay KO'd?

Commentators talk mostly about a K-shaped US, but much of the world is in a similar position. That is not only in terms of inequality and division, but just as much in terms of company profitability. Global manufacturing has struggled for years, while the biggest global tech companies keep reaping the rewards of an AI investment boom. South Korea's stock market, for example, has been the best performing emerging market – but the vast majority of that growth has come from a handful of AI-related companies.

The K-shaped economy is a headache for policymakers. Small US companies, for example, are clearly struggling with high debt refinancing and could do with lower interest rates. But AI companies are already taking out huge debts to fund a capital expenditure race, and lower rates could overheat that cycle.

Donald Trump's tariffs are, in part, designed to address the underlying disparity between old and new industry. For all the talk of consumer and business costs, if they incentivise the rebuilding of US manufacturing (and the signs are that is happening) the US president will consider them a success – even if the US economy suffers in the aggregate.

The AI capex race could itself bridge the industrial divide. Already, energy companies are benefitting from the massive buildout of energy capacity to meet datacentre demand, and as the infrastructure needs go up that will spread to other industries. In that sense, the K-shaped economy might contain the seeds of its own future diminution. Tech assets have done extremely well for years, but the capex race will likely drag money from financial assets towards the real economy.

Don't count on markets staying K-shaped

We are not saying that the AI capex race will magically fix the deeper issues of inequality and societal division. Neither will tariffs and the reversal of globalisation – even if they succeed in the narrow sense of rebuilding western industry. We are going through a period of global economic change, and that always means some winners and some losers. It is a political issue how those winners and losers should be dealt with.

But if the K-shaped narrative is mainly about AI versus industry and retail – the new economy versus the old – then the prospects for a turnaround are a little better. We are already seeing a big infrastructure push, particularly in Europe, while some AI-related profits show signs of plateauing, albeit at a very high level. As tech competition intensifies, that could increase further.

That can be offset by many things. As mentioned earlier, interest rate cuts could send the AI capex race into overdrive – and those cuts are coming everywhere. But there are some market signs that a change of fortunes might come. As we wrote last week, we have noticed that institutional investors are feeling positive about the US and global economies, while retail investors are more apprehensive.

That is the reverse of what we saw for most of this year, and it could lead to a change in market dynamics. Institutional investors tend to prefer a bargain to the previous best performer, which naturally benefits small cap stocks more than large. Even if the economy stays K-shaped, that does not necessarily mean markets will.

Tatton Investment Management

5 December, 2025

Global Equity Markets	05-Dec			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	9697	-0.2	-0.2	↗ ↗	3.2	14.5	13.2	12.8
UK FTSE 250	22126	+0.1	+0.1	→ →	4.3	13.9	12.3	13.9
UK FTSE All-Share	5229	-0.1	-0.1	↗ ↗	3.3	14.4	13.1	12.9
FTSE Small x Inv_Tsts	6124	+0.9	+0.9	↗ →	4.3	14.1	11.4	11.3
France CAC 40	8123	+0.1	-0.3	↗ →	3.2	17.3	15.6	13.9
Germany DAX 40	24080	+1.0	+0.6	→ →	2.4	17.3	15.5	13.2
US Dow	47923	+0.8	-0.1	→ ↗	1.6	22.0	20.6	17.6
US S&P 500	6857	+0.5	-0.4	↗ ↗	1.1	25.5	22.4	18.9
US NASDAQ comp	23613	+1.5	+0.6	↗ ↗	0.6	36.9	28.2	25.2
Japan Nikkei 225	50492	+0.6	+0.3	↗ ↗	1.6	22.7	22.5	18.3
World Bloomberg	2351	+1.0	+0.1	↗ ↗	2.2	17.6	16.1	14.6
China mainland	4585	+1.3	+0.4	↗ ↗	1.6	22.5	20.2	17.3
Emerging Bloomberg	1520	+1.2	+0.4	→ ↗	2.4	17.3	14.2	12.4

FTSE100 Top 6		S&P Global Top 6	(GBP terms)	Global Sectors			(GBP terms)
Company	%	Company	%	Sector	%	Sector	%
Antofagasta	+9.4	Microchip Technology	+19.8	Tech	+0.8	Staples	-2.1
Burberry	+8.6	Yaskawa Electric	+18.4	Financials	-0.0	Energy	+0.2
JD Sports Fashion	+6.1	FANUC	+17.7	Health	-2.1	Materials	+0.3
Glencore	+5.5	Lasertec	+15.8	Discretionary	-0.2	Utilities	-3.2
Anglo American	+5.2	NXP Semiconductors	+15.0	Industrials	+0.3	Real_Estate	-2.2
Weir	+4.8	SoftBank	+14.3	Communications	-0.1		

FTSE 100 Bottom 6		S&P Global Bottom 6	(GBP terms)	Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Metlen Energy & Metals	-5.0	Alexandria Real Estate Equities	-13.9	UK Govt 5yr Gilt	3.89	+0.00
Auto Trader	-4.3	M3	-13.7	UK Govt 10yr Gilt	4.44	-0.00
Whitbread	-3.8	LyondellBasell Industries	-12.7	UK Govt 15yr Gilt	4.85	+0.00
Barratt Redrow	-3.5	Aeon	-11.0	US Govt 10yr Treasury	4.11	+0.09
Diageo	-3.2	Daiichi Sankyo	-10.8	France Govt 10yr OAT	3.51	+0.10
WPP	-3.2	W R Berkley	-9.6	Germany Govt 10yr Bund	2.78	+0.09
				Japan Govt 10yr JGB	1.94	+0.13

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	05-Dec	05-Nov
USD per GBP	1.335	+0.9	Oil Brent $:bl	63.22	-0.1	UK BoE base rate	4.00	4.00
GBP per EUR	0.873	-0.4	Gold $:oz	4230	+0.7	2yr fixed	3.89	4.22
USD per EUR	1.165	+0.4	Silver $:oz	58.13	+5.6	3yr fixed	4.00	4.20
JPY per USD	155.26	-0.6	Copper $:lb	542.8	+2.7	5yr fixed	3.96	4.19
CNY per USD	7.071	-0.0	Alumnm $:mt	2874	+1.1	10yr fixed	4.55	4.59
USD per Bitcoin	90,670	-0.0	Agriculture BBG	56.23	-0.5	Standard variable	6.78	6.78

Prices taken today's current level and final close last week.
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.
Mortgage estimates are derived from sterling swaps markets and moneyfacts.co.uk

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