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Dear all,

It has been another year of whirlwind activity, from AI through tariffs to the changing tectonic plates of geopolitics. Through this, it has been a fascinating and highly rewarding year for multi-asset investors. In this letter to you, our adviser partners, we reflect on the events of this year and look ahead to 2026.

First, however, we want to thank you and your clients for the continued strong support you show to the Liontrust Multi-Asset team. We are all too aware of the broad range of investment options available to you – a list that seems to swell every year – and we would like to emphasise our continued laser focus on delivering the results you need to achieve your long-term goals.

THE PRICE IS RIGHT?

Investment management is a complex (as opposed to complicated) amalgam of mathematics, economics, logic, social science and dis-logic. This year has been no exception. Investment markets represent, in a very visceral sense, all of these factors and countless more, relayed to those of us who choose to look on a second-by-second basis.

Whether it be investment assets or an old book at a car boot sale, the price of something is where someone looking to sell and someone looking to buy can agree on. While the car boot sale may be sparsely attended and the transaction unreported, the mechanism for agreeing the clearing price is broadly the same for investable assets. The differences come in the form of the number of people that may want to join the trade, the scale of the monetary value involved and volume of information reporting on the transaction. If the price of a stock or bond was purely based on objectively measurable factors, investing would be a pedestrian pursuit.

The reality of short-term market moves, of course, is even that if they have at their core the seed of data and measurable information, the interpretation of these data is highly subjective. Does that whiff of inflation in mainland Europe affect sales for years to come? Will a cold winter in Ohio push up input prices? Does a tatty dust jacket make the data inside a book (the story) less valuable? These are all subjective judgments.

The difficulty with subjectivity – even (especially?) when applied by millions of market participants in real time – is that it takes the kernel of new information and often reacts to it with a magnitude that may look over the top once emotions subside. That my book's dust jacket reflects a lot of use shouldn't impact its readability but it may affect the enjoyment of it.

GAME OF CATALYSTS

As a result, it is tempting for investors to try to read the runes to look for "catalysts"; events that will provide the boost to your investment thesis. This can be a very difficult game for a number of reasons. First, you may get the catalyst you have been waiting for but the market may not respond in the way you were expecting. Second, your investment thesis may be catalysed but not by the event you were looking for. Few of us, for example, would have predicted that Donald Trump's apparent hawkishness regarding NATO at the start of the year would cause defence spending and a once-in-a-generational fiscal boost that catalysed the German market. Finally, markets will move without an obvious catalyst.

The performance of the UK stock market over the course of 2025 is surely a testament to this last point. From the perspective of news flow, the UK economy has plodded along with a continuation of the long-established narrative of an unspectacular economy, inflation is a bit high, the government is focusing on short-term challenges rather than long-term structural reform, boring stocks are dominating the market, there is a lack of domestic investment culture and so on; and yet the market has delivered this year. In fact, we are on course to see the best calendar year return from the UK since 2009. We think that what has happened in the UK (and indeed in Asia ex-Japan and emerging markets) is that fundamentals – the underlying value of these companies

– has been recognised and the ambivalent (or worse) sentiment that has been weighing on stock prices in these regions has diminished in significance in the minds of investors.

Lots of the reasons to overlook the UK, Asia and emerging markets remain but an implicit choice is being made. For many years, the US has been the beneficiary of this choice as the strong economy and exciting businesses have captured imaginations (and flow) despite trading at high prices. Over the course of 2025, investors have started to look for new homes for some of their global capital and have alighted on hitherto unloved markets. The reason for this is probably a tacit recognition that despite the tarnish, businesses in these unglamorous regions have continued to deliver good profitability for shareholders (as distinct from share price moves).

OUTLOOK FOR 2026

Let's turn to next year. As the saying goes, forecasts are extremely difficult, especially about the future. What we can say with some certainty is the global economy is in reasonable shape. Expectations for growth are still in the low to mid single digits, which, while unspectacular, is also not unhelpful. Inflation seems to have a lid on it, although there remain uncertainties as to whether tariffs will eventually lead to an inflationary impulse in the US. A myopic focus on the short end of the curve could create long-term danger.

The Federal Reserve remains under pressure to cut rates and we will see a new chair in 2026 which, arguably, increases the chances of this happening. Whoever takes the Fed leadership will, however, have to contend with the significant unknowns caused by the Liberation Day tariffs which remain in the background. Any Fed chair will have to strike a delicate balance between reducing short-term interest rates while assuaging any growing market fears about the sustainability of the longer-term debt.

Fiscally speaking, the areas that governments can control are the level of their expenditure and taxation revenue to fund that expenditure. Any shortfall here needs to be made up in the debt markets and, with debt to GDP at over 100%, the US is less financially robust than it once was. It remains the largest kid in the playground economically speaking, and the dollar is still the global reserve currency, but the US cannot afford to be as profligate as it was in 2016. We saw from Elon Musk's aborted Department of Government Efficiency (DOGE) that making meaningful savings in government expenditure is difficult and so tax revenue and the debt markets remain crucial to balance the books.

THE TARIFF QUESTION

We continue to watch for signs that tariffs are impacting global trade. Thus far, there is nothing too disturbing, but tariff revenues are undoubtedly being raised and so someone must be paying them. It looks for now that it is the corporate sector taking a haircut on profitability rather than the consumers being expected to fund these tariffs, but can businesses be expected to take on these additional costs in perpetuity or will they start to be passed on to the public? In a consumption driven economy, too much pressure on consumers will be felt economy wide.

It also remains to be seen what impact (if any) tariffs (threatened or real) have on business planning in the US. They provide a theoretical boon for industrial firms in particular, but building plants, tooling up and moving and training staff is not the work of a moment, although it is possible. What is more open to question is whether it can be done in a way that produces products of a sufficient quality at an affordable price point. It is plausible that support for tariffs would evaporate if consumers felt it too firmly in the pocket.

Political vacillations will remain headline grabbers. While the US approaches mid-term elections in 2026 and Europeans should expect plenty of political noise through next year, it is a good opportunity to remind ourselves that as much as politics can fill acres of newsprint and cause market volatility in the short term, generally the longer-term impact on markets is modest.

It makes sense when we remember the purpose of businesses that are represented on stock markets: to provide returns for shareholders regardless of what is going on around them. Clearly, there are periods in which certain business models struggle or even fail, but the market in aggregate, as a broad collation of business activity in a given region, have done well. This is especially the case when one considers buying businesses and asset classes that are cheap compared to their fundamental value and held patiently until that valuation is realised.

As we said earlier, those markets trading at levels that were truly “cheap” at the start of the year – such as the UK, Europe, Asia ex-Japan and emerging markets – have also delivered the best returns despite scant good news. It is a useful reminder that the performance of markets is not directly linked to a prevailing narrative: they can do well in times of dour news and do poorly even when the news is rosy.

PUTTING A VALUE ON AI

Looking around the world, we see that the US stock market is still unusually concentrated and expensive, giving us reason to be less optimistic on the likely path of the US from here. Some of the US’ “exceptionalism” is probably justified – the US is undoubtedly the leader on AI and may well be for the foreseeable future. The difficult question is what the premium should be for the potential to be a leader in this field. There are so many positive and credible stories when it comes to AI adoption which may well prove to be correct. Indeed, one of the biggest mistakes we made collectively about the internet in its nascency was to underestimate how important it would become.

Nevertheless, has the sentiment and almost universal acceptance of the brilliance of AI led to over-valuation of these mega cap names? The scale of the so-called Magnificent 7 is extraordinary and, as a result, the US market is very concentrated around this theme. A concentrated and expensive market is a potentially dangerous combination. The strong flows into passive vehicles have also tended to reward momentum. It may be tempting to conclude that dispassionate, market capitalisation weighted investments would not be subject to the same behavioural shortcomings as other investors but the flows into passive vehicles themselves undoubtedly are, and so they are an agent of the sentiment even if they are not a source of judgment in and of themselves.

AI remains a compelling and genuinely exciting proposition for humanity and the global economy, and we are only just scratching the surface of what is possible. Much as we couldn’t hope to envisage the internet’s ubiquitousness in 2000, likewise we cannot hope to fathom what AI and quantum computing will look like for us come 2050. It is plausible that we greatly underestimate what the AI landscape looks like in the middle of the century, but it is also equally possible that those at the bleeding edge of AI tech today will not have an enduring and insurmountable competitive advantage.

As a result, it is perfectly reasonable to be constructive on AI’s prospects without adhering to the perceived wisdom that the firms leading the charge today have sustainable valuations. The Magnificent 7 are priced very richly on once-in-a-generation levels of profitability, a heady mix that, through the lens of history, we see typically does not end well for investors. How long it takes for this to happen remains to be seen – it could be years – but the good news for multi-asset investors is that there are plenty of enticing long-term opportunities available to us outside of the AI zeitgeist. While markets outside the US have moved from “cheap” levels, they are not expensive and we believe are at levels that justify allocations which are greater than would be attained through a naïve market capitalisation approach.

The benefits of diversification have been evident in 2025 with many unloved and unglamorous markets leading the way, and this could continue if the marginal investor tires of US exceptionalism, AI, the Treasury or the US dollar. We also believe these offer excellent opportunities for active managers as well. Relentless flows into passive vehicles are price indifferent and provide indisputable momentum to the “haves” at the top of an in-favour bourse. This has led to market distortions that we have rarely seen. While the value style has made up some its lost ground against growth over the course of the year, quality stocks and smaller capitalisation stocks remain overlooked. We believe these areas offer excellent opportunities for active managers to add value in 2026 and beyond.

THE ATTRACTIONS OF FIXED INCOME

Fixed income markets continue to provide valuable diversification opportunities for multi-asset investors. The aggressive repricing over 2022 took these from unreasonably expensive to attractive. Investors in government bonds today receive a real yield for holding these bonds, and the fact that rates are significantly greater than zero provides ample scope for capital appreciation through the reduction in yields in times of market stress. As a result, fixed income can once again play its crucial portfolio construction role as a counterweight to the returns engine in equity markets.

So far public credit markets do not display too many signs of stress. Some defaults are inevitable but the levels have not moved up to a noteworthy degree. We are still yet to see a big impact from the “refinancing cliff” that has been mooted as a risk as the lowly yields struck before 2022 start to roll off but, interestingly, this is arguably a bigger risk for higher quality credits. For example, the yield payable on UK government debt today is more than four times the lows of 2022 (4.5% compared to 1%) and a barely believable 26 times the levels they were five years ago (4.5% compared to 0.17%). This is not an issue that is isolated to the UK, German bunds had negative yields five years ago, meaning borrowers essentially paid for the privilege of lending the government money. Far from being extraordinary, prevailing government yields today are more or less normal. The period between the financial crisis and 2022 were the historical aberration. (Source: Bloomberg, 24 November 2025).

High yield and investment grade credit yields are higher today than five years ago, meaning that any company which is rolling its debt today will likely pay a higher price than half a decade ago. But because yield spreads are low, proportionately the increase on 2020 levels is relatively small. For example, global high yields have moved from 4.85% in 2020 to 6.71% today, a “mere” 40% increase in nominal yield that would be the envy of governments (including the US whose yields are four times higher over the same period). Furthermore, nominal yields for global high yield are less today than for most of 2025, all of 2024 and 2023 and much of 2022, so the affordability challenge is not as profound today as one might have expected. While this is an area we continue to monitor closely, we believe the yields of over 6.5% today from global high yield are a worthy addition to a portfolio given the relatively elevated status of lenders to these businesses in the event of default.

OUR COMMITMENT

The Liontrust Multi-Asset team does not profess to be able to forecast with any accuracy what 2026 will bring. As ever, there will be a fascinating mix of the good and the bad, headwinds and tailwinds. Where we can have greater certainty about are things in our control. We will continue to work on delivering the first-class relationship, administration and service that you have come to expect from us. We will also continue to have a laser focus on delivering our investment process; remaining resolute during difficult times and cautious during times of plenty. We commit to being disciplined, diversified and differentiated: the core tenets of our actively different investment process.

We favour a diversified approach to investing in recognition of its usefulness in managing risk over the long term. For example, our current allocation to the US is significantly lower than a naïve market capitalisation weighted approach. This is not for the sake of being contrarian but because other markets offer better long-term returns and risk prospects. We recognise this still sets us apart from the broad consensus; should the status quo continue, there will be plenty of jolly investors out there seeing returns compound on already great results in the US. Our simple question is not that we think we are right, but what if we’re right?

We are really appreciative of the support you have given us this year; we take very seriously the responsibility of managing your clients’ savings. We wish you and your families a wonderful festive period and look forward to seeing you next year.



KEY RISKS

Past performance does not predict future returns. You may get back less than you originally invested.

The Funds and Model Portfolios managed by the Multi-Asset Team may be exposed to the following risks:

Credit Risk: There is a risk that an investment will fail to make required payments and this may reduce the income paid to the fund, or its capital value. The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay;

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss;

Liquidity Risk: If underlying funds suspend or defer the payment of redemption proceeds, the Fund's ability to meet redemption requests may also be affected;

Interest Rate Risk: Fluctuations in interest rates may affect the value of the Fund and your investment. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

Derivatives Risk: Some of the underlying funds may invest in derivatives, which can, in some circumstances, create wider fluctuations in their prices over time;

Emerging Markets: The Fund may invest in less economically developed markets (emerging markets) which can involve greater risks than well developed economies;

Currency Risk: The Fund invests in overseas markets and the value of the Fund may fall or rise as a result of changes in exchange rates.

Index Tracking Risk: The performance of any passive funds used may not exactly track that of their Indices.

Any performance shown in respect of the Model Portfolios are periodically restructured and/or rebalanced. Actual returns may vary from the model returns.

The risks detailed above are reflective of the full range of Funds managed by the Multi-Asset Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

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