



MONTHLY REVIEW – DECEMBER 2025

Dear Clients, Colleagues and Partners

OUR PERSPECTIVE

“The trouble with our times is that the future is not what it used to be.” ~ Paul Valery, French Poet and Philosopher

Markets spent much of 2025 trying to hold two ideas in mind at once:

- 1. Disinflation is returning, and**
- 2. A new productivity wave emerging through AI.**

What made the year distinctive was the market's resilience. Not even “Liberation-day” and the renewed spectre of 1930s-style tariff mercantilism was enough to derail risk appetite. Investors largely treated geopolitical shocks as transient noise, while anchoring on what felt structural: falling inflation and rising productivity.

Asset prices followed the textbook logic of discounting. As expectations for policy easing firmed, capital rotated into long-duration growth assets. From the post-Liberation-day lows on April 9th to year-end, an equal-weight Magnificent 7 basket rose 67%. A vivid reminder that when the expected discount rate falls, the present value of growing future cashflows rises disproportionately.

Yet 2025 was not simply “mega-cap growth wins” again. The AI story broadened from a narrow ‘hyperscaler’ narrative into a capex-and-infrastructure cycle: power generation, grid buildout, cooling, semiconductors, components, cybersecurity, and defence. In macro terms, that is a shift from platform rents to a wider investment multiplier, which combined with a softer US dollar, helped revive the “rest-of-world” trade as global cyclicals and value exposures offered leverage to incremental demand.

Bonds on the other hand refused to confirm the disinflation story as rates stayed sticky. This was less a reflection of current inflation than of inflation memory.

The **Phillips Curve**, named after the economist Alban William Housego Phillips, is an economic concept illustrating an inverse relationship between inflation and unemployment. It suggests that when unemployment is low, inflation tends to be high, and vice versa.

2025 was the year markets repriced the risk that fiscal dominance, energy constraints, or renewed supply shocks could make inflation rebound quickly.

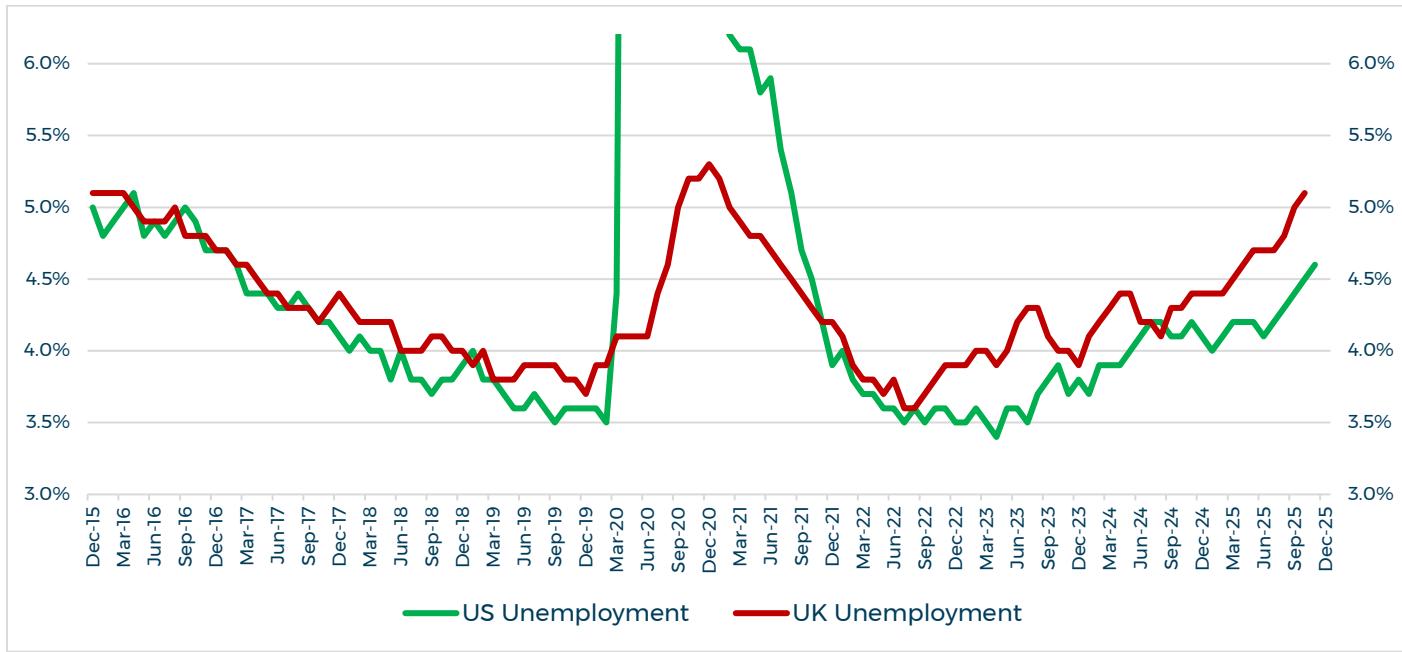
In many ways the market behaved like a perfect harmony with a behavioural finance textbook as the year's standout winner ended up being gold. Not “risk-off” insurance, but a referendum on credibility on whether governments can sustain deficits without leaning on repression, and whether central banks can prioritise price stability if unemployment rises.

The key fragility remains the labour market. A cooling jobs backdrop should weaken demand and, via the Phillips-curve mechanism, reduce pricing power. But it also invites a policy response: easing alongside persistent deficits can reawaken inflation unless central banks, scarred by the recent cost-of-living crisis, keep policy tighter for longer.

Beyond the cycle sits a different uncertainty: AI's capital intensity. If the cost of compute continues to rise and electricity demand accelerates, the inflation debate will not fade. Rather, it will evolve from wages to infrastructure bottlenecks.

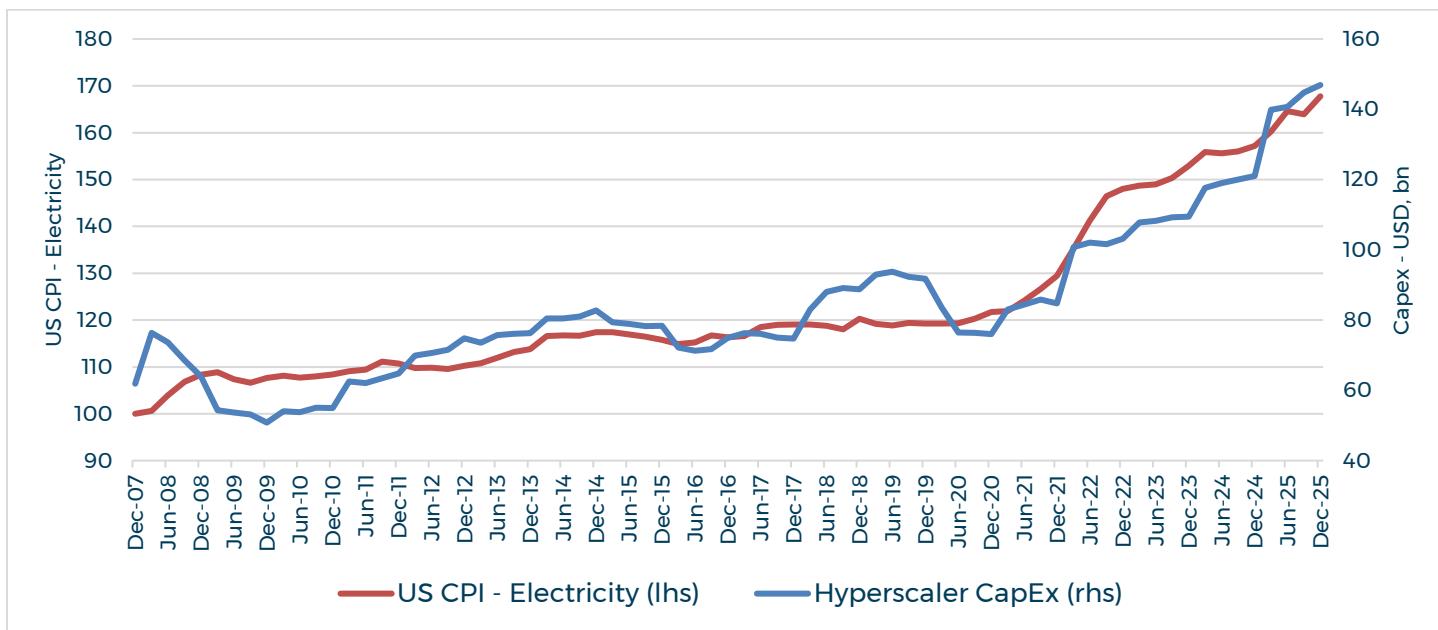
Consequently, our conclusion for 2026 is nuanced: **Disinflation may dominate near term, while inflation uncertainty rises medium term. The challenge is not choosing one story. It is holding both.**

Exhibit 1: Labour market trends across developed economies in the west are likely to put pressure on demand, and accordingly, on inflation and inflation expectations.



Source: ONS, BLS, Shard Capital, 23/12/2025

Exhibit 2: A rise in electricity prices, despite the weakness in oil, have coincided with rising capex spending from the Hyperscalers. Energy demand will likely put upward pressure on inflation and inflation expectations.



Source: Bloomberg L.P., Shard Capital, 23/12/2025; CPI data indexed to 100 on 31/12/2007

MARKET REVIEW

Deflationary Boom Assets

Risk assets finished the year still balancing disinflation optimism with AI-driven growth narratives. Equity leadership broadened in December, with value (MSCI ACWI Value +1.92% (USD)) beating growth (MSCI ACWI - Growth +0.22% (USD)), and strong performance in Europe and the UK as market rose almost +4% in US Dollar terms during December. Over the course of the year, global equities delivered robust gains with the MSCI ACWI up +22.87% (USD). But dispersion mattered, as the S&P 500 (+17.88%) lagged several non-US markets (e.g., Europe +37% (USD); EM +34% (USD)). A softer dollar, which fell more than -9% over 2025, amplified non-US returns and helped justify higher equity multiples via the “lower discount rate” narrative. Credit remained constructive. US credit markets were up c. +8% and Euro corporates up c. +16% over 2025, while EMD remained largely resilient (Hard currency +12.16%, Local +9.29%), consistent with spreads staying contained as recession fears failed to fully materialise.

Deflationary Bust Assets

Government bonds were steadier over the year than the month-to-month noise implies: US Treasuries +6.32% in 2025 despite a small monthly dip (-0.33%) in December. The stickiness of yields reflected term-premium and “inflation memory” more than runaway inflation. Late-year policy easing as the Fed cuts of 25bp in December to

a 3.5%-3.75% target range, supported duration at the margin, but did not trigger a classic bond melt-up.

Inflationary Boom Assets

Despite a tough start to 2025, our systematic strategies and Managed Futures generally, had a solid December and mostly finished 2025 in positive territory. Commodities were mixed as the Bloomberg Commodity Index fell c. -1% in the month but were up double digits in 2025. Copper (+8.14% December / +38.67% 2025) spoke to electrification and capex intensity, while natural gas and WTI were notable laggards, falling in December and finishing 2025 lower than it started.

Inflationary Bust Assets

The standout regime was inflation hedges via precious metals as Gold rose over +2% in the month and over +60% in 2025. A strong rally in Silver to finish the year confirmed the narratives, a mix of real-rate sensitivity, credibility concerns, and demand for stores of value as policy credibility is questioned. Inflation-linked bonds participated but less explosively: Euro Inflation Linked Bonds were up +14.37% in USD terms, while US TIPS rose c. +7% over the year. The macro message for 2026 is nuanced: disinflation may ebb through weaker labour momentum, yet the AI/infrastructure buildout (power, grids, security) keeps medium-term inflation uncertainty very much alive.

ASSET ALLOCATION

The below tables set out our current tactical asset allocation views and the investment thesis behind these.

	Positioning	Investment Thesis
FIXED INCOME		
DM – Government Bonds	OVERWEIGHT	<p>Whilst inflation risks resulting from strong liquidity, M2 growth, and interest rate risks from a supply-demand mismatch and term-premia for longer duration U.S. Treasuries remain, we note the disinflationary trend and downside risks to economic growth. We recommend an overweight position in government bonds, both nominal and inflation linked.</p> <p>We still find short-dated TIPS attractive with high real rates relative to history, whilst duration in the U.K. Gilt market looks more attractive as we believe long-term growth and inflation expectations remain too high.</p>
DM – Corporate Bonds	UNDERWEIGHT	The risk-reward profile remains unattractive given tight credit spreads and macroeconomic risks.
EMD – Government Bonds	NEUTRAL	The weaker US Dollar and attractive yields have boosted EM Govt bonds in H1 2025. Whilst we believe the current administration will ensure a weaker US Dollar prevail, the US Dollar looks to be breaking out of its weakening trend.
EMD – Corporate Bonds	NEUTRAL	<p>Risks include negative economic shock, FX-mismatch.</p> <p>Attractive security specific / RV opportunities, where we prefer high quality, short-duration and hard-currency credit.</p>
ALTERNATIVES		
Property & Infrastructure	NEUTRAL	<p>We retain conviction behind infrastructure, especially in digital infrastructure and electrification where attractive and sustainable tailwinds persist. We believe infrastructure that provides long-term CF's and inflation protection offer attractive opportunities at current levels.</p> <p>Property markets remain uncertain and less attractive. Whilst there are perhaps niche / specific property assets with attractive characteristics, cap rates and valuations broadly do not reflect a higher interest rate regime we entered post-pandemic.</p>
Commodities	OVERWEIGHT	<p>We remain positive on precious metals, in particular gold, as geopolitical and economic uncertainty remains high, with optionality driven by policy missteps. We note recent strength might be an opportune time to take profit, but we retain conviction in our long-term view.</p> <p>Whilst near-term demand remains uncertain, energy security, climate change, Asian growth, and AI-driven long-term demand characteristics, could provide attractive opportunities to increase exposure to the energy complex.</p>
Private Equity	UNDERWEIGHT	Listed PE is always vulnerable to liquidity risks during periods of increased market dislocations. Furthermore, the risks of a high cost-of-capital and difficulties in refinancing we believe are not fully reflected in private markets. We remain Underweight.
Alternative Strategies	OVERWEIGHT	<p>Uncertainty behind inflation and economic growth drive the opportunity for uncorrelated investment propositions, e.g. Hedge Funds. However, investors should consider the absolute opportunity relative to T-Bills.</p> <p>Attractive strategy specific opportunities exist with i) lower volatility, ii) uncorrelated profiles, iii) attractive risk-adjusted return expectations, and iv) long-volatility pay-off profile. We are especially bullish on CTA's and trend-following Managed Futures.</p>

		Positioning	Investment Thesis
DEVELOPED MARKET EQUITY			
North America	UNDERWEIGHT	<p>US equity market outperformance over the last 15 years has been significantly supported by multiple expansion, and valuations remain elevated on both absolute and relative levels. Despite the longer-term benefits from the AI revolution, we believe risks to profit margins remain significant.</p> <p>Whilst valuations in small and midcaps looks marginally more attractive, policy uncertainty and weakening sentiment we believe are major headwinds to U.S. small and midcaps.</p>	
UK	NEUTRAL	<p>Whilst equity valuations, especially in the small and midcap market are attractive, political uncertainty, deteriorating economic outlook and inflation risks remain material. We retain a preference for high quality and stability and note the opportunity in small and midcap companies.</p>	
Europe ex-UK	OVERWEIGHT	<p>Whilst FX and Stagflation risks remain material, we believe the changing European fiscal regime represents a major macroeconomic and policy shift in European policy. Valuations remain relatively attractive; however, we note a preference for quality and pricing power.</p>	
Japan	OVERWEIGHT	<p>Attractive valuation, macroeconomic tailwinds and ongoing market reform all underpin the opportunity in Japan. Corporate Japan's strong balance sheet and low valuations make for attractive risk-reward profile.</p> <p>We believe the Japanese Yen is significantly undervalued, and exposure to Japan should not be hedged.</p>	
EMERGING MARKET EQUITY			
Asia ex-Japan & China	OVERWEIGHT	<p>We retain a preference for Asian emerging economies over non-Asian EM, driven by better fundamentals and lower reliance on externalities. However, we note the risks of contagion as China embark on a local deleveraging cycle and economic growth slows. India remains one of our highest conviction opportunities in the region, but valuations are stretched.</p>	
China	OVERWEIGHT	<p>Overly pessimistic outlook and sentiment towards China are reflected in valuations. Whilst question marks with regards to demographics, real estate, debt, policy and alignment remain, sentiment is showing signs of turning less negative. The risk-reward remain very attractive, and selectively attractive long-term opportunities have emerged.</p>	
Latin America	OVERWEIGHT	<p>The changing political and macroeconomic environment, specifically the benefits from the 'near-shoring' of supply chains and the consequences of deteriorating China-US relations, creates attractive opportunities in Central and South America.</p> <p>Some uncertainty remains in the near term from US-policy and the outlook for global growth.</p>	
EMEA	UNDERWEIGHT	Preference for Asia & Latin America.	

“Qui Curat Vincit”

CONTACT US

For further information on any of our services, or if you would like to arrange a meeting with an investment manager to see how we can work with you, please get in touch.

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