SIGMA
PRIVATE OFFICE

Q4 2025 MARKET REVIEW AND OUTLOOK

2025 YEAR IN REVIEW

2025 marked yet another strong year for global investors. Equities delivered a third consecutive year of double-digit returns, despite a sizeable correction early in the year that briefly pushed markets toward bear-market territory. After an extended period without a meaningful pullback, a reset of this kind was both understandable and arguably overdue. Importantly, it proved to be a recalibration of sentiment rather than something more fundamental as risk appetite stabilised, excess positioning cleared, and the market laid the groundwork for the next leg higher. The rebound that followed in April was distinctly V-shaped, and the remainder of the year was largely characterised by a steady push to new highs, supported by strong and broad-based earnings growth.

By year end, the MSCI World Index (USD) was up 21.6%, with global risk assets performing well overall as highlighted in Chart 1. Most major equity markets also posted strong gains in local currency terms, but for USD-based investors the currency backdrop added to their returns picture. With the US Dollar Index down ~10.2% year-to-date, foreign equity gains translated into more dollars when converted back, boosting the USD total return on international indices. However, it is worth emphasising that while FX can meaningfully influence returns over shorter horizons, over longer investment periods these effects tend to mean-revert, leaving underlying corporate fundamentals as the main drivers of returns.

Beneath the headline index returns, 2025 was defined by rotation and catch-up. Leadership broadened as the year progressed, supported by a steadier rate backdrop and earnings strength that extended beyond a narrow set of winners. This shift was visible both in sector dispersion and in the narrowing performance gap between market-cap indices and their equal-weighted counterparts, evidence that returns were less concentrated than in recent years.

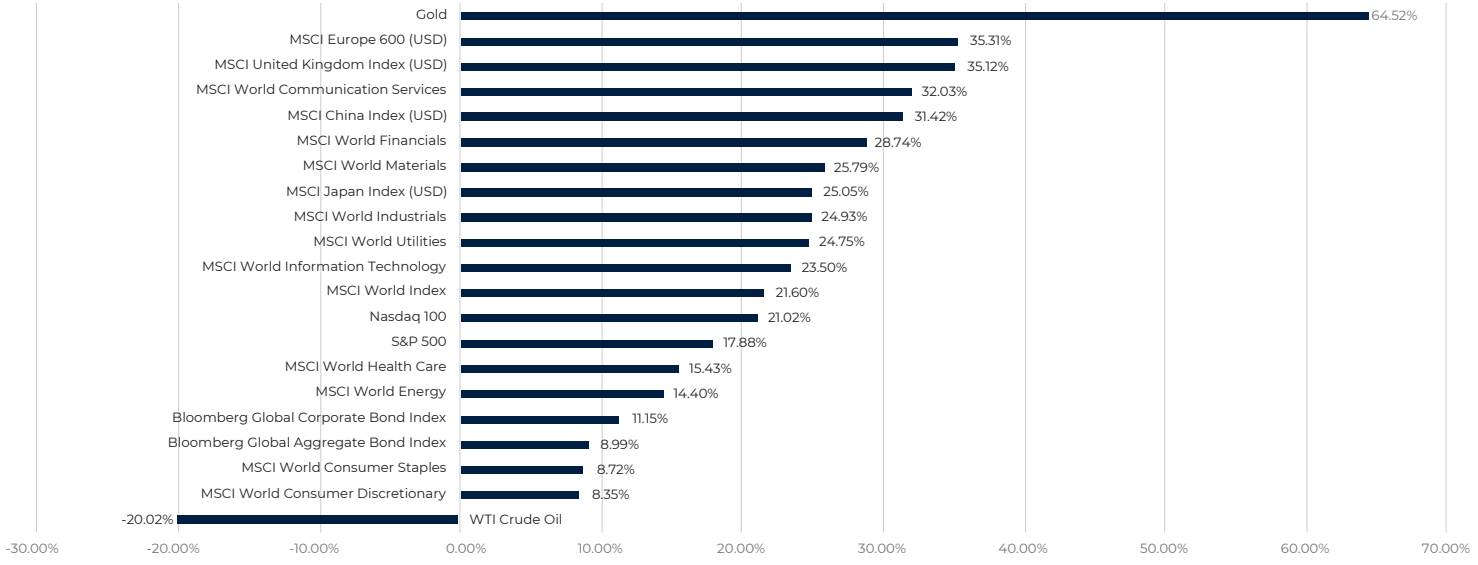
Financials were among the clearest beneficiaries. A modest steepening in the yield curve improved net interest margins, while stronger capital markets activity and favourable investment returns provided an additional tailwind. Communication Services also performed well, although the sector's result was unusually concentrated, driven largely by Alphabet's +65% advance.

Cyclically exposed areas such as Industrials, Materials and Utilities also outperformed. These sectors tend to benefit when growth is steady and the interest-rate environment becomes less restrictive, particularly given their typically higher capital intensity and greater reliance on financing. At the other end of the spectrum, Consumer Discretionary lagged. The consumer remained resilient in aggregate, but the sector reflected a more selective spending environment as real income growth slowed and financing costs remained elevated versus pre-2022 norms.

Information Technology finished broadly in line with the market after several years of outsized gains. Fundamentals remained strong and the AI investment cycle stayed intact, but valuations had already repriced higher throughout 2023 and 2024, leaving less scope for further relative outperformance as other sectors played catch-up this year. That selectivity was also evident within the largest mega-cap names with only Nvidia and Alphabet meaningfully outperforming the MSCI World over the year.

CHART 1

2025 ASSET CLASS RETURNS (%USD)



Source: FactSet, MSCI. Data as of December 31, 2025.

Across asset classes, dispersion was equally pronounced. Fixed income delivered positive returns as policy moved toward neutral, restoring bonds' role as both an income source and a diversifier. In commodities, outcomes diverged sharply. Gold was the standout, supported by safe-haven demand, sustained central bank buying, and investor preference for hedges amid persistent geopolitical uncertainty. Oil, by contrast, ended the year materially lower, reflecting a market shaped more by supply dynamics than demand headlines. OPEC+ supply and broader production levels contributed to an oversupplied backdrop, even as long-term energy demand narratives, such as power needs from data-centre buildout, continued to attract attention.

Turning to the fourth quarter, the tone was set early by the US government shutdown, which ultimately became the longest on record. Despite the political theatre and predictable headlines, markets largely looked through it, consistent with the reality that shutdowns tend to have limited economic relevance and have historically not been the kind of event that derails an earnings-driven cycle. The main practical consequence was not a lasting hit to activity, but a temporary loss of visibility as key data releases were delayed, briefly adding uncertainty around the near-term macro picture and the policy outlook into year end.

Against that backdrop, the Federal Reserve delivered its third consecutive rate cut in December, lowering the fed funds target range to 3.50%–3.75%. The decision itself was widely expected but the shift in guidance was notable. With policy now closer to neutral, the Fed signalled that the next phase is likely to be more measured and increasingly conditional, effectively pointing to only one additional cut in 2026, assuming inflation continues to moderate and growth remains steady.

Outside the US, the quarter highlighted a more differentiated global policy cycle. The ECB held rates steady at a fourth consecutive meeting in December, reflecting a balance between improving inflation dynamics, a euro area economy that has proved more resilient than many feared, and suggesting a higher bar for additional near-term easing. The Bank of England cut rates by 25bps to 3.75%, but the decision was finely balanced and accompanied by clear caution on further moves, consistent with a gradual approach rather than a rapid cutting cycle.

Japan remained the outlier; the Bank of Japan raised rates by 25bps to 0.75%, taking policy to its highest level in around three decades and continuing its slow move away from ultra-loose settings. The accompanying message was that policy remains accommodative in real terms and future steps will be taken cautiously, but the direction of travel is clear so long as inflation and wage dynamics remain firm. This normalisation is unfolding alongside a changing political backdrop under a new Prime Minister, which markets are watching closely given the potential interaction between fiscal priorities, the yen, and the pace of further tightening from here.

"2025 was defined by rotation and catch-up. Leadership broadened as the year progressed, supported by a steadier rate backdrop and earnings strength that extended beyond a narrow set of winners."

2026 OUTLOOK

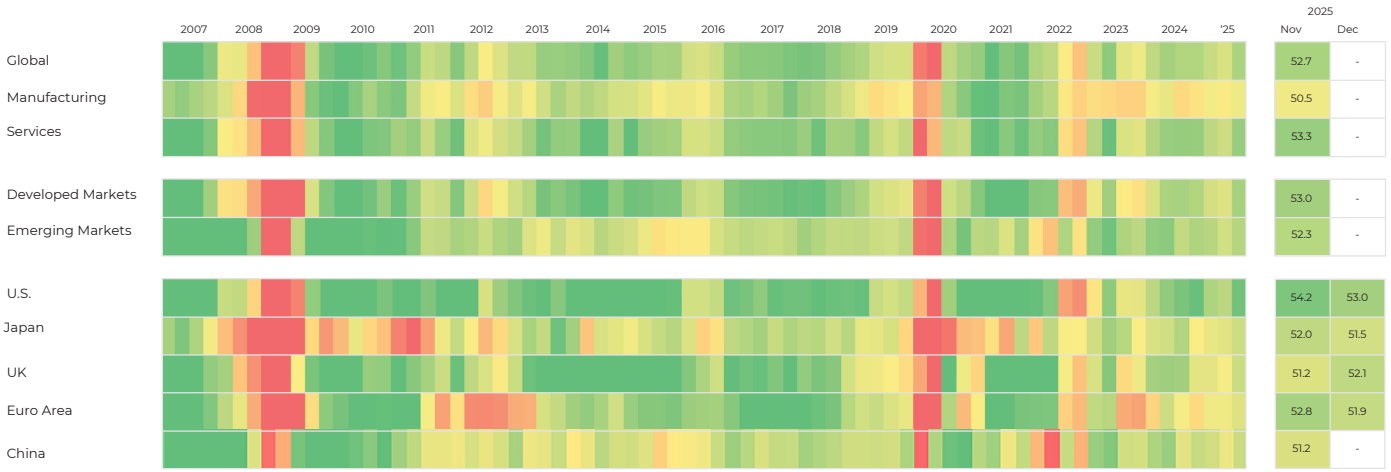
Entering 2026, the global macro backdrop looks closer to a more typical economic cycle than it has in recent years. Growth is steady, inflation is expected to retrace towards target levels, and monetary policy is close to neutral. In such an environment, outcomes tend to be driven less by abrupt policy shifts and more by the traditional fundamentals; the underlying pace of aggregate demand, productivity gains and earnings growth.

Across the developed world, the economic growth outlook remains supportive. Activity is largely expected to remain healthy on the back of resilient demand and ongoing capital investment. The latest business surveys are consistent with that view with global composite PMI readings remaining in expansionary territory (Chart 2). Importantly services activity continues to hold up well, which makes up the largest share of developed-market GDP and employment. Manufacturing, while a smaller share of the economy, has also begun to stabilise and show early signs of improvement after a prolonged soft patch, suggesting the drag from the industrial side of the cycle is easing as interest rates have moved lower. Additionally in Europe, the growth backdrop is further supported by more accommodative fiscal policy in parts of the region in 2026, which should help underpin manufacturing activity even if the pace of expansion remains modest.

CHART 2

GLOBAL PMI's INDICATE CONTINUED EXPANSION

Global Composite (manufacturing & services combined) Purchasing Managers' Index, quarterly



Source: JPMorgan Asset Management. Data as of December 31, 2025.

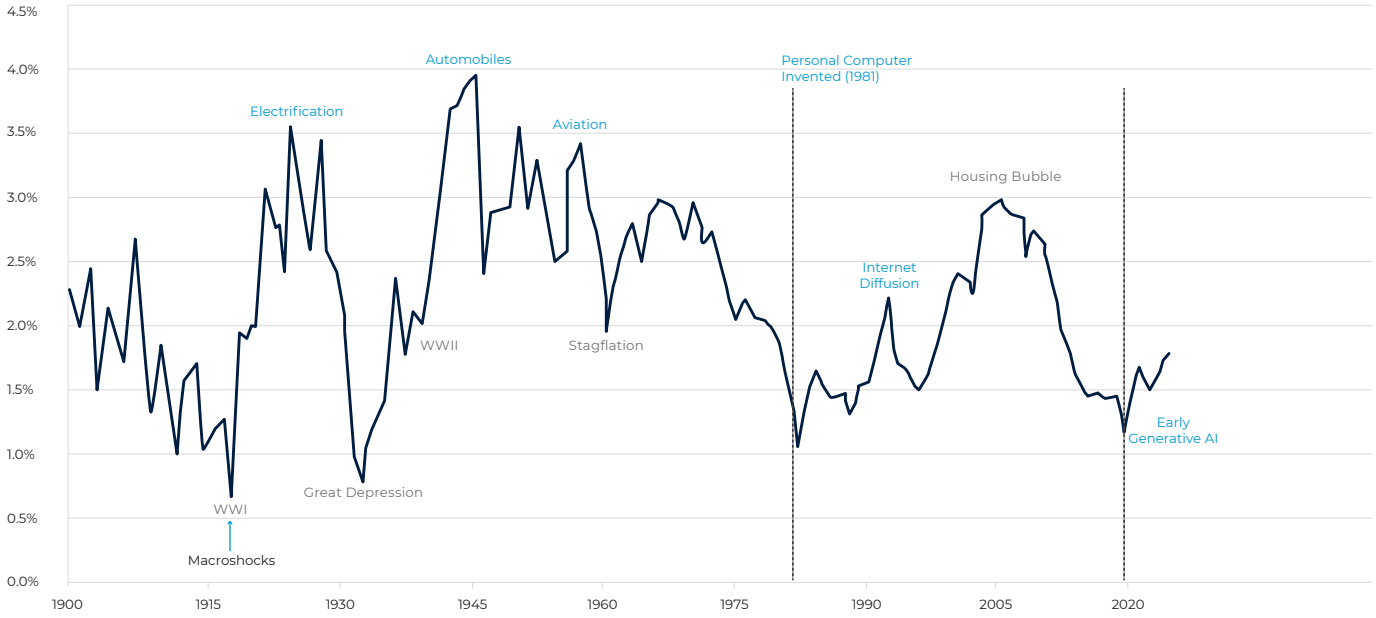
Meanwhile, inflation dynamics also look more constructive globally. The tariff-related lift to prices should gradually roll off through 2026, allowing underlying disinflation trends to become clearer. Furthermore, the post-pandemic supply shocks have largely washed through, wage pressures are less intense than they were as labour markets have cooled, and energy is unlikely to be an ongoing contributor to inflation if an oversupplied environment persists. Over time, productivity gains and technology adoption should also provide an additional offset to cost pressures while also supporting economic expansion.

As shown in Chart 3, US productivity growth slowed materially in the post Global Financial Crisis period but has begun to turn higher again for the first time in nearly two decades. While still in the early innings, and with the productivity gains from AI only just beginning in our opinion, we expect AI adoption to reinforce this upward trend as it diffuses across sectors and through business processes and workflows. Over time, productivity gains are crucial as a key driver of rising living standards, allowing economies to produce more with the same resources, supporting higher real wages, better job quality and broader prosperity, while also strengthening competitiveness and innovation.

CHART 3

U.S. LABOR PRODUCTIVITY GROWTH

Trailing 10-year average annualized rate, through 2024



Source: JPMorgan Asset Management. Data as of November 30, 2025.

As for corporate earnings growth, 2026 expectations are solid. Analysts currently expect the S&P 500 to deliver a third consecutive year of double-digit earnings growth in CY 2026, with earnings forecast to rise ~15% year-on-year, above the trailing 10-year average of ~8.6%. If realised, this would mark a sixth consecutive year of earnings growth, with all 11 sectors expected to grow and Information Technology, Materials, Industrials, Communication Services, and Consumer Discretionary projected to lead.

Nonetheless, a favourable macro and corporate backdrop do not remove uncertainty for equity markets, where prices in the near term ultimately respond to whether outcomes are better or worse than expected rather than the absolute level of incoming data. As such, after 3 strong years for risk assets and with 2026 forecasts largely leaning positive, the hurdle for further upside is simply higher. This is why an assessment of investor and market sentiment should be central to any outlook.

As we have discussed on many occasions, sentiment tends to follow a recognisable pattern throughout a market cycle; bull markets are born on pessimism, advance as scepticism fades, mature as optimism builds, and ultimately end once confidence becomes broad and unquestioned i.e. euphoria. Corrections such as the one we experienced earlier this year are an important part of that process. They reset expectations, unwind excess positioning and push sentiment back down the scale, extending the cycle by forcing markets to “re-climb” the wall of worry rather than moving directly into late-stage conditions.

Consistent with that, history shows bull markets have often continued for a meaningful period after recovering pre-correction highs. As illustrated in Chart 4, the recovery of prior peaks has typically been followed by further gains over the months that follow before the eventual end of the bull market as sentiment rebuilds.

CHART 4

S&P 500 PRICE RETURNS FROM FINAL CORRECTION TO BULL MARKET END

CORRECTION			CORRECTION LOW TO RECOVERY		RECOVERY TO BULL MARKET END	
Peak Date	Through Date	Return	Recovery Date	Length (Months)	Length (Months)	Return
14/05/1928	12/06/1928	-10.3%	28/08/1928	2.5	12.3	55.0%
06/04/1936	29/04/1936	-12.8%	14/07/1936	2.5	7.9	19.4%
05/02/1946	26/02/1946	-10.1%	09/04/1946	1.4	1.6	2.0%
23/09/1955	11/10/1955	-10.6%	14/11/1955	1.1	8.6	7.2%
08/08/1959	25/10/1960	-13.9%	27/01/1961	3.1	10.5	18.6%
22/08/1962	23/10/1962	-10.5%	14/11/1962	0.7	38.9	56.3%
25/09/1967	05/03/1968	-10.1%	30/04/1968	1.8	7.0	11.0%
28/04/1971	23/11/1971	-13.9%	04/02/1972	2.4	11.2	14.7%
13/02/1980	27/03/1980	-17.1%	14/07/1980	3.6	4.5	17.1%
10/10/1983	24/07/1984	-14.4%	21/01/1985	6.0	31.1	92.2%
09/10/1989	30/01/1990	-10.2%	29/05/1990	3.9	1.6	2.3%
16/07/1999	15/10/1999	-12.1%	16/11/1999	1.1	4.2	7.6%
27/11/2002	11/03/2003	-14.7%	12/05/2003	2.0	52.9	65.6%
20/09/2018	24/12/2018	-19.8%	23/04/2019	3.9	9.9	15.4%
19/02/2025	08/04/2025	-18.9%	27/06/2025	2.6	??	??
	Average	-12.9%		2.6	14.4	27.5%
	Median	-12.4%		2.4	9.3	16.3%

Source: FactSet. Data as of September 30, 2025.

Against that backdrop, we would characterise current conditions as late-cycle optimism, but not euphoria. The ongoing debate around whether AI represents a transformational productivity cycle or a bubble is a clear example. We will elaborate on the AI theme and address the "bubble" question in a dedicated section later in this review, but for now our takeaway is that true euphoric phases, like that seen during the Dot-Com bubble, tend to be marked by widespread agreement and complacency rather than persistent disagreement or doubt.

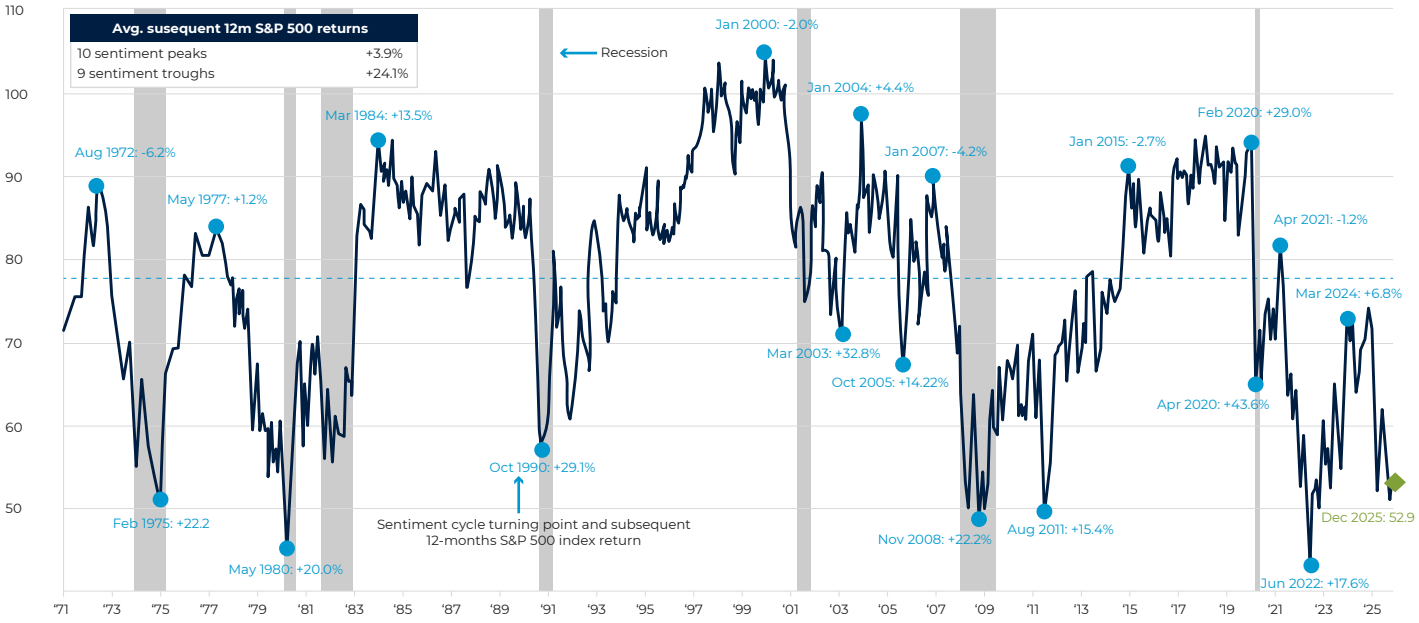
Furthermore, consumer confidence indicators remain unusually depressed. Despite solid economic fundamentals and equity indices near all-time highs, Chart 5 shows US consumer confidence still sitting toward the lower end of its historical range, with similarly subdued readings across much of the developed world. Importantly, this is not just an observation about sentiment levels, but also about what they have historically implied for forward returns; periods of low confidence have tended to coincide with stronger subsequent 12-month equity performance, whereas peaks in confidence have typically preceded more muted returns. This reinforces our view that optimism is not yet broad-based and that the market still has room to climb the wall of worry higher.

With that said, the implication is not that volatility will disappear. Late-cycle markets rarely move in a straight line, and we expect 2026 to bring pullbacks and bouts of uncertainty, even if the broader fundamentals remain supportive. We remain vigilant of the risks that exist but also note that the most visible and widely discussed risks are often the ones already being discounted by markets.

CHART 5

CONSUMER CONFIDENCE INDICATORS REMAIN DEPRESSED

Consumer sentiment index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan. JPMorgan Asset Management. Data as of December 31, 2025.

Some of the more obvious potential sources of volatility in 2026 include geopolitics, the build-up to US midterm elections, and heightened attention around the end of Chair Powell's term and the broader question of Fed independence. Tariffs also remain a moving part. While the inflation effects should fade over time, uncertainty around the legal and political path, including the potential for renewed uncertainty depending on Supreme Court outcomes could still generate volatility.

However, bull markets typically do not end because of the concerns investors debate daily; they end when confidence becomes indiscriminate and risks become underappreciated. The biggest risks therefore tend to be the ones receiving the least attention. Two areas we are monitoring closely are the continued "retailisation" of private credit and private equity, and the pace of financial product innovation. In the former, the key issue is less the asset class itself and more the structure; the push to offer semi-liquid access for retail investors to inherently illiquid exposures can create a liquidity mismatch that becomes visible only when risk appetite turns. In the latter, the proliferation of products designed to enhance returns or income, often through leverage, options overlays or concentrated single-asset exposures can function well in stable markets but can also amplify moves when volatility rises and positioning becomes crowded.

In summary, we enter 2026 with a supportive backdrop, but with a clear understanding that late-cycle markets require vigilance. Our approach remains to stay disciplined through periods of volatility, maintain appropriate diversification, and focus on high-quality businesses with durable fundamentals and long-term compounding potential. We will continue to monitor the key data points and risk factors closely and adjust positioning where warranted, while keeping portfolios anchored to clients' long-term objectives rather than short-term headlines.

We look forward to updating you again next quarter and thank you for taking the time to read our Market Review & Outlook.

We wish you all a happy and healthy New Year!
Sigma Investment Committee.

AI BUBBLE TALK: WHAT THE NUMBERS SAY, AND DON'T SAY

Throughout the course of 2025, the "AI bubble" debate has become a much more regular feature of market commentary. While it is an understandable reaction to the scale of the investment cycle, the concentration of returns, and the speed with which the technology is advancing, the label can be misleading. The question at hand here is not whether AI is a powerful theme but whether today's market behaviour shows the characteristics that typically define a bubble, and what evidence would need to emerge for that assessment to change.

Historically, bubbles are characterised not just by euphoric sentiment, but also by complacency and speculative investor behaviour; a point where valuation discipline weakens, scepticism collapses, risks are secondary and capital is allocated indiscriminately simply because an asset is associated with the dominant narrative. When scepticism remains visible, expectations are still being debated and priced. By contrast, late-stage bubbles tend to coincide with easy financing and a market culture that treats participation as compulsory.

We turn to assessing whether classic bubble characteristics are visible in the data today. Firstly, there is no denying that equity market concentration has increased materially.

The US now represents over 60% of global equity market capitalisation, and the 10 largest US companies account for ~22% of it. This reflects a long period of outperformance that has been driven in large part by US Tech's dominance and more recently by a defined cohort most directly tied to AI infrastructure and monetisation as shown in Chart 1. However, concentration, by itself, is not proof of a bubble. Historically, markets have experienced extended periods of high concentration, and sector leadership has often persisted for many decades, reflecting the key economic driver over time.

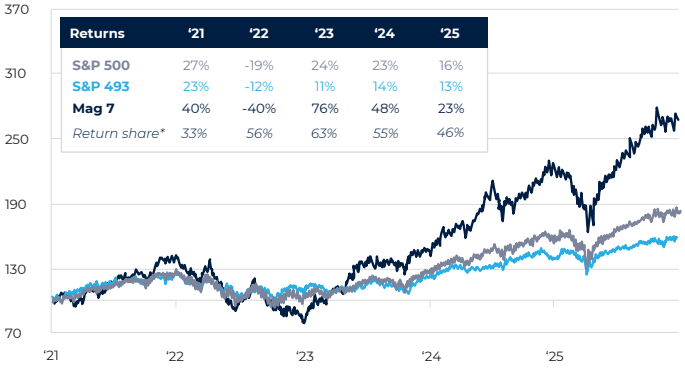
The more important question is what has driven this relative outperformance; have prices been lifted primarily by valuation multiples (P/E ratios) expanding on unchanged fundamentals, or by genuine earnings growth? That distinction matters because bubbles are typically characterised by prices continuing to rise even as fundamental momentum fades.

Chart 2 provides a useful reference point. In the final year into the 2000 peak, returns in US Technology and European TMT (Tech Media Telecom) were driven heavily by multiple expansion (dark blue component). By contrast, the current cycle looks markedly different; the valuation contribution to recent returns in US Technology has been far more muted and broadly comparable to other major equity markets, while a much larger share of performance has been explained by forward earnings growth.

CHART 1

THE MAGNIFICENT 7 HAS BEEN RESPONSIBLE FOR A LARGE SHARE OF THE S&P 500'S RETURN

Indexed to 100 on 1/1/2021, price return



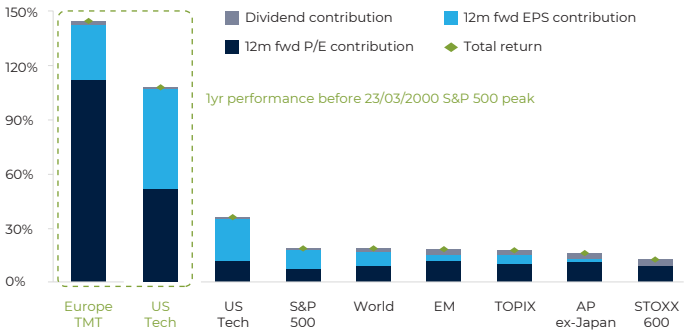
Returns	'21	'22	'23	'24	'25
S&P 500	27%	-19%	24%	23%	16%
S&P 493	23%	-12%	11%	14%	13%
Mag 7	40%	-40%	76%	48%	23%
*Return share**	*33%*	*56%*	*63%*	*55%*	*46%*

Source: FactSet, Standard & Poor's. JPMorgan Asset Management. Data as of December 31, 2025.

CHART 2

RETURNS DURING THE IT BUBBLE WERE LARGELY DRIVEN BY HIGHER VALUATIONS INSTEAD OF EARNINGS

12m return, trailing and before Tech Bubble peak, in local currency



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research. Data as of September 30, 2025.

A recurring concern is the AI infrastructure build-out is increasingly debt-fuelled, and therefore vulnerable if return on investment proves slower than expected. The worry is that in a financing-led boom, capital spending outpaces operating cash flow and is sustained by repeated external borrowing, leaving investment cycles exposed to an abrupt slowdown if funding conditions tighten.

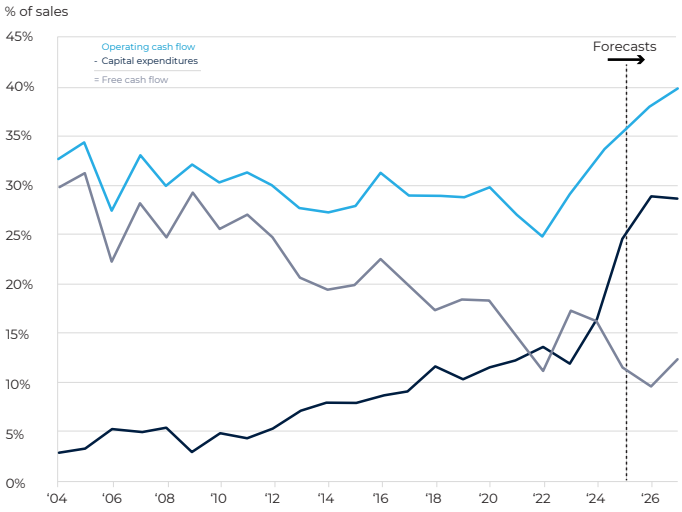
Oracle is often cited in this context because its recent cash-flow mix has been more front-loaded. Over the six months ended 30 November 2025, Oracle generated $10.2bn in operating cash flow while spending $20.5bn on capital expenditure (CapEx), with a meaningful portion of the gap bridged through external financing, including $17.9bn of debt issuance. That mix is notable and worth watching closely if it persists, but it is not sufficient proof of a bubble; borrowing long-term to fund long-life infrastructure is standard corporate finance.

Importantly, many of the other hyperscalers under scrutiny are investing heavily from a very different starting point of substantial and recurring operating cash generation. Over the past 4 quarters alone, Alphabet generated ~$151bn of operating cash flow versus ~$80bn of CapEx; Amazon ~$131bn versus ~$116bn; and Meta ~$108bn versus ~$63bn. In other words, much of the build-out is being funded primarily by internal free cash flows (Chart 3), which gives management greater flexibility to phase, prioritise or slow projects in response to an evolving cycle.

CHART 3

HYPERSCALERS ARE GENERATING SUFFICIENT CASH FLOWS TO SUPPORT THEIR CAPEX SPEND

Hyperscalers' cash flow and capex



Source: Bloomberg, JPMorgan Asset Management. Data as of December 31, 2025.

Furthermore, much of the bearish narrative focuses on "circular financing", but that phrase is often used loosely. In practice, there are two very different concepts. The first is genuine vendor financing, where the supplier effectively funds customer purchases, inflating reported demand. If that becomes material, it tends to leave fingerprints in the financial statements; receivables rising materially faster than revenue, a deterioration in cash conversion, and operating cash flow increasingly lagging reported earnings. The second is strategic ecosystem investing, where cash-rich firms invest in partners and adjacent layers of the supply chain or "stack" to accelerate adoption and protect the economics of their platform. That can be entirely rational and value creative.

Nvidia sits at the centre of these discussions because it sits upstream of hyperscaler capex and participates in an ecosystem of strategic investments. If Nvidia were materially "financing" end-demand, we would expect the evidence to show up first in working capital and cash conversion. The logic is straightforward; financing demand typically requires extending credit, which shows up as receivables rising faster than revenue and cash flow diverging from earnings.

To date, the primary indicators do not show that pattern. As highlighted in Chart 4, Nvidia's accounts receivable (AR) and implied days-sales-outstanding (DSO) have increased in line with their growing business and remain within their normal range. Operating cash flow has also remained strong relative to net income over the fiscal year as shown in Chart 5. Finally, Nvidia's longer-term ecosystem exposure via investments is meaningful, but very manageable relative to its liquidity and cash generation capacity. In 2025, they cited ~$4.3bn in private company investments, equivalent to just ~3% of annual revenue generated. This does not eliminate risk, but it does suggest the specific claim, that demand is being artificially financed in a way that should alarm investors, is not supported by the financial statement signs that would typically appear first.

CHART 4

NVIDIA'S RECEIVABLES HAVE GROWN

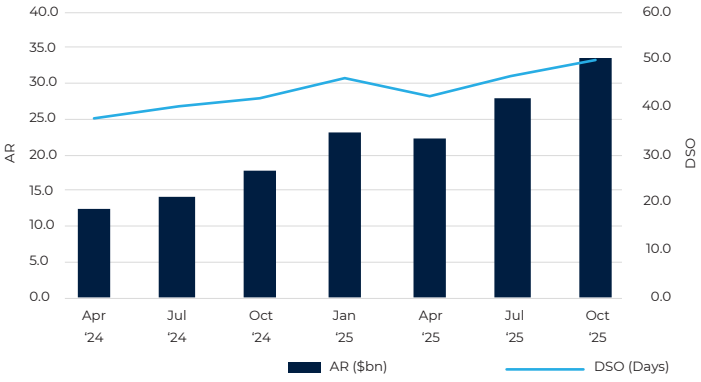
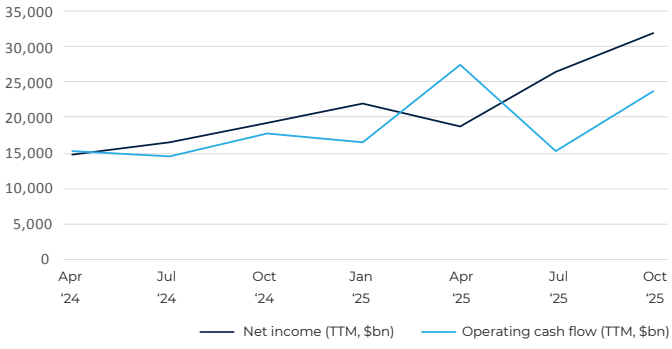


CHART 5

NVIDIA'S PROFITS ARE CONVERTING TO CASH



Source: FactSet. Data as of October 31, 2025.

It is also important not to confuse capital allocation with circularity. When firms generate more cash than they can deploy at high incremental returns inside the core business, it can be rational to invest vertically into the supply chain, critical inputs, distribution, or ecosystem partners to expand and defend the long-term profit pool. That behaviour becomes problematic only if capital is deployed at returns below the firm's opportunity cost, or if governance deteriorates. But investing up or down the stack is not inherently unusual and it can be a sensible way to secure strategic advantage and support long-term monetisation.

A different line of commentary focuses on GPU useful life and depreciation. In other words, whether hyperscalers are extending useful lives by repurposing hardware for inference or shortening them due to rapid obsolescence. The analytical point here is simple; depreciation assumptions affect the timing of reported earnings, but they do not create or destroy demand by themselves. The economic question is whether AI capex generates durable revenue streams and acceptable returns on incremental capital across the stack. Accounting optics are not a substitute for fundamentals.

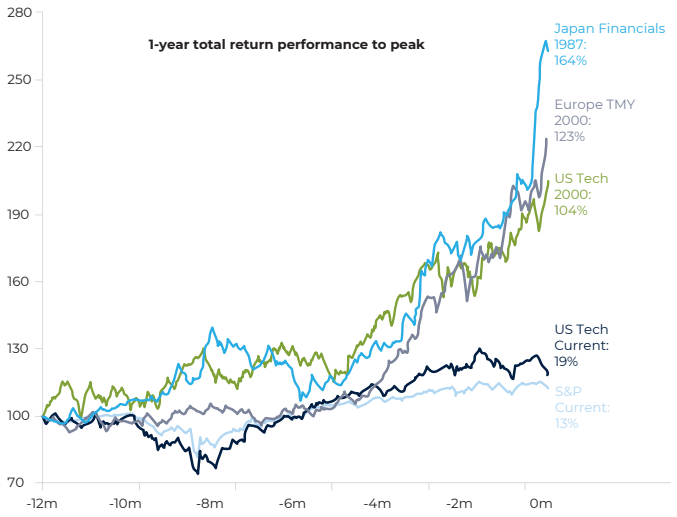
Nevertheless, AI-related bubble risk should be taken seriously as the emergence of a true asset bubble is a development that could materially alter the outlook for markets. However, we believe it is important to ground the debate in evidence rather than loose historical parallels. As such, some of the key indicators we are monitoring as this cycle evolves include:

- **Prices decoupling from fundamentals:** earnings revisions narrow or turn negative while prices continue to rise, indicating returns are increasingly driven by multiple expansion rather than improving earnings.
- **Rising debt dependence:** CapEx commitments increasingly outpace operating cash flow and are bridged by sustained net borrowing, weakening balance sheets and making the cycle more vulnerable if debt markets deteriorate.
- **Diminishing returns on incremental spend:** large, sustained capex across the stack accompanied by compressed returns and weakening unit economics.
- **Widespread vendor financing:** receivables or long-dated customer funding rises materially faster than revenue, alongside a sustained widening gap between reported earnings and operating cash flow.
- **Excess IPO issuance:** a broad wave of low-quality AI-labelled public listings and financings where capital is raised primarily on the theme rather than a credible business model.

Until these conditions become more prominent, the appropriate conclusion is not that risk is absent, but that the strongest claims of a late-1990s-style AI bubble are not yet supported by the balance of observable evidence. To be clear, risks will always be present, but the key is scale and breadth. Are excesses becoming increasingly widespread, self-reinforcing and potentially systemic for markets and the economy, or do they remain contained and largely avoidable through selectivity?

CHART 6

PAST BUBBLES SAW MUCH LARGER STOCK PRICE SURGES IN THEIR FINAL YEAR



Source: Datastream, Worldscope, Goldman Sachs Global Investment Research. Data as of November 30, 2025.

Finally, as highlighted in Chart 6, late-cycle phases can still deliver strong returns, and stepping aside too early based on historical analogies or fear can be costly while fundamentals and earnings revisions remain supportive. Notably, the returns in Technology over the past year have been materially more modest than those seen in prior bubble episodes, and the sector's growing size and influence, particularly in US equity indices, has been driven primarily by exceptional fundamental growth and earnings delivery rather than pure speculation.

Put simply, the evidence today points to a powerful, earnings-backed technology cycle rather than a late-stage bubble on the brink of bursting. Volatility likely persists from here, and periodic corrections can play a healthy role in keeping sentiment from overheating too quickly. We remain vigilant as the cycle evolves, but the classic signs of a true bubble peak aren't visible—at least not yet.