Lessons from 2025 and prospects for 2026

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UK equities

Q What important lessons did you learn from 2025?

A The first observation is one that perhaps sits uneasily in an outlook piece – that even with perfect foresight of economic and geopolitical events, investors might not necessarily make the right call as to how markets might react. At the start of the year, being told that we would be in a world with ongoing large-scale military conflicts, a growing realisation that the finances of many governments are seriously stretched and that the US President would be intent on upending the existing global trade status quo, would an investor be expecting to be sitting on UK equity market gains comfortably into double digits? Probably not. That is why, within our equity team, we spend the majority of time analysing the fundamentals of companies, rather than trying to predict macroeconomics.

The general gloom around market news contrasted with market returns highlights an important point: It is always important to remember to detach narrative from valuation. Investment is not just a question of looking for stocks with a great story – what you pay for that story is also crucial. A critical determinant of how successful an investment is the price you pay for it in the first place.

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Q In what way will 2026 be different from 2025?

A That is extremely hard to predict, but we can be certain that it will be different. 2026 will be my 30th year working in the financial markets – a period that has seen the dotcom boom and bust, 9/11, Global Financial Crisis, Brexit and Covid, to name but a few of the market fuelling and market shaking events. The market always finds new things to throw at investors, but these events are part and parcel of equity investing and over time this volatility creates opportunities as well as challenges.

Q What is your view on UK equities?

A I have never subscribed to the view espoused by some, that the UK is a dinosaur market, devoid of interesting business. Our market continues to contain plenty of world-leading businesses with interesting products, technologies and market positions. Compared to many other markets, lots of these businesses are attractively valued too.

To reiterate an earlier point, mood music and returns are not the same thing. Over the last five years there has been plenty of gloomy rhetoric about the UK equity market, yet over that five years investors have seen average annual returns in double digit percentages – in fact the FTSE All-Share index has almost 15% per annum over the past five years.[1]

Q What are your expectations for inflation and interest rates next year?

A While I feel that interest rates will probably edge down a little, I also believe that inflation is likely to remain sticky and higher than long-term targets. This is in part due to my view around how indebted many governments are. With debt there are two ways to clear it – pay it off or default on it. Most governments are not in a position to do the former and as they run deficits and therefore need to take on further debt, cannot do the latter. There is a third way – borrow today a pound and pay it off with a somewhat devalued pound in the future. That is the mechanism of inflation and something that we all witness every day. What we can buy with £5 today is significantly less than what we could buy with £5 only a few years ago.

[1]Source: RLAM as at 31 October 2025.

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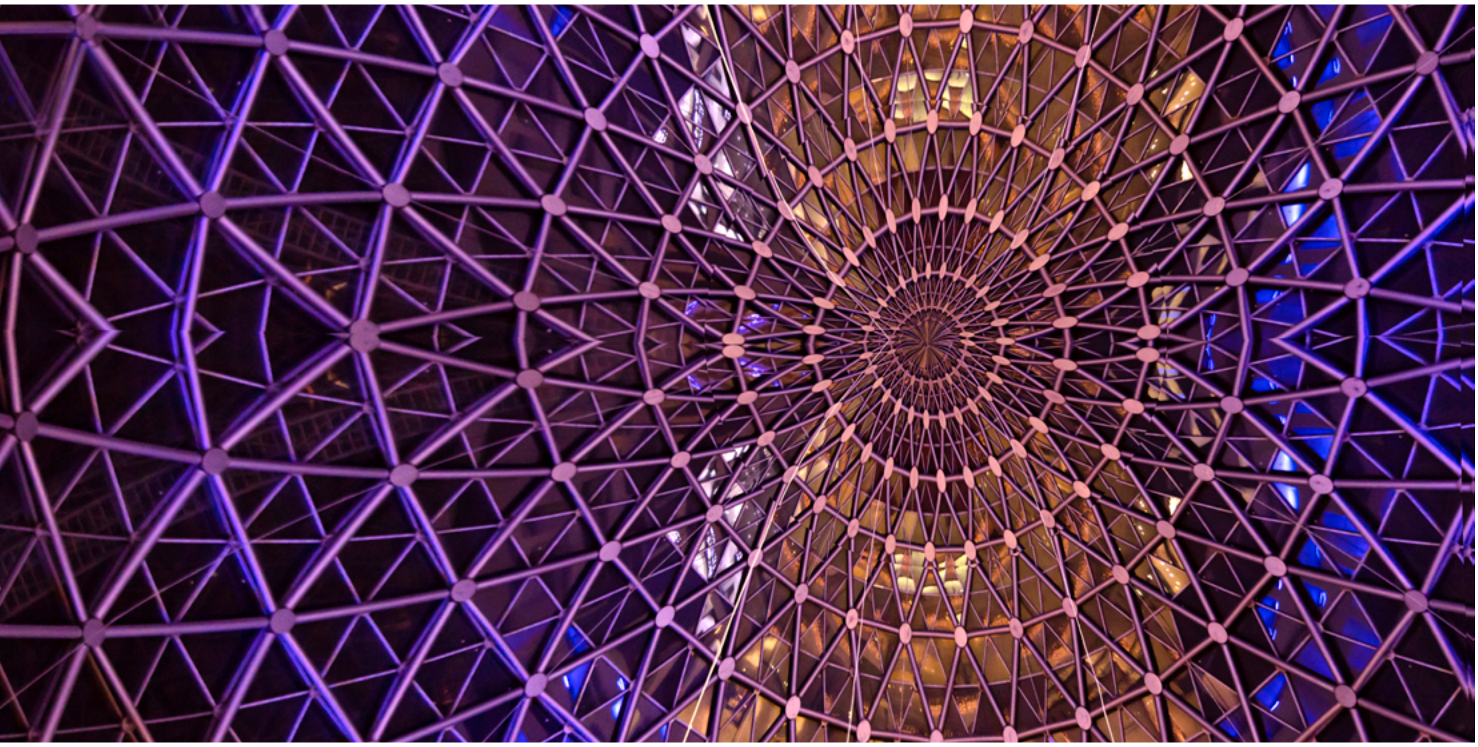
Q What does the landscape for UK equity dividends look like?

A Dividend payments remain very healthy in the UK. The market offers an attractive dividend yield of over 3% and the levels of those dividends has risen over time. Growth in dividends is part of what can help equities offset the impact of inflation on savers.

In recent years, in addition to dividends, investors have also benefited from share buybacks. UK companies have been huge buyers of their own shares. Every morning, I read the regulated news service that provides investors with their official news about companies and dozens of these news items are titled "Transaction in own Securities" – announcements of how many of its own shares a company has bought and cancelled. In the long term this can help augment future dividend growth, as the future profits of a business are spread across a smaller number of shares.



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