



The past month summed up

Behind all the geopolitical uncertainty, the fundamentals of the global economy are sound... for now!

The rationale

Our core view remains that both the global economy, with the US at the vanguard, and corporations remain in a healthy state, providing a solid foundation for investors. The question is where we go from here – whilst strong, these foundations are not earthquake proof and there is a not an insignificant chance that policy or events might help to unravel the benign conditions of the moment.

From a fundamental perspective, current conditions are positive. GDP growth, the key measure of how an economy is performing, is racing ahead in the US. Well above the 2% it has averaged since the 2008 financial crisis. It grew by an annualised 3.8% in the second quarter of 2025 and 4.3% in the third. The Federal Reserve Bank of Atlanta's GDPNow measure, which aims to estimate GDP growth before official tallies are published, reckons the fourth quarter came in at an astounding 5.4%, a level more consistent with emerging markets.

Digestible

The direction of travel should not however be a surprise. Whatever President Trump may say, he inherited a relatively stable economy that was on a positive trajectory already. The major concern of 2025 which helped generate a shock reversal in markets mid-year, was President Trump's so-called reciprocal tariffs, which in some cases exceeded 100%, challenging the ability of US companies to do business abroad and adding significant costs onto supply chains. The market now believes this was the peak and the commander in chief's attention has moved elsewhere. With most tariffs negotiated down to more reasonable levels, the economically depressive impact (as opposed to any inflationary impact) is now much more digestible, even if tariffs remain on the policy menu.

There is sometimes a suggestion that President Trump's erratic approach to policy must have some damping effect on how consumers are behaving. There's no doubt that at some stage he could press the wrong button but for the moment consumers, one of the most important building blocks in the US economy, are still willing to spend, with retail sales coming in ahead of predictions in November. We've talked before about consumers at the lower end showing signs of stress, but for the majority, a buoyant economy and healthy returns in their investment portfolios continue to maintain confidence to splash the cash.

Pump priming

Other key measures such as labour statistics might show some retreat – only 50,000 jobs were added in December compared 323,000 a year before – but again no significant alarm bells are ringing. Inflation remains above target but has been stable and is showing few current signs of rising precipitously.

Finally, to top it all, President Trump's administration is doing all it can to ensure any anguish related to rising costs (food prices have risen by the most in three years) is overshadowed by continuing good times. The plethora of tax cuts and credits being offered to individuals and corporations will continue to fuel growth, as should the huge investments from technology companies in building up infrastructure to support their AI plans.

So, what's there to be afraid of? The jury is out on what the AI revolution could do to the economy – it could be deflationary via significant productivity enhancements, lowering pressure on the job market as it replaces

humans on a wide range of activities. On the other side it may be inflationary if the electricity it takes to run its processes accelerate demand for oil and other sources of energy.

Porridge

From the perspective of Goldilocks, economically we seem to be somewhere close to the “just-right” category at the moment, with growth that’s significant but not yet boiling over. There is always the fear in an economy performing so well that it might get too hot; that may lead to an increase in inflation which as we have seen can undermine consumers, bond markets and confidence (remember 2022?). There’s no significant sign of that yet. On the “porridge-too-cold” side, there really is at present no indication that anything is slowing down. Whilst President Trump might have some influence in driving the good times, unfortunately the biggest risks may also come from him as well. The most likely cause of higher inflation would be a Federal Reserve willing to cut rates faster than is necessary – something which Trump has made clear he wants and is the likely basis behind the criminal investigation of Fed Chairman Jay Powell, who has stood up to those who want to slash rates faster.

That seeming proclivity to using the Justice Department to threaten wayward independent policy makers could also debase US monetary policy and explode confidence in the stability of a decades-old system. Were investors to conclude the Fed acts on the whims of the US president, that will send shockwaves through the bond market which could have considerable knock-on effects elsewhere across the economy.

Unpredictable

Overall, there’s the risk with a President like Trump – and we have to accept that his appeal for some is his unpredictability – that he chooses a policy that for some reason either makes material damage to the economy or spooks investors. Whether that’s a return to his tariff predilection or a move too far in relation to Greenland (markets dipped after his latest threats), that chance is always lurking in the background.

Valuations

So, if the fundamentals of the economy and markets are positive, it’s not as if investors – the buyers out there – don’t know this and aren’t acting accordingly. Valuations across the market are high – in some cases close to record levels. Independent analysis of what fund managers are thinking shows that sentiment has digested well the positive data alluded to above, with Bank of America’s fund manager survey showing optimism about the macro economy at its highest since August 2021.

Higher valuations in themselves are not a particular threat – after all you pay what you think something is worth – but they do obviously increase the risks if it turns out valuations don’t match what you have paid for. On the flipside, our job as investors is to find stocks where the price doesn’t reflect the full worth of a company.

Thus, a time like this is not one to retreat from investing but just to look deeper for where we can find value. We believe that is increasingly to be found outside of the US. Fundamentals in China are stabilising – while the country is not reaching levels of growth seen over recent decades, the fear that a real estate decline would hold back potential has bottomed out. More importantly its export economy is booming – it posted a 2025 trade surplus of \$1.2 trillion despite the US tariffs and is clearly moving up the value chain, most notably in its leadership in electric cars, with BYD now the biggest seller of such vehicles. The government also has plenty of scope to stimulate things if needed.

All is not lost in Europe either. Germany, the biggest European economy by far, has modified some of its economic principles and is now more willing to accept less rigid fiscal rules and more government spending should it help prime the economy. It posted its first economic growth in three years in 2025, indicating perhaps better health for one of the most important manufacturing centres in the world.

Expanding economies don't necessarily lead to wider opportunities in investing, but in a world where US valuations seem full to stretched, the chance that there may be potential elsewhere in growing parts of the world makes it an imperative for us to look out for new equity holdings in these regions.

The UK

Our bond holdings are an important part of the portfolio, helping to provide a counterweight to more risky equities. You will have been aware that the lingering threat of higher inflation and spiralling deficits had prompted us to move our bond holdings to shorter term investments which are less susceptible to inflation and market volatility. The market appears to have concluded that the inflation problem is over, with long term inflation rates anchored near long term averages. That has meant that the inflation protection enshrined in index-linked gilts is cheap, allowing us to buy these bonds and bring some cheap insurance against an inflation shock to portfolios.

Conclusion

With our buoyancy-now-risks-later scenario, the most important thing to remember is the cyclical nature of markets and therefore the imperative to take investment opportunities when they come along while acknowledging those risks out into the future. We believe that with a well-performing global economy we should maintain our present balance towards risk holdings but that the number of future indeterminates also implies we should apply caution to any absolute extension of our equity portfolio. Within the equity portfolio it's clearly important to seek out value in those more undervalued parts of global markets.

An internal reorganisation of our bond holdings has shifted in the UK towards index-linked securities, while we maintain our positions in gold and other balancing assets to ensure the portfolio remains robust for all potential conditions.

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