Market Review

Quarterly Report

Q4 2025

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Key Indicators at a Glance

	Index (Local Currency)	Q4	YTD
Equities		Total Return	
UK Large-Cap Equities	FTSE 100	6.86%	25.78%
UK All-Cap Equities	FTSE All-Share	6.38%	24.02%
US Equities	S&P 500	2.65%	17.88%
European Equities	EURO STOXX 50 Price EUR	5.05%	21.20%
Japanese Equities	Nikkei 225	12.18%	28.65%
EM Equities	MSCI Emerging Markets	4.73%	33.57%
Global Equities	MSCI World	3.12%	21.09%
Government Bonds			
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	3.10%	5.03%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	5.75%	3.69%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	3.29%	1.34%
UK Index-Linked Gilts Over 15 Ye	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	6.90%	0.06%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	0.27%	0.56%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	0.90%	6.32%
EM Gov Bonds (Local)	JP. Morgan Government Bond Index Emerging Markets Core Index	3.43%	19.00%
EM Gov Bonds (Hard/USD)	JP. Morgan Emerging Markets Global Diversified Index	3.29%	14.30%
Bond Indices			
IBOXX Sterling Corporates	IBOXX Sterling Corporates Overall Total Return Index	2.71%	7.30%
European Corporate Investment	Bloomberg Pan-European Aggregate Corporate TR Unhedged	0.58%	2.78%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	0.66%	4.86%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	0.84%	7.77%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	1.31%	8.62%
Currencies			
GBP/EUR	GBPEUR Exchange Rate	0.11%	-5.07%
GBP/USD	GBPUSD Exchange Rate	0.22%	7.66%
EUR/USD	EURUSD Exchange Rate	0.10%	13.44%
USD/JPY	USDJPY Exchange Rate	5.96%	-0.31%
Dollar Index	Dollar Index Spot	0.56%	-9.37%
USD/CNY	USDCNY Exchange Rate	-1.86%	-4.25%
Alternatives			
Infrastructure	S&P Global Infrastructure Index	2.32%	22.51%
Private Equity	S&P Listed Private Equity Index	-1.49%	2.89%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	3.47%	10.92%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	-0.45%	3.39%
Volatility		Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	-8.17%	-13.83%
Commodities			
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	-9.21%	-18.48%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	11.60%	1.46%
Gold	Generic 1st Gold, USD/toz	13.03%	64.37%
Copper	Generic 1st Copper, USD/lb	17.00%	41.12%
Gold	Spot gold price quoted in USD per troy ounce	11.93%	64.58%
S&P GSCI	Broad, production-weighted S&P GSCI commodity benchmark	-0.27%	-0.20%
Sugar Futures	Front-month ICE Sugar #11 raw-sugar futures contract	-6.77%	-22.07%
Arabica Coffee	Front-month ICE Coffee "C" Arabica futures contract	-6.96%	9.07%
Sector Indices			
S&P500 Consumer Discretionary	S&P 500 Consumer Discretionary sector	0.55%	5.31%
S&P500 Consumer Staples	S&P 500 Consumer Staples sector	-0.71%	1.32%
NASDAQ-100 Technology	Equal-weighted NASDAQ-100 Technology Sector	0.25%	22.46%
S&P 500 Health Care	S&P 500 Health Care sector	11.20%	12.53%
S&P 500 Financials	S&P 500 Financials sector	1.64%	13.32%
S&P 500 Energy	S&P 500 Energy sector	0.66%	4.96%
S&P 500 Industrials	S&P 500 Industrials sector	0.54%	17.70%
S&P 500 Utilities	S&P 500 Utilities sector	-2.11%	12.69%
S&P 500 Communication Service	S&P 500 Communication Services sector	7.05%	32.41%
S&P 500 Real Estate	S&P 500 Real Estate sector	-3.69%	-0.35%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested.

Executive Summary

- **Performance**

- Dorset performance was +2.6% versus benchmark +3.3% in the fourth quarter. Over 1 year, Dorset is +10.9% versus +13.5% benchmark. As last quarter, these are very strong returns in absolute terms, and I have a concern they will not be sustained if we have a market correction or a period of consolidation.

- The Dorset fund is behind benchmark because the underlying Brunel funds are behind benchmark. The market environment is not suited to Brunel's style. As an example, the Brunel Quarterly report mentions a philosophical mismatch between the Sustainable Fund and its benchmark MSCI All-Countries World Index, citing the fund's lack of investments in the top performing sector, metals and mining, amongst others. Thus, Dorset's performance against benchmark reflects Brunel's performance but also past choices by Dorset about sustainable investing and decarbonisation.

- It is worth reflecting on this issue: looking at the longer-term, Dorset's 6.8% 5 year return has lagged the benchmark's 8.8%, but thankfully 6.8% is above the discount rate which is positive.

- Dorset's performance figures within the universe of LGPS are worth noting. PIRC collects data on 62 LGPS funds with a combined value of £275bn. The preliminary cumulative performance data to September 2025 shows Dorset above average over 1y, 3y, 5y, and 10y. We do not have detailed attribution of the reasons for this above-average performance, but I believe that despite some poor performance from Brunel, the ranking is a function of some savvy asset allocation decisions – the elimination of the LDI portfolio in 2022, the investments in Low Volatility in 2024, the hedging strategy, a high UK allocation, retaining Smart Beta when others abandoned it, and a higher than average public equity weight. This last point leads me to conclude some caution is necessary.

- The immediate priority is a smooth transition of assets from Brunel to LPPI at April 1st 2026.

- Equity markets have been strong and bond markets benign, as the world economy continues to grow led by the US economy. Within equity markets we have seen the start of a tectonic shift with the US market now being outpaced by the Rest of the World, particularly into 2026 Q1. I have written and spoken in the past of the AI-driven bubble in US technology stocks. I am concerned that there is over-investment in AI and that the profits won't materialise to justify the billions spent. It is very hard for fund managers to discern who the winners and losers will be from AI, the best answer is to diversify. Dorset has already taken steps in the past to ensure we hold the right kind of equities, via the investment in the Brunel Low Volatility Equity Fund.

- It is noteworthy that the UK stock market is performing well, due to it's sectoral bias to the older industries, such as defence, oil, mining. Dorset has approximately one-sixth of its public equity weight in UK equities, which is higher than often found in pension funds. I believe the UK will continue to perform relatively well.

- The Emerging Markets have also been strong as a result of weakness in the US Dollar, which is in a major downturn.

- Elsewhere, Government Bonds have become more attractive in the past two years – the yield on long term UK conventional Gilts is above 5%, and for the Index-Linked variety has recently been above 2% in real terms – this is in contrast to the years of the UK's zero-interest rate policy when Index Linked yielded negative 2% real. As I write in early March, Operation "Epic Fury" has been unleashed. Obviously this creates uncertainty, but initial market reaction is only moderate. The danger to world economies is via the oil and gas price, and thus inflation, so this must be monitored.

- Overall, the current main conclusion is caution.

- ## General Market Commentary on Q4

- Global markets extended gains in Q4 2025, with many indices ending the year near record or multi-year highs. Performance leadership broadened meaningfully, with non-US equities outperforming the US, supported by a weaker dollar, more attractive valuations, and easing inflation. The S&P 500 rose 2.7% over the quarter, though returns were increasingly constrained by valuation sensitivity and greater sector dispersion. Market breadth improved beyond mega-cap technology, with industrials, financials, healthcare, and utilities contributing more consistently. European and UK equities delivered strong relative performance, benefiting from easing inflation pressures, improved real income dynamics, and heavier exposure to cyclical and value-oriented sectors. Japan was a standout, supported by strong earnings momentum and continued corporate governance reforms. Emerging markets also performed well, aided by dollar weakness and supportive global financial conditions. Inflation trends continued to improve across major economies, reinforcing expectations of gradual policy easing into 2026. Bond yields remained elevated but stable, supporting carry-driven returns in credit markets. Overall, Q4 marked a transition toward broader regional and sector participation, setting a more balanced foundation for markets entering 2026.

- The fourth quarter of 2025 was characterised by a moderation in growth momentum alongside improving inflation dynamics and the aforementioned broadening of market leadership. While global activity softened in parts, risk assets remained resilient, supported by expectations of policy easing in 2026, moderation of inflationary pressures, and improved earnings breadth outside the narrow US mega-cap cohort. GDP growth moderated across most developed markets: the US economy expanded by 1.1% in Q3, the UK posted marginal growth of 0.1%, the Eurozone grew by 0.3%, while Japan contracted by -0.6%, highlighting uneven global momentum entering year-end. Inflation continued to trend lower: US CPI eased to 2.7% in December, the UK disinflation path continued with CPI falling from 3.6% in October to 3.2% in November, while Eurozone CPI remained contained around 2.1–2.2%. Japan's CPI also moderated from 3.0% to 2.9% over the period. Labour markets softened modestly but remained resilient. US unemployment edged up to 4.4% in September, while job openings declined materially from July levels, signalling easing labour tightness. UK unemployment rose to 5.0%, reflecting slowing domestic demand, while Eurozone unemployment remained elevated but stable at 6.4%. Japan continued to exhibit tight labour conditions, with unemployment steady at 2.6%. Wage growth cooled across regions, supporting the ongoing disinflation narrative.
- Business sentiment decelerated but remained expansionary in most regions. US composite PMI eased from mid-50s levels but stayed firmly above 50, supported by resilient services activity. UK PMI slipped to around 51.4 in December, reflecting weaker manufacturing (46.2) partially offset by services resilience. Eurozone PMI came in at 51.5 in December, while Japan was similarly 51.5 I in, suggesting stabilisation rather than contraction heading into 2026
- Equity markets delivered positive but more differentiated returns, with a clear rotation toward value, international, and cyclical exposures. MSCI World Value (+2.9%) outperformed Growth (+2.7%), while Japan's TOPIX was the standout major market (+8.8%), benefiting from domestic reforms and yen stability. Emerging markets posted mixed but generally positive returns, led by MSCI EM LATAM (+8.4%) and EM Asia (+4.6%), while China equities were broadly flat. US equities delivered more modest gains, with the NASDAQ up 2.5% amid ongoing consolidation in large-cap technology leadership. European equities advanced, with MSCI EM EMEA up 4.0%, supported by stabilising macro data.

Charts and Data

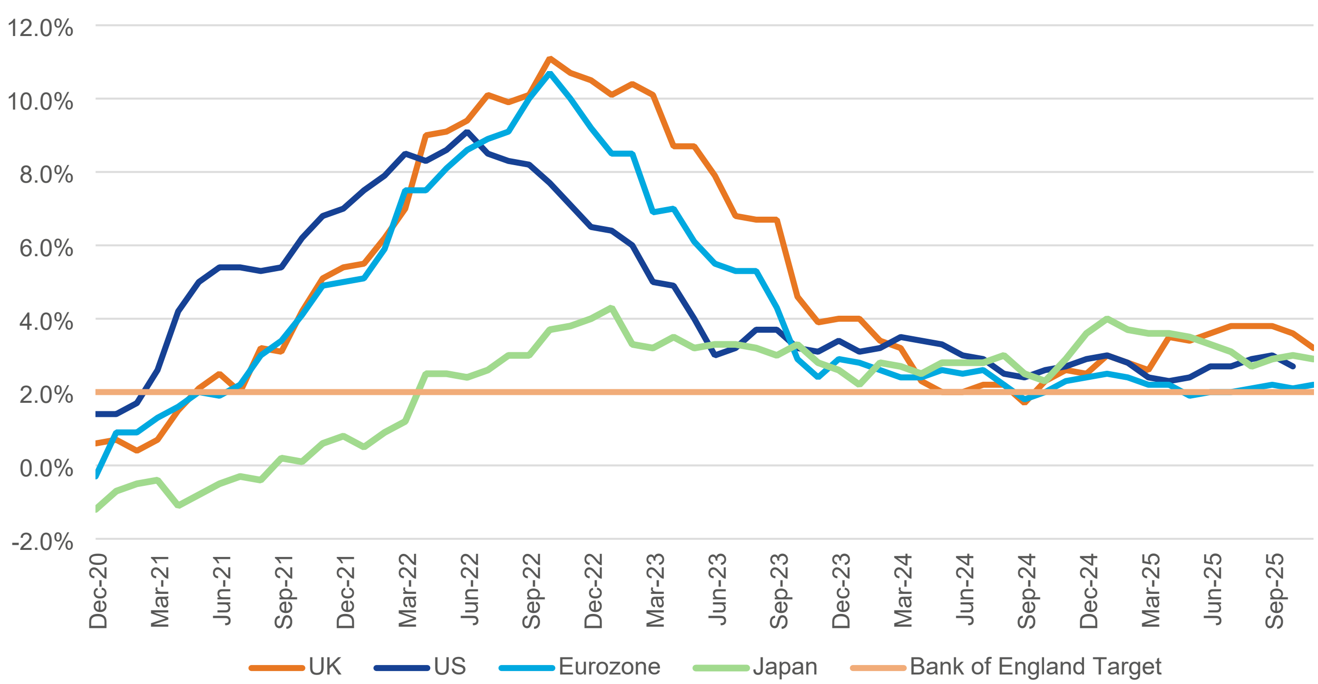
Economic Indicators

Table 1: Quarterly Real GDP Growth and Monthly CPI

%	GDP		CPI		
	Q3 2025	Q4 2025	Oct	Nov	Dec
UK	0.1	-	3.6	3.2	-
US	1.1	-	-	2.7	-
Eurozone	0.3	-	2.1	2.2	-
Japan	-0.6	-	3	2.9	-

Source: Bloomberg; Trading Economics.
CPI: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)
GDP: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGDP)

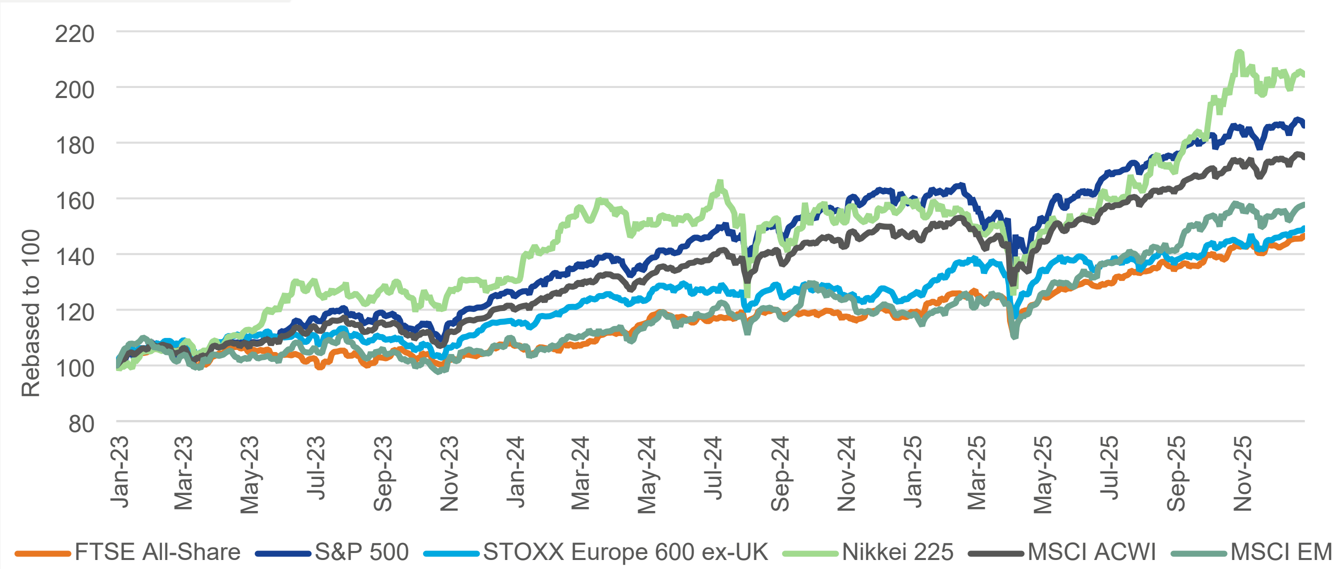
Chart 1: CPI – Annual rate of Inflation - Five Years to Sep 2025



Source: Bloomberg
Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

Equities

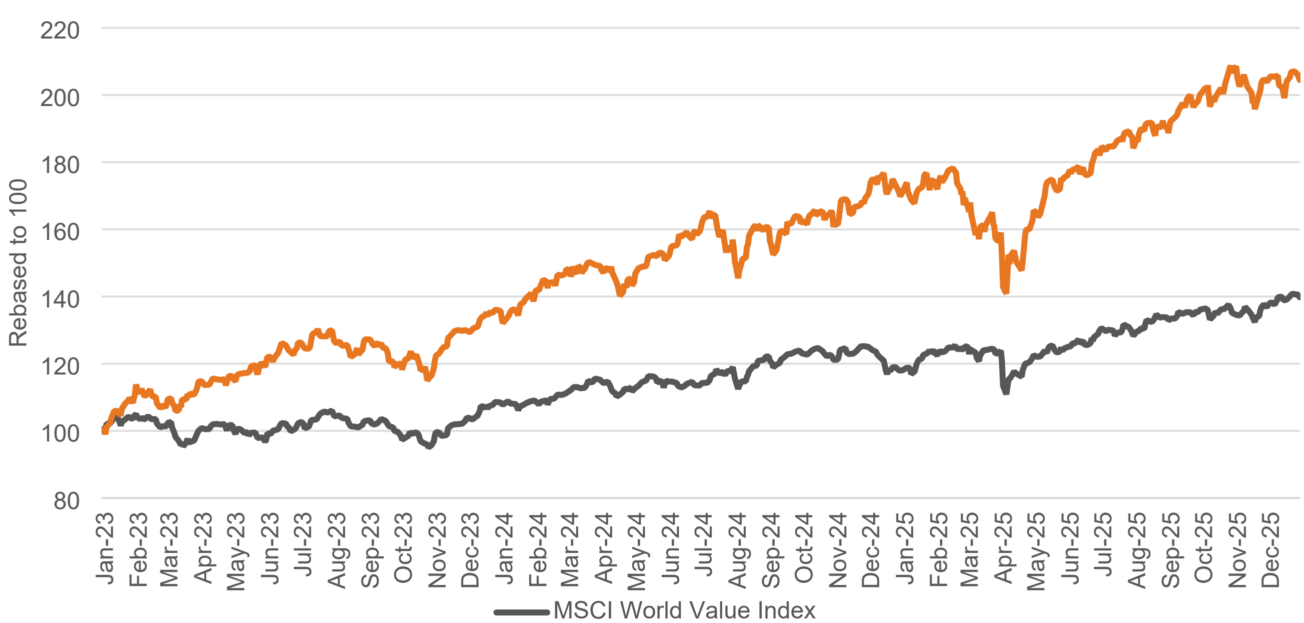
Chart 2: Global Equity Markets Performance



Source: Bloomberg. All in local currencies

Notes: FTSE All-Share Index (Ticker: ASXTR Index); S&P 500 Index (Ticker: SPXT Index); STOXX Europe 600 (Ticker: SXXG Index); Nikkei 225 Index (Ticker: NKYTR Index); MSCI World Index (Ticker: DLEACWF Index); MSCI Emerging Markets (Ticker: M1EF Index)

Chart 3: Global Equity Markets, Growth vs Value



Source: Bloomberg

Notes: MSCI World Value Index (Ticker: MXWO000V Index); MSCI World Growth Index (Ticker: MXWO000G Index)

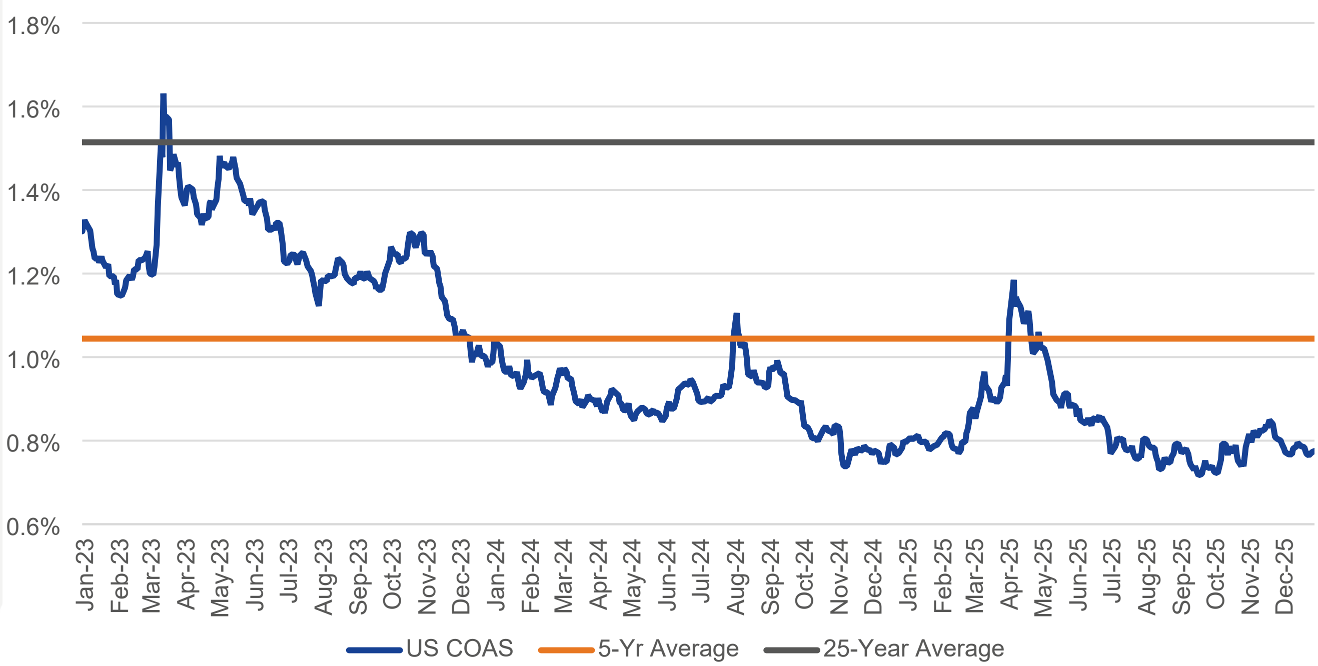
Table 2: MSCI ACWI Composition

Region	Q3 2025 (%)	Q4 2025 (%)
US	65.0	64.4
UK	3.2	3.3
Europe (ex-UK)	11.1	11.5
Japan	4.9	5.0
Developed Asia-Pacific	2.4	2.3
Emerging Markets	10.1	10.1
Other	3.2	3.3

Source: iShares MSCI ACWI ETF

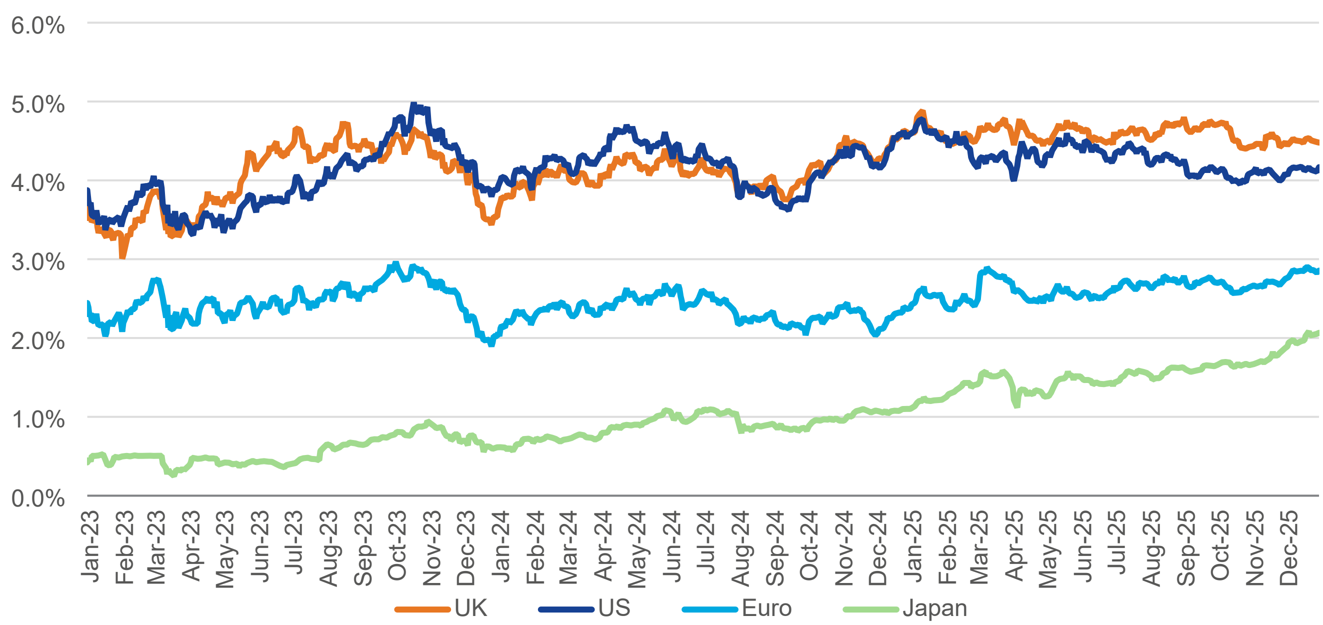
Fixed Income

Chart 4: US Corporate Bond Spreads



Source: Bloomberg
Notes: Bloomberg Barclays US Corporate Option Adjusted Spread (Ticker: LUACSTAT Index); Option-Adjusted Spreads (OAS) represent the difference between the index yield and the yield of a comparable maturity treasury

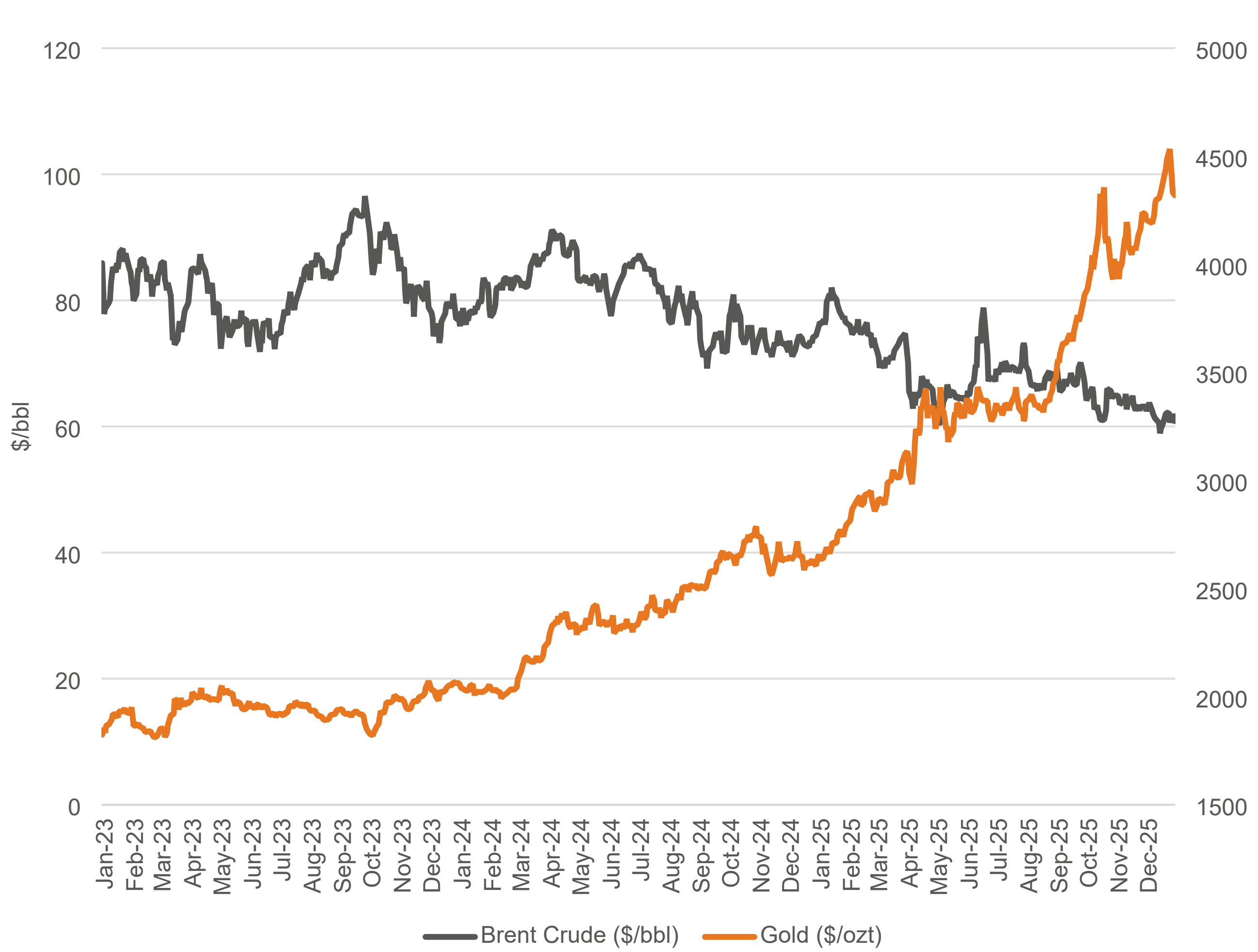
Chart 5: Government Bond Yields



Source: Bloomberg
Notes: US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index); Japan Generic Govt Bond 10 Year Yield (Ticker: GJGB10 Index)

Commodities

Chart 6: Gold and Brent Crude Oil Prices

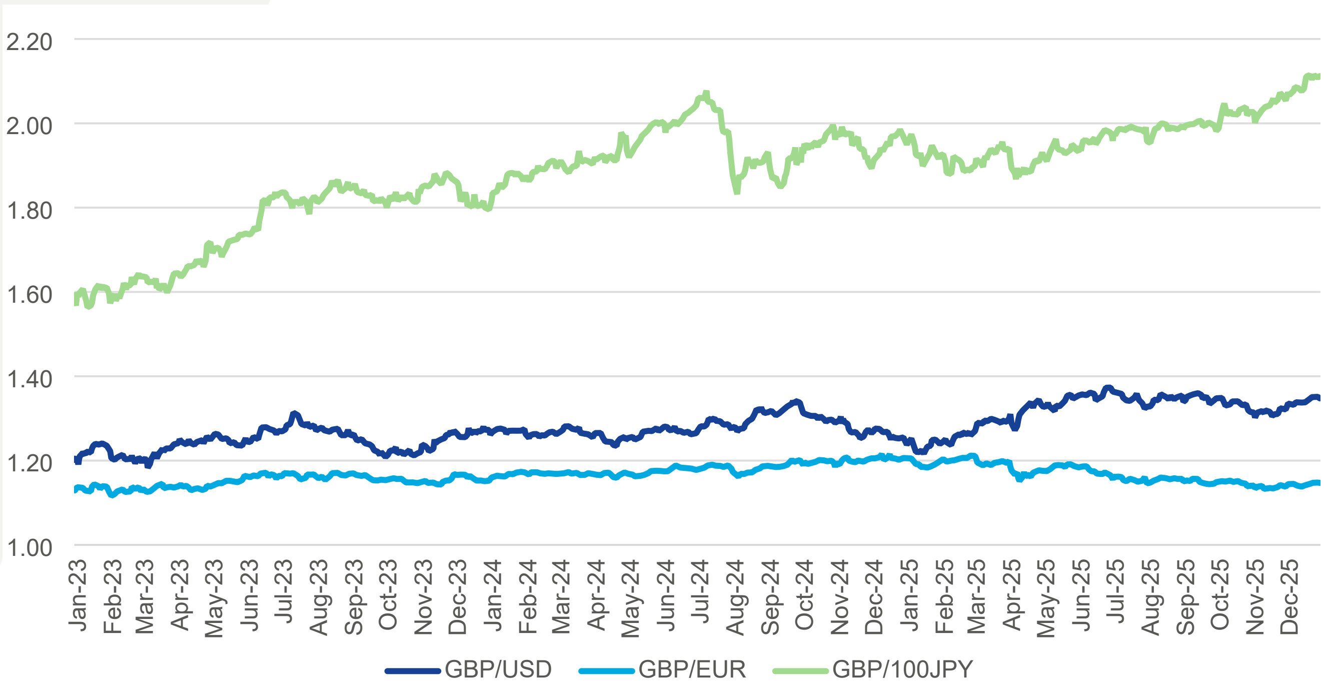


Source: Bloomberg

Notes: Gold USD Spot (Ticker: XAU Currency); Generic 1st Brent Crude Oil (Ticker: CO1 Commodity)

Currencies

Chart 7: Three-Year Currency Rates of Major Currencies vs Pound Sterling



Source: Bloomberg
Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); GBPJPY Spot Exchange Rate (Ticker: GBPJPY Currency)

Table 3: Currency Rates as of 30 September 2025

Pair	Q4 Value	% Change Over Quarter
GBP/EUR	1.1472	0.11%
GBP/USD	1.3475	0.22%
EUR/USD	1.1746	0.10%
USD/JPY	156.71	5.96%

Source: Bloomberg
Notes: GBPEUR Spot Exchange Rate (Ticker: GBPEUR Currency); GBPUSD Spot Exchange Rate (Ticker: GBPUSD Currency); EURUSD Spot Exchange Rate (Ticker: EURUSD Currency); USDJPY Spot Exchange Rate (Ticker: USDJPY Currency)

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