CHETWOOD

INVESTMENT MANAGEMENT

EF INCOME PORTFOLIOS

QUARTER 4 2025 REPORT

Quarter Insights

- Global equities advanced as corporate earnings remained robust and inflation expectations continued to ease across many regions.
- US equities rose but lagged other markets amid investor concerns over the sustainability of heavy AI-related investment by its large technology companies.
- UK equities outperformed. The FTSE 100 rose 7%, ending the year at an all-time high and close to the 10,000 level.
- The US Federal Reserve delivered two further 0.25% rate cuts as growth and labour market momentum softened. Other central banks adopted more cautious or neutral stances. The Bank of England implemented one rate cut.
- The US federal government entered a prolonged shutdown, its longest in history, after Congress failed to pass full-year funding, increasing political uncertainty.
- The UK Autumn Budget was delivered without major disruption to gilt markets, easing near-term fiscal concerns.

Market Review

The fourth quarter of 2025 ended on a positive note for global markets, with all major equity regions finishing in positive territory. This outcome came despite a notable rise in volatility, marking the first sustained period of market turbulence since the "Liberation Day" tariff sell-off in April. Uncertainty was driven by a combination of political disruption in the US, renewed trade tensions between the US and China, and increased investor scrutiny of the scale and sustainability of investment in artificial intelligence.

Trade tensions escalated early in the quarter after the US threatened tariffs of up to 100% on Chinese imports, while China signalled potential restrictions on rare earth exports. Given China's dominant role in global rare earth supply and processing, these developments raised concerns over critical supply chains, particularly for semiconductors and AI infrastructure. The prospect of tighter controls triggered the sharpest single-day decline in global equity markets since April.

Market sentiment improved relatively quickly as the White House adopted a more measured tone. A meeting between Presidents Trump and Xi later in October helped stabilise conditions, with both sides agreeing to a one-year framework aimed at de-escalating tensions. While not a comprehensive trade agreement, the framework included steps to scale back tariffs and ease pressure on rare earth supply chains, supporting a swift recovery in markets.

Volatility resurfaced in November as investors reassessed elevated valuations in AI-related stocks. Political uncertainty also intensified following the longest federal government shutdown in US history, after Congress failed to pass full-year funding. The shutdown was resolved mid-month, helping to restore confidence. Although some official US economic data was delayed, alternative indicators pointed to a slowdown in job creation during the quarter. This contributed to the US Federal Reserve delivering two 0.25% interest rate cuts over the period.

In the UK, government bond markets began the quarter under pressure amid uncertainty surrounding the Autumn Budget. The Budget itself proved relatively subdued, while subsequent guidance pointing to reduced gilt issuance provided some support. A further 0.25% rate cut from the Bank of England also helped ease pressure, with 10-year gilt yields falling from 4.7% to 4.5% by quarter-end.

> *Corporate earnings remained a key support for markets*

In the US, around 80% of large-cap companies exceeded expectations during the Q3 reporting season, with double-digit year-on-year earnings growth. Despite this, US equities continued to underperform overseas markets, likely reflecting the high expectations already priced into the largest stocks. The S&P 500 still gained 2.7% in sterling terms, but this lagged gains of over 6% in UK and European equities, with emerging market equities close behind.

Portfolios performance

Portfolio / Comparator	3 months
EF CIM Cautious (Inc)	2.14%
ARC Sterling Cautious PCI	1.80%
EF CIM Balanced (Inc)	2.64%
ARC Sterling Balanced Asset PCI	2.29%

Index Returns[1]	3 months
UK Equities	6.83%
UK Government Bonds (Gilts)	3.12%
All Country World Equities	3.39%
Pacific Equities (ex Japan)	0.00%
Emerging Market Equities	4.38%
US Equities	2.68%
UK Headline Inflation	1.53%

Past performance is not a reliable indicator of future performance; and the value of investments, as well as the income from them can go down as well as up, and investors may get back less than the original amount invested.

Performance graph

30/09/2025 - 31/12/2025 Data from FE fundinfo2026

Key Funds and Trades over the Quarter

Top 3 Model Funds	3 months
Schroder UK Equity Income Maximiser	7.03% ▲
Invesco FTSE EM High Dividend Low Volatility ETF	5.90% ▲
Schroder US Equity Income Maximiser	3.83% ▲

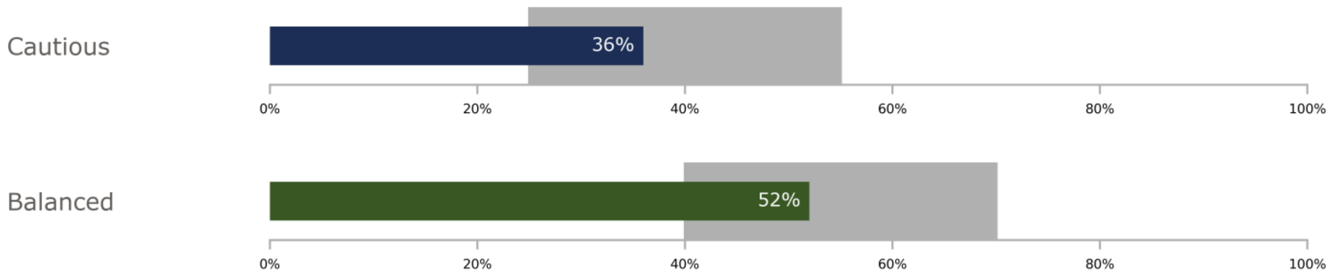
Bottom 3 Model Funds	3 months
Vanguard Global Credit Bond Hedged	1.14% ▼
L&G Global Infrastructure Index	0.72% ▼
Amundi Global Agg Bond Hedged ETF	0.70% ▼

Source FE Analytics to 31st December 2025

Key fund	Commentary
Amundi Core UK Equity All Cap ETF	This passively managed fund tracks the Morningstar UK Index, which is weighted by market capitalisation and therefore dominated by large UK-listed companies such as AstraZeneca, HSBC, Shell and Unilever. UK large-cap stocks outperformed mid- and small-cap peers during the quarter. Returns were led by drugmaker AstraZeneca (+23%), whose shares jumped at the start of the quarter after the company announced plans to pursue a US listing.
HSBC European Index	This passively managed fund aims to track the FTSE Developed Europe ex UK Index, giving broad exposure to large and mid-sized companies across developed European markets outside the UK. It provides diversified, low-cost access to continental European equities. The fund rose about 6.5% over the quarter, reflecting solid performance across European markets.
L&G Global Infrastructure Index	During the quarter, we added the L&G Global Infrastructure Index to the portfolio, funded by the sale of the Amundi Core US TIPS ETF. The L&G fund tracks the FTSE Global Core Infrastructure Index, giving diversified exposure to assets such as toll roads, utilities, power generation, and real estate, many of which have inflation-linked revenues. We believe this allocation provides an attractive combination of income and inflation protection. Compared with the Amundi fund, which invests in inflation-linked bonds, this holding offers a complementary source of diversification within the portfolio.
Amundi Global Aggregate Bond Hedged ETF	We have exited our holding in the Amundi Global Aggregate Bond ETF and switched to the Amundi Global Treasury Bond ETF to refocus our exposure. The fund sold included around 30% in corporate bonds, which, while high quality, are trading at historically tight spreads with limited potential upside compared with government bonds. The new fund offers a more cost-effective, "pure" exposure to sovereign debt, providing a stronger diversifying role for the growth elements of the portfolio while maintaining high-quality fixed income exposure.

Asset class review

Equity Exposure



Cautious

Ten largest fund holdings (%)

L&G Global Infrastructure Index	15.2%
Amundi Global Treasury Bond ETF	13.6%
Invesco UK Gilt 1-5 Year ETF	11.6%
Vanguard Global Credit Bond Inst Hedged	11.0%
JPM Glb HY Corp Bond Multi-Factor Hdged	10.2%
Schroder UK Equity Income Maximiser	8.1%
Schroder US Equity Income Maximiser	7.0%
Amundi IS Prime Japan ETF	6.4%
JPM Global Equity Premimum Income	5.8%
SPDR S&P Euro Dividend Aristocrats ETF	4.6%
Assets in top ten holdings	93.5%

Ten largest asset class exposures (%)

Government Bonds	25.2%
Other Alternatives	15.2%
Corporate Bonds	11.0%
North American Equities	10.8%
High Yield Bonds	10.2%
UK Equities	8.1%
Japan Equities	7.0%
European Equities	5.7%
Asia Pacific ex Japan Equities	2.5%
Emerging Market Equities	2.2%

Balanced

Ten largest fund holdings (%)

L&G Global Infrastructure Index	13.2%
Schroder UK Equity Income Maximiser	11.6%
Schroder US Equity Income Maximiser	10.0%
Amundi IS Prime Japan ETF	9.2%
Vanguard Global Credit Bond Inst Hedged	9.0%
JPM Global Equity Premimum Income	8.4%
JPM Glb HY Corp Bond Multi-Factor Hdged	8.3%
Amundi Global Treasury Bond ETF	8.2%
Invesco UK Gilt 1-5 Year ETF	7.0%
SPDR S&P Euro Dividend Aristocrats ETF	6.6%
Assets in top ten holdings	91.5%

Ten largest asset class exposures (%)

North American Equities	15.6%
Government Bonds	15.2%
Other Alternatives	13.2%
UK Equities	11.7%
Japan Equities	10.1%
Corporate Bonds	9.0%
European Equities	8.3%
High Yield Bonds	8.3%
Asia Pacific ex Japan Equities	3.6%
Emerging Market Equities	3.1%

Asset class review

Asset Class	Portfolio Views
Fixed Interest	We hold a positive view on government bonds due to the relatively high yields and attractive income profile, with a focus on attractively priced UK assets. Capital upside may be muted in the short term due to higher-than-average government issuance. We deem corporate bonds a little less attractive due to current tight credit spreads.
UK Equities	We remain constructive on UK equities, supported by rising dividends, share buybacks, and increased M&A activity. The outlook looks positive as disinflationary policies raise the prospect of further interest rate cuts. Despite strong performance in 2025, valuations remain attractive, especially for small and mid-sized companies.
US Equity	Fiscal and monetary policy dynamics should support US equities in absolute terms, but higher multiples and concentration risk mean we prefer an underweight allocation, particularly to large caps. Within our US allocation, we favour greater diversification by sector and style to limit exposure.
Japan Equity	Japanese equities remain attractive, supported by pro-growth government policy, corporate reforms, and improving capital efficiency. Significant fiscal stimulus under new Prime Minister Sanae Takaichi and continued buybacks should support earnings growth, reinforcing a positive medium-term outlook.
Asia and Emerging Market Equity	We remain positive on Asia and emerging market equities, supported by attractive valuations, improving fundamentals, and strong long-term growth drivers. A weaker US dollar, scope for further rate cuts, and exposure to structural themes such as AI investment underpin the outlook.
Alternatives	We view alternative investments as valuable diversifiers, particularly as traditional fixed income has struggled in a higher inflation environment. We currently favour liquid strategies managed by experienced teams, as well as infrastructure investments that offer some inflation protection.

Outlook

As we enter 2026, global markets remain resilient despite geopolitical noise, supported by fiscal and monetary stimulus across the US, Europe, and Asia. We expect economic activity to broaden across regions, building on momentum from 2025.

In the US, households will start to feel the effects of fiscal stimulus early in 2026, with significant tax rebates from the One Big Beautiful Bill boosting disposable income. This cash injection complements wealth effects generated by strong stock and housing market gains. Household net worth remains high relative to personal income, leaving consumers in good shape to support spending. Businesses are also investing heavily, particularly in technology, with hundreds of billions of dollars in capital expenditure underpinning growth. The Federal Reserve will be under close scrutiny in 2026, with the replacement of Jerome Powell as Chair likely to be announced early in the year, increasing the pressure on the Fed to conduct further rate cuts, which in our view should support markets.

Continental Europe is set for a pickup in activity, aided by Germany's 2025 fiscal stimulus, which targets defence, transport, and industrial projects. Broader European defence spending is also increasing, with commitments to raise military budgets to 3.5% of GDP by 2035. In the UK, near-term growth may be constrained by limited fiscal and monetary flexibility, though slower activity could ease inflation and allow the Bank of England to adopt a more accommodative stance over time.

Asia continues to provide both monetary and fiscal support. In Japan, the new pro-growth government remains committed to accommodative policy, keeping interest rates low and supporting investment. In China, confidence has been gradually improving, aided by stabilising property prices, targeted policy support, and renewed optimism around innovation in areas such as artificial intelligence, which has helped lift broader market sentiment.

> *While the outlook is constructive, risks remain.*

A renewed pickup in inflation, particularly if labour markets tighten and wage growth accelerates, could challenge this benign backdrop. Elevated valuations in parts of the equity market, especially technology, also warrant caution, while geopolitical tensions may continue to create periods of volatility. Nevertheless, with supportive policy, healthy consumer balance sheets, and ongoing business investment, the environment remains favourable for growth as we move through 2026.

Thoughts for the quarter ahead...

- Government debt continues to grow faster than economic output, particularly in the US. We are monitoring bond markets for early warning signs.
- Markets will focus on President Trump's appointment of a new Fed Chair, which could influence the pace of rate cuts and the direction of US monetary policy.
- Inflation remains a key watchpoint. A sustained rise would limit central banks' ability to support markets through further easing.
- Investors will continue to look for clues as to whether the substantial capex of large US tech firms is starting to generate stronger earnings to justify elevated valuations.
- Market participation outside mega-cap tech is also under scrutiny, as broader earnings growth will be important for sustaining momentum.
- As we enter early 2026, we believe a balanced and disciplined approach remains appropriate. With the US dollar under pressure, we favour a less US-centric allocation and diversification across regions.

Important information
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Risk factors should be taken into account and understood including (but not limited to) currency movements, market risk, liquidity risk, concentration risk, inflation risk, performance risk, local market risk and credit risk.

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

[1] For the comparative index returns, we have used the total return performances of the following ETF's:

Comparative index	**ETF Name**
UK Equities	ISHARES CORE FTSE 100
US Equities	ISHARES CORE S&P 500
European Equities (ex UK)	ISHARES MSCI EUROPE EX-UK
Emerging Market Equities	ISHARES CORE EM IMI ACC
Japanese Equities	ISHARES CORE MSCI JAPAN
Pacific Equities (ex Japan)	ISHARES CORE MSCI PACIF X-JP
UK Government Bonds (Gilts)	ISHARES CORE UK GILTS
Global Bonds (GBP hedged)	ISHARES CORE GLB AGG GBP-H D
Commodities	ISH DIVERS COMMOD SWAP ETF