

12/2025

Market Snapshot

Equity Snapshot

United States	<p>US equities rose fractionally in December, as lacklustre economic data weighed on sentiment. Markets rose early on amid growing hopes of a rate cut from the Federal Reserve (Fed), as duly transpired. Meanwhile, President Trump's peace plan to end the war in Ukraine resulted in further talks involving Kyiv, Moscow and European partners. As the month progressed, elevated AI valuation concerns resurfaced, with investors rotating into cheaper parts of the market. Flaring tensions in the Caribbean triggered concerns around regional security after the US Coast Guard intercepted Venezuelan oil tankers as Washington stepped up pressure against the government of Nicolás Maduro. Meanwhile, US strikes against the Islamic State in northwestern Nigeria dented sentiment, alongside escalating protests in Iran and Chinese military exercises in the Taiwan Strait. The so-called Santa Claus rally lifted stocks into year-end despite lingering macroeconomic and geopolitical uncertainties.</p> <p>Economic data was mixed. Delayed non-farm payrolls data revealed that the US economy added 64,000 jobs in November after falling by 105,000 in October. The unemployment rate in the US rose to a four-year high of 4.6% in November, up from September's 4.4%, while retail sales growth in September remained flat, ticking up by a lacklustre 0.2% as consumers cut spending plans against a backdrop of weakening fundamentals. The Federal Reserve Bank of Atlanta's GDPNow running estimate of annualised economic growth fell to 3.5% for the third quarter, down from 3.9% a month ago. More positively, delayed GDP data revealed the US economy grew by 4.3% in the third quarter of 2025, way ahead of previous estimates, while the University of Michigan Consumer Sentiment Index rebounded to 52.9 in December after slumping to 51.0 in November – the second-lowest reading on record.</p> <p>Headline inflation unexpectedly eased to 2.7% in the year to November, down from September's 3.0%. The Fed delivered a 25-basis-point rate cut, bringing the federal funds rate to 3.5%–3.75% the lowest level in three years, citing a deteriorating labour market. However, the 9–3 split vote underscored the sense of uncertainty over the US economy's direction of travel, with delayed or missing federal data following the recent government shutdown a further headwind. The Federal Open Market Committee's "dot plot" is currently showing a slowdown in rate cuts from here, with just one more in 2026 and another in 2027. The Fed also announced that it will resume its Treasury purchases.</p>
Europe	<p>European equities moved higher in December. Markets tracked Wall Street gains early on, as mounting hopes of a rate cut from the US Federal Reserve bolstered sentiment. Positive fundamentals and the diminishing likelihood of rate rises from the European Central Bank (ECB) in 2026 also lifted sentiment. Tentative hopes for a ceasefire in Ukraine continued to mount and wane as further negotiations took place over the month. The European Union agreed a EUR 90 billion loan to Ukraine over the next two years, although leaders were unable to agree on using frozen</p>

Russian assets in fear of retaliation from Moscow. In addition, the European Commission fined Elon Musk's X EUR 120 billion under the Digital Services Act.

Inflation in the euro zone remained unchanged at 2.1% in the 12 months to November, revised down from preliminary estimates of 2.2%. The ECB held rates steady at 2.0% for the fourth consecutive meeting. Third-quarter GDP growth in the euro-zone was revised up to 0.3% from a previous estimate of 0.2%. In addition, the ECB revised up its growth outlook for 2025 to 1.4% from an earlier projection of 1.2%. ECB President Christine Lagarde emphasised the resilience euro-zone economy and robust domestic demand but warned of continued international volatility.

Asia

Asia ex Japan equities ended December 2025 on a high note despite holiday-thinned trading and lingering global uncertainties. Bucking the trend, China equities were weaker with economic data signaling a broad-based slowdown. Industrial production fell to a 15-month low of 4.8% in November and the PPI fell for the 38th consecutive month against a backdrop of weak domestic demand. Tech stocks were generally a bright spot leading to gains in Taiwan and Korea. The latter market was also supported by news that US auto tariffs had been cut to 15%. Conversely, India had a weak month with ongoing foreign fund outflows pressuring both the equity market and the currency.

ASEAN markets delivered a positive return in aggregate, despite the worst flooding and landslides to hit Southeast Asia in recent years. In Thailand, there were further military clashes along the disputed border with Cambodia and the Thai prime minister dissolved parliament ahead of a snap general election in February next year. Both the Philippines and Thailand cut key lending rates in December by 25 basis points (bps).

Bond

Global bond yields inched higher over December. The US yield curve steepened, with short-term US yields pegged by another widely expected cut in interest rates from the US Federal Reserve (Fed), while longer-dated Treasury yields were undermined by uncertainty over President Donald Trump's pick for the next Fed chair. The 10-year US Treasury yield was up 15bps to reach 4.16% by end-2025. European bond yields also moved higher amid worries the European Central Bank (ECB) may raise rates in 2026. 10-year yields in Japan rose to the highest level since 1999, breaching 2.0%, after the Bank of Japan increased rates to their highest level in 30 years and indicated more tightening was likely.

Outlook

December reinforced a key theme that has been building for some time: market leadership continues to be driven as much by narrative and positioning as by fundamentals. This has created further volatility for some single holdings, however it has also been pleasing to see several fundamentally strong businesses beginning to recover from earlier sentiment-driven weakness. This supported our Global strategies to outperform during the month.

The evolution of the technology cycle continues. After a period of extreme concentration around AI infrastructure and the compute story, we are starting to see a broadening of interest across the semiconductor ecosystem. Memory and analog semiconductors that lagged the early phase of the cycle, are showing high potential, supported by improving demand visibility and inventory normalisation. This is constructive for our portfolios, where we have exposure to these winners and also to the key enablers of the technology upgrade, for example our European semiconductor equipment leaders.

Beyond technology and AI specifically, the defense space also continues to strengthen as geopolitical tensions persist and governments commit to rebuilding stockpiles. While share price performance has been volatile, outer-year growth visibility across defense equipment, electronics and systems remains compelling and increasingly differentiated from broader industrial cyclicity. An important development for our Growth strategies has been the ability to invest in defense since September, following an update to our SRI Exclusion List.

In Europe, the medium-term backdrop continues to improve gradually. Fiscal support, industrial policy initiatives, and infrastructure investment are beginning to feed through into order intake across energy, transportation, building efficiency, and defense-related value chains. While Value (led by banks) has remained a challenging style headwind, we continue to see a growing opportunity set within European Growth where valuations continue to look depressed, historically and relative to fundamentals.

Overall, we remain constructive on Global and European Growth. The combination of a broadening technology cycle, increasing recognition of earnings durability, strengthening industrial and defense demand, aligned with attractive valuations supports our positioning. As markets move beyond simple narratives and refocus on cash flow, margins, and durable competitive advantages, we believe our emphasis on Quality Growth can be rewarded.

Source: Allianz Global Investors, as of 31 December 2025 unless otherwise stated.

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