

Market

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A forward view of the global economy
and financial markets

December 2025

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The logo consists of a dark blue circle containing a white, stylized insect, possibly a bee or a fly, with its wings and legs depicted in a simplified, geometric manner.

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The UK Hospitality Industry

"The power to tax is the power to destroy".

John Marshall (US Statesman)



Source: Wikipedia

The last two Budgets have not been very welcoming for the UK hospitality industry. The chancellor of the Exchequer said on the 4th November in her pre-budget speech that "In the end, growth is the best way out of the challenges that we face."

Hospitality is the third largest employer in the UK, employing 3.5 million people and the sector has contributed £93 billion annually to the UK economy. In 2022 it generated £54 billion in tax receipts while powering £20 billion in exports and £7 billion in business investment and was also the fastest growing sector of the economy. These figures were posted by UKH (UK Hospitality) the trade body for the industry. This is just the sort of industry that you would think that the Chancellor would want to encourage.

However, this is what the Chancellor did in her 26th November Budget,

- Gave Regional Mayors the power to charge a levy on overnight stays in hotels, holiday lets and B&B's.
- New rateable values which will increase costs as follows:
 - +76% for accommodation businesses
 - +30% for pubs
 - +14% for restaurants and cafes
- Rise in minimum wage of over 21's of 4.1%

The above-mentioned changes will mean an average pub's business rates will increase by 76% and an average hotel by 115% in the tax year 2028/29. In comparison to rate rises for distribution warehouses (Online giants) will be 16%, for offices 7% and 4% for large supermarkets.

In April 2025 the hospitality industry was faced with an additional £1.9 billion in wage costs plus £1 billion in employer national insurance contributions and £500 million due to the reduction in business rate relief.

The consequences of these extra tax charges will have an effect. Whitbread plc, the largest hospitality provider in the UK, has said that the budget will add between £40 to £50 million in extra costs to its business, it has seen its share price fall by over 16% since the budget and has subsequently been downgraded by analysts. As a result, the company has been forced to make business efficiencies of £60 million by the year 2027. That undoubtably means less investment and job losses. This is a common story across the sector.

It seems to have been decided that the hospitality industry does not need to contribute to economic growth in the UK, it is acceptable that going out will be more expensive in the future, and inflation will therefore be higher.

Richard Harper
Head of Asset Allocation
GHC Capital Markets Limited

In which **Tim Harris**, the Chair of our Asset Allocation Committee, describes the factors influencing our latest Asset Allocation decisions

Asset Allocation

Global growth to pick up

2025 has been a slow year for GDP growth across the developed and emerging economies, not least in the UK. The delayed Budget is now out of the way. It produced a mix of spending and taxation plans, which continues the trend of the government's previous year in office. Much of the planned spending is focused on the public sector, so it is not obvious how growth will be sponsored going ahead. But the tax burden seems more evenly spread than previously expected. And the government still needs to borrow – with a budget deficit of £29bn estimated in 2026/27, the borrowing requirement will be 3.5% of GDP in that year. National debt is approximately 90% of GDP, so bond and equity market progress will depend upon keeping the Bond Vigilantes in check. Higher growth in 2026 will favour equities, but valuations will depend upon the good creditworthiness of the UK State keeping bond yields in check.

With probable GDP growth of 1.5% in 2025, the UK economy should actually be the third highest growing within G7 (there are plenty of Asian economies growing faster). France's political disarray is restricting its budget planning and Germany's new fiscal plan may not impact positively until 2027. Furthermore, competition from China higher up the value chain is challenging parts of the European industrial sector. That said, a number of the smaller Euro Area economies are showing greater activity. Higher AI usage will benefit productivity, but the gains will take time. This is currently focused on a few US large cap firms.

Trade relationships are key to growth

One year on, the key risk for global trade has evolved from by how much US tariffs might rise to the knock-on effects of high US tariff rates. For sure, new trading blocs are evolving (oil being the most obvious example). We expect tariffs to dampen US imports and impact inflation there. However, the US economy is impressive. Despite trade tariffs, immigrant restrictions and higher unemployment, we should see growth back to the high 2%'s next year. AI is impacting the US stock market favourably (we see digital technology investment continuing to rise as a share of GDP) and corporate earnings will continue their positive trend. Wealth effects and productivity growth will be positive. However, the US is a divided economy. Ask the employed versus the unemployed, large versus small businesses, or high-versus low income households for their confidence. With an unpredictable government, all is not plain sailing in the US. So we do not expect US equities to consistently lead the world, as markets have become used to in recent years.

There is a new trade order and, as US-China relations ebb and flow, we should watch the development of trade in other corners of the world. Asia has been our favoured region to invest in 2025 and this has rewarded us with returns in excess of 25% in the year to date. With China shrugging off internal challenges and real estate weakness, and its fiscal thrust pushing the expansion of manufacturing (which will lead to falls in its export prices), we foresee an acceleration of growth in this region. Asian equities remain high on our preferred list.

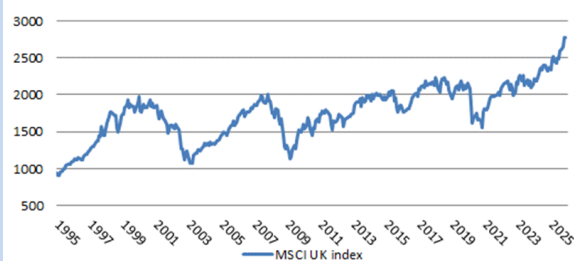
Inflation may have peaked

CPI is 3.6% as we write in the UK. Falling inflation will help the Bank of England and Federal Reserve, in particular, to lower rates in the new year. With inflation pressures easing across the G7 and sovereign debt pressures not yet bubbling over (however, we should watch the rudderless France – bond markets might see an easy prey for selling off), we do believe that sovereign debt will continue to generate real returns across most durations. Corporate debt spreads have narrowed markedly though 2025, so we are less drawn to this sector, although there are still many good opportunities within the higher rated bond markets. An outlook for real positive returns is a long way forward from the days of zero yields four years ago.

Sterling has been a stable currency through 2025. Modest future rate cuts will leave it relatively attractive to the euro and dollar. The toughest call may be gold, which has rallied enormously through 2025. But there again, many central banks are continuing to buy gold – an important marginal buyer. So who is to say it won't continue to be strong.

Markets at a Glance

UK Equities



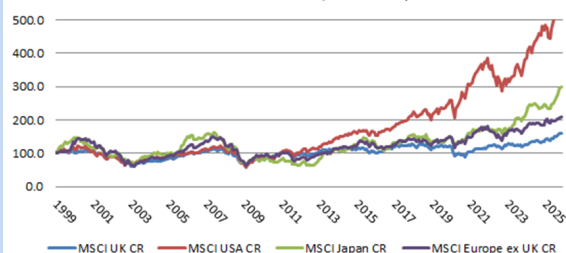
Source: Lipper for Investment Management

The Autumn Budget delivered a small fiscal consolidation that is loaded to the end of this Parliament. This sponsors little change in growth and inflation expectations. UK equities gained modestly, after bearish positioning going into the Budget. The FTSE 250 and UK domestic stocks have both gained modestly, and we see the Budget as a risk-clearing event for the real estate sector. The performance of these sectors is closely tied to bond yields. The Chancellor announced reform to the Individual Savings Account (ISA) system which would ring-fence £8,000 pa for stocks and shares from April 2027 for under 65s. Currently more savings flow into Cash ISAs, but Stocks and Shares ISAs are growing at a faster rate. A shifting allocation towards higher-return assets should be supportive for equities. That said, the 2pp tax rate increase on savings, dividend, and property income is a potential headwind, given the high dividend returns of UK equity holders. Overall, domestic flows into the UK equity market remain weak.



World Equity Markets

Rebased Dec 1998=100, Local Currency

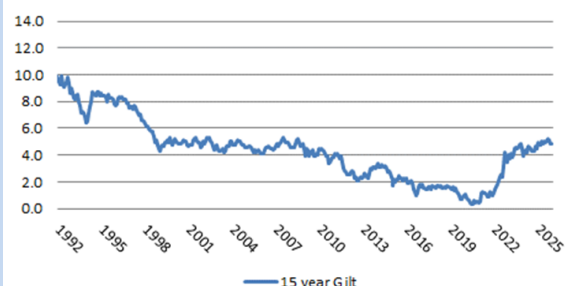


Source: Lipper for Investment Management

Equity volatility has surged in the fourth quarter. Markets have moved away from their earlier optimism, as AI and dovish Fed hopes faded. Investors now worry about US labour, consumer health, and AI spending. We are in a global late cycle, which typically favours equities. The 2026 outlook is positive, with global growth and inflation trends supporting investor appetite. Any US weakness should be brief, with policy support expected. However, risks are rising. Equity upside is limited and high valuations and a slowing business cycle have increased drawdown risk. Labour market uncertainty and ongoing concerns about AI spending add further vulnerability to the outlook.



UK Gilt Yields

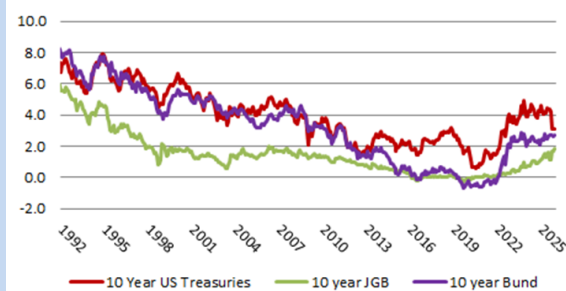


Source: Lipper for Investment Management

The Gilts rally after the Budget supports our view to be long the 7 to 10 year sector of the UK gilt curve, as the Debt Management Office's updated remit skews issuance away from the long end of the curve. As the DMO increases short-maturity gilt issuance, this will drive curve flattening alongside broad Gilt risk premia compression. We maintain an end-year forecast for 10-year gilts at 4.25% and 4% for end-2026. In the near term, we expect markets to focus on upcoming BoE decisions and macro data releases. Sterling had a marginally positive reaction to the Budget, but market reactions to UK fiscal events tend to be more delayed, and that more time is required to fully digest the wide range of tax measures announced.



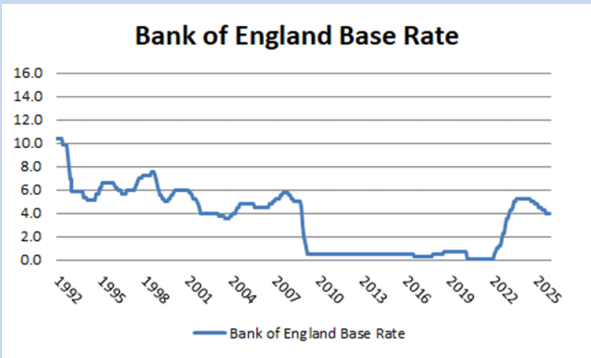
World Government Bond Yields



Source: Infront

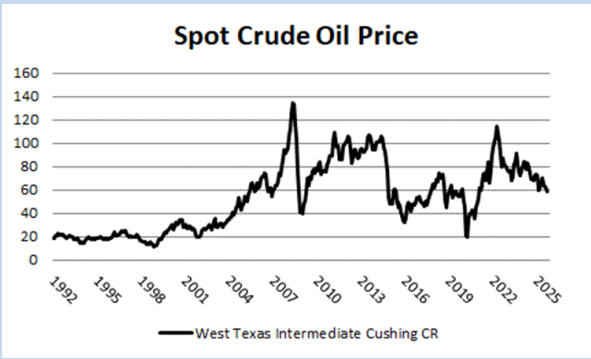
With the Federal Reserve now closer to fully pricing a 25bp rate cut in December, the market will increasingly focus on subsequent meetings. Division on the committee is restraining more dovish pricing, but a large amount of labour market data is due before the January meeting that might be followed by Q1 rate cuts. News that Kevin Hassett appears to be the leading candidate for Fed Chair gave a glimpse of the market's assessment of a dovish appointment. Our base case remains that the ECB will remain on hold and EU cyclical conditions will drive core rates higher over time, the recent focus on disinflation — including from Chinese export competition — suggests downside risks to the 2026 ECB path.





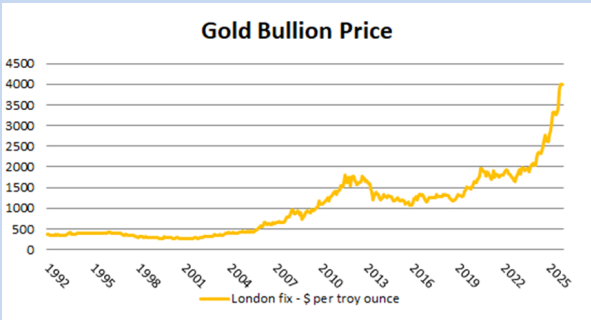
Source: Lipper for Investment Management

The lack of growth in the UK economy and a labour market that has a low participation rate are weighed against input cost and consumer price inflation that is not trending down and a labour market that has a low participation rate. The MPC is currently spilt on further rate cuts. The UK Budget gave the government an extra £12 billion of fiscal headroom, which reassured investors. We expect a 25 basis point cut at the December 18th meeting, followed by three more cuts to a terminal rate of 3% by July 2026. Markets are also pricing more of a dovish tail for the Bank of England, with an 85% probability of more cuts in 12 months.



Source: Lipper for Investment Management

Brent crude prices have declined to \$62/barrel, as the market reassesses the prospect of a potential Russia-Ukraine peace deal. While uncertainty around the details of a deal and its chances of coming through remains high, we estimate downside risks to crude prices, and especially refined oil product prices, if sanctions on Russia's oil sector were to be lifted. Our base case assumes a status quo for sanctions on Russian oil, an extension of the recent downward trend in Russia production, and a decline in oil prices to \$56/52 in 2026 on strong supply outside of Russia. We estimate \$4-5 of downside to our 2026 price forecast from a potential peace deal, which could support a gradual recovery in Russia production and increase landed oil inventories in the OECD pricing centres.



Source: Lipper for Investment Management

The gold price broke higher last week, following some recent consolidation, to just under \$4,100. We believe that global central bank purchases reached 64 tonnes for September versus 21 tonnes in August, and heavy central bank buying likely continued through November. We see elevated central bank gold accumulation as a multi-year trend, as central banks diversify their reserves to hedge geopolitical and financial risks. We maintain an assumption of average monthly central bank buying of 80 tonnes into 2026. This, alongside private investor flows under Federal Reserve rate easing, would lift gold prices to \$4,900 by end-2026, with significant upside if the private investor diversification theme were to gain more traction.



Note that where an MSCI Index has been used for illustration. This has been sourced with permission from MSCI Inc.

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