Global Markets

Easing Inflation and Policy Support Anchor Year-End Confidence

Global markets closed 2025 on firmer footing as December confirmed a broader macro trend of moderating inflation and increasingly supportive monetary policy. In the US, inflation eased to 2.7% by year-end, allowing the Federal Reserve to deliver a cumulative 75bps of rate cuts in 2025, including a 25bps cut in December. Europe followed a similar path, with eurozone inflation stabilising around 2.1%, while the Bank of England also lowered rates as UK inflation slowed to 3.2%. China showed early signs of reflation, with GDP growth exceeding expectations in Q3 and unemployment holding steady. Despite persistent geopolitical tensions and trade uncertainty, improved policy visibility and easing inflation supported risk sentiment into year-end.

Equities: Broadening Returns Beyond U.S. Exceptionalism

Equity markets delivered strong gains in 2025, with performance broadening meaningfully beyond the US. Developed market equities finished the year up around 21%, while emerging markets led global performance with returns of approximately +34%, supported by North Asian tech strength and currency tailwinds. In December, equity gains were more measured: the S&P 500 was flat, European equities gained around 2.6%, and the FTSE 100 advanced +2.2%, outperforming on strength in mining and defence stocks. While AI-driven sectors remained key contributors, helping US technology and communication services deliver double-digit gains over the year, investor leadership narrowed, prompting late-year rotation toward cyclicals and rate-sensitive sectors. A weaker US dollar (down around 7% in trade-weighted terms in 2025) materially reshaped regional return dynamics, boosting non-US equity performance.

Fixed Income and Real Assets: Diversification Rewarded

Fixed income reasserted its role as both a stabiliser and a source of income in 2025. Global bonds delivered returns of approximately +8% for the year, supported by easing monetary policy and attractive starting yields, while credit performed well with global credit returning around +10% amid resilient corporate fundamentals. Emerging market debt stood out, delivering double-digit returns helped by currency appreciation. December returns were modest but positive, with sukuk and global bond indices rising around 0.2%.

Precious metals were the standout asset class of the year: gold gained approximately +65% in 2025, including a +1.9% rise in December, supported by sustained central-bank demand, geopolitical uncertainty, and fiscal concerns. Overall, 2025 rewarded diversified portfolios, marking a shift toward broader and more balanced sources of return heading into 2026.

Regional Markets

Saudi Equities Extend Losses in December, Ending a Challenging Year on a Cautious Note

The Saudi equity market extended its corrective phase in December, with the Tadawul All Share Index (TASI) declining a further 0.9% month-on-month to close the year at 10,491 points. Market activity continued to soften, as total traded value fell 12.4% from November to SAR 76.0 billion, reflecting subdued risk appetite following November's sharp drawdown. Performance remained mixed at the sector level, with only five of TASI's 21 sectors posting gains during the month. Capital Goods (+3.0%) and Telecom (+2.9%) outperformed, while Consumer Services (-5.4%), Insurance (-5.0%), and Media (-10.1%) weighed most on the index. Banks and Materials remained the most actively traded sectors, together accounting for 33.5% of total market liquidity, underscoring continued investor focus on large-cap defensives despite weak broader sentiment. On a year-to-date basis, TASI ended 2025 down 12.8%, with 20 of 21 sectors posting negative annual returns, highlighting the breadth of the market correction.

Foreign Participation Improves Marginally as Macro Headwinds Persist

Despite the ongoing market weakness, foreign investor participation showed modest resilience in December. Qualified Foreign Investor (QFI) ownership increased to 11.31% of free float, up from 11.12% in November, supported by selective inflows into large banking and index heavyweights. Net flows remained divergent across investor categories, with Saudi institutions recording net outflows, while foreign and individual investors provided partial offsets. From a valuation perspective, pockets of relative value emerged as market multiples compressed, with TASI trading at 17.9x forward earnings (excluding Aramco), and several stocks offering single-digit P/E ratios. However, the broader outlook remains cautious as lower oil prices, tightening liquidity conditions, and subdued earnings momentum continue to cap upside. Entering 2026, market direction is likely to remain range-bound, with greater differentiation expected across sectors aligned with Vision 2030 spending, balance-sheet strength, and earnings visibility.

Global Market Indices

Global Data: As End Of:	31-Dec-25
Saudi Market Data: As End Of:	31-Dec-25

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2022 (%)	2023 (%)	2024 (%)
World	DJIM World TR	13,027.75	0.5	19.4	19.4	18.7	21.4	10.2	13.0	(24.2)	27.0	18.0
Developed	DJIDEV TR	7,506.28	0.3	19.2	19.2	18.8	22.2	11.2	13.5	(24.2)	29.4	18.5
Emerging Markets	DJIEMG TR	6,416.30	1.7	21.8	21.8	17.5	13.7	1.2	8.6	(24.2)	6.4	13.3
Saudi	TASI	10,490.69	(0.9)	(12.8)	(12.8)	(6.4)	0.0	3.7	4.3	(6.4)	14.2	0.6
NAREIT	All REITS TR	3,317.34	(1.0)	11.0	11.0	6.2	7.4	3.1	4.0	(23.6)	9.8	1.6
GSCI	All Commodities	548.52	(1.2)	(0.2)	(0.2)	1.2	(3.5)	6.0	5.8	8.7	(12.2)	2.6
Currencies	Euro	1.17	1.3	13.4	13.4	3.2	3.1	(0.8)	0.8	(5.8)	3.1	(6.2)
	Yen	156.71	(0.3)	0.3	0.3	(5.1)	(5.8)	(8.0)	(2.6)	(12.2)	(7.0)	(10.3)
	GBP	1.35	1.8	7.7	7.7	2.9	3.7	2.2	2.4	(10.7)	5.4	(1.7)