Q4 2025 Overview – Countrywide Assured plc Balanced Managed Pension/Life Investing Fund

This report is provided by our Fund Manager Schroders and covers the portfolio activity on our main investing funds the Countrywide Balanced Managed Pension/Life Investing Funds, together with their short-term economic outlook. The report describes the current economic background and Schroders' perspective of this and how it impacts their management of the Countrywide Balanced Managed Pension/Life Investing Fund. It also covers all individual asset class sectors (UK & Global Equities; fixed interest; Property and cash).

Your policy will be invested in a specific customer fund of your choice which has its own fund objectives (see fund list and specific fund objectives) www.countrywideassured.co.uk/fund-centre/understanding-my-funds/fund-objectives/. All customer managed funds are invested in the Countrywide Balanced Managed Pension/Life Investing Funds, to a greater or lesser extent depending on the nature of the fund objective. If you're invested in an individual asset class sector fund, although no specific commentary is provided for these funds, the report does cover individual markets and other asset classes, which is consistent with the fund managers reasoning.

Portfolio Activity

The SUTL Countrywide Managed Balanced fund underperformed in the final quarter of 2025, driven by UK equity underperformance.

Markets ended the year on a constructive footing, supported by easing financial conditions, resilient growth, and expectations that major central banks would continue to lower interest rates into 2026. However, the quarter was marked by periods of volatility, as concerns regarding elevated equity valuations, Artificial Intelligence (AI)-related concentration, and policy uncertainty periodically challenged risk appetite. Against this backdrop, allocations to equities and fixed income contributed positively to fund returns overall.

Tactical asset allocation decisions contributed positively to performance. Going into the final quarter, the portfolio maintained its tilt towards equities, expressed through positions in the US, emerging markets, and China. US economic growth held up well, with solid wage growth and low levels of layoffs, despite some soft labour market data. This supported our positive view of US equities, and we continued to view the risk of recession as low.

Outside the US, we expected a broadening of equity returns. While the US remains dominant in technology, markets elsewhere – particularly emerging markets and China – offered attractive relative value. Emerging markets have shown renewed strength, driven by stabilising growth and China's policy shift towards innovation. As the quarter progressed, the US government shutdown clouded some economic data; however, we continued to see the probability of a recession as low. The labour market remained steady, with subdued hiring and firing activity, and real disposable income continued to support consumer spending. Although risks remain – particularly regarding a potential "artificial intelligence (AI) bust" scenario – we believed it was too early to adopt a defensive stance. However, we did close the overweight in emerging markets and Chinese equities, preferring instead to express our positive stance on equities through value stocks outside the US, namely in the UK and Japan. This shift helps diversify our equity exposure away from AI-driven sectors and capitalises on more attractive valuations relative to the US. We believe this should help manage valuation risks while still maintaining a modest US overweight.

The underweight position in US government bonds was maintained throughout the quarter to fund the equity overweight. We continued to believe that US bond markets offer little value, as significant interest rate cuts had already been priced into the front end of the yield curve. Inflation expectations have also been muted, which may be premature given resilient growth and persistent inflation pressures. We expect bond yields to gradually rise as markets reprice to a less dovish policy path.

In currencies, we closed the overweight euro versus US dollar position at the start of the quarter. Strong US economic data signalled potential headwinds for the euro. We then rotated into an overweight Australian dollar versus pound position to capture the economic divergence between Australia's improving macro backdrop and the UK's weaker outlook. We believe the Reserve Bank of Australia is likely to cut interest rates less – and later – than markets expect, while UK macro fundamentals continue to lag.

Outlook

As we move into 2026, the global investment landscape remains shaped by resilient growth, supportive policy settings and increasing dispersion across regions, sectors and styles. Economic activity has continued to confound pessimistic expectations, underpinned by looser monetary policy, expansionary fiscal settings and still healthy private sector balance sheets. Looking ahead, the outlook remains constructive, though increasingly nuanced, as robust growth and policy support coexist with elevated valuations and rising medium-term inflation and financial stability risks.

Global growth is expected to remain resilient through 2026, supported by easing financial conditions and ongoin fiscal support, particularly in the United States, where consumption continues to be underpinned by solid household balance sheets and a labour market that has cooled without weakening materially. While the Federal Reserve has begun to ease policy, resilient growth and lingering inflation risks are likely to limit the scope for aggressive rate cuts, keeping policy data-dependent. In Europe, earlier monetary easing and fiscal expansion – most notably in Germany – are beginning to support activity, though persistent services inflation and supply constraints may constrain further accommodation. The UK faces a more challenging medium-term outlook, with weak productivity growth and expectations for fiscal consolidation weighing on activity. In China, growth is likely to stabilise but remain structurally constrained by weak domestic demand and excess capacity. Across emerging markets, lower inflation and a softer US dollar provide a supportive backdrop, though outcomes are expected to remain increasingly differentiated.

One of the most prominent questions from investors entering 2026 concerns whether markets – particularly equities exposed to artificial intelligence (AI) – are in bubble territory. Valuations in parts of the market are undeniably elevated, and concentration risks have increased as a narrow set of companies has driven a large share of recent returns. However, while elements of speculative behaviour are visible, the current environment differs in important ways from past market bubbles. Earnings growth has remained robust, balance sheets are generally stronger, and investment in new technologies is being supported by tangible cash flows rather than purely speculative financing. That said, the pace of capital expenditure, rising leverage in parts of the corporate sector and growing reliance on AI-related narratives do represent a medium-term vulnerability, particularly if expectations for productivity gains prove too optimistic or if financial conditions tighten unexpectedly.

The balance of risks therefore remains two-sided. On the upside, continued investment in new technologies and an extended period of policy accommodation could support further earnings growth and productivity gains. On the downside, a sharp reassessment of AI-related expectations, renewed inflation pressures or policy missteps could trigger periods of heightened volatility and valuation compression, even without a broader economic downturn. Importantly, these risks argue for selectivity and diversification rather than a wholesale retreat from risk assets.

Our multi-asset positioning reflects confidence in the durability of the global cycle, balanced by a disciplined focus on valuation, concentration risk and diversification. Equities remain our preferred asset class, supported by a low probability of recession, easing monetary policy and ongoing fiscal support. However, elevated valuations and the concentration of returns within a narrow set of AI-linked companies warrant a more selective approach. We continue to seek exposure to structural growth opportunities, while actively managing risk by favouring diversified and value-oriented equity strategies where expectations are less demanding. We maintain a modest overweight to US equities given resilient earnings dynamics, while increasingly emphasising diversification into international equities, where market leadership is broader. Within emerging markets, we favour balanced regional exposure over concentrated positions, reflecting rising dispersion across countries and sectors.

Government bonds remain less compelling, particularly in the US, where market pricing continues to imply a scale of rate cuts that appears inconsistent with resilient growth and lingering inflation risks. Elevated issuance and rising term premia further limit the diversification benefits of long-duration bonds. In credit, spreads remain tight and offer limited compensation for rising leverage and refinancing risks, especially in US investment grade. We maintain a neutral stance overall, with a preference for European credit markets where fundamentals remain more supportive.

Overall, we enter 2026 with a cautiously constructive outlook. While the global cycle remains intact, returns are likely to be driven less by broad market beta and more by active allocation, valuation awareness and diversification. Policy uncertainty and valuation risk – rather than imminent economic weakness – are likely to be the dominant market drivers, reinforcing the importance of a balanced, flexible and risk-aware investment approach.

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