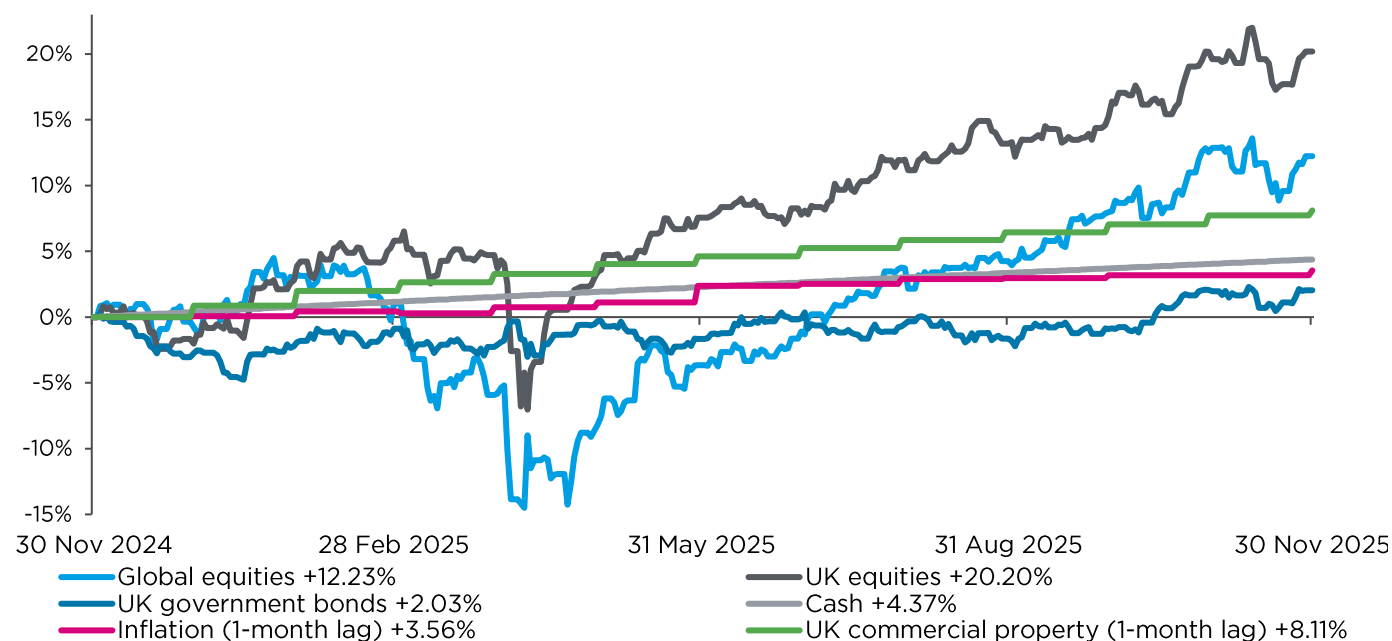


Market report

The headlines

- ▶ **Share prices paused in November, held back by high valuations and because investors expected that the pace of interest rate cuts might slow down.**
- ▶ **Inflation remained above central banks' targets in most developed markets. US bond yields fell, but yields rose somewhat in the UK, the eurozone and Japan.**
- ▶ **Despite the stock market's pause in November, the outlook for earnings remains strong. As a result, we continue to favour shares, but we continue to be selective.**

Market returns: after their rally since April, share prices paused during November.



Sources: Bloomberg, in pound sterling, as of 30 November 2025. Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation (30 November 2024=0%) as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

World share prices rose 0.3% in November.⁽¹⁾ Concerns grew over the high valuations of artificial intelligence (AI) firms, and some of the governors of America's central bank tried to temper how many interest rate cuts investors should expect in the near future.

In local-currency terms, US share prices were flat, month on month, UK share prices rose 0.5% during November and eurozone share prices rose 1.1%.

Government bond yields fell in the US, where investors expect the Fed to cut interest rates by 0.75% over the next 12 months.⁽²⁾ But yields rose slightly in the UK and the eurozone, where central banks are, investors estimate, closer to the ends of their rate-cutting cycles.

The pound sterling strengthened slightly during the month, to \$1.33 versus the US dollar and €1.14 versus the euro. The pound's strength slightly lowered returns on foreign assets, when translated back into pounds.

United States

After their rally in recent months, US share prices ended November where they had started the month. Importantly, performance by industry sector changed significantly from previous months.

The information technology (IT)-heavy Nasdaq 100 index fell 1.5%, lagging the broader market. Oracle, for example, lost 23% of its value in November, as the company replaced its long-time CEO (chief executive officer) and raised \$18 billion in additional debt.

- AI companies' valuations remained a concern. Microchip manufacturer NVIDIA reported record revenues of \$57 billion for the third quarter, up 62% from last year. Nevertheless, the company's share price fell 12.6% over November. Softbank, the world's largest venture technology fund, sold its stake in NVIDIA for c. \$5.4 billion in mid-November.
- Investors increasingly worried that suppliers of AI infrastructure are financing their customers. NVIDIA, for example, has invested \$100 billion in ChatGPT creator OpenAI, up to \$2 billion in Elon Musk's xAI and \$700 million in AI infrastructure provider Nebius. As a result, some fear, a significant part of certain AI companies' revenues might be monies that they themselves invest in their customers.
- Finally, some analysts are concerned that some tech firms are over-estimating the lifetime of the microchips they buy. This would under-estimate the annual depreciation charge that these companies apply, and over-estimate their earnings. Accurate asset values and earnings may, therefore, be lower than what now appears on these firms' books.

By contrast, the health care sector outperformed the broader stock market in November.

- After several months of poor performance, the shares of health care companies had become more attractively valued. That valuation, and the benefits of scale in the fragmented health care sector, contributed to a pick-up in M&A. Kimberley-Clark, for example, acquired Kenvue, for c. \$40 billion.
- In addition, several pharmaceutical firms struck agreements with the Trump administration. These deals appeared more favourable for the companies involved than investors had feared they would be.
- Third-quarter results boosted the share prices of firms such as Eli Lilly, which became the first health care firm worth more than \$1 trillion. The company's weight loss products are increasingly outperforming those of its European competitor Novo Nordisk.

Communications companies also did well. Berkshire Hathaway, run by previously tech-averse investor Warren Buffett, purchased a \$4.3 billion stake in Alphabet in November. That move seemed to endorse Alphabet's AI initiative and the increased profitability of its Google Cloud business.

In the broader economy, the US government's shutdown ended on 12 November. Due to this shutdown, September's US core PCE (personal

consumption expenditure) inflation number won't come out until early December. The October number has been canceled altogether.

The November PCE inflation number will come out after 10 December, when the Federal Reserve ('the Fed') decides on interest rates. The latest public core PCE inflation number, to the end of August, was 2.9%, year on year (yoy). Most analysts expect inflation to have accelerated since then.

The US economy added 119,000 jobs in September, more than double what most analysts had expected. As with inflation, the October jobs number has been canceled, but estimates show a weakening job market. Because of the Fed's increasing focus on employment in recent months, most investors therefore expect it to cut interest rates in December.

Investors expect the Fed to cut interest rates by 0.75% over the next 12 months. As a result, two-year US Treasury yields fell from 3.60% at the start of November to 3.47% at the end of the month. Ten-year US Treasury yields fell from 4.11% to 4.02%.

United Kingdom

UK share prices rose 0.5% during November. Prices for gold and silver fell somewhat in October but recovered during November. Mining shares are an important segment of the UK market, so mining shares Hochschild and Fresnillo were significant contributors to the market's performance.

Notable falls in share prices included 3i Group, on valuation concerns, and Ocado, after its US client Kroger announced that it would stop using Ocado technology in three of its warehouses.

Consumer price (CPI) inflation fell from 3.8% yoy in September to 3.6% in October. The Bank of England held its Official Bank Rate at 4% at its 6 November meeting, as inflation remained well above its 2% target. This decision was close-run, with four out of nine policymakers voting to cut Bank Rate.

A fall in S&P's UK purchasing manager index (PMI) indicated that UK economic growth slowed during the month, ahead of the government's budget on 26 November. Chancellor Rachel Reeves raised an estimated £26 billion with that budget, mainly by freezing personal tax thresholds and charging national insurance on pension contributions.

Two-year and 10-year gilt (UK government bond) yields rose in the middle of November, as speculation increased about what measures the Chancellor might include. But both ended the month only slightly higher, as the Budget largely put investors' minds at ease.

Other markets

Eurozone share prices advanced 1.1% during November. The share prices of chemicals concern Bayer AG, construction company Hochtief and steelmaker Voestalpine after the company advanced sharply, after these companies reported higher earnings.

Eurozone inflation is expected to have risen from 2.1% yoy in October to 2.2% in November. Europe's central bank, the ECB, kept interest rates unchanged on 30 October and next meets on 18 December. Yields on German government bonds ('Bunds') rose marginally over November.

After a 3.9% slump in October, **Chinese** share prices fell another 2.5% during November. Weak sentiment towards technology stocks, reduced expectations of US interest rate cuts and weak domestic economic data all weighed on share prices. In October, Chinese factory activity contracted for the eighth month in a row and retail sales grew at their weakest pace in over a year.

Japanese share prices rose just 0.6% in November, for a 23% rise in the year to the end of November. Tokyo CPI, an important measure of countrywide inflation, rose to 2.8% yoy in November. This may prompt Japan's central bank to raise interest rates before the end of 2025. In a break with her predecessors, Prime Minister Sanae Takaichi has put forward a ¥21.3 trillion (c. £104 billion) stimulus package, mostly financed by new debt. Her initiative may raise longer-dated bond yields.

⁽¹⁾ Source: MSCI (total return, net of withholding tax, in local currency), except where stated

⁽²⁾ Sources: US Federal Reserve, Bank of England, European Central Bank

Looking ahead

Investors' optimism seemed unstoppable for much of 2025, but November gave pause for thought.

Higher-than-expected US jobs growth and rising US inflation made a December rate cut by America's central bank less likely. The University of Michigan's consumer sentiment index fell to its second-lowest reading since 1978. And cracks appeared in the AI rally, which had fuelled much of the market's gains this year.

As always, we look at the fundamentals that underly the stock market to find a rational basis for our outlook.

- The fundamental statistic of interest to investors is earnings, i.e. the net profits of the companies that make up the stock market. That's where share price gains come from in the long run. Third-quarter earnings in the US, the world's largest stock market, grew more than 13% yoy, outstripping investors' 8% forecast. In addition, analysts now expect

impressive 12% yoy earnings growth for the first quarter of 2026 and 13% for the second quarter.

- As a result of companies' higher earnings, the stock market's price/earnings ratio, a key valuation metric, has moderated. Investors valued US shares at 23x their next 12 months' earnings earlier this year. By the start of December, this number had fallen to a more moderate 21x to 22x.
- Economic policy matters, too, because it can boost company earnings or hold them back. Jay Powell will be replaced as Fed Chair in May 2026, probably by a candidate who's less averse to interest rate cuts. And in December 2025, the Fed will stop shrinking its balance sheet. It might even start expanding its balance sheet again soon. This is likely to stimulate the US and world economy.
- Allied to this, the US government's 'Treasury General Account', effectively the current account from which it pays individuals and businesses, has grown from \$320 billion in July to \$954 billion mid-November, a result of higher government deficits.

So, despite November's wobble, our near-term outlook continues to favour risk assets such as shares.

Within the stock market, earnings growth for the so-called 'Mag 7'⁽³⁾ has slowed down, from around 27% in the first and second quarters of 2025 to 18% in the third quarter. As a result, we maintain our focus on quality shares, at reasonable valuations, a stock market segment that has historically outperformed over the long term.

⁽³⁾ The 'Magnificent 7' or 'Mag 7' are seven of the world's biggest tech companies: Apple, Amazon, Google parent Alphabet, Meta Platforms, Microsoft, NVIDIA and Tesla.

Glossary

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