

Aberdeen Index MPS

Quarterly commentary

Q4 2025

Investors should remember that the value of investments and the income from them can go down as well as up and that past performance is not a guarantee of future returns.

This report is only for use by a financial adviser or a client who has received advice on investing in this managed portfolio service. It is not for use by non-advised investors or any other third party. For full important information and key risks, please refer to the end of this document.

Objective

The Aberdeen Index MPS aims to achieve a total return from both income and capital growth through a diversified portfolio of collective investment funds over the long term. It is intended for investors with a very low through to a medium high attitude to risk. The portfolio invests in a wide variety of assets, typically in equities, fixed interest, alternatives and money markets. This blend of assets should help to dampen down volatility over the long term.

Discrete annual returns - year to 31/12

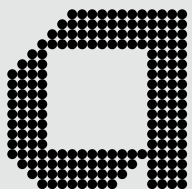
	2021	2022	2023	2024	2025
Aberdeen Index MPS 1	3.95%	-10.53%	6.86%	4.84%	8.09%
ARC MPS 0 - 20% Index	3.01%	-8.92%	5.99%	4.19%	6.91%
Aberdeen Index MPS 2	6.37%	-9.26%	8.53%	7.55%	10.77%
ARC MPS 20 - 40% Index	5.43%	-9.16%	6.40%	5.44%	8.16%
Aberdeen Index MPS 3	10.22%	-7.64%	9.52%	9.68%	12.66%
ARC MPS 40 - 60% Index	8.41%	-9.51%	7.41%	7.32%	9.49%
Aberdeen Index MPS 4	12.93%	-6.86%	10.48%	11.99%	14.41%
ARC MPS 60 - 80% Index	11.57%	-9.47%	8.59%	9.21%	10.31%
Aberdeen Index MPS 5	16.05%	-5.00%	11.71%	15.05%	16.60%
ARC MPS 80 - 100% Index	14.17%	-9.88%	9.62%	11.26%	11.32%

Portfolio performance is based on Aberdeen Index MPS hosted on the Aberdeen Wrap platform. Performance figures are net of the Aberdeen Portfolio Solutions Ltd management fee and underlying funds OCF. Source: Aberdeen, Financial Express. As at 31.12.2025, ARC Private Client Indices are based on actual client portfolio returns provided by various investment management companies. These portfolio returns are allocated to one of four categories based on the volatility of their returns relative to world equities, and an average return is calculated for each category. Grouping portfolios by their volatility differs from the traditional approach, which compares portfolios which have similar asset allocations. Instead, investment managers may use whatever asset allocation they consider appropriate to achieve the desired levels of return and volatility.

Key points

- It was a strong quarter for global markets, with the broadest index for world equities ending the period up around 7% in sterling terms. In the face of more persistent inflation, central banks carried a 'wait and see' tone into the new year as the US Federal Reserve, Bank of England (BoE) and European Central Bank (ECB) began to diverge on the outlook for their respective economies. The quarter saw both the Fed and ECB cut rates by 50 basis points (bps) with the BoE cutting by just 25bps.
- In contrast, the Bank of Japan (BoJ) maintained its borrowing costs at 0.25%, undeterred by rising wage pressures and services inflation. BoJ Governor Kazuo Ueda said real interest rates remained very low but acknowledged fresh risks to the outlook from US President Donald Trump's proposed trade policies during December, with the yen touching a one-month low on his words.
- After appearing to be on a knife edge for much of the run up, the US presidential election saw a Republican victory and Donald Trump being re-elected as president, having won all seven swing states. While it is difficult to predict the details of his future policies, it seems trade and immigration will be top of his agenda when he is inaugurated in January.
- Reflationary worries were also unleashed on domestic shores as the Labour Party's first Budget in 14 years stoked fears that higher corporate national insurance contributions and an increased minimum wage would force companies to hike prices at the tills.





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- In the world's second largest economy, the Politburo of the Chinese Communist Party said it would adopt an 'appropriately loose' monetary policy during 2025, the first easing of its stance in some 14 years, alongside a more proactive fiscal policy to spur economic growth.

Market commentary

The final quarter of the year is invariably a time in which the media provides us with various best of lists or what to look out for during the coming year, but few are as interesting as the American ink company Pantone's prediction for 2025's colour of the year. Selected during December and succeeding the much-heralded Peach Fuzz of 2024, it seems we are moving into the age of Mocha Mousse, a shade that will apparently help to "extend our perceptions of the browns from being humble and grounded to embrace the aspirational and luxe".

Pantone has since also added that one of the key facets of Mocha Mousse is that it feeds into our human desire for harmony, a shade that could well be required in 2025 if the final quarter of 2024 is anything to go by, characterised as it was by political wrangling, both home and abroad. Indeed, investors felt a full spectrum of emotions during the quarter as Labour's first budget in 14 years, the US presidential election, increasing tensions in the Middle East and political turmoil in Europe all took turns in driving markets.

Although considered a colour by many, black is technically a shade. No matter where you stand on the debate however, the newly elected Labour Party claimed it had inherited a £22 billion 'black hole' in the nation's finances and intended to fix it with October's Budget. It unveiled a debut plan that included £40 billion worth of tax rises – the largest in 30 years – which the Office for Budget Responsibility (OBR) said would increase the UK tax take to an all-time high of 38% of gross domestic product by the end of the decade.

Arguably one of the biggest measures and a big revenue raiser for the government was an increase in employer national insurance contributions, expected to raise up to £25 billion for the Treasury's coffers. However, such tax rises will be more than offset by the additional spending announced, which led the OBR to nudge up its growth forecast for next year from 1.9% to 2%.

The market reaction was colourful to say the least, with the yield on 10-year UK government bonds rising to their highest level since Labour took power at the start of July. UK mid-cap stocks enjoyed a lift as market players deemed the government's first UK budget to be less punitive on businesses than many had feared.

While predicted to be an inflationary set of measures, there was at least some good news on the price rise front, as data during October showed that inflation had dropped below the Bank of England's (BoE) 2% target for the first time since April 2021.

With the final major political event of the year on domestic shores done, it was on to the US where a not quite Mocha Mousse Donald Trump rode a red wave across the country, taking all seven swing states required to win a landslide victory and leaving his opponent, Kamala Harris, waving a white flag.

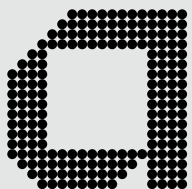
Trump's victory saw mainstream US indices soar to record highs in the immediate aftermath, led by financial and energy companies. US small-caps also performed strongly as investors expected domestic-focused stocks to benefit from a lower regulatory and tax regime, as well as being less exposed to any likely import tariffs.

The US dollar also gained against a basket of developed currencies as investors bet that heightened inflation would be on its way following Trump's trade tariffs. The 10-year Treasury yield jumped more than 14 basis points (bps) to 4.43%, hitting its highest level since July, as many predicted that a Trump presidency would increase economic growth and spending, but in turn could dampen expectations that the Federal Reserve would look to cut interest rates as quickly or as deeply.

Events in Washington did not curtail the Fed from a planned move the following day however, cutting rates by 25bps as largely anticipated. During his testimony, the chair of the central bank, Jay Powell, seemed blue in the face as he repeated the argument for further cuts depending on incoming data on inflation and the strength of the labour market.

The Fed wasn't the only central bank to cut rates that week, as our own BoE also made its move, cutting rates on domestic shores by another 25bps to 4.75%.





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The bank's Monetary Policy Committee concluded that although the Budget was likely to boost growth and inflation, a gradual approach to loosening policy remained appropriate, voting 8-1 in favour of action.

Across the Channel, Europe bourses were hardly in the pink. Although the German index pushed all-time highs, France, Spain, Italy and Switzerland all posted losses for November. France's underperformance spilled into December as Michel Barnier, the once Brexit negotiator come French Prime Minister, was left red faced after losing a no-confidence vote, plunging the French government into more political turmoil. French government bonds bore the brunt of the investor sell-off, not aided by credit ratings agency Moody's downgrading France's debt rating shortly afterwards, adding pressure on the country's efforts to rein in strained public finances.

The final notable acts of the quarter, indeed the year, were rate decisions from the European Central Bank (ECB), the Fed and the BoE in December, with each decision painting a slightly different hue in respect of the underlying economy.

In its fourth 25bps cut of the year, the ECB's forward guidance removed the term 'sufficiently restrictive', hinting at more moves to come into 2025, as further support for the core countries of Europe (specifically France and Germany) is needed.

The Fed also rounded off 1 percentage point of rate cuts for the year, but gave a much more mixed indication. In its not quite Mocha Mousse beige book (a summary of current economic conditions), policymakers now expect two interest rate cuts by the end of 2025, half the number the market was anticipating.

While the BoE was off colour with its decision to hold rates at 4.75%, it was largely expected due to the lack of progress in squeezing out inflationary pressures and the recent stronger-than-expected wage data. The split vote of 6 (hold) to 3 for a quarter-point cut was a little more dovish than markets had expected and suggests that further cuts could be on the way should the data soften further.

The announcement left what central banks will do in the coming year up for debate. Much like Pantone's Pearl River, it's fair to say it's a bit of a grey area.

Portfolio commentary

During the fourth quarter, few asset classes were positive. In sterling terms, only cash and US and Japanese equities added more than 1%, while European equities and global real estate investment trusts lost 3.9% and 6.8%, respectively. Defensive assets suffered as the expected pace of central bank easing slowed.

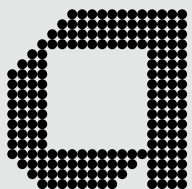
The Risk 1 portfolio, which has the greatest allocation to defensive assets, lost 0.17% during the quarter. Thanks to the stronger performance of US equities, the other risk levels delivered positive returns, ranging from 0.78% for Risk 2 to 3.34% for Risk 5.

Over the full year, most asset classes added positively to performance, particularly growth assets. This was reflected across the range with annual returns ranging from 5.01% for the Risk 1 portfolio to 15.25% for Risk 5. As we move into 2025, there is a great deal of uncertainty in markets. High government debt levels and the impact of a new US president have a wide range of potential outcomes. We believe that our considered approach to diversification will continue to help our portfolios to succeed over the longer term.

Outlook

While not as certain as it perhaps was in 2024, central bank action in lowering borrowing costs is not likely to be a once-in-a-blue-moon event and should continue throughout 2025 as inflation falls back towards target and wage growth cools. This combination should be supportive of consumer sentiment and spending, but wage growth will need to slow further before underlying inflationary pressures settle at a consistent rate, albeit this may not happen quite as rapidly as previously expected.





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Risks

All investments involve risk. The risks of some of the funds may be comparatively high. The risk descriptions at the end of this document correspond to the main risk factors for each fund within the model. "General Risks" mostly apply to all funds within the model. A fund could potentially be affected by risks beyond those listed described in this document, nor are these risk descriptions themselves intended as exhaustive. For full information and key risks, please refer to the end of this document.

Credit risk: The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.

Interest rate risk: The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.

Equity risk: The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.

Emerging Markets risk: The fund invests in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

Derivatives risk: The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

High Yield Credit risk: The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.

For more information visit aberdeenadviser.com

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