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What Now for Investors?

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As we move into the final quarter of 2025, the economic backdrop looks very different from the turbulence of the pandemic years. Inflation shocks and rapid interest rate hikes are giving way to a slower, more muted environment, one that raises new questions about how to protect and grow wealth in real terms.

Inflation has eased well below its 2022–23 highs but remains stubbornly above central bank targets. In the UK, it is expected to average around 3.5% this year, falling slightly in 2026. The US and Eurozone are on a similar path. Wage growth, service costs, and trade tensions mean prices are unlikely to return quickly to pre-pandemic levels. Policymakers are wary of cutting interest rates too soon, so rates are likely to stay higher for longer than many hoped.

At the same time, global growth is slowing. The world economy is forecast to expand at just under 3% over the next two years, with the UK and Europe lagging. Even the US is cooling as consumer demand softens. China and other emerging markets are no longer providing the strong uplift once expected. For investors, this means we should not rely on a broad wave of growth to lift markets across the board.

Interest rates have probably peaked, but central banks are cutting cautiously. This means cash and government bonds now offer yields that may appear attractive compared with recent years. But after tax, those returns often fall short of inflation, making it hard to achieve real gains.

Developed market government bonds also face risks of repricing if inflation proves sticky, while corporate debt is vulnerable to defaults as higher borrowing costs weigh on leveraged businesses. What looks like “safe” income can in reality deliver little growth in purchasing power once risks and taxation are considered.

So where does this leave investors? While bonds and cash can play a stabilising role, they may not deliver enough to grow wealth meaningfully above inflation over time. To generate real returns, equities remain key. Global equity markets provide not only the potential for long-term growth but also reliable income streams.

The challenge is that equity investing is no longer just about riding rising markets. Slower global growth and persistent uncertainty mean returns will rely more on careful selection, choosing companies, sectors, and regions with resilient earnings and sustainable dividends. It also means diversifying across markets and themes and accepting that volatility is part of the journey.

For investors seeking to protect the purchasing power of their wealth, the message is clear.

Holding cash or government bonds may cover inflation in the short run, but once tax and risks are considered, real returns remain challenging. To achieve meaningful growth above inflation, some exposure to equities is essential. Long-term wealth is built not by avoiding risk altogether, but by taking it in a measured, thoughtful way.

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