CHARLOTTE SQUARE
INVESTMENT MANAGERS

A VIEW FROM THE SQUARE JANUARY 2026

Building on a Good Year

We normally take the view that geopolitical events subside without major market upheaval, but recognise that President Trump could trigger unintended consequences for global markets. To some extent this is already recognised in the Gold price which has risen steadily over the past several years. We now hear from military sources that we are already in conflict with Russia and that our own armed forces are inadequate, illustrating the change in the global order that has crept up on us.

While we have generally deployed overweight positions in Gold, we have taken heed of the less inflationary climate with the reduction in energy and food prices. Economic forecasts are now suggesting that the 'terminal' rate for interest rates is 3%, or potentially the prospect of three cuts in short term interest rates this year. This chimes with the views of BlackRock, the investment manager, that believes the UK is well placed to cut lending rates – and are prepared to back that by investing £billions in the UK market.

This encourages us to continue investing in UK companies with good cashflow which permits both solid dividends and share buybacks, and should continue good 2025 outcomes. We expect corporate activity to bolster small companies if they do not benefit from this trend.

On the fixed interest front we take a conservative view that inflation may well return in time and shorter duration maturity dates help protect capital values. This means on average we are holding bonds with a maturity date of between 2 and 3 years.

After several takeovers in the alternative sectors, we have seen something of a pause in sub-sectors such as real estate and infrastructure which are usually regarded as quasi bonds, but with longer maturity dates of c 15 years. However, we now believe these stocks offer very good value, standing on large discounts to net asset values and providing yields somewhat ahead of the equity market in general.

Returning to our original starting point we believe that turmoil in the US will continue to affect world markets. With rising fiscal and budget deficits, the US dollar looks likely to weaken further. This is usually a signal for Emerging Markets to perform, as often their borrows are in US$. With signs of Chinese economic recovery the ASEAN area has good economic prospects and three year research from BCA (Bank Credit Analyst) suggests this is not fully reflected in share prices.

With global volatility growing there is an additional element of unpredictability at present. That said a further fall in short term interest rates is usually good for the majority of invested assets. We continue our weekly review of where best to invest and believe this should continue to add value to investment portfolios, at least in the short term.

William Forsyth
Executive Chairman & CIO
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Important Information

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