RATHBONES

Investment Insights

Our monthly look at what's driving global markets

Public versus private equity
A bumpy ride round the block

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Sales growth to trump policy uncertainty

A tale of two booms
What calls to mind the 1990s and what doesn't

Issue 49 | December 2025

Quicktake
In this month's issue

Public versus private equity
A bumpy ride round the block

Private equity (PE) valuations remained smooth in November while public markets swung sharply, highlighting the way that infrequent PE pricing masks the volatility seen in listed assets.

The sharp rise and fall of SoftBank's share price suggests OpenAI's implied valuation has come down, even though private-market valuations haven't yet reflected this shift.

Uncertainty over US interest rate cuts drove large market moves, with rate-sensitive and unprofitable companies rising and falling in line with shifting expectations.

Bitcoin's 30% drop underscored its unreliability as a diversifier, while gold continued to hold its gains and remains the preferred defensive asset.

The UK Autumn Budget steadied gilt and currency markets. However, the Chancellor missed an opportunity to ignite growth, investment and innovation.

A tale of two booms
What calls to mind the 1990s and what doesn't

The AI-driven surge in US tech stocks has prompted comparisons with the 1990s dotcom boom, but today's cycle is unfolding very differently.

Unlike the broad, debt-fuelled investment wave of the 1990s, today's AI spending is highly concentrated among five massive, cash-rich 'hyperscalers', with little sign of excess leverage or economy-wide exuberance.

This concentration brings its own risks, as the entire AI supply chain depends heavily on the investment decisions of a handful of companies.

Monitoring their cash flows, spending plans and funding choices will be key to understanding where the AI cycle goes next.

History may rhyme, but it isn't repeating – the challenge for investors is to stay vigilant without assuming a dotcom-style ending.

Healthy trends in medical tech
Sales growth to trump policy uncertainty

Healthcare equipment makers continue to benefit from powerful structural drivers – ageing populations, rising chronic health conditions and rapid technological innovation.

Recent share price weakness reflects short-term policy uncertainty in the US, including new tariffs and concerns over healthcare funding, rather than any deterioration in long-term fundamentals.

Innovation remains a key growth engine for the sector, with companies investing heavily in research and development and advancements in fields such as robotic surgery, diagnostics and treatment devices.

Valuations have eased, with the sector now trading at a smaller premium to global equities. This creates potential opportunities to buy quality growth at more attractive levels.

While political and policy risks may cause volatility, the long-term outlook for medical technology remains strong – supported by resilient demand, barriers to entry and ongoing breakthroughs in science and AI.

Snapshot
The global economy and markets

Key facts and figures from around the world, including the potential $1 trillion pay award facing Tesla shareholders, the latest inflation data, and recent movements in equities, bonds, currencies and commodities.

Find out more on page 9.

Public versus private equity
A bumpy ride round the block

John Wyn-Evans, Head of Market Analysis

One of the privileges of being a private equity (PE) manager is that they don't have to adjust the valuation of their investments every day to account for short-term market movements. This helps to smooth the ride for their investors. It also helps the PE industry to claim much better 'risk-adjusted' returns for their portfolios, which encourages more investment.

The road through public stock markets was bumpy and circular again in November, leaving investors pretty much back where they started but with some new bruises. By contrast, PE investors experienced a luxury sedan chair ride, despite having largely the same type of underlying economic exposure. In fact, much recent PE investment has been directed at technology, and generative artificial intelligence (genAI) in particular, so it's not unreasonable to believe that PE assets should have been even more volatile than the overall stock market.

Not so soft landing

The biggest privately owned player in genAI is OpenAI, creator of ChatGPT. Its last funding round, based on employee share sales, valued the company at $500bn, with loose talk of a possible initial public offering at a $1 trillion valuation. One of its largest shareholders (via the Vision Fund) is SoftBank, a Japanese holding company for telecoms and technology assets run by the mercurial Masayoshi Son. It now holds 11% of OpenAI. At a $500bn valuation, this comes to around a third of the SoftBank market capitalisation, making its shares highly sensitive to perceived movements in the value of OpenAI.

Figure 1.1: The ups and downs of SoftBank's share price
SoftBank is a good proxy for the volatility in underlying genAI private assets.

Source: FactSet, Rathbones

As the excitement around genAI built over the summer, SoftBank's shares rose 258% to their peak at the end of October. They've since fallen 40% (figure 1.1). It's impossible to draw an exact line between the performance of SoftBank shares and the valuation of OpenAI, but there are enough clues here to suggest that OpenAI's valuation has also fallen from whatever theoretical heady heights it reached. Yet the value of PE investors' stakes in OpenAI won't have changed on their books.

In reality, publicly listed shares tend to exaggerate fluctuations in companies' intrinsic value, influenced as they are by investor sentiment, the forces of liquidity and the effects of leverage. A happy medium between public and private markets may not exist, but the good news is that this greater volatility offers up opportunities when it pushes valuations to extremes.

No commentary on the evolution of genAI is complete these days without reference to whether related equities are in a bubble. We can acknowledge that some of the key ingredients for creating a bubble are in place and various pockets of speculation have been punctured recently. But we don't think a bubble has formed more generally. You can read a deeper analysis of this in 'A tale of two booms' on page 7.

> "The good news is that this greater volatility offers up opportunities"

Fed up or down?

Uncertainty about the timing of the next US interest rate cut, a key anticipated support, has been the other factor affecting markets. In mid-October, the market-derived probability of a quarter-point cut by the Federal Reserve's (Fed's) December meeting was 110%: in other words, more than this was expected. That fell below 30% during November as various Fed officials expressed concerns about the risks of higher inflation.

But by the end of the month the probability was back over 100%, as a growing cry (or cooing, to be ornithologically correct) from the doves grew louder. They were focusing on the risks of weakening employment. Their confidence was bolstered by President Trump's calls for lower rates and the fact that he will almost certainly choose the successor to current Chair Jerome Powell (whose tenure ends in May) from amongst their ranks. Kevin Allen Hassett, the director of the National Economic Council and a key Trump adviser, is the current favourite.

These swings in interest rate expectations were mirrored in the performance of companies with greater rate sensitivity, such as smaller companies, which tend to borrow more and at shorter maturities. Unprofitable companies, with more need for borrowed funds, followed a similar trajectory.

As we look into 2026, we see US interest rates continuing on their downward trajectory. Even if markets get in a tangle because the Fed ends up holding rates unchanged in December, that should be a postponement rather than a cancellation. Yes, price increases on account of tariffs are still working their way through the system, but that should be fully digested some time in the first half of next year.

Figure 1.2: Bitcoin has fallen nearly a third from its peak
The moves reflect big swings in rate expectations and investor sentiment.

Source: CoinMarketCap, Rathbones

> "As we look into 2026, we see US interest rates continuing on their downward trajectory"

Meanwhile, a paper from the San Francisco Fed maintains that, ultimately, tariffs are deflationary because of their negative effect on consumption.

As SoftBank might be a good public proxy for PE valuations, so bitcoin might be viewed as a proxy for a combination of overall liquidity and traders' tolerance for risk. We might have found a use for it at last! Having hit a peak of $125,000 in early October, it has since fallen to below $90,000, losing close to 30% of its value (figure 1.2). This is hardly the 'safe haven' status that many of its proponents invoke. We don't see any role for cryptoassets in our portfolios today, not least because of their higher volatility, relative to other asset classes. Meanwhile, gold has largely held onto its gains and remains our preferred diversifying asset.

You can read more about our opinions on cryptoassets in our Insights article from last month, 'No golden opportunity'.

Dodging the bullet for now

After a seemingly interminable wait, the Autumn Budget arrived early thanks to the Office for Budget Responsibility's premature release of the supporting documents.

The good news is that UK government bond and currency investors seemed to think that Chancellor Rachel Reeves managed to find the right balance between spending and higher taxes. Even so, we view the Budget as a missed opportunity to ignite growth, investment and innovation, pre-requisites to the country's future prosperity.

Our comprehensive coverage of both the economic impact and the implications for personal wealth and financial planning can be found on our Budget hub.

Filtering the noise

One of my favourite sources of wisdom on investment behaviour is Morgan Housel, the American author and commentator. He often returns to one simple message along the following lines: "History reminds us that the past wasn't as perfect as nostalgia suggests; today's challenges aren't as dire as they feel; and the future often turns out better than expected." Markets move through cycles, but progress is the constant. It pays to bear this in mind when investing for the long term.

Healthy trends in medical tech

Sales growth to trump policy uncertainty

Ozge Brinkworth, Equity Analyst

Healthcare equipment makers have been riding a structural wave of growth, powered by a triad of ageing populations, increasing prevalence of chronic health conditions and advances in medical science and technology.

Over the past year, however, share prices of medical technology companies have faced headwinds from US policy uncertainty. Even so, we believe the structural forces for expansion will prevail.

What analysts call the 'med tech' sector has long enjoyed strong earnings growth, rewarding shareholders handsomely (figure 2.1). These shares have traded at an average 62% premium to global equities in general over the past ten years. Granted, that premium has dipped recently – but this may present an opportunity to gain long-lasting quality growth at a discount (figure 2.2).

Healthy demand

The pace of annual earnings increases in the healthcare equipment sector has typically run in the mid-single digits as populations age and chronic conditions such as diabetes become more prevalent.

But scientific advances and product innovation have also kept pace. Responding to these structural shifts, new medical technologies have emerged, spanning prevention, diagnosis, monitoring, treatment and care.

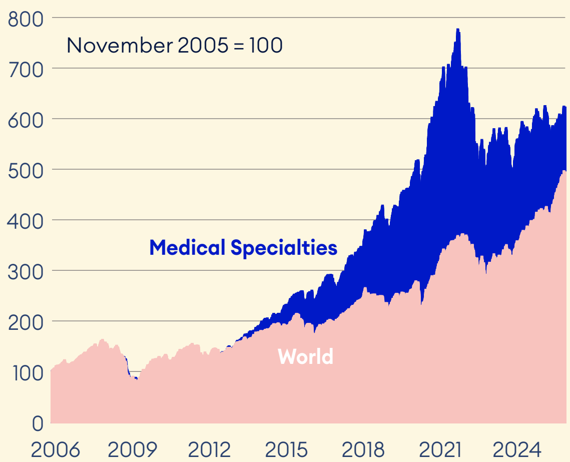
The rising cost of care has become a challenge for healthcare providers and society at large, whether paid for by governments, commercial insurers or individuals. Innovations are addressing both unmet medical needs and the cost of care. For example, robotic and laparoscopic surgery (which uses fibre optics to view organs or enable small-scale operations) shorten recovery times. They also reduce complications, compared with traditional methods.

Despite rising costs, demand for healthcare equipment has remained resilient through economic cycles, as most treatments can't be postponed without serious health consequences.

After the pandemic, the growth in the volume of medical procedures surged above the long-term

Figure 2.1: Med tech's strong track record

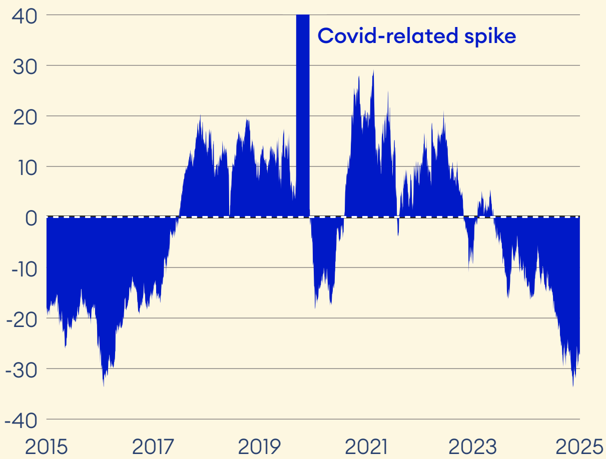
The sector has outperformed global peers over the long term.



Source: Factset, Rathbones

Figure 2.2: Valuation premiums at a low ebb

Med tech stocks are now trading well below their long-term premium to global equities (represented by the middle line at 0).



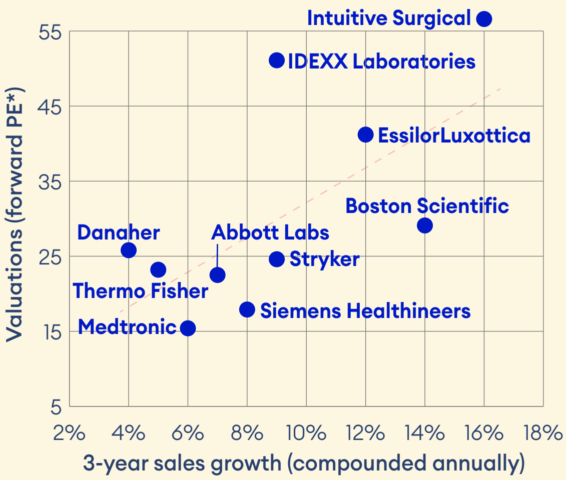
Source: FactSet, Rathbones; premium vs world index valuation (forward PE, the price multiple of the latest forecasts for 12-month earnings per share) average as backlogs were cleared. This surge has ended, but because of med tech innovation, volume growth in procedures is still slightly higher than before the pandemic. Innovation is likely to remain a key source of development for healthcare equipment companies, which spend an average of around 8% of revenue on research and development (R&D). This is roughly twice as much as the typical company in global equity indices.

We favour companies with a clear competitive edge in a particular area of medical equipment, such as orthopaedics or surgical robotics. Businesses that lead in their fields often enjoy faster growth and higher profit margins through deeper relationships with specialist doctors. These medics provide valuable insight into evolving needs and inform innovation. In more difficult markets, these firms also tend to outperform peers and capture greater market share.

Who'll pay the bill?
Against this tailwind of solid long-term growth, policy uncertainty in the US has created short-term headwinds. Healthcare equipment has historically been exempt from US tariffs. But medical devices were included in the tariffs announced by the US government earlier this year and then reciprocated by China and other major importers.

We think the leading companies can cope. Based on guidance from those we follow, we estimate the reduction in earnings from tariffs at low to mid-single digits. And concerns may be overdone about potential reductions in US hospital budgets linked to lower Medicaid funding by the federal government. On average, healthcare equipment companies generate only 10–15% of their revenues from Medicaid spending.

Figure 2.3: Revenue growth drives returns
Faster revenue expansion has historically supported higher valuations in med tech.



Source: FactSet; *Forward PE, the price multiple of the latest forecasts for 12-month earnings per share

However, these factors have weighed on valuations. Shares are currently trading at an average of 25 times forecast earnings over the next 12 months. That remains a 34% premium to the global stock market. But it's down from the 10-year average premium of 62% we referred to earlier. You can see this in figure 2.2.

The long-term prognosis is good
The structural shifts supporting growth in the sector – ageing populations, the rise of chronic illnesses and innovation – are not the only things working against these headwinds. Regulatory complexity and substantial R&D investment requirements deter new entrants. This gives established companies a competitive advantage, protecting their robust profit margins.

As the impact of tariffs and government funding changes becomes clearer, we expect valuations to move closer to previous levels – we think these tariffs and funding cuts will remain manageable.

We also still see significant scope for growing revenue, which tends to be a key catalyst for outperformance in the share prices of healthcare equipment companies. Growth is likely to be strongest for companies that can either introduce entirely new products or enhance existing ones to improve efficiency and clinical outcomes (figure 2.3).

Recent examples from the US include Abbott Laboratories' MitraClip, which treats a leaky mitral valve without open-heart surgery, and Boston Scientific's Watchman, which lowers lifetime stroke risk for patients with atrial fibrillation by offering an alternative to blood thinners.

In the near term, we're watching for the results of a US Department of Commerce investigation into whether certain medical imports threaten national security. Its findings are expected in June. This could lead to higher tariffs, although non-US firms that invest in US manufacturing may receive exemptions. We've seen this in the pharmaceutical sector.

Looking further ahead, advances in AI could add a further structural underpinning to growth in the medical equipment sector, enhancing productivity and accelerating product innovation. Beyond radiology, this potential remains largely untapped – but it could transform the industry in the years ahead.

Short-term policy risks may create volatility. But we believe innovation, demographics and rising healthcare demand will continue to feed healthy long-term returns for investors in medical technology.

A tale of two booms
What calls to mind the 1990s and what doesn't

Oliver Jones, Head of Asset Allocation

From baggy jeans reappearing on catwalks to the Gallagher brothers reuniting, throwbacks to the 1990s have been hard to avoid recently.

The stock market has been no exception. The AI-led surge in US tech stocks is drawing inevitable comparisons with the almighty dotcom boom of the second half of that decade – not to mention warnings about the way it ended.

Yet history never repeats itself exactly. Just as there will never be anything quite like Knebworth '96 for Oasis fans, so today's tech boom is not a perfect mirror of the dotcom boom. In navigating today's market, we think there are important lessons in both the similarities and the differences with that era.

The similarities with the dotcom boom are obvious. Bold claims from evangelistic CEOs about the potential of a new technology to revolutionise every aspect of day-to-day life are highly reminiscent of the 1990s internet revolution. And the valuation of the US stock market has climbed to levels last seen in the dotcom period, as measured by prices relative to companies' profits. As in the 1990s, tech stocks have led the ascent and command particularly high valuations. But what about the differences?

Investment inches up

The dotcom boom was very broad. It saw a surge in IT investment far above its long-run trend – big enough to drive investment in the economy more generally much higher (figure 3.1).

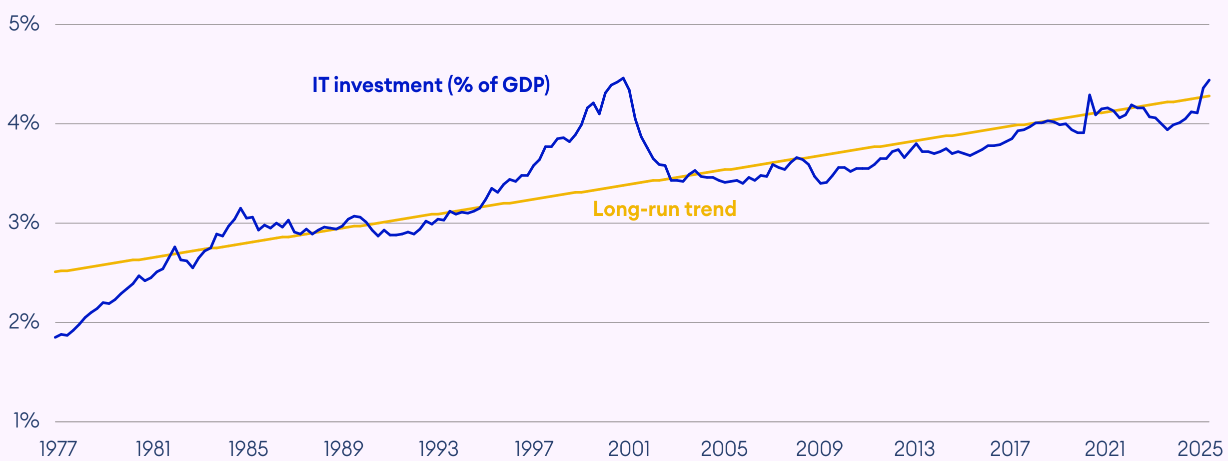
Turning to today, for all the billions of dollars spent on AI so far, the current increase is nothing like as large, relative to the size of the US economy. Total US private investment rose from around 12% of GDP in 1994 to a peak of nearly 15% in 2000. In contrast, it has essentially been flat recently, inching up by just 0.2pp of GDP since the November 2022 launch of ChatGPT, the AI chatbot.

The current wave of spending is also remarkably concentrated in the hands of far fewer companies. Five 'hyperscalers' – Amazon, Alphabet (Google), Meta, Microsoft and Oracle – will together invest over $350bn this year, and probably much more in 2026. They account for about two-thirds of all the investment spending by listed companies with a strong connection to AI.

The dotcom boom was also fuelled by debt in a way that the current AI wave, so far at least, is not. Debt in the US private sector rose, relative to the size of

Figure 3.1: Mighty IT

US investment in IT is rising as a % of GDP, but the dotcom surge was much more extreme.



Source: LSEG, Rathbones

the economy, through the 1990s. And firms' balance sheets became more stretched. Their ability to service their debts deteriorated as they took on debt to fund internet-related expansion. Debt directly helped charge the rally in the stock market too. Margin debt – borrowing to buy stocks – surged, sending the market soaring further. Exuberance wasn't limited to publicly traded stocks either. Private equity fundraising exploded, as did mergers and acquisitions (M&A); both were largely funded by debt.

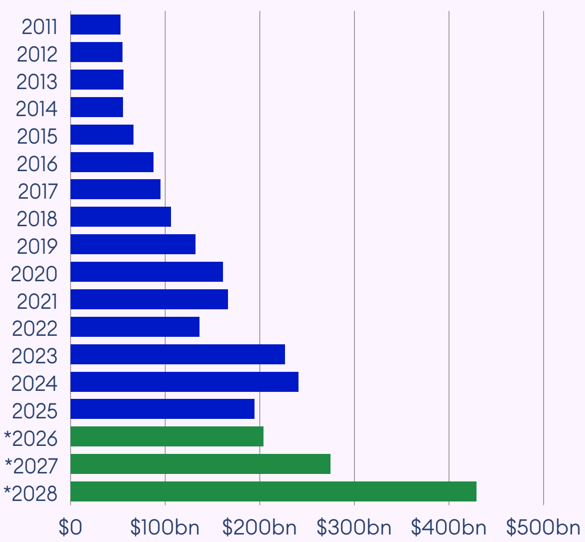
But today, the hyperscalers spending so much on AI are extraordinarily profitable. They have net cash flow not far below $600bn this year – and rising rapidly. Their investments have been funded primarily out of those profits, so net issuance of debt has been minimal and balance sheets remain extremely strong. Looking at the US as a whole, business (and household) debt there has been falling relative to the size of the economy since the post-pandemic reopening.

Notwithstanding some eye-watering AI-related activity in private markets, there's been no broader surge in either private equity or M&A activity either.

Vigilance is vital
Pointing out these differences is not a call for complacency, however. Instead, it's a challenge to look more closely at where the risks lie.

It's important to be vigilant about debt funding. It creates inherent fragility if borrowing costs rise or lenders' sentiment sours. Debt almost certainly amplified the dotcom boom and bust, fuelling more spending on the way up, and the subsequent bust, with many more

Figure 3.2: Mind the gap
Hyperscaler free cash flow (cash flow minus investment) is expected to narrow, then widen.



* forecasts. Source: FactSet, Rathbones

> "The hyperscalers spending so much on AI today are extraordinarily profitable"

underwater investments and bad debts to work through on the way down. That hit the stock market.

So it's positive that so far, there's been no such debt surge connected to AI investment. But experience suggests we should keep a close eye out for that changing. We should also be wary if activity in private equity markets or M&A starts to take off as both did before the dotcom peak, or if there's a wave of AI-related companies floating on the stock market.

On the other hand, the concentration of AI investment in a few hands creates a different set of risks not present to the same extent in the 1990s. The decisions of just five companies have a disproportionate bearing on the entire AI supply chain. The business models of at least three of the other 10 largest companies in the world, by market cap, are heavily dependent on the hyperscalers' AI-related demand – and that's just the tip of the iceberg.

Deep pockets
Understanding the whole AI ecosystem requires an understanding of how hyperscalers behave and why. Their deep pockets, including cash reserves of hundreds of billions of dollars between them, suggest that financing isn't an immediate constraint on their grand investment plans.

But these plans could slow down for other reasons. There's a risk, for example, that the hyperscalers struggle to make money from their new investments as quickly as hoped. That would sharply shrink the gap between the cash they generate and their investment spending. Investors are already braced for this gap to narrow below its previous trend in 2025–26, before starting to grow again (figure 3.2). But if it contracted by much more than expected, the hyperscalers might scale back their investment plans. This would ripple through the whole supply chain.

With that in mind, we need to monitor what's happening to the hyperscalers' cash flows, the guidance they provide on their investment plans, and how they intend to fund their investment. This is crucial to understanding the direction of the AI industry more generally.

In conclusion, there are valuable lessons to be learned from looking back to the 1990s, especially about the importance of debt. But it's equally important to analyse the risks to this market on its own terms. This means keeping a particularly close eye on the behaviour of the key players that drive it.

Snapshot
The global economy and markets

Figure of the month

$1 trillion

The potential value of Elon Musk's pay award as Tesla CEO if he hits all targets over the next decade. Shareholders hope this package will ensure Musk's devotion to transforming Tesla into a leader in AI and robotics. But critics have attacked its magnitude and design, including vague and overlapping targets.

At a glance

3.6%
Annual rise in UK consumer prices (CPI) to October 2025

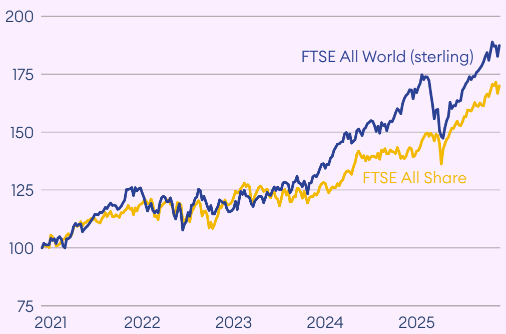
6.1%
EM and developing economy government borrowing (% of GDP)

4.0%
Bank of England base rate

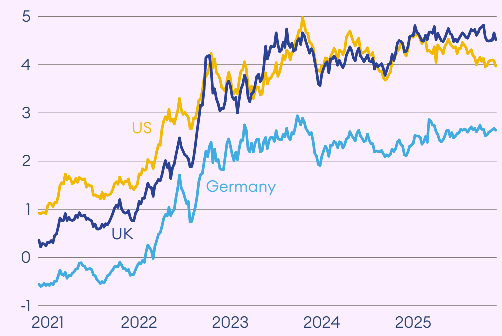
4.4%
US unemployment rate as at September 2025

Key market indicators

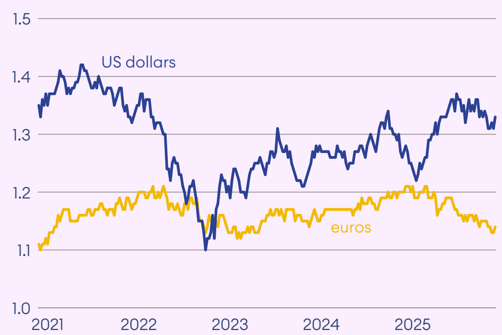
Equities
Total return (1 December 2020 = 100)



Government bonds
10-year yields (%)



Sterling
Value of £1 in dollars and euros



Gold
US dollars per troy ounce

Sources: Bank of England, FactSet, LSEG, ONS, Rathbones

Find out more
Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets and the outlook for investment returns. To explore more, visit www.rathbones.com/en-gb/wealth-management/knowledge-and-insight

Video updates
Stay informed with regular update videos from Ed Smith, our Co-Chief Investment Officer, that explain how geopolitical tensions, market movements and global economic trends could affect your portfolio.

Weekly and monthly digest
Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

Research reports
In line with our focus on long-term investing, we produce in-depth reports. These publications reflect the thinking behind our portfolio decisions and explore how structural trends, risks and opportunities could affect investors over the long term.

The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities and why we believe the extraordinary outperformance of the US could end.

Geopolitical risks have risen in recent years, from conflict in the Middle East to tensions in the Taiwan Strait. *Peace of mind in a dangerous world* outlines the four risks we monitor most closely, the warning signs we look for, and how we prepare portfolios to help protect your investments.

Experience and expertise
Rathbones has a large and experienced in-house research team, covering global equities, fixed income, multi-asset strategies and responsible investing. With specialists dedicated to analysing market trends, sectors and individual securities, our team brings deep insight and rigorous discipline to every portfolio. This depth of knowledge allows us to uncover opportunities, manage risk effectively and respond quickly to changing conditions, helping you to invest with greater confidence.

You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies and specialist services for complex needs. To find out more and for details of your local office, visit www.rathbones.com/en-gb/wealth-management/contact-us