Aberdeen 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 advise 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 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 MPS 1	1.70%	-8.69%	6.17%	4.54%	8.12%
ARC MPS 0 - 20% Index	3.01%	-8.92%	5.99%	4.19%	6.91%
Aberdeen MPS 2	6.42%	-7.01%	7.49%	6.99%	10.09%
ARC MPS 20 - 40% Index	5.43%	-9.16%	6.40%	5.44%	8.16%
Aberdeen MPS 3	10.31%	-6.88%	8.50%	8.40%	11.06%
ARC MPS 40 - 60% Index	8.41%	-9.51%	7.41%	7.32%	9.49%
Aberdeen MPS 4	14.72%	-6.31%	8.95%	10.81%	12.56%
ARC MPS 60 - 80% Index	11.57%	-9.47%	8.59%	9.21%	10.31%
Aberdeen MPS 5	18.70%	-6.67%	9.86%	13.78%	14.16%
ARC MPS 80 - 100% Index	14.17%	-9.88%	9.62%	11.26%	11.32%

Portfolio performance is based on Aberdeen 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

- Global equities ended the quarter higher, supported by strong corporate earnings and two quarter-point interest rate cuts from the US Federal Reserve (Fed), with softer labour market data and easing inflation reinforcing expectations of further policy easing.
- Sentiment was constrained earlier in the period by a partial US government shutdown, which delayed key economic data and increased policy uncertainty before a temporary funding agreement was reached in mid-November.
- Technology shares continued to perform well on optimism around artificial intelligence, although valuation concerns drove volatility in November. At the same time, persistent geopolitical tensions surrounding the Russia-Ukraine conflict and mixed Chinese economic data continued to cloud the global growth outlook.
- Yields on 10-year government bonds rose across several major economies amid concerns about the inflationary effects of tariffs and increased bond issuance linked to widening fiscal deficits. However, US 10-year government bond yields ended flat as easing price pressures and a softening labour market fuelled expectations of further rate cuts. Meanwhile, corporate bonds performed well as investor risk appetite remained buoyant. Credit spreads on investment grade and high yield bonds remained historically tight, helped by hopes of further monetary easing and a relatively robust US economy, respectively.

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Market commentary

Global equities ended the quarter higher, supported by strong corporate earnings and a couple of quarter-point rate cuts from the Fed. However, sentiment was constrained early in the period by the partial US government shutdown, which delayed key economic data and added to policy uncertainty before a temporary funding bill was agreed. Softer US labour market data and signs of easing inflation later strengthened investor conviction that the Fed would implement further interest rate cuts in the coming months. Meanwhile, technology companies continued to advance due to optimism about artificial intelligence despite some volatility in November.

UK equities advanced over the period. Chancellor Rachel Reeves's November budget aimed to raise around £26 billion a year by fiscal 2029/30, lifting estimated fiscal headroom to roughly £22 billion. Third-quarter GDP edged up by just 0.1% after 0.2% growth in the second quarter. Annual consumer price inflation declined from 3.6% in October to 3.2% in November but remained above the Bank of England's 2% target, while the core rate slowed from 3.4% to 3.2%. Both measures were lower than expected. The central bank reduced interest rates by 25 basis points (bps) to 3.75% at its December meeting.

US equities ended the period higher in both dollar and sterling terms. According to the advance estimate, annualised GDP in the US expanded by a higher-than-expected 4.3% in the third quarter, having grown by 3.8% in the second quarter. The Fed's preferred inflation measure – the annual core Personal Consumption Expenditures Price Index – edged down from 2.9% in August to a lower-than-expected 2.8% in September but stayed above the central bank's 2% target. The Fed lowered the target range for the federal funds rate by 25 bps in both October and December, taking it to 3.50-3.75%.

Europe ex-UK equities rose in both euro and sterling terms. Eurozone GDP grew by a higher-than-expected 0.3% on a sequential basis in the third quarter, following 0.1% growth in the previous quarter. Annual consumer price inflation remained at 2.1% in November, as expected, while the core rate was unchanged at 2.4% – a better outcome than forecast. The European Central Bank kept the deposit facility rate at 2.00% over the quarter as it maintained a cautious stance. French Prime Minister Sébastien Lecornu resigned weeks after his appointment. President Emmanuel Macron reappointed him amid opposition and uncertainty over the government's stability.

Japanese equities rose in yen terms and, to a lesser extent, sterling terms. Sanae Takaichi became Japan's first female prime minister and subsequently announced a massive ¥21.3 trillion fiscal stimulus package to boost the economy. Japan's GDP showed a 0.6% contraction in output in the third quarter, as expected, after a 0.5% expansion in the second quarter. Annual core inflation was unchanged at 3.0% in November, as expected, but remained above the Bank of Japan's 2% target. The central bank raised its key short-term interest rate by 25 bps to 0.75% in December, continuing the gradual normalisation of monetary policy.

Asia Pacific ex-Japan equities rose in local currency terms and, to a lesser extent, sterling terms. Chinese equities declined over the period as concerns about the economy, especially the weak property sector, persisted despite domestic policy support and easing trade tensions with the US. Meanwhile, Indian equities advanced as the country's annual GDP grew by a stronger-than-expected 8.2% in the third quarter, up from 7.8% in the previous three months. The Reserve Bank of India cut its benchmark rate by 25 bps to 5.25% in December as inflation continued to trend below its 4% target.

Global government bonds rose modestly in local currency terms but fell slightly in sterling terms. As inflation concerns over tariffs persisted and worries about deteriorating fiscal positions grew, government bond yields rose in Japan and Germany despite periods of safe-haven demand amid the Russia-Ukraine conflict and Middle East tensions. However, 10-year US Treasury yields were little changed as easing price pressures and softer labour market data fuelled expectations of further rate cuts. Meanwhile, in the UK, concerns about the domestic economy led to lower 10-year gilt yields. Against an uncertain economic backdrop, central banks maintained a cautious, data-dependent stance.

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Corporate bonds performed well as investor risk appetite remained buoyant. Investment grade bonds benefited from both expectations of further Fed rate cuts given continued disinflation and safe-haven interest amid ongoing geopolitical tensions. High yield bonds also performed well, underpinned by a relatively robust US economy and still-low default rates. Across both categories, strong company fundamentals (including healthy balance sheets), modest leverage and stable earnings, together with favourable technical conditions such as limited new issuance, underpinned investor confidence and helped keep spreads tight by historical standards. This was despite some concerns about lingering inflationary pressures and growing fiscal deficits in some major economies.

Portfolio commentary

Equities contributed to the strong return profile observed since the volatility triggered by 'Liberation Day' though by the end of the quarter they were down from the highs seen at the end of October. Overall, returns across geographies were positive, but some style-based variances persisted. Growth-orientated markets, such as the US, Asia ex-Japan and emerging markets, saw more pedestrian returns, while regions with a more value-oriented tilt, such as Europe ex-UK and the UK, performed more strongly.

Developed world government bonds performed positively, supported by the US Federal Reserve, Bank of England and Bank of Canada cutting interest rates. The Bank of Japan (BoJ) raised rates to combat inflation, which weighed heavily on Japanese government bonds. Emerging market debt (both hard and local currency) performed strongly, contributing notably to returns.

The performance of investment grade (IG) bonds varied slightly. UK all maturities and short duration IG benefited from the strong performance of gilts and a slight tightening in credit spreads. Global IG bonds were supported by the positive performance of global government bonds though spread widening took some of the shine off returns. Global high yield bonds experienced a similar environment, though spread widening was more notable.

Currency was relatively volatile during the quarter. The US dollar and euro rallied strongly against sterling during October and early November. This was driven by uncertainty surrounding the UK budget, as well as better prospects for US and European economies. As rumours in early November suggested that the UK budget might be less detrimental than initially feared – something that ultimately proved true – sterling rallied against both of these currencies to end the quarter marginally stronger. The Japanese yen, on the other hand, had a truly awful quarter. It weakened by more than 6% against sterling following the election of Japan's first female prime minister, Sanae Takaichi, on 21 October. She pushed through a supplementary budget that expanded the deficit to around 5.5%. Despite the BoJ raising interest rates by 25 basis points to 0.75% in December – marking a 30-year high – the yen continued to weaken.

The performance of alternatives was somewhat mixed. Global infrastructure continued to perform positively, while global real estate investment trusts delivered marginally negative returns. Absolute return strategies continued their robust return profile, outperforming cash.

We refreshed the portfolios' long-term strategic asset allocation in mid-October. The main change was to reduce exposure to longer duration bonds, which are more exposed to the risk that high levels of government debt, fiscal deficits and inflation will push yields higher. We expect stronger risk-adjusted returns from shorter duration bonds, which are less sensitive to changes in interest rates. With yield curves relatively flat, this move reduces risk while not sacrificing much yield.

Tactical asset allocation was marginally positive for mandates during the fourth quarter.

MPS 1-3

MPS 1-3 mandates went into the quarter with an overweight to both short-dated global government bonds and short-dated UK gilts, funded by being underweight absolute return strategies. In mid-October, we reduced our allocation to global inflation-linked bonds and added to short-dated global government bonds and short-dated UK gilts. The overweight positions outperformed over the period, contributing positively to returns.

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The fourth quarter proved to be a positive quarter for both equities and fixed interest assets, but a difficult environment from an active fund management perspective.

Within UK equities, the JPM UK Equity Core Fund performed in line with its benchmark, while the Man Undervalued Assets Fund bounced back from a weaker period earlier in the year to outperform strongly. However, the Liontrust UK Growth Fund, which is more quality orientated, and our small-cap strategies significantly lagged, which weighed on the returns within this asset class.

It was a similar story within European ex-UK equities. The M&G European ex-UK Fund, which has a value tilt, performed strongly, but its contribution was negated by the weaker performance of the Fidelity European and BlackRock European Dynamic Funds alongside the European small-cap allocation.

Within US equities, we witnessed positive returns from both the Vanguard US Equity Index and the T Rowe Price US Structured Research Equity Funds, but both vehicles marginally lagged their benchmark.

Areas where stronger Fund selection prevailed included Japanese and emerging market equites. The M&G Japan Fund comfortably outperformed and the notably strong performance of the Artemis SmartGARP Global Emerging Markets Equity Fund more than offset the slightly weaker returns of the Redwheel Global Emerging Markets Fund.

Within fixed interest, there were several areas of strong relative performance. Within UK all maturities investment grade (IG) credit, the combination of Fidelity and Aberdeen Funds delivered some solid outperformance, as did the Royal London and Fidelity combination within short-duration UK IG. There was also a strong showing from the combination of the Aberdeen and Capital Group Funds within all maturities global IG and the Vontobel TwentyFour Absolute Return Credit Fund within short-dated global IG.

We also witnessed some strong relative returns with global high yield, with the Nomura US High Yield Bond Fund and the PIMCO Global High Yield Bond Fund both outperforming.

The strong backdrop for relative returns continued in emerging market debt with both the Invesco Emerging Markets Local Debt and the Baring Emerging Markets Sovereign Debt Funds outperforming their benchmarks.

Fund selection again proved robust in alternatives. Global infrastructure was a key area of strength with the Franklin Templeton, L&G and Aberdeen Funds all outperforming. Performance from both global real estate investment trusts and absolute return strategies was broadly in line with their benchmarks.

MPS 4

MPS 4 mandates went into the quarter with an overweight to both short-dated global government bonds and short-dated UK gilts, funded by being underweight absolute return strategies. The overweight positions outperformed over the period, contributing positively to returns.

The fourth quarter proved to be a positive quarter for both equities and fixed interest assets, but a difficult environment from an active fund management perspective.

Within UK equities, the JPM UK Equity Core Fund performed in line with its benchmark, while the Man Undervalued Assets Fund bounced back from a weaker period earlier in the year to outperform strongly. However, the Liontrust UK Growth Fund, which is more quality orientated, and our small-cap strategies significantly lagged, which weighed on the returns within this asset class.

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Fund selection again proved robust in alternatives. Global infrastructure was a key area of strength with the Franklin Templeton, L&G and Aberdeen Funds all outperforming. Performance from both global real estate investment trusts and absolute return strategies was broadly in line with their benchmarks.

MPS 5

The fourth quarter proved to be a positive quarter for both equities and fixed interest assets, but a difficult environment from an active fund management perspective.
Within UK equities, the JPM UK Equity Core Fund performed in line with its benchmark, while the Man Undervalued Assets Fund bounced back from a weaker period earlier in the year to outperform strongly. However, the Liontrust UK Growth Fund, which is more quality orientated, and our small-cap strategies significantly lagged, which weighed on the returns within this asset class.
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Fund selection again proved robust in alternatives. Global infrastructure was a key area of strength with the Franklin Templeton, L&G and Aberdeen Funds all outperforming.

Outlook
With tariffs and trade tensions peaking in the second quarter, greater certainty provided a period of relief during the second half of 2025, with markets performing strongly since the Liberation Day sell-off. As we rolled into 2026, events in Venezuela provided another reminder of the unpredictability of geopolitical events. We remain mindful of both known and unknown risks. However, oil prices have been relatively stable and there has been no material spillover into mainstream assets. We enter the new year cautiously optimistic that capital markets will continue to perform well against a backdrop of lower inflation expectations in most regions, central bank willingness to reduce rates to support growth, combined with fiscal support in some regions.
That said, we acknowledge that valuations look stretched in some asset classes. Although earnings estimates continue to be met (and in some cases exceeded), the possibility of disappointment has increased. With this in mind, we continue to manage well-diversified portfolios, constructed to deliver good outcomes for our clients over the longer term.

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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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