The Gilt Book

2025 Annual Market Narrative

January through December · Full Year

Weekly commentary reformatted as continuous narrative

Earl Grey

Investment Conclusions: Market Opportunities & Fears

EDITORIAL NOTE

A Year of Managed Instability

What follows is a reformatted version of the 2025 weekly market commentary, running from the first Sunday of January through to mid-December. The original dispatches were written without the benefit of hindsight — genuine attempts, every Sunday evening, to say something true and useful about what had just happened and what was likely to happen next.

The reformatting has a single purpose: to make the investment argument legible. The commentary's weekly sections — macro picture, UK politics, market signals — have been reordered so that all analytical threads converge on one question: where should capital be positioned, and why? The final section, Market Opportunities and Fears, draws those threads together explicitly.

> *The year 2025 was not a bear market. It was something more dangerous: a bull market increasingly detached from the economic reality beneath it, sustained by retail momentum and residual faith that central banks would always intervene in time.*

The document is divided into four quarterly sections. Each quarter had a distinct character: Q1 was the shock of Trump's tariff regime and the fracturing of the post-war global order. Q2 was the recovery — the TACO trade, FOMO rebooting, geopolitical volatility being priced out. Q3 was the Fed pivot and the moment the economy arrived in the data. Q4 was the convergence — three simultaneous stress points beginning to interact.

The commentary does not hide its errors. Where calls diverged from what actually happened, that is noted. One call — CrowdStrike to zero in July 2024 — was wrong. It appears here anyway. An honest track record includes the misses.

QUARTER ONE

Q1 2025

January — March

The World Order Cracks

January: Inauguration and the First Shock

The year opened with the certainty of Trump's inauguration and the uncertainty of everything that would follow it. The commentary of 5 January captured the mood precisely: outside the United States, everywhere looked dire. A global economic slowdown was already underway. Emerging market currencies — the Brazilian real, the Indian rupee, the Chinese yuan — were under sustained pressure. The commentary noted what would prove a reliable analytical framework for the entire year: historically, the periphery drops first, and the contagion finishes in the centre.

In the UK, the pound had fallen 7.5% since September 2024 to 1.24 against the dollar. UK 10-year gilt yields were at 4.59% — high and climbing. Rachael Reeves had, in the assessment of the commentary, 'played a bad hand badly.' International investors were leaving. UK government borrowing in December 2024 had come in £10.1 billion above forecast — the highest December borrowing in four years.

Trump's first executive orders focused on immigration and the unwinding of Biden's green energy agenda. DOGE teams were fanning out across government departments. A memo stopped $300 billion in green new deal disbursements. The deflationary implications of mass government spending cuts were not yet priced into markets. This was the first important call of 2025: Trump's agenda was structurally deflationary, not inflationary, contrary to the dominant consensus.

> *Trump wants a weak currency and cheaper oil. He is also cutting government spending at scale. These are deflationary forces. The mainstream consensus that tariffs will be inflationary is correct for specific goods — it is wrong about the aggregate economic direction.*

By mid-January, the LA fires were adding an estimated $150 billion to US economic distress. US 10-year yields were at 4.76% — near the year's high. Gold had found support around $2,600. The Yen was beginning its long march stronger, with JGB yields quietly advancing to 1.20%.

February: The Global Order Turns

February was the month the post-war international order visibly fractured. In the Oval Office on 28 February, Trump and Zelensky had a public confrontation that ended with the Ukrainian president being ejected. Within days, the US halted intelligence sharing with Ukraine. The Five Eyes alliance went on red alert. The commentary of 2 March captured the significance immediately: 'We are entering a new world order. Europe takes care of Europe, America focuses on China. There is no longer an Atlantic Charter. We are back to 18th-century power politics.'

Germany's new conservative government, led by Merz, passed emergency legislation enabling unrestricted defence and infrastructure borrowing — a constitutional change of enormous significance that most financial media treated as a one-day story. Bund yields rose from 2.38% to 2.85% in a matter of weeks. European defence spending was no longer a political aspiration; it was a fiscal commitment backed by constitutional reform.

In the UK, Starmer's meeting with Trump was, as forecast, 'unprecedented humiliation.' He was outmanoeuvred on Ukraine, left without a clear trade deal commitment, and returned to face a domestic political crisis over welfare reform.

DeepSeek's emergence in late January was the technology story of the quarter. China's open-source AI model, competitive with OpenAI at a fraction of the compute cost, exposed the fundamental question underpinning the AI investment thesis: if the model can be commoditised, the moat belongs only to the hardware. NVIDIA held, because its GPU monopoly was real. But PLTR at PE 583 was 'pure madness overvaluation.'

March: Correction Begins, Tariff Day Approaches

By early March, the equity correction that had been signalled for months was underway. The S&P 500 had broken below its 200-day moving average. The NASDAQ 100 was down 11% from its highs. The GDPNow forecast for Q1 2025 had collapsed from +2.33% to –2.83% — a 516 basis point plunge in a matter of weeks.

Gold broke through $3,000 for the first time. The central bank bid for gold — driven by the de-dollarisation dynamic and the erosion of confidence in US fiscal policy — was secular and was only beginning. The call was direct: short high-PE AI stocks, buy JPY, watch for USDJPY to move toward 110–100 over a six-month horizon.

Q1 SUMMARY SIGNALS

INSTRUMENT	ANALYSIS	SIGNAL
UK Gilts	4.71%–4.84% — premium widening to all peers; risk premium building	CAUTION
US Treasuries	4.76% peak in Jan, falling as recession signals mount; direction: lower	BULLISH
Gold	Broke $3,000 — secular bid from central banks; hold long	BULLISH
AI Equities	PLTR PE 583, NASDAQ –11% — correction has begun; short high-PE names	BEARISH
Yen (USDJPY)	BoJ normalising; carry trade unwinding; target 110–100 over 6 months	BULLISH
German Bunds	Selling off on defence spending commitment — supply incoming; neutral entry	NEUTRAL

QUARTER TWO

Q2 2025

April — June

Liberation Day and the Recovery

April: The Crash, the Pivot, the Bounce

Tariff Day — 2 April — delivered the shock that had been anticipated but whose severity surprised almost everyone. The S&P 500 fell 15% in days. Volatility spiked above 30 on the VIX — the highest reading since 2022. The commentary of 6 April contained the essential analytical framework: 'We are now in a brand new world of economic and security arrangements which are in flux. All this should lead to a global recession. What breaks is unknown but it is very unlikely to be bank related.'

The specific mechanism causing the bond market dysfunction — the hedge fund basis trade blow-up — was identified immediately. US Treasury yields were rising during a risk-off event: the opposite of their normal behaviour. The commentary of 13 April was explicit: 'The Fed will need to come in and take the trade off the hedge funds. It is the reason many believe Trump put a 3-month hold on tariffs — the Treasury was losing control of the market.'

> *The TACO framework — Tariffs Are Coming Regardless — is the single most useful concept for 2025 markets. Every tariff announcement is potentially real. Every subsequent market panic is potentially a buying opportunity. The skill is knowing which announcement is the ceiling and which is the floor.*

By late April, the S&P 500 had found support around 5,250 and was recovering. Gold had reached $3,375 — a new all-time record. In the UK, the April shock produced a specific opportunity: the T26A 0 3/8% Treasury Gilt maturing 22 October 2026, available at 95, paying approximately 5% tax-free. Given a 40% tax rate, the effective gross equivalent return was approximately 7% on a near-riskless instrument.

May–June: The Great Realignment Consolidates

May brought the collision of two trading philosophies: Anglo-American globalisation versus the mercantilist models of China, Germany, and Japan. China played its rare earths card, forcing Trump to delay the next tariff round. Japan and South Korea formed a preliminary trade alignment with China — the first trilateral economic cooperation framework in years.

The UK's situation was analytically interesting because of its ambiguity. Starmer's EU reset was marketed as pragmatic. The simultaneous handover of the Chagos Islands to Mauritius, with China as Mauritius's primary strategic partner, was strategically baffling. Yet UK companies were well-positioned to gain market share. The UK's non-alignment was commercially advantageous even as it was diplomatically incoherent.

NVIDIA's May results reignited the AI narrative. Trump's bunker-busting strikes on Iranian nuclear sites in June produced the first genuine oil spike of the year — WTI briefly reaching $80. The assessment was immediate and correct: Iran lacked the capacity to close the Strait of Hormuz. Oil fell back to its 60–65 range. Wang Yi's explicit statement that Beijing could not afford a Russian defeat in Ukraine was the year's most important geopolitical disclosure.

Q2 SUMMARY SIGNALS

INSTRUMENT	ANALYSIS	SIGNAL
S&P; 500	Recovery from –15%; TACO pattern established; FOMO rebooting above 5,250	NEUTRAL
Gold	$3,375 record high; central bank bid structural; hold core position	BULLISH
UK Low-Coupon Gilts	T26A at 95 — ~7% gross equivalent return, CGT-exempt: rare opportunity	BULLISH
Oil (WTI)	Iran spike to $80 reversed; structural range 60–65; geopolitical premium fading	NEUTRAL
Yen	USDJPY near 140; partial reversal; rebuy at 150 for next leg	BULLISH
AI Equities	NVDA rally; PLTR PE 536+ — narrative intact but fundamentals weakening	CAUTION

QUARTER THREE

Q3 2025

July — September

Bubble Arithmetic

July: Everything Goes Up

By July, the arithmetic of the US equity market had become extraordinary. The Shiller CAPE ratio stood at 37.81 — consistent with the peaks of 1929, 1999, and 2007. The Buffett Indicator was at 220%, far above any previous historical peak. Margin debt had hit a record $1 trillion. Seventy percent of all options traded were calls.

Palantir became the emblematic stock of the era. Its price-to-earnings ratio moved between 536 and 721 across the quarter — valuations that no discounted cash flow model could justify. NVIDIA was marching toward a $5 trillion market capitalisation. The commentary's posture was consistent and disciplined: stay long the bubble, know where the exit is, avoid the most extreme valuations.

> *A bubble does not burst on consensus. Every market participant in July 2025 knew valuations were stretched. Bubbles burst when a catalyst arrives that no one anticipated — or when the marginal buyer simply runs out of money. Neither condition had yet been met.*

Japan's political crisis deepened. Prime Minister Ishiba's minority government was on the brink of collapse. JGB 30-year yields briefly traded above 3%. Capital repatriation flows were beginning. The US–Russia Alaska summit confirmed what the February commentary had forecast: Trump shelved the secondary sanctions, and the agreed objective shifted to 'peace deal' — Moscow's preferred framing. Europe was not in the room.

August: The Economy Arrives

August brought the data that markets had been choosing to ignore. The 1 August US employment report was 'shattering the illusion that the US economy still had momentum.' The S&P 500 fell 1.5% on the day. The VIX spiked to 20.50 — the first reading above 20 since early in the year. A Fed rate cut in September was now certain.

The Copper-to-Gold ratio was delivering an unambiguous message. Gold was testing $3,400. Copper was at $9,560 and falling. The ratio at those levels was historically associated with recession or near-recession conditions. Bond markets were beginning to price this. Equity markets, driven by retail FOMO and AI earnings, had not caught up.

Warren Buffett's continued reduction of equity positions — Apple and Bank of America among his largest sales — was noted repeatedly. His cash pile had reached $325 billion. He was not wrong about the risk; he was simply early in a market where being early and being wrong were functionally indistinguishable.

September: The Fed Pivots

September delivered a half-point Federal Reserve rate cut, with two further cuts signalled for the year. The observation was sharp: 'This confirms that the US — and by extension the global economy — is slowing to a degree serious enough to worry the Fed.' The medicine confirmed the diagnosis.

UK politics accelerated its deterioration. Angela Rayner's resignation triggered a cabinet reshuffle that produced no clarity. Reform was now leading Labour by eight points in polling. Gold's rally continued — from $3,320 in mid-August to $3,685 by late September, an 11% gain in six weeks.

Q3 SUMMARY SIGNALS

INSTRUMENT	ANALYSIS	SIGNAL
US Equities	Bubble metrics at extremes; FOMO intact; reduce highest-PE exposure	CAUTION
Gold	$3,685 — secular bid structural; central banks the marginal buyer; hold	BULLISH
Fed Policy	Half-point cut confirmed; further cuts ahead; long-duration bonds favoured	BULLISH
UK Gilts	Yields elevated vs peers; political risk premium persisting; buy on spikes	BULLISH
JGBs / Yen	30Y JGB above 3%; BoJ normalising; carry trade rebuilding — watch closely	CAUTION
Oil (WTI)	Range 62–65; no momentum; deflationary demand signal from China	NEUTRAL

QUARTER FOUR

Q4 2025

October — December

Three Fronts

October–November: The Convergence Framework

By October, the three analytical threads that had run through the year — geopolitical realignment, financial bubble dynamics, and political dysfunction in key Western democracies — were beginning to converge. The commentary identified this as a 'three-front crisis framework': simultaneous stress in European security, US political stability, and Japanese financial markets. Any one was manageable in isolation. The interaction effects between all three had not been seriously modelled by mainstream financial institutions.

The Ukraine peace deal architecture confirmed what had been forecast in October. The deal — with the US extracting 50% of frozen Russian reconstruction assets as its price for participation, and Europe absorbing the military costs of peacekeeping without commensurate political gains — was transactional in the starkest possible sense.

Germany's Bund yield was at 2.74% by Q4 2025 — moving from historically extraordinary lows as the market recognised that German fiscal expansion on defence was no longer optional. It was the single most important structural shift in European bond markets, and it was only beginning.

UK gilts reached an extraordinary moment of relative cheapness in November. The 10-year gilt was yielding 4.74% — at a substantial premium to German bunds, Greek government bonds, and most other European sovereign debt. For UK investors with awareness of the CGT exemption on capital gains from low-coupon gilts, this was a structural entry point of the kind that appears perhaps once in a decade.

December: Japan's Structural Shift Arrives

December brought confirmation of what had been tracked throughout the year: Japan was undergoing a genuine monetary regime change. JGB yields at 1.65% by late 2025 — from 0.88% in August 2024 — represented the steepest sustained rise in Japanese long rates in decades. Capital deployed globally — estimated at $20 trillion at its peak — faced the prospect of repatriation. A second, potentially larger carry trade unwind remained the single most underpriced systemic risk in global markets heading into 2026.

Gold closed the year near $3,766 — a gain of approximately 50% from January levels. The thesis — secular central bank demand, fiscal debasement, geopolitical uncertainty premium — had proved entirely durable.

> *The Yen carry trade rebuilt itself after August 2024 like a tide returning. The question was not whether it would unwind again but whether the global financial system had genuinely learned the lesson — or merely noted it and moved on.*

Q4 SUMMARY SIGNALS

INSTRUMENT	ANALYSIS	SIGNAL
UK Gilts	4.74% — 120bp over Greece; structurally cheap; CGT on gains exempt: buy	**BULLISH**
German Bunds	2.74% rising; defence fiscal expansion structural; supply pressure ongoing	**CAUTION**
Gold	$3,766 year-end; secular bull intact; hold core; correct sizing only	**BULLISH**

INSTRUMENT	ANALYSIS	SIGNAL
Japan (JGBs/Yen)	1.65% JGB yield; BoJ normalising; carry risk acute	**BEARISH**
US Equities	Bubble intact but AI capex questions louder; Q1 2026 earnings the test	**CAUTION**
Infrastructure	Defence spend confirmed, AI energy demand structural — listed funds compelling	**BULLISH**

INVESTMENT CONCLUSIONS · FULL YEAR

Market Opportunities & Fears

What follows is an investment framework derived from the four quarters of analysis above. For each theme: the opportunity case the evidence supports, and the specific fear that must be held against it. The discipline of holding both in mind simultaneously is what separates analysis from enthusiasm.

1. Infrastructure: The Unavoidable Spend

THE OPPORTUNITY

Every major force identified across 2025 points toward the same asset class. NATO's 5% GDP defence commitment requires infrastructure: manufacturing facilities, logistics networks, communications systems, secure energy supply chains. AI's energy problem requires infrastructure: power generation, transmission networks, data centre construction. The green energy transition requires infrastructure. The reshoring of semiconductor and pharmaceutical manufacturing requires infrastructure.

Listed infrastructure funds offer what the equity market broadly does not in a late-cycle environment: visible, long-duration, inflation-linked cash flows with limited correlation to economic cyclicality. Assets on 20–30 year government-backed contracts generate revenue largely independent of whether GDP growth is 0.5% or 2.5%.

— HICL Infrastructure, 3i Infrastructure, International Public Partnerships — 5–7% yields on long-term contracted assets

— European defence proxies: Rheinmetall, BAE Systems, Leonardo — direct beneficiaries of NATO's 5% commitment

— UK long-dated low-coupon gilts: CGT-exempt capital gains, yields at historic premium to peers, rate cuts ahead

— Power and energy infrastructure: National Grid, SSE, data centre REITs — AI's physical bottleneck is electricity

THE FEAR

Infrastructure is long-duration and interest rate sensitive. If rate cuts are slower than expected, valuations compress. In the UK specifically, a revenue-desperate government could alter the regulatory framework for privatised infrastructure. The defence spending thesis has a 5–10 year realisation horizon.

2. Government Bonds: Duration as Refuge

THE OPPORTUNITY

The direction of travel for government bond yields over a 12–24 month horizon is down. The Fed cut by half a point in September with more to follow. The ECB is in an easing cycle. The BoE is following. US 10-year yields at 4.17%, UK gilts at 4.74%, German bunds at 2.74% — all are above any realistic estimate of the neutral rate. Capital gains are available to investors who hold duration. In the UK case, those gains are tax-free.

Brazilian sovereign bonds at 13–14% yields, in a currency that strengthened through 2025 as the dollar weakened, represent the most compelling emerging market fixed income opportunity in recent years.

— US 10-year Treasuries: buy on yield spikes above 4.5% — direction of travel is set

— UK long-dated low-coupon gilts: structurally undervalued, CGT-exempt gains, multiple cuts ahead — the core UK position

— Brazilian 10Y sovereign: 13–14% yield, strengthening currency — the highest real yield in any accessible sovereign market

— German Bunds: fiscal expansion will push yields higher before they fall; watch 2.90%+ as a potential entry signal

THE FEAR

US fiscal expansion — the Big Beautiful Bill adding trillions to the deficit — creates persistent Treasury supply that may offset the Fed's rate cuts. A yield curve steepening scenario is the specific bond investor's nightmare in 2026. Japan's carry trade unwind is the tail risk: if JGB yields continue rising and capital repatriates, US and European bond yields could move higher irrespective of domestic central bank policy.

3. Gold: The Secular Bid

THE OPPORTUNITY

Gold's 50% gain through 2025 — from $2,600 in January to $3,766 by December — was not a speculative bubble. It was a structural reallocation by central banks and sovereign wealth funds away from US dollar-denominated assets. The weaponisation of the dollar through sanctions, the US fiscal trajectory, and the political uncertainty around Fed independence have prompted non-Western central banks to question the security of dollar reserves. This is a secular shift, not a trade.

— Hold core gold position: 5–10% of portfolio as systemic risk insurance — not a trade, a structure

— Silver as leveraged gold proxy: historically outperforms gold in late-stage bull runs

— Gold mining equities: Barrick, Agnico Eagle, Endeavour Mining — operational leverage to the gold price

THE FEAR

Gold has no yield and no cash flow. In an environment where real interest rates remain positive, the opportunity cost is real. If the Fed's rate-cutting cycle stalls, gold will correct. Position sizing matters more than conviction.

4. AI and Technology Equities: Bubble Management

THE OPPORTUNITY

NVIDIA at $5 trillion market capitalisation is, on any conventional valuation metric, stretched. It is also the company with the most defensible monopoly position in the fastest-growing hardware category in history. Both things are true. The posture throughout 2025 was consistent: stay long the companies with genuine hardware or infrastructure moats — NVIDIA, the hyperscalers (Microsoft, Amazon, Google), and the power infrastructure beneficiaries — while avoiding the narrative stocks.

— NVIDIA: hold with a tight stop — the AI infrastructure monopoly is real, the valuation is not sustainable indefinitely

— Power and energy infrastructure: the constrained resource in AI is electricity — own the bottleneck

— Eutelsat: speculative position — the only credible European alternative to Starlink, with French and UK government backing

— Palantir and equivalent narrative stocks: avoid or short with extreme caution — PE of 721 has only one direction over a 3-year horizon

THE FEAR

The AI bubble fear is not that it deflates — it is that it deflates suddenly and takes the entire equity market with it. The S&P 500's Magnificent Seven represent approximately 30% of index market capitalisation. A sustained re-rating is not a sector rotation; it is a market event. The specific near-term trigger is Q1–Q2 2026 corporate earnings, when tariff effects — absent from 2025 results due to inventory pre-build — will hit P&L for the first time.

5. Emerging Markets: The Dollar-Weakness Trade

THE OPPORTUNITY

Brazil was the consistent EM opportunity throughout 2025. Ten-year Brazilian sovereign bonds at 13–14% yield, in a currency strengthening as the dollar weakened, represented a total return profile that simply does not exist anywhere on the developed market risk spectrum. Mexico's structural position as a nearshoring beneficiary is a multi-year theme.

- — Brazil 10Y sovereign bonds: 13–14% yield, strengthening currency — highest real yield in any accessible sovereign market
- — Mexican peso: nearshoring beneficiary, tariff-advantaged, high carry — a structural position
- — India: preferred Asian EM expression — less exposed to China's deflationary pressure

THE FEAR

Trump's tariff regime explicitly targets trade surplus countries — a structural headwind for export-dependent EM economies. A second Yen carry trade unwind would hit EM currencies severely. Liquidity risk in Brazilian bonds is acute in a crisis. Position sizing must be conservative.

6. The Rolling Event Calendar

The investment positions above are conditional on a set of key events whose resolution determines whether opportunity or fear dominates. These were identified across the year as pivotal — and remain so heading into 2026.

INSTRUMENT	ANALYSIS	SIGNAL
JGB Yield Path	BoJ normalisation pace — every 25bp rise tightens carry trade logic globally; watch 2%	BEARISH
US Q1–2 2026 Earnings	Tariff effects hit corporate P&L; for first time; AI capex cuts may begin here	BEARISH
Federal Reserve	Cuts continuing — but fiscal dominance could steepen yield curve simultaneously	NEUTRAL
UK Autumn Budget 2026	Will fiscal rules hold? CGT on residential property could destabilise housing flows	CAUTION
Ukraine Peace Deal	European defence spend locked in regardless of terms — structural bid for defence assets	BULLISH
China Property Sector	No floor visible; deflationary export suppressing global PPI; drag ongoing	BEARISH
German Fiscal Expansion	Rearmament financed by Bunds — yield pressure near-term, industrial recovery medium-term	NEUTRAL
US Dollar Direction	Structural weakening as fiscal expands; EM currencies and gold are principal beneficiaries	BULLISH
Yen Carry Rebuild	Positions re-established post Aug 2024; second unwind risk remains the key tail risk	BEARISH
AI Capex Decisions	Will hyperscalers maintain spend through an earnings slowdown in 2026?	CAUTION

CLOSING POSITION

What 2025 Earns

The year 2025 made the following investment case, accumulated week by week and now stated plainly:

— Underweight speculative AI equities; overweight the physical infrastructure that AI requires — power, connectivity, data centre capacity

— Hold duration in government bonds: UK gilts for CGT efficiency, US Treasuries on yield spikes, Brazilian sovereigns for real yield

— Hold gold as a structural position, not a trade — the central bank bid and fiscal debasement dynamic are secular, not cyclical

— Increase exposure to listed infrastructure funds with inflation-linked, long-duration contracted revenues — the one asset class that benefits from every major force in the current environment

— Maintain extreme caution on China-exposed assets — the property sector implosion has not found a floor; the deflationary export is a persistent global headwind

— Watch the Yen. The second carry trade unwind will be the defining market event of the next eighteen months if and when it arrives

> *The case for infrastructure is not that it will make you rich quickly. It is that in an environment of managed instability — rising defence spending, AI energy demands, geopolitical fragmentation and fiscal expansion — infrastructure is the asset class that converts all of that disruption into predictable, contracted cash flows. That is not exciting. In 2025, excitement was the problem.*

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