

Introduction

November 2025 was a month of contrasts for global markets. While optimism persisted in some areas, volatility dominated headlines as fears of an AI bubble and anticipation of the 2025 UK Autumn Budget shaped investor sentiment. Despite intermittent rallies, underlying economic signals remained mixed, reinforcing the need for caution as we approach 2026.

Global equities experienced sharp swings, which were driven largely by technology valuations and governmental policy developments. In the UK, inflation eased to 3.6%, suggesting price pressures have peaked, and the Bank of England held interest rates steady in response. However, weak GDP growth of 0.1% in the third quarter of 2025 highlighted ongoing economic fragility.

Global trade tensions also affected investment performance, with UK exports to the US falling 11.4% in September due to tariffs. Against this backdrop, markets reflected a delicate balance between optimism and risk.

AI bubble fears and market volatility

Concerns about an AI-driven valuation bubble dominated investor sentiment throughout November. On 5th November, global markets fell sharply as investors questioned whether AI stocks were overvalued. London's FTSE 100 slipped 0.1%, while markets in Germany and Spain declined 0.8%. Losses were steeper in Asia, with Japan's Nikkei 225 down 2.5% and South Korea's KOSPI off 2.85%. In the US, the Nasdaq fell 2%, and all the "Magnificent Seven" tech giants—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla—suffered declines.

Mid-month, volatility resurfaced as Google's CEO warned that "no company is going to be immune" if an AI bubble bursts.

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However, investor sentiment improved on 20th November when Nvidia reported a 62% year-on-year sales increase, reporting \$51.2 billion (£38.6 billion) in quarterly revenue, beating expectations. The news sparked a global rally, lifting Asian-Pacific indices and pushing the Nasdaq up 2.18%.

These swings underscore how AI remains both a growth driver and a source of risk in the market.

Our ProsperityBuild portfolio was negatively impacted by the renewed volatility in the technological sector but managed to recover most of the mid-month underperformance.

UK Budget and market reaction

Despite the anticipation and extensive commentary leading up to it, Rachel Reeves' Autumn Budget proved far less dramatic than many had expected.

Centred on tax increases and welfare reform, the Chancellor avoided breaking manifesto pledges in sensitive areas such as Income Tax, a move that reassured markets and maintained political credibility. The reaction of the equity market was subdued, which we interpret as a positive indicator of stability.

A clearer signal of investor confidence came from modest gains in both Pound Sterling and the Government Debt markets, reflecting relief at the increase in fiscal headroom to £21.7 billion. This additional flexibility strengthens the UK's fiscal position and reduces vulnerability going forward.

While the announcement of the Autumn Budget delivers short-term stability, the Office for Budget Responsibility (OBR) expects its measures to have “no significant impact on overall economic output by 2030”.

Growth and productivity forecasts have already been revised lower, while inflation projections have edged higher, which highlights that further action may be needed to bolster investor confidence and drive sustainable economic growth.

Against this background, our ProsperityShield portfolio delivered a positive return due to its low exposure to the UK bond market, which reflects our concerns about UK bonds as a diversifying asset.

Glossary

Rally: A period of sustained increases in the prices of stocks, bonds or indices.

Valuation bubble: A period when asset prices greatly exceed their valuation. Bubbles can be caused by overly optimistic projections about the growth scale and sustainability.

FTSE 100: A stock market trading index. The FTSE 100 tracks the performance of the 100 largest companies listed on the London Stock Exchange.

Nikkei 225: A stock market trading index. The Nikkei 225 tracks the performance of companies listed on the Tokyo Stock Exchange.

KOSPI: A stock market trading index. The KOSPI is the index of all common stocks listed on the Stock Market Division of the Korea Exchange.

Nasdaq: The American stock exchange.

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Fiscal headroom:

The amount of leeway or buffer the government has to increase spending or cut taxes.

ProsperityBuild: A growth-oriented investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to provide global equity exposure.

ProsperityShield: A diversified, defensive investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to grow capital over the long term, while providing a smooth performance path for investors.