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Strategic Retirement Solutions

Market View

As 2025 draws to a close it has been a particularly hectic year for the global bond and equity markets. Trump tariffs, weak Japanese bonds upending the "carry trade", the continued growth of AI, the return of strong earnings growth from the other 493 companies of the S&P 500, massive German economic stimulus and unfortunately, what is now becoming typical, financial chaos within the corridors of the UK government. It appears the USA is preparing a stimulus package for early 2026, with an eye on the Mid-Term elections. Donald Trump continues to suffer in the polls primarily due to the high cost of living. Markets are expecting some targeted rolling back of tariffs to help bring headline inflation down. The US needs lower interest rates, however, the Fed is reluctant to cut without supporting data. The last two months of employment data are missing as the US government was shut down after failing to agree on a Budget. The Fed should cut interest rates in December, but there is a risk that they won't. With Germany stimulating its economy, the US about to do something similar and China going all-in on AI, the UK in contrast is deflating its economy by increasing taxation on consumers while spending the revenue on areas that either don't provide an economic boost or are focused on very long-term infrastructure projects.

UK Budget

UK Budgets are supposed to be dry boring affairs but as happened last year there seemed to be a strategy of testing market and consumer reaction by announcing months in advance a wide range of possible tax increases, perhaps in the hope that when the actual numbers are announced it is perceived to be not as bad as feared? What was very unusual this time was the apparent setting-up of the Gilt market up for an Income Tax rate rise. Whilst this would have breached Party Manifesto promises Gilts liked it. Market yields fell thus giving the Bank of England possible headroom to cut interest and thus mortgage rates. This economically desirable but politically difficult option was even more surprisingly disregarded. Markets famously hate uncertainty and confusion; it doesn't inspire confidence. In pure financial market terms what has been achieved is bringing the future PSBR (the government's overdraft) theoretically back to pre-Covid levels and future net borrowing down to the advanced economies average seems fine. However, the key question for the Gilt market is how likely these forecasts are to be achieved and importantly whether political issues force significant changes to the numbers, once again.
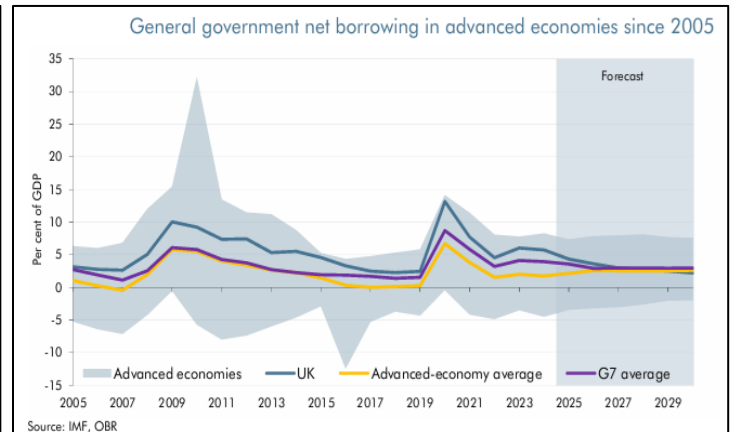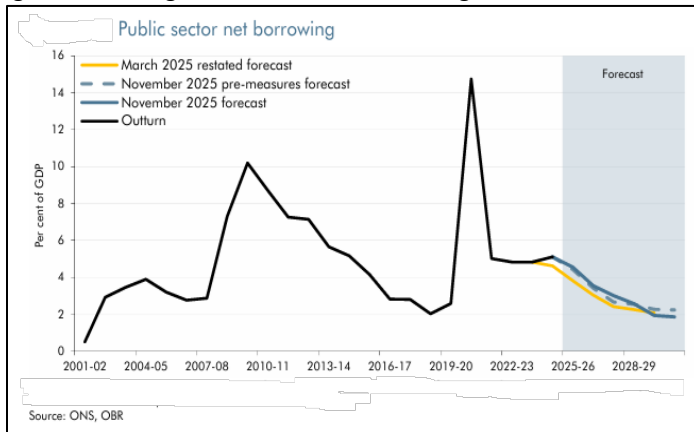
What was, however, notable from this Budget was just how optimistic the Office of Budget Responsibility (OBR) is. They are normally pessimistic with their forecasts and with 1.5% GDP growth forecast for 2025 (revised up from 1.0% in March) and for the next few years (though the 2026 numbers have been downgraded from 2%) seems at first glance ambitious. Much as we have said before will depend on the performance of the US economy and/or the much rumoured, yet still to be announced, revised EU trade deal. The UK desperately needs growth and lower interest rates, unfortunately there was nothing in this Budget that will improve either any time soon.

UK Data Centres

It does seem hard to be positive about the UK economy at present, although UK companies remain remarkably cheap by international standards, with growth accelerating. However, there is one area where the government appears to be getting it right: the construction of AI data centres. If AI is as promising as it seems for business and potentially even government productivity, then a country needs the core utility function of a data centre network, along with the electricity to power it and the water to cool it. Without this core data centre infrastructure, it is likely that any economy will simply be left behind. Construction data specialist

Barbour ABI has reported a current "pipeline" of 94 UK data centre projects worth about £36.4bn, based on planning documents and development announcements, with most expected to be built over the next five years. The UK currently has an estimated 470–500 existing data centres, so this represents a 20% increase in number. However, in terms of processing capacity, the numbers are far more significant. Estimates suggest that the UK currently has 1.6–2.2 GW of processing capacity, but there is 3 GW under construction or in planning, a huge increase in capacity. Indeed, some estimates put the additional capacity as possibly as high as 8.3gw by 2031. How does this compare to Europe and elsewhere?

Country	Approximate upcoming situation	High-level takeaway
UK	Around mid-90s data centre projects in the pipeline (construction + planning), taking roughly a quarter of all upcoming European capacity. `acenet`	Leads Europe in number of projects and share of upcoming capacity.
Germany	Several hundred MW under construction and in planning across a smaller number of very large campuses. `blackridgeresearch`	Fewer projects than the UK but large average size; second only to the UK in upcoming capacity.
France	A few hundred MW under construction and a similar order of magnitude in planning, heavily concentrated around Paris. `datacenterdynamics`	Third in Europe; fewer projects than UK and Germany, but rapid growth from a smaller base.

France and Germany each appear to have around a dozen major pipeline schemes, compared to the UK's 94. However, Germany's total megawatts under construction and in planning is relatively close to the UKs, once very large campuses are included. Furthermore, when the UK is compared to South Korea and Japan in terms of absolute upcoming capacity, the UK has the largest confirmed pipeline of the three. The UK has 3 GW, while Japan is adding only 0.5 GW in the near term and South Korea is adding only several hundred megawatts to a smaller base of 0.6 GW. This is a very healthy competitive position for the UK. The much-discussed planning reforms do seem to be working, at least for AI data centers, as the recent Teesside decision shows. In fact, 83% of recent planning applications have received approval.

China All in on AI

China has released a new, ambitious AI strategy, aiming to become the global leader in artificial intelligence. This AI Action Plan outlines a 13-point agenda that includes building robust AI infrastructure and integrating AI into 90% of its economy by 2030. Deep deployments are planned in areas such as manufacturing, energy, and municipal governance. Public sector spending on AI in 2025 is expected to exceed $56 billion, and total annual AI investment is projected to reach $125 billion approximately 38% of the global total. China is building an "ecosystem of local software frameworks" developed by tech firms like Xiaomi, Baidu, and Huawei, reducing reliance on US technology, with locally designed software such as the recently updated DeepSeek. China's AI software is also open source, meaning it is available for anyone to use. This is not just about generating profit; it is an international power play that the US will struggle to compete with. China is not quite there yet with its own alternatives to a Nvidia-powered data centre, but it probably won't be long. The Chinese education system is scaling up AI expertise from primary school to advanced research labs. China already leads the global AI patent table. In short, China is going "all in on AI," just as it did with solar power and electric cars. Given the depth of its government and corporate funding, as well as its educational and skill base and lack of legal restrictions, it is probable that China will overtake the USA in AI.

Markets

Many commentators have been forecasting a crash based on elevated AI valuations. However, the crash has occurred elsewhere. Cryptocurrencies, including Bitcoin, have experienced crash-level declines of 33–55% since early October. The fact that equities have not followed these highly speculative assets downward is notable. Once again, it seems that highly leveraged derivative positions were to blame; somebody has lost a lot of money and that will have consequences. Bitcoin is not realistically available to UK portfolio investors, but it is useful as a sentiment indicator. It attracts short-term speculative traders, so any significant move down could indicate some underlying short-term weakness in the Bull market. December is usually a positive month for equity markets, but this time, more than ever, it depends on the US Federal Reserve Bank. They have stopped quantitative tightening (QT), which adds liquidity to the markets and by now should have restarted (post the US government lockdown) short-term bank lending, which adds further fuel to the fire. An interest rate cut is much needed in the US (the 30-year mortgage rate is at 6.23%) and will keep this key market driver moving in the right direction. The Fed committee seems to be split, with the lack of data being used by some as an excuse for inaction. The announcement will be on the 10th, and markets will be nervous ahead of this key event. The next key event is the big annual futures and options expiry on the 19th of December. The following Monday normally marks the start of the Santa Rally into year-end, let's hope the Fed doesn't play Scrooge this year!

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