

# TRUE INSIGHT

True Potential Portfolios | Issue 41 | Winter 2025

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## ARE WE HEADED FOR AN INFLATION "COOL-OFF"?

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With consumer price indices falling back in 2025, are we set for further cooling of inflation in 2026?  
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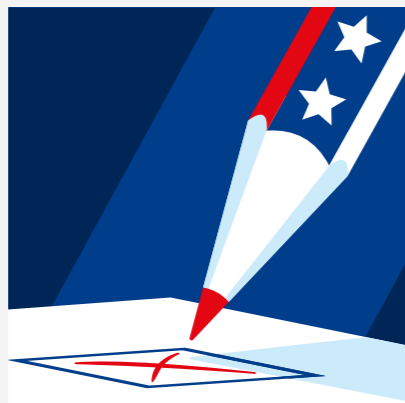
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**Jeff Casson**  
Chief Executive Officer  
True Potential Investments

**Welcome to the winter edition of True Insight. First of all, I would like to wish all of you a happy and prosperous new year.**

As 2026 stretches out in front of us, we can look back on another strong year for markets in 2025. Last year was the third in a row to deliver double-digit gains for the world’s stock markets. In the final quarter of 2025, many markets hit all-time highs. All of this came despite the blizzard of US tariffs and flurries of worry at home and abroad. I’m pleased to say that both the fourth quarter and the full year were good periods for our True Potential Portfolios.

In this edition of True Insight, we review the past quarter and the full year, and we look ahead to what 2026 may bring. Our conclusion is that there are plenty of reasons to be optimistic, albeit cautiously so.

The year ahead will offer plenty of challenges, as we note in our Outlook for 2026. Growth rates in many of the world’s economies are still low, inflation is still uncomfortably high in many countries and geopolitics is as unstable as ever. On top of that, investors have worries about signs of stress in private markets, the possibility of an AI bubble and some sky-high valuations in the technology sector.

But alongside these concerns, there are plenty of potential opportunities ahead. These range from economic improvements to greater clarity on trade to the transformative effects of AI for business and productivity. In this edition, we explore the possibility that inflation will cool significantly this year – which would bode well for equities and bonds.

We also look to the US midterm elections in November, which could reshape the American political landscape, and discuss what typically happens to markets before and after the ballots are cast.

Closer to home, we look back to the Autumn Budget and explore the implications of the chancellor’s changes to the tax regime. We also look ahead to the Spring Statement in March.

I hope you enjoy this edition of True Insight. With news coming thick and fast, we will doubtless have lots to discuss in our spring edition, and I look forward to writing to you again in three months’ time.



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With investing, your capital is at risk. Investments can fluctuate in value, and you may get back less than you invest. The contents of this magazine should not be interpreted as personalised financial advice.

# Performance update.



**Kevin Kidney**  
Head of Investments  
True Potential Investments

The fourth quarter of 2025 provided a supportive backdrop for multi-asset investors, with positive returns across both equities and fixed income. Mounting AI concerns led to a brief equity sell-off mid-quarter before a rapid recovery to new highs. As a result, all 10 True Potential Portfolios delivered positive returns for clients. The Aggressive portfolio was the top performer, delivering a return of +4.5%, driven by its higher equity allocation as investors were rewarded for taking on more risk.

Throughout the quarter, we maintained an overweight to equities but moderated overall equity exposure by reducing allocations to the US. We continued to express an overweight to regions outside the US, where valuations are more supportive and improving earnings momentum and supportive policy present attractive tailwinds for performance. As a result, the key allocation change within equities over the quarter was a reduction of US equities in favour of Japan and emerging markets. This was achieved through both our decision to increase allocations to Schroders and the changes from our underlying managers (Growth Aligned and Pictet being the key managers here). These changes were beneficial as both regions outperformed the US in local currency terms.

Fixed-income allocations increased over the quarter, driven by additions to UK gilts and high-yield bonds. Managers including Growth Aligned, UBS and Pictet added to gilts, while UBS was the key manager to increase high yield. These changes boosted returns as UK gilts outperformed US Treasuries within sovereign bonds and high yield outperformed investment grade within credit.

“ All 10 True Potential Portfolios delivered positive returns for clients. ”

Portfolios	3 months	1 year	Since launch (1 Oct 2015)
Defensive	+2.34%	+8.34%	<b>+36.01%</b>
Cautious	+2.94%	+11.50%	<b>+59.34%</b>
Cautious +	+2.87%	+11.00%	<b>+61.76%</b>
Cautious Income	+3.24%	+13.51%	<b>+74.84%</b>
Balanced	+3.32%	+12.88%	<b>+82.73%</b>
Balanced +	+3.15%	+12.29%	<b>+90.71%</b>
Balanced Income	+3.14%	+12.95%	<b>+81.77%</b>
Growth	+3.77%	+14.01%	<b>+113.57%</b>
Growth +	+3.86%	+14.41%	<b>+117.17%</b>
Aggressive	+4.49%	+15.77%	<b>+140.33%</b>

Source: Bloomberg LLP, 31st December 2025.

Full five-year past performance data for the True Potential Portfolios can be found on page 22. Figures shown after Ongoing Charges Figure (OCF) has been deducted.

In alternatives, several managers reduced exposure to gold, among them Growth Aligned, UBS, TrinityBridge, Pictet and Schroders, recognising its exceptional performance through 2025. Although the precious metal experienced a mid-quarter pullback, it subsequently rallied to new highs in December, delivering a return of 12% over the quarter and outperforming both global equities and fixed income.

During the quarter, manager allocation changes focused on enhancing diversification and inflation resilience while aligning portfolio allocations to our asset-class preferences. In the Balanced and Balanced + portfolios, we increased allocations to Schroders, a manager we view as a key diversifier against both inflation and AI concentration risks, given its lower bond allocation and exposure to alternatives and lower-valuation equities. In Balanced +, we also increased the allocation to Growth Aligned Cautious to moderate overall equity exposure. These additions were funded by a reduction to TrinityBridge, a manager with greater exposure to high-valuation US equities and technology stocks.

The additions to Schroders build on those made during the first three quarters of the year in the Cautious, Cautious +, Balanced, Balanced + and Growth + portfolios. This active decision has been additive to returns, with the Schroders funds being the top performers in their respective risk profiles over both the fourth quarter and 2025.

In summary, the portfolios remain overweight in equities, reflecting our positive outlook, and we continue to express this overweight through regions outside the US, where valuations are more attractive. Key manager-allocation changes to reduce TrinityBridge in favour of Schroders have helped performance.

Scan and log in to your online account to view your investments.



▲▲▲ **4.5%**

The True Potential Aggressive Portfolio was up 4.5% in the fourth quarter of 2025.

▲▲▲ **8.3%**

The True Potential Defensive Portfolio has grown by 8.3% in the last 12 months.

▲▲▲ **90.7%**

The True Potential Balanced + Portfolio has grown by 90.7% since launch (October 2015).

Figures shown after Ongoing Charges Figure (OCF) has been deducted.

With investing, your capital is at risk. Investments can fluctuate in value, and you may get back less than you invest. Past performance is not a guide to future performance.

# Review of the markets: Q4 2025

The final quarter of 2025 saw global equity markets extend their impressive year-to-date gains. The period began with a more cautious tone towards AI mega-cap stocks while an extended US government shutdown and rich equity valuations somewhat tempered risk appetite. Yet equity markets continued to reach new all-time highs as a consequence of resilient corporate earnings, lower US interest rates and positive political developments through trade agreements and local elections.

### Global equity markets: new all-time highs.

- United States: The S&P 500 Index returned a healthy 2.7%. The leadership within the index varied as enthusiasm for stocks linked to AI waned over the quarter and fears over the health of the US economy emerged following signs of labour markets cooling. Stock-market breadth continued to disappoint, with the S&P 500 equal-weighted index delivering a relatively low 1.4% return.
- International markets: There was notable regional dispersion over the quarter.
- Japan was the standout performer, with the TOPIX Index rising 8.8% as optimism rose following the election of Prime Minister Takaichi. Takaichi promises a pro-growth agenda, and the 2026 corporate earnings outlook has strengthened further.

- Despite the gloomy fiscal expectations ahead of the Autumn Budget, the UK was also a stronger performer. The FTSE 100 Index returned 6.9%, with strength in healthcare, materials and financials. The last of these sectors benefited when the Budget did not introduce a windfall tax on banks.
- After an extraordinarily strong third quarter, China was the regional laggard, with the Hang Seng Tech Index falling almost 15%. The broader Chinese market was flat over the period.



Japan was the standout performer, with the TOPIX Index rising 8.8%.



In the UK, The FTSE 100 Index returned 6.9%, with strength in healthcare, materials and financials.



Gold continued its remarkable performance, which began just over two years ago.

### Fixed income: UK government bonds rally.

The fixed-income space generated positive returns:

- Global sovereigns: government bonds returned 1% in the final quarter, entirely from the coupon received. UK gilts were a standout positive performer (+2.8%) as yields fell (so prices rose) sharply following lower-than-expected inflation data. The mixed signals from the UK chancellor surrounding income tax increases created notable volatility ahead of the Budget.
- Credit: credit spreads were steady, although high-yield credit spreads temporarily widened following reports of two high-profile defaults in the US. Overall, US high-yield bonds (+1.3%) and investment-grade corporate bonds (+0.8%) delivered modest positive returns, supported by healthy all-in yields and robust fundamentals.
- Regional developments: Japan's government bond yields hit their highest point in nearly three decades as the Bank of Japan continued to raise interest rates and the bond market adjusted to the prime minister's growth-focused fiscal plans.

### Gold market: a new all-time high.

Gold continued its remarkable performance, which began just over two years ago. The precious metal posted another quarter of double-digit gains, at 11.9%, putting the gold price above \$4,500.

There are three factors underpinning the strength of the gold price:

1. Geopolitical uncertainty: persistent global tensions and trade unpredictability reinforced gold's traditional safe-haven status.
2. Central-bank and retail demand: strong, sustained buying from global central banks and heavy inflows into gold exchange-traded products provided a crucial demand floor.
3. Inflation and fiscal fears: gold continued to serve as an inflation hedge, especially amid tariff-related inflation concerns and widespread unease over government debt levels and fiscal sustainability across developed economies.

# Market outlook.

Global equities posted their third successive double-digit annual return in 2025. As valuations appear rich, particularly in the US, one could be forgiven for forecasting less spectacular returns in 2026. However, there are good grounds for optimism. Policy is supportive, with the US Federal Reserve on course to continue cutting interest rates several times in 2026 and President Trump's One Big Beautiful Bill likely to ensure that fiscal policy remains highly stimulative. Perhaps more significantly, US midterms in November will no doubt incentivise the President to run the economy hot. There is even a chance that Trump's tariffs will be overturned.

“ There is plenty of scope for interest-rate cuts from the Bank of England. ”

Elsewhere in the world, fiscal policy will provide a powerful tailwind to growth in the euro area, as infrastructure and defence spending are ramped up. Next Generation EU funds will continue to support Italy and Spain in particular. Emerging markets continue to benefit from the weaker dollar, which acts as an easing of financial conditions by reducing the outstanding value of their dollar-denominated debts and allowing emerging-market central banks to cut interest rates as inflation subsides. The Japanese market is undergoing a structural shift, with nominal growth recovering and corporate reforms, spurred on by overseas investors, driving improved returns.

In the UK, the chancellor has chosen to appease the left of her party and the gilt market at the expense of growth. But with inflation likely to have peaked in September, there is plenty of scope for interest-rate cuts from the Bank of England – cuts to the base rate below 3.5% are forecast for this year.

This policy support comes against a backdrop of robust corporate earnings, with analysts forecasting double-digit growth in 2026 globally. Critically, there is still evidence that earnings growth is broadening beyond the tech sector.

For bonds, the ongoing deluge of supply, driven by large fiscal deficits, may weigh on returns. But reasonably high starting yields, expected interest-rate cuts and a rapid reduction in issuance of long-dated debt should provide support. The prospect of AI-induced productivity gains, bearing down on inflation, should also provide comfort to bond investors.

With this constructive outlook, there are some fragilities to be mindful of. Investors remain uneasy about evidence of a bubble in the tech sector, and these concerns are well founded, given lofty valuations, unprecedented investment, growing debt and an increasingly incestuous

relationship between the main players. Private markets are another source of concern, with some investors fearing that the end of the low interest-rate era has led to a decline in underlying credit quality. However, these risks can be mitigated to some extent by skewing equity exposure towards cheaper markets with less tech exposure and, for multi-asset investors, maintaining an allocation to defensive assets such as bonds and alternatives.

We enter 2026 with cautious optimism that ongoing earnings strength and policy easing will support markets but are cognisant of dangers lurking beneath the surface.



## Are we headed for an inflation "cool-off"?

Since the Covid pandemic, 'sticky' inflation has proved a persistent headache for central banks. The consequent higher interest rates have constrained companies' ability to borrow and grow. But with consumer price indices falling back in 2025, are we set for further cooling of inflation in 2026?

Inflation is perhaps the most obvious of the economic forces that shape our lives. In 2019, the average pint of beer cost £3.70.<sup>1</sup> Today, you'd typically pay more than a fiver; in many places, you'd struggle to get much change from £7. According to the Bank of England (BoE), prices in general are up almost 30% over the past five years.<sup>2</sup>

While we feel inflation in our pockets, central banks have to try to control it through monetary policy. Higher interest rates discourage borrowing, which should reduce demand and therefore prices.

But although interest rates reached their highest levels for two decades in 2023, inflation has been difficult to subdue. 'Sticky' inflation makes central banks reluctant to cut rates. And when rates remain high, businesses pay more to borrow, which entails a slower-growing economy. Now, however, inflation seems to be trending down, although it remains well above pre-pandemic levels.

### An ailing oil price.

One of the main factors in falling inflation has been lower energy prices. The oil price declined over 2025 and is expected to fall further in 2026. Why? Simply put, supply has outstripped demand. Oil-producing countries have maintained high levels of production at a time when global demand has failed to keep pace.

Uptake of electric vehicles and a sluggish Chinese economy are among the factors reducing demand even as oil producers keep pumping. The World Bank predicts that the oil price will hit a five-year low this year.<sup>3</sup>

“

Inflation seems to be trending down, although it remains well above pre-pandemic levels. ”

### American uncertainties.

In the US, inflation is inching closer to the Federal Reserve's 2% target, although the monthly figures have been volatile. Further fluctuations are expected, but lower energy prices, subdued rent and a weakening labour market should keep inflation trending down.

Higher prices have already become a source of discontent, however. With November's midterm elections looming, President Trump has lifted tariffs on some food imports, to curb the inflationary impact of his trade policies.

### Europe on target.

In Europe, inflation is already close to target. Along with lower energy prices, the European Central Bank has benefited from Trump's tariffs. Cheap Chinese goods that would otherwise have gone to the US have been redirected to Europe, helping to keep prices in check. A stronger euro has also helped: while currency strength hinders exports, it makes imports cheaper.

With inflation on target, the ECB's rate-cutting appears to be at an end. Indeed, bond investors currently expect rates to rise this year as economic growth strengthens.

### The UK: a stickier wicket.

Inflation has proved more stubborn in the UK. Nevertheless, the BoE has now cut interest rates six times since August 2024.

At its December policy meeting, the BoE said that it expects inflation to be close to the 2% target in the second quarter of 2026.<sup>4</sup> Many investors expect two further rate cuts this year.

### Expect the unexpected.

Overall, inflation does look set to cool. That should give the Federal Reserve and the BoE room to cut rates further, which would be good for stocks. But what could change?

One risk is that US rates fall too fast. In May, the Fed's chair, Jerome Powell, will step down. His successor will be appointed by President Trump. Some investors are concerned that the new chair will cut rates to please the president, even if the economy starts to overheat. That could allow inflation to bubble back up.

Another is that the full impact of US tariffs is yet to be felt. In 2025, investors were reassured by trade deals, climb-downs and companies' ability to adapt. But the ultimate shape of Trump's trade policy is still unclear, and a resurgence in trade tensions could have further inflationary effects.

Meanwhile, the geopolitical situation remains volatile. With ongoing instability in Eastern Europe, Latin America and the Middle East, there is ample potential for shocks - including a reversal of the downward trend in energy prices.

All of that means investors should remain appropriately diversified. Although a more benign inflationary outlook should favour equities and bonds, the ample uncertainties underscore the importance of a well-balanced portfolio, including allocations to alternatives and gold.

### Sources:

<sup>1</sup> RPI: Ave price - Draught lager, per pint - Office for National Statistics.

<sup>2</sup> Inflation calculator, Bank of England.

<sup>3</sup> Commodity Prices to Hit Six-Year Low in 2026 as Oil Glut Expands, World Bank Group.

<sup>4</sup> Bank Rate reduced to 3.75% - December 2025 Monetary Policy Summary and Minutes, Bank of England.

# Power your investments with a direct debit.

Contributing to your investments regularly through a direct debit is one of the easiest steps you can take to help reach your financial goals. Think of it as investing on autopilot, paying yourself first and putting money towards your future that could compound and grow over time.

The example below outlines the power a regular contribution could have on your investment growth in 2%, 5% and 8% as standard assumption growth rates across 20 years. Both John and Jane set their policies in the same portfolio with an initial investment of £100,000.



John has no regular contribution



Jane set up a monthly direct debit of £200

Growth rate	John's investment value after 20 years	Jane's investment value after 20 years	Total difference from regular contributions
2%	£148,595	£206,908	+ £58,313
5%	£265,330	£344,688	+ £79,358
8%	£466,096	£575,924	+ £109,828

Over 20 years, Jane contributed £48,000 to her investments on autopilot through monthly instalments of £200. Using an assumed medium growth rate of 5% as an example, Jane's investment increased by an extra **£79,358** when compared to John's investment.

Could you reach your financial goals sooner with a direct debit? Follow the simple steps on the following page to unlock the power of regular contributions for your investments today.

With investing, your capital is at risk. Investments can fluctuate in value, and you may get back less than you invest. It's important to remember that forecasts are not a reliable indicator of future results, and the forecast is gross of charges, meaning figures would be impacted by the effect of fees & charges that apply. Direct debit contributions do not guarantee growth. All data sourced from [www.unbiased.co.uk/discover/personal-finance/savings-investing/compound-interest-calculator](http://www.unbiased.co.uk/discover/personal-finance/savings-investing/compound-interest-calculator).

## Step 1

Log into your account and click on the **'Investments'** page

## Step 2

Scroll down to the **'Regular Contributions'** section

## Step 3

Select the **'Set up a Direct Debit'** button on your chosen policy and enter your details



# What might the US midterms mean?

Since Donald Trump's second presidential victory, he has enjoyed largely unchecked power. But with midterm elections looming in November 2026, Trump's grip on America's political levers now looks less secure. So what might the midterms mean for the US, the world and the markets?

Since Trump began his second presidency with a blizzard of executive orders and the rollercoaster rollout of tariffs, he has been hugely helped by a Republican 'trifecta': control of the White House, the Senate and the House of Representatives. This has allowed him to proceed with his agenda almost entirely as he sees fit.

November's midterms could change that. This year, all 435 seats in the House of Representatives are up for grabs. The Republicans currently control the House by a margin of just seven seats, meaning that the Democrats need only four gains in November. Given recent trends in local elections, the Democrats seem set to take back control of Congress's lower chamber.

## Flipping arithmetic.

The Senate is also in play, although here the arithmetic is less favourable to the Democrats.<sup>1</sup> To win the Senate, the Democrats also need to flip four Republican seats - but just 35 are being contested in November.

On top of this, just two of those Senate seats look like easy wins for the Democrats. Nevertheless, a double Democrat victory is still possible.

## Quack, quack?

Historically, low presidential approval ratings have translated into midterm losses.<sup>2</sup> This often consigns incumbent presidents to 'lame duck' status: in office but not really in power. Midterm elections are largely a poll on presidential popularity, and Trump's approval ratings are low.<sup>3,4</sup>

Tariffs are biting at home, with consumers coming under pressure from higher prices.

Meanwhile, unemployment has risen to its highest level for over four years.<sup>5</sup> Already, Trump has rolled back tariffs on food imports, showing that he is wary of popular discontent.

## Exceptions to the rule.

There have been exceptions to the midterm rule. In 2002, just over a year after the 9/11 attacks, the Republicans made *gains* in the midterms in both the House and the Senate - taking control of the latter in the process. This was the first time that a sitting president had made gains in both chambers in the midterms since Franklin Roosevelt in 1934.

And in 1998, Bill Clinton's administration was boosted by gains in the House.

A more common result for the incumbent, however, has been a "shellacking", as Barack Obama famously described the Democrats' set-backs in 2010.

## What could change?

What might go right for Trump between now and November? Popular approval of the raid on Venezuela? An end to the war in Ukraine? Trade agreements with China? The problem is that such successes would come in foreign policy. Midterm voters are likely to care much more about the cost of living and healthcare coverage; the One Big Beautiful Bill is set to strip health insurance from millions.<sup>6</sup>

One domestic development that might make a difference would be Trump's proposed "tariff dividend": a \$2,000 tax refund for lower-income households. So far, no such legislation has been put before Congress, but the White House has continued to trumpet the proposal. On the other hand, a correction in the stock market

could bode ill for the Republicans. In his first term, Trump appeared to use the market as a barometer of his presidency. Given lofty valuations and concerns about an AI bubble, any sharp downturn could prove disadvantageous.

## What the mid-terms mean for investors.

Markets hate uncertainty. Historically, the US stock market has been weak and volatile before the midterms but strengthened thereafter. That tends to be the case regardless of who triumphs as the ballot box. If the Democrats disrupt the Trumpian trifecta, the president's more extreme tendencies may be curbed - both by a freshly independent House and by the sense that Trump is a spent force.

Alternatively, a change in the Republicans' fortunes will probably suggest that there's been an improvement in the economy - perhaps because trade deals have averted the worst impacts of tariffs.

Whatever the outcome, the historical pattern should provide reassurance. Yes, there's likely to be nervousness in the run-up to the midterms. And, yes, stock-market returns could be relatively subdued. But for long-term investors who are prepared to look through the short-term volatility, the elections should ultimately lead to greater stability one way or the other. That should be good for the markets.

## Sources:

<sup>1</sup> Balance of Power in the U.S. House and Senate - Bloomberg Government.

<sup>2</sup> Forecasting suggests the Republicans will lose 28 seats and the House in the 2026 midterm elections, USAPP.

<sup>3</sup> Trump's Approval Rating Drops to 36%, New Second-Term Low.

<sup>4</sup> Donald Trump's poll numbers suggest his popularity is waning, Chatham House - International Affairs Think Tank.

<sup>5</sup> Jobless rate rises, adding to Trump's economic messaging woes - POLITICO.

<sup>6</sup> Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14 Title VII, Finance, Subtitle B, Health, Chapter 1, Medicaid, Congressional Budget Office.

# The Autumn Budget and the year ahead.

The UK Budget is always a closely watched event. But the build-up to November's Autumn Budget was perhaps the most fevered in recent years. From Treasury flip-flopping to rampant speculation to the resignation of the chair of the Office for Budget Responsibility (OBR), there was no shortage of drama. So what does it all mean for investors, and what should we look out for in this year's Spring Statement?

In the Autumn Budget, Chancellor Rachel Reeves focused on revenue raising by freezing income tax thresholds and increasing a range of other taxes. By keeping income tax thresholds unchanged, the chancellor is allowing further 'fiscal drag' - so that more people end up paying more tax even if their wages just keep pace with inflation.

Meanwhile, tax on dividend income will rise this April, with taxes on property and savings gains rising in 2027. Various other tax breaks have also been curtailed.

### Investment over saving.

Other smaller measures included a 'mansion tax' on homes worth more than £2 million, a tax on electric vehicles and changes to the cash ISA allowance. From 2027, the cash ISA allowance will fall from £20,000 to £12,000 for those under 65.

But savers can still put the remaining £8,000 into a stocks and shares ISA and continue to benefit from tax-free gains on their total £20,000 allowance. This is intended to encourage investment over saving - so we see it as a positive move.

### Room for manoeuvre.

Overall, the tax increases in the Autumn Budget increased the government's 'fiscal headroom' - the buffer between its projected spending and its long-term commitments. This buffer now sits at £22 billion, up from the £9.9 billion forecast at the previous Autumn Budget.

This higher figure gives the government much-needed resilience and room for manoeuvre should economic conditions deteriorate.



The Year Ahead

Autumn Budget

Spring Statement

“ Inflation seems to be trending down, although it remains well above pre-pandemic levels. ”



### Tackling inflation.

Another positive aspect of the Budget was its anti-inflationary bent, particularly with regard to energy costs. Green levies in energy bills are to be scrapped from 2026 to 2029, and a fuel-poverty charge has also been dropped.

The OBR expects the Budget to reduce inflation by 0.4 percentage points this year.<sup>1</sup> Inflation is currently trending downwards - the annual inflation rate fell from 3.8% in September to 3.2% in November - while GDP growth remains muted.

This combination of disinflation and near-zero growth increases the likelihood of further rate cuts from the Bank of England (BoE). The central bank cut interest rates to 3.75% in December - the lowest level in over three years - and is expected to cut again in February. However, the OBR does not expect inflation to fall to the BoE's 2% target until 2027.<sup>2</sup>

### What happens next?

We are unlikely to see any big measures in the chancellor's next budgetary outing. The Spring Statement will be a more pared-back affair, particularly given Reeves's recent announcement that there will only be one fiscal budget per year.<sup>3</sup>

Overall, the Budget's bark was worse than its bite. Many of the planned tax rises announced in November won't take effect until April 2027 or 2028 - towards the end of the current parliament. The increased fiscal headroom should mean that the chancellor won't need to raise taxes again in the near future.

There is a risk that the government will roll back the announced tax rises as the general election looms. But the positive reaction in the gilt markets shows that - despite all the drama - the Budget has largely been taken well.

Sources:  
<sup>1,2</sup> OBR Economic and Fiscal Outlook, 26 November 2025.  
<sup>3</sup> FT, 10 December 2025.



# Use it or lose it: Preparing for the new tax year.

As the end of the tax year approaches, we look at how a little planning now can make a big difference for the future.

### ISA allowance.

Your ISA allowance is one of the simplest ways to keep more of your money working for you. You don't have to pay income tax or capital gains tax on any interest or investment gains you make within an ISA.

Each tax year, you can add up to £20,000 to your ISAs. If you're eligible, you can put up to £4,000 of that allowance into a Lifetime ISA. These savings will earn a 25% annual bonus of up to £1,000 from the government. But you must make the first payment before you turn 40. Once you're 50, you won't be able to pay into your Lifetime ISA or earn the bonus.

Any ISA allowance that's unused by 5 April disappears when the new tax year begins. So reviewing your position before the deadline can make a real difference.

### Pension contributions and allowances.

With tax relief on contributions, pensions are one of the most effective ways to build long term wealth. Your annual pension allowance is linked to your income. In most cases, you can receive tax relief on contributions up to the lower of your UK relevant earnings or £60,000. If you have little or no earnings, you can still contribute £3,600 gross each year.

If you haven't used your full annual allowance in the previous three tax years, you may be able to carry forward unused amounts to boost this year's contributions. When doing this, make sure you're calculating unused annual allowance, not unused tax relief, and that you meet all the relevant rules.

### Capital gains tax planning.

With the annual capital gains tax (CGT) exemption now much lower than before, it's a good idea to review your investments before 5 April.

Each tax year, you can realise gains up to the CGT allowance without paying tax. Because this allowance can't be carried forward, you might consider realising some gains before the deadline – particularly if you've built up profits on investments you're comfortable trimming or rebalancing.

### Dividend and savings allowances.

The dividend allowance is now just £500 for the 2025/26 tax year. So it's worth reviewing how your investments and savings are structured to avoid unexpected tax.

Anything above £500 may be taxable depending on your income tax band, unless the dividends sit within your personal allowance or are held inside an ISA. This makes it important to consider where your investments are held and whether you're making full use of tax-efficient wrappers.

Reviewing how your income is split between salary, dividends and interest can help you use these allowances efficiently.

### Gifting and inheritance tax planning.

Gifting allows you to support loved ones while reducing your estate for inheritance tax purposes. With various allowances available each tax year, reviewing your options can help you make the most of what's permitted.

Everyone has an annual £3,000 gifting allowance, which can be given to one person or split between several. You can also make small gifts of up to £250 to multiple individuals each year, provided they haven't already benefited from your allowance.

Scan and log in to your online account to use up your allowances.



Tax is subject to an individual's personal circumstances, and tax rules can change at any time. Pension eligibility and tax rules apply. ISA eligibility and tax rules also apply. This article is not personal financial advice.

Larger gifts may fall outside your estate, provided you survive seven years from when the gift is made. These are known as potentially exempt transfers. Although they can be useful in long-term planning, it's important to keep clear records and understand how taper relief applies if you pass away within the seven-year period.

### Business owners and directors.

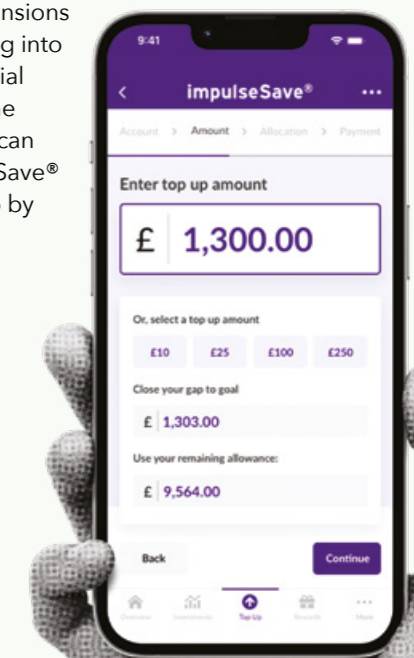
If you own a business or are a director of one, the run-up to 5 April is a good time to check that your mix of salary, dividends and pension contributions is working efficiently. With the dividend allowance reduced to £500, reviewing the timing and structure of withdrawals can help keep your overall position balanced.

Pension contributions remain a highly effective way to move profits into your personal planning, as employer payments are usually deductible for corporation tax. It's also worth checking any expenses, benefits or director's loan account balances to avoid unnecessary charges and keep your records tidy.

### Looking ahead with confidence.

As 5 April approaches, even small steps can make a big difference. Reviewing your allowances, tidying up investments, considering strategic gifts and checking how your income is structured: all of these help ensure your finances are working to build you a bright future.

To ensure you're making the best decisions for your circumstances, it's always worth speaking to your adviser. And remember that you can access your ISAs and personal pensions online by logging into your True Potential account or via the app, where you can use the impulseSave® button to top up by as little as £1.



# A small change, the same Insight.

From our next edition, True Insight will move to a digital-only format.

This change allows us to bring you the same thoughtful commentary, market insights and performance updates you value - but in a more flexible, accessible and sustainable way. A digital edition means you can read True Insight wherever and whenever it suits you, on your phone, tablet or computer, and revisit articles whenever you wish.

While the format is changing, our focus is not. We remain committed to keeping you informed with clear, relevant and high-quality insight to help you stay confident about your financial future.

If you would like to receive a digital version of True Insight, you will need to ensure that your marketing preferences are set to receive email communications. To do this you will need to log into your True Potential account, access **settings**, then select **marketing preferences**.

If you would still like to continue to receive True Insight as a print magazine, please scan the QR code below, or visit [truelpotential.co.uk/TrueInsight](https://truelpotential.co.uk/TrueInsight) to confirm your preference.



If you need any support you can speak to our dedicated team by calling us on 0191 500 9164, or log into your account to start a live chat or send us a secure message.

We are available 7am - 8pm weekdays  
and 8am -12pm Saturdays.



## Five-year performance.

Portfolios	31 Dec 2020 to 31 Dec 2021	31 Dec 2021 to 31 Dec 2022	31 Dec 2022 to 31 Dec 2023	31 Dec 2023 to 31 Dec 2024	31 Dec 2024 to 31 Dec 2025	Since launch annualised* (1 Oct 2015)
Defensive	+2.83%	-7.43%	+4.39%	+4.55%	+8.34%	<b>+3.04%</b>
Cautious	+6.28%	-8.75%	+6.02%	+6.37%	+11.50%	<b>+4.64%</b>
Cautious +	+7.77%	-9.99%	+6.95%	+7.38%	+11.00%	<b>+4.80%</b>
Cautious Income	+9.87%	-8.39%	+7.18%	+8.04%	+13.51%	<b>+5.60%</b>
Balanced	+9.81%	-10.50%	+7.97%	+8.36%	+12.88%	<b>+6.05%</b>
Balanced +	+10.76%	-10.49%	+8.07%	+9.22%	+12.29%	<b>+6.49%</b>
Balanced Income	+10.98%	-9.11%	+8.27%	+8.60%	+12.95%	<b>+6.00%</b>
Growth	+13.12%	-10.17%	+8.73%	+10.56%	+14.01%	<b>+7.68%</b>
Growth +	+14.25%	-11.01%	+9.77%	+12.15%	+14.41%	<b>+7.85%</b>
Aggressive	+15.59%	-9.22%	+9.64%	+13.31%	+15.77%	<b>+8.92%</b>

Source: Bloomberg LLP, 31st December 2025.

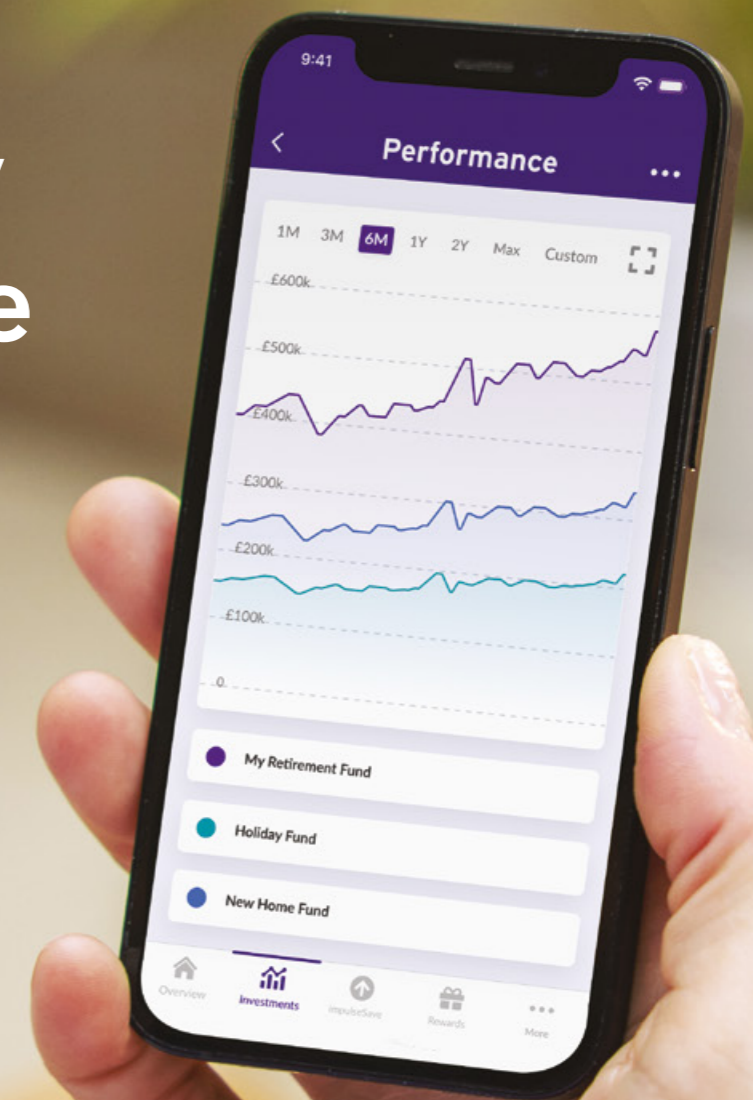
Figures shown after Ongoing Charges Figure (OCF) has been deducted.


\*An annualised return is a measure of how much an investment has increased on average each year during a specific period.

With investing, your capital is at risk. Investments can fluctuate in value, and you may get back less than you invest. Past performance is not a guide to future performance.

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