

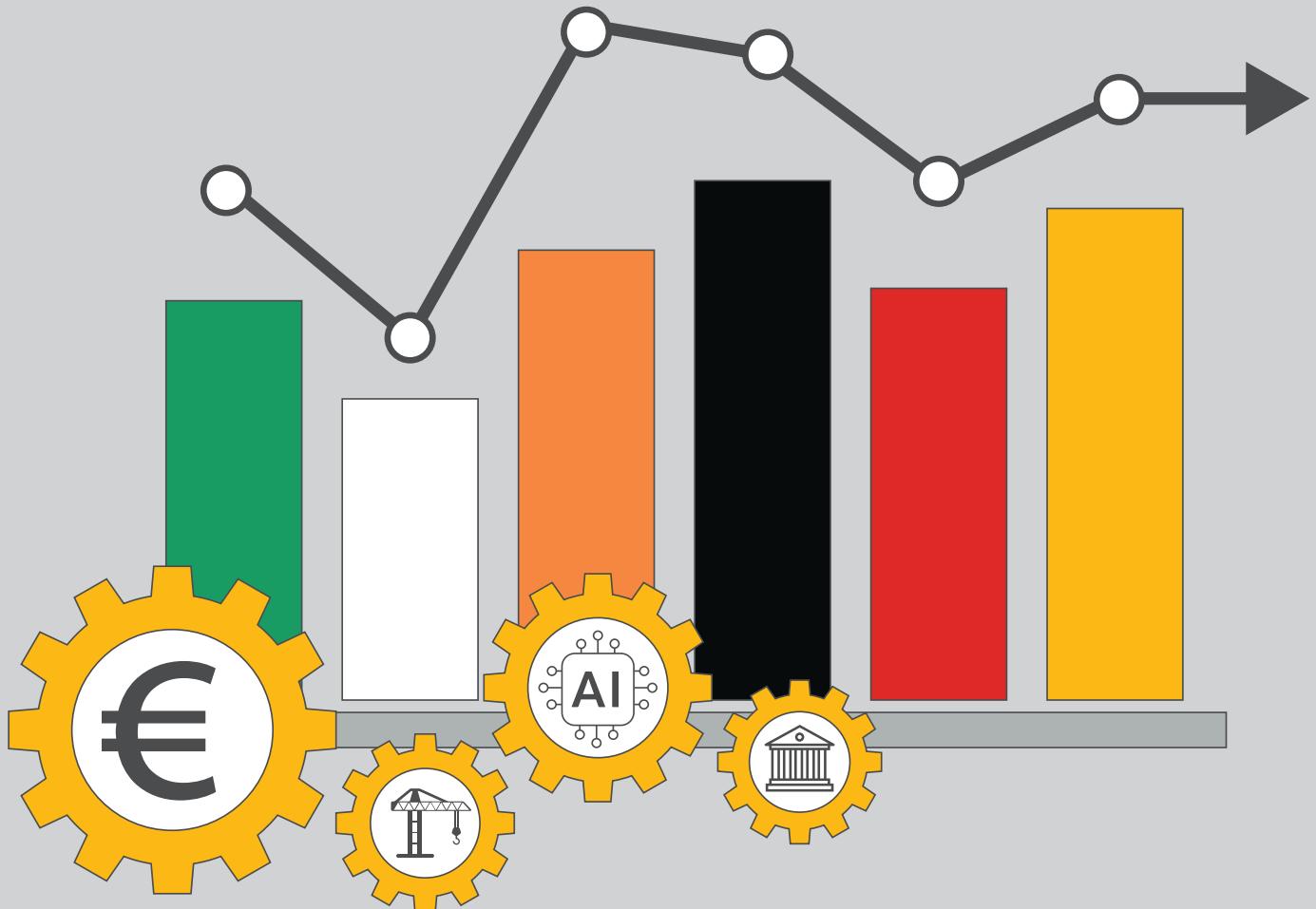
MARKET INSIGHT

Insight and analysis from Redmayne Bentley
straight to your inbox



ISSUE 46 - DECEMBER 2025

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In December 2025 we celebrated our 150th anniversary. As we look ahead to an exciting future we want to thank our clients, readers and listeners for all your support.

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RISK WARNING

Please note that this communication is for information only and does not constitute a recommendation to buy or sell the investments mentioned. Investments and income arising from them can fall as well as rise in value. Past performance and forecasts are not reliable indicators of future results and performance. The information and views were correct at time of publishing but may have changed at point of reading.



Redmayne Bentley

THE EVOLUTION OF UK EQUITIES

ANDREW RHODES | REDMAYNE BENTLEY

In this edition, we revisit our first Market Insight video which was created as part of our 150th anniversary celebrations.

Presented by Alastair Power, Investment Research Manager, the video looks at the UK equity market and, more specifically, the FTSE All-Share index. It offers insight and analysis of the index and how it has grown in the past 63 years.

Created in 1962, the FTSE All-Share index started at a base level of 100 points and the index today stands at more than 5,000 points. Driven by technological advances, privatisation campaigns, changing dynamics of retail and institutional investors, and more, the FTSE All-Share is today home to around 550 of the total companies traded on the London Stock Exchange.

Of course, things haven't always been so rosy for the index, with market crashes including Black Monday, the dot-com bubble, the Global Financial Crisis and, more recently, COVID-19 and geopolitical tensions impacting its growth.

With artificial intelligence (AI) being the current potential catalyst for great change in global markets, investors wait in anticipation of what it could mean for global firms, including those within the FTSE All-Share index.

Click the image below to watch the video, *The Evolution of UK Equities*.



5th December 2025 marked the beginning of Redmayne Bentley's 150th year, with John Redmayne, our founder, having set up his own stockbroking firm in 1875. This became the inspiration for the name of [Market Insight's sister publication, 1875](#).

To read more about our 150th anniversary and history, please visit: redmayne.co.uk/about/150th-anniversary

HOME STRAIGHT

ALASTAIR POWER | INVESTMENT RESEARCH MANAGER

Markets appear to have been in a consolidation period in the six weeks to mid-December, following the run of strong performance since the tariff-associated declines earlier this year. At the time of writing, major equity market indices around the world have delivered double digit increases through 2025 in local currency terms, with emerging markets and Asia Pacific markets particularly strong on resurgent investor interest in Chinese equity markets.

UK equities have produced attractive returns through the year, with the FTSE All Share Index rising 20.4% inclusive of dividends. Drivers of this performance are found across the banking and insurance sectors of financials, tobacco, and aerospace and defence. Further down the size spectrum, UK smaller companies have returned 10.3% for 2025 at the time of writing, a reasonable result given declining sentiment and continued outflows from UK equities.

November's Autumn Budget was met with positive reaction from bond markets, referenced by gilt yields declining in the aftermath. A steadfast commitment to the self-imposed fiscal rules and increased fiscal headroom were positively received, as was a lower-than-expected upward revision to current year gilt issuance and the cancellation of several gilt auctions by the Debt Management Office on budget day. 10-year UK government bonds continue to offer the highest yield of any of the G7 nations, despite positive factors that include a lower debt to GDP level than the average of the peer group, making them attractive to global investors. In a post-budget reaction, US bond giant PIMCO highlighted this attraction but noted caution around longer-dated bonds given their sensitivity to fiscal credibility risks.

Sticking with bond markets, Japan continues to gather investor focus, as the country's 10-year bond yield rises ever closer to 2%, a level not seen for some 20 years. A significant spending package of approximately US\$135.4bn aimed at supporting households through a period of persistent inflation has been highlighted as a key contributor to the yield increases.

Looking West, AI-related capital expenditure remains significant with limited signs of cooling. Facebook's parent company Meta was the most prominent example, issuing US\$30bn of debt to fund AI-related spending. Fears around debt-fuelled spending continue to be raised, with the Bank of England making recent comments on the issue. From a macroeconomic perspective, the process for appointing a new chair of the US Federal Reserve is underway, with new leadership expected in May 2026. As one of the highest profile central banking institutions globally, the appointment will be closely watched by investors globally.

Within the final edition of *Market Insight* for 2025, our Insight article touches on fiscal responsibility and investment within Germany, and the Stock Focus article shines a light on the Bank of Ireland Group.

With 2025 quickly drawing to a close, we hope the year has been a profitable one for readers and listeners, and wish you a relaxing festive period. ■

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STOCK FOCUS



BANK OF IRELAND GROUP

RUTH HARRIS | INVESTMENT RESEARCH ANALYST



As Ireland's financial landscape evolves, investors may look for ways to benefit from a concentrated banking market, an increasingly wealthy population, and growing demand for long-term savings and protection products. Bank of Ireland, one of the country's largest financial services groups, is closely tied to these structural trends. It operates in a market dominated by just three major banks, the Bank of Ireland, Allied Irish Banks, and Permanent TSB, serving more than four million customers across retail banking, wealth management, corporate lending and insurance.

Irish households are relatively affluent, with net financial wealth per household rising steadily in recent years alongside falling levels of wealth inequality. However, individuals tend to store wealth in deposits and housing equity rather than investment funds or insurance. With a relatively young population, Ireland is expected to see a structurally growing market for pensions, protection, and wealth products as young people mature and their financial needs evolve. Bank of Ireland may benefit from long-term demographic and behavioural trends. Compared to the UK, this is also supported by a lack of cash ISAs, which could encourage investment among

consumers although a more onerous tax system on investments could continue as a headwind.

“Challenger banks and digital entrants, such as Revolut, are raising customer expectations around technology and user experience, an area where Irish incumbents have historically lagged.”

Bank of Ireland operates through four main trading segments. Retail Ireland provides day-to-day banking for personal customers and small and medium-sized enterprises (SMEs), including current accounts, credit, payments and everyday financial services. Retail UK covers the bank's UK residential mortgage business, its Northern Ireland branch network, business lending, asset finance, and contract hire. The third segment is Corporate and Commercial, which provides lending, transaction banking, and treasury risk management solutions for national and international corporate clients.

The final division is Wealth and Insurance, which has grown significantly in recent years. It includes the life assurance subsidiary New Ireland Assurance Company (NIAC), which offers protection, pensions, and investment solutions through the bank's distribution network, independent financial brokers, and corporate partners. The 2021 acquisition of Davy further strengthened its wealth capabilities. While originally purchased following a conflict-of-interest ruling and a €4m fine, Davy remains Ireland's leading provider of wealth management and capital markets services. Bank of Ireland Insurance Services also sits within the Wealth and Insurance segment, offering general insurance products such as home, car and travel cover.

The group is nearing the end of a three-year strategic plan built around three pillars: strengthening customer relationships; simplifying the business; and, embedding sustainability. It has invested in product innovation and new

digital technologies to improve customer experience, while cost reduction and productivity initiatives aim to improve operational efficiency and support margins.

Shareholders have seen substantial returns over recent years, including over 100% share price performance over the last year. This has been driven by strong operating results. In the most recent interim results for the six months to 30th June 2025, the bank delivered profit before tax of €0.7bn, with the cost-income ratio improving to 48% and an adjusted return on tangible equity of 14.8%. Growth was broad-based across Irish loans, deposits, and wealth assets, with the wealth and insurance franchise reaching €55.6bn of AUM, a 3% annualised increase on the period prior. The bank also achieved a strong 40% share of new mortgage lending in Ireland in the first half of 2025.

In addition to developing new products to strengthen the customer proposition, Bank of Ireland is also returning a substantial amount of cash to shareholders, including a €590m share buyback announced at the start of last year. Since 2023, the group has returned €2.6bn through dividends and buybacks, equivalent to 22% of its market cap, and reduced its share count by 11%. The group declared an interim dividend of 25c and reiterated guidance for a progressive full-year dividend, contributing to an attractive income profile. Despite recent share price performance momentum, investors face several considerations. First, the bank remains rate-sensitive, and the long-term trajectory of European interest rates will influence margins. The group is increasing its structural hedge, a financial strategy used by banks to mitigate some interest rate sensitivity, but lower rates would still pressure earnings.

Competition is also evolving. Challenger banks and digital entrants, such as Revolut, are raising customer expectations around technology and user experience, an area where Irish incumbents have historically lagged. Meanwhile, costs are structurally higher across the sector, driven by regulation, need for digital investment, and wage inflation. Rising mortgage rates could also contribute to higher impairments if household financial stress increases.

Finally, the current share price valuation may give some pause following recent strong performance. Bank of Ireland trades at a premium to its listed peer Allied Irish Banks on a price-to-earnings basis, and also screens more expensive relative to its own historical averages. Part of this reflects expectations for sustainably high returns on equity, but it leaves less margin for error. Many investors will be looking towards the bank's refreshed targets and new strategic objectives which are to be announced in early 2026. ■

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INSIGHT



GERMANY: A FISCAL DISCIPLINE CASE STUDY

THOMAS HYDE | INVESTMENT RESEARCH ANALYST



Parts of the Carola Bridge, Dresden Germany, (collapsed on September 11, 2024) lying in the riverbed of the Elbe.

Germany is no stranger to economic malaise. Following reunification in 1990, the government poured billions into the eastern half of the country which had stagnated under communist rule. Support for infrastructure, industry and social spending in the East was aimed at bringing wages to parity with the much richer West. This spending, an equivalent deficit of 4.5% of West Germany's GDP, set the stage for a long-running tension between investment and fiscal discipline.

Scarred by the deficit spending of prior decades and the financial crisis of 2008, the German political class worried about the country's fiscal credibility. To combat this culture, Angela Merkel's first cabinet enacted the 'debt brake' or *Schuldenbremse* into law. This fiscal rule was designed to restrict federal structural budget deficits – when day-to-day public spending exceeds tax income – to 0.35% of GDP and German states had to balance the books. This rule provided fiscal discipline at a time when many developed economies

did the opposite. Between 2013 and 2019, Germany not only adhered to the rule but consistently achieved budget surpluses. As a result, German government bonds, also known as bunds, are widely regarded as one of the safest, most predictable assets in the Euro area. Markets have rewarded that discipline with lower yields, thereby reducing the country's borrowing costs should it need to respond to a crisis. This is exemplified with bond spreads, which compares the relative yield (the cost of borrowing) between two bonds of equivalent maturity. A wider spread means investors demand a higher yield to hold one country's debt over another. For example, the France-Germany spread reflects how much more France must pay compared with Germany, with higher French yields signalling that the market views bunds as the safer option. A major driver of this difference is Germany's stronger record of fiscal discipline because of its debt brake.

“Germany’s poor infrastructure, high energy costs, and rigid labour market are hitting its car makers the hardest.

What was once the heart of the country’s industrial economy is now struggling to keep pace with China.”

While the debt brake helped lower national debt below 60% of GDP, strict spending limits have constrained infrastructure investment required to maintain German competitiveness. To keep spending within budget, critical infrastructure such as roads, bridges and rail have gone without maintenance. In a 2022 paper, the transport ministry identified 4,000 bridges in need of modernisation, labelled ‘Brösel-Brücken’ or crumble bridges, in the press. The rail network tells the same story: 36% of long-distance trains ran late in 2023, a result that sits badly with Germany’s reputation for reliability. On top of that, uneven digital infrastructure has left parts of the country with poor connectivity. These infrastructure problems have created additional costs for German businesses as they must contend with delays and inefficiencies, increasing production expenses and reducing overall competitiveness.

Germany’s infrastructure woes have been acutely felt recently as the country has tried to diversify away from Russian oil and gas. Until 2022, Russia supplied around 55% of Germany’s natural gas imports, which was used to heat homes, generate electricity and to power the country’s industrial base. The

two countries’ energy interconnectivity, exemplified by the Nord Stream mega gas pipelines, came to an abrupt halt following Russia’s invasion of Ukraine. Almost overnight, Germany was forced to diversify its energy mix away from Russia, as it scrambled to secure alternative suppliers. The sudden transition pushed energy costs sharply higher, which particularly affected gas-intensive industries such as chemicals, metals, and manufacturing. Chemicals output has yet to recover from the shock as production fell by 12% and 9% in 2022 and 2023, respectively. Beyond industrial output, rising energy prices tend to dampen consumer demand as households forgo consumption in the face of higher heating and electricity bills.

Germany’s poor infrastructure, high energy costs, and rigid labour market are hitting its car makers the hardest. What was once the heart of the country’s industrial economy is now struggling to keep pace with China. A decade ago, China was considered a growth market for German car makers as they sold millions of high-margin combustion-engine vehicles to an emergent Chinese middle class. Now it is a different story. Warwick Business School notes that German market share in the Chinese market has dropped from 25% to 15% in just five years as domestic brands increasingly crowd them out. But the pressure is also being felt at home. Chinese rivals can build cheaper and faster, from production lines purpose-built for electric vehicles, backed by years of investment in battery technology. The shift is already reshaping Germany’s largest automaker. VW aims to halve its domestic production capacity and cut its workforce by 35,000 by 2030 as it cites “structurally lower sales in Europe and falling market share in China”.

The cumulative impact of these structural issues has pushed Germany to the bottom of the developed-world growth tables. The IMF estimates the economy has grown by just 0.1% since 2019, compared with 12% in the US and 4% across the Euro area. Chancellor Friedrich Merz has proposed a ‘fiscal bazooka’ in response which includes a €500bn infrastructure fund and increased defence spending, exempt from the debt brake, together worth around 11.6% of 2024 GDP. This aims to kickstart the economy and address the country’s maligned infrastructure.

Critics argue that new borrowing will drive up funding costs and eliminate the progress made to the fiscal credibility built under the debt brake, whereas proponents see this as Germany’s ‘whatever it takes’ moment, arguing that the rules were designed to provide headroom for this kind of additional spending. If bund spreads widen, the extra fiscal space created by loosening the rules could be eroded just as quickly as it appears. In many ways, one can strike similarities between the challenges faced after unification and the present day situation. ■

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