



STRATEGY UPDATE • DECEMBER 2025

Looking Toward 2026: Constructive but Selective Positioning

KEY TAKEAWAYS

- We enter the new year with a constructive outlook: monetary and fiscal conditions are gradually becoming more supportive, liquidity is improving, and earnings remain resilient across major economies.
- AI continues to drive a substantial share of US growth, but the opportunity set is broadening: quality companies with lighter capital needs and strong balance sheets should begin to benefit alongside the large platforms.
- Europe remains attractive through industrials, defence and high-dividend quality names, while EM Asia and Japan offer structural momentum supported by valuations, reforms, and a softer USD backdrop.
- Lower rates reduce the return potential of traditional fixed income, reinforcing the need for selective bond exposure and liquid alternatives as a core stabiliser.
- Gold and energy retain strategic relevance as hedges against policy uncertainty, geopolitical shifts and a structurally softer USD.

MARKET REVIEW

Markets moved sideways to modestly higher through most of November, with performance differing more by segment than by region. In the US, the S&P 500 ended the month roughly flat after a mid-month drawdown linked to the AI and tech correction, while the Nasdaq finished lower as investors questioned stretched valuations. Europe posted small but positive gains, with the STOXX 600 supported by banks and basic resources despite still-mixed growth data and political noise. Emerging markets, by contrast, saw their first meaningful setback in some time, as the MSCI EM index fell on the back of renewed weakness in China and broad portfolio outflows, even though markets like India held up better. Overall, November felt more like a consolidation phase after a strong run, rather than a change in the underlying trend.

MACRO OUTLOOK

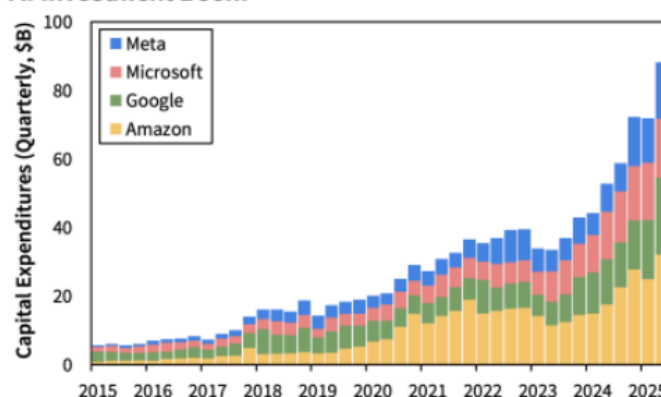
As we look toward the year ahead, the balance of macro forces appears more constructive than it has been for some time. Inflation continues to move closer to central bank objectives, allowing policy to tilt gradually toward easing, while fiscal settings in the US and parts of Europe remain supportive of demand. Global activity is moderating but remains far from recessionary conditions, and the earnings base is proving robust across regions. The AI investment cycle is broadening beyond the largest platforms, creating a wider opportunity set while reducing concentration risk at the margin. Europe benefits from attractive starting valuations and resilient sectors such as industrials and defense, while Japan and EM Asia offer multi-year structural tailwinds driven by reform, productivity and demographics. With liquidity expected to improve and policy uncertainty becoming more balanced, **the coming year begins with a favorable risk-reward backdrop** for diversified portfolios, albeit with a continued emphasis on quality, selectivity and disciplined risk management.

Looking ahead, the macro environment remains defined by a gradual transition toward more accommodative policy. Inflation in the US and Europe has stabilized closer to central bank targets, allowing monetary authorities greater flexibility to begin easing. Markets now expect the Federal Reserve to continue cutting rates in the coming months, supported by signs of cooling wage pressures and a gradual disinflation process. Fiscal policy in the US is set to remain expansionary, with several pro-growth and pro-business initiatives offering additional support to household income and corporate profitability. These developments, combined with healthy household balance sheets, point to a continued backdrop of above-trend consumption and capex in selected sectors. Financial conditions have eased materially compared to a few months ago, credit spreads remain tight, and bank lending conditions are improving at the margin, reinforcing the constructive environment for equities and other risk assets.

EQUITIES & AI

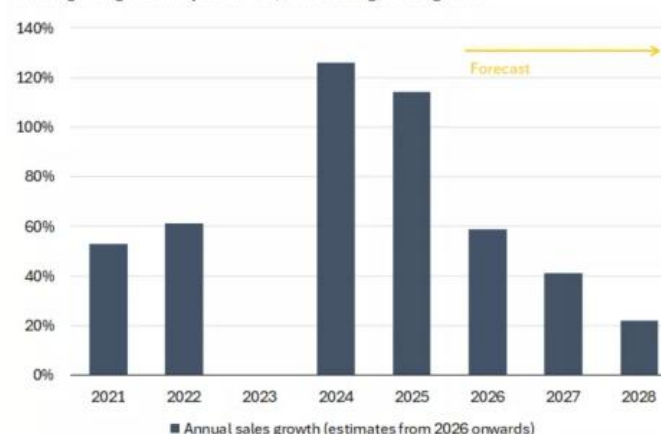
Within **equities**, the growth impulse in the **US** continues to be driven disproportionately by AI-related investment. The economy has taken a two-speed shape, with AI capex accounting for a large share of incremental growth while more traditional sectors have softened. Nevertheless, **earnings remain broad-based**: technology and communication services continue to deliver strong figures, while industrials and select consumer segments show improving trends. Importantly, **the leadership within AI is beginning to evolve**. The large platforms remain central to the theme, but their capital intensity is rising rapidly, and the build-out of data centers increasingly requires debt financing. As depreciation cycles shorten and balance sheets expand, **the quality of earnings will become a differentiating factor**. This creates a compelling opportunity to broaden exposure toward companies benefiting from AI adoption without the same capital

AI Investment Boom



Source: S&P, Sparkline. From Q1 2015 to Q2 2025.

Nvidia guiding to still spectacular, but slowing, sales growth



Source: Bloomberg.

demands – software, automation, cybersecurity, specialized semiconductors, and service providers. A barbell of the S&P 100 for core exposure and market-neutral equity strategies for downside protection remains a pragmatic and effective combination.

REGIONAL OPPORTUNITIES

In **Europe**, the investment case continues to rest on attractive valuations, improving medium-term fundamentals, and the strength of industrials and defense. The region's manufacturing cycle shows early signs of stabilization, and both public and private sector investment in infrastructure, energy security and digitalization support a constructive outlook. **Defense** spending remains on a multi-year upward trajectory across NATO countries, providing sustained visibility for earnings in the sector. **High-dividend quality** stocks offer a complementary way to gain exposure with lower volatility, benefiting from resilient cash flows and conservative balance sheets. While Europe faced political uncertainty in recent months, market reactions have been orderly and the region continues to price a more cautious economic scenario than the US, which leaves room for positive surprises.

Emerging markets retain an important role in a diversified allocation. **Asia ex-China** is particularly well positioned: **India** continues to offer one of the strongest structural growth stories globally, supported by demographics, domestic demand, infrastructure investment and corporate formalization. Near-term performance has been mixed, but the long-term trajectory remains compelling. We prefer accessing the theme through broad EM Asia exposure rather than concentrated single-country bets, allowing participation in the region's growth while avoiding boom-and-bust dynamics. Elsewhere, Latin America benefits from attractive valuations, improving external accounts and opportunities linked to global re-industrialization and commodity demand. A **softer USD** provides an additional tailwind across the EM complex.

Japan has become an increasingly attractive strategic allocation. Corporate reforms, rising dividends and buybacks, and a shift toward more efficient capital allocation continue to reshape the investment landscape. Valuations remain reasonable compared to global peers, and the economy benefits from capex linked to reshoring, robotics and digitalization. The market's improving governance framework and stronger international participation support a positive multi-year perspective.

FIXED INCOME & ALTERNATIVES

Within **fixed income**, the environment is shifting as lower rates compress return expectations. Government bond **yields are likely to trend gradually lower** as central banks ease, but the carry-on offer is modest compared to potential returns elsewhere in the portfolio. **Selective exposure to high-quality issuers** remains appropriate as a stabilizer, but traditional fixed income is unlikely to play a leading role in performance. **Credit spreads are tight**, reflecting supportive financial conditions, and we prefer maintaining only moderate exposure given the asymmetry at current levels. The role of bonds in a multi-asset context becomes **more about risk mitigation than return generation, motivating a larger allocation to alternative strategies with bond-like volatility profiles but higher potential returns**.

This is where **liquid alternatives** play an essential role. Market-neutral and absolute-return strategies offer an attractive way to generate mid-single-digit to high-single-digit returns with low correlation to equities and without locking into the subdued yield profile of traditional bonds. These strategies have proven resilient through recent periods of volatility and provide useful diversification, especially in scenarios where equity markets consolidate after strong gains. In addition, they allow portfolios to maintain risk exposure while reducing sensitivity to policy swings and cyclical factors.

GOLD, ENERGY & CURRENCIES

Gold and energy remain strategically relevant. A structurally softer USD combined with lower real interest rates supports gold as both a store of value and a hedge against policy uncertainty. Geopolitical tensions continue to justify maintaining exposure, and central bank buying remains a strong underpinning for demand. Energy markets stand to benefit from resilient global consumption, underinvestment in supply, and potential supply disruptions. Both themes add robustness to portfolios, especially in an environment where policy paths may diverge across regions.

Currencies also play an important role in shaping risk allocation. While the USD regained some strength recently, **the broader trend remains toward a softer dollar**, supported by monetary easing and expanding fiscal deficits. For EUR-based investors, this environment encourages greater diversification toward EUR and CHF assets, while gold remains an effective hedge. Currency-aware portfolio construction helps stabilize returns, especially when global policy paths diverge.

PORTFOLIO OUTLOOK

In conclusion, the combination of stabilizing inflation, supportive policy, strong earnings and resilient global demand provides a **solid foundation for risk assets**. The AI theme remains powerful but increasingly requires selectivity, favoring high-quality companies with lighter capital needs alongside the established leaders. Europe offers attractive valuation and thematic exposure, EM Asia and Japan provide structural growth, and alternatives complement equity exposure by offering returns independent of traditional fixed income. We therefore maintain an overweight in equities and alternatives, a selective stance in fixed income, and a continued preference for gold and energy as strategic diversifiers.

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