



2026 Outlook

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Contributors: Marco Bonaviri, Charlie Carré, Christophe Leroy, and contributions from CBH Asia & 1618 Investimentos

Design: Kateryna Polishchuk

Contact: am@cbhbank.com

The Year of the Prisoner's Dilemma

Key Takeaways

- 2026 is a phase shift: the forces driving markets are still powerful, but their constraints and trade-offs are becoming more visible.
- The world is moving from “pure economics” to strategic competition, where access to compute, power and capital increasingly shapes outcomes.
- AI is moving from a “digital story” to a physical build-out (data centres, chips, grids, electricity), making bottlenecks and capex discipline decisive.
- The Prisoner's Dilemma is a useful lens: individually rational decisions can create collective excess, lowering returns for builders even when adoption is strong.
- The key challenge for investors is to develop a 360° view of second-order effects (energy, infrastructure, supply chains, regulation) to position portfolios for shifting winners along the value chain.

If there is one lesson markets keep teaching us, it is that the forces shaping returns are rarely linear. They unfold in phases: they emerge quietly, accelerate rapidly, and eventually change character. 2026 looks like one of those moments — not because we expect a dramatic break with the past, but because several powerful trends are reaching a point where choices, constraints and trade-offs are becoming more visible, for governments, companies and investors alike.

Recent market dynamics have often required investors to stay significantly invested, even as leadership became increasingly concentrated. The challenge is that such environments can change quickly, as the drivers behind them evolve or collide with real-world constraints. This Outlook is therefore about building a broader understanding of a transition that is both technological and physical, to better adapt portfolios as the landscape changes.

The defining feature of the current cycle is that it is increasingly shaped by strategic competition rather than pure economics. Countries are competing for secure supply chains, energy independence and technological leadership. Companies are competing for scale, talent and access to scarce resources such as compute power, electricity and capital. Investors, too, face a form of competition: how to remain exposed to long-term opportunity without

paying too high a price for it, and how to generate returns in a world where opportunities require greater selectivity and discipline.

One concept helps frame many of these dynamics: the Prisoner's Dilemma. In several areas of the global economy, actors are faced with decisions that are rational individually but may lead to suboptimal outcomes collectively. Artificial intelligence offers the clearest illustration of this tension, but the same logic increasingly applies to energy systems, industrial policy and broader investment choices.

AI is undeniably one of the most powerful technological transformations of our time. After years dominated by breakthroughs and enthusiasm, the conversation is gradually shifting. The key question is no longer whether AI will change the economy — it will — but how that change will be financed, scaled and absorbed. AI is often perceived as a digital phenomenon, yet its deployment is profoundly physical. Data centres, semiconductors, cooling systems and electricity are now essential inputs. As AI expands, capital and power — rather than ideas — increasingly become the binding constraints.

This creates a dilemma. Each major player has a strong incentive to keep investing, to avoid falling behind in a rapidly evolving landscape. Yet when all

participants pursue the same strategy, the collective outcome may involve overinvestment, pressure on returns and growing dispersion between those who can translate innovation into sustainable economics and those who struggle to do so. This is not a pessimistic view of AI; it is a reminder that technological progress and investment outcomes do not always move in lockstep.

One of the most tangible expressions of this transition is the growing convergence between AI and the physical world. Robotics illustrates this shift particularly well. Advances in artificial intelligence are increasingly enabling machines to interact with their environment, extending automation beyond factory floors into logistics, healthcare and services. Demographic trends, labour shortages and supply-chain reconfiguration all reinforce this movement. Over time, productivity gains from AI are likely to be realised not only through software, but through physical systems embedded in the real economy.

This brings electricity and infrastructure into sharper focus. For decades, electricity was a stable and largely invisible input. That is no longer the case. Electrification, data centres and AI workloads are driving a structural re-acceleration in power demand. The challenge is not only generating electricity, but delivering it where and when it is needed. Permitting, grids and equipment are becoming critical constraints, reminding us that technological revolutions ultimately depend on physical foundations.

In such an environment, portfolio construction naturally takes on greater importance. Over the past year, income-oriented strategies illustrated how carry can play a stabilising role — not just as a source of yield, but as a way to make returns more predictable when markets are volatile and leadership is concentrated. At the same time, investment styles built around discipline and resilience, such as quality, have tested patience in risk-on phases, even though their long-term role within diversified portfolios remains intact.

Europe, finally, offers its own version of the Prisoner's Dilemma. The region does not lack capital, skills or ambition. What it struggles with is coordination and execution. As Europe confronts the need to invest in energy systems, infrastructure and industrial renewal, the challenge is less about affordability than about

mobilisation. For investors, this implies that exposure to Europe's long-term potential may take different forms, sometimes beyond traditional public markets. Across all these themes, a common message emerges. The world is not short of opportunity, but it is increasingly shaped by constraints — physical, financial and political. In such a setting, the objective is not to forecast with certainty, but to build understanding. To recognise where incentives align, where tensions arise, and where patience and discipline are likely to be rewarded.

This Outlook is therefore not about definitive answers. It is about asking the right questions, acknowledging complexity, and approaching the future with confidence — not in prediction, but in preparation.

Macro Outlook – United States

Key Takeaways

- U.S. economy held up in 2025 despite trade tensions and the longest government shut-down; tech investment and household spending remained strong.
- OBBBA tax cuts support consumption but favor top earners.
- High-income households benefit from wealth effects, while lower-income households see slower wage growth.
- Tariff increases and inflation pressures persist through mid-2026.

Despite a backdrop of volatile and confrontational trade policies and the longest government shutdown on record, **the U.S. economy remained resilient in 2025**. Technology investment gained further momentum, even as uncertainty persisted, and household consumption showed little sign of weakening. Economic growth moderated without breaking.

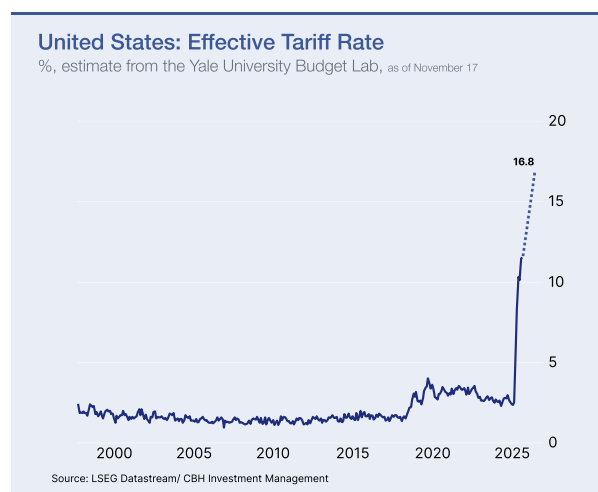
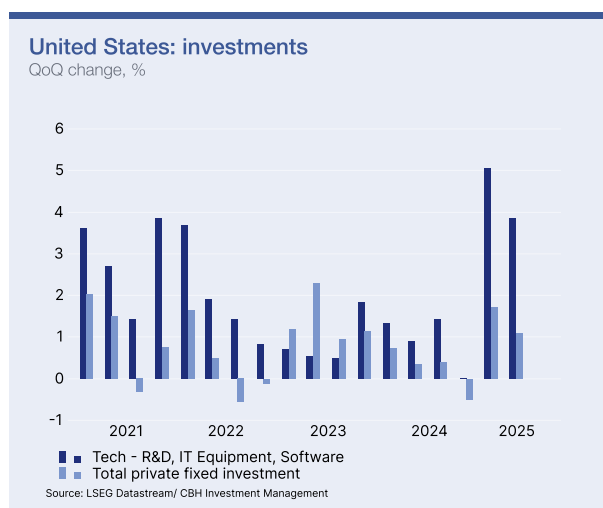
However, this strength conceals widening disparities across income groups. Higher-income households continue to benefit from substantial wealth effects, supported by rising housing prices and robust financial market returns. While wage growth has moderated across the income distribution, high-income earners are experiencing robust wage growth—well above pre-pandemic norms—whereas lower-income workers' wages have decelerated markedly.

Looking ahead, household consumption is

expected to be supported by income tax cuts introduced under the One Big Beautiful Bill Act (OBBBA). Historically, U.S. consumers tend to spend a large share of such windfalls relatively quickly. However, the impact will be highly uneven. OBBBA measures are likely to further widen income disparities. Cuts to Medicaid and food assistance programs will affect lower-income households, while tax reductions will disproportionately benefit higher-income earners. According to the Tax Policy Center, an estimated 60% of total tax relief will accrue to the top 25% of the income distribution.

Investment is expected to benefit from continued strong AI-related investment, a boost from new and enhanced business incentives in the OBBBA and a renewed deregulation push.

The full economic impact of recent tariff increases has likely yet to be felt. While the observed tariff rate—measured as customs duties relative to import



values—stood at only 11.5% through September, the Yale Budget Lab estimates that consumers face an average effective tariff rate of 16.8%. Consequently, inflation is expected to continue rising through mid-2026, as higher import prices and spillovers to domestically produced goods and services lift the overall price level.

Against this backdrop, monetary policy must strike a delicate balance between responding to easing labor market conditions—amid tighter immigration policies that are both exacerbating labor shortages and dampening labor demand—and addressing inflation that remains above target. The Federal Reserve is therefore navigating a challenging trade-off between supporting full employment and preserving price stability.

The Fed lowered rates by 75 basis points between September and December, with projections pointing to one additional cut in 2026. Yet caution remains warranted. Inflationary pressures persist, and although labor market conditions are easing, they do not indicate a sharp slowdown. The Fed is likely to maintain its focus on keeping inflation expectations well-anchored. Fed Chair Jerome Powell, in office through May 2026, has highlighted that the policy rate is now near the neutral range and that monetary policy is only moderately restrictive. At the same time, recent challenges to the Fed's independence and rising divisions within the committee have added uncertainty and contributed to increased volatility in market expectations.

Macro Outlook – Euro area

Key Takeaways

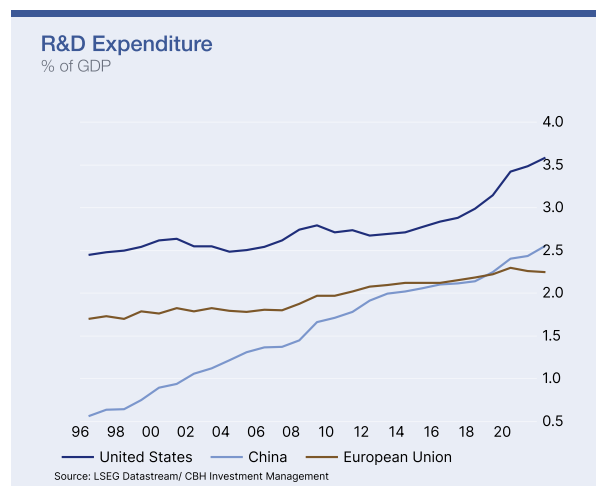
- Growth should continue into 2026, but structural constraints—weak innovation, aging demographics, and declining competitiveness—will limit potential.
- Inflation is near target, allowing the ECB to keep policy unchanged while monitoring services inflation.
- Europe has shown resilience amid external shocks.
- Fiscal support may boost activity, but its impact hinges on investment quality and structural reforms.
- Consumption should improve as real incomes rise, though high savings and weak confidence persist.

The year 2025 has brought Europe back into the spotlight. Germany's new government eliminated the constitutional debt brake and launched major infrastructure investments to lift the economy out of its prolonged stagnation. Meanwhile, pressure from the U.S. administration has prompted European policymakers to reassess military autonomy, resulting in a sustained increase in defense spending across the region. Despite an adverse external environment marked by trade tensions, intensifying Chinese competition, and significant cross-country disparities, the European economy has shown remarkable resilience.

Looking ahead to 2026, we expect Europe's economy to remain on its current trajectory. However, **structural challenges will continue to limit its growth potential.** These challenges have been well-documented, particularly in the Draghi report. Nevertheless, the region's fragmentation will likely impede meaningful progress. Europe lags far behind China and the United States in technological innovation, and its strategic autonomy is constrained by insufficient coordination, investment, and competitiveness. Although household savings are substantial, they remain largely underutilized. At the same time, adverse demographic dynamics, such as a shrinking labor force and rising dependency ratios, will weigh increasingly on potential growth. Population aging implies significant investment needs at a time when Europe must also finance defense, accelerate decarbonization, foster innovation, and

support strategic sectors.

Competitiveness has deteriorated markedly, as evidenced by the worsening bilateral trade deficit with China. This decline stems from several interrelated factors. Relative price competitiveness has eroded due to higher labor costs, heightened producer-price inflation, and the euro's appreciation against the renminbi. Meanwhile, a widening innovation gap has undermined industrial performance. China surpassed the EU in R&D spending in 2019 and has since made significant progress in key sectors, particularly automotive, where Europe has historically held a strong competitive advantage. Over the past twelve months, automobiles have been the single largest contributor to the deterioration of the EU–China trade balance.

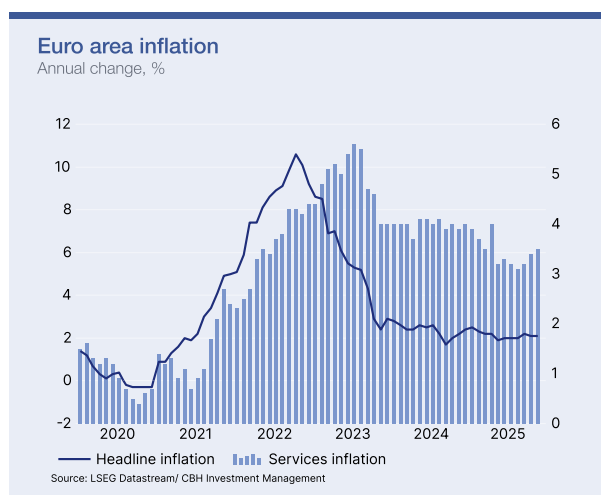


In 2026, robust labor markets and rising real incomes should boost household consumption.

The employment situation remains tight, with persistent shortages in certain sectors and historically low unemployment rates. Although a decline in the savings rate could boost consumer spending, confidence remains subdued, despite some recent improvement, and remains well below pre-pandemic levels. Meanwhile, private investment is expected to remain constrained by elevated trade uncertainty, Europe's loss of competitiveness, and weak demand from China and the United States. Improved financing conditions are offering some offsetting support.

Despite cross-country divergences, public finances should also play a supportive role in economic growth. Germany is expected to roll out its fiscal program, which could provide a meaningful short-term impulse to activity. However, the macroeconomic impact of fiscal spending will depend critically on its composition. While additional spending will mechanically support demand, the fiscal multiplier and the effect on potential growth will vary significantly depending on how resources are allocated. There are growing concerns that a substantial share of the German plan could be used to fill gaps in the regular budget rather than to finance productivity-enhancing investments such as innovation and infrastructure. To maximize its effectiveness, fiscal expansion should be accompanied by structural reforms aimed at improving the business environment. This is particularly important at a time when the region is grappling with the legacy of years of underinvestment, declining competitiveness, intensifying competition from China, and persistently high energy costs in the aftermath of the war in Ukraine.

is well below 2%, while services inflation remains significantly above its pre-pandemic average, reflecting strong wage growth. This wage pressure is supported by structural demographic factors, notably the retirement of baby boomers alongside slower immigration inflows. Overall, inflation is in a favorable position but still warrants close monitoring. Against this backdrop, the ECB is expected to keep its policy stance unchanged at future meetings.



Inflation is close to the ECB's target. Goods inflation

Macro Outlook – Other advanced economies

Key Takeaways

- UK growth is constrained by trade uncertainty, and subdued household consumption.
- Limited policy space: in the UK, high inflation and tight fiscal conditions limit policy responses, while elevated gilt yields signal market concerns over fiscal credibility.
- Swiss exports and industrial production are weakening due to U.S. trade tensions, though services and household demand remain resilient.

United Kingdom: Weak Momentum, Tight Constraints

GDP growth is expected to slow in 2026. Momentum is weak, reflecting continued drag from budgetary tightening and household consumption, as well as persistent headwinds from global uncertainty. Fiscal consolidation weighs on disposable incomes, and a cautious external environment limits the contribution of net trade.

The 2025 autumn budget has been designed to contain government debt but it lacks a strategy to promote growth, investment, and innovation. Investment remains lackluster due to high financing costs and sluggish productivity growth. Persistent trade frictions also curb corporate appetite for capital spending. External demand offers little support, as subdued growth in the Eurozone and uncertainty regarding U.S. demand constrain export prospects.

United Kingdom 30-Year Bond Yield



Source: LSEG Datastream/ CBH Investment Management

Policy space remains tight. Although inflation will approach the target level in 2026, it is expected to persist in the services sector, prompting the Bank of England to exercise caution regarding rate cuts. Meanwhile, elevated gilt yields, particularly at longer maturities, signal market concern over fiscal sustainability, which restricts the government's ability to use fiscal policy to support growth.

Switzerland: Growth Loses Momentum Amid Trade Pressures

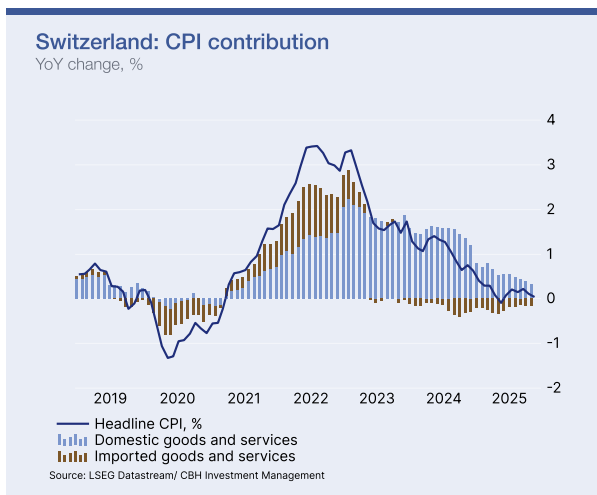
The Swiss economy has become increasingly exposed to the repercussions of the escalating trade conflict, and the impact is now clearly visible in activity. After a strong start to the year fueled by anticipatory export frontloading, momentum quickly faded. Industrial value creation weakened, and exports fell sharply. The chemical and pharmaceutical industries were particularly affected. The contraction in the third quarter largely reflects this drop in exports. As a small, open economy, Switzerland is vulnerable to abrupt shifts in external demand and tariff shocks from major trading partners.

Although the pharmaceutical industry has been spared from tariff increases, the broader export ecosystem has come under significant strain. Business surveys indicate a more cautious investment climate, influenced by uncertainty regarding future market access and the ongoing appreciation of the franc.

In contrast, domestic demand has shown greater

resilience. The services sector continues to grow steadily, supported by consumer spending that has remained strong despite an uncertain outlook. Inflation remains exceptionally subdued. A stronger currency and lower energy prices have kept imported cost pressures in control, and domestic price dynamics, particularly in services, remain contained. The softening labor market is also restraining wage growth, further reinforcing the overall disinflationary environment.

Looking ahead, normalizing trade relations with the United States by reducing tariffs and ratifying revised agreements with the European Union will be critical to stabilizing expectations and restoring confidence in Switzerland's highly export-dependent sectors.



Macro Outlook – Asia

Key Takeaways

- Monetary divergence: Japan tightens while most Asian central banks have greater tendency to ease, creating differentiation opportunities across equity, bonds and currency.
- Regional Integration: Intra-Asian trade flows accelerate, though imbalances and challenge persist with China remain the dominance force, and political risk being the elephant in the room.
- AI Supercycle: Technology exports bolster key economies with positive spillover effects on wages and domestic consumption. China advances domestic semiconductor capabilities under its 15th Five-Year Plan.

Moderating but Resilient Growth. Asia Pacific's 2026 growth trajectory reflects the intersection of structural opportunities and cyclical challenges. The AI super boom and receding impacts from tariffs should support regional expansion further in 2026. Gradual wage growth supports domestic consumption, while improving corporate governance creates positive wealth effects. Emerging markets such as Vietnam and Indonesia are expected to deliver solid growth given solidified role as manufacturing hub amid tighter intra-Asian trade. Meanwhile, Japan, South Korea and Taiwan remain the key beneficiary from the global demands for AI chips. China should pave a step further away from deflation through sustained fiscal and monetary supports.

Inflation remains benign across the regions, with price growth maintains at steady level albeit above historical norms. This “semi-goldilocks” environment provides central banks with considerable flexibility to balance inflation and domestic growth, sharply contrasted to persistent inflation concerns in the US and Europe. Financial conditions will ease considerably, supported by a weaker US dollar, compressed credit spreads, and lower government bond yields, creating favourable backdrop for corporate investment and consumption, particularly in emerging market. The AI semiconductor boom remain a key bright spot, with global demand for advanced chips, servers, and data center infrastructure surging globally, benefiting economies with strong semiconductor and equipment capabilities such as South Korea, Japan and Taiwan.

China economic trajectory will be shaped by the new 15th Five-Year Plan (2026-2030), emphasizing traditional industries upgrading, advancing high-tech manufacturing, and achieving technological self-reliance. China's growth prospect expects to be cautiously optimistic with export performance set to improve if US-China tariff disputes resolve favourably, which will also improve the non-tech exports. China will pursue further fiscal and monetary easing to underpin domestic consumption, while maintaining strategic focus on critical technologies such as semiconductors, advanced materials, biotechnology, green transformation and AI. However, the prolonged property sector downturn, external pressures from global trade tension, moderating global demands and fiscal constraints add to potential downside risk. Successful rebalancing the economy from investment and export driven growth toward a sustainable, consumption and innovation-led model will require substantial government commitment.

The global AI revolution also plays a key role for China to pivot the economy from export led into more innovated, tech driven model especially in AI infrastructure where its unmatched scale in green energy provides a competitive advantage. As the world's top producer of solar panels, wind turbines and battery storage systems, China can leverage low-cost, abundant clean energy to power energy-intensive data center to cater the rising compute needed for next generation AI and cloud services. The “Eastern Data, Western Computing” initiative will integrate wind, solar and hydro resources to

power new hyperscale AI facilities with target to double its data center capacity by 2030, as well as improve the energy and carbon efficiency per unit of computing power to internationally advanced levels. Concurrently, domestic semiconductor manufacturing aims to achieve mass production beyond 14nm chips and overcome technological barriers for more advanced nodes, fulfilling the government's self-reliance ambitions and potentially establishing China as a significant chip exporter.

The People's Bank of China (PBoC) is expected to implement two 10bp cut to the benchmark lending rates in Q1 and Q3 2026, alongside a 50bp cut in reserve requirement ratio in 1H26 to support economic and credits growth while addressing deflationary pressures. Additional fiscal stimulus is likely in Q1 2026 to revive domestic demands, and a potential property sector stabilization fund may launch to support market recovery.

Japan's economic trajectory for 2026 appears set for modest growth as it navigates domestic strengths alongside global uncertainty. The incumbent administration led by Sanae Takaichi will push for further fiscal expansion to ensure sustainable growth with fiscal stimulus package likely including increasing the national security commitment alongside household support measures such as energy subsidies and income tax reduction to boost domestic consumptions. Persistent wage growth supports Japan's ongoing transition toward a more consumption-driven economy and to minimize the reliance on the exports, particularly in the auto sector.

Japan's economic resilience will be tested from both domestic structural challenges and international uncertainties. While domestic demand remains the primary growth engine, external risks, particularly potential tariff escalations and weakening global trade, pose significant downside threat. Inflation dynamics present a mixed picture; while headline figures have recently exceeded the central bank's target, but underlying price pressures remain relatively contained. This suggests the Bank of Japan (BoJ) will maintain its gradual policy tightening approach, with a 25bp rate hike in Q1 2026 to anchor inflation toward its 2% target and optional with another 25bp hike in the second half if inflation proves persistent. The labor market will continue providing stability with unemployment near historic lows, though

demographic pressures and productivity constraints will limit Japan's long-term growth potential. In a nutshell, 2026 represents a year of consolidation where Japan demonstrates capacity for steady progress amid complex global conditions.

South Korea's economic outlook will continue to enjoy modest growth due to ongoing semiconductor supercycle, with robust global demand for advanced memory chips (DRAM, HBM) and foundry services driving robust export growth and operating profits for local tech giants such as Samsung and SK Hynix. Government support through the "K-Chips Act" and targeted investment in AI and semiconductor industry, fostering further industry innovation and supply chain resilience.

The economic outlook is further bolstered by improving domestic consumption, driven by moderating inflation and wage gains that boost real household incomes, supported by government stimulus measures. The benign inflation outlook gives the central bank the flexibility in prioritizing financial stability, especially regarding housing prices and elevated household debt, by holding its key rate at 2.5% with potential cuts later in the year as consumption and inflation data permit further easing. Similar to Japan, the "Value Up" program is gaining momentum, encouraging voluntary corporate governance reform to address the long-standing "Korea discount" in equity valuations through better capital allocation, enhance corporate transparency, and greater shareholder engagement. While opportunities abound in AI innovation, earnings growth, and governance improvement, downside risks persist from global trade uncertainty, semiconductor sector vulnerability and domestic debt weakness. Overall, Korea's dual strengths in technology leadership and corporate reform position it favourably for 2026, even as it navigates the persistent structural challenges.

Hong Kong's gradual transition toward financial services and wealth management is expected to drive growth in 2026. The city's core strength as a global financial hub will increasingly depend on successful integration with mainland China's economic transformation and diversification into high-value services sectors. The Greater Bay Area (GBA) initiative and ASEAN corridor connectivity are set to further boost Hong Kong's role as a bridge between Mainland China, Southeast Asia, and

international markets, particularly as cross-border fintech innovation and green finance regulations gain traction. Despite these opportunities, Hong Kong faces challenges from its sluggish property market especially in the commercial segment that poses risk to bank loan portfolios. External risks, particularly US-China relations and global financial market volatility, remain critical watchpoints.

India's economic outlook for 2026 remains robust, underpinned by vibrant domestic demand, regulatory reform supporting public and private investment, and policy improvements across trade, industrial and tax system that enhance growth and consumption. But the export performance may face headwinds from persistent US and global tariff pressures. Political stability is expected to continue, supported by Prime Minister Modi's high approval ratings and a fragmented position, ensuring policy continuity. Domestic consumption remains the primary growth engine, especially with the support from tax cut, while the manufacturing sector, particularly electronics and automotive components, is gaining momentum through production-linked incentives.

India's economic trajectory will be shaped by its ability to navigate critical challenges while maintaining reform momentum. The US trade dispute remains a key concern but recent de-escalation signal potential resolution. Inflation management remains a key priority for the Reserve Bank of India, which must balance growth support with price stability amid volatile global commodity markets. The 2026 outlook remains positive, but realizing India's full potential will require continued progress on infrastructure development, skill enhancement, and stable geopolitical environment to boost investor confidence and attract foreign investment.

The ASEAN region's economy is projected to maintain steady growth in 2026, albeit at a moderately decelerating pace amid global trade uncertainties and geopolitical tensions. The positive development in domestic demands, private sector supply chain adaptability, and stable policy fundamentals including inflation targeting and fiscal discipline are key growth support. Vietnam is expected to lead regional growth due to the rapid expansion in electronics manufacturing, supported by targeted policy stimulus aimed at transforming

the country into a key electronics assembly hub. Ongoing fiscal expansion under new administration will continue support Indonesia's growth, and the expansion of informal sector providing resilience against external shocks. Both the fiscal and informal sector expansion target domestic consumption by prioritizing domestic resources and leverage on its relatively young population.

Investment prospects in ASEAN remain compelling, particularly in technology, digital economy, and sustainable sectors, with the region positioned as a critical node in global supply chain reconfiguration. The anticipated ASEAN Digital Economy Framework Agreement (DEFA), targeting finalization in Q1 2026 and formal signing by end-2026, should enhance cross-border data flows and e-commerce infrastructure, attracting foreign direct investment (FDI) into AI, semiconductors, renewable energy, and EV supply chains. Intra-ASEAN trade integration create opportunities for productivity gains and job creation through financial and technology sector collaboration, enable cross-border payment linkages, improving funding access, and expanding market reach beyond domestic boundaries.

Macro Outlook – Brazil

Key Takeaways

- Tight monetary conditions are transmitting more forcefully to the real economy as credit momentum weakens and highly leveraged households with elevated debt service burdens restrict consumption.
- Brazil faces a cyclical deceleration.
- Inflation is slowing down, led by goods and food, but labor-intensive services remain sticky, keeping the Central Bank cautious.
- Elevated institutional friction and a pre-election backdrop reduce policy predictability and heighten the unpredictability of macro and market outcomes.

Activity is gradually slowing, which is in accordance with the highly restrictive real rate in place. Recent growth has run near 2% y/y, with household consumption more subdued and some backing from investments and government spending. On the supply side, cyclically sensitive segments such as manufacturing and retail are cooling, while agriculture and commodity linked sectors remain comparatively resilient. With real rates around 10%, tighter financial conditions should continue to erode domestic demand and push growth to a lower cruising speed.

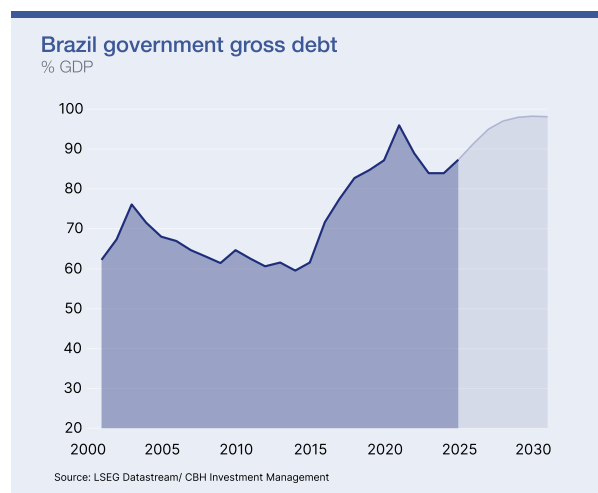
Unemployment remains near historical lows at 5.5%, but hiring indicators already suggest recent moderation in net job creation. Going into 2026, tight monetary policy is likely to show up more clearly through weaker labor demand, slowing the economy through the employment level and income dynamics. Household balance sheets are also less supportive, with elevated leveraging, at 48.9% of income and debt service burdens at 28.5%, alongside marginal deterioration in delinquency metrics. As a result, consumption becomes increasingly sensitive to any softening in the labor market.

Inflation is on a colling trajectory, with the clearest relief concentrated in household food and manufactured goods. The stickiest component remains top be labor intensive services, which slows convergence given its weight in the consumption basket. On recent prints, the last 12 months inflation has moved from 5.32% to 4.94%, and market expectations point to year end inflation touching the upper bound of the target band, 4.5%. The forward path therefore hinges on services, which will largely

determine both the pace of convergence and the room for more decisive rate cuts.

Given the persistence in services, **the Central Bank has limited incentive to deliver short-term easing**. Still, under our base case, we expect the easing cycle to begin in the first quarter of 2026 as inflation continues to converge to the target and the growth impulse weakens under restrictive financial conditions. In practice, front end relief in the yield curve may arrive sooner than long end repricing, with the extent of term premia compression remaining highly contingent on the fiscal outlook and domestic political risk.

Fiscal conditions remain the central economic risk. With an expansionary bias and the legacy of several years of elevated spending, public debt is close to 75% of GDP, reinforcing the need for spending control measures and a more predictable fiscal path to anchor risk premia. The political



economy is becoming less conducive to adjustment, as institutional tensions and the electoral cycle constrain cohesion building and policy coordination. The administration also faces incentives to accelerate spending ahead of the election, reinforcing a more binary and polarized outlook. In 2026, outcomes may range from improved fiscal credibility and reform coordination, which would compress risk premia, to persistent uncertainty, incremental measures, and continued pressure upon spending, which would raise the cost of capital and market volatility.

We continue to view Brazilian inflation linked bonds as one of the most attractive domestic asymmetries, with real yields around 7% and a 40% portfolio allocation. In a scenario of moderating inflation and the possible start of policy easing in 2026, carry remains meaningful given a probable real rate compression, especially if fiscal perceptions do not deteriorate. We target a duration of 6 to 7 years and intend to extend modestly to around 10 years through the 2045 maturity.

We maintain roughly 30% of the portfolio in alternative investments such as structured credit, legal claims, and special situations, primarily for diversification and lower dependence on equity beta and the domestic cycle. We prioritize structures with stronger downside protection, typically supported by hard collateral, seniority, covenants, and loss mitigation mechanisms, which reduces reliance on macro timing and reduces portfolio volatility.

We have resumed discussions on multi strategy funds following improved recent performance and a meaningful shift in the capacity backdrop. We had reduced exposure when asset growth constrained strategy capacity, particularly in arbitrage-oriented approaches, but the recent drawdown in industry assets to around half of prior peaks improves implementation feasibility and restores the available opportunity set. We value the flexibility to reposition quickly, deploy hedges, and participate in risk on environments with tighter risk controls, which is particularly valuable in a binary 2026 regime.

Macro Outlook – Commodities

Key Takeaways

- Geopolitics and social tensions are structurally disrupting commodity markets.
- Gold's record highs reflect diversification away from the dollar and fears over fiscal and policy instability.
- Metals like copper and tin are hitting records as electrification demand surges while supply tightens.
- Oil remains soft due to weak demand and high supply.

Geopolitics and political-social risks increasingly spill into commodity markets, unsettling price dynamics and tightening production and distribution. Social tensions are elevated, geopolitical rivalries are sharpening, and disruptions once seen as temporary have turned structural. Geopolitical competition, bloc polarization, energy transitions and the scramble for strategic resources now converge—leaving a clear imprint on commodity prices. From industrial metals and rare earths to gold, energy and agriculture, no segment is insulated.

Gold prices offer a clear illustration. Their impressive rise since 2022—and the freezing of Russian assets—highlights the search for diversification. Although the dollar remains the anchor currency, central banks, particularly those in emerging markets, and global investors are reducing their exposure amid growing geopolitical polarization and concerns over U.S. governance.

In the past quarter, gold has pushed to new record



highs, buoyed by mounting political pressure on the Federal Reserve and intensifying worries over deteriorating public finances across the U.S., Europe and Japan.

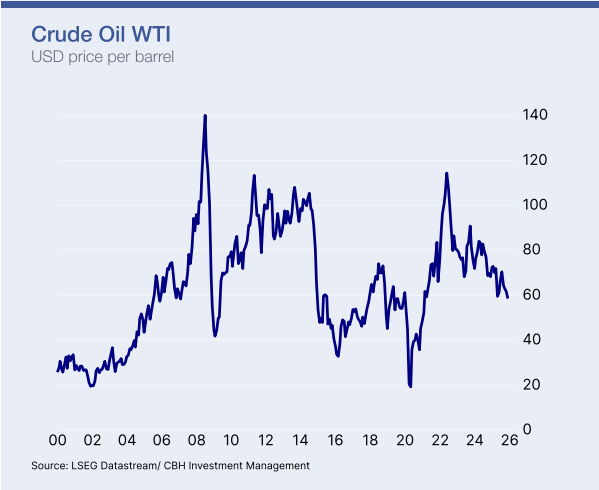
Traditionally viewed as an inflation hedge, gold has benefited from fears that political interference could steer the Fed toward looser policy than fundamentals justify. Markets remain alert to the risk that any perceived weakening of Fed independence could trigger unjustified rate cuts, lift long-term inflation expectations and undermine confidence in U.S. government debt.

Even though indicators of U.S. trade-policy uncertainty have eased with recent agreements, the backdrop is still unstable—continuing to channel investors toward gold as a safe haven.

In 2025, the prices of both tin and copper also hit record highs. These metals are essential to the electrification boom, a long-term trend fueled by the energy transition and the rapid expansion of artificial intelligence infrastructure. However, metals markets are feeling the strain of trade frictions, social tensions, and supply-side shocks. Freeport's Grasberg mine in Indonesia is a vivid example of this. Operations representing about 3% of the world's copper production were halted after a landslide flooded the underground workings, cutting off access to several areas and trapping seven workers.

Adding to the pressure, no significant new mining projects are in the pipeline. The International Copper Study Group expects the copper market to slip into a structural deficit starting in 2026.

On the oil front, **weak prices reflect excess supply amid softening demand and rising OPEC+ production quotas.** Even so, geopolitical tensions in the Middle East and the ongoing Russia–Ukraine conflict continue to inject volatility into the market. A ceasefire between Ukraine and Russia would likely put additional downward pressure on both oil and gas prices.



Key Macro Data & Forecasts

	Annual				2024			
	2023	2024	2025e	2026e	Q1	Q2	Q3	Q4
United States								
Real GDP	2.9	2.8	1.9	2.2	0.8	3.6	3.3	1.9
Private consumption	2.6	2.9	2.4	2.2	1.7	3.9	4.0	3.9
Investment	3.4	3.0	2.8	2.7	3.0	1.4	1.5	-1.9
Domestic demand (contribution, %pt)	3.0	3.2	2.4	2.3	2.1	3.5	3.9	2.9
Inventories (contribution, %pt)	-0.5	0.1	-0.1	-0.3	-0.7	1.3	0.0	-0.9
Net exports (contribution, %pt)	0.4	-0.5	-0.5	0.1	-0.5	-1.2	-0.6	-0.1
Inflation (CPI, %yoy)	4.1	3.0	2.7	2.4	3.2	3.2	2.7	2.7
Unemployment rate (%)	3.6	4.0	4.2	4.1	3.8	4.0	4.2	4.1
Euro area								
Real GDP	0.6	0.8	1.3	1.1	0.5	0.5	1.0	1.3
Private consumption	0.6	1.2	1.3	1.2	0.9	0.8	1.5	1.8
Investment	2.7	-2.1	2.6	2.1	-1.0	-3.2	-1.9	-2.1
Domestic demand (contribution, %pt)	1.2	0.7	1.6	1.7	0.6	0.2	0.9	1.0
Inventories (contribution, %pt)	-1.0	-0.2	0.2	-0.3	-0.8	-0.7	0.2	0.6
Net exports (contribution, %pt)	0.3	0.3	-0.5	-0.3	0.6	1.0	-0.1	-0.2
Inflation (HICP, %yoy)	5.5	2.4	2.1	1.9	2.6	2.5	2.2	2.2
Unemployment rate (%)	6.6	6.4	6.4	6.3	6.6	6.4	6.3	6.3
China								
Real GDP	5.4	5.0	4.8	4.2	1.3	1.0	1.5	1.5
Unemployment rate (%)	5.1	5.1	5.1	5.1	5.2	5.0	5.1	5.1
Inflation (CPI, %yoy)	0.2	0.2	0.0	0.7	0.0	0.3	0.5	0.2
Trade	1.0	3.5	3.6	2.3				

Forecasts – Rates

Policy rate	Actual	Target		Last 5 years	
	12/25	3M	12M	High	Low
Fed funds (upper)	3.75	3.50	3.50	5.50	0.25
ECB deposit rate	2.00	2.00	2.00	4.00	-0.50
10-year rate					
Us Treasury	4.15	4.20	4.50	4.71	0.92
German Bund	2.85	2.60	2.50	2.87	-0.57
FX					
EUR/USD	1.18	1.19	1.22	1.22	0.98
EUR/CHF	0.94	0.95	0.96	1.10	0.92
USD/JPY	154.72	151	140	158.36	103.50
GBP/USD	1.34	1.32	1.30	1.41	1.13

Asset Class Views

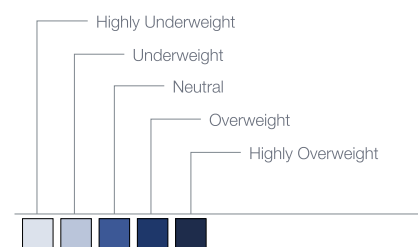
These asset class views have a 3 to 12 month horizon.

Where there has been a change since the last Quarterly Insight, the dot (•) indicates the previous view. These views should not be regarded as portfolio recommendations. This summary of our individual asset class views indicates the strength of conviction and relative preferences across a broad range of assets, but is independent of portfolio construction considerations.

Cash					
Fixed Income					
Government Bonds					
Corporate Investment Grade					
Corporate High Yield					
Emerging Market Debt Local Currency	•				
Emerging Market Debt Hard Currency					
Duration					
Equities					
United States					
Europe					
UK					
Switzerland					
Japan					
Emerging Markets ex-China					
China					
Alternatives					
Hedge Funds					
Gold					
Commodities					
Currencies (against USD)					
EUR					
CHF					
GBP					
JPY					

• – previous positioning

How to read the table?



This content provides a snapshot of the current market environment and is not intended to predict or guarantee future results. It should not be regarded as investment research or advice on specific funds, strategies or securities. Past performance is not a guide to future results. Any forecasts, projections or targets mentioned are for illustrative purposes only and are not guaranteed to be accurate or achieved.

Asset Allocation

Investing in a Narrative-Driven, High-Valuation World

Key Takeaways

- Structural forces such as the AI buildout, fiscal dominance, and deglobalisation permeate the investment landscape.
- Valuations across most asset classes appear elevated, creating a challenging investment environment that requires active management and disciplined risk management.
- The AI narrative will remain a key driver of financial markets in 2026 but is shifting toward capex financing and monetisation.

Global growth in 2026 is expected to remain moderate at 2.9%, with most major economies expanding but at uneven speeds. The U.S. remains the primary engine of global activity, while Europe is recovering gradually and China continues to face structural headwinds. Against this backdrop, the U.S. enters 2026 from a relatively stronger position than most of its peers. On the positive side, U.S. activity is supported by strong investment—particularly in AI and infrastructure—rising fiscal spending, and a pro-business regulatory environment. High-income households continue to spend, supported by solid wage growth and the wealth effects of record-high equity and home prices. Corporates broadly maintain margins by passing on higher costs, and greater clarity on tariffs is encouraging firms to restart major capital-expenditure plans. On the negative side, the economy is running at two speeds: AI-related sectors are booming, while manufacturing and other traditional industries remain subdued. Tariffs continue to weigh on lower-income households, and inflation may remain firmer than expected, potentially slowing or halting the Fed's rate-cutting cycle.

We continue to identify three structural forces that will shape the global investment landscape. First, the AI ecosystem remains a key driver, dependent on sustained investor capital, the ability of leading technology companies to monetize innovation, and the global energy infrastructure needed to support rapid adoption. Second, while expansive fiscal policies in major economies continue to underpin growth, elevated debt levels have introduced

constraints, heralding an era of fiscal dominance in which government decisions increasingly influence macro and market outcomes. Third, the twin forces of deglobalization and reshoring are redefining global supply chains, compelling companies to adapt business models to a more fragmented and regionally focused global economy.

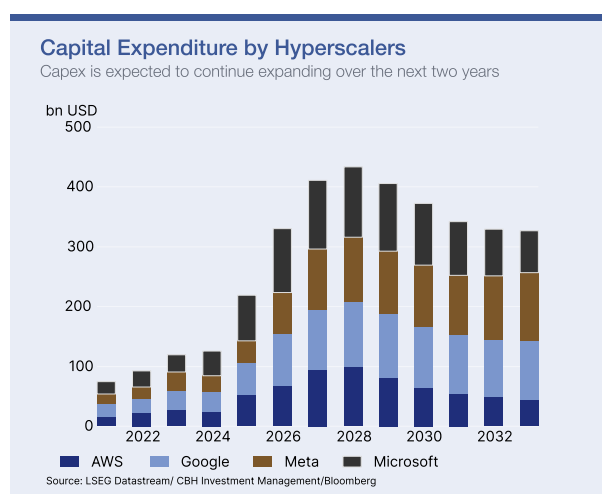
The AI Narrative is Shifting

Artificial intelligence will remain a defining theme in 2026, with opportunities across multiple layers of the ecosystem. At the core, leading technology companies—hyperscalers, cloud providers, and semiconductor leaders—drive innovation and provide the computational backbone for AI applications. Surrounding this core, enabling sectors such as industrials, utilities, and energy support the buildout of physical AI through data centres, power generation and distribution, and automation equipment. Beyond these, the main beneficiaries are industries adopting AI solutions, including healthcare and finance, which can leverage AI to boost productivity, automate processes, and unlock new revenue streams. Looking ahead, market optimism will increasingly hinge on two critical factors: the financing of AI-related capital expenditure and the ability of companies to monetize their investments.

Sustained AI-driven capital expenditure continues to power equity markets and support near-term economic growth. Leading technology firms are

investing heavily in data centres, cloud infrastructure, and next-generation computing capacity to meet surging demand across both digital and physical AI applications. While these programs have largely been self-financed through strong operating cash flows, the scale and pace of investment are driving growing reliance on external financing, including debt. This introduces additional risk, particularly for smaller firms, as higher leverage raises fixed obligations and increases vulnerability to macroeconomic shocks or slower-than-expected demand.

As adoption broadens, the focus is shifting from investment to tangible returns. Hyperscalers such



as Amazon, Microsoft, and Alphabet are already monetizing AI through cloud services, compute power, and access to AI models, providing early visibility into future demand. Broader corporate adoption is beginning to generate measurable value, with productivity gains and rising cloud revenues reinforcing the sector's potential. Investors are likely to increasingly reward companies that demonstrate strong execution, financial resilience, and the ability to convert investment into profit as AI enters its next phase.

Navigating Elevated Valuations with Discipline and Diversification

Valuations across most asset classes appear elevated, creating a challenging investment environment. With no silver bullet, we continue to emphasize diversification across asset classes, regions, sectors, and currencies to manage concentration risk and mitigate drawdowns. In our view, the interaction of trade policy, domestic politics, and geopolitical developments further underscores the importance of a multi-asset approach and a disciplined risk management framework. While

the future remains uncertain, we believe that combining a rigorous analytical approach with enduring asset allocation principles positions investors to navigate 2026 and beyond with confidence.

Despite our enthusiasm for the AI-driven buildout and robust earnings growth in the U.S., we maintain a slight underweight in U.S. equities due to concentration risks. With U.S. stocks representing more than 60% of global equity benchmarks, a typical balanced portfolio already carries a structurally large exposure, leaving limited room for other regions. Given that much of the global uncertainty in 2025 stemmed from U.S. policy, we preferred not to be fully allocated to the U.S. market. Entering 2026, we maintain neutral exposure across other regions while identifying relative opportunities to capture in the year ahead.

In fixed income, we remain overweight across the credit spectrum, with positions in short-term high yield, corporate hybrids, structured credit, and emerging-market debt. Although credit spreads are historically tight, all-in yields remain attractive globally, and our benign macro outlook suggests default rates are unlikely to rise materially. By contrast, we maintain a neutral stance on government debt in both allocation and duration, as their diversification benefits may be diminishing. The correlation between government bonds and equities is heavily influenced by the prevailing inflation regime, and historical U.S. data show that when inflation exceeds 2%, this correlation tends to turn more positive, reducing the traditional risk-mitigation role of high-quality bonds. With inflation currently around 3% in the U.S. and 2% in Europe, government bonds can no longer be relied upon as consistent downside protection.

Currency management remains a key component of our strategy. Given a moderately cautious outlook for the U.S. dollar, we maintain unhedged EUR exposure on USD-based portfolios and a partial USD hedge on EUR-based portfolios. We are constructive on the Japanese yen, primarily versus the dollar, although direct exposure through Japanese equities may not be the most efficient way to express this view. In commodities, we continue to maintain an overweight in gold. Despite its unexpected 60% surge in 2025, the underlying fundamentals—driven by central bank reserve diversification, demand linked to stablecoins, and its role as a key hedge against fiat currency debasement—are expected to remain supportive in 2026.

Equities

Expanding Opportunities Across the AI Ecosystem, Sectors, and Regions

Key Takeaways

- The cyclical bull market that began in October 2022 has now entered its third year, and we expect many of its supporting forces to persist into 2026.
- Managing concentration risk remains essential, and there are numerous compelling opportunities beyond U.S. equities.
- Technology and AI will continue to drive earnings growth, while expanding EPS growth across sectors should support broader equity market performance.

The cyclical bull market that began in October 2022 has now entered its third year, during which the Nasdaq 100 has risen approximately 150%—equivalent to an annualized return of about 35%. And 2025 is set to mark another year of robust equity performance, with indices such as the Nasdaq 100 and the Nikkei 225 posting gains of more than 22% and 25%, respectively. However, the year was not without surprises: volatility surged at times, and equities endured a sharp correction from mid-February to early April. Yet, animal spirits proved remarkably resilient. From the post-Liberation Day trough on 7 April, the Nasdaq 100 rallied nearly 60%, underscoring the persistence of investor optimism. A benign macroeconomic backdrop, renewed expectations of additional Fed easing, powerful AI-related enthusiasm, and solid earnings delivery all outweighed the headwinds from the ongoing trade war, the competitive shock posed by DeepSeek, and geopolitical tensions. As we look ahead to 2026, we expect many of these forces to remain in place.

All Eyes on AI Adoption and Monetization

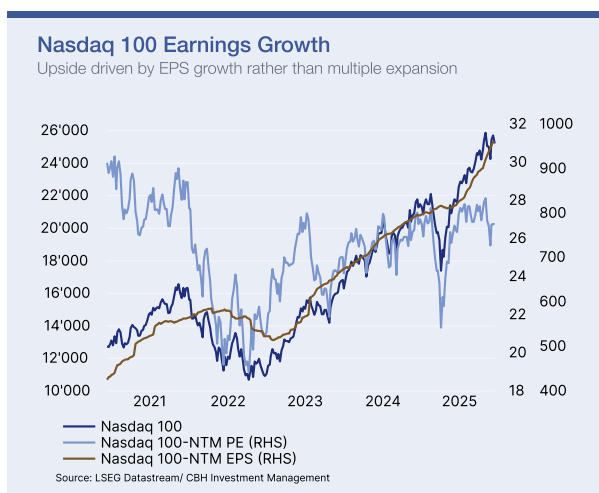
The U.S. equity market is poised to remain the primary engine of global risk assets in 2026, mainly supported by broad and resilient earnings growth. Consensus expectations (FactSet) call for a 14.5% increase in EPS next year, well ahead of other developed markets and accelerating from the roughly

12% anticipated for 2025. Although expectations are high, the macroeconomic environment remains favourable. Deregulation, renewed M&A momentum, rising business investment, declining policy rates, and low energy prices all reinforce the case for another year of solid corporate profitability.

Technology—the largest sector in the index—should remain the dominant driver. Analysts project earnings growth of 25.1% and sales growth of 15.2% for 2026, far exceeding the S&P 500 aggregates of 14.5% and 7.1%. Earnings revision trends further support this constructive view. Since the end of September, six sectors have seen upgrades to their bottom-up 2026 EPS estimates, led by Information Technology (+5.8%), Financials (+1.9%), and Materials (+1.8%). The broader backdrop is equally encouraging. Earnings growth is projected across all eleven sectors, ranging from 5.3% to 25.1%, with sales growth between 0% and 15.2%. This breadth suggests that the expansion should not remain confined to a narrow segment of the market, as has been the case in recent quarters. While earnings growth among the mega-cap cohort is expected to moderate in 2026, we take a glass-half-full view: this moderation signals a more balanced contribution across the index, reducing reliance on a handful of leaders and strengthening the overall foundation of U.S. market performance.

Although the U.S. equity market appears expensive by some measures, the method used to assess valuation significantly shapes the conclusion. Recent market gains have been primarily earnings-driven rather than multiple expansion, which distinguishes the U.S. from many other regions where re-rating has been a key driver of performance. For example, Nasdaq's strong gains in 2025 roughly tracked earnings growth, indicating that, despite high valuations, multiple expansion has been limited. Today's gains are supported by tangible earnings growth: Nvidia currently trades at a forward P/E of around 25x—comparable to Waste Management, a moderately defensive company with stable growth. While media commentary frequently raises concerns about a potential AI-driven bubble, drawing comparisons with the dot-com era, current valuations remain well below the extremes seen at the peak of the TMT bubble.

Next twelve months (NTM) PE ratio for the S&P 500 stands at 22.3x, placing it above one standard deviation from the 10-year average and suggesting relative expensiveness. A similar assessment emerges when considering the S&P 500 ex-Magnificent 7, where the NTM PE is 20x. In contrast, the NTM PE for the Magnificent 7 itself is 32.4x, only modestly above its 10-year average. The S&P 500 Equal Weight index also supports this view, trading at 17x NTM earnings. Taken together, these metrics indicate that neither the Magnificent 7 nor the median U.S. large-cap stock appears excessively expensive. Hence, elevated valuations in some segments are unlikely to hinder U.S. equities, with earnings strength—not multiple expansion—remaining the main driver of market resilience.



Selective Opportunities Outside the U.S.

We maintain a neutral allocation to euro area equities, reflecting a balanced set of opportunities and risks. On the positive side, 2025 brought renewed optimism, with Germany's temporary suspension of the debt brake providing greater fiscal flexibility for investment in defense and infrastructure. While the weight of technology and growth companies in EMU benchmarks remains significantly lower than in the U.S., Europe's leading industrial, automation, and robotics franchises are well positioned to benefit from the global expansion of "physical AI." Valuations are attractive, with the region trading at a meaningful discount to global markets. That said, challenges remain. Germany's deployment of its fiscal stimulus has been slower than expected, and political uncertainty in France continues to weigh on sentiment, creating a risk-premium overhang. Additionally, a gradual strengthening of the euro against the U.S. dollar could place downward pressure on exporters' earnings.

Looking into 2026, we see a broad range of opportunities across the fragmented emerging markets landscape, although we remain cautious and neutral on the broader Chinese equity market. While the economy appears to have stabilized, the property sector remains sluggish, weighing on both confidence and consumption. Within this environment, China's technology sector stands out as a particularly attractive area of focus. Its service-oriented revenue model provides relative insulation from current U.S.-China trade tensions. The sector also benefits from a large domestic market, a deep pool of engineering talent—including developers behind platforms such as DeepSeek—and a strategic ambition to build an independent technological ecosystem, together forming a strong foundation for sustainable profit growth. The global AI narrative further fuels investor enthusiasm, particularly supporting platform companies well positioned to capitalize on AI-driven advertising and cloud expansion.

As we look to broaden equity exposure outside of the U.S., Japan stands out as an attractive market. Corporate improvements continue to gain traction, largely driven by Tokyo Stock Exchange reforms, including enhanced disclosure standards, stronger

board accountability, and the stewardship code, which have encouraged companies to focus on profitability, capital efficiency, and shareholder returns. Corporate fundamentals are strengthening: return on equity (ROE) has been rising, and firms are increasingly returning capital through higher dividends and share buybacks. While the Topix index has begun to re-rate since mid-2024, relative valuations remain appealing, with a NTM PE of 16.3x. Japan also plays a critical role in the global semiconductor supply chain, particularly in materials, manufacturing equipment, and key components. Its industrial and robotics sectors are well positioned to benefit from the ongoing global capital expenditure cycle. Offsetting this constructive backdrop, a stronger yen could erode the competitiveness and earnings of exporters, especially in automotive, electronics, and industrial machinery. Political instability adds a further layer of caution for investors in the near term.

metals, notably copper and uranium, appear well positioned as these resources become increasingly crucial to both the energy transition and the scaling of AI-related power and data infrastructure.

From AI Narrative Risks to Opportunities in Defence and Materials

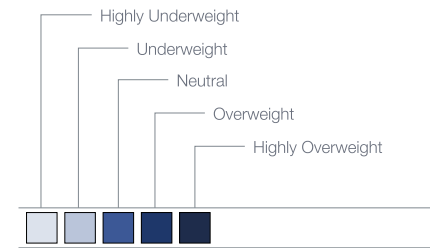
What could derail our somewhat rosy base case outlook for global equities? The main risk we see is any dent in the AI narrative that fuels sentiment and risk appetite for tech and growth stocks. A weakening of macro conditions for example, would likely slow-down AI-related capex, hence slowing AI adoption and monetization. Given the concentration of the U.S. market in AI-driven stocks, that could weigh on the entire market, further dampening US consumption, as the top 10–20% of households—who account for roughly half of consumer spending and hold substantial equity exposure—would experience a decline in wealth and confidence.

In 2026, we expect broader market participation and a widening range of equity opportunities—both within AI-related themes and across a more diverse set of industries and regions. The continued build-out of AI infrastructure should extend its benefits to industrials, utilities, materials, and energy. Within industrials, aerospace and defense stands out: a sizable aircraft production pipeline, the normalization of global travel, and steadily rising defense budgets provide a strong multi-year backdrop. The sector is also benefiting from modernization efforts—both in commercial fleets and military systems—with technologies such as AI-enhanced sensing, autonomous platforms, and next-generation modular reactors driving structural demand. In materials, companies producing key minerals and

Equity Sectors

Communication Services				•	
Consumer Discretionary					
Consumer Staples					
Energy					
Financials				•	
Healthcare			•		
Industrials			•		
Information Technology					
Materials					
Real Estate					
Utilities			•		

How to read the table?



Fixed Income

Carry Poised to Remain the Key Engine of Fixed-Income Performance in 2026

Key Takeaways

- No clear direction for yields at the belly of the U.S. treasury curve.
- Tight credit spreads point to carry as the main driver of returns.
- Attractive opportunities abound across the credit spectrum – short-term high yield and emerging debt, European high yield, corporate hybrids.

Since 2024, central banks have gradually lowered short-term interest rates as post-pandemic inflationary pressures have eased. The European Central Bank (ECB) and Swiss National Bank (SNB) have likely completed their rate-cut cycles, with short-term EUR and CHF rates expected to remain broadly stable through 2026. In the U.S. and the U.K., the Federal Reserve (Fed) and Bank of England (BoE) may still have a few adjustments to reach their neutral rate levels, although these moves are largely priced into bond markets.

Outlook for the U.S. Curve Belly Remains in Flux

Heading into 2026, the front end of the U.S. Treasury curve retains some downside potential, but likely less than markets currently anticipate. Inflation persistently above target, combined with tariff-related price pressures, is likely to keep the Fed cautious, resulting in more gradual easing and limited further declines in short-term yields. At the longer end, U.S. Treasury yields may face moderate upward pressure from fiscal expansion, elevated public debt, and the need to compensate investors for holding long-duration securities, potentially steepening the yield curve. Under this scenario, 10-year yields are expected to trade in a 3.5% to 4.5% range. We remain opportunistically bullish on TIPS, which provide protection against upside risks to longer-term inflation amid fiscal concerns, tariff-driven price pressures, and potential commodity shocks from geopolitical flare-ups.

In Europe, short-term EUR and CHF rates are expected to remain broadly stable, reflecting the ECB's and SNB's likely completion of their rate-cut cycles. At the longer end of the curve, fiscal expansion and rising public debt in key eurozone economies, including Germany and France, may exert modest upward pressure on government bond yields.

Resilient Macro Environment Underpins Strong Credit Fundamentals

With no strong directional trend expected in rates or spreads, carry is likely to remain the primary driver of fixed income returns in 2026. For many investors, the appeal of sub-investment-grade bonds lies less in credit spreads and more in all-in yields, which remain attractive relative to long-term equity returns. The credit environment is broadly supportive heading into 2026: in both the U.S. and Europe, overall credit quality and corporate fundamentals are at multi-year highs, underpinned by robust balance sheets. Default rates are expected to remain below long-term averages, while ongoing economic expansion continues to reduce the risk of financial stress across the corporate sector. Although headline credit spreads are tight by historical standards, they appear more reasonable when adjusting for the current market structure: a near-record proportion of BB-rated issuers, a minimal CCC cohort, and exceptionally low duration. Consequently, the seemingly modest premium for corporate versus sovereign risk reflects

genuine improvements in credit fundamentals, with corporate leverage near multi-decade lows relative to GDP, in contrast with rising government debt burdens.

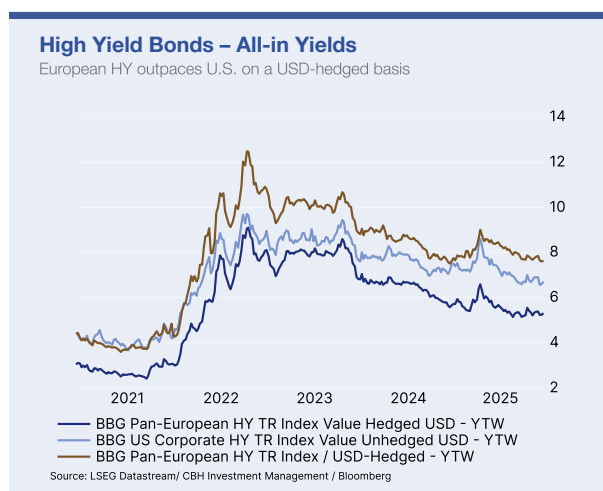
U.S. high yield illustrates the resilience of credit markets over the past three years, despite episodic volatility stemming from interest rates, regional banks, and trade policy. This resilience reflects a supportive macro backdrop, low default rates, and strong demand under conditions of ample capital availability. We continue to view high yield as an attractive way to participate in the strength of the U.S. economy while taking on lower risk than equities. Beyond U.S. high yield, several targeted niches across the credit spectrum complement broader exposure and help optimize portfolio carry.

Short-term credit offers key advantages in the current environment, including lower sensitivity to interest rate movements and reduced credit risk. Its shorter maturities help protect capital from mark-to-market losses while limiting exposure to potential deterioration in issuer fundamentals, thereby mitigating the likelihood of defaults or downgrades. Specifically, short-term emerging-market debt in hard currency provides higher carry than developed-market bonds, offering an attractive income component. Credit risk is relatively low—sometimes even below that of developed markets—as many issuers, including Mexico, South Korea, and Poland, have strengthened balance sheets, reduced leverage, and maintained solid fiscal and external positions, supporting strong debt-servicing capacity. European high yield has evolved into a higher-quality market than its U.S. counterpart, with a larger share of BB-rated bonds and fewer CCC issuers. This stronger quality translates into more robust

fundamentals, lower volatility, and lower default rates—2.6% for European HY versus 3.5% for U.S. HY. For USD-based investors, hedged exposure to European high yield also provides more attractive all-in yields, enabling higher income without assuming additional credit risk.

Corporate hybrids combine characteristics of equity and debt, offering higher yields than traditional investment-grade bonds while generally maintaining strong credit quality. Predominantly issued by large, listed companies in defensive sectors such as utilities, telecoms, and consumer staples, hybrids deliver stable and predictable cash flows. Although subordinated to senior debt, credit quality remains solid, and default risk is modest. Many hybrids are perpetual, but structural features—such as call options and step-up coupons—help limit duration risk. The incremental yield primarily compensates investors for subordination and hybrid structure rather than elevated credit risk.

Collectively, these targeted exposures allow us to diversify across credit markets, enhance portfolio yield, minimize interest rate risk, and participate in ongoing economic expansion.



Forex

U.S. Dollar Marginally Softer, Euro Awaiting a Trigger

Key Takeaways

- The euro may gain modestly against the dollar in 2026, supported by improving Eurozone growth and a slower U.S. easing cycle, though gains are expected to be gradual.
- Medium-term pressure on USD/JPY is likely to ease as the BoJ restores credibility and gradually normalizes policy, narrowing the U.S.–Japan yield differential.
- Sterling’s near-term upside is limited: fiscal credibility anchors confidence, while dovish BoE expectations and slower domestic growth may weigh on the pound.

In the first half of the year, the dollar declined sharply due to three main factors: concerns that U.S. trade policies would slow growth, expectations that such weakness would prompt significant Fed easing (markets in April priced nearly 100 bps of cuts), and the perception that the administration preferred a weaker dollar. During this period, EUR/USD surged from 1.04 to 1.18. While the bearish case for the dollar has recently weakened, we still find it difficult to argue for a sustained period of dollar strength.

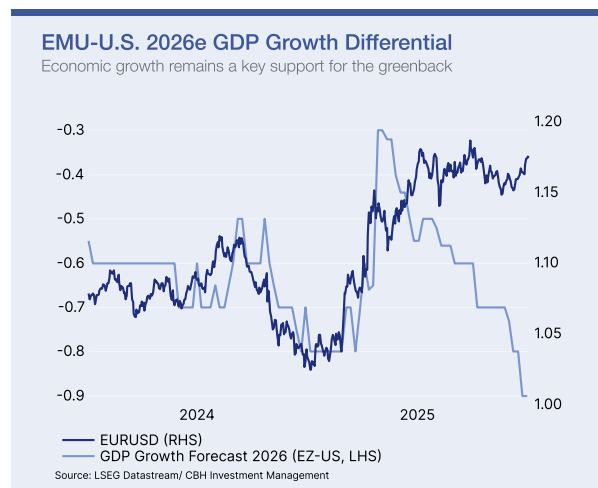
Recent data and forecasts have been supportive of the greenback. Strong domestic demand and AI-driven capital expenditure continue to underpin U.S. growth. Since May, the 2026 U.S. growth outlook has been revised higher—from 1.4% to 2%—while Eurozone growth expectations have remained stable at 1.1%. This divergence has supported the greenback, though we doubt the trend will persist next year as the Eurozone macro backdrop shows tentative improvement. Composite PMI and Germany’s IFO index have advanced, reflecting stronger sentiment amid easing trade tensions. The ECB acknowledged this progress at its October meeting and remained on pause, an improvement not yet fully reflected in consensus growth expectations.

USD Weakness to Remain Moderate and Gradual

While the December FOMC meeting delivered a broadly USD-supportive message—combining a

hawkish tone with upgraded growth forecasts—we believe much of this outcome had already been priced in, helping EUR/USD break above the 1.17 level. At the same time, Fed officials have continued to flag tariff-driven inflation risks, keeping the central bank cautious and raising the likelihood of further repricing of the expected easing path. Despite near-term uncertainty, we still expect the Fed to maintain an easing bias over the coming quarters, while the ECB is likely to remain on hold. This should result in U.S. yields declining more than European yields, narrowing the U.S.–Eurozone 10-year spread and offering moderate support for the euro.

Looking further ahead, growing concerns over fiscal dominance and questions surrounding the Fed’s independence could steepen the U.S. yield



curve and erode long-term confidence in the dollar. Regardless of who becomes the next Fed chair, markets may anticipate a shift toward a more pro-growth and less inflation-focused policy framework. Such a change would likely reinforce expectations of higher long-term yields and, over time, weigh on the dollar's structural appeal.

Yen Set for Gradual Rebound as BoJ Normalizes Policy

Since mid-April, the yen has weakened sharply, falling from around 140 to approximately 154 against the U.S. dollar, as USD/JPY has partially decoupled from its traditional driver—the U.S.–Japan interest rate differential. This decline has been driven by expectations of increased fiscal spending and a slower pace of monetary tightening under the new Takaichi administration. Investors have repriced the BoJ path dovishly, maintaining short yen positions and reinforcing downward pressure on the currency. Adding to this dynamic, the BoJ's decision to leave policy unchanged at its October meeting—for the sixth consecutive time—along with subtle deference to the government's economic agenda, has heightened the perception that political considerations are constraining central bank independence. The resulting “Takaichi trade”—buying Japanese equities while selling the yen—has become a dominant market theme, reflecting optimism about fiscal stimulus alongside concern that the BoJ may lag in normalizing policy.

Looking ahead, persistent political interference could prove counterproductive. Continued pressure to maintain ultra-loose policy risks amplifying inflationary pressures and undermining confidence in Japan's economic management. At the same time, rising inflation expectations and gradual wage growth increase the likelihood that the BoJ will resume tightening, potentially as early as Q1 2026. Resistance to monetary normalization is therefore likely to fade over the medium term. Moreover, given Japan's need to maintain a constructive relationship with the United States, it seems unlikely that the Takaichi government would indefinitely constrain the BoJ. A dovish Federal Reserve or weaker U.S. growth could reduce upward pressure on USD/JPY, while intervention risk—direct or verbal—from Japan's Ministry of Finance may cap dollar strength, as both Tokyo and Washington remain cautious about an excessive rally in the dollar against the yen.

Over the medium term, the path of least resistance points toward a lower USD/JPY. This adjustment could be triggered by a more hawkish BoJ, a dovish Federal Reserve, or both. A credible shift toward higher Japanese rates would help restore confidence in the BoJ's independence and likely spark a yen recovery, especially if weaker U.S. data lead to lower U.S. yields and a narrowing rate gap.

Sterling Modestly Supported by Fiscal Credibility

On 26 November, Chancellor Reeves unveiled the Autumn Budget, prioritizing fiscal credibility over growth. The package delivers roughly GBP 15–20bn of tightening over the next four to five years through targeted tax increases and restrained spending growth, aimed at rebuilding headroom against the government's fiscal rules. While this helps stabilize debt dynamics and strengthens confidence in fiscal sustainability, the tighter fiscal stance is likely to weigh on domestic activity in 2026, as reduced demand limits short-term growth and constrains upside for sterling. By curbing inflationary pressures, the budget also increases the Bank of England's (BoE) scope for easing. Markets have interpreted the fiscal plan as supportive of further BoE rate cuts, with a 25 bps reduction to 3.75% in mid-December largely priced and additional easing widely expected for next year. The Monetary Policy Committee (MPC) remains divided, but slowing GDP growth and weak data reinforce dovish expectations.

Overall, the Autumn Budget removes extreme fiscal risks and anchors market confidence, providing structural support for sterling. However, with much of the consolidation already priced in, near-term support is limited. In addition, a likely dovish BoE is expected to widen interest-rate differentials, weighing on the pound, particularly against the euro. As a result, sterling lacks a clear catalyst for sustained appreciation, navigating a delicate balance between fiscal credibility, modest growth, and monetary policy pressures.

Safe Haven Demand to Continue Supporting the Swissie

The outlook for the Swiss franc remains primarily shaped by global factors rather than domestic developments. Its strength continues to hinge on its role as a defensive currency during periods of heightened uncertainty—policy-related, economic,

or geopolitical. While the Japanese yen traditionally leads in global safe-haven episodes, the franc often outperforms when turmoil is centred in Europe, reflecting Switzerland's economic and financial stability.

Recent developments have reinforced CHF demand. The yen has weakened amid expectations of delayed or gradual Bank of Japan tightening, while eurozone uncertainty, though partially eased by stabilization in French politics, remains elevated due to soft PMI readings in Germany and France. These dynamics have supported flows into the Swiss franc as an alternative defensive asset, particularly during episodes of broader market stress.

Domestic factors continue to temper the outlook. The Swiss National Bank (SNB) has kept policy on hold, with inflation near target and limited pressure to return to negative rates in 2026. Switzerland's economy remains resilient, though external pressures, including tariffs, have slightly reduced growth forecasts. A stronger franc could weigh on exporters and import prices, but these risks are unlikely to outweigh the defensive demand supporting the currency. Overall, CHF appreciation is expected to continue moderately in 2026, with FX intervention remaining unlikely given recent commitments from the U.S. and Switzerland to avoid currency manipulation.

Hedge Funds

The investment environment heading into 2026 is shaped by a distinctive mix of opportunity and unease. The transformative impact of AI continues to bolster U.S. equity earnings and support strong growth—particularly in the year's first half, driven in part by infrastructure-related capex. Yet this momentum unfolds against an increasingly complex and fragile macro backdrop. Structural forces such as persistently volatile inflation, ongoing fiscal activism, and accelerating global fragmentation are reshaping the landscape. These dynamics are driving policy divergence among central banks and amplifying volatility across traditional asset classes. Critically, these conditions mark the end of the seamless globalization era, leading to wider market dispersion and exposing vulnerabilities in highly concentrated portfolios.

For hedge funds, this presents a target-rich environment. The return to structurally higher yields and the rising correlation between equities and bonds underscore the importance of diversified, uncorrelated alternative strategies. Passive investment approaches, which have benefited from a narrow AI-driven rally, are now facing significant challenges. Our 2026 Hedge Fund Outlook emphasizes strategies specifically designed to capitalize on this dispersion, ensuring resilience against potential growth or inflation shocks.

Hedge Funds Views		<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Relative Value Arbitrage/Multi-Strategy	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div> <ul style="list-style-type: none"> - Persistent dispersion across sectors and companies, driven in part by displayed resilience amid slower economic growth, continues to create a highly constructive environment for equity and credit relative value strategies. - The forecast for yield curve steepening in The U.S. in a rate-cutting cycle creates tactical trading opportunities in sovereign bond markets, which fixed-income relative value funds can exploit.
Commodities	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div> <ul style="list-style-type: none"> - The global commodity price outlook for 2026 is tempered by expectations of muted global economic growth, an increasing oil surplus, and ongoing policy uncertainty. These factors suggest a fourth consecutive year of overall price declines across many commodities. - Demand for base metals and natural gas, particularly for power generation, is anticipated to experience a structural boost due to the rapid expansion of artificial intelligence (AI) and the corresponding need to power data centers. This development may help mitigate some of the cyclical weaknesses affecting these sectors. - Strong investment demand driven by geopolitical tensions and prevailing policy uncertainties is projected to sustain the upward momentum in precious metals. Gold and silver prices are expected to continue their ascent throughout 2026, reflecting both safe havens buying and increased industrial demand.

Global Macro	<div><div></div><div></div><div></div><div></div><div></div></div>	<ul style="list-style-type: none"> - The landscape of uneven global economic growth, coupled with a transition to more subdued conditions in the second half of 2026, favors flexible macro strategies adept at navigating significant market shifts - Divergent monetary policies and escalating geopolitical tensions are intensifying uncertainty and volatility across financial markets. This environment is creating high-conviction directional trade opportunities in rates, currencies, and sovereign bonds. - Macro managers are strategically positioned to capitalize on pivotal macro themes, including the decline of globalization, persistent inflation, and the fiscal responses to economic nationalism.
Fixed Income/Credit Arbitrage	<div><div></div><div></div><div></div><div></div><div></div></div>	<ul style="list-style-type: none"> - The anticipated rate-cutting cycle by the Federal Reserve and other central banks is set to make duration more attractive, facilitating income harvesting and enabling managers to lock in high initial yields. - Strong corporate fundamentals, coupled with solid income returns in the fixed income market, are expected to persist, providing compelling value despite tight credit spreads. - Increased credit dispersion, particularly in sectors tied to significant capital investment cycles, such as AI financing, presents opportunities for robust alpha generation through active security selection in credit markets.
CTA/Managed Futures	<div><div></div><div></div><div></div><div></div><div></div></div>	<ul style="list-style-type: none"> - The forecast for a tumultuous year, characterized by an economic landscape defined by a surge followed by a decline, suggests a lack of sustained, clear trends. This environment poses challenges for trend-following CTA models. - The overall subdued global growth outlook and expectations for declining prices in key sectors, such as energy, diminish the likelihood of robust, positive commodity trends, historically a significant source of alpha for CTAs.
Event Driven	<div><div></div><div></div><div></div><div></div><div></div></div>	<ul style="list-style-type: none"> - A strong rebound in M&A activity, marked by robust volume growth, renewed strategic acquisitions, and the return of mega-deals is creating highly supportive environment for Merger Arbitrage strategies. - The resurgence of corporate activism is broadening the opportunity set for special situations and other corporate-action-driven strategies. - Despite tight credit markets, the substantial financial needs tied to large-scale AI infrastructure and data-center investment are expected to fuel continued dealmaking and restructurings, further benefiting event-driven funds.



- Elevated U.S. equity valuations and a highly concentrated market leadership – particularly around AI - raise the risk of a meaningful correction or rotation, leaving directional long-biased strategies especially vulnerable.
- A higher cost of capital and a more challenging economic environment are likely to widen performance dispersion across companies, improving the opportunity set for market-neutral or low-net managers relative to more directional approaches.
- Directional strategies remain particularly exposed to a potential deceleration in economic activity and earnings slowdown, a risk that could become more pronounced in the half of the year.
- A notable exception within Equity Long/Short is Healthcare Biotech, where renewed M&A momentum - driven by a massive patent cliff, robust innovation pipelines, and an increasingly supportive policy backdrop - creates a highly constructive environment for specialists capable of capturing idiosyncratic alpha.

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Geneva

Headquarter

CBH Bank
Bd Emile-Jaques-Dalcroze 7
P.O. Box
1211 Geneva 3, CH

cbhbank.com
t +41 22 839 01 00

Zurich

Branch Office

CBH Bank
Bahnhofstrasse 82
P.O. Box 119
8021 Zurich, CH

cbhbank.com
t +41 44 218 15 15

Luxembourg

SICAV

1618 Investment Funds
106, route d'Arlon
8210 Mamer, L

1618am.com

London

Subsidiary

CBH Wealth UK Limited
2-4 Cork Street,
London W1S 3LG, UK

cbhbank.com
t +44 207 647 1300

Hong Kong

Subsidiary

CBH Asia Limited
Suite 2001, 20th Floor,
K11 ATELIER, 18-24 Salisbury
Road, Tsim Sha Tsui, Kowloon,
Hong Kong, HK

cbhbank.com
t +852 2869 0801



Nassau

Subsidiary

CBH Bahamas Ltd.
CBH House, East Bay Street
P.O. Box N-1724
Nassau, N.P., Bahamas

cbhbank.com
t +1 242 394 61 61

Tel Aviv

Representative Office

CBH Bank
Rehov Tuval 40
Ramat Gan
5252247 Israel

cbhbank.com
t +972 73 793 62 22

Rio de Janeiro

Subsidiary

Rua Visconde de Pirajá, 470
7º andar - Ipanema
22410-002 Rio de Janeiro – RJ

1618investimentos.com
+55 21 3993 6901

Sao Paulo

1618 Investimentos Subsidiary

1618 Investimentos
Rua Iguatemi, 192
Itaim Bibi
CEP: 01451-010
São Paulo - Brazil

1618investimentos.com
+55 11 4550 4401

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CBH | Compagnie Bancaire Helvétique

Asset Management
Boulevard Emile-Jaques-Dalcroze 7
P.O.Box
CH - 1211 Geneva 3

am@cbhbank.com
www.cbhbank.com