OUTLOOK 2026

MANIA, NO PANIC

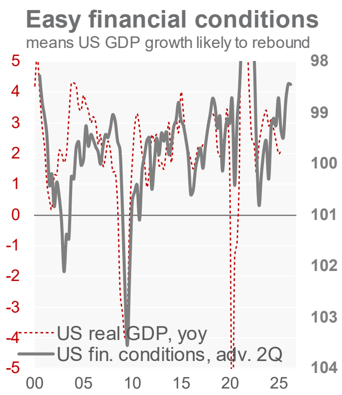
December 12, 2026

Our Annual Outlook provides our key views and investment implications for the coming year

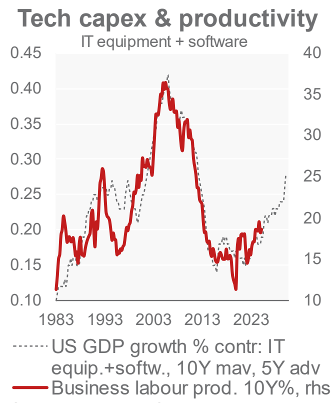
- **The global economy is entering 2026 on a steady footing. It has proved remarkably resilient to the trade war shock, and easy financial conditions imply upside risks for global growth in 2026. Central banks have cut rates, and fiscal policy will be accommodative in Germany, China and the US. Most importantly, as the US administration prepares for the mid-term elections, policies will be focused on leaning against the stagflationary effects of the tariffs.**

- **The two big risks for 2026 lie in a reversal of the credit cycle – as rising leverage exposes tight spreads – and a burst of the AI "bubble". In our books, it is premature to position for those. We expect deregulation to fan competition between lenders in 2026, implying a strong demand for Credit. Quick AI diffusion will support productivity growth. European and EM stocks still have ample upside space. We retain a pro-risk bias, if a cautious one: positioning is not stretched, but investor sentiment appears buoyant as we go to press.**

- **Another risk for 2026 will come from sticky US inflation, and the persistence of fiscal dominance fears. While we see only one Fed rate cut in the coming year, we cannot exclude that the new Chairman (May 2026) would overplay the 'productivity miracle' that promises to keep inflation under control. Any concern about diminishing independence would push term premia higher and the yield curve steeper. We expect bond yields to stay in a range but will start the year with a short duration bias. We stay bearish the US dollar.**



Source: Fed, Bloomberg, GenAM



Source: Datastream, GenAM calculations

CONTENT

MANIA, NO PANIC

Vincent Chaigneau

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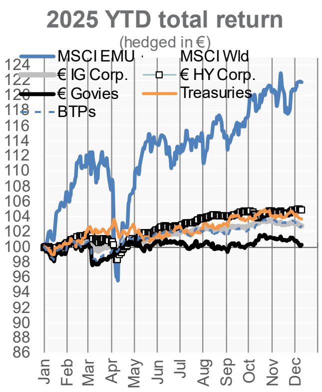
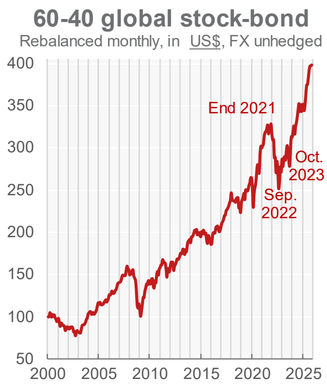
Mania, no panic. In his classical book "Manias, Panics, and Crashes: A History of Financial Crises", Charles P. Kindleberger highlighted common features to financial crises, including the herd behaviour of investors, the leverage built through exuberant expectations, and the rise of selected asset prices to levels disconnected from fundamentals; and past the peak, the painful unwinding of this process.

> Balanced portfolios have delivered strong performance over the past 25 months. Medium-term outlook looks moderate, but 2026 decent

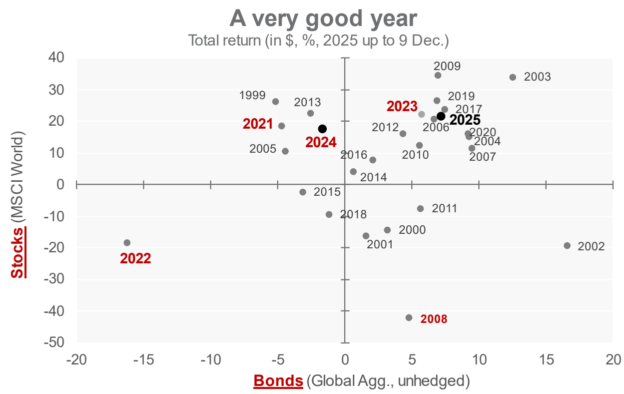
Two big questions for 2026 will be a) whether the selected credit accidents that made the headlines in 4Q25 (the likes of First Brands, Tricolor, and PrimaLend) marked the beginning of the end for the credit cycle, and b) whether the AI rally is a bubble. Our answers to both are essentially negative: we see signs of "manias", but it is too early to "panic". From a macro point of view, we will start the year in a good place, with growth higher and inflation lower than most would have predicted shortly after Liberation Day (2 April 2025). This remarkable resilience supported a solid performance of liquid risk assets in 2025, with Euro equities delivering over 20% as we go to press, and corporate bonds outperforming government bonds – vindicating the positive risk bias of our 2025 Outlook – "Trumponometer". We are cognisant of the alternance in global asset price performance over the past years: awful in 2022, strong in 2023, mixed in 2024 (solid for stocks, poor for bonds, and even stronger in 2025,



Source: Bloomberg, GenAM



Source: MSCI, Bloomberg, GenAM calculations



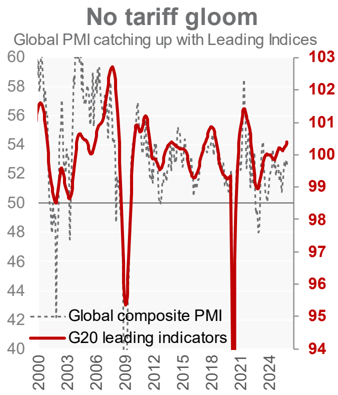
Source:Bloomberg, GenAM

at least in USD (right-hand chart below). We expect returns to be lower in the coming years (our Capital Market Assumptions are available here) but look for a decent 2026.

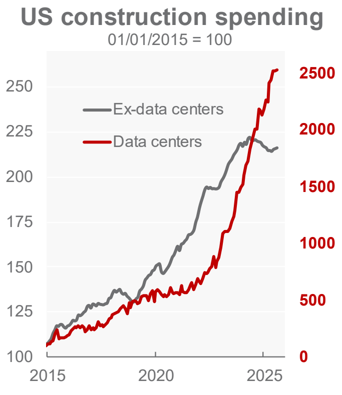
Good reasons to be hopeful about the economy

We see the balance of economic risks tilted to the upside

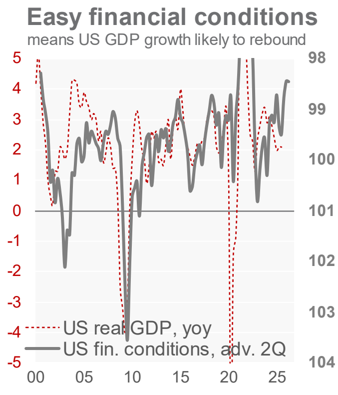
Supportive financial conditions. We expect the global economy to stay on a steady trajectory. Its resilience to the global trade shock in 2025 (left chart below) says much about corporate agility. Of course, the economy, especially in the US, is K-shaped – most typically in the construction sector (second chart), but also at the consumer level where high-earners are doing much better than low and mid – which creates two-sided risks. The key downside comes from softer labour markets eventually weighing on consumer spending. Yet we see the balance of risks to the upside. Today's easy financial conditions will drive tomorrow's economic growth (third chart). The policy mix is supportive. Central banks have cut rates. Fiscal policy will be accommodative in Germany, China to a lower extent (the recent Central Economic Work Conference sounded more pro-growth than the Politburo), and most importantly, the US. The ramp-up of the 'Big Beautiful Bill' will imply a positive fiscal impulse, and we expect the US Administration to avoid, or even partly reverse, stagflationary policies into the mid-term elections (Nov. 2026). Consumer confidence is low, reflecting concerns about employment, future income and elevated inflation, forcing the Republicans to focus on supportive policies. Solid corporate earnings will feed and broaden the capex wave, especially in the US where the breadth of corporate earnings growth increased markedly in 3Q25 and capital expenses will become deductible. The softer dollar also provides a boost to global profits expressed in USD, supporting animal spirits. Even the dormant German economy looks set for a revival (right-hand chart).



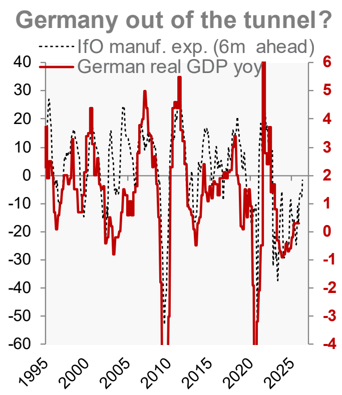
Source: OECD, JPM, Datastream, GenAM



Source: US Census Bureau, BBG, GenAM



Source: Fed, Bloomberg, GenAM

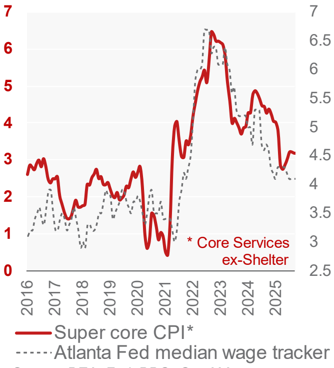


Source:IfO, Bloomberg, GenAM

Sticky US inflation and concerns about Fed independence may rock the boat in 2026

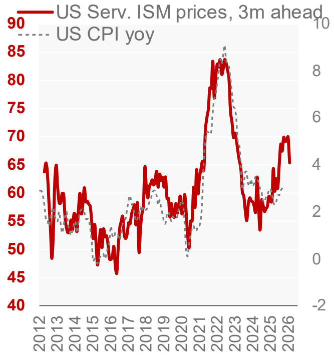
Inflation is a wild card. We entered 4Q25 with a more cautious view on duration, especially in EUR, on concerns about an improving economic outlook, heavy bond supply, fiscal dominance and investor complacency about central banks. One key risk for 2026 will come from sticky US inflation. Arguably, some important disinflationary forces are at play, not least the cooling in wage growth (left chat below) and housing rents. But tariffs may keep the price of goods under pressure, while service prices remain sticky. The ISM surveys point to persisting pressure (second chart). Inflation appears far more subdued in the euro area, given the softening wage trends (chart 3 below), a larger output gap, ongoing euro strength and a shift in Chinese export destination towards Europe. Inflation swaps have eased off both in EUR and USD over the past two years (right-hand chart). Sticky US inflation and concerns about Fed independence may rock the boat in 2026, potentially flooring those swaps on long-term US yields. Our Treasury yields forecasts are rather neutral, but upside risks may create volatility in the broader financial system. Low rates are essential for the continued recovery in IPO and Private Equity exits, and for credit defaults to stay low.

Wage inflation cooling



Source: BEA, Fed, BBG, GenAM

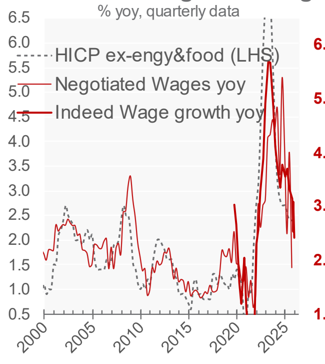
US Services inflation



Source: US BEA, ISM, BBG, GenAM

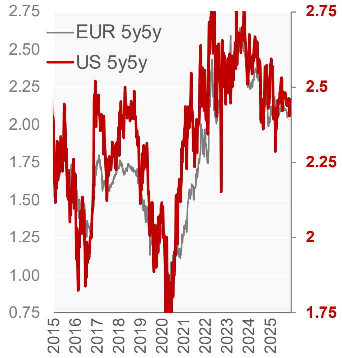
Euro area wages cooling

% yoy, quarterly data



Source:ECB, Bloomberg, GenAM

5y5y inflation swaps



Source:Bloomberg, GenAM

Fiscal dominance

> Any perceived loss of Fed independence under a new Chair would support a steepening of the yield curve

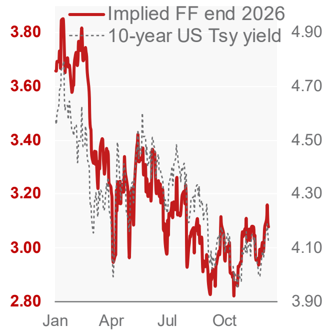
New Fed chair. Fiscal dominance, or the risk of large fiscal deficits polluting monetary policy, creates additional risks for bonds in 2026. The Fed, under a new chairman from May 2026, will be under scrutiny. Any perceived loss of independence would support a steepening of the yield curve. While the implied Fed path has now turned more cautious – just two 25bp rate cuts priced for 2026 (left chart below) – this is still one more than the Fed's dot plot and our own book assume. Reassuringly, 5y3m USD OIS – a key driver of 10-year Treasury yields – is priced near 3.75%, which looks high relative to the Fed's median long-run dot, at 3.0%. Yet this forward swap includes a risk premium, which tends to be larger when there is much uncertainty or disagreement about the equilibrium rate. Within the FOMC itself, the long-run dot ranges between 2.75% and 4%, or 2.8%-3.5% after excluding the three smallest and largest estimates. Our US Treasury views are neutral, but near-term risks lean to the upside as the term premia rises further.

> EUR yields in a range, with a small upside bias. Cheap downside hedges.

Minor duration short in EUR. EUR 5y3m ESTR, above 3.80% (third chart below), also looks relatively generous, considering that the ECB sees the neutral nominal rate around 2%. Yet the German fiscal bazooka, and its contribution to record bond issuance in 2026, may imply a higher nominal r* for some time. There too, we see upside risk for term premia (right-hand chart). Still, we expect bond yields to stay in a range, and rates volatility, which has normalised as expected, still has some downside in EUR. The fall obviously reduces the cost of hedges, with the skew making it cheaper

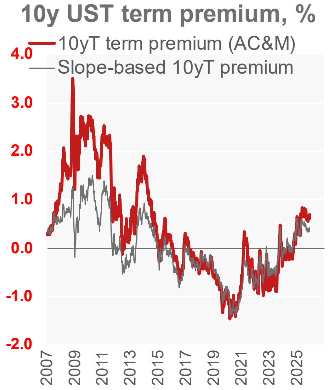
Will Fed cut rates so much?

Effective Fed Fund rate currently at 3.87%



Source: Bloomberg, GenAM

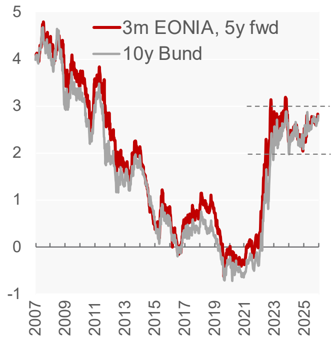
10y UST term premium, %



Source: Adrian Crump & Moench, BBG, GenAM

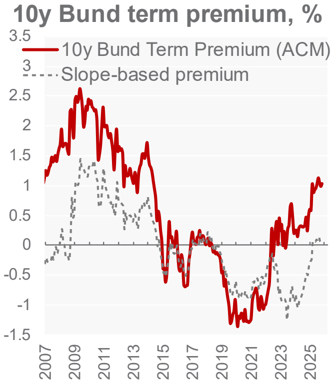
10y Bund tracks 5y3m ESTR

5y3m=2.70%; neutral rate up post bazooka



Source: Bloomberg, GenAM

10y Bund term premium, %



Source: Bundesbank, Refinitiv, GenAM calc.

Continue to sell OATs on relief spread narrowing

An underlying convergence message, with a preference for South European debt over soft core countries, and for EM debt vs DM

Fiscal dominance also supports the view of the view of a weaker US dollar

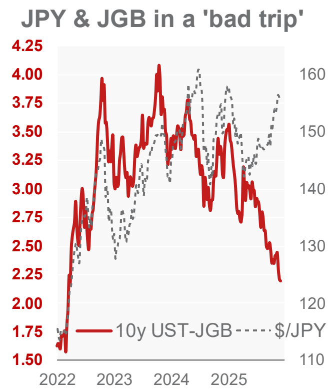
to hedge against falling yields in case then relatively bullish investor sentiment in late 2025 reverses. Concerns about fiscal dominance are less immediate in the euro area, though France, whose budget equation is still mired in a political deadlock, will remain a matter for concern in 2026. While the risk of early elections seems to have receded, the lack of a majority will further delay reforms and fiscal consolidation, with fears of a persisting political impasse following the key elections of 2027 (presidential and general). Meanwhile, the local elections of March 2026 are likely to punish the mainstream parties.

Still in Europe, we see value for UK gilts. The left chart below shows that Sterling has dropped much faster than the 10-year Gilt-Bund spread. This is now being corrected, and we expect the convergence to happen through the yield side, rather than the currency, as the policy mix seems more favourable to the battered Gilts.

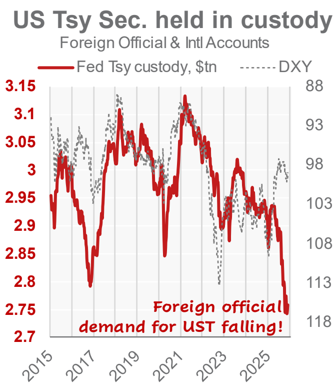
Japan is the poster child of fiscal dominance. JGBs and the JPY have sold off in sync, a warning for PM Takaichi that any effort to tame the BoJ, coupled with fiscal expansion, creates inflation and credibility risks. Popular discontent about inflation is likely to force a return to more orthodox policies, supporting the (battered) yen at some point in 2026.

In all, while fiscal dominance plays out differently across DM markets, we see an underlying convergence message, with a preference for South European debt over soft core countries like France and Belgium, and for EM debt, local in particular, vs DM. The risk of fiscal dominance also supports the view of the view of a weaker US dollar, in our books. Reserve holders are diversifying away from US Treasuries (third chart below), a bad omen for the still fundamentally rich US dollar. After a weak 1H25 the greenback mostly stabilised in H2 but is showing signs of weakness again. The volatility skew largely disappeared this autumn, suggesting diminishing investor bearishness. We see this an opportunity to short the US dollar again.

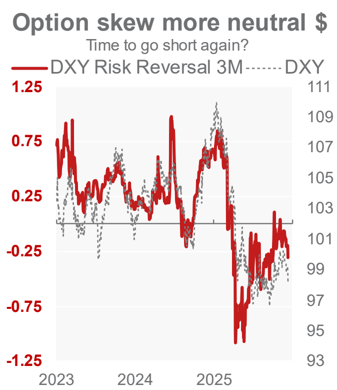
Source:Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: Fed, Bloomberg, GenAM

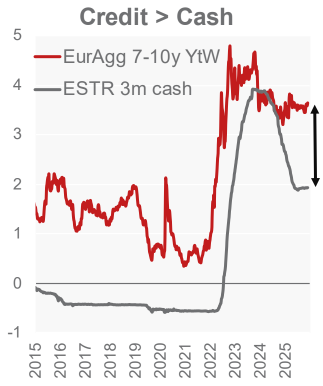


Source: Bloomberg, GenAM

Credit cycle: still "on"

We expect deregulation to fan the competition between lenders in 2026, implying a strong demand for Credit still

Not the canary in the coalmine just yet. We have advertised structurally long positions in Credit vs Govies. Is it still a good idea, now that selected accidents in the private debt space are raising fears about the credit cycle? We stay positive. Flows into the asset class are likely to stay generous. EUR IG Credit, the 7-10y sector still offers a 170bp pick-up versus 3-month money market rates (left chart below). Selectivity matters at this more advanced stage of the cycle and through the AI capex surge, but overall private balance sheets are healthier than public ones. Despite the headlines about rising bankruptcies, defaults are contained and even declining, particularly in High Yield markets. We expect deregulation to fan the competition between lenders in 2026, implying a strong demand for Credit and a strong index spread resilience to negative idiosyncratic stories like the First Brands one (second and third charts). Tech issuance will boost supply (Oracle the poster child of tech leverage concerns), putting a floor under IG spreads, but carry is attractive. We continue to prefer EUR Credit over US.



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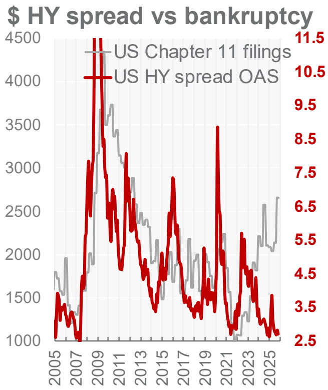
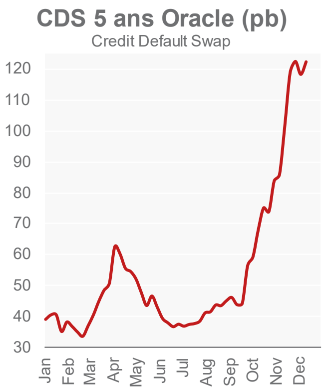


Source: Adm. Off. of US Courts, BBG, GenAM

Source: Bloomberg, GenAM

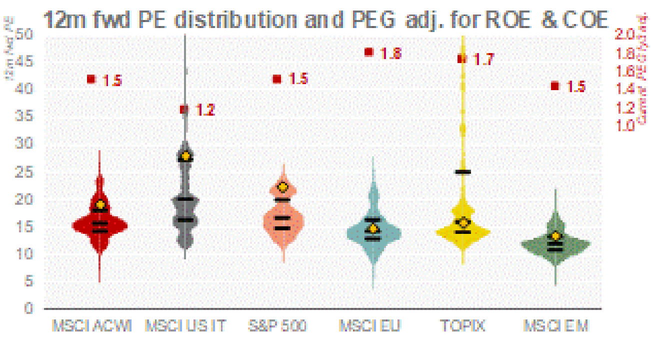


Source: Bloomberg, GenAM

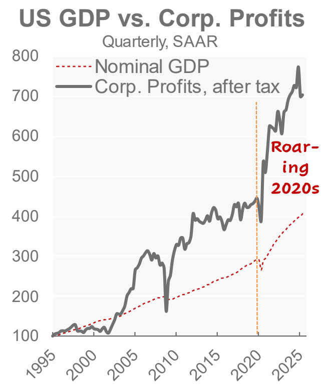
Equities – constructive, despite AI valuation concerns

> The massive tech Capex will lead to a productivity boom in the coming 5-10 years

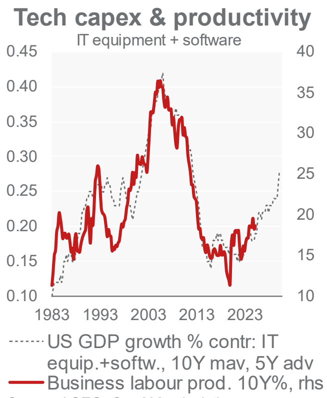
The roaring 20s. The left chart below offers a multidimensional view of equity valuation. The bears will focus on the S&P 12-month forward PE trading at the high-end of the historical distribution. The bulls will object that the PEG stands at a far more reasonable level, i.e. valuation is justified by formidable profit growth (realised and expected). Indeed, the second chart highlights the acceleration in nominal GDP over the past five years, and even more spectacularly, corporate profits. This is even more true if we focus on S&P profits (large corporations), which have not seen the same pullback as NIPA profits (broader economic level). This profit surge reflects a combination of various factors, including large public deficits, greedflation through the inflation crisis, and the massive profits and growing weight of the Tech sector. There is little doubt, in our view, that the massive tech Capex will lead to a productivity boom in the coming 5-10 years (right-hand chart below). At the macro level, notwithstanding the uncertain and potentially threatening message for employment, this is a bullish story for markets, as productivity supports profits and/or low inflation trends. For stocks, the technological diffusion to the broader economy will support profitability, with sectors like Financials, BioTech or even retail well positioned to benefit.



Source: Datastream, GenAM Calculations



Source: BEA, Bloomberg, GenAM

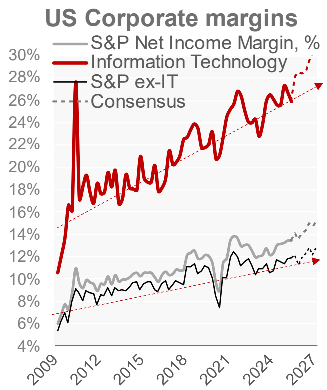


Source: LSEG, GenAM calculations

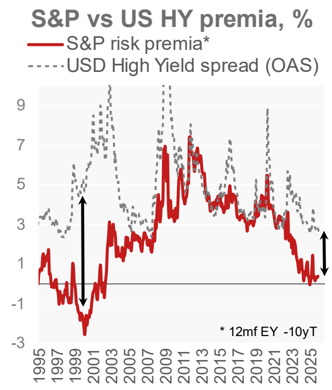
More alpha: greater dispersion within the Tech sector

A mania may be developing, but it is too early to panic and underweight equities

At the micro level, the story is more uncertain. The left chart below shows the formidable margins in the Tech sector, with the consensus pricing yet further gains. The key risk lies in rising competition eroding pricing power and margins. This is true both upstream (chips) and downstream, e.g. Chinese firms seem to be catching up fast in terms of AI model performance. Hence, we expect a greater dispersion within the Tech sector, with competition disrupting the winner-takes-all model. Still, at sector level, we see the situation as differing vastly from the dot-com bubble at the turn of the century. Stock price gains are backed up by strong profits. Capex as a share of Operating Cash Flows is far more contained and leverage much smaller. A mania may be developing, but it is too early to panic and underweight equities. We like to diversify into AI users, China Tech, or the electrification theme. We retain a small preference for EUR stocks over the US, as the EA economy finally looks set to exit its lethargic state and local stocks still have room to catch up with improving economic expectations (third chart below). We generally stay positive on EM stocks too, with a preference for the likes of China (and China Tech), India, Poland and South Korea.

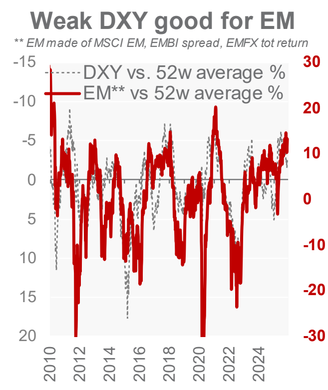


Source: US BEA, BBG, GenAM



Source: Sentix, MSCI, Bloomberg, GenAM

Source: IfO, Bloomberg, GenAM



Source: Bloomberg, GenAM calculations

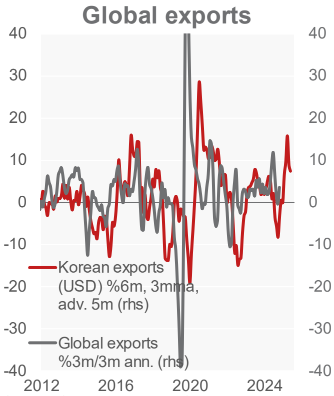
MACROECONOMIC OUTLOOK

Thomas Hempell, Guillaume Tresca, Martin Wolburg, Paolo Zanghieri

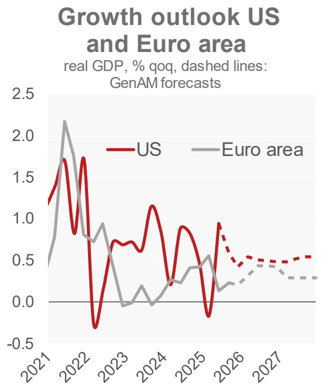
- **The global economy is heading for moderate but resilient growth in 2026. Easing trade uncertainties, supportive financial conditions and fiscal stimulus will more than offset the headwinds from increased fragmentation.**
- **Following a winter soft patch, US growth is set to return to potential thanks to fiscal support, resilient consumption and a pickup in non-AI capex. Euro area manufacturing keeps facing an uphill battle amid tariffs, Chinese competition and high energy prices, but will not derail an ensuing recovery as the German fiscal stimulus is phased in.**
- **Global inflation continues to cool off as rising labour market slack helps to ease wage growth, which should tame still elevated services inflation. We expect euro area inflation to undershoot the ECB's 2% target for the first time since 2020. The passthrough of tariffs will temporarily lift US inflation.**
- **We only expect one further rate cut by the Fed to a terminal rate at 3.25-3.50%. The ECB is set to stay on hold for longer. We expect renewed fiscal and monetary stimulus in China for keeping the economy afloat over 2026.**

Easing trade uncertainties, supportive financial conditions and selective fiscal stimulus bode well for the global economy

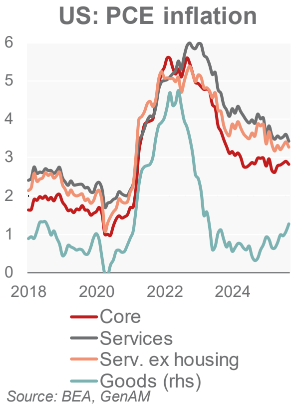
A year of severe global disruption is drawing to a close. The Trump administration has upended the world order, and the mounting US/China rivalry has disrupted supply chains. Yet the global economy has been proving strikingly resilient. While the shocks are still rippling through, the prospects for 2026 are decent, if unspectacular. Global trade is set to recover gradually, and global manufacturing PMIs are pointing to an end of three years of global industrial stagnation. Easing trade uncertainties, supportive financial conditions and fiscal stimulus (Germany, US, Japan) brighten the outlook. With costs of living bothering US consumers, a more conciliatory approach by Trump on trade is likely as the 2026 mid-terms loom. We expect global growth at 3.0%, only slightly below this year's 3.1% that was boosted by producers' front-running of tariffs early in the year.



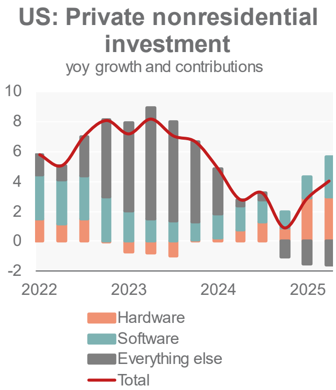
Source: CPB, Datastream, GenAM



Source: Datastream, GenAM



Source: BEA, GenAM



Source: BEA, GenAM

Easing wage pressures will help to bring inflation in advanced economies further down

We still expect some damage from tariffs to show up via a Q4 soft patch in US growth on tariff dislocations. But fiscal support, resilient consumption and a pickup in non-AI capex are set to bring growth back to around potential over 2026. In the euro area, manufacturing is facing an uphill battle amid raised tariffs, mounting Chinese competition and high energy prices. But forward-looking indicators point to an ensuing cyclical recovery as the German fiscal stimulus is phased in.

The global disinflation trend remains intact. Rising labour market slack helps to ease wage growth and tame still high services inflation. Euro area inflation will even undershoot the ECB's 2% target for the first time since 2020. After a further rise into winter, US price pressures subside. We expect the ECB to stay on hold throughout 2026 while the Fed is likely to cut rates once more. The BoJ, by contrast, will raise its key rate by another 50bp to 1% to lean against building inflationary pressures.

Risk to the outlook include a sudden tightening of financial conditions (e.g. reversal in AI stocks or broadening cracks in private credit) and resurgent inflation amid mounting political pressures on monetary policy, especially in the US. Also, a renewed escalation of the trade war with the US remains a key area to watch. On the positive side, fast productivity gains from AI usage entail upside risks to growth while keeping a lid on inflation pressures.

US: Steady, but not stellar growth

US growth slightly above 2%, thanks to tax cuts. But reliance on wealth effect creates fragility

We expect growth to accelerate to 2.2% in 2026 (above consensus), supported by looser fiscal policy and slightly lower, but still high, borrowing costs. Reduced tariff uncertainty should bolster business investment. The economy's "K-shaped" pattern persists: consumption growth is driven by richer households enjoying wealth effects, while less affluent households struggle with flat real incomes and anticipated surges in health insurance costs. The top 25% of households account for nearly half of all consumption, making overall demand resilient but vulnerable to a stock market downturn. Tax cuts legislated in September will primarily benefit the wealthy, while reductions in social security may leave the poorest worse off. As mid-term elections approach, we expect targeted government transfers to offset some of these effects. Tech investment remains robust, fuelled by the ongoing AI boom, with other sectors poised to catch up due to favourable tax treatment in the FY 2026 budget, reduced policy uncertainty and reshoring efforts in manufacturing. However, lower borrowing costs are unlikely to provide much additional stimulus, given fiscal concerns.

The labour market cooled in late 2025, with both demand and supply affected by plunging immigration. We expect this trend to continue into early next year, with unemployment peaking at 4.6%. Despite solid GDP growth, job creation will remain sluggish as AI-driven productivity gains deepen economic bifurcation. Tariff impacts will lift core PCE inflation to 3% yoy early next year, before giving way to gradual disinflation. Services inflation will struggle to ease amid strong demand from wealthier households and labour market tightness from lower immigration.

Sticky inflation limits Fed easing. Fiscal deficit approaching 7% of GDP

Persistent employment risks and sticky inflation complicate the Fed's policy response. The December meeting confirmed an easing bias, but the Fed will likely proceed cautiously. We anticipate one final rate cut in 2026, bringing the Fed funds rate to 3.25–3.5% (vs 3.1% seen by markets), most likely in March. Chairman Powell's term ends in May, and while Fed independence will unlikely be upended, appointments of administration 'loyalist' may still intensify political pressures and increase political uncertainty about monetary policy. Fiscal policy remains a concern: the OBBBA bill will worsen the federal balance by about 1% of GDP, with the deficit approaching 7%, as tariff revenues fail to offset tax cuts.

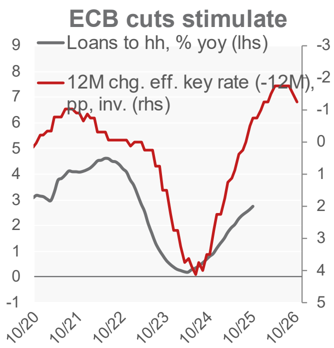
The euro area recovery will gain momentum in 2026

Past ECB easing, less trade tensions and German fiscal spending to back stronger activity

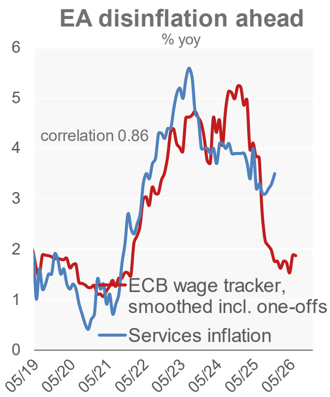
Euro area activity weathered US and policy uncertainties within EMU members and grew surprisingly robust throughout the year. Albeit hard indicators like retail sales and industrial production remain lacklustre so far, GDP expanded by 0.26% qoq in Q3. Sentiment indicators point to a similar momentum in Q4 and an acceleration into 2026. A resilient labour market and rising real incomes, amplified by a likely fall in the savings rate, will back consumption. The pass-through of past ECB rate cuts has not yet fully run its course, supported credit extension and domestic demand. In Germany, the announced huge fiscal impulse focusing on infrastructure and military spending is starting to unfold and helps to lift output above the country's 2022 level again. With trade uncertainties having come down and US growth remaining stable, the drag from net exports on growth should ease. Policy uncertainties persist, incl. in France and regarding trade tensions, and many structural issue remain unresolved, especially Germany's uphill fight to regain competitiveness. That said, we deem the cyclical factors strong enough to trigger a sustained acceleration of activity with 2026 annual growth at 1.3%, slightly above the consensus of 1.1%.

Inflation to fall below 2% target but ECB to look through and stay on hold in 2026

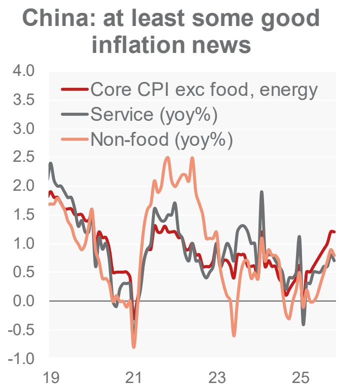
Inflation will for the first time since 2020 fall below the 2% target. At the start of the year, base effects from energy prices will be strongly disinflationary (pushing inflation down to 1.6% yoy in Q1) but also core inflation will recede significantly as slowing wage growth will ultimately moderate services inflation. Overall, annual inflation should fall to 1.8%, after 2.1% in 2025. The ECB announced to look through this inflation dip and adopted a neutral stance. With the 2.0% policy rate in the middle of the neutral range we do not expect key rate changes in 2026.



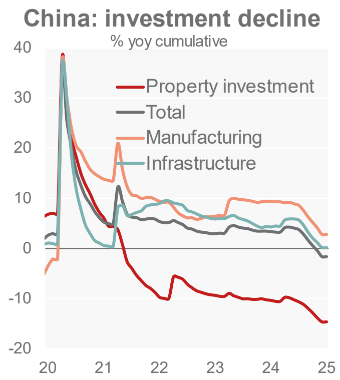
Source: Datastream, GenAM, eff. key rate with QE/QT measures based on Macroeconomic and Fiscal Consequences of Quantitative Easing



Source: Datastream, GenAM



Source: Bloomberg, NBS, GenAM



Source: Bloomberg, PBoC, GenAM

China: slowing momentum requires more support

After a volatile year marked by tariff-related trade tensions, China will continue to face the same structural challenges in 2026: subdued domestic demand, a weak housing market, and industrial overcapacity. However, some positive signs are emerging. Growth is expected to be close to 5% in 2025, slowing to around 4.5% in 2026, as the latest high-frequency indicators point to a deceleration in economic momentum. Policymakers have demonstrated pragmatism and remain ready to support consumption. They will continue to target growth near 5%, with greater flexibility over time. We therefore anticipate additional quasi-fiscal measures and special bond issuance in Q1 2026, with an emphasis on boosting demand and improving social welfare.

China: slowdown but fiscal support to come

The peak of trade war tensions appears to be behind us, and a potential Trump/Xi meeting in April could lift sentiment. Nevertheless, the confrontation remains structural, and flare-ups are likely. New easing measures for the property sector could be announced, such as mortgage interest rate subsidies and lower housing transaction costs. Deflationary pressures are partially receding, and the anti-involution policy will continue. The latest Politburo meeting advocated further easing, and we expect the PBoC to prioritize credit allocation over quantity while remaining parsimonious, delivering around 20bp of key rate cuts and 100bp of RRR reductions.

GOVERNMENT BONDS

Florian Späte

- **In 2026, US Treasuries will remain caught between key rate cuts and rising government debt. In this environment, we expect the yield curve to steepen, but without a sharp sell-off at the long end.**
- **The rise in long-term Bund yields is likely to continue moderately, driven by a rebounding economy and only temporarily declining inflation. A combination of sideways movement in key rates and a further increase in the term premium will lead to a steeper Bund yield curve.**
- **The environment for euro area non-core government bonds will remain relatively favourable in 2026. A further decline in bond market volatility, combined with robust fundamentals, will support outperformance against euro area core bonds once again. However, given the levels already achieved, a further broad-based spread tightening is not expected.**

Due to the ongoing lack of economic data resulting from the shutdown, our outlook for US Treasury yields is particularly uncertain. Overall, however, we expect that fears of a significant economic slowdown will not materialise and that the economy will show resilience in 2026. Following the recent key rate cut in December, we anticipate only one more. Since two further cuts have already been priced, there is potential for disappointment. Finally, the term premium is also likely to move upwards from its sideways channel since April, primarily due to high fiscal deficits, rising government debt, and concerns about a potential erosion of the Fed's independence.

Two-sided risks for the US Treasury market. Yields slightly higher at year-end

Despite these factors, we forecast only a slight upward movement in 10-year US yields in 2026, with yields remaining stable at the short end of the curve. We consider the expected medium-term key rate level (as approximated by US OIS 5y3m) of 3.7% to be too high. While we believe that current expectations of key rate cuts are exaggerated, the ongoing key rate cycle will also have an impact on the long end of the yield curve. Our outlook on inflation is somewhat more optimistic than that of the market. While markets expect stabilisation at just over 2.4% in the medium term, we anticipate the Fed will achieve its 2% target by 2029 at the latest. This is partly because the US administration is likely to step up efforts to curb inflation ahead of the mid-term elections in November 2026. Furthermore, regulatory changes are expected to be implemented to boost demand for US Treasuries.

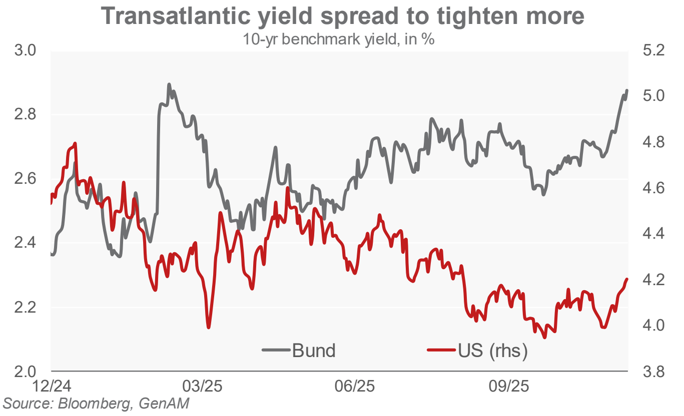
Overall, we therefore anticipate volatile sideways movement throughout the year, with slight upward pressure likely to emerge as the Fed concludes its key rate cuts in the second half of the year.

Rise in the Bund term premium likely to continue

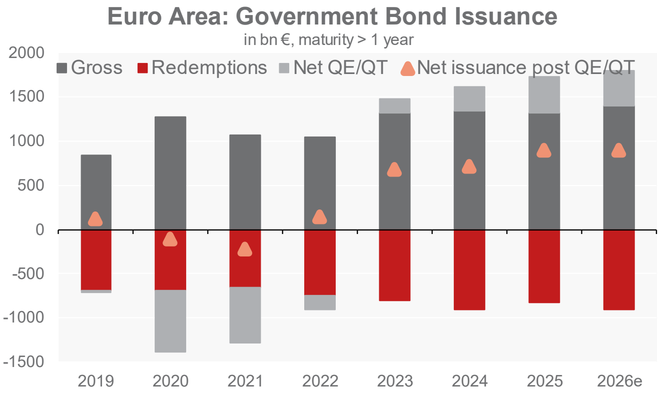
Following the significant narrowing of the transatlantic yield spread in 2025, this trend is expected to continue into 2026. Although the rise in Bund yields that began in October was primarily a correction in ECB expectations (financial markets had originally priced in an additional key rate cut), we anticipate that the subsequent rise in yields will be driven mainly by a higher term premium. Several factors should contribute to this. Firstly, the central bank will continue its Quantitative Tightening in 2026 and will not reinvest € 400bn in maturing euro area government bonds (including over € 100bn in Bunds alone). The net supply of German government bonds (maturity > 1 year) will reach a new record level of over €140 bn. Net supply will remain high in subsequent years, with Germany's national debt ratio continuing to rise. Potential flow effects from the Dutch pension fund transition are an additional factor. Overall, we view the increase in the 10-year Bund term premium of around 35 bps in 2026 as an indication of a structural shift towards a market environment more akin to that of the 2000s than the 2010s (the 2010s were characterised by low inflation rates and Quantitative Easing). Hence, there is potential for the term premium to increase further, as despite the recent increase, the current term premium remains more than 50 bps below the average of the first decade.

10-yr Bund will break through the 3% mark. Ongoing underperformance versus US Treasuries

Finally, the economic rebound will also lead to higher euro area core yields. Although Germany's expansionary fiscal policy partly supports consumption (and does not lift trend growth as much as originally expected), growth should stabilise above 1% in the coming years. A temporary dip in inflation, particularly in Q1, will not prevent yields from rising further. By the end of 2026, the yield on 10-year Bunds is likely to reach at least 3%. As we consider the term premium to be the main driver of the yield development in 2026 rather than key rate expectations, the yield curve is seen to steepen further. Accordingly, we recommend a moderately short duration and expect Bunds to underperform US Treasuries, as was already the case in 2025.



Source: Bloomberg, GenAM



Source: Bloomberg, Datastream, GenAM

Fundamental improvement in euro area non-core countries continues

Carry-friendly environment to persist. Non-core bonds to outperform core bonds

Following the highest total returns generated by Italy, Greece and Spain – three euro area non-core bond markets – in 2025, the outperformance of non-core bonds is expected to continue in 2026. Euro area core and semi-core countries are facing headwinds due to political uncertainty and high government bond issuance. The economic rebound in the euro area, combined with a further decline in bond market volatility, is supporting euro area non-core bonds. Net government bond supply is set to decline notably in certain non-core countries (notably Italy and Spain), thereby alleviating market pressure.

However, given the spread levels achieved, the improvement in the fundamental situation relative to the core countries does not suggest that the broad-based spread narrowing will continue. Nevertheless, investors should continue to focus on countries with solid fundamentals, as these offer protection against a deterioration in market sentiment – which we do not anticipate in our base scenario.

The OAT/Bund spread has narrowed recently due to the calmer political situation. However, we still recommend caution, as parliamentary approval in France was secured through concessions that will lead to a budget deficit of over 5% in 2026, which is virtually unchanged from 2025. Combined with a slightly negative current account balance, France will therefore remain at the bottom of the twin deficit rankings in the euro area in 2026. Additionally, the continuing risk of new elections and further potential rating downgrades result in an unattractive risk/reward profile for OATs.

CREDIT

Elisa Belgacem

- **We maintain an overweight stance on credit, despite valuations remaining extremely rich by historical standards. “Boring is good for credit”: the macroeconomic backdrop continues to support the asset class, with moderate yet steady growth expected.**

- **The deleveraging trend observed in the corporate sector since the Covid period may stall, given the substantial need to fund capital expenditure, particularly from the technology sector. However, we believe this will remain manageable, with leverage far smaller than during the dot.com bubble.**

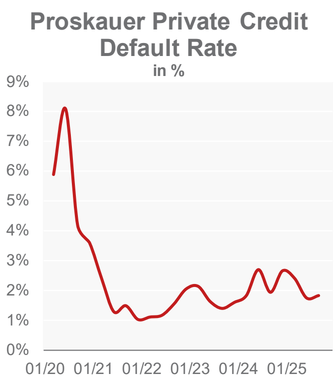
- **Fundamentals should stay under control, with default rates continuing to decline in both bonds and loans. Rating actions are expected to remain broadly neutral, with downgrades and upgrades occurring in roughly equal measure. The main uncertainty lies in the private debt segment following incidents in 4Q25, though we view these as largely idiosyncratic.**

- **Carry remains attractive, supporting strong demand for credit across the rating spectrum. On a relative basis, we upgrade high yield to neutral versus investment grade, as net supply pressures will weigh more heavily on IG, particularly given the sizeable issuance expected from technology companies.**

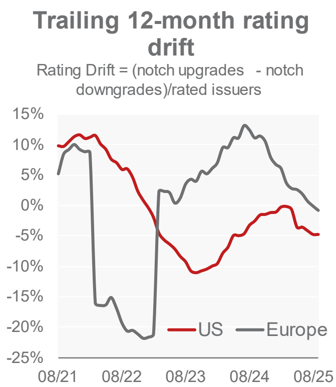
- **We retain a preference for non-financials over financials, driven by valuation considerations and the heavy exposure to French risk within financial indices. We favour BBB-rated corporates, hybrids, AT1 instruments, and select single-B names.**

Fundamental picture is resilient and demand will remain strong

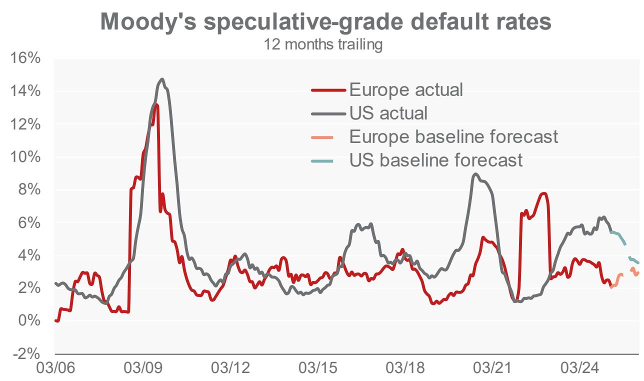
The outlook for the coming months remains broadly positive, underpinned by supportive financial conditions, resilient macroeconomic fundamentals, and steady GDP growth across both the United States and Europe. In 2026, fiscal expansion is set to play a significant role in shaping economic performance in major economies such as the US, Germany, and Japan, providing an additional layer of stimulus. Meanwhile, China is expected to intervene strategically when required, particularly by promoting investment in high-growth sectors such as technology, ensuring that momentum is sustained even in periods of potential weakness. Collectively, these factors point to a constructive environment for global growth, with policy support and structural investment themes reinforcing the underlying strength of the economic cycle.



Source: Proskauer, GenAM



Source: Moody's, GenAM



Source: Moody's, GenAM

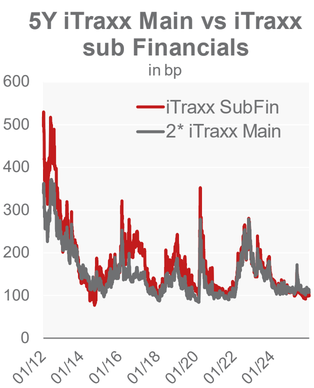
We anticipate that the fundamental backdrop for credit markets will remain robust, supported by a continued decline in default rates across both the corporate bond and loan markets—a trend that began in mid-2025. The main area of uncertainty lies within the private debt market, following several incidents in recent months. Nevertheless, our assessment is that, even when accounting for selective defaults, overall default rates in private debt remain relatively low by historical standards. While certain indicators, such as the rising share of payment-in-kind (PIK) interest, suggest potential upward pressure on defaults, we believe that any increase will be contained. Defaults are expected to remain largely idiosyncratic rather than systemic, reinforcing our view that the private debt market should remain broadly stable in the near term. We expect the overall rating trend to remain broadly neutral, with downgrades and upgrades occurring in roughly equal measure. This balanced dynamic should further underpin a constructive environment for credit markets, reinforcing stability and supporting investor confidence in the months ahead.

Strong demand should keep spreads tight in historical terms

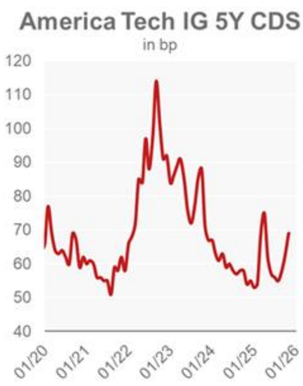
Despite valuations remaining historically elevated, we continue to anticipate a marginal tightening in credit spreads over the coming months. This outlook is supported by both strong fundamentals and favourable technical factors, which should make corporate bonds comparatively more attractive than government bonds. However, a key challenge will be the substantial wave of capital expenditure financed through bond issuance by the US technology sector. We expect the bulk of this new supply to be denominated in US dollars rather than euros, which further reinforces our preference for euro-denominated credit over US credit in the near term.

Carry will continue to dominate underpinning or OW versus govies

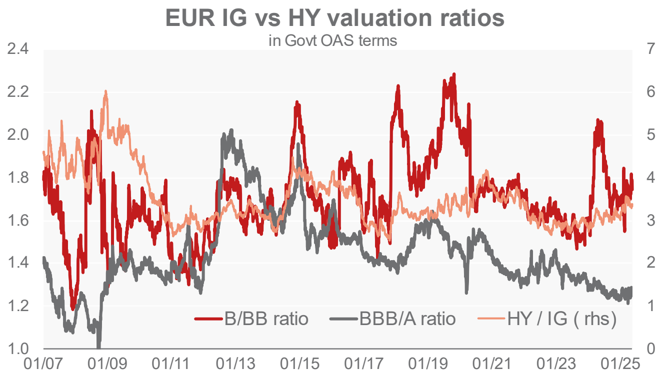
Overall, the anticipated surge in issuance—primarily within the investment-grade space and concentrated in single-A names—is narrowing the risk differential between IG and HY, leading us to maintain a neutral stance. We continue to hold an overweight position in non-financials relative to financials, as we believe any significant spread widening is more likely to originate from the financial sector. Additionally, French risk, which remains an area of caution for us, is disproportionately represented within financial indices. Furthermore, we see subordination as an attractive feature compared to pure credit risk, particularly at this late stage of the credit cycle. While curves have modestly re-steepened, we retain a preference for the 5–7-year segment, given the potential for further bull flattening as technology issuers seek to place bonds with the longest maturities investors will accept. In absolute terms, the incremental compensation for extending beyond seven years remains minimal. Despite our constructive outlook, we believe implementing hedges at very low cost is prudent. Our preferred hedge is via iTraxx Subordinated Financials, which has historically provided better protection against credit spread widening over recent years.



Source: Bbg, Markit, Genam own calculations



Source: Bbg, GenAM



Source:Source:Bloomberg, BofAML Indices, GenAM own calculations

EM SOVEREIGN BONDS

Guillaume Tresca

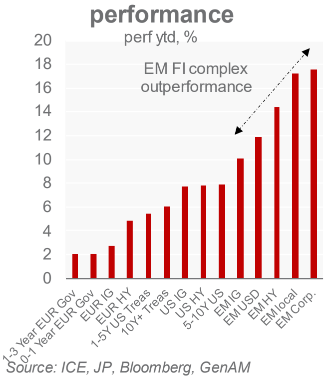
- **We expect the current bull market to continue in 2026, delivering high single-digit returns. The decline in macro volatility and the buoyant risk environment will provide further support.**
- **The asset class will benefit further from better EM growth relative to the US and improving fiscal and external metrics, as well as from a weaker USD. Valuations remain attractive relative to US credit, and elevated all-in yield levels will continue to attract inflows.**
- **The EM local debt remains our preferred choice for now, where returns will be driven by lower yields. We see value in CEE and LatAm rates. EM FXs will appreciate further, and we favour high yielders.**
- **EM external debt will see further spread compression, but most of the return will come from carry. We prefer EM HY to IG.**

Extension of the bull market. 2025 has been the best year for EM fixed income since 2009, and we expect a further extension of the current bull market in 2026, albeit in a more moderate way. We anticipate high single-digit returns for both EM local and external debt, as the current positive and resilient macroeconomic setup is likely to remain in place.

Resilient economic outlook. Most EM macroeconomic metrics have improved back to pre-Covid levels. While dispersion remains large among EM regions, the majority are on an improving path. First, the EM–DM growth gap is expected to widen further according to the IMF. Sentiment has edged up, and macro volatility should decline as the impact of the trade war recedes. There are also promising reform stories, particularly in LatAm and CEEMEA. Second, external and fiscal metrics have been improving. This is illustrated by the sharp improvement in EM ratings, with the highest number of upgrades in history recorded in 2025. A large number of positive outlooks should lead to further upgrades in 2026.

Exceptional EM performance

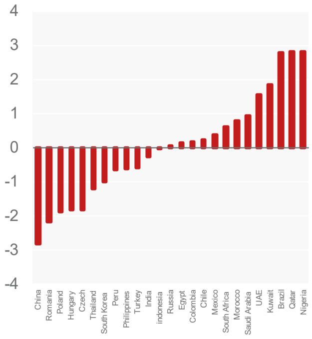
perf ytd, %



Source: ICE, JP, Bloomberg, GenAM

GDP growth prospects

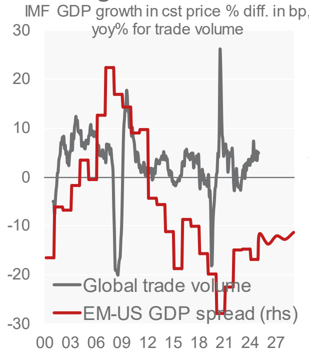
5Y pre-Covid vs 2025-30 GDP average %



Source: Bloomberg, IMF, GenAM

EM growth and trade

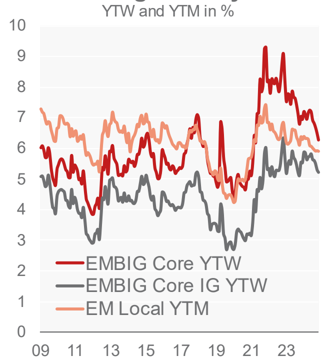
IMF GDP growth in cst price % diff. in bp, yoy% for trade volume



Source: Bloomberg, IMF, CPB, GenAM

Still high all-in yield

YTW and YTM in %



Source: Bloomberg, JP, GenAM

> High all-in yields to support inflows

Positive technicals and high all-in yields provide solid anchors. In case of a deterioration in risk appetite, positive technicals and high all-in yields offer strong support. While valuations are historically tight, especially for external debt but less so for local debt, relative valuations vs US credit are still attractive. Moreover, in an environment of tighter spreads globally, all-in EM yields remain close to their decade average. This should continue to attract US crossover fund inflows.

Local debt: value in CEE and LatAm rates

Preference for EM FX high yielders

Further spread compression but carry to be the main driver of return

Benefiting from the AI spending spree. EM will benefit from AI through an export boost. Recent growth resilience largely reflects export strength. AI-driven technology demand will support Asia's industrial production and tech exports. In addition, EMs supply many critical minerals across all regions.

EM local debt: carrying the trend forward

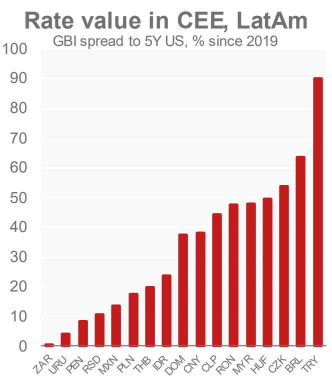
Favourite EM asset class. We maintain our preference for local debt, where returns will be primarily driven by lower yields and, to a lesser extent, stronger EM FXs. EM rates remain attractively valued versus US rates, with most opportunities in LatAm and CEE. Disinflation will continue, fiscal risks are declining, and EM central banks remain in easing mode. There is more value in the belly of the curve rather than the front end, given the maturity of the easing cycle. Exceptions include Brazil and Turkey.

EM FX supported by a weaker US dollar and a favourable global risk appetite. However, we turn more selective given last year's appreciation. Deviations from real effective exchange rates have already rebounded. We still favour high yielders and see value in TRY and EGP, where further reforms are expected. In LatAm, we prefer MXN over BRL given fiscal and election risks. Mexico has managed US tariff negotiations well. In CEE, we focus on HUF, which will benefit from elections, while in Asia, KRW valuation is attractive.

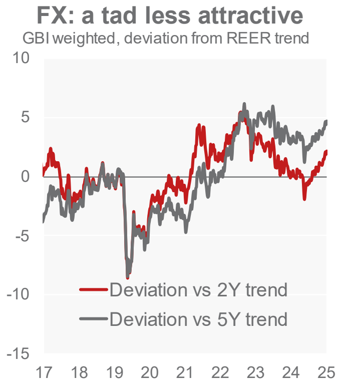
EM external debt: still positive return driven by the carry

Carry as the main driver of return. Positive EM and US growth will support external debt, leading to further spread compression. While spread valuations are historically tight, they remain attractive relative to US credit—especially in HY buckets, where we expect most of the compression. The bulk of positive returns will come from carry, as all-in yields remain close to their decade average. This high carry will attract inflows into BB buckets.

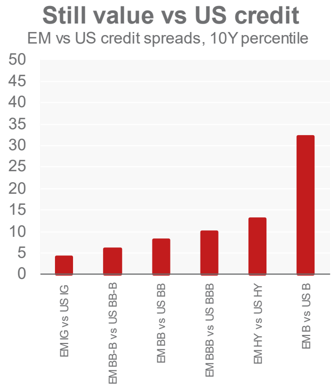
Preference for EM HY over IG. EM HY valuations are more attractive and offer better carry. BBs have seen significant reforms, and we expect a few rising stars (Morocco, Serbia, Ivory Coast). We also like Colombia, which is cheap and should benefit from elections. Most value lies in the B segment, which has recently lagged US credit. CCC names also offer opportunities, driven by idiosyncratic stories (Senegal, Zambia). In EM IG, AA and A valuations have become too tight and could be indirectly affected by upcoming large US IG issuance in the tech sector, which may dent appetite. Likewise, carry is low and offers less buffer. We favour Mexico and Chile but dislike Saudi Arabia and Peru.



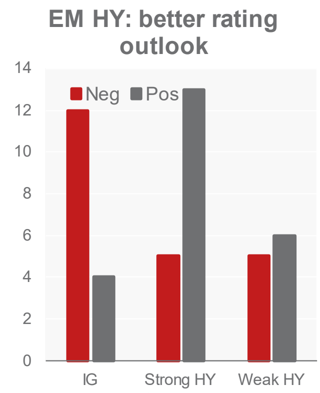
Source: Bloomberg, JP, GenAM



Source: Bloomberg, JP, GenAM



Source: Bloomberg, GenAM calcuations



Source: Bloomberg, GenAM

CURRENCIES

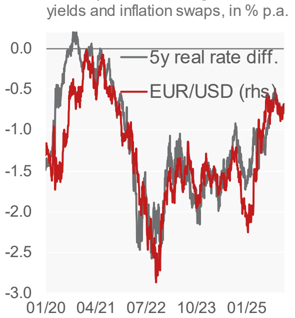
Thomas Hempell

- **An easing tariff shock and US economic resilience provided the USD an autumn respite via higher real yields. But renewed weakness is looming for 2026.**
- **The USD remains fundamentally dear, and the persistently high twin deficits are posing a lasting burden. The USD's status as a reserve currency and safe haven has suffered amid high US policy uncertainty and attacks on the Fed's independence. A shrinking US yield advantage is denting the USD's appeal and favours higher hedge ratios.**
- **There are two-sided risks from AI (dollar would benefit from a continued boom but is exposed to setbacks) and Fed appointments (an 'administration insider' would raise independence worries, a 'technocrat' be a relief).**
- **The EUR still has scope to catch up with economic local green shoots. The French political deadlock will persist in 2026, but contagion risks are limited. Resilient US growth, however, raises the hurdle for the EUR/USD to break through 1.20 on a sustained basis.**
- **The deeply undervalued JPY has scope to recover in 2026 but is likely to keep struggling short term amid fiscal dominance worries. An adverse policy mix (tight fiscal stance + rate cuts) will weigh on sterling.**

The trade-weighted USD has proven broadly stable over H2 following a 5% slide over the first half of the year. An easing tariff shock, which tamed inflation expectations, and continued economic resilience have helped US real yields and the dollar to recover (left chart). This support, however, should have run its course and we expect the USD to trend weaker over 2026.

Euro/US real yield gap and EUR/USD

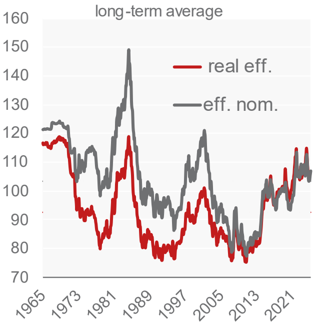
real yield based on gov't bond yields and inflation swaps, in % p.a.



Source: Datastream, GenAM calculations

USD off peak, but still dear

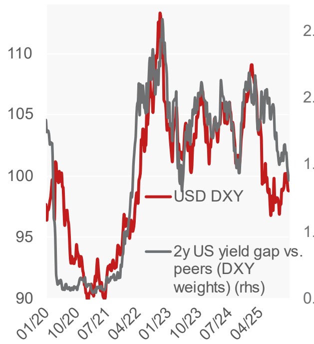
TWI USD (narrow), rebased to end-2019 = 100; dotted = long-term average



Source: BIS, Datastream, GenAM

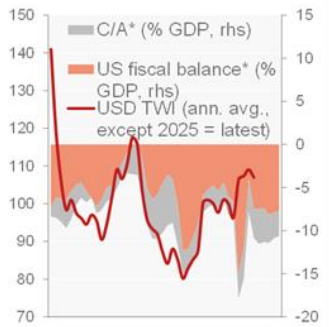
DXY and yield gap

2y US vs. weighted avg. of main peers



Source: Datastream, GenAM

Twin deficit burdens USD



*Source: Datastream, Oxford Economics, GenAM; *adv. 2 years; 2025ff.: forecasts*

> The USD is fundamentally still dear and will be burdened by an eroding yield advantage and a high twin deficit

Despite this year's retrenchment off last year's peaks, the USD remains fundamentally dear (2nd chart). However, unlike previous years, this overvaluation in challenged on various fronts. First, the US yield advantage is eroding following the 75 bps rate cuts since September and another one looming for 2026 (3rd chart). This contrasts unchanged ECB rates for longer and further prospective hikes by the Bank of Japan. After years of US rates leadership, a shrinking yield advantage dents the USD's appeal and reduces the costs of hedging USD exposure, a significant headwind. Second, the US is facing high external financing needs while erratic economic policies have eroded trust in its institutional framework. The US twin deficit (fiscal + current account) is likely to exceed 10% of GDP over the coming years, historically a harbinger of USD weakness (right chart). Finally, with bond volatility having scope to recede, the USD's appeal may wane further (left chart overleaf).

> Two-sided risks to the USD from the evolution of the AI boom and Fed nominations

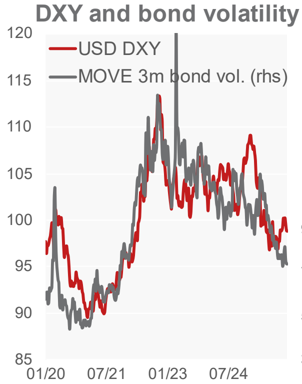
We see two-sided risk to the USD from the Artificial Intelligence (AI) boom and Fed politicisation. Sustained optimism about AI can favour the US economy over peers for somewhat longer, which would help to mitigate the USD headwinds. Conversely, a deeper setback may further erode US exceptionalism to the dollar's detriment. Regarding the Fed, Chair Powell's term expires in May. If Trump nominates a loyal 'administration insider' (e.g. White House economic advisor Hassett currently leading on betting markets) this is likely to spur worries about Fed independence; the nomination of a credible technocrat (e.g. Fed governor Waller) would trigger relief.

EUR still to catch up with euro area green shoots

> Political risks around France remain a wild card, but are unlikely to derail the EUR

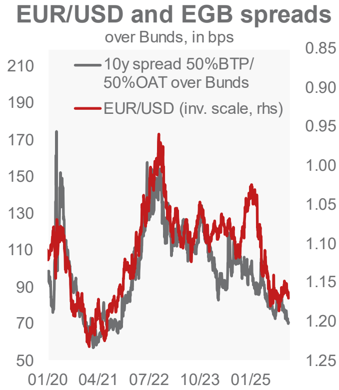
The EUR, by contrasts, has scope to catch up with economic green shoots in the euro area. Improved key leading indicators have thus far been barely acknowledged on FX markets, leaving some further upside for the single currency once hard data pick up. Political strains in France remain a wild card, but risks of contagion to other EGB markets are limited thanks to fiscal prudence in Southern Europe and ultimately the ECB's TPI backstop. The weighted average of BTP and OAT spreads over Bunds is consistent with EUR/USD closer to 1.20 (2nd chart). Overall, we expect the EUR/USD to trend somewhat higher – even though a continued boost to AI and related US stocks may yet prevent a lasting break through the 1.20 threshold (3rd chart).

DXY and bond volatility



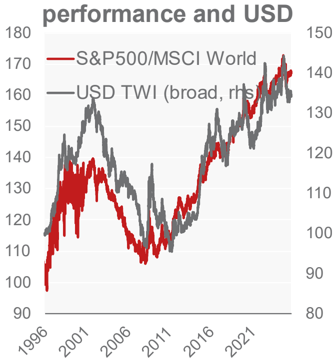
Source: Datastream, GenAM

EUR/USD and EGB spreads



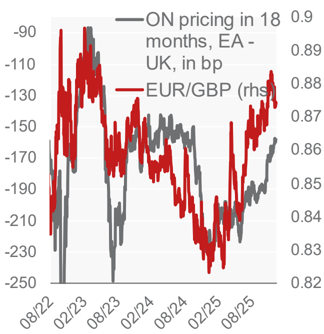
Source: Datastream, GenAM

Relative US equity performance and USD



Source: Datastream, GenAM

GBP trading at discount vs. rates expectations



Source: Datastream, GenAM

We also anticipate moderate EUR strength vs. sterling. The UK's policy mix is GBP bearish: further fiscal consolidation and likely three more BoE rate cuts do not bode well for the pound while UK growth is set to remain lukewarm. That said, GBP has already been trading at a discount vs. rates expectations (right chart) and costs of hedging GBP are still sizeable (1.8% on 1-year forwards), which calls for prudence in shorting sterling. We do not expect strong moves in the EUR/CHF around current levels around 0.94. But given the franc's negative carry and the balance of risks tilted more in favour of the EUR in the wake of the expected euro area recovery, we favour a small underweight in the Swiss currency.

JPY remains the most undervalued G10 currency, both vs. yield differentials and on a fundamental basis. Fears of fiscal dominance have been a key driver of recent JPY weakness as the new PM Takaichi announced a big fiscal package while exerting pressures on the BoJ to keep an accommodative stance. Short term, we expect the yen to struggle to gain ground amid these policy uncertainties. That said, odds of outright FX intervention would rise if the yen was to retreat much further. And for 2026, we expect the JPY to recover from its deep undervaluation, ultimately with the help of the BoJ, whose still likely further rate cuts will contrast some further easing by the Fed.

EQUITIES

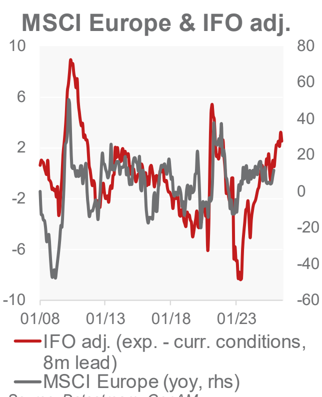
Michele Morganti and Vladimir Oleinikov

- **Slight OW equities. Easy financial conditions and steady GDP growth ahead are fundamentally supportive. The US, Germany, and Japan will see a fiscal expansion in 2026. M&A activity is improving, firms' cash flow exceeds capex needs, and EU free cash flow provides ample coverage for dividends and buybacks.**
- **Solid US earnings growth in 2026 is supported by resilient consumption and healthy balance sheets. In Europe, EPS growth will improve in 2026 due to GDP recovery, the German fiscal bazooka, wage moderation and better lending conditions. We see earnings growth of 9% for the US and 8% for EMU in 2026, 4pp below consensus.**
- **S&P 500 target is 7,000-7,300; or 8,000 if using EPS consensus estimates. EMU 12-month TR is 8.5% under cautious assumptions, and at least 13% with consensus EPS. This benign outlook rests on lingering supportive financial conditions, limited pressure on long-rates, a stable US-China trade relationship and resilient Tech EPS momentum.**
- **OW EM, EMU (vs. US), Switzerland, DAX, and MDAX; neutral on US tech (fair valuation). N on Japan, if still OW longer term. AI stocks (M7): valuations show no bubble and are far from dotcom excesses. Margins tend to surge following Tech capex. To hedge risks, diversify M7 into China IT, AI future beneficiaries, electrification and Uranium.**
- **EU sectors: keep a tilt towards Cyclicals (OW) vs defensives (UW) as confirmed by our EU sector barometer driven by global GDP and EU CPI. OW Financials, Defence and Software, along with Pharma, Retail, and Construction.**

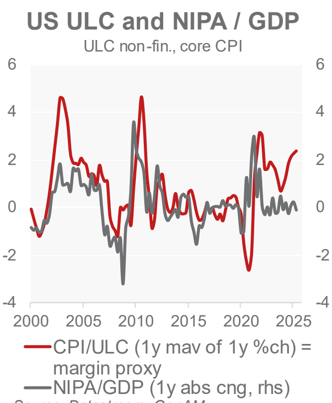
Maintain a slight OW on equities in the new year

Fundamentals remain positive in the coming months: supportive financial conditions, macro resilience, and decent GDP growth in both the US and Europe. The US, Germany, and Japan will be characterised by fiscal expansion in 2026. China is also expected to support the economy when most needed, particularly by encouraging investments in the tech sector.

The corporate bond outlook remains favourable, with Fed rate cuts expected in Q1. The credit cycle benefits from contained defaults and future US deregulation. M&A is picking up, corporate cash flow continues to exceed capex needs, and the EU free cash flow (5% of market cap) provides ample coverage for dividends and buybacks.



Source: Datastream, GenAM



Source: Datastream, GenAM

as of 25/11/2025 Index	2024 EPS growth	2025 EPS growth	2026 EPS growth	EPS Long-Term growth	12m fwd PE	Avg 12m fwd PE since 1995	% diff	Avg PEG FY3
S&P500	10%	13%	14%	18%	22.4	17.0	32%	1.2
SPX 493 (median)	8%	8%	9%	9%	18.5	17.5	6%	1.9
Mag. 7 (median)	39%	18%	17%	16%	29.1	27.7	5%	1.4
Global AI 175 Basket	11%	11%	14%	12%	20.6	17.2	20%	1.7
US AI Basket (ex-NVIDIA):	15%	12%	14%	14%	20.4	17.9	14%	1.5
- Phase 2 - Infrastructure	10%	12%	14%	14%	20.2	16.1	25%	1.5
- Phase 3 - New Revenues	24%	17%	15%	14%	26.7	30.9	-14%	1.7
- Phase 4 - Productivity	15%	10%	12%	14%	17.9	17.9	0%	1.4
MSCI US IT	19%	27%	26%	26%	27.7	21.7	28%	0.9
MSCI China IT	-33%	68%	36%	35%	23.0	20.4	13%	0.4
Gold Basket - 20 co's	56%	78%	41%	42%	12.0	17.9	-33%	0.3
MSCI EMU	0%	-2%	15%	12%	14.7	14.4	2%	1.3
Russell 2000	12%	39%	58%	15%	25.4	22.7	12%	0.9
MDAX	15%	-6%	27%	8%	14.1	15.4	-9%	1.2
MSCI India	6%	12%	17%	15%	22.4	15.8	42%	1.3
MSCI Korea	91%	31%	38%	25%	10.2	10.1	0%	0.4
Japan (TOPIX)	12%	5%	11%	13%	15.6	15.0	4%	1.4
MSCI EM	21%	12%	17%	18%	13.3	12.0	11%	0.7
MSCI China	14%	3%	13%	9%	12.7	12.0	5%	1.1

__Global AI 175__ (proprietary) has 175 AI-related firms, 60% US & 40% RoW. __US AI__ (baskets from GS) has 162 firms split in 3 phases: __AI infrastructure__ (utilities, semis, hardw.), __new revenues__ (software), __increased productivity__ (diversified firms). Phase 1 is NVIDIA. __Gold Basket__ is a proprietary basket that includes 20 gold mining companies. Baskets use median values. EPS growths are based on calendar years. EPS long-term growth refers to next 3 - 5 years eps growth. Avg PEG FY3 = avg PE using FY3 EPS over 3-5y EPS growth and over FY3-FY0 EPS CAGR. Topix avg 12m fwd PE is from 2003.
Source: LSEG Datastream, GenAM Calculations. Estimates are IBES.

Good US earnings growth in 2026 is supported by resilient consumption and healthy private balance sheets, as well as by our positive margin proxy (CPI/unit-labour costs) and profit models. In Europe, earnings growth should turn sustainably positive in 2026, driven by a moderate recovery ahead, the lagged effects of past ECB cuts, Germany's fiscal bazooka, wage moderation, and improving lending conditions. For

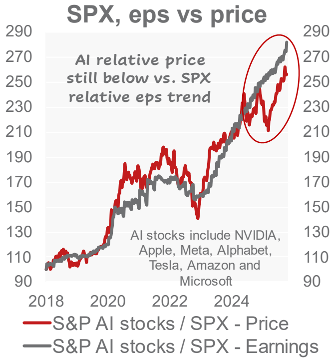
Still bullish in 2026, with our upside targets constrained by below-consensus earnings growth

the US and the EMU, we see an average earnings growth of 8.5% and 7% in 2026 and 2027, respectively — 4% and 9.5% below consensus in the two years.

Using extended datasets for risk premiums and regression models, our 12-month target for the S&P 500 is set at 7,000-7,300, with potential to 8,000 if consensus EPS holds. Our 12-month EMU TR remains attractive at around 8.5% based on cautious assumptions, and at least 13% with consensus EPS. This benign equity outlook rests on assumptions we will monitor closely: lingering favourable financial conditions, limited pressure on long-rates, the current US-China temporary truce evolving into a constructive agreement and continued positive momentum in Tech earnings.

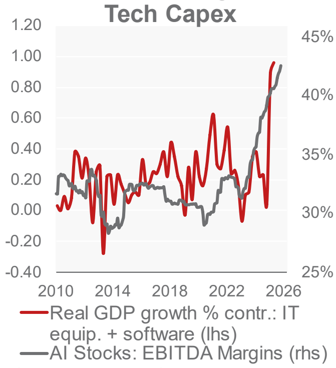
OW EM (still less expensive on PEG and with low positioning): Korea, Poland, China, and India (supported by pro-growth policies and improving earnings). OW EMU versus US, Switzerland, DAX, and MDAX, and neutral on US tech (fair valuation, good EPS momentum). Japan is neutral short term but still OW on a mid-term horizon (fiscal boost, Tech/Banks momentum, and strong buybacks potential). Over longer horizons, the US market appears overvalued compared to history (CAPE premium of +45%). We recommend diversifying towards cheaper ex-US markets, with lower positioning and bigger potential to outperform government bonds.

S&P 500: AI stocks vs SPX, eps vs price



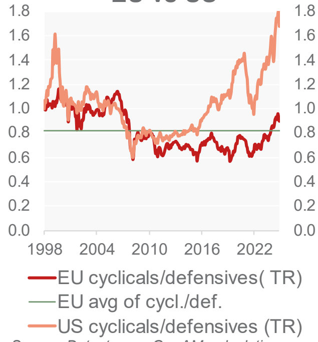
Source: Datastream, GenAM

AI EBITDA Margins vs Tech Capex



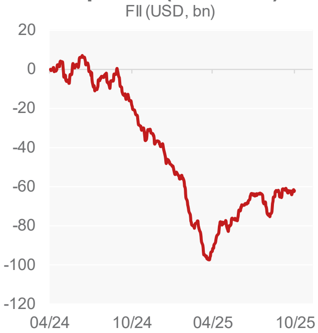
Source: Datastream, GenAM

Cyclicals / defensives: EU vs US



Source: Datastream, GenAM calculations

Foreign inflows in EM equities (ex China)



Source: Bloomberg, GenAM calculations

EU sectors: we maintain a tilt towards Cyclicals (OW) vs defensives (UW)

EU sectors: we maintain a tilt towards Cyclicals (OW) vs defensives (UW). The former are favoured by the IFO and PMI momentum, our margin indicators plus our EU sector barometer driven by global GDP and EU CPI. Overweight Financials, Defence and Software, along with Pharma, Retail, and Constructions.

AI stocks: fair valuation, far from dotcom bubble. EPS driving performance

We acknowledge potential risks (competition) but Tech stocks trade at a relatively small premium vs history

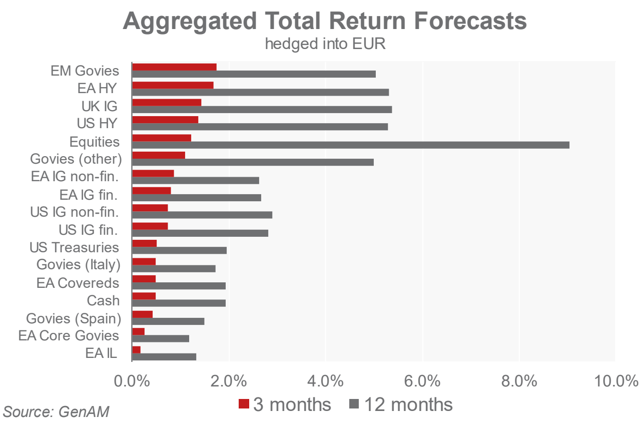
Looking at the median stock 12m fwd PE, the "Magnificent 7" (M7) trades at a small premium vs history (5%), similarly to the rest of SPX (SPX 493) and EMU. M7 PEG (PE/long-term – 3-5y – earnings growth) does not look exuberant, too (see table). M7 PEs are also consistent with increased margins and returns on assets, historically aligned with the increase in tech capex on GDP. Tech concentration in the SPX is at record high, but so is its profit share. Compared to the dot-com era, M7 have a much lower net debt position, higher cash and return-on-equity. IT Capex remains in line with historical trend since 1960, while during the dot com bubble, it was much higher (> 2sd). Lastly, the supportive financial conditions play against a liquidity scarcity issue short term and the need to sell liquid assets, triggering a possible bubble to burst. We acknowledge potential risks: increasing debt positions and competition plus deteriorating liquidity conditions. We suggest diversifying M7 exposure into AI beneficiaries/users, big China IT names, electrification (also EU) and global nuclear.

ASSET ALLOCATION

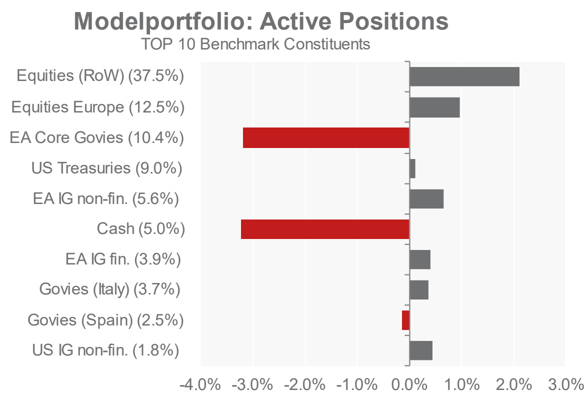
Thorsten Runde

- **Overall, the global economy has demonstrated notable resilience in 2025, successfully absorbing the impact of US tariff disruptions and maintaining a supportive environment for risk assets. The rally in equities has continued and broadened, though high AI valuations and concentrated market leadership suggest that volatility may increase.**
- **In 2026, we expect global growth to remain steady, if unspectacular – with upside risks. Easing trade uncertainties and supportive financial conditions should help offset the effects of ongoing global fragmentation. The US economy is likely to stabilise near its potential, aided by fiscal measures and a recovery in investment outside the AI sector. The euro area should benefit from the German fiscal stimulus, despite continued manufacturing challenges.**
- **In this context, we uphold a moderately pro-risk approach in portfolio positioning. Our preference remains for Credit and Equities over Govies and Cash. We maintain a slight short stance on EA duration amid signs of economic recovery, while keeping a neutral view on US rates. The US dollar is still fundamentally expensive, and we anticipate further depreciation as its yield advantage erodes.**

Growth in 2026 is set to be stable, with marked differences across regions. US expansion is supported by fiscal incentives and resilient consumer demand, while Europe's outlook is shaped by German fiscal stimulus but hampered by manufacturing and political uncertainty. China continues to face headwinds from property sector weakness and subdued domestic demand, despite policy support. Emerging markets enjoy tailwinds from Fed easing, USD weakness and better macro fundamentals. Overall, the global environment remains constructive but lacks dynamics.



Source: GenAM



Source: GenAM; Benchmark weights in parentheses

HY credit and equities are still favoured, supported by resilient but unspectacular growth, easing inflation, and continued monetary policy support. EA IG corporate bonds are preferred for their attractive carry and risk-return profile, especially compared to peripheral government bonds. Due to the high exposure of French issuers in financials and related sovereign risks, non-financial corporates are prioritised. Government bonds are generally underweighted, with a moderately short duration recommended for euro area fixed income, as economic recovery and supply factors point to higher yields. In the US, a neutral stance on duration is advised, given mixed signals from fiscal policy and inflation. The US dollar remains fundamentally overvalued, and further weakness is expected as the US yield advantage narrows. We keep our preference for EM sovereign debt, as it continues to offer attractive relative valuations and positive return potential, with a small tilt to high yield names. The positioning should favour local over external sovereign debt.

FORECASTS

Macro Data

Growth	2024	2025		2026		2027
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	forecast
US	2.7	1.9	- 0.1	2.2	0.2	2.1
Euro area	0.9	1.4	0.1	1.3	0.2	1.4
Germany	- 0.5	0.3	0.1	1.2	0.1	1.4
France	1.1	0.8	0.1	0.9	0.0	1.4
Italy	0.5	0.6	0.1	0.5	- 0.2	0.4
Non-EMU	1.3	1.4	0.0	1.3	0.0	1.5
UK	1.1	1.4	0.0	1.0	0.0	1.5
Switzerland	1.4	1.6	0.3	1.1	0.0	1.1
Japan	- 0.2	0.9	- 0.1	0.5	- 0.1	0.6
Asia ex Japan	6.0	5.1	0.0	4.8	0.0	4.6
China	6.4	4.8	- 0.1	4.5	0.0	4.2
CEE	3.5	1.8	- 0.2	1.9	- 0.1	2.2
Latin America	1.8	1.9	0.0	1.9	0.0	2.5
World	**3.6**	**3.1**	**- 0.0**	**3.0**	**0.1**	**3.0**

Inflation	2024	2025		2026		2027
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	forecast
US	3.0	2.9	0.1	2.5	- 0.3	2.2
Euro area	2.4	2.1	- 0.1	1.8	0.1	2.0
Germany	2.5	2.1	- 0.1	2.0	- 0.0	2.0
France	2.3	1.2	0.1	1.5	0.1	2.0
Italy	1.1	1.8	0.1	1.8	0.2	2.0
Non-EMU	2.2	2.5	0.0	1.7	- 0.3	1.8
UK	2.5	3.4	0.0	2.1	- 0.4	2.0
Switzerland	1.4	0.2	0.0	0.5	0.0	0.7
Japan	2.7	2.9	- 0.2	1.7	- 0.1	1.8
Asia ex Japan	1.7	1.7	0.7	2.0	0.3	2.0
China	0.2	0.0	- 0.0	0.8	0.2	1.1
CEE	19.3	14.1	0.9	10.0	0.4	7.3
Latin America	4.7	4.3	0.0	3.9	0.0	3.1
World	**3.9**	**3.3**	**0.4**	**2.9**	**0.1**	**2.6**

Regional and world aggregates revised to 2015 IMF PPP weights; Latin America Inflation excluding Argentina and Venezuela

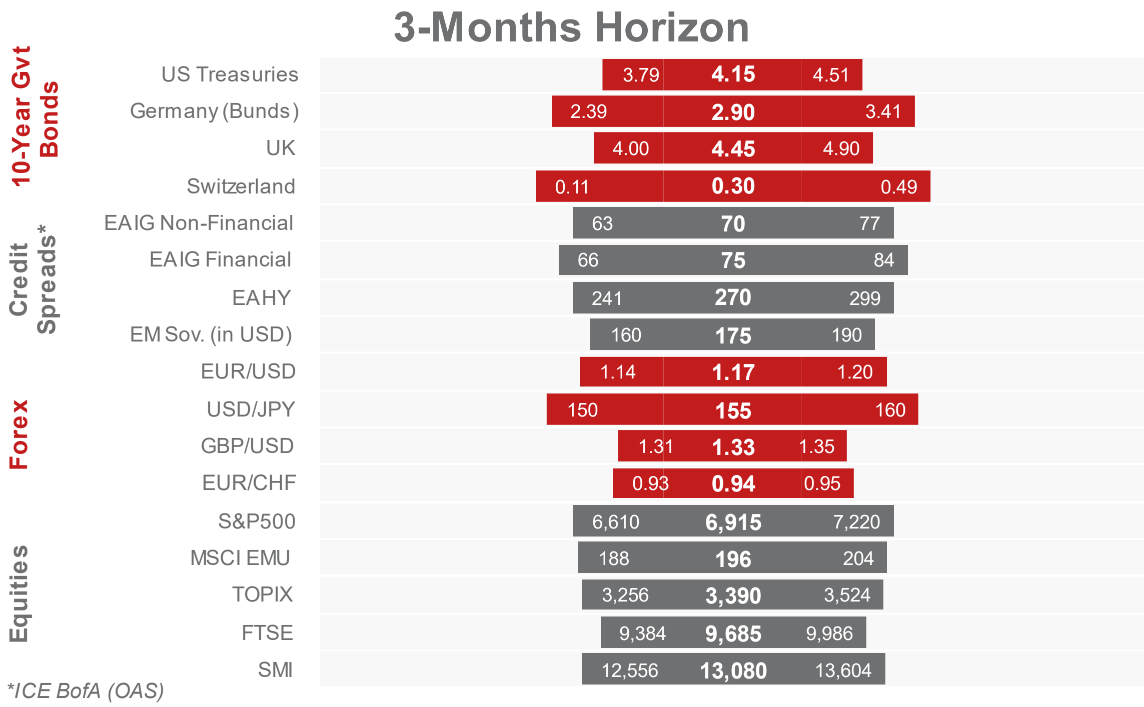
Financial Markets

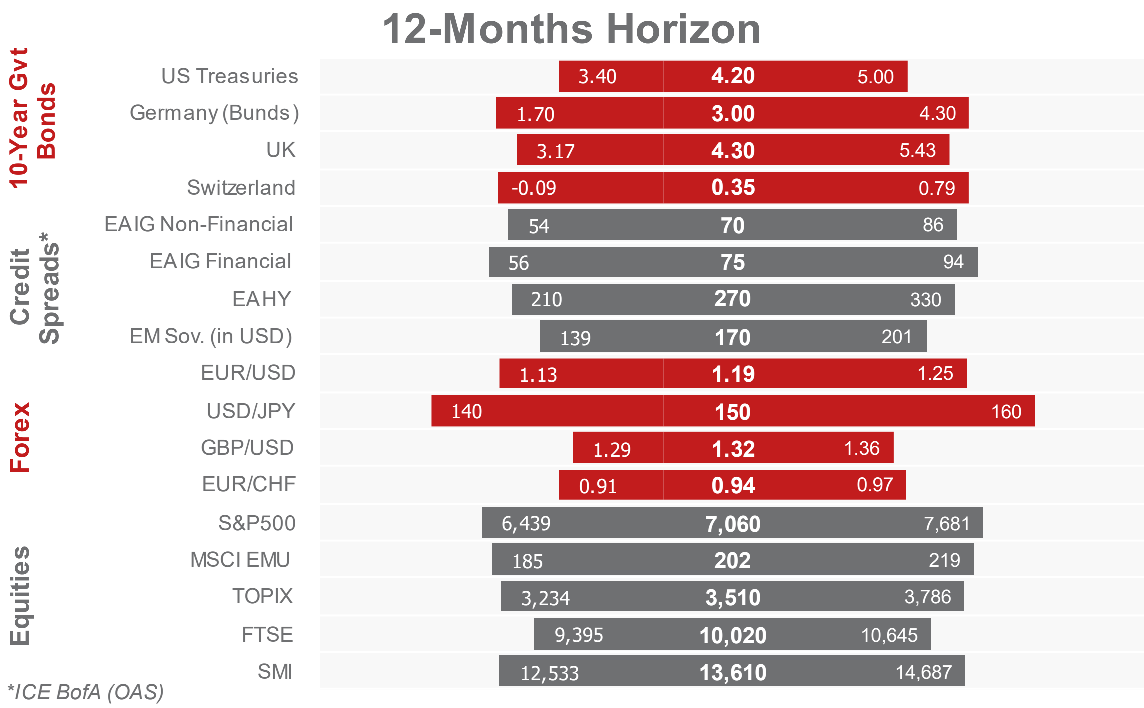
Key Rates	Current*	3M		6M		12M	
		Forecast	*Forward*	*Forecast*	*Forward*	*Forecast*	*Forward*
US (upper bound)	3.75	3.75	*3.54*	3.50	*3.38*	3.50	*3.13*
Euro area	2.00	2.00	*1.93*	2.00	*1.92*	2.00	*2.06*
Japan	0.50	0.75	*0.73*	1.00	*0.86*	1.00	*1.09*
UK	4.00	3.75	*3.65*	3.50	*3.51*	3.25	*3.44*
Switzerland	0.00	0.00	*-0.06*	0.00	*-0.07*	0.00	*0.03*
10-Year Gvt Bonds							
US Treasuries	4.17	4.15	*4.22*	4.15	*4.27*	4.20	*4.37*
Germany (Bunds)	2.86	2.90	*2.93*	2.95	*2.98*	3.00	*3.07*
Italy	3.56	3.60	*3.65*	3.65	*3.72*	3.70	*3.87*
Spread vs Bunds	*70*	*70*	*72*	*70*	*74*	*70*	*79*
France	3.58	3.65	*3.64*	3.70	*3.70*	3.80	*3.83*
Spread vs Bunds	*72*	*75*	*70*	*75*	*72*	*80*	*75*
Japan	1.97	2.00	*2.04*	2.00	*2.11*	2.05	*2.24*
UK	4.51	4.45	*4.64*	4.40	*4.69*	4.30	*4.79*
Switzerland	0.28	0.30	*0.30*	0.30	*0.33*	0.35	*0.37*

**3-day avg. as of 10/12/25*
***ICE BofA (OAS)*

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	*Forward*	*Forecast*	*Forward*	*Forecast*	*Forward*
EA IG Non-Financial	74	70		70		70	
EA IG Financial	79	75		75		75	
EA HY	269	270		270		270	
EM Sov. (in USD)	178	175		175		170	
Forex							
EUR/USD	1.16	1.17	*1.17*	1.18	*1.17*	1.19	*1.18*
USD/JPY	156	155	*155*	152	*154*	150	*152*
EUR/JPY	182	181	*181*	179	*181*	179	*179*
GBP/USD	1.33	1.33	*1.33*	1.33	*1.33*	1.32	*1.33*
EUR/GBP	0.87	0.88	*0.88*	0.89	*0.88*	0.90	*0.89*
EUR/CHF	0.94	0.94	*0.93*	0.94	*0.93*	0.94	*0.92*
Equities							
S&P500	6,858	6,915		6,900		7,060	
MSCI EMU	193.9	196.0		193.0		202.0	
TOPIX	3,386	3,390		3,420		3,510	
FTSE	9,648	9,685		9,775		10,020	
SMI	12,945	13,080		13,000		13,610	

Forecast Intervals





*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5-year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the three-month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

IMPRINT

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