

## Market Perspectives

Bubble fears

December 2025

### GenAM Macro & Market Research

'Market Perspectives' provide our monthly macro & market outlook and investment recommendations

- Renewed market worries about the sustainability of the stellar earnings trajectory of AI companies have choked off the risk rally sustained since spring.
- We expect a choppy path ahead given recent stock price advances, high index concentration in tech securities and tight risk premia.
- That said, we still favour a moderate pro-risk bias in our portfolio, with a preference for Credit and Equities. In contrast to the 1990 dot-com bubble, soaring tech stocks are backed by actual earnings. Resilient global growth and some further Fed rate cuts make for a conducive macro environment.
- We keep a slightly short duration in EUR fixed income amid an ensuing economic recovery but are neutral in the US. We keep a cautious stance on the still overvalued USD amid narrowing rate gaps.

## Content

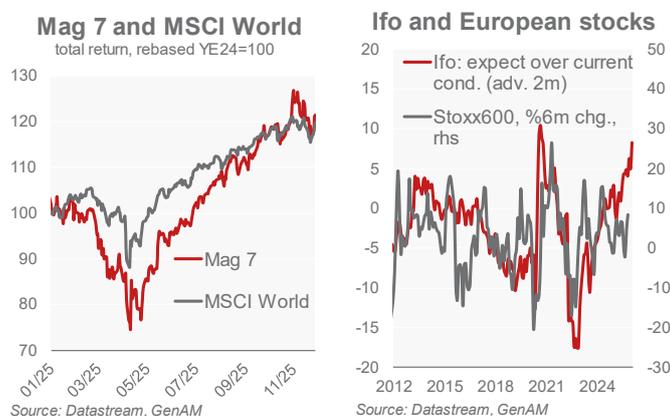
<b>1. Global View</b>	2
<b>2. USA</b>	3
<b>3. Euro area</b>	4
<b>4. Japan</b>	5
<b>5. China</b>	6
<b>6. Central and Eastern Europe</b>	7
<b>7. Government Bonds</b>	8
<b>8. Credit</b>	10
<b>9. EM Sovereign Bonds</b>	11
<b>10. Currencies</b>	12
<b>11. Equities</b>	13
<b>12. Asset Allocation</b>	15
<b>13. Forecast Tables</b>	16
<b>14. Imprint</b>	17

## Global View – Bubble fears

Thomas Hempell

- **Renewed market worries about the sustainability of the stellar earnings trajectory of AI companies have choked off the risk rally sustained since spring.**
- **We expect a choppy path ahead given recent stock price advances, high index concentration in tech securities and tight risk premia.**
- **That said, we still favour a moderate pro-risk bias in our portfolio, with a preference for Credit and Equities. In contrast to the 1990 dot-com bubble, soaring tech stocks are backed by actual earnings. Resilient global growth and some further Fed rate cuts make for a conducive macro environment.**
- **We keep a slightly short duration in EUR fixed income amid an ensuing economic recovery but are neutral in the US. We keep a cautious stance on the still overvalued USD amid narrowing rate gaps.**

Not so fast. Doubts about advanced valuations of tech titles have stalled the equity rally (left chart). Amid the continued AI frenzy, setbacks have become more frequent. In January, competition from DeepSeek raised fears that cheap Chinese models may erode the business case of expensive US AI setups. In August, markets tanked on an MIT report on poor productivity effects from AI usage in US firms. Now, recent worries about rising leverage and intensifying US competition (Anthropics, Gemini) again question the sustainability of the extraordinary earnings trajectory of OpenAI & Co. Even Nvidia's bumper Q3 earnings reports failed to sustainably brighten the mood. Worries in private debt (First Brands, Tricolor PrimaLend) and US subprime borrowers have neither helped. It was in the first place dovish reassurances by Fed officials about a December rate cut that helped to pare earlier November losses.



A choppier phase for risk assets may be ahead of us after the substantial compression of risk premia and with few tech securities dominating equity indices. We are also watching closely to what extent rising competition may erode margins

and high earnings expectations of AI providers. And yet, we deem recent market setbacks still to more likely prove a healthy correction than the start of a bursting bubble. AI carries a big potential of transforming business and raising productivity. In contrast to the 1990s dotcom bubble, strong stock price gains thus far are largely backed by rising realized earnings while tech leverage is still moderate.

The overall macro environment remains conducive, too. Trade frictions are easing, and the prolonged US shutdown has come to an end. Global growth is moderate, but resilient to shocks. The US is facing a short-lived winter soft patch rather than a feared prolonged slowdown after steep US tariff increases. Rising bankruptcies are casting shadows over US credit extension but are thus far concentrated in smaller firms, while US deregulation is set to free up bank capital. Green shoots emerge in the euro area (right chart) on supportive financial conditions and the German fiscal stimulus. Meanwhile, global inflation is set to moderate further, with the lagged impact of US tariffs to delay but not upend US disinflation. This will allow for further Fed easing, with a December still on the cards following rather dovish Fed comments. In the euro area, 2026 may see even a moderate undershoot of the ECB's 2% target.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.01	4.05	4.05	4.10
Germany (Bunds)	2.68	2.75	2.80	2.90
Credit Spreads**				
EA IG Non-Financial	81	70	70	70
EA IG Financial	84	75	75	75
Forex				
EUR/USD	1.16	1.17	1.18	1.19
USD/JPY	156	155	152	150
Equities				
S&P500	6761	6820	6835	7060
MSCI EMU	190	192	191	201

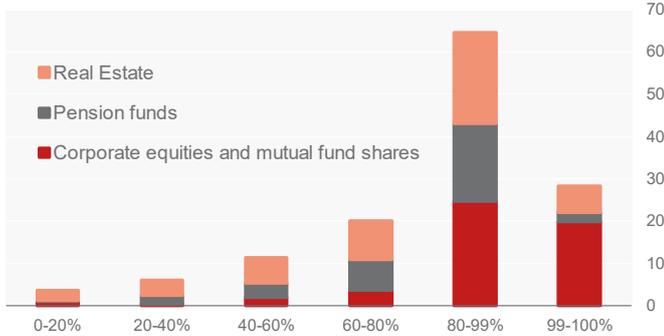
\*3-day avg. as of 26/11/25 \*\*ICE BofA (OAS)

We keep favouring a moderate pro-risk tilt in our portfolios. We overweight EUR IG Corporates which have proven very resilient amid recent wobbles in Private Credit, benefitting from still strong demand and solid fundamentals. We also keep a mild preference for Equities though we acknowledge the risk of rising volatility. We underweight EUR Govies and favour a slight short EUR duration, with the outlook for EUR yields tilted to the upside amid an ensuing recovery. For US duration, by contrast, prefer a neutral stance amid a softening labour market. We keep a cautious stance on the still overvalued USD amid a shrinking US rates advantage and international diversification efforts.

## United States

Paolo Zanghieri

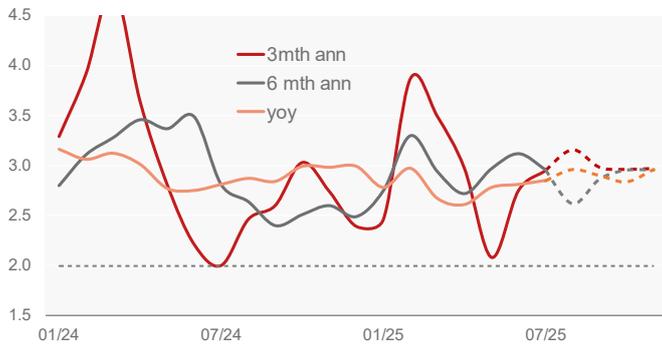
**Wealth level and composition by income class**  
 Q2 2025- US\$ trillion



Source: Federal Reserve, GenAM

**Core PCE inflation**

Dotted: Cleveland Fed Nowcast

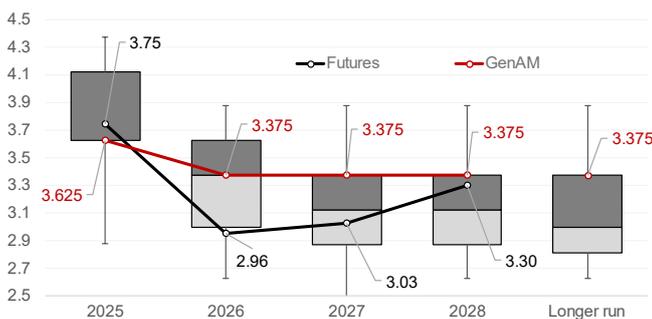


Source: BEA, Cleveland Fed, GenAM

**FOMC "dots" and Fed fund rates forecasts**

Middle of the range.

Year-end, median, quartiles and extremes of the distribution



Source: Federal Reserve Board, NY Fed; Datastream, GenAM estimates

- The US economy is largely driven consumption (boosted by wealth effects) and AI investment. We expect GDP to grow by 2.0% next year as the non-tech component of capex catches up.
- Despite a partial reversal by the administration on tariffs, they will continue to contribute to inflation for some time. We expect core PCE to finish this year just above 3% and around 2.5% by end-2026.
- We anticipate that the policy rate will be reduced by another 50 basis points by Q1 2026, significantly less than market expectations.

After the shutdown ended, the flow of economic data has restarted; however, critical information on October's CPI and employment will not be available. Partial evidence indicates a two-speed economy: consumption is increasingly concentrated among high-income households, benefiting from strong wage dynamics and a substantial wealth effect from stock markets. This boosts consumption, especially in services. Meanwhile, lower-income households are experiencing slower real income growth and vulnerability in segments of the labour market. September employment growth, though stronger than expected (119K new jobs), remains concentrated in leisure, hospitality, and acyclical sectors such as healthcare. Business surveys confirm that, outside tech, capex decisions remain cautious. After a weak Q4, we expect the impact of tax cuts on consumption and investment to emerge from the turn of the year. This should ensure solid 2% growth next year.

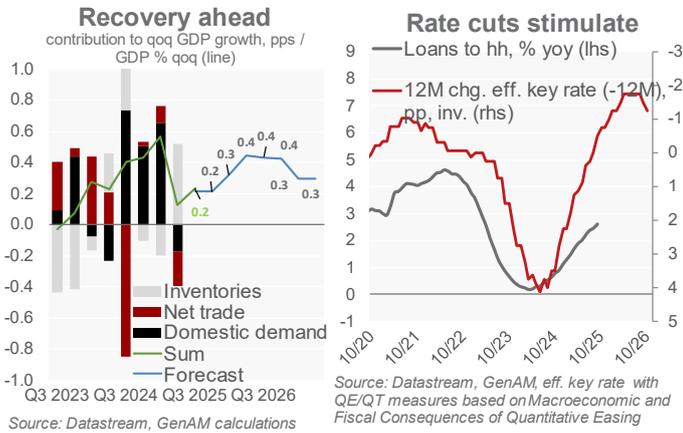
Strong demand for services will prevent rapid disinflation in that sector. The impact of tariffs — though less than anticipated, partly due to tariff reductions on agricultural commodities — will be increasingly felt. Then, we forecast core PCE to end the year around 3% year-over-year and to remain well above 2% in the first half of next year.

### The Fed will cut rates by less than the market expects

Minutes from the October meeting showed that many FOMC members do not see a need for further cuts this year. The lack of hard data makes a compromise difficult. A rate cut in December followed by a final cut in Q1 remains our baseline, with low confidence. It would be reasonable for the Fed to wait until January while signalling an easing bias. Markets expect the policy rate to bottom out at 3% next year. We think this is too dovish given persistent inflation and project the terminal rate to be in the 3.25%–3.5% range.

## Euro Area

Martin Wolburg



- We continue to expect strengthening activity in the quarters to come and stick to our 2025/26 growth forecasts of 1.4%/ 1.3%.
- We expect the discrepancy between sentiment and hard data to recede but see the risk of delayed recovery.
- The ECB will likely leave rate unchanged at the Dec. meeting and again find itself in a 'good place'. We continue to expect constant rates throughout 2026.

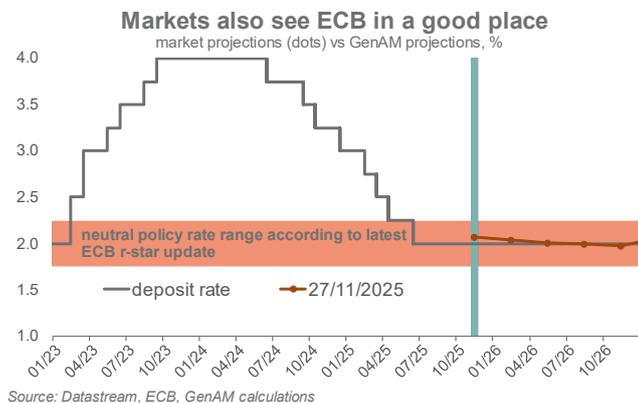
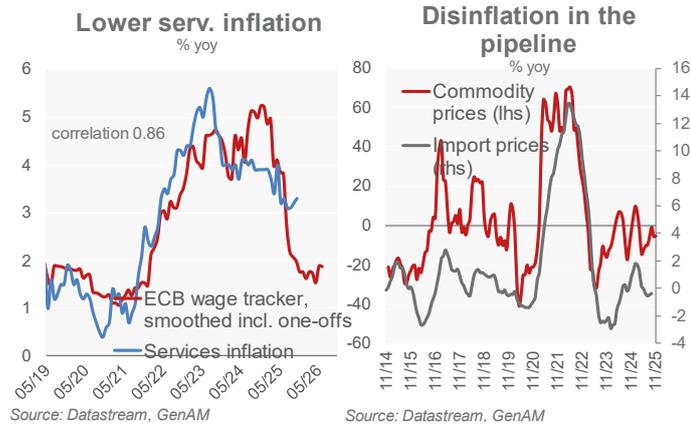
Following surprisingly strong growth in Q3 (of 0.2% qoq), key sentiment indicators like the composite PMI and the ESI suggest broadly unchanged growth towards the end of the year. Yet, the latest hard data (for Sep.) like retail sales (again -0.1% mom) and industrial production (IP, +0.2% mom) disappointed. But payback effects from the pre-tariff boost in H1 are still at work and notoriously volatile Irish data (-9.4% mom) came on top. Consumers spent only reluctantly despite high savings. But since then, consumer confidence has recovered further, and we expect it to translate into higher spending in the months to come.

Moreover, with inflation likely falling to 1.6% yoy in Q1/26 (from 2.0% yoy in Q4/25) real purchasing power and spending appetite will rise further. ECB policy easing is still helping growth via higher lending activity while reduced trade uncertainty and recovering exports should help too. At the outset of the year the German government spending spree will also be supportive and help to offset consolidation effects elsewhere over course of the year.

All in all, we stick to our growth forecast of 1.4%/1.3% for 2025/26. Major downside risks stem from German fiscal spending implementation problems (e.g. bureaucracy, bottlenecks), a re-escalation of trade conflicts and financial sector vulnerabilities.

### ECB will see itself in a 'good place' also in 2026

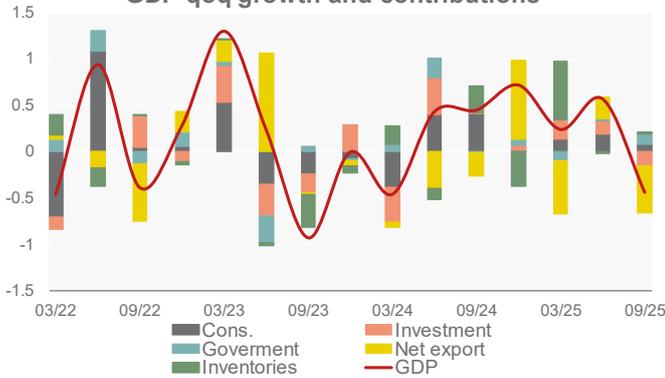
Since its July meeting the ECB sees itself in a 'good place' and we expect it to do so also at the Dec. 18 meeting. Governing Council (GC) members emphasize that uncertainty has come down over the course of the year, and the updated macro projections likely continue to see stronger activity ahead. While headline inflation will fall below the 2% threshold in 2026 GC members made clear that they will look through this and projected inflation at the end of the new forecast horizon 2028 will likely be close to target again. With the 2.0% key rate in the middle of the neutral policy range there is no need for adjustment in 2026. That said, sharply decelerating wage growth and imported disinflation (see mid-charts) are tilting also core inflation risks to the downside in our view. We hence also see the risk tilted towards lower key rates.



## Japan

Paolo Zanghieri

**GDP qoq growth and contributions**



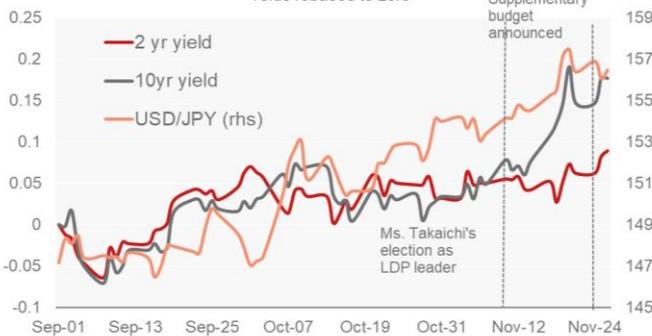
**Inflation**

Tokio: yoy



**Yields and FX evolution**

Yields rebased to zero



- **US tariff are weighing on activity having led to a 0.4% qoq GDP contraction in Q3. Yet consumption and investment are holding up well and this should prop up growth around the turn of the year.**
- **Despite softer food prices, inflation remains at 3% yoy. Strong wage growth will limit any decrease in core inflation. We still expect the BoJ to raise its policy rate in January**
- **The new government announced a supplementary budget worth more than 3% of GDP, including income tax cuts and defence spending.**

US tariffs are starting to bite: in Q3 exports to the US dropped by 8% qoq, bringing foreign sales down by 1.1% qoq. This more than offset resilient but slowly growing consumption, and therefore GDP fell by 0.4% qoq. The end of the quarter brought reassuring data, with industrial production and orders up. We expect a mild rebound in Q1, but for 2026 we expect growth to decelerate from 0.9% to around 0.5%.

Despite a softening in rice prices, services continue to keep inflation high. In October, the new core inflation measure for Tokio (ex. fresh food and energy) bounced back up to 2.9% yoy. With real wage growth still negative, the next round of negotiation is likely to deliver another increase in labour costs, which will prevent a quick disinflation.

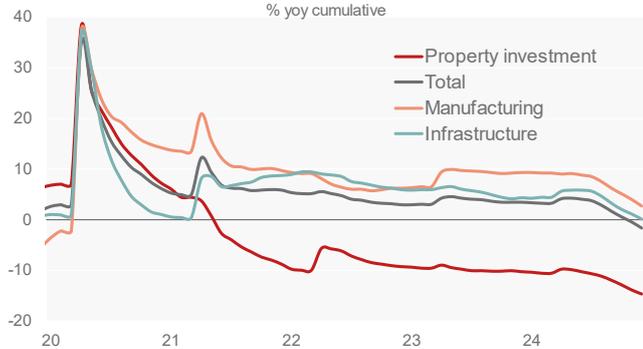
The new government announced a new stimulus package worth JPY 21.3tn (roughly USD 136bn, i.e more than 3% of GDP), higher than what was announced by the former government. Most of the resources will be devoted to price-relief measures, including subsidies for gas and electricity bills. According to the government this package will lift the nation's GDP by an average of about 1.4 percentage per year on an annualized basis for three years, assuming the measures take effect during that time span. This will add to a deficit already estimated at 6% of GDP, with debt at 230%. Yet despite market wobbles, the risk of a crisis is not imminent. Nearly 90% of public debt is held domestically, with the BOJ owing just above 50%.

At the October meeting the BoJ remained confident in its forecast of a gradual return of inflation to the 2% target. We expect a 25 bps increase in January, when there will be enough information about firms' plans for wage increases. A final rate hike in the middle of 2026 will bring the policy rate to the 1% neutral level. Evidence of a delay in policy action and the scale of the announced fiscal expansion brought long term yields to new highs and triggered a JPY sell-off.

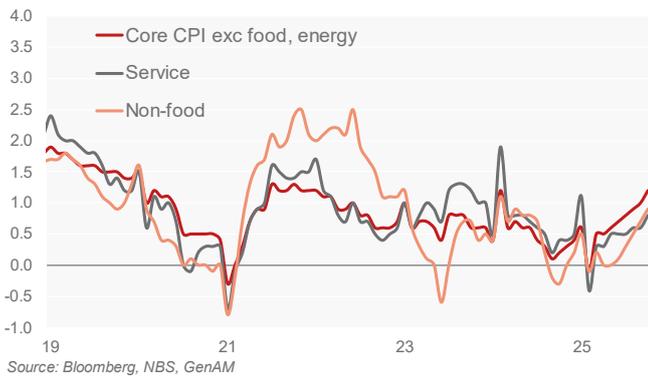
## China

Guillaume Tresca

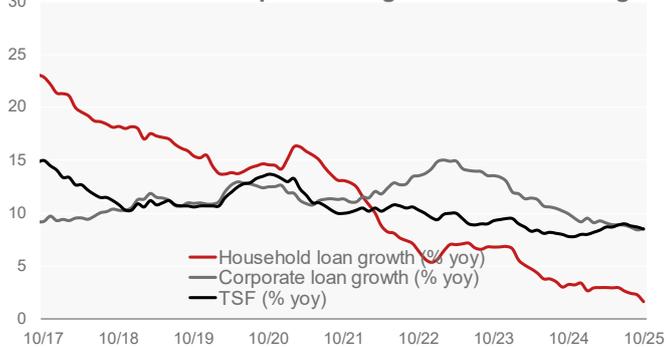
### Further decline in investment



### Some inflation improvement



### Household and corporate loan growth still declining



- The 2025 5% growth target is close to being achieved, but economic momentum is slowing down with a surprising decline in investment.
- The impact of the recently announced consumption and housing measures will be felt later and be marginal.
- Hints on next year's growth targets and measures to support consumption will emerge in the coming weeks. The growth target is likely to remain close to 5%.

GDP growth in 2025 will almost be reached, but activity momentum has slowed down since the summer, showing that internal demand remains weak. The latest activity indicators for October deteriorated across the board, with a surprising slowdown in industrial production and stabilisation in retail sales, as the government's subsidy programme comes to an end. The real surprise was the plunge in investment, not only in the real estate sector, but also in the manufacturing and infrastructure sectors. The new anti-inflation government strategy and the fading fiscal stimulus are the main drivers behind this. At least inflation is showing some improvement, with a rebound in core CPI and lower PPI deflation.

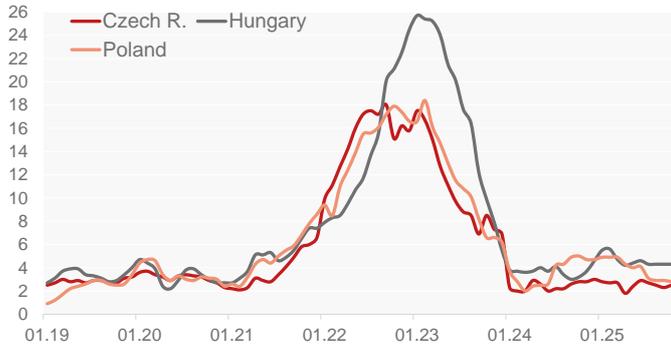
Policymakers announced new targeted measures in late October, including special project funding and new bond issuance, the effects of which will be seen later. In light of the commitment to meeting the growth target, it is likely that some measures will emerge at the provincial level (e.g. consumption coupons, as in Guangdong). Similarly, regarding the real estate sector, the government has announced that it will subsidise housing loans, as it did with consumption loans earlier this year. However, the subsidy is small, so the impact on the real estate sector will be marginal, given that mortgage yields are already low and financial conditions are relaxed.

The end of the year is set to be a busy time, with the Politburo meeting and the Central Economic Work Conference (CEWC) taking place. The first hints of the 2026 GDP growth target and policy measures will be revealed, particularly with regard to fiscal policy. We are unlikely to see a significant change in the growth target, which will remain close to 5%. However, given the recent dynamic of activity, more fiscal support will be needed to reach this target, likely via bond issuance and quasi-fiscal measures, most probably in Q1 next year. We would expect other measures to focus on consumption and social welfare. There should be renewed emphasis on innovation to achieve technological self-sufficiency.

## Central and Eastern Europe

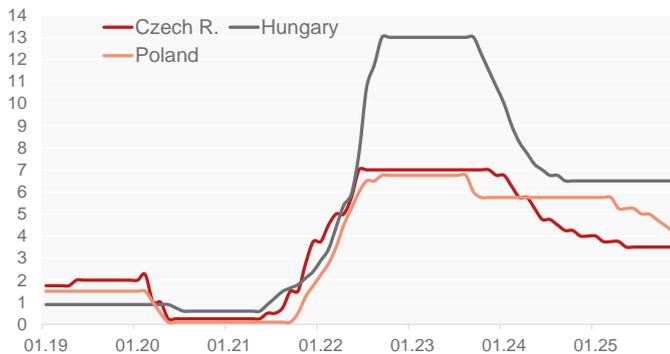
Radomír Jáč

**Headline inflation**  
 CE-3 countries (CPI yoy in %)



Source: www.czso.cz, www.ksh.hu, www.stat.gov.pl, GenAM

**Monetary policy interest rates**  
 CE-3 countries (end-of-month level, in %)



Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

### Main Forecasts

Czech Republic	2024	2025f	2026f	2027f
GDP	1.1	2.5	2.2	2.4
Consumer prices	2.4	2.5	2.1	2.2
Central bank's key rate	4.00	3.50	3.50	3.50
Hungary	2024	2025f	2026f	2027f
GDP	0.6	0.4	2.2	2.8
Consumer prices	3.7	4.5	3.5	3.2
Central bank's key rate	6.50	6.50	5.50	5.00
Poland	2024	2025f	2026f	2027f
GDP	2.9	3.3	3.0	3.0
Consumer prices	3.7	3.7	3.1	2.7
Central bank's key rate	5.75	4.25	3.75	3.75

Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

- The Polish NBP cut its key rate to 4.25% in November and we expect two more cuts by 25 bps in the current easing cycle.
- The Hungarian central bank stays at 6.50%. Policy easing may resume in H1 2026 after inflation stabilizes in the target range (set at 3% yoy +/-1pp).
- The rate-cutting cycle has most likely ended in case of the Czech CNB: we expect the key rate to stay at 3.50% at least until the end of 2026.

Development of inflation has been impacting monetary policy stance across the region. In Poland, headline CPI fell from 2.9% to 2.8% yoy in October and core inflation moderated too. Headline inflation is comfortably stabilized in the target range (set at 2.5% yoy +/-1pp) and should hold the range in the coming quarters. This contributed to further reductions of key rates of the Polish central bank.

Headline CPI in Hungary remained unchanged at 4.3% yoy for the fourth month in a row but core inflation increased from 3.6% yoy to 3.9% yoy. This supports the MNB in its view that maintaining tight monetary conditions is warranted.

Czech inflation increased from 2.3% to 2.5% yoy in October while core CPI remained unchanged at 2.8% yoy for the third month in a row. The CNB keeps a view that the evolution of core inflation shows that overall price developments in the domestic economy have not yet fully stabilised and require tight monetary conditions.

### Poland cut interest rates for fourth time in a row

The Czech CNB kept its key rate at 3.50% in November (the last cut by 25 bps came in May). Its comments suggest that the rate cutting cycle has ended, and that future moves could go in either direction. The CNB staff forecast operates with stable rates until Q4 2026 followed by a 25 bps rate hike and stable rates in 2027. Our baseline scenario assumes unchanged rates throughout 2026 and possibly also in 2027. In Hungary, the MNB maintained its base rate at 6.50% in November (the last rate cut came in September 2024) and confirmed its cautious forward guidance. We expect policy easing to resume in H1 2026, although the MNB may wait until after parliamentary elections, scheduled for early April. The Polish NBP reduced its key rate by 25 bps to 4.25% in early November, which was the fourth cut in a row. The NBP mentioned lower CPI reading for October and improved inflation outlook as factors justifying a rate cut. We expect two more rate cuts in the current cycle, to 3.75 % by mid-2026, but timing of the next cut is uncertain. A cut at the meeting scheduled for early December cannot be ruled out.

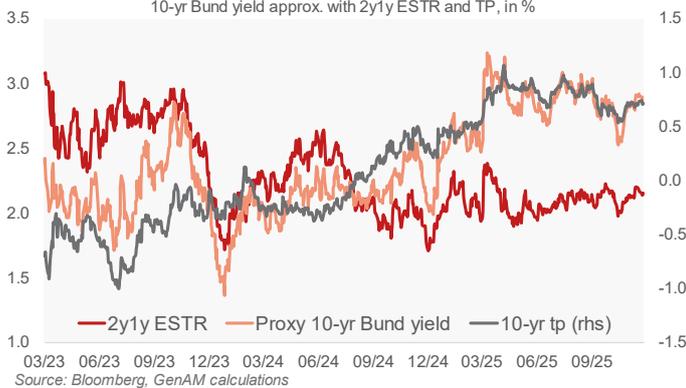
## Government Bonds

Florian Späte

**10-yr Bunds: Very tight trading range**



**Higher term premium boosts Bund yields**



**Euro Area: Key rate expectations drive yields**



- In November, the transatlantic government bond yield spread narrowed further across all maturities. In particular, the euro area long end continued to move upwards.
- We forecast euro area core yields to continue rising mildly against the backdrop of an end to the ECB's key rate cycle and an economic rebound driven by expansionary fiscal policy. On the contrary, given the scope for further Fed key rate cuts, ambiguous macroeconomic data and a falling inflation rate, at least in the medium term, we see little potential for an increase in US yields.
- In view of the calmer political developments in France and the further decline in bond market volatility, spreads of Southern European government bonds have narrowed further. We expect this environment to continue for the time being, with spreads remaining at a low level.

The global environment for government bond markets remained very calm in November. Notwithstanding declining bond market volatility and narrow trading ranges, the euro area and US markets recorded an opposite trend. While Bund yields (especially those for very long-term bonds) moved upwards, renewed speculation about key rate cuts contributed to a decline in US yields and a steeper yield curve.

We expect the upward trend in Bund yields to continue over the coming weeks. While the market still prices in a 40% probability of a final ECB key rate cut, we assume that the ECB's next move will be upwards (though not until 2027). This should increase the monetary component of 10-year yields (as estimated by 2y1y ESTR). Continued Quantitative Tightening (QT), combined with a new record level of Bund net issuance of over € 140bn in 2026, will also put upward pressure on Bund yields.

We also see room for the term premium to rise again after its consolidation since spring. This is supported by an environment of inflation around target (with no return to the lows of the 2010s), elevated debt and fiscal deficits (high Bund supply even beyond 2026), and a structural shift toward a regime more comparable to the 2000s than the 2010s. While the low volatility dampens the increase in the term premium, higher net supply and potential flow effects from the Dutch pension fund transition are seen to eventually gain the upper hand.

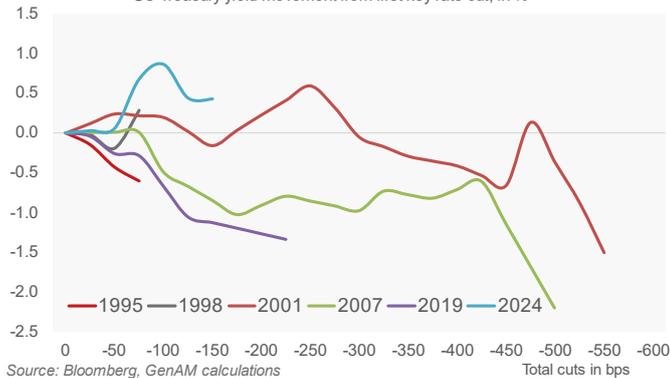
Finally, the improving growth prospects will support higher Bund yields as well. On a 3-month (12-month) horizon, we forecast 10-year Bunds to reach 2.75% (2.90%).

## Government Bonds

Florian Späte

### More leeway for 10-yr US yields to fall?

US Treasury yield movement from first key rate cut, in %



The risks on the US government bond market are currently two-sided. Although the expected key rate cuts by the Fed are likely to contribute to a decline in yields, the (almost) four key rate cuts currently priced by the market seem excessive and could lead to disappointment. Although inflation expectations have fallen recently, they still seem rather high (5-yr 5-yr forward still above 2.4%). In the medium term, we are more optimistic and expect the rate to fall back to the Fed's target. Finally, given the cooling US labour market and low consumer confidence, we see in the short term risks to private consumption, a key determinant for the US economy.

However, there are also factors that suggest US yields may rise slightly. E.g., an erosion of Fed independence could lead to fiscal dominance. If key rates were too low, they would not be sufficient to curb inflation, which would lead to a steeper yield curve. Continued US growth outperformance, supported by expansionary fiscal policy, would also counteract a decline in yields. Overall, we forecast little change in the 10-year yield over a 3-month (12-month) horizon, at 4.05% (4.10%).

Against this backdrop, we continue to view US Treasuries as the more attractive option than Bunds, despite the hedging costs and their outperformance year-to-date. In particular, the medium-term segment continues to offer better return prospects.

### EA non-core bond supply to be well absorbed in 2026

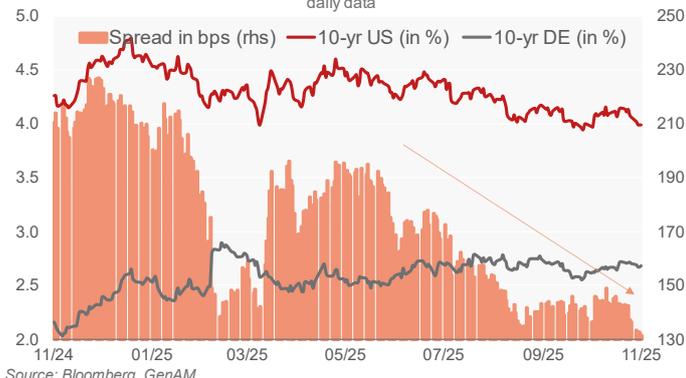
In November, euro area non-core government bond spreads narrowed further across all tenors and countries, from an already low level. Given our expectation of continued calm trading, the carry-friendly environment is likely to persist for the time being.

At the start of next year, attention will once again turn to the primary market. We expect net issuance to rise to just over € 500bn in total. As redemptions increase significantly, the gross issuance volume will reach a new record of over € 1.4tr. Since the volume of ECB QT will only fall slightly, net issuance (i.e. taking ECB QT into account) will exceed the 2025 level by a small margin, reaching just under € 900bn.

However, this record level is largely due to Germany's expansionary fiscal policy. Several euro area non-core countries will even be able to reduce their issuance volume compared to 2025. Italy (from € 102bn to around € 80bn) and Spain (from € 55bn to € 46bn) will see a significant decrease in their use of the primary market. Smaller countries (e.g. Portugal, Greece and Ireland) will either reduce their issuance or maintain low levels. Overall, therefore, the environment for EA non-core government bonds is seen to remain favourable in 2026.

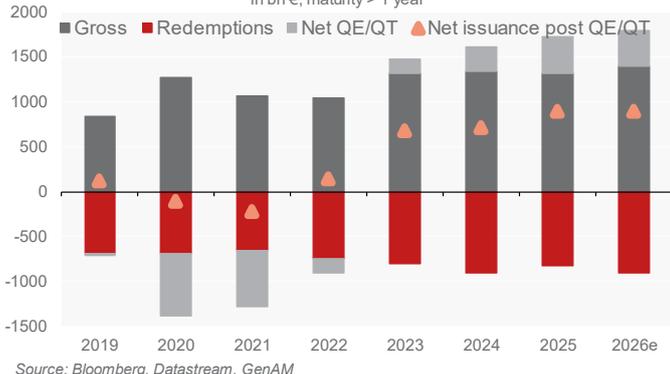
### Transatlantic yield spread may fall further

daily data



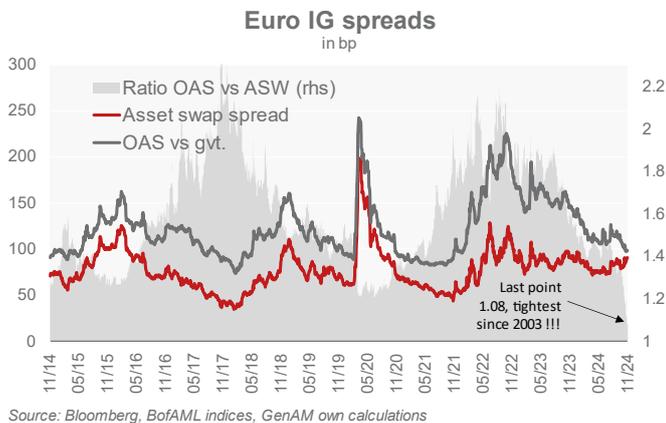
### Euro Area: Government Bond Issuance

in bn €, maturity > 1 year



## Credit

Elisa Belgacem



- Bond issuance is nearly complete for the year, suggesting that the supply-demand balance will likely push spreads tighter into year-end.
- Recently announced tech issuance may exert slight pressure on IG, but we maintain the view that spreads are more likely to tighten than widen.
- We recommend either extending duration in IG non-financial, the 5-7Y bucket, or preferring subordination risk to credit risk with AT1 corporate hybrids remaining more attractive than BBs.
- Hedging opportunities are available at relatively low cost, with our preferred protection being the iTraxx Subordinated Financials Index.

Credit spreads have widened slightly in recent weeks, driven by concerns over the private debt market and the heavy issuance announced by tech companies to finance a new wave of large-scale capital expenditures.

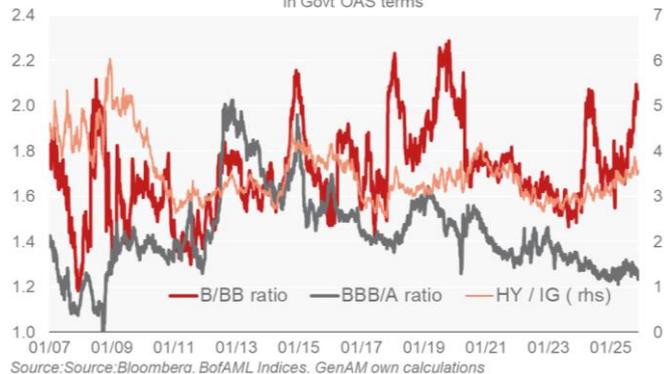
**EUR Credit market performance by segment**  
Total return base 100 : 01/01/2025



**No more supply means spreads are set to tighten**

Corporate bond issuance for 2025 is nearly complete, and steady inflows into credit funds suggest that the supply-demand balance will continue to push spreads tighter into year-end. Looking ahead to 2026, corporate supply is expected to remain well below sovereign issuance. Within corporates, high yield will see the least supply in relative terms, while investment grade will be heavily influenced by a wave of tech-sector bond issuance. Flow data indicate that demand for credit has steadily increased throughout 2025, supported by scarcer supply compared to the government bond market and resilient fundamentals. This trend should persist into 2026, even though some concerns about credit quality have emerged following recent failures in the U.S. private debt market. We view these defaults as idiosyncratic rather than systemic. Consequently, demand for credit should continue to outpace supply in 2026, supporting spreads.

**IG vs HY valuation ratios**  
in Govt OAS terms



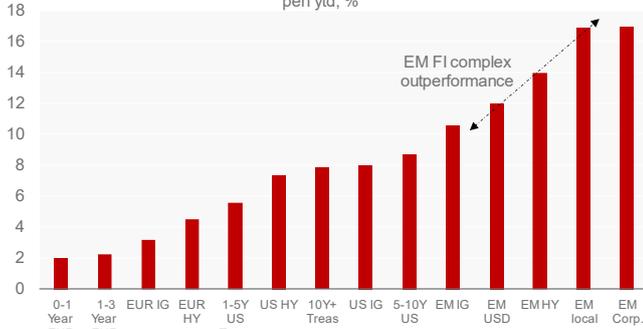
**HY is regaining attractiveness as supply will be limited**

Valuation considerations lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY, but keep a slight HY overweight. HY defaults are declining but fundamentals under slight pressure. While extending duration may not be favorable from a spread perspective, a positive view on rates justifies a long position, especially in the 5-7 year bucket. AT1 has been the best-performing asset class within credit so far this year. Despite limited spread tightening potential going forward, we continue to favor AT1, particularly versus single-Bs.

## EM sovereign bonds

Guillaume Tresca

**EM FI return: best year since the GFC**  
 perf ytd, %



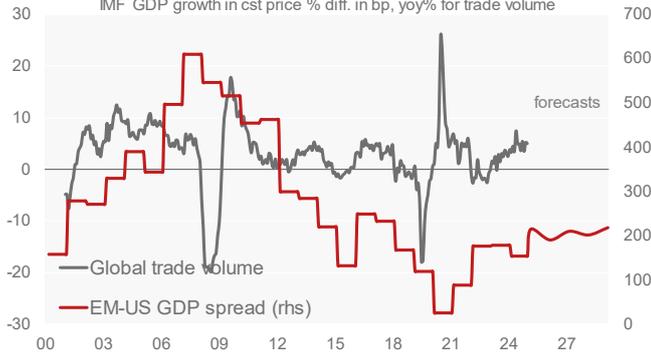
Source: ICE, JP, Bloomberg, GenAM

- **EM fixed income is set to post its best year since 2009 with still a supportive environment in place. Activity has been resilient and macro volatility is lower.**
- **EM external debt valuations have marginally improved and are attractive relative to US credit. Technicals and high all-in yields are supportive.**
- **We prefer EM local over external debt where valuations are more compelling. We are more selective than before and maintain our preference for rates over FX.**

As time goes by, EM fixed income environment remains supportive, with local and external debt continuing to outperform other fixed income assets, posting returns of 17.3% and 13.3% year-to-date respectively — the best year since the global financial crisis. Macroeconomic volatility has even receded, as the impact of the trade war has diminished, and the US has continued to negotiate new trade deals with EM countries on specific products (agricultural products in LatAm). Global trade volume has not declined, and the EM-US growth spread has widened. In addition, EM fixed income has proven resilient during the latest period of risk aversion in November, with limited contagion. Indeed, positive technicals and high EM all-in yields are providing anchors.

**Better EM growth and stable global trade**

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



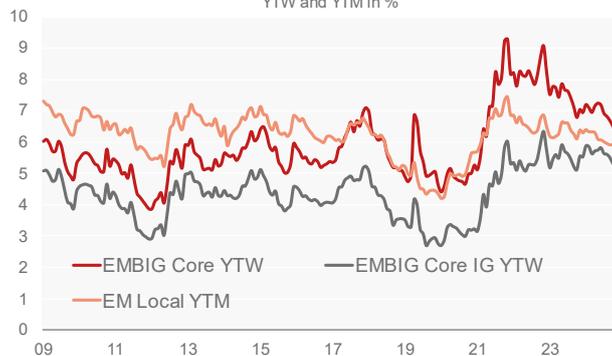
Source: Bloomberg, IMF, CPB, GenAM

### External debt: it is the carry that matters

Although valuations are historically tight, spreads still offer value relative to US credit, with an even greater valuation than before. Moreover, the absolute level of carry remains significant and is the main source of return.

**Carry matters: still high all-in yield**

YTW and YTM in %



Source: Bloomberg, JP, GenAM

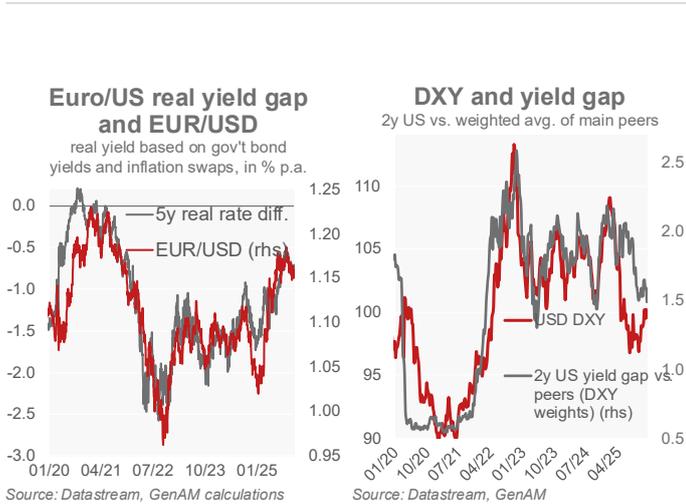
We remain cautious on EM IG until the end of the year, given its sensitivity to US IG movements and its lowest carry. EM HY has indeed recently proved more resilient, and we still see value in BB names such as Ivory Coast and Morocco, and to a lesser extent Colombia. CCC names offer idiosyncratic stories that could lead to further spread tightening.

### Local debt: still value but preference for rates over FX

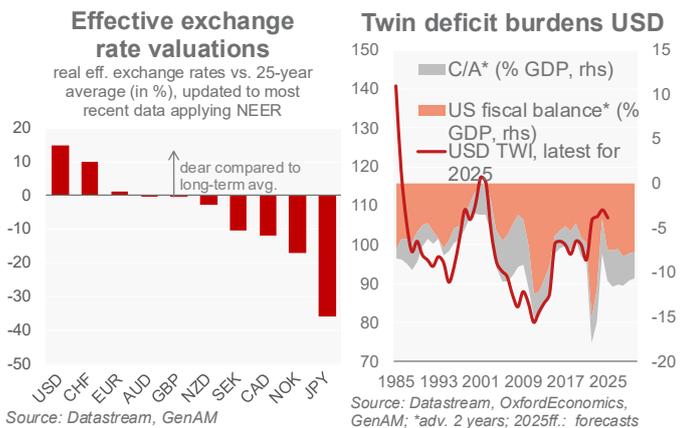
We continue to favour local debt over external debt, as we anticipate further USD weakness and valuations remain compelling, particularly in CEE. Monetary easing cycles are coming to an end, so investors must focus on the belly of the curves. The exceptions are Brazil, Poland and Hungary. We prefer EM rates to EM FXs, as FX valuations are less attractive than before and require more careful selection. We still favour the TRY, EGP and HUF.

## Currencies

Thomas Hempell



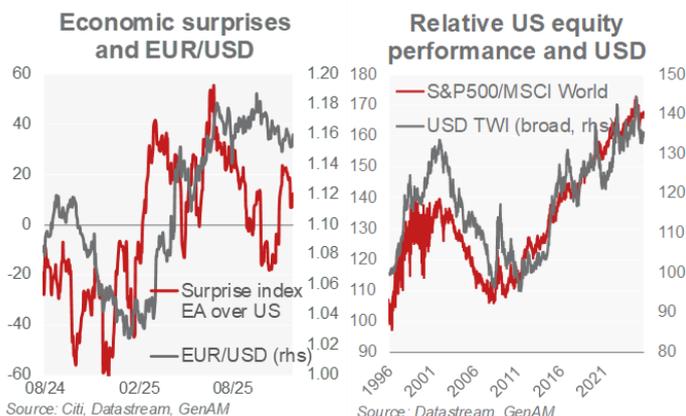
- Easing tariff uncertainties and US economic resilience have brought about a USD respite on recovering real yields. But renewed weakness is looming before long.
- The USD is still fundamentally dear with the persistent high twin deficit a lasting headwind. The USD's reserve and safe haven appeal has suffered. A shrinking US yield advantage is favouring higher hedge ratios.
- The EUR still has scope to catch up with economic green shoots in the euro area. French political risks persist, but contagion risks are limited.
- The deeply undervalued JPY will struggle to recover short term amid fiscal dominance worries.



The US dollar has gained some lost ground in the autumn thanks to recovering US real yields (top left chart). This owes both to US economic resilience and pared rate cut expectations, but also to easing inflation expectations as tariff uncertainties eased. That said, initial USD strength in November proved short-lived after Fed officials spurred hopes of another rate cut in December, helping the US yield advantage over major peers to narrow (top right).

### USD weakness to resume before long

Looking ahead, we expect USD weakness to resume before long. The support from real yields should have run its course, with further Fed cuts eroding the US yield advantage and lower USD hedging costs. Mind also that despite the USD DXY's 11% slide in H1 (-8%ytd), the real effective (trade-weighted) US dollar remains historically dear (mid left). Amid high US policy uncertainty, fears of looming fiscal dominance and a persistently high twin deficit (mid left) this overvaluation does not look sustainable. The EUR/USD has scope to benefit as mounting green shoots in the euro area (contrasting a looming US soft patch) have thus far been barely acknowledged by FX markets (bottom left). French political risks persist, but contagion risks are limited. Admittedly, a prolonged AI boom may sustain US equity outperformance and thereby USD support (bottom right). Given this and the improved US growth forecast we trim our 12-month forecasts slightly to 1.19 EUR/USD. Nevertheless, we see the risks around this forecast skewed toward faster USD depreciation.



Fears of fiscal dominance under the new government in Japan have sent the JPY tumbling by more than 5% since Takaichi's election as LD party leader in early October. FX intervention is looming. A lasting yen recovery, however, will require stronger reassurance that the BoJ will not be forced to refrain from due further rate hikes in an attempt to keep the government's financing costs artificially low.

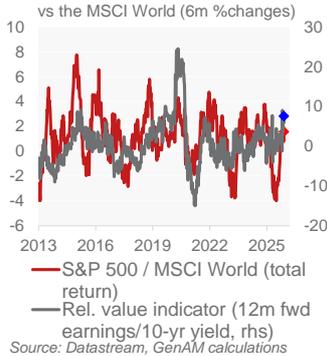
## Equities

Michele Morganti and Vladimir Oleinikov

**MSCI Europe & IFO adj.**



**S&P 500: relative value indicator**

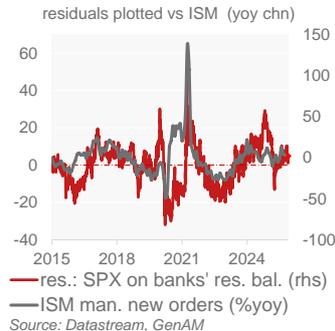


- We remain cautiously OW equities and maintain our preference for cyclical sectors, a neutral stance on the US tech sector as well as slight OW in EMU vs. SPX and an OW on Switzerland.
- Recent pressures burdening equities – US shutdown, geopolitical tensions, pressure on government yields – have eased while Fed comments reanimated hopes of a Fed cut in December.
- Fundamentals remain supportive: financial conditions and credit are positive, the Fed is still cutting rates while corporate cash flow, buybacks and M&A activity are improving.
- Our 12-month TR for the EMU remains attractive at around 10%, based on cautious assumptions. Under more benign scenarios, the upside potential for EMU equities could reach at least 15%. For the SPX, we see a target range of 7,000-7,300 in one year, potentially reached earlier in the coming months. Should consensus EPS prove correct, the 8,000 target should not be excluded.
- OW MDAX and EMs, specifically Korea and Poland (both reduced OW). Slight OW China & CH IT. Mid-term view: diversify US into equally weighted SPX, Gold firms, AI phase4 – productivity – and Uranium.
- EU sectors: OW Banks, Defense, Constructions, Insurance, Pharma, Retailing, Software. UWs: Durables, FBT, HPP, Media, Transport, Utilities.

**US ULC and NIPA / GDP**



**S&P500 explained by Banks' res. balance with the Fed**

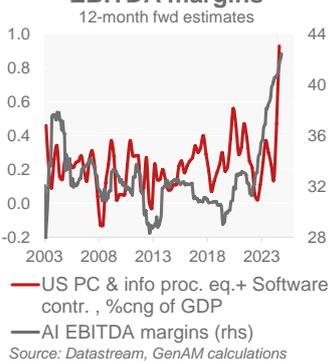


The recent sell-off in equities was driven by several triggers, which in part have improved recently. Excessive euphoria around M7 stocks (we moved to neutral from OW last month) added to ambiguous comments by the Fed, lingering geopolitical frictions and pressure on government yields. Fundamentals remain supportive, and we keep our mild OW in equities. That said, as valuations are higher than norm – especially in the US – we continue to recommend a diversified portfolio that includes both global exposure and thematic. Financial conditions, including credit (US deregulation freeing bank capital), stay positive and, we are still in the midst of the Fed's easing cycle. Fed liquidity, adjusted for the ISM momentum, still back positive returns for the S&P500. Corporate cash flow after capex is positive and rising, while buybacks have resumed following the reporting season pause. Seasonality, positioning, declining bond volatility, increasing M&A and our ML quant tools all favour equity vs. bonds. Although not accelerating, the IFO and PMI indices still point to an EMU recovery ahead, supporting cyclical sectors. Our sector model — based on global GDP and EMU inflation — aligns with this view. We expect US growth to bottom this quarter and accelerate thereafter.

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



**US Tech capex and AI EBITDA margins**



## Equities

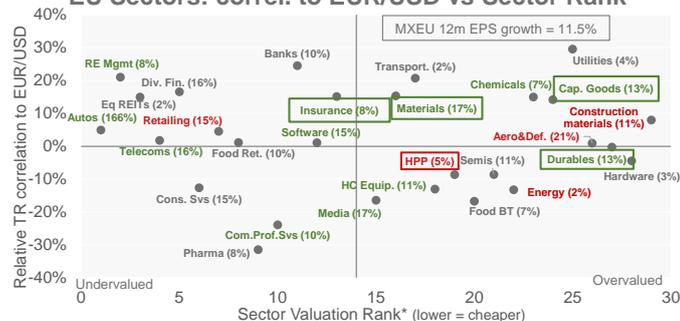
Market Index	1yr fwd CAPE yield gap vs real yld, % gap to avg since 2003	PEG3 adj (using FY3 eps and ALTMN)	market multiples, discount to history	US CAPE-based valuation in 1 year		composite valuation score (1=best)	GenAM 12m TR
				cons. 10yr, CPI and eps	GenAM 10-yr, CPI and EPS		
S&P 500	-1.7%	1.6	46%	8,075	7,340	48	7.2%
MSCI EMU	-1.3%	1.9	18%			37	10.1%
FTSE 100	-0.3%	1.8	10%			28	10.1%
SMI	0.1%	2.2	17%			34	11.0%
TOPIX	-0.8%	1.8	10%			25	7.5%
EM	-0.3%	1.6	11%			4	11.6%
Brazil	0.1%	1.9	-20%			20	
China	0.5%	1.9	13%			22	
China IT	0.1%	1.1	10%			2	
India	-0.9%	2.0	23%			40	
Korea	-2.3%	1.1	14%			5	
Poland	1.8%	1.4	-7%			15	

Source: Datastream, Bloomberg, GenAM calculations  
 Note: CAPE (cyclically-adjusted PE) = price divided by earnings averaged over a 10-year period adjusted for inflation, excess CAPE yield = 1/CAPE - (10yr rate - avg inflation over 10yr) = real earnings yield minus real rate. Using 10-yr avg for CPI and earnings. Multiples (PE, PB, PCF, DY) are based on 12m fwd estimates; PEG is PE / expected LT EPS growth.  
 PEG adj. (higher = expensive); PEG is modified by the ratio COE/ROE, which signals the ability to produce a return on capital higher than the cost of it. COE = cost of equity = 10yr govt bond rate + 6% mkt risk premium x country Beta versus MSCI World (monthly returns over the last 10 yrs). Composite valuation score is taken across 50 equity markets and is based on various valuation measures (incl. value gap, market multiples, CAPE, earnings growth and adjusted PEG)

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%	18.2	17.5	-4%	1.9
Mag. 7 (median)	39%	18%	17%	16%	29.1	27.8	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.

### EU Sectors: correl. to EUR/USD vs Sector Rank



\*includes Fed Model gap, exp. TR, PEG adj. (for ROE and COE), Shiller PE, 3-stage EPS growth model, mkt multiples, PE vs hist. avg. excl. bubble years. 12m EPS growth = 12m fwd EPS vs 12m trailing EPS  
 Green/Red name = positive/negative machine learning (ML) models in (X%): 12m EPS growth  
 Source: Refinitiv, GenAM calculations as of 27/11/2025

The German “bazooka” should soon become more effective, and in China, economic policy helps smoothing out phases of macro weakness. Japan’s new PM has backed a fiscal expansion, however, the Topix reaction has already been too extreme, leading us to adopt an underweight (UW) position versus the EU, US, and EM.

The Q3 eps season was good in both the US and the EU, with growth and margins higher than expected. Our US margin proxies (CPI/ULC) are still sanguine, and our forecasted eps growth is decent: 8% and 7% in 2026/2027 for both US and EMU. We are below consensus by 4% in 2026 and 9.5% in 2027.

The 12-month TR for emu is attractive (around 10%), with PE target of 14.3X, which could rise to 14.8X given favourable financial conditions. We are below the earnings consensus, but if the latter proves correct, the potential upside for EMU shares could above 15%. The EU free-cash-flow of 5% can still entirely finance dividends and buybacks, without increasing debts. For the SPX, we estimate a target between 7,000 and 7,300 in a year, but should consensus EPS prove right, the 8,000 target should not be excluded. The median PE of both the SPX 493 and M7 stocks is only 6% above average so not particularly euphoric.

M7 price trend remains below its EPS trend, while PEs adjusted for the expected EPS growth is similar to EMU and only slightly higher than for the S&P500. While high margins are potentially at risk and AI competition is on the rise (China), we note that topix are currently supported by increased investments, while both valuations and balance sheets remain decisively in a better shape when compared to the 2000 bubble.

Slight OW EMU vs US, N US Tech, OW MDAX, and Russell Mid cap, EM: China and China IT, India, Korea and Poland. Mid-term view: diversify US into equally weighted SPX, Gold miners, AI phase 4 – enhanced productivity and Uranium.

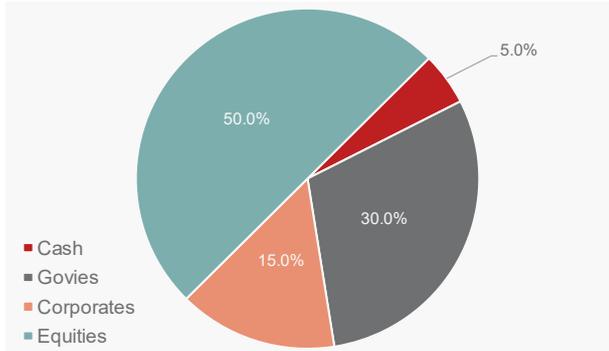
### EU sectors: low risks, but still a cyclical tilt

We maintain a reduced risk in the portfolio and a cyclical tilt, notably in Banks, Defense and Software. We upgraded Auto to neutral, due to good valuation – scoring 1° in our proprietary valuation rank – and positive developments on the CO2/ICE ban. We keep the Tech Hardware to neutral. We close our long EU Small vs Large cap, as we believe the positive catalysts for small cap are already priced short term. We are monitoring Commercial Prof. Services, Media and Software which are showing signs of increasing appeal on valuation momentum after their recent underperformance. OWs: Banks, Defense, Constructions, Insurance, Pharma, Retailing, Software. UWs: Durables, FBT, HPP, Media, Transport, Utilities.

## Asset Allocation

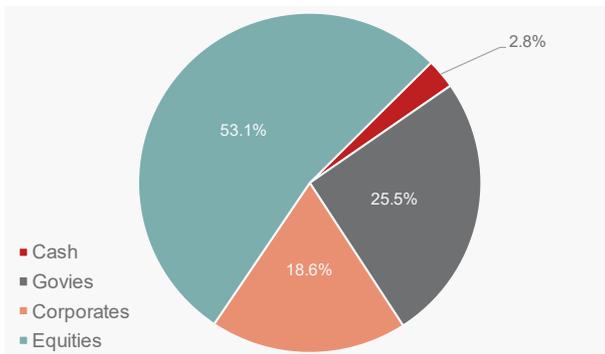
Thorsten Runde

Benchmark



Source: GenAM

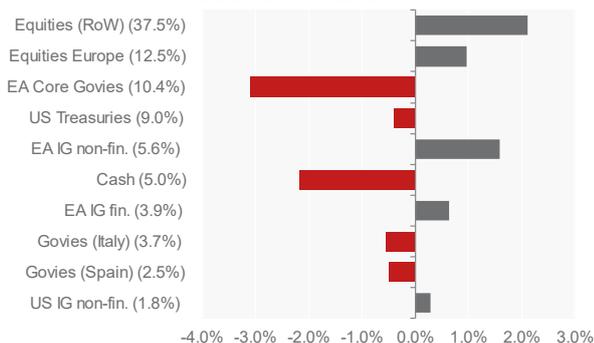
Modelportfolio



Source: GenAM

Modelportfolio: Active Positions

TOP 10 Benchmark Constituents



Source: GenAM; Benchmark weights in parentheses

- In November (by 26.11.25), all Equity markets, apart from Europe, performed negatively with EMs at the bottom of the ranking (-1.7%). On the Govie side, apart from US and France, the long-dated buckets were underperforming the short-dated ones, mostly even with negative returns.
- For Credit we find that HY slightly underperformed IG by -4 bps. Within IG, Fin outperformed non-Fin by 10 bps and US the EA by around +95 bps.
- The macro backdrop remains supportive for risk assets, with global growth showing resilience and trade uncertainties easing. However, recurrent doubts about sustainability of the extraordinary earnings trajectory of tech firms and higher index concentration are adding to volatility.
- We maintain a constructive stance, increasing our overweight in investment grade and high yield credit, while keeping a mild overweight in equities. Core government bonds remain underweighted due to limited upside and elevated duration risk.

In November 2025 (26.11.25) our model portfolio underperformed its benchmark by around -2 bps. All in, just US IG (+0.2 bps) and German Govies (+0.3 bps) revealed a significant positive contribution. At the aggregate level, the OW in Govies (-0.8 bps) proved most painful. At the individual contribution level, we find the positions in EM and US Equities (-0.6 bps, each) outstanding on the negative side and Europe ex EMU Equities (+0.6 bps) on the positive side.

The global economy has weathered recent shocks with surprising strength, aided by the forthcoming fiscal stimulus in Germany and benign financial conditions. US growth is expected to stabilise around potential in 2026, while the euro area is set for a gradual recovery, as indicated by forward-looking indicators. Inflationary pressures are moderating, with the US facing a temporary uptick from tariffs, but labour market slack should help ease price growth over the coming year. In the euro area, disinflation is supported by cooling wage growth and favourable import prices.

### Constructive stance with extended preference Credit

Thus, we have expanded our overweight in EUR investment grade and high yield credit, taking advantage of recent spread widening and solid corporate fundamentals. Equities remain favoured, supported by resilient earnings and positive macro surprises, though valuations are stretched. We continue to underweight cash and core government bonds, as yields offer limited value. Duration in EUR fixed income is kept short, reflecting expectations of upward pressure on euro area yields, while US duration is neutralised in the light of higher resilience and market pricing.

## Forecasts

### Macro Data

Growth <sup>1)</sup>	2024	2025		2026		2027
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	2.7	1.9	0.2	2.0	0.3	2.1
Euro area	0.8	1.4	0.1	1.3	0.2	1.4
Germany	-0.1	0.3	0.1	1.2	0.0	1.4
France	1.1	0.8	0.2	0.9	0.0	1.4
Italy	0.5	0.6	0.1	0.5	-0.2	0.4
Non-EMU	1.0	1.3	0.1	1.2	0.0	1.5
UK	0.9	1.2	0.0	1.0	0.0	1.5
Switzerland	1.4	1.6	0.4	1.3	0.0	1.1
Japan	-0.2	0.9	-0.2	0.5	-0.1	0.6
Asia ex Japan	5.1	5.0	0.1	4.7	0.1	4.5
China	4.9	4.8	0.0	4.5	0.2	4.0
CEE	3.4	2.0	-0.0	2.0	-0.2	2.1
Latin America	1.8	2.0	0.0	1.8	0.0	2.5
<b>World</b>	<b>3.2</b>	<b>3.1</b>	<b>0.1</b>	<b>3.0</b>	<b>0.1</b>	<b>3.0</b>

1) Regional and world aggregates revised to 2024 IMF PPP weights

Inflation <sup>1)</sup>	2024	2025		2026		2027
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	2.9	2.9	0.1	2.5	-0.2	2.2
Euro area	2.4	2.1	-0.1	1.8	0.1	2.0
Germany	2.3	2.1	-0.1	2.0	0.1	2.0
France	2.1	1.2	0.1	1.5	0.0	2.0
Italy	1.1	1.8	0.0	1.8	0.2	2.0
Non-EMU	2.3	2.6	0.0	1.8	-0.3	1.8
UK	2.5	3.4	0.0	2.1	-0.5	2.0
Switzerland	1.4	0.2	0.0	0.6	0.0	0.7
Japan	2.7	2.9	-0.2	1.7	-0.1	1.8
Asia ex Japan	1.8	1.7	0.6	2.0	0.2	2.0
China	0.4	0.0	-0.0	0.8	0.2	1.1
CEE	19.3	14.4	1.6	10.0	1.2	7.1
Latin America <sup>2)</sup>	4.7	4.5	0.0	3.9	0.0	3.1
<b>World</b>	<b>4.0</b>	<b>3.3</b>	<b>0.4</b>	<b>2.9</b>	<b>0.2</b>	<b>2.6</b>

1) Regional and world aggregates revised to 2024 IMF PPP weights ; 2) Ex Argentina and Venezuela

### Financial Markets

Key Rates	Current*	3M		6M		12M	
		Forecast	Fwd	Forecast	Fwd	Forecast	Fwd
US (upper bound)	4.00	3.75	3.58	3.50	3.38	3.50	2.95
Euro area	2.00	2.00	1.91	2.00	1.86	2.00	1.87
Japan	0.50	0.75	0.70	1.00	0.79	1.00	1.02
UK	4.00	3.75	3.67	3.50	3.48	3.25	3.35
Switzerland	0.00	0.00	-0.06	0.00	-0.10	0.00	-0.09
<b>10-Year Gvt Bonds</b>							
US Treasuries	4.01	4.05	4.05	4.05	4.09	4.10	4.19
Germany (Bunds)	2.68	2.75	2.75	2.80	2.80	2.90	2.89
Italy	3.41	3.45	3.51	3.50	3.58	3.65	3.73
Spread vs Bunds	73	70	76	70	79	75	83
France	3.42	3.50	3.48	3.55	3.54	3.70	3.67
Spread vs Bunds	74	75	73	75	75	80	77
Japan	1.79	1.85	1.89	1.90	1.95	1.95	2.08
UK	4.49	4.40	4.61	4.30	4.66	4.20	4.77
Switzerland	0.17	0.20	0.18	0.25	0.20	0.30	0.24

\*3-day avg. as of 26/11/25

\*\*ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Fwd	Forecast	Fwd	Forecast	Fwd
EA IG Non-Financia	81	70		70		70	
EA IG Financial	84	75		75		75	
EA HY	290	270		270		270	
EM Sov. (in USD)	189	177		175		170	
<b>Forex</b>							
EUR/USD	1.16	1.17	1.16	1.18	1.17	1.19	1.18
USD/JPY	156	152	155	150	154	147	152
EUR/JPY	181	178	180	177	180	175	178
GBP/USD	1.32	1.31	1.32	1.31	1.32	1.32	1.32
EUR/GBP	0.88	0.89	0.88	0.90	0.89	0.90	0.89
EUR/CHF	0.93	0.93	0.93	0.94	0.92	0.94	0.91
<b>Equities</b>							
S&P500	6,761	6,820		6,835		7,060	
MSCI EMU	190.0	192.0		190.5		201.0	
TOPIX	3,315	3,340		3,355		3,450	
FTSE	9,612	9,675		9,800		10,145	
SMI	12,749	12,930		12,870		13,610	

### Forecast Intervals



\*Forecast ranges of ±1 stdv. centred around point forecasts; based on historical volatilities; length of bars indicative only

 **Imprint**

**Issued by:** Generali Asset Management S.p.A. Società di gestione del risparmio | Research Department

**Head of Research:** Vincent Chaigneau

**Head of Macro & Market Research:** Dr. Thomas Hempell, CFA

**Team:** Elisabeth Assmuth | Research Operations  
Elisa Belgacem | Head of Cross-Asset Quant & Dev, Senior Credit Strategist  
Radomír Jáč | GI CEE Chief Economist  
Jakub Krátký | GI CEE Financial Analyst  
Michele Morganti | Head of Insurance & AM Research, Senior Equity Strategist  
Vladimir Oleinikov, CFA | Senior Quantitative Analyst  
Dr. Thorsten Runde | Senior Quantitative Analyst  
Dr. Christoph Siepmann | Senior Economist  
Dr. Florian Späte, CIIA | Senior Bond Strategist  
Guillaume Tresca | Senior Emerging Market Strategist  
Dr. Martin Wolburg, CIIA | Senior Economist  
Paolo Zanghieri, PhD | Senior Economist

“Edited by the Macro & Market Research Team. The team of 14 analysts based in Paris, Cologne, Trieste, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues. The team translates macro and quant views into investment ideas that feed into the investment process.”

This document is based on information and opinions which Generali Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions estimates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Generali Asset Management S.p. A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website [www.generali-am.com](http://www.generali-am.com). Generali Asset Management S.p. A. Società di gestione del risparmio is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiane.

This document was completed on November 28, 2025