MARKET VIEWS

Market & Strategy Update

Q1 2026

PROBUS PLEION

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Executive summary

Economy

The outlook for the global economy remains encouraging, given accommodative fiscal deficits, recent rate cuts, low energy prices, and a weak USD. The US government shutdown has raised concerns about the economy, particularly the labor market, but the (fragile) combination of elevated capex, solid asset markets, and resilient consumption keeps this K-shaped economy on track for now. The EU economy will continue to benefit from a cyclical upswing driven by fiscal expansion and continued credit growth. In China, the recent underwhelming economic data will prove temporary, as the government remains committed to supporting domestic demand in 2026. The prevailing bias toward fiscal expansion and monetary accommodation will keep inflationary risks on the table, particularly later in 2026.

Equities

Despite bouts of volatility, global equities have performed well as growth has proved resilient. International equities have maintained their outperformance versus US equities. This will likely trigger some significant allocation shifts into 2026, as foreigners remain overly allocated to US equities and incentives to repatriate capital to domestic economies grow. The tech sector has performed well, but recent developments are pointing to cracks in the AI thematic, and recent weeks have seen increased participation by other sectors, which is key for the continuation of the bull market. We continue to favor cyclical sectors with specific tailwinds. International equities should remain favored in 2026, given strong cyclical tailwinds, lower investor exposure, and attractive valuations.

Bonds

Growth concerns and rate cuts have kept bond volatility in check and yields under pressure for most of Q4. However, overly accommodative fiscal and monetary policies are likely to keep nominal growth elevated, which will reassert upward pressure on long-term yields and steepen yield curves in DM markets, as currently seen in Japan. Duration remains unattractive in the US and EU, given no inclination toward fiscal rectitude. Credit spreads remain historically tight and are not suggestive of an imminent growth slowdown, but they offer little justification for increasing exposure. Investors should instead increase risk allocation to emerging markets, where real rates are more attractive, growth dynamics are more structural, and currencies are likely to face appreciating pressure.

Currencies

The USD remains in a structural bear market. While its current consolidation could persist in the short-term, it is set to resolve to the downside in the coming months, as more cuts are priced back into the curve.

Commodities

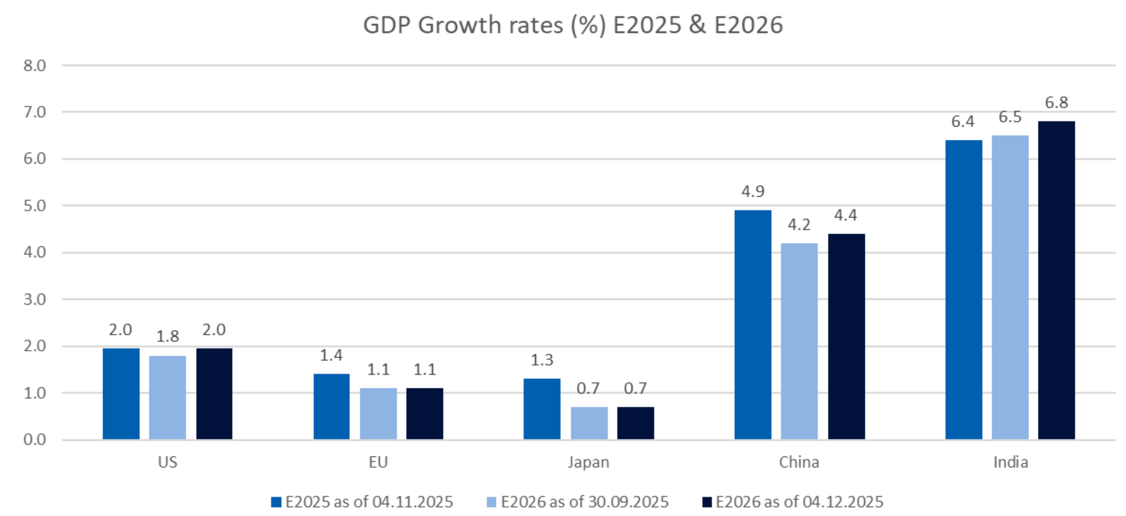
Despite persistent weakness in energy prices, commodities have done well in Q4, driven by industrial and precious metals. The excessive bearishness on energy prices is likely to be challenged in 2026, as the supply demand picture is shifting. Investors should keep exposure to commodities given the expected sticky inflation and resilient growth environment.

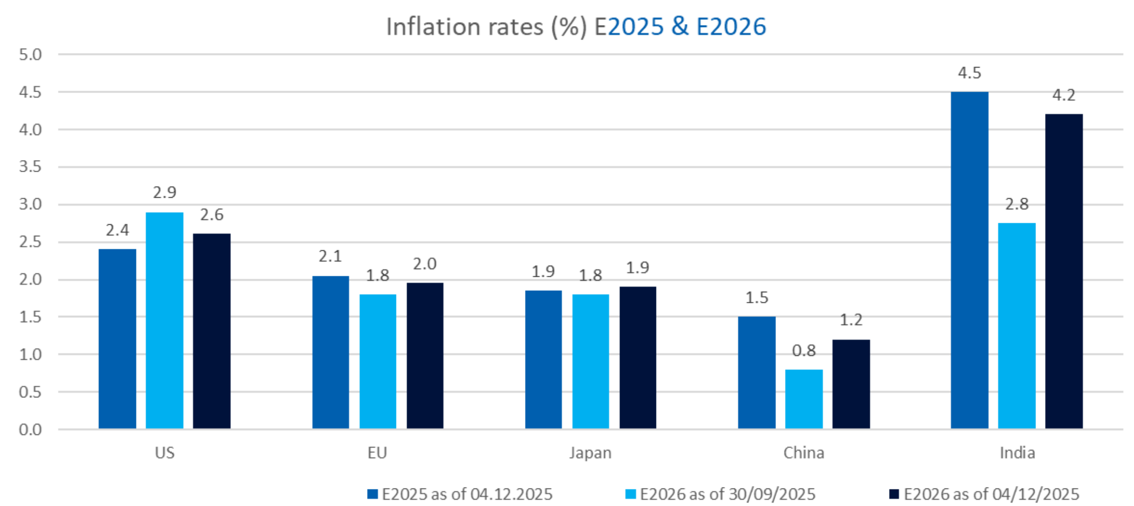
Precious metals

Gold has been consolidating in Q4 and investors should be on the lookout for the next leg up in this historical bull market. Interestingly, other precious metals remain in the lead this year and investors are still under allocated. Pullbacks should be bought.

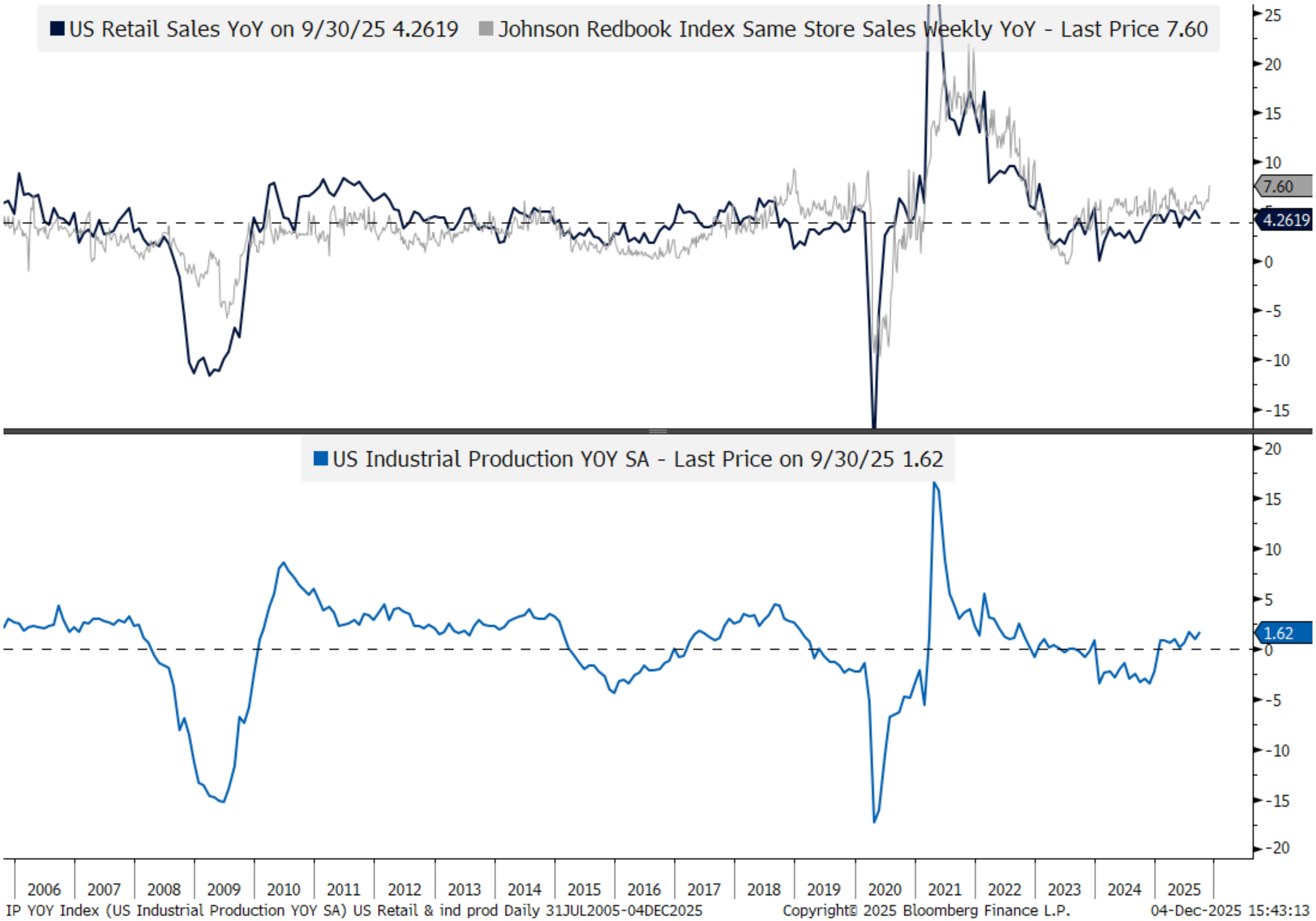
Market & strategy update

The consensus expects resilient growth and sticky inflation, which remains the most likely outcome. Upside risks to inflation will increase later in 2026.





The US government shutdown has clouded the recent economic picture, forcing investors to look through diverging data sources. We continue to see a resilient growth environment.



Consumption has held up despite tariffs, as they affect largely the lowest-income households, which contribute little to aggregate demand.

Figure 6. Short-Run Distributional Effects of 2025 Tariffs Through November 17

By household income decile
Percentage points of post-tax-and-transfer income

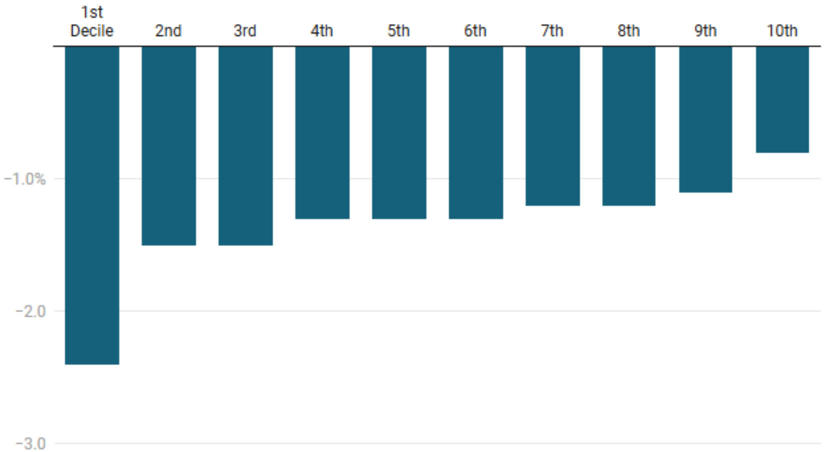
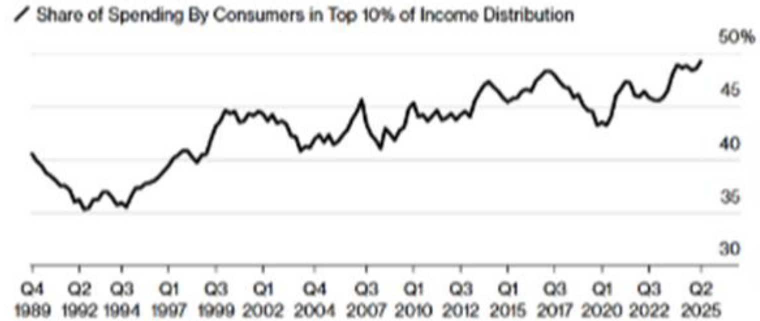


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper

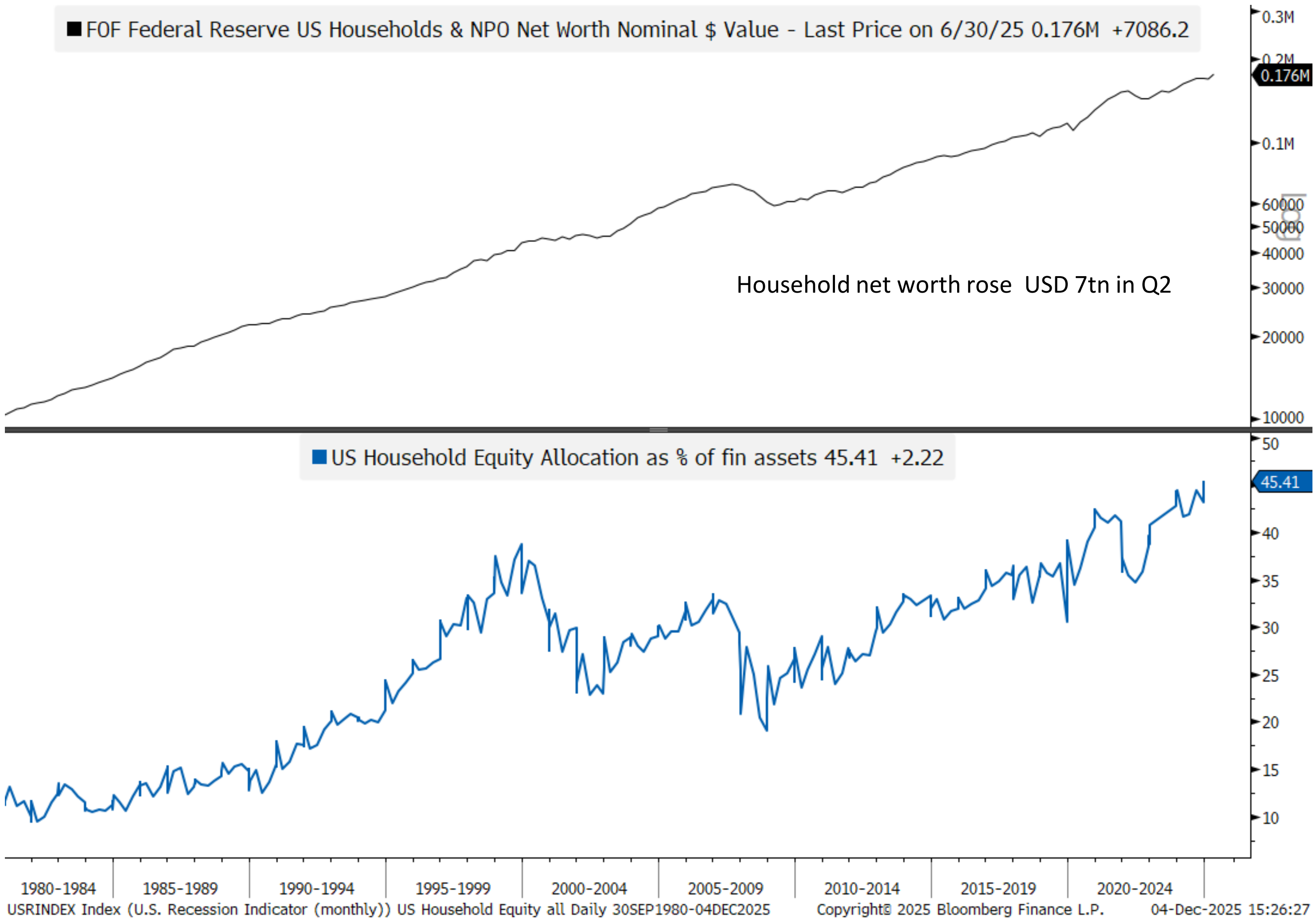
Wallets Open

High-income Americans are behind roughly half of all US consumer spending, up from about a third in the early 1990s

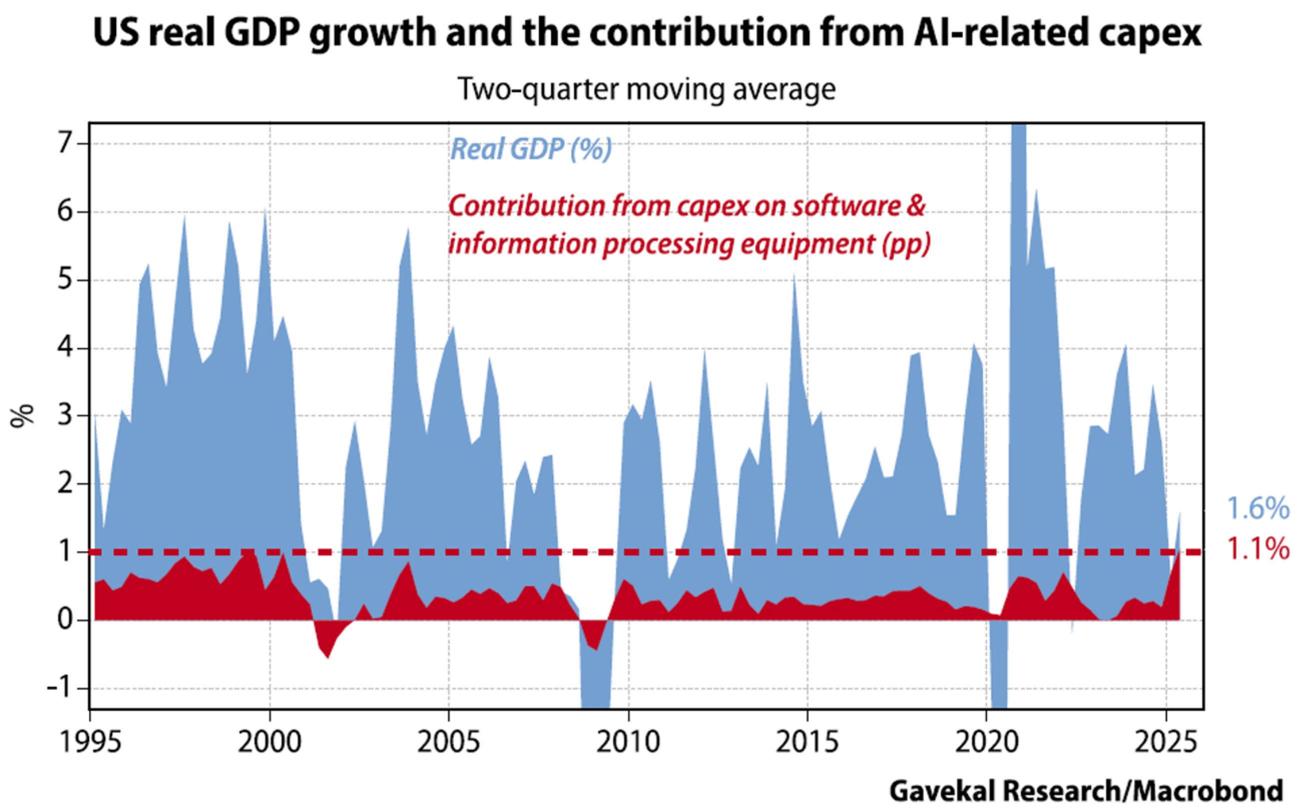


Source: Moody's Analytics review of Federal Reserve data

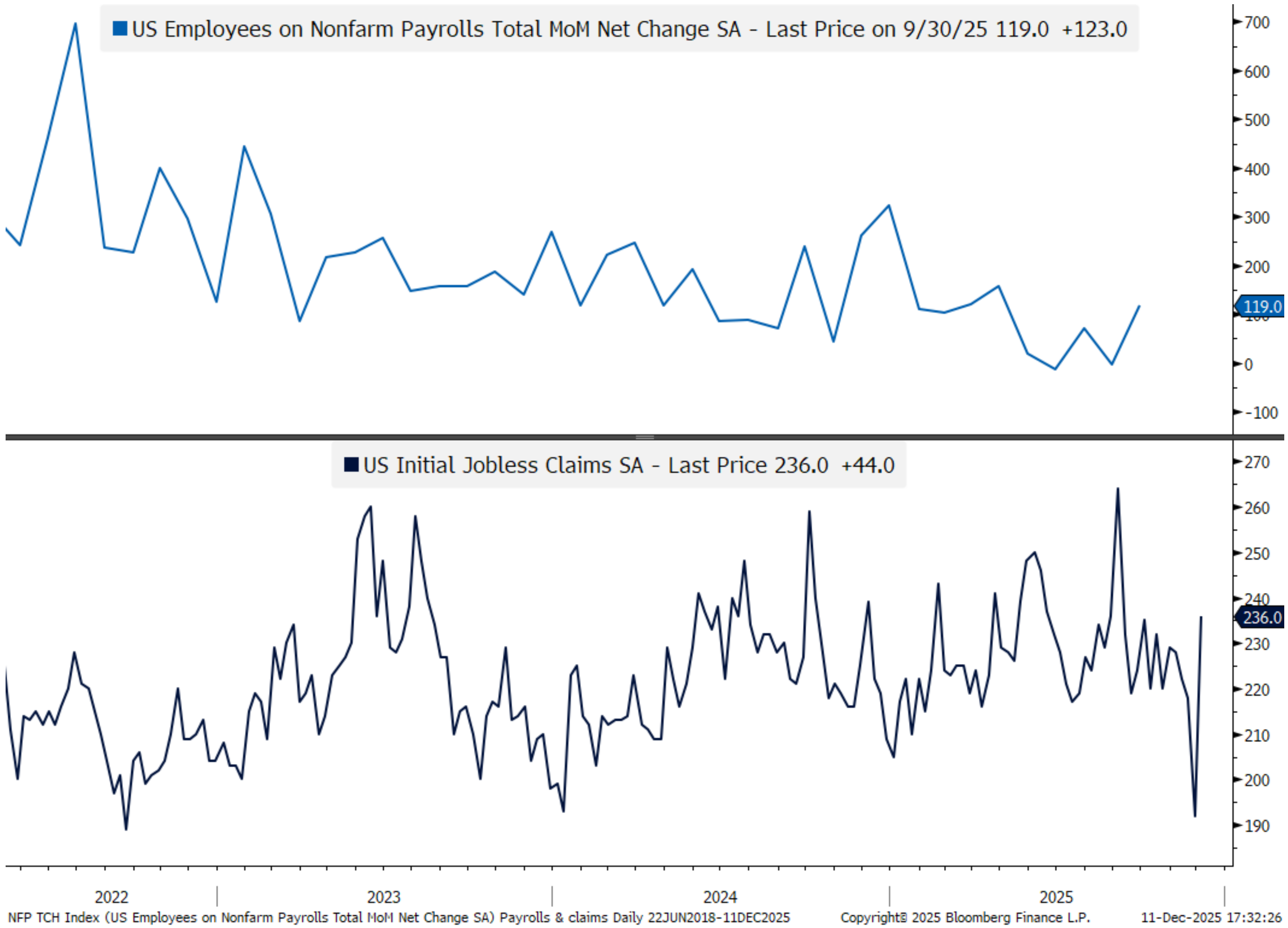
The higher income spectrum is less influenced by tariffs and benefits from high exposure to equities and the ensuing wealth effects. This has created a K-shaped economy.



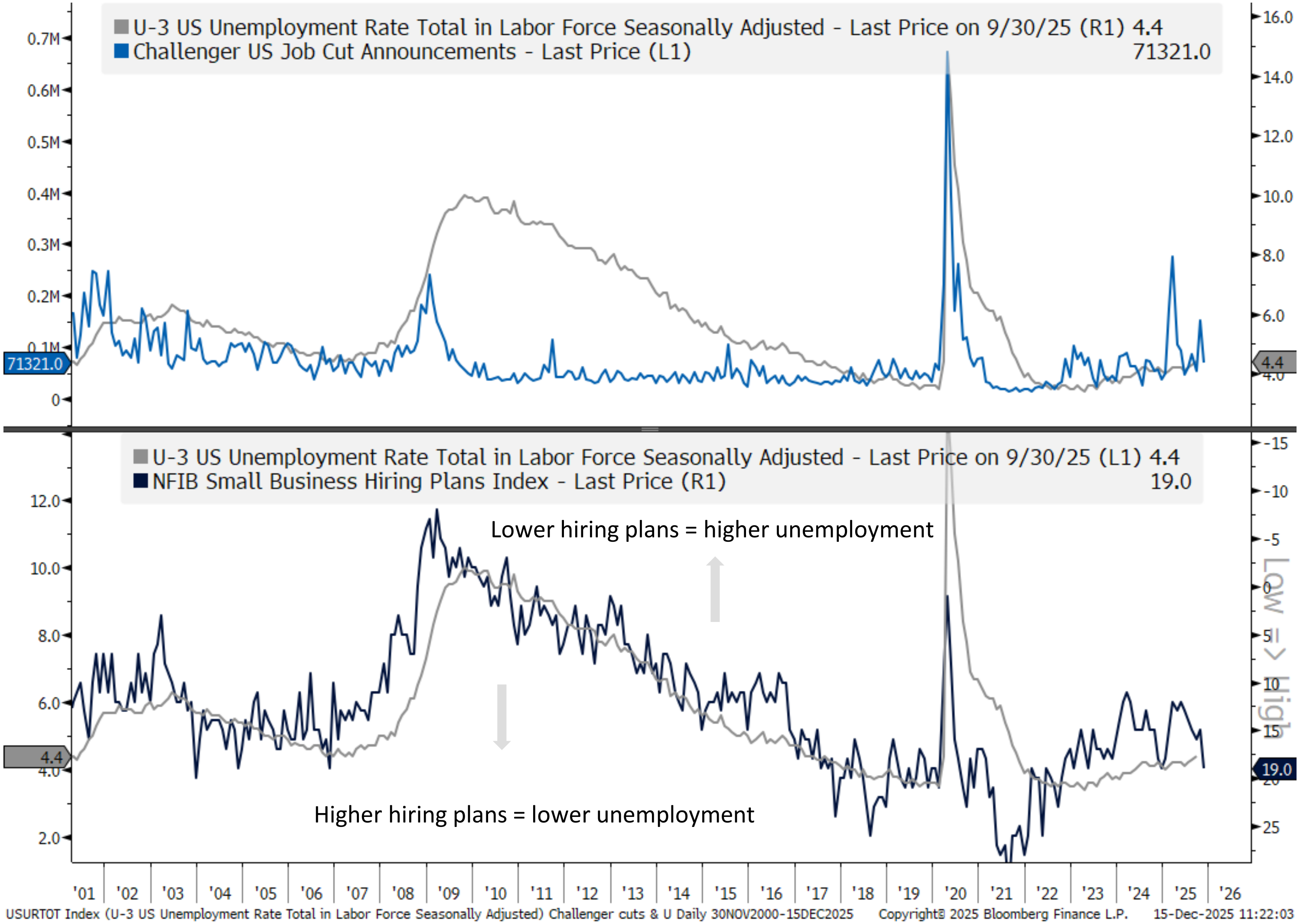
AI capex has been a major support for the US economy and markets, creating a virtuous circle: high capex => solid growth & tech performance => equity market gains => resilient consumption and growth…



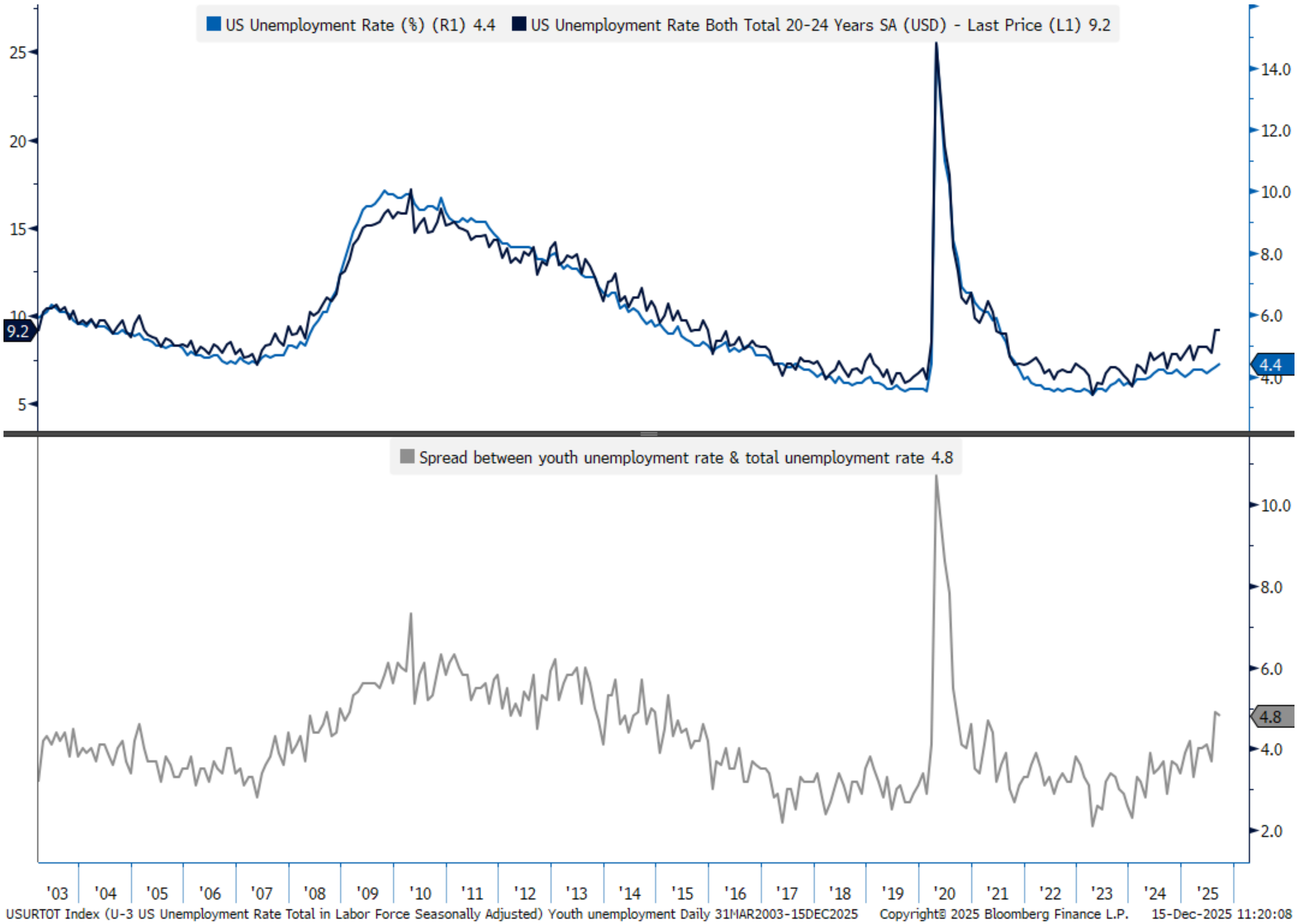
The labor market has shown clear signs of moderation, with slow hiring, which is possibly reflecting a lower equilibrium. Jobless claims remain in their 2-year range. Both should be monitored closely.



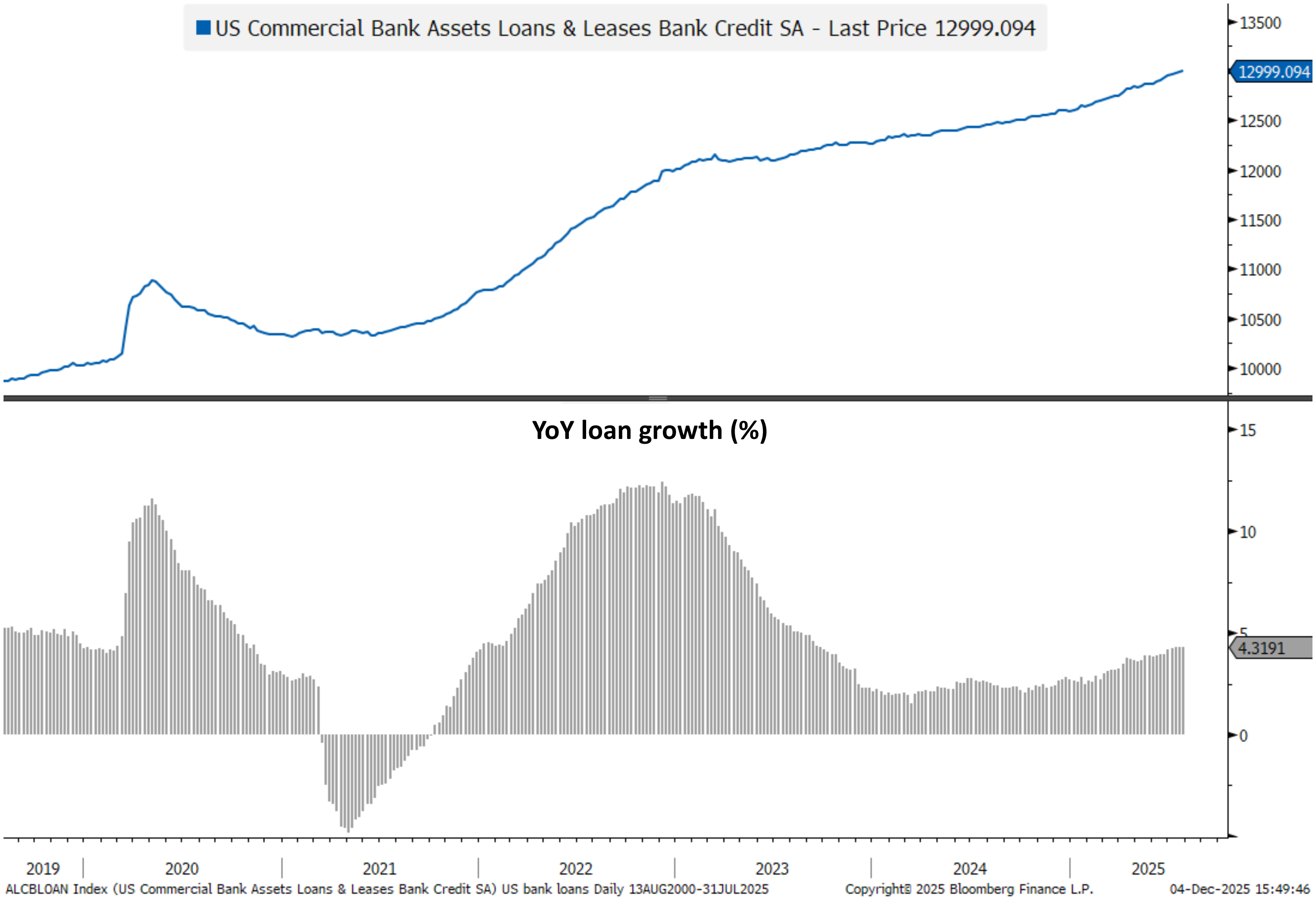
Continued moderation rather than a major weakening is the base case for the labor market, with small businesses hiring plans improving and challenger job cut announcements coming down.



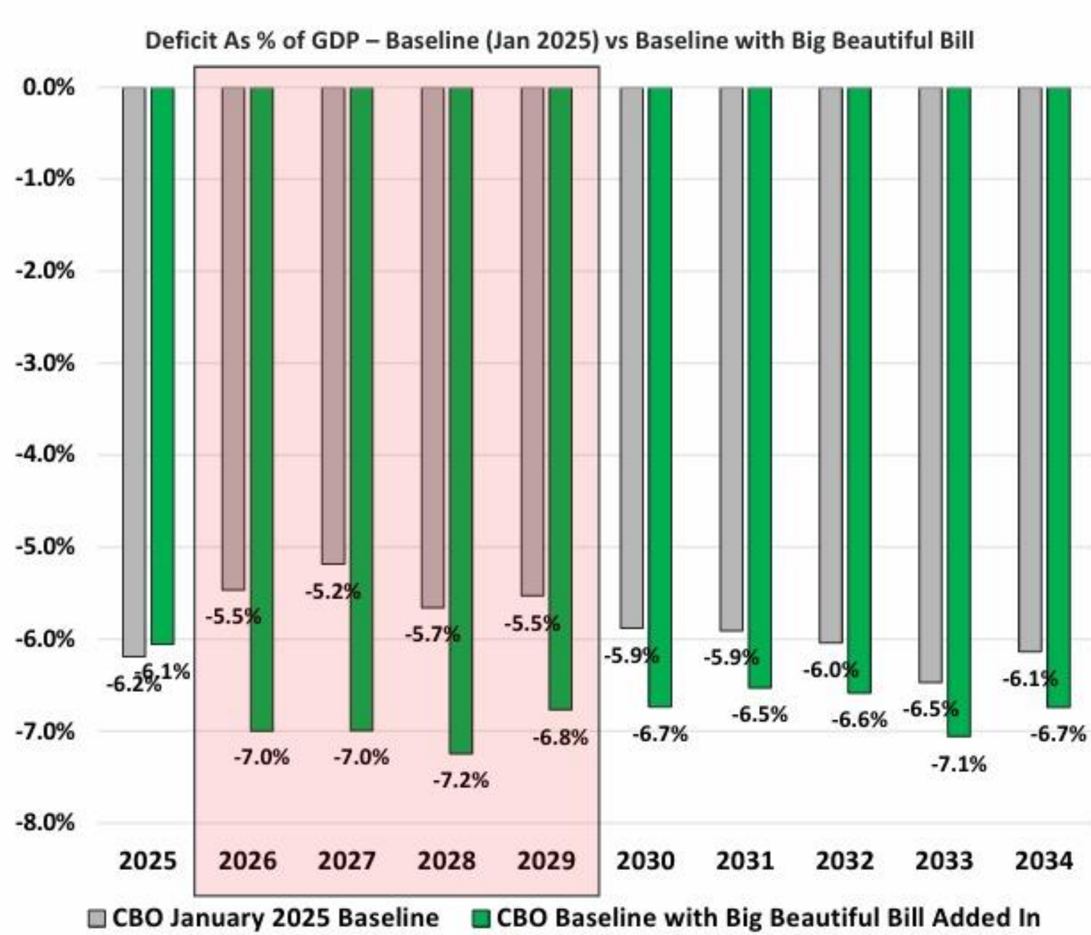
Youth unemployment has risen sharply in the past year relative to overall unemployment, which likely reflects the disruptive impact of AI on entry-level jobs.



Commercial bank loan growth continue to be supportive of growth and bank deregulation remains on the table in 2026.

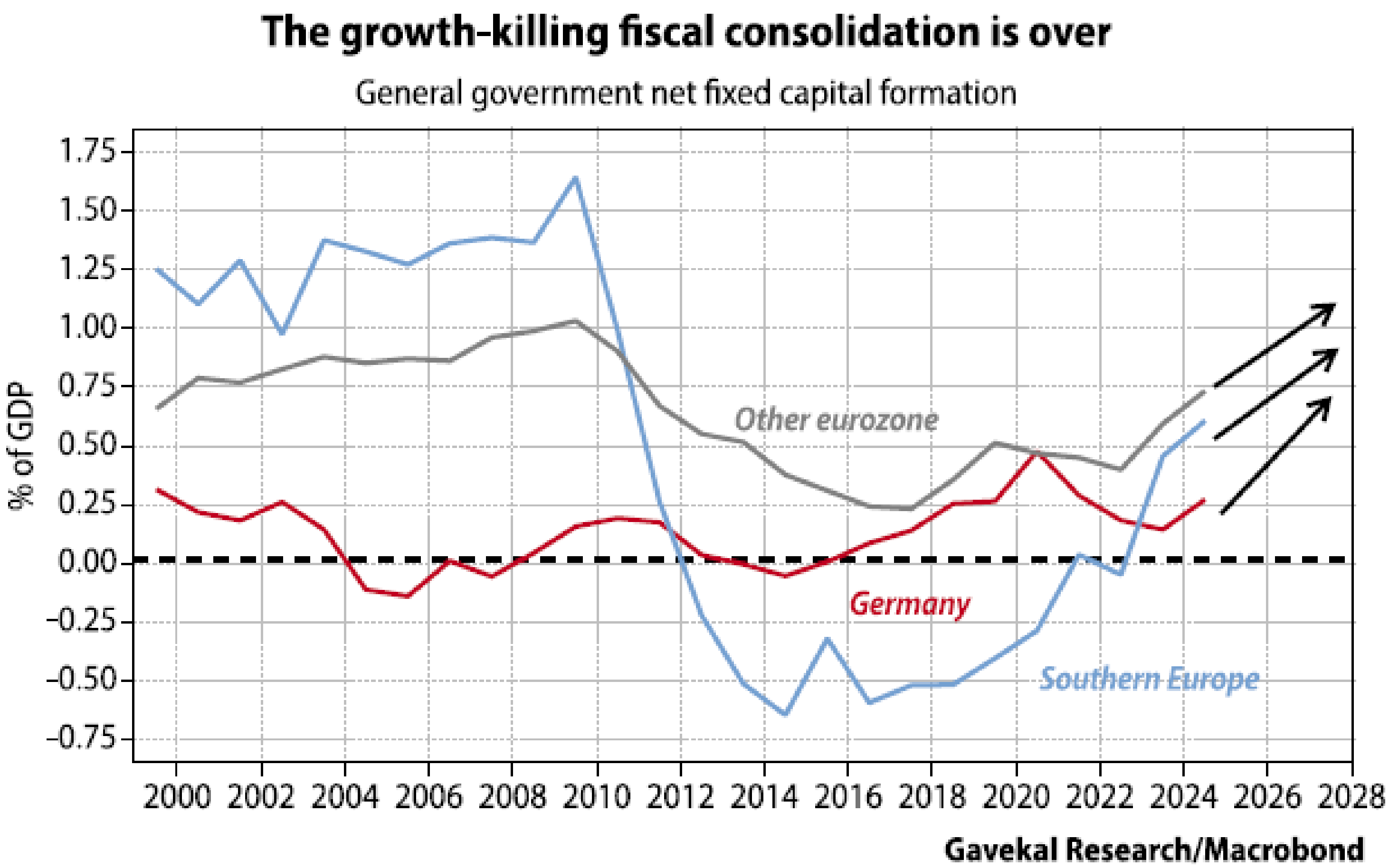


Budget deficits will remain supportive of (nominal) growth in early 2026, with most of the benefits accruing to the richer households…

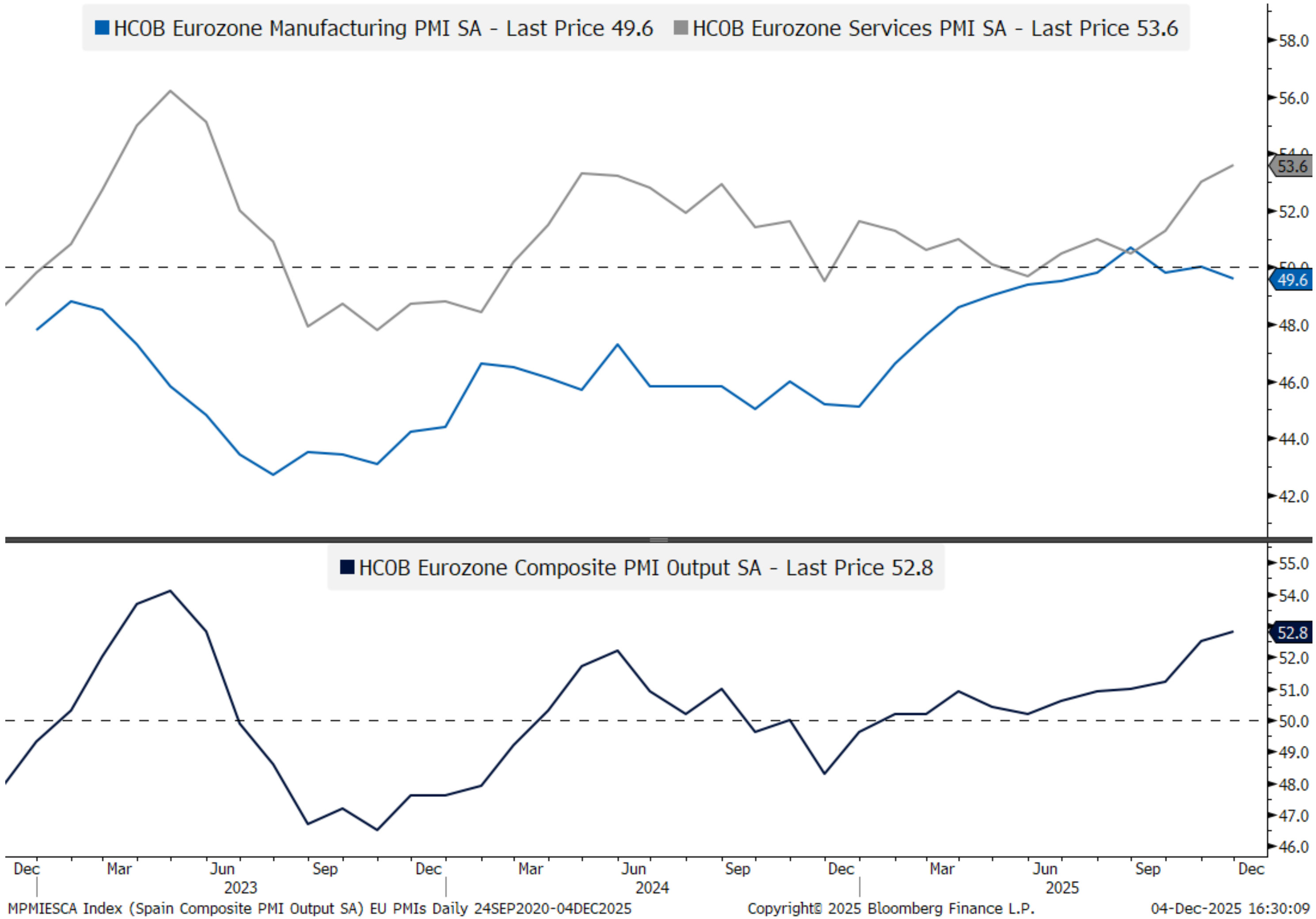


Trump's approval ratings have been falling throughout 2025, as it has become increasingly evident that his policies do not favor main street…What will Trump do to push those approval ratings back up in the run-up to the mid-terms?

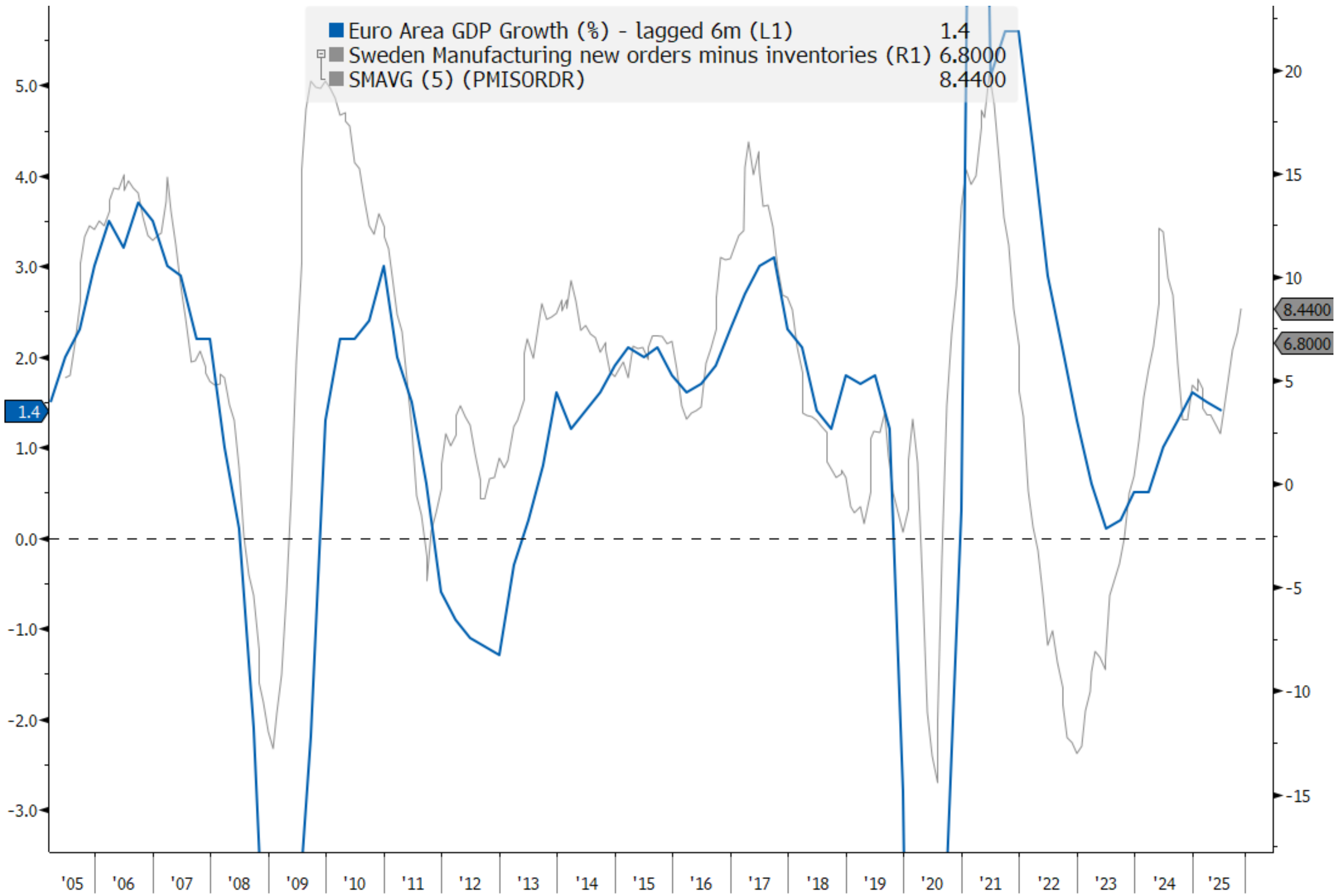
Coordinated fiscal spending remains a key cyclical driver for the EU



The services industry continues to support the EU economy, and an improvement in manufacturing activity appears to be on the cards.

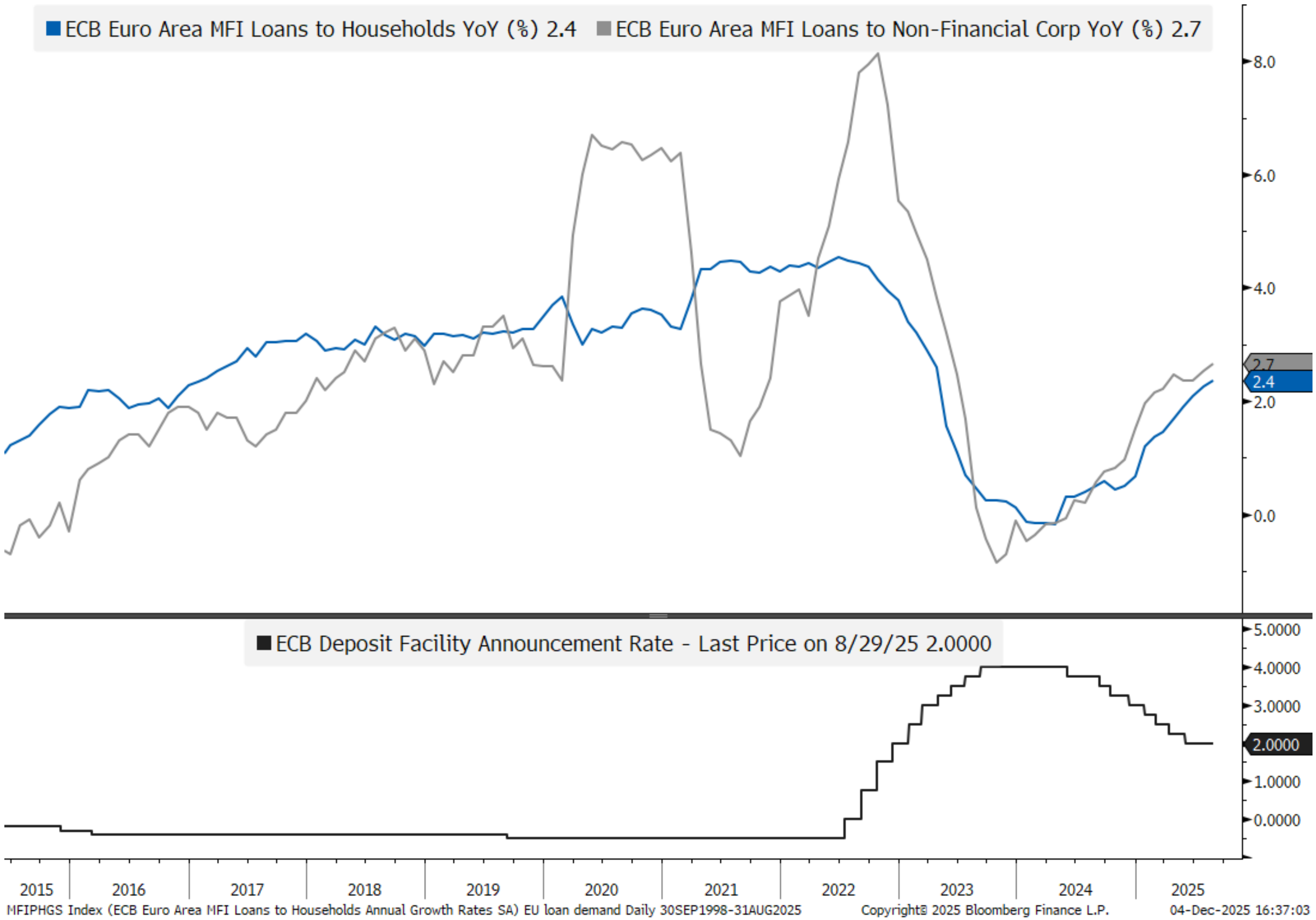


The Swedish economy continues to provide a good lead on EU growth, which should remain resilient going forward, with improvements in manufacturing activity.



SNTEEUH6 Index (sentix SentiMent Eurozone Economy Expectations 6 Month Ahead Headline Index) EU GDP & Sweden PMI Daily 28FEB2005-04DEC2025 04-Dec-2025 16:34:27

The credit cycle continues to support EU growth, as rate cuts keeps feeding through.



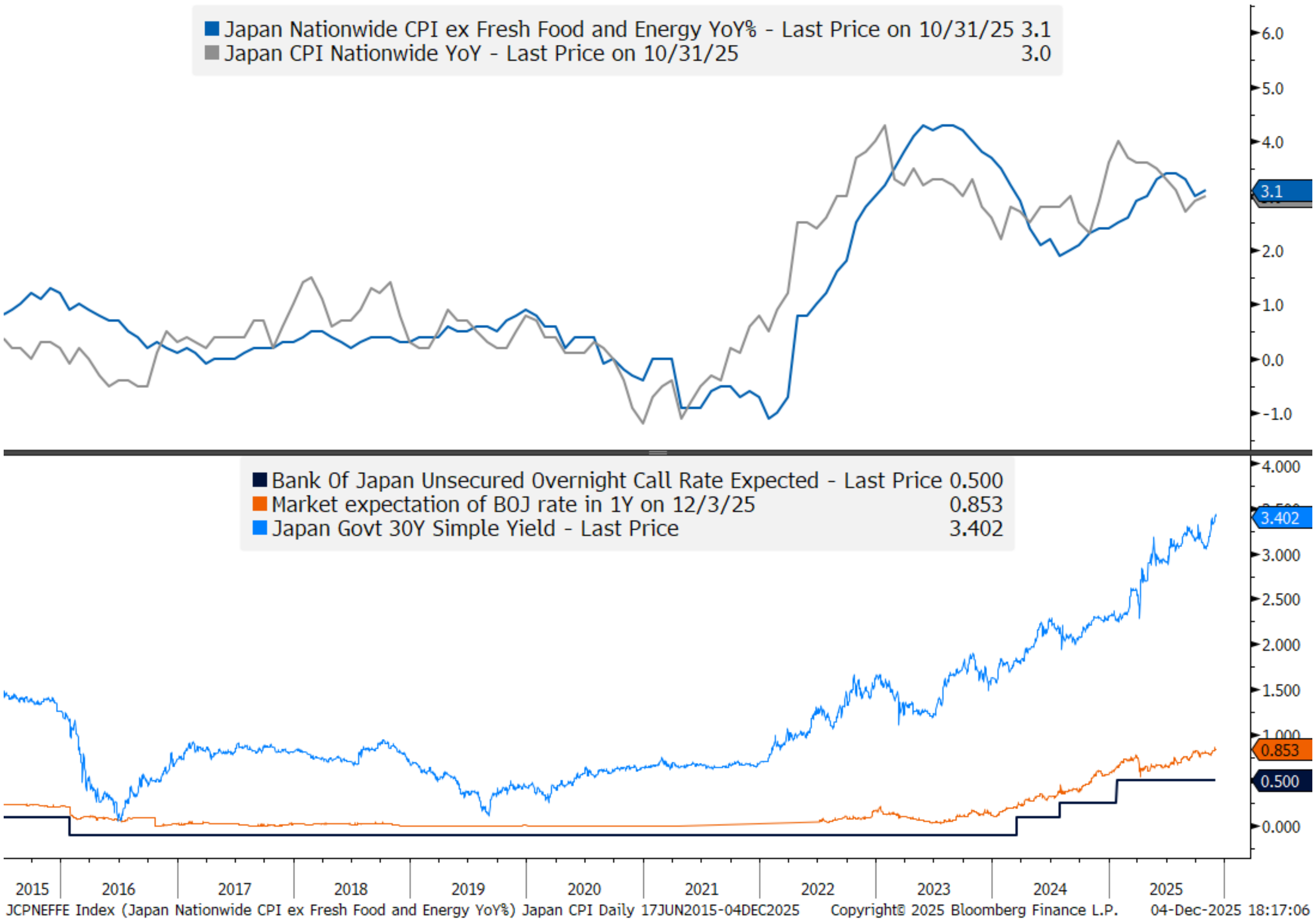
In Japan, Abe's protégée revives her mentor's playbook. Keeping nominal growth elevated through fiscal and monetary accommodation.

Japan Cabinet OKs 18 trillion yen extra budget draft under PM's fiscal push

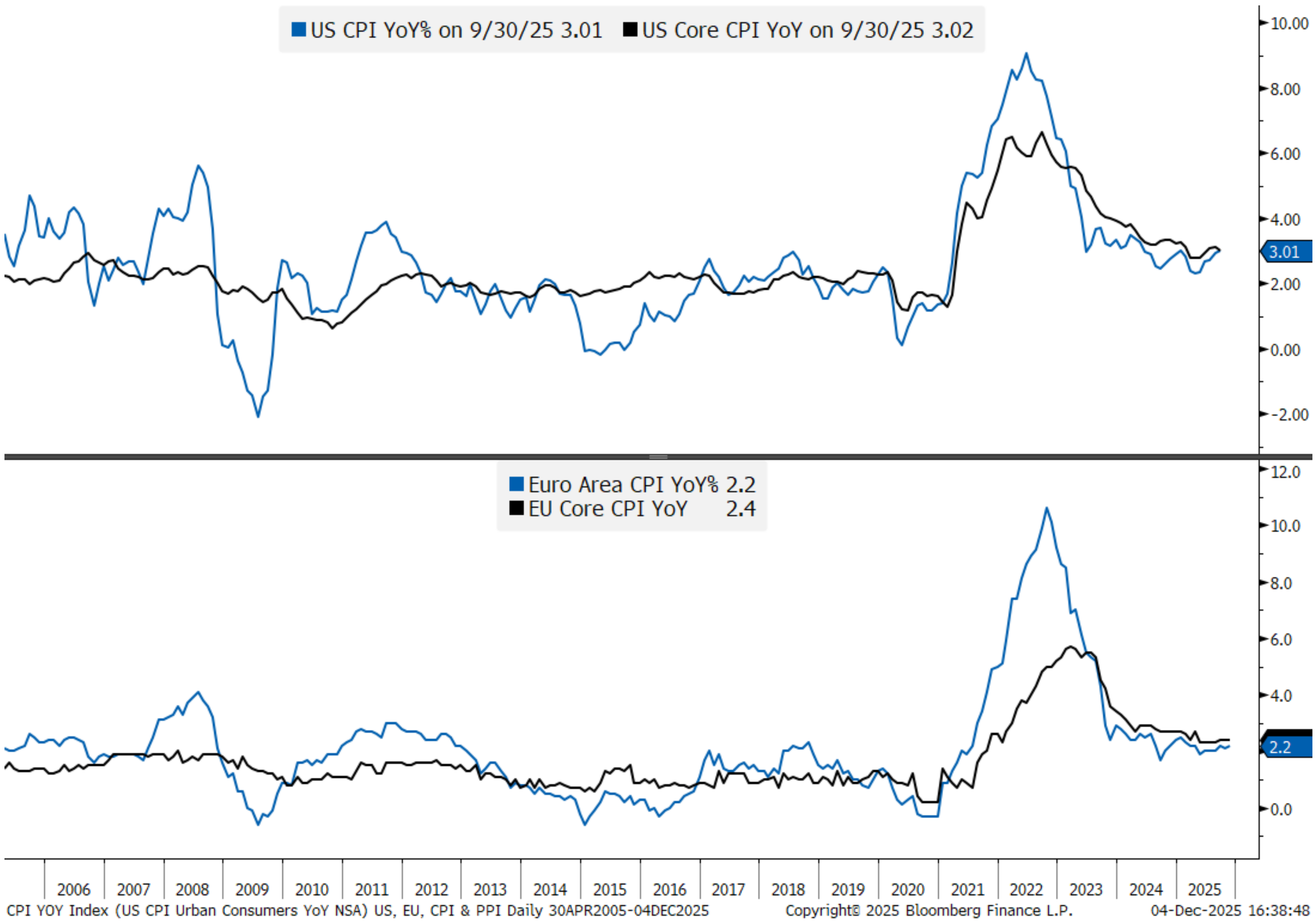
KYODO NEWS - Nov 28, 2025 - 18:02 | All , Japan

Japanese Prime Minister Sanae Takaichi enters her office in Tokyo on Nov. 26, 2025. (Kyodo)

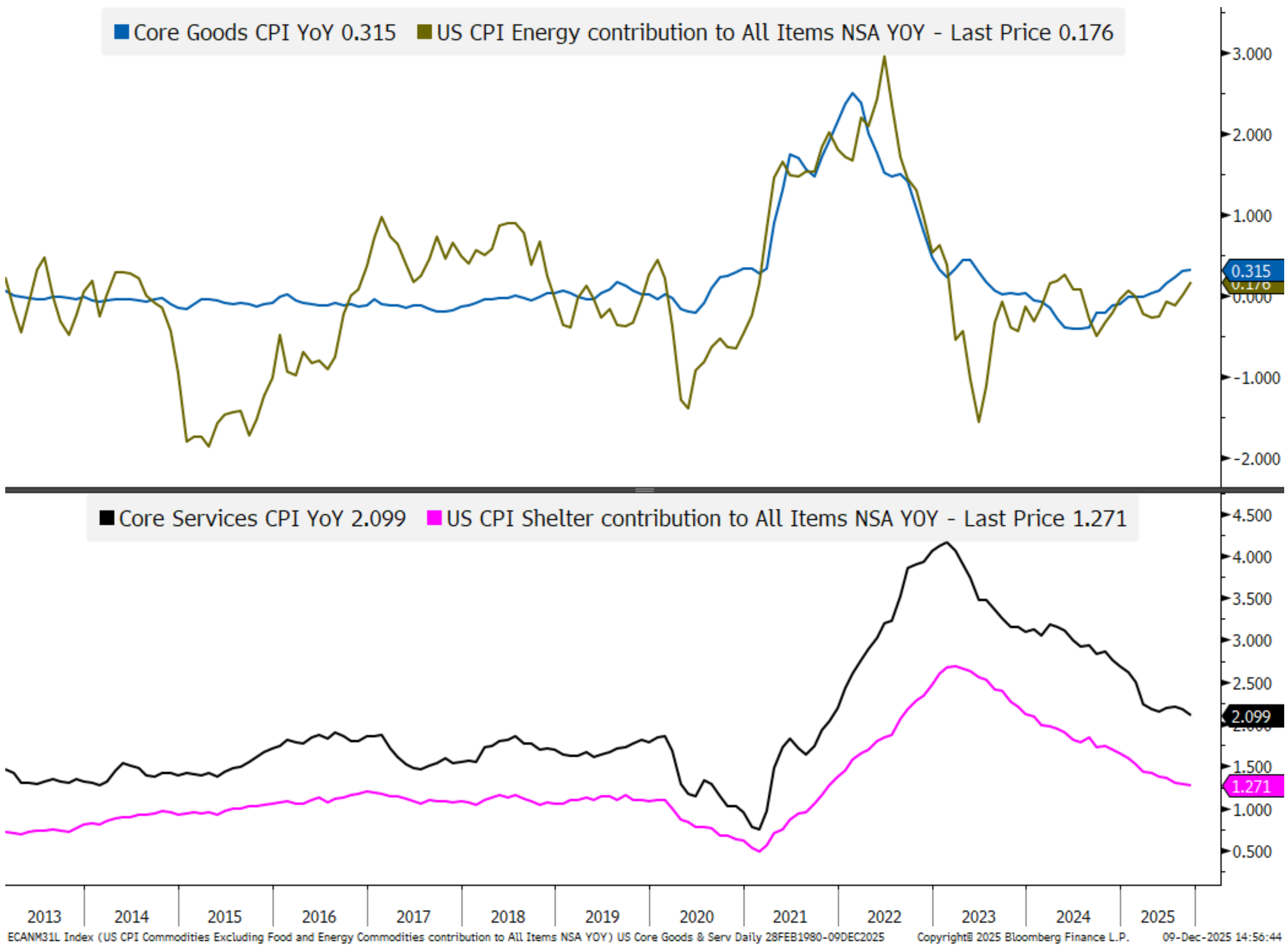
The combination of loose monetary policy and fiscal spending in a sticky inflation environment keeps pushing yields sharply higher; the BOJ is signaling a hike in December but remains behind the curve.



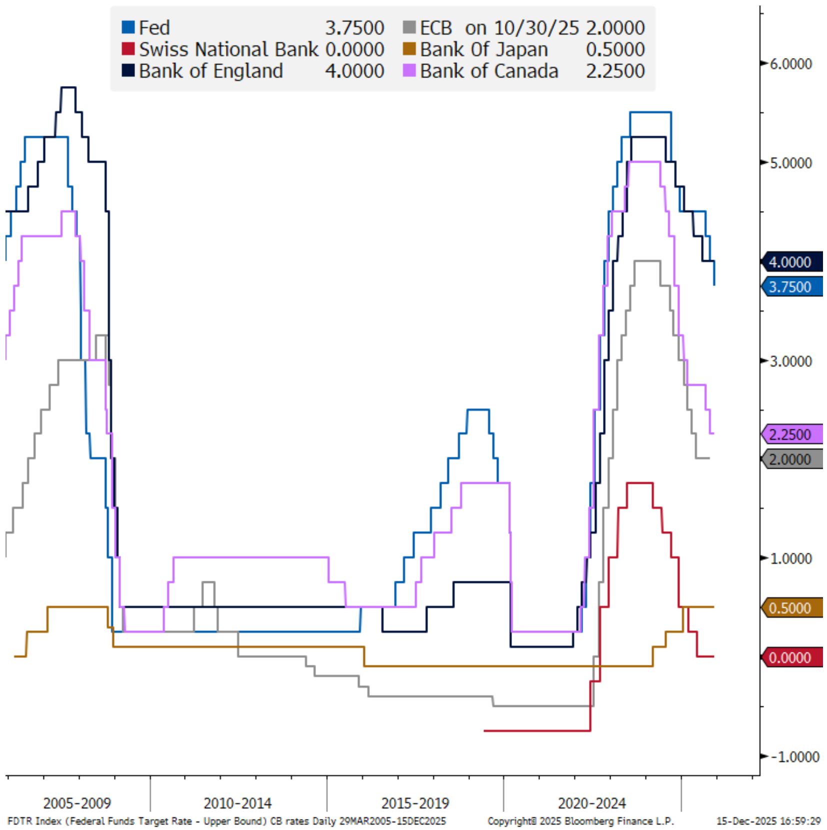
US inflation has rebounded, while the EU's has stabilized. Inflation will remain sticky in 2026, but Q1 should not see much upside.

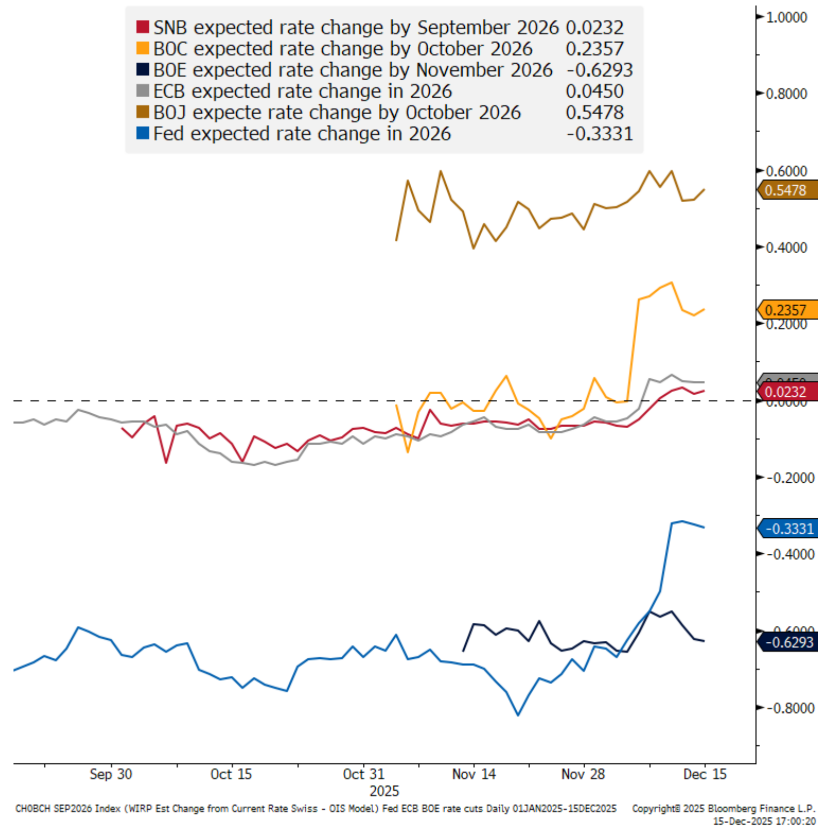


Goods inflation is stabilizing after a sharp acceleration. Rental disinflation will prevent a major rise in CPI in Q1, barring a sharp rally in energy prices.

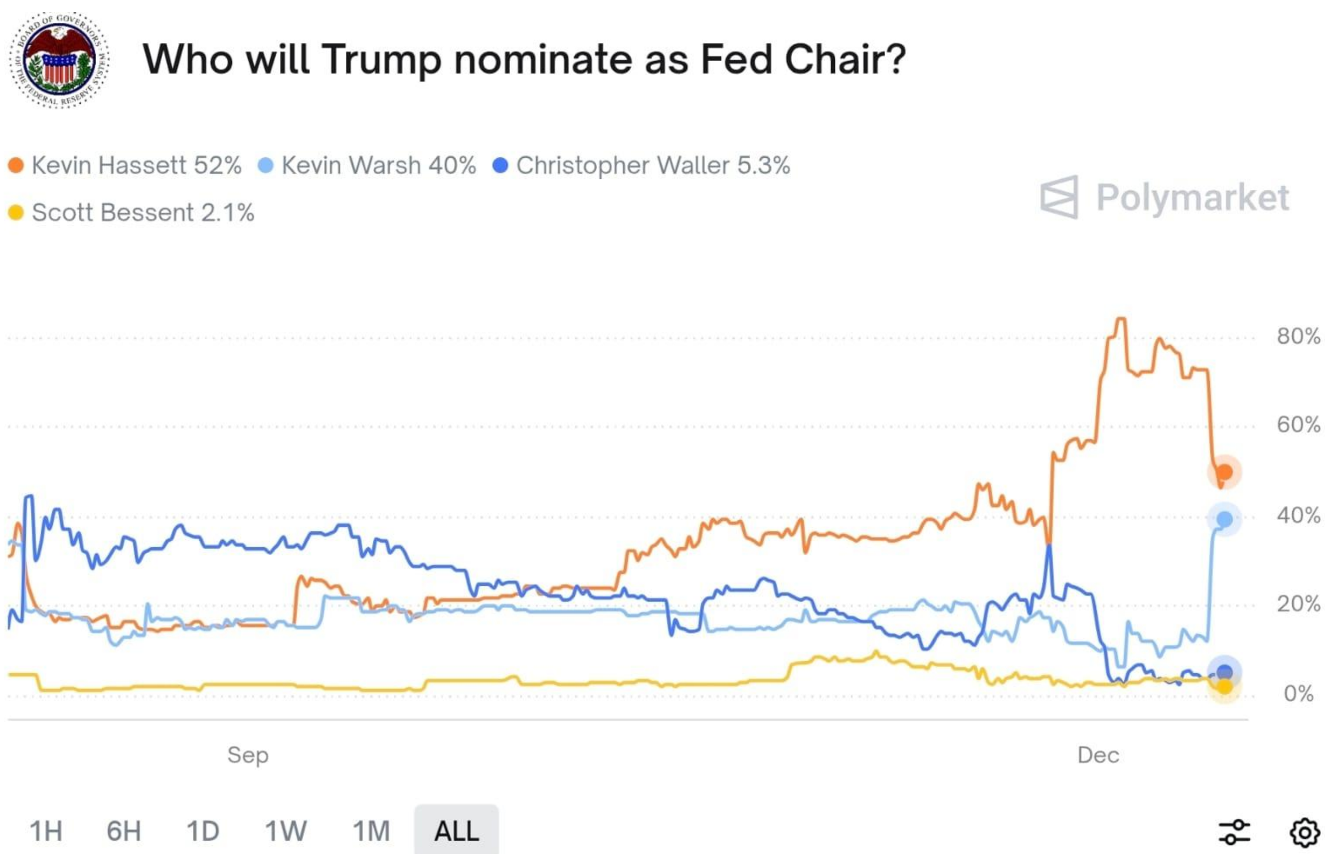


While 2025 saw cuts across all major central banks ex-BOJ, 2026 could see some divergences. The Fed is expected to cut rates further, possibly more than priced in, while the ECB will stay on hold & the BOJ will hike.

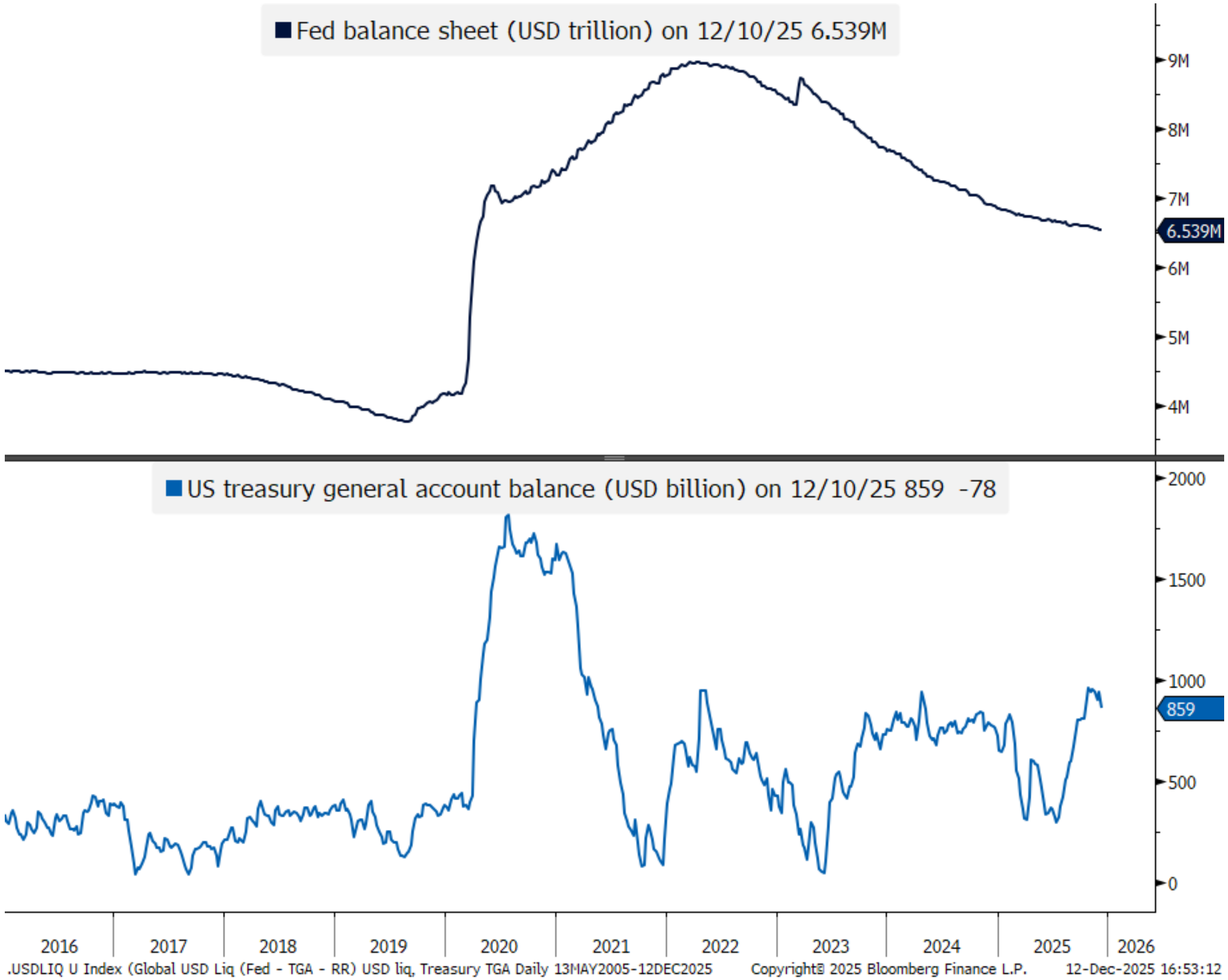




Trump's nomination as Fed Chair will be key for the magnitude of cuts next year, as Hassett would be a much more dovish candidate than Warsh.



The Fed is set to resume balance sheet expansion, while the Treasury General Account is starting to decline. Both actions will boost liquidity and support risk assets.



Large maturities and exploding interest expense are driving the US administration focus on lowering rates…

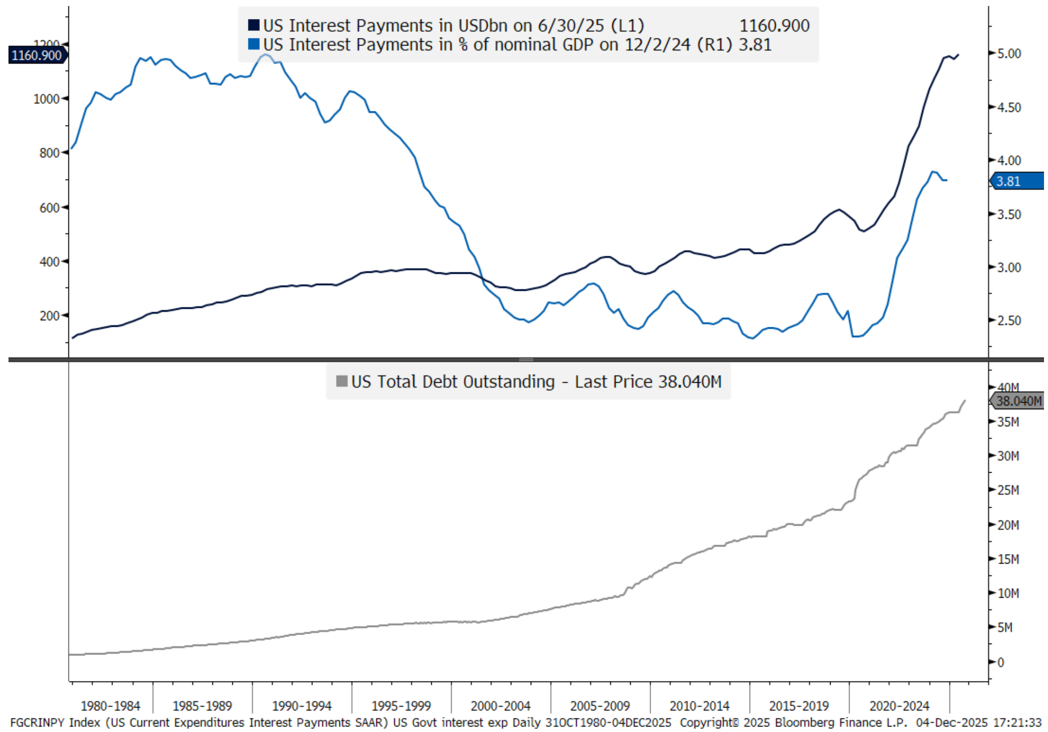
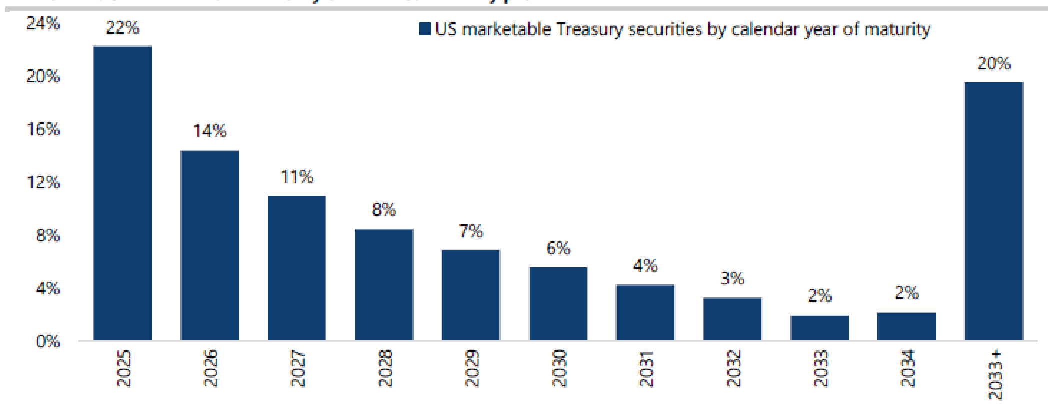
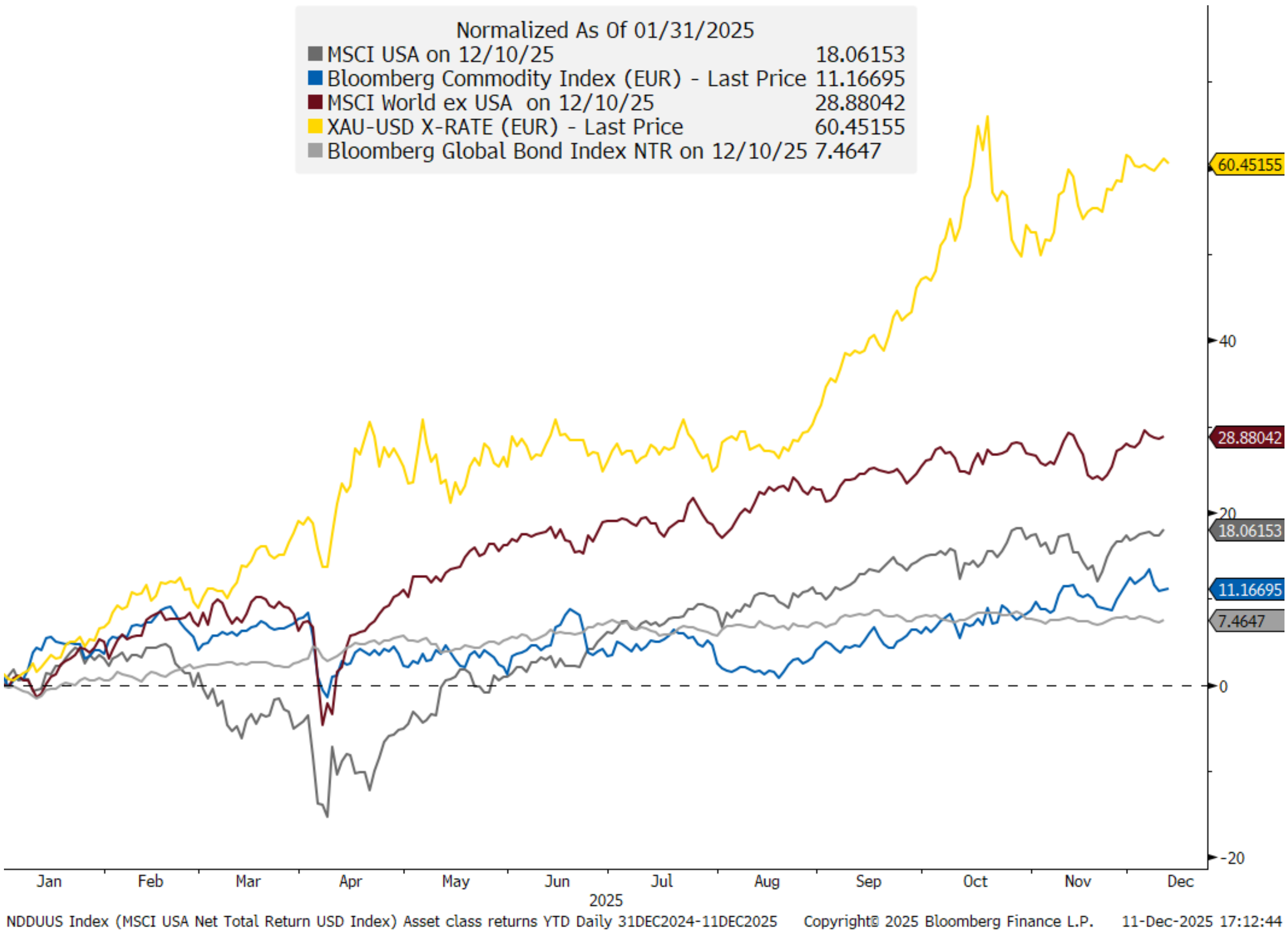


Exhibit 15: US marketable Treasury securities: Maturity profile

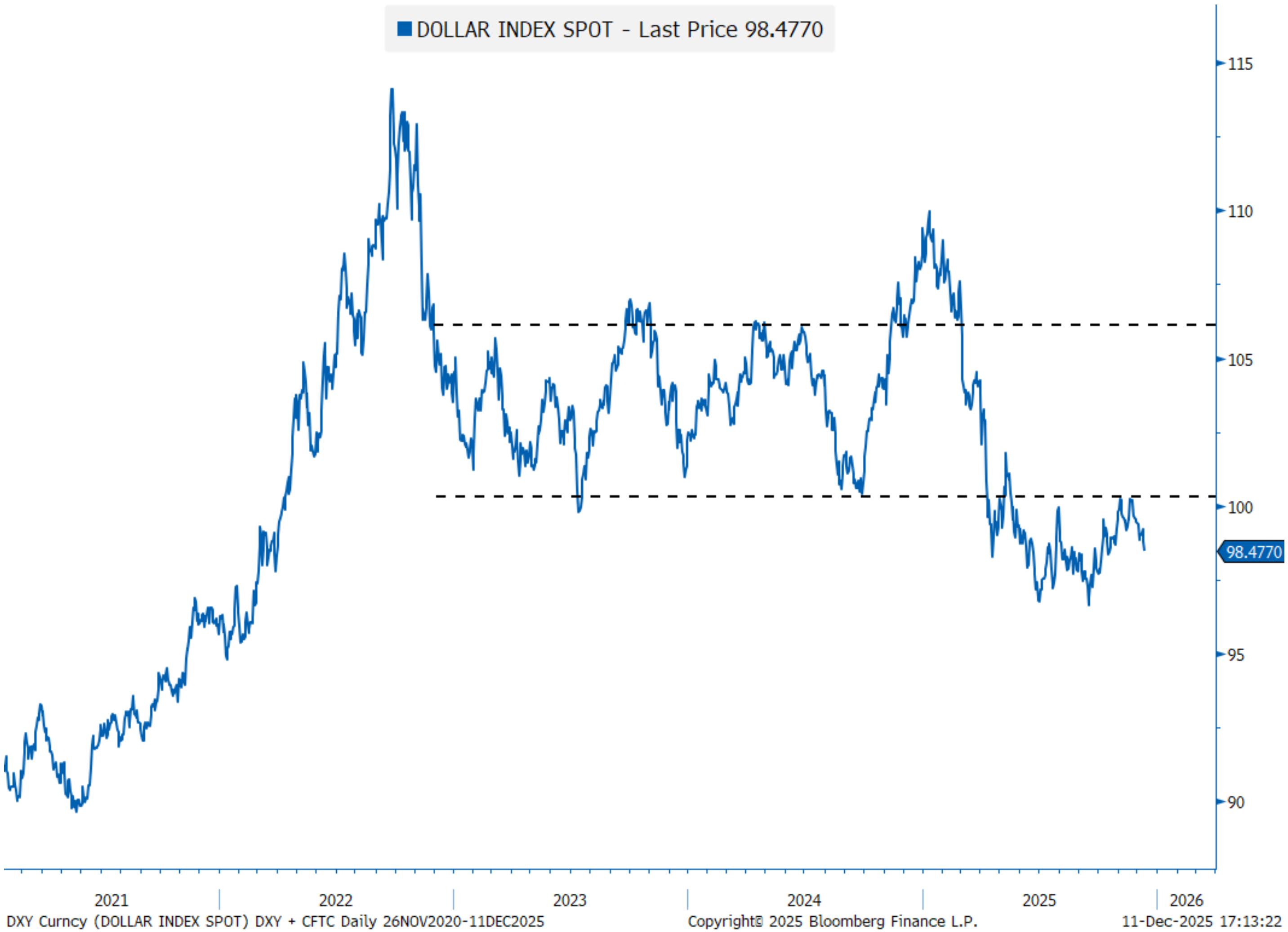


Note: Data as of 31 July 2025. Source: US Treasury

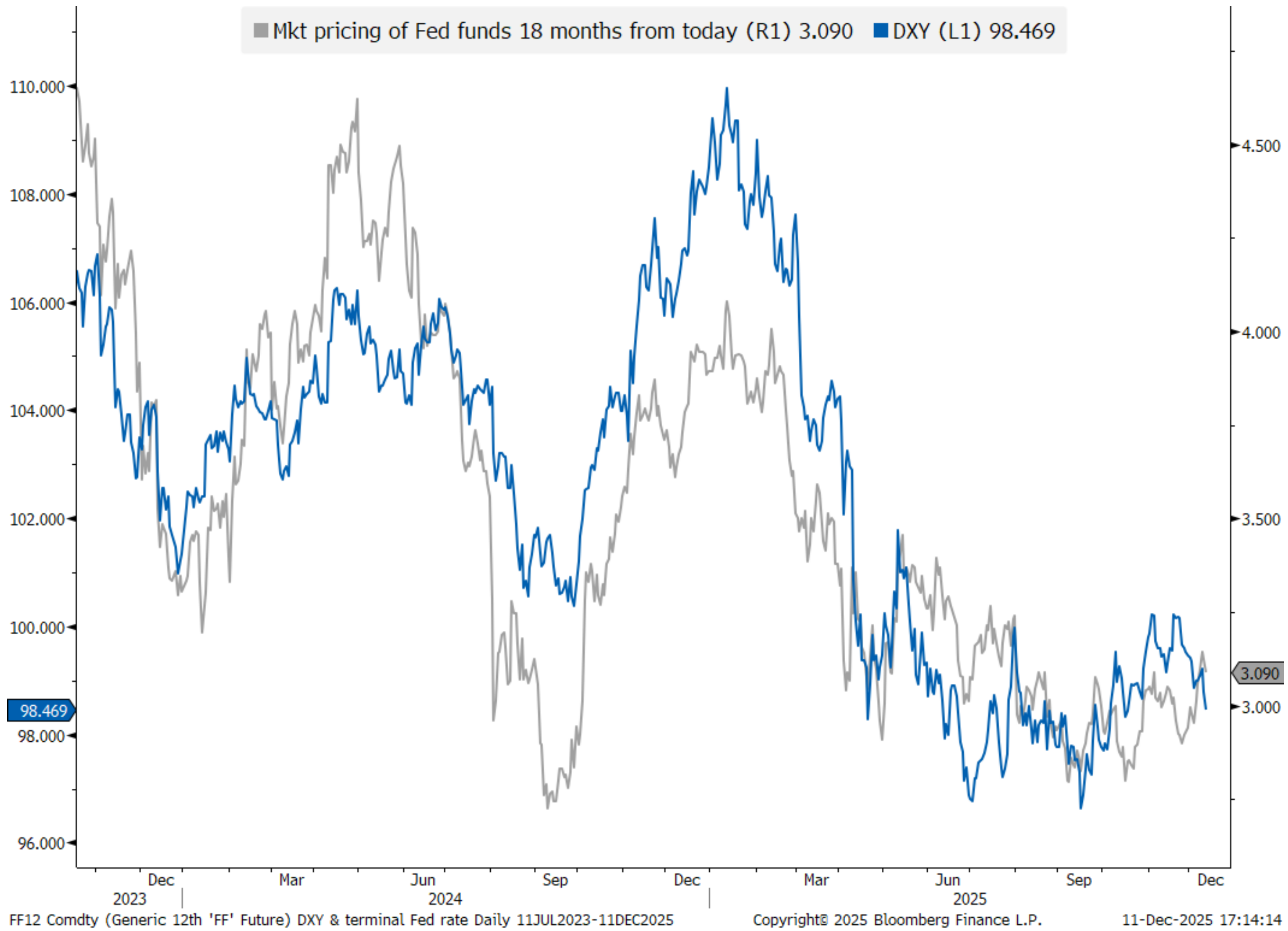
Gold remains the leader this year, while bonds have underperformed both equities and commodities; a dynamic that is set to continue in 2026.



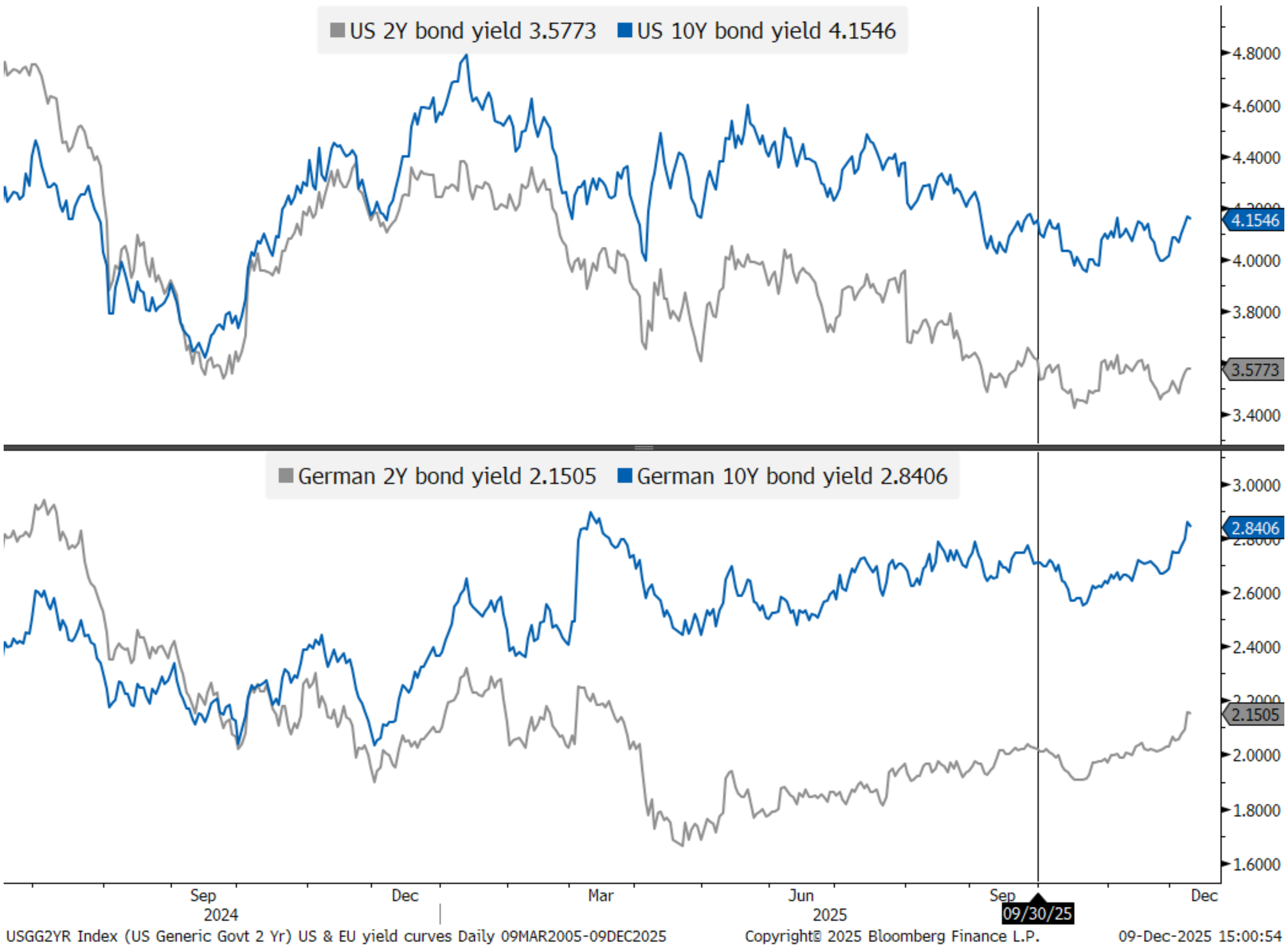
The USD has consolidated its first leg down in the past few months. While the consolidation could extend in duration, a lower USD remains the base case for next year.



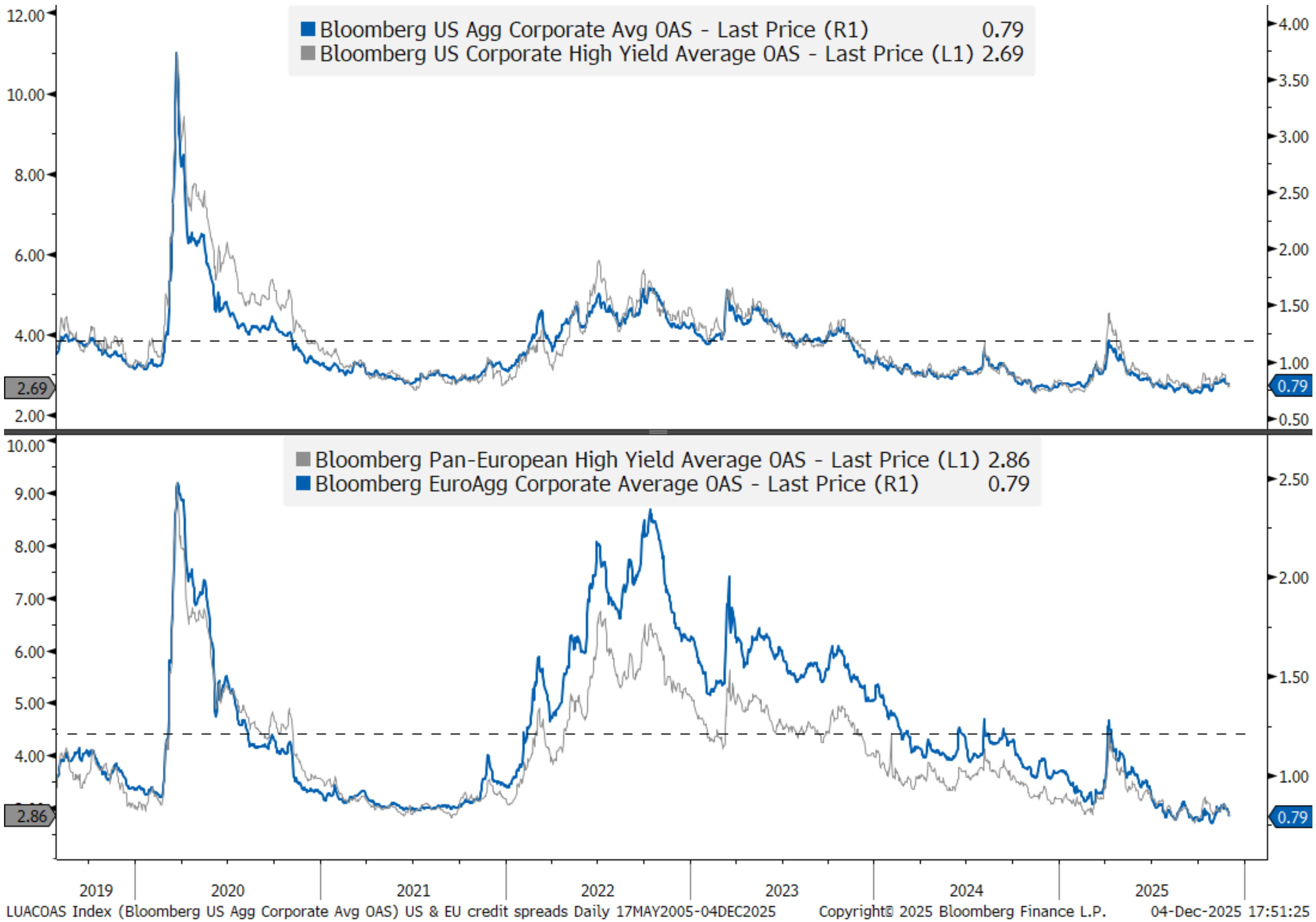
Terminal rate pricing remains a key driver for the USD. As rates cuts are priced back into the curve, the USD will weaken. A Warsh Fed would however likely keep the USD bid a while longer.



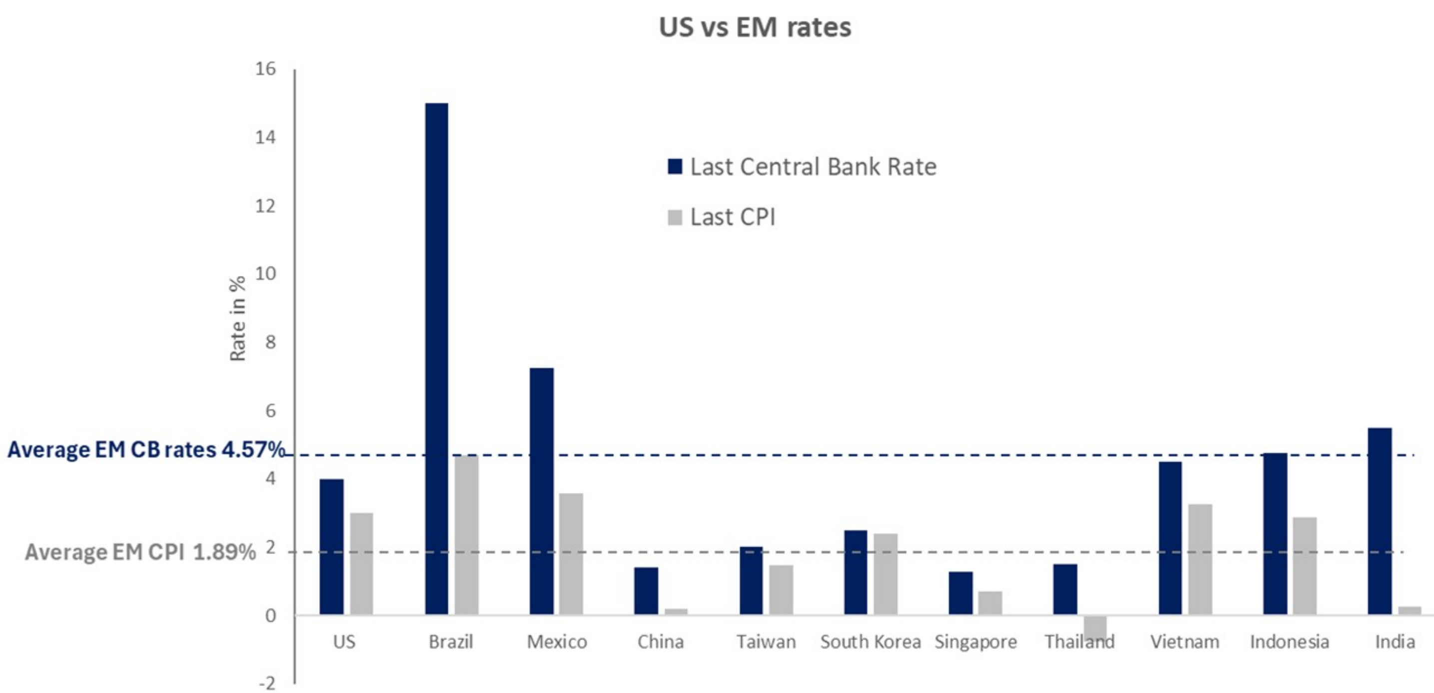
The combination of easy monetary policy and loose fiscal policy will keep upward pressure on long-term yields in 2026, as yield curves steepen. US short-term rates will likely remain under pressure.



Credit spreads have moderately widened in Q4 but remain very tight and not suggestive of an imminent deterioration in growth. They do not offer much value at current levels.

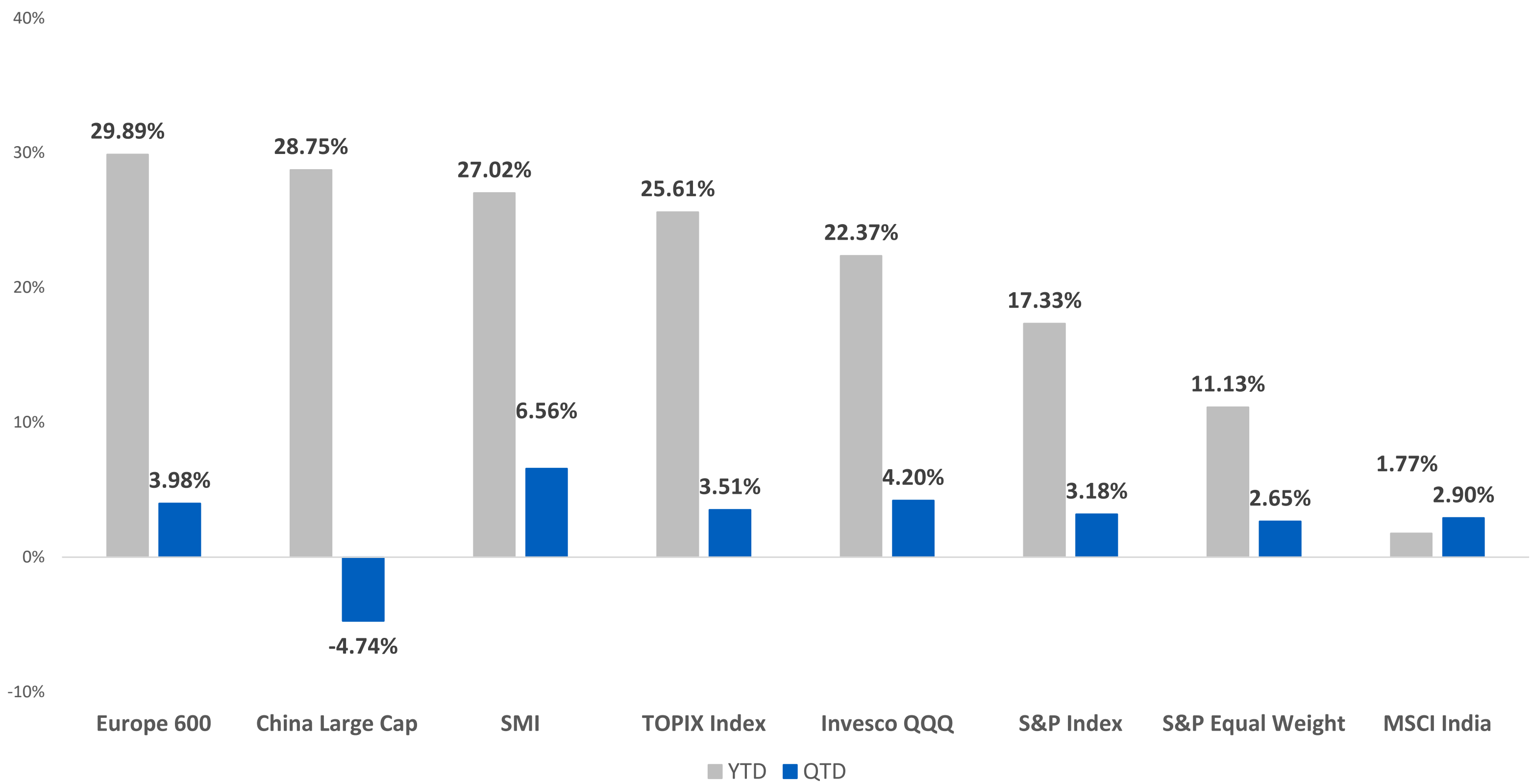


EM fixed income remains attractive given elevated real rates and appreciating currencies.



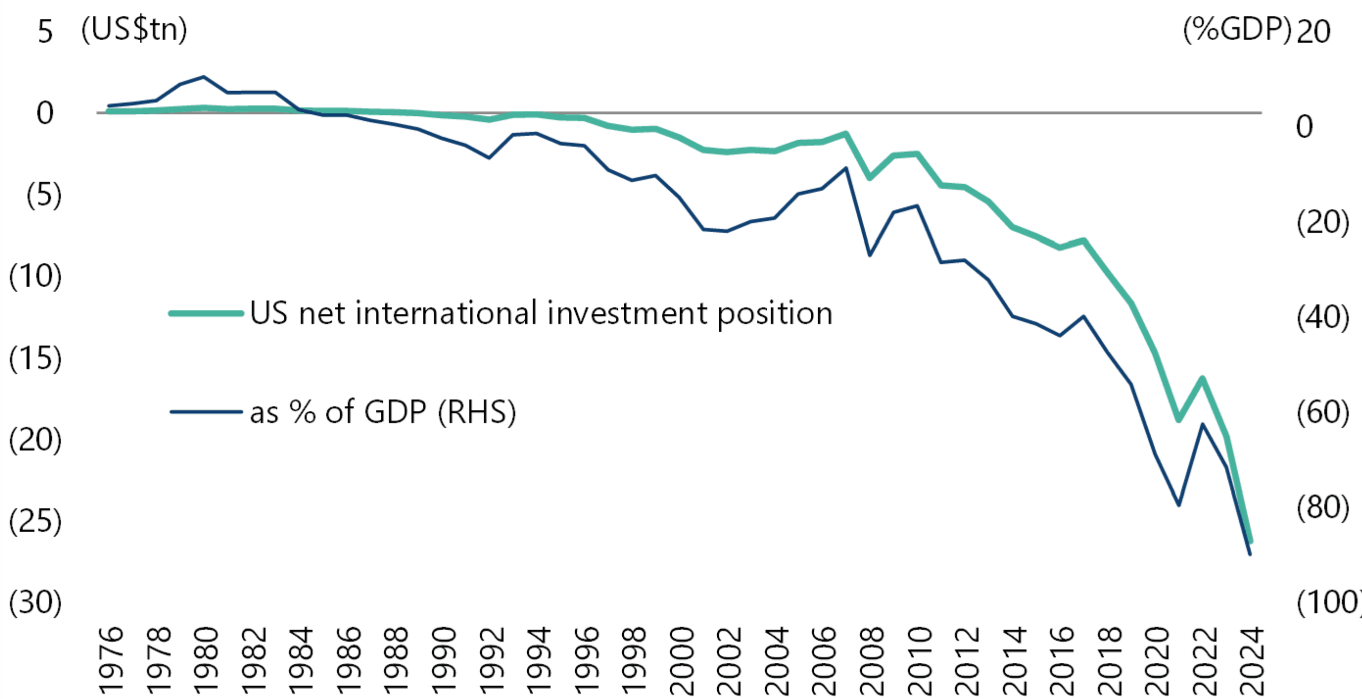
Chinese, EU and Japanese equities have done very well in 2026, outperforming their US counterparts…

Major Indices performance in USD YTD and QTD (as of 12.12.2025)



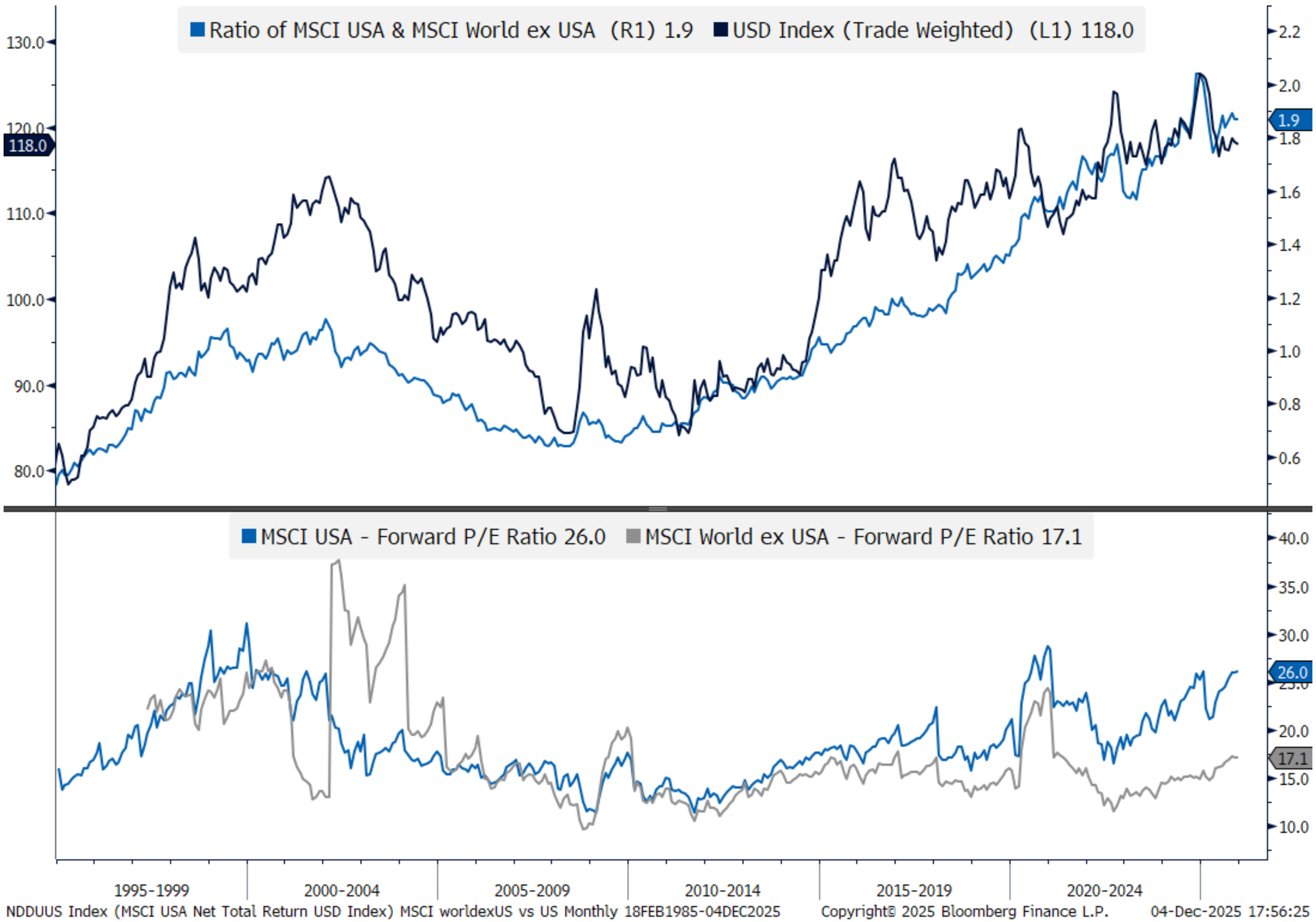
The Net International Investment Position of the US remains an enormous imbalance that will keep pressure on the USD, should large institutional players consider this year's performance and rebalance exposure towards international equities, or adjust USD hedging ratios…

US net international investment position

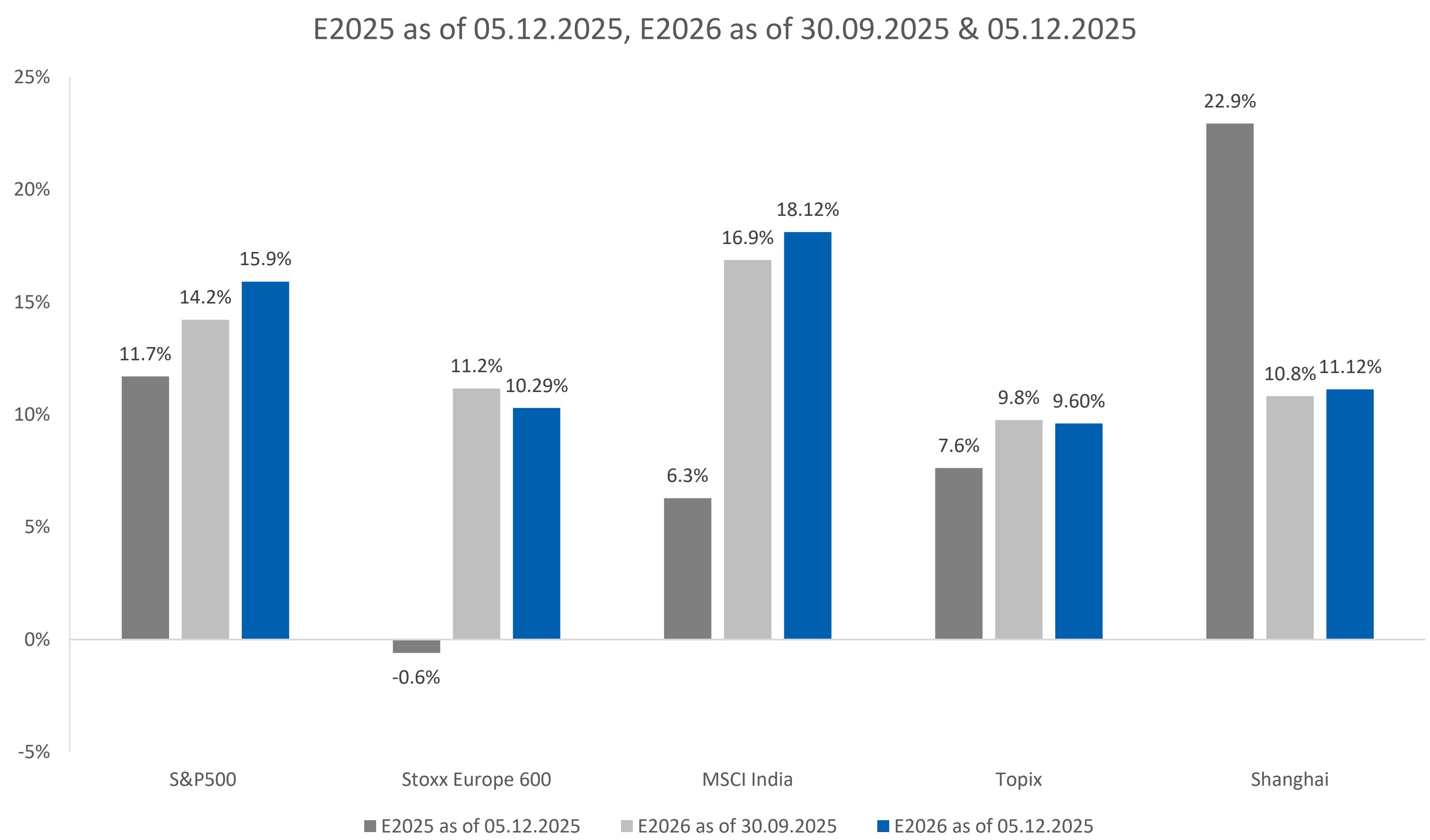


Source: Bureau of Economic Analysis

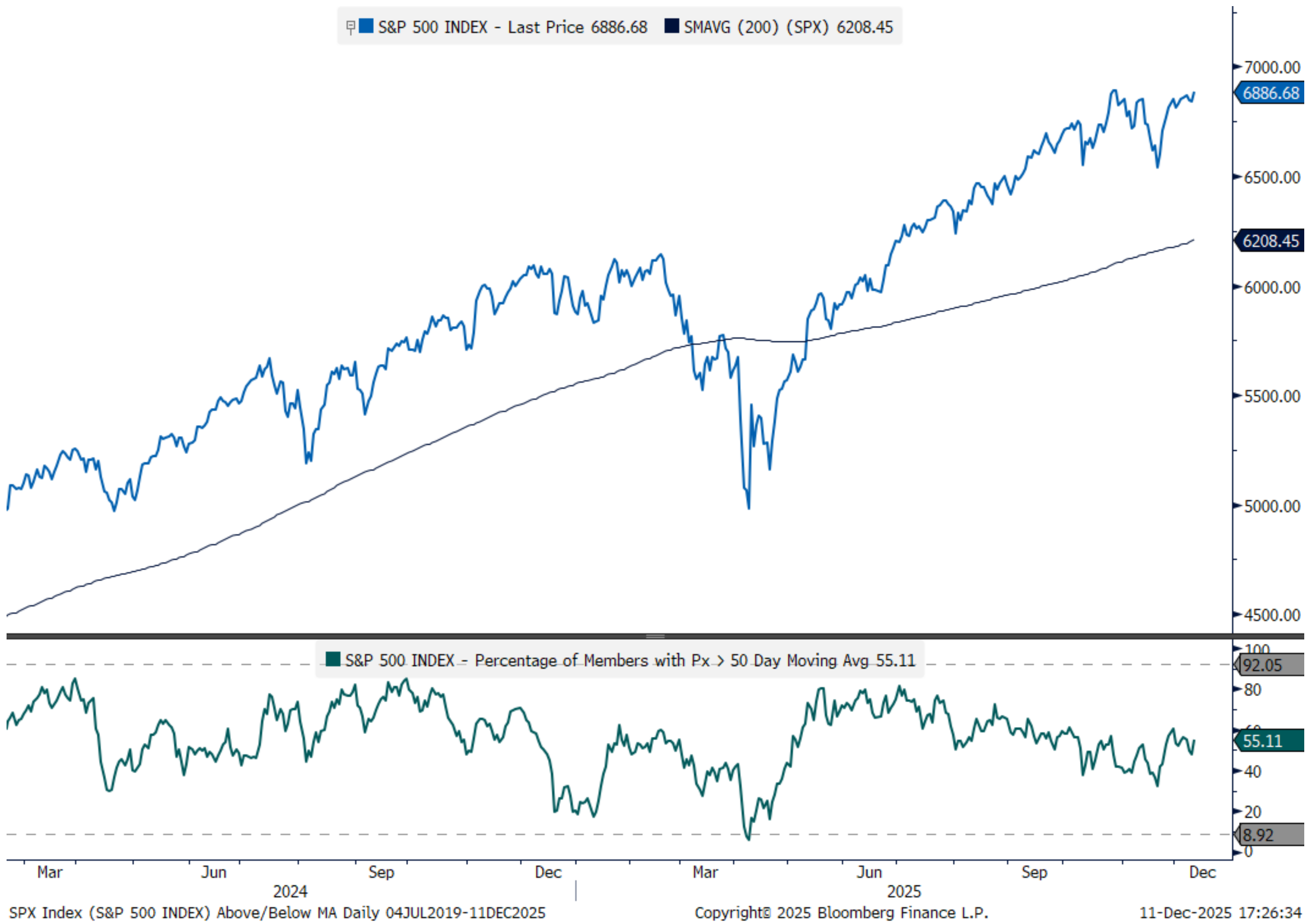
A structural bear market in the USD would imply that we are passed the peak of US equity outperformance.



Earnings growth expectations are elevated across major markets in 2026, with a notable reacceleration in the EU and in India.



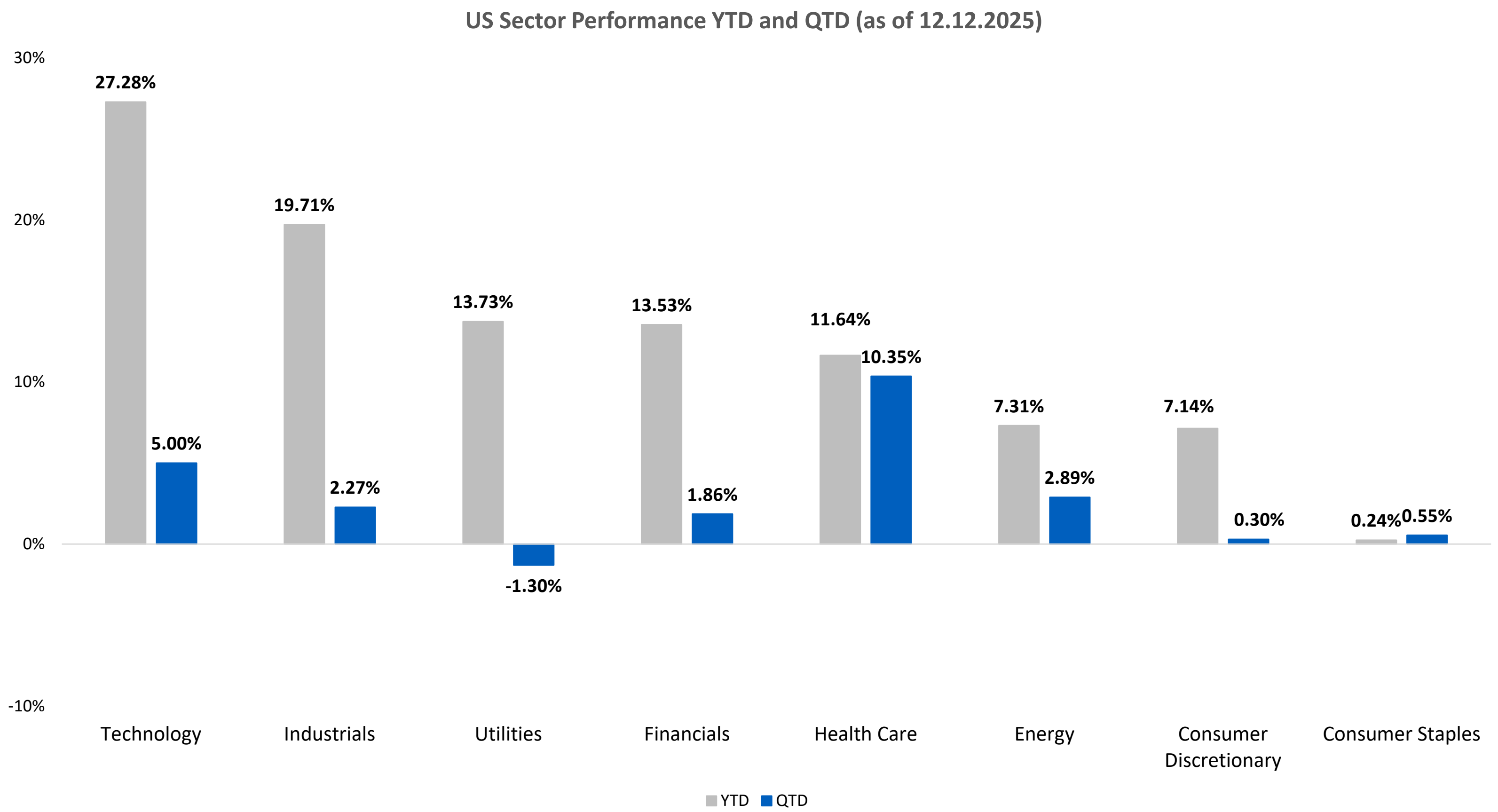
US equities continue to climb the wall of worry, as the economy holds up and both monetary and fiscal policies are supportive. Breadth has also improved, which is a good sign. Valuations remain a concern and offer no margin of safety in case of slowdown.



The breakout in US small caps after 4 years of consolidation is a bullish development that points to improving breadth and supports the resilient growth narrative. Broadening market participation is key to sustain the rally given the recent weakness in the AI thematic.

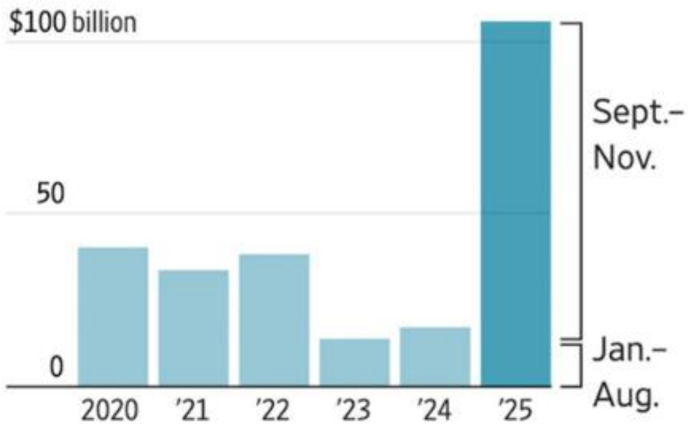
RTY Index (Russell 2000 Index) Russell CFTC Spec pos Daily 31JAN2005-12DEC2025 Copyright© 2025 Bloomberg Finance L.P. 12-Dec-2025 17:08:41

Recent signs of caution on the AI thematic could see tech trail in the coming quarter, as the growth picture clears up and cyclicals recover. We continue to favor industrials and financials, while healthcare and energy remain under owned and attractive.

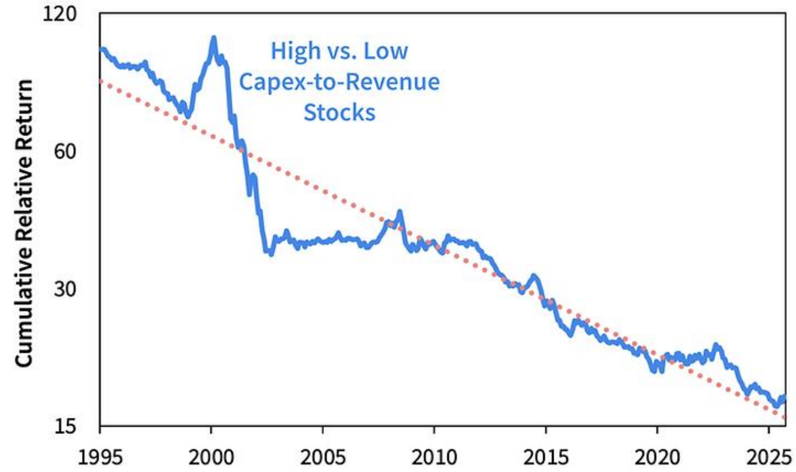


The market has recently showed signs of fatigue on the AI thematic, with large capex announcement being punished by the market instead of rewarded. Moreover, Alphabet’s success with TPUs is changing the competitive landscape.

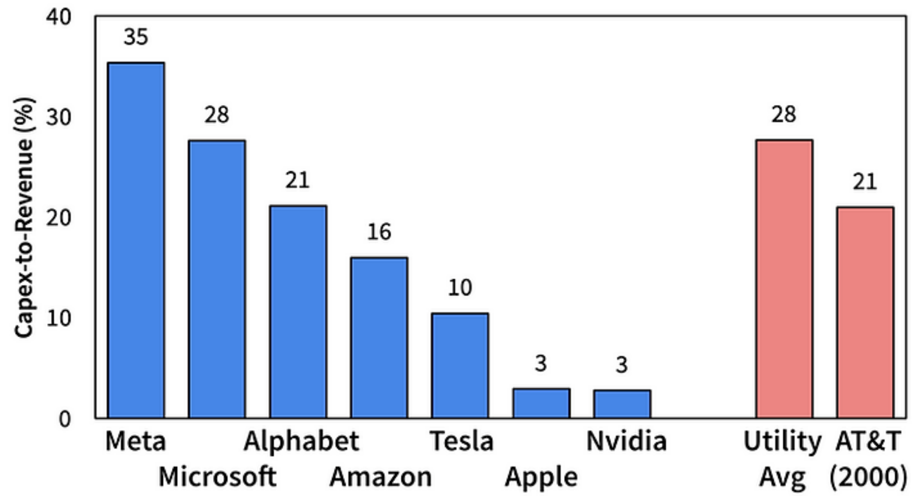
Bond issuance by big AI tech companies



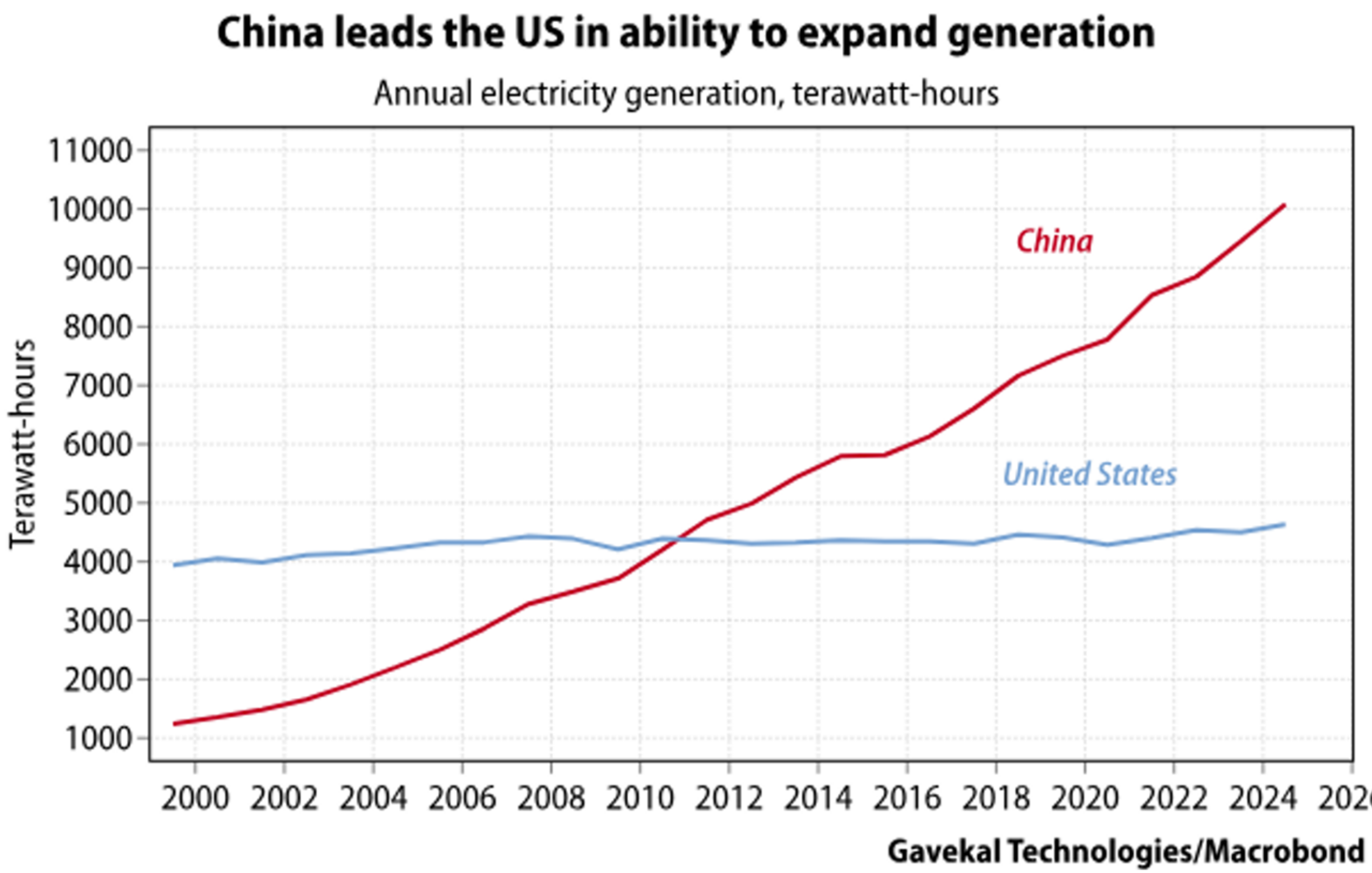
Note: Data include Alphabet, Amazon.com, Meta Platforms, Microsoft and Oracle. Issuance for 2025 is through Nov. 13.
Source: Bank of America



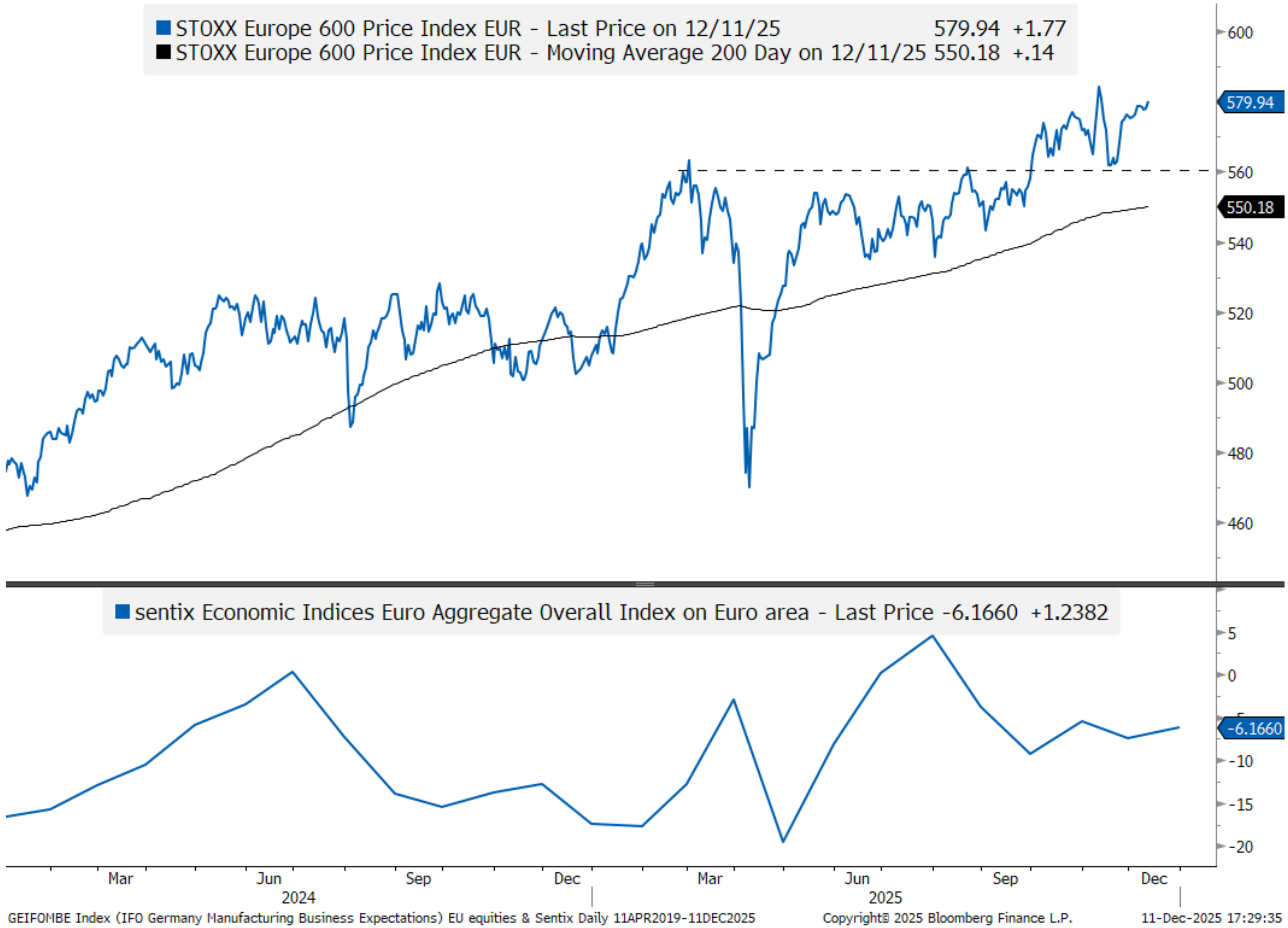
Source: Surviving the Capex Boom, Sparkline Capital



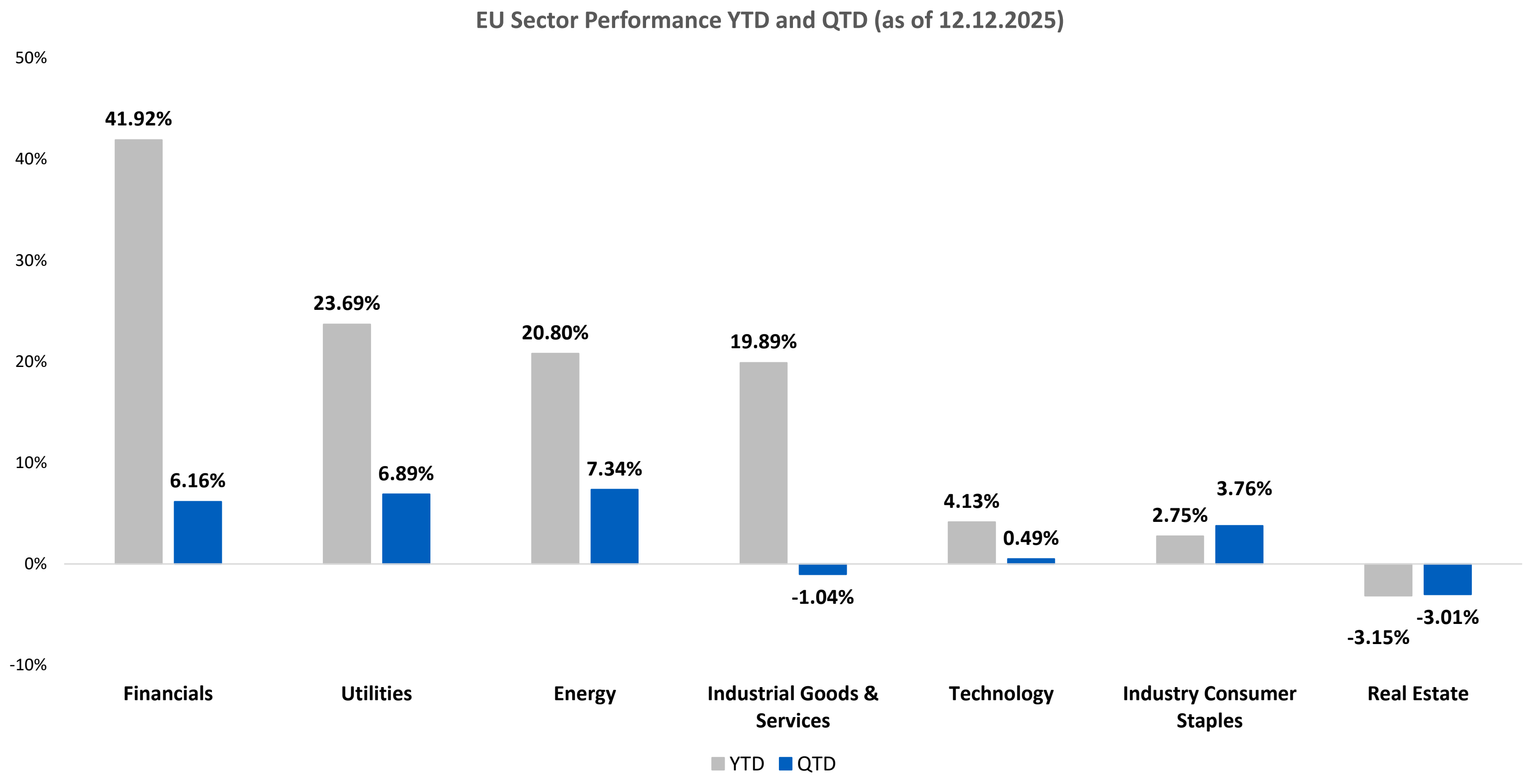
The real bottleneck is grid infrastructure and electricity generation, where China has a major advantage.



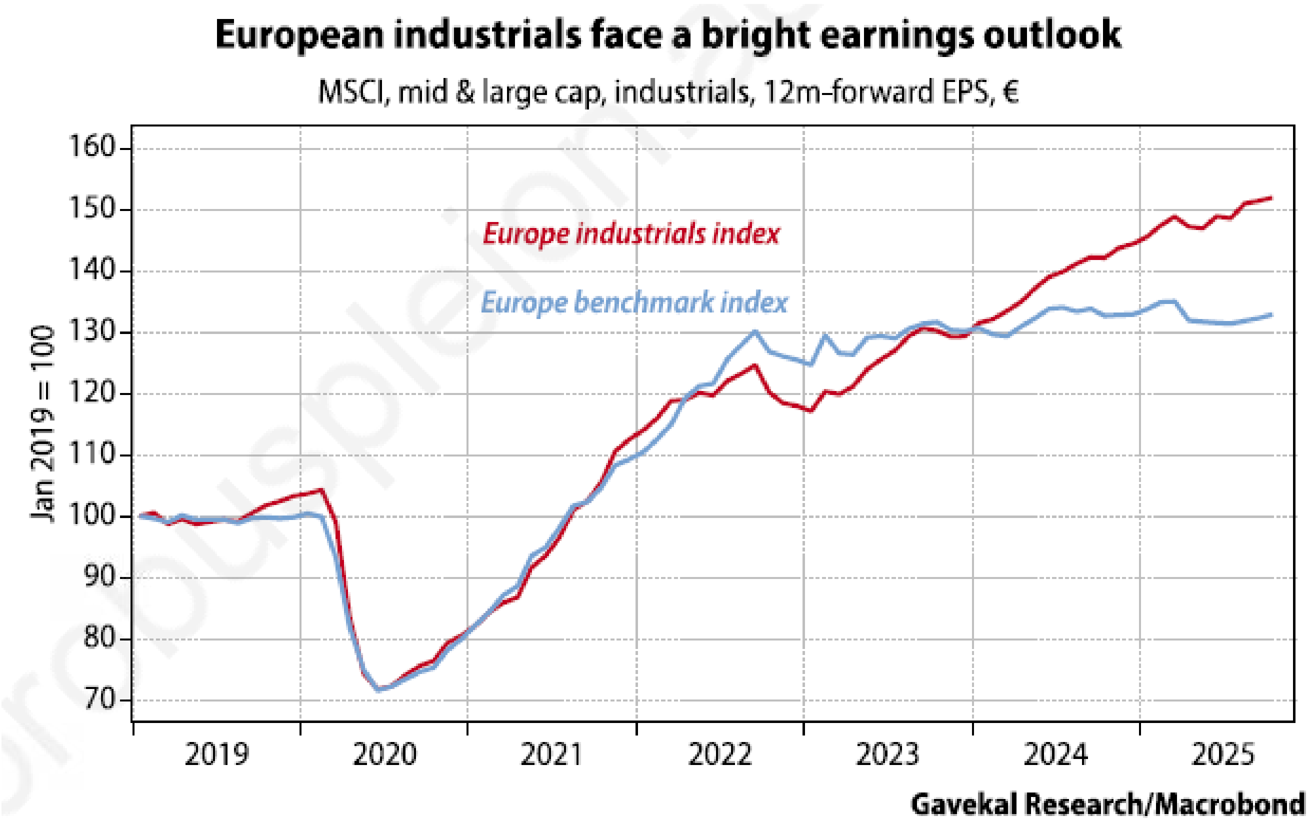
EU equities continue to look attractive into 2026



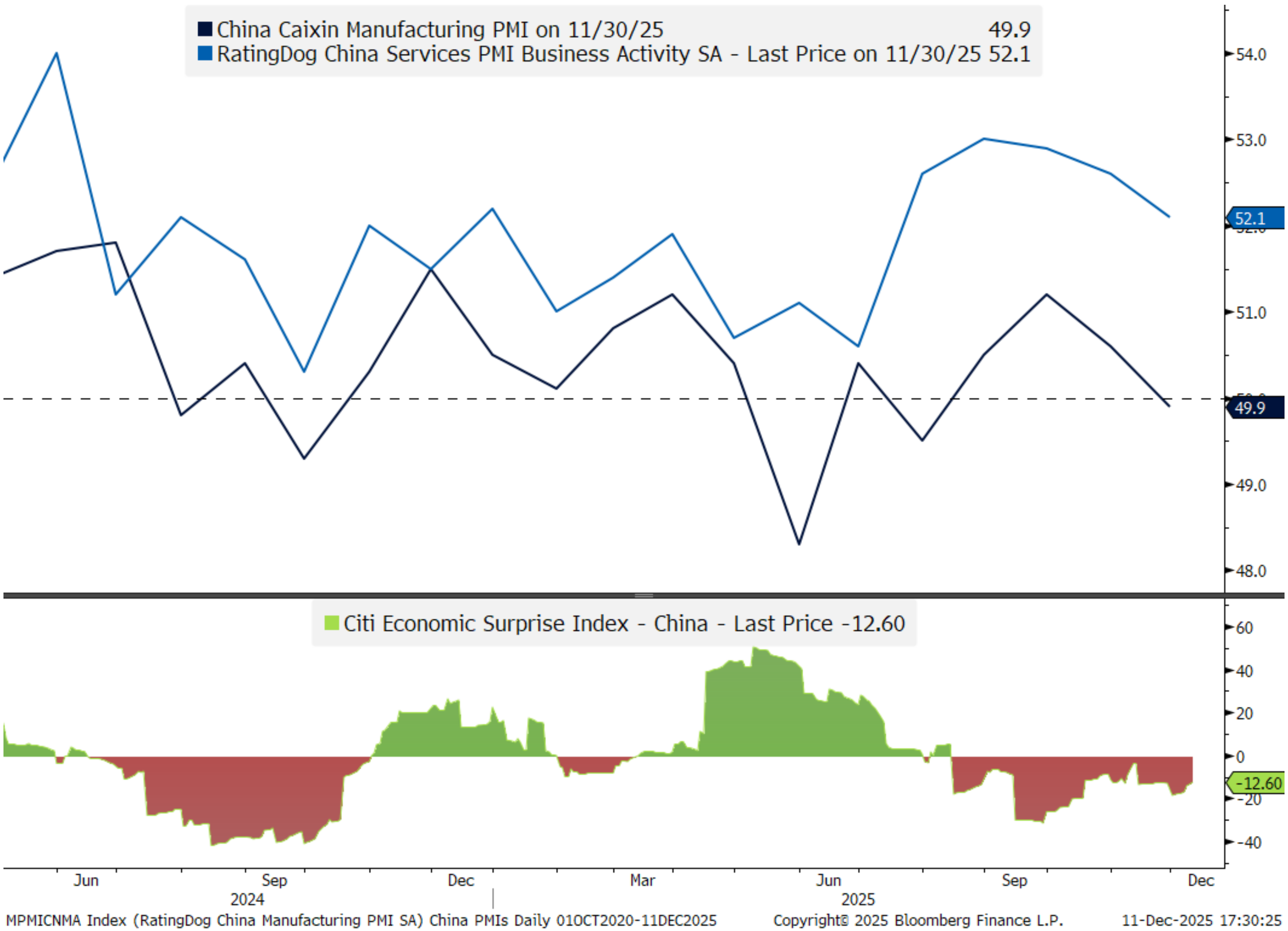
Industrials and financials remain our favorite sectors. Investors should also be on the lookout for opportunities in energy.



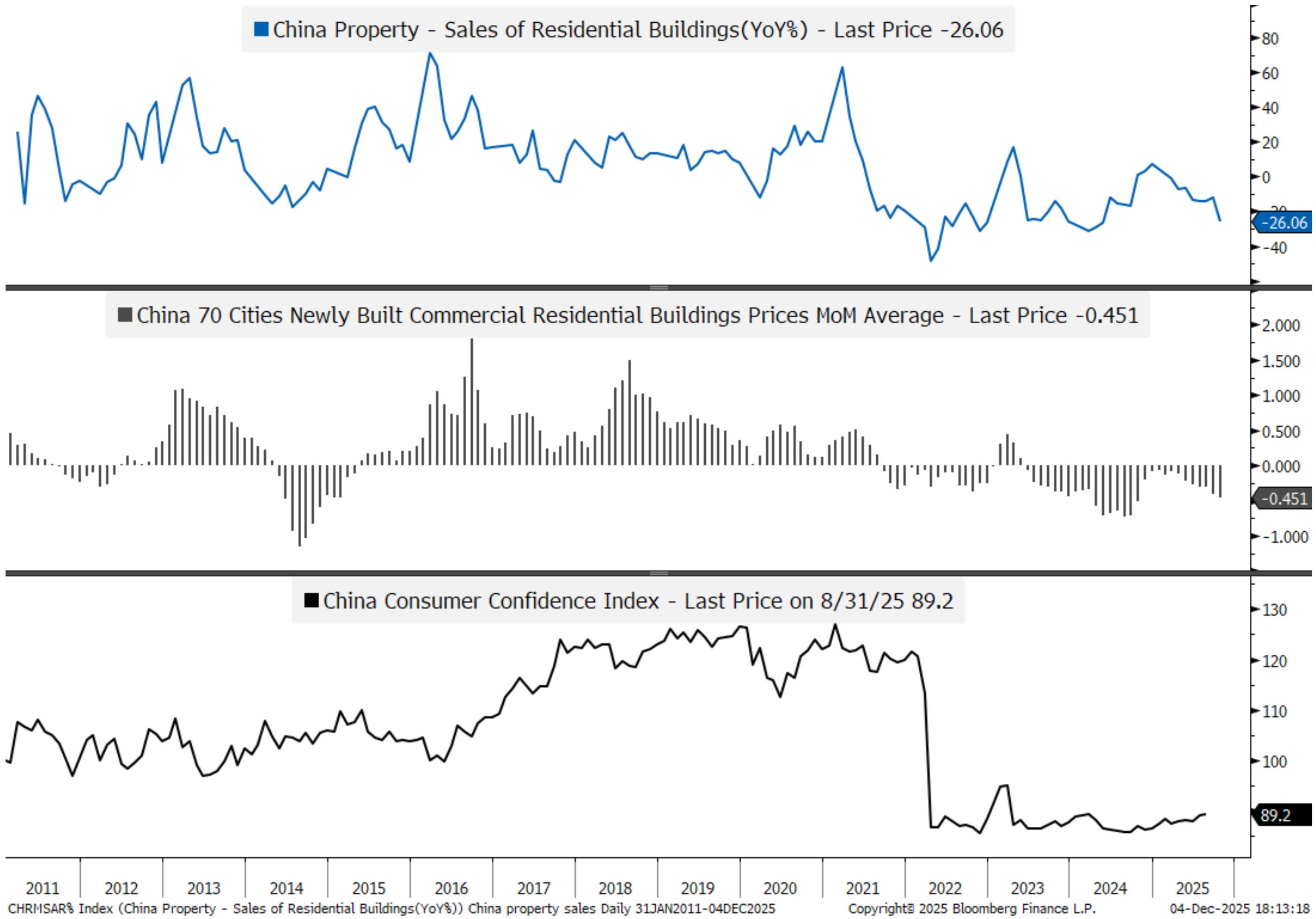
EU industrials have consolidated their gains in Q4, but we remain constructive on the back of a bright earnings outlook.



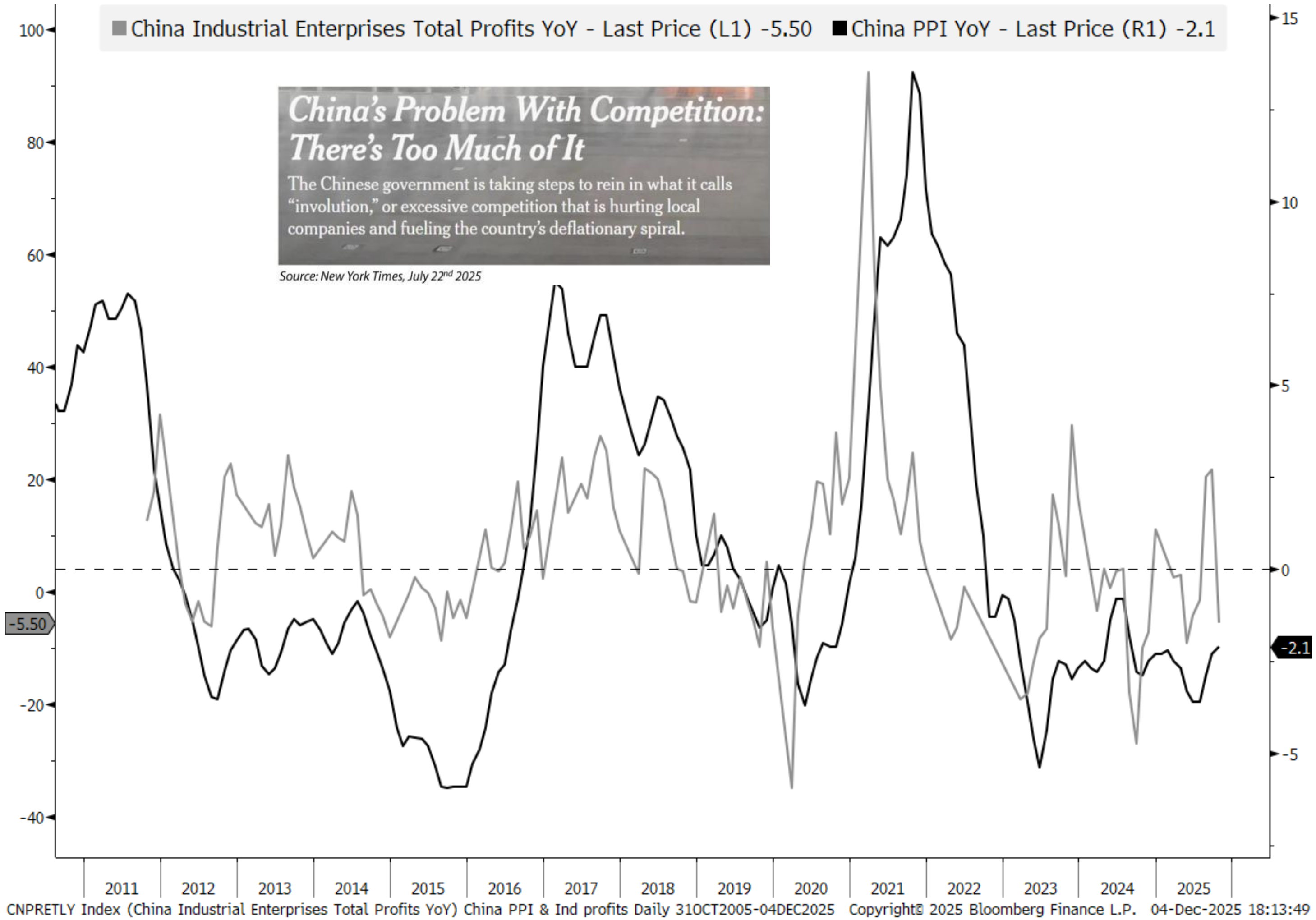
Chinese economic data have been underwhelming in the past couple of months, both in the services and manufacturing sector.



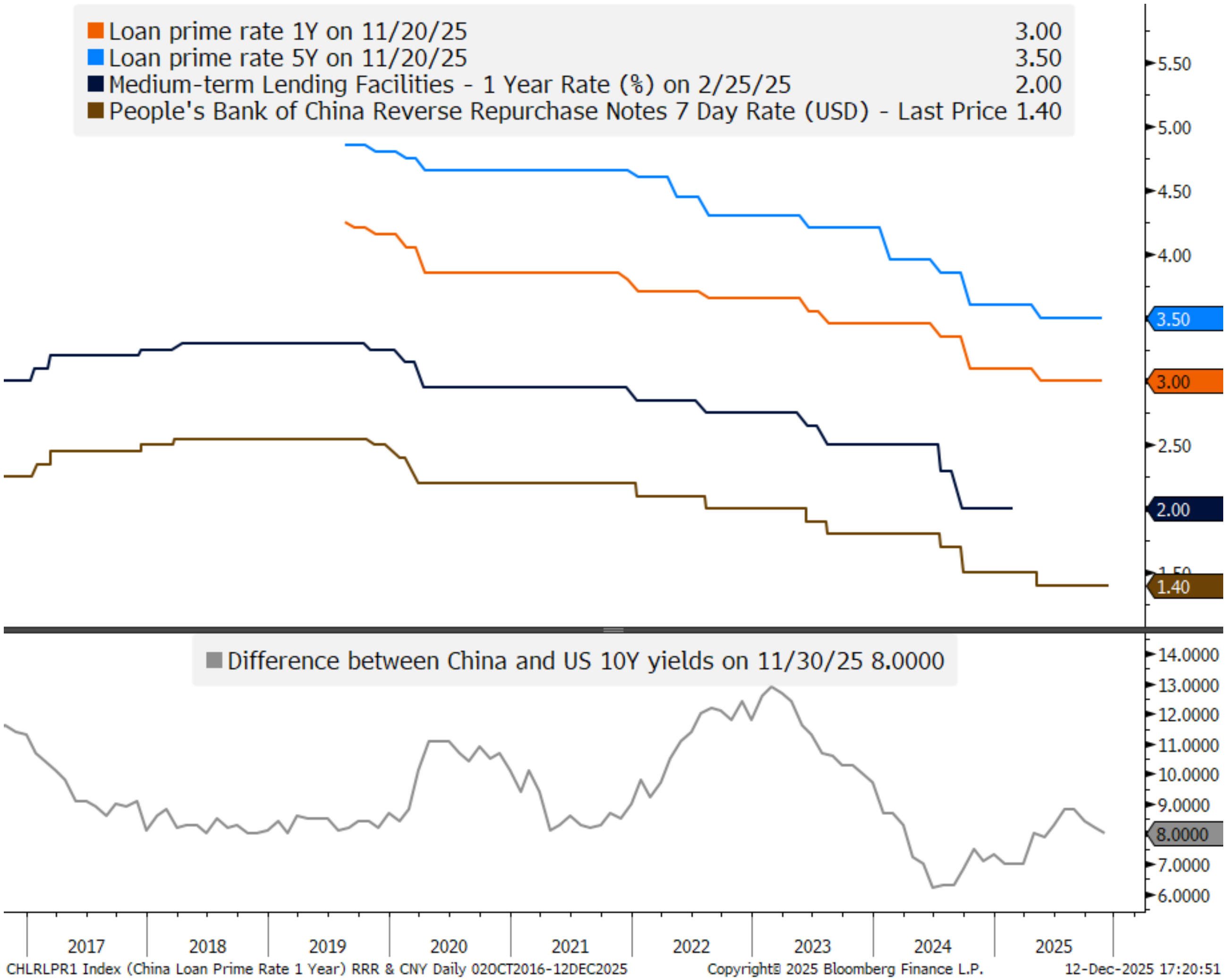
The real estate sector is also showing signs of deterioration again. Additional measures will be put in place to support the real estate market, given its importance for consumer confidence.



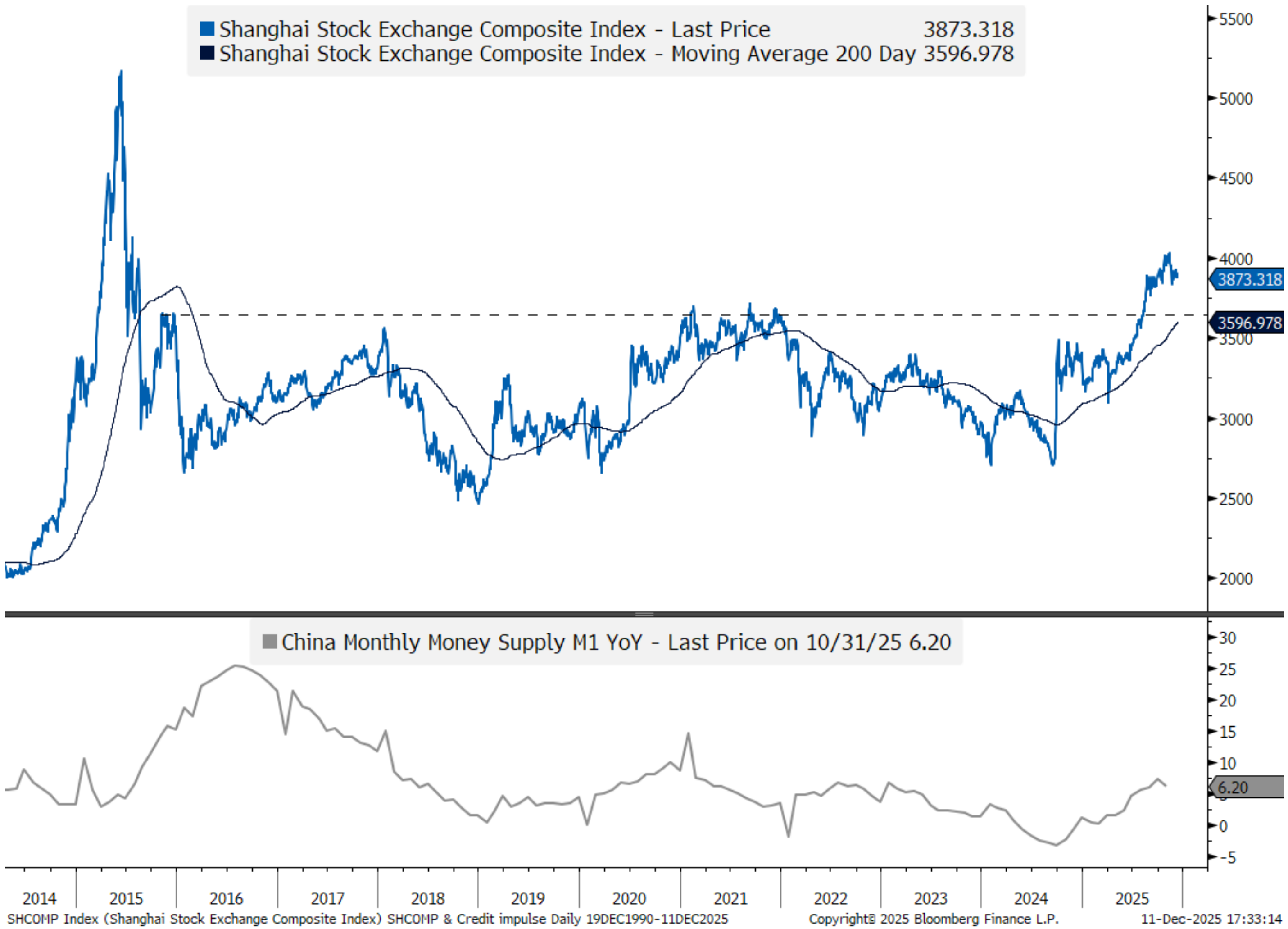
Deflation remains entrenched in China, which is why the anti-involution policy was put in place. It also gives room for further supportive measures.



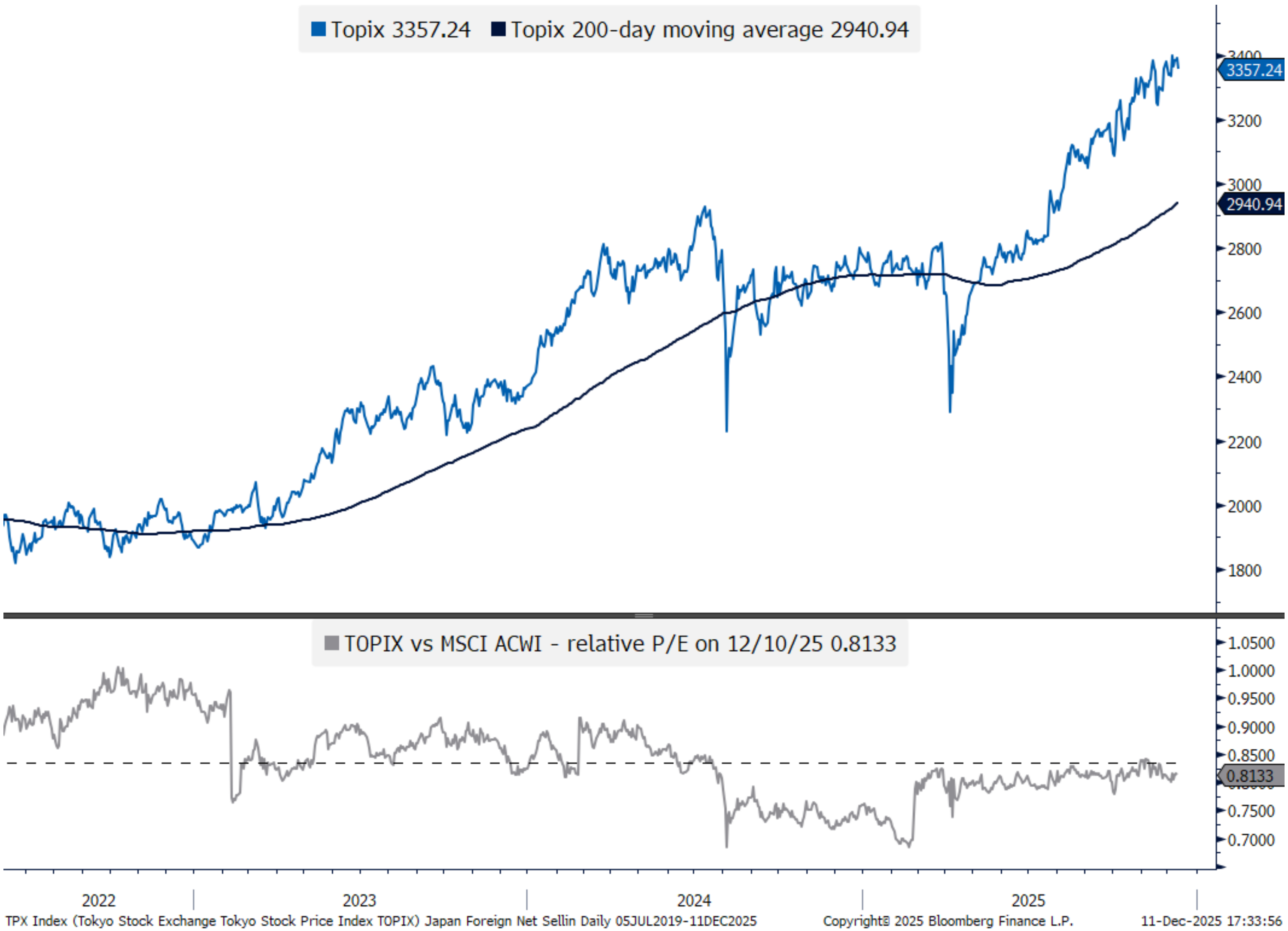
The government has reiterated its intention to support the economy and domestic consumption with moderately loose monetary and fiscal policy. Additional measures such as rate cuts are likely in Q1.



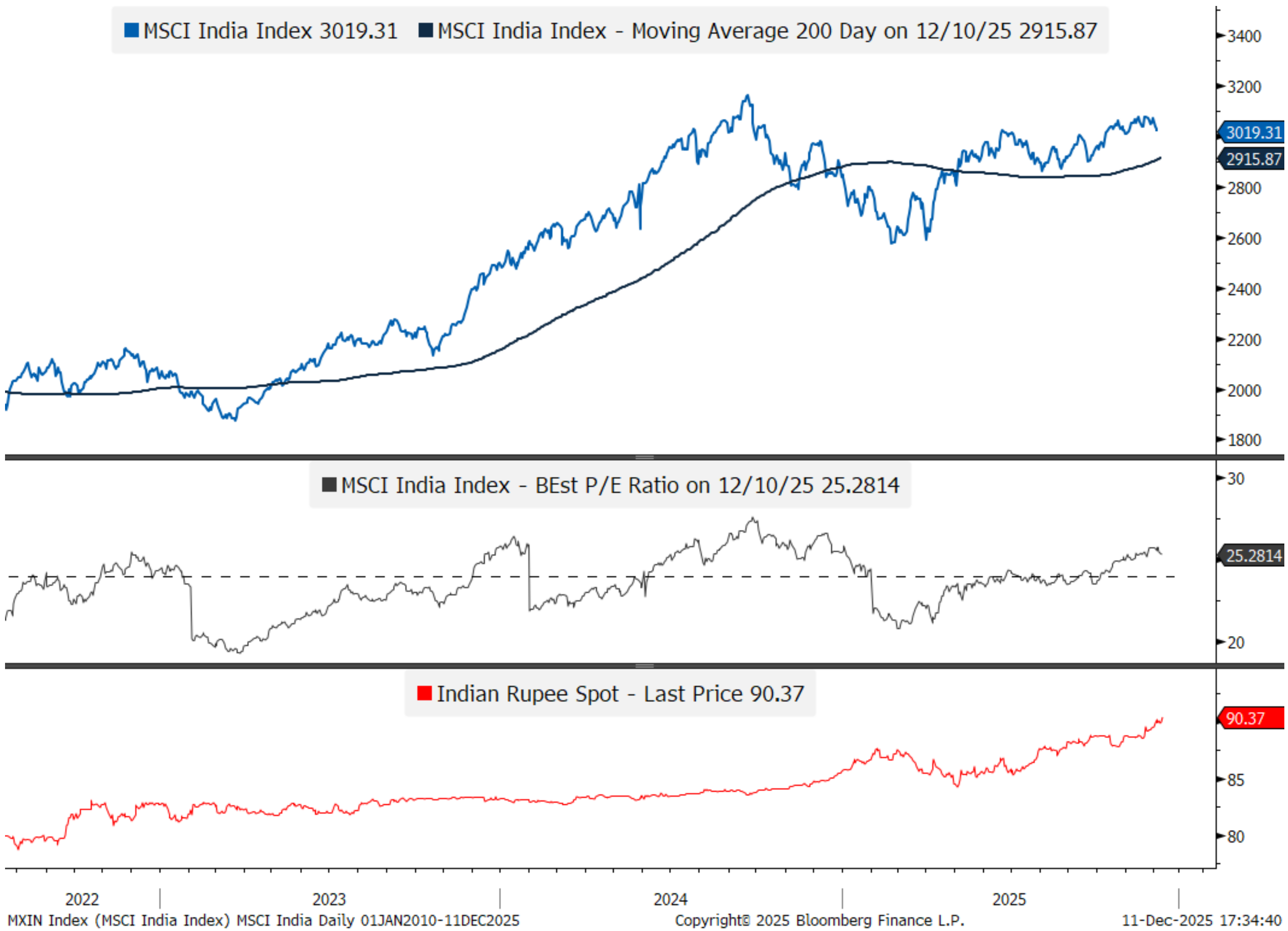
Chinese equities have been consolidating in Q4 after a sharp rally, as growth has moderated. The consolidation could extend a bit longer, but we see further upside in 2026.



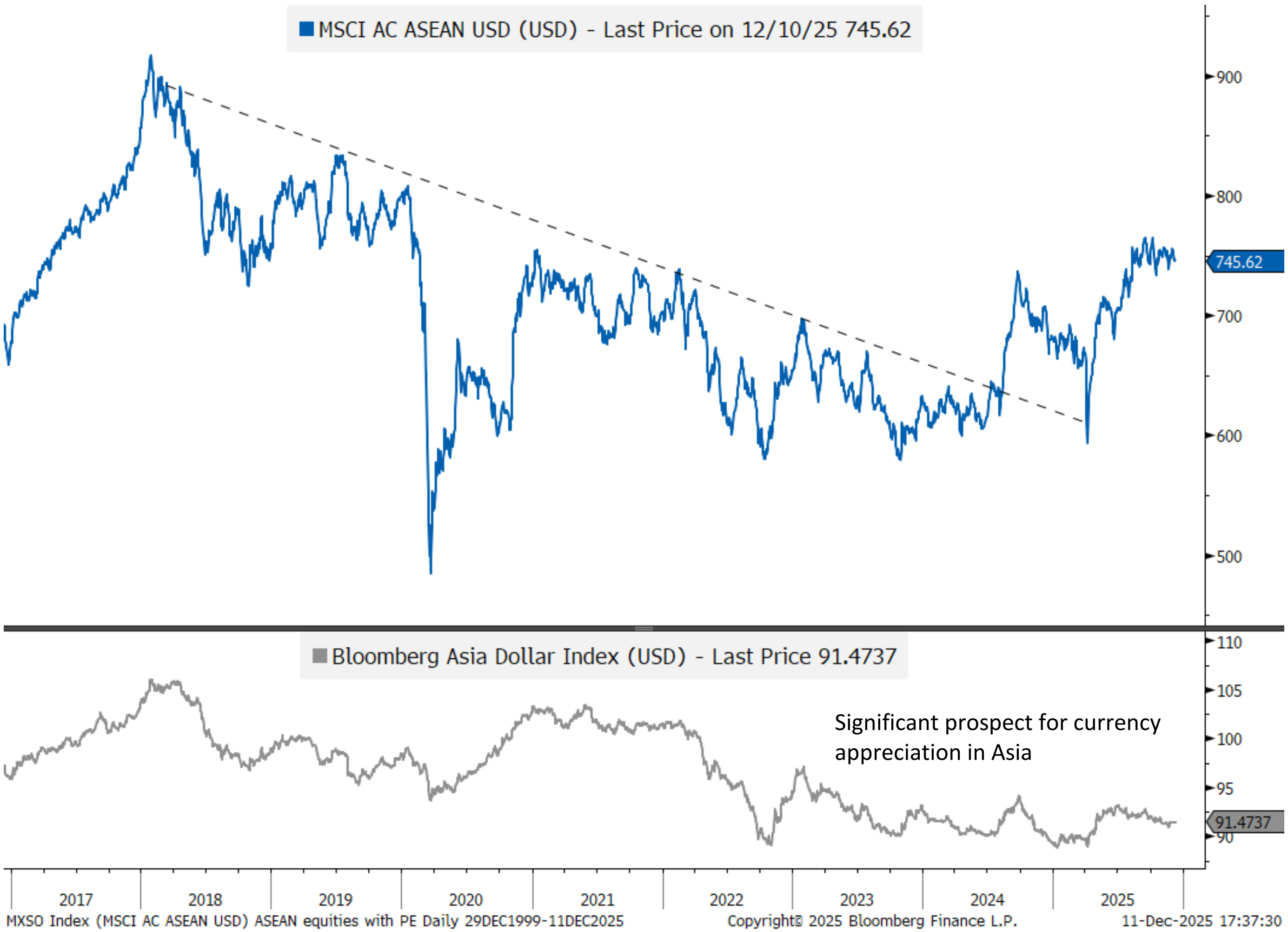
Japanese equities remain attractive and dips should be bought. The JPY remains egregiously undervalued and should not be hedged.



Indian equities continue to consolidate and appear ready to resume their uptrend, but the currency remains under pressure, as there is still no clear resolution on the tariff front.



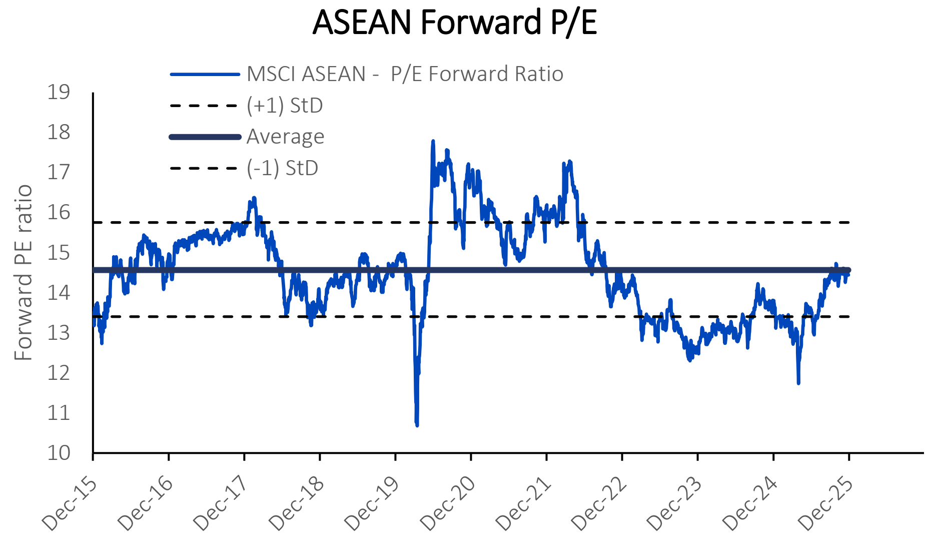
ASEAN markets have finally caught a durable bid. A combination of a stabilizing Chinese economy, weak USD, increased local trade and capital investments should keep favoring this region.

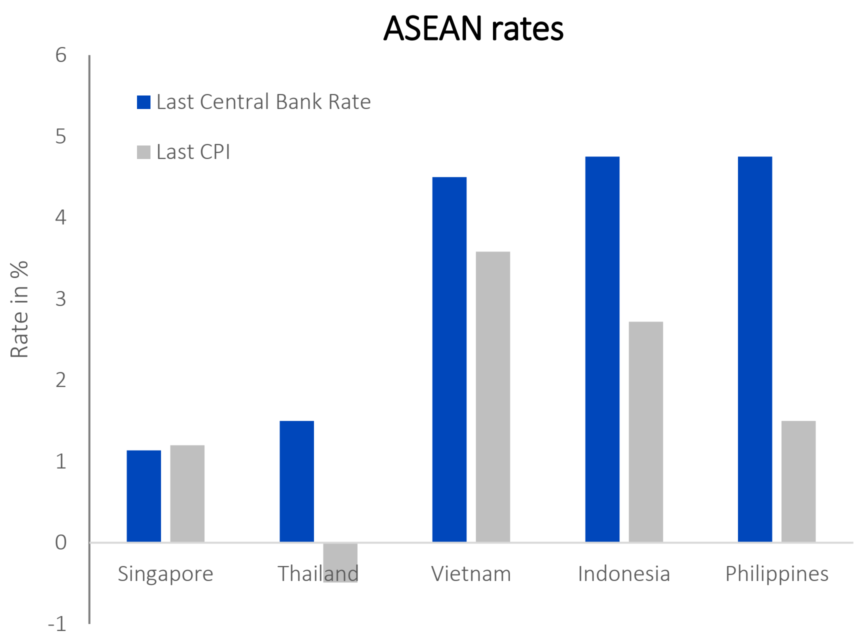


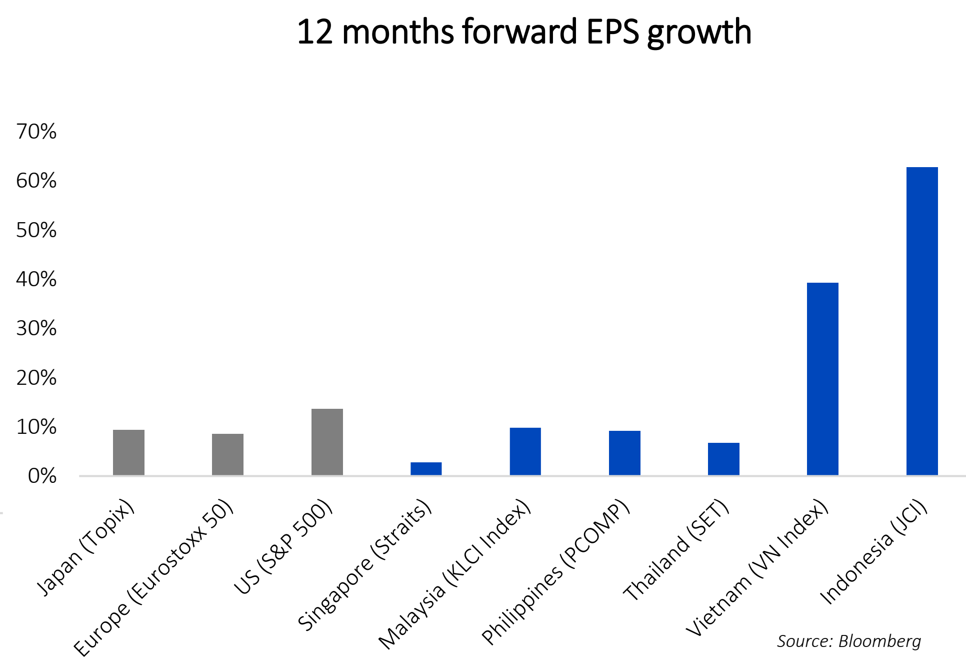
ASEAN - outlook

Catalysts going ahead:

- Inflation across ASEAN is normalizing (not sticky like US).
- Central Bank rates continue to go down.
- Loose monetary policies and above average growth should support the markets.
- ASEAN Index forward P/Es cheap.
- Some countries expect strong corporate growth.
- US tariffs: deals done with the US. Between 15-20%



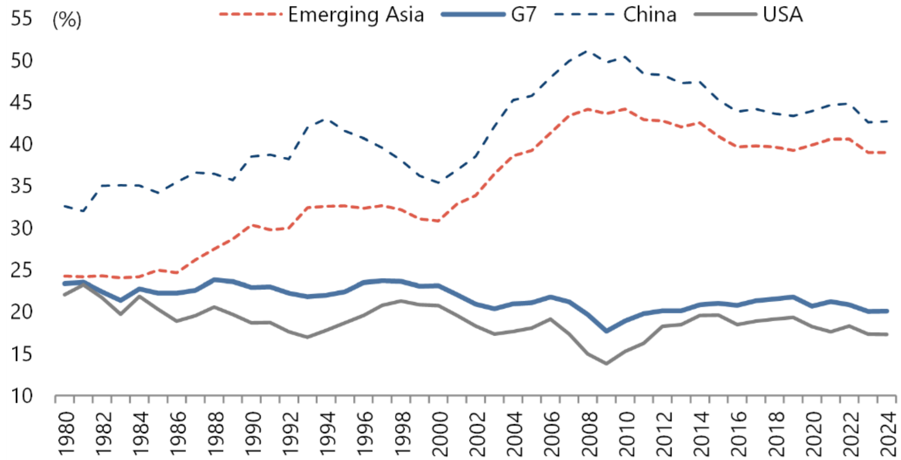




Source: Bloomberg

The unfolding infrastructure boom in the Valeriepieris circle

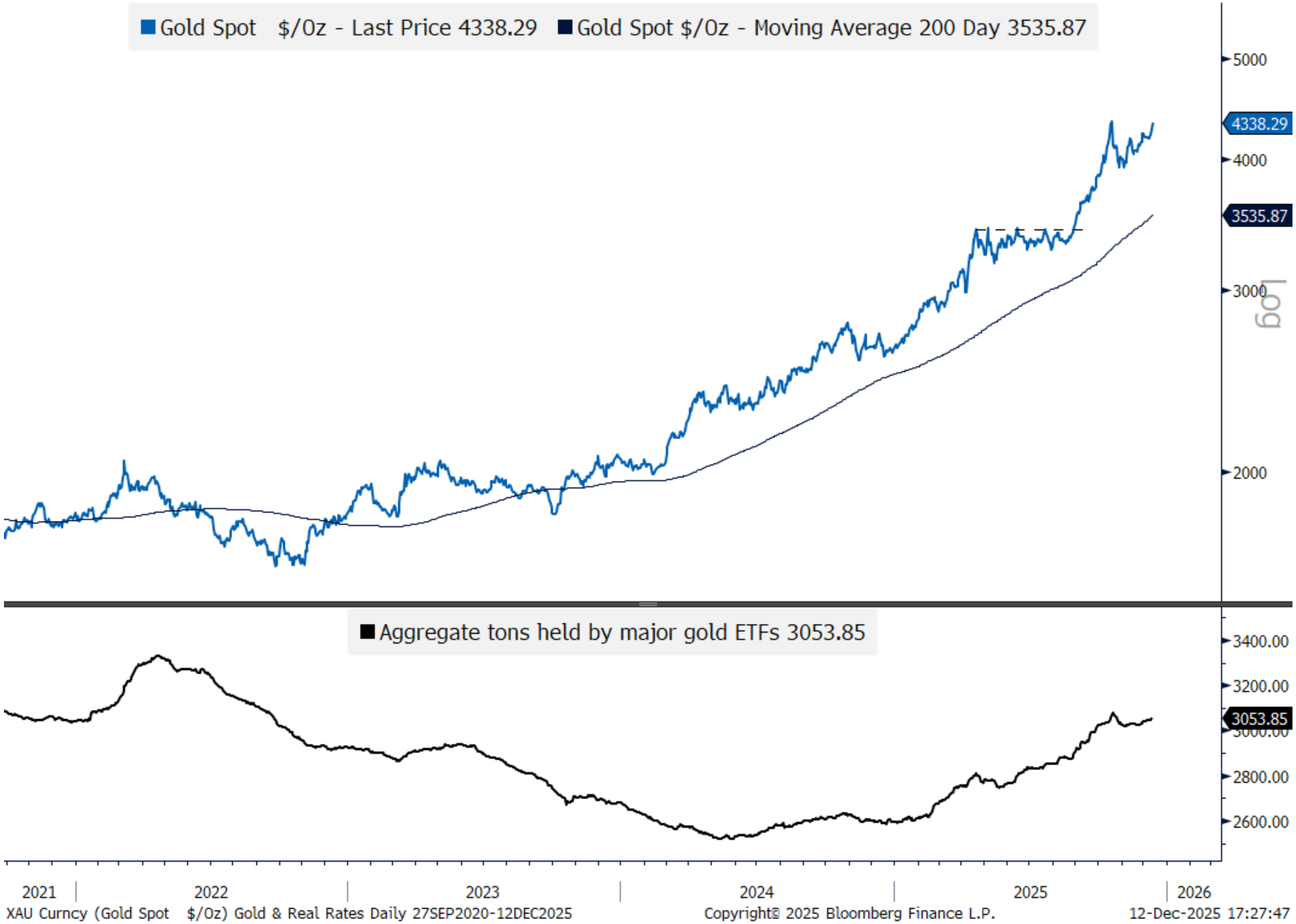
Gross national savings as % of GDP



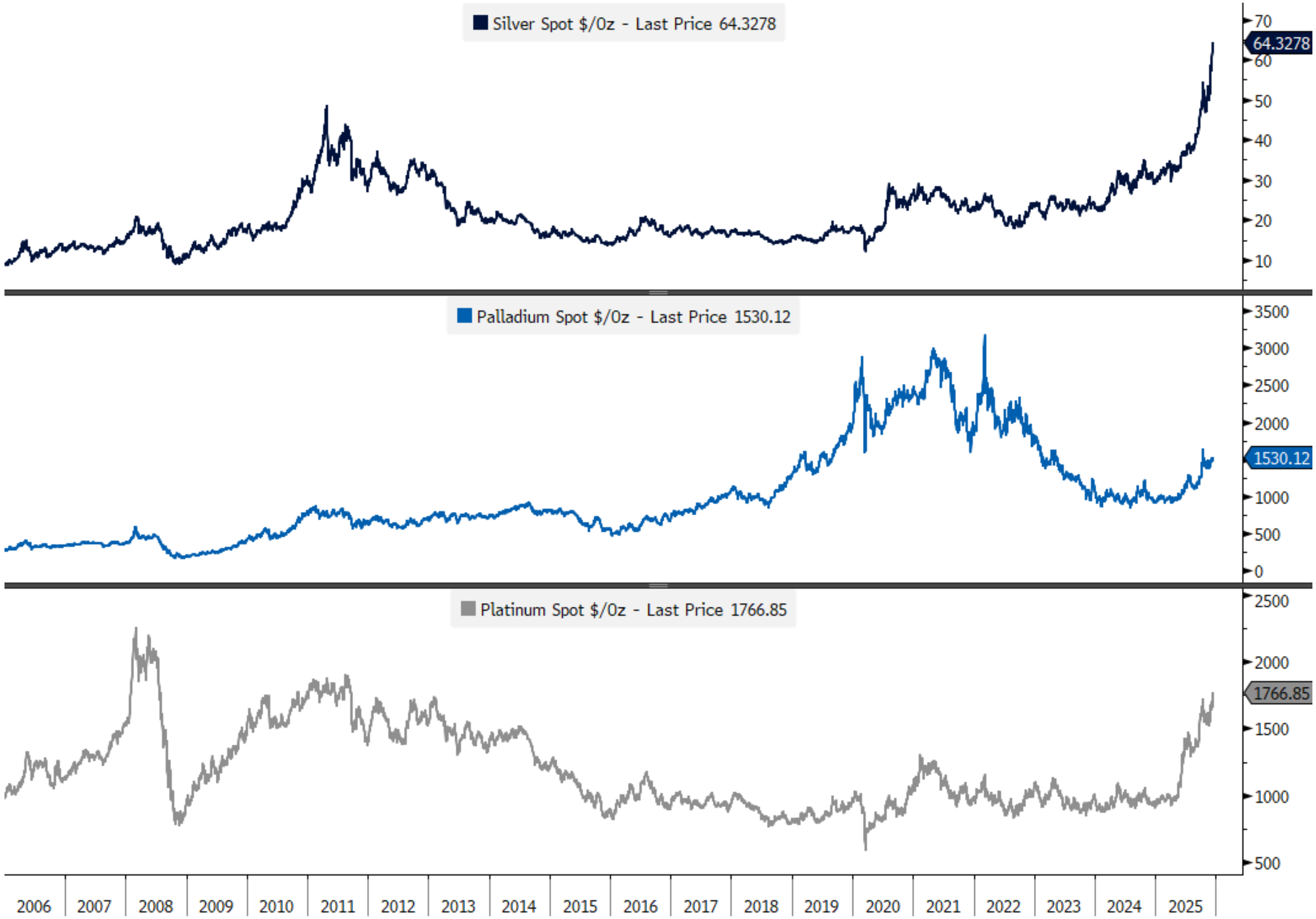
Note: Emerging Asia excludes Hong Kong, Korea, Singapore and Taiwan. Source: IMF - World Economic Outlook Database

More people live inside the circle than outside it

Gold has been consolidating in Q4 following a spike in retail speculation. Investors should be on the lookout for the next leg up in this historical bull market. Global allocations remain far from extreme.

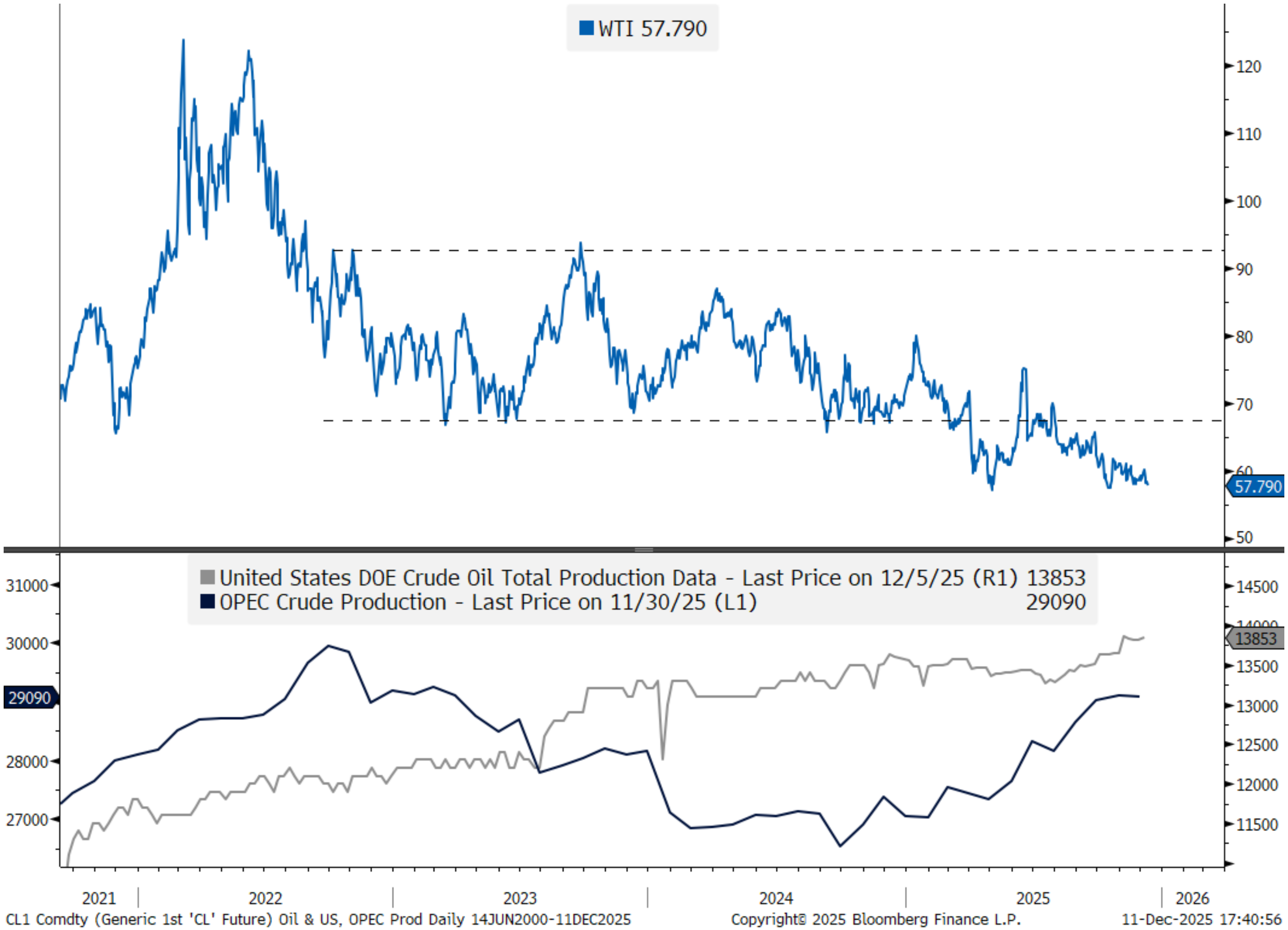


Despite gold's historic year, silver, palladium and platinum are outshining it. Silver is leading the pack into new record highs but should not be chased here. Platinum and palladium still have upside.



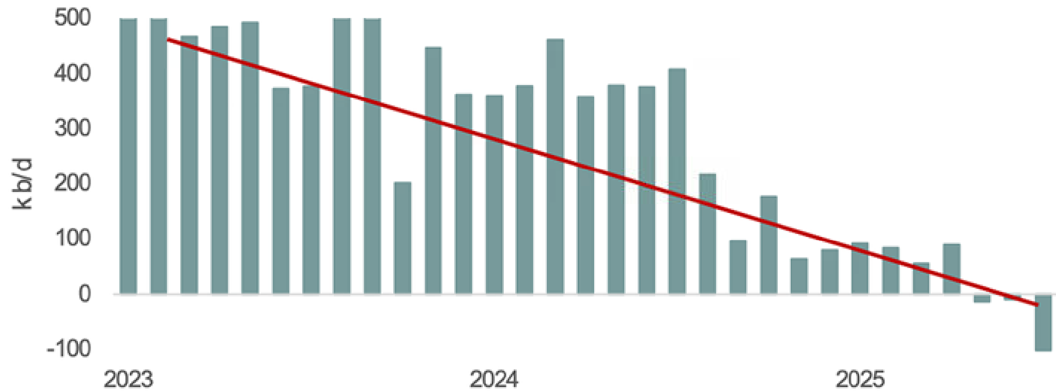
XAG Curncy (Silver Spot $/Oz) Platinum & Palladium Daily 02JAN2006-12DEC2025 Copyright© 2025 Bloomberg Finance L.P. 12-Dec-2025 17:38:33

Energy markets have been weak this year, as OPEC+ has been increasing production, while US production edged higher too. Going forward, OPEC is signaling that production hikes are unlikely…



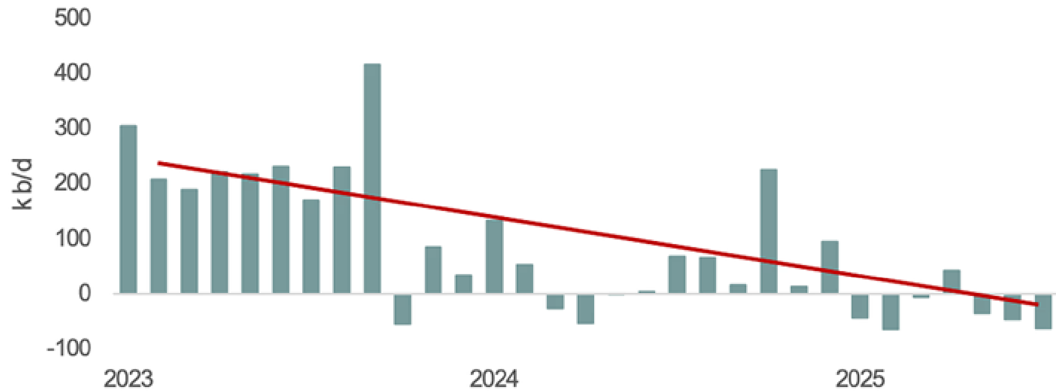
There is a strong case that US oil production could start falling in the coming year.

FIGURE 8.A Permian Shale Oil Year-on-Year Growth



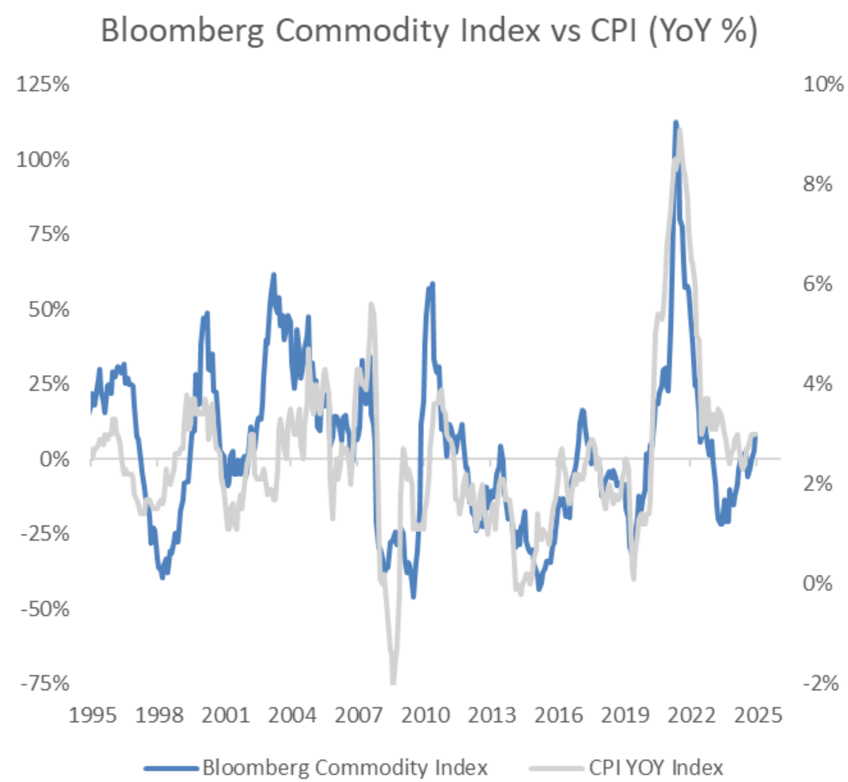
Source: EIA.

FIGURE 8.B Other Shale Oil Year-on-Year Growth

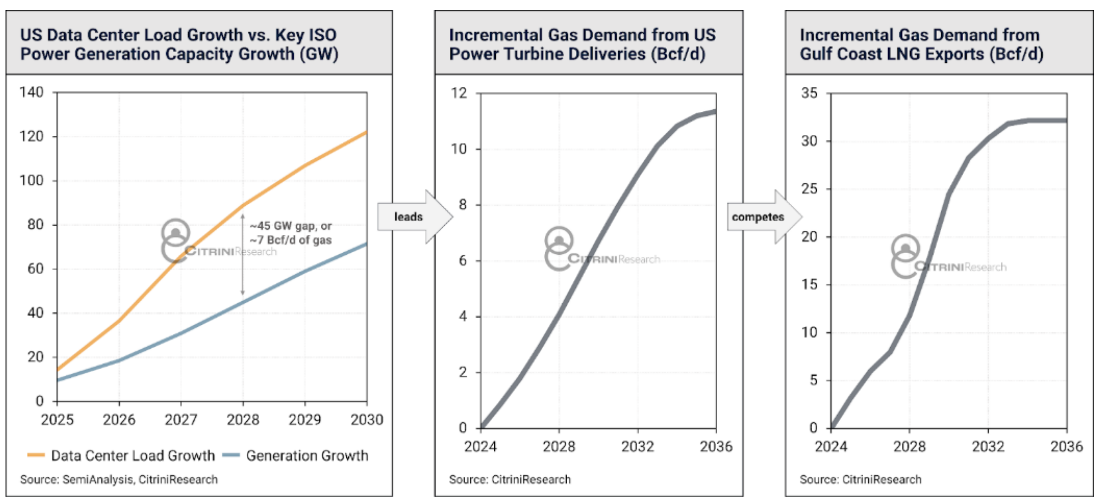


Source: EIA.

Aside from energy markets, commodities have performed well in 2025 and are breaking out of a major consolidation. With energy prices possibly joining the party at some point, commodities should do very well. Investors are under allocated to this asset class providing a hedge against inflation.

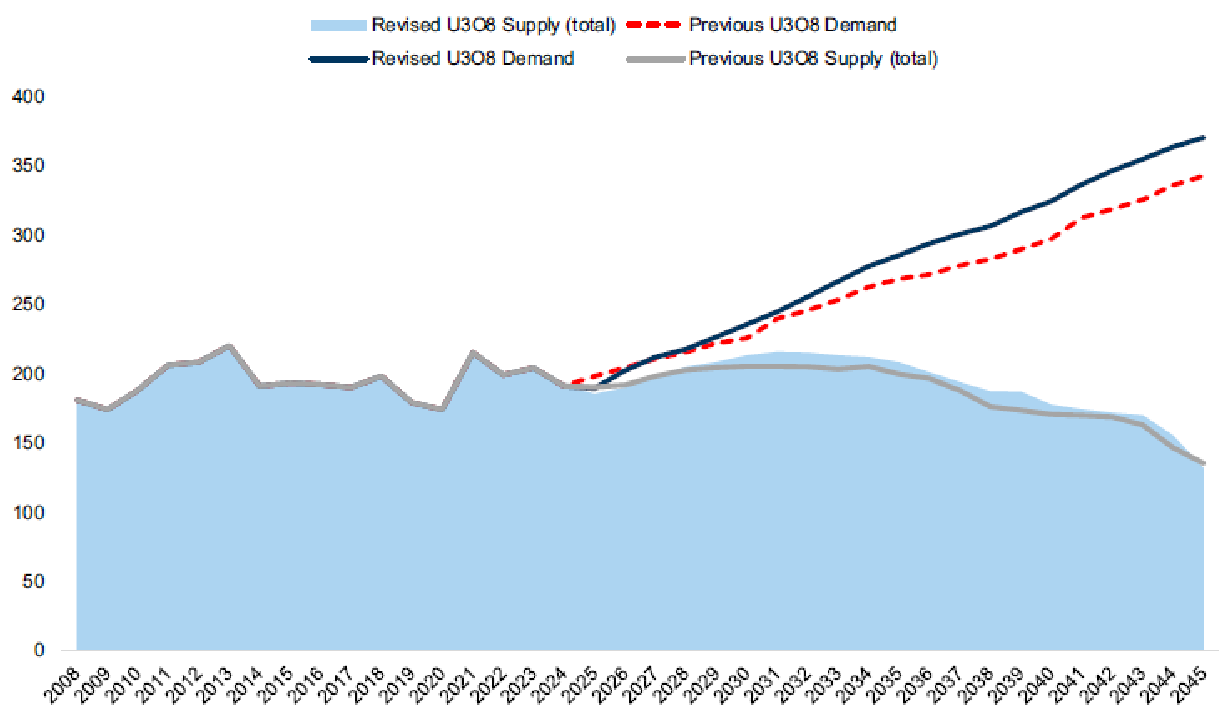


AI energy demand & LNG export capacity increases will tighten the supply-demand balance for natural gas and push prices higher.



On the energy side, the supply/demand imbalance remains extremely favorable for uranium in the coming years…

Exhibit 1: We revised our demand forecasts incrementally higher while adjusting production profiles for supply
U3O8 lbs



Source: Goldman Sachs Global Investment Research

Summary table of our views

PROBUS PLEION

Q1 2026 convictions table

		Least Attractive	*Neutral*	*Most Attractive*	*Comments*
Equity	US Equity		●		
	EU Equity			●	
	Swiss Equity		○	●	
	Japanese Equity			●	Stay long JPY
	Chinese Equity		●	○	
	Asian EM		●		
Fixed Income	Cash & Short term debt			●	duration 3-4 years
	US Long term debt	●			
	EU long term debt	●			
	DM High Yield	●			
	EM Debt (Local)			●	
	EM Debt (Hard)		●		
Alternatives	Precious Metals & Miners			●	
	Commodities			●	favor industrial metals
	REITs (EU + CH)		●		Positive in CH, negative in EU/US
	Hedge Funds		●		Favor Long-short
	Private Markets		●		Favor buy-outs (evergreen)

● Current View ○ Previous View

Forex					
EURUSD	EURCHF	EURGBP	USDCHF	USDJPY	GBPUSD
↑	↑	↑	↑	↓	→

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