

## Eyes Wide Open: vigilance and selectivity are paramount this year

- 2026 is “more of the same”, with less visibility, less upside potential, and much more speculation
- Last week’s crash in precious metals perfectly illustrates our line: constructive, but vigilant and selective
- We officially launch our 2026 Global Investment Outlook and start our road show this week in Dubai



Last week’s returns don’t pay justice to the extreme volatility that hit when it became obvious, and then official, that the next Fed Chairman will be Mr Kevin Warsh. Interestingly, US Treasury yields didn’t materially move from one week to another and to some extent stock markets also were well behaved. The dollar, by contrast, rebounded and the moves in previous metals were historically extreme: around -10% and -25% from recent peaks respectively for gold and for silver.

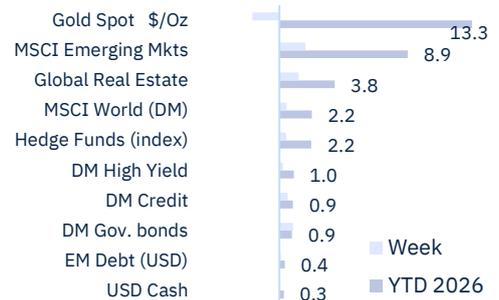
Indeed, Mr Warsh’s history as a former Fed governor shows that he is not the most dovish choice. He famously disagreed with quantitative easing and repeatedly said the Fed should focus on inflation rather than supporting the economy at all costs, through balance-sheet expansion or “zero interest rates” for political reasons. He is closer to Milton Friedman than to Keynes. Does it mean we won’t have rate cuts? Certainly not. He regularly highlighted the disinflationary power of artificial intelligence on many important segments of the US economy, he has an extremely relevant experience and a very consistent track-record. He’s a nominee that scores high in credibility: the next rate cuts will happen for good reasons.

Back to markets. Gold crashing 10% in one hour is ridiculous, but not much more ridiculous than its previous parabolic 25% rise in less than a month. The same applies to speculative areas of the stock market: Microsoft had a disappointing quarter, but losing \$370bn of market cap looks disproportionate. Meta was strong, but did it deserve a +10% instant gain?

This is what markets are like in 2026, where extreme positioning and relentless speculation meets uncertainty. We remain constructive for the year but highlight vigilance, selectivity, and confidence, around our reshuffled strategic allocations.

The week ahead will provide important macro data (PMIs, US job report), central bank meetings, and corporate earnings, as well as our 2026 Global Outlook publication and roadshows.

Asset Classes USD % total. Return, December and 2025



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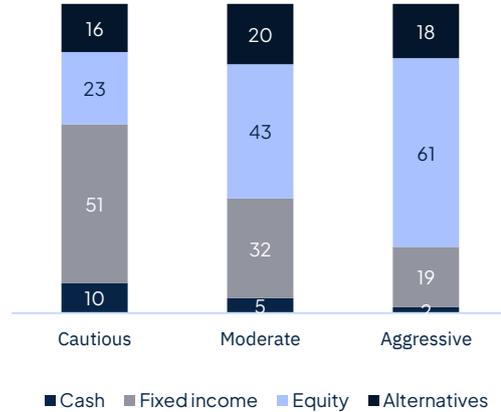
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### Cross-asset Update

The real deal for the week was President Trump’s nomination of Kevin Warsh for the role of Fed chair. He is known to be strongly against Quantitative Easing, though he is obviously in line with Donald Trump about the need for rate cuts. Inflation would not be a concern for Warsh, as he holds the view that a high-growth economy would not be producing inflation with rising productivity, as it is currently the case. This echoes Greenspan’s stance in the 90s, when he embarked on a prolonged easing cycle for similar reasons. Would the Greenspan put become the Warsh put? This time is different, as we must factor in QE. We could picture aggressive rate cuts once he is in office, though some restraining action on Quantitative Easing. The latter is what markets fear the most. In the absence of direct liquidity injections risk premia would have to rise reflecting tighter financial conditions. In simpler terms, risk assets would have to fall to display less lofty valuations. This was best reflected by the sharp rise of the US dollar (+0.7%) on Friday, and the continued fall in Bitcoin’s price during the weekend that saw the cryptocurrency settle below 80,000. Precious metals were also thrown in disarray, with gold tumbling 9% and silver crashing 26% on Friday. Also, taking no QE and multiple rate cuts at face value, long-duration assets would be struggling, from IT megacaps to long-dated bonds. Investors would be favoring deep value stocks, whose cash flows are produced here and now, rather than in a distant future. Now, this is the starting point, but we must factor in Warsh’s constraints. All past repeated attempts at reversing QE entirely failed as the plumbing of the US monetary system started to be under strain. Also, no QE could bring about much more muted market action, affecting tax revenue from capital gains, that at the margin becomes relevant given the debt load. In the next few months markets may be discounting a more hawkish Fed, though the final outcome may end up being far from that.

Will the rally in commodities and the related materials stocks be halted? After all commodities like low real rates and Friday’s market action in that space was far from comforting. That’s likely in the interim. But looking ahead, hard assets will continue to be driven by key economic forces, that is the global investment cycle underlying both the building out of data centers and the arms race. The demand for materials remains unabated, so weakness would be a buying opportunity, for a key commodity like copper, and for global resources stocks. For gold the main driver remains linked to the huge debt loads in the West. Unless many countries start to put their house in order, demand for gold and the related de-dollarisation will continue. And, as already mentioned, Warsh’s leeway is fraught with constraints. We should not be rushing to conclusions.

### Tactical Asset Allocation: Simplified Positioning



### TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash		=	
DM Gov.		=	
DM Credit	<		
DM H. Yield		=	
EM Debt			>
DM Equity	<		
EM Equity			>>
Gold			>
Hedge Funds	<<		
Real Estate		=	

## Fixed Income Update

January FOMC meeting was calm and did not surprise markets. Interest rates were kept unchanged, as expected, and the Fed only made small changes to its statement. Chair Powell said the economy is still growing at a healthy pace, the job market is no longer overheating, and inflation continues to move in the right direction. He did not commit to any timeline for rate cuts and repeated that decisions will depend on future data. Markets quickly moved past the meeting because there was no strong signal or change in tone. Overall, the FOMC confirmed that policy is on hold and that the Fed is comfortable waiting before making its next move.

The key event of the week was President Trump's decision to nominate Kevin Warsh as the next Fed Chair. Markets reacted strongly because Warsh is known to be against quantitative easing and large liquidity injections. After the announcement, the US dollar strengthened, precious metals fell sharply, and volatility increased across markets. Even though Warsh supports rate cuts in a strong economy, investors focused more on the risk that the Fed may be less willing to support markets through liquidity tools. Between Thursday and Friday, the market priced in around 0.2 additional rate cuts for 2026.

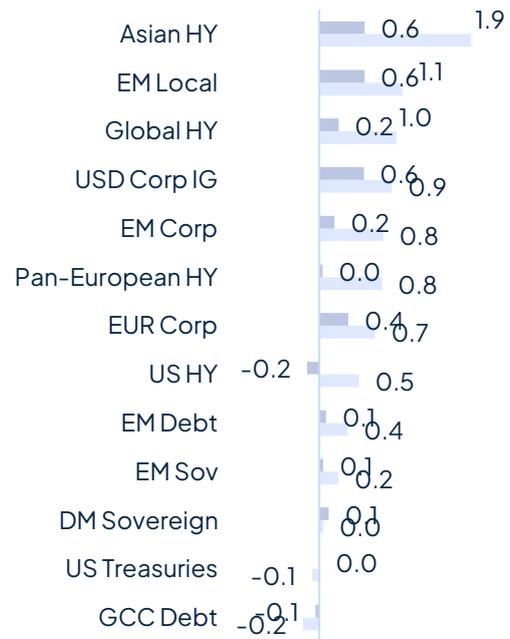
US Treasury yields were mostly stable last week, despite high volatility across markets. The yield curve moved only modestly overall, but it steepened on the week, with a clearer twist steepening on Friday following news about the next Fed Chair. Shorter-dated yields declined, with 2- and 5-year yields falling by around 8bps and 4bps, while longer-dated yields edged higher, with 10- and 30-year yields rising by around 1bp and 4bps. The 10-year Treasury yield ended the week around the 4.2% level, close to where it started. Overall, government bond markets remained relatively calm and continued to act as a stabilising part of the market during a very noisy week.

Credit markets remained resilient despite higher volatility in other asset classes. Investment-grade spreads were broadly stable, supported by limited moves in US Treasury yields and steady demand for high-quality issuers. Investors continued to favour short- and medium-term bonds, where carry remains attractive with lower interest-rate risk. High-yield credit came under some pressure. Spreads widened by around 5 basis points, reflecting weaker risk sentiment toward the end of the week, a stronger US dollar, and concerns about liquidity following the Fed Chair nomination. Even so, the move was contained and there were no signs of stress or forced selling. Emerging market credit remained relatively resilient despite higher volatility across global markets. Performance earlier in the week was supported by stable US Treasury yields and selective risk-taking. Toward the end of the week, sentiment became more cautious as the US dollar strengthened and volatility increased. Bloomberg EM index spread widened by around 3 basis points between Wednesday and Friday.

## Fixed Income Key Convictions

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

## Fixed Income Sub Asset Class Returns (US\$ TR, YTD, December)



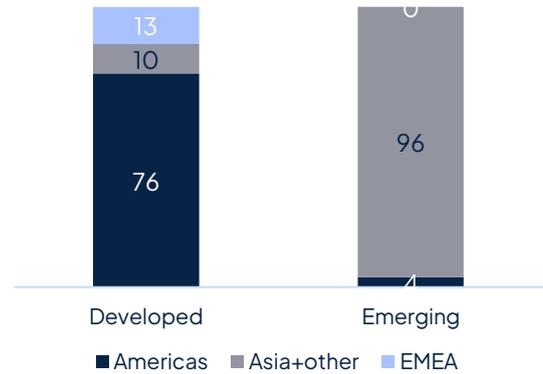
### Equity Update

Global equity markets finished the week higher, but the gains came with a clear shift in tone as earnings releases began to redraw leadership across markets. At the index level, moves looked orderly, with the MSCI ACWI up 0.7%, developed markets higher by 0.5%, and emerging markets outperforming with a 1.8% rise. In the U.S., the S&P 500 rose 0.4%, that masked sharp dispersion driven by earnings reactions. With roughly 33% of S&P 500 companies having reported so far, blended Q4 earnings growth stands at 11.9%, well ahead of expectations coming into the season of around 8.4%. That upside has supported broader indices, but markets have become increasingly selective, reacting quickly to the balance between growth, margins, and capital spending. Megacap technology dominated the week. Microsoft delivered the most disruptive move, with shares falling roughly 10% after results showed slower cloud growth alongside another increase in capital spending, prompting markets to question how long AI investment will continue to pressure margins before returns become visible. Meta moved sharply in the opposite direction, with shares jumping 10.4% after reporting accelerating advertising revenue and clear evidence that AI-driven recommendation systems are already supporting earnings, allowing markets to absorb higher expense and capex guidance. Apple reported strong quarterly results driven by iPhone demand and services growth, but the stock was little changed on the week as management highlighted rising component costs, particularly memory, as a near-term margin headwind. Tesla added further volatility, with shares reacting unevenly after reporting its first annual revenue decline and outlining another major increase in spending tied to AI, robotics, and in-house chip development, before finishing the week roughly 4% lower.

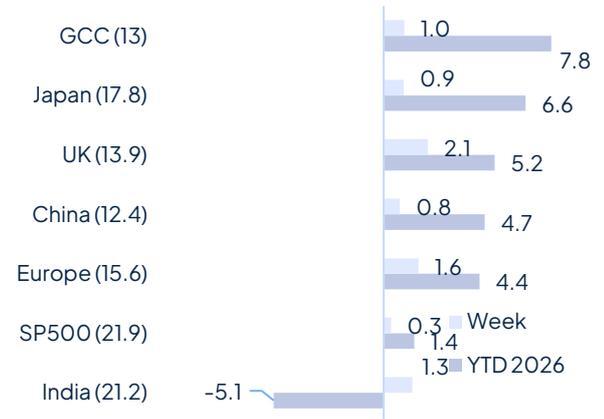
European equities participated in the global advance, with the MSCI Europe Index up 0.4%, but performance remained narrow and earnings driven. Luxury stocks weighed on the region, particularly in France, where LVMH extended its decline after weak holiday sales and cautious demand commentary. Semiconductor-linked names remained active, with ASML initially rising on strong AI-related demand before giving back gains following announcements of jobs cuts aimed at protecting efficiency as operations scale. Defense stocks, which had rallied earlier during heightened geopolitical tension, moved lower as near-term risks faded and some positions were unwound. China delivered one of the stronger regional performances, with the MSCI China Index up 0.9%, supported by sharp moves in selected sectors rather than broad-based buying. Property stocks rallied after reports of looser enforcement around leverage rules, triggering short covering in heavily discounted developers, while technology stocks found support, particularly in Hong Kong, as markets rotated in Chinese equities. Mainland equities were steadier, reinforcing the selective nature of the rebound. Japan moved in the opposite direction, with the TOPIX down 1.7% for the week. Equity performance was pressured by a stronger yen and renewed volatility in Japanese government bonds, which weighed on exporters and financials.

By the end of the week, the equity message was clear. Markets are no longer trading the Mag 7 as a single theme, and AI is no longer a promise. Earnings delivery, margins, and capital discipline are now deciding who gets rewarded and who gets repriced.

### Equity Recommended Regional Positioning

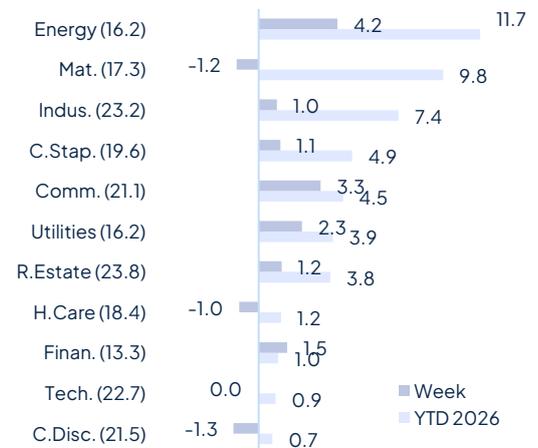


### Major Indices Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

### Global Sector Performance (TR, US\$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US\$.

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