

Getting used to volatility...

- Last week showed volatility and differentiation, two features we have to get used to in 2026
- Concerns on both returns on AI investments, and the consequences of AI productivity, shakes the tech world
- Our positioning remains fully invested and our profiles are behaving well so far this year

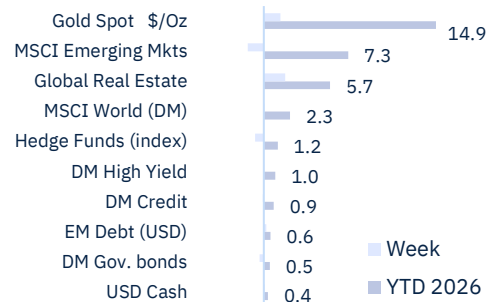


Our 2026 Global Investment Outlook, titled “Eyes Wide Open”, highlights vigilance and selectivity for the current ahead. Vigilance is about the need for a robust, highly diversified asset allocation, which will also have to be active as we expect significant volatility and rotations throughout the year. To some extent, it is carrying over from 2025: shifting geopolitics and new technologies continue to transform the world, while current indicators of activity and inflation continue to point to a constructive backdrop. There are however differences, which are not particularly favourable. Macro visibility is lower, valuations are richer, and investor positioning leaves less margin of safety. Our reshuffled strategic allocations have been adjusted to a changing world, with more emerging markets and more real assets, including gold. Still, this is not a year to be tactically complacent.

Selectivity also matters, probably more than last year. Not all companies, projects, or even countries will win. Shifting geopolitics have economic and financial impact, typically on currencies. Today’s landslide electoral victory of Japan’s LDP party, for example, will have market consequences. Another great example is the tech sector, once considered as relatively homogeneous. Not anymore. On the one hand, markets have renewed concerns about the massive spending from AI hyperscalers. On the other, the productivity gains from AI are questioning the business models of many established companies, typically in software. Seeing these two concerns at the same time is a bit paradoxical, but it deeply impacts global equity markets.

The week ahead will provide more economic data, especially on US inflation and labor. Market action will also matter by itself, as the distinction between macro and micro is getting blurred, especially as technology is now both.

Asset Classes USD % total. Return, December and 2025



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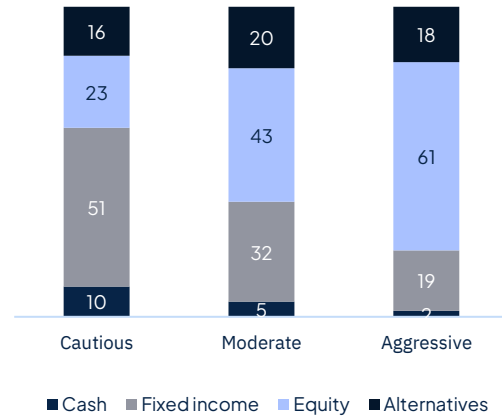
Cross-asset Update

Market and sector performance YTD confirm that the rotation from technology into the more cyclical pockets of the market is underway and gaining traction. Small caps, energy, materials, are all outperforming the S&P 500 by a large margin, alongside EM stocks. To understand where institutional money is going, we must first think about public money. And globally, public money is being invested more and more into basic-resource-related projects. The AI race and the arms race are both existential for supremacy, so the US Administration is very active in its attempts to secure access to critical materials. And public stakes in private companies are a case in point. MP Materials, a US rare-earth miner, and US Rare Earth, a rare-earth processor, saw the direct involvement of public money. Recently more progress on Project Vault was announced, whereby a critical minerals reserve was established, via a public-private partnership. The reserve can be accessed by the participating manufacturers that this way will be more insulated from supply-chain volatility, be it due to fluctuating pricing or geopolitical issues. Likewise, outside of the US economy the Venezuelan crisis can be explained as a successful attempt to secure access to more oil reserves, strengthening in the process the dollar system. The US has become the petrodollar system itself, with the United States controlling 30% of global oil reserves, that is shale, Guyana, and now Venezuela. And the quest for resources has gone global, in a sort of zero-sum game, as the Trump Administration has also managed to control Chinese access to Venezuelan heavy crude, that will pose a challenge for China.

Investing consequentially means biasing portfolios towards themes that are skewed towards the investment cycle: basic resources stocks, EM stocks, oil stocks. Also, industrials will continue to benefit as direct enablers of the new AI economy through the building of data centers. This represents quite a change from the past decade, that saw dollar-centric assets as the cornerstone of portfolios. As more countries increase domestic investments in the push towards self-sufficiency, savings will be divested, that in the case of Europe mainly signifies money allocated to US markets. IT megacaps would be the end-losers. They are at the confluence of many negative trends: their shift to a more asset-heavy model with massive AI capex, the shift from large to mid and small caps, the shift from growth to value, both more economy-sensitive themes, and last but not least the divestment from US assets. As this process gets into more advanced stages the dollar will tend to weaken, as overseas money tends to be less invested in US assets. A more asset-heavy economy marked by higher inflationary pressures has implications for the Treasury yield curve as well: it will steepen, most likely bear-steepen with rising longer-dated yields representing compensation for growing price pressures.

A paradigm shift is underway across asset classes. Investors should build forward-looking portfolios geared towards the changing times.

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

The US Treasury yield curve steepened last week as weaker jobs data pushed short-term yields down by 6–7 basis points. The Treasury’s latest refunding plan signals continued reliance on bills for unexpected financing, with bill offerings expected to remain steady through mid-March. Net bill issuance is projected at \$175 billion in Q1 and -\$290 billion in Q2, excluding Fed transactions according to Jefferies. Strong fiscal conditions and recent developments have reduced the need to increase coupon auction sizes, though future changes could arise from Supreme Court tariff rulings or shifts in Fed policy.

Chinese regulators have urged financial institutions to reduce their US Treasury holdings due to concerns about concentration risks and market volatility, though the directive excludes state holdings. Banks were told to limit purchases and decrease exposure if necessary; as of September, Chinese banks held \$298 billion in dollar-denominated bonds, though the exact proportion of Treasuries is unclear. While these holdings account for less than 1% of all outstanding US Treasuries and limit potential damage, continued volatility may affect investor sentiment.

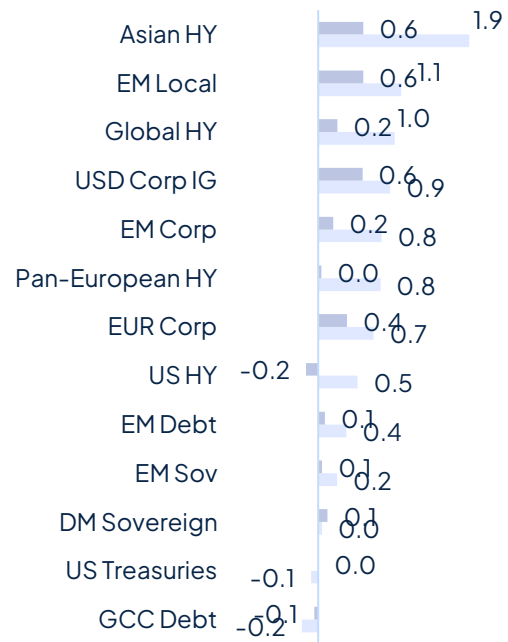
The IG index spread widened, with corporate Bloomberg index spreads increasing by 3 basis points. As noted in our Outlook 2026 publication, this widening has been primarily driven by concerns over increased debt issuance from AI hyperscalers; to date, only 10% of the expected issuance from this sector has materialized. US High Yield (HY) spreads also widened by 7 basis points. Default volumes reached a six-month low in January. According to JPMorgan, HY companies are currently surpassing estimates and issuing upward guidance, though these results remain well within historical ranges. For instance, 28% of High Yield companies have exceeded EBITDA expectations, compared to 21% that have fallen short, resulting in a ratio of 1.4x more companies beating than missing expectations.

Coming to EM Debt, Moody’s has revised the outlook on Indonesia’s sovereign rating to Negative from Stable and affirmed the rating at Baa2, citing increasing uncertainty in policymaking. The agency highlights that reduced policy predictability could weaken policy effectiveness and indicates deteriorating governance. If sustained, the trend could erode Indonesia’s long established policy credibility, which has supported solid economic growth and macroeconomic, fiscal and financial stability. The outlook action had limited impact on CDS. Following the sovereign action, outlook for other Indonesian issuers were also revised. While in Indian NBFC space, Power Finance Corporation (PFC) and REC Ltd announced the merger. It is a structural reorganization that does not materially alter the underlying business prospects and credit profile of any company. Both companies have stated the merged entity will remain a “Government company” and so there will be no change of control.

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

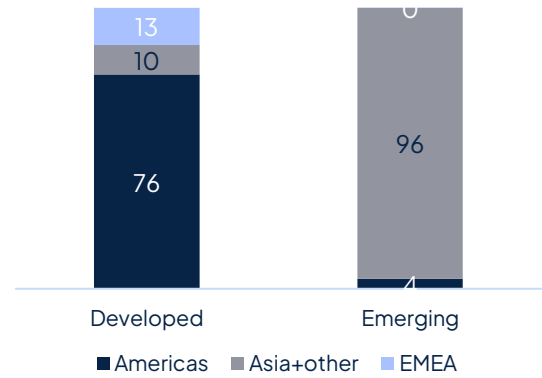
Last week felt far less like a market moving in a single direction and far more like a continuous adjustment taking place beneath the surface, where headline index moves failed to reflect how active things were at the stock and sector level. The MSCI ACWI was down just 0.1%, developed markets were effectively flat, and emerging markets fell 1.4%. Earnings season itself has been strong so far. Roughly 59% of S&P 500 companies have reported fourth-quarter results, blended earnings growth is running around 13% compared with expectations of about 8.9% at the start of the season, and 76% of companies have beaten EPS estimates, broadly in line with long-term averages. Despite that, markets clearly shifted their focus away from headline beats and toward the cost of delivering future growth, particularly in sectors where capital spending is accelerating. Alphabet outlined capital expenditure plans toward the upper end of a \$175–185bn range as it accelerates investment in data centres, chips, and AI infrastructure. Amazon followed with guidance implying roughly \$200bn in capex this year, largely tied to AI workloads at AWS, and although cloud growth improved and backlog expanded, investor focus stayed firmly on the lag between spending and returns.

European equities moved higher over the week, with the MSCI Europe Index rising 0.9%, supported more by rotation and relative valuation appeal than by broad risk-taking. Banks held up as earnings met expectations, industrial and healthcare names advanced on solid delivery, and energy stocks benefited from firmer price action. Luxury stocks remained a drag, particularly in France, where LVMH extended its decline amid continued weakness in China demand. Autos also underperformed after Stellantis warned it would take around €22bn in charges linked to the scaling back of EV production, effectively acknowledging slower-than-expected adoption. Defense stocks softened after earlier gains as positioning adjusted and near-term escalation risk faded.

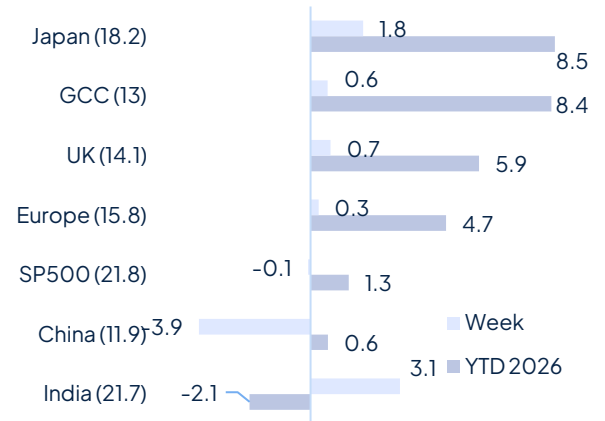
Across emerging markets, performance was dominated by China, where sentiment deteriorated again and weighed heavily on the broader EM complex. The MSCI China Index fell 3.8% on the week as selling accelerated in offshore-listed technology, consumer, and EV stocks. Regulatory uncertainty resurfaced, including discussion around higher taxes on high earners and renewed scrutiny of platform companies, which hit confidence quickly. BYD continued to weaken and has now erased more than \$60bn in market value from its peak as domestic demand softened following subsidy rollbacks. Property stocks remained highly volatile, with rallies repeatedly failing to hold as questions around funding conditions and policy credibility persisted. Mainland markets were somewhat steadier than Hong Kong but still finished the week lower overall. Japan stood out as one of the strongest-performing major equity markets. The TOPIX rose 3.7% as improving domestic political clarity reduced near-term uncertainty and supported risk appetite. Developments around Prime Minister Sanae Takaichi and the broader election backdrop reinforced expectations for fiscal support and policy continuity, prompting a rapid repricing of domestic equities.

This week features earnings from major crypto and trading platforms like Coinbase and Robinhood; consumer and staples names including McDonald's, Coca-Cola and Kraft Heinz; autos and EV players such as Ford and Rivian; internet and platform companies including Spotify and Shopify; travel and leisure names like Airbnb, Expedia and major hotel groups; and healthcare prints from companies such as CVS and Moderna.

Equity Recommended Regional Positioning

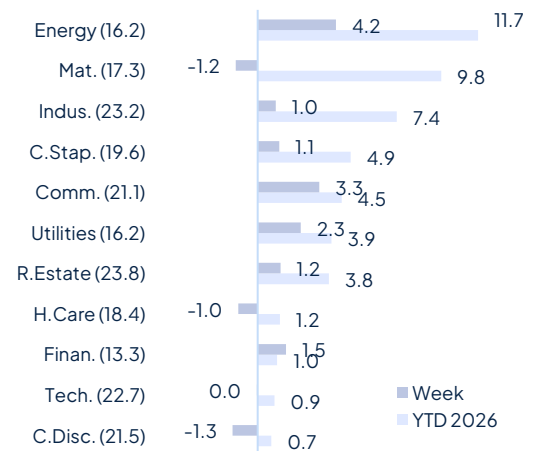


Major Indices Performance (TR, US\$), P/E in brackets



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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