

Short-term unpredictability, long-term visibility

- Geopolitical flare-ups, policy questions, corporate earnings and Japanese bonds sustained volatility last week
- Still, a spike in risk aversion didn't last. Financial assets were overall positive, once again led by gold
- Market moving events are unpredictable, but each of them confirms the new long-term big picture



A million things happened last week. It started with a spike in risk aversion on Greenland-related tariffs threats and rising concerns on Japan's debt. Tensions escalated in Davos before receding when President Trump renounced tariffs. Meanwhile, we had positive developments in the tech world, a verbal intervention from Japanese authorities, benign economic data, the start of the earnings season, geopolitical uncertainty in the Middle-East and in Ukraine, and political questions in Washington DC, where the Supreme Court could rule anytime on tariffs, where Democrats, revitalized by the Minneapolis events, are threatening a government shutdown, and where the future Fed chair could be nominated any day.

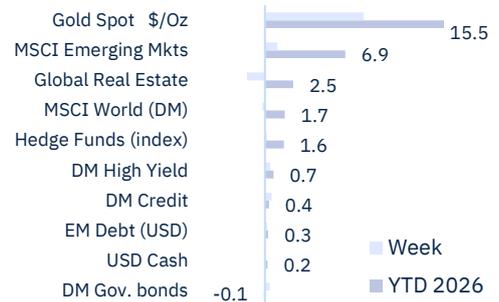
Markets went through this slew of events quite well. Crucially, the dollar index weakened -1.8%, which boosted returns for non-dollar denominated assets. Still, stocks were only slightly lower in developed regions and rose in emerging ones. The US Treasury yield curve was volatile but ended almost where it was the previous week, while Japan's 30-year government bond yield closed 25 basis points lower than its peak. The winner among major asset classes was once again gold, up more than 8% and above \$5,000 for the first time ever this Monday morning as we write. Oil prices gained.

We have two take-aways. First, the short-term is as unpredictable as ever with market-moving events happening potentially every hour. Second, the big picture is only confirmed: tech driven transformation, a race for critical resources, and a new global balance of power.

This is the reality we have reflected in our strategic allocation, which works fine (as well as our tactical overweight in gold and emerging markets). Our 2026 Global Investment Outlook is ready and will be released imminently with all details.

The week ahead is about a probably uneventful FOMC and tech earnings, and about all the surprises we don't expect. Have a great week.

Asset Classes USD % total. Return, December and 2025



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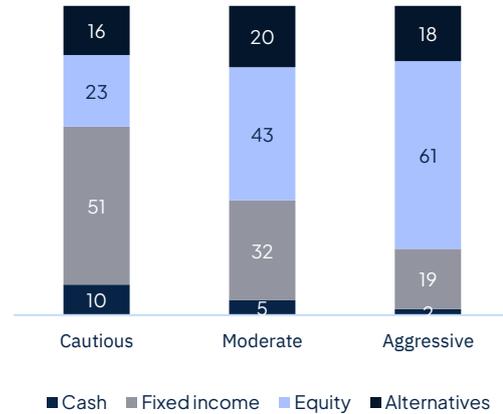
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Cross-asset Update

Times are changing, even in the public narratives shared daily by Bloomberg authors on the investment platform. Articles titled “An Emerging Market Supercycle has just begun”, and “Mining Stocks on Cusp of Supercycle ...”, both released in January, were unthinkable of just as of few months ago. Why isn’t Nvidia, or more in general AI, grabbing the headlines? Do we really want to commit much capital to the dirty, old economy? After all, mining and emerging markets represent so-called value trades, while growth as an investment style has paid off for years. That is the point. That is looking at markets with the rear-view mirror. Making money is about understanding lasting future trends without focusing too much on the past ones. And, if we are focused on the future, then we should acknowledge that there is currently heightened demand for basis resources, as the crises related to Venezuela and Greenland recently brought to the fore. Holding sway on Venezuela for the United States means controlling 30% of global oil reserves that include now Guyana and shale oil. And a tighter grip on Greenland ensures control on access to the Atlantic from the Arctic with the added cherry on the cake of vast underground resources. Commodities are the common denominator linking mining stocks and EM equities, both sensitive to global growth and in particular the manufacturing cycle. Let’s take the case of copper, the key industrial metal representative of commodity demand for manufacturing requirements. The three competitive sources of demand for the metal are the electrification of the economy via EVs, the building out of data centres, and rearmament. These are three resource-intensive shifts that are underway at the same time and globally. The commonly held view is that projects will be executed upon as required with little consideration for supply bottlenecks caused by decades of under-investments when focus was mainly on the new economy. In reality, this will hardly be the case. Supply constraints for materials in the presence of persistent demand will be a net positive for basic resources companies even as they become a headache for hyperscalers.

So, the new economy is bringing the old one to the fore and investors had better pay attention to avoid being caught unaware still betting on IT megacaps while the market shifts to rewarding the more cyclical companies. The capex and rearmament cycles that are underway will last for years to come and will bring about a very different investment landscape as compared to the past decade. Commodities are likely to outperform equities, within equities value would outperform growth, and emerging markets would be gaining more than their developed peers. In summary, investors should gear their portfolios towards the most cyclical and growth-sensitive pockets of the market, while underweighting dollar-centric assets. This is the message delivered by the large outperformance of gold versus the S&P 500 since last year: times of gold outperformance historically have coincided with the mentioned intermarket relationships.

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 yields were highly volatile as a combination of factors including geopolitical frictions over Greenland that resulted in the 10-year yield breaking through the 4.3% barrier on Tuesday. One report by Deutsche Bank raised eyebrows as it mentioned EU dumping US Treasuries en masse for retribution. However, this possibility was downplayed by Treasury Secretary Bessent as illogical. Since then, markets have calmed down slightly as various side discussions in Davos defused the situation. US Q3 GDP third estimate came in higher than consensus at 4.4%. Both Headline and Core PCE price index printed at 2.8% for November. Macro fundamentals support a rising yield scenario. However, on the short term, positioning data from JPM indicates bullishness 2 standard deviations below the one-year average and this has typically meant short term rally in Treasuries. We expect the Fed to not spring any surprises this week and stay on hold.

BoJ met last week leaving policy rates unchanged as expected. Governor Ueda addressed the rates volatility issue without specifying intervention tools. The long-end JGBs had increased by 40 bps prior to the meeting on account of snap elections and the proposed two-year suspension of consumption tax on food. With inflation anchored and higher rates volatility aligning with BoJ tightening aims, multi-year path for JGBs remain higher. Given robust growth, a strong labour market, and above-target inflation, the BoJ may need to hike rates sooner. JGBs remain unattractive, facing risks from both faster hikes and underperformance versus higher-yielding peers. Stay underweight.

Investment Grade bond spreads compressed again reaching 68 bps. Demand has been very strong and issuance activity was light driving spreads tighter. JPM indicates that February may see a dampener in passive inflow as a result of lower maturities and less coupon inflows. High yield bond spreads tightened as well but trade near their median. Labour market data is not indicative of further weakness and strong macro data favours tight spreads at least for now. This trend was seen in the Emerging Markets as well with Bloomberg EM index spreads touching 169bps. Deals in the GCC primary bond market for the week include Aramco multi tranche bond offering as well as Bahrain 8-year sukuk and 12-year bond issuance.

Adani bonds were the focus of volatility last week. The U.S. Securities and Exchange Commission (SEC) has asked for permission from a U.S. District Judge to use alternative methods—such as email and service through U.S.-based legal counsel—to deliver legal summonses to Mr. Gautam Adani and Mr. Sagar Adani in connection with its alleged bribery case. This request follows more than a year of unsuccessful attempts. Following this, Adani bonds maturing in 2029 and 2031 declined by around 0.5% and 1.0%, respectively with a marginal impact on 2027 bond of 0.1%. While this overhang remains, we maintain a neutral stance and remain comfortable with Adani's credit profile, supported by improved revenues (TTM ending Sep 2025 - \$4Bn +11% YoY), stable credit metrics with net debt/EBITDA at 2.2x and interest coverage of 6.6x, and access to diversified funding sources.

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)



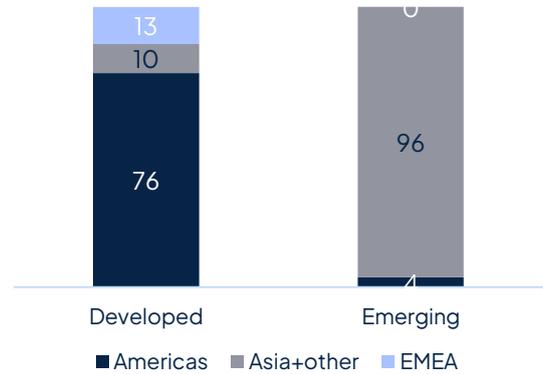
Equity Update

Global equity markets ended the week little changed at the headline level, but the journey there was far from quiet, with trading increasingly driven by stock-specific developments rather than broad index moves. Early in the week, equities were pressured as renewed U.S.-Europe trade rhetoric tied to Greenland resurfaced and pushed investors to reduce exposure, particularly in export-sensitive regions and sectors. That pressure faded as the days went by and geopolitical headlines deescalated and eased its grip on markets, allowing earnings and guidance to take over as the dominant drivers of price action. By Friday, the MSCI ACWI was down just 0.1%, with developed markets lower by 0.2% and emerging markets higher by 1.1%, a contained outcome that masked sharp moves beneath the surface. U.S. equities finished modestly lower, with the S&P 500 down 0.3%, marking its first two-week decline since June. Earnings delivered most of the meaningful price action. Netflix moved lower after reporting results that highlighted higher content spending and margin pressure tied to licensing and distribution changes. While subscriber growth remained intact, the stock was negative impacted as investors focused on cost trends rather than top-line momentum. Intel then delivered the biggest negative surprise of the week, with shares plunging 17% on Friday after the company issued weaker-than-expected first-quarter guidance. Gross margin expectations dropped into the mid-30% range, and management acknowledged that manufacturing yields remain below internal targets, while also confirming that an anchor customer for its most advanced manufacturing process has yet to be secured. The selloff quickly spread to semiconductor-linked stocks late in the week, particularly suppliers tied to Intel's production roadmap, resetting expectations around execution risk across the space.

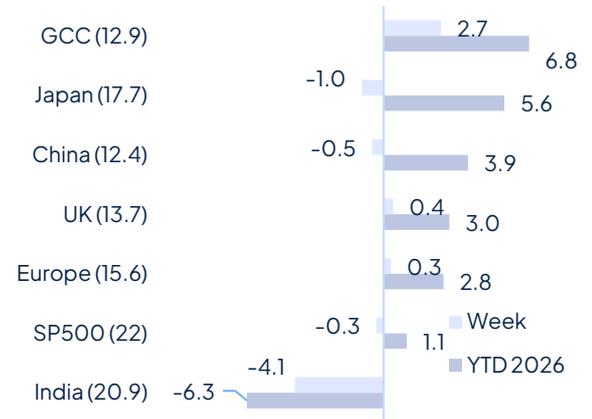
As the week drew to a close, U.S. equities traded cautiously as attention shifted firmly to what lies ahead. Next week is a major test, with Microsoft, Apple, Meta, Amazon, and Tesla all set to report. Expectations are elevated after the strong run in technology stocks, but tolerance for disappointment appears limited. Markets are focused squarely on margins and capital spending, as well as any signs that heavy AI-related investment would begin to show up in earnings rather than continuing to pressure costs.

European equities also struggled, with the MSCI Europe Index falling 1.1% and snapping a five-week winning streak. Defense stocks, which had rallied earlier in the month during heightened geopolitical tension, reversed sharply as the tone around Greenland cooled and immediate escalation risks faded. China ended the week lower, with the MSCI China Index down 0.6%, as selling was concentrated in offshore-listed technology stocks following regulatory headlines around tighter oversight and listing rules. Japanese equities also finished the week lower, with the TOPIX down 0.8%, as equity performance was closely tied to renewed volatility in the domestic bond market. Early in the week, selling pressure in Japanese government bonds, particularly at the long end, pushed yields sharply higher and weighed heavily on banks and insurers, as concerns around fiscal policy, election-related spending proposals, and increased debt issuance fed into balance-sheet sensitivity. Conditions improved later after the Bank of Japan held policy steady, helping stabilize bond markets. Elsewhere in Asia, the tone improved into the end of the week, with Korean equities pushing to fresh record highs led by technology stocks, while Taiwan rebounded as attention returned to earnings tied to semiconductor demand.

Equity Recommended Regional Positioning

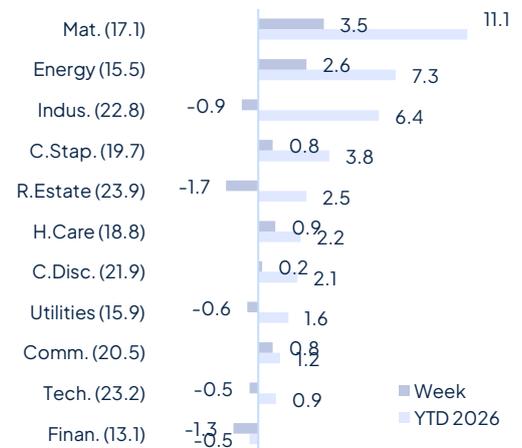


Major Indices Performance (TR, US\$), P/E in brackets



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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