

A mixed start to December, waiting for the Fed

- After an extremely volatile though overall positive November, December starts with no clear direction
- The week ahead will be all about the Fed and a few other central banks as the year comes to an end
- Our positioning has worked extremely well so far, we are working on our 2026 Outlook.



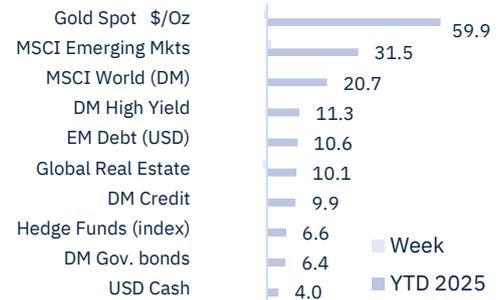
Last week was not particularly remarkable on global markets, despite a significant wave of economic data. The latter didn't materially change the market's current perception of the backdrop. Global PMIs for November continued to paint a constructive picture. Services are in expansion everywhere, and there is no dramatic concern in manufacturing activity. This means that the global economy continues to be a bit more than just resilient, running slightly above its recent trend.

The US government shutdown is over, though it still impacts the release of official data. The PCE inflation revealed last week was for September, thus a bit outdated, and anyway in line with expectations. There was no NFP job report, so the less impactful ADP was all we had for November, and it showed enough tepidness (with job destructions) to comfort expectations for the Fed to cut interest rates next week, despite a notable drop in jobless claims last week.

The Fed's last policy meeting of the year, which will conclude Wednesday, feels like the last key event of a tumultuous yet so far extremely positive year for investments. Future markets are allocating a 90% probability for a 25 basis points cut in December, which is also our (long held) scenario. From there, uncertainty prevails: will the economy continue to defy gravity and bring back the threat of inflation, or will the weak job market start to take a toll on consumption? When will President Trump announce the next Fed chair, and how dovish can he be?

These are some the questions we thoughtfully ask ourselves as we prepare our 2026 Global Investment Outlook. We are sometimes asked why we always release it in January and not in November like most of our competitors. The reason: we wait for the year to end so that we can transparently report on our performances (good and bad, so far 2025 is actually very good) and start from a clean page that includes the year's latest developments. We will also hold our monthly investment committee this Tuesday, Have a great week.

Asset Classes USD % total. Return, Week and YTD 2025



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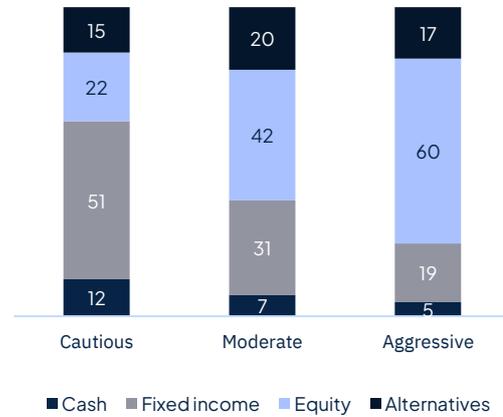
Cross-asset Update

Markets have continued to show exuberance in the back of the AI trade by climbing a wall of worry based on a longer and longer laundry-list of perceived risks. Indeed, there is not much to be excited about the U.S. economy apart from the massive AI investments. Retail sales remain weak, income growth is slowing, and consumer confidence lingers at multi year lows. Also, the housing market is not faring any better showing one if its weakest years if we exclude the GFC. Yet, there are signs that we could be nearing a turning point that would be justifying the current exuberance. High hopes are pinned on the One Big Beautiful Bill that starting Jan 1 allows businesses to immediately deduct capital expenses, that is investments in equipment and R&D. This is a tailwind for 2026, pointing to a capex cycle extending across the economic spectrum, so well beyond AI. While the US economy is usually led by a consumer cycle, investment-led activity would strongly support economic growth and favor the most cyclical pockets of the market. This may be why some survey-based leading indicators are suggesting that non-residential capital expenditure is at a positive inflection point. The same holds for payrolls, based on a different set of survey-based indicators. The sore point is that the manufacturing sector is not playing ball, nor are longer-dated Treasury yields. Actually, US manufacturing showed some signs of deterioration as per the latest ISM report while remaining stuck in contraction territory. And since the House approved the OBBB the yield on the 10-year note has shifted lower, not a sign of confidence from the fixed income market about stronger growth to come.

Another source of uncertainty stems from Fed's policy. While consensus is projecting multiple rate cuts in 2026 in keeping with ongoing pressures from the White House, easing may be more back-end loaded in the year than currently expected. If the economy remains resilient, chair Powell may well decide to stay on hold while waiting to pass the baton to his successor in May 2026. The ensuing uncertainty would then require a more hawkish repricing of monetary bets.

For now, markets are showing some initial evidence that investors are taking higher chances of a new capex cycle seriously. Commodities broke out higher getting out of the range they have been boxed in throughout 2024, and cyclical stocks have already rallied versus their defensive peers, possibly anticipating improvements in manufacturing activity. It will be important for the continuation of the current rally that the goods sector, so far mired in a sluggish phase, picks up for real. This is the biggest question mark for next year: will manufacturing be finally supporting the global economy taking the lead from services? Global stocks and in particular EM equities would otherwise not be able to prolong their stretch of outperformance versus the US market, while at the same time AI fatigue would be setting in.

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

Last Friday's PCE data matched economists' forecasts. The core personal consumption expenditures price index, which excludes food and energy, increased by 0.2% in September—marking the third consecutive month of such a rise in the Fed's preferred core index. This keeps the annual rate just below 3%, indicating that inflation is steady but remains persistent. This week is packed with key central bank decisions, including the Federal Reserve's. The market has already fully priced in a 25bps rate cut from the Fed. Investors will closely examine Chairman Powell's comments to determine if this cut reflects a hawkish stance. Meanwhile, economists anticipate that the Bank of Canada, Swiss National Bank, and Reserve Bank of Australia will maintain their current policy rates. The US Treasury will hold auctions for \$58 billion in new 3-year notes, along with reopenings of \$39 billion in 10-year and \$22 billion in 30-year bonds on Tuesday and Thursday.

S&P Global Ratings Credit Research & Insights expects the global trailing-12-month speculative-grade corporate default rate to be 3.7% by September 2026, from 3.5% in September 2025. This forecast incorporates slight declines in default rates for the U.S. and Europe and a rising default rate for Asia-Pacific. The count of defaults has been falling for the last two years, but the proportion of distressed exchanges has hit another all-time high in 2025, at 55% as of Oct. 31, 2025. According to JPM, the recovery rates of Distressed exchanges are 50%+. Although distressed exchanges result in much higher recoveries than other forms of default do, they often lead to subsequent defaults within a year or two.

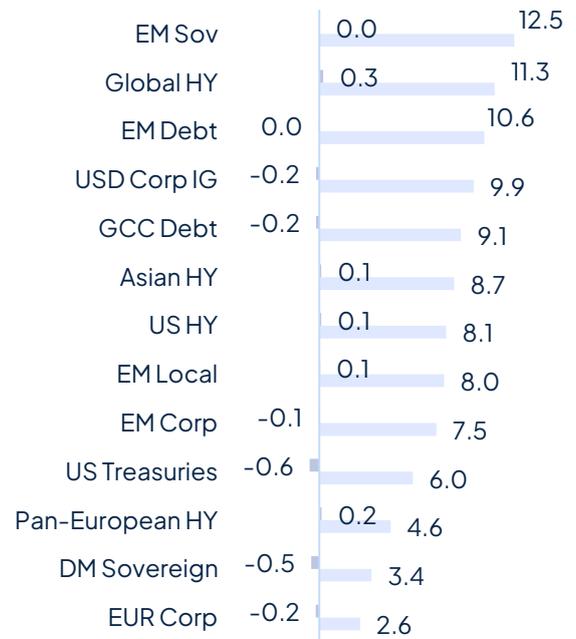
Spreads remained range bound across credit segments last week. IG credit OAS spreads traded in a tight range of 2bps and the Bloomberg Credit Agg index generated 0.06% return. Bloomberg HY spreads index compressed and currently trades at 289bps. HY outperformed IG generating 0.3% weekly returns. EM Debt had a decent week with 0.14% returns as spreads remained tight at 178bps.

2025 supply of GCC debt broke a new record with more than \$140bn issuance. KSA dominated the issuance volumes with around \$64bn new bonds issued, followed by the UAE at around \$37bn. GCC debt supply is expected to be slightly lower with 2026 KSA budget forecasting a slimmer budget deficit at 3.3%. However, opportunities will be there in 2026 as we expect KSA banks to lead the issuance wagon to shore up their capital. Separately, the Government of the Emirate of Sharjah rated BBB- (negative) by S&P, has today announced an auction mandate to issue up to AED 1.25bn, 7.5-year sukuk.

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, Last Week)



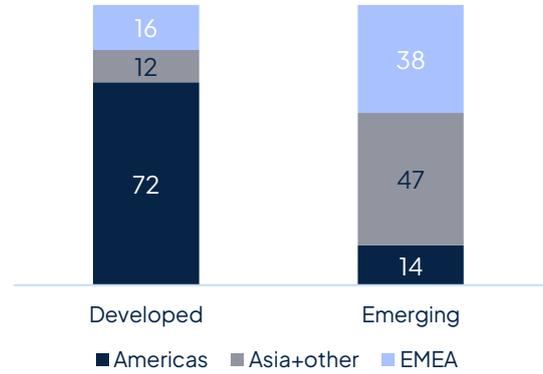
Equity Update

The first week of December opened with a sense of measured confidence across global markets, as equities added to their recent gains and leadership broadened as a wider cast of contributors finally began to pull their weight. By the end of the week, the MSCI ACWI had risen 0.6%, supported by 0.5% gains across developed markets and a stronger 1.4% rise in emerging markets. The S&P 500 advanced 0.4% as the final stages of the third quarter reporting season reinforced the equity story. Actual earnings growth tracks near 13.4%, almost double the 7.9% expected at the start of the season. Notable movements include Meta, which gained 3.9% rotating capital away from its Metaverse ambitions to prioritize AI infrastructure. Netflix lagged sharply with a 6.8% decline as potential consolidation in streaming raised competitive questions. Breadth improved modestly across the index, and attention now turns to Broadcom and Oracle, which report this week and close out the final major technology earnings of the year.

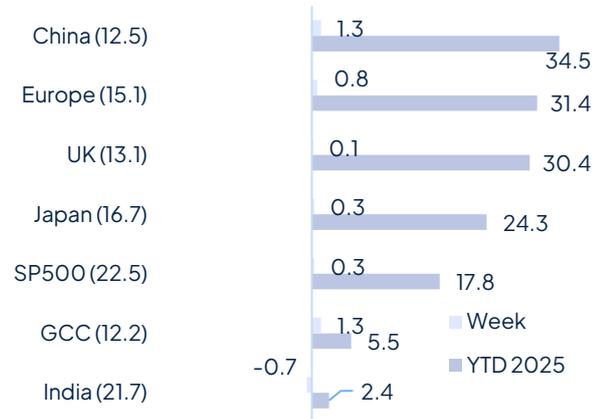
Within Europe, the MSCI Europe rose 0.4%, though the standout features were structural. Smaller markets such as Hungary, Slovenia and the Czech Republic now rank among the world's strongest performers year to date with gains above 60% in dollar terms. Germany has advanced about 20% in euros, equivalent to 34% in dollar terms, putting it far ahead of most major global benchmarks and positioning Europe for one of its strongest relative performances versus the US since the mid-2000s. Within sectors, autos remained a highlight. Mercedes and Renault rose 5.9% and 7.9% for the week as the sector continued its recovery from what increasingly appears to have been a valuation and sentiment bottom earlier in the autumn. Margin visibility has improved, and order trends have stabilized. China's equity markets continued to stabilize, with the MSCI China and CSI 300 both up 1.3%. AI-linked names led as domestic chip production plans expanded, and local model development progressed. Internet, cloud and selected consumer names extended their rebound, although some of the momentum faded into end of week profit taking. Japan moved lower, with the Topix down 0.5%, but a more interesting rotation played out beneath the surface. Banks have begun to outshine semiconductors as expectations build that the Bank of Japan could lift rates at the upcoming meeting. The MSCI Japan Financials Index has gained nearly 9% over the past month, significantly outperforming the semiconductor complex, which has lost almost 7% over the same period. Equity flows have shifted accordingly, reflecting a view that higher domestic rates would materially improve bank earnings power while taking some of the speculative excess out of Japan's AI related hardware names. A firmer yen added incremental pressure to exporters, and semiconductors retreated in line with weakness across the region.

The main equity themes remain intact, yet the supporting cast continues to expand. Seasonal dynamics become more relevant as December typically offers a steady bias toward positive performance across major indices such as the S&P 50. Firmer early month momentum and the proximity of the Federal Reserve meeting have historically influenced year end trading patterns. While conditions are in place for a potential Santa Claus Rally, valuations remain elevated, and markets stay sensitive to surprises. Seasonality can support ongoing trends, but it never substitutes for fundamental assessment or risk management. With the new week beginning, equities approach the Fed decision on firmer footing and with a broader distribution of leadership than they held earlier in the quarter.

Equity Recommended Regional Positioning

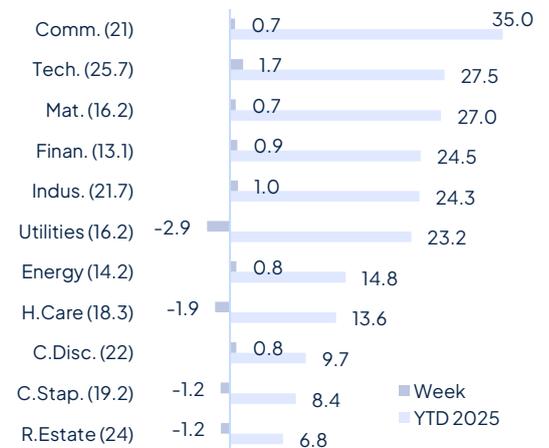


Major Indices Performance (TR, US\$), P/E in brackets



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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