PKB

The House View

Investment Strategy

December 2025 (18.12.2025)

Contents

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Market Overview

Market Overview

Markets remain noisy but resilient. Global growth is slowing without breaking, inflation is easing, and recession risks look low. Rate cuts will be limited, so patience matters. Equities still make sense, but selectivity is key. We favor Value equities and just reduced Japanese equities. We stay cautious on bond duration and keep gold as a stabilizer.

“Markets, like Christmas dinners, look calm on the surface—but the real work happens in the kitchen”. That feels particularly fitting as we head into year-end with plenty of noise, but fewer reasons to panic.

The global economy is slowing, no doubt about it, but it’s far from breaking. Outside a handful of European exceptions, growth is cooling almost everywhere. China remains the main wildcard as the domestic economy is clearly struggling but talk of a hard landing remains widely overdone. A global recession looks extremely unlikely. This is more of a soft landing—bumpy, uncomfortable, but manageable. Inflation is also losing momentum. Switzerland remains sticky but not accelerating, the US may see some noise early next year, and China’s figures are distorted by low base effects. Overall, the direction is clear: inflation is easing, just not in a straight line. When we mention “inflation”, Central banks pop to mind and that’s when trouble starts. Predicting rate moves is an exercise in humility, especially in the US. Markets are pricing multiple cuts, but the more realistic scenario is one cut in the next six months. In Europe, one or no cut seems plausible. This is a period where patience matters more than precision. Fiscal policy provides a more constructive backdrop. Globally, it remains accommodative. Emerging markets still have room to act, while developed markets mostly rely on political will. Germany stands out as a potential positive surprise, with frontloaded spending on infrastructure and defense.

The biggest risks are not the traditional ones. Ukraine negotiations may continue to drag on (lately with a positive turn…), AI monetization remains uncertain, and next year’s AI capex could disappoint meaningfully. In the US, a Supreme Court ruling could introduce policy uncertainty, tariff refunds, lower inflation, and a more dovish Fed—while worsening the fiscal picture and steepening the yield curve further.

Against this backdrop, equities still make sense. Earnings growth remains solid, particularly in the US and emerging markets. Margins are high, balance sheets are strong, cash flows are healthy, and momentum is still supportive. That said, after more than three years of rising markets, this is no longer a beta game. Selectivity matters, and markets themselves have been signaling that since early November. Valuations are elevated almost everywhere, with a few notable exceptions. Emerging markets—and China in particular—look cheap, but macro data remain bumpy. The Eurozone, Switzerland, and the UK appear fairly valued, though political uncertainty continues to weigh there. Japanese equities have delivered impressive performance, but slower earnings growth, tighter monetary conditions, and stretched valuations justify taking some profits. At the same time, the valuation gap between “value” and “momentum” has widened significantly, prompting an increase in more conservative sectors, funded partly by trimming Japan.

In fixed income, credit spreads have tightened sharply, but investment-grade and high-yield bonds still offer attractive carry. We remain invested across USD credit, convertibles, and emerging market bonds. Government bonds require more caution: shorter duration makes sense, particularly with a steeper US yield curve and German 10-year yields gravitating toward 3%.

In currencies, the dollar looks weaker against the Swiss franc and the euro, with EUR/CHF potentially appreciating further. Gold stays at strategic weight. Trading at all-time highs, it remains a core portfolio stabilizer—a reminder that, like Christmas lights, some things are worth keeping on even when everything else flickers.

Loris Centola
Chief Investment Officer

Tactical Asset Allocation

Asset	Change	- -	-	=	+	+ +
Cash				○		
Bonds				○		
World					●	
Government			●			
Corporate				●		
Emerging Markets					●	
TIPS			●			
Convertibles				●		
High Yield				●		
Equities				○		
US					●	
Europe				●		
Switzerland				●		
Emerging Markets					●	
Japan	↓		●			
Value	↑				●	
Momentum			●			
Commodities				○		
Gold				●		
Forex Outlook						
Euro / Dollar				●		
Euro / Swiss Franc				●		

Equity Market Overview

Equity Market Overview

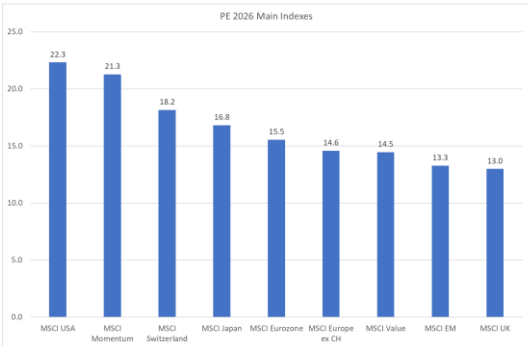
Equity markets remained positive but became more selective, with clear rotation toward value, financials and materials. AI investment continues to surge, but monetization will take time. We favor US equities selectively, prefer Europe's financials and healthcare, remain positive on emerging markets, and reduce Japanese equities after strong gains.

Equity markets had a good month overall, but what really mattered was how they moved. After over three years of broadly positive performance, markets are no longer rising in unison. Investors are becoming more selective, and that is usually a sign of a maturing cycle. As the old saying goes, "Rising tides lift all boats, but low tides show where the rocks are." Last month clearly marked that shift, with rotation across both countries and sectors. Value-oriented markets were among the first winners. Swiss equities, for example, rallied nicely, while more cyclical markets such as emerging markets and some European countries lagged behind. Importantly, underperforming did not mean losing money. Most of these markets still delivered positive returns, just less impressive ones. At the sector level, the story was even clearer. Materials and financials performed very well, while utilities, energy and even IT lagged behind, although they too ended the month slightly in positive territory.

The big question mark remains the valuation of the IT sector and, more specifically, the monetization of Artificial Intelligence. Investment in AI keeps accelerating. Capital expenditures are expected to exceed this year's already enormous USD 420 billion and could climb well above USD 500 billion next year. Spending money is easy when enthusiasm is high. Turning that spending into sustainable profits is harder. As one tech executive recently joked, "AI is everywhere, but revenues are still somewhere in the future". AI monetization is unlikely to come mainly from consumers. Even OpenAI estimates that only about 8.5% of its users will be willing to pay for a premium subscription by 2030. The real opportunity lies in business-to-business applications. AI companies are developing APIs, automation tools, and corporate AI agents that firms will pay for to improve efficiency and productivity. This could become a meaningful revenue stream, but patience will be required. Adoption takes time, especially at scale.

Despite elevated valuations, we continue to like US equities. Momentum is no longer exceptional, but it remains supportive. Earnings growth is strong, and corporate balance sheets and cash flows are still very healthy. Within the US market, however, we are becoming more selective and increasingly favor more conservative sectors such as utilities, without forgetting the obvious need to remain exposed to technology. European equities continue to offer reasonable valuations, particularly in financials and healthcare, where we are increasing exposure. Emerging markets remain our preferred region. Valuations versus developed markets are at their widest gap since 1987, while fundamentals remain supportive: stronger growth, a weaker US dollar, solid public and private finances, and falling interest rates.

Finally, after a rally of more than 60% in the Nikkei 225 since April, we are taking some chips off the table in Japanese equities. Valuations are becoming stretched, and a more hawkish Bank of Japan is unlikely to provide support. Overall, we are increasing the value tilt in portfolios by keeping equity exposure unchanged, favoring sectors such as utilities, financials and healthcare.



Bond Market Overview

Bond Market Overview

Bond markets showed surprising volatility this month, with Treasuries and German Bunds moving sharply. Convertible, high-yield, and emerging-market bonds offered opportunities, but selectivity again has been key. We still see carry opportunities. USD is likely to remain weak, the euro strong, and gold continues as a reliable portfolio stabilizer.

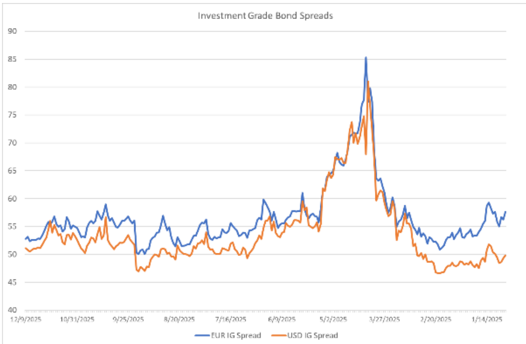
Bonds aren't the sleepy, safe corner of the market that many investors imagine — and this month reminded us why. Volatility showed up, especially on high-grade and government bonds. Even "safe" bonds can throw you a curveball, and in December, they did. Treasuries stole the spotlight, with the ten-year yield bouncing from below 4% to above 4.15% at one point. Investors reacted to the usual mix of worries: inflation concerns, a Federal Reserve that cut rates but made it clear it won't necessarily do much more, and general uncertainty about the economic picture. Across the Atlantic, German Bund yields marched steadily higher after ECB Executive Board member Isabel Schnabel noted that the next ECB move could be a rate hike. That might sound alarming, but in reality, short-term hikes seem unlikely. Growth is still modest, global economies are slowing, the euro is strong, and political uncertainty in Germany and France could easily delay any action. Markets sometimes shout louder than reality, and right now, they're a bit loud.

Other parts of the bond world had a calmer ride. Convertible bonds and some high-yield issues even closed the month in positive territory. Investment-grade spreads are tight and won't get much tighter from here. Still, IG bonds offer a solid carry story: good coupons, decent yields to maturity, and a bit of comfort in turbulent markets. US high-yield spreads have more room, but selectivity is key. Defaults are creeping up, and a couple of recent incidents in private credit remind us that caution is warranted. Shorter durations — two to four years — and higher-quality BBs feel safest for now. Emerging-market bonds continue to offer attractive carry, with spreads that could tighten a few more basis points.

On the currency front, we continue to see a weaker USD versus the euro and Swiss franc, a theme that's carried over from last month. The euro remains relatively strong against the franc as well, though we don't expect major moves before year-end — those swings are more likely to come in 2026.

Gold remains a must-have in every portfolio. Think of it like a car bumper: it doesn't make the ride faster or more exciting, but it protects you when markets get bumpy. After rising more than 60% this year, gold is trading near all-time highs. That doesn't mean loading up heavily, but keeping some in your portfolio is a simple way to smooth volatility and sleep a bit easier at night.

All in all, bonds can get lively, FX trends continue, and gold quietly does its job. Treasuries may jump around, spreads matter, and picking the right credits is essential. The key takeaway? Don't chase every move, focus on quality and carry, and keep a cool head — even when the market decides to dance. Patience beats panic, selectivity beats blind optimism, and sometimes, it's the quiet, steady choices that make all the difference. After all, markets may shout, but portfolios win with discipline, preparation, and a little bit of calm amidst the noise.



Key Market Indicators

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		Curncy	%1M	%YTD	%1YR	12/16/2025
Bond Markets						
Bond Markets						
Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged	U.S. Bond Market	USD	0.56	6.77	6.44	2,491.20
Bloomberg Euro-Aggregate 1-10 Year TR Index Value Unhedged EUR	European Bond Market	EUR	-0.17	2.38	2.06	238.28
Swiss Bond Index SBI AAA-BBB 1-10 Total Return	Swiss Bond Market	CHF	-0.51	0.60	0.45	133.39
Money Market						
FTSE 3-Month US Dollar Eurodeposit LCL	U.S. Money Market	USD	0.35	4.20	4.39	200.41
FTSE 3-Month Euro Eurodeposit LCL	European Money Market	EUR	0.17	2.20	2.33	161.44
FTSE 3-Month Switzerland Franc Eurodeposit LCL	Swiss Money Market	CHF	-0.01	0.04	0.06	115.32
High Yield Markets						
Bloomberg Global High Yield Total Return Index Value Unhedge	Global High Yield Market	USD	1.13	11.58	10.65	1,854.26
Bloomberg Intermediate US High Yield Total Return Unhedged USD	U.S. High Yield Market	USD	0.86	7.93	7.31	2,524.11
Bloomberg Pan-European High Yield (Euro) TR Index Value Unhedged EUR	European High Yield Market	EUR	0.47	4.98	4.87	409.25
Equity Markets						
MSCI ACWI Index	World Equities	USD	0.75	19.20	15.56	1,002.85
S&P 500 INDEX	U.S. Equities	USD	0.98	15.62	11.96	6,800.26
NASDAQ Composite Index	U.S. Technology Equities	USD	0.92	19.68	14.56	23,111.46
EURO STOXX 50 Price EUR	European Equities	EUR	0.42	16.79	15.58	5,717.83
FTSE MIB Index	Italian Equities	EUR	-0.01	28.68	26.63	43,990.48
Swiss Market Index	Swiss Equities	CHF	3.34	12.55	11.58	13,056.74
Nikkei 225	Japanese Equities	JPY	-1.97	23.78	25.16	49,383.29
MSCI Emerging Markets Index	Emerging Market Equities	USD	-2.38	25.77	22.61	1,352.66
Other Assets						
Bloomberg Commodity Index	Global Commodities	USD	-1.44	8.87	9.52	107.52
Gold Spot $/Oz	Gold	USD	5.34	63.93	62.19	4,302.32
Crude Oil, WTI Generic	Oil	USD	-8.02	-22.94	-21.84	55.27
US Dollar Index Spot Rate	Dollar Index	USD	-1.16	-9.53	-8.15	98.15
Bloomberg Euro Index	Euro Index	EUR	0.55	8.02	7.31	935.53
Chicago Board Options Exchange Volatility Index	Volatility	USD	-16.89	-5.01	12.19	16.48
Chart and Table Data source: Bloomberg, PKB Private Bank, elaborated with MS Excel					*Data at*	*2025-12-17*

Source of data in graphs: Bloomberg

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