PKB

2026

The Year of Selectivity

PKB Outlook

Foreword

Some years in markets feel like orderly races; 2025, however, felt more like an ambitious hike where the sun, wind, and fog all showed up uninvited. You pack for a clear day, get rained on, and still end up with a surprisingly great view at the summit. That's more or less how we enter 2026: after an 'everything rally' that investors enjoyed only once they caught their breath and checked the altitude.

Equities, bonds, and even commodities put on strong performances, though not without quirks. A handful of mega-tech names did most of the heavy lifting, bond markets kept acting as if risk premia were optional, and commodities reminded us — quietly but firmly — that the global economy still depends on very physical things you can mine, melt, or plug in. The trail looked smooth, but the guardrails of valuation, concentration, and geopolitics were closer to decorative than robust.

An investor once told me, only half-jokingly, "The moment markets feel too comfortable is the moment I check where the exit is." There's wisdom in that, and it describes the setup for 2026 nicely. The macro picture is constructive: growth is slowing but solid, inflation is settling in most countries, and policymakers are leaning supportive rather than restrictive. But valuations are stretched, AI and tariffs are rewiring incentives, and geopolitics is playing a louder role than anyone requested.

This outlook brings us into 2026 with a certain mix of optimism and healthy skepticism. We expect a year that rewards discipline more than heroics, quality more than noise, and real diversification over the comfort of owning 'a little of everything'. Volatility will wander in and out, as it always does, but it's a feature to work with — not a storm to hide from.

If the past few years taught us anything, it's that markets rarely walk in straight lines. What they do offer — especially in years like this — are moments of genuine opportunity for investors who stay curious, selective, and ready to shift gears when the path bends.

I wish you an insightful and enjoyable read of the 2026 PKB Outlook.

Luca Venturini

CEO, PKB Private Bank

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Market Overview

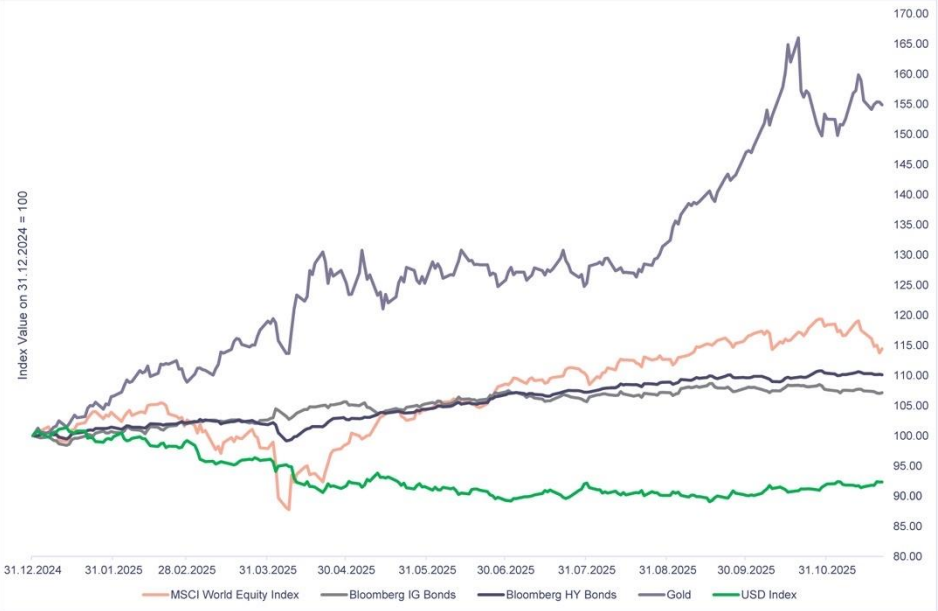
2025: The Year the Market Blinked but Didn't Break

If 2024 felt like a deep breath after a long storm, then 2025 became the year when markets tried to find their balance again — sometimes smoothly, sometimes more like a juggler wobbling on a tightrope.

Equities did better than expected, rising about 15%, sometimes with uneven performance. The U.S. didn't take the top spot this time — though it still delivered strong double-digit gains, led once again by big tech. Europe had its moment, with Spain and Italy standing out, while Switzerland and France fell behind because of heavy exposure to defensive sectors and ongoing political noise. Emerging Markets were the real winners: South Korea jumped thanks to tech, China benefited from cheap valuations and improving growth. Even Japan gained momentum from new political energy and bold pro-growth policies.

Government bonds painted a mixed picture. In the U.S., new rate cuts and fears that tariffs could slow the economy helped support the yield curve, especially at the short end. Europe went in the opposite direction, with yields rising as both monetary and fiscal support began to fade. Japan, in a major shift, saw bond yields climb to highs not seen in nearly twenty years, driven by firmer inflation and a new prime minister pushing aggressive reforms to boost growth.

Chart 1. Outstanding market performance, except the USD



"Markets started to differentiate in 2025... and they will do more so in 2026"

Market performance in 2025 (as of 21 November 2025)

Bloomberg, PKB (daily prices, total return indexes)

Corporate credit barely paused. Strong earnings, healthier balance sheets, and supportive central banks pushed spreads to their tightest levels in two decades — especially in the U.S., where investor demand at times looked almost enthusiastic to a fault.

Commodities had their usual ups and downs. Gold benefitted from speculative investors buying and global political tensions, putting it on track for its best year in more than forty years. Metals linked to AI — like silver, copper, and aluminium — were helped by both excitement around the theme and genuine investment needs. Energy, by contrast, struggled under heavy supply, even with continued conflict in the Middle East.

FX markets gave us one of the most surprising moments of the year in a few weeks between January and April, when the U.S. dollar saw its sharpest drop since 2022. Investors rushed into safe-haven currencies, lifting the Swiss franc and the Japanese yen. The greenback continued to slide until mid-September as uncertainty persisted.

2026: When Markets Stop Marching in a Straight Line

If You Only Have 30 Seconds

- 2026 starts after a rare three-year, everything-went-up rally — equities, bonds, even commodities.
- Equity gains were strong but narrow: a handful of big tech names drove most of 2025's performance.
- Bonds rallied as rates fell, leaving yields and spreads very tight.
- Key commodities — especially gold — hit record highs amid geopolitical and industrial pressures, and the USD plummeted.
- The setup for 2026 looks good but stretched: high valuations, tight spreads, and fragile sentiment.
- Expect a shifting market that rewards tactical moves; Focus on quality; Be ready for volatility; Diversify with intention — not by owning everything.

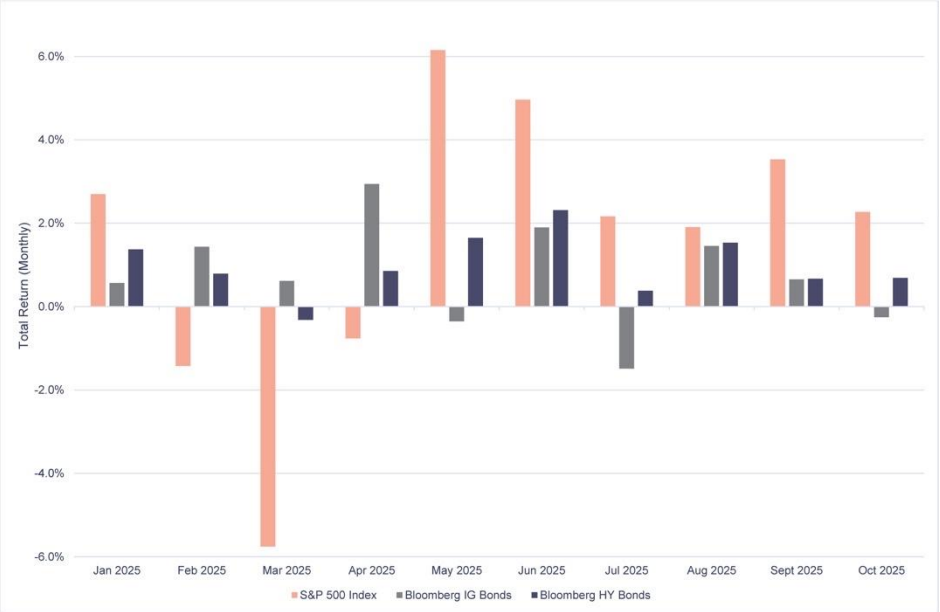
The starting point for 2026 is unusually powerful — and that's exactly why investors need to slow down and think carefully before hitting the gas. We're coming out of three exceptional years, a stretch where almost everything went up: equities, bonds, even a handful of commodities that usually only wake up when nobody is looking.

To put numbers to it: an investor who invested $10,000 into a global equity index on 1 October 2022 would be sitting on roughly $18,183 today (before dividends). Only 12 of the last 38 months posted negative returns — and even those were mild. Meanwhile, 26 months were positive, and 6 of them delivered more than +5%.

2025 itself felt almost choreographed: seven positive months, only three negative, and a six-month positive streak from May to October. But beneath the smooth surface sat a more fragile reality: valuations climbed, and the US market grew increasingly top-heavy. More than half of the S&P500 total return came from just nine technology names, and today the top eight companies make up more than a third of the entire index. When a market becomes this concentrated, it's a reminder that even a beautiful performance can rest on a narrow stage.

Chart 2. Consistent monthly performance, with a few exceptions

"In 2026, investors need to slow down and think carefully before hitting the gas"



Monthly performance 2025, S&P500 index, Bloomberg IG and HY bond indexes

Bloomberg (monthly returns, total return indexes)

Bonds, meanwhile, have enjoyed a strong tailwind since late 2023 as central banks worldwide shifted from fighting inflation to normalizing rates. Yields fell, prices rose, and corporate spreads — both investment-grade and high-yield — tightened back to levels last seen before the Great Financial Crisis. Good news, certainly, but "priced to perfection" leaves little cushion.

And then there were commodities. In a world wrestling with geopolitical uncertainty and an AI-driven industrial revival, several materials hit all-time highs. Gold, the standout, surged more than 50%, rising from $1,600 per ounce in 2022 to well-above $4,000. Silver and copper also broke records, making 2025 feel at moments like a throwback to the commodity supercycle era.

Put it all together and 2026 inherits a mix of high valuations, tight spreads, geopolitical tension, supply-chain reshuffling, and the occasional burst of euphoria — conditions that call for a very particular kind of investment strategy.

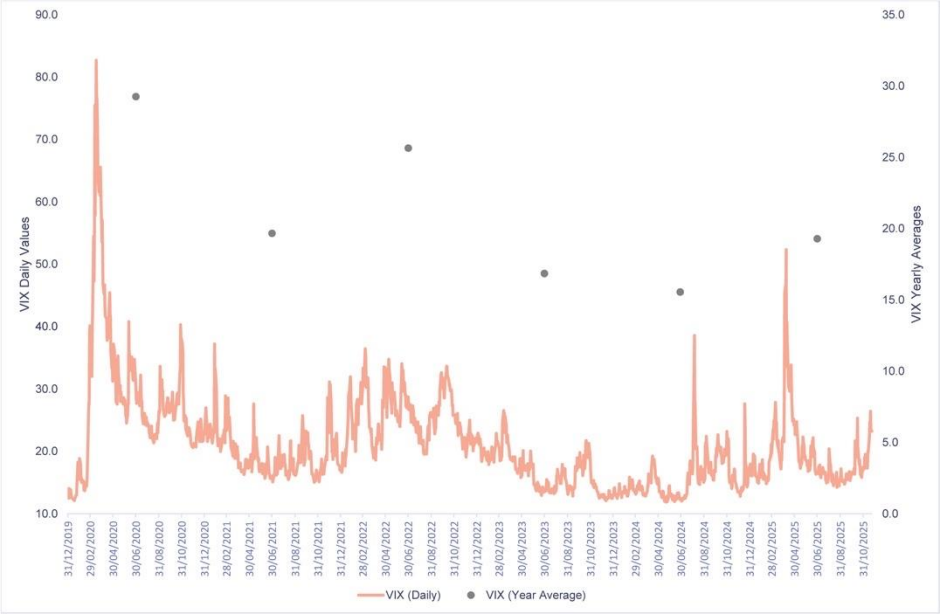
We anchor ours on five principles.

1. Expect a Market That Doesn't Choose a Direction — and Learn to Love It
We have been spoiled by one-way markets. 2026 is unlikely to repeat that script. The good news: non-directional environments create opportunities — lots of them. But they reward investors who think tactically, act opportunistically, and stay alert. Think less "buy and forget" and more "see, think, act." In a year where the tide moves in and out, those who know how to paddle, not swim blindly, will win.

2. Returns Will Still Be There — Just Not the 2022–2025 Kind
Monetary and fiscal support, the return of manufacturing, and relentless technological innovation provide solid foundations for returns. But many of the "good news" factors are already baked into prices. Risk premia sit in the middle-to-low range, so 2026 probably won't offer the double-digit fireworks of the past three years. This is a year where discipline and patience replace the turbocharged gains of recent memory.

3. Selectivity Isn't Optional — It's the New Alpha
2026 is likely to be a market that rewards quality over quantity. Expect leadership from companies with strong balance sheets, steady cash flows, genuine pricing power, real technological or competitive channels. And assume less generosity toward hype, glamour, and companies running more on storytelling than earnings. A useful rule of thumb for 2026: "Don't chase what's loud; accumulate what's good."

Chart 3. Volatility is on the rise and will probably increase further



"Stretched valuations make markets more sensitive to surprises"

Cboe Volatility Index (VIX), Index value (line), Yearly average (dot), as of 24 November 2025

Bloomberg, PKB (daily prices)

4. Volatility Will Make Periodic Entrances — Treat It Like Weather, Not a Crisis
Market volatility bottomed in early 2024 and has been gradually rising since. Stretched valuations make markets more sensitive to surprises — and at current levels, it doesn't take much for people to rush for the exit. FOMO (Fear Of Missing Out) might get investors into trades, but elevated valuations increase the probability of sudden reversals. 2026 will require readiness: the ability to buy what you like during drawdowns and the discipline to trim what gets overpriced. Volatility isn't the enemy — unmanaged emotion is.

5. Diversify Intelligently — Not the "Buy Everything and Hope" Version
Owning dozens of securities that all move together is not diversification. It's noise. Intelligent diversification means building portfolios around assets that genuinely behave differently — low correlation, different drivers, different ecosystems. This year, a "barbell approach" is particularly valuable: combining high-quality, resilient assets with selective exposure to higher-growth or higher-volatility opportunities. You might lag during low-quality rallies (which are less likely this year), but you protect capital when corrections arrive — and capital preserved is capital ready to compound.

The Three Forces Reshaping the Future

Markets didn't behave the way they did in 2025 by chance. Three structural forces — AI, de-globalization, and geopolitics — moved from background themes to anchor stories. They're not going away in 2026. In fact, they're becoming the opening chapters of the next decade.

1. Artificial Intelligence: From Novelty to Infrastructure
A quote that made the rounds this year— "AI won't take your job, but someone using AI will"— turned out to be less a warning and more a description of 2025 in real time. AI adoption is no longer a tech-sector phenomenon. Surveys show 66% of individuals use AI intentionally, 38% on a weekly or daily basis, and 88% of organizations have embedded it into at least one business function. The corporate productivity uplift is staggering: estimates range from +20% to +80%, depending on the workflow. That has consequences — not only for margins but for labor markets, where 6–7% of U.S. jobs could be displaced in a broad adoption scenario.

Investment followed the enthusiasm. AI-related capex hit ~$420bn in 2025 and is expected to surpass $500bn in 2026, spilling across the entire supply chain — from metals to semiconductors, from hyperscale datacenters to end-user applications. It wasn't just Nvidia, Meta, or OpenAI pulling the strings; it was miners, equipment makers, utilities, logistics networks, cloud players, and end-market adopters.

Unsurprisingly, AI became the main engine of market volatility. From April to October, anything AI-adjacent soared. Then in November, the realization that valuations had outpaced profits sent the same stocks sharply into reverse. "AI giveth, AI taketh away." Markets are concerned about AI-stock valuations and fear a situation similar to the Dot-com bubble (coupled with the recent 'circular financing' among some high-profile companies such as Nvidia, Oracle, and OpenAI). In some cases, such concerns are pertinent. However, while back in 2000 Technology stocks contributed only to around 10% of the total profits in main U.S. indexes, today such margin is equal to nearly 40%. So, not quite the same…

2. De-globalization: Tariffs as a Policy Tool, Not a Threat
If April 2 (dubbed "Liberation Day") marked the turning point for currencies and equity markets, it also represented a deeper shift: the world started rearranging itself around tariff-driven incentives rather than trade-driven efficiencies. What are President Donald J. Trump's three strategic goals on tariffs?

1. **Cut direct deals:** Switzerland became the poster child: tariffs fell from 39% to 15% in exchange for $200bn of U.S. investment commitments and duty-free quotas on U.S. proteins. It was diplomacy via supply chains.
2. **Boost tariff revenues:** U.S. customs duties jumped from $7bn/month in Jan 2025 to $30bn/month in Sept 2025. FY 2025 tariff collection hit $195bn, a 153% increase over FY 2024, accelerating almost 300% in the second half of 2025 versus a year earlier. For markets, tariffs went from risk factor to fiscal line item.
3. **Bring manufacturing home:** The numbers are staggering: up to $4tr in announced U.S. manufacturing commitments. Examples abound: Japan: $550bn in semiconductors, pharma, and metals; South Korea: $350bn in autos; ABB: $120bn in electrical equipment; Sanofi: $20bn+ for manufacturing & research.

3. Geopolitics: The Economic Engine Nobody Likes to Admit Exists
It may sound cynical, but geopolitics in 2025 didn't operate in isolation — they interlocked neatly with AI and de-globalization, shaping both demand and investment. The wars in Ukraine and the Middle East, though no longer shocking markets, continued to reshape commodity flows (energy, metals, rare earths), sector winners (defense, materials, manufacturing), and regional partnerships. The U.S.– China trade war played out in two chapters:

- Short-term market effects: rare earths, agriculture, chip production, AI supply chains, inflation dynamics, and bond markets felt the strain.
- Long-term re-wiring: the emergence of BRICS+, shifting alliances in APAC, and new cross-regional agreements suggest the world is slowly fracturing into two or three economic spheres, each with its own technology stack, funding patterns, and security priorities. This geopolitical realignment isn't temporary. It's becoming structural — a force multiplier for both AI investment and de-globalization trends.

Macroeconomics 2026

Macroeconomics 2026: A World of Moderation and Subtle Flux

If You Only Have 30 Seconds

- Global growth slows into 2026 but avoids recession; inflation eases almost everywhere except a tariff-hit U.S.
- The U.S. stays resilient with softening labor markets and inflation peaking before drifting lower; modest Fed cuts possible.
- Europe improves, led by a revived Germany and supportive fiscal policy; inflation near ECB comfort zone.
- Switzerland grows slowly with very low inflation and a strong franc weighing on exports.
- China cools but remains a key global engine, pushing hard on tech self-reliance as industry fundamentals stabilize.

The global economy advances toward 2026 with a tempered pace: momentum is easing, yet the specter of recession remains largely dormant. The growth pattern observed through 2024–2025 was uneven across regions. Most emerging and developing economies decelerated, with China sustaining expansion at a slightly diminished pace and Asia buoyed by India's resilience, while Latin America slowed abruptly. Conversely, advanced economies delivered a patchwork outcome: the Eurozone and the United Kingdom re-energized, whereas the United States and Switzerland edged into softer territory.

As we look to 2026, most geographies will undergo further moderation, shaped by trade frictions, currency adjustments, and slackening real wage dynamics. This should be interpreted less as deterioration and more as a reversion toward long-run norms. Inflation, in broad terms, is poised to recede, aided by gentler growth trajectories and a weaker U.S. dollar feeding through to global pricing structures. Production realignments — especially the redirection of some Chinese output from the U.S. to Europe and other markets — may also exert downward pressure. Yet this disinflationary rhythm will not be universal. In the United States, for example, inflation is likely to re-accelerate as tariff burdens make their way into consumer prices and labor-market distortions. At the end, fiscal dominance in the U.S. could increase even inflation expectations and the country is likely to overcome debt with higher growth.

Chart 4. Slower growth and inflation, with notable exceptions

"As we look to 2026, most geographies will undergo further moderation"

Gross Domestic Product growth (YoY), CPI (YoY), Central Bank reference rates

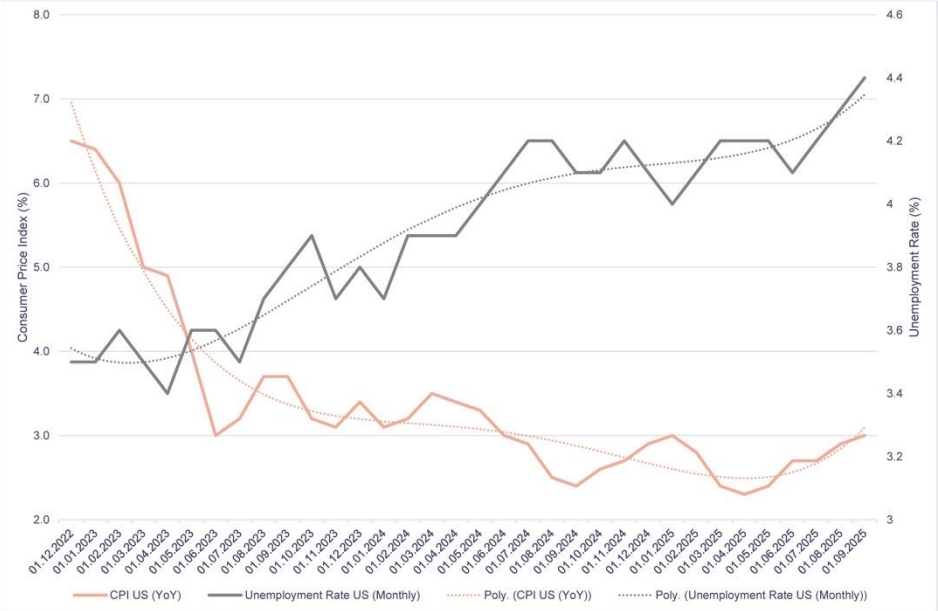
Bloomberg (yearly expectations and forecasts)

	Real GDP		Inflation		Central Bank rates	
	2025e	2026f	2025e	2026f	Current	2026f
Eurozone	1.4%	1.1%	2.1%	1.8%	2.0%	2.0%
France	0.8%	0.9%	1.0%	1.4%		
Germany	-0.5%	1.0%	2.2%	2.0%		
Italy	0.5%	0.7%	1.7%	1.5%		
Spain	2.9%	2.1%	2.6%	2.0%		
Switzerland	1.2%	1.2%	0.2%	0.6%	0.0%	0.0%
United Kingdom	1.4%	1.1%	3.4%	2.5%	4.0%	3.25%
United States	1.9%	1.9%	2.8%	2.9%	3.88%	3.33%
China	4.9%	4.3%	0.0%	0.8%	1.4%	1.2%
India	6.8%	6.7%	2.4%	2.5%	5.5%	5.0%
Japan	1.3%	0.7%	3.1%	1.8%	0.5%	1.0%

United States — ‘Resilience Under Pressure’
The United States advances toward a cooler yet resilient expansion. Growth is set to diminish moderately under the weight of tariffs affecting prices and exports. Labor-market softness is likely to persist, driven by reduced labor supply, cautious hiring, and shortages in low-wage blue-collar positions due to restrictive immigration policy. The early effects of artificial intelligence adoption may surface in 2026, as companies confronted with higher wage demands seek efficiency gains, though any labor-market disruption will remain modest for now. Business sentiment should brighten in the second half of the year as policy priorities shift toward targeted tax measures — including the “One Big Beautiful Bill” — and deregulation in the run-up to midterm elections. Middle-income consumption should remain supported by firm wage gains and resilient household balance sheets, with the wealthiest 20% of families accounting for roughly two-thirds of all personal expenditures.

Inflation is expected to crest above 3% in the second quarter before easing, as inventory overhangs dissipate and tariff pass-through becomes more visible. Although the formal inflation target remains 2% to preserve the central bank's credibility, a higher effective inflation target is being implicitly accepted, as it has been above 2% for over 4 years now. The Federal Reserve may deliver two or three further rate cuts in 2026, though conviction is limited amid a dense lattice of uncertainties: tariff escalation, the midterms, the appointment of a new Fed Chair, geopolitical frictions, and China’s evolving posture. While the incoming Chair is likely to lean dovish, the institution will remain guided by data, given the political and financial costs of any perception that the Fed has become subservient to the executive.

Chart 5. The U.S. catch-22: Increasing inflation and unemployment



“The U.S. Fed may deliver two or three further rate cuts in 2026, though conviction is limited”

U.S. Inflation rate (CPI, YoY), Unemployment rate (monthly), Trend lines

Bloomberg, PKB (monthly)

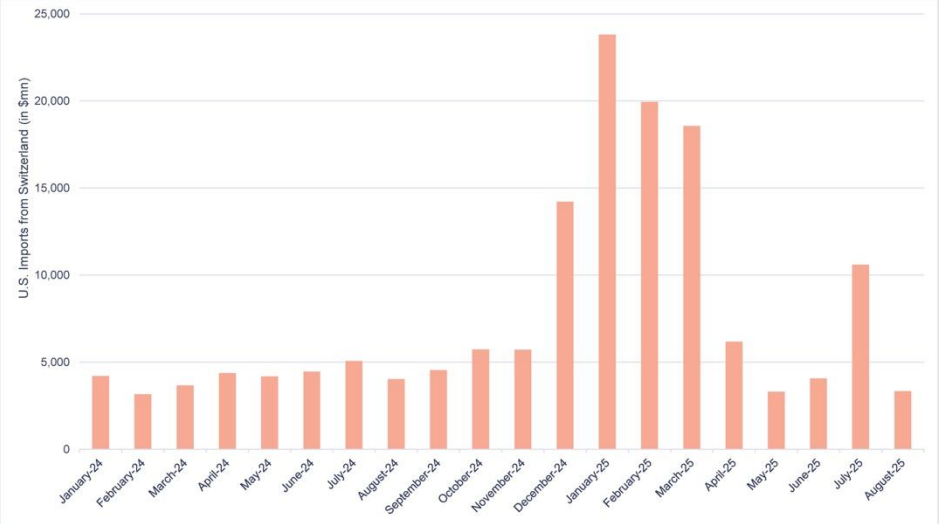
Eurozone — ‘The Slow Defrost of a Sleeping Giant’
Monetary and fiscal strategies will diverge across regions. In the Eurozone, Germany is staging a notable revival after two recessionary years and one of hesitant growth. Berlin’s newly elected government unveiled a monumental twelve-year package exceeding EUR 1 trillion, channelled into infrastructure (and its modernization), defense, and a reform of the local debt brake — an unmistakable pivot for Europe’s largest economy. France appears set to preserve steady expansion, conditional on political stabilization and a workable fiscal compromise, while Italy’s credit upgrade signals an unexpectedly solid economic backdrop, yet slow. Spain, the bloc’s outperformer in 2025, is likely to drift back toward more customary growth.

Europe’s overarching fiscal stance remains supportive, primarily through defense and infrastructure initiatives such as the EUR 800bn European Commission program and the SAFE instrument for joint procurement. Manufacturing indicators, long subdued, are now improving meaningfully, though consumption remains the frail limb of the recovery,

with retail sales barely advancing. Yet easier European Central Bank (ECB) rates and a tentative revival in bank lending should begin to nurture small and medium-sized enterprises. Inflation appears anchored just above 2%, close to the ECB's comfort zone, implying that much further monetary easing is improbable unless growth were to falter sharply.

Chart 6. Swiss exports to the U.S. front-loaded in 2025

"The tariff accord with the United States removes a major source of uncertainty"



U.S. Imports from Switzerland (in $ millions), as of August 2025

Bloomberg (monthly)

Switzerland — 'Steady Steps in Thin Air'
Switzerland, by contrast, is navigating a more subdued landscape. Growth should hover just around 1%, with inflation gently re-emerging above 0%. The tariff accord with the United States—slashing rates from 39% to 15% and aligning them with European levels — removes a major source of uncertainty and strengthens the investment case for Swiss and European industrial firms. Even so, the persistent strength of the franc continues to erode export competitiveness. Much of early-year export activity appears to have been front-loaded, suggesting a forthcoming calm, particularly as U.S. buyers stockpiled Swiss goods. Additionally, the build-out of manufacturing capacity in the United States does little to support Switzerland's external sector. Business sentiment, though off its 2022 peak, has rebounded slowly, while unemployment has risen steadily for over two years. Inflation is likely to remain exceptionally low, keeping alive —but not validating — the possibility of a return to negative interest rates should the franc appreciate excessively.

China — 'The Slower Dragon Still Leads'
China, meanwhile, is undergoing a conspicuous cooling, though it remains a principal engine of global growth. Recent data for the second half of 2025 revealed weakness across consumption, production, credit flows, sentiment indicators, housing market, with exports briefly dipping into negative territory. This decline is not alarming, partly because shipments were heavily front-loaded earlier in the year and partly because China is cultivating alternative commercial routes through its BRICS+ partners and, potentially, through a recalibrated economic engagement with Europe (which is likely to further reduce inflation there). The newly released Fifteenth Five-Year Plan puts technological self-reliance and innovation at the forefront while sidelining social-security reform. Escalating geopolitical pressures have strengthened China's resolve to secure strategic autonomy in high-tech sectors and energy.

Corporate fundamentals are gradually improving from the bottom up: earnings are firming, pricing power is returning, and margins are widening in segments such as industrials, IT, and materials. The global AI chip value chain continues to deliver strong momentum, complemented by sustained demand for energy-storage solutions and rapid advances in biotechnology. The future trajectory of the U.S.– China trade negotiations remains uncertain, yet China currently commands more bargaining leverage than widely assumed: it requires semiconductors (for now) and agricultural imports, while the United States relies heavily on Chinese rare earths, critical minerals, and low-cost consumer goods.

The Artificial Intelligence (AI) Supply Chain – Explained Simply

When people talk about artificial intelligence (AI), it often feels like it lives somewhere in the clouds, dreaming up answers on demand. In reality, the AI world starts in a very unglamorous place: the ground.

AI begins with **raw materials** like silicon, rare earth minerals, copper, and a lot of electricity. These ingredients are mined, processed, and turned into the stuff that makes computers possible. Without them, there is no magic — just very quiet machines. Main players here? China Northern Rare Earth Group (rare earths), Albemarle Corporation (lithium), BHP (copper), Glencore (diverse metals).

Once these materials are collected, they enter the very precise, very expensive world of **semiconductors.** First you have the chip designers — the architects — like Nvidia, AMD, Intel, Google, and Amazon, who dream up the blueprints for the AI processors. Then come the toolmakers, those who build the machines that actually carve these designs onto silicon. ASML leads this group, with Applied Materials, Lam Research, and Tokyo Electron supplying the rest of the equipment. Finally, the designs land in the hands of the foundries, the master builders such as TSMC, Samsung, and Intel, who turn all those microscopic patterns into real chips that eventually power AI systems.

The chips then find a home in enormous **data centers.** These warehouse-sized facilities are the gyms where AI models go to work out. They're run by cloud giants like Amazon, Microsoft, and Google, along with newer specialty players. Inside, thousands of chips hum away, cooled by advanced ventilation (and recently liquid) systems that work as hard as the chips themselves. Every time an AI model 'learns', 'thinks', or answers your question, it probably happens in one of these buildings.

But hardware is only half the story. To actually build AI systems, engineers use **software / machine-learning frameworks** — sort of like the toolboxes and instruction manuals of the AI world. PyTorch (Meta), TensorFlow/JAX (Google), Hugging Face, and CUDA (Nvidia) are some of the big names here, and they make it possible for developers to train models.

Next comes the fuel for AI: **data.** Lots of data. Giant datasets of text, images, audio, videos, code — basically everything humans have ever posted, published, or forgotten on the internet. Teams collect, clean, label, and organize this information so the models can learn something useful and not just memorize cat memes (though they do that too). Companies like Scale AI, Appen, and Sama help with the very unglamorous but essential job of making messy data less messy.

Only after all this comes the moment everyone talks about: **training the model.** This is where organizations like OpenAI, Google DeepMind, Anthropic, Meta, xAI, Mistral, Amazon, Cohere, and others spend weeks or months teaching a model how to understand language, and solve problems. Training requires enormous computing power.

Once trained, the model is **deployed through cloud services** so people and companies can use it. This is the part where it finally becomes visible to the world — whether inside search engines, office software, customer-service bots, or apps like ChatGPT.

At the very end of the supply chain is the part most people interact with: the **applications.** These are the friendly faces built on top of the heavy machinery. They make AI feel simple, even though a whole global ecosystem of miners, chipmakers, engineers, researchers, data-labelers, and cloud operators is working behind the scenes to make it all run smoothly. The main Apps? ChatGPT, Google Gemini, Microsoft Copilot, Anthropic Claude and many others we commonly use.

Equity Markets 2026

Equities 2026 – ‘The Quiet Grind of a Restless Bull’

If You Only Have 30 Seconds

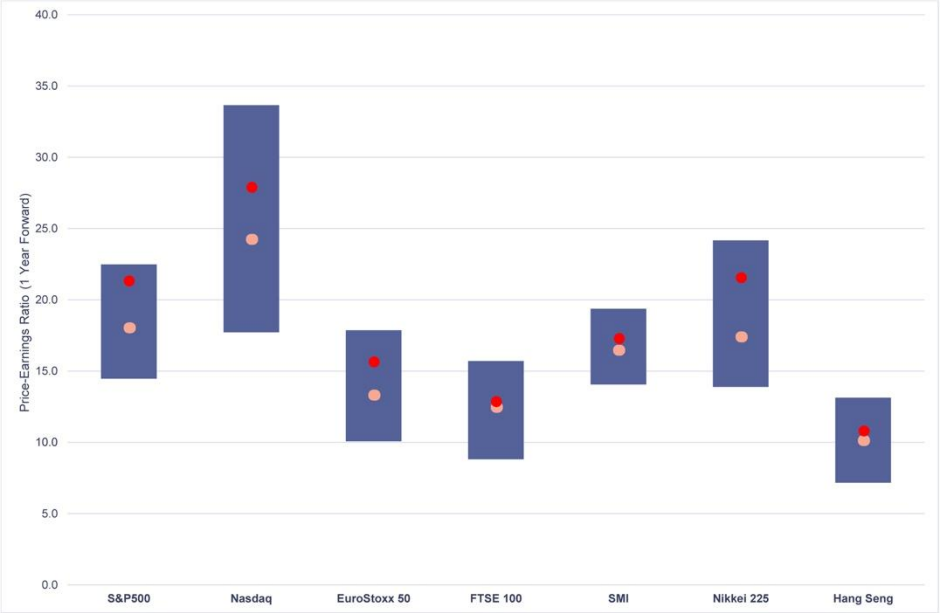
- Equities enter 2026 on solid footing but with tighter valuations and fewer easy gains. Returns will depend more on earnings, selectivity, and active management.
- AI remains a major engine but also a source of concentration risk.
- United States: Still the global growth locomotive, but too expensive for passive buying. AI leads, utilities and banks look attractive, and mid-caps stand out as a sweet spot.
- Europe: Cheaper than the U.S. and improving. Earnings and confidence are recovering, helped by pro-growth fiscal policy. Industrials and banks are the main opportunities.
- Switzerland: Stable, defensive, modest. Strong franc and slow economy cap upside. Better for ballast than for big returns.
- Emerging Markets: sustained growth, a weaker dollar, and still-attractive valuations. Earnings growth accelerates and global investors remain underweight. Go diversified or choose China (cheap, policy-backed tech and industrial rebound) and India (expensive but powered by structural growth and pro-business policy).

Equities head into 2026 in good shape, but the days of easy, automatic double-digit returns are gone. This year’s market will still pay us for taking risk, but it’s going to ask a lot more questions first. Valuations are still on the expensive side across most developed markets, with Latin America and a few Asian markets (outside Japan) being the exceptions. The small pullback we saw in November helped take some of the heat out, but not enough to make things ‘cheap.’ Monetary policy isn’t the giant tailwind it was over the last couple of years, yet central banks aren’t walking away either — they’ll keep the safety net in place if things get shaky. And on the fiscal side, even with somehow heavy debt loads, governments remain far more focused on supporting growth than tightening belts. You can see that in France’s political gridlock, in the U.S. with its incremental ‘One Big Beautiful Bill’, and in Japan’s full-throttle push into tech, infrastructure, and defense.

With tariffs fading from the headlines, companies are finally getting some visibility back. Hiring plans, capex, and long-paused projects are slowly coming off the shelf. Still, 2026 won’t be another year where valuations stretch higher just because money is cheap. Now the market wants real earnings. Profit growth is slowing but still solid — around 8% — and could get a boost from buybacks and a more predictable U.S. dollar.

AI remains the big, bright engine in the room, but it’s no longer just pure excitement. Yes, the revenue opportunities are clearer. But the questions are getting louder too: how sustainable is this capex spree, how much debt is being used to fund it, when does all this infrastructure actually start paying off, and what happens to margins as more players jump in? Add to that China speeding up its challenge and the sector leaders trading at prices that make even seasoned investors blink. Index concentration is still a real weakness — too much depends on too few names. At the same time, pulling out of the AI trade too early is its own kind of risk.

Chart 7. Equity valuations are a concern, except in some EM markets



"Valuations are still on the expensive side across most developed markets"

Forward Price-Earnings.
Purple bar: min/max 10 years.
Pink dot: 10-year average.
Red dot: current

Bloomberg, PKB (monthly)

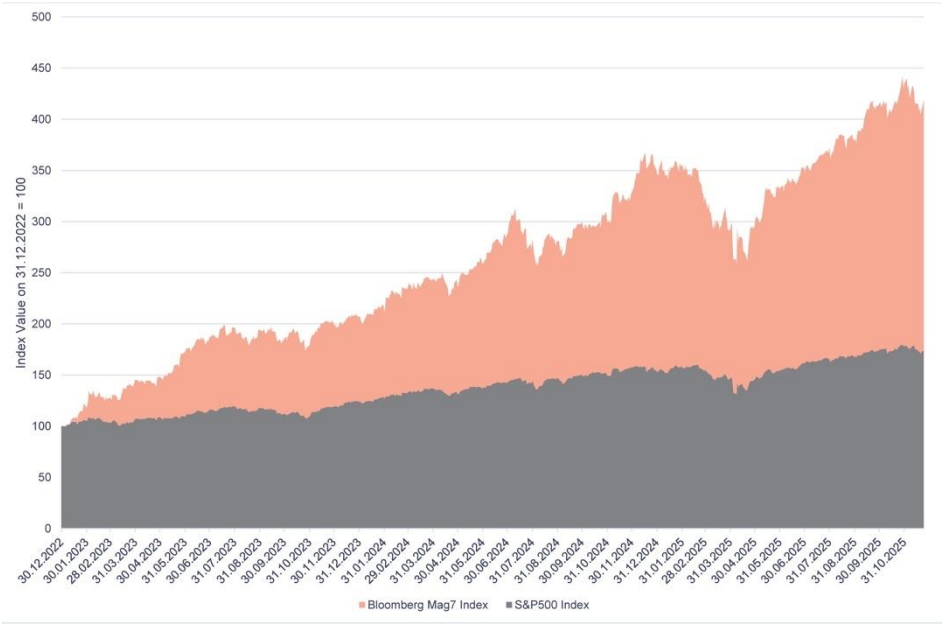
And we shouldn't forget the psychological backdrop. The 2025 rally — on paper one of the best in years — was still widely disliked. A lot of big investors remained underweight and spent most of the year feeling they were chasing the train. That leftover frustration is now fuelling a 'buy-the-dip' instinct that gives the market a surprisingly sturdy floor. Mix in a few possible geopolitical boosts, and you end up with a market where FOMO is still very much alive.

But 2026 won't move in one straight line. It's shaping up to be a year that's neither bullish nor bearish by default — just full of pockets of opportunity. Active management finally matters again. Returns will likely be calmer, picking the right names will matter more, volatility will pop up more often, and diversification will need to be smarter — built around true contrasts, not just spreading things around.

United States — 'A Market of Giants, but Not a Market for Passengers'
The United States is still the big engine of global markets, but 2026 won't reward anyone who simply buys the whole market and hopes for the best. This year is about picking your spots. A lot hangs on how investors read the new Fed chair. As long as the person isn't viewed as a political appointee in disguise, the Fed should stay a calming force rather than something markets have to defend themselves against. Valuations are high — over 21 times forward earnings, near the top of the historical range — but the U.S. also sits at the heart of a massive technological shift. Between AI, geopolitical influence, and unmatched innovation, the country still has the most powerful growth engines on the planet. AI in particular keeps pushing earnings higher, even as people worry about how concentrated the gains are and how long the current spending cycle can last. If mega-caps do take a breather, it's more likely to be a buying chance than a signal that the story is over.

Chart 8. A concentrated U.S. equity market led to stellar performance

"If mega-caps do take a breather, it's more likely to be a buying chance"



Total Return performance of Bloomberg Magnificent-7 index and S&P500 Index (as of 21 November 2025)

Bloomberg, PKB (daily, total return indexes)

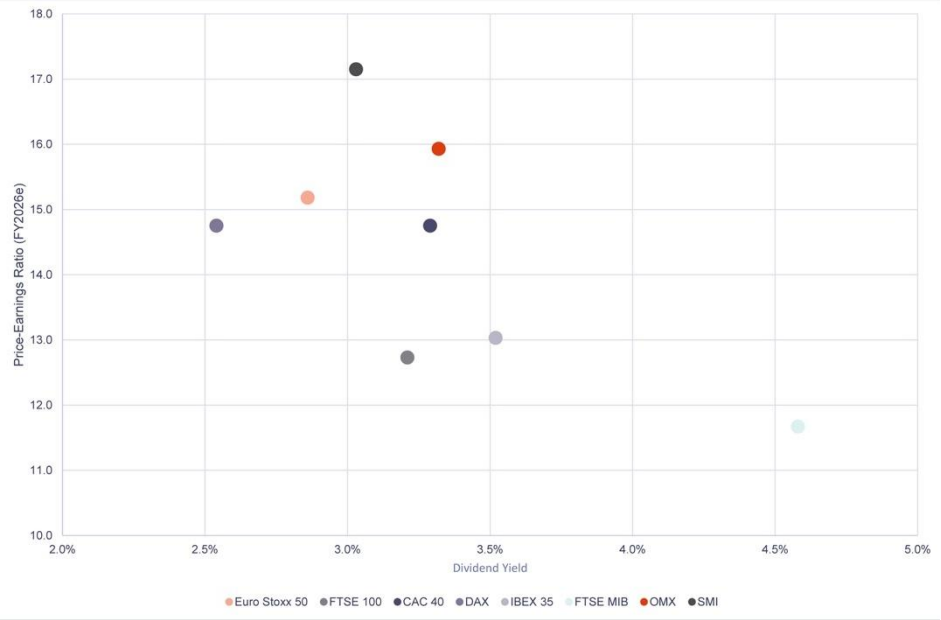
The real economy is sending mixed signals. Unemployment is creeping up, but wages—especially for middle-income households—are rising enough to keep spending alive, and leftover savings still offer some protection. With tariffs moving back into clearer territory, many companies are getting ready to restart hiring and investing, especially from mid-2026 onward. A softer dollar and the tariff reshuffle could also give U.S. exporters a bit of a lift.

Market leadership hasn't changed much. Tech — especially AI-heavy names — still calls the tune, but valuations mean you need a cooler head when choosing what to own. Utilities are a quieter opportunity, combining growth and value in a way people often overlook, helped by the energy transition, data-center build-outs, and the need to modernize the grid. Banks, though hardly cheap, benefit from a steeper yield curve, strong market activity, and a friendlier regulatory outlook. Mid-caps look especially interesting: plenty of cash, reasonable prices, and well-placed to benefit from easier policy and renewed M&A. Health care remains more of a defensive refuge — useful when markets wobble, but not an obvious long-term conviction trade.

Europe — 'A Slow Engine, but One Finally Turning Over'
Europe heads into 2026 in slow-but-steady repair mode. Valuations look friendlier than in the U.S.— roughly 15 times forward earnings — and sit only a little above their long-term averages, even after the strong run in 2025. Business confidence is finally resurrecting, helped by fiscal policies that are openly pushing for growth, especially in Germany. Dividend yields above 3% give the region an extra cushion, and earnings seem ready to pick up again, moving back toward mid-single-digit growth as manufacturing finally shows signs of life after years of crawling.

The fog around U.S.– EU trade and internal European tariff issues is lifting, and that clarity is already unfreezing investment plans that companies had put on hold. Operating margins should keep improving, possibly moving past 15% in 2026 as demand builds. The wider economy is still nothing to brag about, but pockets of real strength are emerging — particularly in southern Europe, where Spain and Greece continue to surprise on the upside once you look beyond the headlines.

Chart 9. Above average valuations for EU equities, but good dividends



"Valuations look friendlier in Europe than in the U.S. with nice dividends"

Price-Earnings Ratio (expected end 2026) vs. current Dividend Yield

Bloomberg (yearly forecast and current, total return indexes)

Utilities will continue to enjoy the long-term rise in electricity demand, though not with the same punch you see in the U.S., largely because Europe's market structure is different. Industrials are shaping up as the real centerpiece: Germany's heavy spending on infrastructure and defense is a major tailwind, and global order books are beginning to open up again. Tech is still a small weight in Europe's indices, but it should do better this year after lagging its American cousins. And then there are the banks: cleaner balance sheets, better asset quality, helpful rate dynamics, and space for more mergers — first within countries, and over time potentially across borders, especially in southern and eastern Europe. Together, these turn European financials into one of the more interesting areas to watch in 2026.

Switzerland — 'The Safe Harbor, Not the Speedboat'
Switzerland stays true to its reputation: steady, predictable, and built for stability rather than excitement. Swiss companies did fine in 2025 — solid results considering both global uncertainty and a soft local economy — but nothing that would set the market on fire. The new tariff deal with the United States is a welcome step in the right direction, cutting headline rates in a meaningful way. Still, major sectors like pharma and gold remain outside the agreement, and the actual timetable for implementation is anyone's guess. On top of that, the franc has stayed stubbornly strong, which makes life harder for exporters, and the wider economy isn't exactly bursting with momentum. With the central bank having very limited room to cut further, there isn't much hope that monetary policy alone will lift the market in 2026.

Valuations tell a familiar story: about 17 times forward earnings, a bit above the long-term norm, and a dividend yield close to 3%, which helps cushion volatility. Swiss equities remain a great defensive holding — something you want in the portfolio when global markets get nervous. But they're not positioned to outperform in a year driven by selective risk-taking and growth pockets elsewhere. Within our barbell strategy, Switzerland is the stabilizer on one side, not the engine of returns on the other.

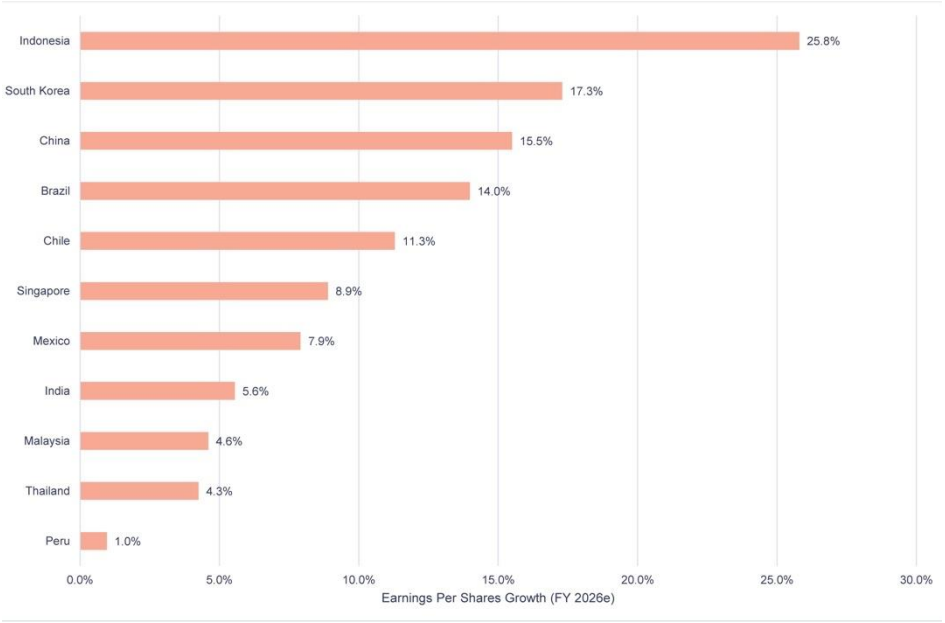
Emerging Markets — 'Volatile, Alive, and Still Under-owned'
Emerging markets head into 2026 as one of the most promising places to invest, as long as you're comfortable with bumps along the way. After a strong run in 2025, the setup still looks favorable: the dollar should weaken, liquidity is improving both locally and globally, and China's tech ecosystem continues to push innovation across the region. On top of that, many global investors are still underweight EM, which leaves plenty of room for fresh inflows.

Earnings are expected to pick up meaningfully — from about 10% growth in 2025 to roughly 15% in 2026 — with both gross and operating margins widening. Valuations remain one of EM's greatest strengths: the MSCI Emerging Markets index trades around 13 times forward earnings, bang in line with its long-term average but well below past peaks. In a world where most markets look expensive, EM still offers real value.

The broader geopolitical shift around BRICS+ could eventually reduce reliance on the U.S. and reshape long-term trade relationships. Those effects won't fully play out in 2026, but the first signs of change should already be visible. And the deep pool of natural resources across many EM countries continues to be a structural advantage. These markets are not always calm — they rarely are — but for investors who can handle volatility, the potential reward in 2026 remains significant.

Chart 10. Strong EPS growth in EMs, with potential surprise in India

"EMs are one promising place to invest, as long as you're comfortable with bumps"



Earnings Per Shares (EPS) growth in 2026 (expected 2025 vs. forecast 2026)

Bloomberg (yearly expectation and forecast, total return indexes)

China & India — 'Twin Engines, Different Speeds'

China and India still anchor the EM story, but they do it for very different reasons — and that's exactly why they work well together. Both countries deserve a place in a 2026 EM equity allocation. China offers undervalued growth with improving earnings and deep policy support; India brings structural expansion at a higher price. Together, they create a balanced and powerful mix, for those who can bear the volatility…

China may look slow compared to the past, but underneath the surface it's rebuilding momentum where it matters most: technology. Xi's push to close the AI gap with the U.S. by 2025 hasn't fully hit the mark, but it's close enough to make people pay attention. Models like DeepSeek show that China is no longer just catching up — it's competing. The country is pouring money into AI infrastructure, cloud capacity, semiconductors and biotech, all wrapped in a policy mix designed to make China less dependent on foreign tech. Corporate earnings are waking up again, especially in Industrials, Tech and Materials, where profits are set to grow north of 30%. Capex is rising fast, supply chains within the BRICS+ network are becoming more sophisticated, and valuations remain attractive. It's a rare combination: strong growth drivers, clear political backing and prices that still look cheap.

India tells the opposite story — but one that's just as convincing. It's expensive within the emerging-world universe, and investors have been willing to pay up because the growth backdrop keeps delivering. The government is running openly pro-growth fiscal policy — tax cuts, a more flexible GST (Goods and Services Tax) system and programs that make it easier for businesses to operate. The central bank is expected to ease policy even if inflation stays a bit sticky, adding more support. India's long-term trajectory still stands on three pillars: a young population, rapid digital adoption and steady investment inflows. Put together, they justify the valuation premium.

Is Artificial Intelligence (AI) Another Dot-com?

People love to say, “This AI boom is just the dot-com bubble wearing new clothes.” Fair enough — the comparison is tempting. But if we put the emotions in the freezer for a moment and look at the facts, the overlap is surprisingly small. Yes, both moments are driven by big, society-shifting technologies. Beyond that… the differences are doing most of the heavy lifting. (Assumption for timing: Dot-com = January 1995 to March 2000; AI = January 2023 to October 2025).

Where They Actually Look Alike (partly…)

- **Disruptive tech vibes.** Both periods aren’t about polishing old products — they are about blowing up the menu and serving an entirely new cuisine. The internet rewired how businesses ran; AI is doing the same today.
- **Markets were strong.** Back then the Nasdaq skyrocketed ~570% from the mid-90s to the peak. The AI run is healthy but tamer: ‘only’ about 130% from Jan 2023 to Oct 2025.
- **Valuations feel spicy, but not comparable indeed.** Dot-com valuations were nosebleed-level: Verizon 60× earnings, Deutsche Telekom 100×, Cisco 131×, Yahoo! 600×. Today’s numbers look almost frugal by comparison — Deutsche Telekom 12× forward, Apple ~33×, Microsoft ~30×, Alphabet ~28×, NVIDIA ~39×, Meta ~25×.
- **Debt buildup… but different scale.** The dot-com era’s telecom giants borrowed mountains of cash to buy licenses and build networks — which later blew up spectacularly. Today debt is rising in capex-heavy AI names, but most large tech firms sit on healthier balance sheets (lots of cash, low leverage).

Where They Really Don’t Match

- **Investment firepower.** Venture capital raised $3bn in 1995 and ~$100bn in 1999. AI is a different beast: capex (private plus corporate) hit $252bn in 2024 and may reach ~$420bn in 2025. That's a whole new league.
- **Market concentration.** In the 90s, the biggest tech stocks made up ~13.7% of the S&P 500; the top 10 IT names were under 19%. Today? Top 5 tech = 27%. Top 10 = 38%. That’s twice as concentrated — a very different market structure.
- **IPO fever then vs. now.** The 1990s were IPO Wonderland: ~5,700 U.S. listings. The current hype sits under half that (~2,360). Much less “everyone with a website goes public.”
- **Rally length.** Dot-com: ~62 months. AI: ~34 months so far. Shorter runway, faster cycle.
- **Actual profits.** Many dot-com stars had no profits and only a dream. Today’s AI heavyweights — Microsoft, Alphabet, Apple, Nvidia — are money-printing machines. Totally different risk posture.
- **Warnings and watchdogs.** Dot-com had Greenspan’s ‘irrational exuberance,’ Buffett’s caution, Shiller’s analysis (but in 1996…). Today the megaphone is global: IMF, ECB, BOE, FSB, plus every major analyst and newspaper waving the ‘be careful’ flag in surround sound.
- **Monetary backdrop.** In 1999, Fed policy was more restrictive than not. In 2022–2025, rates spiked rapidly before easing and today Central Banks are more dovish than hawkish, with notable exceptions.
- **Fiscal posture.** Late 90s America ran budget surpluses. Today it runs multi-trillion-dollar deficits. That shifts macro risks, cushions, and political choices in ways that make the two eras structurally different.

Bond Markets 2026

Bonds 2026 – 'The Return of the Steep Curve'

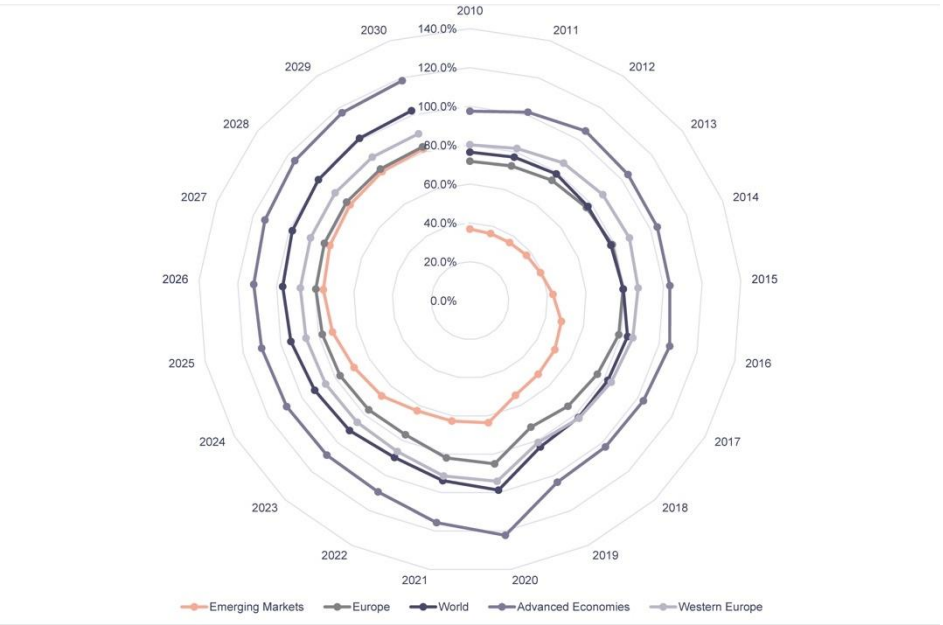
If You Only Have 30 Seconds

- 2026 is all about steeper curves, selective credit, and carry over heroics. Governments keep borrowing, inflation stays sticky, and central banks cut slowly — so short rates ease while long yields stay firmer.
- U.S. Government bonds: Front-end supported by modest Fed cuts; long-end pressured by heavy issuance and politics. Treasuries hedge again — stick to intermediate duration.
- European Government bonds: Slow ECB easing, healthier fiscal backdrop, curves biased steeper. We prefer U.S. Treasuries. U.K. gilts relatively appealing.
- Investment Grade bonds: Strong fundamentals, tight spreads, still attractive carry. Focus on high-quality 4 – 7yr maturities.
- High Yield bonds: Defaults inching up and spreads thin. Favor BBs and shorter duration.
- Emerging Market bonds: Still a compelling carry story with a softer dollar and improving credit quality — be selective by country.
- CLOs: Floating-rate carry with solid protection, but quality matters. Use sparingly.

The global bond market heads into 2026 shaped by three big forces: rising government debt, more cautious central banks, and corporate borrowers that — so far — are still holding up well. Public debt keeps climbing almost everywhere. Developed countries are already sitting at 110% debt-to-GDP, and the IMF thinks this could reach around 118% by the end of the decade. Emerging economies are gearing up to borrow more too, as they push ahead with new infrastructure and long-term development plans. A mix of higher defense spending, ageing populations, and inflation that refuses to fade is driving this trend. And with fiscal tightening now politically explosive — France being the latest example — governments are choosing growth over austerity. The U.S. is expanding its fiscal footprint, Japan is running full throttle on pro-growth spending, and Europe is edging in that direction. With all this, the long end of yield curves is unlikely to fall much, and managing duration actively becomes essential, especially with the unusually large disagreements we're seeing among Federal Reserve policymakers.

Monetary policy adds another layer of complexity. Yes, 51 central banks have been cutting rates for almost two years, but real yields are still relatively high, and the appetite to cut further is fading. The front end of the curve should still get support — especially in places like the U.S., where governments prefer shorter-term refinancing. But with inflation proving sticky, central banks can't deliver the kind of deep easing cycles we were used to. This sets the stage for curve steepening: short-term rates drifting lower thanks to policy easing, while long-term yields stay put or push a bit higher under the weight of persistent inflation and heavy government issuance.

Chart 11. Expanding government debts, with still room to grow



"With fiscal tightening politically explosive, governments choose growth over austerity"

Central Government Debt as a % of GDP (actual 2010-2024, forecast 2025-2030)

International Monetary Fund, Datamapper

Corporate credit continues to show more resilience than many expected. Earnings are still growing, margins are improving, and balance sheets generally look solid. There are signs to keep an eye on — more convertible issuance, big tech firms tapping bond markets to finance investment, a few cracks in private credit, and rising delinquency rates in U.S. business and student loans. But none of this looks alarming in a historical context, and recovery rates remain healthy. The bigger problem is spreads: they're tight, and that leaves little margin for mistakes. This is a year when credit selection matters again. Investors need to look more closely at fundamentals, cash flow stability, liquidity, and capital discipline than they have had to in a long time.

Government Bonds – "It's All About Central Banks. Or Is It?"

United States — 'Supportive front end, fragile long end'
The Fed's own forecasts point to a Fed Funds rate drifting toward the 3.25%–3.50% range by the end of 2026 — half a percentage point below today's 3.75% – 4.00%. Markets are dreaming of something softer, with some traders whispering about 3%. That feels a bit too hopeful. Inflation, especially in services, is likely to stay above the Fed's comfort zone for at least the first quarter of 2026, and that alone makes it hard to believe the central bank will deliver a sharp easing cycle.

A new Fed Chair arriving in the middle of all this doesn't make the outlook any smoother. Even if policy direction ultimately stays steady, leadership transitions almost always bring pockets of volatility. What is clearer is that the Fed, as a whole, is leaning harder into the "full employment" side of its mandate. That helps the short end of the curve, where carry is still appealing and where rate cuts — however modest — should hold yields down.

The long end plays by different rules. The Treasury has a heavy issuance calendar ahead, and the administration is openly using fiscal policy as a growth tool. That combination naturally pushes long yields higher. Add the political calendar — 2026 midterms with a high probability of Republicans losing some seats — and the picture becomes even more skewed toward curve steepening. Historically, when inflation is sticky and Washington looks wobbly, long rates tend to reflect that tension.

Chart 12. Further U.S. Fed cuts but a steeper curve

"Markets are whispering 3% Fed rates. That feels a bit too hopeful"

U.S. Fed Funds Effective Rate vs. 10-year U.S. Treasury Bond yield, as of 21 November 2025

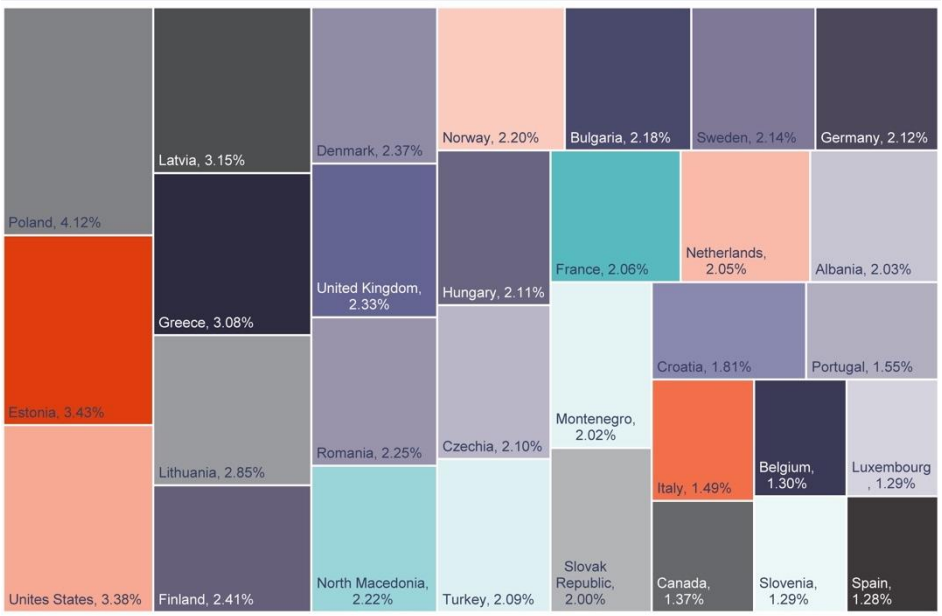
Bloomberg (FFER monthly, UST daily)

For now, the 10-year Treasury has been stuck between 4.0% and 4.5% for most of the past nine months, with only brief dips below 4%. At around 4.25%, we see a decent entry point, especially with a credible path toward something under 4% in 2026 as growth cools and policy easing eventually arrives. Importantly, Treasuries have regained their negative correlation with equities — meaning they can serve as a proper hedge again. In terms of positioning, an intermediate duration close to seven years still looks like the sweet spot.

Europe — 'Room to ease, but not in a hurry'
With inflation in the Eurozone now sitting close to the 2% target, the ECB has finally opened the door to rate cuts — but it won't be rushing. Growth is weak, but not weak enough to justify aggressive easing, and unless the economy suddenly slumps (which we do not expect), the central bank will probably move more slowly than its peers.

Fiscal conditions in Europe are also on a healthier path than many people assume. Western Europe's debt-to-GDP sits under 87% and is expected to peak below 90% by 2030, according to the IMF — a far better position than other major developed economies. This gives governments the space to keep fiscal policy supportive, especially in areas like infrastructure, energy transition, and expanding defense needs. Mario Draghi's long-term plan for deeper European investment makes strategic sense, but it's unlikely to fully materialize as early as 2026.

Chart 13. Defense spending in Europe has potential to grow



"Good fiscal conditions give governments the space to keep fiscal policy supportive"

Defense Spending as a % of GDP (full year 2024)

NATO, Atlantic Council

European bond markets had a tough 2025, with most 10-year bonds under pressure except for Italy and Switzerland. A sharp drop in inflation or a surprisingly large cooling in the economy could push long-dated yields lower, but we don't see that as our central scenario. More likely is a steeper Eurozone curve as Germany's spending push starts feeding into the economy.

Across the Channel, the U.K. still looks relatively attractive. Markets expect only limited Bank of England rate cuts, along with a continued decline in inflation and the possibility of a tighter fiscal stance. Taken together, that mix should support lower gilt yields through 2026.

Positioning: stay shorter on duration in Europe compared with U.S. Treasuries.

Corporate Credit — "Quality carries the day"

Investment Grade (IG) — We remain constructive
Investment Grade credit continues to offer one of the most attractive risk-adjusted carry propositions in global fixed income. All-in yields remain elevated, hovering near 4.5% in USD IG and around 3% in EUR IG — levels that still compare favorably with the past decade. Central banks are shifting gradually toward an easing bias, especially the Federal Reserve and, to a lesser extent, a more dovish-leaning ECB, which adds another layer of valuation support. Investor demand has stayed robust, easily absorbing the steady supply of new issuance. Corporate fundamentals have also strengthened: EBITDA growth continues to outpace the rise in leverage, and balance sheets are generally healthy. Even in recent bouts of market turbulence, IG has demonstrated strong resilience; spreads have remained tight and the asset class has held up considerably better than high yield.

Issuance this year has been particularly heavy among AI-related corporates. The largest technology companies — including Amazon, Alphabet, Oracle, and Meta — have all tapped the markets for multibillion-dollar funding to support capex and strategic investments. Despite the increased borrowing, these firms continue to cover roughly 60% of their capital expenditure with internally generated cash, so the rise in supply does not represent a deterioration in credit quality.

Chart 14. Investment Grade spreads are low. Aim for carry

"Spreads are tight. A more meaningful widening would create attractive entry points"

U.S. Investment Grade Corporate Index Option-Adjusted Spread, as of 21 November 2025

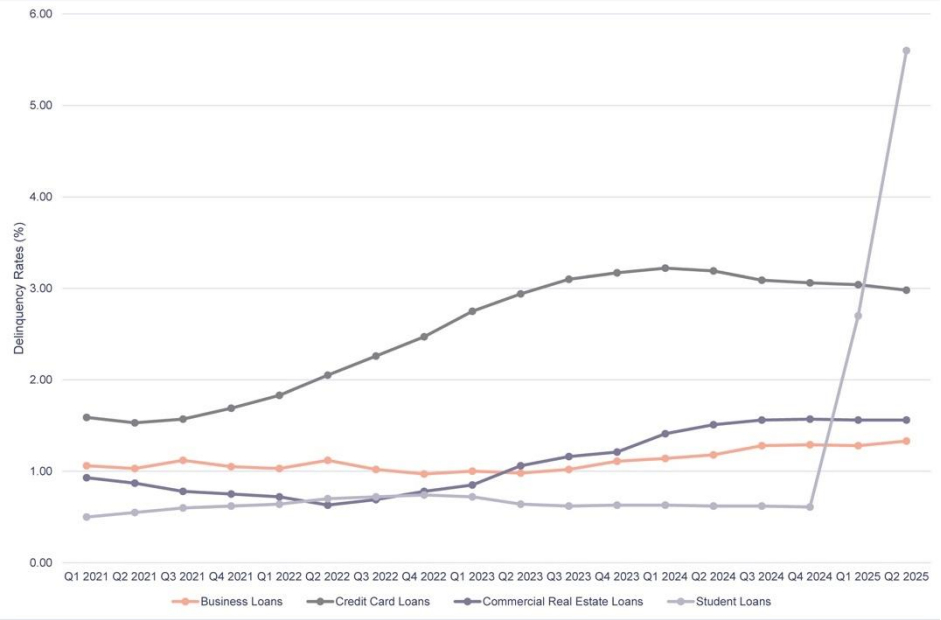
Ice Data Indices, LLC via FRED®

Spreads are tight, sitting below 80 bps in EUR IG and roughly 85 bps in USD IG, just marginally wider than their cycle lows. A more meaningful widening toward the 120–140 bp range would create attractive entry points, yet even at current levels the carry remains compelling in an environment without a major risk-off shock. From a portfolio standpoint, the focus should remain on high-quality IG in the intermediate portion of the curve, particularly maturities between four and seven years.

High Yield (HY) — 'Handle with caution'

High yield markets have delivered strong returns, but the risk profile is shifting. Default rates are rising modestly, especially in the U.S and the European HY universe, where defaults have climbed to nearly 2.9%. U.S. HY defaults remain comparatively low at just over 1%, though we expect them to drift toward the 3% range. Even so, the overall credit mix is more robust than in previous cycles, with over half of the HY market now rated BB — providing a useful buffer against broader economic weakness.

Chart 15. Delinquency rates on the rise in the U.S.



"Default rates are rising modestly, especially within U.S. mortgages and student loans"

U.S. Delinquency Rates: Business, Credit Card, Commercial RE, Student loans

Board of Governors of the Federal Reserve System, California Policy Lab

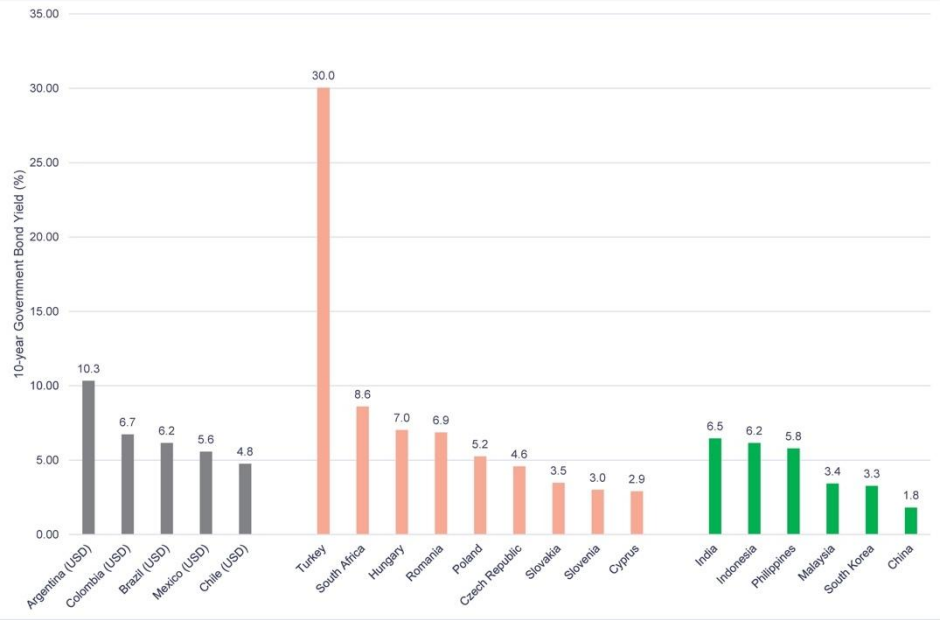
Leverage has begun to creep higher, particularly among mid-cap issuers, although interest coverage ratios remain generally adequate for now. Spreads, meanwhile, remain compressed: around 3.2% in U.S. HY and just under 3% in Europe, levels that leave limited room for error. They could widen quickly if volatility persists or if defaults within the private-credit space continue to emerge. That said, opportunities remain, especially in subordinated financials and in strong BB-rated companies with predictable cash-flow profiles.

The prudent approach is to stay biased toward higher-quality HY, maintain shorter duration exposure, and remain selective — avoiding the weaker tail of lower-rated issuers where risks are disproportionately concentrated.

Emerging Markets Debt — 'Still a compelling carry story'
Despite spreads that sit near multi-year lows, emerging-markets debt continues to offer an attractive carry story. The Federal Reserve's ongoing shift into an easing cycle is gradually loosening global financial conditions, and a softer U.S. dollar provides meaningful support to local-currency EM bonds. Carry remains one of the strongest in global fixed income, sitting near 7% and well above long-term averages. Default rates have been contained at around 2.5%, clearly below the historical norm of roughly 4.5%, while sovereign credit quality across many EM countries has improved thanks to upgrades and constructive engagement with the IMF.

Chart 16. EM Bonds still offer interesting yields

"Emerging-markets debt continues to offer an attractive carry story"



Emerging Market 10-Year Government Bond Yields by country / region (as of 24 November 2025)

Bloomberg (last price)

Growth across emerging economies continues to outpace that of developed markets and remains comparatively stable, providing a favorable backdrop for credit. Asia in particular stands out for its relatively low default rates, especially compared with parts of Latin America where idiosyncratic risks remain more elevated. From a positioning standpoint, the most attractive approach is to favor EM hard-currency sovereigns and high-quality local-currency bonds, with careful attention to liquidity and rigorous country-level selection.

CLOs — 'A high-quality, floating-rate carry sleeve'

Collateralized loan obligations (CLOs) continue to offer a compelling combination of income and resilience. Yields remain above 4% across comparable rating tiers, comfortably above their long-term averages, and the predominantly investment-grade structure of the asset class provides a solid credit cushion. Their floating-rate nature also reduces duration risk, which is particularly valuable in a rate environment still prone to sharp swings and inconsistent forward guidance.

However, CLOs require discipline. Underwriting standards vary significantly across managers, and the dispersion in performance can be wide, especially during periods of stress. Investors who approach the sector selectively and focus on experienced managers with strong track records can capture attractive carry while maintaining robust structural protection. The optimal strategy is to use CLOs exposure judiciously, emphasizing manager quality and maintaining broadly diversified allocations.

Currency Markets 2026

Currencies 2026 – 'Navigating the Crosswinds'

If You Only Have 30 Seconds

- 2026 is a year to stay close to home base. Policy noise is high, fiscal and monetary lines are blurring, and rate cuts will be slow. Real-rate dynamics matter more than nominal moves, giving EM currencies an edge where fundamentals are solid.
- US Dollar: Twin deficits, a dovish-leaning Fed, and political uncertainty keep the dollar on the back foot. Even after its 2025 drop, it remains overvalued and vulnerable to softer real yields. No major correction expected.
- Swiss Franc: Low inflation and a hands-off SNB keep the franc stable but less explosive. It should soften modestly vs. the euro, hold its ground vs. the dollar, and spike only during risk stress.
- Euro: Slow ECB easing, reduced political risk, and renewed fiscal spending give the euro a firmer base. Not a breakout story, but steadier and slightly stronger into 2026.
- British Pound: Despite political noise, sterling's yield advantage stands out. Even after BoE cuts, UK rates remain high relative to peers. Constructive vs. the dollar and franc; roughly aligned with the euro.

The currency landscape in 2026 feels like standing on a ridge: the view is wide, the air is clear, and yet one misstep can erase months of tactical gains. This is a year for staying close to one's base currency, not out of timidity, but because global macro noise is loud enough to drown out even well-constructed trades. Central banks and fiscal authorities are drifting into an uneasy partnership — not by design, but by constraint. Public debt has ballooned; deficits have stopped apologizing; growth is slowing. The result is a world in which policymakers talk about independence while quietly acknowledging their interdependence. Even in the United States, the Fed will let the data dictate its path, especially if any renewed drift in inflation forces its hand.

Rate cuts are coming, but they will be slow, tentative, and data-dependent. What matters most now is not nominal yields but the shape of real rates, and in that space emerging-market currencies enjoy the advantage of stronger growth engines and healthier momentum. A number of EM currencies have the capacity to appreciate against the dollar simply by continuing to deliver steady fundamental improvements.

US Dollar — 'Some Headwinds Still Ahead'

The dollar itself enters 2026 weighed down by familiar burdens: twin deficits widening at the wrong point in the cycle, a new Fed leadership inclined to err on the side of dovishness, and a political backdrop that refuses to quiet down. Even after its 2025 pullback, the greenback still sits roughly one standard deviation (6%) above its long-term real effective value. Valuation alone never turns the tide, but it does mark where currents are shifting. Add the uncertainty of a forthcoming Supreme Court ruling on tariff authority — with all the policy unpredictability that implies — and the dollar's status looks less dominant than defensive.

Chart 17. The USD has depreciated but still above its long-term average

"The greenback still sits roughly a standard deviation above its long-term value"

Real Broad Effective Exchange Rate for USD, as of October 2025

Bloomberg, PKB (monthly)

Swiss Franc — 'Still a Haven, but with Softer Edges'
The Swiss franc, perennial refuge in turbulent times, is unlikely to deliver its familiar surge unless markets genuinely lose their footing. Domestic inflation is anchored, the Swiss National Bank has no appetite for revisiting negative rates, and in a rare joint declaration with the U.S. Treasury the SNB has agreed not to manipulate its currency. In quiet markets the franc should ease a touch against the euro while holding its line versus the dollar, with brief, sharp rallies only during episodes of stress.

Euro — 'Not Too Strong, but Steadier'
The euro carries less bragging than in past cycles, but also fewer liabilities. The ECB may cut, but not with the speed or scale of the Fed. France's political reset removes a cloud that had been hanging over European assets. And with Europe preparing another wave of spending on infrastructure and defense, yields are likely to offer just enough support to prevent the currency from drifting lower. "A bit stronger, not weak" defines the single currency entering the year — a rare equilibrium moment.

British Pound — 'Carry With Caveats'
Sterling remains the contrarian's favorite. Despite fiscal ambiguity and a political climate that offers more questions than answers, the pound's carry remains compelling. Even after the Bank of England trims rates through 2026, UK yields are still set to tower above those in Switzerland, sit clearly above those in the Eurozone, and remain distinctly higher than those in the United States. For these reasons, we remain constructive on sterling versus both the dollar and the franc, and broadly sympathetic to the euro's trajectory.

Commodity Markets 2026

Commodities 2026 – 'The Pulse Beneath the Surface'

If You Only Have 30 Seconds

- Commodities enter 2026 steady, supported by AI's power demand, global electrification, and infrastructure rebuilds. Dispersion is wide, but the overall tone is constructive.
- Gold: A softer dollar, lower real yields, and geopolitical noise keep gold a solid stabilizer. Do not expect the same returns as in 2025.
- Energy: Non-OPEC+ supply is peaking while demand rises, putting a firmer floor under prices.
- Industrial Metals: Copper and aluminum are long-term winners as data centers, grids, and EVs strain limited supply. Silver, uranium, and thorium offer selective but high-volatility opportunities.

In 2026, commodities are no longer the satellite allocation that investors touch only when inflation flares. They form the subtle rhythm beneath global transitions. They reward those who listen carefully — to the noise, yes, but even more so to the deeper, slower beat guiding the decade ahead.

Commodities slip into 2026 without fanfare yet with a firmness that refuses to fade. Their strength is not loud, nor is it linear; it is the kind that builds gradually, in the spaces where supply chains tighten, demand patterns shift, and technologies outgrow yesterday's resource assumptions. Volatility is rising and dispersion is widening, but this is not a market ruled by big macro tides — this is a year in which individual commodities write their own stories. The broad stance is constructive, but success depends on reading the undercurrents with precision rather than surfing the surface waves.

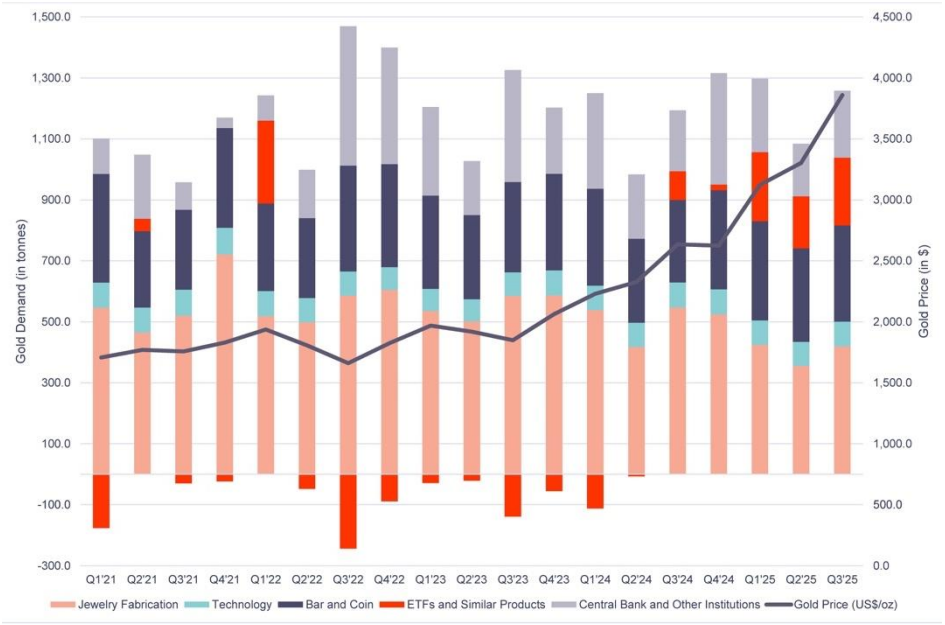
Manufacturing's rebound provides a gentle push, but the real propulsion comes from three long arcs that cut across cycles: the insatiable electrical appetite of artificial intelligence, the accelerating march of global electrification, and the structural pivot toward greener infrastructure. Many metals sit at the crossroads of these forces, and that intersection grants them a strategic weight inside portfolios. Because commodity performance often dances out of sync with equities and bonds, these assets strengthen the barbell-like diversification at the core of our 2026 positioning.

Gold — 'The Quiet Guardian'

Gold, for its part, remains a tactical neutral but an essential companion. It earns its keep not through enthusiasm but through reliability: it absorbs the tremors that dollar weakness, electoral theatrics, geopolitical sparring, and fiscal largesse may deliver. Central-bank purchases kept their pace in 2025 and we expect renewed accumulation from reserve managers still structurally underweight. As the Fed trims rates and real yields drift lower, the opportunity cost of holding gold eases, giving the metal a quiet but persistent scaffolding.

Chart 18. Gold price mainly driven by ETFs / speculative buying

"Gold, for its part, remains a tactical neutral but an essential companion"



Gold Demand by source, Gold Price in $/ounce (as of end September 2025)

ICE Benchmark Administration, Metals Focus, World Gold Council, Bloomberg

Energy — 'The Slow-Burn Reawakening"

Energy tells an altogether different tale. Its 2025 underperformance — held down by generous supply and hesitant demand — has created the conditions for a turn. Non-OPEC+ supply growth is hitting its ceiling, just as demand edges upward. That narrowing gap introduces a firmer floor under prices. Energy also retains its old geopolitical reflex: when global tensions tighten, crude becomes the market's accelerant and shock absorber in equal measure.

Industrial Metals — 'The Wiring of the Future"

Among industrial metals, copper and aluminum emerge as the structural protagonists. They sit at the heart of the AI-energy nexus, and their scarcity is becoming increasingly difficult to ignore. Consider the scale of the coming demand: the United States may need to add over 100 GW of new energy capacity every year just to keep pace with digitalization, while Bloomberg projects that data-center electricity consumption will nearly triple by 2035. AI infrastructure alone devours copper — 2 miles per rack in the most advanced systems — while the green transition intensifies the same competition for metal that grid expansion and EV rollouts already create. Mines cannot expand fast enough to defuse the pressure. These metals are not cyclical trades; they are long-duration themes. More unruly elements — silver, uranium, thorium — offer bursts of opportunity. Silver's surge to a record high this year serves as a reminder: these markets can deliver exhilarating upside, but only for investors comfortable navigating turbulence. Uranium and thorium tie into the nuclear renaissance narrative — slow-moving yet powerful when it catches.

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