



Dorovia – Global Economic & Markets – 2026 Outlook: *The Alignment of Stars*

Dorovia Global Multi-asset Fund

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Market Spotlight

The "Sweet Spot": Navigating the Transition from Liquidity to Fundamentals

As we traverse into 2026, the global economy appears to be settling into a macroeconomic "sweet spot" defined by resilient growth and synchronised monetary easing, creating a constructive—albeit divergent—backdrop for risk assets.

The Macroeconomic Backdrop: Trend Growth and Policy Pivots Global activity remains surprisingly robust. We project world GDP to expand at a steady pace of approximately 2.6% to 3.0%, broadly aligning with long-term trends. This moderation is crucial: it is strong enough to support corporate earnings yet modest enough to cap inflationary pressures. Consequently, the narrative has shifted; investor sentiment is turning increasingly optimistic on growth and less pessimistic on inflation.

This environment has enabled a coordinated policy pivot. Approximately 85% of global central banks are now in an easing cycle, supported by a private sector that is increasingly stepping in to provide credit. However, a key caveat remains: while rates will fall further, the *velocity* of monetary easing is set to decelerate. Investors should anticipate less of a liquidity-driven "fillip" than witnessed in 2025. The baton is passing from central bank liquidity to earnings fundamentals as the primary driver of returns.

Global Equities: Resilience Amidst Complexity Notwithstanding concerns regarding market concentration, elevated valuations, and fears of an AI bubble, the outlook for equities is not negative. We forecast global equities to deliver returns in the range of 5–8% over the coming year, underpinned by positive economic momentum and structural investment in new technologies.

However, the "rising tide" era is yielding to a market defined by dispersion. The pattern of returns over the next 12 months will not be uniform, necessitating an active approach to asset allocation. We advocate for a portfolio tilted toward high-quality businesses—those with high profitability and steady earnings—to act as a hedge against adverse geopolitical or macroeconomic shocks.

Regional Divergence: The Search for Alpha Our strategic views highlight distinct opportunities across key regions:

- **United States:** Contrary to widespread fears regarding the stagflationary impulses of new policies (immigration and tariffs), the US economy remains resilient. While growth may slightly undershoot potential and inflation may remain stickier in the first half of the year, the corporate earnings outlook remains relatively positive. We continue to favor **Growth stocks** in this region.
- **Europe:** We see a compelling valuation argument in Europe. Adjusting for sector composition, European equities trade at a 25% discount to the US—a historically wide gap compared to the pre-pandemic norm of 10%. This sets a low bar for positive surprises. We see strong upside in **domestically oriented mid-caps** and **value stocks**, particularly as fiscal stimulus plans, notably in Germany, begin to materialize.
- **Emerging Markets (EM):** EM represents our highest conviction call for outperformance. The stars appear aligned for a resurgence: strong secular growth prospects are now met with favorable macroeconomic conditions, including a weaker US Dollar, lower real interest rates, and robust commodity prices. Furthermore, the microeconomic case is strengthening, with many EM firms well-positioned to capitalize on the expansion of the artificial intelligence supply chain.

Dorovia Global Multi-asset Fund



Global Market Performance

Equity Indices	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World									
MSCI AC World Index (USD)	1 001	-0.8	2.5	2	19.3	19	1 018	723	21
North America									
US Dow Jones Industrial Average	47 952	-1	3.9	3.5	13.2	12.7	48 887	36 612	23.9
US S&P 500 Index	6 775	-0.8	2	1.7	15.5	15.2	6 920	4 835	24.8
US NASDAQ Composite Index	23 006	-0.8	2	1.7	18.8	19.1	24 020	14 784	35
Canada S&P/TSX Composite Index	31 441	-0.3	3.8	5.6	28.8	27.1	31 761	22 228	19.1
Europe									
MSCI AC Europe (USD)	690	1	5.6	5.2	30.4	30.5	691	516	16.3
Euro STOXX 50 Index	5 742	0.4	3.6	5.2	17.7	17.3	5 818	4 540	17.4
UK FTSE 100 Index	9 838	2	3.5	6.7	21.4	20.4	9 930	7 545	14.4
Germany DAX Index*	24 200	0.1	4.5	2.4	21.2	21.5	24 771	18 490	17.8
France CAC-40 Index	8 151	1	2.5	3.8	11.7	10.4	8 314	6 764	17.8
Spain IBEX 35 Index	17 133	1.7	7.8	12.3	49.8	47.8	17 097	11 311	14.6
Italy FTSE MIB Index	44 463	2.2	4.2	5.1	31.6	30.1	45 072	31 946	13.7
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	698	-2.3	0	-0.1	21.9	22.6	737	507	16.6
Japan Nikkei-225 Stock Average	49 487	-2.7	2	9.9	27.5	24	52 637	30 793	20.9
Australian Stock Exchange 200	8 623	-0.9	2.1	-1.7	5.6	5.7	9 115	7 169	20
Hong Kong Hang Seng Index	25 597	-1.5	-0.9	-3.6	29.6	27.6	27 382	18 671	12.4
Shanghai Stock Exchange Composite Index	3 880	-0.2	-1.7	1.6	15.1	15.8	4 034	3 041	15
Hang Seng China Enterprises Index	8 863	-2.4	-3.1	-6.4	23.9	21.6	9 770	6 763	11.4
Taiwan TAIEX Index	27 803	-1.4	4.6	8.7	21.2	20.7	28 568	17 307	20.1
Korea KOSPI Index	4 018	-3.6	2.2	16.6	64.9	67.4	4 227	2 285	13.8
India SENSEX 30 Index	84 482	-0.9	-0.8	2.2	6.6	8.1	86 159	71 425	21.2
Indonesia Jakarta Stock Price Index	8 642	-0.2	2.8	7.3	23.9	22.1	8 777	5 883	16
Malaysia Kuala Lumpur Composite Index	1 656	1.1	2	3.6	3.5	0.8	1 659	1 387	15.3
Philippines Stock Exchange PSE Index	6 000	-0.6	3.2	-4.2	-6.2	-8.1	6 661	5 584	9.7
Singapore FTSE Straits Times Index	4 570	-0.4	1.4	6.2	21.4	20.7	4 603	3 372	15.1
Thailand SET Index	1 250	-0.3	-1.7	-3.3	-9.3	-10.7	1 410	1 054	14
Latam									
Argentina Merval Index	3 163 224	6.2	10.2	87.8	30.7	24.8	3 182 789	1 635 451	19
Brazil Bovespa Index*	157 923	-1.8	1.6	8.3	30.3	31.3	165 036	118 223	9.8
Chile IPSA Index	10 194	-2	3.2	13.2	52.2	51.9	10 501	6 636	14.1
Colombia COLCAP Index	2 055	-2.5	-0.3	10.6	49.6	49	2 124	1 363	9.3
Mexico S&P/BMV IPC Index	63 807	-1.4	2.8	4.3	29.5	28.9	65 250	48 770	14
EEMEA									
Saudi Arabia Tadawul Index	10 450	-2.5	-5	-3.1	-12.1	-13.2	12 536	10 367	N/A
South Africa JSE Index	114 516	1.1	2.2	7.9	35.6	36.2	115 717	77 165	13.8
Turkey ISE 100 Index*	11 335	0.2	4	0.4	16.1	15.3	11 605	8 873	5.1

Source : Bloomberg - Data as of 19/12/2025

Dorovia Global Multi-asset Fund



Global Market Performance

Bond indices - Total Return							
	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	
BarCap GlobalAgg (Hedged in USD)	608	0.3	0.2	0.8	5	4.8	
JPM EMBI Global	1 015	0.3	0.8	3.2	13.2	13.2	
BarCap US Corporate Index (USD)	3 541	0.5	0.7	0.6	7.8	7.7	
BarCap Euro Corporate Index (Eur)	265	0.1	-0.1	0.3	2.9	2.9	
BarCap Global High Yield (Hedged in USD)	687	0.3	1.1	2.1	9.9	9.6	
Markit iBoxx Asia ex-Japan Bond Index (USD)	242	0.3	0.4	1.1	7.8	7.6	
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	285	0.1	0.3	0.8	9.3	9.2	
Bonds							
US Treasury yields (%)							
3-Month	3.58	3.61	3.87	3.96	4.33	4.31	-3
2-Year	3.47	3.52	3.59	3.57	4.32	4.24	-5
5-Year	3.67	3.74	3.71	3.68	4.42	4.38	-7
10-Year	4.13	4.18	4.14	4.13	4.56	4.57	-5
30-Year	4.81	4.84	4.76	4.74	4.74	4.78	-4
10-year bond yields (%)							
Japan	1.98	1.95	1.77	1.64	1.06	1.09	3
UK	4.48	4.52	4.60	4.71	4.58	4.56	-4
Germany	2.85	2.86	2.71	2.75	2.30	2.36	-1
France	3.56	3.58	3.46	3.55	3.12	3.19	-2
Italy	3.54	3.55	3.45	3.53	3.47	3.52	-1
Spain	3.28	3.31	3.21	3.29	3.00	3.06	-3
China	1.83	1.84	1.81	1.80	1.76	1.68	-1
Australia	4.75	4.73	4.42	4.24	4.41	4.36	2
Canada	3.41	3.44	3.26	3.20	3.35	3.23	-4
Commodities							
	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	
Gold	4 324.0	0.6	6	17.3	66.7	64.8	
Brent Oil	59.7	-2.4	-5.3	-8.6	-14.3	-16.3	74.0
WTI Crude Oil	56.0	-2.5	-5.5	-9.3	-15.3	-17.5	71.0
R/J CRB Futures Index	293.2	-1.7	-2	-1.9	1	-1.2	317.0
LME Copper	11 716.0	1.7	9	17.3	31.9	33.6	11 952.0
Currencies (vs USD)							
Developed markets							
EUR/USD	1.17	1.17	1.15	1.17	1.04	1.04	1.19
GBP/USD	1.34	1.34	1.31	1.35	1.25	1.25	1.38
CHF/USD	1.26	1.26	1.24	1.26	1.11	1.10	1.28
CAD	1.38	1.38	1.41	1.38	1.44	1.44	1.48
JPY	156	156	157	148	157	157	159
AUD/USD	0.66	0.67	0.65	0.66	0.62	0.62	0.67
NZD/USD	0.58	0.58	0.56	0.59	0.56	0.56	0.61

Source : Bloomberg - Data as of 19/12/2025

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Global Market Performance

Global Asset Classes	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Silver	148.0%	27.2%	25.1%	26.0%	50.2%	47.9%	28.9%	12.1%	34.3%	52.4%	9.3%	18.4%
Gold	64.6%	23.3%	24.2%	10.5%	40.4%	26.0%	28.8%	4.4%	25.0%	32.3%	8.5%	12.8%
MSCI Emerging Market	30.6%	21.5%	23.4%	10.3%	34.9%	25.1%	25.8%	1.9%	22.7%	15.0%	1.3%	11.4%
Global Natural Resource Equities	29.7%	17.0%	21.8%	8.2%	28.8%	16.3%	25.2%	1.1%	20.1%	14.0%	0.1%	7.1%
MSCI Developed World	19.5%	16.2%	14.9%	2.8%	26.9%	15.8%	24.1%	-1.2%	19.4%	11.4%	-0.7%	4.2%
ESG World Index	19.4%	15.7%	13.5%	1.7%	25.2%	14.1%	22.7%	-1.6%	18.7%	9.5%	-1.7%	4.1%
Global Shariah Index	18.2%	9.2%	13.1%	-0.3%	23.0%	13.5%	19.7%	-3.5%	17.7%	8.6%	-2.7%	2.8%
Europe Ex-UK Equities	16.8%	7.2%	7.0%	-6.4%	22.3%	9.2%	18.3%	-6.2%	13.5%	8.1%	-2.7%	2.1%
US Equities	16.4%	7.1%	6.8%	-12.7%	20.1%	8.2%	17.6%	-8.2%	10.3%	5.3%	-3.0%	0.6%
Global High Yield Corp. Bond	10.6%	5.4%	5.7%	-12.7%	18.4%	4.9%	17.2%	-8.5%	9.0%	5.1%	-3.2%	0.2%
Global IG Bond	8.2%	5.1%	5.2%	-14.5%	6.4%	0.7%	15.4%	-8.5%	7.4%	5.0%	-4.9%	0.2%
World Developed Sovereign Bonds	7.5%	4.4%	4.8%	-16.2%	2.0%	0.4%	15.2%	-9.5%	6.3%	4.2%	-10.4%	-1.4%
Commodities	7.1%	0.7%	4.1%	-19.4%	0.1%	-0.1%	13.4%	-10.4%	5.8%	3.6%	-11.9%	-2.2%
US Cash	4.4%	-0.3%	3.7%	-19.5%	-2.4%	-3.7%	6.8%	-12.6%	3.8%	2.6%	-16.7%	-4.6%
S&P Developed REIT	3.6%	-1.7%	-0.7%	-20.8%	-3.6%	-6.7%	5.9%	-12.9%	1.1%	2.6%	-17.0%	-9.7%
MSCI GCC	1.6%	-3.1%	-2.1%	-22.4%	-4.6%	-11.3%	4.7%	-13.8%	1.0%	2.1%	-24.0%	-19.3%
US Dollar	-9.4%	-3.5%	-4.3%	-24.9%	-4.7%	-21.5%	2.2%	-16.6%	0.7%	0.4%	-32.9%	-33.1%
Brent Crude Oil	-18.5%	-8.3%	-10.3%	-26.9%	-11.7%	-23.7%	0.2%	-19.5%	-9.9%	-0.2%	-35.0%	-48.3%
Average yearly returns for an equally weighted portfolio (%)	21.0%	8.0%	8.7%	-7.6%	15.1%	6.4%	16.2%	-6.3%	11.5%	10.1%	-8.2%	-3.0%

Source : Bloomberg, Kamco Invest- Data as of 31/12/2025

Equities

Global

The "High-Stakes" Rotation: From Momentum to Durability

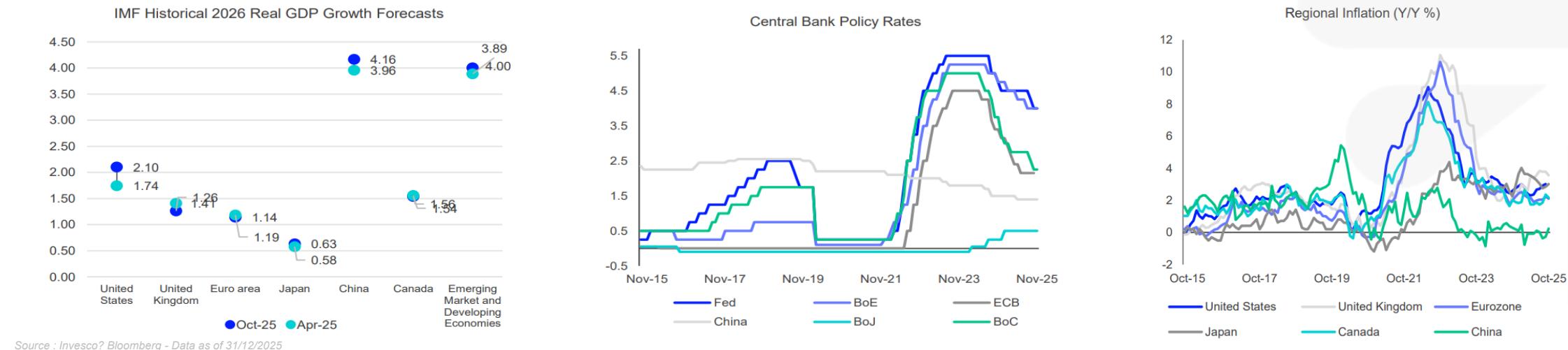
Global equity markets are poised to conclude a stellar year with double-digit gains, having convincingly decoupled from fixed income markets where returns have barely kept pace with inflation. As we pivot to 2026, the central narrative shifts from the sheer velocity of the AI rally to the durability of its earnings power.

The 21 Trillion Dollar Question The current valuation of the US technology sector stands at approximately \$21 trillion—a figure that underscores the magnitude of the bet investors have placed on a single, transformative idea. Artificial Intelligence is not merely a thematic trade; it is an all-pervasive industrial revolution that demands capital allocation. The earnings growth trend it has spurred is real and expected to persist well into 2026. However, history teaches us that technological revolutions rarely proceed in a straight line. While the "AI investment boom" is a game-changing trend that will continue to push aggregate corporate earnings higher, the rewards in the most crowded trades may not match the exuberance of the past 12 months.

A Market in Transition For 2026, the investment imperative is to widen the search for returns. The "easy beta" trade of simply buying the index is likely behind us. We see three key dynamics shaping global equity performance:

- **Resilient Earnings Growth:** The fundamental backdrop remains supportive. With the global economy avoiding a hard landing and central banks easing policy, corporate earnings are expected to broaden beyond the "Magnificent Seven" to the wider market.
- **Valuation Dispersion:** There is a historic gap between the valuations of US mega-cap tech and the "rest of the world." This dispersion offers a fertile hunting ground for active managers to find high-quality companies trading at attractive discounts, particularly in sectors that have lagged the tech boom but stand to benefit from lower interest rates.

Strategic View We remain constructive on global equities, forecasting returns in the mid-single digits (5–8%). However, we advocate for a portfolio shift towards durability. This means retaining exposure to the structural winners of the AI age but balancing this with high-quality, cash-generative businesses in overlooked regions and sectors that can "stay the course" through potential volatility.



Source : Invesco? Bloomberg - Data as of 31/12/2025

Equities

United States - The Indispensable Engine of Global Growth

Resilience in the Face of Elevated Expectations

Despite the optical paradox of recent underperformance relative to international peers—a sign that the global trade is finally broadening out—the United States remains the undisputed core engine of the global equity market. As we look to 2026, the narrative shifts from simple multiple expansion to a "show-me" story where earnings delivery must justify the premium.

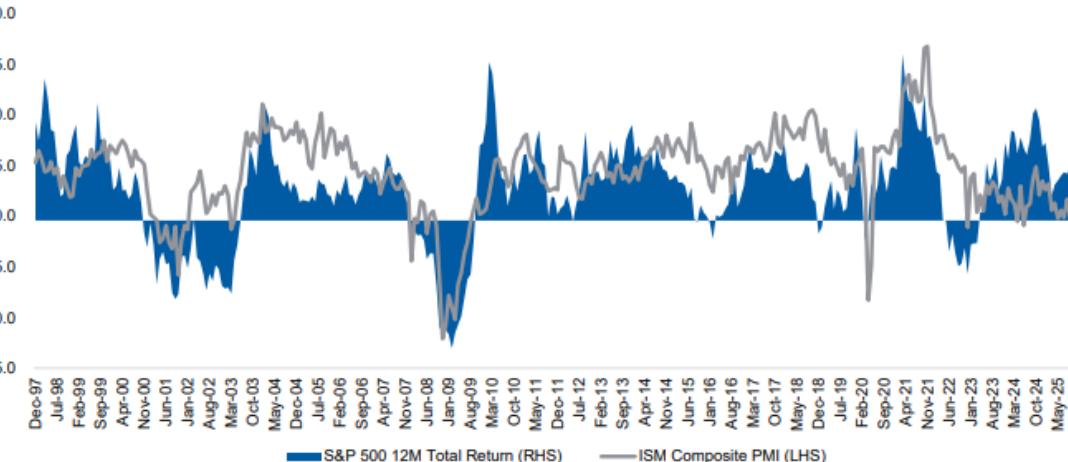
The Macroeconomic Trajectory: A Tale of Two Halves The US economy is poised for a distinct cadence in 2026. We anticipate a notable deceleration in the first two quarters as the lagged effects of restrictive policy bite, before reaccelerating in the second half. This recovery will be fueled by renewed momentum in consumer and business spending, alongside a coordinated easing of monetary and fiscal policy. We project real GDP growth to reach 1.8% in 2026, firming to 2.0% in 2027.

While the disinflationary trend remains intact globally, the US path may be non-linear. Investors should prepare for a transitory rise in Core PCE in Q1 2026—driven by friction from new tariffs and immigration restrictions—before it resumes its descent toward 2.6% by year-end. This backdrop allows the Federal Reserve to maintain an accommodative stance, providing a crucial tailwind for risk assets.

The Tech Dilemma: Fundamental Strength vs. Bubble Fears The US continues to dominate the global innovation ecosystem, particularly in Artificial Intelligence. The concentration of the MSCI ACWI in US stocks (nearly two-thirds) and the record weight of the Technology and Communication Services sectors—exceeding TMT-era peaks—naturally invites bubble comparisons.

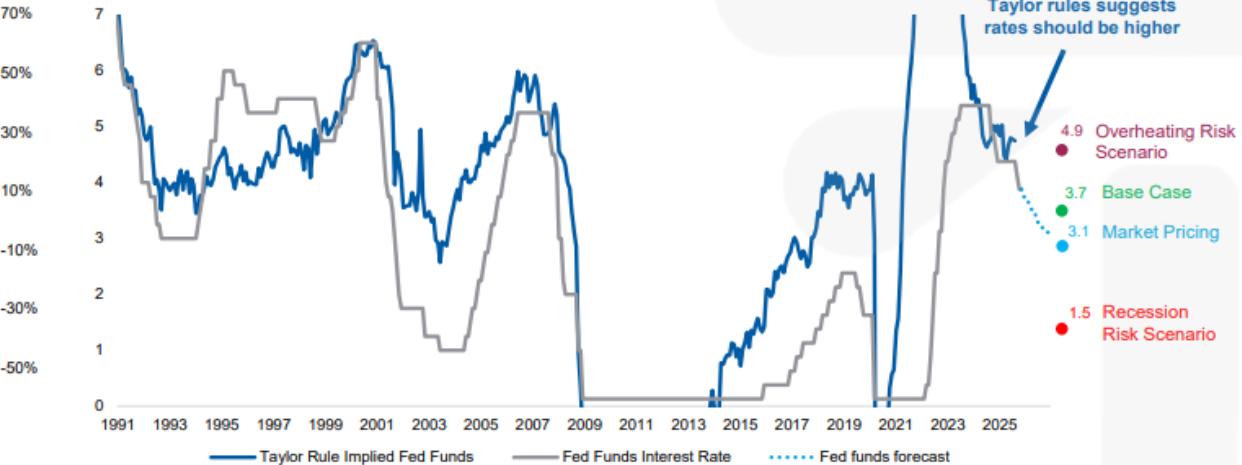
However, we believe this comparison is flawed. Unlike the speculative fervor of the late 1990s, today's valuations are underpinned by robust fundamentals. Year-to-date returns have been driven not by re-rating, but by superior EPS growth and profit margins that are significantly higher than dot-com era levels. While we acknowledge that debt issuance in the tech sector rose significantly in 2025, the AI revolution continues to drive heavy capital expenditure that will eventually translate into profits across the broader economy. The critical bottleneck to watch is no longer just funding, but infrastructure—specifically the energy supply required to power the next leg of AI compute.

If Growth Accelerates in 2026, History Indicates Equity Returns Are Likely To Be Positive
ISM Economy Weighted Manufacturing and Non-Manufacturing Index, S&P 500 12-mo Total Return



Source : Bloomberg, MSIM - Data as of 31/12/2025

The Taylor Rule* Higher Than the Fed Funds Rate Implies Fewer Cuts Than Expected
U.S. Taylor Rule-Implied Fed Funds vs. Fed Funds Interest Rate (%), 1991–2025



Equities

United States - The Indispensable Engine of Global Growth

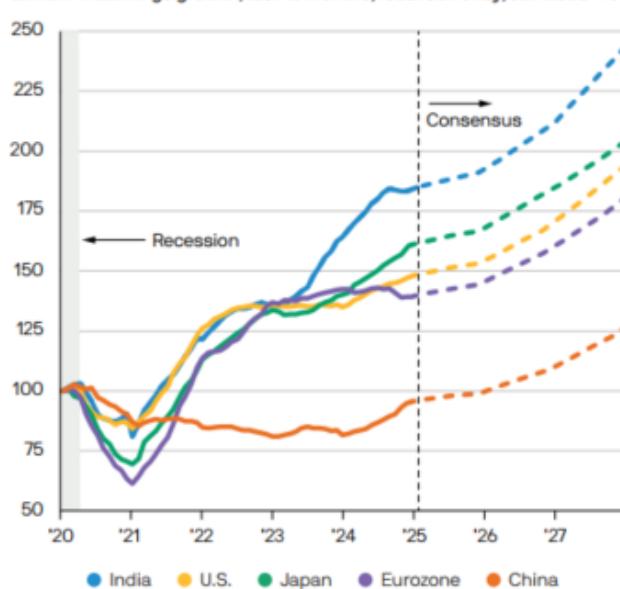
Valuations and Earnings: The Broadening Horizon Valuations are undoubtedly rich, but compelling justifications exist. The US market has delivered four consecutive quarters of double-digit earnings growth, achieved despite policy rates above 4%. For 2026, S&P 500 earnings are projected to grow by another 13%.

A key theme for the coming year is the "passing of the baton." While the "Magnificent 7" earnings growth is expected to decelerate slightly to a still-robust 20%, the rest of the index is forecast to grow by 11%. While this "broadening out" has been elusive thus far, the reacceleration of economic growth in the second half of 2026 should finally catalyze performance in the "S&P 493."

Strategic Positioning: Precision Over Passive Beta Given the dual dynamics of supportive policy and high concentration risk, we advocate for a nuanced approach. While some models suggest a slightly lower absolute allocation to US stocks due to stretched multiples, we remain structurally positive on specific themes that align with the growth trajectory:

- Technology: We maintain core exposure to AI beneficiaries but emphasize companies with clear monetization paths to mitigate capex risks.
- Utilities: A prime beneficiary of the "physical AI" trade, as data center energy demand surges.
- Healthcare: Offers a blend of defensive characteristics and innovation-led growth that has lagged the broader rally.
- Regional Banks & Industrial Policy Beneficiaries: We remain overweight these sectors as leveraged plays on the reacceleration of US growth and ongoing deregulation.

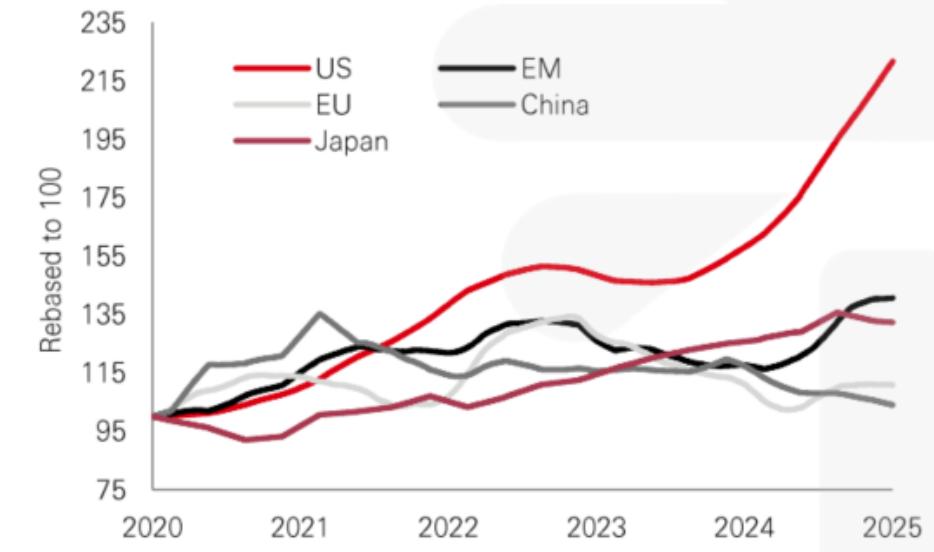
Exhibit 4: Earnings growth, last 12 months, local currency, Jan 2020=100



S&P 500 12-month forward P/E, with average since 1985 and maximum highlighted



Figure 2: Regional Capex spend in Tech and Comms (\$bn)



Source : Blackrock, UBS, HSBC AM, Bloomberg, Refinitiv Datastream - Data as of 31/12/2025

Equities

European Equities: Value, Autonomy, and Domestic Resilience

Deep Value Meets Structural Renewal: The Case for European Resilience

While the US market has been driven by a concentrated AI surge, Europe offers a fundamentally different proposition: a region undergoing a structural pivot toward "Strategic Autonomy," trading at valuations that price in extreme pessimism. The opportunity here is not about beta; it is about capturing the specific beneficiaries of a capex revival in defense, energy security, and digitalization.

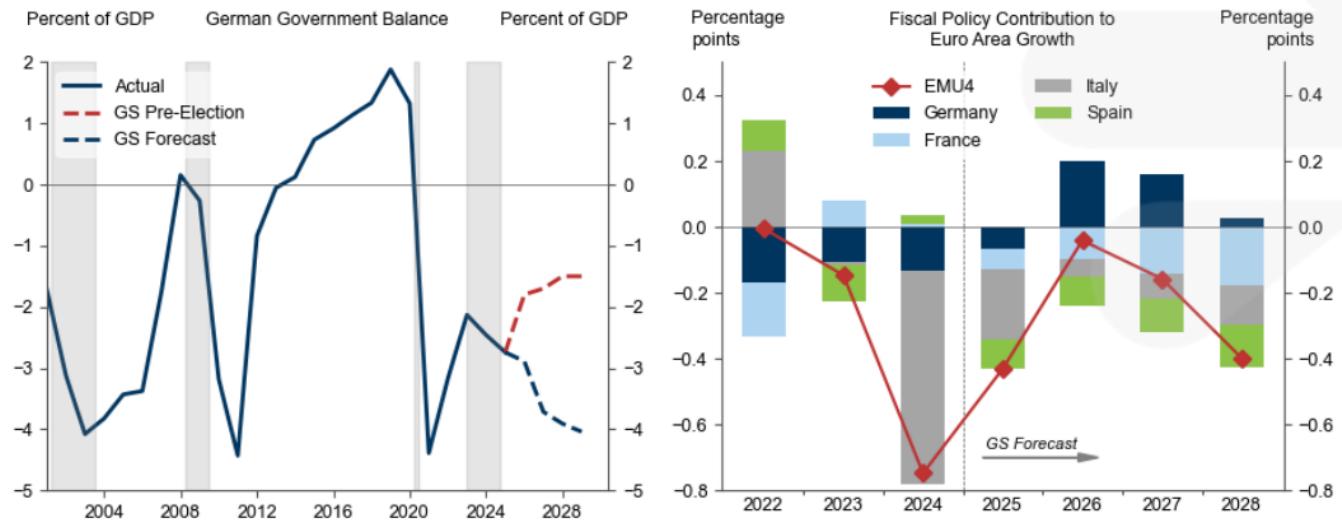
The Great Divergence European equity markets navigated two distinct phases in 2025. Initially outperforming on economic recovery hopes, the region lost momentum following the introduction of the new US tariff regime on April 2, which allowed the US market to reassert leadership. By September, the S&P 500 had moved ahead of the MSCI Europe in local currency terms.

Germany Reawakens Growth in the Eurozone is expected to remain moderate at 1.1% in 2026 and 1.3% in 2027, as fiscal consolidation in France and Italy partially offsets stimulus elsewhere. However, the defining story is Germany.

- **Fiscal Catalyst:** Higher government spending on infrastructure and defense—enabled by the easing of the "debt brake"—is forecast to boost German GDP growth to 1.4% in 2026 and 1.8% the following year.
- **Inflation Backdrop:** Headline inflation is expected to undershoot the ECB's 2% target, settling at 1.7% by the end of 2026. This creates room for a supportive monetary policy environment that benefits interest-rate-sensitive sectors.



Exhibit 8: Germany Is Starting to See a Strong Fiscal Impulse



Source : Fidelity International, LSEG Workspace - Data as of 31/12/2025

Equities

European Equities: Value, Autonomy, and Domestic Resilience

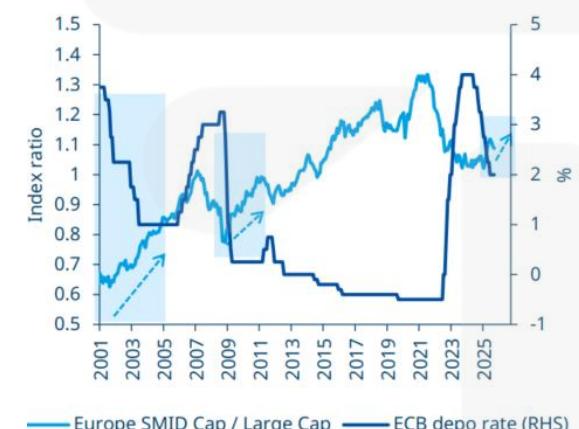
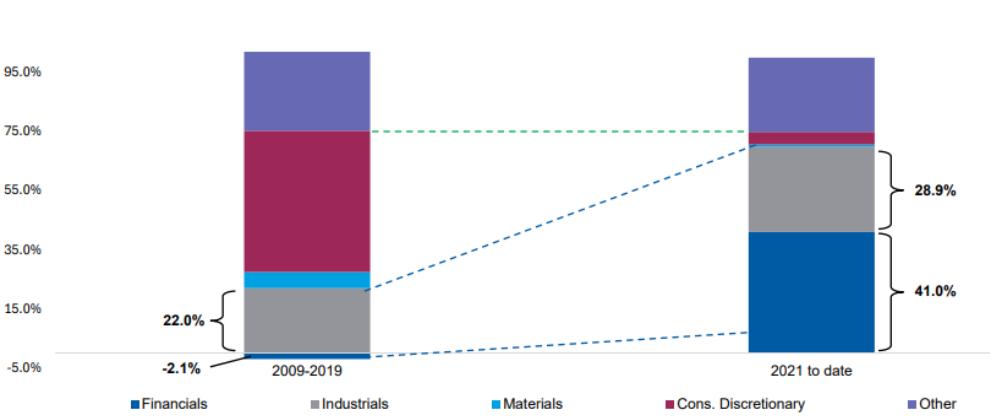
Structural Theme: "Strategic Autonomy" The disruption to the international order has spurred Europe to reduce its dependence on the US and China, launching an investable theme we call Strategic Autonomy.

Defense: This is no longer just a geopolitical necessity but a profit driver. Earnings for the MSCI Europe Aerospace & Defense index are forecast to advance by over 25% next year as rearmament spending accelerates.

Capex Revival: Companies that have underinvested for two decades are now mobilizing capital into energy transition, security, and reshoring. Initiatives like the EU's Clean Industrial Deal are directing funds toward infrastructure upgrades and digitalization.

Strategic Positioning: Targeted Overweights Given that broad index earnings revisions lag other regions, we maintain a Neutral view on the aggregate market but advocate for a highly targeted exposure:

- **Small- and Mid-Caps (SMID):** With roughly two-thirds of sales generated domestically, SMIDs are naturally insulated from US tariffs and external shocks. Trading at multi-year low valuations, they are the prime beneficiaries of ECB easing.
- **German Mid-Caps:** The most direct way to play the domestic fiscal stimulus and infrastructure fund laws passed in late September.
- **Financials:** European banks continue to trade below long-term averages despite stronger capital positions and attractive yields. We see potential for further re-rating.
- **Technology:** While smaller than in the US, Europe's tech sector offers pockets of opportunity in digitalization and AI application, particularly where it intersects with industrial efficiency.
- **Value Leadership:** We favor Financials, Utilities, and Industrials—sectors that have led the recent contribution to EPS growth and benefit directly from the region's fiscal pivot.



Source : Morgan Stanley, Amundi, Bloomberg, Macrobond - Data as of 31/12/2025

Japan

The Virtuous Cycle: From Deflation to Reflation and Reform

Japan remains one of our most compelling structural conviction calls. The market is currently benefiting from a rare alignment of forces: a decisive exit from deflation, a corporate governance revolution that is unlocking shareholder value, and a new fiscal impulse under the Takaichi administration that provides a potent tailwind for strategic sectors.

The Macroeconomic Backdrop: A "Goldilocks" Transition Japan is navigating a delicate but promising transition. While headline and core inflation have hovered above target recently, we forecast a normalization where inflation edges slightly below 2% in late 2026 before restabilizing at the policymakers' 2% target in 2027. This "mild inflation" regime, paired with gradual monetary normalization, creates an ideal environment for corporate earnings.

Crucially, the "virtuous cycle" between wages and prices is taking hold. Wage gains are fueling consumer purchasing power, which, alongside the government's proactive fiscal stance, should bolster domestic demand even as external uncertainties persist. While real consumption has been subdued recently, we expect the pass-through of wage hikes to reinvigorate the services sector in the coming year.

Policy and Politics: The Fiscal Tailwind The election of the Takaichi administration has removed significant policy uncertainty and introduced a pro-growth fiscal agenda. We view this administration as a catalyst for specific strategic sectors. The pledged investments in AI, semiconductors, quantum computing, defense, and nuclear energy align perfectly with our sectoral preferences. Furthermore, the fading of US tariff uncertainty clears the path for Japan's global manufacturing exporters, who continue to benefit from a competitively weak Yen.

Corporate Governance: The "Shareholder Spring" Continues The structural reform story remains the bedrock of our bullish view. With a continued "nudge" from the Tokyo Stock Exchange, Japanese companies are aggressively unwinding cross-shareholdings and deploying excess cash to boost Return on Equity (ROE). This focus on capital efficiency is not just a corporate boardroom theme; it is now a household one. The expansion of the Nippon Individual Savings Account (NISA) program is driving a historic behavioral shift, moving domestic household assets from cash into equities—a structural bid that provides long-term support for the asset class.

The AI Opportunity: Demographics as an Accelerant Japan offers a unique angle on the AI trade. Unlike other regions where AI is viewed as a disruption, in Japan, it is a demographic necessity. The shrinking workforce is accelerating the corporate adoption of AI and automation simply to maintain productivity.

- "Physical AI": We see immense potential in Industrials, Engineering, and IT services companies that are digitizing the domestic economy.
- Infrastructure: The boom has already boosted AI-related data centers and semiconductor equipment makers, which remain global leaders in their niches.

Strategic Positioning: Valuation and Opportunity While valuations have risen above historical averages, they remain attractive relative to other developed regions and are fully justified by the trajectory of earnings growth and corporate reform. The market's unique characteristics—including lower analyst coverage and language barriers—also create significant alpha opportunities for data-driven and quantitative investors.

We are Overweight Japan, favoring a barbell approach:

- **Domestic Reflation Plays:** Banks (benefiting from rate normalization) and consumer sectors supported by wage growth and tourism.
- **Strategic Policy Beneficiaries:** Defense, Nuclear Energy, and Technology (Semiconductors/AI) aligned with the Takaichi fiscal roadmap.

Equities

China Equities: Innovation at a Discount and the "Broader Bull" Thesis

China increasingly mirrors the US market in terms of corporate progress on technology and innovation—yet it trades without the crowded positioning or stretched valuations. With trade war anxieties cooling and policymakers pivoting toward fiscal support, we see the hints of a broader bull market emerging, underpinned by a tech sector that is rapidly transitioning from "price wars" to sustainable profitability.

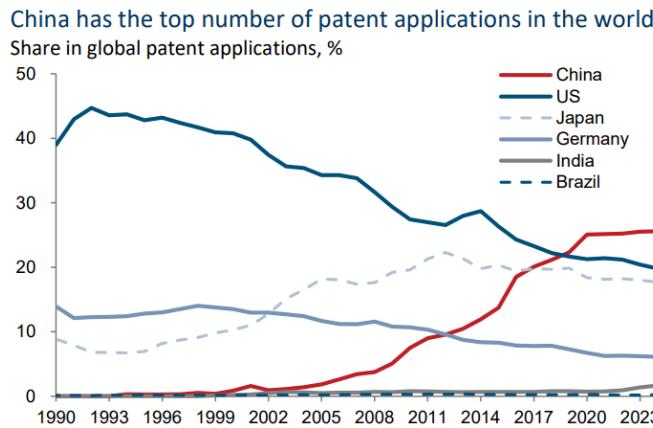
The Macroeconomic Backdrop: Front-Loaded Support The Chinese economy is finding its footing, aided by a decisive policy pivot. We forecast real GDP to expand by 5% in 2026, driven by front-loaded government policy support, before moderating to 4.5% in 2027 as the impulse from fiscal stimulus naturally wanes.

While growth is stabilizing, the inflation picture remains nuanced. Core CPI is likely to remain positive, but the GDP deflator is expected to hover below 0%, reflecting the gradual dissipation of excess capacity. This divergence suggests that while the economy is reflating, pricing power will return only gradually, making stock selection critical.

The Tech Thesis: High Conviction, Deep Value The technology sector represents our highest conviction idea within global equities. China's tech ecosystem has ramped up innovation significantly in 2025, demonstrating leadership in new AI models and advancing across the value chain.

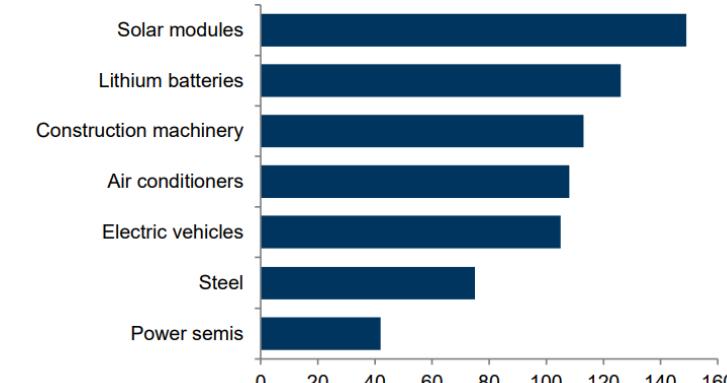
- Unlike the US, China is not in a manic tech "super cycle." Instead, it is pursuing a more sustainable path characterized by supply discipline. Policies aimed at curbing subsidies, reducing excess capacity, and limiting regional competition are improving the quality of growth.
- The Valuation Gap: Despite strong recent performance, Chinese tech valuations remain at a significant discount to global peers and well below historical highs. With earnings growth forecast to be stronger than that of US tech in many segments, this offers an attractive diversification play for the global AI theme.
- Strategic Focus: Investment continues to pour into AI, supply chains, and semiconductor manufacturing, with the broader region (including Taiwan) remaining pivotal for global chip production.

Strategic Positioning: Buy the Dips While risks remain, particularly regarding US-China relations, market fears regarding trade conflicts have cooled. We view any dips arising from geopolitical tensions not as reasons to exit, but as opportunities to build positions. With valuations still compelling and the microeconomic fundamentals strengthening, China offers an asymmetric upside opportunity for 2026.



China's capacity exceeds global demand for several key products

China's capacity as a share of global demand in 2024, %



Source : Goldman Sachs, Amundi - Data as of 31/12/2025

Equities

Emerging Markets Equities: The "Stars Align" for Outperformance

Secular Growth Meets Cyclical Tailwinds

The medium-term case for Emerging Markets (EM) has long been clear: superior secular growth and attractive valuations. The question has always been "why now?" As we enter 2026, the stars finally appear aligned. A potent combination of a weaker US dollar, lower real interest rates, and a synchronized global AI boom has created a backdrop where EM is poised to not just participate, but potentially lead.

From Resilience to Acceleration In 2025, Emerging Markets successfully "muddled through" a global environment defined by geopolitical friction and trade policy uncertainty. Looking ahead, the asset class is pivoting from resilience to acceleration, supported by a loosening of financial conditions. A structural softening of the US dollar and a more accommodative Federal Reserve are removing the liquidity headwinds that have constrained returns for a decade. This external relief is matched by robust domestic drivers: strong labor markets and falling inflation have granted EM central banks the maneuvering room to continue monetary easing. Unlike previous cycles, we see little evidence of fiscal dominance—even in nations with complex fiscal narratives like Brazil or Colombia—suggesting that the region's fundamentals are far sturdier than in past downturns.



Source : LSEG, TopdownCharts- Data as of 31/12/2025

Equities

Emerging Markets Equities: The "Stars Align" for Outperformance

The Technological Epicenter: Asia's Dual Engine The composition of the MSCI EM Index has fundamentally shifted, with the technology sector now accounting for over 40% of the index. This has transformed EM from a play on commodities to a play on innovation. Emerging Asia has established itself as the indispensable engine room of the global AI revolution, offering two distinct opportunities:

- **The Hardware Backbone:** South Korea and Taiwan remain critical to the global supply chain. The semiconductor upcycle, driven by insatiable demand for memory chips and AI servers, saw Korean stocks rise significantly in 2025. We expect this momentum to persist as pricing power remains robust.
- **The Software Ecosystem:** China offers a diverse internet and software ecosystem that is becoming increasingly self-sufficient. Domestic hyperscalers and deep engineering talent are driving AI adoption across a vast internal market. Notably, China's tech sector is largely service-oriented, which offers a degree of insulation from cross-border tariff tensions compared to manufacturing exporters.

Strategic Conviction: Asymmetric Upside We view Emerging Markets as a high-conviction call for 2026. After a decade of lackluster capital flows, positioning is light, and valuations trade at a historic discount to Developed Markets. This creates an asymmetric risk profile where the potential for upside surprises significantly outweighs the downside risks.

- **Broadening Opportunities:** While tech leads, the opportunity set is diverse. We see winners in commodity exporters like South Africa and Brazil, and we are increasingly constructive on Private Debt in EM as a way to access uncorrelated returns through infrastructure and development financing.
- **Domestic Resilience:** Policy pivots in key markets—such as China's focus on ending "price wars" and India's balancing of consumption with capex—are reducing the region's sensitivity to external shocks.

AI demand and front-loading supported Asia exports in 2025



Many emerging markets are attractively valued



Exhibit 1: EM equities and the US dollar



Overview

Fixed Income: The Return of Income and the Test of Resilience

To those who doubted the relevance of the asset class, 2025 offered a compelling counterpoint. Fixed income has delivered precisely what it promises—reliable returns and portfolio stability—quietly disproving predictions of its demise. Yet, as we turn the page to 2026, the "easy beta" recovery is over. The path forward is nuanced, defined by a tug-of-war between supportive monetary policy and the looming specter of fiscal dominance.

The Sovereign Debt Debate: Policy Easing vs. Fiscal Gravity The consensus view holds that fixed income markets should benefit from continued central bank easing in 2026. With major central banks forecast to take short-term interest rates to or below neutral levels, the policy backdrop appears benign. We expect lower rates in the US as policymakers respond to cooling labor markets, and in Europe as inflation undershoots targets.

However, the case for aggressively increasing allocations to developed market sovereign bonds is structurally challenged. A powerful counter-narrative suggests that interest rates may fall less than the market expects. Inflation is likely to prove stickier than anticipated—potentially remaining above central bank targets (projected at 3.3% in the US next year)—driven by stagflationary trade policies and resilient growth.

Consequently, we expect yields on most developed market sovereign bonds to rise moderately rather than collapse. We forecast US benchmark 10-year yields to end the year around 4.25%, a level roughly aligned with potential nominal GDP growth. The primary risk for global bond markets is no longer just inflation, but a significant steepening of yield curves. If governments persist in running high deficits, the supply of bonds will increase, forcing investors to demand a higher "inflation risk premium" for holding long-dated assets. In this environment, the long end of the curve looks vulnerable, while the short end offers protection.

Credit Markets: Function Restored After a prolonged distortion during the quantitative easing era, credit markets have resumed their intended function. Returns are once again robust, driven by a healthy mix of capital appreciation and attractive coupon income—levels of carry we haven't seen in years.

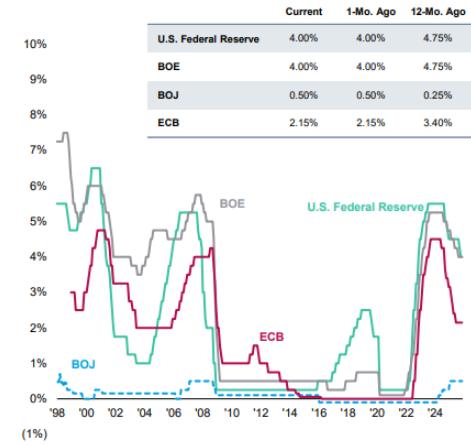
Our core scenario remains positive for credit, notwithstanding tight spreads and signs of creeping leverage. A resilient global economy should keep default rates in check, allowing investors to harvest yield. However, the market faces a series of tests: uncertainty surrounding the US economic landing and corporate ability to absorb higher-for-longer refinancing costs. We advocate for a "malleable" approach—prioritizing flexibility to navigate volatility—and favoring short-duration credit where the risk-reward between income and capital preservation is most favorable.

Strategic Positioning: Flexibility is Paramount The era of "set and forget" fixed income investing is behind us. While the asset class is back, the dispersion of outcomes is widening.

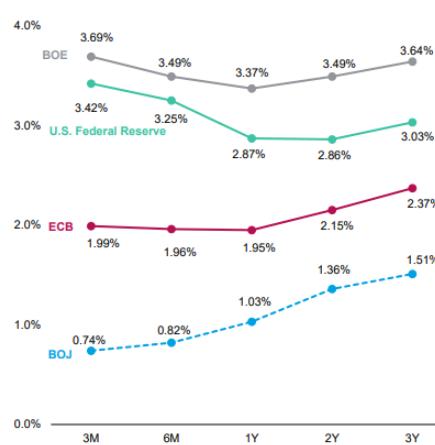
- **Duration:** We remain cautious on long-duration sovereign bonds given fiscal risks. We prefer the "belly" of the curve (5-7 years) where policy support is clearest.
- **Credit:** We focus on high-quality issuers who can weather a slowdown, viewing credit as an income play rather than a capital appreciation trade given historically tight spreads.

Overview

Central Bank Policy Rates



Market Expectations for Future Central Bank Rates

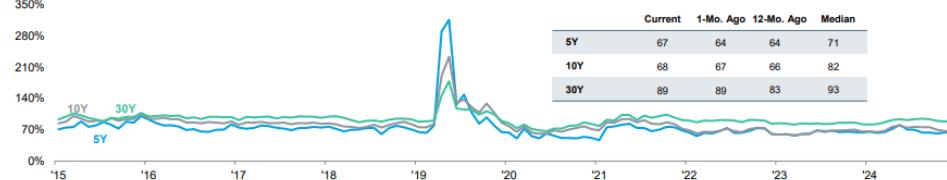


Key Rates (%)

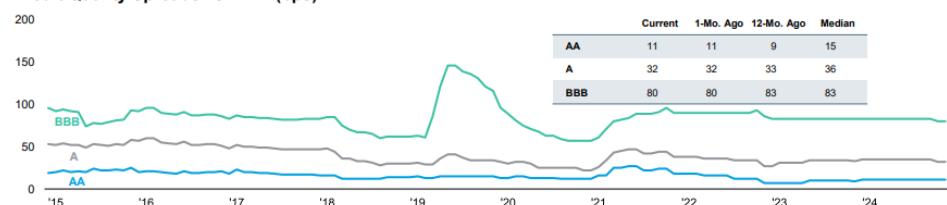
Security

Security	Current	12-Mo. Ago	Average	Minimum	Maximum
1-Week SIFMA	2.79	2.86	2.53	1.86	3.22
Secured Overnight Financing Rate	4.12	4.57	4.31	3.91	4.65
1-Mo SOFR	3.86	4.55	4.27	3.86	4.53
3-Mo SOFR	3.79	4.50	4.21	3.79	4.47
2-Yr Treasury	3.49	4.22	3.88	3.42	4.39
5-Yr Treasury	3.60	4.12	3.96	3.55	4.61
10-Yr Treasury	4.01	4.25	4.31	3.95	4.79
30-Yr Treasury	4.66	4.43	4.76	4.33	5.08
2-Yr Japan	0.98	0.60	0.78	0.56	0.98
10-Yr Japan	1.82	1.07	1.45	1.04	1.82
2-Yr German Bund	2.03	2.03	1.97	1.66	2.31
10-Yr German Bund	2.69	2.17	2.58	2.04	2.91
2-Yr UK Gilt	3.73	4.30	4.02	3.70	4.60
10-Yr UK Gilt	4.44	4.31	4.58	4.22	4.89
Bloomberg US Agg	4.27	4.69	4.61	4.20	5.11
Bloomberg Global Agg	3.44	3.58	3.56	3.36	3.86
Bloomberg US Corporate	4.76	5.11	5.09	4.68	5.55
Bloomberg US Long Corporate	5.52	5.48	5.72	5.36	6.15
Bloomberg US Municipal	3.58	3.46	3.80	3.39	4.47
Bloomberg US Long Municipal	4.51	4.02	4.64	3.97	5.16
US High Yield	6.71	7.16	7.21	6.55	8.65
US Loans	8.06	8.73	8.45	8.06	9.14

AAA Muni-to-Treasury Yield Ratios



Credit Quality Spreads vs. AAA (bps)



Source : Bloomberg, FactSet - Data as of 31/12/2025

Fixed Income

Credit

Tight Spreads, Robust Yields, and the Art of Avoidance

If sovereign bond markets are defined by macro uncertainty, credit markets are defined by a microeconomic paradox: spreads are historically tight, yet the all-in yields remain compellingly high relative to the last decade. For 2026, the strategy is not about betting on spread compression, but about harvesting coupon income while rigorously avoiding the "idiosyncratic blow-ups" that characterize a late-cycle environment.

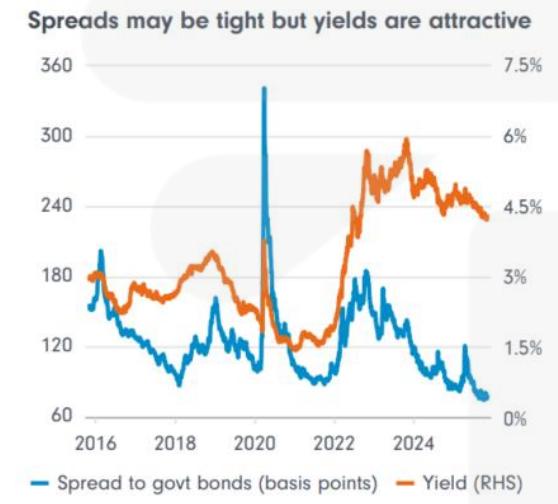
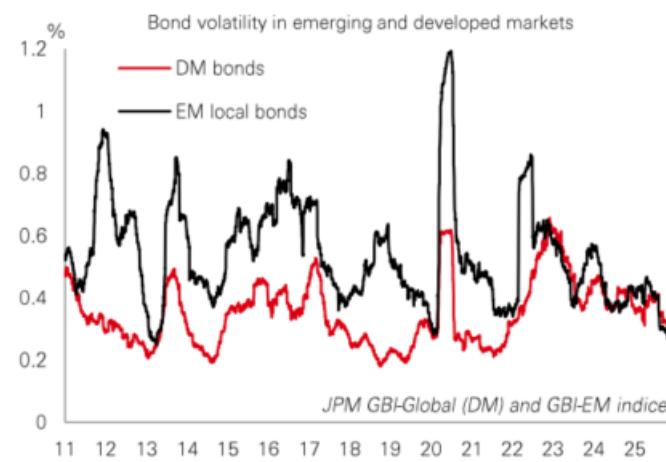
The Warning Signs: Fundamentals Matter Again The collapse of First Brands in September serves as a stark early warning: the rising tide no longer lifts all boats. An economic downturn inevitably tests corporate fundamentals, making default avoidance the single most critical factor in preserving total return. While Investment Grade (IG) spreads are extremely tight—a legitimate concern—they are tight with justification. High rates have fueled robust demand for high-quality paper, with investor capital persistently favoring credit over sovereign debt. We expect this technical tailwind to continue, cushioning income strategies against significant downside even if spreads widen moderately.

Strategic Positioning: Europe vs. US Valuation discipline drives a distinct regional preference for 2026. We prefer Europe over the US.

- US Investment Grade: Spreads are hovering near all-time lows, leaving little margin for error.
- Euro Investment Grade: We see superior opportunities here. Specifically, spreads in the 1–5 year maturity buckets remain attractive, offering a defensive way to capture yield without taking on excessive duration risk.

The "Sweet Spots": Crossover Credit: A significant portion of our attention is focused on the friction point between Investment Grade and High Yield—specifically triple-B and double-B rated issuers. Valuations in this "crossover" zip code are less stretched than in high-grade postcodes, offering fertile ground for bottom-up selection.

The Total Return Philosophy: Compounding Carry Despite the optical challenge of tight spreads, we remain comfortable with the outlook for 2026. The math of total return is compelling: even with falling rates, yields are historically elevated. In the absence of default, bonds are delivering a strong coupon return that, when compounded over a year, leads to robust outcomes.



Source : Goldman Sachs Asset Management, Fidelity International? HSBC - Data as of 31/12/2025

US Fixed Income: Navigating the Policy Pivot and the Inflation Risk

From Safe Haven to Tactical Battlefield

US Fixed Income markets enter 2026 on the back of a robust performance, with Treasuries delivering returns of approximately 8% and credit sectors gaining 7%, buoyed by their safe-haven status amid trade-induced volatility. However, the path forward is fraught with complexity. We see a tug-of-war emerging between technical support mechanisms—such as the potential return of Quantitative Easing—and fundamental headwinds driven by a resilient economy and sticky inflation.

Curve Steepening and Inflation Protection With 10-year Treasury yields hovering near 4%, we argue that rates are likely too low relative to an economic outlook characterized by reaccelerating growth. This resilience, paired with stubborn inflation, suggests the Federal Reserve may deliver fewer rate cuts than the market anticipates over the next 12–18 months. Consequently, we advocate for a disciplined, tactical approach to duration, anticipating that yields will remain rangebound but volatile.

While political risks regarding Fed independence make TIPS a critical hedge, significant technical supports prevent a bearish outlook. We anticipate a return to Quantitative Easing (QE) in early 2026 and potentially relaxed bank capital rules (SLR), which should structurally cap yields. The most actionable opportunity lies in the yield curve, where we expect significant steepening—potentially widening the 2s10s spread to 120 basis points.

Corporate Credit: A Quality Bifurcation We see a sharp divergence in opportunity within credit markets. We remain positive on Investment Grade, where strong corporate balance sheets and limited supply justify tight valuations. In contrast, we are cautious on High Yield. Spreads are priced for perfection and vulnerable to mean reversion; we expect them to widen to approximately 350 basis points as headwinds from the private debt maturity wall and tariffs materialize.

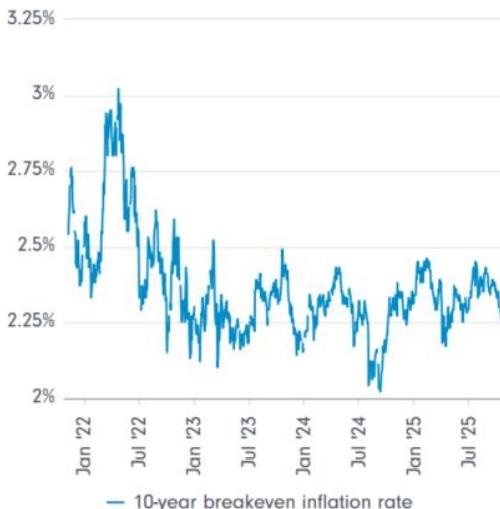


Figure 2: IFI US CPI projections



Source : Fidelity International, Invesco - Data as of 31/12/2025



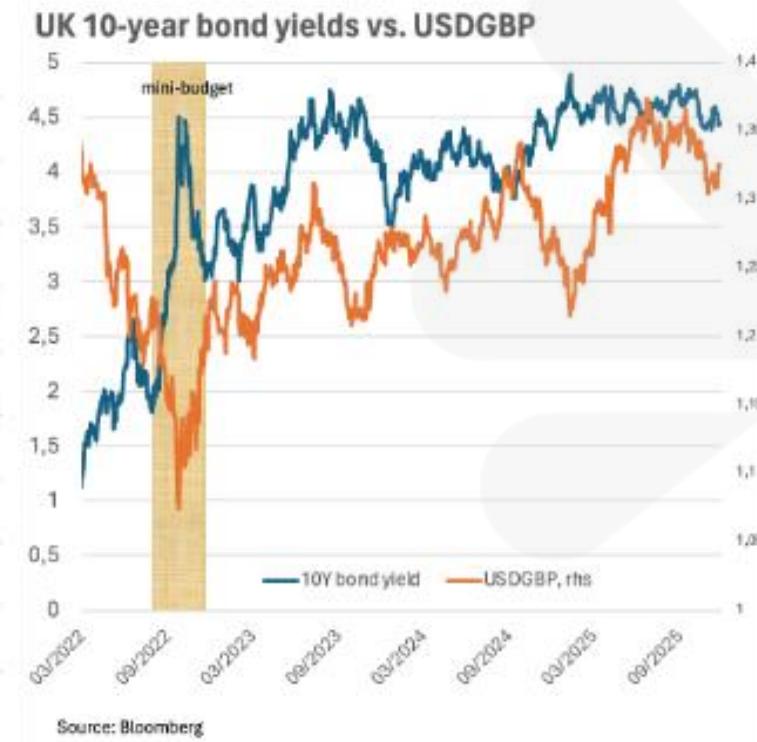
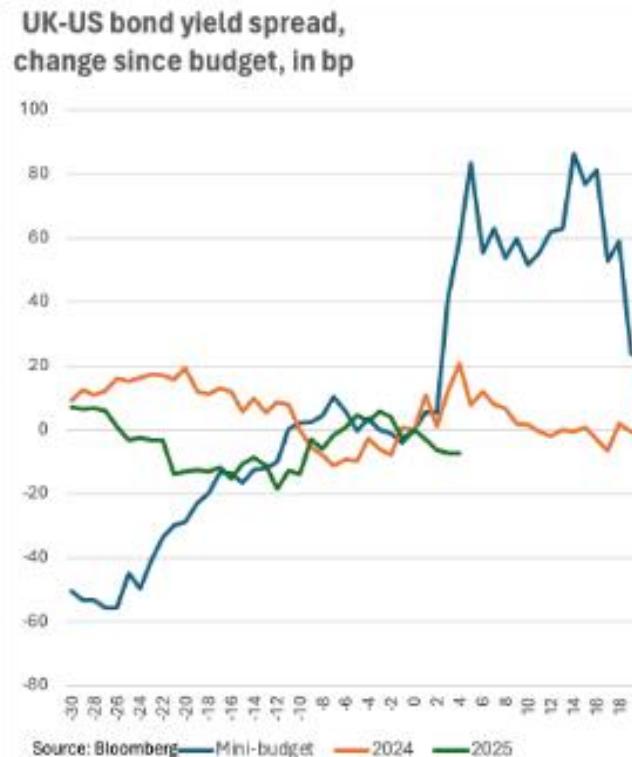
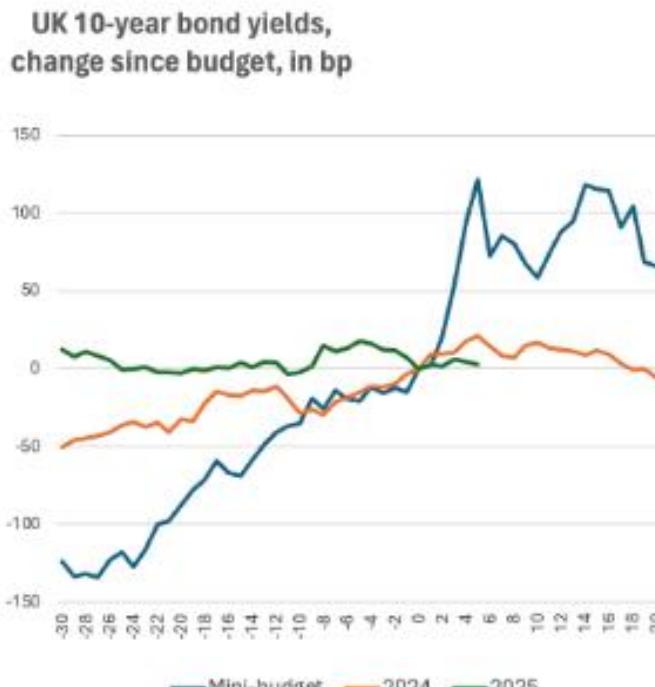
Fixed Income

UK Gilts: The Case for Fiscal Discipline and Deep Value

While global bond markets wrestle with the implications of loose fiscal policy, the United Kingdom offers a compelling counter-narrative. Having already delivered returns of over 4% in local currency terms—driven by the Bank of England's pivot to rate cuts—UK Gilts remain one of our highest-conviction ideas for 2026.

The Valuation Anomaly: Cheapest in a Decade The relative value case for Gilts is exceptionally strong. Trading at their cheapest levels against US Treasuries in a decade, UK sovereign bonds offer a significant margin of safety. This valuation discount exists despite a fundamental backdrop that is increasingly supportive of fixed income: lower inflation and a decisive shift toward fiscal austerity.

Room to Surprise Markets are currently pricing in a relatively limited easing cycle from the Bank of England. We view this as too conservative. In the event of a further economic slowdown, the Bank of England has significant room to cut interest rates more aggressively than current curves imply. This asymmetry—where yields are attractive today with the potential for substantial capital appreciation if the economy softens—makes Gilts a robust portfolio diversifier.



Fixed Income

European Fixed Income: The Tug-of-War Between Monetary Easing and Fiscal Expansion

Curve Steepening as the Path of Least Resistance

European sovereign bond markets are currently navigating a unique divergence between monetary and fiscal drivers. While the European Central Bank (ECB) provides a powerful tailwind for the front end of the curve through rate cuts, the long end faces a structural headwind from Germany's fiscal pivot. The result is a high-conviction call for curve steepening and a distinct preference for peripheral issuers over the core.

A Dovish ECB The inflation outlook in the Eurozone has improved materially, with headline figures threatening to undershoot the official 2% target. This trajectory grants the ECB significant latitude to ease policy further. Having already lowered the deposit rate to 2.0% in June 2025, we see scope for the central bank to follow the Federal Reserve's lead, potentially cutting rates to a terminal level of 1.5% by mid-2026.

Germany's "Supply Shock" However, the outlook for long-dated government bonds is complicated by a profound shift in German fiscal policy. As Berlin activates ambitious spending programs to fund defense and infrastructure, the supply of debt in the Eurozone's benchmark market is set to increase significantly.

Strategic Positioning: Long Peripherals, Steep Curves The fiscal expansion in the core contrasts sharply with the improving fundamentals in the periphery.

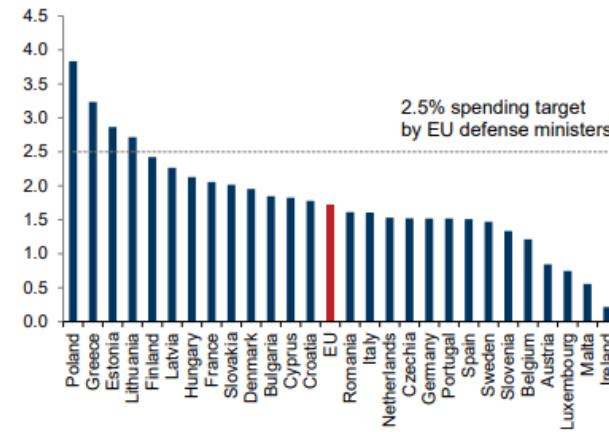
Overweight Peripherals: We remain constructive on Spain and Portugal. These issuers benefit from more favorable growth trajectories and improving debt dynamics compared to the core. With the ECB anchoring rates, the carry offered by peripheral bonds remains attractive, and we expect spreads against Germany to remain contained or compress further.

Rising 30-year yields partially reflect concerns over debt sustainability

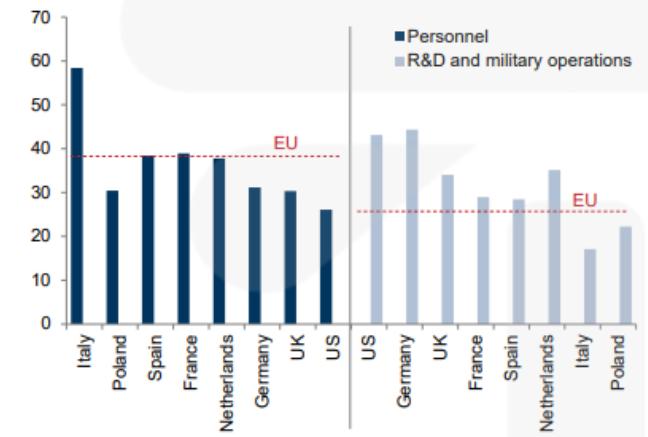
Long-end yields are more susceptible to fiscal concerns and inflation expectations



Only a few EU countries exceed the 2.5% of GDP defense spending target focused on by EU defense ministers
Defense spending by EU countries in 2023, % of GDP



European defense expenditure remains structurally and technologically outdated, overfunding personnel instead of investing in research and operations...
Defense expenditure composition, %



Fixed Income

Emerging Market Debt: High Real Yields and the Return of Capital

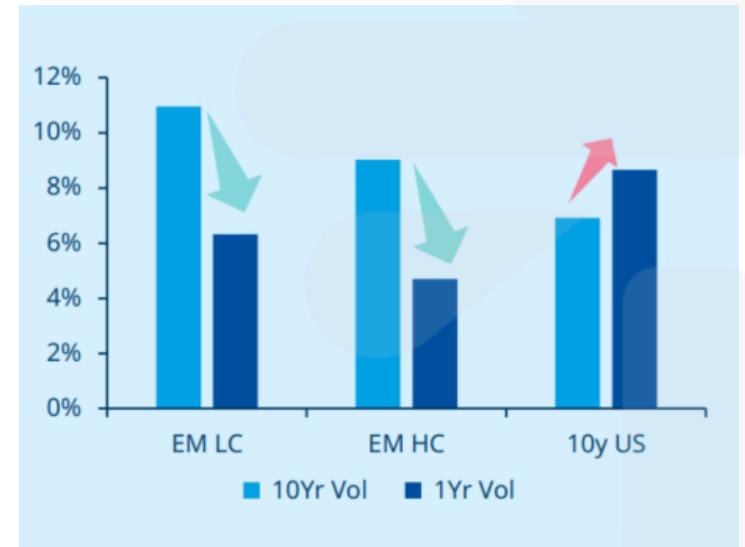
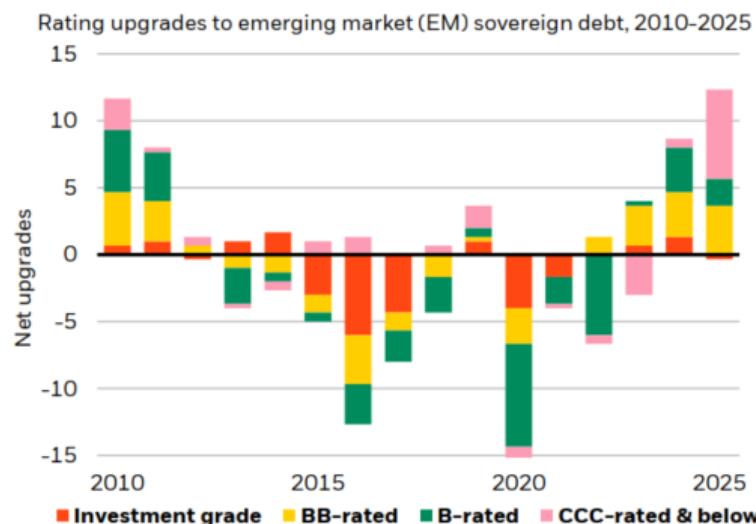
A Rare Confluence of Income and Appreciation

After delivering returns of nearly 9% in corporate bonds during 2025, Emerging Market (EM) debt enters 2026 with arguably the most compelling risk-reward profile in the fixed income universe. Supported by a synchronized cycle of monetary easing, improving credit quality, and a structural softening of the US dollar, we expect the asset class to decisively outperform its developed market counterparts.

Easing into Strength The fundamental backdrop for EM debt is exceptionally positive. We project policy rates across the emerging world to decline by an average of 150 basis points over the coming year from current aggregate levels of around 5.5%. Unlike in developed markets, where rate cuts are battling sticky inflation, EM central banks are easing from a position of strength, having successfully anchored inflation while maintaining higher economic growth rates. This divergence creates a potent combination of capital appreciation potential (from falling rates) and currency support.

Quality Over Spreads While spreads on Hard Currency debt are near decade lows, we maintain an Overweight stance. The tightness in spreads is justified by a structural improvement in credit fundamentals, evidenced by a wave of sovereign rating upgrades that is outpacing downgrades. We favor High-Yield EM issuers that are leading this upgrade cycle. Furthermore, we remain optimistic on EM dollar corporate bonds, which currently offer record-high credit quality and relatively low duration, providing a defensive way to access the asset class. We see specific opportunities where real rates remain anomalously high:

- Brazil: With central bank rates at 15% against inflation of around 5%, the real yield on offer is staggering. Holding Brazilian sovereign bonds at these levels feels like a "no-brainer" for income-focused investors.
- South Africa: Similarly, real rates remain well above 5%, offering a significant buffer against volatility.
- Frontier Markets: For those with higher risk tolerance, we see deep value in markets like Egypt and Nigeria, where reform momentum is unlocking yield potential.



Source : Amundi, BlackRock Investment Institute, Bloomberg - Data as of 31/12/2025

Alternatives

Currencies: The End of Exceptionalism and the Return of Valuation

A Structural De-Rating for the Greenback

The US Dollar heads into 2026 on the back foot, having erased last year's gains. Investors are pivoting from pricing US exceptionalism to fretting over fiscal deficits and institutional independence. We see the path of least resistance as lower, forecasting a 5% decline driven by valuation and convergence.

The Dollar Thesis: Depreciation by Design Despite the dollar's continued dominance in global transactions (89.2% share), full de-dollarization isn't needed for weakness. We see four structural drivers for a decline:

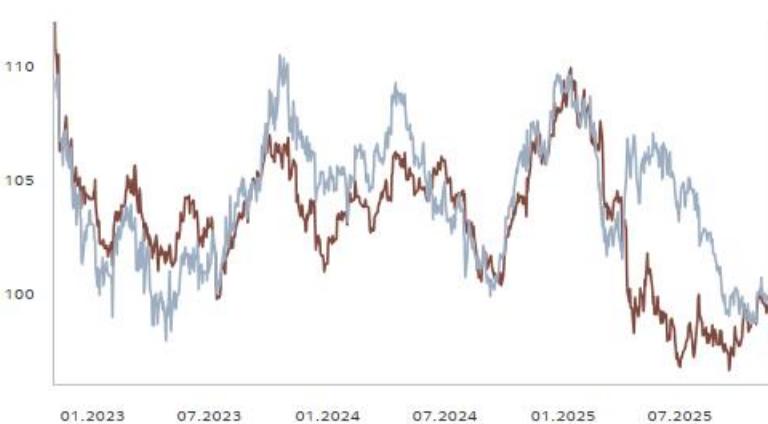
- **Yield Convergence:** As negative-yielding debt vanishes globally, investors finally have viable alternatives to US assets. A narrowing yield gap provides a catalyst for outflows.
- **Financial Repression:** An unorthodox policy mix of deficits and high inflation tolerance risks suppressing US real rates. If measures like the "Genius Act" cap nominal yields while inflation rises, the currency must depreciate to adjust.
- **Fading Hedge:** The dollar's reliability as a diversifier is waning. In a growth shock, its correlation with risk assets could turn positive, limiting its appeal.
- **Valuation:** The USD remains expensive versus long-term fair value. The next leg lower will likely be driven by Asian FX and trade-surplus peers.

Major Beneficiaries: Euro and Yen We expect the Euro and Japanese Yen to lead the recovery, supported by undervaluation and narrowing growth gaps with the US.

Sterling: We remain cautious. With valuations back to pre-Brexit levels and a dovish Bank of England, upside is limited.

Emerging Markets: The dollar's decline favors high-carry currencies like the Brazilian Real and Mexican Peso (both +10%). High real rates and stable commodities create a "Goldilocks" environment for EM carry trades to persist.

Dollar risk on the downside as rate differentials narrow

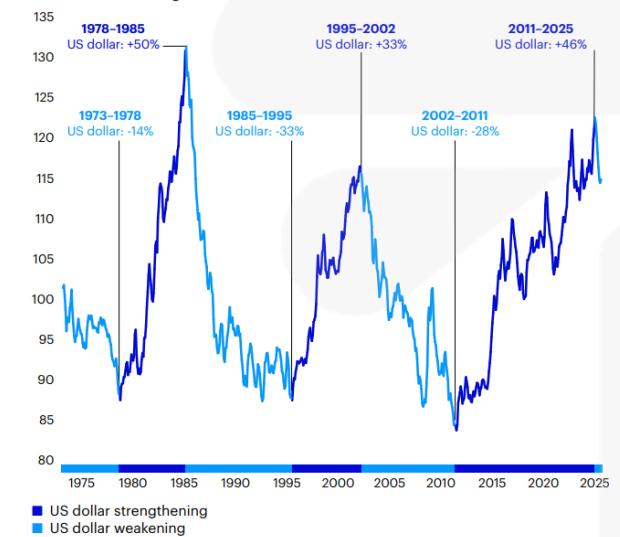


Source : Refinitiv, Pictet Asset Management, CPB, HSBC, BNY - Data as of 31/12/2025

Bloomberg Intelligence USD share of global foreign currency reserves, in %



Real Broad Trade-Weighted US Dollar Index



Alternatives

Gold

Gold: The Return of the Sovereign Reserve Asset

The 2024–25 period witnessed gold defying conventional macro logic, rallying over 50% alongside risk assets even as real yields remained elevated and inflation pressures rolled over. This unusual coexistence signals a profound structural shift: the precious metal can no longer be evaluated solely through a cyclical lens, but rather as a strategic geopolitical asset underpinning a fragmenting global reserve system.

The Structural Shift: From ETFs to Central Banks The driver of price action has rotated from financial investors to sovereign entities. Until 2023, gold prices and ETF holdings moved in sync, exhibiting a correlation of approximately 60%. This relationship has fractured. Despite the massive rally in 2025, ETFs saw drawdowns that only reversed when prices broke above \$2,700, underscoring that traditional private-sector hedging has become secondary to persistent purchases from the official sector.

Central banks, particularly in emerging markets, are driving this "insensitive" demand. These buyers are not reacting to headline CPI or interest rate differentials, but to reserve-credibility concerns and the vulnerabilities of storing assets in foreign jurisdictions. With geopolitical blocs increasingly wary of sanctions, custody restrictions, and dollar settlement dependencies, gold has re-emerged as the only large-scale reserve asset independent of the global political architecture. Consequently, central banks now hold roughly a quarter of total global reserves in gold—a demand base that does not react to price or positioning.

Strategic Outlook: Overweight but Realistic Recognizing this structural support, we view gold as a strategic safe-haven asset and maintain an Overweight position of up to 5% in our multi-asset portfolios. However, investors should temper expectations for the coming year. After a stellar 2025, further gains are likely to be more muted. As US inflation peaks in the first half of 2026 and economic growth reaccelerates towards the second half, the cyclical tailwinds for the metal may fade, leaving the structural sovereign bid as the primary floor for prices.

Figure 4: Rolling 3-year monthly correlations

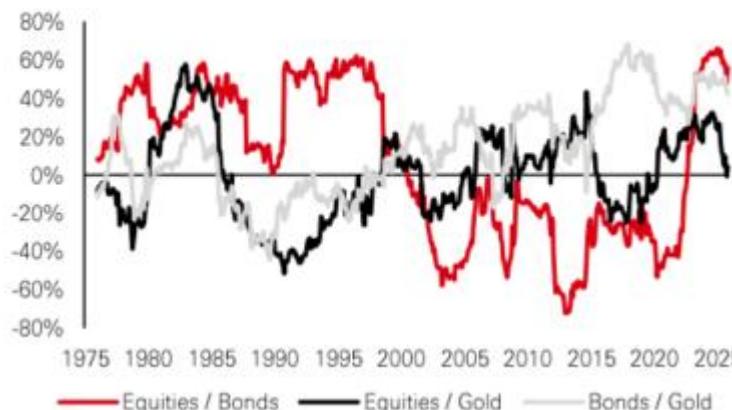


Figure 2: IMF world reserves

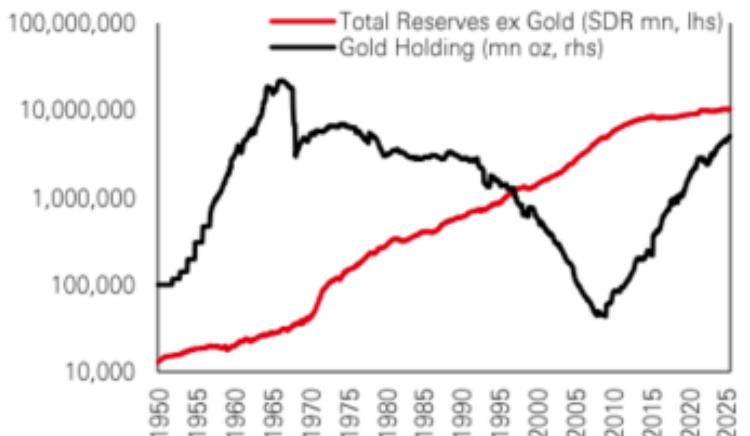
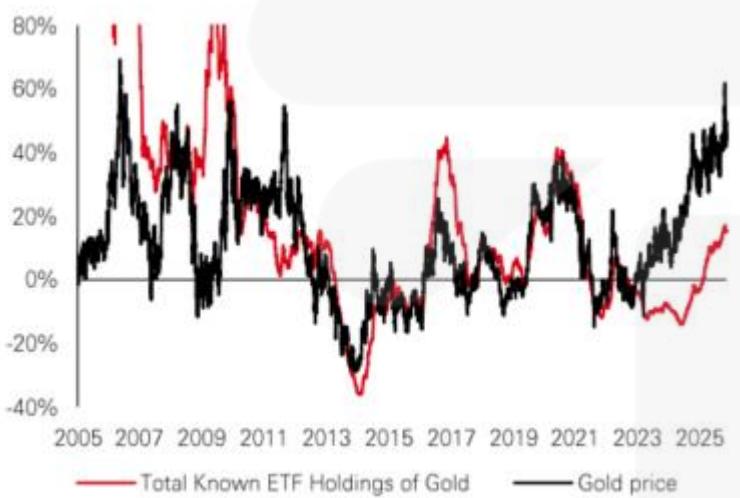


Figure 1: ETF holdings of gold vs gold price



Private Equity: A Gradual Revival Amidst Valuation Resets

Private Equity (PE) is slowly reviving after a period of dormancy. Stabilizing interest rates and reopening primary markets are easing dealmaking, though recovery will be gradual. While competitive pressures have reset valuations, the overhang of dry powder will cap immediate upside.

Drivers of Recovery Structural tailwinds supporting the asset class in 2026 include:

- Macro & Policy:** Resilient corporate profitability and lower funding costs are improving buyout economics. Trends in reshoring and deregulation are driving investors toward high-quality domestic SMEs shielded from trade volatility.
- Growth Sectors:** Opportunities are robust in the mid-market, healthcare, renewables, and cybersecurity. AI remains dominant, accounting for over 50% of VC activity in 1H 2025, though valuations are stretched at 3-4x 2023 levels.

Liquidity & Secondaries Secondary markets are becoming the primary mechanism for liquidity and price discovery. Driven by rebalancing needs, volumes are rising, particularly in the US. The market is maturing with varied deal structures like GP-led restructurings. Buyers with flexible capital are best positioned to capture stressed assets—such as late-stage venture—at attractive entry points.

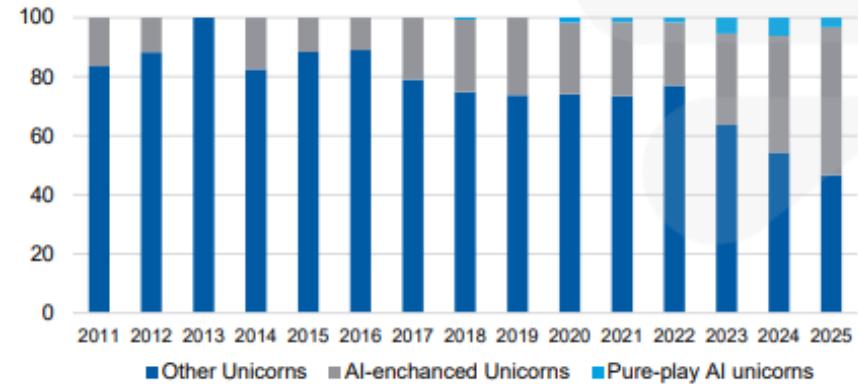
Valuation & Credit Buyout valuations remain compelling at 10–11x vs. 14–15x in public markets. This arbitrage is supported by:

- Credit Availability:** Tightening spreads in 2025 have eased refinancing pressures and improved capital access.
- M&A Momentum:** Global deal value rose 15% to \$2 trillion in 1H 2025. While private credit fuels this growth, capital inflows outpacing opportunities make manager selection critical.

M&A Volumes



Venture Capital and AI: Increasing AI Market Share



Private Credit: Bifurcation and the Rise of Special Situations

Navigating Tight Pricing and Emerging Stress

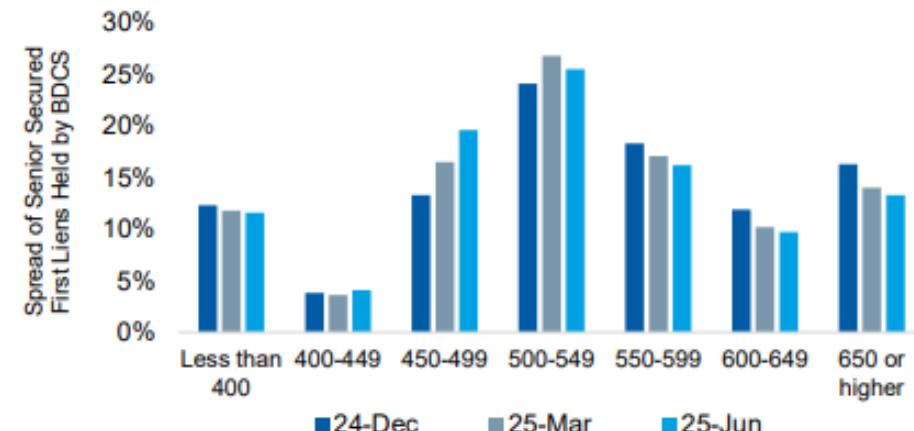
The Private Credit market is entering a phase of distinct bifurcation. While the asset class remains a structural winner in global finance, the "easy deployment" phase is over. Investors must now navigate a landscape defined by tightening spreads in direct lending and emerging liquidity stress among borrowers, creating a specific opportunity set for flexible capital.

Direct Lending: Defensive Selectivity Pricing in Direct Lending has tightened significantly, compressing yields and reducing the margin for error. In this environment, the chase for yield can be dangerous. Our focus shifts decisively toward quality and structure: we advocate prioritizing non-cyclical, senior secured 1st lien loans. The goal is to secure the top of the capital structure in businesses that are insulated from economic volatility. Furthermore, deal sizing is critical; we prefer "appropriately sized deals" where lender protections remain robust, avoiding the covenant-lite erosion often seen in the most competitive mega-tranches.

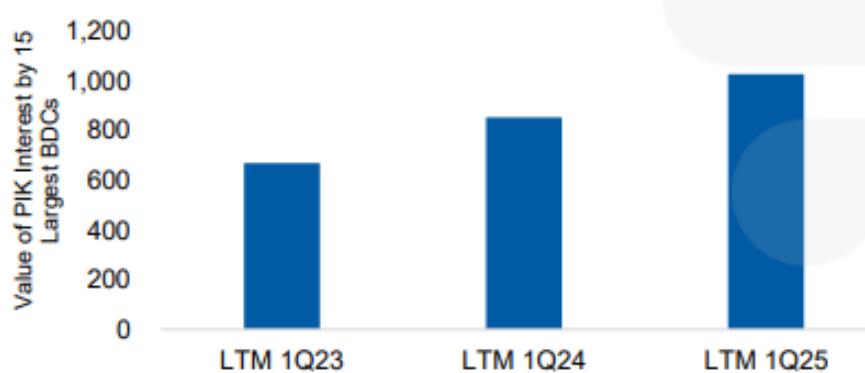
The Stress Signal: PIK Toggles Beneath the surface of healthy origination, stress fractures are becoming visible. A growing number of borrowers are opting to convert cash interest payments into Payment-in-Kind (PIK) instruments. This shift—essentially paying interest with more debt rather than cash—is a classic late-cycle signal indicating that cash flows are being squeezed by higher-for-longer rates. While this preserves liquidity for the borrower in the short term, it increases the overall leverage profile and risk of future distress.

From Headwinds to Tailwinds: Special Situations Paradoxically, the headwinds facing the saturated Direct Lending market are creating powerful tailwinds elsewhere. As traditional borrowers face liquidity constraints and capital structures become stressed, the opportunity set for Special Situations lenders is expanding. These flexible capital providers are uniquely positioned to capitalize on the dislocation, offering rescue financing, restructuring solutions, or hybrid capital to good companies with bad balance sheets. For 2026, we view Special Situations not just as a hedge, but as a primary engine for alpha generation.

Pricing: New Issue Spreads Continue to Tighten



Stress Indicators: PIK Interest Continues to Increase



Alternatives

Infrastructure: The Indispensable Backbone

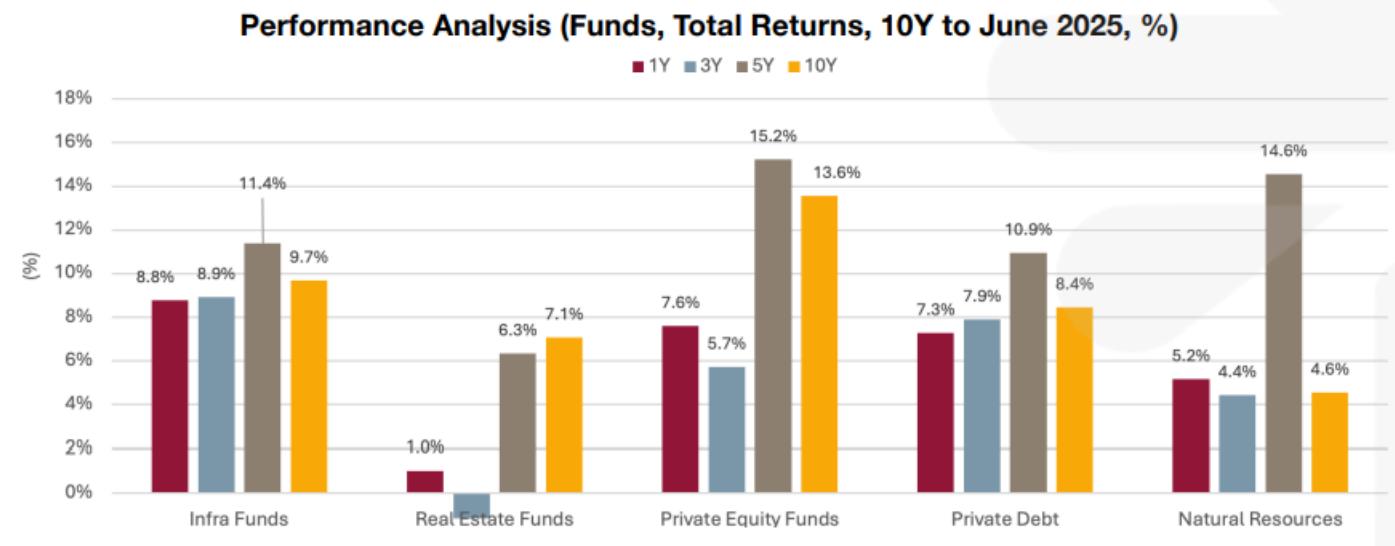
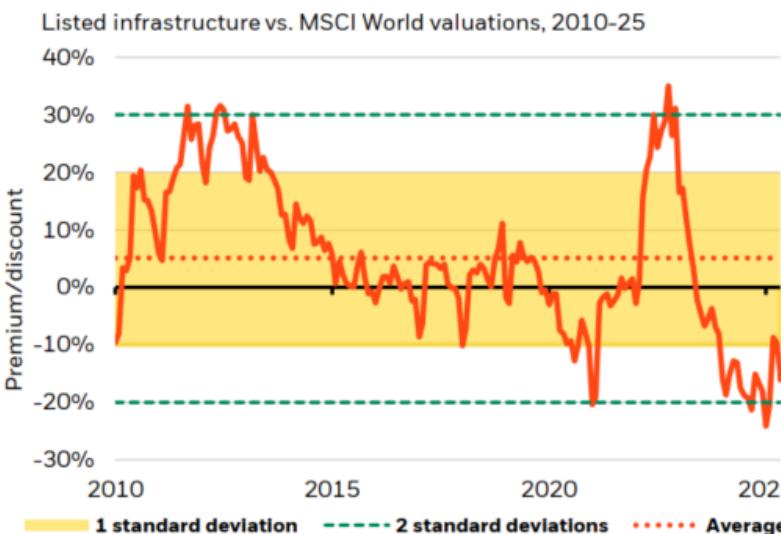
A Valuation Anomaly in an Essential Asset Class

In any economic scenario, the eventual winners of the next decade will rely on a shared foundation: power, data networks, and connectivity. We view infrastructure as indispensable to the global growth story, yet today it presents one of the most striking valuation anomalies in public markets. Listed infrastructure currently trades at a deep discount to broader global equities—levels comparable to the Covid-19 shock and below those seen during the Global Financial Crisis. In our view, this dislocation reflects transient uncertainty regarding the interest rate outlook rather than any deterioration in long-term fundamentals.

Public vs. Private: The Control Premium While the public market offers deep value, Private Infrastructure remains the venue of choice for long-term investors able to tolerate illiquidity. The strategic argument here goes beyond yield; it is about control. Private allocations allow investors to directly influence asset management and access critical decarbonization themes—such as carbon capture and storage or biofuels—that are scarce or difficult to structure in public markets.

Real Assets: Stability and Divergence Broader real asset values have stabilized, with the logistics sector continuing to lead in both the US and Europe. We are also seeing a repricing in high-quality offices as the "return to office" mandate gathers pace, while the living sector continues to garner interest for its resilience. Specifically within infrastructure, valuation swings have been more muted than in broader real estate. Values have stabilized and are beginning to recover, particularly in the renewable energy and digitalization segments.

Regional Dynamics: The European Advantage A distinct divergence has opened between the US and Europe. The US market is currently digesting a "supply pump" primed before the pandemic; a wave of development completions over the past five years has weighed on rent growth. In contrast, Europe appears more resilient. The continent continues to grapple with aging stock and tight fundamentals at the prime end of the occupier market, creating a supply-demand imbalance that supports pricing power for high-quality assets.



Source : HSBC Asset Management , Preqin - Data as of 31/12/2025

Investment Strategy & Outlook

	View					Strategy
Fixed Income						
Short U.S. Treasuries	●	●	●	●	●	Rates are currently too low relative to economic resilience. We see technical support (potential QE/SLR) but fundamental pressure for fewer cuts.
Long U.S. Treasuries	●	●	●	●	●	Fiscal deficits and a "resilient economy" skew risks toward higher long-end yields. The term premium is vulnerable to curve steepening.
Euro area govt bonds	●	●	●	●	●	Divergence between ECB easing (bullish front-end) and German fiscal supply (bearish long-end).
UK gilts	●	●	●	●	●	High Conviction. Gilts are the cheapest in a decade vs. Treasuries. Fiscal austerity and deep BoE cuts create asymmetric upside.
Japanese govt bonds	●	●	●	●	●	BoJ normalization and reduced bond buying will drive yields higher. Term premiums must rise.
EM Government Bonds	●	●	●	●	●	"No-Brainer" Real Yields. Easing cycles in EM are robust (starting from high real rates). Local currency valuations are at crisis lows.
Credit						
Global Investment Grade	●	●	●	●	●	Spreads are tight but justified by strong balance sheets. Demand for high-quality income remains structural.
Global High-yield	●	●	●	●	●	Spreads are priced for perfection. The asset class is vulnerable to refinancing walls and macro volatility.
US IG	●	●	●	●	●	Strong fundamentals and limited net supply support tight spreads.
US HY	●	●	●	●	●	Spreads are historically tight (<350bps target). Risks from private debt competition and tariffs are underpriced.
EU IG	●	●	●	●	●	Preferred Region. Valuations are more attractive than the US.
EU HY	●	●	●	●	●	Better value than US HY, but economic growth remains sluggish.
Emerging Markets Debt	●	●	●	●	●	Strong fundamentals (upgrades > downgrades) + weak USD + Fed easing = Goldilocks scenario.

	View					Strategy					
Equities											
U.S. equities											
U.S. equities	●	●	●	●	●	"Show-Me" Market. Strong earnings growth (11-13%) battles rich valuations and concentration risk.					
Developed Markets	●	●	●	●	●	Growth divergence is high. US leads on earnings; Europe/Japan lead on value/reform.					
European Equities	●	●	●	●	●	Deep Value. Trading at a 25% discount to US. "Strategic Autonomy" (Defense/Energy) is the key structural theme.					
Japanese Equities	●	●	●	●	●	Structural Renaissance. Corporate governance reform + reflation + fiscal stimulus (Takaichi) = Buy.					
China	●	●	●	●	●	Contrarian Buy. Tech/Internet offers deep value vs. US peers. Policy is pivoting to support markets.					
Emerging Markets	●	●	●	●	●	Highest Conviction. "Stars aligned" (Weak USD + Rates Down + Growth Up). Asia is the AI engine.					
Alternatives											
Gold	●	●	●	●	●	Strategic Asset. Central bank buying floors the price. Hedge against fiat debasement/geopolitics.					
Commodities	●	●	●	●	●	Essential diversifier in a volatile world.					
Private Equity	●	●	●	●	●	Gradual Revival. Stabilizing rates unlock exits. Secondary market offers liquidity.					
Infrastructure	●	●	●	●	●	Indispensable. Public markets trade at deep discount; Private offers control.					
Hedged Strategies	●	●	●	●	●	"Risk-conscious hedging" is priced fairly. Volatility creates alpha opportunities.					
Crypto	●	●	●	●	●	(Not a core focus in consensus, but viewed as speculative/high-beta).					
FX											
US Dollar	●	●	●	●	●	Structural Decline. End of exceptionalism. Yield gap narrowing + fiscal risks = 5% decline.					
Euro	●	●	●	●	●	Primary Beneficiary. Undervalued + narrowing growth gap with US.					
British Pound	●	●	●	●	●	Stagflation Risk. Back to pre-Brexit valuations with weak growth outlook.					
						Sell Rallies: Position for depreciation against undervalued peers.					
						Long: Buy vs. USD and GBP.					
						Avoid: Prefer Euro or CHF.					

Dorovia Global Multi-asset Fund

Portfolio Positioning



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