

Investment Outlook

DON'T LOOK BACK IN ANGER

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RATES

USTs

We remain tactically NEUTRAL.

To be on the safe side, investors tend to lean towards the dovish side, creating a bias for yields to move down in the absence of timely data. Against this backdrop, long-dated UST yields are trading near the 2025 lows, despite solid growth and tariff-related upside risks to inflation.

We continue to recommend **increasing exposure when yields are at 4.50%-4.60% and turning SHORT when they reach 3.80%.**

Strategically, our NEUTRAL stance remains UNDER REVIEW (with a negative outlook).

In addition to the upside risks to rates stemming from resilient growth, tariff-related inflation pressures, an overly dovish Fed, and a build-up of political risk premium, we see upside risks to rates arising from the Supreme Court ruling on tariffs and potential additional fiscally expansive measures targeting low- to middle-income families, especially considering the widespread loss of popularity experienced by President Trump.

Bund

We remain tactically NEUTRAL, as we believe the risks of maintaining a LONG position remain asymmetric for the following reasons:

- 1) While scepticism around the implementation of the German fiscal package is high, we expect markets to give Germany the benefit of the doubt until proven otherwise. Combined with a substantial increase in supply, this creates upside risks for Bund yields, potentially reaching the 3% area.
- 2) While we continue to believe that the market's pricing of the ECB (no rates cuts priced by March 2026) is too hawkish, given ongoing disinflation and the poor quality of EA GDP growth, the latest ECB's meeting, the ECB's accounts and the recent rhetoric from ECB members have taken a December cut off the table.

Against this backdrop, **we continue to suggest turning LONG when yields are at 3.00%-3.10%, and we would turn SHORT at 2.45%.**

Strategically, we remain NEUTRAL. With EA growth expected to accelerate in 2026 on a q/q basis and Bund supply rising sharply, the medium-term bias for Bunds remains upward, although strong demand for EA government bonds is likely to partially offset this upward pressure.

BTP

We remain tactically NEUTRAL. We continue to believe that the potential for a further decline in the spread in the near term is limited. At the same time, BTPs remain closely correlated with Bunds.

We maintain the accumulation range at 3.90%-4.0%, while we would turn tactically SHORT at 3.20%.

Strategically, we remain NEUTRAL.

- 1) The strong and positive correlation with Bunds suggests an upward bias for BTP yields in the medium term,
- 2) In the absence of a decisive improvement in European infrastructure, we do not expect a further sharp tightening of periphery spreads, as progress in macroeconomic convergence between the periphery and the core is likely to slow next year,
- 3) We expect solid demand for BTPs (driven by appealing yields and a steeper curve compared with Bunds), and an improvement in the fiscal outlook to help offset at least some of the upward pressure on yields.

EQUITY

We turn tactical LONG from 1 January (NEUTRAL until then). Market volatility is likely to persist through year-end as investors take profits and await new US economic data following the shutdown. **That said, we remain buyers on dips, expecting the rally to resume in January.** Our constructive view is supported by a better-than-expected macro backdrop, easing geopolitical tensions, solid households and corporates balance sheets, and seasonality. **The main risks to our constructive outlook stem from any dramatic shift in expectations about the Fed's next moves or a significant reduction in liquidity.**

We expect global equities to continue trending upward, even if stronger economic growth or slightly higher inflation in the US leads to an increase in Treasury yields. Historically, rising yields signal a healthy economy that supports stock prices. The last two major market downturns occurred alongside falling yields and deteriorating corporate fundamentals. Therefore, **rising yields alone are not enough to stop a rally; market weakness emerges when several negative factors coincide, though the resilient macro backdrop always limits the downside.**

From a regional perspective, we reiterate our NEUTRAL stance on the main regions. We see all regions joining in sync with the expected start-of-the year rally.

From a sector standpoint, we maintain a cyclical tilt, with a more agnostic approach to style (previously Growth bias). We are increasing the exposure to traditional cyclical Value going LONG Diversified Financials (previously NEUTRAL). Among Growth sectors, we are reducing concentration risk going LONG Tech Hardware & Equipment (previously NEUTRAL). Pharma remains our preferred defensive sector.

Strategically, we reiterate our OVERWEIGHT stance on equities and view any market weakness as a buying opportunity. We expect the global benchmark to accelerate in 2026, driven mostly by high single-digit EPS growth. Already rich valuations will limit gains from multiple expansion, which was the main driver of last year's rebound.

Regionally, we prefer the US and EM due to their predominance in the AI space and unique catalysts. Sector-wise, we favour Cyclical over Defensives, leaning towards Growth-oriented stocks given our outlook for US GDP growth and inflation prospects. However, if the US economy grows more rapidly and inflation accelerates we would switch our focus to traditional Value stocks and take a more selective approach towards long-duration sectors.

FX

EUR/USD – Tactically, we remain NEUTRAL on EUR/USD and DXY. The dollar index has regained some ground in the last few weeks, even though markets have turned dovish on the Fed and UST yields have declined. Remaining tactically neutral at this stage seems the best course of action, given:

- 1) Incomplete information from US macro data following the shutdown,
- 2) The fact that markets have already almost fully priced in a rate cut at the December meeting,
- 3) Moderately more constructive growth data in the EA and the ECB's hawkish bias.

Strategically, we remain LONG on EUR/USD and SHORT on DXY. We remain of the view that in 2026 the dollar could come under renewed pressure, albeit more moderately than in 2025.

While we anticipate solid US growth next year, we think that the dollar-negative factors will outweigh the positive macro backdrop in the US, for the following reasons:

- 1) A still-widening current account deficit in the US,
- 2) Gradually slowing portfolio inflows into US assets, particularly from central banks,
- 3) Continued hedging flows by foreign investors,
- 4) Uncertainty surrounding the Fed's independence and a high probability that whoever becomes the next Fed Chair will adopt a more dovish bias.

The main risk to our dollar-bearish strategic positioning is that the US economy reaccelerates while the implementation of the fiscal package in Germany disappoints, casting doubt on the economic recovery in EA.

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