The monthly letter

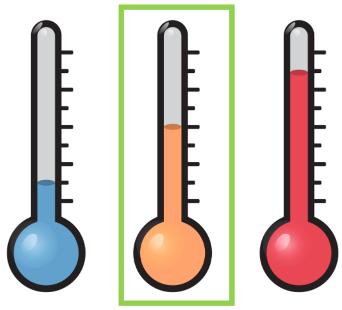
TACTICAL SITUATION REPORT

DECEMBER 2025

Global landscape

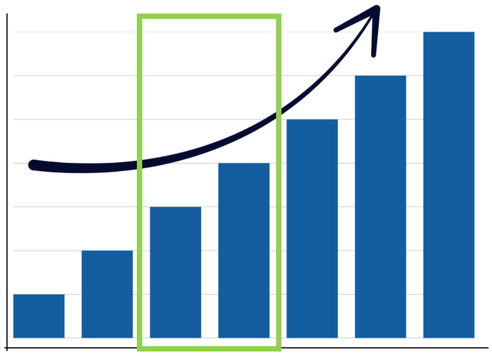
Global framework conditions

Inflation in the next 6 months



Stance: above central banks targets (ex-China)
Trend: one-off ST shock first

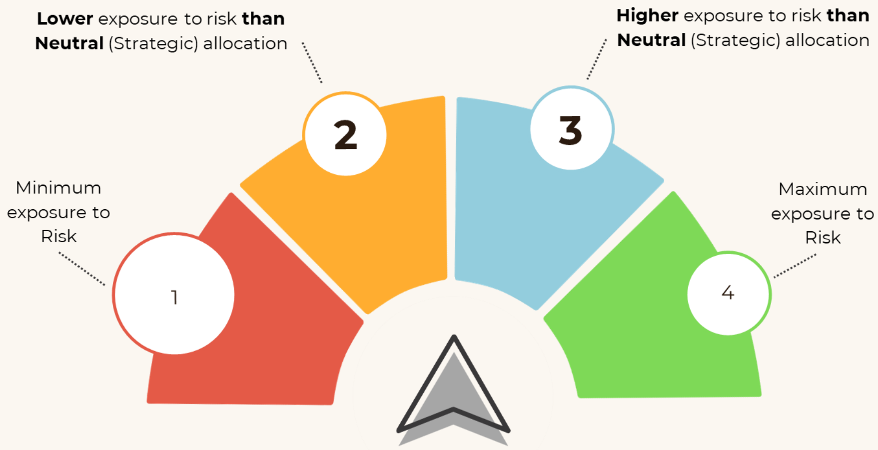
Economic growth in the next 6 months



Stance: below LT potential
Trend: improving

Global view

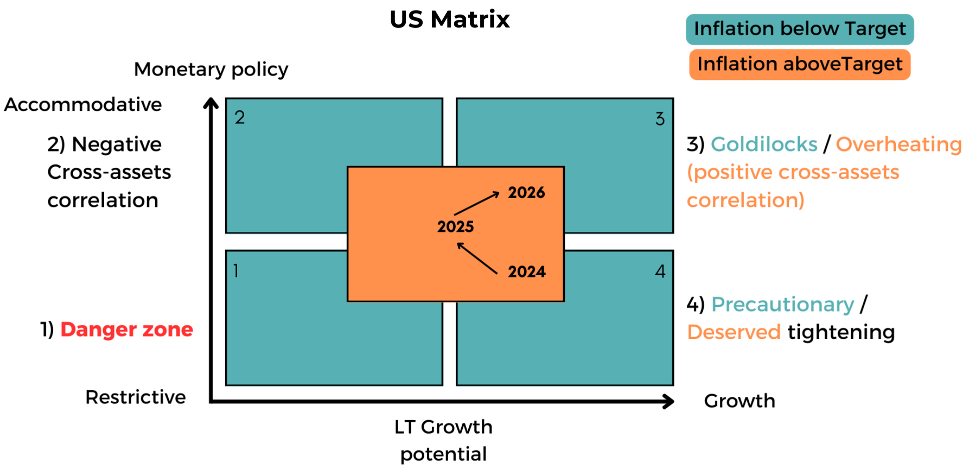
Risk budget
3m investment horizon



Cyclical outlook.

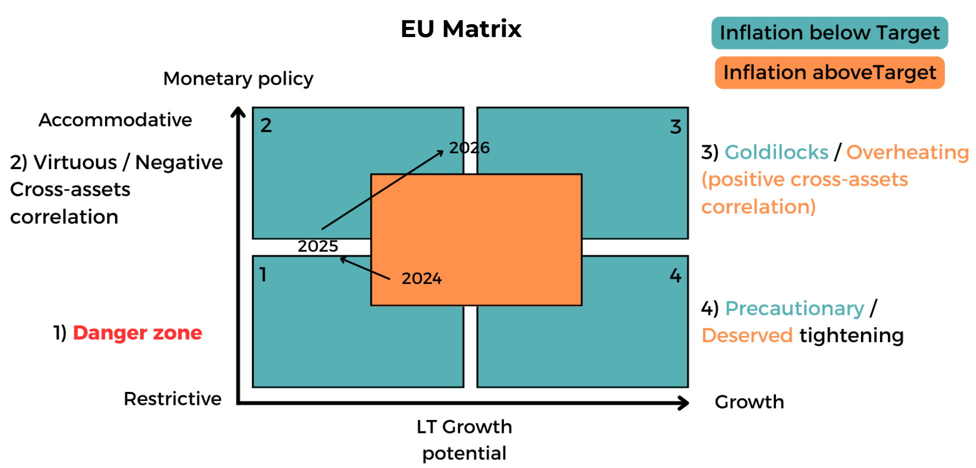
The G4 is fully committed to implementing policies that will boost nominal growth. As a result, the ongoing weakness in the main structural factors, such as demographics, excessive debt and productivity, will be counterbalanced in 2026 by highly supportive economic policies. Reflation is accelerating in Asia. China, which is currently struggling to kick-start its economy, has significant potential for recovery. Japan, on the other hand, is walking a tightrope with stubborn inflation and growing market tension in the face of the new government's fiscal irresponsibility. The unbridled devaluation of the JPY is adding to China's discomfort. To be continued...

Due to businesses being at different stages in their cycles, fiscal dominance will result in dispersed nominal growth and asymmetric inflation risks.



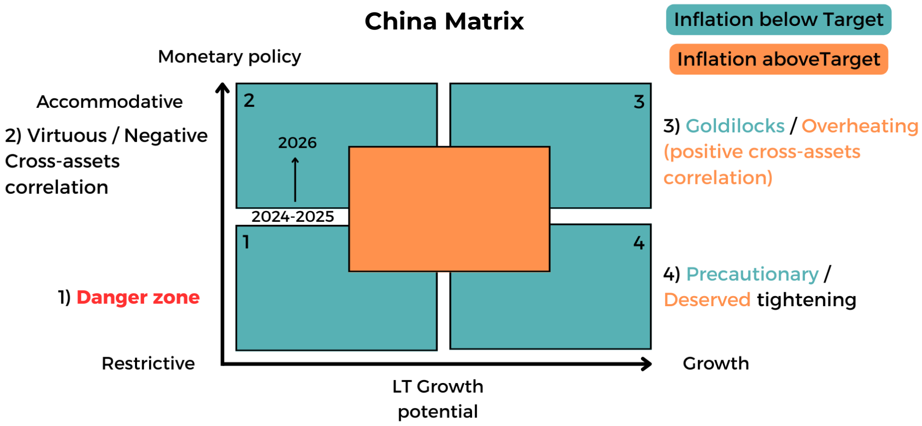
US growth will improve but remain close to the long-term potential range
US inflation will stay above target and volatile

- High nominal growth coupled with a slightly accommodative Fed
- Rising odds an ¨overheating¨ investment landscape



EU growth will rebound in 2026 to return to its long-term potential
EU inflation will remain below / close to central bank's target

- Accommodative ECB
- EU investment landscape: Favourable to goldilocks



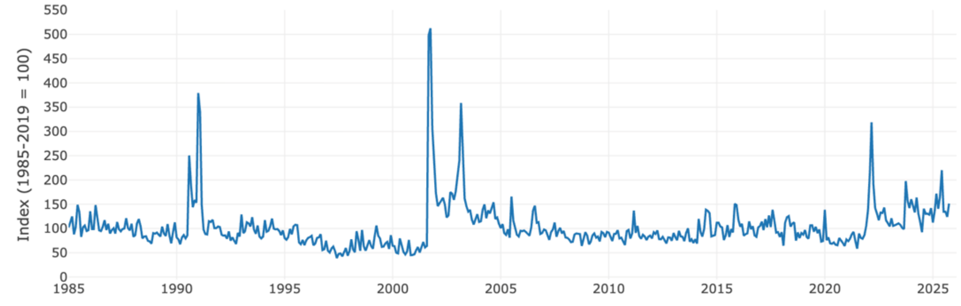
China growth is set to remain well below long term potential. Disinflation / deflation tensions will continue.

- PBoC more aggressively accommodative.
- Exit from the danger investment zone for a more benign / favourable landscape.

Geopolitics.

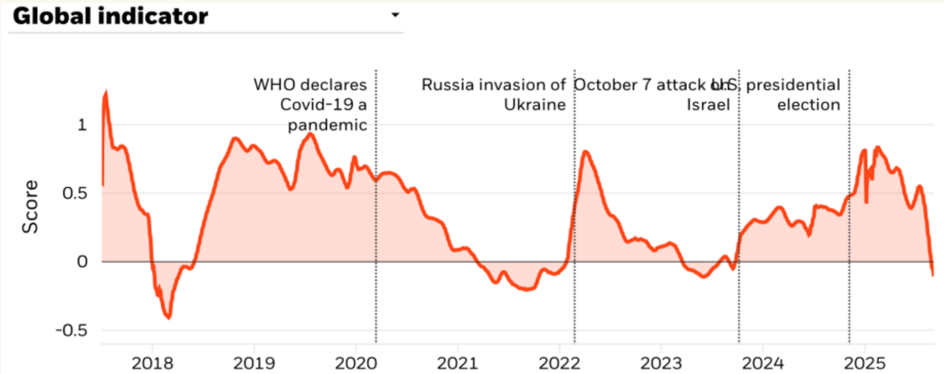
The United States is stepping up its efforts to impose a peace process on the belligerents in the Middle East and between Russia and Ukraine. Public opinion and the markets are taking note and gradually calming down. Although there is no guarantee that balanced and lasting solutions are on the horizon, the intensity of the conflicts is probably easing.

Chart. GPR index



The GPR index has remained well-below the level that followed the WTC attacks and the invasion of Afghanistan against Al-Qaeda. In recent months, it has remained well below the peak reached during the invasion of Ukraine.

Chart. BlackRock BGRI



The GPRI index confirms this easing. Lately, it is even approaching a phase of normalization.

Global Liquidity.

The evolution of liquidity since the end of Q3 has been counterintuitive. On the one hand, major global aggregates continue to grow, buoyed by Asia and the relative weakness of the US dollar. On the other hand, the US money market has stalled, raising fears at times of a repeat of the tragic repo episode of 2019. However, there are signs of a calming down.

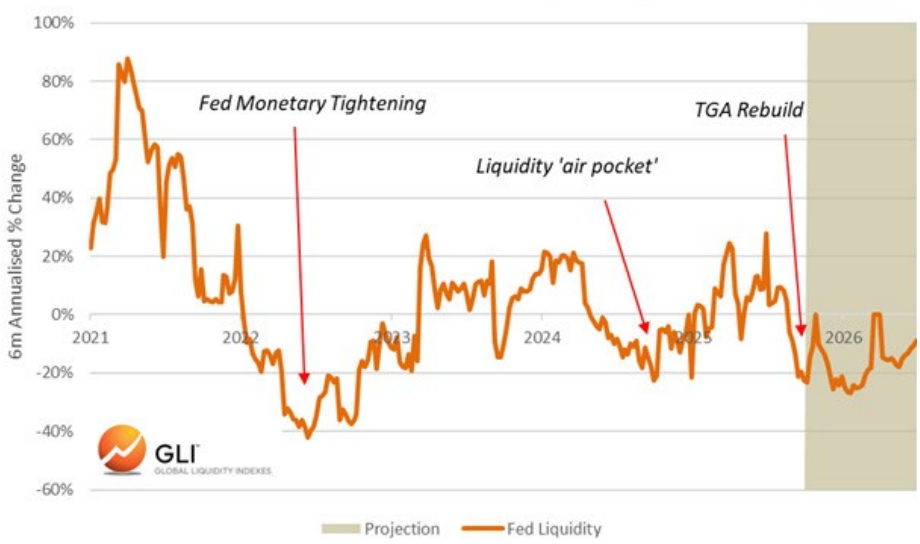


Chart. Fed Liquidity (Crossborder).

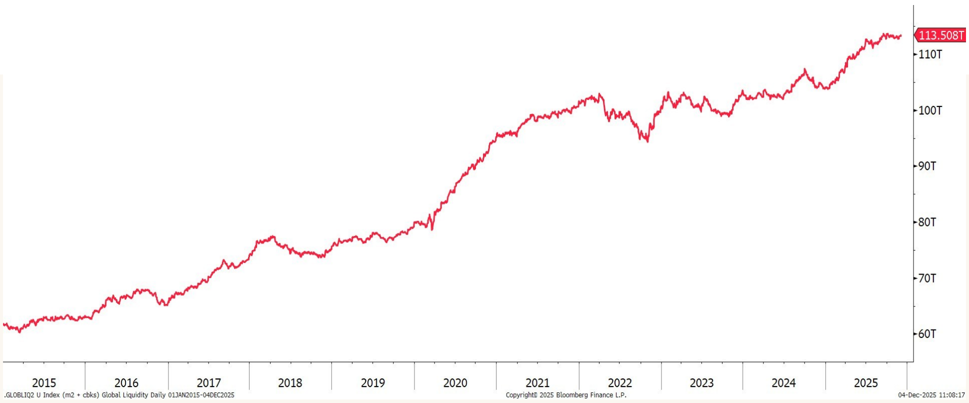


Chart. Global M2.

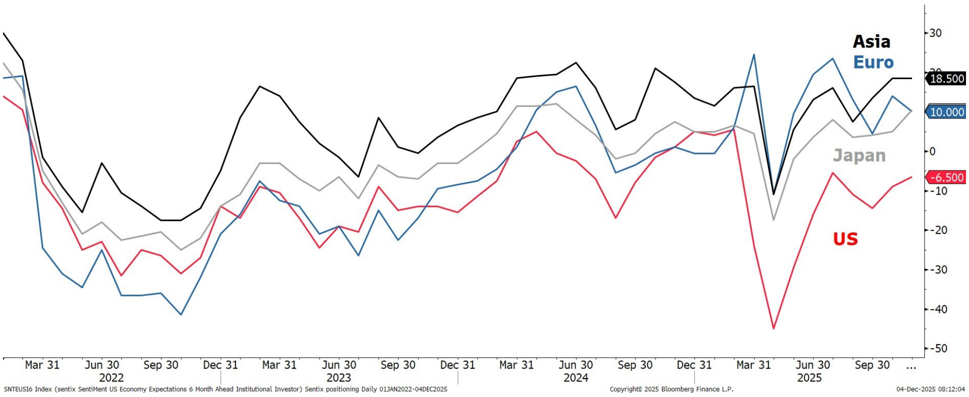
Sentiment.

Global equity markets exposure change amongst market participants has been unusual, at least over the past couple of months. In the November volatility episode, retail investors have not abandoned their exuberance, maintaining one of the most elevated equity exposures since 2010 above 71%. Retail investors have consistently disengaged from bonds and cash since June. The cash allocation is the lowest since November 2021 and exceeded that of bonds.

According to NAAIM, active investment managers have for once been more resilient than retail investors. They have only moderately reduced their equity exposure. According to Sentix, regional surveys show an increasing exposure to equity markets from institutional investors, at the exception of Europe. A common point between retail and professional investors is the record low exposure to the fixed income segment.

Amongst hedge funds managers, the equity exposure has consistently been reduced since March. and they have maintained this short stance since then.

Chart. Institutional investors have a constructive outlook for the next six months.



Tactical allocation.

The recent economic slowdown (Q3) in the United States is coming to an end. The recovery will be confirmed in 2026. Fiscal stimulus measures in Japan, China and Europe will also soon begin to take effect. The main factor of disconnect is inflation. More volatile overall, it will remain a threat only in the United States and Japan. We have not entered a new regime of unbridled inflation, as was feared for a time after Covid. China is not emerging from deflation, and emerging markets have pursued more virtuous economic policies than usual (and than the G7).

This is good news in terms of cross-asset correlation: we believe it will remain neutral to negative for at least a few months/quarters.

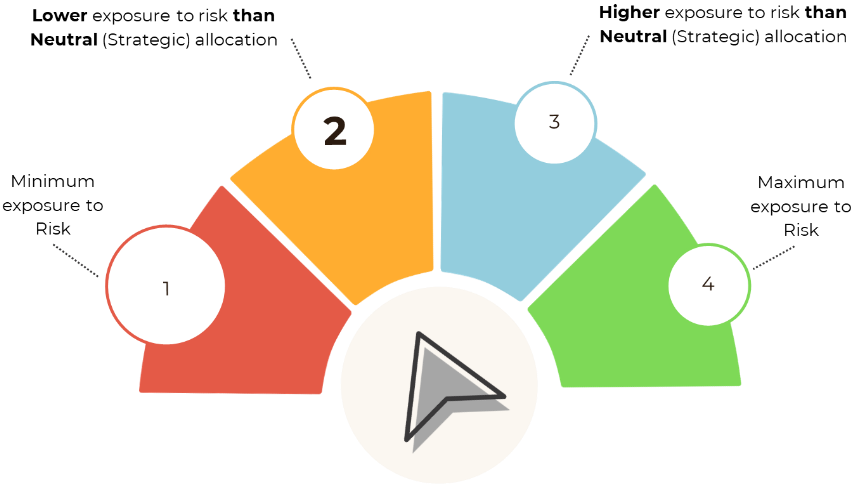
The latest contraction in US liquidity has weighed on the financial markets. The forced deleveraging of leveraged positions resulting from higher volatility has been particularly painful for volatile/momentum assets. This technical phenomenon will reverse soon, definitely in Q1 2026. Meanwhile, elsewhere, the liquidity floodgates are wide open and will remain so. The JPY and JGBs have been functioning as the release valve for market tensions following the election of the new prime minister. The country needs to act quickly to avoid damaging spillover effects.

Geopolitical tectonic plates are shifting under the impetus of a hyperactive Trump administration. While the risks of conflict are receding in Ukraine and the Middle East, tensions are resurfacing in Asia. Geopolitical factors have gradually lost their ability to disrupt markets since the invasion of Ukraine. We believe this trend will continue.

- *Overall, we remain confident in the short-term and fully invested*

Currencies

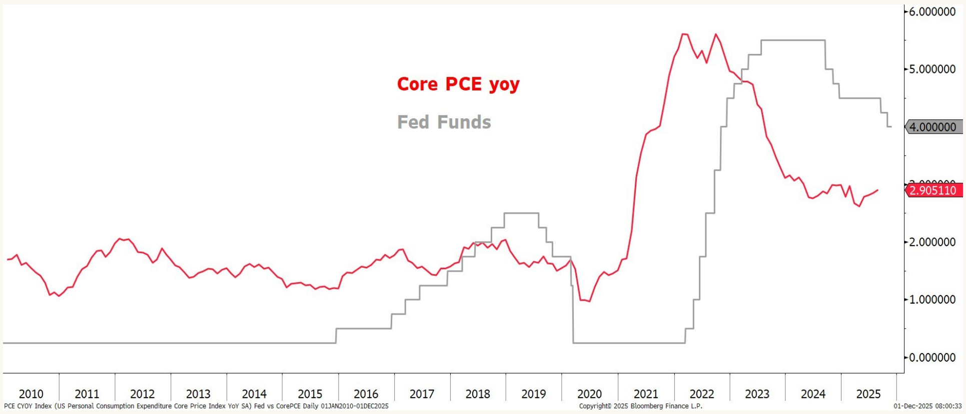
Risk budget
3m investment horizon



G3 central banks decoupling.

The December minutes suggest a divide Fed. Since October, employment conditions have softened. Governor Waller backs a December cut as the challenge presented by missing data has been overstated. He also flagged the demise in consumer sentiment to a near record low. The New York Fed President Williams, the only permanent voting member is now the most influent banker as Powell is in pre-retirement i.e. a lame duck. A verbal hint from Williams is a de facto smoke signal that the Fed Funds will be cut to 3.50/3.75% on December 10th. However, the easing cycle is unlikely to be done. We still expect a Fed Funds of 3.0%, closer to Core PCE level. This should be reached in H1 2026 if labour market conditions fail to improve, or once after a new Fed Chair assumes office in May 2026.

Chart. Core PCE level justifies further cuts.



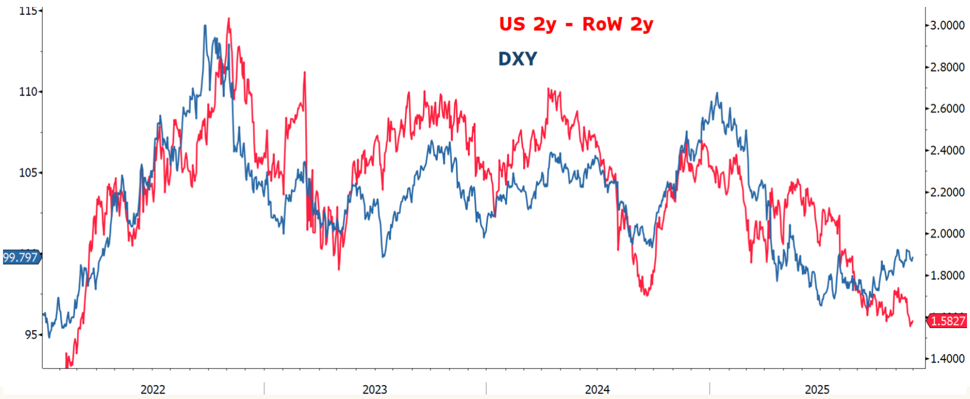
The ECB is on hold and quite happy with the current level of rates. Given current economic conditions and inflation, there is not much reason for immediate action. Across the eurozone's largest economies, CPI indices were weaker than expected in France and Italy, but stronger in Spain and Germany. The EUR strengthening supports a calmer growth and inflation. Over the next 6 months, the ECB will stay on hold.

We expect the Bank of Japan to hike its policy rate by 25bps in December, following Governor Ueda's relatively recent hawkish speech. He focused on the solid momentum of wage demands for fiscal year 2026 and concerns that the recent JPY weakness could have on inflation. He emphasised that even if policy were tightened, financial conditions would remain accommodative. The BoJ should hike again in Q2 2026 before taking an extended pause.

Valuation metrics are still non-USD supportive.

According to various fundamentals models (PPP, REER or NEER), the USD remains still overvalued. The JPY is, and will stay for a while, the most undervalued developed currency. The EUR is in the middle of the pack. The USD has room to slide as rate differentials compress, eroding the post-summer resilience of the USD index.

Chart. The USD has disconnected from yield gaps.



The 2-year US-EU yield gap just reached its annual lowest level. It offers the EUR another support. Meanwhile, any relationship between the USD/JPY and rates appear to have collapsed. Narrower rate differentials have not helped the JPY, because of concerns about Japan's debt burden.

Disinflationary UK budget.

A slew of budget measures such as a freeze on rail fares, relief on fuel duty and steps to cut household energy bills will reduce inflation by 0.5ppt in Q2 2026 according to Office for Budget Responsibility's estimates. Fiscal tightening is set to reinforce the underlying disinflationary trend. The budget deficit on day-to-day spending (1.7% of GDP in 2025-26) should return to surplus by 2028-29 and rise to 0.6% of GDP in 2029-30. This should help to achieve the inflation target. With inflation slowing, further monetary easing is needed to support growth. The BoE will cut rate by 100bps to 3.0% in 2026. More cuts than currently priced in represent another source of downward pressure on the GBP.

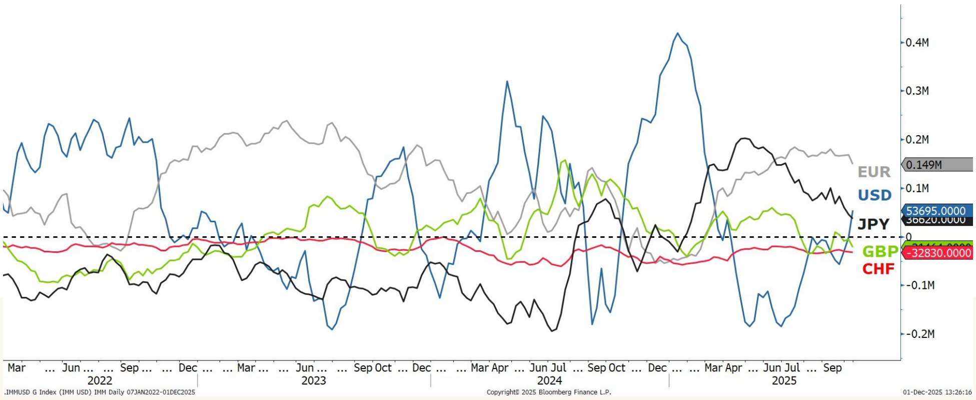
JPY comeback?

Until recently, the JPY sell-off, since Takaichi became prime minister, was driven by concerns of a prolonged accommodative monetary policy and a looser fiscal policy to reflate Japan's economy. The JPY recent rebound has been supported by hawkish comments from Governor Ueda who signalled a higher likelihood of the BoJ resuming rate hikes later this month as real rates are still very low. This is a big change from October minutes showing a wait and assess momentum ahead of the coming wage negotiations. This is the strongest signal that the BoJ is preparing to resume rate hikes. The market is already discounting a likely hike on 19th December, and the 2-year yield is above 1.0% for the first time since 2008.

Positioning adjustment.

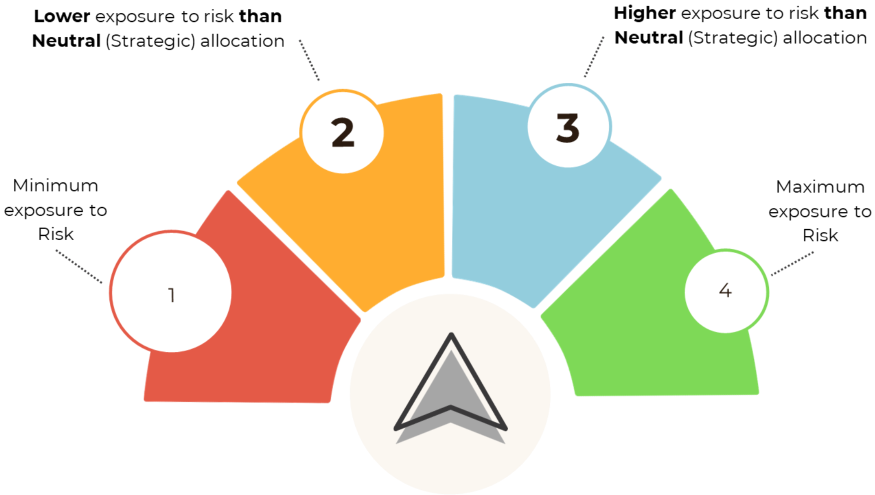
Investors have sharply adjusted their positioning on the USD over the past 3 months. Because of the US shutdown, investors have unwound their large shorts to adopt the first long exposure since early March positioning. This has mostly been done at the expense of the JPY, while investors remain still slightly overweight. The EUR long positioning has been slightly reduced. The GBP exposure has just turned negative and has room to deepen.

Chart. Strong repositioning on the USD.



Bonds

Risk budget
3m investment horizon



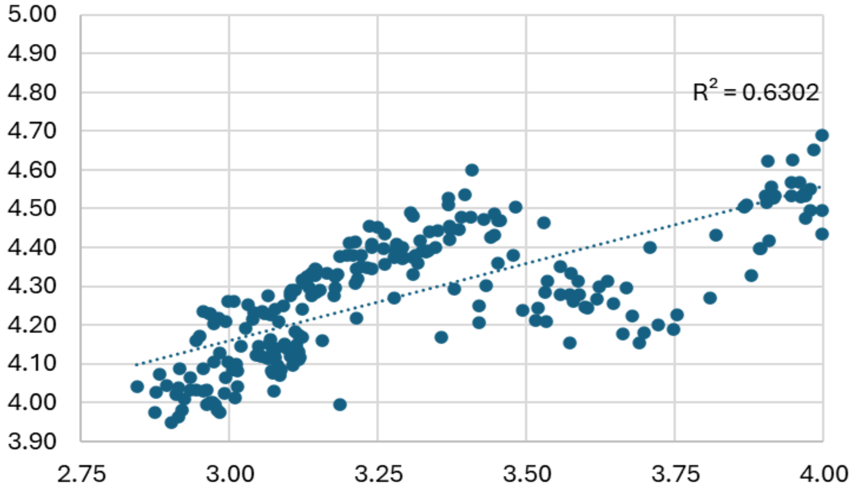
Treasuries are trading on the rich side.

The US economy has remained resilient despite numerous policies' shifts this year. The disinflationary trend stabilised in Q225. The bright spot for inflation is the continued cooling of shelter costs. Rents and Owners' Equivalent Rent continued to decline. Although September CPI came in softer than expected, there is little clarity following the government shutdown. The BLS will not publish October and November inflation data. It may take several more months to obtain a more robust reading.

Due to stressing money market conditions, the Fed has decided to end its QT. From December 1st, all redemptions from Treasuries will be reinvested across the curve, while all MBS redemptions will be reinvested in T-bills. The next phase of balance-sheet management will begin early 2026. According to a SOMA portfolio manager, the Fed won't have to wait long before resuming asset purchases to prevent reserves from declining further. From early 2026, the Fed is expected to grow its balance sheet in line with nominal GDP at around 20% of GDP.

In this context, we expect the Fed to cut rates to 3.00%, the US 2-year yield to be around 3.25% and for the US 10-year Treasury yield to remain above 4.00%, as the 2y10y curve continue to steepen. If the Fed does not alter its central scenario, Fed Funds should be c. 3.40% next year, implying a higher 10-year yield in a range (4.35%/4.60%).

Chart. The current 4.0% level is a floor for the US 10-year yield

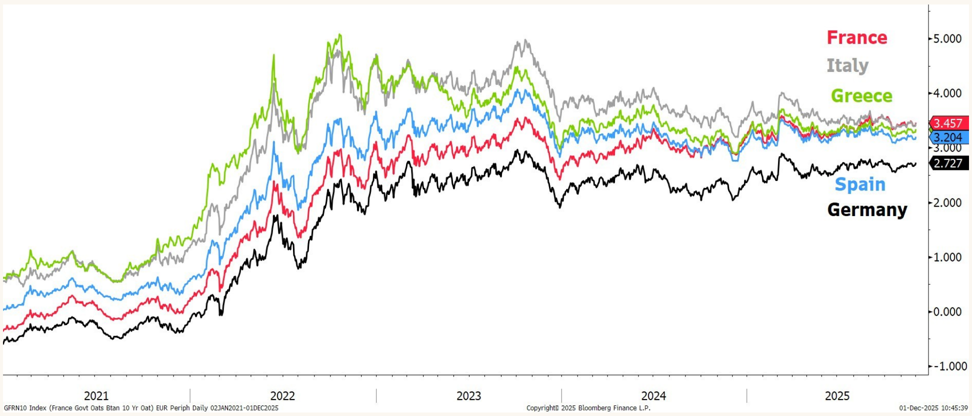


Given economic conditions, EUR front-end yields should remain anchored. Long-end Bunds have been cheapening recently, and we see value in long positions around 2.75% in the 10-year Bund. We still expect a curve steepening, as increasing supply meets falling pension fund demand.

Convergence to continue in the ECB space.

The Recovery and Resilience Facility funds, disbursed until December 2026 but deployed gradually over the coming years, should continue to support the periphery. On the fiscal side, most countries have now published official budget balance forecasts for 2026. Germany is expected to adopt an expansionary fiscal stance and France's target is likely to be revised, in contrast to Italy's ongoing fiscal consolidation. This shift will alter the supply mix, with Germany and France needing to issue more in net terms than Italy and Spain.

Chart. Converging European yields



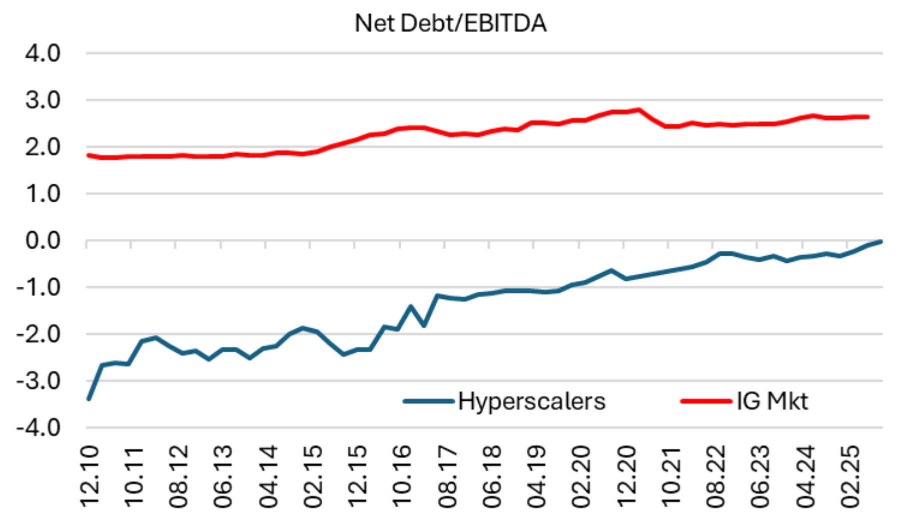
Ratings have improved for the periphery and deteriorated for semi-core in 2025. This trend is likely to continue, although we expect fewer changes in 2026 after an active 2025. Moody's is likely to assign its third single A rating to France, while more downgrades are also likely for Belgium. In contrast, Italy, Portugal, Greece and Ireland could see positive outlooks.

Few risks for the credit market.

A lot of talks in the market is about Big Tech ramping up borrowing to finance capex. The hyperscalers have already issued $120bn this year. Up to now, these issuers are a relatively small part of the indices. The total debt of this group is $600bn, while its net debt is less than $20bn, and had to be compared to an IG credit market size of $16'700bn. So, they represent less than 4% of the market.

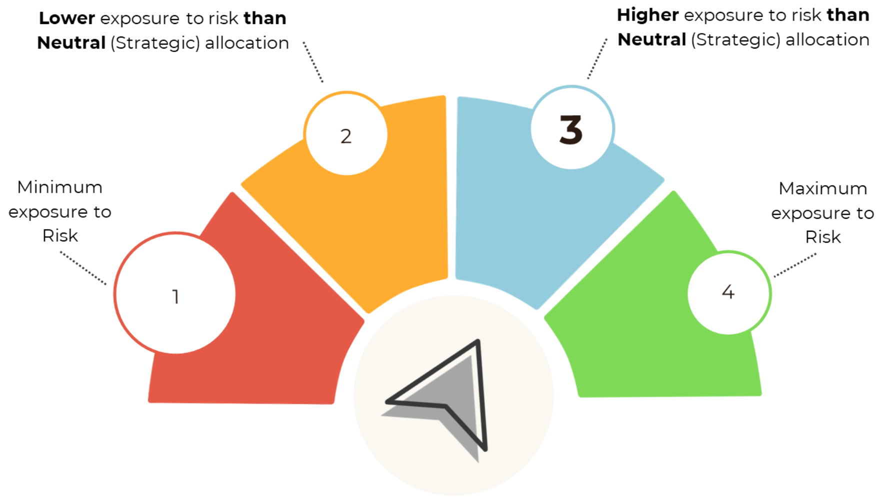
This re-leveraging cycle started from very solid fundamentals. The Tech leverage ratio is much lower than the overall IG market. The credit market leverage has remained stable around below 3.0x since 2020. Even if the hyperscalers debt profile is deteriorating, their leverage ratio remain close to 0.0x. And interest coverage ratios are also clearly higher than the median IG issuers.

Chart. Few signs of corporate releveraging



Equities

Risk budget
3m investment horizon



The bull market will continue beyond 2025.

November proved tricky, with investors fearing a sharp correction, a potential bursting of the AI bubble, which, for us, is actually an AI boom, not a bubble, a negative sentiment exacerbated by the technical break of the 2025 bullish channel and the 50-day moving average. But the indices held steady at the 100-day moving average, as did Bitcoin (on a weekly average). The investors' sentiment indicator, CNN Money's Fear & Greed, spent the last two weeks of November in the Extreme Fear zone, and stock indices flirted with oversold territory. A more favorable time to return to a contrarian trading. In early November, a powerful reversal indicator, the Zweig Breadth Thrust (participation of upside and downside movements in an index), turned positive, giving the strongest signal since 1982. Since 1945, it has given only 20 positive signals, the last being on April 25, 2025.

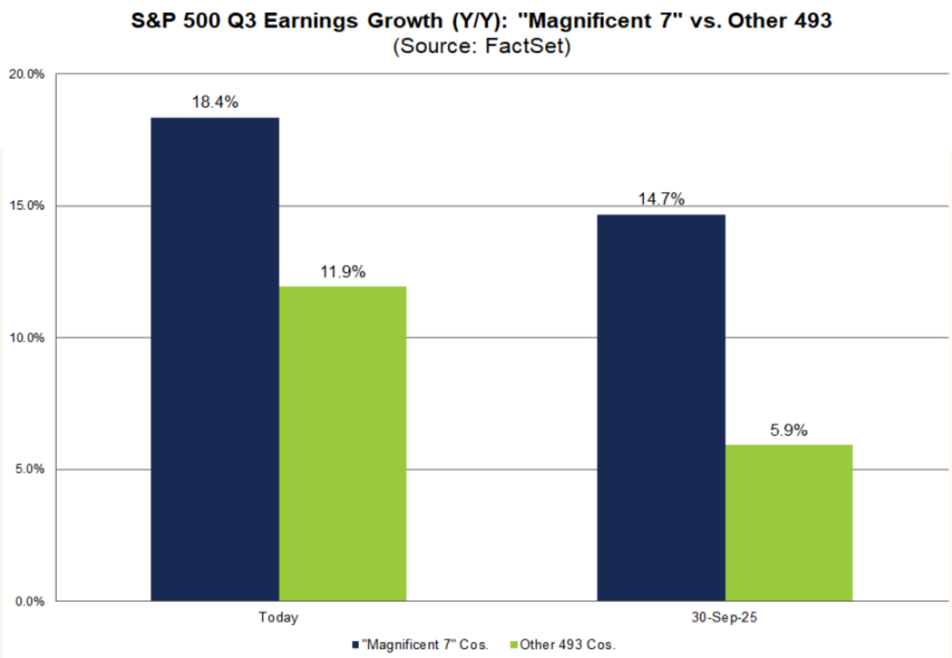
We believe in a rally in December and the first half of 2026. Global liquidity remains strong, and US liquidity will be even more favorable with the reopening of the US administration and a likely decrease in the Treasury's TGA (General Current Account), a cut in the Fed Funds rate in December, and deregulation of the US banking sector allowing for the flow of liquidity through commercial banks (loans). Microeconomic factors will also support equities.

With rising Japanese interest rates, the main volatility risk for global stock markets would be the unwind of the yen carry trade, which has prevailed for the past 30 years. Global exposure to the yen carry trade is estimated at $20 trillion, which has primarily financed purchases of US stocks (Big Tech). It will therefore be crucial to closely monitor the yen's performance: a sharp appreciation would reignite fears of a global stock market correction. Analysts believe that a USD/JPY exchange rate below 140 would trigger margin calls and pose a significant risk to global equities.

Chart. In July 2024, an 11% appreciation of the yen resulted in an 11% correction in the S&P 500

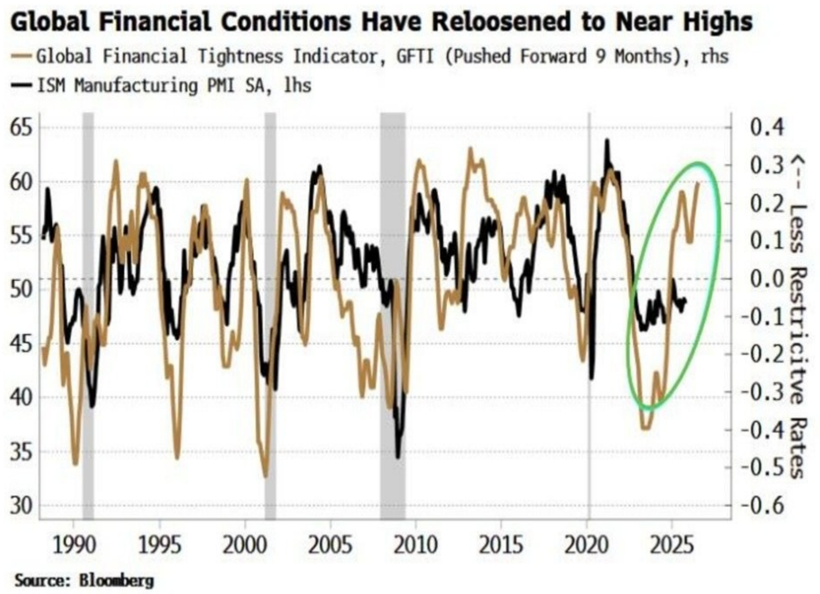
We are currently in an investment supercycle driven by AI, defense, and electricity generation (both renewable and nuclear). The US, Germany, and Japan are launching stimulus packages to boost the economy and consumer spending, including Trump's One Big Beautiful Bill (OBBBA), Merz's $500 billion stimulus package, and Takaichi's $135 billion stimulus package. S&P 500 companies reported strong Q3 2025 earnings, with a 14.7% increase according to Lipper Alpha.

Chart. S&P 500. Profit growth excluding Big Tech (+11.9%) in Q3 2025 was solid, driven primarily by the Finance, Industrials, and Materials sectors. Source: Factset



Donald Trump has proposed giving a $2,000 check to every American, except the wealthiest, who are unhappy with the decline in their purchasing power (inflation). This money would come from the billions "earned" through tariffs imposed on trading partners. After a crushing electoral defeat in November (New York, New Jersey, Virginia, and California) and very poor poll numbers, Donald Trump must react 10 months before the midterm elections (100% of the House seats and 33% of the Senate seats will be up for election). He must also put pressure on the Supreme Court, which could strike down his new tariffs. The Court will rule before the end of its annual session in late June, but its decision could come quickly since it has agreed to review the case on an expedited schedule. Donald Trump asserted that maintaining tariffs was a "matter of life or death for our country. Otherwise, we will be virtually defenseless against other countries that have been taking advantage of us for years," he stated on his Truth Social network.

Jerome Powell will leave in May 2026, but Trump wants to announce the new Fed chairman before the end of the year. The favorite appears to be Kevin Hassett, a close and loyal Trump ally. Expectations of aggressive reforms and a likely very accommodative monetary policy could be the major trigger for an acceleration of the bull market. Polls show Kevin Hassett in the lead with 78% at Polymarket, 79% at Kalshi, and 83% at PreditIt. The Fed's mission will be redefined, according to Scott Bessent. Mohamed El-Erian, chief economist at Allianz, applauds the prospect of a Fed with a global vision, not just a US-centric one, and the upcoming reforms.



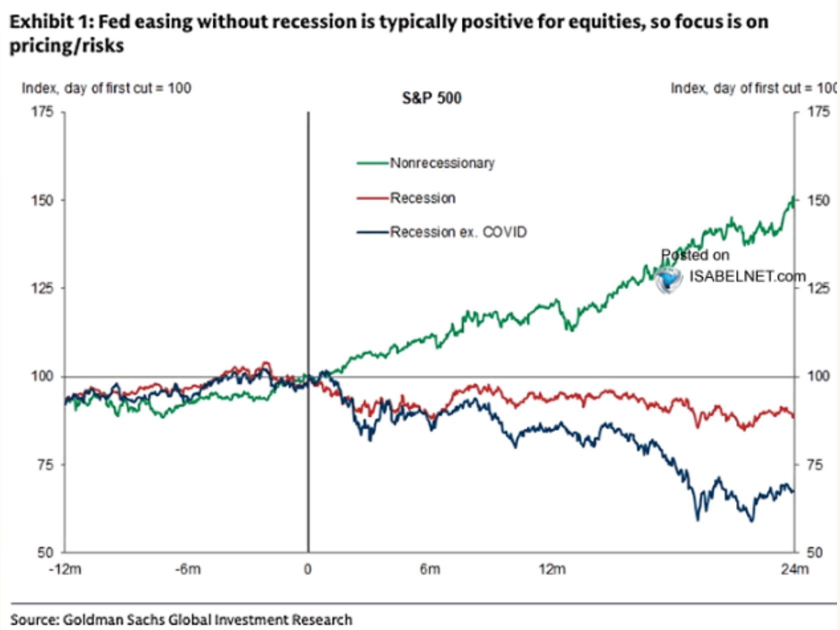


Chart. Favorable financial conditions rule out a recession. An accommodative Fed is positive for equities if there is no recession

Sector allocation. We remain committed to our Capex supercycle: reindustrialization, AI, defense, and energy production. Defensive sectors benefited in November from the US government shutdown, doubts about a Fed Funds cut in December, and tensions surrounding US liquidity, but the overall trend remains in the industrial and technology sectors.

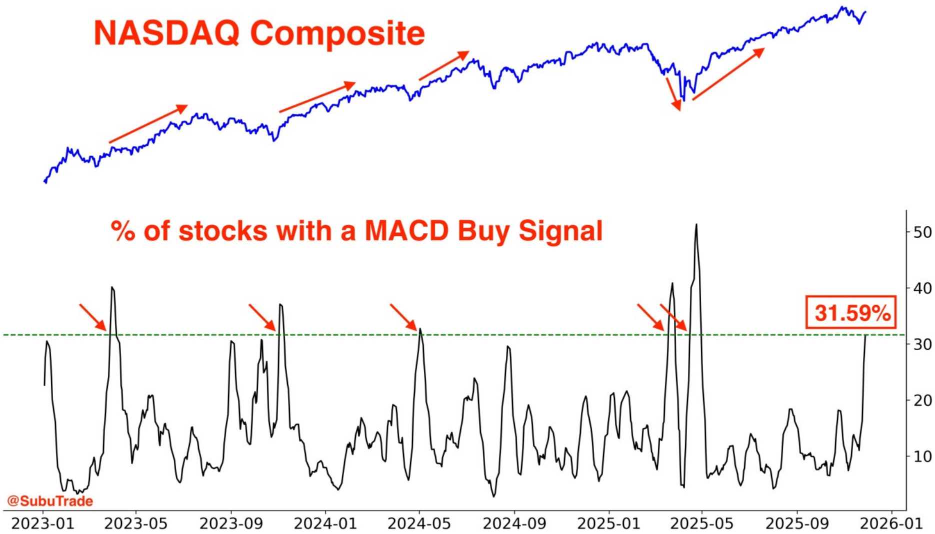


Chart. The Nasdaq MACD indicator is turning positive for a rally: 31% of the components have triggered a bullish signal

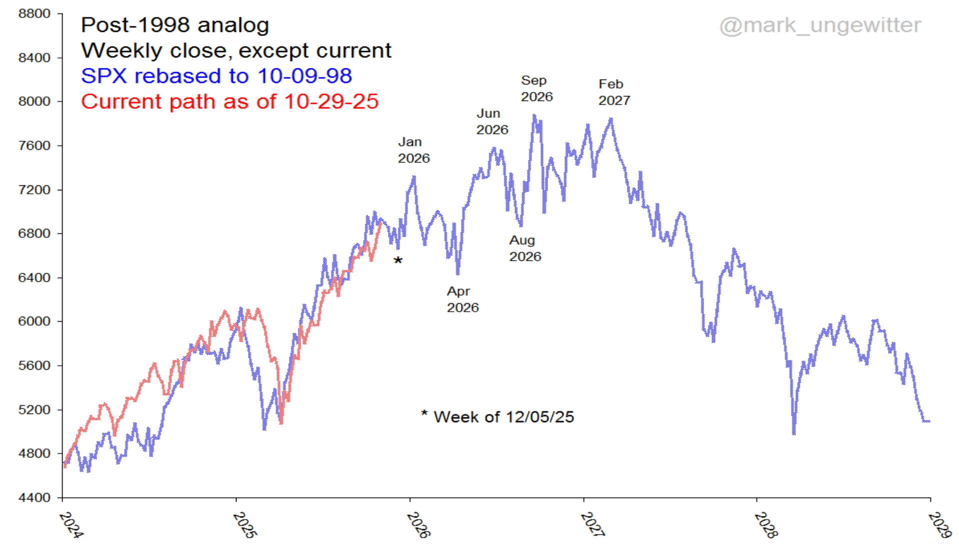
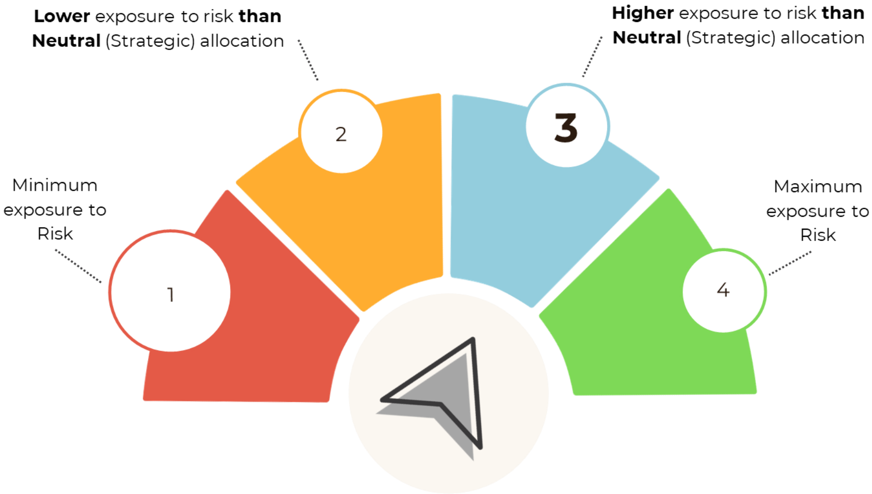


Chart. S&P 500. Analogy with the Dotcom 2000 era, if we want to compare it to the AI boom (2023-...). We still have 12-14 months of bull market with a potential upside of 15% (7,800-8,000), but 2026 should be more volatile with larger drawdowns

Alternative Investments

Risk budget
3m investment horizon



Gold, silver, and copper all reached historic highs in the same calendar year. That's rare!

In 2025, gold and silver reached their all-time highs, at $4,400 for gold in October (+60% in 2025) and $59 in recent days (+100% in 2025). Technical analysis is favorable for all three benchmark metals.

A combination of factors explains this performance, which dates back two years, with an acceleration for silver since the summer:

- Central bank purchases.
- Euphoria among individual investors.
- Overall cuts in benchmark interest rates by central banks.
- Concerns about inflation.
- Global debt and the risk of currency devaluations.
- Use and revaluation of US gold reserves to reduce US debt (Mar-a-Lago Agreement).
- Depreciation of the dollar.
- Concerns about the escalation of wars, particularly in Europe.
- Industrial demand: AI, energy transition, defense, energy production (for AI and its data centers).
- Portfolio diversification.

There is a shared attraction to gold, silver, and copper: this is the first time since 1980 that these three metals have reached their all-time highs in the same year. This reflects the new world we live in, with de-globalization, the aggressive expansionist imperialism of the United States, China, and Russia, the end of multilateral relations, significant global debt, and a weak dollar.

This favorable environment for precious and industrial metals shows no signs of weakening. Prices are expected to rise even further in the coming months.

In the short term, precious metals have benefited from the (temporary) slide in cryptocurrencies. Since the beginning of summer, cryptocurrencies have neither followed gold nor the Nasdaq.

Copper and silver are playing an increasingly important role in the economy of the future, as production is insufficient to meet demand. These metals are on Trump's list of strategic assets. Demand for copper and silver is accelerating with the growth of AI infrastructure and data centers. The US Department of Energy estimates that AI-powered electricity consumption will account for 12% of total US electricity production in 2028.

Experts expect a major imbalance in the coming years, driving prices up due to demand, but also due to a world that has become less efficient, de-globalized, and fragmented. They also see no signs of a production recovery due to limited new mining projects. The International Energy Agency estimates a supply shortfall of 30% relative to demand by 2035.

The outlook for precious metals remains bullish, whether through the purchase of physical metal (funds invested in gold/silver) or gold mining companies. For industrial metals, physical purchase is complicated, or even impossible; therefore, mining companies will be purchased through an ETF such as the PICK US - iShares MSCI Global Metals & Mining Producers - which moves in line with the price of copper.

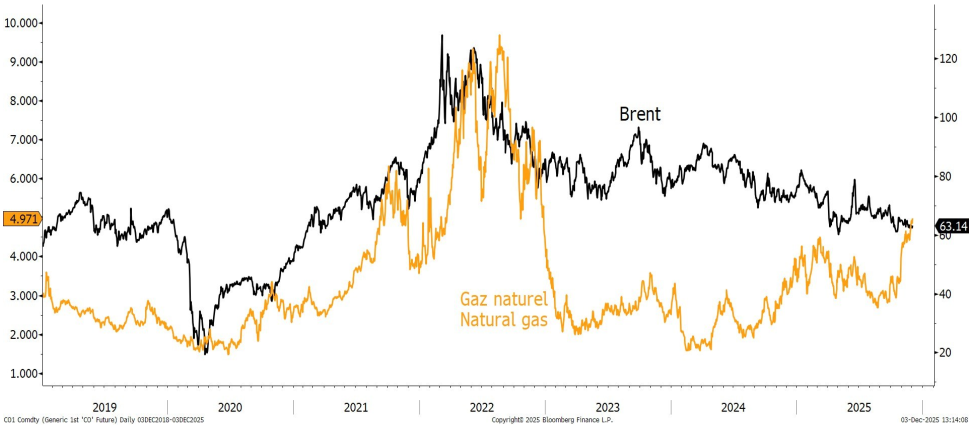
Chart. Perfect correlation between copper and MSCI global metals and mining

The price of Brent crude at $62 a barrel is at its very long-term average of $60 and below its 20-year average of $76. Global demand remains modest, and OPEC+ is putting more crude back into the market.

The Venezuelan risk with US military threats and increasing pressure on the shadow fleet transporting Russian oil, are not impacting prices.

A Barclays study estimates that AI will reduce inefficiencies in the oil industry by lowering exploration and development costs and increasing production. Therefore, in both the short and long term, prices should fall. Only a major crisis could cause them to rise, but this is often a short-term phenomenon, as rising energy prices quickly have a negative impact on demand. We are underweighting the energy sector. Gas is a good alternative, as the market dynamics are different.

Chart. Oil and gas prices tend to follow each other over the medium term, but gas prices are more volatile (due to more complex logistics and regional constraints). In 2024 and 2025, gas prices recovered after a sharp drop in 2022



Cryptocurrencies have fallen since this summer. Bitcoin typically tracks gold, the Nasdaq, or both. Not since June. Cryptocurrencies have only absorbed the bad news. The factors behind this underperformance include US liquidity tensions, the US government shutdown which halted the crypto bill, the new stablecoin law, and Trump's complete silence on Bitcoin, particularly regarding the US strategic reserve in BTC. The main anomaly is that Bitcoin is no longer moving in line with global liquidity; some experts are pointing to a significant discount relative to the global money supply and are calculating a "fair" value for Bitcoin at $270,000. The combination of a more accommodative Fed and pro-crypto US legislation should trigger a rally. The combination of a more accommodative Fed and pro-crypto US legislation should trigger a rally.

Chart. Bitcoin has fallen more than 30% since June, while gold and the Nasdaq have risen

In conclusion: overweight precious and industrial metals, and cryptocurrencies. Underweight energy.

The monthly letter

TACTICAL SITUATION REPORT

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