OUTLOOK 2026 AND MONTHLY REVIEW

OUTLOOK 2026

ECONOMY

The United States remains the economy most likely to make a significant contribution to global growth. A genuine global slowdown would probably only result from a misreading of the US cycle. Global scenarios therefore mainly hinge on shocks originating in the United States.

In the central scenario, economists expect US growth of 1.8% year-on-year, driven by strong consumption and robust investment spending, especially in AI, which should offset headwinds from the labour market and trade. The euro area and China should also post moderate growth.

In major developed economies, inflation should move closer to central bank targets, while monetary policy should either ease or remain broadly neutral.

EQUITY OUTLOOK

Markets could transition from the global macro concerns of 2025 to more micro-driven dynamics specific to each asset class, which will be the main performance drivers over the next twelve months. Unlike the past year, marked by trade tensions and political uncertainty, markets should move more at their own pace next year. For equities, the central theme will be ongoing earnings growth in the US and a recovery in Europe.

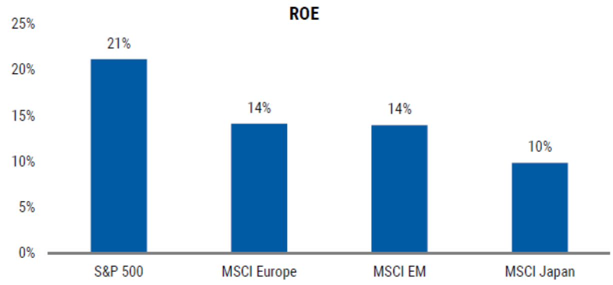
One of the key micro themes is artificial intelligence, both for the efficiency gains it delivers and for the impact of the heavy capex of the hyperscalers (Microsoft, Alphabet, Meta, etc.) on equity and credit markets, which differs by segment. AI-related capex is structural and only weakly sensitive to the business cycle. It should continue to play a crucial role in laying the groundwork for future productivity gains, even if the full impact on productivity appears with a lag.

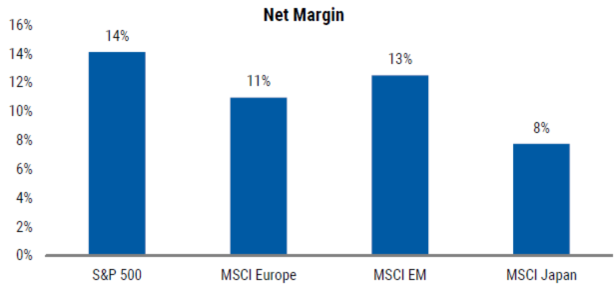
United States

- Trump closes the chapter on tariff wars and focuses more on domestic support ahead of the mid-term elections
- Massive AI and data-center investment continue into 2026 and strengthens economic growth
- Earnings growth remains solid at about 14%
- The Federal Reserve continues its rate-cutting cycle
- Expected growth: 1.8% in 2026
- Inflation at 2.6%
- Policy rate at 3.25% (three cuts)

At the beginning of 2025, many expected Europe to catch up, with a better starting point than the US. Reality has proved otherwise. The US has kept its lead, supported by technological leadership, resilient consumption and an investment wave (AI, reshoring) that underpins activity and profits. The momentum looks sustainable: tech capex and spending remain strong, feeding into other sectors. Trump's tariff policy increases domestic appeal, stimulates FDI and widens the growth gap versus Europe and China. This is visible in expected earnings, with double-digit growth of around 14% next year.

Although US equities trade at a valuation premium versus international markets, this is justified by attractive structural tailwinds and relatively resilient earnings. US companies should continue to deliver higher returns on equity and wider net margins than other regions.





We stay overweight financials and tech, and favour industrials as well, particularly around the electrification theme.

Euro Area

- An economic recovery is expected as rate cuts take effect and inflation settles around 2%
- Earnings growth needs to recover after the muted years of 2024 and 2025
- Political uncertainty and adherence to fiscal rules remain key challenges
- Expected growth: 1.1% in 2026
- Inflation at 1.9%
- Policy rate at 1.50% (two cuts)

Europe is progressing along a bumpier path. Political noise is loud, but positive drivers are emerging. ECB cuts are starting to show through: credit supply is improving, supporting consumption and, at the margin, growth. Germany is committing more to European defence, a structural long-term investment theme. After dull years, an earnings rebound of around 7–9% is expected, clearly better after two years of stagnation. European equities offer many opportunities beneath the indices. Single-stock dispersion already exceeds historical and seasonal averages and is likely to increase structurally.

Among major sectors, we remain positive on financials, industrials including defence, and utilities. We also stay invested in luxury, where valuations are seen as attractive.

A peace deal in Ukraine would be a turning point, opening a reconstruction phase that would be supportive for the region.

Switzerland

- Expected growth: 0.9% in 2026
- Policy rate at -0.25% (one cut)
- Long-term yield at 0.5%

Structurally, Switzerland remains closely linked to Europe. A more dynamic euro area is positive for Swiss exports. Swiss inflation should stay close to 0%. The SNB could move back into negative rates in 2026.

In Swiss equities, selection will become more focused and increasingly driven by micro themes. The priority is on companies benefitting from the supportive US backdrop and global reach, rather than those overly dependent on their domestic market.

China

- Growth is weakened by deflation and low investor confidence
- Chinese tech continues its AI self-reliance plan with a 2028 horizon
- Large-scale investment in new technologies goes on
- Expected growth: 4.5% in 2026, below the 5.5–6% average of the past decade

China still faces significant internal structural challenges, despite stimulus measures aimed at supporting the domestic economy. Growth should stay below the official 5% target, while deflation puts additional pressure on activity. These strains create large divergences across the economy, with consumption among the first segments to feel the impact.

At the same time, Chinese technology is not slowing. Since launching its own AI models such as DeepSeek, China has continued to invest heavily in new technologies. This is already visible in the results of large tech groups. The trend should continue as more advanced AI models roll out, margins gradually improve and valuations remain below US tech peers.

Emerging Markets

- Corporate margin improvement is expected to continue along the path started in 2024
- The reorganisation of value chains, combined with the rise of South–South trade, is generating a new dynamic that strengthens the role of emerging countries in global trade
- Key countries: Vietnam, Thailand, Indonesia, India, Mexico

After years of caution, sentiment on EM is improving. A weaker dollar and attractive valuations are strong supports. Geopolitical and economic realignments are reshaping trade flows in favour of export-oriented EMs, creating new opportunities for local corporates. The MSCI EM index is only now returning to its pre-2008 levels, pointing to catch-up potential. Earnings growth needs to reach about 11% in 2026.

Several macro signals point to a rotation of investment flows towards selected EMs: the Fed is entering a rate-cutting cycle, which weakens the dollar and redirects part of global capital towards higher-yielding EM markets.

THEMES

With the race for tech, construction and energy players are also big beneficiaries. The rapid expansion of data centres is driving strong demand for new infrastructure to build and power them. At the same time, ageing power grids in the US and Europe require deep modernisation.

These shifts require heavy investment and redirect capital flows towards these key sectors. This is a structural theme: without upgraded infrastructure, technological advances cannot fully scale. In other words, this is the "picks and shovels" phase of an innovation cycle – the stage where the foundations are built so that progress can emerge.

POTENTIAL RISKS

A. Trade tensions with China
B. Abrupt end to the AI investment cycle
C. Acceleration of growth outside the United States
D. Change in the Fed's reaction function
E. Valuations of certain equity segments

A. The issue remains unresolved and can still generate friction, but the mutual need for stability and visibility pushes both powers towards pragmatic compromises, especially on critical supply chains. Gradual, if imperfect, de-escalation would be enough to support exporter confidence and limit cost shocks.

B. After the euphoria, 2026 could mark a more selective phase in which AI projects are better aligned with value creation, which is healthy for the cycle. This normalisation would favour disciplined players and use cases with measurable returns, while reducing the risk of excessive capex.

C. Faster growth outside the US could reshuffle global balances and reduce the relative appeal of US assets. This would support demand for EM and European markets and could exert downward pressure on the dollar. It would also complicate US monetary policy in a more dynamic global environment.

D. A change in the Fed's reaction function would add an extra source of volatility. If the Fed adopted a more hawkish stance in response to an inflation rebound, global financial conditions could tighten quickly, hitting equities and credit hardest.

E. Finally, high valuations in some names, especially in tech, expose investors to correction risk, amplified by markets' heightened sensitivity to any disappointment on earnings or guidance.

These scenarios are monitored and seen as possible, but they do not define the central scenario behind the investment strategy.

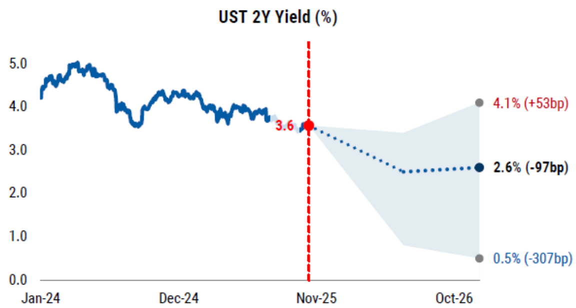
FIXED INCOME

The ECB is likely to keep its policy rate around 2%, with a possible additional cut during 2026 if activity slows. Euro-area inflation is expected to be around 1.9% in 2026, allowing the central bank to maintain an accommodative stance.

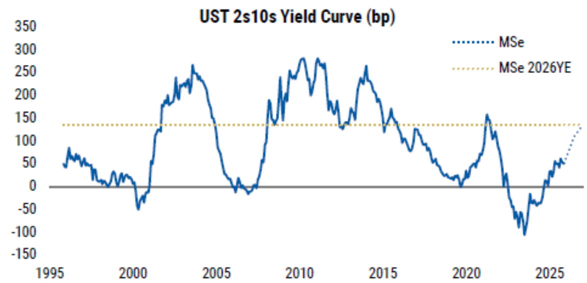
In the US, the Fed should continue cutting, with the policy rate expected around 3.25% in 2026, even if markets still price more aggressive easing. US inflation should stay above the 2% target, limiting the Fed's room for manoeuvre.

Yield curves should steepen further, with short rates anchored by central banks and long rates under pressure from heavy sovereign issuance and persistent deficits.

Projections for US 2Y Yield and US 2vs10 yield curve



Source: Bloomberg, Morgan Stanley Research forecasts



Source: Bloomberg, Morgan Stanley Research forecasts

High yield remains attractive relative to IG, as stronger earnings growth and lower net supply than in IG point to higher yields. Carry should again make up most of the total credit return, with a modest, broad-based widening in spreads.

GOLD

Gold keeps a positive path into 2026, supported by solid physical demand and favourable macro drivers, notably gradual monetary easing. The clearest regime shift comes from gold ETFs, which have reversed four years of net outflows with recent record inflows, signalling a renewed return of institutional investors. This trend has good chances of extending into 2026 as rates decline.

Demand for real assets as protection against upside inflation surprises and a backdrop of persistent uncertainty strengthens gold's strategic role. The recent pullback offers entry points, while acknowledging the potential for higher volatility. On the risk side, volatility episodes could trigger rotations into other asset classes, or a shift in central-bank behaviour if net reserve sales were to emerge.

Currencies

Swiss franc

The absence of a fiscal deficit, very low public debt-to-GDP and near-zero inflation create a favourable backdrop for further CHF appreciation. In 2026, an additional factor could reinforce this move: US political pressure to limit SNB FX interventions.

Indicative levels:

0.91 vs euro
0.77 vs dollar

Euro

The single currency needs stronger growth to stay supported. That is not really the case, and 2026 is unlikely to be an exception. A negotiated peace in Ukraine could nonetheless provide a temporary boost to the euro by lifting confidence and activity. In parallel, the implementation of an ambitious European plan, fiscal or defence-driven, could also help. Political tensions will remain a headwind and a source of volatility.

0.91 vs CHF
1.21 vs USD

US dollar

There is a bearish bias on the USD, as expected rate cuts down towards 3–3.25% in 2026 compress rate differentials and dollar carry. In this context, a move in the DXY back towards 95 over the 2026 horizon looks plausible. Politics could accentuate this bias if the Fed eases more aggressively than currently priced, influenced by appointments and priorities of the new administration.

In practice, the path will be choppy, with tactical rebounds during risk-off episodes or stronger data, but the underlying trend should remain one of gradual dollar erosion as yields fall. Upside risk comes from the large number of investors who have hedged USD exposure as protection and could be forced to unwind positions.

Dollar index: 95
0.77 vs CHF
1.21 vs EUR

POSITIONING

For 2026, our positioning will remain positive on equities, with the maintenance of a slight overweight.

We will prioritize the US markets first and foremost, particularly technology, which should continue to benefit from the dynamics of AI, digitalization, and productive investments. Any correction in major stocks will be viewed as an opportunity to initiate positions.

In Europe, the approach will remain selective, capitalizing on the strong sectoral dispersion and more attractive valuations. Emphasis will be placed on stock-by-stock selection, targeting companies driving major structural themes such as defense, among others.

In Switzerland, the positioning will align largely with Europe but will adopt an even more tactical and selective approach, particularly due to the 15% or 39% tax applicable between Switzerland and the United States.

In China, the allocation will focus primarily on technology, a segment that will still combine depressed valuations with a key role in AI, semiconductors, and domestic internet. Tariff rates with the United States will require great vigilance, given the potential impact on affected sectors and companies exposed to these tariff regimes.

Parallel to this, a position will be initiated in emerging markets to capitalize on the new dynamics linked to the reorganization of value chains and the rise of South-South trade. This exposure to emerging markets will aim to capture the redefining trade flows.

On the fixed income sleeve, we will maintain our current position, continuing to favor the high yield segment over Investment Grade. High yield bonds will offer an attractive risk-return profile in the expected rate environment, with higher current yields and shorter duration.

Regarding our alternatives sleeve, we will maintain our selection of Absolute Return funds. The objective will be to smooth the portfolio's performance over time and reduce sensitivity to corrections in equity and credit markets.

We will retain our exposure to gold, which will remain a relevant hedge against macroeconomic shocks, geopolitical tensions, and the reconfiguration of global trade flows. Gold will contribute to enhancing the overall resilience of the portfolio in the event of a "storm" on the markets.

MONTHLY REVIEW

EQUITY MARKETS

In November, equity markets remained volatile after a strong five-month rally. Over the past six weeks or so, the main indices have entered a consolidation phase. Elevated valuations, particularly in the technology sector, prompted many investors to take profits, which weighed on markets.

In this environment, pharmaceuticals were one of the few sectors to post gains, fully playing their defensive role in a more turbulent context. Eli Lilly, whose share price rose sharply, was a major contributor to the segment's performance. Earnings releases were once again solid, confirming a robust trend in profit growth.

November performance CAC40 0.02% (YTD 10.05%), SMI 4.90% (YTD 10.63%), Stoxx600 0.79% (YTD 13.56%), Nasdaq -1.51% (YTD 21%), S&P500 0.13% (YTD 16.45%), Hang Seng -0.18% (YTD 28.91%),
Topix 1.40% (YTD 21.31%).

Stoxx600 2Y

Nasdaq 100 2Y

FOREIGN EXCHANGE MARKET

The US dollar moved in line with investor sentiment regarding the likelihood of an interest rate cut by the Fed in December. Changing expectations about the pace and magnitude of easing had a direct impact on the level of the greenback.

EUR USD 1Y

After hitting its lowest point of the year at 0.918, the euro recovered against the Swiss franc. This rebound can be partly explained by an improvement in market sentiment around the prospects for peace negotiations between Ukraine and Russia, which are slowly beginning to take shape.

EUR CHF 1Y

BOND MARKET

The main driver over the month was the shift in market expectations regarding a potential Fed rate cut in December. The implied probability fell from around 100% to 30%, triggering a rise in US yields, before stabilising around 70%, indicating that the market is still largely pricing in a cut.

This move has resembled a real cat-and-mouse game between the Fed and investors, driven by macroeconomic data and policymakers' speeches. Furthermore, Fed members have expressed increasingly divergent views in recent months, giving less the impression of "one single voice", against a backdrop of transition to a new Chair and more visible political pressure.

US 10Y 1Y

DE 10Y 1Y

COMMODITIES

After its October decline, the yellow metal stabilised and then resumed its upward trend, which remains intact. In the short term, some profit-taking cannot be ruled out, but the positive medium- and long-term dynamic is unchanged.

Gold 2Y

Oil has continued the downward trend that began in August, pressured by excess supply on the market and a global demand that remains lacklustre.

Brent 1Y

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