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FORUM FINANCE

1994



OUTLOOK 2026

DECEMBER 2025

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I n a Nutshell

Economic Outlook

Macro risk shifts from “no growth engine” to “one over-crowded engine”: policy, regulation, and capital-allocation decisions around AI will shape both regional performance and the balance between real-economy gains and financial-market excess.

U.S. growth shifts from exceptionalism to “slow but positive,” with tariffs and policy uncertainty acting as a drag rather than an outright shock. Europe and Japan emerge as incremental contributors rather than outright laggards, while China remains a structural weak spot.

Tariffs pose upside risks to U.S. and emerging market inflation, while Europe anticipates disinflation from subdued demand; so overall sticky but not accelerating dynamics.

Artificial Intelligence (AI) attenuates the downside in long-term productivity and potential growth assumptions, especially in advanced economies, and partly offsets tariff and demographics headwinds.

Key Risks

Inflation may rebound due to supply disruptions, strong demand, or wage pressures, complicating central bank easing paths despite disinflation forecasts.

Elevated tensions raise odds of trade wars, and commodity spikes, with US-China frictions and tariffs curbing global trade volumes. Europe faces export weakness from US policy shifts.

Sovereign debt pressures from loose policies, populism, and defence spending could trigger bond sell-offs and tighter conditions. Equity corrections loom from high valuations and earnings misses.

Investment Convictions

We maintain a pro-risk stance as we enter 2026, favouring equities primarily amid the expected Fed easing and global growth. However, we are also aware of the potential for policy volatility.

A dovish monetary cycle, which represents a tailwind for rate-sensitive assets, such as small-cap stocks with a U.S. focus and emerging markets, is undeniably supportive of various asset classes.

We remain underweight in interest rate risk (duration) and core government bonds, favouring credit selectively and considering less directional credit exposure, such as long/short strategies.

The US dollar is likely to weaken further in Q1, driven by Fed rate cuts that are expected to be even more aggressive than currently anticipated, due to the anticipated change at the Chair level, which will narrow the yield differentials with peers such as the ECB and BoE.

Finally, amid equity concentration and bond yield pressures, we remain committed to alternatives and gold to make our portfolios more resilient. Although Bitcoin and similar cryptocurrencies are now part of our investment universe, we have limited conviction in them at this stage.

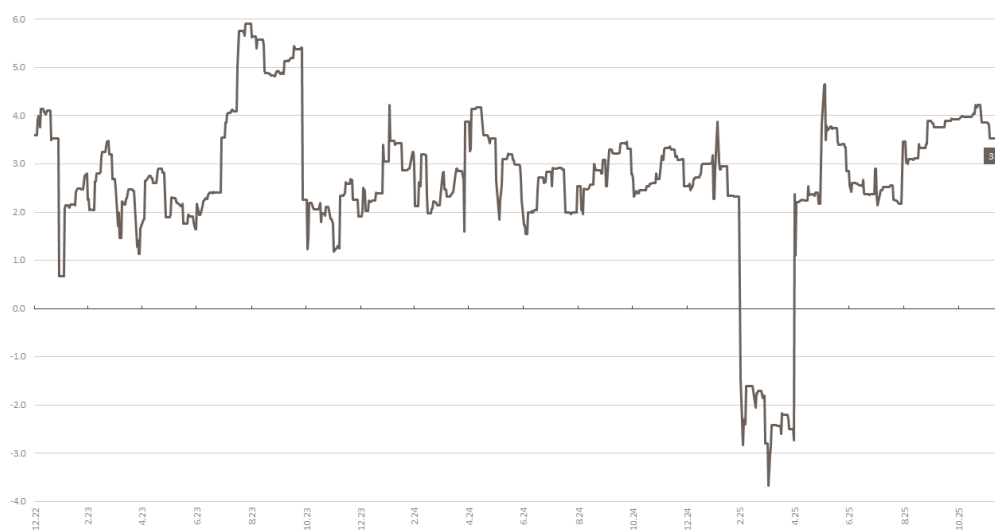
2 H 2025 Macro Review : Key Highlights

From Tariff Shock to Slower Growth, but Not Collapsing

The “Liberation Day” tariff shock resulted in an acceleration of imports, thereby boosting global activity. By mid-year, most forecasters were anticipating weaker U.S. growth and a decline in its role as the “sole engine.” Growth in advanced economies was slowing, with Europe and Japan making only incremental contributions, while China was facing challenges in terms of both structural growth and consumer confidence.

Nevertheless, the narrative around U.S. growth was shifting from exceptionalism to “slow but positive,” with tariffs and policy uncertainty acting as a drag rather than causing an outright shock. U.S. GDP growth slowed to more typical levels in Q3, down from the robust 3.8% in Q2. This reflected the normalisation of tariff front-loading, the unwinding of the import surge, and the impact of the government shutdown on spending and investment. However, Q4 2025 was showing surprisingly strong Atlanta Fed GDPNow readings (around 3% as of early December), rebounding from shutdown distortions despite weaker consumer data.

Exhibit 1: Atlanta Fed GDPNow Forecast



Source: Bloomberg as of June 20, 2025

EPUCNUSD Index: U.S. Economic Policy Uncertainty Index

Rate-Cut Debates and Curve Re-Steepening

By mid-2025, headline inflation in major economies had largely returned to target levels. However, underlying pressures and tariff pass-throughs caused central banks to remain cautious, resulting in a 'slower for longer' approach to interest rate cuts rather than an aggressive easing cycle.

In the US, the Fed maintained high policy rates while markets anticipated a few cuts over the subsequent 12 months. Meanwhile, concerns about fiscal dynamics and term premia pushed longer yields higher, helping to re-steepen previously inverted yield curves.

While these re-steepening curves support financials and 'carry' trades by being driven by higher term premia and substantial sovereign issuance, they also raise questions about debt sustainability and the limits of fiscal dominance.

Exhibit 2: Treasury Yield Spread (Bps)



Source: Bloomberg as of December 10, 2025
USYC2Y10 Index: 10-Year – 2-Year Treasury Yield Spread
USYC2Y30 Index: 30-Year – 2-Year Treasury Yield Spread

Artificial Intelligence: Tailwinds or Bubble?

By late 2025, Artificial Intelligence (AI) had become a central macro theme. Major forecasters argued that AI-related investment and productivity gains were among the few clear sources of growth in an otherwise subdued global outlook.

At the same time, in 2025, equity markets were heavily driven by AI-linked megacaps and capital expenditure (capex) cycles. This has prompted warnings that economic benefits and market pricing are becoming decoupled, with the risk of a bubble or 'lost decade' if earnings disappoint.

However, we view the November sell-off (Nasdaq down 2.2%, or a \$1.1 trillion wipeout) as a healthy 'pause' after the highs of October, rather than the bursting of a bubble. Nevertheless, fears of a bubble resurfaced regarding the sustainability of hyperscaler capex and the risks of concentration.

Exhibit 3: Artificial Intelligence (AI) Index



Source: Bloomberg as of December 12, 2025
BAIAN Index: Bloomberg Artificial Intelligence Aggregate Net Total Return

Market Performance 2025¹ :

Exhibit 4 : Market Performance 2025 YTD - An Overview

	Local	CHF	EUR	GBP	USD	
Cash		0.0	2.2	4.1	4.1	
Fixed Income	Global Aggregate ²		0.3	2.5	4.5	4.6
	Global Agg Corporate ²		2.5	4.7	6.7	6.8
	Global High Yield ²		4.9	7.2	9.2	9.2
	EM USD Aggregate		(2.8)	(2.3)	3.4	10.5
Equity	World	19.6	8.0	8.4	14.6	21.9
	United States	18.5	7.1	7.5	13.1	20.9
	Europe	18.0	16.1	16.7	23.4	31.2
	United Kingdom	22.2	14.4	15.0	22.2	30.0
	Switzerland	13.8	13.8	14.3	20.2	28.5
	Japan	23.6	9.9	10.4	16.2	24.2
	Emerging Markets	29.5	16.3	16.8	22.9	31.3
Alternative	All Hedge Fund ²		6.4	8.9	11.1	11.2
	Oil (WTI)		(29.0)	(28.7)	(24.6)	(19.4)
	Gold		41.4	42.1	50.3	60.7
	Bitcoin		(15.4)	(15.0)	(10.1)	(6.0)
	USD		(12.0)	(11.5)	(6.4)	-

Source: Bloomberg and Forum Finance

Government bond yields in major developed markets rose slightly, reflecting a shifting policy outlook, though real yields stayed low. The yield curve steepened in many regions, signalling slower growth ahead. Inflation-linked bonds saw mixed performance, influenced by easing inflation but varied expectations.

Credit markets delivered positive return, particularly in the high yield segments as tighter spreads reflected growing risk appetite and improving fundamentals, but volatility remained due to inflation and policy uncertainty. Emerging market debt outperformed amid stabilising commodity prices and global liquidity.

Equities gained solidly in the **United States**, driven by AI enthusiasm, supportive monetary policy and resilient corporate earnings. The main index rose by 11.2%, with tech stocks leading gains, while small caps also rose strongly (+18.3%), but with more volatility.

Equities in **Europe** performed as well as at the start of the year, returning 7.5% in euros. Meanwhile, Japanese equities continued to outperform, with the main index still over 23.9% higher than at the end of June, expressed in yen.

Emerging market equities performed well, with a return of +13.9% in dollars. This was led by China, Taiwan and South Korea, thanks to artificial intelligence (AI) and semiconductor stocks, as well as the progress of U.S.-China trade talks. India lagged, however, with a -5.1% return in dollars, as foreign investors took profits and US tariffs took their toll.

Commodities rose moderately (+5.4% in dollars). Crude oil fell (-4.2% in dollars), due to oversupply and demand slowdowns. Industrial metals gained ground, with copper surging due to U.S. tariffs, and gold and silver extending their strong first-half gains.

Bitcoin and Ethereum both fell sharply from cycle highs, lagging traditional risk assets. Bitcoin lost 17% of its value in H2. Volatility and ranges increased through H2 as positioning became crowded, macro data softened and some large houses cut forward price targets for 2025-2026, while maintaining a bullish narrative.

¹ Data as of December 10, 2025

Outlook for 1H 2026

Growth Outlook: Decisively Below Prepandemic

In April, the **United States** announced substantial tariffs on most of its trading partners. The negative impact on the global economy has so far been modest, thanks to the agility of the private sector and subsequent trade deal negotiations. Global growth is now projected at 3.2% this year and 3.1% next year, with advanced economies growing around 1.5% and emerging market and developing economies just above 4%. This reflects adaptation to trade tensions but is still below the pre-pandemic average of 3.7%.

It would be premature to conclude that the increase in customs tariffs will not impact global growth. This change in the US administration's approach to trade policy is accompanied by other significant changes, including a more restrictive immigration policy and a boom in investment in artificial intelligence. These demand forces support output while adding to price pressures from the tariffs.

Most forecasts point to a slower but still-positive US expansion in 2026, with real GDP around 1.5-2.2%, and a mild rise in unemployment as consumer spending cools. The OECD has the US at 1.5% real GDP growth in 2026, as the full tariff shock and weaker immigration bite, while some others are on the stronger side, forecasting a 2026 rebound to 2.2% real GDP growth as lower rates, AI-related capex and easing tariff effects support activity.

In the **eurozone**, fiscal expansion in Germany has boosted growth in 2025 and could continue to do so beyond this year. Growth is therefore expected to pick up moderately, reaching 1.2% in 2025 and 1.1% in 2026. While this is an improvement relative to prior forecasts, it represents a cumulative downward revision of 0.4 percentage points compared to October 2024. Elevated uncertainty on multiple fronts and higher tariffs are the main drivers of this downward revision. In the **United Kingdom**, growth in 2025 and 2026 is expected to be 1.3%, which is a slight upward revision on a cumulative basis relative to April.

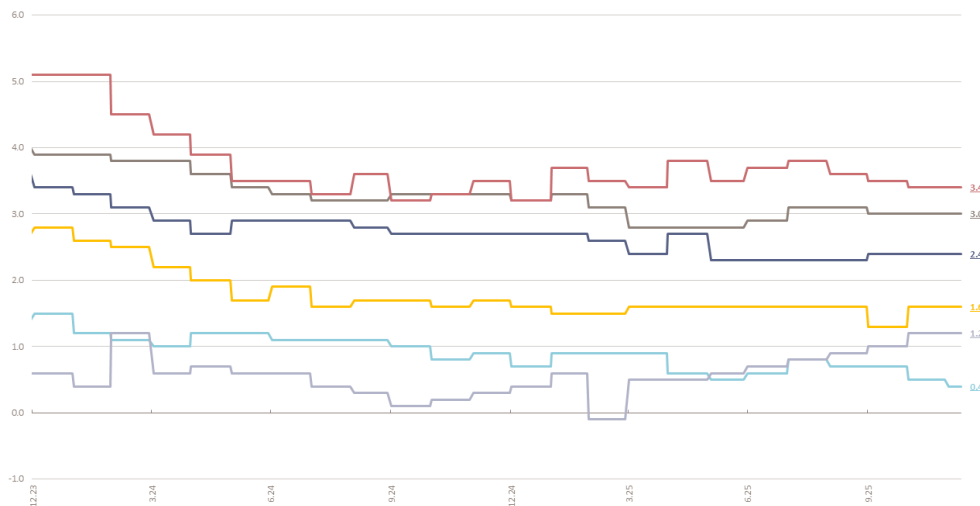
Growth in **Japan** is set to rise from 0.1% in 2024 to 1.1% in 2025, before slowing to 0.6% in 2026. This is driven by an anticipated rise in real wages, which will boost private consumption despite trade policy uncertainty and weakening external demand. Growth in **emerging markets** has continued to exceed expectations. The forecast is for steady growth in 2026. While China, India and Brazil are expected to experience modest decelerations, economies that have struggled are likely to achieve stronger growth.

China's economy has decelerated, with exports being negatively impacted by US tariffs that have reignited trade tensions between the two largest economies. However, export growth could potentially exceed expectations thanks to cost competitiveness, for example due to real depreciation in the trade-weighted renminbi, policy support for manufacturing and exports, and the effectiveness of China's dominance of rare earths. The latter has given China leverage in trade talks, which ultimately led to a partial reduction in US tariffs. Meanwhile, domestic demand is expected to remain weak due to the ongoing housing market downturn, despite the worst of it being over.

Inflation Outlook: Trending Lower, but to Settle above pre-COVID Norms

The global headline inflation is expected to fall to 4.2% in 2025 and 3.7% in 2026. Inflation forecasts have been revised upwards in quite a few economies relative to the October version, which serves as a pre-policy-shift benchmark.

Exhibit 5: Core Inflation (YoY - %)



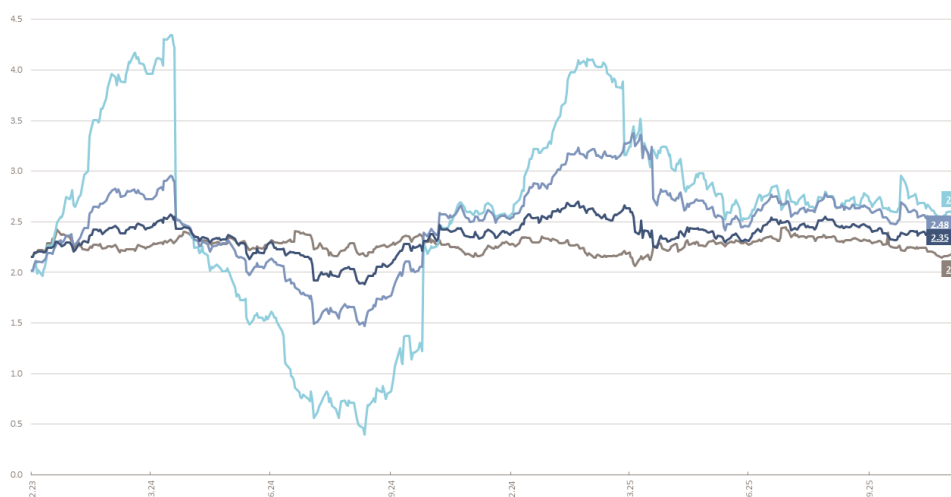
Source: Bloomberg as of December 10, 2025

In order of appearance on the chart: **UKHCA9IQ**: United Kingdom – **CPEXEMUY**: Euro Area – **JCPNEFEY**: Japan – **CNCPCRY**: China – **SZEXIYOY**: Switzerland

In the **United States**, inflation forecasts cluster around 2.6% for core Consumer Price Index (CPI) in 2026, easing to 2.3-2.4% in 2027. This forecast assumes only modest second-round effects, implying potential upside risks to US inflation amid downside risks to employment in the baseline.

Current U.S. market expectations for future inflation point to modest levels stabilising in the 2.2-2.3% range, with a slight downward tilt amid Fed easing and softer data. Hence, breakeven generally aligns with the broader market consensus of subdued inflation, indicating no surge driven by tariffs or policy shifts. This suggests that, despite policy uncertainties, market expectations for inflation remain anchored and risks are manageable.

Exhibit 6: U.S. Breakeven Inflation Rates (%)



Source: Bloomberg as of December 10, 2025

USGGBE01 Index: U.S. 1Y Breakeven – **USGGBE02** Index: U.S. 2Y Breakeven – **FUSGGBE05** Index: U.S. 5Y Breakeven – **USGG5Y5Y**: U.S. 5Y/5Y Breakeven

In the **eurozone**, the ECB's September staff macroeconomic projections forecast euro area headline inflation at about 1.7% in 2026, down from around 2.0% expected in 2025, before rising modestly to 1.9% in 2027. The reduction of expected inflation reflects easing non-energy inflation components, while energy inflation is expected to stay volatile. Food inflation is expected to moderate to just above 2.0% over the next 2 years after initial elevated levels from past commodity prices increases.

Inflation in **Japan** is running at 2.5-3.0% y/y for the Consumer Price Index excluding fresh food. This is largely driven by temporary supply-side factors such as rising food prices, including rice. Recent data on price dynamics in **China** show that deflation risk has eased, but inflation remains subdued. Consumer price inflation rebounded from occasional deflation or near-zero inflation in previous months, marking a slight rebound at around 0.2% year-on-year in October and November 2025. This reflects modest improvements in domestic demand and some policy measures like consumer trade-in programs.

The current inflation level remains below China's long-term average due to ongoing weak consumer spending and downward pressure on prices, particularly in sectors sensitive to credit conditions and housing markets. Producer price inflation continues to decline, with persistent deflationary pressures in upstream industries.

Analysts note that while China is technically out of outright deflation territory, the risk of price stagnation or mild deflationary episodes remains due to structural challenges, high debt levels, and uncertain global demand, especially linked to trade disputes and tariffs. The 2026 trajectory will depend on the effectiveness of stimulus measures and structural reforms to boost consumption and investment.

Monetary Policy Outlook: Fed's December Decision – Odds and Views Split

On 10 December 2025, the **Federal Reserve** (Fed) cut rates by 25 basis points to 3.50-3.75%, marking its third consecutive reduction amid labour market softening. Policymakers remain divided. One group, led by Stephen Miran and aligned with the White House and President Trump, advocates for more aggressive, sooner rate cuts, seeing current tightening as higher than necessary to support growth and employment. The other camp remains more hawkish, worried about persistent inflation.

The Fed's December dot plot signals a hawkish stance amid persistent inflation pressures, projecting just one 25bps rate cut in 2026 by year-end, unchanged from September.

President Trump plans to announce his nominee for Fed Chair in early 2026, with Kevin Hasset emerging as the frontrunner based on recent speculation. A dovish pick like Hasset (favouring lower rates) could spark a relief rally in equities and crypto, softening the U.S. dollar, while a more orthodox choice might stabilize bonds.

In the euro area, the **European Central Bank** (ECB) is expected to hold policy steady in the near term but faces pressure to adjust if inflation deviates from forecasts, with discussions hinting at a cautious stance amid moderate growth and inflation risks.

On 5 November, the **Bank of England** voted to maintain the Bank Rate at 4.0% at the Monetary Policy Committee (MPC) meeting. CPI inflation has likely peaked and underlying disinflation is progressing, supported by the restrictive monetary policy and slowing pay growth and easing inflation in services.

There is a 60–65% chance of a 25-basis-point rate cut at the December MPC meeting. Economists are forecasting gradual reductions until mid-2026, unless inflation accelerates. The Bank of England is maintaining a cautious approach to interest rates, but growing support for easing suggests that gradual rate reductions could start as soon as December 2024.

Recent speeches by **Bank of Japan (BoJ)** Governor Ueda and other board members in October and November show that they are committed to maintaining ultra-accommodative monetary policy, including yield curve control and asset purchases. They acknowledge a gradual pickup in underlying wage-driven inflation but see above 2% headline inflation as partly transient.

The BoJ sees a chance to raise rates in December 2025, depending on continued JPY weakness and inflation data. However, the BoJ remains cautious, saying it must watch inflation dynamics and wage growth before making lasting policy moves.

Amid ongoing external uncertainties, the **People’s Bank of China (PBoC)** is committed to maintaining ample liquidity and promoting reasonable price levels to support steady economic growth. They emphasised the need for cross-cyclical policy adjustments to stabilise credit conditions and funding costs, rather than making aggressive rate cuts, despite some growth pressures. The PBoC is also expected to maintain stable CNY policies, allowing for gradual currency appreciation while balancing growth support and external risks.

Valuation: Constructive Conditions for Equities Supported by Earnings Momentum

Government bond yields have risen slightly with a steepening curve in the US and UK, but yields remain attractive against long-term history. The market is pricing in multiple Fed rate cuts, which may be optimistic given inflation risks.

Credit spreads remain tight after steady rally in 2025, though rising volatility is noted in sectors like leveraged loans and autos. Investment-grade spreads are preferred with a more defensive posture, focusing on asset-backed securities and shorter durations amid inflation and policy uncertainties. Emerging market credits offer relative value but face idiosyncratic risks.

Exhibit 7 : U.S. High Yield (HY) Credit Spreads



*Minus one standard deviation from the mean – Average from January 31, 1994 to the present day – Plus one standard deviation from the mean
Source: Bloomberg as of December 10, 2025*

Global equities have shown resilience in 2025, driven by a supportive macroeconomic backdrop, robust corporate earnings, and structural tailwinds such as accelerating AI investment and fiscal support across developed economies.

While **US equities** trade at elevated multiples compared to historical medians, it aligns with periods following technological revolutions and low interest rate environments. Valued at around 24x forward earnings, higher than its 5- and 10-year average multiples. This premium is largely driven by technology and communication sectors. Other sectors like consumer staples and materials trade closer to historical averages or at discounts.

Exhibit 8 : U.S. Forward 12-Month Price Earning Ratio



Source: Bloomberg as of December 10, 2025

In the most recent average forecast published early December, Wall Street banks expect US to post another year of double-digit gains in 2026. While such gains would mark the seventh year of double-digit gains in the past eight, performance will be boosted by easy fiscal, monetary and regulatory policy, along with Artificial Intelligence tailwinds.

The small cap index delivered strong recent return with valuations near historical averages, but elevated relative to their own long-term median due to impressive earnings momentum and low interest rates. Valuations remain more attractive relative to large caps given better domestic exposure and growth potential.

The Nasdaq Composite (tech-heavy) has seen strong gains in 2025, with the "Magnificent Seven" large tech stocks performing particularly well. Valuations are at high multiples, near or above historical peaks, reflecting elevated growth expectations, especially in the AI and cloud technology sectors. Price-to-earnings ratios exceed 30x in some cases, much higher than for small and mid caps, but supported by structural secular growth themes.

European equities trade at slightly above average price-to-earnings (P/E) ratios of around 15-16x forward earnings, reflecting a cautious outlook given economic and political risks, including energy supply uncertainties and slowing Chinese demand.

Earnings revisions have turned slightly negative, but some defensive sectors and dividend payers still attract investors. Valuations in pockets like the **United Kingdom** are relatively more attractive, around 14x forward EPS, benefiting from stable earnings and some cyclical recovery.

Japanese equities' valuations remain modest, generally around 14-15x forward P/E, supported by improving corporate governance, wage gains, and BoJ monetary accommodation. While valuations are below US tech-heavy markets, quality growth and export-driven sectors are gaining investor attention.

Emerging market equities trade at a discount to developed markets, with forward P/E ratios nearer 12-13x, reflecting growth opportunities balanced against higher risks. China's market valuation is depressed due to recent credit stresses and regulatory uncertainties, making it one of the more attractively priced segments within EM. Other EM Asia and Latin American markets show better earnings growth and selective valuation premiums.

Exhibit 9 : Emerging Markets Forward 12-Month Price Earning Ratio



Source: Bloomberg as of December 10, 2025

Market Dynamics: Finding the right balance between Momentum Rallies and Consolidation

Bond yields have stabilised amid hawkish signals from central banks, with the yield curve steepening in some markets. FX pairs are trading near consolidation zones with moderate momentum, suggesting limited directional conviction in the near term. Technical indicators suggest monitoring support/resistance levels and moving averages for actionable signals.

The Nasdaq recovered above its 50-day moving average, signalling a medium-term uptrend, but momentum indicators like RSI show lower highs, suggesting weakening bullish momentum and potential sideways trading ahead. In the US, there is growing evidence that small caps and value sectors are emerging as new or at least complementary leaders to mega cap tech into year end. Small cap indices have materially outpaced large/mid caps in several recent months and historically tend to outperform in the 12 months after the first Fed cut, which aligns with the current set up.

Exhibit 10 : Nasdaq Composite



50-Day Moving Average – 125-Day Moving Average – 200-Day Moving Average

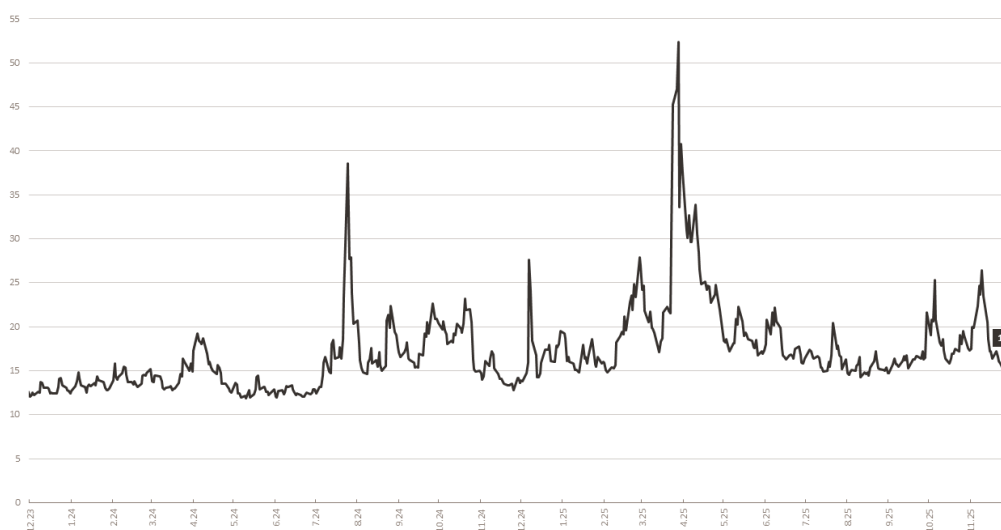
Source: Bloomberg as of December 10, 2025

CCMP Index: Nasdaq Composite Index

Gold and silver are rallying, with key support levels holding, despite mixed volume due to seasonal trading holidays. Commodity markets are noisy but poised for potential upward pressure, contingent on inflation data and geopolitical developments.

The 2025 vintage has been a strong year for equity markets, pleasing investors but also creating questions about the future of the rally. Risks will not disappear, but will change over time, creating bouts of volatility, which is not unusual in late-cycle dynamics.

Exhibit 11 : Chicago Board Options Exchange Volatility Index (VIX)



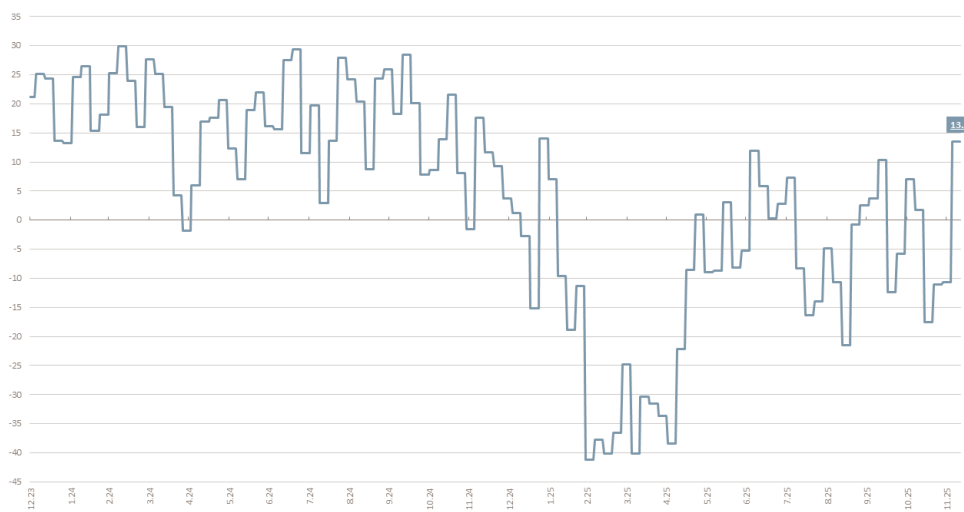
Source: Bloomberg as of December 10, 2025

VIX Index: Chicago Board Options Exchange Volatility Index

Sentiment: Pointing to a Clearly Pro-Risk Stance

The latest S&P Global Investment Manager Index survey revealed that risk sentiment reached its highest level of the year in November. This was boosted by accommodative central bank policy, as well as better earnings prospects following the end of the quarterly earnings season. Individual investor bullish sentiment recently jumped into the mid-40s, while bearish sentiment dropped to its lowest level in almost a year. This pushed the bull-bear spread into positive double-digit territory. This is consistent with optimistic retail expectations over the next six months.

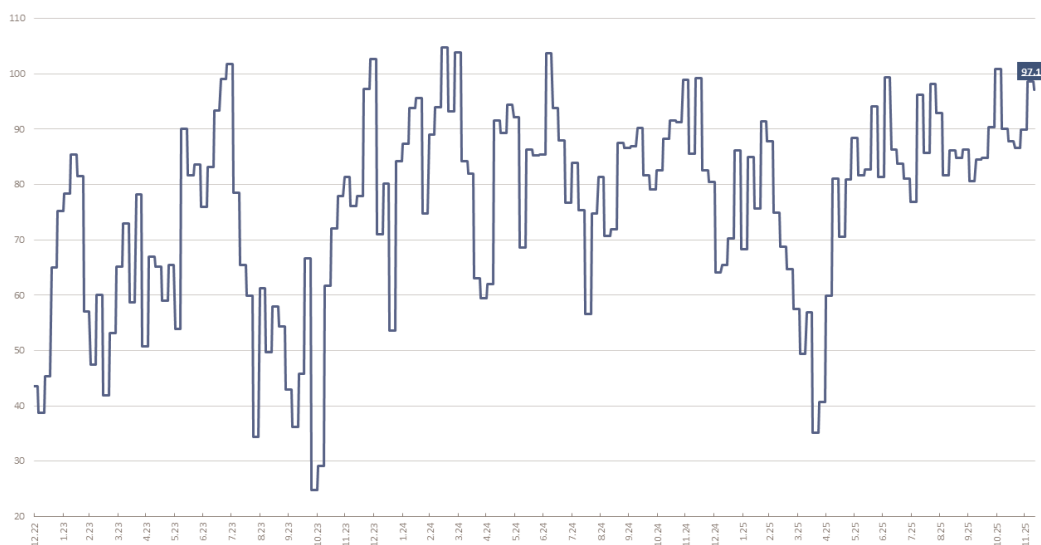
Exhibit 12 : AAI Investor Sentiment Suvey – Bull-Bear



Source: Bloomberg as of December 10, 2025

Active managers have a high net equity exposure, near the upper end of the historical range and similar to a year ago. This confirms that this is a sustained pro-risk stance among tactical US equity managers, not a one-week spike.

Exhibit 13 : National Association of Active Investment manager (NAAIM) Exposure Index



Source: Bloomberg as of December 10, 2025

NAAIMEXP: National Association of Active Investment Manager Exposure Index

Retail investors (AAII) are optimistic, active managers (NAAIM) are fully invested, and global institutions (BofA FMS) are maintaining an over-weighting in equities with reduced cash reserves. These factors are consistent with a mature risk-on phase.

Given these sentiment readings, the main implication for the beginning of 2026 is high risk exposure. Any upside is more likely to come from genuine earnings delivery and policy support than from further multiple expansion.

This long positioning increases the likelihood of outsized, sentiment-driven corrections being prompted by policy missteps, even if the cycle is not coming to an end. Such corrections would be considered risk within an ongoing bull market rather than a systemic bear market in early 2026.

Scorecard for 2H 2025³

#1 – Growth Stocks⁴: Mid-cap stocks have regained some momentum thanks to accelerating earnings growth, attractive valuations, and robust domestic business conditions. So far this year, mid-caps have performed similarly to large caps, but their better fundamental outlooks and valuation support suggest they could outperform in the second half of 2025.

#2 – Emerging Market Corporate Bonds⁵: EM corporate debt continued to outperform equivalently rated global corporate debt. Within EMD, corporates outperformed sovereign local currencies, but underperformed sovereign hard currencies, driven by rallies in frontier markets (Argentina) and selective compression of high-yield sovereign spreads.

#3 – Gold⁶: Gold outperformed all other major asset classes e.g. U.S. equities, global high yield bonds and Bitcoin. Among commodities, gold led the way for precious metals, outpacing crude oil and industrial metals. This was driven by its safe-haven status and central bank buying.

#4 – Corporate Credit vs. Long-Term Government Bonds⁷: Corporate credit (both IG and HY) outperformed long-term treasury bonds, delivering positive total returns driven by attractive all-in yields, tight spread and low defaults, while long-duration government bonds faced volatility from steepening curves, fiscal risk, and rising term premia.

Colour code

Green for conviction that has paid off – Amber for a conviction that performed in line – Red for a conviction that proved to be wrong

³ Currency Hedged

⁴ Russell 1000 Growth (13.1%) vs. Russell 1000 Value (9.4%)

⁵ Bloomberg EM USD Aggregate – Corporate Total Return (3.3%) vs. Bloomberg Global Aggregate – Corporate Total Return² (2.9%), Bloomberg EM Local Currency Government Total Return (0.7%), JP Morgan EMBI Global Total Return (6.7%)

⁶ Gold United States Dollar Sport (27.7%) vs. MSCI USA Net Total Return (11.2%), Bloomberg Global High Yield Total Return – Hedged USD (4.4%), Bitcoin (-17.2%), WTI (-11.2%) and S&P GSCI Industrial Metals Total Return (13.0%).

⁷ Bloomberg US Corporate Investment Grade Total Return (3.3%) vs. Bloomberg US Long Treasury Total Return (2.5%), Bloomberg US Corporate High Yield Total Return (3.3%)

I

vestment Convictions for 1H 2026

#1 – U.S. Small and Mid Cap:

We are very confident about U.S. small- and mid-cap stocks thanks to their attractive multi-decade valuation discounts, accelerating earnings per share growth (which will exceed that of large caps) and tailwinds from Fed rate cuts, which will loosen credit for debt-heavy small caps. The sector is exposed to domestic activity and will benefit from reshoring, AI 'picks and shovels', and tax reforms such as the One Big Beautiful Bill Act, which increases interest deductions.

#2 – Long/Short Credit:

We consider this to be a prime year for alpha-generating long/short credit strategies, rather than pure beta credit, in both the investment grade and high yield sectors. This is due to high spreads (U.S. investment grade is at late-1990s levels), elevated dispersion at security and issuer levels, and rising volatility resulting from policy shifts, peak leverage, and weakening consumer fundamentals. Long/short strategies exploit mispricing with directional beta risk to deliver a consistent return stream.

#3 – U.S. Dollar:

We anticipate a weaker U.S. dollar, especially in the first quarter of 2026, due to increased pressure on the Fed to align with the current administration's calls for lower interest rates. However, market views diverge sharply: the consensus leans bearish on Fed easing and narrowing yield gaps. This is countered by bullish arguments based on resilient US data, safe-haven flows, and policy resilience.

#4 – Emerging Market Equities:

Despite the exceptional performance in 2025 that pushed valuations higher, we are maintaining our positive outlook. Throughout 2025, we have maintained an overweight position on emerging markets, adopting a more selective approach. Thanks to policy easing, stabilisation in China, and the weak US dollar, we expect emerging stock markets to continue performing better than developed markets.

A llocation Views

Asset Class

	H1 24	H2 24	H1 25	H2 25	H1 26
Cash	=/+	+	-	=	=
Fixed Income	-/=	=	-	=	-
Equity	+	=	=/+	=/+	=/+
Alternatives	-/=	-/=	+	+	+
Currencies (USD vs. G10)	=	=/+	=/+	=	-
Gold				+	+
Other Commodities	-/=	-	-	=-/	=-/

Fixed Income

		H1 24	H2 24	H1 25	H2 25	H1 26
Government Bonds	US	=/+	+	-	=	=
	EU	=/+	+	+	=/+	=
	UK	=	=	=	=	=
	CH	-	=	=	=	-
Corporate Bonds	US IG	+	+	=	=	=
	EU IG	+	+	=	=	=
	US HY	+	+	+	=/+	=/+
	EU HY	+	+	+	=/+	=/+
Emerging Market Debt	Sovereign HC	-/=	=	=	=	=
	Sovereign LC	=	=	-	-	=
	Corporate	+	+	+	=/+	=/+

Equity

		H1 24	H2 24	H1 25	H2 25	H1 26
U.S.	Large	-/=	-/=	=	=/+	=
	Small	=/+	=	+	=/+	+
Europe	EU Large	=/+	+	=	=	=/+
	EU Small	+	+	-	-	=/+
	CH Large	=	=	=	=	=
	CH Small	+	+	-	-	=
	UK	=	=	=	=	=
Others	Japan	-	-	-	-	=
	China	+	=/+	=	=	=
	India	=	=	+	+	+
	Other EM	=	=	=	=/+	=/+

(-) Negative, (=) Neutral, (+) Positi

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