Perspectives

Market and allocation

2025 REVIEW AND 2026 OUTLOOK

Our experts
monthly overview

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Ofi invest
Asset Management

Eric Bertrand
Deputy CEO, CIO
OFI INVEST AM

OUR CENTRAL SCENARIO

2026: *back to the future?*

We have now turned the page on 2025 and, with it, the first year of Donald Trump's second term and its many disruptions of the world's long-standing equilibria, including in global trade, geopolitical balances, governance, and even alliances between blocs. Risky assets performed quite well last year, even with the events that were playing out. This speaks to the resilience of the economic fundamentals that have served the markets as guideposts, with the corollary that risk premiums have gradually vanished in asset valuations.

2026 should continue to be paced by the major themes that drove 2025, including the actions of an unpredictable US president whose hubris is reaching worrisome proportions, as well as central bank cycles, the artificial intelligence wave, geopolitics with Ukraine, the Middle East, the future of the Atlantic alliance of course, but also Sino-American tensions, which appear to drifting into a Thucydides Trap.

Despite the risks, we believe the markets will keep focusing on fundamentals, including growth inflation and corporate earnings, while keeping the risk premium just as low. Against this backdrop, global growth is forecast at about 3.0%, with the United States holding up at 2.3% and the euro zone improving slightly to 1.4%. Growth will once again be driven by heavy fiscal spending in the US and by the German stimulus plan in the euro zone. Inflation is likely to remain under control in the euro zone and continue to recede slightly in the US.

The Fed is expected to ease its monetary policy slightly in one or two stages, while the ECB looks to be at its equilibrium point for the coming year. Long bond yields look fairly valued in this environment, and we are adding them to the portfolio in a carry perspective and for their defensive qualities in the event of a flight-to-quality[1]. However, yields could be pushed upwards by government indebtedness or by a loss of confidence, particularly on the long sections of the curve, that they can control their spending. Corporate bonds are likely to remain expensive in 2026 and will be impacted mainly by interest-rate shifts. We are looking into them for their carry qualities.

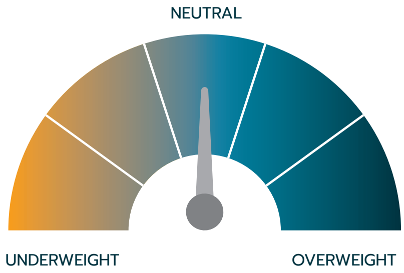
Lastly, after three years of gains, equity market multiples have hit high levels, and now look expensive, in particular in the US. Nevertheless, given the earnings projected for 2026 in an environment of solid growth and stable or perhaps more accommodative monetary policy, we expect equity markets to achieve performances commensurate to projected earnings growth. Accordingly, we are overweighting them on various markets. Risks are still there, particularly with a possible correction in AI stocks, but we don't expect that to happen any time soon, given the visibility on investments and their financing. Another, more "primitive" risk for the markets is that the consensus in this area appears to be excessively locked in as the new year begins.

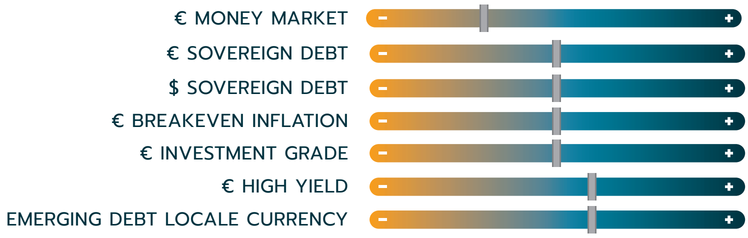
A glossary listing the definitions of all the main financial terms can be found on the last page of this document.

[1] *Flight to quality means a movement by investors, who, during phases of market uncertainty or stress, shift from risky assets to assets regarded as safer.*

2026 Outlook as of 08/01/2026

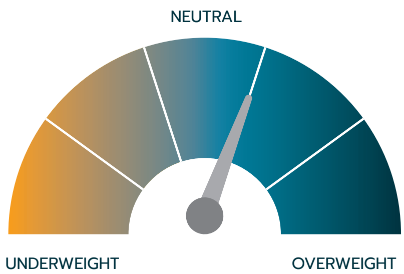
BONDS

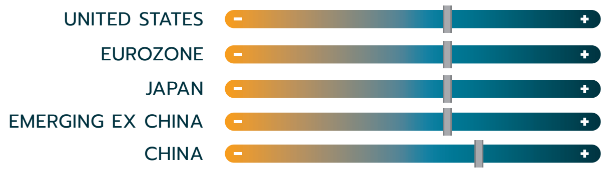




Key rates of the ECB and the Fed look about right for the coming months. The 10-year German yield rose to 2.90% and the US T-Note[1] approached 4.20%. We believe that these levels faithfully reflect economic fundamentals. We are therefore downgrading US rates to neutrality, believing that risks are now symmetric, with US growth on the right track. With this in mind, we are downgrading money-market investments, as we do not expect the ECB to lower its rates any time soon. Despite narrow credit spreads, the asset class should benefit from still-attractive rates. We are therefore moving to a neutral stance on investment grade on a 12-month timeframe and are overweighting high yield along with emerging debt in local currencies, which are likely to fare well from a buy & hold point of view. Selectiveness remains key.

EQUITIES





We are beginning 2026 with a more positive bias on the equity markets. Fiscal policies that are expansionist almost worldwide and more accommodative monetary policies are likely to support economic growth, as well as future earnings momentum. Although valuation multiples are above their long-term averages, particularly on US markets, we are raising our view of US and European equities by one notch, as we expect supporting factors to outweigh the risks of disappointment. We are leaving our other geographical convictions unchanged.

CURRENCIES

We reiterate our neutral stance on the euro-dollar exchange rate. We believe that monetary policy expectations are properly priced in on both sides of the Atlantic and that currencies are fairly valued. Meanwhile, while the dollar could continue to be squeezed by the US administration's unprecedented interference in US institutions, investors are already heavily shorting the dollar. This often plays a contrarian role and could lead to an appreciation of the dollar.

[1] The T-Note (Treasury Note) is a US government bond.
Past performances are not a reliable indicator of future performances.

Our views on the different asset classes provide a broad and forward-looking framework that is used to guide discussions between Ofi Invest Asset Management's investment teams. These views are based on a short-term investment horizon and may change at any time. The framework therefore does not provide guidance for those looking to build a long-term asset allocation strategy.

MACROECONOMIC VIEW

2025: ***remarkable resilience***

Ombretta Signori
Head of Macroeconomic Research and Strategy
OFI INVEST AM

Despite the disruption to US trade policy caused by the announcement of reciprocal tariffs on 2 April 2025, global economic growth held up well, and pragmatism carried the day during negotiations, an attitude that was still mostly in effect as of yearend.

One year ago, our US growth forecast was 2.2% for 2025, down from 2.8% in 2024. Ultimately, despite history's longest shutdown[1] (a month and a half), which disrupted the economy late in the year, US growth is expected to come in at 2.1%.

The US economy held up well, but at the cost of being highly polarized in both consumption and investment. The 20% highest-income households accounted for 40% of total consumer spending, and those households are also benefiting from the wealth effect generated by the equity markets. In contrast, consumer spending by low- and middle-income households depends mainly on the health of the job market, which is currently shaky. The unemployment rate is at a four-year high (4.6%) and remains the key indicator to watch.

Investments are also polarized: investments in artificial intelligence alone accounted for almost 5% of GDP, or one third of all non-residential private investment in the US. Technology will remain a key thematic, as the race for technological independence is a structural theme for the Trump administration, encompassing geopolitics and strategic competition with China.

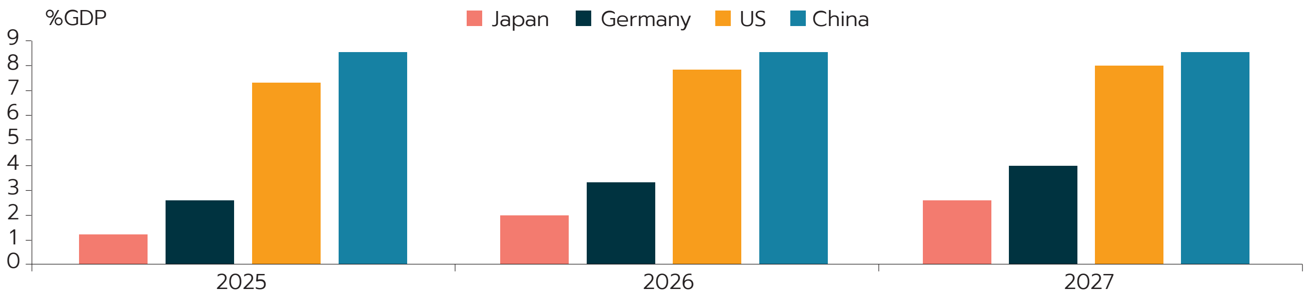
IN THE EURO ZONE, SPAIN SHINES WHILE GERMANY IS REINVENTING ITSELF

The euro zone has also held up well, despite headwinds. Actual growth will probably end up at 1.4% in 2025, but this good performance masks some wide discrepancies. Spain achieved some very strong macroeconomic performances on the back of very solid domestic demand, momentum from tourism, and heavy immigration since the post-Covid reopening. In contrast, the German and Italian economies are stagnant. Germany in particular has been hit hard by US tariffs. Flat since 2019, Europe's top economy signalled a change in its historical fiscal paradigm when Chancellor Friedrich Merz pushed through a special 10-year, €500 billion (off-balance sheet) fund for infrastructure spending (including transport, the energy sector, digital infrastructures, education, hospitals, and other areas). In addition, Germany's debt rules was altered to exempt defence spending above 1% of GDP from the debt brake (with no time limit). Moreover, the 16 federal states were granted an exemption from their 0.35%-of-GDP debt brake. This fiscal stimulus is expected to begin paying off in 2026. Between these two extremes – Spain and Germany – lies France, which held up well with positive domestic demand (in both investments and consumption) despite stubborn political uncertainty. There is a wide gap in France between soft and hard data. Based solely on business surveys, France should have long ago slipped into a recession. And yet, such has not been the case. A similar gap can be found worldwide, albeit on a smaller scale.

WHAT ABOUT FEARS OF INFLATION DUE TO PROTECTIONISM?

Our research has found that fears are mainly for US inflation, particularly in areas such as manufactured goods and food. Our average inflation forecast for 2025 was 2.5%, vs. actual inflation of 2.7%. We had expected tariffs to be implemented during the summer and for their impact to show up in prices between late 2025 and early 2026, but in fact most of the impact already appears to be behind us. Based on our calculations, about 40% of the cost of tariffs will be passed on into consumer prices, a lower impact than during the 2018 tariff episode, when studies pointed to a rate of almost 100%. Surveys have shown that businesses believe that customers are now more price-sensitive, due to the recent inflationary spike and against a backdrop of weaker demand. On the whole, tariff-driven price reflation has been offset by

BUDGET DEFICIT (INTERNATIONAL MONETARY FUND FORECASTS)



Sources: Macrobond, Ofi Invest Asset Management as of 23/12/2025.

[1] The shutdown was the closing of US government offices after the White House and Congress failed to reach an agreement on the annual budget before the end of the fiscal year, on 30 September.

the receding of housing prices, due to a lacklustre real-estate sector, thus causing total and core inflation to end the year under 3%.

THE FED UNDER HEAVY PRESSURE...

The inflationary risk has slowed Fed Funds[2] rate cuts in the United States. The Fed did not begin cutting its rates until September, when the job market took a sharp turn for the worse, and it stopped shrinking its balance sheet. Its reluctance until then had been due to a paradigm that had seldom been so challenging. This included the risk of being forced away from its two mandates (full employment and inflation) by the new tariff policy and of being subjected to unprecedented public pressures that threatened its independence. After three consecutive cuts in September, October and December, the Fed's key rates ended the year at 3.75%, which is still above neutrality, a level placed by the median forecasts of the Fed's monetary policy committee members at between 3.00% and 3.25%.

...BUT THE ECB IS MORE RELAXED

In the euro zone, total inflation is now near the target and is likely to stay there. However, core inflation – which excludes the most volatile components, such as energy and food – was more stubborn in 2025 and came to 2.1% in November. With four rate cuts in the first half of the year, the ECB called it a day for this cycle once it had reached its 2% terminal rate. France has the euro zone's lowest inflation rate (with the exception of Cyprus), at 0.8% in November and probably 1% on average in 2025. Weak total inflation is due to falling energy prices, brought on mainly by declining electricity prices and abnormally low services inflation in France relative to the euro zone. In services, such weakness reflects both heightened competition in the telecom sector and weaker wage pressures in labour-intensive sectors such as leisure, restaurants and hotels.

GOLD, THE ULTIMATE SAFE HAVEN

The world continued to face a challenging geopolitical environment in 2025, with governments ever more indebted and institutions that in some cases have been undermined. This is a perfect world for gold, the ultimate safe haven, an asset that cannot default and that is not tied to the governance of any country.

2026 OUTLOOK

Uneven *fiscal stimulus*

Global growth is likely to continue hovering around 3%, in an environment that we believe has been helped by eased monetary policies and positive fiscal impetus in the world's main economies (the US, China, Germany, and Japan). In 2026, the US economy is expected to be supported by three main factors: fiscal stimulus from the "One Big Beautiful Bill" (OBBBA), monetary policy slightly more accommodative than in 2025, and a receding of trade uncertainty (though this will remain). Consumption should hold up well, as tax refunds in early 2026 will be higher than normal, and the OBBBA includes tax cuts on 2025 income.
This is the sixth largest US tax cut since 1940. The OBBBA also includes more than $900 million in investment incentives, half of which is earmarked for the manufacturing sector. We forecast average economic growth of 2.3%.
As for trade uncertainty, tariffs remain the US's favourite bargaining chip. They are essential to forestalling a budget overrun but do pose an inflationary risk. And the Trump administration is well aware that controlling inflation is a key concern of voters in the run-up to the mid-term elections. Meanwhile, the Supreme Court is expected to rule this year on the legality of reciprocal tariffs. It's possible that the ruling could go against the administration, in which case it must have alternatives ready to put into place.
Regarding inflation, most of the inflationary impacts of tariffs are probably behind us, and core inflationary pressures are unlikely, due mainly to the weak job market. The job market has not shown any additional signs of worsening since last summer, but its stability remains crucial to the economy. The stage is therefore set for further Fed rate cuts in 2026, a year in which Jerome Powell will hand over the chairmanship to his successor.
In the euro zone, the environment is expected to remain favourable to Spain and Portugal (Spain in particular), which have supported European economy in recent years.

GERMAN RESET AND CONTROLLED EURO ZONE INFLATION

In Germany, the structural challenge is the implementation of the infrastructure stimulus plan, but the economic impetus provided by this plan for 2026, and the (German and European) rearmament plan should be sufficient to restart Germany and Europe in general.
In the euro zone, we forecast growth of 1.4% in 2026, which, when combined with average inflation of less than 2.0%, should allow the ECB to leave its key rates unchanged at 2.0%.
We couldn't close this topic of the 2026 outlook without mentioning other events likely to be important geopolitically (in addition to the US mid-term elections), such as Donald Trump's expected visit to China in spring, the June G7 summit in France, and the G20 one in December in Florida. It will also be worth keeping an eye on developments in tensions between China and Japan and between the US and Venezuela, and the outcome of Ukraine peace talks between the US and Russia.

[2] *"Fed Funds" means the Federal Funds Rate, i.e., the target interest rate set by the Fed on its overnight interbank loans.*

2025 marked *by normalisation and convergence*

Geoffroy Lenoir
Co-CIO, Mutual Funds
OFI INVEST AM

Between central banks that are trying to normalise their monetary policies and a reshaped international balance of power, have rate markets chosen sides? Investors have focused mainly on macroeconomic data, growth, inflation, unemployment rates, and, of course, monetary policies, while setting aside political and fiscal risks, and geopolitical tensions, which have been aggravated by the Trump presidency. This led to returns on international bond markets that were far into positive territory on the year, such as the Bloomberg Barclays Global Aggregate, whose performance exceeded 8% in 2025. It was an especially good year for US bonds, which outperformed their European peers. Euro investors would have had to hedge currency risk, as the dollar had at the same time lost about 12% vs. the euro. Equity markets did fare even better, but bonds on the whole played to the hilt their role as yield and diversification assets. Rates did not move in lock-step, with divergences even within the bond asset class.

CAUTIOUS NORMALISATION BY CENTRAL BANKS

First thing: global growth held up well in 2025 despite headwinds. The US economic held onto its leadership, driven by household consumption, strong tech sectors, and the ongoing AI boom. Europe also fared well, but more tentatively despite announcements of substantial stimulus plans, particularly in Germany, with manufacturing activity remaining sluggish. One source of satisfaction for the ECB is inflation, which returned to near its 2% target.

After the pivot by central banks in 2024, 2025 marked a step back towards neutral rates. The US Federal Reserve lowered its key rates on three occasions in the second half, pushing its range to 3.50%-3.75% in December, while flagging a pause in 2026. So, the Fed has not yet quite reached neutrality, as we had expected one year go, but it is not far off. Resilient growth and still relatively high inflation did put the Fed on a somewhat cautious stance, much to the regret of Donald Trump and his aides, such a Stephen Miran, who called for lower rates. And, in fact, the Fed's independence has been regularly called into question.
The ECB, meanwhile, kept its deposit rate at 2.00% after its cuts in the first half of the year and now deems its rates as appropriate. Other central banks have followed suit, such as the Bank of England, which lowered its rate to 3.75%, while the Bank of Japan continued its moderate tightening, raising its main key rate from 0.50% to 0.75% in December, a notable divergence from Western central banks.

CONVERGENCE OF SOVEREIGN BOND YIELDS

The Fed cut rates less and not as fast as the ECB, but that did not keep US long bond yields from falling, while euro zone yields rose, which is one main reason for the outperformance by US bonds. In fact, the US 10-year yield fell by about 40 basis points on the year to 4.16%, while the German 10-year yield rose from 2.36% to 2.85%.
There are several reasons for these conflicting trends. First of all, Fed rate anticipations have receded as the growth and inflation outlook is now more moderate than initially expected at the start of the year. Risks to employment and uncertainty on tariffs' effects on growth and inflation ultimately did lead the Fed to lower its rates.
Investors also headed into the safest assets at a time when US consumers and investor confidence were

FIGURE OF THE YEAR

€512bn

The amount of debt that Germany will issue in 2026, including €176bn on the money market. A record for Germany.

PERFORMANCES
Bond indices with coupons reinvested

	2025
JPM Emu	0.71%
Bloomberg Barclays Euro Aggregate Corp	3.03%
Bloomberg Barclays Pan European High Yield in euro	4.86%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 31/12/2025.
Past performances are not a reliable indicator of future performances.

rattled by Trump's hot-and-cold on tariffs. Growth and inflation did hold up, justifying high long bond yields, but those yields were driven down by Trump's recurring calls for lower rates (thus casting doubt on the Fed's independence).

In Germany, rates were driven up by announcements of an especially ambitious stimulus plan by the new chancellor, Friedrich Merz, in the amount of €500 billion, which is likely to support growth. To fund it, a record issuance programme was announced in December in the amount of €512 billion for 2026, a factor driving yields up. So, 2025 was not the year to be holding Bunds, but, rather, to be betting on convergence with US yields or with other European yields. Although German yields rose, spreads narrowed vs. most euro zone countries, in particular in southern Europe such as Italy, Greece, Spain and Portugal, which performed better. Even France, which was hit by political instability and budget fears, saw its spread with Germany narrow. On the whole, European sovereign bonds ended in positive territory, up by 0.7% for the JPM EMU, despite the rise in long bond yields.

CREDIT MARKET PERFORMANCES WERE COMMENSURATE WITH RISK

Performances on other bond markets were commensurate with risk. We had forecast last year that corporate bonds would not repeat their exceptional returns of 2023 and 2024, but that they would provide close to carry returns, the well-known metric, which is simply an asset class's instantaneous average return. We were right. The money-market index rose by about 2.2%. Investment grade fared better, with a gain of about 3%, while the riskiest asset class, high yield, did even better, at about 4.8%. That being said, investors were well-advised not to hold too many CCC-rated issuers, who performed less well.

With rates still relatively high in Europe, credit markets were once again popular with investors. Spreads narrowed more and more, something that made us somewhat cautious in the second half of the year. Keep in mind as well that 2025 featured record issuance and that default rates were relatively low.

2026 OUTLOOK

In position ***of attentive neutrality***

Central banks have clearly flagged their intentions for the coming months. **No change is expected in the near term from the ECB, which could keep its deposit rate at 2% for the entire year.** The next move could be either upward or downward, depending on economic trends. **The US Federal Reserve is also likely to wait before lowering its rates again.** We share the market consensus view that expects two more rate cuts this year in the US. If so, the Fed Funds rate would then reach neutrality and level off at between 3.0% and 3.5%, but apparently no lower, due to the resilience of the US economy and inflation that will without a doubt remain above 2.0%. The replacement of Jerome Powell as Fed chair could pose some downside risks, but there appear to be few of them. **The Bank of Japan (BoJ) is likely to raise its rates once again this year, but very tentatively, as it usually does.**

We are neutral on 10-year bonds but remain invested in a carry stance, as we expect them to trade in coming months around yearend-levels. After it hit 2.90%, we believe the Bund could trade within a range of 2.60% to 3.10% within which we will adjust duration upward or downward. The heavy volumes of debt to be placed on the markets now appear to have been priced in but we will still be keeping a close eye on primary issuance in early 2026. Meanwhile, although it has already been priced in by the markets, Dutch pension reform, which became effective on 1 January 2026, could have technical impacts on the long section of the yield curve. It is somewhat the same for the US T-Note(1), with upside risks that we believe to be slightly greater than a few weeks ago. We are keeping a slight positive bias for a carry strategy for the coming year but may reduce it in the event of a rally. Political and geopolitical risks had only a slight impact on rates in 2025, but it will remain important to be alert to them.

STICK TO A CARRY STRATEGY

We believe, on the whole, that market risks have receded in recent months. The central banks remain alert and prepared to lower their rates; the peak in tariffs is mostly behind us; and companies have managed to refinance properly during the year with heavy flows into credit. Against this backdrop, we are moving to a neutral stance on credit spreads while upgrading investment grade and high yield credit and retaining a high degree of selectiveness. We are moving to a positive stance on high yield for the medium term but still believe that credit spreads could widen in an adverse scenario.

Past performances are not a reliable indicator of future performances..
(1) A T-Note (for Treasury Note) is a US government bond.

EQUITIES

That makes ***three!***

Éric Turjeman
Co-CIO, Mutual Funds
OFI INVEST AM

2025: THE THIRD CONSECUTIVE YEAR OF GAINS BY GLOBAL EQUITIES

The track-record of recent years has indeed been impressive. Over the past three years, the S&P 500 gained almost 90%, as did Japan's Topix; the EuroStoxx was up by 65%, and the MSCI World by more than 80% cumulative. However, 2025 differed from previous years, with the return of political uncertainty, new geopolitical tensions, the dollar's collapse, and a return of volatility. Right up to the last minute of the year, the markets kept money managers on edge, with "bubble Casandras" returning at yearend.

And yet, the year had gotten off to a poor start on US markets. After initially rallying on the election of Donald Trump, indices were tentative, particularly in their tech components, which were blown away early in the year by DeepSeek*, a new, low-cost AI programme from China. Not for several weeks were US big tech companies able to get their bearings on the threat posed by these new models meant to take on Chat GPT*, Gemini* and others, which are requiring more and more financing. But even this was overshadowed by the tariff shock concocted by the Trump administration and announced with much fanfare on 2 April in an episode that will go down in economic history. Donald Trump disrupted international trade relations while blowing up 25 years of multilateralism. The shock to companies, including US ones, was commensurate with the market swoon that followed. While global equity markets gave up on average about 15%, multinationals worldwide were rushing to rethink their supply and production chains. Tariffs became a potential threat to margins, to which the markets reacted by raising the risk premium.

But these tariffs are also a threat to US inflation, which had already been a key issue of the 2024 presidential campaign. Companies will have no other choice but to pass on the cost of tariffs to end-consumers, even if that takes several years. It happens that the shares of sectors directly tied to US purchasing power are already in the doldrums and stuck in the "K-shaped economy". This illustrates the widening gap in household spending habits based on their income and their net worth, particularly their net financial worth. Few consumer companies managed to do well in 2025, and for once, those sectors brought up the rear of US indices.

US MARKETS RESCUED BY THE FED, A TARIFF MORATORIUM AND AI

Not until the respite offered by the 90-day moratorium on tariffs and the US Federal Reserve's pivot were US equity markets able to recover. First, **US corporate earnings beat forecasts by far throughout the year,** causing the consensus of analysts to constantly revise their earnings growth forecasts, ending up between 12% and 14% for 2025.

The year in equities was also marked by the avalanche of investment spending by tech giants in a headlong race to dominate artificial intelligence. Almost $350 billion was invested by hyperscalers(1) during the year. Investors cheered these announcements, and tech was the year's best-performing sector. Doubts nonetheless emerged very late in the year on how well-founded these investments are, triggering some profit-taking on the flagship stocks of 2025.

THE EURO ZONE AND JAPAN LED THE WAY

Euro zone markets led the way almost the entire year and were caught at the very end of the year by Japanese equity markets. European markets, among others, rode flows that exited the US markets as the political context became unstable, and as the dollar depreciated. Meanwhile, **various German public spending plans drove hopes of a rebound in growth aggregates**.

However, corporate earnings were not that impressive,

FIGURE OF THE YEAR

569%

How much the share price of MetaX*, a semiconductor maker, rose on its first day of trading, in December, illustrating exuberance not seen since the bursting of the dotcom bubble in 2000.

PERFORMANCES
Equity indices with net dividends reinvested, in local currencies

	2025
CAC 40	13.32%
EuroStoxx	24.25%
S&P 500 in dollars	17.43%
MSCI AC World in dollars	22.34%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 31/12/2025.
Past performances are not a reliable indicator of future performances.

Past performances are not a reliable indicator of future performances.
**These companies are cited for information purposes only. This is neither an offer to sell nor a solicitation to buy securities.*
(1) Hyperscalers: large-scale datacentres specialising in providing large quantities of calculating power and storage capacity organisations and individuals worldwide.

although the dollar's weakness was a big factor in the downward revisions seen throughout the year. But when setting aside certain exceptional factors that pulled down aggregate figures, **European companies held up quite well to a global environment that has become more challenging**. The year's gains were driven mostly by cyclical stocks on hopes of a coming upturn in growth. This shows that it is still possible nowadays to achieve solid market gains without heavy exposure to artificial intelligence. Europe was, for once, led by its banking sector, which soared by almost 80% on the year.

Japan's skilful negotiations on tariffs with the Trump administration helped Japanese stocks to rally after the 2 April shock.

True, Japanese multinationals' promises of direct investment in the US align perfectly with Donald Trump's reshoring policy. But it was the election of Sanae Takaichi that pushed the Japanese market to the best equity performances of 2025, despite hikes in short-term rates that were almost unparalleled in other developed economies. The election came with an ambitious demand-side stimulus programme that is likely to support earnings growth in 2026. So, what if that piles up even more public debt in the developed world's most indebted country. As of yearend, **Japanese equities were clearly not cheap, but the changes in governance in the works are feeding hopes** of higher shareholder returns at companies that have, on the whole, become more profitable. This will be enough to continue drawing interest from international investors.

2026 OUTLOOK

A new upward cycle or irrational exuberance? Strategists have already decided!

The consensus is so unanimous as the year begins that it is almost troubling. The consensus of equity investors is for a gain of 13% on average for the MSCI World in 2026, after already impressive gains over the past three years. Upward catalysts have been identified: monetary policies that will probably be more accommodative in 2026 with the exception of Japan, fiscal stimulus plans almost worldwide, companies in sound financial health that should resume spending this year, as well as heavy surplus savings that are still looking for a place to invest.

However, we believe the true driver of market gains can only be the results of the companies' themselves. No equity markets currently look sufficiently undervalued to justify a rerating. Some are even trading at comfortable premiums to their historical performances. Quarterly results will accordingly be closely scrutinised this year. The US market is likely to continue to focus the attention of investors, who will remain extremely alert to the monetisation of the huge sums invested in AI. Any disappointment is likely to be punished severely, and we expect volatility to be back in 2026. But keep in mind also that forecasts are heading towards a better split of earnings growth this year. So, there will probably be some opportunities in a number of laggard stocks which could benefit from better visibility in the economic environment, already illustrated by an initial improvement in ISM[2] indicators.

CORPORATE EARNINGS WILL FUEL THE EXPECTED EQUITY GAINS

Meanwhile, we still see a high probability that the Fed is not done yet, and tax cuts for households that will soon take effect should support consumption.

Elsewhere in the world, valuation multiples look more affordable. Europe is likely to benefit from the spillover of German fiscal expansion, as well as from the restarting of business investment. The same goes for Japan, where the history-making budget of 122 trillion yens, approved on 26 December, aims to support demand, which is being held back by still strong inflation. Short-term rates, meanwhile, are likely to continue moving slowly back to normal.

And in China, after a 2026 marked by renewed confidence in Chinese equities, earnings growth should also return to push the market up a notch higher. This will depend in part on a recovery in consumption, which is still lacking true political support. But, as with the US market, the direction that the AI ecosystem takes will be crucial to Chinese equity trends in 2026.

We are raising by one notch our allocations to the US and Europe as the year begins and are leaving unchanged our other positions. Although valuations leave little room for any disappointments, a number of factors appear to be in place for earnings growth to continue on all markets in 2026, with, accordingly, further gains in the indices for the fourth consecutive year.

Past performances are not a reliable indicator of future performances.

[2] The ISM manufacturing index of economic activity is based on a survey of purchasing managers in the industrial sector.

The 2025 rally is likely to be on investors' radar in 2026

Jean-Marie Mercadal
CEO
SYNCICAP AM

2025 was a very busy year in Asia and in emerging markets in general. Investors seem to have taken notice of the region's strong points, particularly China's technological and industrial leadership. We expect them to continue doing so in 2026.

In China, equities were up by about 30% in 2025 (+18% in euros), their second consecutive year of gains after three down years. Even so, the MSCI China index is still almost 25% off its 2021 high. This market rally is more solid and sustainable than previous ones. After a long absence, international investors are wading back in, while domestic inflows are still low and could potentially keep the current rally going.
Deflation is still with us, driven by real estate and by manufacturing overcapacities, but the government seems to have recognised what's at stake and has now taken on a pro-business stance. Shifting the economy towards domestic consumption and cutting-edge technologies has become a priority. Meanwhile, the world is beginning to take notice of Chinese technological and industrial prowess, and Chinese competitiveness is being viewed as a threat, particularly to Europe. In just a few years, China has moved from being a producer of low-quality goods to a highly competitive actor on price for quality and innovation. Chinese goods in sectors such as electric vehicles, solar panels, drones, household appliances, and machine tools are now unbeatable. This trend is likely to spread to other cutting-edge sectors, given the human and financial investments being supported and promoted by the Chinese government. We are likely to see one or more Chinese giants emerge very soon to compete with Western big-pharma in top drugs and treatments (China already leads in the production of generics). Chinese biotechs charged Western countries almost 100 billion dollars in out-licencing fees in 2025, up from almost nothing just 10 years ago. In technology, China could catch up within a few years. It has also improved its soft power image as a reliable and stable actor projecting a narrative of progress and modernisation, in contrast to the US fickleness of recent months. China is particularly well regarded by younger people, who tend to have a keen interest in technological innovations. Meanwhile, consumer habits are changing fast. Chinese brands have become trendy among the Chinese themselves, even in luxury goods. A recent survey in China found that 69% of consumers now prefer Chinese brands, up by 30 percentage points since 2019! As for valuations, Chinese equities are still trading at a substantial discount to US shares, with a 2026 P/E of 13.7 for the MSCI China Index, with earnings growth projected at 10% to 15% next year.

Asia ex-China equity markets also rose by about 25% in USD (+13% in euros). This investment universe amounts to almost 4,000 billion dollars in market cap and more than 400 stocks. It has been driven up by all three major themes that we have identified, the most important of which has been the **AI tech value chain,** spurred by massive global investments. Korea, for example, gained more than 90% (in USD), thanks mainly to SK Hynix* and Samsung*, Taiwan was driven up by TSMC*, the unparalleled global leader in semiconductors, and Malaysia and Thailand by their semiconductor subcontractors. The theme of **domestic consumption** in countries with a huge domestic market, such as India and Indonesia, was less salient in 2025 but is still highly promising, in our view. In India,

FIGURE OF THE YEAR

46%

The percentage of the world's industrial robots that are located in China. This percentage is set to rise, as more than 50% of new installations are also in China.

PERFORMANCES
Indices with net dividends/coupons reinvested

	2025	
	USD	EUR
MSCI Emerging Markets	33.57%	17.78%
MSCI China All Shares	28.94%	13.70%
MSCI Emerging Markets Asia ex China	30.94%	15.47%
JP Morgan Emerging Market Bond Index	13.45%	0.05%
JP Morgan Government Bond Index-Emerging Markets	19.00%	4.94%

Sources: Ofi Invest Asset Management, Refinitiv, Bloomberg as of 31/12/2025.
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Past performances are not a reliable indicator of future performances.

for example, valuations look attractive once again, and earnings growth momentum is improving. An additional catalyst could come with a renegotiation of US tariffs, which could halve the current 50% rate. The theme of **Chinese manufacturing workarounds,** driven by both cost considerations and a cautious approach to geopolitical risks, has also provided momentum and should continue to do so in coming years. This is borne out by equity performances (+ 35% in USD) in Vietnam, which is also being supported by 8%-plus economic growth.

Emerging bond markets also ended 2025 in positive territory, particularly sovereign debt, which gained almost 15% in dollar terms (+ 5% in euros). Emerging bond markets continue to outperform, driven by solid macroeconomic fundamentals, attractive relative valuations, and sound fiscal policies in the main countries. Real yields in particular remain high in Latin America. Emerging sovereign bonds in hard currencies, mainly in dollars, also gained ground. Spreads have narrowed on the whole, particularly in the lowest-rated countries.

2026 OUTLOOK

A virtuous cycle that should spill over into 2026

Chinese equities could continue to ride high in 2026, but keep in mind that there are now "two Chinas": the robust manufacturing and technological China and the lacklustre real-estate China. The latter is engendering deflation, with a negative impact on household consumption in particular. Sooner or later, the government will have to step in again to support real estate, if it is to restart domestic consumption. The 15th five-year plan (2026-2030), which has just been unveiled, does not address this issue directly. Rather, it focuses on several key sectors that aim to strengthen China's technological and economic independence. The top priorities are the energy transition, digitalisation, health care and biotechnology, and the expansion of domestic consumption. Economic growth is projected at between 4.5% and 5.0%, with inflation under control at about 2.0%. To meet these objectives, targeted fiscal stimulus looks necessary, in light of recent figures, which point to some sluggishness, particularly in consumption. The Chinese central bank could ease its monetary policy, while Beijing continues to open up its financial markets, making them more attractive to foreign capital. Domestically, there are also plans to lower capital requirements for insurance companies' equity investment and to allow brokers to use greater leverage. Even after the 2025 rally, investors are still underweighted; and inflows are expected to stay in positive territory in 2026. Valuations look reasonable (with the MSCI China Index trading at a 2026 P/E at about 14), with earnings growth projected at about 10% to 15%.

CHINESE EQUITIES: NOW AN ATTRACTIVE ALTHERNATIVE

Despite ongoing risks regarding trade tensions, we reiterate our positive view on Asia ex-China markets. Regional fundamentals remain robust, with inflation under control, accommodative monetary policies, and fiscal stability. Opportunities are likely to arise in tech, domestic consumption and infrastructure. We have nonetheless lowered our short-term exposure to the tech sector and raised it in Indian equities, which account for almost 40% of the investment universe. Growth is accelerating in India, earnings revision momentum is improving, and the market as a whole has become more affordable after having stagnated on the whole for more than one year.

Sound fundamentals in emerging sovereign bonds.
Emerging market bonds should continue to be supported by solid macroeconomic fundamentals, attractive relative valuations, and rather sound fiscal policies in the main countries. On the macroeconomic level, emerging economies are likely to continue growing faster than developed economies, driven by receding inflation, disciplined monetary policies, and an improvement in fiscal balances. The average debt/GDP ratio of emerging market countries is still far below that of developed economies (about 75% vs. 110%), while real sovereign bond yields remain high. Credit ratings of the main emerging market countries may also improve in 2026. **We reiterate our positive view of local-currency bonds, but are more cautious on hard-currency ones,** as spreads are at historically low levels.

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GLOSSARY

Carry: a strategy that consists in holding bonds in a portfolio, possibly even till maturity, in order to tap into their yields.

Credit risk: in bond management, this is the risk that a bond's issuer will be unable to repay the principal or interest owed to investors.

Credit spread: difference between the yield differential of a private corporate bond with that of a sovereign bond of the same duration, considered to be the least risky (the benchmark government bond).

Duration: weighted average life of a bond or bond portfolio expressed in years.

Inflation: loss of purchasing power of money which results in a general and lasting increase in prices.

Inflation breakeven rate: the difference between the yield on a traditional bond (nominal yield) and the yield on its inflation-indexed equivalent (real yield).

Investment Grade/High Yield credit: Investment Grade bonds refer to bonds issued by borrowers that have been rated highest by the rating agencies. Their ratings vary from AAA to BBB- under the rating systems applied by Standard & Poor's and Fitch. Speculative High Yield bonds have lower credit ratings (from BB+ to D, according to Standard & Poor's and Fitch) than Investment Grade bonds as their issuers are in poorer financial health based on research from the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

PER: Price to Earnings Ratio. A stock market analysis indicator: market capitalisation divided by net income.

Risk premium: reflects the additional return demanded by investors compared to a risk-free asset

Spread: difference between rates.

Volatility: corresponds to the calculation of the amplitudes of variations in the price of a financial asset. The higher the volatility, the riskier the investment will be considered.

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