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MARKET PERSPECTIVES REVIEW & OUTLOOK

FOURTH
QUARTER
2025

FOURTH QUARTER 2025 REVIEW & OUTLOOK

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FOURTH QUARTER 2025 REVIEW & OUTLOOK

EXECUTIVE SUMMARY

12 January 2026

PORTFOLIO THEMES

- While risks remain, we believe the market's underappreciated positives outweigh potential headwinds, supporting the continuation of the global bull market into 2026.
- We expect non-US and Value equities to continue leading global performance over the year, while US equities and Technology should also fare well.
- A steep global yield curve continues fueling strong loan growth. This trend should remain a relative tailwind for non-US economies and markets, particularly as the US Fed evaluates its own policy path.

MARKET OUTLOOK

- **Political Tailwinds Should Support this Bull Market:** With few major elections globally and most trade negotiations now resolved, political uncertainty outside the US remains subdued. While volatility may increase ahead of the US midterm elections, the outcome is likely to result in greater legislative gridlock – historically supportive of market returns.
- **Post-Correction Optimism Does Not Signal the End:** Although investor sentiment has improved following the 2025 market correction, lingering economic and geopolitical concerns suggest the market has not reached euphoric levels. The “wall of worry” remains intact, allowing the bull market to continue.
- **Fundamentals Remain Underappreciated:** A steep global yield curve continues to support non-US economic growth. Declining trade uncertainty, resilient corporate earnings, and strong balance sheets are fostering increased investment and reinforcing the foundation for continued expansion.

A late-year rally brought global stocks' returns to 22.3% in 2025, finishing December near all-time highs.ⁱ Emerging Markets (EM) also ended the year higher, rising 33.6%.ⁱⁱ Numerous countries set new records as years of US dominance gave way to non-US outperformance, evidence this bull market is fueled by much more than just big US Tech and Tech-like stocks.

A third consecutive year of near or above 20% returns might have some wondering if stocks have come “too far, too fast” considering long-term annualised returns are closer to 10%.ⁱⁱⁱ But stocks' long-term average includes both bull and bear markets. The average return during bull markets is 23% per year, on par with the last few years.^{iv}

i Source: FactSet, as of 07/01/2026. MSCI ACWI Index return with net dividends, 31/12/2024 – 31/12/2025.

ii Source: FactSet, as of 07/01/2026. MSCI EM Index return with net dividends, 31/12/2024 – 31/12/2025.

iii Source: Finaeon, Inc., as of 24/12/2025. S&P 500 total return, 31/12/1929 – 31/12/2024.

iv Ibid. Return is price-only due to daily data availability used in calculating bull market trough-to-peak returns.

2025's journey was anything but average, however, with a sharp correction early and a leadership shift as the "Magnificent Seven" big Tech and Tech-like stocks lagged.^v We expect more of the same in 2026 as this bull market marches into its fourth year. Though the landscape isn't risk-free and we expect volatility, underappreciated positives outnumber and outweigh the potential drawbacks.

Politics adds another wrinkle as midterm campaigning heats up. US midterm years often begin with a volatile grind before the traditional "Midterm Miracle" routinely boosts stocks later in the year. The president's party almost always loses relative clout in Congress at midterms, increasing bullish gridlock. Now, the pre-election grind doesn't necessarily mean bad returns early. But volatility is more common ahead of the vote, as campaign rhetoric stirs sentiment.

While the calendar has flipped, headlines remain stuck on old talking points like the alleged AI bubble, inflation, tariffs and Fed moves. Markets have heard and priced all of this, climbing the wall of worry. This helped sentiment improve markedly, with investors seriously optimistic but not euphoric in the US. Abroad, sentiment is more measured but less pessimistic than a year ago. Regardless, warming sentiment on its own means nothing. Markets hinge on how sentiment evolves relative to reality and whether bullish drivers get noticed and priced in. Note, too, some of the more speculative pockets like bitcoin and meme stocks have already rolled over, yet the bull market continues.

Many of the market's positives remain underappreciated. We think the rally is much broader than headlines allege. Many presume the Magnificent Seven alone drive the bull market, yet five of them lagged in 2025 and, again, the Tech-rich US underperformed. The global yield curve (the spread between short- and long-term interest rates) is steep and should stay that way, with short rates perhaps falling in the US while long rates stay relatively stable. Banks borrow short term to fund longer-term loans, so a steeper curve means more profitable lending. This typically fosters stronger loan growth—big economic fuel and a tailwind for Financials' earnings. That is especially true abroad, where bank lending does more of the heavy lifting. This points to value outperforming growth again, though both should do well in absolute terms.

Corporate earnings should heat up. Economic drivers point to continued moderate global GDP growth, boosting demand and revenues. Trade is accelerating outside the US as the world adapts to tariffs, which remain milder than projected. Falling uncertainty is motivating businesses to ramp up capital expenditures, pumping investment worldwide. Cash-rich balance sheets, along with strong banking and capital markets activity, give them ample liquidity to invest without getting overstretched for now.

The international political calendar is quiet, with few elections either truly free or of consequential size, and most trade dealmaking complete. This points to lower uncertainty overall (even with pockets of contention like France), likely proving a tonic to markets as US campaigning ramps up. The more meaningful, known political events are in the US, with a new Fed Chair appointment, the aforementioned midterms and the Supreme Court set to rule on tariffs imposed on national emergency grounds. The Court ruling could come any day, but however the justices decide, it likely changes little for markets in 2026—although it will undoubtedly garner many headlines.

^v Source: FactSet, as of 02/01/2026. Statement based on MSCI World Ex. USA return with net dividends, S&P 500 total return and the total return of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla (a non-Tech stock commonly included in the group).

Falling uncertainty should also support Emerging Markets (EM) growth into 2026. Tariff fears continued to subside in Q4, with the US creating further exemptions for its EM trade partners. While political events occupied EM headlines throughout the quarter, they didn't deliver major surprises—or keep sentiment from continuing to warm. With few landmark elections on the calendar, the overall political backdrop should be relatively tame, setting the stage for further EM economic growth in 2026.

Though US tariffs remain a headwind, EM exports, particularly in China, remain strong. China's exports continue to climb despite US tariffs – up 5.8% y/y in November even as exports to the US declined by 28.6% over the same period. As world demand continues to surprise to the upside, China's manufacturing base stands to benefit. Despite recent economic weakness, China's domestic policy goals and external geopolitical pressure remain aligned to support a gradual rebalancing toward consumption alongside growing private investment.

We are monitoring for potential risks, as always, with several on our radar. While we don't see them disrupting stocks immediately, their time could come. Fast-warming sentiment is one. Though sentiment isn't a timing tool and pockets of euphoria are common, there is a risk that a strong 2026 could get investors in full party mode, disrupting or pulling forward the Midterm Miracle.

Monetary policy errors are also possible, especially with a new Fed head soon taking the reins. While Fed heads are usually inconsequential, should this one rapidly reduce interest rates, it risks driving long rates higher. Long rates are market set and move largely on inflation expectations, which could rise if cuts prove aggressive. Rapidly steepening the yield curve risks potentially overheating the economy. Ongoing troubles in private equity and private credit so far remain confined to those realms, but a liquidity crunch that forces selling in traditional stock and bond markets remains a possibility.

Again, these are all possible, but markets move most on probabilities. We believe the strongest probability is that the good far outweighs the bad, bringing another strong year—but perhaps not as strong as the last few—that extends a very normal bull market streak. The wall of worry remains alive and well, giving stocks plenty of room to climb.

GLOBAL UPDATE AND MARKET OUTLOOK

2 February 2026

MARKET RECAP

THE BULL MARKET CONTINUES IN 2026

Against a fearful backdrop, 2025 delivered the good-to-great year we expected. As a result, sentiment warmed and entered 2026 seriously optimistic but pre-euphoric in the US, as bubble fears, economic jitters and middling professional S&P 500 forecasts illustrate. Investors abroad are much more cautious. This suggests fine economic fundamentals and political gridlock should deliver positive surprise and another nice bull market year, led by non-US stocks again. Gains may not match 2025, and we see potential for high volatility. But a good and rewarding year looks likely, with discipline and our investment processes proving crucial again.

THE GOOD-TO-GREAT YEAR THAT WAS

Entering 2025, we saw three potential outcomes with roughly equal probabilities: a strong year topping 20%, a mild down year or a flattish grind. Narrowing them down hinged on sentiment, then in flux. Sentiment evolved rapidly, with pessimism crystalising by late January—especially in Europe, where fear of potential US tariffs and other issues ran rampant. This made another good-to-great bull market year most likely, with non-US stocks leading thanks to their higher wall of worry.

This played out. The MSCI ACWI Index's 22.3% return smashed consensus forecasts but was near bull markets' historical average annualised return.^{vi} US stocks trailed but did fine at 17.9%, while Europe and Japan delivered "great" at 35.4% and 24.6%, respectively.^{vii}

A REVIEW OF LAST YEAR'S CORRECTION

The steep correction after President Donald Trump announced broad global tariffs on 2 April was a big speedbump that risked wrongfooting investors. It ended fast, with a steep rebound beginning a week later after Trump delayed tariff implementation.

Last year, we saw tariffs hit markets lightning-fast, under vast media scrutiny. While corrections often fall on false fears, this looked like markets rationally, rapidly pricing a real negative—in this case, the worst-case-scenario estimates of tariffs' potential economic effects. While we agreed (and still agree) tariffs were negative, we saw a high likelihood these estimates overshot. Tariffs are notoriously difficult to collect and enforce, and court challenges to the administration's unorthodox legal justification looked likely. So did dealmaking, which Trump alluded to from the start. The tariffs also included numerous exemptions that few noticed.

Outside America, few trade partners retaliated, instead choosing to ink deals among themselves that further free global trade overall. All pointed to tariffs being less impactful than their initial threat suggested. When Trump announced the temporary delay a week later, markets started fathoming this, recovering swiftly. The bull market continued after tariff fear reset sentiment lower, rising through all the deals, court challenges and underwhelming tariff revenues. Yet the recovery wasn't without its bumps for the full year. Corrections and recoveries often bring countertrends—temporary leadership changes. Because US stocks got hit hardest in the correction, they outperformed through the rebound, leading many to argue Europe's earlier run was a flash in the pan. But fundamentals hadn't changed. Sentiment outside the US remained too dreary relative to the reality of modest economic growth and bullish political gridlock. Non-US leadership later resumed after a monthslong give-and-take.

vi Source: FactSet, as of 07/01/2026. MSCI ACWI Index return with net dividends, 31/12/2024 – 31/12/2025.

vii Ibid. S&P 500 total return and MSCI Europe and MSCI Japan with net dividends, 31/12/2024 – 31/12/2025.

EXHIBIT 1: US VS. NON-US IN 2025

Indexed to 1 at 31/12/2024



Source: FactSet, as of 07/01/2026. S&P 500 total return and MSCI World Ex. USA Index with net dividends, 31/12/2024 – 31/12/2025.

ANOTHER GOOD YEAR

This bull market, now in its fourth year, looks set to continue in 2026. Returns may not match 2025's, partly because the wall of worry isn't as high. Stocks' climb through tariff terror, slow European growth, falling Chinese investment and other stories took some bricks out, although President Donald Trump's tariff threats to against the UK and some EU nations over their reaction to his Greenland talk suggest they aren't totally gone. Seriously optimistic US sentiment suggests we may be nearing the slow-rolling top that typifies normal bull markets that end as the business cycle resets. We aren't projecting this imminently, but some slowing wouldn't come as a surprise.

Yet warmer sentiment hasn't rendered outlandish expectations. Analysts project middling GDP growth worldwide and remain stuck on European economic weakness. Budget battles in Britain and France feed recession and debt fears. The latter looms over Japan, too, as interest rates and borrowing rise. China's alleged hard landing continues preoccupying onlookers. Earnings growth forecasts are tame.

Sentiment alone doesn't drive returns. Stocks move on the gap between sentiment and reality—surprise, positive or negative. Hence, what matters is sentiment relative to reality. High sentiment increases the risk of downside surprise if reality doesn't meet lofty expectations. However, disappointment isn't automatic or assured, making high sentiment alone a terrible timing tool. Unforeseen deteriorating fundamentals are usually required the required spark that ignites a bear market. Today, economic and corporate fundamentals look solid amid tepid economic expectations, as we discuss below. Moreover, high investor sentiment is widely recognised, which helps keep things in check.

Consumer sentiment also adds some balance. Open any financial site, and you will see talk of an alleged "K-shaped" economy, where high-income folks are cruising while lower-income households struggle. Since there are relatively few households at the top, this implies the economy is a house of cards, ready to fall once the wealthy retreat.

Though we think this underestimates the economy's health, it has some realistic grounding. For higher-income households, inflation's pain wasn't as sharp. Their wages and salaries were faster to catch up to 2022's hot price rises. For people with low income, no income or those on fixed incomes, the catch-up is taking much longer. Many are having a tough time, and you can see their very real worries in consumer sentiment surveys. All of this matters societally, and we don't dismiss it. However, cold-hearted markets look past this, to the reality of overall healthy consumer spending and household balance sheets. Moreover, consumer sentiment isn't investor sentiment and doesn't predict stocks or the economy. In this case, we think it simply helps tame broader expectations, lowering the bar reality must clear.

Sentiment abroad is also dimmer. GDP growth in Europe and Japan had rocky spells last year, including much-watched Germany. This, alongside contentious politics in several nations, keeps expectations grim and builds a higher wall of worry. Hence, non-US stocks are likely to lead again.

S&P 500 FORECASTS SHOW MORE FUEL IN THE TANK

Some wonder how much stocks have left in the tank after three years at or near 20% returns. We see why, as most anchor to stocks’ long-term annualised return of around 10%, give or take, depending on index and currency. This makes 20% seem big.

But this framework doesn’t work. That 10% includes bear markets. Extract them, and bull markets’ average annualised price return is around 23%. Hence, stocks had three very average years, rendering another good year less outlandish. Further, most bull markets that last three years typically turn four. While we don’t foresee a 20%-ish four-peat, a decent year looks likely.

Consensus forecasts help show this, which we have long used in forecasting. Not because professional investors are right, but because they aren’t. (Exhibit 2) Wall Street is often prone to groupthink, with analysts cut from the same training and curriculum. Their forecasts tend to cluster in a narrow range, and because they get heaps of attention, they get priced—as all widely known information does. Therefore, you can generally rule out the consensus forecast. This doesn’t tell you what stocks will do, but it narrows the potential outcomes. This is why we wait to see other forecasts before developing ours. Being first is of no benefit, as it raises the risk of being wrong. If stocks do what few expect, you must see where expectations are.

EXHIBIT 2: A RECENT HISTORY OF PROFESSIONALS’ WRONG S&P 500 FORECASTS

	Median Forecast	Actual S&P Returns	Difference (ppts)
2018	5.3%	-6.2%	11.5
2019	15.8%	28.9%	13.1
2020	2.1%	16.3%	14.2
2021	6.5%	26.9%	20.4
2022	4.9%	-19.4%	24.3
2023	9.4%	24.2%	14.8
2024	1.4%	23.3%	21.9
2025	12.2%	16.4%	4.2

Source: Fisher Investments Research and FactSet, as of 07/01/2026. All based on price return.

People tend to think in binaries—whatever the professionals forecast, self-styled contrarians decide stocks will do the opposite. But that is too simple and simply wrong. Stocks do something different than the herd expects, and different isn’t always opposite. Professionals can be too bullish, wrongly bearish, insufficiently bearish or not bullish enough. The range where forecasts cluster is generally the range you can rule out. But then you must determine whether stocks are likely to do worse or better than those expectations.

2025 projections help show how this works. (Exhibit 3) Among the 58 we tracked then, only four were bearish—and only two seriously so. Yet no one was wildly bullish. The highest forecast barely topped 20%. Most landed between 10% and 14%. Their commentary cited post-election tailwinds and hopes for the new government. They forgot campaign pledges and political optimism get priced and reality often differs as gridlock limits uncertainty and priorities shift. Fed policy was another common factor, with many eyeing continued US rate cuts.

This suggested that markets would probably veer from historically average returns, with US politics and the Fed not driving the train. Both were too widely known and therefore priced in. Yet economic fundamentals and earnings growth looked too good for a down year, and we couldn’t see major, imminent risks the crowd overlooked. So even though few forecasted a down year, we didn’t think that was likely. Instead, the dearth of hot forecasts, combined with fine fundamentals and weaker expectations overseas, pointed to a good year in the US and a great one abroad.

EXHIBIT 3: 2025 FORECASTS IN DETAIL

Firm	Forecast Return
Oppenheimer	20.7%
Wells Fargo	19.1%
BNY Mellon	19.0%
Capital Economics	19.0%
Deutsche Bank	19.0%
Federated Investors	19.0%
Yardeni Research	19.0%
DZ Bank	17.3%
Nationwide	17.1%
KKR	16.5%
Evercore ISI Survey	15.6%
Unicredit	15.6%
Societe Generale	14.8%
Innovator ETFs	14.3%
Bank of Montreal	13.9%
HSBC	13.9%
Natixis	13.9%
BofA Merrill Lynch	13.3%
Scotiabank	13.1%
FundStrat	12.2%
Barclays	12.2%
Hinsdale Assoc.	12.2%
Janney Montgomery Scott	12.2%
MM Warburg	12.2%
Ned Davis Research	12.2%
NordLB	12.2%
Piper Sandler	12.2%
RBC Capital Markets	12.2%
UBS	12.2%

Firm	Forecast Return
Wells Fargo Investment Inst.	12.2%
CFRA Research	12.0%
22V Research	11.5%
Ameriprise	10.5%
Berenberg	10.5%
Citigroup	10.5%
Deutsche Bank Wealth Mgmt.	10.5%
Goldman Sachs	10.5%
JPMorgan Chase	10.5%
Morgan Stanley	10.5%
Raiffeisen Bank	10.5%
Livingston Survey	10.3%
US Bank Wealth Mgmt.	10.2%
Nomura	9.7%
Helaba	8.8%
Allianz Global Inv.	8.4%
Raymond James	8.4%
LPL Financial	7.5%
BayernLB	7.1%
BNP Paribas	7.1%
DA Davidson	7.1%
Riverfront	6.9%
Bantelon Investments	3.7%
Jefferies	2.0%
U. of Central Florida	0.1%
Trading Economics	-4.4%
Stifel Nicolaus	-6.5%
First Trust Advisors	-11.6%
BCA Research	-24.3%

Median	12.2%
Max	20.7%
Min	-24.3%

Source: Fisher Investments Research, as of 16/01/2026.

This year, we are able to track 72 strategists' forecasts for 2026. Their net result is a compression from both ends, clustering forecasts below that 10% historical average. The median, 9.6%, is about half last year's S&P 500 price return. Clearly, warm sentiment hasn't raised expectations significantly, as they remain relatively tame.

Echoing last year, this creates an opening for a negative or above-average year. Negative again looks unlikely. We always watch for risks, but those on our radar don't look large or pressing enough to wallop stocks soon. Some, like troubles in private markets, are getting more attention, helping defang them. Meanwhile, the steep yield curve, accelerating lending, faster earnings growth and other economic factors point to a brighter-than-expected reality. While returns early in midterm election years can be a choppy grind, the late-year Midterm Miracle awaits.

EXHIBIT 4: 2026 FORECASTS IN DETAIL

Firm	Forecast Return
Oppenheimer	18.3%
Alpine Macro	16.9%
Deutsche Bank	16.9%
Capital Economics	16.9%
DZ Bank	16.9%
Tigress	16.1%
Standard Chartered	13.9%
SCB Securities	13.9%
Wells Fargo	13.9%
Federated Investors	13.9%
Morgan Stanley	13.9%
Seaport	13.9%
Carson Wealth Mgmt.	13.5%
Raymond James Inv. Mgmt.	13.2%
RBC Capital Markets	13.2%
Evercore ISI Survey	13.2%
UBS	12.5%
FundStrat	12.5%
Citigroup	12.5%
Yardeni Research	12.5%
22V Research	12.5%
US Bank Wealth Mgmt.	11.4%
Innovator ETFs	11.2%
Desjardins Securities	11.0%
BNY Wealth Mgmt.	11.0%
Unicredit	11.0%
Goldman Sachs	11.0%
KKR	11.0%
Allianz Global Inv.	11.0%
Morgan Stanley - GIC	9.6%
Raiffeisen Bank	9.6%
Janney Montgomery Scott	9.6%
Ameriprise	9.6%
Scotiabank	9.6%
BCA Research	9.6%
Natixis	9.6%

Firm	Forecast Return
BNP Paribas	9.6%
DWS	9.6%
Deutsche Bk Wealth Mgmt.	9.6%
JPMorgan Chase	9.6%
HSBC	9.6%
Jefferies	9.6%
Wells Fargo Investment Inst.	9.6%
Riverfront	9.3%
CIBC	8.8%
CFRA Research	8.1%
Cantor Fitzgerald	8.1%
LPL Financial	8.1%
Berenberg	8.1%
BMO Capital Mkts	8.1%
Barclays	8.1%
Transamerica	8.1%
J. Safra Sarasin	8.1%
NordLB	6.6%
Continuum Econ.	6.6%
Societe Generale	6.6%
Nomura Asset Mgmt.	6.3%
Raymond James	5.9%
Piper Sandler	4.4%
DA Davidson	3.7%
Bank of America	3.7%
Ned Davis Research	3.7%
Stifel Nicolaus	2.3%
BayernLB	2.3%
S&P Global Market Intel.	2.2%
Livingston Survey	2.1%
LB Baden-Wuerttemberg	-0.7%
Helaba	-0.7%
Hamburg Commercial Bank	-4.3%
Trading Economics	-11.7%
Zacks Inv. Mgmt.	-12.2%
First Trust Advisory	-12.4%

Median	9.6%
Max	18.3%
Min	-12.4%

Source: Fisher Investments Research, as of 15/01/2026.

LOOKING BEYOND TECH

Last year featured several underappreciated trends we expect to continue into 2026. A big one: Non-US stocks leading, with the US lagging.

For all the talk of the Magnificent Seven carrying markets last year, only two (Google parent Alphabet and Nvidia) led global markets. The others (Apple, Microsoft, Facebook parent Meta, Amazon and Tesla) lagged. While Tech outperformed, the story was broader than AI and the giants. People harp on allegedly narrow market breadth, but that is US-centric. The S&P 500's breadth (percentage of index constituents outperforming over the last 12 months) was low, finishing 2025 at 32%.^{viii} Yet the MSCI World's was much higher, 47%.^{ix}

Non-US stocks' outperformance shatters the narrow breadth myth. If this bull market were all about AI and the Magnificent Seven, why did 33 countries in MSCI's All-Country World Index (which includes all developed and Emerging Markets) beat the US last year? Why did 35 hit new all-time highs last year, with 30 doing so in Q4? Holland, Korea, Taiwan and (to a lesser extent) Japan aside, these aren't Tech-heavy nations. Austria, which topped 50% returns in euros (even more in USD), is over 75% Financials stocks.^x Hong Kong, with its 36.5% returns in Hong Kong dollars, is over 50% Financials, with another 16% in Real Estate and 15% in Industrials.^{xi} Canada, which topped 30% in Canadian dollars, is 38% Financials and 15% each in Materials and Energy.^{xii} This is much bigger and broader than Tech.

Higher breadth and broad sector leadership also counter ever-present AI bubble chatter, as does abundant outperformance outside the US. People insist on comparing the present with the dot-com era, but that misses the mark. Yes, both times share high Tech returns and above-average valuations, but 2000's tale was sloppy, unprofitable dot-com startups burning through cash.

We get why people seek historical parallels. Craving patterns and context is innately human. But it is easy to go too far. Perfect analogues don't exist, but if you must seek a comparison, we think the early 1970s' "Nifty Fifty" boom is probably better. That era was more about institutional investors seeking companies with recession-proof and inflation-proof earnings—quality stocks to weather any storm. It was broader and more unloved than 2000's, and it focused on established, profitable companies. Today, the corporate world's resiliency in the face of tariffs, inflation and other disruptions using measures like profit margins hints at a similar story. That doesn't tell you when this cycle will end, but it is a better starting point for analysis.

OTHER 2025 TRENDS LOOK SET TO EXTEND

Several other trends from 2025 should also carry over.

For instance, Energy stocks underperformed, which is no shock given low oil prices. Generally, Energy earnings are oil price-sensitive, not volume-sensitive, due to new wells' high up-front costs. Pumping more to boost revenues raises costs. Interestingly, though, several large integrated oil and gas companies held up relatively well, with some outperforming. We expect this to continue in 2026, as oil's supply and demand landscape doesn't point to soaring prices.

You may notice we didn't mention Venezuela. Why? Developments there do little to change this analysis. Regardless of moral or political considerations, any noteworthy production increase will likely take years to materialise, if ever, given the country's political instability and dilapidated oil industry. This is outside the 3 – 30 month window markets weigh. Regardless, if it could increase production near term, that would be a headwind to prices. But we severely doubt that increase is close by.

viii Ibid. Percentage of MSCI World Index constituents outperforming the index in 2025.

ix Ibid. Percentage of S&P 500 constituents outperforming the index in 2025.

x Ibid. MSCI Austria return with net dividends in local currency, full year 2025, sector weights on 31/12/2025.

xi Ibid. 2025 MSCI Hong Kong return with net dividends in local currency; full year 2025, sector weights on 31/12/2025.

xii Ibid. MSCI Canada return with net dividends in local currency, full year 2025, sector weights on 31/12/2025.

EXHIBIT 5: THE STEEPER GLOBAL YIELD CURVE

Region	Current 10-Year Yield	Current 3-Month Yield	Current Spread (ppt)	Spread 3 Mo. Ago (ppt)	Spread 6 Mo. Ago (ppt)	Spread 1 Year Ago (ppt)
Global ex-EM	3.57%	2.68%	0.89%	0.63%	0.60%	0.39%
US	4.18%	3.62%	0.56%	0.03%	0.02%	0.37%
Europe ex-UK	3.08%	1.95%	1.13%	1.22%	1.18%	0.40%
UK	4.40%	3.67%	0.73%	0.74%	0.52%	-0.06%
Japan	2.09%	0.67%	1.42%	1.23%	1.13%	0.92%

Source: FactSet, as of 13/01/2026.

The steep yield curve should be another 2025 holdover. The global curve steepened by about half a percentage point last year, driven by the UK, Continental Europe and Japan. The US yield curve is flatter, largely because the Fed paused rate cuts most of the year. It could steepen more this year if the Fed continues the cutting cycle it renewed late in 2025, helping encourage more lending.

Long-term interest rates were rangebound in 2025, with volatility but little net change. This likely continues as long-term interest rates hinge on inflation expectations, and inflation remains tame. With money supply growing at normal rates globally, there isn't tinder for reheating inflation. That should keep long rates stable, though volatility amid Fed chatter, deficit hype and other fears wouldn't surprise.

Lastly, several of the market's speculative pockets tumbled late in 2025, even as stocks hit fresh highs. Bitcoin and "meme stocks" (penny stocks popular on social media) are down, as are "bitcoin treasury" stocks like Strategy. Their alleged correlation with stocks, gold and silver is broken, shattering the myth of an "everything bubble" catching stocks in a speculative fervour.

This is a timely reminder that pockets of froth can deflate without inflicting broader damage—and without warning, when folks least expect it. Most thought 2025 would be crypto's year, buoyed by a crypto-friendly administration passing legislation legitimising and aiding the novel industry. Those things happened, but crypto's early gains were fleeting. Bitcoin finished the year in the red. Keep this in mind with gold and silver, where enthusiasm looks excessive. While silver has some industrial uses, gold has little beyond jewelry, and both soared on sentiment and mythology last year. Bitcoin is a reminder that the party can end at any time.

Lastly, Bitcoin's bust shows the error in chasing assets based on assumptions about how an administration's policy mix may affect them. Those get priced in rapidly, leaving no positive surprise power when the legislation eventually passes. This leads markets to perform differently than people expect—a point underscored by conventional Energy's lag and renewable energy's big rally last year, both defying expectations built on political bias.

A FUNDAMENTALLY SOUND BULL MARKET BACKDROP

Early 2026 picked up where 2025 left off, with geopolitical rumblings and an escalating battle between the White House and Fed. Headlines mask many of the bull market's positives—especially economic drivers. While many presume stocks are expensive because valuations (e.g., the price-to-earnings, or PE, ratio) say so, a closer look reveals there is plenty to appreciate.

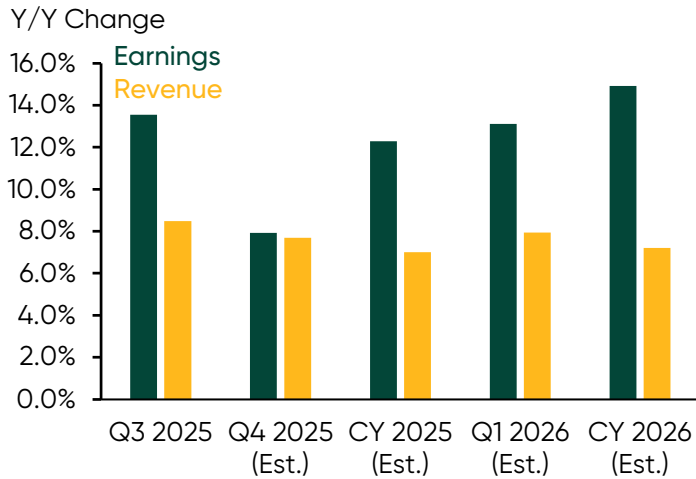
REVIEWING CORPORATE FUNDAMENTALS

Let us start with the E in the PE. At the core, owning stocks means owning shares of a company's future profits. Wall Street groupthink says above-average PEs, like today's, mean stocks aren't providing much bang for your buck.

But PEs aren't predictive. They normally rise over a bull market's lifespan as investors get more optimistic and willing to pay up for future earnings. That isn't inherently bad. The time for caution is when sentiment gets too hot, creating outlandish expectations, which isn't case today. PEs are hovering, not spiking. Earnings can grow, too, reducing PEs even as prices rise. This is what we see now: Corporate earnings topped expectations, keeping PEs flattish over the past year.

While Q4 earnings season is just starting, S&P 500 earnings rose 13.5% y/y in Q3, with 82% of companies exceeding expectations (above the 5-year average of 78%). If PEs stay steady from here, earnings growth plus dividends and share buybacks add up to very healthy returns.

EXHIBIT 6: S&P 500 EARNINGS AND REVENUE

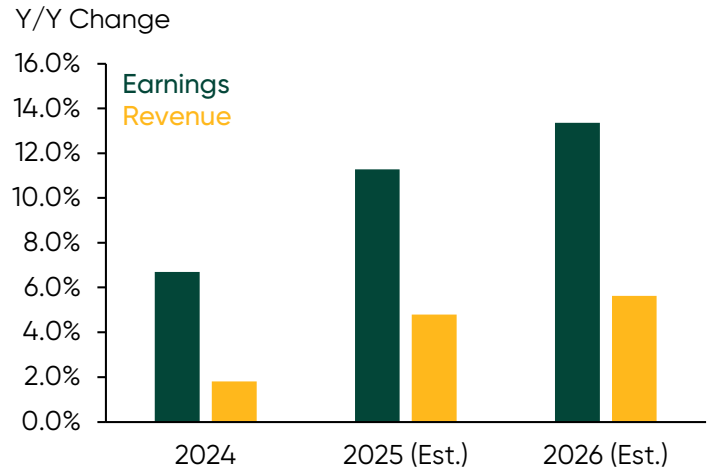


Source: FactSet, as of 02/01/2026.

Just two sectors' earnings—Communication Services and Energy—fell year-over-year, with Energy barely contracting (-0.5% y/y).^{xiii} Communication Services earnings' drop stemmed from a single social media firm paying a one-time, non-cash income tax charge of \$15.8 billion.^{xiv} Excluding it, the sector's earnings would have grown 12.0% y/y rather than contract -7.8%.^{xv} Like America, the MSCI World's earnings and revenue growth point positively, too. (Exhibit 7)

Longer-term estimates could always prove too sunny. Forecasts are fallible, but the opposite usually holds—they err too timid. For now, growth confirms stocks have been rationally pricing in profits. This isn't 2000, when everyone said it didn't matter that companies were burning through cash.

EXHIBIT 7: MSCI WORLD EARNINGS AND REVENUE GROWTH (CALENDAR YEAR)



Source: FactSet, as of 09/01/2026.

Other measures show corporations have plenty of fuel. Companies boast cash-rich balance sheets and are willing to invest and spend, with capital investment (capex) soaring again. (Exhibit 8, see next page) That can feed expansion and earnings from here. Cash-rich companies can deploy balance sheets to tap bond markets, funding investment without draining rainy-day coffers.

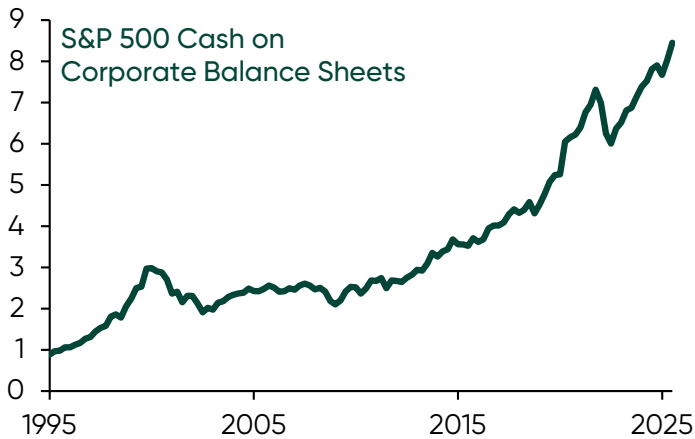
xiii Source: FactSet, as of 11/01/2026.

xiv "Earnings Insight for November 21, 2025," John Butters, FactSet, as of 21/11/2025.

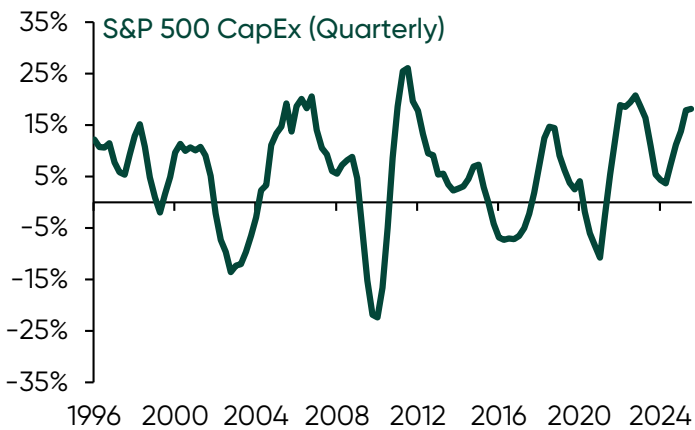
xv Ibid.

EXHIBIT 8: CORPORATE AMERICA IS FLUSH AND INVESTING

Trillions USD



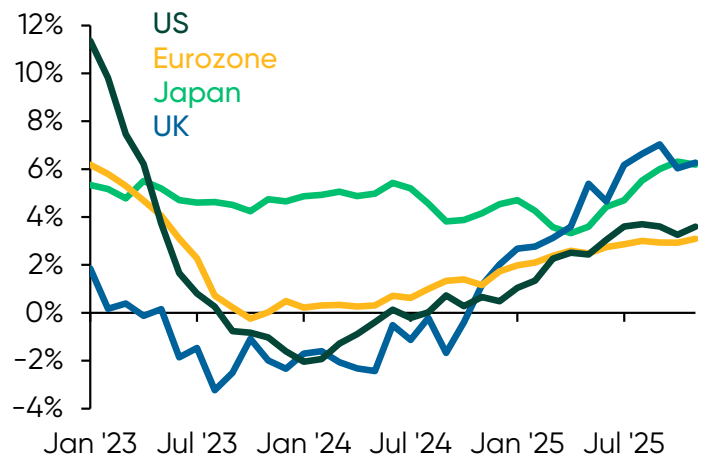
Y/Y Change



Source: FactSet, as of 09/01/2026.

EXHIBIT 9: BUSINESS LENDING IS PICKING UP WORLDWIDE

Y/Y C&I Loan Growth



Source: Macrobond, as of 12/01/2026. Commercial and Industrial loan growth, January 2023 – November 2025. US C&I loan growth adjusted to remove one-time effects from US Federal Reserve loan category reclassifications.

OVERLOOKED GLOBAL ECONOMIC FUNDAMENTALS

Economic sentiment is particularly dreary internationally. Canada and Britain remain on recession watch, and China “hard landing” talk persists. The griping gives the impression that the global economy is crawling, but modest growth continued in most of the developed world last year. (Exhibit 10, see next page) Expansion may not be gangbusters, but stocks don’t need gangbusters when expectations are so guarded.

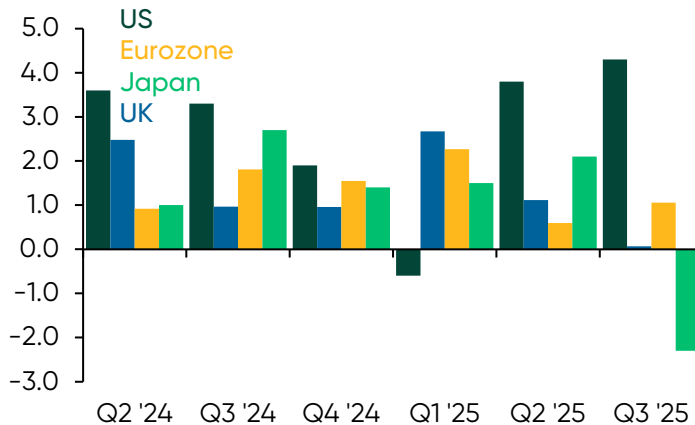
Major Emerging Markets also ended 2025 strong. Handwringing over China persists, especially after monthly industrial production and retail sales growth slowed. Yet the world’s second-largest economy met its 2025 GDP growth target of around 5%.^{xvi} India led the charge as Q3 GDP grew 8.2% y/y, accelerating from Q2’s 7.8%, thanks to services. (Though Indian stocks lagged dramatically, a reminder you can’t simply assume fast growth means big returns.) Not to be outdone, rising exports and improving private consumption bolstered Q3 GDP in Taiwan (8.2% y/y) and South Korea (1.8% y/y).

^{xvi} Source: FactSet, as of 01/20/2026.

Latin America's results were mixed, but Brazil and Mexico's services sectors grew in Q3, indicating resilient domestic demand. Brazil's monetary policy has also been an outlier, with the central bank tightening severely to fight inflation. That fight pinched growth but successfully tamed prices, which many expect clears the way for easing this year.

EXHIBIT 10: DEVELOPED WORLD CHUGGED ALONG DESPITE TRADE UNCERTAINTY

Annualized Growth Rate



Source: FactSet, as of 12/01/2026. Annualised GDP growth rates for the US, UK, Eurozone and Japan, Q2 2024 – Q3 2025.

The global economy will always have weak patches. Forward-looking indicators like a positively sloped yield curve suggest moderate growth continues in 2026, but that doesn't mean expansion will be universal. Yet it doesn't need to be. Isolated contractions in Japan and the eurozone last year didn't spin the global economy into recession or knock the bull market. The strong carried the weak along, as is normal in any expansion. When you take a broad snapshot, the global economy looks to be in good shape, a supportive backdrop for more bull market this year.

FATHOMING RISKS TO THE BULL MARKET

'WALL' OR 'WALLOP'

Bull markets typically end one of two ways: Atop the "wall" of worry in euphoria, when reality can't meet exuberant expectations. Or when "walloped" by an unseen, multi-trillion dollar negative. The dot-com bubble or Nifty Fifty exemplify the wall; FAS 157 in 2007 – 2009 (the mark-to-market accounting rule) or 2020's lockdowns illustrate the wallop.

Markets efficiently pre-price widely watched news—factoring them in rapidly and muting their ability to move stocks for long. Whether wall or wallop, the key is surprise—a huge, unpriced negative forcing a reality check.

In the wall, surprise unfolds gradually as disappointment over unattained expectations—for the economy, earnings or sales, for example—mounts. The surprise is that expectations become disconnected from reality. The Nifty Fifty was about investors, chiefly institutional investors, flocking to supposedly inflation- and recession-proof growth stocks, given outperformance in much of the 1968 – 1970 bear market—and the ensuing bull market. Unrealistic expectations toward these "one-decision stocks" teed up the ensuing deep bear market and recession. In 2000, high hopes of a new economy blinded folks to an inverted yield curve late, foretelling recession.

In the wallop scenario, the surprise is the unseen negative. 2020's unseen negative became apparent swiftly—lockdowns. Hence, markets' rapid decline and warp-speed recovery after they priced it in.

When assessing risks, we seek surprises. Not things dotting headlines commonly—the media helps defang and pre-price those for you. Today, such non-surprises would be fears over tariffs' delayed effects, potentially resurgent inflation, an economic downturn tied to faltering consumption, geopolitical concerns or a bursting AI bubble. We don't dismiss risks merely because headlines cover them. Even widely watched factors may stoke short-term volatility, but most are too widely discussed to shock stocks into a bear market.

Today, we see few wallop-sized surprises, but some could snowball and contribute to the next bear market, whenever that happens. We aim to weigh this correctly—but foretelling a market peak is folly.

RISK: MONETARY ERROR

Perhaps the most widely watched risk we think is real is monetary error, given a new Fed chair arrives in May—and Trump’s pushing for far lower short-term rates, which took a turn in mid-January, after the Fed revealed it was under investigation by the Department of Justice (DOJ). While that news garnered headlines, the near-term effects seem limited. One, it remains to be seen how this case plays out, as it could extend beyond May. But the initial reaction hints at the Fed digging its heels in on policy—rejecting politicisation. For stocks, the development was far from a surprise, considering Trump and Powell’s lengthy disagreements and arguments over both policy and the Fed’s office renovation—the ostensible subject of the investigation.

New Fed heads are usually much less consequential than pundits suggest. Policy rarely changes on a dime with their appointment. However, if whoever leads the Fed bows to political pressure and cuts rates aggressively, the chief near-term risk is economic overheating.

Steep short-term rate cuts could lift long rates markedly, perhaps oversteepening the yield curve. As we explained last quarter, long rates don’t move in lockstep with short—something few pundits acknowledge. The former are market-set and move largely on expected inflation. The latter are Fed-governed. Excessive Fed cuts may lift long rates—anticipating inflationary consequences. A sudden, sharp yield-curve steepening could induce a sugar high that overheats the economy and ultimately fuels the bubble many wrongly see today. Yet there are many reasons this looks unlikely. Most monetary officials have the same policy roots and views. Groupthink abounds.

Trump is reportedly considering National Economic Council Director Kevin Hassett, former Fed Governor Kevin Warsh, Fed Governor Christopher Waller and others. Whomever he picks, expectations for aggressive rate cuts abound. Most likely, the appointee rebukes this once confirmed—they can’t be fired on policy grounds, and Trump’s term expires before the new Fed chair’s.

Beyond this, the Fed chair doesn’t dictate monetary policy. The 12-member Federal Open Market Committee (FOMC) does. It includes the chair, the other six Fed governors, the New York Fed’s president and a rotation of four other regional Fed branch presidents. These branches appoint their own leadership, with approval from the Fed Board. President Trump plays no role. To get their way, Fed chairs have to be great persuaders—they need to understand the internal politics of the FOMC itself and be able to guide it.

Now, Trump can appoint Fed governors, but only one post is slated to open, the temporary spot he tapped Stephen Miran for last year. If Powell resigns following installation of a new chair, that would make two posts. And Trump has tried to fire Lisa Cook, a matter under Supreme Court review. If he succeeds, 3 of 12 voting seats would open to Trump nominees in 2026.

However, that isn’t guaranteed. Powell could remain on the Fed’s Board through 2028. His strong response to the DOJ’s subpoenas, which called out Trump, suggests he may choose to do so, becoming the second ex-chair to stay. The other, Marriner Eccles, stayed after President Harry S. Truman replaced him in 1948, often needling Truman. Powell may seek a similar role. If the Supreme Court denies Trump’s attempts to fire Cook, only one seat would open—Miran’s, which presumably becomes the new chair’s. Exhibit 11 shows the 2026 FOMC voters (see next page). All this, plus heavy media attention, makes us sceptical this risk is likely, but we don’t dismiss it.

EXHIBIT 11: 2026 FEDERAL OPEN MARKET COMMITTEE VOTING MEMBERS

Fed Board	Name	Term Ends?	Who/When Initially Appointed?
Chair	Jerome Powell	May 2026*	Trump, 2017
Governor	Michael Barr	January 2032	Biden, 2022
Governor	Christopher Waller	January 2030	Trump, 2020
Governor	Lisa Cook	January 2038	Biden, 2022
Governor	Michelle Bowman	January 2034	Trump, 2018
Governor	Phillip Jefferson	January 2036	Biden, 2023
Governor	Stephen Miran	January 2026	Trump, 2025

Voting Branches	Regional President	Appointment
NY Fed	John Williams	Appointed by each regional branch's board, with Fed Board of Governors input.
Cleveland Fed	Beth Hammack	
Minneapolis Fed	Neel Kashkari	
Dallas Fed	Lorie K. Logan	
Philadelphia Fed	Anna Paulson	

Source: Federal Reserve, as of 09/01/2026.
 *Chairmanship ends in May 2026 but could remain as governor through 2028.

RISK: SENTIMENT TURNS FROTHY

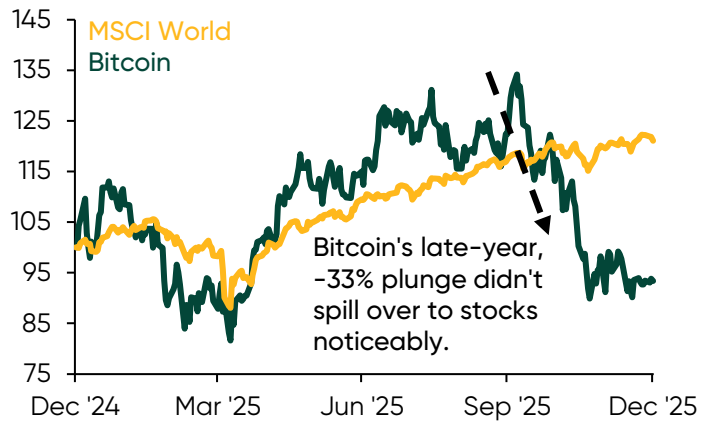
As noted earlier, we think sentiment has become optimistic in America, but it doesn't appear euphoric and scepticism prevails abroad. Pockets of froth emerging in an optimistic stretch—and deflating with little broad market fallout isn't uncommon. Crypto and crypto treasury stocks in 2025 are a good example. But if 2026 starts hot, sentiment could warm quickly. This could override the Midterm Miracle, as there would be much less political angst for the resulting gridlock to alleviate. Essentially, this could pull forward the Miracle's bullishness. Again though, euphoria isn't itself a bear market cause, it merely suggests vulnerability to negative surprise.

RISK: SPILLOVER FROM SPECULATIONS THAT BLOW UP

Another factor to watch: Fallout from imploding speculative assets—meme stocks, cryptos and others—could hit equities. An obvious link is companies like Strategy, a software company that refocused its business on acquiring bitcoin in bulk via preferred stock issuance a few years ago. This and similar “crypto treasury” stocks were hard hit alongside weakness in cryptocurrencies late in 2025. More broadly, people could be forced to sell to cover margin calls tied to speculations gone wrong. That isn't today—as late 2025 demonstrates, but it is on our radar.

EXHIBIT 12: BITCOIN'S SLIDE DIDN'T SINK STOCKS

Indexed to 100 at 12/31/2024



Source: FactSet, as of 09/01/2026. 31/12/2024 – 31/12/2025.

RISK: MISPRICING AND ILLIQUIDITY IN PRIVATE EQUITY AND CREDIT

The private investment funding pinch we highlighted last year remains a risk we are monitoring.

As we noted then, many see private assets as one-way tickets to high returns and low volatility, which is why many flocked to them in an attempt to beat 2022's hot inflation. But these presumptions are wrong, as 2025 further illustrated. This highlights some downstream risks. Low volatility is just illiquidity—a bug, not a feature. Their fewer pricing points—which often use dodgy methodology to determine investments' values—hide serious price fluctuations alongside broad market trends.

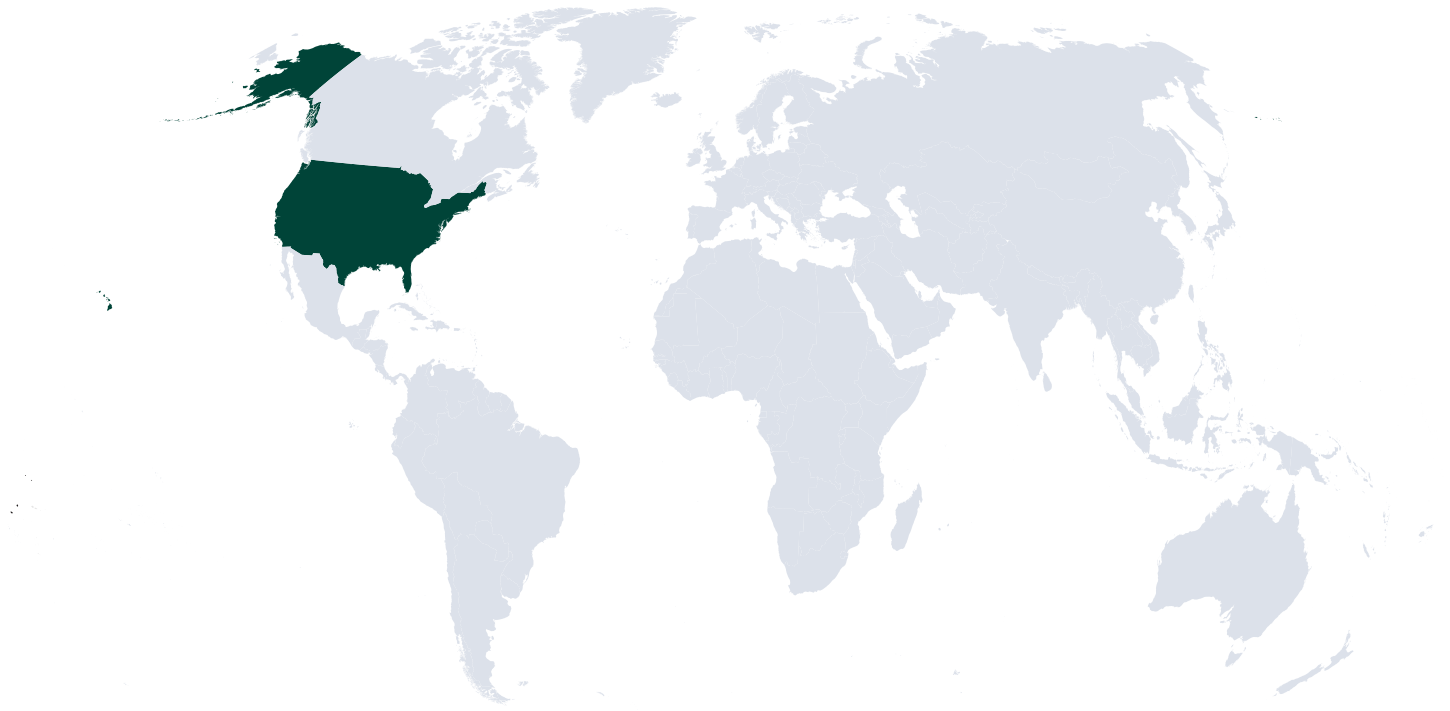
Lately, realised returns have been poor. Private equity firms struggle to raise capital and, with pricing not matching internal models, selling portfolio companies would lock in losses. Some private equity firms resorted to selling companies to “continuation funds” that lock investors' cash for longer. Other private equity and credit firms listed their funds as ETFs. But as *The Wall Street Journal's* Jason Zweig recently wrote, several had horrendous results, with their prices instantly falling –20% or –40% from pre-listing valuations.^{xvii}

xvii “When Your Private Fund Turns \$1 Into 60 Cents,” Jason Zweig, *The Wall Street Journal*, 19/12/2025.

Cash needs, not a democratic ideal of offering normal folks investment options previously available only to the elite, underpins industry lobbying. They are pushing for private investments in 401(k)s and easing rules governing access. Radio ads hype private options. It isn't happenstance this comes as institutions dial back exposure.

There is a direct risk: Investors who dabble in illiquid assets get hammered when reality differs from imagined values. But there is also an indirect risk. In a deep, traditional bear market that comes with a recession, private investments' illiquidity may magnify declines—and investors who need cash due to unforeseen circumstances may not be able to exit them. This could force selling of stocks, bonds or other listed, liquid securities. There is no sign of this so far—private assets' weakness hasn't bled into stocks. But we think something similar contributed to 2018's late-year correction, as hedge fund closures forced selling. It could happen again at a larger scale.

UNITED STATES COMMENTARY

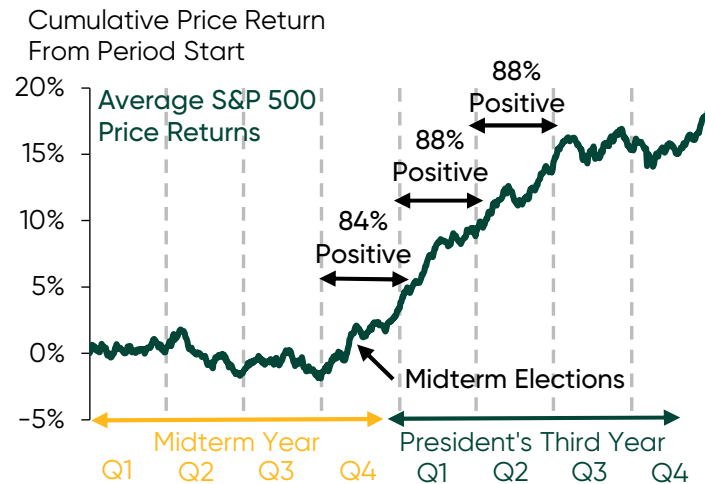


THE MIRACLE THAT SURPRISES EVERY FOUR YEARS

Politics are a 2026 wildcard. Midterm campaigning should quash Congress's will to legislate, bringing gridlock, historically supportive of stocks. When Congress doesn't do much, businesses needn't fear big change creating winners and losers. That fosters risk-taking and investment. Yet midterm years tend to be volatile early on, as campaign chatter heightens uncertainty. Simply, early on, candidates are most interested in securing their party's nomination and support, so they play to the base with extreme rhetoric. That spooks many, if not most, investors who are more centrist, stoking volatility. The result can be a frustrating grind, as Exhibit 13 shows (see next page). This doesn't necessarily mean negative. Exhibit 13 is an average, not a blueprint, and some bad years skew that average down. It also excludes reinvested dividends, a key part of total returns. But it illustrates the point: Midterm years can be rocky early.

Then the Midterm Miracle arrives. The president's party almost always loses seats in midterms, increasing bullish gridlock. The three quarters from the midterm year Q4 through year three's first half are historically among the presidential cycle's best, with a high frequency of gains and above-average returns. This phenomenon is unseen, as party bias blinds most to it, so markets don't price it in.

EXHIBIT 13: MIDTERM YEARS GRIND EARLY



Source: Finaeon, Inc., as of 04/08/2024. S&P 500 average price return, 31/12/1925 – 31/12/2023.

Abroad, politics are calmer, with few truly free or consequential elections. Denmark's election may generate noise if Greenland remains a talking point, but little else looms beyond that. In Japan, snap elections are now pending for 8 February, as new Prime Minister Sanae Takaichi aims to capitalise on her personal popularity and regain her Liberal Democratic Party's majority. But the fact they are a minority government is telling—the party's popularity is low, hit by scandals. This should prove difficult to overcome, delivering more gridlock and easing uncertainty.

Having few elections keeps uncertainty low with gridlock the icing on the cake. Contentious budget politics across Europe perpetuate disagreements and stall other legislative business to a standstill. The UK and France are prime recent examples. France's failure to pass a budget could collapse the government again, making this an area to watch, but markets have seen this play out repeatedly this decade, and risen. This saga is a big brick in the overseas wall of worry.

RESILIENT TRADE

After President Donald Trump announced broad tariffs, many presumed global commerce would hit a screeching halt. While tariffs are an economic negative—adding costs and friction for businesses and consumers—we believed their effects were overstated. That played out as tariffs faced legal challenges, countries made US trade deals, major trade partners largely refrained from retaliation and many expanded trade ties with one another—boosting trade outside America. Trump's threats to tariff some nations over their resistance to his approach toward Greenland have spurred fears anew, but they could easily prove overblown on similar grounds.

LEGAL CLARITY

The legal challenges to President Trump's tariffs are still pending, with the Supreme Court now expected to rule as soon as February. The justices seemingly expressed a good deal of scepticism over the legal basis allowing Trump to enact the tariffs unilaterally in November, but whether this hints at the final ruling remains unclear. Regardless, widespread media coverage and speculation on things like tariff refunds mutes surprise power should the court rule against the administration (which claims to be able to replace them on other legal justifications quickly). If the justices overrule the lower courts and keep the tariffs, this also lacks surprise power. Tariffs are a negative, but companies largely know what they are dealing with and can adjust.

DEALMAKING IS LARGELY DONE

US trade dealmaking had ups and downs in Q4. In October, Trump threatened to halt talks with Canada over an anti-tariff US television ad produced by Ontario's government—an example of harsh rhetoric spurring short-term fear. America's agreement with the UK also stumbled after Trump paused talks on a related Tech investment deal, accusing Britain of stalling on agricultural trade barriers and reforming its digital service tax.

But positively, Switzerland reached a deal lowering US tariffs on Swiss goods from 39% to 15%—taking Switzerland from one of the highest tariff rates to the EU's rate. While some uncertainty lingers, preliminary dealmaking is largely complete, and the world is moving on.

AN UPDATE ON SCENARIO FOUR

A fourth scenario emerged last year in the wake of the US tariff announcements: Countries and regions struck deals among themselves in response, rebuking protectionist fears. The EU reached agreements with South American trade bloc Mercosur, Mexico and Indonesia—and continues negotiating with India, Thailand and Australia. India and Australia are pursuing their own deal. The UK finalised a free trade pact with South Korea in December and is close to another with the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). Despite deglobalisation and tariff retaliation concerns, trade outside America has become freer. This isn't a near-term boost to growth rates. Such deals take years to hit the real economy. But from a sentiment perspective, the positive surprise here seems clear.

WHAT THE DATA SAYS

Data show the global economy's resilience, too. US tariffs pulled trade forward as businesses front-ran implementation—leaving a pothole—but growth has resumed. For instance, China's exports slowed in Q2 amid Liberation Day uncertainty, then reaccelerated—notably to Southeast Asia, which may reflect transshipping as businesses rerouted goods to avoid the largest tariffs.

Global tech hubs Taiwan and South Korea also show trade's resilience. America and China are top export destinations, but they alone aren't propping up trade. Taiwanese and Korean exports to their next five largest trade partners mostly grew last year—a reminder global commerce feeds global growth (and earnings).

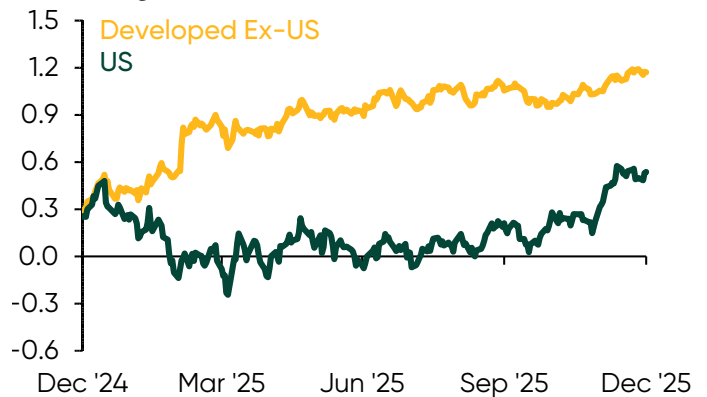
A STEEP YIELD CURVE

Battles over central bank independence and obsession with Fed Chair Jerome Powell's replacement dominate headlines. However, this overshadows the positive yield curve. The yield curve plots government bond yields, arrayed left to right from short-term yields to long-term. When long rates exceed short, the yield curve is steep. Banks' core business is to borrow short term to fund long-term loans, so the spread between them influences new lending's profitability. The wider the spread, the more banks earn on new loans—incentive to lend more enthusiastically, which fuels investment and growth.

Yield curves globally are steeper today than at 2025's start. Moreover, the non-US developed world's yield curve is steeper than America's—particularly beneficial for the UK and Europe, where businesses rely more on bank lending than American firms (which can more easily tap capital markets). (Exhibit 14)

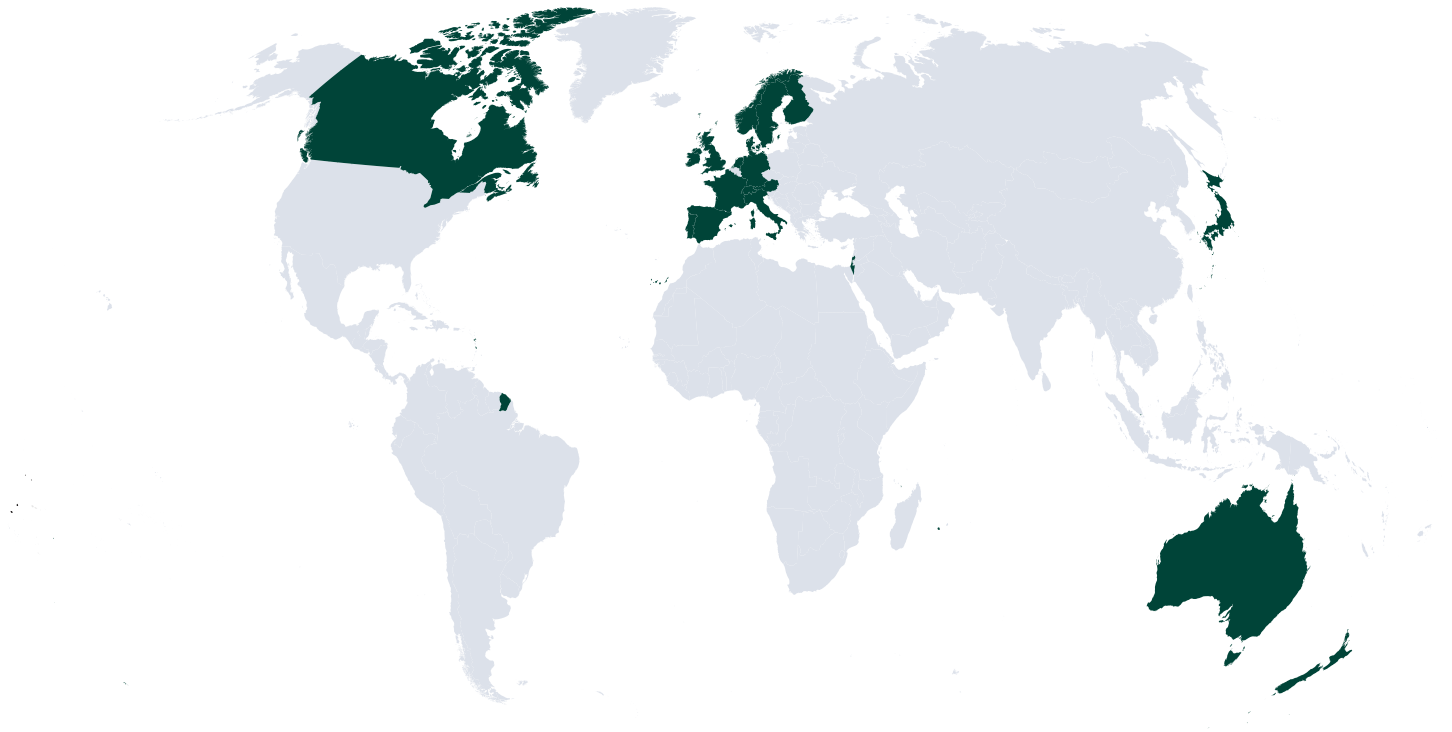
EXHIBIT 14: WIDER YIELD SPREADS OUTSIDE THE US

10Y – 3M Yield Spread
(Percentage Points)



Source: Macrobond, as of 09/01/2026. US and GDP-weighted developed markets excluding US government bond yield spreads (10-year minus 3-month), 31/12/2024 – 31/12/2025.

GLOBAL DEVELOPED EX-US **COMMENTARY**



CANADA DATA ARE MIXED, BUT ITS STOCKS POINT THE WAY

Canada's Q3 GDP rebounded 2.6% annualised, helping relieve lingering recession concerns after Q2's -1.8% contraction.^{xviii} Below the surface however, the read was more mixed. Household expenditures fell -0.7% annualised, which looks like tariff skew after Q2's strong 4.3%.^{xix} The main driver: Canadians' purchases of durable goods (mostly cars) dropped -4.6% annualised following Q2's 4.2% and Q1's -4.9%—a flip-flopping pattern related to Canada's retaliatory automobile tariffs.

Services spending, however, rose 0.7% annualised, which is likely a better consumer barometer. That isn't anything gangbusters, but its steady growth suggests Canada's main economic segment isn't buckling. Business investment also rose 0.2% annualised. While essentially flat, it was an improvement after two straight quarterly contractions. Trade contributed the most to growth, adding 3.1 percentage points to headline GDP as exports rose marginally, 0.3% annualised, after Q2's -25.1% collapse, and imports fell -8.6%, echoing Q3's weak auto demand. While these data are old and backward-looking, they suggest a more resilient backdrop than many originally feared.

xviii Source: FactSet, as of 09/01/2026.

xix Ibid.

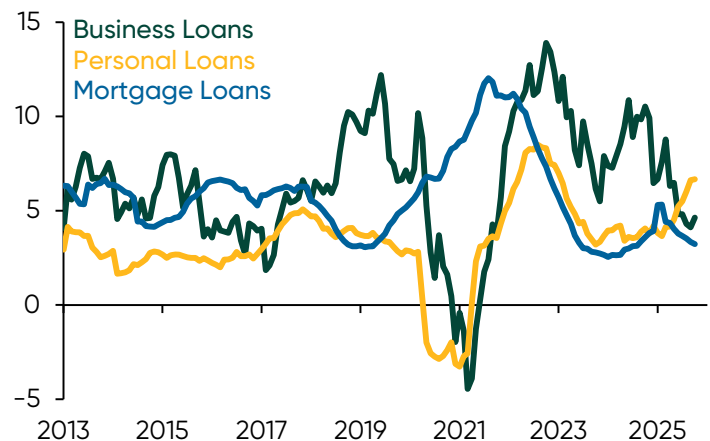
Also underscoring underappreciated resilience: employment. Now, here too, these data are late lagging. Employment is an aftereffect of earlier economic growth, as companies' hiring decisions reflect their past business conditions. Because productive workforces take considerable time, effort and resources to train up to proficiency, firms are usually reluctant to hire and fire. Generally speaking, payrolls expand only when businesses are unable to keep up with demand otherwise—and contract as a last resort if demand fails to materialise—which is why labour indicators trail the business cycle.

However, many still feared vast layoffs hammering consumption after weakness in July and August payrolls saw the unemployment rate rise. Four straight months of job gains to close the year quelled fears and reversed the unemployment rate's climb. We think July's and August's declines were likely lagging consequences of the springtime uncertainty—and payrolls' ensuing rise a late signal of the subsequent relief. Fear of recession and spiking unemployment last summer speaks to sentiment becoming excessively dour in Canada.

Forward-looking indicators, more meaningful to stocks, point to further growth ahead. Tied to the country's steep yield curve, Canadian banks accelerated (non-mortgage) personal loan growth to 6.7% y/y, while mortgage and business lending grew 3.3% and 4.6%, respectively, through October.^{xx} Overall, the pace of bank credit is running about 4% y/y. While not historically high, less than half post-pandemic peak rates upon reopening, it is in line with prepandemic rates, signaling the return to normal—and ongoing economic growth—which is just fine for markets. This better-than-appreciated backdrop is likely why Canadian stocks boomed last year and finished 2025 near all-time highs.

EXHIBIT 15: CANADIAN BANK LENDING FUELS FUTURE EXPANSION

Y/Y Percent Change



Source: Bank of Canada, as of 09/01/2026.

Earlier this month, trade talks between Canada and China led to a preliminary agreement between the two nations. The agreed upon deal would lower tariffs on Canadian canola oil from 85% to 15%, while Canada will reduce tariffs on a limited number of Chinese electric vehicles to 6.1%, down from 100%. Following the announcement of this agreement, Trump threatened to impose a 100% tariff on Canadian goods if a free trade deal is reached with China. However, Carney later clarified that the agreement was intended to rectify recent issues facing specific products, and that the country has no intentions to pursue a free trade agreement with China.

AUSTRALIA ON SOLID ECONOMIC FOOTING

Australia's Q3 GDP rose 0.4% q/q, extending its unbroken growth stretch since 2021.^{xxi} This expansion was impressive not only in length, but breadth, as all GDP components contributed. The main private sector ones reflecting domestic demand: Household consumption rose 0.5% q/q, residential investment 1.8% and business investment 3.2%.^{xxii} The latter was especially noteworthy, as it came off a two-quarter flat stretch (unchanged and 0.1% q/q in Q1 and Q2, respectively).

xx Source: Bank of Canada, as of 09/01/2026.

xxi Source: FactSet, as of 09/01/2026.

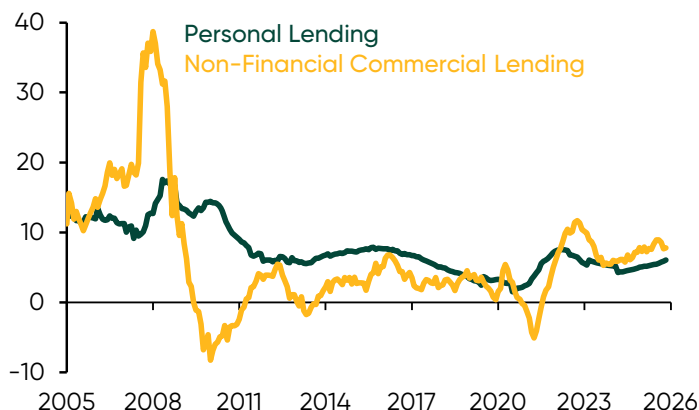
xxii Ibid.

While nice, Q3 data are increasingly stale. More timely is the Australian purchasing managers' indexes (PMIs), which stayed above 50 to end 2025—December's manufacturing PMI stood at 51.6 and the services PMI at 51.1—indicating growth likely held up in Q4.^{xxiii} The Australian services PMI's forward-looking new orders were particularly encouraging. "New work inflows expanded at a rate that was solid and the quickest in three months on the back of more favourable demand conditions and rising customer numbers at the end of the year. Greater client interest from abroad also supported another expansion in new export business in December."^{xxiv}

Moreover, Australia's private sector credit is trending upward, too. Household loans rose 6.0% y/y in November, the fastest since 2022, while business loans gained 7.8%.^{xxv} Credit circulation appears healthy and points to continuing growth.

EXHIBIT 16: RISING CREDIT SUPPORTS FURTHER GROWTH DOWN UNDER

Y/Y Percent Change



Source: Reserve Bank of Australia, as of 09/01/2026.

FALLING POLITICAL UNCERTAINTY IN THE UK SHOULD BOOST STOCKS INTO 2026

UK politics had an eventful Q4, culminating in late November's Budget, but the primary result is falling uncertainty that should bullishly carry into 2026.

After months of Treasury leaks and trial balloons, Chancellor of the Exchequer Rachel Reeves unveiled a largely surprise-free Budget on 26 November. Whilst it extended the income tax band freeze through the 2030 – 2031 tax year and raised dividend tax for Higher and Additional Rate payers by 2 percentage points, these were widely expected, as were the property and savings income tax hikes and the council tax surcharge for properties valued over £2 million. Crucially, measures telegraphed earlier in the autumn, including an income tax rate hike, didn't make the final cut. While the Budget did raise taxes, it was less draconian than feared, delivering another round of positive surprise for UK stocks.

Stocks don't move on whether taxes or other policies are "good" or "bad," which we think is always a matter of opinion anyway. The swing factor is how reality shapes up relative to expectations. In Britain, where expectations remain low, results one might consider "just ok" or "not as bad as it could have been" can deliver positive surprise.

We see this unfolding in Britain across a range of topics. The watered-down Budget is one. The parallel amendments to the prior year's inheritance tax changes, which risked sweeping up family farms, are another. Raising the tax threshold for agricultural property from £1 million to £2.5 million (effectively £5 million for married couples) won't have a sweeping affect on tax revenue or economic growth, considering the agricultural sector's small footprint in GDP. But it eases uncertainty and one deep source of socioeconomic angst, helping sentiment improve. January's partial climbdown on the Budget's Business Rates changes that risked hollowing out the hospitality sector are another. Headlines frequently cast these as embarrassing U-turns for the government, but that is a sociological perspective, which markets tune out. The simple fact of reality shaping up better than feared is generally all stocks need—and the government's trial balloons, warnings and subsequent U-turns help deliver that.

xxiii Source: S&P Global, as of 05/01/2026.

xxiv Ibid.

xxv Source: Reserve Bank of Australia, as of 09/01/2026.

Looking ahead, we see potential for uncertainty to continue falling. Reeves has worked with the Office for Budget Responsibility (OBR) to amend the Budget process such that the Spring Statement is no longer a fiscal policy event. Should this hold, it takes the UK from two annual events stirring economic policy uncertainty to one, which should give businesses more breathing room. Additionally, it is possible Reeves built enough fiscal headroom into this Budget to negate the need for further austerity forced by OBR deficit forecasts for the foreseeable future. If so, it would eliminate the tension between OBR forecasts and the government's statutory requirement to balance budgets within five years that triggered a lot of the austerity angst last year to begin with. This would ease the pre-Budget uncertainty that hung over business investment in Q3, giving businesses more latitude to take risk.

Budgets aside, most of the political conversation this year is focusing on personalities and parties jockeying for position ahead of the next general election. While this steals headlines, we doubt it means much for markets. Labour leadership rumors are old news at this point, as is MPs' defecting to Reform. An actual Labour leadership challenge remains a wildcard, but deep divisions within the party should sow continued political gridlock regardless of whether Prime Minister Keir Starmer remains in office. People have a hard time seeing gridlock's bullish power, but markets are very good at pricing what people don't consciously fathom.

NEW PRIME MINISTER, SNAP ELECTION AND STIMULUS: INSIDE JAPANESE MARKETS ENTERING 2026

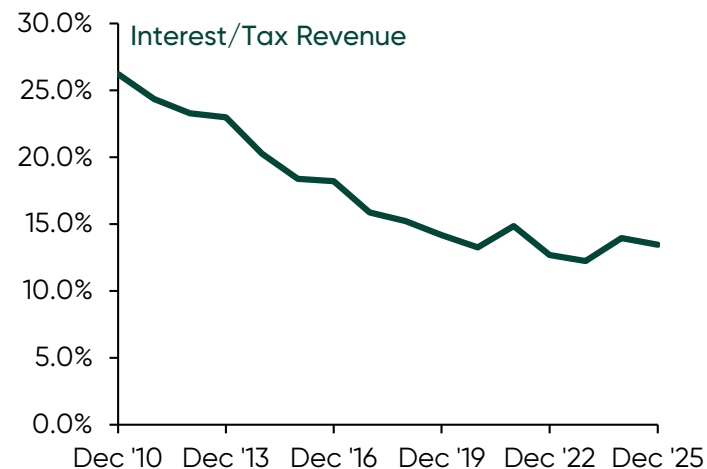
Japan's eventful politics renewed debt fears in Q4, with jitters carrying into 2026 after new Prime Minister Sanae Takaichi called a snap election on 8 February, in hopes of retaking a majority for her Liberal Democratic Party (LDP). Counterintuitively, this also sparked optimism for stocks, allegedly rekindling the "Takaichi trade" that some argue lifted Japanese markets late last year. We think both can be attributed to sentiment, with Japan's fine fundamentals likely asserting themselves as 2026 rolls on.

Currency and debt fears stem from the same factors driving enthusiasm for Japanese stocks: hopes for broad fiscal stimulus. On the equity side, many see this as fuel for investment and returns. But on the bond side, it raises deficit fears and worries that rising interest rates as the Bank of Japan (BoJ) hikes rates will make Japan's "lofty" debt more difficult to finance. December's supplementary budget—a modest package of household assistance and business investment incentives—is supposedly the tip of the iceberg should the LDP win a majority, with rising long-term interest rates signaling faster inflation and troublesome deficits to some. The implication: Stocks' enthusiasm is premature, with rising debt and rates a mounting risk to returns.

We think these fears are overdone, and not just because polls indicate winning a majority is a tall order for the LDP. While Takaichi and her cabinet poll well, the LDP has yet to recover fully from the recent fundraising scandals. Even if it does manage a majority in the lower house, it lacks one in the upper house, so legislation will likely continue requiring compromise and negotiation, just as the supplementary budget did.

Regardless, Japan's debt problems are overstated. While the absolute amount of debt outstanding is high, that alone doesn't indicate whether debt is sustainable. Nor do popular measures like the debt-to-GDP ratio. Debt is an accumulated amount, while GDP is the annual flow of economic activity, making comparing them a "stock/flow mismatch." What matters most is whether the government can continue servicing debt by paying interest due bondholders, making interest payments and tax revenues the relevant points to compare. As Exhibit 17 shows, Japan's interest costs as a percentage of tax revenue are actually down in recent years, despite rising debt (see next page). Notably, interest costs were a smaller share of tax revenues in 2025, despite rising rates (which affect only newly issued debt). That indicates Japanese debt is becoming less of a problem, not more, rendering fears false.

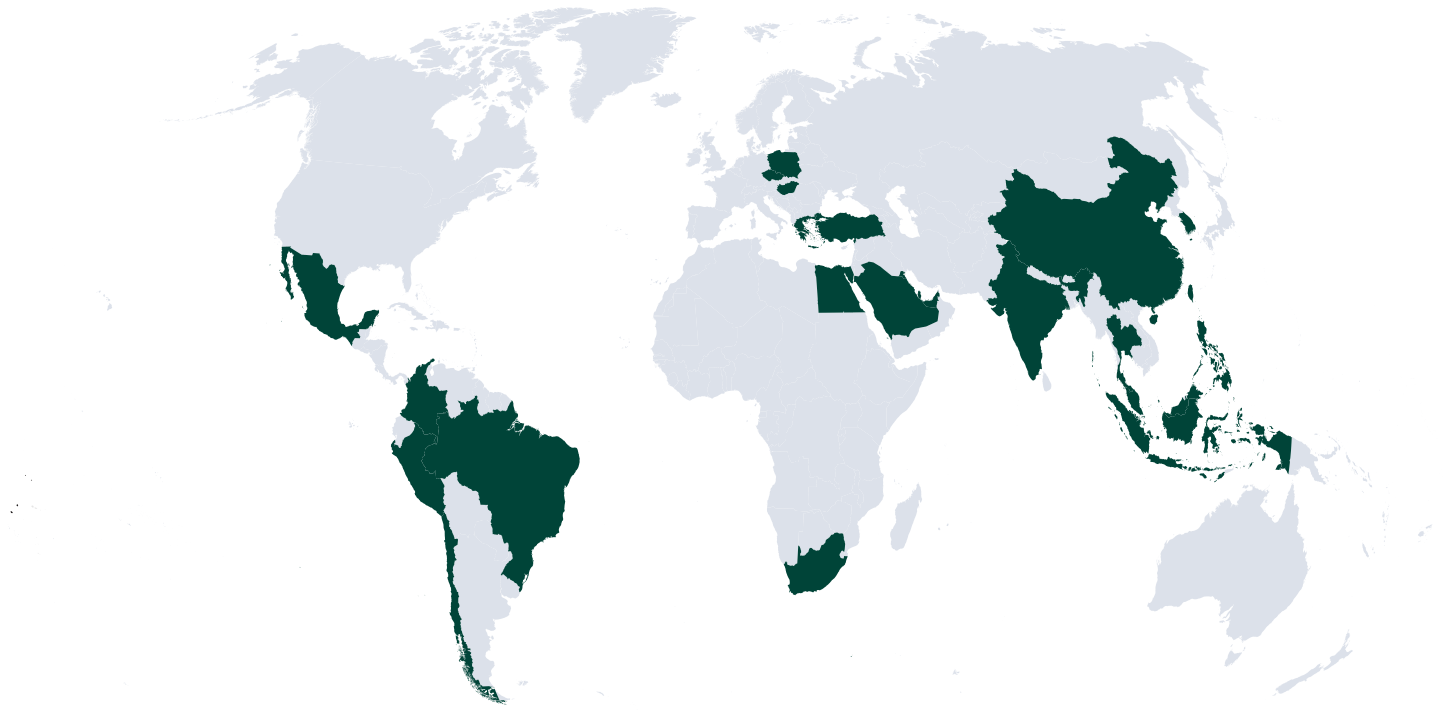
EXHIBIT 17: JAPAN'S INTEREST PAYMENTS AREN'T BREAKING THE BANK



Source: FactSet, as of 20/01/2026.

Rising long-term interest rates also carry a silver lining, as they help Japan's yield curve steepen even as the BoJ continues hiking. This promotes more lending, as banks borrow at short-term rates and lend at long-term rates, with the spread representing their profit on new loans. These larger "net interest margins" are an incentive to lend more enthusiastically, giving the economy more fuel. We think this is a stronger tailwind than last year's investment tax incentives, which tend to shift the timing of planning investments rather than create new projects out of whole cloth. More abundant financing gives businesses more resources to plough into new facilities, research projects and other long-term initiatives that foster continued economic growth.

EMERGING MARKETS COMMENTARY



TARIFFS AREN'T STOPPING EMERGING MARKETS TRADE

Last year was dominated by trade uncertainty, with many tariff rates far higher than a year ago—a clear negative for the global economy. However, in part due to US tariffs, Emerging Markets were busy inking trade deals in Q4. These agreements seemingly show a gradual move toward clarity and reveal how reality is turning out better than expected.

On the bilateral front, America's one-year trade "truce" with China on 30 October, which lowered its fentanyl-related tariffs by -10 percentage points and brought the overall tariff rate to 47%. In exchange, China suspended rare earths export controls and resumed US soybean purchases. President Donald Trump also noted more easing could follow, should China cooperate on policing fentanyl components' shipping to America.

In our view, this shows that the Trump administration's threat of 100% tariffs on Chinese imports was largely a negotiating tactic—relieving many fears.

Uncertainty hanging over South Korea fell as it reached an 29 October US trade deal months after its initial July framework agreement to "invest" \$350 billion in America. The breakdown: \$150 billion in shipbuilding and another \$200 billion on terms similar to Japan's deal—which may consist of loans and loan guarantees—with a \$20 billion annual cap. Hence, should this deal play out as outlined, it stretches out over many years. And since this is only a memorandum of understanding, it isn't legally enforceable. While it sets the stage for more concrete "commercially viable" projects, their exact terms are still to be determined. While Korean automakers currently receive 15% US tariff rates, Trump recently threatened to raise tariffs to 25%, citing Korea's failure to fulfill the commitments of the trade agreement.

Malaysia—and non-EM Cambodia—also struck trade deals broadening exemptions to the US's 19% tariff rates on 26 October. Malaysia agreed to make \$70 billion in US investments, lower trade barriers to US goods and buy more from America, including aircraft. Along similar lines, Thailand (and non-EM Vietnam) also agreed to framework agreements with America—deals to make deals—but they still leave further details to be hammered out.

Brazil got a sentiment boost when the US removed tariffs on hundreds of Brazilian agricultural products, including beef, bananas and coffee. On 14 November, Trump signed an executive order canceling America's 10% reciprocal tariff on food imports from Brazil. Six days later, Trump eliminated the remaining 40% tariff he originally levied on those items in July, citing the prosecution of former Brazilian president (and Trump ally) Jair Bolsonaro. This was two weeks after Brazil's Supreme Court rejected Bolsonaro's appeal challenging September's 27-year prison sentence for his attempted coup, which he started serving 25 November. Again, tariffs seem like negotiating leverage, disposable when their purpose is played out.

The US wasn't the only country inking EM trade deals. On 28 October, Beijing signed an upgraded free trade agreement with the 11-member Association of Southeast Asian Nations (ASEAN), China's largest trading partner, highlighting how freer non-US trade is unlocking opportunities worldwide. The China-ASEAN deal—aka "CAFTA 3.0"—is the culmination of three years of talks to shrink trade barriers further, integrate their supply chains and boost economic cooperation and growth by improving market access in areas like agriculture, digital services and pharmaceuticals. Since CAFTA's first iteration in 2010, annual China-ASEAN trade has ballooned from under \$200 billion to almost \$1 trillion last year, and their commitment to more bodes well for future growth.

Lastly, after more than 25 years of negotiations, the EU and Mercosur (the South American trade bloc) reached an agreement in late 2025—the EU-Mercosur Partnership Agreement (EMPA)—which they signed in early January. Billed as one of the world's largest free trade zones, it will encompass over 700 million people and around a quarter of global GDP. Though smaller than the Asia-Pacific Regional Comprehensive Economic Partnership (RCEP), covering 15 countries and about 30% of global GDP, it is closer to an actual free-trade deal. The RCEP did little to reduce tariffs and other trade barriers. By contrast, the EU-Mercosur deal—if ratified—would remove more than 90% of duties on each other's imports over the next decade-plus, including on cars, machinery, pharmaceuticals, raw materials and agricultural products. Besides goods, the deal also facilitates trade in services, streamlining legal and regulatory requirements, cross-border travel and digital commerce.

Now, the EMPA won't be enacted anytime soon. It still requires approval from EU and Mercosur members' parliaments, which could take years. But as the latest of many free-trade agreements signed last quarter show, large swaths of the world are rejecting protectionism in favour of free-flowing, rules-based trade.

This comes after a flurry of earlier deals in 2025, like the India-UK Comprehensive Economic and Trade Agreement, EU-Mexico Modernized Global Agreement and Indonesian deals with the Philippines, Peru, Canada and the EU, as well as the European Free Trade Association's deals with India, Malaysia and Mercosur. While these won't sway near-term growth and the threat of protectionism is a very real negative—US tariffs are at their highest in decades—this suggests that the fear of descending into a newly fractured global economy went too far.

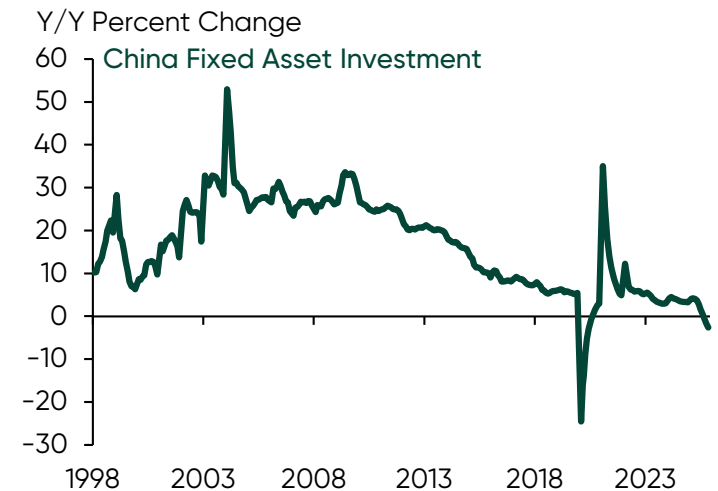
CHINA'S UNDERAPPRECIATED SERVICES TRANSITION

Chinese GDP continued muddling through as 2025 ended, with growth steady around its 5% target. That, though, hasn't quelled concerns its economic prospects are dimming and the country potentially faces collapse. A closer look, however, shows China likely keeps defying hard-landing expectations.

Q3 GDP rose 4.8% y/y, slowing slightly from Q2's 5.2%.^{xxvi} That still leaves year-to-date GDP through Q3 up 5.2% y/y—on track to meet the government's full-year goal. Output composition further reveals China's underlying strength. Q3 tertiary (services) production rose 5.4% y/y, secondary (manufacturing) 4.2% and primary (mining) 4.0%, continuing the longstanding trend of higher-value-added economic activity growing faster. The popular narrative that China's economy hinges entirely on manufacturing (though progressively more advanced) is increasingly outdated.

We think this turns the tables on overcapacity fears and deflation. Newly erected trade barriers last year supposedly exacerbate alleged problems with China's state-led growth model, which has historically promoted excessive production, malinvestment and limited failures, promoting social stability over economic effectiveness. Many view tepid government stimulus as inadequate to the task of addressing such weakness. Critics point to Chinese fixed asset investment (FAI) worsening to -2.6% y/y in the January – November period, likely bringing its first annual decline in decades (outside pandemic lockdowns).^{xxvii} But given policymakers' prevailing plan for services to take over as the economy's main engine, as Q3's GDP composition suggests, FAI's downturn appears deliberate to us—and benign.

EXHIBIT 18: FAI FALLING



Source: FactSet, as of 09/01/2026. Accumulated growth of FAI, January-February 1998 – November 2025.

Property and factory gluts have been a well-known plague on the economy for years. Chinese authorities even have a name for it: *neijuan*, or “involution,” meaning value-destroying overproduction. A reduction in excess capacity—curbing involution—which declining FAI entails, aims to fix this. Rather than viewing this as a sign cracks are forming in the Chinese economy, we see culling wasteful investment as an effort to put it on a more solid foundation. Services, though not immune to business cycles, are much less prone to boom and bust. That has been the experience of developed world economies for decades—and apparently a lesson China is internalising.

xxvi Source: FactSet, as of 09/01/2026.

xxvii Ibid.

Entering 2026, we also see services' growth tilt playing out in China's purchasing managers' indexes (PMIs). While official PMIs reflect no major industry divide (perhaps a function of their focus on large, state-run firms), RatingDog's private-sector oriented PMIs reveal a more pronounced spread. Its December services PMI rose to 52.1.^{xxviii} Since readings over 50 indicate expansion, this suggests more nimble services-sector enterprises enjoyed growth then on net. Moreover, this looks set to continue in the new year, as RatingDog noted brightening order flows: "Higher new business contributed to the sustained expansion in services activity. According to panelists, promotional activities and greater customer interest supported the latest upturn in sales."^{xxix} All in all, Chinese services appear in fine shape and more upbeat than its manufacturing PMIs (official and RatingDog's) imply, with both reading 50.1 at yearend.^{xxx}

Since 2016, the majority of China's economic makeup has been services. While industrial output is still significant at 36% of GDP, services' share has risen to 56% and is gaining.^{xxxi} However, even as it has become the economy largest sector, helping insulate it from manufacturing's cyclical swings, such steadier growth doesn't seem to be broadly appreciated yet.

EMERGING MARKETS EUROPE

While market expectations for Emerging Markets Europe have improved, they remain largely sceptical, reflecting persistent tariff uncertainty, rising stress from budget negotiations, and perceived economic stagnation. However, we believe reality should prove better than feared as markets remain adaptive to tariffs, and European economic data continues to show unexpected resilience.

EM Europe mainly consists of value-oriented companies, a category we believe is positioned to do well in the current market environment. EM European Financials are particularly well positioned to outperform, due to quality bank balance sheets and a favourable yield curve environment. EM European banks have never been in better shape to weather financial stresses, with record capital levels as well as some of the best asset quality in generations. Additionally, unlike several EM central banks that have shifted to a more hawkish monetary stance to fight persistent inflation, EM Europe has remained dovish. Poland surprised markets with a rate cut in May, and Greece continues to benefit from continued ECB easing. Yield spreads across EM Europe continue to widen, proving a tailwind for credit growth and Financials outperformance.

Further, underappreciated economic adaptability to tariffs should also yield a tailwind for the trade-sensitive regions like Poland and Greece. Trump's "America First" policy is driving greater trade collaboration among non-US nations, which is resulting in more global trade, despite US-led tariffs. The expansion of these non-US free-trade agreements continues to allow EM European countries to capitalise on comparative advantages and specialisation of labour.

xxviii Source: S&P Global, as of 05/01/2026.

xxix Ibid.

xxx Source: S&P Global, as of 31/12/2025.

xxxi Source: FactSet, as of 09/01/2026.

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