

Outlook & Convictions

Private Banking #15



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Outlook & Convictions

Private Banking #15



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Editorial



Nicolas Bickel
Group Head of Investment
Private Banking & CIO

At first glance, the continued rise in equity indices in 2025 may suggest that the markets have had a tranquil and untroubled year. Most regions posted double-digit performances, many of them well above their historical average. But behind this positive image, it has been a turbulent year, owing to geopolitical tensions, successive policy announcements by the US administration, and questions over tech sector valuations. In reality, this global view conceals major disparities in terms of geographies, sectors and factors, ultimately painting a less idyllic picture than that suggested by annual performance alone.

First of all, some sectors have posted strong performances while others have had a more mixed year. The tech sector has delivered excellent performances since the beginning of the year, but the consumer staples sector has merely inched up. Despite hopes that their performance would extend to other sectors of the economy, the “Magnificent Seven”¹ have so far contributed nearly 45% of the performance of the S&P 500. As a result, the ten largest stocks now account for 40% of the index’s market capitalisation, compared with the previous peaks of just over 25% in 2000 and 30% in 2021.

The opposite is true in Europe, with the “bottom” 590 stocks of the Stoxx 600 outperforming the ten largest capitalisations. This reversal in the contribution of large companies to the total change in the index can be attributed largely to the luxury sector, which has slowed sharply

this year. Geographically speaking, certain regions had somewhat of a mixed year, but almost all of them delivered robust performances, including the Japanese Nikkei and the Hong Kong HSI.

Contrary to what one might think, performances in 2025 have not been generated solely through the increase in the valuations of tech or AI leaders. Although the 12-month forward price-to-earnings (P/E) ratio of the top 10 S&P 500 stocks is currently 29x, compared with an average of 21x over the last 30 years, it is 20% above the historical average for the other 490 companies. With a P/E ratio of almost 22x, the US flagship index has reached a 20-year high. This performance results in part from steady growth in sales and profit margins over several decades. This upward trend was demonstrated once again by third-quarter earnings reports in the United States, with average operating profit up for the 11th consecutive quarter. Although the US attracts a considerable share of investor flows, this is not a country-specific issue. The P/E ratio is now also higher than its 20-year average in all major regions, having been lower than or in line with the average at the beginning of the year in Europe, Japan, China and emerging markets.

The proportion of US equities in the MSCI All Country World Index is now 71%, nudging its all-time high. US exceptionalism is still very much the case, and there is no indication that this phenomenon will fade in 2026. Despite the restrictions imposed by the Trump administration, productivity in the United States is nearly 30% higher than in Europe, labour market regulation is much more flexible, population growth is higher, a larger share of household savings is invested in equity markets, and energy costs are two to three times lower than in Europe. These factors, as well as the overwhelming dominance of AI and technology, are just some reasons why the US stands as a driver of global growth. In this respect, the discount of the MSCI World ex-USA relative to the S&P 500 has reached -34%, compared with a 20-year average of -19%, and relates to all sectors, particularly consumption, financials and technology.

Major divergences in factor performance are also at play in the markets. Since 2023, growth stocks in the US have posted higher earnings growth than value stocks, reversing the trend of 2021 and 2022.

The rise in commodities has also been a highlight in 2025. The MSCI index, which tracks commodities on an equal-weighting basis, has gained over 25% since the beginning of the year. This comes at a time when the US Federal Reserve has embarked on a rate-cutting cycle despite the absence of a significant economic slowdown, which lends solid support for real asset growth.

¹ Alphabet, Amazon, Meta, Apple, Microsoft, Nvidia and Tesla, whose share in market capitalisation has skyrocketed in recent years.



Gold rose spectacularly in 2025. Looking beyond the simple price increase, the precious metal surprised in its correlation with the upward trend in equities. Gold is defying the laws of gravity, up almost 60% since the beginning of the year and 120% since the end of 2022. The blocking of access to Russia's dollar reserves has triggered central banks' appetite for gold, which is part of a broader trend of de-dollarisation in many countries (and emerging countries in particular) that is expected to continue in 2026.

The year has also been marked by significant changes in sovereign debt and the credit market. The debt of developed countries has soared since 2020 and continued to do so in 2025, creating waves on the bond markets. One consequence of this trend is the increase in the cost of U.S. debt, with interests amounting to 4% of US GDP, or almost \$1 trillion, outstripping the country's defence budget. In Europe, with the exception of France, the debt-to-GDP ratio has fallen since the peak in 2021 but may well begin to grow again with the implementation of European infrastructure and rearmament plans.

Credit premiums fell to their lowest levels in 15 years, particularly in the United States. This compression in spreads is reflected by the minimum spread of just 2.1% between low- and high-quality corporate bonds, compared with an average of 3.50% since 1994. This results in part from greater mistrust of sovereign bonds, given the increase in public deficits, and from healthier corporate balance sheets overall.

Another key development in 2025 has been the increasing adoption of cryptocurrencies by institutional investors. Donald Trump's return to power has been a driving factor in this respect, with the US president saying he wants to make the US the world's cryptocurrency capital. Measures announced by the US administration include the establishment of a strategic Bitcoin reserve, the authorisation for US retirement savings accounts (401k) to invest in cryptocurrencies, and the appointment of industry-friendly representatives at the head of the various agencies responsible for supervising the asset class. With a capitalisation now exceeding \$3 trillion, cryptocurrencies have become an increasingly important alternative asset, though investor take-up remains limited owing to their volatility and high correlation with tech stocks.

Numerous events could upend certainties and surprise investors in 2026. Will the Fed cut its rates? Has the European Central Bank ended its cutting cycle? Will Trump seek more popularity by lowering the oil price or expelling more illegal immigrants? Will the spread between French and German sovereign debt hold steady in the event of a

(possible) further dissolution of the French parliament? Are recent bankruptcies in the private credit sector isolated or do they point to contagion risks? Will the huge investments in AI support further upward earnings revisions? The resilience of the markets will no doubt be tested once again in 2026, a year in which investors will need to show extreme vigilance regarding fluctuating trends.

In this new issue, we discuss our economic forecasts as well as our outlook and convictions for financial markets in 2026, which, despite a slight deceleration in global growth, remain encouraging. On equity markets, we expect certain sectors to offer good growth opportunities while serving to reduce the volatility resulting from concentrated approaches.

After remarkable fixed income performances in 2025 and extremely low risk premiums, we look at the value of the various sectors of this asset class, which remains an important cornerstone for building a robust and diversified portfolio.

While most commodities have posted illustrious performances this year, here we will focus on gold, examining fundamentals as well as the sustainable and responsible approach of investors to this key asset.

Lastly, after coming under pressure in 2025, private markets are expected to experience a transitional year in 2026 while continuing to offer attractive long-term return prospects.

We hope you enjoy this issue and wish you a very happy holiday season.



Our outlook in video



The deck of the *Gitana 18* during construction, CDK Technologies site, Lorient, France.

Macro-eco



Global growth: commercial downturn and strategic recovery

Dr. Mathilde Lemoine

Group Chief Economist Edmond de Rothschild

- **Tariffs will be higher in 2026, but their negative impact will continue to be offset by investments in sovereignty, which, according to our calculations, represent the equivalent of 5.3% of global GDP, and by investments in artificial intelligence (AI).**
- **We continue to expect a moderate slowdown in the global economy in 2026.**
- **High long-term rates, fuelled by persistent uncertainty, will continue to weigh on the real estate markets.**

A key development in 2025 has been the substantial increase in tariffs on a large share of products imported into the United States. The US administration has implemented its policy of “reciprocal” tariffs to improve the US trade balance. Donald Trump wants to rebuild the country’s industrial capacity to re-establish sovereignty. In addition to tariffs, the administration has rolled out a strategy to depreciate the dollar, notably by encouraging US households to invest in US debt.

But despite US tariffs, which are as high as 39% in Switzerland, and considerable uncertainty, global growth has held up well. Admittedly, this is largely a result of stockpiling aimed at avoiding the increase in tariffs introduced to correct the imbalances identified by Washington. But, as we expected, national sovereignty policies are an important source of investment. AI infrastructure has also led to exports and investments that have supported growth. As a result, US growth stood at 2.2% at the beginning of 2025, compared with 1.5% in the eurozone and 5.2% in China.

Despite these developments, we have not changed our macroeconomic scenario of a moderate slowdown. This is not because we ignore shocks; it is because our structural analyses allow us to distinguish underlying developments from cyclical variations. So far, the data have confirmed our scenario. **In 2026, we expect a slight deceleration in global growth, after 2.5% in 2025. According to our forecasts, the US economy will grow 1.9%, that of China 4.9% and that of the eurozone 0.8%.**

To recap, the main conclusions of our fundamental analyses are as follows:

- Trade tensions are displacing financial flows more than they are destroying them.
- The reconfiguration of global flows is centred on the China-US trade and technology war.
- The US and China are using growth as an instrument of power.
- The global economy today is guided not by globalisation but by the quest for sovereignty on the part of most major countries, through investments and new alliances.
- Europe is suffering shocks even if it is already shaping its future.

Reciprocal tariffs come into force

The major development in recent months is the effective implementation of reciprocal tariffs between the United States and 70 partner countries. The average US tariff rate is currently 17.5%. Admittedly, negotiations have led to a reduction in reciprocal tariffs on US imports from Southeast Asian countries. But they are still 20% on average. Furthermore, while the 15% increase on imports from the European Union, effective from 7 August 2025, was lower than expected, it has been accompanied by a redirection of Chinese exports from the United States to the EU.

In the coming quarters, global trade is expected to slow more significantly as the negative macroeconomic impact of the increase in tariffs, which has thus far been mitigated by widespread pre-stocking, becomes more pronounced. Higher tariffs and protectionist measures, such as export restrictions and subsidies, are pushing import prices and production costs upwards, reducing purchasing power, household consumption and investment, and placing pressure on value chains.

Sovereignty policies around the world will continue to limit the extent of the slowdown

Our inventory of sovereignty policies around the world shows the scale of the investments currently being made by most countries to reduce their dependencies while choosing those that are essential. **According to our calculations, investments deployed to implement these sovereignty policies (energy, food, digital, media, etc.) are equal to 5.3% of global current GDP, i.e. nearly \$6 trillion.** The positive surprise is that the European Union is playing a major role in this respect. Naturally, the programmes are spread over several years and caution needs to be taken as these calculations are based on government announcements.



Military spending will also continue to grow. From 2022 to 2024, this expenditure grew 9% per year in current dollars worldwide, compared with 2.4% between 2010 and 2021. Global military spending in 2024 increased more than in any other year since the end of the Cold War, up 11% in current dollars year-on-year to 2.718 trillion current dollars, or 2.5% of global GDP. European countries have significantly increased their spending, in particular Germany, Poland, the Netherlands, Finland and the Czech Republic.

We believe that sovereignty has become a vehicle for global investment and stands as a new source of growth for the coming years. Further, as dependencies are reconfigured, the dissemination of innovations is being “reorganised” rather than halted. In 2026 and 2027, we are pricing this public spending on sovereignty into our models.

Debt, high long-term rates and demand for sovereign financing

In monetary developments, the key-rate cutting cycle is well under way around the world. However, unlike the European Central Bank, the Federal Reserve could cut rates further, which would put further downward pressure on the dollar. The real effective exchange rate of the dollar fell 8% between January and September 2025.

The decrease in key rates has led to a slight decline in long-term rates, but they remain high and the yield curve has steepened accordingly. The latter trend results from the high term premium, i.e. the premium required to hold long-maturity assets. Several factors explain this development: uncertainties stemming from sovereignty policies and public deficits (with a US federal deficit of 6.5% in 2026); the energy transition and capital-intensive industrial policies; the reduction of central bank balance sheets and a structural decline in demand for very long maturities; inflationary risk in the United States (fuelled by tariffs) and Japan; the refinancing of 40% of the global bond stock before 2026; and the fragility of foreign demand for US sovereign bonds resulting from fears raised by a potential “Mar-a-Lago Accord”, which calls into question the dollar’s status as an international reserve asset.

The trans-Pacific axis continues to drive global growth

The **United States** will continue to benefit from the positive effects of the “One Big Beautiful Bill Act”. As well as extending the measures of the Tax Cuts and Jobs Act, the administration has passed tax deductions for seniors, tips, overtime and interest on car loans. While most energy policy tax credits have been repealed, the immediate accelerated amortisation of R&D expenses remains an effective support for businesses. AI remains a powerful driver of investment, with spending on AI-related infrastructure having increased by \$400 billion between 2022 and 2025. According to our US economist

Manuel Maleki, the investment multiplier in this sector could potentially increase GDP by 0.3% to 0.5% per year. Consumption will be affected by the rise in prices, even though everyday products (such as bananas, pineapples, coffee and tea) that cannot be produced domestically have been excluded from the scope of reciprocal tariffs. Exports could be supported by a weaker dollar and privileged access negotiated in exchange for a reduction in reciprocal tariffs. The property market will continue to weigh on growth.

In **China**, a key issue for the authorities will be managing deflation and the political tensions generated by rising exports, particularly in Europe. Growth will continue to be supported by exports in 2026. Chinese exports will be bolstered by global demand for energy-transition goods and AI infrastructure, and also by the weakness of the Chinese currency. Electric-vehicle batteries in China remain 35% cheaper than those sold in Europe. The main risk lies in the application of the rules of origin to US imports from Asia excluding China.

The growth of Asian countries will depend on the differentiation of “reciprocal” tariffs between countries. We continue to expect average growth of 3% in 2026 after 3.1% in 2025 in Asian countries excluding China, Japan and India.

Uncertainty, as measured by the Economic Policy Uncertainty Index (EPU), will continue to weigh on investment and consumption, particularly in **Europe**. EPU instability puts the brakes on investment and encourages savings. In addition, European exports will continue to be undermined by the increase in US tariffs and the strength of the euro. The contribution of foreign trade is expected to remain negative in 2026. Despite the German surge and support for military and sovereignty spending, eurozone growth is expected to remain below 1% in 2026, at 0.8%.

In conclusion, global growth in 2026 will likely be subject to immediate pressures, including the negative effect of protectionist measures, persistent uncertainty and high long-term rates, as well as a structural investment cycle driven by sovereignty and AI. The real challenge today is financial, i.e. ensuring a high level of investment against the backdrop of a persistently high term premium and the shrinking of central bank balance sheets. As a result, the growth trajectory could be limited by trade, but also by the financing of these new challenges, which will constitute an additional source of uncertainty.



Stainless steel vats, Château Clarke, Listrac-Médoc, France.

Commodities



Oil: resilient prices despite abundant supply

Manuel Maleki, Ph. D.

Senior Economist US & Commodities

Since July, oil has been trending against forecasts. The International Energy Agency (IEA) expected a surplus of nearly 1.8 million barrels per day in the second half of the year, yet the market did not lose ground. The Brent is hovering at around \$65 per barrel and West Texas Intermediate (WTI) is holding steady at nearly \$60, although both were expected to fall to \$50. In a shift in logic, the market is no longer governed solely by the law of supply and demand, but by the interplay of power, storage and national strategies. The barrel has once again become an instrument of sovereignty.

China, the new central bank for crude

Since January, China has absorbed a large volume of oil, adding more than 100 million barrels to its strategic reserves in nine months. Rather than following the market logic, these purchases are a political decision. The 2025 Energy Act, passed in Beijing, now requires public and private companies to build up inventories under state control. Eleven new storage sites are under construction, for a total capacity of 169 million additional barrels by 2026. Beijing has accelerated its crude build-up in 2025 to 0.9 million barrels per day (mbd) since January, an increase of 240 million barrels.

Far from marginal, these reserves alone account for nearly 30% of global supply growth in the first nine months of 2025. In other words, China has neutralised in part the surplus that the IEA announced as explosive. Barrels exist, but they are no longer circulating. Instead they are lying dormant in strategic tanks. This paradox, whereby the global surplus is an off-market surplus, explains why the market remains firm.

US sanctions are reshaping oil flows and fragmenting the physical market

In October, Washington imposed full sanctions on Rosneft and Lukoil, which together account for nearly 4 mbd of Russian production, or more than 40% of the country's output. The effect of the sanctions was immediate, with Russian cargoes taking longer to find buyers and oil flows fragmenting.

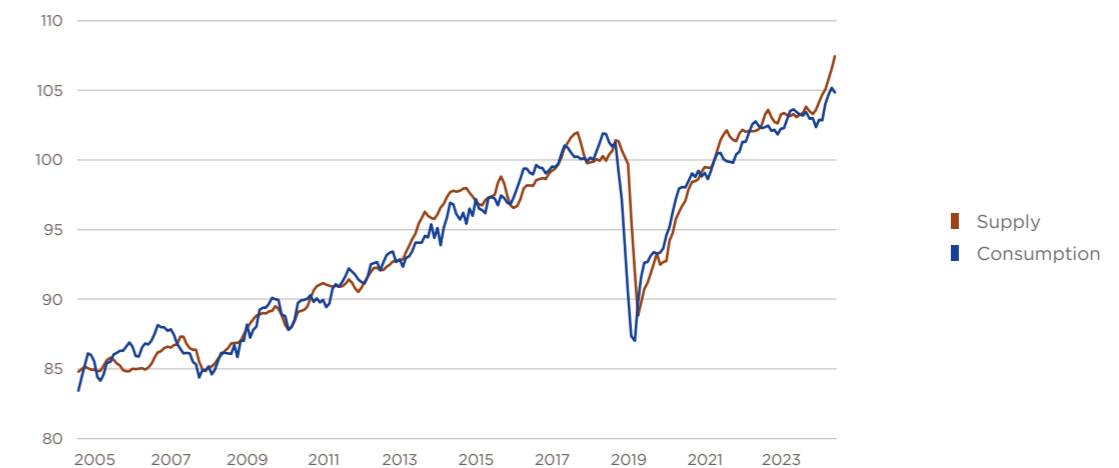
According to Kepler, India, once the largest buyer of Russian oil at almost 2 mbd, has reduced its imports from the country by around

40%. China has "suspended" several long-term contracts. Russian shipments have been redirected to Turkish and Malaysian intermediaries, increasing transport distances and insurance costs.

As a result, the market has priced in a geopolitical and logistics risk premium to offset the risk of supply chain interruption. This price supplement is not speculative; it reflects the real cost of the disorder. Behind the glut rhetoric lies an opposite reality: energy is circulating less quickly under political constraints and diplomatic control.

Chart 1 – Oil: supply and consumption

Three-month moving average, in millions of barrels per day (mbd)



Edmond de Rothschild, LSEG.

OPEC+ remains the swing producer

OPEC+ remains the chief guarantor of oil stability. In October, it adjusted its production with unprecedented precision, adding just 137,000 barrels a day to its monthly cap. At the same time, it announced that there would be no further increases in production in first-quarter 2026. Pivotal member Saudi Arabia is maintaining production at approximately 9 mbd, i.e. 1.5 mbd below maximum potential.

The clear objective of this discipline is to defend a floor of around \$60 per barrel. Riyadh considers \$60 as the "optimal" price level, high enough to finance its Vision 2030 development plan but low enough to keep importing countries happy. OPEC+ is no longer trying to dominate the market; it is trying to regulate it. This is a quiet but fundamental transformation.



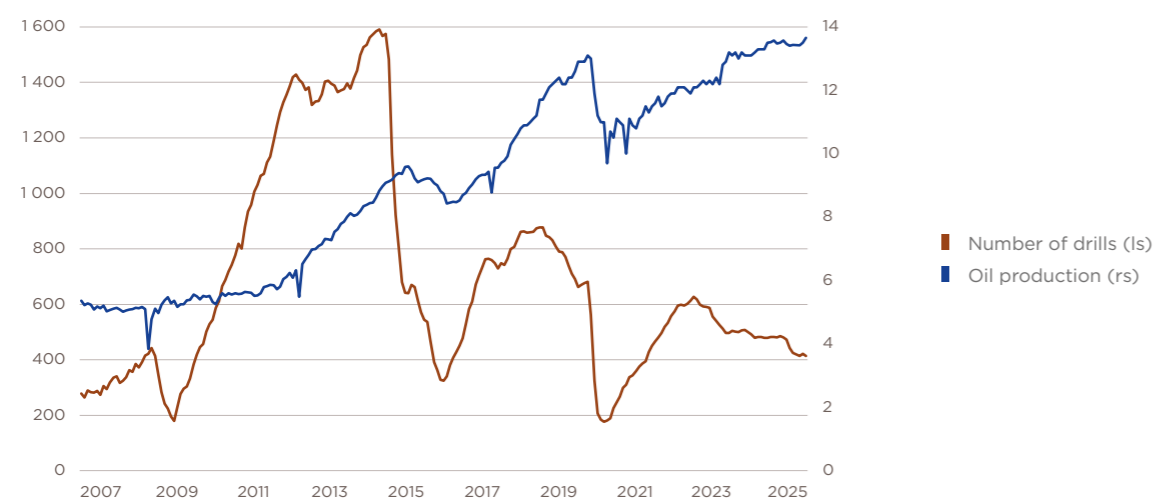
US shale, a tired giant

The United States continues to produce 13.6 mbd of oil, a nominal record. But the industry is running out of steam. The Permian Basin, which supplies nearly half of all US crude, is reaching its limits, with 65% of high-yield areas having already been exploited. Oil output growth, which exceeded 1 mbd a year before 2020, has fallen to 300,000 this year. According to Baker Hughes, the number of active drilling rigs has fallen from more than 600 to less than 500 in one year, suggesting that the strategy has shifted from conquest to profitability. Shale is no longer the agile “swing producer” of the 2010s; it is now a shock absorber.

Market still ruled by geopolitics

All the evidence shows that oil remains a political rather than an economic market. Producers are thinking in terms of balanced budgets, with \$81 for Saudi Arabia, \$70 for Russia and \$62 for the United Arab Emirates. Importers are thinking in terms of energy security, China and India having increased their reserves. This triangle of states, markets and majors forms an unprecedented stabilisation architecture. Exporters and importers alike are endeavouring to avoid any shock, the former out of political prudence, the latter out of financial discipline.

Chart 2 – US oil: number of drills and oil production in million barrels per day (mbd)



Edmond de Rothschild, LSEG.

2026: the real state of play

In 2026, global oil demand is expected to continue to grow by around 1.2 mbd. But, for now, actual additional capacity (excluding announcements) is lower than 700,000 barrels per day, most of it in Guyana, Brazil and Norway. US commercial inventories, at 422 million barrels, remain 4% below the five-year average and available storage capacity in the OECD does not exceed 60 days of cover.

In short, excess supply is complex to understand and needs to be put into perspective with inventories. The barrel price has not gone in to free fall because the “available” oil in the system is not substantial. The reality is, much of it is contracted, reserved, nationalised or strategically stored.

The return of politics

Oil is more than a commodity; it is an indicator of power. The US, China and OPEC+ are now co-managing a fragile state of stability in which each barrel has become a political message. That being so, it is hard to imagine the barrel price falling under \$60 on a lasting basis, barring exogenous shocks, just as it is difficult to see it rising much higher than \$75. This price equilibrium corridor is the result of all these interactions.

Industrial metals:

Chinese recovery and global caution

Industrial metals have trended in a controlled zone of uncertainty since the summer. The prices of copper, aluminium and nickel are fluctuating with no clear direction as fundamentals remain strong but the global economic outlook hits a ceiling.

Accounting for 55% of global consumption, China remains the market's centre of gravity. Public procurement and the resumption of infrastructure projects (electrification, high-voltage lines) are supporting demand for copper and steel, while aluminium imports have increased 8% since July. In contrast, the real estate sector remains depressed, limiting traction in construction metals.

On the supply side, mining disruptions are maintaining latent tension. Indonesian nickel continues to dominate the global market, but lower ore quality is weighing on margins. In Chile and Peru, copper production has fallen by 2% to 3% in the last year. Zinc continues to be impacted by the reduction in European capacity in relation to energy costs. London Metal Exchange inventories remain historically low at under 1.2 million tonnes for all base metals, equivalent to just three weeks of global consumption. This structural floor prevents any collapse in prices.

In the short term, metals are in a waiting zone, with the Chinese industrial recovery acting as a shock absorber. The equation remains simple. In the absence of a demand shock, the upward cycle remains on hold and prices are likely to stay where they have been in the last few months.



Light fixture, tasting room, Château Clarke,
Listrac-Médoc, France.

Equities



Will 2026 look like 2025?

Hervé Prettre

Head of Global Investment Research

The current year has been marked by a significant rise in equity indices, but also by a particular performance with an extreme concentration on a few major stocks. While some factors suggest that the trends observed in 2024 and 2025 could continue in 2026, new opportunities and threats are also likely to arise. Investors with a long-term horizon could take advantage of potential weaknesses to add to their positions.

2025: a profitable but singular year for equities

- **In the United States**, the S&P 500 (at the time of writing) posted a double-digit performance, driven by a relaxed tariff policy, solid earnings and declining rates. Almost two thirds of the S&P 500's annual performance in 2025 is tied to the top ten stocks, which also account for nearly two-thirds of the index's earnings growth, particularly tech stocks exposed to AI. But the driving role of AI and some high valuations raise fears of a speculative bubble at the end of 2025.
- **In Europe**, the market outperformed considerably at the start of the year, boosted by the ReArmEU Europe defence stimulus plan and the German infrastructure programme, and also by capital outflows from the US market in response to the erratic policies of Donald Trump. This has substantially affected European listed companies, as outflows from a capitalised US market worth \$60 trillion to a European market valued at €12 trillion have mathematically had a considerable impact. However, after Trump's tariff backtracking and exceptional earnings and outlooks for US tech stocks, and with euro strength weighing on European corporate profits, European markets have yet to return to their March 2025 peak, underperforming the US market since the April recovery.
- **China**, a drag on emerging markets since 2021, has turned out to be a driver in 2025. The Chinese government's policy on curbing deflation, together with a series of stimulus measures and an easing of relations with the US, has boosted expectations in this market, which is also attractively valued.
- **Emerging markets** had a significant discount early this year, but this has since shrunk across the board. Once again, this can be explained by investors seeking assets outside of the US

exceptionalism theme and Trump easing tariffs. As a result, emerging markets have posted one of the best performances since the beginning of 2025 among the major economic zones.

What to expect in 2026?

- **The US market** is still benefiting from favourable winds, including expectations of three to four rate cuts in 2026, the resilience of economic growth (thanks in particular to Trump's tax cuts), the momentum of AI investments, which continue to accelerate, and the prospect of deregulation. However, market valuations have become expensive, the consensus is already highly optimistic, and the country's AI leadership is set to decline going forward. As such, market players anxiously await the sales outlook for hyperscalers¹ and semiconductor companies ahead of each earnings report so that they can determine whether AI momentum is still accelerating or whether the lion's share of the investment drive is behind us, which has historically been a key sign that a bubble has peaked. A peak in growth expectations is usually expected (as in the past with the normalisation of growth in railway line construction, or the sales of transistors, televisions and fibre optics) but this could not happen until 2026, or even later. AI momentum appears to be holding up for now, but it cannot last forever. In addition, such a restrictive concentration of performance on a very limited number of stocks is traditionally expected to reverse. Which makes it wise at this stage for investors to maintain their tech positions in 2026 while extending their focus to other sectors, such as healthcare or industrials, which are staging a strong recovery and boast more moderate valuations.
- **The European market** is waiting for a growth driver, which should be reflected either in a weaker euro, stronger domestic growth, or both. Our forex forecasts point to a slight appreciation of the dollar, but not sufficiently, in theory, to boost earnings significantly. Economic growth is expected to be supported by the implementation of the German infrastructure plan but could be undermined by uncertainties over the political future of France. However, as many companies have restructured and are starting from zero-growth earnings estimates in 2025, European earnings could rebound by 10% or more in 2026. This could revive investor appetite in European assets, particularly financials and industrials benefiting from the stimulus plans.
- **The Chinese market and emerging markets** also remain cheap, although these valuations have increased slightly since early 2025. This momentum could continue, but it will require fresh impetus, because the low valuation argument (the main determinant of

¹ A hyperscaler is an IT service provider that operates data centres on a very large scale to offer cloud computing and data management services. Hyperscalers are dominant cloud operators including Amazon, Google, Microsoft, and Alibaba.



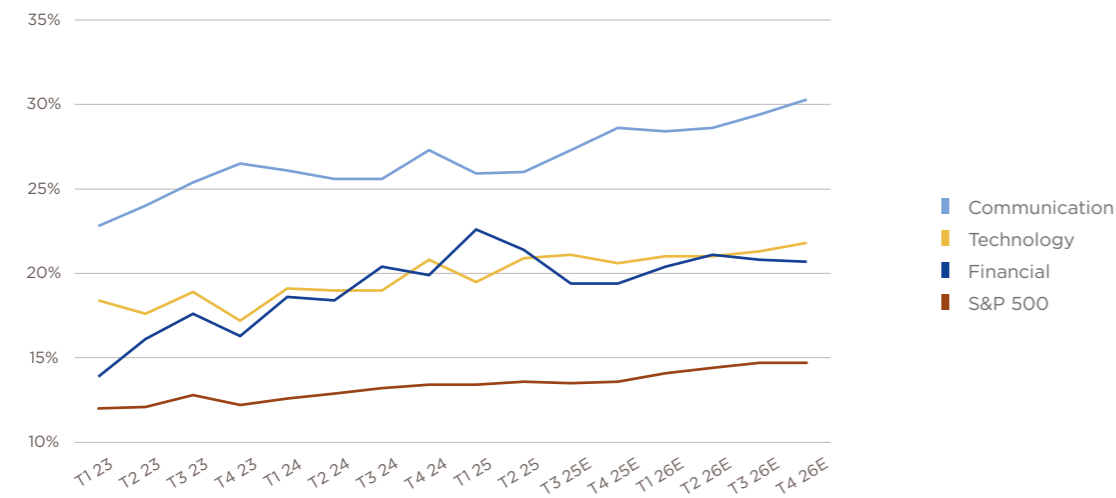
EQUITIES

their 2025 performance) is less convincing than previously. China's stimulus policies, and potentially lower deflation, could serve as catalysts.

- Volatility spikes are likely, as in April 2025. Early that month, Trump presented a list of tariffs, which were deemed arbitrary and prohibitive. This immediately led to a considerable 12% dip in equities, but this trend quickly came to a halt, underlying the importance of remaining invested in April 2025. Fear-provoking developments are still possible given global fragmentation, Trump's methods, political risks in Europe, and the overall geopolitical context. For medium- and long-term investors, it has been shown that maintaining investments over time can generate returns on the equity markets.

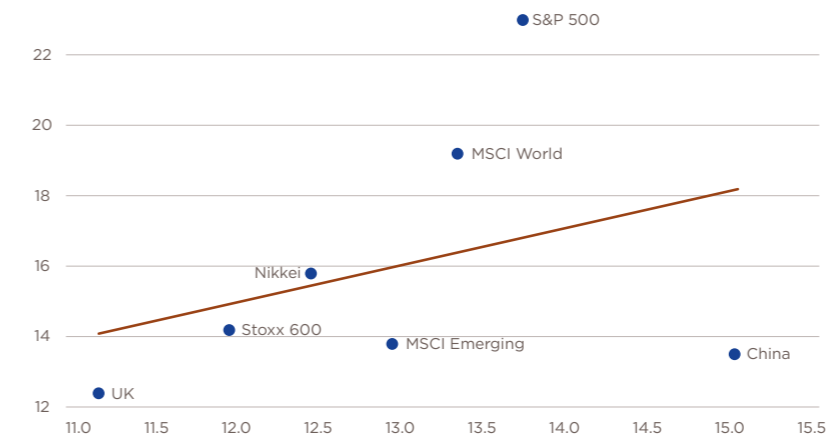
Chart 1 – Expected profit margins for S&P 500 companies and a few sectors

Operating margin as a percentage of revenue, by quarter



Edmond de Rothschild, Bloomberg.

Chart 2 – Estimated earnings growth and P/E 2026



Edmond de Rothschild, Bloomberg.

Which sectors to favour in 2026?

Diversification is fundamental, between sectors with low valuations that look to be stabilising (e.g. healthcare), sectors benefiting from momentum driven by investment flows (e.g. technology), and sectors with solid fundamentals. This is the case for industrials, which are benefiting from European recovery plans, Donald Trump's determination to re-industrialise, the decline in deflation in China and the dip in global trade risk, and also for financials, through better European growth, the prospect of a capital union in Europe, and deregulation in the United States.

2025 was supposed to be different from 2024. This was not the case in the US, where a few large groups continued to dominate the market, with the markets performing entirely differently in Europe and China. 2026 is expected to be different from 2025, though with similar dynamics. We continue to expect the outperformance (particularly in the US and China) of large groups that are close to the government, able to gain market share and possess greater resources to invest, particularly in AI. In Europe, the fate of large groups will depend more on the euro and global trade. In any case, Trump's focus on the performance of the S&P 500 together with the low valuation of European and Chinese markets and the level of savings in Europe and China (as well as tax cuts in the US that benefit the wealthiest investors in US equities), could act as safety nets in the event of a major fall in prices.



A host of surprises could also be in store in 2026:

- Will Donald Trump impose new tariffs if China does not follow his injunctions? Will he start a conflict to oust Nicolas Maduro from power in Venezuela?
- Will the future Chairman of the US Federal Reserve be taken seriously by the markets?
- Will the surge in investment in AI continue?
- Will there be peace in Ukraine?
- Will Germany release the promised investments in early 2026?
- Will Jordan Bardella become the prime minister or president of France?

This list is far from complete and many ups and downs are to be expected that could generate concerns and volatility but could also stand as opportunities for the well-informed investor.

Will the race to invest in artificial intelligence continue?

Anthony Toupin

Senior Research Analyst - Global Investment Research

The year has been dominated by announcements of astronomical investments in AI, raising the spectre of a speculative bubble in the technology sector. However, our analysis qualifies this risk, as the outlook remains constructive for digital infrastructure giants and semiconductor suppliers. The key for investors will be to remain selective, focusing on financial strength and realistic growth opportunities rather than media buzz.

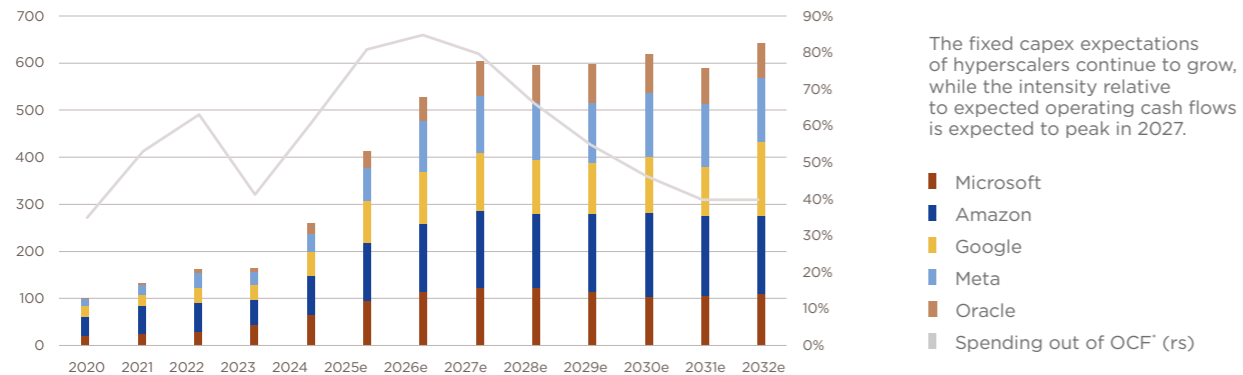
The year has also been marked by multiple twists and turns in the tech sector, particularly in AI. In January, the announcement of the introduction of a low-cost Chinese AI model, DeepSeek, disrupted the Western ecosystem, raising questions about the real return on investment made by hyperscalers (large cloud companies). While the market initially reacted negatively to this news, the DeepSeek effect was short-lived. The arrival of DeepSeek ultimately proved to be a positive catalyst for the AI theme, consistent with the Jevons paradox, whereby lower development costs will naturally increase the adoption of AI in the long term, as was the case at the end of the 19th century, when the introduction of a more coal-efficient steam engine paradoxically increased the consumption of coal by leading to the widespread adoption of the new generation of steam engines.

This short-lived fear failed to perturb the upward trajectory of the fixed capex expectations of hyperscalers, which appear to be more concerned about the prospect of losing ground to the competition than making short-term returns on investment. While the market consensus in 2024 was for fixed capex by cloud giants of around \$620 billion between 2025 and 2027 (i.e. 12% of their expected revenues over the period), the consensus expectation has now risen to \$1.7 trillion, equal to nearly 30% of expected revenues.



Chart 1 — Expected fixed capex per year, by hyperscaler and in relation to operating cash flows (period 2020 - 2032e)

Amount in billions of dollars
*OCF: operating cash flow

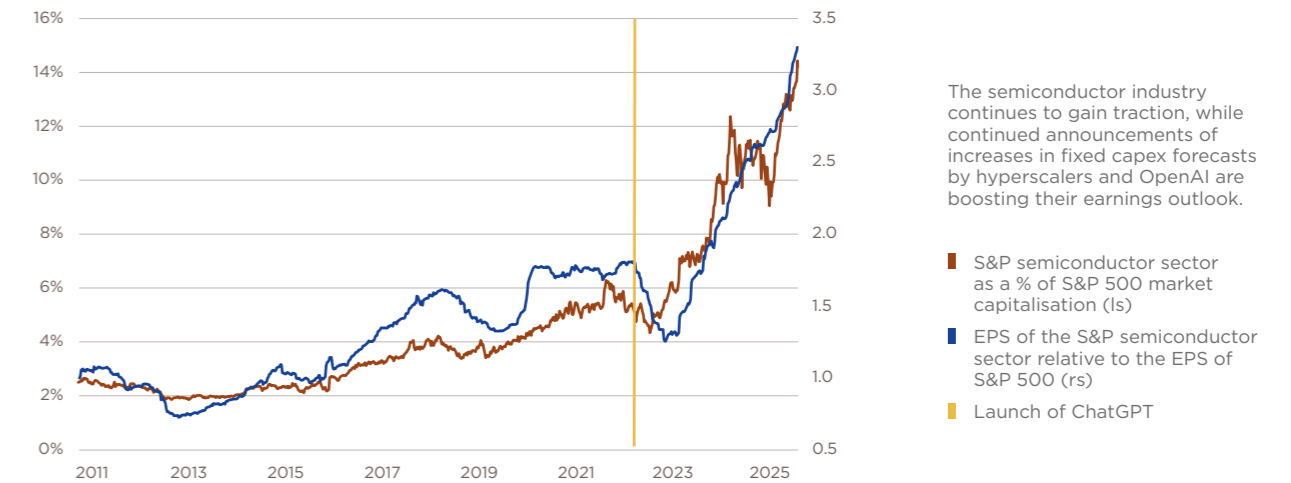


Edmond de Rothschild, Bloomberg.

This sharp rise in fixed capex expectations has resulted in a substantial increase in the share prices of AI hardware technology providers, particularly semiconductor stocks. The latter once again posted an impressive performance in 2025, with the SOX, the global index of semiconductor stocks, outperforming the MSCI World by 22% at end-November (+42% versus +20%, in dollars). In addition, the semiconductor sector, which accounted for 2% to 4% of the S&P 500 for 20 years, has in just three years come to claim 14% of the index.

Semiconductor stocks, identified as the immediate beneficiaries of this capital expenditure, thus continue to benefit from the continued increase in spending expectations as “hardware suppliers”, boosting the rise of AI, regardless of the return on investment for hyperscalers in the longer term. Nvidia, the current leader in graphics processors for AI, recently said that it expects fixed AI capex to reach more than \$3 trillion per year by 2030, raising questions over “hyper-spending” and, hence, the potential formation of an AI market bubble.

Chart 2 — Weight of semiconductors in the S&P 500 relative to the trend in the sector’s earnings-per-share expectations, against those of the index



Edmond de Rothschild, Bloomberg.

The expenses race is stepping up, and not just among hyperscalers

This trend has gathered steam recently following announcements of partnerships between several tech giants aimed at developing additional AI data centre capabilities, the common denominator being ChatGPT creator OpenAI.

At the time of writing, OpenAI was apparently committed to financing more than \$1.5 trillion in data centre and cloud infrastructure capacity, or 26 GW of AI capacity, in addition to a 10 GW target as part of the Stargate project announced earlier this year. These commitments are nearly four times higher than the peak power consumption of New York City. To put these announcements into context, OpenAI is expected to generate less than \$20 billion in revenue in 2026 and has said that it does not expect to be profitable before 2029. Looking beyond these astronomical sums of money, the main fears concern the increasing circularity of the financing. Will OpenAI need to finance purchases of chips by Nvidia, AMD, Broadcom, etc. through financing from Nvidia, AMD, Broadcom, etc. from its own suppliers, or are there other ways for OpenAI to finance these substantial commitments on data centre capacity?



EQUITIES

Admittedly, the rise in investor concerns over the potential formation of a speculative AI bubble is inevitable given the increasingly circular nature of expected AI investments. Nevertheless, we make two clear distinctions between hyperscalers and OpenAI. At this stage, the former are financing the increase in data centre capacity through abundant liquidity, while the latter's commitments to chip companies remain impossible to finance through hitherto non-existent liquidity.

How does OpenAI CEO Sam Altman see the future?

We believe that Sam Altman has embarked on a classic strategy of aggressive short-term financing for the development of OpenAI's "whatever the cost" AI offering, the aim being to:

- Build on the strong loyalty of the company's non-paid users (more than 800 million per week) with the objective of making OpenAI services (ChatGPT, Sora, Dall-E etc.) essential for these users, who will thus be willing to pay for this service in the future.
- Make OpenAI itself indispensable for semiconductor companies and the tech sector in view of the commitments made to become "too big to fail". Sam Altman recently said, "Whether we burn \$500 million, \$5 billion, or \$50 billion a year, I don't care. (...) We are making AGI, and it is going to be expensive and totally worth it."

The central challenge currently facing the technology sector therefore hinges on OpenAI's ability to finance its AI expansion and monetisation projects.

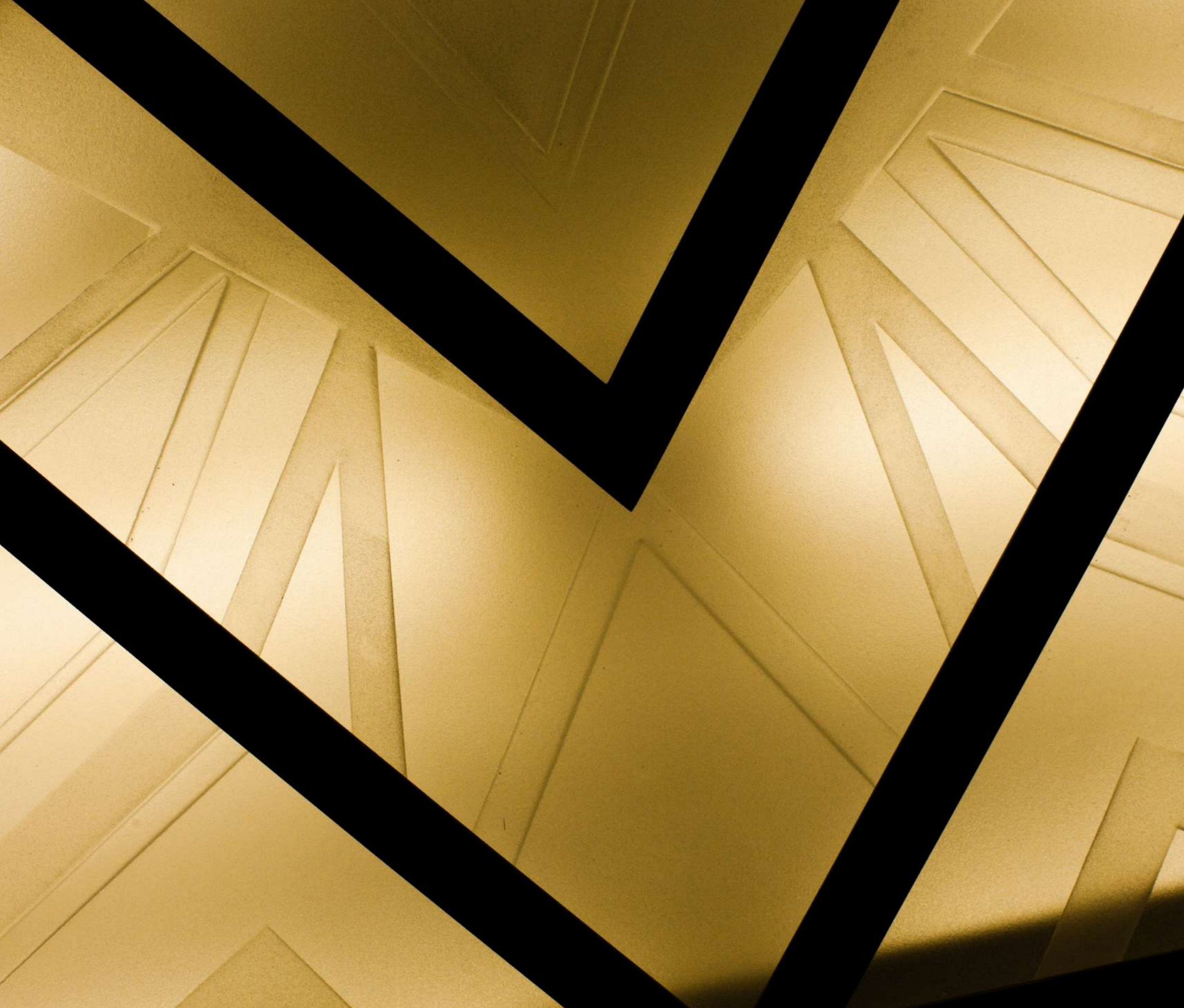
What is the outlook?

In the longer term, and looking beyond OpenAI, we remain positive on AI monetisation potential across sectors and activities. The adoption of AI is also likely to be different from the most recent major investment cycles. The rollout of 4G in 2010 called for nearly \$1.5 trillion in combined capital expenditure by telecom companies and \$3.3 trillion in smartphone sales to make its use more widespread. In contrast, AI is already accessible to end-users: a simple smartphone or internet access makes it possible to use AI, with fixed capex being used to improve existing models rather than build infrastructure for users. Furthermore, the most popular apps of the 4G era, such as Instagram, TikTok, Spotify and Uber, arrived just a few years after the start of the 4G era, while the flagship apps of the AI era may only be in their early stages.

Lastly, according to recent studies, total investments in AI by US tech companies is equal to just 1.4% of GDP at this stage, compared with past major investment cycle peaks of up to 4% to 5% of GDP.

In the medium term, we continue to believe that the trend in fixed capex will remain bullish given the need for technology leaders to increase their dominance in AI. This momentum should help to maintain the upward trajectory of revisions to revenue and earnings expectations over the next few years in the sector, while hyperscalers are already starting to report on the positive impact of their AI investments on the momentum of their traditional businesses, particularly in the cloud and consumer-facing businesses, including social media, e-commerce, online research, and advertising.

Admittedly, there are longer-term risks regarding the extent of these announced investments, which could be revised downwards in the future, but this is not the case for now. Consequently, investors need to remain diversified outside the tech sector and also remain selective. **From a fundamental standpoint, the AI cycle should continue to support tech stocks in the short term, justifying a continued constructive view of the sector but calling for vigilance in the medium and long term.**



Philippe Druillet (born 1944), wall lamp,
special order for the bank's reception rooms, Paris, France.

Special Report: Gold



Has gold peaked?

Guilhem Savry

Head of Strategy Research, Global Investment Research

Jean-Marc Guillot

Group Treasurer

Since the 90s, gold has offered strong performance combined with moderate volatility. The increase has been reinforced by the shift in demand, driven over the past ten years by the de-dollarisation strategy initiated by the central banks of emerging powers. Which is why the sharp correction of October 2025 should not prevent investors from keeping a gold allocation – the cornerstone of an effective portfolio diversification strategy, particularly at a time of uncertainty.

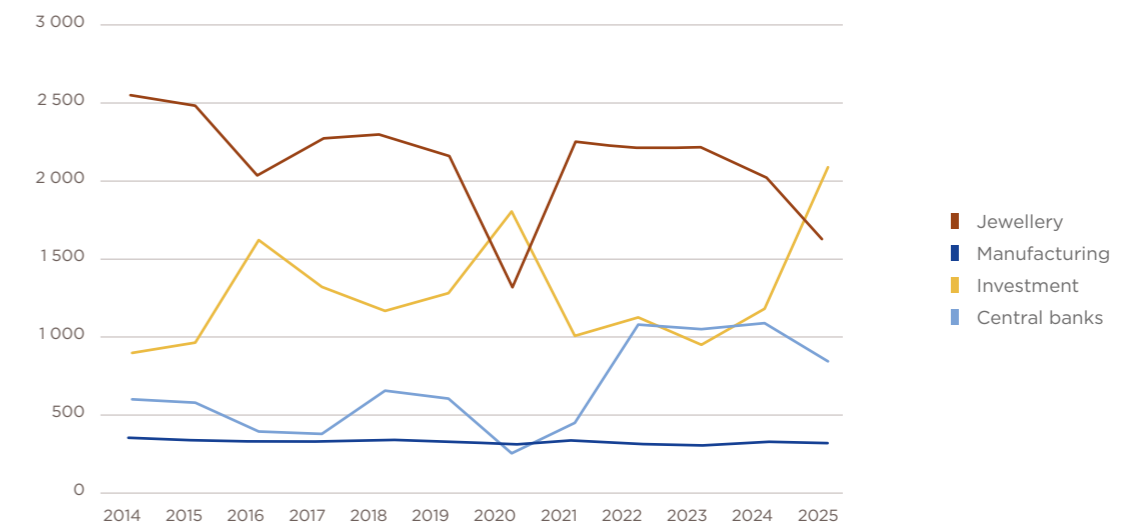
A singular asset

Gold has become a key asset in portfolio construction. The tangible nature, scarcity and moderate volatility of the precious metal have made it a vital safe haven, promising investors diversification and protection. Gold has thus gradually acquired a confirmed status as a decorrelation asset. For decades, it has offered protection against inflation and during periods of stress on the financial markets. Moreover, over a long period, its performance has rivalled that of the riskiest assets, such as global equities and high yield credit, yet always with lower volatility. Since 1990, the annualised performance of gold has come out at 7%, compared with 7.9% for the MSCI World in dollars.

Shift in demand

Gold supply increased 10% to 4,957 tonnes between 2014 and 2024. Mining, which is relatively stable, grew by just 6%, while supply from recycling rose 20%. Buyers of the precious metal fall into one of four main categories: the jewellery sector; manufacturers, and notably the IT industry for electronic components; central banks for their reserves; and international investors. The distribution of demand shifted emphatically in the ten years from 2014 to 2024. The share of the jewellery sector fell by 20% over the period, with the rise in prices limiting access to the market for some customers, while gold consumption of the manufacturing sector declined by 8%. Growth has clearly been driven by central banks, whose share has risen 81% to 1,089 tonnes, and investments, up 32% to 1,180 tonnes, and almost exclusively in the form of bars and coins.

Chart 1 – Trend in gold demand in tonnes



Edmond de Rothschild, Bloomberg, World Gold Council as at 30.09.2025.

Central bank demand for gold has increased significantly following the crisis in Ukraine and the freezing of the dollar assets of the National Bank of Russia. Since 2022, the share of gold in central bank reserves has increased from 14.7% to 22.8%, representing the second largest allocation after the dollar. Unsurprisingly, this rise can largely be attributed to emerging central banks as part of their de-dollarisation policy, which they clearly stood behind at the BRICS¹ summit in Johannesburg in 2023.

In the last ten years, the central banks of China, Brazil and India have all significantly boosted their gold allocations, with increases in tonnes of gold of 29%, 93% and 57%, respectively. In terms of total reserves (gold and currency) the Central Bank of China accounts for 23% of the reserves of all central banks combined. But in terms of gold alone, it owns just 7.1% of the global central bank total. Which would suggest that the process of increasing gold share is not over yet. On the contrary, this trend is set to continue as real mistrust develops with regard to the debts of developed countries and doubts over the dollar as a reserve currency take hold. The Trump administration's random policy moves and backtracking have prompted central banks and investors alike to look for alternatives to diversify their assets away from the dollar and US Treasuries.

¹ BRICS is an intergovernmental organization of large emerging economies that originally included Brazil, Russia, India, and China.

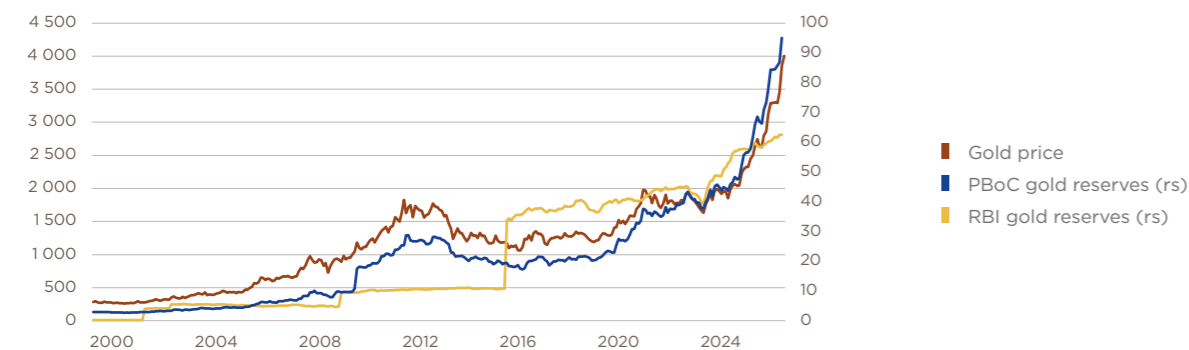


The benchmark safe haven

Whenever geopolitical stress mounts, gold becomes a benchmark safe haven for investors. It is perceived as reducing overall portfolio risk and, due to its decorrelation effect, serves to safeguard performance in the event of a fall in the financial markets. This year, the price of gold has been supported by uncertainties over the trade tariff policy launched as part of Donald Trump’s economic war. The lack of a solution to the Russian-Ukrainian conflict and the fragility of the situation in Palestine have reinforced the safe haven theme. Against this backdrop, gold is playing its full role and stands as the main alternative to the dollar. Held in physical form, it is also outside the scope of the bankruptcy of banking institutions, which makes it more attractive at a time of doubt about the international financial system. This support for the gold price appears to be stable and unlikely to disappear any time soon, given the fragmented global situation.

Chart 2 — Changes in gold prices and the reserves of the Chinese (PBoC) and Indian (RBI) central banks

Price in dollars per ounce, gold reserves in billions of dollars



Edmond de Rothschild, Bloomberg at 30.09.2025.

Goods runs have to end at some point

Since 1 January 2022, the price of gold has soared from \$1,814 to \$4,000, for a gross increase of 120% and an annualised increase of 22.8%. This is more than double the annualised performance of the MSCI World over the same period, at 10.4% in dollars. While this exceptional increase can be explained by the factors discussed above, the pace of the rise in recent months is a cause for concern. The risk of inflation, distrust of the dollar and fears of a wider conflict do not suffice to justify the rapid explosion in the price of an ounce of gold. The explanation lies elsewhere, and more specifically in the main pillar of demand in 2025: investment with a high proportion of exchange-traded funds (ETFs). In the first three quarters of 2025, purchases of ETFs backed by physical gold represented the equivalent of 618.8 tonnes of gold. The total

stock of ETFs increased by 19.2% in the first nine months of the year, to 3,837.7 tonnes.

Holdings of ETFs are inherently volatile because these instruments are often used for *trading* purposes or for tactical movements. As a result, numerous latecomer speculators have climbed aboard the gold train, unaware of the roller-coaster risk involved. The beginnings of a warming in US-China relations have weakened gold’s role as a safe haven and the abruptness of the first wave of correction has generated a snowball effect, with latecomers seeking to limit their losses.

Always buy on the dip

Briefly put, uncertainty and stress levels are likely to remain high under the Trump presidency and given the geopolitical partition of the world. Also, the trend in which central banks are diversifying their reserves away from the US dollar by favouring gold is clearly a long-term one. For example, the Central Bank of Poland recently readjusted its target from 20% to 30% for its share of gold reserves. Lastly, the investment world appears to have realised that it cannot ignore the decorrelation provided by a gold allocation with impunity. The sharp decline in the gold price at the end of October owes much to panic and a disorderly attempt to minimise short-term investor losses. Once the excess of ETFs is unwound, long-term players could take advantage of a more favourable entry level to buy gold again. The next phase of the market will be slower and less extreme, but it will be on the upside. Given these factors, we believe that strategically holding gold as part of a diversified portfolio is perfectly justified.



The shimmer and shadow of gold: striking a balance between safe haven and lasting performance

Eric de Tessières

Group Chief Sustainability Officer

Gold is a safe haven asset par excellence and has regained a central place in investment portfolios. But behind its glitter, gold is now subject to social, environmental and ethical controversies that make it an asset with a high reputational risk. From illegal extraction to mercury pollution and opaque supply chains, the question now is can we still invest in gold sustainably?

A key safe haven asset once again

In a world of financial volatility, geopolitical tensions and persistent inflation, gold is once again becoming a pillar of wealth management. It is a sought-after diversification instrument owing to its low correlation with the equity and bond markets as well as its universal liquidity.

All of which make the precious metal hard to neglect for investors mindful of the resilience of their portfolio. The “barbarous relic”, in the words of Keynes, has never been as fashionable as it is today.

But this economic relevance comes with a caveat: gold is central to a number of major social and environmental challenges.

Behind the shimmer, the shadow of illegal practices

A detailed investigation by the *Financial Times* (“The illegal gold rush sweeping the world”, August 2025) reveals the scale of today’s illicit global gold rush. From the Amazon basin to the savannas of southern Africa, criminal networks are exploiting underground sites, often at the cost of deforestation, mercury pollution and undignified working conditions.

These practices are particularly widespread in some gold-producing regions, including Latin America. According to the *Financial Times*, more than 40% of Peru’s gold exports come from illegal or informal channels. These activities do not just fuel smuggling; they sometimes finance armed groups and money laundering channels (Global

Initiative Against Transnational Organized Crime, 2024).

The human and environmental consequences are considerable. Another survey by the *Financial Times* (“The Amazonians poisoned by the illicit gold trade”, October 2025) documents the mercury contamination of Amazonian populations, permanently affecting the health of local communities and regional biodiversity. Various studies estimate that up to 25% of the world’s gold production could come from artisanal or informal industries beyond control.

As such, investing in gold indiscriminately entails exposure to compliance, reputational and sustainability risks. These issues go beyond the realm of sustainability: they directly affect the quality of the assets held and the credibility of the financial institutions that support them.

Making gold more responsible and traceable

Giving up on gold is not the solution, as the diversification and protection it provides remain strategic. But it has become necessary to distinguish between sustainable, traceable sectors and questionable ones. Several international initiatives are contributing to this drive.

The London Bullion Market Association (LBMA) imposes strict due diligence obligations on all accredited refineries through its Responsible Gold Guidance (Version 9, 2023). Refineries are required to ensure the full traceability of their supply and verify that the gold does not come from conflict zones or illegal practices.

The World Gold Council has updated its Responsible Gold Mining Principles (2022), a comprehensive framework covering human rights, biodiversity protection, governance and anti-corruption. These principles serve as a reference for many industrial mining companies, enabling them to align their practices with internationally recognised ESG standards.

Supplementing these frameworks are several independent labels, such as Fairmined, Fairtrade Gold and Swiss Better Gold, which certify artisanal farms that respect local communities and the environment. The development of recycled gold, from the reprocessing of jewellery or electronic components, is also a promising way forward. Recycled gold accounted for around 30% of global supply in 2024, i.e. 1,370 tonnes (+11% year-on-year, according to the World Gold Council in 2025).

Traceability has become a major issue for the gold industry. Behind the shimmer of the precious metal, investors are now looking for certainty as to the origin of the gold they hold.



Short distribution networks are based on a more direct, transparent and fair model. They consist in connecting artisanal mining cooperatives, refineries and end buyers without unnecessary intermediaries. By reducing the number of middlemen, these channels limit the risk of mixing legal and illegal gold while improving the remuneration of local communities. Swiss NGO SwissAid, a pioneer in this field, has supported the structuring of these sectors in Peru, Bolivia and Burkina Faso for more than a decade. By helping miners formalise their activity, adopt better environmental practices and market their production through certified partners, SwissAid is contributing to the construction of a supply chain that is short, traceable and socially responsible. Similar programmes, supported by the Swiss Better Gold Association, directly connect artisanal producers and Swiss refineries, thus ensuring field traceability based on trust and transparency.

Our conviction: select rather than exclude

At Edmond de Rothschild, we are convinced that sustainable finance is not just about exclusion. It is about distinguishing virtuous flows from destructive ones and directing capital towards the former.

Applied to gold, this approach results in a rigorous selection process favouring certified producers and refiners, audited traceability circuits, and investment vehicles backed by recycled or responsible gold.

Investing in sustainable gold is not entirely free of controversy, but it does strike a balance between the safe haven of gold and contemporary sustainability requirements. It is also a way of exerting a positive influence, as each gramme of gold invested in a responsible sector helps to strengthen the transparency and resilience of a fast-changing sector.

Favour more ethical gold

Gold continues to play a vital role in building robust portfolios. But as sustainability becomes a strategic imperative, the question is no longer whether to invest in gold, but which gold to invest in.

By favouring traceable, audited and certified channels, investors contribute not only to securing their assets but also to transforming an industry in which transparency is becoming vital.

We believe it is possible to strike a balance between tradition and responsibility, making gold not an asset to be excluded, but one to be selected with discernment. Because in a world in search of meaning, every gramme of gold invested sends a signal on the type of future we want to build.





Architectural detail of our new head office in the heart of the Etang eco-district, Geneva, Switzerland.

Bonds



A new context for bonds

Guilhem Savry

Head of Strategy Research, Global Investment Research

Central banks continued their easing cycles in 2025, allowing the economy to decelerate smoothly. However, long-term government rates rose on growing mistrust over public finance trajectories. As a result, yield curves steepened. On the corporate side, the AI investment cycle has a significant impact on the credit market, with the majority of new issues coming from companies connected to this unprecedented cycle.

Government bond yield curves expected to remain high in 2026

The sovereign bond yield curve rose sharply in 2025 due to:

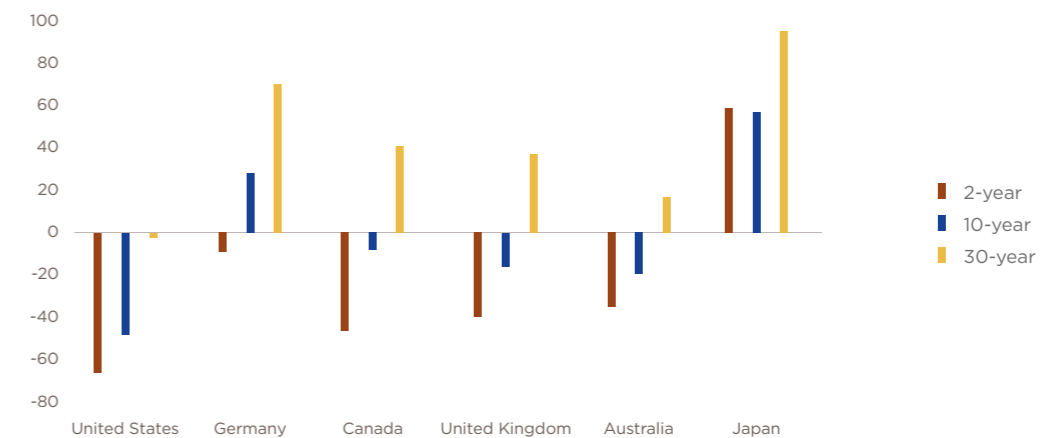
- The continuation of the monetary easing cycle, which has reduced short-term rates around the world, with the exception of Japan.
- An expansionary tax policy, both in the United States and Europe, which is keeping deficits high and limiting the reduction of debt to GDP.

The latter has led investors to demand a premium to fund governments over the long term, leading to a significant rise in 30-year rates. This rise in long maturities reflects widespread uncertainties over the public finances of some countries, which is weighing on investor appetite for sovereign debt, particularly on very long maturities (Chart 1). Other factors could also come into play, such as the ongoing reduction of central bank balance sheets. Lastly, the steepening of the yield curve comes at a time when public debt issues are set to remain strong, with significant refinancing needs and new public investments (particularly in defence in Europe) that will have to be financed.

With the monetary easing cycle coming to an end in Europe, Canada and the UK, and with the market pricing in around three to four rate cuts for the US Federal Reserve by the end of 2026, we believe that the trajectory of public finances in Europe and the US will be the most important factor in determining the trend in long-term rates in 2026. The inflation premium and the growth premium have thus far remained relatively stable and the central scenario of a moderate deceleration of the US economy appears to be well anchored in the price of US bonds. Given these factors, we expect the steepening to continue, reducing

the attractiveness of sovereign bonds in a balanced portfolio, especially as the defensive nature decreases as the term premium increases, which reduces the benefits of diversified exposure.

Chart 1 – Yield curves steepened worldwide this year
YTD change in basis points (bp)



Edmond de Rothschild, Bloomberg.

Credit risk remains moderate

For 2026, the extremely low levels of credit spreads, which are close to their 2007 levels, as well as the two recent bankruptcies (Tricolor and First Brand) in the US, **pose the question of systemic risk, as well as the issue of contagion to the highest-rated companies if a credit segment linked to private loans and credit were to be affected by a significant rise in defaults.** While it is more difficult to respond concretely to the systemic risk associated with private credit – which by definition is barely or not at all monitored by regulators – we believe recent events are largely one-off, specific, and unlikely to represent the tip of the iceberg of a negative overall cycle. Lower rates and substantial refinancing in the high yield bond and syndicated loan markets have recently reduced the risk of short-term default, and the Fed's upcoming rate cuts will further reduce the cost of funding new bonds. This is demonstrated in the default rates for high yield bonds and loans, which in 2024 came out at 1.5% and 4.5%, respectively, compared with 1.4% and 3.5% in the last 12 months. This is very low for high yield bonds (the long-term average for high yield bonds is around 3%) and down year-on-year in the loan market.



BONDS

As for the risks of leveraged credit contagion to the highest-rated bond market, recent data is also not a concern. Inflows into funds and ETFs have proved significant and have been positive for several months. This suggests that investors are distinguishing between segments rather than worrying about the entire market. In addition, relative price differentials between ratings also show that investors are discriminating in terms of credit quality. For example, spreads between CCC-B, CCC-BB and B-BB ratings are at their highest level in almost three months, with investors focusing their concerns on the lowest-rated levels. But spreads between BBB-A and BB-BBB ratings have not diverged from recent trends.

This confirms that credit risk concerns in low-rated credit are not expected to impact high-rated credit. Consequently, our strategic exposure to corporate bonds remains unchanged.

AI investments are also impacting the corporate bond market

In 2025, debt-financed capital expenditure accelerated and continued to dominate many credit market segments. Since the rise of the AI theme in 2022, most of the capex of big tech companies has been financed by the large cash reserves on their balance sheets.

There has been a turnaround in the last few quarters, **with debt capital markets playing an increasingly important role.** This shift can be seen in numerous credit market segments, including the ABS market (where data centre-related issues have reached \$20 billion since the beginning of 2025), the credit markets for public and private companies, and bilateral supplier financing agreements. According to Goldman Sachs, AI companies have issued \$141 billion in corporate debt thus far in 2025, already surpassing 2024's \$127 billion. Tech issuers in this basket accounted for the lion's share of supply, at \$86 billion, followed by utilities, at \$51 billion.

We expect this trend to continue for two reasons. First, the cash balances of large technology companies have dwindled considerably and are now akin to those of investment grade (IG) issuers. Second, appetite for spending remains strong, with investment growth expected to reach 50% year-on-year through 2026. In our view, the impact on credit markets is negative overall, owing to the increase in total debt and the decrease in the cash flow-to-debt ratio. While there is not yet cause for concern, given the high cash flows and low leverage of large tech firms, a close eye needs to be kept on the trend in the composition of capex financing, looking beyond cash. All of which demonstrates that technology is an important sector for this asset class, its weight in the Bloomberg High Yield index having increased from 6% to 11% since 2015.

Moreover, the pace of advances in AI will determine the winners and losers in the corporate world as new AI tools are gradually rolled out in global economies. Sectoral and regional disparities will also play a role, including access to computing power, energy costs, regulation and the enabling environment for innovation. According to a Moody's study dated 23 September 2025, the gradual integration of AI leads to improved efficiency and margins without significantly changing competitive hierarchies. If progress is faster and more sustained, the risk of a competitive shift for slow-to-adapt companies will increase, as in the economist Joseph Schumpeter's concept of creative destruction. In this case, discrimination within credit sectors should be more pronounced. For Moody's, some industries will benefit disproportionately from the deployment of AI.

In both scenarios – rapid or more moderate integration – the largest AI-related gains are concentrated in a limited number of sectors. These include technology providers, labour-intensive industries such as insurance, logistics and business process outsourcing, and data-intensive industries, including financials, healthcare and media. Conversely, some sectors are structurally limited in terms of AI-related gains.

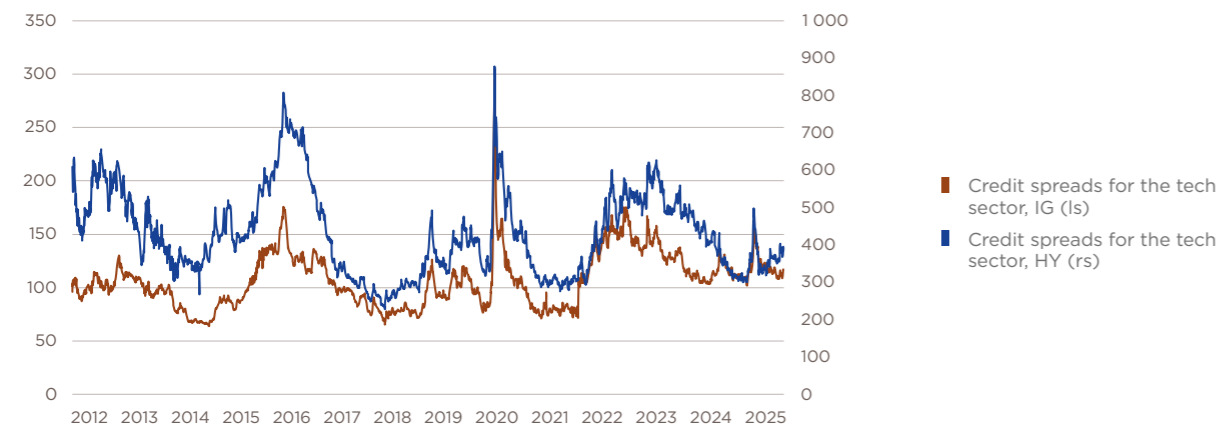
Industries such as utilities, pharmaceuticals, oil and gas, heavy industry and infrastructure are not expected to experience significant AI-related disruptions or opportunities by 2030, even if AI capacity develops swiftly. This is due to the structural dynamics of these industries, characterised by long investment and Research & Development (R&D) cycles.

Regional disparities will also play an important role in the global distribution of AI benefits. The benefits of adopting AI will not be evenly distributed across regions. The pace and extent of deployment will be dictated by differences in the innovation environment, energy costs, regulations and access to computing power, generating diverging credit outcomes from one industry to the next. Economies with a large pool of skilled digital workers are also likely to benefit from greater productivity gains. In contrast, regions with a shortage of technical talent may experience delayed or partial adoption. **In this highly evolving and constantly shifting environment, we believe that AI capex has become a sustainable driver of corporate bond supply, along with Mergers and Acquisitions (M&A).**



Chart 2 — The risk premium demanded by investors on the most indebted tech issuers has increased

Spreads in basis points (bp)



Edmond de Rothschild, Bloomberg.

What is the go-to corporate credit?

Rami Boustany

Head of Fixed Income Credit Research - Global Investment Research

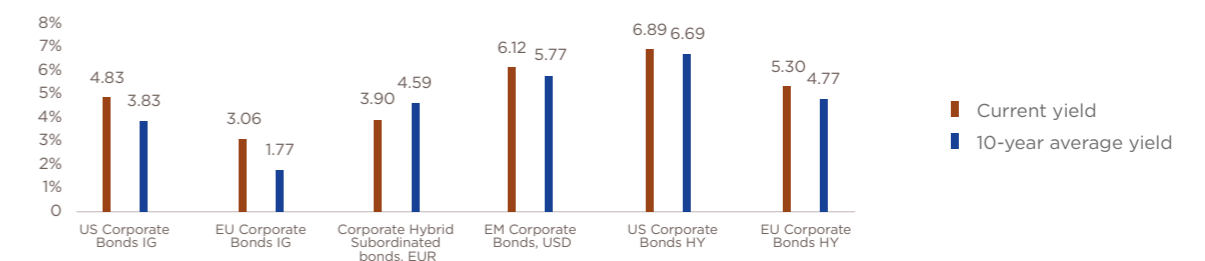
Dieter Van de voorde, CAIA, CQF, IFID

Senior Fixed Income Portfolio Manager

Bond credit spreads have fallen over the past three years, prompting us to reassess the attractiveness of this asset class. While low spreads make bond valuations vulnerable to any increase in risk aversion, absolute yields remain above their ten-year historical average, offering attractive carry opportunities, certainly since interest rates remain relatively high in the US and Europe.

US and European investment grade bonds are yielding 4.83% and 3.06%, respectively, compared with averages of 4.35% and 2.65% over the past five years. The yields on high yield and emerging market corporate bonds currently stand at 20 to 50 basis points below their five-year average but remain above their ten-year average.

Chart 1 — Current yield versus 10-year average yield per bond segment, as a percentage



Edmond de Rothschild, Bloomberg at 07/11/2025.

This level of spreads reflects a **stabilisation of default rates at low levels** in recent years, with no expectation of any significant increase on a



global scale. This is explained by the resilience of the global economy, growth in corporate profits and the relative strength of corporate balance sheets. As inflation moves closer to central bank targets in the US and Europe, following the monetary tightening of the Federal Reserve and the European Central Bank in 2024, government budget deficits and rising sovereign debt increase the **risk of steepening yield curves**, a factor that could provoke volatility in this asset class.

Investment grade segment

In this segment, the preference is for large companies with a strong competitive position, stable profitability, and the ability to generate strong cash flows. At the same time, we are making selective forays into sectors that are still at the bottom of the economic cycle, with a view to capturing more attractive spreads. For example, some sectors offer attractive yields:

- **Leading car manufacturers** with strong balance sheets, robust liquidity and credible recovery plans to restore their competitiveness in terms of model range and cost structure.
- **Chemical companies** with solid credit metrics, diversified businesses and production partially located in regions with lower energy and commodity costs than Europe, such as the US. We remain cautious on credit that risks being downgraded to high yield.
- **Telecom companies** with a diversified range of services and products, sizeable market shares and stable credit metrics despite high investments.
- **Sectors with high but sustainable debt levels** thanks to high profitability and good earnings visibility, often guaranteed by favourable regulation or long-term contracts: **infrastructure** (motorway concessions, airports, telecommunication towers), **real estate, utilities** (gas and electricity distribution and transmission), **electricity generation** and **renewable energies**.

The **large European and US systemic banks** remain attractive in investment grade, offering high yields despite their large capitalisations. The risk premium reflects a complex capital structure, combined with obligations with bail-in clauses allowing a bail-in without external assistance.

Emerging markets

Emerging market companies are following the general trend of the bond market, with relatively strong credit ratios, though spreads are historically low. This segment can be integrated into portfolios to improve returns and diversification, but higher risk tolerance is required. Due to the economic and political disparities between emerging markets and between emerging markets and developed markets, bond selection needs to be rigorous. The criteria for investment grade companies in developed markets are also valid here, with additional attention to be paid to a few key points:

- **Low currency risk or cost structure mainly in local currency** tending to depreciate, combined with high revenues in hard currencies.
- **The ability to pass on inflation.**
- **Solid fundamentals** independent of any government support.
- Business activities in **strategic sectors** for their country.

The preferred sectors include:

- **State-owned companies** monopolising the extraction of raw materials (**integrated oil companies, iron ore & gold miners, phosphate**) in Latin America, Central Asia or North Africa.
- **Utilities**, particularly electricity distribution and transmission, benefiting from favourable regulations and solid positions, mainly in the Arabian Peninsula but also in Eastern Europe and Latin America.
- Exporting companies, except in markets where the local currency is appreciating in real terms (Turkey), or large multinationals. These companies operate in **cement, aerospace, airlines or port operation**.
- **Domestic systemic banks.**
- **Real estate companies** with healthy balance sheets in the Gulf countries.



BONDS

Subordinated hybrid bond segment

This segment also offers carry opportunities but with complex instruments. Their yield is higher than senior bonds (+60 basis points in US dollars and +90 in euros), justified by a higher level of risk:

- These instruments are subordinated, significantly reducing the residual value in the event of default.
- Coupons may be deferred.
- Their effective maturity is uncertain, but issuers have several possible call dates.

Subordinated hybrid bonds are generally issued by companies with a defensive business model, holding monopolistic positions (**electricity and gas distribution and transmission**), subject to regulation and long-term contracts guaranteeing the recovery of investments and compensation against the volatility of commodities prices in the midstream (**pipelines, gas pipelines**). They also cover the sectors of **electricity generation, renewable energy projects, telecommunications and integrated oil companies** with dominant positions in rational competitive environments.

High yield segment

For risk-tolerant investors, exposure to the high yield segment improves portfolio returns. *Spreads* are also tight, with credit indicators stronger than in the last five years, but balance sheet quality and operational performances are less consistent than in investment grade, calling for rigorous selectivity. In the European high yield segment, the preferred sectors are:

- **Automotive Original Equipment Manufacturers (OEMs)**, faced with high energy costs, a slowdown in electric car sales in Europe, and a loss of market share in China. We are focused on **French OEMs** that have managed to reduce their costs, reposition their activities and maintain sustainable credit metrics despite the lack of revenue growth.
- **Telecommunications**, where debt is high. The preference is for companies with better network quality and a strong competitive position on 5G coverage and fibre optic broadband development. We remain cautious on businesses that are struggling to reverse the decline in the number of subscribers.

- **Leading companies in fragmented markets**, enabling growth through frequent acquisitions of smaller competitors and higher margins thanks to cumulative synergies. These companies operate in the **leasing of equipment for construction or mobile electricity generation, waste treatment, or engineering services**.

The fixed income asset class contributes to performance through persistently attractive carry. Despite low credit spreads and the risk of steepening of yield curves, risks are mitigated by a contained default rate environment.

Chart 2 — Rolling 12-month default rate for high yield corporates and rolling 5-year cumulative default rate for global IG corporates, as a percentage of the number of issuers



Edmond de Rothschild, Moody's.



Photo by Ludovic Minet, Four Seasons Hotel,
Megève, France.

Private markets



Private Equity market: current situation and outlook

Matthieu George, CFA

Private Equity – Head of Portfolio Management

Forecasting how the private markets will trend over the rest of the decade hinges on assessing the cyclical factors currently influencing them. Private Equity (PE) distributions to their limited partners (LPs) have been low lately, reducing investors' enthusiasm or ability to invest in new funds. This is in stark contrast to 2021, when the COVID-19 stimulus measures were still in place.

But the pace has slowed considerably following the tightening of monetary policy in 2022. Capital flows have reached more moderate levels. One of the main reasons for this slowdown is the difficulty for fund managers to achieve exits in line with their expectations, given market conditions. As such, managers hold on to their assets for longer rather than selling them at a lower price, resulting in a reduction in outflows and an extension of the duration of the funds.

As performances hold up, the Private Equity market has cooled... And 2026 should be a year of transition

After three years of limited exits and negative net distributions, Private Equity has reorganised in 2025. The dollar amounts of M&A have proved impressive, but the number of deals tells a different story, with mega deals masking the lowest global total since 2005¹.

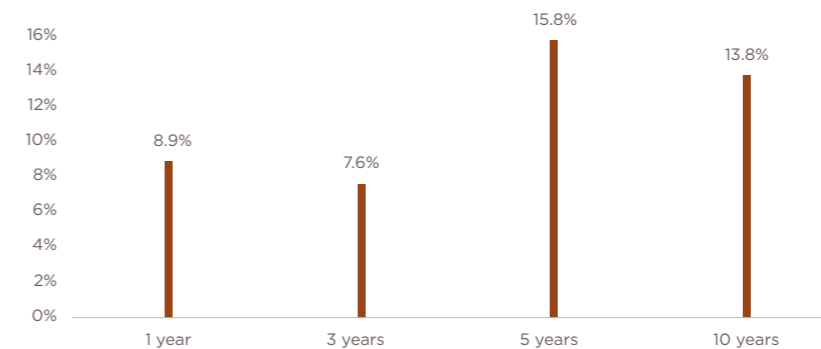
Distributions to investors remain low, reinforcing the slowdown in fund-raising and pushing fund managers (GPs) towards alternative liquidity tools. However, **the underlying returns of Private Equity remain resilient and transaction valuations “reasonable”, laying the groundwork for a gradual return to normal in 2026.**

Performance

Over the long term, the benchmark indices continue to deliver double-digit net returns for buy-out strategies and Private Equity strategies in general, with five- and ten-year internal rates of return (IRR²) of 15.8% and 13.8%, respectively³ (Chart 1). Over shorter periods, including one year, PE has underperformed public markets. But it is important to remember that this market is inherently long-term and also that Private Equity significantly outperformed listed equities during the 2022 recession, which means that it is smoothing out its return profile.

Valuations improved through mid-2025, the date of the latest available data, confirming that **operational value creation and M&A continue even when outflows are slow**. While these figures do not guarantee short-term results, they help to explain why **many LPs are maintaining their target weightings**.

Chart 1 — Global internal rate of return (IRR) for leveraged buyout strategies, cumulated over the period



Edmond de Rothschild, MSCI at 30.06.2025.

Fundraising

According to Preqin, a research firm specialised in private markets, the market has loosened up since 2023-2024, with the denominator effect fading and distributions starting to pick up. In Private Equity, the denominator effect arises when the total value of an investor's listed portfolio decreases due to, for example, a fall in the markets, as in 2022, but when the value of unlisted investments remains stable. This increases the share of PE in the portfolio, which may require

¹ Data at end-June 2025.

² A performance indicator for closed-end funds.

³ According to the MSCI Private Capital Benchmarks Report on buyout strategies in the second quarter of 2025.



adjustments to meet allocation targets. Nevertheless, fundraising is still relatively sluggish. But some managers continue to successfully raise funds of several billion dollars, oversubscribed, reaching their maximum capacity in just a few months, and with a single closing⁴.

Global fundraising is expected to remain below pre-2022 peaks in 2026, with the lion's share of AuM going to managers with in-depth industry knowledge, consistent value-creation ability, and liquidity credibility. **Private wealth management channels should continue to expand access to this asset class.**

Transaction activity and valuation

The overall value of M&A has grown faster than the number of deals so far in 2025, with the comeback of mega-deals. **Yet prices appear reasonable**, with median takeover multiples in the US in the first half close to their ten-year average. Prices continue to depend on funding costs and profit sustainability.

Exits and liquidity

Exits remain the main obstacle. Their total value in 2025 (latest figures released in the first half of the year) included a few exceptional transactions, but the number of companies sold fell to a multi-year low. Activity was dominated by sales to strategic players and transactions between investment funds, while IPOs contributed on an isolated basis.

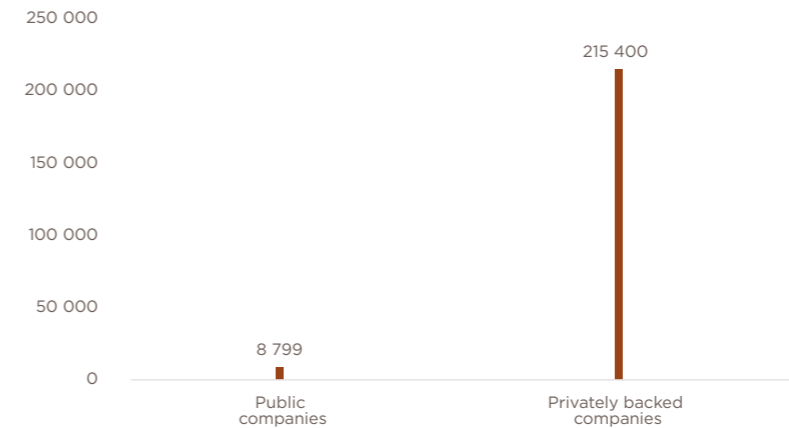
As a result, GPs relied more on continuation vehicles (CVs⁵) and financing at portfolio level. Alpinvest, a major asset allocator in private markets, estimates that CVs now account for around 13% of outflows from LBOs. In this regard, Private Equity funds of funds have witnessed several liquidity events over the past two years and we agree that CVs have become an important option for obtaining liquidity. While narrowing bid-ask spreads is crucial to boosting exits, a favourable macroeconomic environment remains important if portfolio companies are to reach their budgets, which is a key point for potential buyers.

In 2026, these mechanisms, which serve to convert part of the value of the companies in the portfolio into cash without forcing GPs to divest, are likely to continue to gain traction. Use of these vehicles will depend on how much trust the funds managers have in their future value creation. The growing secondary market ecosystem should therefore continue to absorb liquidity needs.

⁴ In Private Equity, closing is the last step in a transaction, be it a fundraising or the sale of a company.

⁵ Continuation vehicles make it possible to extend the holding of an asset in order to maximise its value while offering a liquidity opportunity to investors looking to withdraw their stake. The asset is sold by the old fund to a new vehicle created specifically, at a price set by a secondary investor. Investors in the old fund decide whether they want to reinvest in the new vehicle alongside the consortium formed by the secondary investor.

Chart 2 – Number of listed companies versus companies with Private Equity funds as shareholders



Edmond de Rothschild, MSCI.

What's next?

Calling private markets “alternative” is anachronistic, as they are becoming essential to building a robust portfolio. These markets are no longer “niche” or “alternative”. They are a **source of greater value creation, since companies remain private for longer and account for a larger share of the investment universe** (Chart 2). At the same time, public markets have aged, as fewer and fewer new companies are listed. They have become more concentrated and more correlated, which has reduced the benefits of diversification. The correlation between equities and bonds has become less reliable as a tool for absorbing shocks.

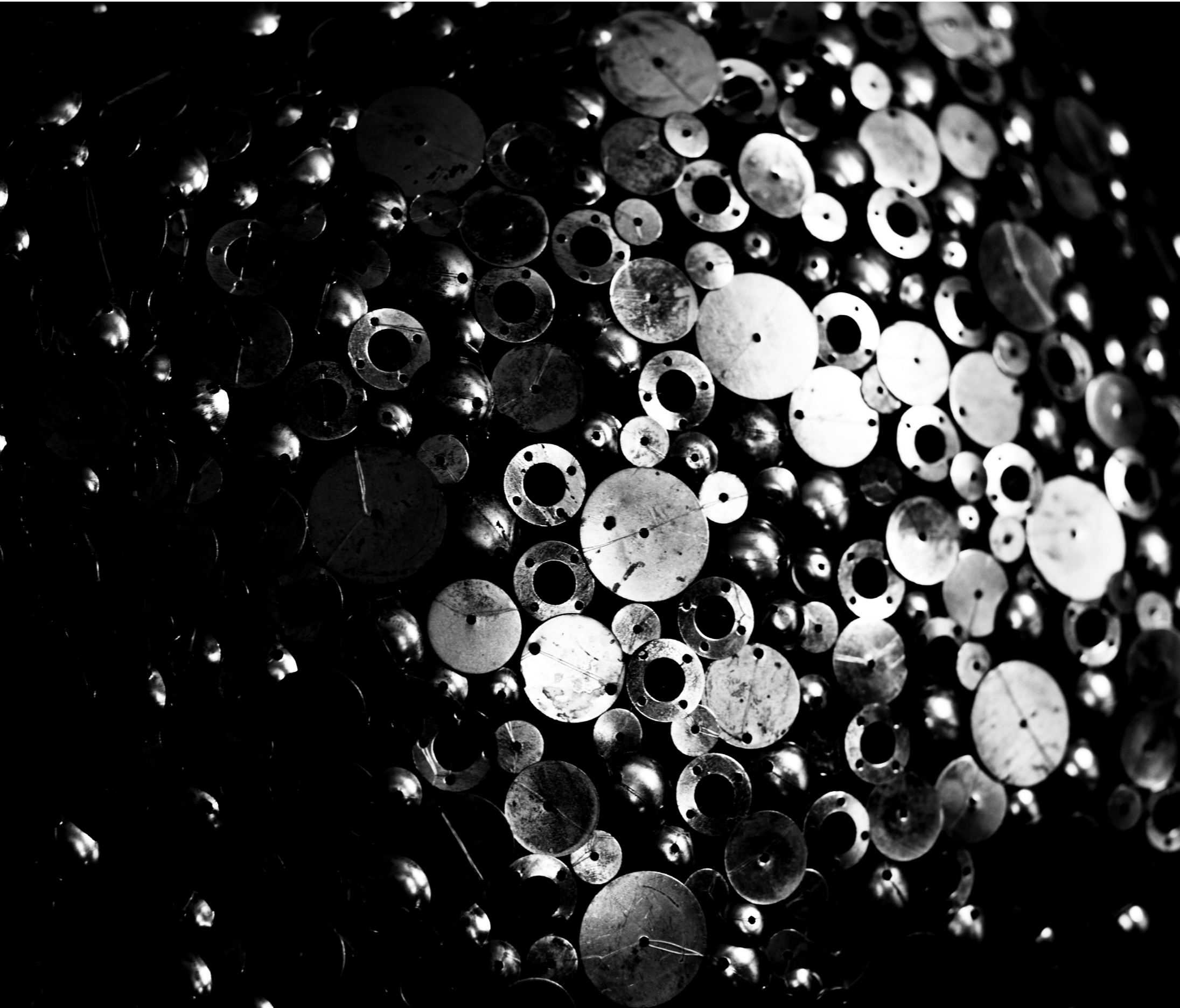
Given these factors, a measured allocation (e.g. 20%) to private assets can improve the quality of a portfolio, with Private Equity improving returns through active ownership and operational levers for value creation and real assets for diversification. That is not to say that private assets always outperform over short periods of time. But they do have the capacity to increase yield drivers in a way that public markets no longer manage to do as effectively. Furthermore, returns from Private Equity strategies are driven more by **specific value creation** than by market beta, which is interesting given the rise in synchronised movements in listed equities.

PRIVATE MARKETS



Focusing specifically on next year, **2026 promises to be a “pivotal year”** with upside and downside outlooks plausible. The available evidence is tilting moderately towards a positive outcome.

For the rest of the decade, **we expect the volume of exits to recover, which should help to launch a new cycle in Private Equity and private markets in general.** Scenarios that could trigger this new cycle include lower key interest rates, the continued convergence of asset valuations between buyers and sellers, a more favourable macroeconomic environment enabling portfolio companies to meet their projected budgets, and a continued structural shift in allocations from public to private markets.



Detail, bank reception rooms, Geneva, Switzerland.

Forex



What are the challenges for 2026 on the forex market?

Jean-Marc Guillot
Group Treasurer

In the currencies and precious metals market, 2025 has been marked by extreme uncertainty linked to the erratic nature of the policy led by Donald Trump. Since taking office, Trump has made numerous surprise announcements and policy reversals, regarding both the economic war and his dream role as a peacemaker in the Israeli-Palestinian and Russian-Ukrainian conflicts. He has also been forthrightly interventionist, seeking to interfere in the affairs of the Federal Reserve in a decidedly non-neutral manner.

This widespread uncertainty has been evident in the rest of the world. The various episodes of political instability in France against a backdrop of aggravated debt have influenced the euro. Japan has faced a major political transformation, the impacts of which are yet to be assessed. Switzerland has been hit with a 39% tariff by the US administration and faces issues regarding the attractiveness of its currency as a safe haven. This environment looks set to continue in 2026, calling for vigilance and responsiveness in the management of foreign exchange risk.

US: inflation-linked threats

In the United States, the Fed initiated a monetary easing cycle in September. At the time of writing, the market is pricing rates of 3% rather than 4% at the end of the first half of 2026. Though supported by the slowdown in the labour market, this scenario remains hypothetical, as inflation has never fallen back to the desired equilibrium level of 2% in annual price increases. On the contrary, the consumer price index began to rebound in summer 2025, inching up from 2.6% to 2.7%, and then to 2.9%. The Trump administration's numerous tariffs on imports of foreign goods generate additional costs, not all of which are absorbed, either by the exporter or the importer. The end customers – US citizens – are also impacted. The impact has not been felt immediately, but inflation could well rebound, leading the Fed to reconsider its accommodative policy.

Lastly, while the US dollar's reserve currency status is under debate, that status is unlikely to change in the medium term owing to a lack of credible alternatives and sufficient liquidity for foreign central banks and international investors.

Europe: eurozone weakened by French risk

Political instability in France, the succession of prime ministers and never-ending fiscal concessions financed by abyssal debt have led rating agencies to downgrade the country, increasing borrowing costs. This French risk is weighing on the eurozone and impacting the rate of the euro. While the collective drive on increased military spending on the part of EU countries in response to the Russian threat has helped to support a rise in the euro, France's fiscal risk is limiting buyer interest in the single currency. The market is not anticipating much in terms of ECB monetary policy. It expects interest rates to hold steady at 2% over the next 24 months, with perhaps a final cut of 25 basis points to support the economy if warranted. Given the stability of European rates and the risk of a revision of downward expectations in the United States, the EUR/USD exchange rate should stabilise at around 1.15.

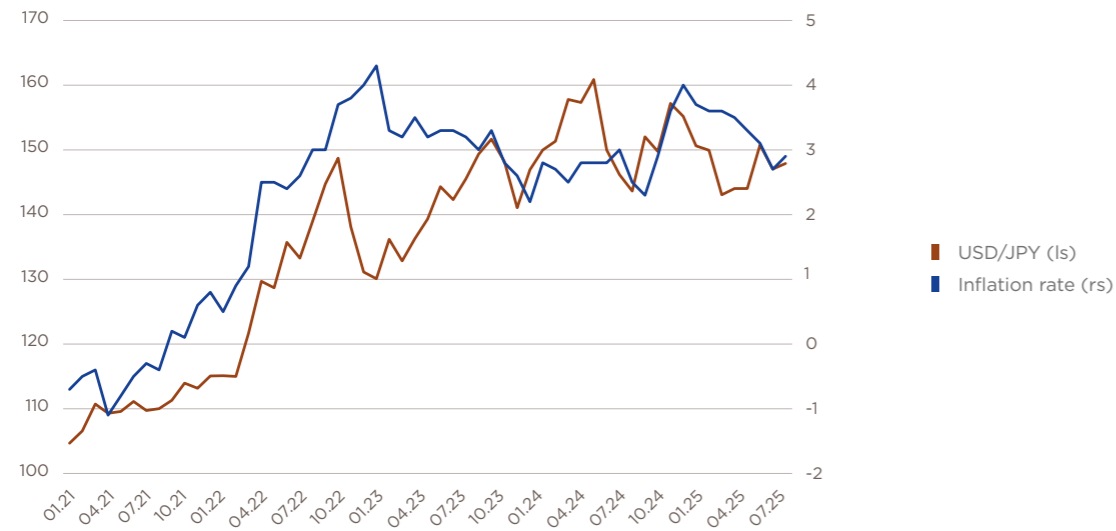
Japan: yen value down?

After taking the helm of the Liberal Democratic Party, Sanae Takaichi, 64, has become Japan's first female prime minister. She is determined to address the country's cost of living crisis, having drawn up a new economic plan and devised a special budget. But the tax-free financial allocations and other proposed tax cuts will need to be financed, most likely by increasing national debt through new issues of Japanese government bonds (JGBs). These measures run counter to the Bank of Japan's gradual monetary tightening under the leadership of former Prime Minister Kazuo Ueda, aimed at bringing down inflation, which remains excessive at an annualised 2.9%.

The main risk for the yen is a dip in value resulting from government policy moves, returning to the 155/160 zone against the US dollar. Because a weak currency increases the risk of imported inflation, the Ministry of Finance will in all likelihood tap the market once again to contain the movement. This tactic, combined with the continuation of the current restrictive monetary policy, should enable the yen to stabilise at 140/145 against the dollar in the medium term.



Chart 1 — Accelerating inflation has been accompanied by a depreciation of the yen in Japan

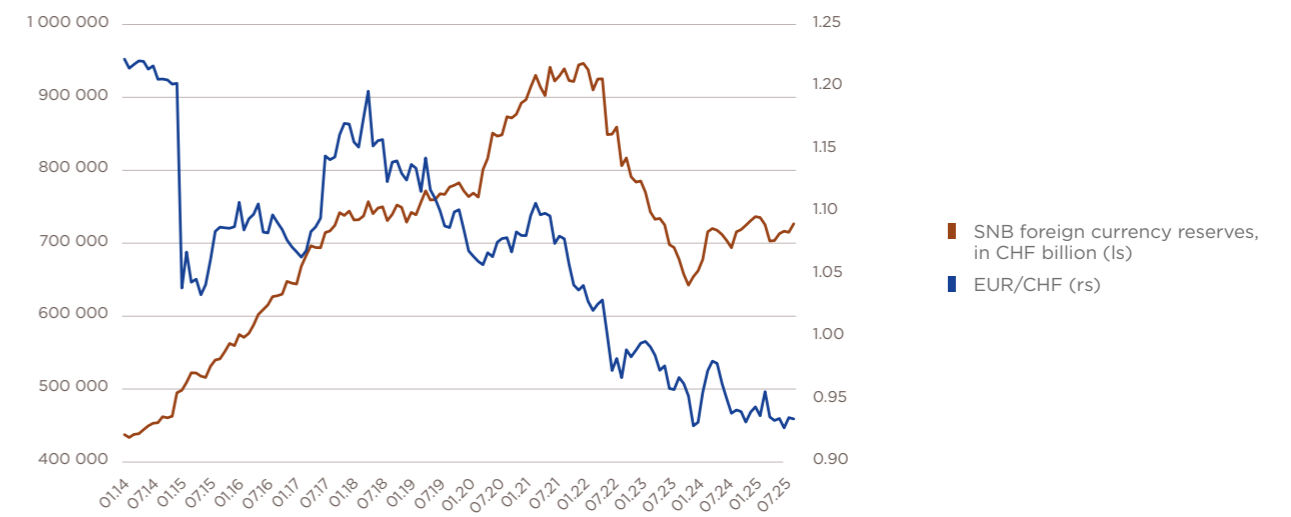


Edmond de Rothschild, Bloomberg.

Switzerland: impressive resilience

Though impacted by US tariffs initially set at 39% and pressure on the pharmaceutical sector, Switzerland continues to show impressive resilience and a surprising ability to adapt. The high added value of its export products and, in some categories, the lack of substitutes, continues to work in the country's favour. The Swiss National Bank (SNB) has set its benchmark interest rate to 0%, both to deter security-seeking international investors from holding excessive amounts of francs and to support the country's growth. Yet the Swiss franc is trading at high levels. Critical support points are 0.92 in EUR/CHF and 0.78 in USD/CHF. Anything lower than this would likely prompt SNB intervention, through two strategies. It could further increase reserves by buying assets in foreign currencies. And it could also re-envisage negative rates, despite the damaging effects on the occupational pension fund sector and on part of the financial sector. The likely effect would be a stabilisation, followed by a slight fall in the franc towards 0.96 and 0.84 in the medium term.

Chart 2 — The SNB could weaken its currency by intervening in the foreign exchange market



Edmond de Rothschild, Bloomberg.

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