

SPECIAL EDITION

# UBP House View

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Investment Outlook 2026

*The art of kintsugi*

In the same spirit, UBP's conviction-driven and long-term approach seeks to build strategies that endure, guided by the belief that true value lies in continuity and renewal.



UNION BANCAIRE PRIVÉE

# Navigating changes, capturing opportunities

## Editorial

For our 2026 investment outlook, we developed our convictions around two primary forces reshaping the global economy. The ongoing reset of the global geopolitical order, coupled with the strategic race for dominance in artificial intelligence (AI), forms the cornerstone of our approach to portfolio construction for this year.

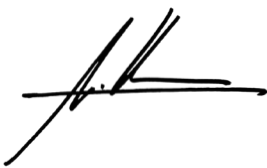
As 2026 unfolds, the global economy is entering a pivotal transition, shifting from fragmented resilience to resynchronised growth, while inflation is returning to a more normalised and moderate path.

We expect a cyclical recovery to get under way, driven by domestic demand and investment, which represents a key engine of this resynchronised expansion, even as it becomes increasingly regional and domestically oriented. Indeed, the pursuit of productivity gains across countries is poised to underpin growth over the coming years. In addition, supportive fiscal measures and growth-oriented budgetary policies, alongside broadly accommodative monetary policies, are reinforcing this positive momentum, particularly in the United States, Germany, Japan, and China.

Our outlook on equities remains constructive, with global earnings expected to accelerate and broaden along the AI value chain, notably through rising electricity demand, but also across other sectors following three years of lacklustre growth outside the US technology sector. However, in a context of elevated valuations, greater diversification and more disciplined risk management, including tactical opportunities, are required.

The more general improvement in fundamentals is also supportive of high-yield and emerging market debt, whose outperformance should continue throughout the year. Meanwhile, gold's trajectory is likely to moderate after an exceptional rally in 2025. We nevertheless remain positive about its secular upward trend and its role as a core component of portfolio diversification.

**Michaël Lok, Group CIO and Co-CEO Asset Management**



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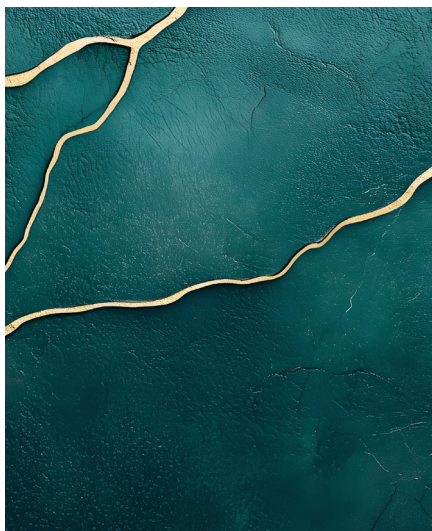


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The opinions expressed in this document are as at 12 January 2026 and are subject to change without notice.

# Global macro scenario

- 1** Resynchronised global growth and broadening expansion across regions.
- 2** Investment and domestic demand will drive growth.
- 3** Inflation will return to a moderate trend in 2026.
- 4** More global accommodative monetary policies and growth-supportive budgetary measures.

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# Global growth in 2026

## A synchronised recovery fuelled by innovation and investments

The global economy is expected to expand at a steady pace of 3.2% in 2026, with the United States leading the way with growth of over 2.0%, supported by resilient activity in Asia and a gradual recovery in China. The start of the year is expected to be more sluggish, with Q1 26 activity still reeling from the lingering effects of US tariffs and supply chain adjustments. Nevertheless, global activity is expected to accelerate as the year progresses. Germany is set for a rebound, while the United Kingdom and Japan are likely to see modest growth of around 1.0%. The eurozone, projected to grow at 1.1% in 2026, will benefit from German economic stimulus measures and strong performances in its peripheral countries.

Domestic demand, particularly investment, will be the primary growth driver in 2026. The global race for technological leadership, especially in artificial intelligence (AI), will spur innovation and productivity gains across AI-related industries. Governments around the world, but particularly in Europe, are also expected to increase public spending on infrastructure, climate initiatives, and energy security, fostering collaboration with private sector investment as they do so.

Inflation is anticipated to return to a more moderate trajectory. The upward pressure caused by US tariffs should ease gradually, with US inflation returning to a 2.5% trend over the course of the year. Energy prices should remain contained, and services will likely moderate further, after having been elevated for several years. Meanwhile, inflation in Europe will hover around 2.0%, while prices in emerging markets will stabilise at close to the official targets.

Following the stimulus measures announced by Germany, Japan, and the United States in 2025, fiscal policy is anticipated to take on a more prominent role in supporting economic growth in 2026. Public expenditure will play a pivotal part in sustaining the investment cycle, although this approach is likely to result in persistently high deficits and a rising trajectory for public debt.

At the same time, central banks are likely to keep accommodative monetary policies in place to sustain economic activity. In 2026, interest rate reductions are expected to be more significant in developed economies. Central banks in the US and UK could follow an aggressive strategy on key rates, which will be justified by the weakness of their respective labour markets and a sharp decline in inflation. In contrast, emerging markets are likely to adopt a more cautious and moderate approach.

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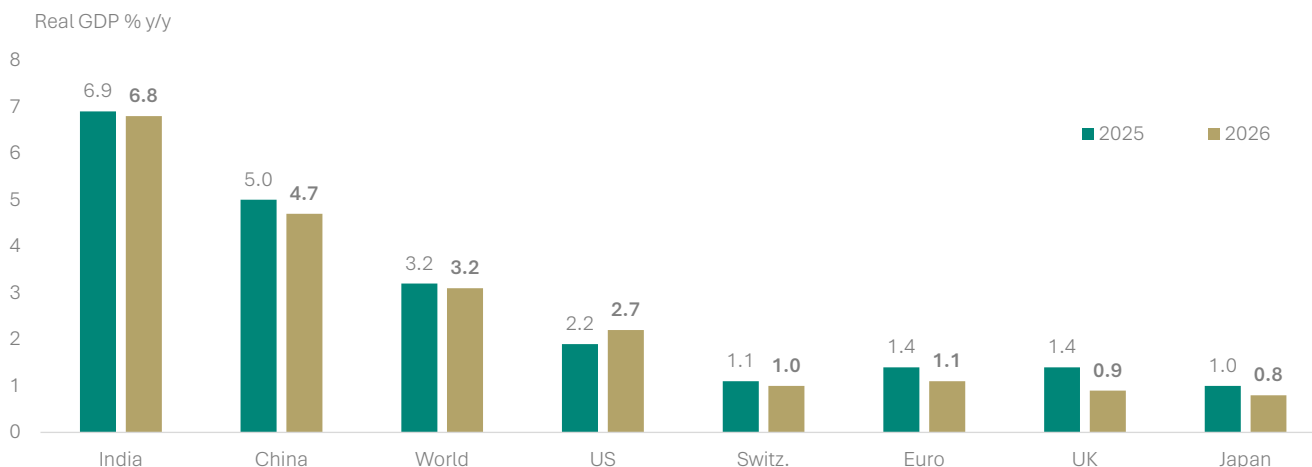
### Four factors underpinning steady US growth in 2026

US economic growth is projected to accelerate to 2.7% in 2026, up from 2.2% in 2025. This momentum is expected to be driven by four key factors working together to reinforce the positive trend established in 2025. Significant investment in artificial intelligence is fostering the development of a new ecosystem centred around advanced technologies. The broader take-up of these technologies is expanding investment opportunities, which in turn are anticipated to ultimately boost productivity across traditional sectors.

Consumption also remains a key driver of economic activity, particularly that generated by high-income households. To put this into context, the top 10% of earners are responsible for nearly half of all consumer spending in the US, while the top 20% account for over 60%. Additionally, wealth effects and tax refunds are expected to sustain this ‘K-shaped’ economic trend for another year, even as job creation is projected to slow considerably in 2026.

Although no new measures are expected, fiscal policy should keep the deficit at approximately 6.0% of GDP, with no significant constraints likely to be introduced during this mid-term election year. Monetary policy is also likely to be eased in two stages: initially in response to the deterioration in employment, and secondly due to the decline in inflation. The Fed will therefore reduce interest rates to just below 3.0%, pushing real interest rates to a lower level that should support further lending and growth, as well as help budget refinancing.

2026 GDP GROWTH  
MAIN COUNTRIES



Source(s): UBP Economic and Thematic Research

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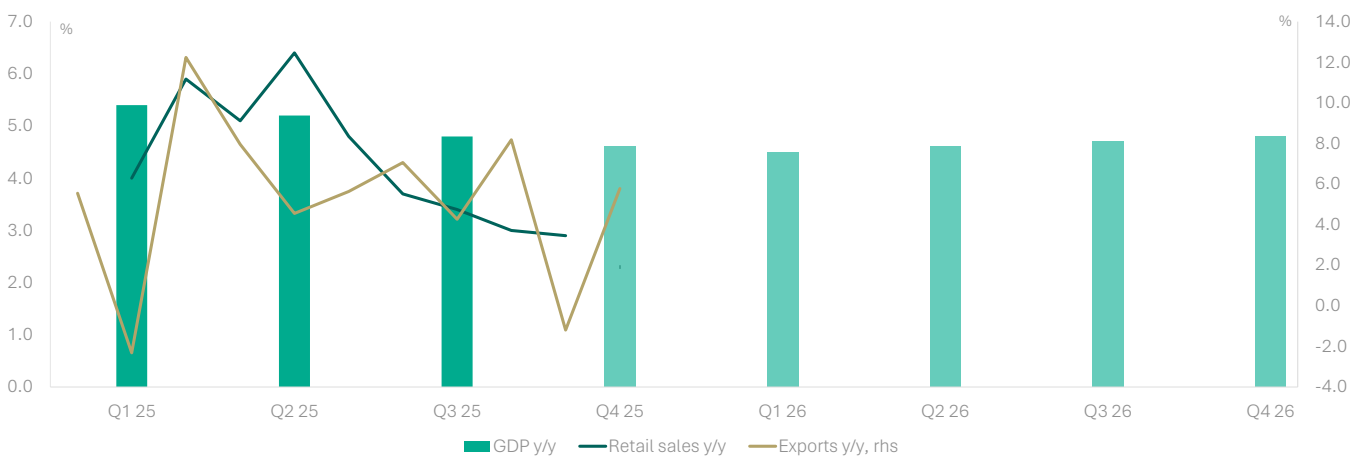
### Moderate but stable growth in Asia amid shifting drivers

Asia’s economic outlook for 2026 suggests a phase of moderate yet stable growth, with the region expected to expand at a GDP-weighted rate of 4.1%. This marks a slight deceleration compared with 2025 as external demand stabilises and inflationary pressures prompt central banks to pause further monetary easing. Nevertheless, the effects of the easing cycle in 2025 are likely to keep interest rates relatively low. On a positive note, fiscal policy is set to play a pivotal role, with countries such as Japan and China significantly increasing investments in infrastructure and emerging technologies like artificial intelligence, which could help to partially offset a slowdown on the external front.

China, the region’s largest economy, is projected to grow by around 4.7% in 2026, down from 5.0% in 2025. This slowdown reflects cooling export momentum, alongside persistent challenges in the real estate sector, which have weighed on consumer confidence and private investment. The impact of these challenges is likely to be more pronounced in the first half of the year, with a gradual recovery anticipated in the second half. The economy remains notably unbalanced, with high-tech manufacturing driving much of its performance. However, the introduction of China’s fifteenth five-year plan (2026–2030) is expected to mark out a path towards more sustainable growth, focusing on innovation, green technology, and boosting domestic consumption. This strategic pivot is likely to help mitigate external pressures and support long-term economic stability.

Elsewhere in Asia, India and Indonesia are expected to remain key bright spots, supported by stronger domestic demand and ongoing structural reforms. Japan is likely to rely heavily on fiscal stimulus measures, with increased public investment in infrastructure, technology, and defence. Meanwhile, south-east Asia is set to benefit from supply-chain diversification and a rise in foreign direct investment.

CHINA GROWTH SCENARIO FOR 2025–2026



Source(s): LSEG Datastream, UBP Economic and Thematic Research

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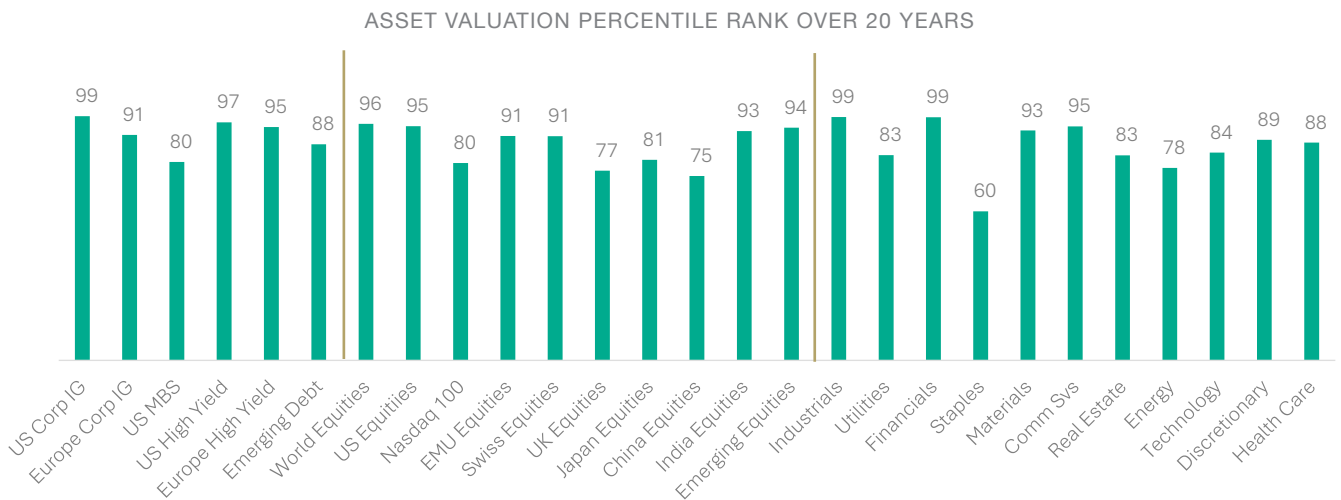
# Investment implications

The implication for our supportive global macroeconomic outlook for this year is to keep allocations to risk assets unchanged at the start of 2026, despite elevated valuations across most asset classes. Resilient global growth, expected Federal Reserve rate cuts, fiscal stimulus measures, low energy prices, and the ongoing AI-driven investment cycle continue to support the global corporate environment.

The ongoing reset of the global geopolitical order, coupled with the strategic race to achieve dominance in artificial intelligence, is driving profound changes, redefining investment opportunities and risks, and compelling us to adapt our strategies to navigate this evolving landscape effectively. These opportunities are primarily found within asset classes, rather than through changes in overall asset allocation.

While equity valuations are at the upper end of historical ranges, there is little evidence at this stage of a speculative bubble. Valuations remain largely supported by earnings, which clearly differentiate the current cycle from previous periods of excess, providing reassurance for investors despite higher valuation levels.

Our central scenario assumes US 10-year Treasury yields will trade within a 3.75–4.25% range, with limited room for a meaningful move by the end of 2026. The risks for bond yields are skewed to the downside, given lower inflation and a more accommodative Federal Reserve policy as new leadership takes office this year. The US dollar remains overvalued and is expected to weaken moderately. This normalisation should support global markets and, together with ongoing uncertainties, strengthen the case for gold, with a target of USD 5,200 per oz by the end of 2026.



Source(s): LSEG Datastream, UBP

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As we enter 2026, fixed income portfolios are positioned with reduced exposure to investment grade (IG) assets, while leaning on high yield (HY) and emerging markets (EM) for carry. Duration is set at around four and a half years, up slightly from 2025, with flexibility to extend it further if needed.

In equities, global earnings growth is projected to accelerate to approximately 15% in 2026, supported by broader sectoral participation. Large-cap technology stocks are expected to maintain strong growth, driven by the acceleration of cloud computing, while earnings in other sectors are likely to continue recovering amid a favourable macroeconomic environment. AI remains a key structural driver, offering opportunities but also higher risks given the limited visibility on AI monetisation. Despite these concerns, the current technology cycle shows limited signs of a bubble, as earnings continue to underpin valuations.

The overall equity outlook remains constructive; however, a short-term rotation towards value sectors is possible in a resilient economic environment, amid growing concerns over AI-related capital expenditures and returns. Expanding technology exposure across structural growth themes linked to power demand, such as utilities, commodities and renewables, as well as China technology stocks, is our preferred way to navigate this environment.

China technology stocks are volatile but represent an attractive diversifier. While China's economy is slowing, it is likely to bottom out in Q2, supported by fiscal expansion under the fifteenth five-year plan (2026–2030), which prioritises domestic consumption and technology. After a disappointing 2025, with earnings down 15% due to weak consumption and intense competition, opportunities should emerge as the earnings recovery unfolds.

Thematic investing – such as artificial intelligence, power demand and China technology – delivered strong performances in 2025 driven by major structural trends, and we expect this momentum to continue in 2026. Active management remains key as these themes reshape market leadership.

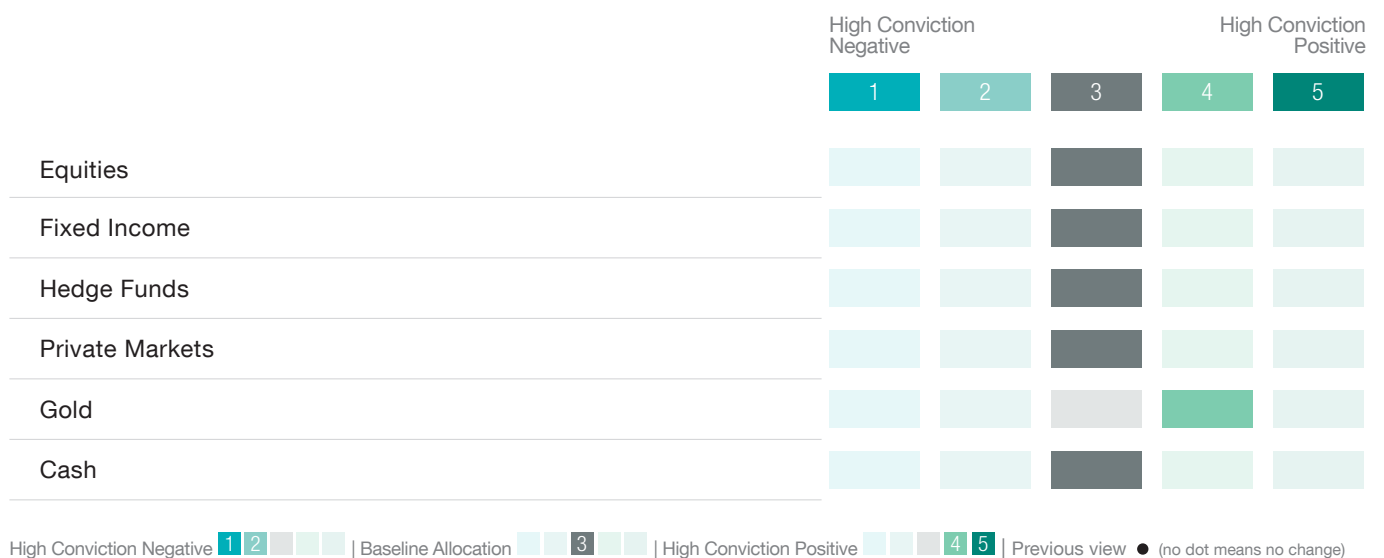
Equity volatility is expected to remain subdued in 2026, though occasional spikes are likely, driven by persistent geopolitical risks that could weigh on investor sentiment and trigger periodic market corrections. Additionally, any disappointment in the monetisation of AI-driven investments could pose longer-term risks to earnings growth. Last, a key risk to our positioning is the potential for sustained inflation in the US, which could strengthen the dollar and delay the expected rate-cutting cycle. In this environment, hedging against downside risks will remain a key part of our investment strategy.

In summary, our 2026 investment strategy reflects a balanced yet proactive approach to navigating a rapidly evolving global landscape. We remain fully invested in equities and pro-risk oriented in fixed income, but elevated valuations and the potential for geopolitical and economic disruptions necessitate active risk management. By aligning our portfolio with the transformative forces of geopolitical realignment and the AI revolution, we aim to position ourselves for long-term growth while remaining vigilant to the risks and opportunities that lie ahead.

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# Directional views

## Asset allocation: strategic views as at January 2026



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# Risks

## Geopolitical risks

### A new world order

The world is moving away from the post-Cold War era of broad multilateralism towards a more fragmented, increasingly polarised order. The geopolitical backdrop is now shaped by two competing centres of gravity: the US and its major allies on one side, and a China-centred bloc on the other, reinforced by a closer Russia–China alignment that deepens strategic and economic separation.

Many countries are being pulled – formally or informally – towards one camp or the other. For markets, this shift matters because it increases the impact of policy-driven shocks: sanctions, export controls, investment restrictions, tariffs, and industrial policies.

By embedding more persistent geopolitical risks into critical sectors such as energy, shipping, and essential materials, the strategic objective remains clear: to secure dominance in the global artificial intelligence race. This race is poised to redefine key dimensions of national security, demographic trends, and productivity on a transformative scale. While the ongoing trend of deglobalisation is expected to exert inflationary pressures on developed economies, rapid advancements in AI have the potential to serve as a powerful deflationary counterbalance, mitigating these effects and reshaping the global economic landscape.

Crucially, the geography of competition is increasingly tied to natural-resource security: access to oil and gas, critical minerals, refining capacity, and key maritime chokepoints is shaping foreign policy choices, alliances, and risk-taking.

In 2025, investors had to contend with several geopolitical policy-induced shocks, including Germany's decision to boost defence spending, conflicts in the Middle East, and the ongoing war in Ukraine. These were powerful event risks that energised markets – especially the German move towards a more assertive fiscal stimulus programme – and which resulted in a surge in long-end borrowing costs and the subsequent appreciation of the euro. As we move into 2026, we anticipate that geopolitical risks will continue to be a source of underlying volatility for investors.

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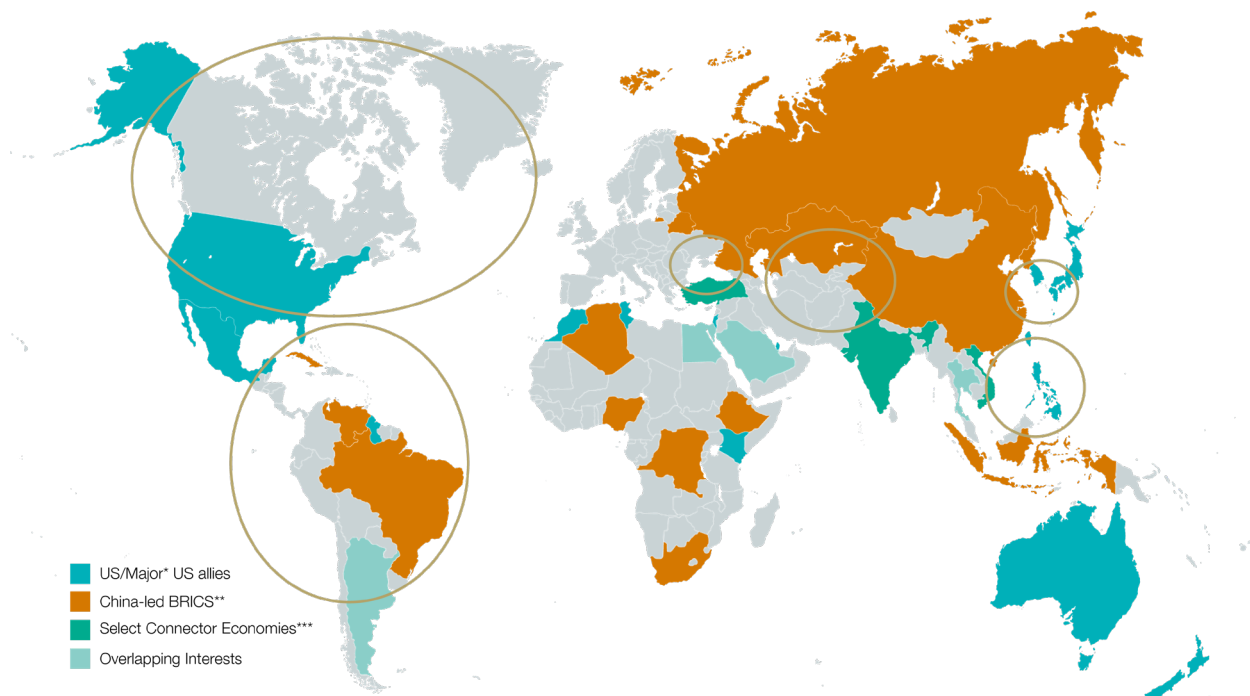
### Resource nationalism is likely to be an emerging trend in 2026

Recent events in Venezuela have had only limited effects on the international energy markets, thus reflecting globally abundant supply dynamics. However, we believe that US President Trump’s pivot towards explicit control of Venezuela’s natural resources highlights an emerging trend of resource nationalism.

The events in Venezuela are likely to mark the early stages of an increasingly active US administration aiming to secure access to critical raw materials. Trump’s recent comments on Greenland provide a further, clear illustration of this objective. Rising strategic attention to the Arctic reflects longer-term competition over sea lanes, positioning, and access to resources – another reminder that geopolitics increasingly overlaps with supply security and logistics.

We anticipate that the forthcoming renegotiation of the United States–Mexico–Canada Agreement (USMCA) on trade may illustrate this power dynamic to a greater extent than before, and the US is likely to place significant importance on increasing its raw material processing capacity as part of any agreement.

We note that the US and China have already taken several steps to safeguard access to critical and essential metals. China already imposes export curbs on rare earth metals, and the US has moved to increase its stockpiles of a huge range of metals. These measures are unlikely to be relaxed any time soon, meaning that the tightness seen in several physical markets – such as copper, silver and the platinum group metals (PGM) complex – is set to persist.



Source(s): UBP  
 \* + Officially designated major US non-NATO allies; \*\* Members of BRICS alliance (ex-India) including nations applying for membership; \*\*\* Mexico, India, Vietnam, Singapore, Türkiye, UAE

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The Russia–Ukraine war has entrenched sanctions and accelerated Europe’s push for energy security and rearmament, with spillovers into commodity pricing, fiscal choices, and industrial strategies. Europe is pivotal: it is both a frontline security actor and a major economic power that can either cushion or amplify fragmentation through regulation, trade policy, and defence coordination.

The Indo-Pacific remains the central theatre, with Taiwan and its surrounding waters representing the most consequential tail risk, given their importance to global technology and advanced semiconductors. A second cluster spans Eastern Europe into Eurasia, where confrontation, sanctions dynamics, and energy-security concerns can keep risk premia elevated. The Middle East remains a critical transmission channel via energy and maritime routes, while the Americas and the Arctic periodically emerge as market-moving arenas through resource diplomacy and strategic access.

In short, geopolitics is shifting from isolated episodes to a durable regime of bloc competition, one increasingly motivated by control over resources, processing capacity, and transport routes. For investors, the implication is not only headline volatility, but a gradual repricing of supply-chain resilience, strategic autonomy, and the cost of operating across competing systems, with Europe playing an outsized role in determining how far fragmentation goes.

The upshot is that investors should remain prepared for the possibility of sudden price spikes across base, industrial and precious metals groups. This new regime is likely to remain in place for a considerable period of time, and investors should be prepared for an increasing weaponisation of resource access and control, highlighting the possibility of potential supply shocks at any time.

## Other risks for 2026

While we continue to see attractive investment opportunities heading into 2026, risks remain an inseparable part of portfolio construction. Besides geopolitical risks, we foresee three other risks: one specific to our investment positioning, and two more related to broader market dynamics against a backdrop of elevated valuations that leave markets more vulnerable to negative surprises.

First, the most direct risk to our positioning is a renewed tightening of US financial conditions, driven by higher interest rates and a potentially stronger dollar. Markets are currently leaning towards a smooth disinflation path that allows the Federal Reserve to ease its policy gradually. Persistent inflation, potentially sustained by elevated tariffs and their second-round effects, could keep the Fed restrictive for longer than investors expect, or limit the magnitude of future cuts. In such a scenario, the long end of the US yield curve could reprice higher. A related vulnerability is the backdrop of a global demand for Treasuries.

If Japanese investors were to reduce their US Treasury exposures in favour of domestic bonds, which are now offering more attractive returns once currency hedging costs are considered, US yields could rise further. This would be uncomfortable for parts of the portfolio, including longer-duration bonds, emerging market debt, and gold. The risk would be compounded if higher yields coincided with renewed dollar strength, historically a challenging mix for EM assets and for gold, and a headwind for risk sentiment more broadly.

Second, we remain constructive on AI’s long-term ability to reshape productivity and business models, but we see a meaningful risk that markets may get ahead of the fundamentals over the medium term. This is not necessarily a risk at present: earnings momentum remains supportive, and the investment narrative

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is still being validated in parts of the value chain. The key variable to monitor is the earnings trajectory, that is whether revenue conversion, margin expansion, and cash-flow delivery can keep pace with expectations as spending normalises from exceptional levels. The scale of spending across chips, cloud infrastructure, data centres, and energy is extraordinary, yet the timing and scope of monetisation are still uncertain. Company take-up may prove slower than optimists expect, and corporates could remain more cost-sensitive as they move from experimentation to scaled deployment.

History offers a useful reminder: transformative technologies – railways, electrification, the internet – often deliver profound long-term gains, but the investment cycle can overshoot in its early stages, followed by periods of consolidation or even failure before mass adoption and measurable productivity benefits become visible. It is also far from guaranteed that today's winners will be the enduring winners. Competitive dynamics in software, models, and hardware remain fluid, and regulation, pricing pressures, and commoditisation can emerge quickly as capabilities spread. In addition, technological progress itself can be disruptive to the investment thesis: step changes in efficiency, new architectures, and alternative approaches could materially reduce computing intensity and challenge assumptions underpinning parts of the AI supply chain.

The theme also contains weak links: companies with weak balance sheets or limited competitive barriers that have been pulled into the AI narrative despite modest underlying fundamentals. Any disappointment from these more vulnerable players can act as stress points, undermining confidence along the AI value chain and weighing on semiconductors, cloud providers, and data centre beneficiaries. Given AI's outsized role in market leadership and index concentration, a broad re-rating of the theme could spill over into the wider equity market.

Third, we acknowledge a geopolitical and political tail risk from a potential escalation between China and Taiwan, alongside rising US policy uncertainty heading into the 2026 mid-term elections. We assign a low probability to a severe scenario, but the consequences for global markets would be significant, particularly for technological and industrial supply chains. Taiwan's role in advanced semiconductor manufacturing makes this risk uniquely systemic: any material disruption to production capacity, especially involving the Taiwan Semiconductor Manufacturing Company (TSMC), would reverberate throughout global chip supply, impacting everything from consumer electronics to cloud infrastructure and, critically, the earnings power of US technology leaders. While a pragmatic political settlement remains possible, the path could be littered with obstacles, with risk premia rising on uncertainty alone. In parallel, the US mid-term cycle can amplify policy headline risks around fiscal negotiations, regulation, trade measures, and broader foreign-policy postures, potentially increasing market volatility even without a deterioration in fundamentals.

More broadly, we recognise that many geopolitical events have tended to have limited or short-lived market effects, often creating tactical buying opportunities when the underlying profitability of global companies remains intact. However, a sustained US–China confrontation belongs in a different category: it has the potential to reshape trade, technology transfers, and capital flows. For that reason, it cannot be ignored even if probabilities are low, and it warrants continued monitoring and disciplined risk management as we enter 2026.

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# Key themes 2026

- 1 Artificial intelligence's long-term winners
- 2 New era for China technology
- 3 The rise of power demand
- 4 Stockpiling pulls demand forwards for metals and minerals
- 5 The case for emerging market debt
- 6 Gold's bull market is set to continue into 2026

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## 1

# Artificial intelligence's long-term winners

The technology sector continues to be at the forefront of innovation, driven by the rapid adoption of artificial intelligence (AI). While the sector has delivered robust equity performance over the past three years, concerns about a potential valuation bubble and challenges about monetisation persist. However, current evidence indicates that the AI investment cycle remains in its early-to-middle stages, with returns being fuelled by tangible earnings growth rather than speculative excesses.

Although the journey may be marked by periods of volatility, we are confident that the substantial investments in building out AI infrastructure are both justified and essential to meet the future demands of the global economy. The high visibility of incremental revenue from cloud computing, coupled with the significant cost-saving opportunities that AI offers to global corporations, underscores the rationale behind these investments. With a projected USD 500 billion in AI-related spending targeted for 2026, this ambitious goal appears not only achievable but also necessary to unlock the transformative potential of AI across industries.

Moreover, AI has emerged as a national strategic priority for many countries, as it is increasingly recognised as a critical driver of economic growth, national security, and global competitiveness. Governments around the world are implementing policies and allocating resources to ensure leadership in AI development, understanding that dominance in this field will shape the future of innovation, defence, and economic resilience. This alignment of public and private sector efforts further reinforces the long-term growth trajectory of the AI sector.

## Valuations: elevated, but not a bubble

Technology valuations are higher than historical averages, yet they remain far outside bubble territory. The Nasdaq 100 is trading at roughly 26x forward earnings, a premium of around 17% to its long-term average, but dramatically lower than the 50x multiples seen during the dotcom peak. Crucially, recent share-price appreciation has been driven primarily by earnings growth rather than multiples' expansion. Looking ahead, consensus expectations point to technology sector earnings growth of roughly 26% in 2026, with semiconductors leading at around 50%.

## The AI capex supercycle continues

The backbone of the AI boom is capital expenditure by 'Big Tech'. Hyperscalers such as Microsoft, Alphabet, Amazon, and Meta are engaged in what is effectively an arms race to build AI infrastructure, with no major platform able to afford to fall behind. Capital spending is expected to rise by more than 34% again in 2026, sustaining strong demand for semiconductors, networking equipment, data centre hardware, and cloud infrastructure.

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Importantly, these investments are largely funded by free cash flow (with the notable exception of Oracle), rather than by excessive leverage. While depreciation expenses will rise sharply in 2026 as new assets are absorbed into balance sheets, revenue growth is expected to offset most of the margin pressure.

#### **Cloud providers: the clearest visibility**

Along the AI value chain, cloud computing providers offer the highest revenue visibility. Company take-up of AI is still in its early stages, and broader AI usage is accelerating cloud migration, with penetration still below 50% globally. Backlogs at major cloud providers are growing faster than revenues, pointing to strong future demand.

Large cloud platforms benefit from scale, recurring revenue, and a broad moat. While competition is intensifying, the economics remain attractive: strong graphics processing unit (GPU) demand allows cloud providers to generate double-digit internal rates of return on new investments in data centres.

#### **Semiconductors: the earliest beneficiaries**

Semiconductors remain the earliest and most direct beneficiaries of AI investment. While Nvidia continues to dominate AI computing, growth opportunities extend across chip designers, factories, and networking suppliers. Demand for high-performance chips and data centre networking remains strong as AI workloads are scaled up.

That said, this part of the value chain is more cyclical and more sensitive to changes in capital spending. Investors should expect volatility, particularly as expectations for long-term returns are reassessed. Selectivity matters more than ever, with Broadcom ideally positioned to gain share in the AI chip market.

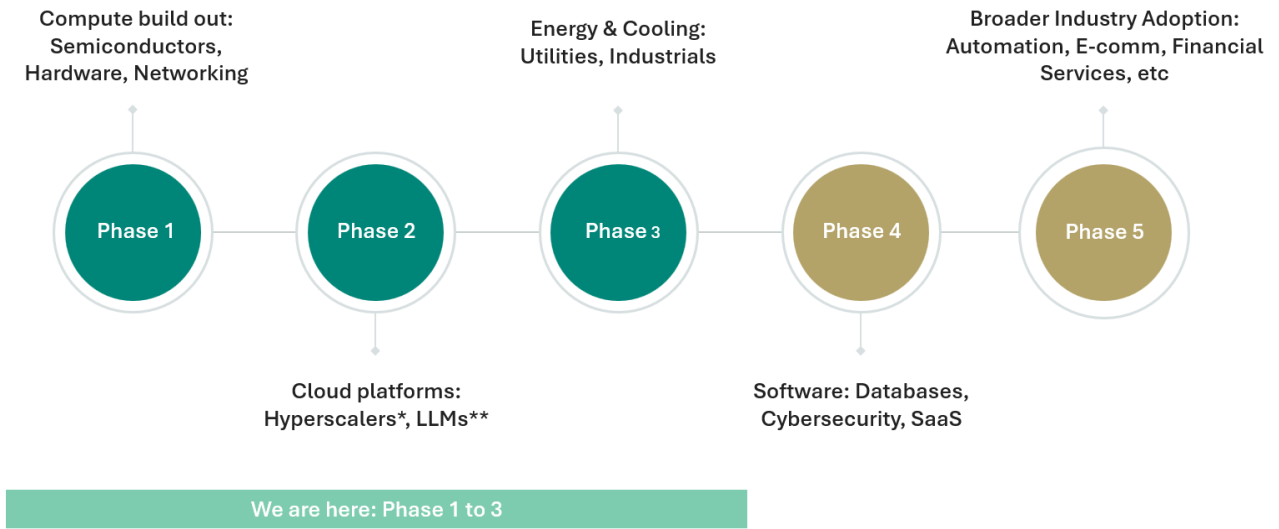
#### **Concerns over company software overdone**

While consumer take-up of AI tools is accelerating, monetisation, especially for large language models such as ChatGPT, remains uncertain as competition rises, models become commoditised, and operating costs stay high. These concerns have driven underperformance in company software, amid fears that generative AI will lower barriers to entry and reduce software seat demand through automation. The sector now trades at around 7.7x forward EV/sales, below its 10-year average of 9.6x. While point-solution software faces disruption risk, large company platforms with complex workflows and proprietary data are better positioned to benefit from AI-driven automation.

The AI investment cycle is far from over. While risks exist, from over-optimistic projections to rising debt loads and energy constraints, the structural drivers remain powerful. For long-term investors, diversified exposures across cloud platforms, semiconductors, and power infrastructure providers may offer the most resilient positioning in an era defined by AI-driven growth.

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WHERE ARE WE IN THE AI INVESTMENT CYCLE?



\*Hyperscalers: a large cloud service provider (e.g. Amazon Web Services, Microsoft Azure, Google Cloud).

\*\*LLMs: large language models; a computer programme trained on vast amount of text capable of generating human-like answers and predictions (e.g. ChatGPT, Gemini, Claude, etc.)  
Source(s): UBP.

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# New era for China technology

Chinese authorities are now fully behind the technology sector after years of cracking down on it. Self-sufficiency in semiconductors and AI has become a top strategic priority, driven by geopolitical tensions. Global investors have sat up and taken notice, driving outperformance in the Hang Seng Tech (HSTECH) Index, which delivered +23% in 2025, the second consecutive year of strong positive performance after three years of negative returns (from 2021).

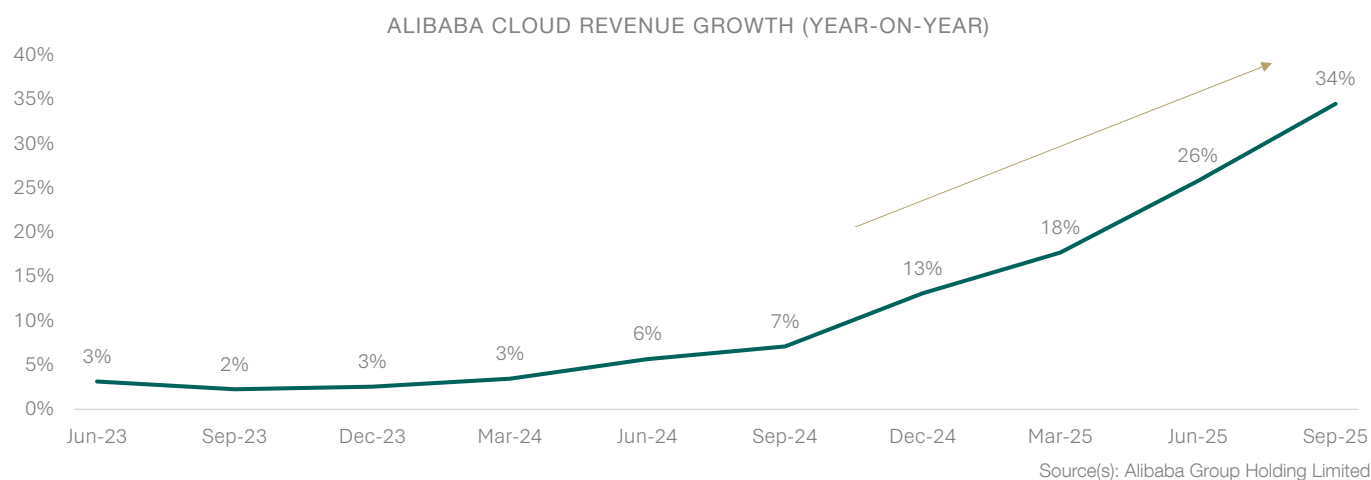
## Sector has re-rated but not expensive

The HSTECH is now trading at 19.9x forward P/E, 11% below its five-year historical average of 22.5x. Global tech represented by the Nasdaq continues to trade at a 26% premium to the HSTECH. While this has narrowed from a peak of over 100% (in September 2024), it is interesting to note that, prior to 2023, the China tech sector had typically been more expensive, suggesting further room for valuation expansion.

## AI innovation flourishing

China is the only meaningful global competitor to the US in the AI race, with the industry having seen rapid development since the launch of DeepSeek in early 2025.

US restrictions on chip access have forced China's developers to innovate. Chinese AI models are high-quality, cost-efficient and open source. Technology companies can focus on building and monetising applications, supported by the advantage of a large domestic market.



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2026 is likely to bring accelerating AI infrastructure spending, product roll-outs, and a steep ramping up of monetisation (in both cloud computing and adtech).

### Some uncertainties around earnings growth

Deflation, soft consumption and weakness in the real estate sector are issues that need to be resolved. China tech companies are mostly consumer facing, and 2025 earnings have been ravaged by intense competition in electric vehicles (EVs), food delivery, and quick commerce.

The consensus now expects -15% earnings per share (EPS) growth in 2025, followed by a 36% rebound in 2026 as competition subsides, although visibility remains low.

We maintain a baseline stance on the sector, but upside risks are emerging. The economy may soften further, but tech valuations are supportive, and AI is a strong driver.

Economic growth may bottom out as early as Q1 26, as the government has made boosting domestic consumption its top strategic priority in 2026. This would be a catalyst to add further exposure to the sector.

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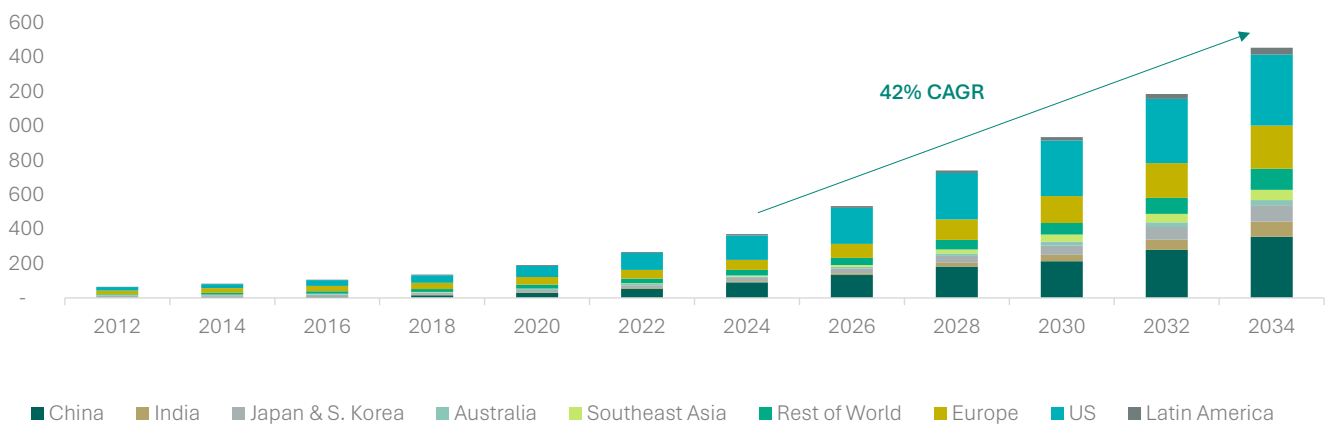
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# The rise of power demand

Global power demand is entering a new and sustained growth phase, marking a clear shift from the flat or declining trends seen in developed markets over much of the past two decades. This change is being driven by the need to upgrade infrastructure and by rising power demand not seen for years in developed economies. Growth in power demand is a consequence of electrification trends, energy security priorities, and the rapid expansion of data centres linked to artificial intelligence and cloud computing. Together, these forces are creating a long-term investment opportunity across the power and utilities value chain, ranging from raw materials suppliers and industrial and service companies to utilities.

Global electricity consumption is forecast to grow at its fastest pace in over twenty years, with demand expected to increase by around 3,000 terawatt hours over the next three years alone, equivalent to adding the annual electricity consumption of Japan. This acceleration comes at a time when much of the existing power infrastructure in developed economies is ageing and in need of significant upgrading after decades of underinvestment. At the same time, economies are becoming more electrified as transport, heating, and industrial processes increasingly shift away from fossil fuels towards electricity.

DATA CENTRE ELECTRICITY DEMAND GROWTH BY GEOGRAPHY (GIGAWATTS)



Source(s): Bloomberg Professional L.P.

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### Data centres: a major accelerant

Data centres already account for around 3% of US electricity demand, but this figure is expected to rise to more than 8% by 2035, with similar increases in Europe.

Unlike traditional power users, data centres require a constant, 24-hour supply of electricity at near-full load. This places unprecedented pressure on power grids that were designed for fluctuating daily demand patterns. As a result, access to reliable power has become a critical constraint for technology companies and a key source of pricing power for electricity providers.

### Supply response is a challenge

On the supply side, adding new generation and grid capacity is both capital-intensive and time-consuming. While renewable energy can be deployed relatively quickly, intermittency remains a challenge. Other solutions, such as gas or nuclear power, involve much longer development timelines. Today, amid surging demand, the waiting list for a gas turbine is now five years, and prices have increased by as much as 3x in the last 4–5 years. This imbalance between rapidly rising demand and constrained supply, and the ability to deliver it, is leading to tighter grids and structurally higher power prices.

For utilities, this environment is highly supportive. Capital expenditure plans have increased materially, with US utilities alone planning over USD 1 trillion of investments over the next five years. Because these investments are largely regulated or contractually secured, they offer a high degree of earnings visibility. As a result, earnings growth for US utilities is expected to nearly double compared with the previous decade, all while maintaining resilience across economic cycles.

We envisage some political risks to certain utilities in the US in 2026, as rising utility bills are becoming a political issue given that consumer bills are up 6–7% and are set to rise further next year. This challenge is most likely to arise in north-eastern US states on the largest grid, Pennsylvania–New Jersey–Maryland (PJM), that has seen the most data centres developed. Southern states (e.g. Texas and Louisiana) are less likely to suffer the same challenges.

While we expect a lot of political noise in 2026 in the US, government interference would inflict economic self-harm. If returns are insufficient to justify it, investment will be cut and grids will become tighter and less reliable. Some grids are managing data centre demands well by making new large loads pay up rather than cause consumers to pay more. The reality is that power generation and grid capacity are needed and, if not paid for, then investments will fall short of requirements, and access to power (at a reasonable cost) is a common denominator across all economies and is the lifeblood of AI.

In Europe, the same degree of market tightness has yet to be seen, but there is a growing momentum for data centre deployment. Furthermore, the same themes around years of underinvestment and rising power demand are set to support a growth dynamic not seen in decades driven by an investment need and sustained power prices. Today, we note that EU governments are even competing to attract investment and have consequently moved from penalising and squeezing the power supply chain to improving incentives to invest.

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Satya Nadella, Microsoft CEO said in a 12 November D2G podcast: ‘The biggest issue we are now having is not a compute glut, but it’s power. It’s sort of the ability to get the builds done fast enough close to power,’ and, ‘It’s not a supply issue of chips; it’s actually the fact that I don’t have warm shells to plug into.’ (A ‘warm shell’ in this context refers to a built data centre (DC) with all utilities needed, notably power.)

From an investment perspective, US utilities offer direct exposure to data-centre-driven demand growth, while European utilities provide attractive income and defensive value. But the theme of power demand is broad, with numerous actors set to benefit from the capital spend building up. Industrial companies that supply key equipment, e.g. wires, transformers and turbines, are seeing record order books extending years into the future and which are supportive of margin expansion as well as earnings visibility. Power-generation technology providers in batteries, solar, etc. are similarly benefitting. Furthermore, raw materials used in the infrastructure chain and to generate power, such as gas, copper and aluminium, are also participating in this theme.

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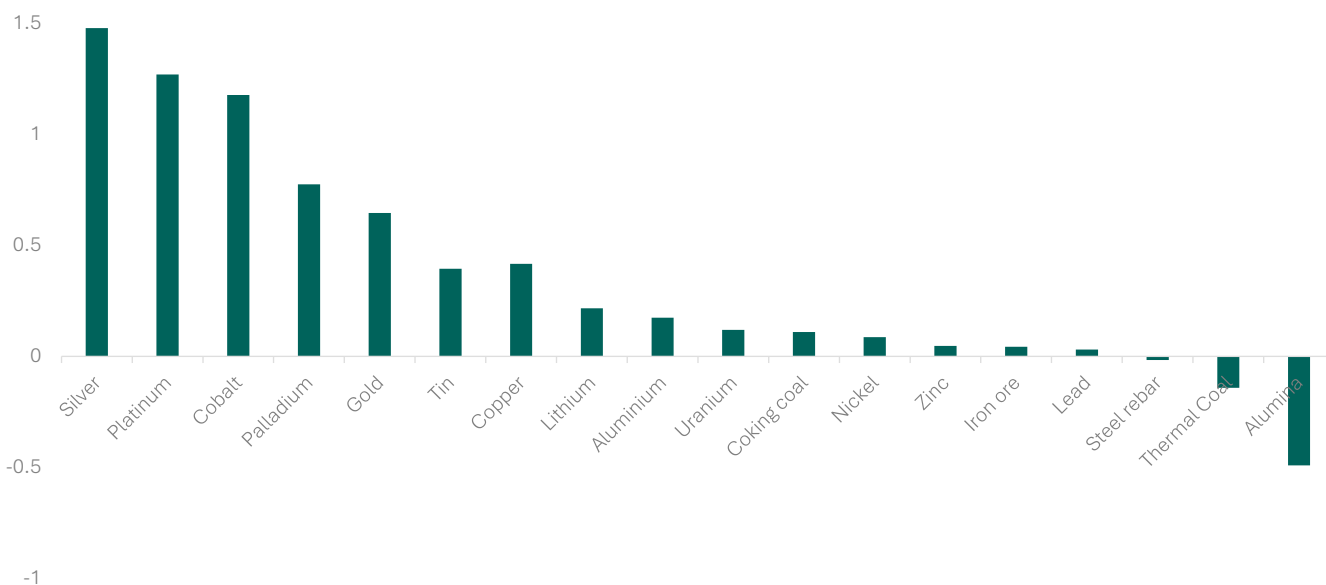
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# Stockpiling pulls demand forwards for metals and minerals

The mining rally in 2025 was led by precious and base metals, with gold miners up roughly 150% year-to-date, and prices for gold, silver, and copper all at record highs. While traditional cyclical drivers, such as improving PMIs and broadly balanced supply/demand dynamics, remain relevant, the current upcycle is more complex. A weaker US dollar, constrained supply growth, and resilient end-use demand all matter, but an increasingly important, durable, and still underappreciated driver is the global push to secure supplies of critical minerals. In particular, the US has moved decisively, as it recognises that heavy reliance on China for these materials represents a strategic vulnerability.

We believe strategic stockpiling is emerging as a rational and lasting response to geopolitical fragmentation, trade tensions, and highly concentrated supply chains. Unlike traditional cyclical demand, this form of demand is intended to provide supply certainty in the event of disruption, whether from government actions, trade restrictions, or geopolitical conflicts, and is therefore largely insensitive to the macroeconomic cycle.

NORMALISED KEY COMMODITY PERFORMANCE 2025



Source(s): Bloomberg Professional L.P., UBP

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China dominates the majority of refined metal production globally. While its control of critical rare earths has drawn the most attention, China also accounts for more than 50% of global consumption of many mined minerals, which it processes into refined metals and manufactured products for re-export. Key economic systems, including power grids, defence equipment, data centres, vehicles, and household appliances, are fundamentally dependent on these materials. As a result, access to metals has become a national security issue, reinforcing the imperative for advanced economies to secure strategic resources without excessive dependence on China.

The US has taken the lead in this strategic agenda, classifying 60 minerals as critical (covering roughly 80% of mineable commodities) and committing substantial capital to developing domestic and overseas supply chains with key allies, such as Australia. Its tariff policies (50% on steel and aluminium) are also intended to develop domestic supplies and underpin prices. Copper is worth highlighting, as a Section 232 review is under way that will likely result in tariffs and, as a consequence, US inventories have risen sharply, front-running tariffs, drawing down global exchange stocks, and pushing prices to record levels. This stockpiling appears 'sticky', supported by contango structures even in an already tight market, implicitly forming a strategic stockpile rising from 72 kt at the start of 2025 to around 440 kt in early January.

At the same time, supply across many commodities remains structurally constrained. After a prolonged 2012–2020 downward cycle, new mine development has been limited, while ESG requirements, financing hurdles, and delays in permits continue to restrict the pace of new capacity additions.

Crucially, strategic demand is additive rather than cyclical. Electrification, grid expansion, data centres, electric vehicles, defence systems, and reshoring initiatives all require substantial volumes of metals, and governments appear willing to tolerate higher input prices given metals' relatively small contribution to final product costs. With new mine supply often requiring 15–25 years to develop and existing assets gradually being depleted, strategic stockpiling is pulling demand forwards that might otherwise have materialised later. As a result, even if PMI-driven industrial demand softens, government-led stockpiling and resource-security policies are likely to underpin supportive commodity market conditions into 2026 and beyond.

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# The case for emerging market debt

As we head into 2026, emerging market (EM) bonds offer a solid opportunity, backed by improved fundamentals, positive technicals, and attractive all-in yields thanks to high baseline Treasury levels. Credit profiles for EM governments are on an upward trajectory, with positive rating changes far exceeding negative ones in 2025 at a ratio of roughly 2:1, a pattern fuelled by steady improvements in fiscal health while many advanced economies grapple with rising borrowing costs. Developing nations are projected to account for a major slice of worldwide GDP growth, with forecasts showing the growth gap widening compared with their developed counterparts.

The investor base of these markets has evolved, with greater involvement by domestic players reducing reliance on overseas capital and bolstering resilience across market cycles. Corporate net leverage remains low, with the average EM company running at around 1.2x leverage, lower than developed counterparts and representing a 0.6x improvement from levels a decade ago, while also offering superior spread compensation per turn of leverage. Issuer standards have also advanced, with a large proportion of local markets and over half of dollar-denominated issues now qualifying as investment grade.

Spreads have compressed significantly over recent years, testifying to the asset class's fundamental improvements. However, marginal narrowing is still possible, supported not only by ongoing upgrades but also by inflows. On this point, capital movements swung firmly into positive territory in 2025, though the asset class remains largely under-allocated, leaving room for inflows to continue.

Local-currency EM bonds are particularly attractive. First, EM central banks have been slow to cut rates, leading to elevated real yields that are among the most compelling in years. Second, according to our forex outlook, we expect the dollar to weaken modestly, which not only eases the pressure on dollar-debt issuers, but also boosts local-currency returns. Third, the carry-to-volatility ratio for EM local rates is especially strong and has improved markedly. Within local currencies, frontier markets screen particularly well, albeit while remaining a niche sub-class.

In summary, EM debt's blend of high carry, improving credit quality, and diversification benefits make a strong case for a fixed income theme in 2026. Risks such as geopolitical flare-ups and a stronger dollar exist, but with resilient fundamentals and under-allocation, the asset class should continue to outperform.

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# Gold's bull market is set to continue into 2026

As we enter 2026, we maintain a constructive stance on gold, reflecting a widening investor base and its continued role in portfolio diversification.

Following an exceptional year in 2025, when gold rose by around 70% and delivered one of its strongest performances since the 1970s, we expect returns to normalise in 2026. While a repeat of last year's gains is unlikely, the outlook for gold remains supportive, underpinned by the following factors:

## Robust central bank demand

Central banks continued increasing their gold holdings in 2025, with most estimates showing a rise of around 850 tonnes over the year. This quantity was slightly below the annual average of purchases since 2022. Consensus estimates show that central banks should continue to purchase gold at a pace of around 800 tonnes over 2026, which is equivalent to around 26% of annual mine output. Central bank purchases reflect a long-term portfolio-diversification trend among reserve managers, and we anticipate that this trend still has several years to run, implying that gold will benefit from a solid underlying demand profile.

## Increasing retail demand

In 2025, retail-focussed investors materially increased their allocations to gold. In Q4 alone, retail-focussed ETFs experienced inflows equivalent to over 280 tonnes in purchases, eclipsing central bank demand. We anticipate that retail investors should be a strong driver of higher prices in 2026, as they increase allocations to the precious metals complex. The combination of both central bank and retail investor demand implies that the global demand curve may shift substantially higher, thereby supporting ongoing price increases.

## Portfolio diversification

In 2025, gold gave investors significant portfolio diversification benefits, as the yellow metal showed relatively low correlations with the other major asset classes. This was particularly evident during the market declines in April, following US President Trump's tariff announcements. We believe that portfolio diversification concerns should be a strong driver of demand, given elevated valuation profiles in many other markets.

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### Monetary convergence

The US Federal Reserve reduced its federal funds rate in 2025, and consensus estimates derived from the overnight index swap (OIS) curve show that investors anticipate around 75 bps in further rate cuts in 2026. These rate cuts should reduce the US's real interest rate profile. Such a development is normally constructive for gold, which shows a negative correlation with real interest rate developments. We note that several other large central banks continued to reduce their interest rate profiles in 2025, and the upshot of this is that the wider monetary backdrop remains favourable for gold as we enter 2026.

### Elevated debt levels

Most advanced economies have extremely high levels of debt and are making little genuine effort to reduce aggregate sovereign debt profiles. Ongoing deficit spending shows little sign of abating, meaning that both fiscal deficits and debt levels are set to continue rising. This is constructive for gold, and even small reallocations from sovereign bond markets into gold can have a substantial impact on pricing.

### Geopolitical tensions

Tensions between the US and China are here to stay, and we note that the wider geopolitical backdrop is especially fraught compared with previous decades. The underlying trend towards a more multi-polar world is constructive for gold, given the potential for trade conflicts, supply-chain disruption, and higher inflation outcomes over time. We believe that this is a long-term trend and it is likely to persist in 2026 and over the coming years.

In summary, we maintain a constructive stance on gold, and we anticipate that it will rise to levels of around USD 5,200 per oz by Q4 2026.

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SPECIAL EDITION

# Asset allocation

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# Equities

## A broader earnings recovery is emerging

Global equities delivered another solid performance in 2025, marking the third consecutive year of double-digit returns despite a volatile backdrop of geopolitical and policy uncertainties. As in previous years, 2025 highlighted the resilience of the global economy and the dominance of technology earnings' contribution to growth.

US equities continued to lead on a multi-year basis, but 2025 saw a pronounced catch-up by emerging markets, China, Japan, and Europe. This relative outperformance was further amplified in US dollar terms by the sharpest depreciation of the dollar in several decades, providing an additional tailwind to non-US assets.

Positive earnings growth was the dominant driver of returns in the US, while valuation expansion mostly contributed to gains outside the US, pushing global equity valuations towards the upper end of historical ranges.

While technology sector returns dominated the first half of the year, performance broadened meaningfully beyond a narrow group of mega-cap technology leaders, with financials and materials emerging as notable outperformers. Consumer-oriented industries were among the weakest performers in 2025, under pressure from higher tariffs and early signs of labour market softening.

Prioritising the national interest took on another dimension with the US's 'Liberation Day' and opened the door to a broader reshuffle of the global geopolitical order. In parallel, the AI revolution will become both more political as well as a significant growth and productivity driver for the world's two largest economies, namely China and the US.

As we enter 2026, the trends mentioned above are amplifying as countries look to secure autonomy in strategic industries and resources. This adds to a backdrop of supportive fiscal and monetary policy, further deregulation, and underappreciated productivity gains that should begin to spread beyond the technology sector.

Together, these factors suggest that while markets may face intermittent corrections, the underlying equity narrative remains constructively skewed towards the year ahead in terms of corporate earnings growth. Earnings growth is expected to accelerate towards 15% in 2026, not only led by large-cap technology companies, but also increasingly supported by a broader recovery across cyclical sectors and areas outside the US.

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Despite growing debate around an AI bubble and elevated valuations, we believe current multiples are justified by persistent above-trend earnings growth fuelled by the extended AI capex boom.

Regionally, we maintain our prior year's preference for US equities, hold a baseline stance on Europe, and preserve diversification through exposure to Indian and Chinese technology equities.

The US continues to provide the highest earnings visibility due to its significant exposure to the technology sector, where sales growth is accelerating on the back of increased adoption of the AI ecosystem. As a result, cloud computing revenues are forecast to nearly triple to USD 1 trillion by the end of the decade.

In Europe, higher fiscal spending and an accommodative policy from the European Central Bank support a long-awaited earnings recovery after several disappointing years, though competitive pressure from China remains a headwind for traditional industries. In addition, the long-awaited peace deal in Eastern Europe appears unlikely to materialise in the near future, and sanctions on Russian energy are likely to persist.

China technology stocks remain a higher-risk but attractive diversifier. While China's economy is slowing, it is likely to bottom out in the second quarter, supported by fiscal expansion under the fifteenth five-year plan (2026–2030), which prioritises domestic consumption and technology. After a disappointing 2025, with earnings down 15% due to weak consumption and intense competition, opportunities should emerge as the earnings recovery unfolds.

We maintain our allocation to Indian equities for 2026. The region delivered solid earnings growth of around 12% in US dollar terms, while valuations de-rated more sharply as growth expectations were revised down over the course of the year. More accommodative policy measures, including tax relief and interest rate cuts, should progressively translate into stronger earnings momentum in 2026. India's limited exposure to AI also contributed to its relative underperformance in 2025, but the long-term investment case remains intact.

While short-term rotations towards value are possible amid resilient growth and questions over AI returns, diversification across structural growth themes – particularly those linked to rising power demand, such as utilities and renewables – remains an effective way to navigate elevated valuations and volatility.

At sector level, we also upgraded our view on materials. Despite the absence of a classic industrial demand boom, the outlook for strategic resources remains positive. With critical metals highly concentrated geographically and governments – particularly the US – moving to directly secure inventories and production through strategic partnerships ahead of rising geopolitical risks following the end of the Trump mandate in 2028, the set-up points to structurally supported prices and an asymmetric upside, given the extremely low equity market exposure to metals.

In conclusion, we maintain our allocation to equities, and to technology in particular, while increasing our diversification strategy across sectors – such as utilities and commodities – and regions such as China and India.

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# Fixed income

## Returns expected to be slightly above carry

2025 proved a strong year for fixed income, with broad-based gains significantly exceeding initial carry amid falling rates and resilient credit fundamentals that supported spread tightening across the riskier segments, in particular, performances in emerging markets (+14.3%) and additional tier 1 (AT1s) (+11.0%) stood out. Throughout the year, we advocated for maintaining an overweight in credit, progressively adding duration in the latter half of 2025.

Heading into 2026, we anticipate fixed income returns to be slightly above carry, potentially driven by continued outperformance in EM and HY should our constructive economic view materialise, bolstered by fiscal stimulus and moderating inflation.

Our rate scenario assumes US 10-year Treasury yields will trade within a 3.75–4.25% range by year-end. This balances expectations of growth reacceleration and fiscal stimulus against moderating inflation trends and an increase in the Trump administration's influence on the Fed throughout the year (we expect four rate cuts versus the market expectation of two), as the Trump-picked replacement of Chair Powell is likely to be an advocate of lower rates. We see risks tilted towards lower yields, potentially via quantitative easing (QE) and Treasury issuance management. We highlight sterling rates as particularly attractive relative to US Treasuries, given a weaker economy, softening inflation in the UK and budget concerns being addressed.

Investment grade's appeal remains very limited, as spreads remain very tight, and supply should remain ample to finance AI-related capex. We continue to favour agency mortgages as a superior alternative, offering higher carry, no credit risk, attractive historical valuations, and uncorrelated spread dynamics that enhance diversification.

We remain constructive on high yield despite low spreads, given our positive stance on the economy, which should keep spreads range-bound. Our preference is to build exposure via AT1s and by using credit derivatives which are less tight. On AT1s, the market continues to offer investors the opportunity

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to earn yields akin to BB/Bs and to take subordinated exposure to large, well-established banks that have been the focus of years of regulation, scrutiny, and ever-increasing capital requirements.

Finally, emerging markets have all the ingredients to provide another year of strong returns: widening growth differentials compared with developed markets and improving fundamentals with positive rating trends, not to mention compelling absolute yields. We are also positive on local EM debt given the combination of many EM central banks maintaining cautious easing paths that keep real yields elevated in local currency debt, together with our expectation of a modest depreciation in the US dollar.

In conclusion, we enter 2026 with a light IG exposure, emphasising HY and EM for carry, paired with a relatively elevated duration position as a hedge. During the year, we would welcome bouts of volatility that would allow us to either rebuild IG exposure or increase HY/EM positions.

	USD	EUR	GBP
Duration	4.5y	3.5y	4.5y

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# Hedge funds

## Favouring high Sharpe ratio\* strategies

At industry level, 2025 has been a good year for hedge funds as measured by the HFRI Fund Weighted Composite Index, as the risk-on moves across asset classes in the second half of the year drove returns for higher equity beta strategies in equity long/short and event-driven. Going into 2026, our outlook remains constructive, as market conditions remain benign, while fixed income and forex volatility may recover as global real rates move back to zero along with higher levels of government bond issuance.

At strategy level, relative value managers are expected to perform in line with long-term averages of around 7–9% (net), mostly driven by strategy alpha as higher levels of borrower issuance in government and corporate bond markets create more opportunities to trade. For equity long/short, returns and alpha generation are strongly correlated with equity market dispersion. We believe that dispersion levels will recover from recent compressions and continue at stock level rather than just at sector level. Event-driven strategies remain mixed, and several factors continue to weigh on corporate confidence, the main driver of deal flow. Finally, we remain constructive on both DM- and EM-focused global macro managers and also on multi-strategy quantitative managers that can benefit from a wide range of underlying styles including longer-term trades that benefit from sustained regime shifts, while also benefiting from shorter-term volatility in markets.

When building a 2026 portfolio of hedge funds, our preference is for higher Sharpe ratio strategies across the hedge fund universe. This implies core exposure to relative value strategies, blended with less directional, low net exposure equity managers employing both fundamental and systematic approaches. These two core strategy allocations should be complemented by global macro managers capable of benefiting from risk off market conditions.

\* The Sharpe ratio is a measure of risk-adjusted return that indicates how much excess return an investment generates for each unit of risk taken.

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# Private markets

## An industry in transition

As 2025 wrapped up, once again, the initial plan deviated. Geopolitics were complex, with ‘Liberation Day’ and the ‘Big Beautiful Bill’ reshaping trade dynamics, while Trump 2.0 proved more volatile and less predictable than Trump 1.0. Markets experienced significant bouts of volatility but ended on a strong note, thanks to resilient consumer data, an improving inflation trajectory and a decisive pivot in global monetary policy expectations.

In this environment, private credit broadly delivered what was anticipated, yet there is a growing sense that the ‘golden age’ is now behind us. The asset class entered a phase in which discipline replaced exuberance: allocation discipline tightened, underwriting standards normalised, and dispersion across managers widened materially, as illustrated by the business development company (BDC) segment, where credit losses, pricing differentials, and liquidity considerations exposed inconsistent underwriting quality. Capital formation slowed meaningfully, and the valuation reset continued to separate durable franchises from models relying too heavily on financial engineering.

This evolution extends beyond private credit. In private equity, returns are becoming more dependent on execution, sector selection, and operational value creation, as multiple expansion fades and exit windows normalise. Real estate, meanwhile, is increasingly a market of strategies rather than a single asset class, where outcomes hinge on asset-level granularity, capital structure, discipline, and the ability to navigate local supply and demand dynamics. Finally, infrastructure stands out more constructively: long-dated contracted cash flows, inflation linkage and strategic relevance to the energy transition, digitalisation, and reshoring continue to support its role as a core allocation.

This is not a crisis; it is a transition. Private markets are by no means broken; they are maturing. The industry is moving from a decade of cheap liquidity and relentless growth to an environment in which capital is more selective, information asymmetry is narrowing, and investors are demanding more transparency on risk, liquidity, and alignment. Selectivity, liquidity awareness, and a clear understanding of the risk premia being harvested emerged as the defining themes of 2025; they will strengthen further in 2026 as allocators rotate towards managers with genuine sourcing advantages, resilient balance sheets and the ability to generate returns through operations rather than leverage and financial engineering alone.

The next cycle will reward clarity, discipline and governance. Goodbye complacency; hello to an age of differentiated private market growth.

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# Currencies & Commodities

## The dollar fade and a golden age

Coming into 2026, we anticipate that the USD will continue to weaken modestly, reflecting the contraction in front-end carry and the ongoing widening of the US current account deficit. The Chinese Renminbi (CNY) exchange rate is set to appreciate, reflecting China's huge trade surplus and the lagging effects of its cumulative disinflation process.

## Modest USD weakness in 2026

In 2026, we anticipate that the USD will continue to weaken by 5–10% on a trade-weighted basis. The US Federal Reserve's rate-cutting cycle should result in the USD's front-end carry contracting towards median G10 ranges. The widening of the US current account deficit is a concern, and historically current account deficits above 4% of GDP have weighed on the USD during Fed rate-cutting cycles. The US administration is known to favour a weaker USD exchange rate, and any moves that weaken the Fed's independence should weigh on the greenback.

The EUR/USD continues to trade well below levels that are consistent with its trade-weighted index, and we anticipate that the combination of the European Central Bank's (ECB's) monetary policy stance and fiscal expansion should bolster the EUR, with levels of around 1.24 achievable.

GBP exchange rates are unlikely to move significantly in 2026. The Bank of England's (BoE) interest rate-cutting cycle has already been priced in, and we suspect that sterling may underperform against the euro, particularly if the UK's fiscal outlook deteriorates.

CHF exchange rates should maintain a modest underlying appreciation trend, given favourable balance-of-payments dynamics and only a negligible chance of further deposit rate cuts. We note that the Swiss franc is now the only G10 currency which displays safe-haven characteristics, giving it an asymmetric appreciation risk profile. The Swiss National Bank (SNB) may intervene occasionally to limit the speed of the CHF's appreciation; however, the underlying USD/CHF downward trend should remain intact.

## The Asian currency outlook is increasingly compelling

We hold a constructive stance on CNY exchange rates, reflecting China's huge trade surplus and strong balance-of-payments position. The People's Bank of China (PBoC) has started to guide USD/CNY fixings towards lower levels in recent weeks, and this trend is likely to have further room to run. Since 2020, cumulative US–Chinese inflation differentials are just under 20%, suggesting that CNY exchange rates are substantially mispriced. A modest CNY appreciation would go some way to correcting US–Chinese trade imbalances.

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CNY appreciation should augur well for most of the regional Asian currencies, and indeed for EM currencies more broadly. We note that the Bank of Japan's (BoJ's) cautious rate-hiking policy should continue to slowly normalise the BoJ's monetary policy stance. Front- and long-end interest rate spreads are consistent with materially lower USD/JPY levels, thus limiting the scope for ongoing JPY weakness.

#### Precious metals narrative should shift in 2026

Finally, we maintain a constructive stance on gold and the wider platinum group metals (PGM) complex. We note that retail investors increased their purchases of gold materially in Q3 2025, eclipsing central bank purchases. We anticipate that this trend should continue into 2026, meaning that the market will increasingly focus on gold as a form of portfolio diversification, rather than on central bank purchases alone. We maintain our year-end gold target of USD 5,200 per oz, with risks skewed to the upside.

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# Digital assets

Digital assets have come a long way since their inception fifteen years ago, and 2025 marked a year of structural progress for the industry, which is gradually enhancing its legitimacy. Regulation in the US has shown signs of positive development, particularly under the Trump administration. A key milestone was the passage into law of the GENIUS Act, which aims to accelerate innovation in technologies such as blockchain and stablecoins. This legislation provides a clearer regulatory framework, encouraging private sector investment and innovation, while addressing concerns about security, fraud, and compliance. The GENIUS Act is expected to accelerate the development of a more robust and transparent ecosystem for digital assets, paving the way for broader institutional take-up. Additionally, the anticipated launch of US government-backed stablecoins in 2026 marks a significant step forward. These stablecoins, supported by the credibility of the US government, could enhance trust in digital currencies.

Despite the growing interest in digital assets, the adoption of blockchain technology in the real economy remains sluggish and is overshadowed by the artificial intelligence investment and adoption boom. While blockchain technology has potential, its integration into mainstream economic activities has been limited so far, reducing its immediate impact on broader market dynamics. The most pressing consequence is the challenge of monetising several cryptocurrency projects, which are likely to consolidate or disappear in the future.

Digital assets, and Bitcoin specifically, could also be considered in a similar way to gold, in light of concerns over fiat currency devaluation and the search for alternative stores of value. However, from a central bank perspective, digital assets are not yet considered to be reserve assets, so it is too early to call bitcoin 'digital gold'.

Nevertheless, digital assets' high-risk profile and volatility prevent them from being considered a reliable safe-haven asset class. Gold continues to serve as the only protection against systemic and political risks, while digital assets are not yet suitable for institutional investors. While central banks are beginning to discuss digital assets, it is still too early to adopt a more positive stance or to consider them as a core, investable asset class. We will continue to monitor developments closely, particularly in the areas of central bank adoption, regulatory progress, and real-world blockchain integration, and will adjust our view accordingly.



Past performance is not a guide to current or future results. Any forecast, projection or target, where provided, is indicative only and is not guaranteed in any way.

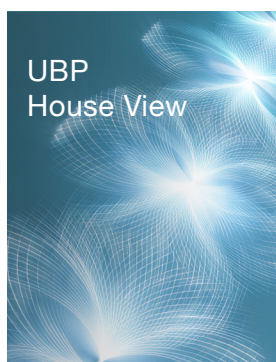
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# Contributors

## Publisher

Union Bancaire Privée, UBP SA

## Lead Authors

Michaël Lok, Group CIO and Co-CEO Asset Management

Nicolas Laroche, Global Head of Advisory & Asset Allocation

## Authors

Patrice Gautry, Global Head of Economic & Thematic Research

Carlos Casanova, Senior Economist

Norman Villamin, Group Chief Strategist

Diane Berkovits, Head of Equity Strategy

Filipe Alves da Silva, Head of Fixed Income Advisory & Strategy

Peter Kinsella, Global Head of Forex Strategy

Moshmi Kamdar, Head of Equity Advisory

Yao Cheng, Asset Allocation Analyst

Dimitri Kallianiotis, Investment Specialist

Vey Sern Ling, Senior Equity Advisor

Marc Elliott, Investment Specialist

Kier Boley, CIO Alternative Investment Solutions

Nicolas Roth, Head of Private Markets Advisory

## Investment Marketing

Project Coordination, Investment Writing & Publications:

Katia Criado, Salima Barragan, Ana Culebras

## Marketing Design

Sherilyn Olenczak

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