Entering the last active week of 2025

- **Lat week was about volatility and dispersion, with no damage on our well diversified portfolios**
- **Two events shaped returns: a not so hawkish Fed, and an unapologetically spending Oracle**
- **Positioning unchanged and delivering great returns; we are working hard on the 2026 Global Investment Outlook**

Last week combined high volatility with dispersed returns. Stocks were slightly up in emerging regions and slightly down in developed ones due to US tech in particular. The fixed income asset class reacted to the December FOMC with a steepening of the Treasury curve: short-dated yields fell -5 basis points on average while anything longer than 5-year added a few basis points. The dollar was -0.6% weaker, gold gained +2.4% to touch $4,300, and oil prices suffered from oversupply concerns, with Brent futures falling -4% to $61.1.

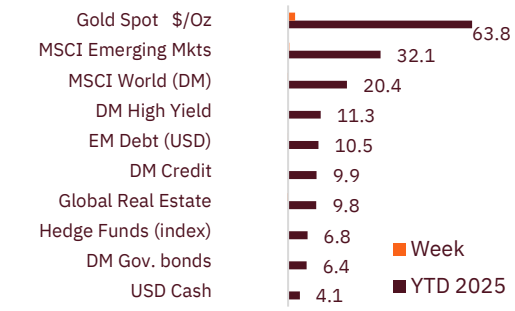
Two events shaped returns last week. The December FOMC, first, cut interest rates by 25 basis points, in line with expectations. The Fed updated their economic projections with faster growth and slightly lower inflation but didn't change their "dot-plot" which still expects one 25bps cut in 2026 and one other in 2027. Importantly, balance-sheet expansion restarts, with $40bn of monthly T-bills purchases. Markets saw the outcome as less hawkish than feared. Futures confirmed their anticipation of 2 cuts in 2026, while long-dated yields slightly rose with better growth outlook.

The second and less happy event was the announcement from Oracle of more AI spending ahead, which some market participants find unreasonable. Oracle's CDS rose, the stock price tumbled and took a toll on the entire sector.

We didn't change our positioning which works fine, with YTD returns between +13% and +20%, due to our large allocations to gold and EM stocks. We work on our 2026 Outlook, to be released in January (later than competitors as we report on our previous year results). The week ahead, the last active of 2025 on markets, will provide flash PMIs and three central bank meetings of which the Bank of Japan should be the most interesting.

This is most probably our last weekly publication of 2025. We wish you and your families a wonderful end to the year.

Asset Classes USD % total. Return, Week and YTD 2025



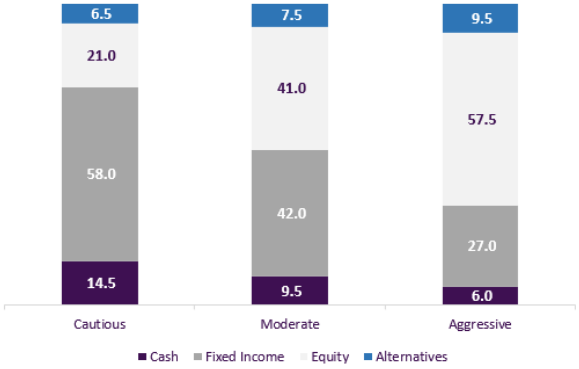
December 15th, 2025

Cross-asset Update

Investor sentiment tends to be highly variable and last week it soured on concerns about AI investments. This was clearly visible when dissecting market performance as the more cyclical Dow Industrials closed in positive territory while the S&P 500 and the Nasdaq recorded losses. There was no panic about the economy either with small caps gaining for the week. Also, foreign markets gained, and EM equities topped returns. It seems to be too early to be concerned about an AI bubble after just eighteen months, if history is any guide. The internet build-out lasted for a decade across the 90s, while records of other capex booms tell us not a single one lasted just over one year. Yet, they all ended in tears. Big investments related to technology revolutions have seen the economy booming, have led to over-investments, and excessive credit creation alongside outsize market valuations. Currently, it is the size of AI-related outlays for the building-out of the data centres, expected to be running in the trillions into 2030, that is reason for concern and is stoking investor jitters. Borrowers will have to get heavily leveraged to tackle that kind of scale, so the US economy is shifting from a cash period to one of more pronounced indebtedness that eventually resembles past cycles. For now, investors should ride the boom mindful that systemic issues could be coming to the fore only few years down the line. Policy and politics will most likely be facilitating that boom. The Trump administration has thrown its weight behind a more unregulated IT renaissance with the recent Mission Genesis executive order that aims to promote innovation. And President Trump has been keen for the Fed to lower interest rates significantly, that not only would be helping consumers get relevered but would also be providing easier funding for the massive AI projects. A decisive Fed pivot next year will be of paramount importance to support that capex-led growth cycle that is relatively unusual in the United States and was last seen in the 90s.

Investors should not confuse AI-led investments with continued focus on AI stocks, nor with focus on US markets. Enthusiasm for the new economy is already unleashing renewed interest in old-economy companies, from the banks that will be funding credit expansion, to industrials, steel, energy, and mining stocks that will be necessarily involved in the capex cycle. Capex is also projected to increase outside of the United States, with rearmament and infrastructure investments in Germany, and commitments to key industrial sectors in Japan. Should Beijing decide to stimulate the economy as well, pressured by plateauing exports and excessive domestic capacity, it would rather be about the consumer. Rising commodity prices are anticipating a global capex cycle that will unfold alongside US-based AI investments. This creates the premises for stronger global growth, hence US under-performance for the second year in the row.

Tactical Asset Allocation: Simplified Positioning



TAA – Relative Positioning – Moderate Profile

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.		=	
DM Credit	<		
DM H. Yield		=	
EM Debt		=	
DM Equity		=	
EM Equity		=	
Gold			>>
Hedge Funds	<<		
Real Estate		=	

Fixed Income Update

US Treasuries bear steepened last week with short-dated yields falling by 5 basis points on average while anything longer than 5-year rose by a few basis points. The Federal Reserve lowered interest rates by 25 basis points, as expected. Updated projections indicate policymakers anticipate one additional quarter-point cut in 2026, consistent with September's outlook. The decision passed 9-3: two regional presidents favoured holding rates steady, while one governor supported a larger 50 basis point reduction. The OIS market is currently pricing in 57bps of rate cuts by year-end 2026. The FOMC also announced the Fed would start reserve management purchases, in the form of T-bills of $40bn a month, in order to maintain an ample level of reserves. Investors interpreted the Federal Reserve's comments as less hawkish than expected. The Fed's projections call for growth to accelerate to 2.3%, with the unemployment rate holding steady at 4.4% and the core PCE deflator falling to 2.5% in 2026.

In the Asia-Pacific region, the Reserve Bank of Australia (RBA) left its policy rate unchanged at 3.6%, in line with consensus expectations. Governor Michele Bullock indicated that the current easing cycle has likely concluded, emphasizing that the central bank will closely monitor inflation dynamics to determine the future rate path. Meanwhile, the Central Bank of Turkey cut its policy rate to 38% from 39.5%, slightly more aggressive than market expectations of a 38.5%. This cut is supported by lower-than-expected inflation in November and a modest improvement in inflation trends over the past two months. The central bank continues to target 16% inflation by end-2026.

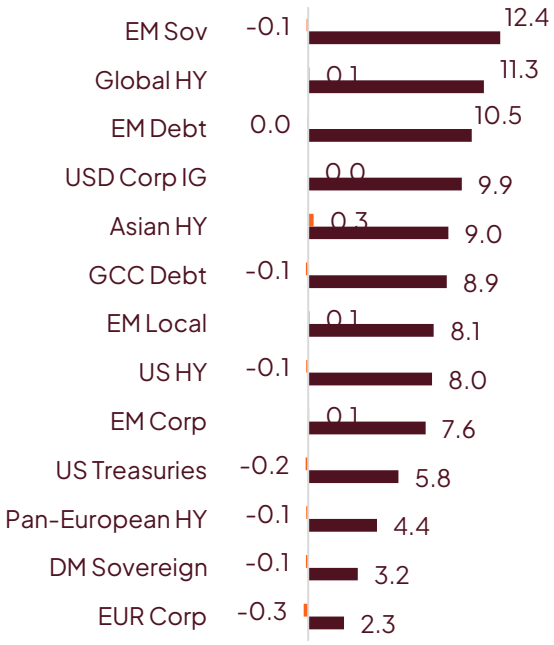
Credit spreads remained range bound across credit segments last week. However, spreads are trading near the tighter end of the year-to-date ranges. US Investment grade spreads have narrowed to their tightest levels since October, currently at 72bps. Emerging market and GCC spreads remained stable. While Bloomberg HY spreads index widened by 7bps to 296bps resulting in mild underperformance, with weekly returns of 0.2% versus 0.3% for investment grade. Market activity remains low. Also, Oracle 10-year CDS spreads widened from 88bps to 175ps since Oct 2025, while rose by 13bps in last week.

Within the GCC, Saudi Arabia reported GDP growth of 4.8%, where Non-oil GDP rose by 4.3%, highlighting continued economic diversification. Oman was upgraded by Fitch to BBB- reflecting sustained improvements in its public and external balance sheets, making it investment-grade. Following the sovereign upgrade, Bank Muscat has also been upgraded. Separately, Fitch also upgraded Saudi National Bank (SNB) and Al Rajhi Bank from Saudi.

FIXED INCOME KEY CONVICTIONS (2025)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Neutral EM Debt
Favor quality and selectivity
Including in GCC

Fixed Income Sub Asset Class Returns (US$ TR, YTD, Last Week)



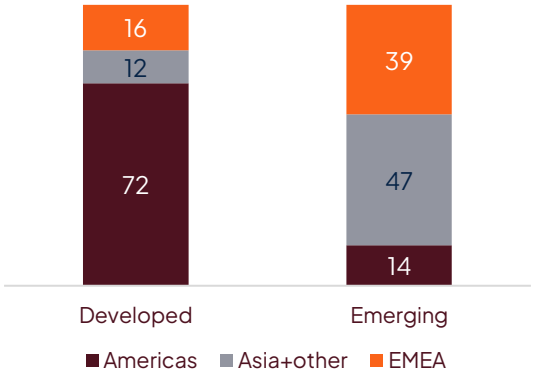
Equity Update

Global equity markets were range-bound last week on increased scrutiny around AI-related capital intensity and late-year policy differentiation. The MSCI ACWI slipped 0.2% over the week, with developed markets down an equivalent amount while emerging markets rose 0.4%. The S&P 500 fell 0.6%, and the move was driven almost entirely by developments inside the technology complex. Oracle's (-10.8%) results set the tone early in the week. Demand signals were not the issue. Remaining performance obligations tied to cloud and AI workloads rose sharply, reinforcing that customers continue to commit capital. The pressure came from the other side of the equation. Management confirmed that several OpenAI-related data center projects have been pushed further out and that capital expenditure will rise materially in the coming year. That combination matters because it extends the period during which investment runs ahead of free cash flow, keeping margins under pressure for longer than markets had assumed. The response was not a rejection of the AI story, but a reassessment of timing and economics. Broadcom (-11.4%) then amplified that reassessment in more forceful fashion. Headline results were solid, and the company pointed to a large AI order backlog stretching across multiple quarters, yet commentary around margin progression and revenue conversion failed to meet expectations that had been built into the stock after a powerful rally earlier in the year. Management acknowledged that AI-related products are compressing margins and declined to provide precise guidance beyond the near term, reinforcing uncertainty around how quickly scale translates into profitability. The share price reaction was sharp and spilled quickly into semiconductors, networking equipment, and infrastructure software, pulling the Nasdaq lower and forcing a broader repricing across the AI supply chain. Taken together, Oracle and Broadcom shifted the equity conversation away from demand visibility and toward execution, capital allocation, and return on invested capital, which became the defining theme of the week. Outside mega-cap technology, the US equity picture was more stable. Equal-weight indices again held up better than their cap-weighted counterparts. That divergence mattered. It confirmed that weakness was concentrated in areas where expectations had become stretched, rather than spreading across the market.

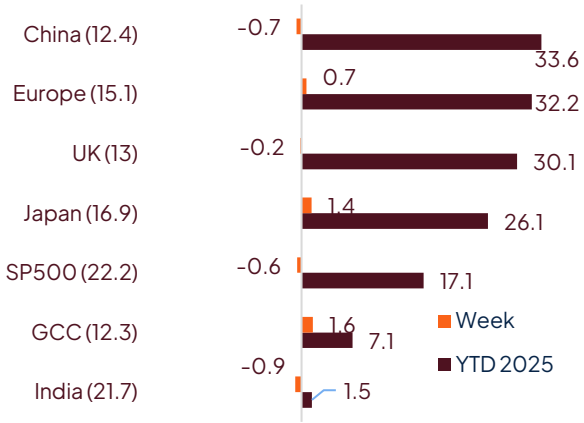
In Europe, The MSCI Europe Index ended down 0.1%. Technology and software names lagged in sympathy with the US, but Europe's lower exposure to large-scale AI infrastructure spending limited spillover effects. In Asia, Japan continued to lead, with the Topix rising 1.8% and pushing to fresh highs as expectations around BOJ policy normalisation became fully embedded in market pricing. Rising domestic yields directly improve earnings prospects for banks and insurers, and those sectors once again led performance. China remained unsettled. The MSCI China Index fell 0.7%, following a familiar pattern of sharp moves driven by policy interpretation rather than sustained conviction. Policy meetings reiterated support for growth, consumption, and property stabilisation, but the absence of decisive new measures limited follow-through.

The takeaway for last week is straightforward. This was not a breakdown in equities, but a recalibration driven by company-level reality checks. Monetary policy remains supportive, but it now sets the floor rather than drive the upside. From here, performance looks increasingly dependent on seasonals and the economy as markets move into the final stretch of the year.

Equity Recommended Regional Positioning

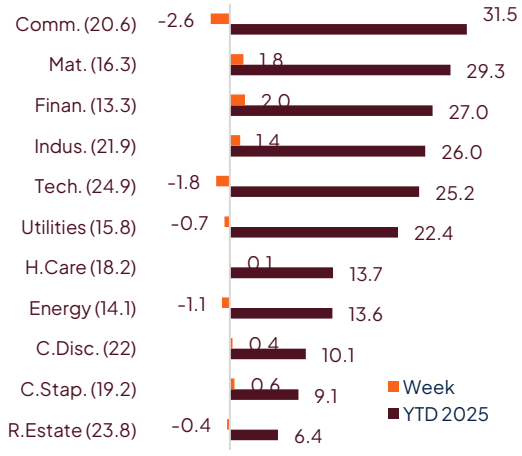


Major Indices Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

Global Sector Performance (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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