azimut

AZIMUT GLOBAL VIEW

22.12.25

Main Events

TOKYO CPI — **26.12**
Inflation in the capital, which normally anticipates national trends, is expected to fall significantly, settling at just 2.3%

US RETAIL SALES — **27.12**
Sales data might be kind of weak due to the shutdown, which left government workers without pay for over a month

FOMC MINUTES — **30.12**
The minutes will help clarify the extent of the diverging views among Fed members

CHINESE PMI — **31.12**
Chinese business confidence is likely to fall further, adding to the urgency for economic stimulus measures

Azimut Global Network

- Milan
- Abu Dhabi
- Austin
- Cairo
- Chicago
- Dubai
- Dublin
- Hong Kong
- Estoril
- Istanbul
- Lugano
- Luxembourg
- Mexico City
- Miami
- Monaco
- New York
- Santiago
- São Paulo
- Shanghai
- Singapore
- St Louis
- Sydney
- Taipei

OUTLOOK 2026

The Search For Opportunities: Active Management In The Shifting Sands Of 2026

Still growing, but modestly

Global GDP growth is expected to remain resilient, albeit moderating to around 3% in 2026. Nevertheless, we can expect bumps along the way, mainly due to increasing government intervention in free market dynamics. This is happening not only in countries where it is to be expected—in planned economies, such as China—but also in capitalist countries. Including in the US, where Trump is altering normal free-market mechanisms through measures such as imposing tariffs, controlling exports, or pressuring the Federal Reserve to cut rates.

In the US, the softening of the labor market will likely be offset by the Federal Reserve's shift to a more accommodative monetary policy. Other US macroeconomic indicators are not showing signs of vulnerability, supporting a constructive view. In Europe, Merz's government is underdelivering on its promises to revive the economy, and the stronger euro could further dampen eurozone growth, although not as much as in the second half of 2025. In Japan, the new fiscal stimulus plan could lead to accelerating growth, but also to a new surge in inflation, forcing the BoJ to raise rates much more aggressively than expected so far.

China optionality

Macroeconomic dynamics in China continue to deteriorate, mainly due to the never-ending slump in the real estate sector. In absolute terms, China's residential real estate assets are the largest in the world, estimated at around US$74 trillion. It is difficult to imagine that consumers would spend more when the main component of their wealth continues to decline in value and the government shows no intention to act. On top of that, the Chinese economy is also facing the recessionary strains caused by Trump's tariffs.

(continued)

As heralded on several occasions, it is likely that, sooner or later, the government will decide to intervene in a meaningful way to support the real estate sector and adopt measures aimed at stimulating domestic consumption. Should this occur, we could see a significant re-rating of Chinese asset valuations and an acceleration in domestic growth. A similar re-rating is already underway in technology stocks, reflecting the Chinese government's shift in stance toward the sector, which is now considered strategic in competition with the United States in the field of artificial intelligence.

Furthermore, Chinese households are currently holding approximately US$23 trillion in deposits. If even a small portion of this liquidity were to be allocated to equities, it could trigger a strong rally in domestic stock markets.

Therefore, despite the current unfavorable dynamics, China could offer significant positive optionality in 2026.

Will AI begin to have concrete applications in the real world, or not?

After three years of exponential growth in expectations and valuations across the AI ecosystem, 2026 could be the year in which reality is tested against those expectations. To date, valuations of AI-related companies have been driven largely by capital expenditure from other firms active in the same space, creating a degree of circularity. These massive investments have been justified by the need to build infrastructure sufficient to meet what is assumed to be substantial demand from individuals and businesses.

That said, elevated capex should continue to support economic activity and earnings growth for these companies over the medium term. Consequently, despite rich valuations, maintaining exposure to AI remains difficult to avoid—both due to the sector's growing economic relevance and because, as long as corporate guidance continues to be revised upward, the risk of a material correction appears limited.

Recent developments, such as the release of a new version of Gemini or the potential demonstrated by TPUs in AI development, also illustrate how perceived leadership or dominance can be challenged rapidly. In light of these developments, AI is likely to begin benefiting a broader set of companies rather than a small, concentrated group, as has been the case so far. A more diversified portfolio therefore appears to be the optimal approach to capturing this theme.

If concerns around excessive capex persist, an alternative strategy would be to add exposure to technology companies domiciled in emerging markets, where capex as a percentage of free cash flow is materially lower and valuations remain more attractive.

Beyond financial markets, AI will increasingly be required to demonstrate tangible real-world applications. Thus far, particularly for businesses, productivity gains have been limited, as highlighted by several studies. Should AI begin to achieve broader practical adoption, it will be important to assess whether productivity improvements can offset potential negative effects on employment and, by extension, household purchasing power.

Monetary policy

The Federal Reserve could implement significant rate cuts in 2026. In addition to the softening labor market, this outlook is supported by upcoming changes to the Federal Reserve's Board of Governors. Trump will soon appoint a new Chair, who is expected to align closely with his preference for maintaining low interest rates. Moreover, Trump must decide whether to confirm Stephen Miran—who is temporarily filling the seat vacated by Adriana Kugler—for a full term or appoint a replacement when the term expires in January. In either case, it is widely assumed that the appointee will support a low-rate policy stance.

If, in parallel, tariff-related inflation continues to have a limited impact on overall inflation, the conditions would be firmly in place for substantial rate cuts.

In Europe, the anticipated economic recovery is proving slow to materialize, reflecting the limited deployment of funds earmarked for defense and infrastructure, the strengthening of the euro—resulting in reduced competitiveness—and inflation falling below the European Central Bank's 2% target.

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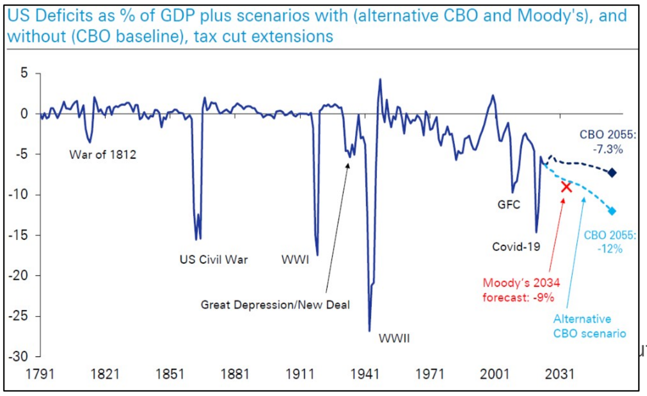
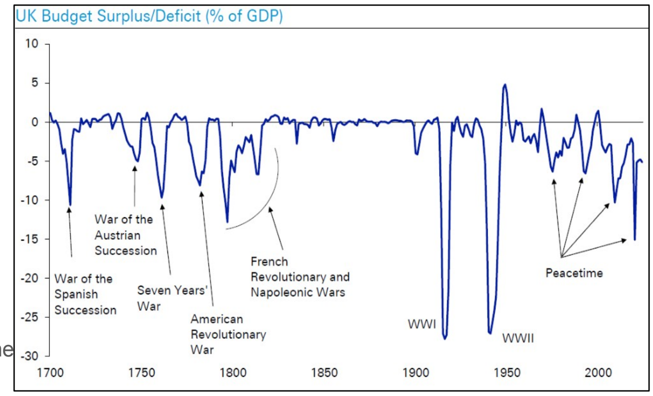
In this context, while recently Isabel Schnabel hinted at the possibility that the next interest rate move could be a hike, we think that it is more likely that rates will stay at this level or slightly lower.

The central bank in the most uncomfortable position is the BoJ. After decades of deflation or below-target inflation, the Japanese central bank is clearly behind the curve in the process of normalizing interest rates. Monetary policy rates, still at 0.5% at the time of writing, are well below the inflation rate (3%). In addition, Japan's new prime minister has just approved new economic stimulus measures. It is therefore realistic to expect the BoJ to raise interest rates more than the market expects, bucking the trend of other major central banks.

Sovereign debt sustainability and long-term rates

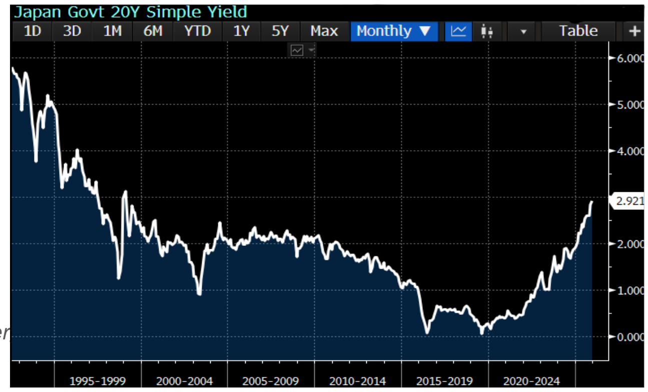
Ever since Liz Truss' "mini-budget" in 2022, markets have become consistently less complacent about the tendency of governments to increasingly resort to deficits to stimulate economic growth. In many Western countries, budget deficits are at levels never seen before in peacetime. The result has been increasing public debt. These dynamics could prove hard to sustain in the long term, but there seems to be no political will to reduce these deficits for the time being.





Whenever a country announces or even hints at the possibility of cutting taxes and/or increasing public spending, the markets react negatively. The most obvious effects have been seen at the very long-term ends of the yield curves, with rates rising sharply. The curves most affected by these developments have been those in the UK and Japan, but French and US curves have also experienced periods of stress.

Based on what has been discussed so far, most curves could continue to steepen, considering that the short ends are expected to decline following central bank rate cuts, while the long ends are likely to remain under pressure due to concerns about the sustainability of public finances and/or inflationary threats that have not yet subsided.



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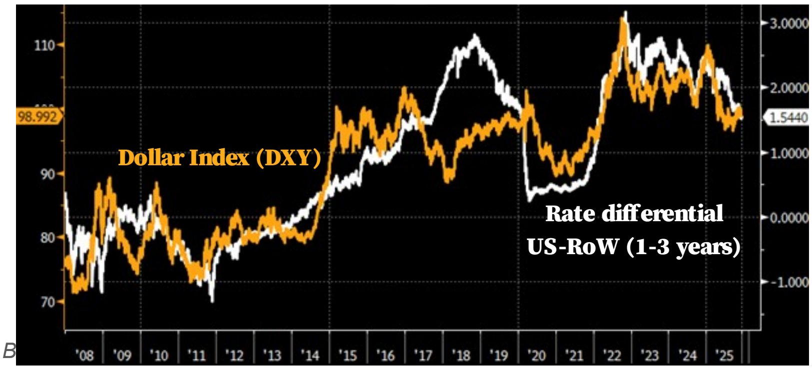
However, on the bright side, net new issuance in 2026 will be lower than in 2025, and there will also be extra demand from 1) the Fed as a natural reinvestment of maturing MSBs, 2) money-market funds, which continue to grow in size, now reaching $8 trillion, and 3) stablecoins, which, as required by the Genius Act, will have to be fully backed by “permitted reserves,” among which T-Bills are the most likely candidates.

Additionally, the long ends of the curves have been under pressure also in relation to the risk of sticky inflation in some countries, largely due to tariffs. However, if inflation resulting from tariffs continues not to materialize as it has been the case so far, there will be room for a rebound in long-term bonds.

Currencies

Considering that the primary driver of currencies is the short-term interest rate differential, the dollar could remain weak in 2026, given that under the new chair, the Federal Reserve may be cutting rates more than other central banks. Nevertheless, the potential weakening should be less pronounced than in the current year.



Source: B

In contrast to the dollar, the euro could remain strong, mainly because the ECB could be, among major central banks, the one to cut rates the least. Furthermore, a possible peace agreement in Ukraine could remove a disruptive element that has weighed on Europe and the euro since the conflict broke out in 2022.
It is instead virtually impossible to make predictions about the Japanese yen, which is subject to a number of opposing forces. Real interest rates are the most negative in the world, hinting at yen weakness, but the BoJ is expected to raise interest rates. The economy could rebound on the back of expansionary fiscal measures, which is supportive of a stronger yen, but the consequence of such measures is mounting public debt that could scare off international investors.

As for the yuan, if the Chinese Communist Party continues to refrain from using fiscal and/or monetary measures to revamp the domestic economy, an easy pro-growth measure could be to allow the currency to depreciate to boost international competitiveness.

Finally, emerging market currencies tend to perform best when Western central banks (and the Fed in particular) cut interest rates and/or the dollar weakens. Both of these factors could be at play next year, allowing emerging market currencies to continue to outperform in 2026.

Tariff uncertainties

At the time of writing this outlook, the US Supreme Court's verdict on the legitimacy of Trump's tariffs is still unknown.

An unfavorable ruling would be a positive development for the rest of the world, as the negative effects on growth and corporate profitability would be undone. International markets would then have the opportunity to recover from their relative underperformance compared to the S&P 500 in the second half of the year, when EPS for non-US companies was negatively impacted by tariffs. As a side effect, the market will have to face two major uncertainties.

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The first concerns how the tariffs paid so far could be reclaimed by those who bore them. The second concerns what other means the Trump administration might use to impose tariffs on foreign countries, a fallback strategy that has been floated several times in recent months. Furthermore, since tariffs are the primary, if not the only, measure adopted by the Trump administration to contain the public deficit, their repeal will reignite fears about the sustainability of US public finances, as discussed above.

If, on the other hand, the Supreme Court were to declare the tariffs legal, the only element of uncertainty that remains is how large and lasting the effect on US inflation might be.

Mid-term election

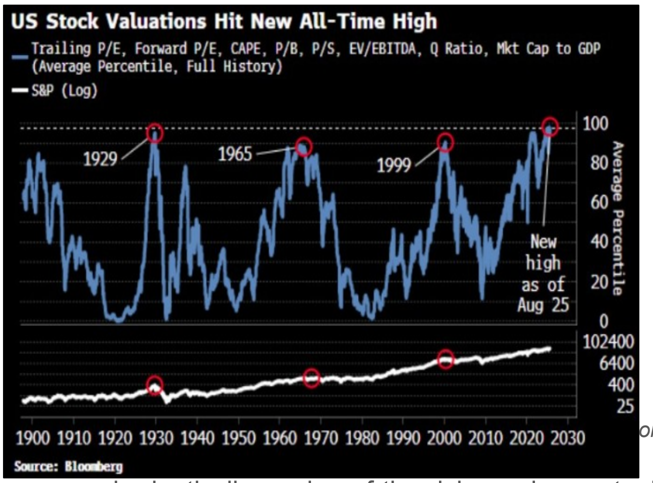
Trump's approval rating has fallen significantly since he took office in January. Already in November, Democrats won all races; those for new governors in Virginia and New Jersey as well as for the mayor of New York.

The Trump administration has a narrow majority in both the Senate and the House of Representatives. If this trend of disaffection with Trump and the Republicans persists, a divided government scenario is plausible, i.e., a situation in which one party controls the White House (executive branch), while another party controls one or both houses of Congress.

In such a situation, the two parties need to reach compromises in order to achieve the majority required to pass any new measures. While in the past, during periods of divided government, the markets achieved their best performances—because no party had the majority to pass radical measures, but it was always necessary to reach reasonable compromises—in the current situation, characterized by growing conflict and divergence of positions between Democrats and Republicans, the possibility of ending up with a completely gridlocked parliament is real. The Trump administration could therefore find itself unable to implement its program and/or respond with appropriate measures in the event of a slowdown or recession, which is conceivable to occur before the end of Trump's second term.

Stretched valuations

After nearly six years of bull market since the post-COVID lows, stock and bond markets now appear to be priced for perfection: stock multiples are quite high, particularly in the U.S. and for AI-related stocks, while bond spreads are hovering near record lows.



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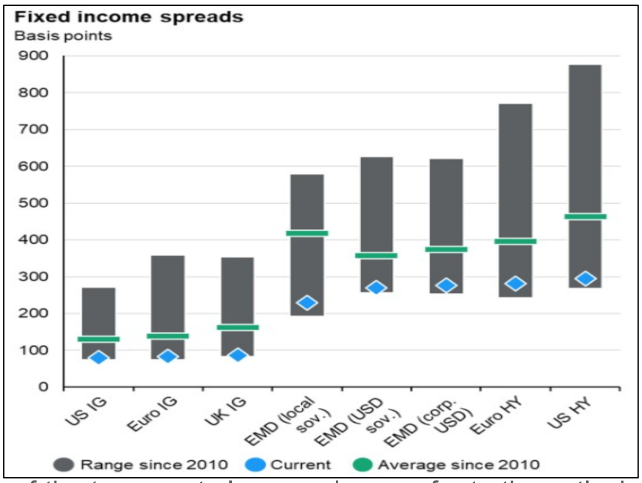

For a more in-depth discussion of the risks and opportunities of the two asset classes, please refer to the outlooks of the Equities and Fixed Income Committees.

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However, on the bright side, net new issuance in 2026 will be lower than in 2025, and there will also be extra demand from 1) the Fed as a natural reinvestment of maturing MSBs, 2) money-market funds, which continue to grow in size, now reaching $8 trillion, and 3) stablecoins, which, as required by the Genius Act, will have to be fully backed by “permitted reserves,” among which T-Bills are the most likely candidates.

Portfolio allocation

For bonds, in light of a softening of the growth dynamics on the one hand and the simultaneous presence of very low spreads on the other, we recommend increasing the average rating of the portfolio and waiting for spreads to return to higher levels before returning to an aggressive stance.

Considering the steepness of the yield curve and expectations of cuts by central banks, we also recommend extending the average duration of the portfolio. This strategy allows the yield to maturity of the portfolios to remain largely unchanged: the yield lost by increasing the average rating is offset by higher yields offered on the longer ends of the curves. A longer portfolio duration also enables investors to secure higher yields over a longer period of time, which is particularly valuable central banks are expected to lower interest rates. Furthermore, this approach makes it possible to temporarily avoid being exposed to the lower rating spectrum, which is currently affected by a stream of negative news, without any significant loss in yield, while patiently waiting for the next significant bout of volatility that will create the conditions for re-entering the sub-investment grade segment, i.e.: when spreads will have returned to more compelling levels.

Within credit, the preference remains for hybrid bonds and emerging market debt.

With regard to equities, we continue to recommend greater portfolio diversification both in terms of regions (overweight Europe and emerging markets; underweight US and Japan) and in terms of investment styles/individual stocks. This is due to the fact that there could be a broadening trade, meaning that the AI theme could begin to benefit a much larger number of companies, as argued above in this outlook. Additionally, we deem appropriate at this stage to focus more on quality stocks.

In terms of relative weightings, we continue to suggest maintaining a portfolio allocation close to the neutral allocation for client portfolios. When looking at traditional benchmarks, equity valuations are quite rich, but this is mostly due to a very limited number of companies. With a more diversified equity portfolio, equities can still offer compelling returns. Furthermore, until there are clear signs of a marked slowdown, there is no reason to pre-emptively reduce equity exposure, particularly until lingering concerns about sticky inflation persist.

We also recommend keeping exposure to private markets, as their expected returns remain higher than those of public markets, and their low correlation with traditional asset classes helps reduce overall portfolio volatility.

Asset Allocation View

	−	=	+
Equity			
Developed Markets		=	
Emerging Markets		=	
Fixed Income			
Developed Markets Sovereign			+
Developed Markets Corporate			+
Emerging Markets			+
Commodities		=	
Currencies		*Commentary below*	

− UNDER = NEUTRAL + OVER

Equity

Developed Markets

UNDER OVER

NEUTRAL

Our stance on Developed Market equities remains **Neutral**. After 25 basis point rate cut by the Federal Reserve, no further policy surprise is anticipated. The majority of the committee is now convinced that near-term market moves are expected to remain contained. Over the medium term, a degree of caution remains warranted. Elevated investor optimism and still-stretched valuations, particularly within U.S. equities and AI-related segments, call for vigilance. This supports the case for maintaining broad diversification across styles, sectors, and regions, with some committee members favoring a greater allocation to Europe relative to the U.S.

US	=	**Europe**	=	**Japan**	=

Emerging Markets

UNDER OVER

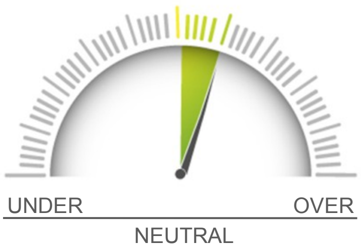
NEUTRAL

We reaffirm our Neutral stance on Emerging Market equities. While China's reluctance to deploy aggressive fiscal stimulus remains a significant "if," any pivot toward meaningful domestic support could provide a powerful upside surprise. However, even with compelling valuations and a notable discount to developed markets, the US dollar remains the ultimate key to unlocking performance. Consequently, while we see selective opportunities, we remain cautious of geopolitical risks and the current trade-heavy growth model until a clearer catalyst emerges. Latin American commodity exporters could see a significant boost from rise in commodity prices.

Asia ex-Japan	=	**EEMEA**	−	**LATAM**	+

Fixed Income

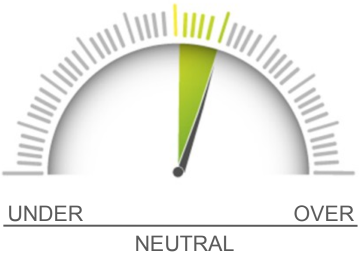
Developed Markets Sovereign



We maintain our **Slightly Overweight** stance on Developed Market sovereign bonds. Rate volatility has eased, and we expect the current trading range to remain broadly stable through year-end. There is little cause for concern regarding a contained rise in long-term yields; in fact, a slight increase in this area serves as a healthy indicator of underlying economic strength. Consequently, we see no major risk in adding a bit more duration to portfolios at this stage. Even the Japanese long end, which has faced recent pressure, is beginning to look increasingly attractive from a valuation perspective.

EU Core	=	**EU Periphery**	=	**US Treasury**	=	**Japanese JGB**	=

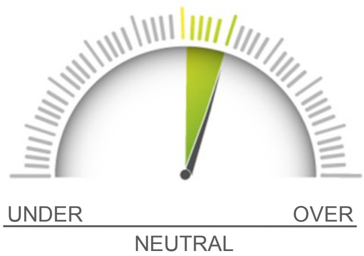
Developed Markets Corporate



We maintain our **Slightly Overweight** recommendation on Developed Market corporate bonds. Demand for credit remains robust, and spreads have tightened to record lows. With no major drivers on the horizon to materially increase volatility, near-term market moves are expected to remain contained given the continued resilience of the U.S. and European economies. We continue to recommend a focus on high-quality issuers, while avoiding excessive exposure to high-yield instruments.

IG Europe	+	**IG US**	+	**HY Europe**	−	**HY US**	−

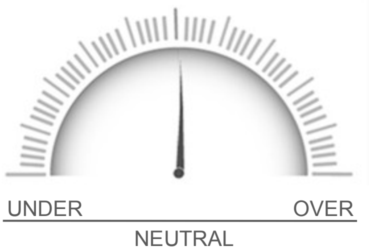
Emerging Markets



We continue to maintain our **Slightly Overweight** recommendation on Emerging Market Bonds. The rapid tightening of spreads in developed market bonds makes emerging market spreads comparatively more attractive versus similarly rated developed issuers. U.S. dollar weakness, along with ongoing diversification away from U.S. assets by international investors, could further support capital flows into emerging markets. Valuations remain compelling across much of the asset class, offering investors a higher yield without taking on excessive credit risk.

Local Currency	=	**Hard Currency IG**	=	**Hard Currency HY**	=

Commodities



We maintain a **Neutral** recommendation on Commodities. While our medium- to long-term outlook remains positive, we prefer to wait for the market to settle before raising our stance. Some members of the committee suggest reducing bullion exposure to lock in profits after the historic year-to-date rally, noting that extreme positioning and record highs may limit near-term upside. Conversely, others highlight the potential for industrial metals to be a positive surprise next year.

Precious	=	**Energy**	=	**Industrial**	=	**Agricultural**	=

Currencies

Our recommendation on the **USD** is to move **underweight**, reflecting an expected shift in leadership as Jerome Powell's term concludes in May 2026. Markets are increasingly pricing in a more dovish approach from the incoming Fed Chair, with leading candidates signaling a preference for more aggressive rate cuts to support economic expansion. While we expect volatility to remain low through year-end, this anticipated transition is likely to drive a sustained return to dollar weakness. The view on the Euro remains as Neutral. We have maintained our **Neutral** stance on the **Chinese Renminbi**. The outlook for other **emerging market currencies** has been confirmed as **Neutral with a bullish bias.** The massive YTD outperformance of emerging debt strategies has been gaining momentum among investors, despite the uncertainties still surrounding trade relationships.

Euro	USD	CNY	Other EM
=	−	=	+