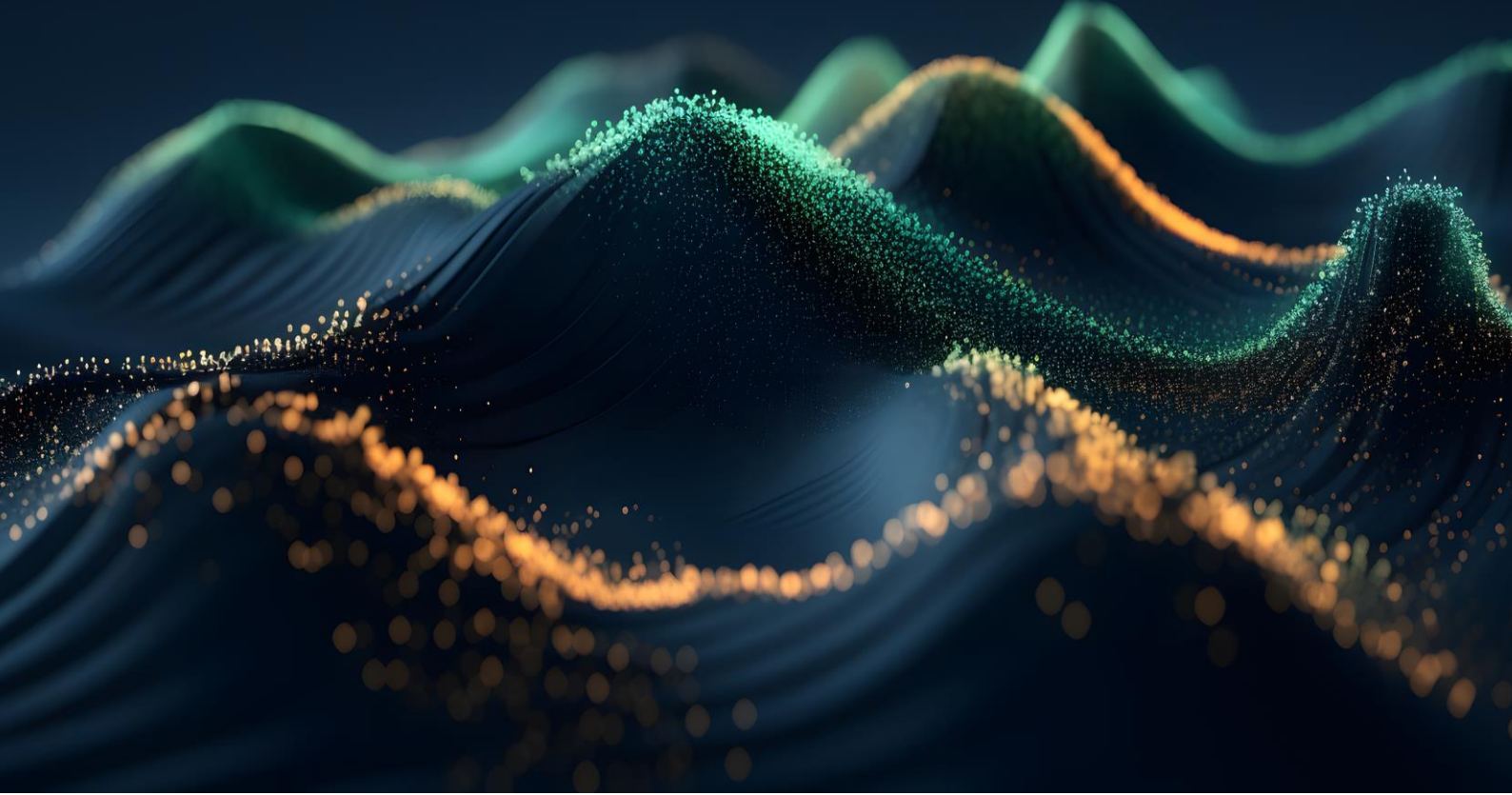


GENVIL

WEALTH MANAGEMENT & CONSULTING



MARKET INSIGHT

December 2025

2026 Outlook: Under the Influence of the “K”!

A year ago, the approach of 2025 was influenced by the recent re-election of D. Trump and the questions it raised regarding tariffs, inflation, and risks to global economic growth.

The return of volatility to financial markets in the first quarter of 2025 highlighted the extent of investor concerns, which peaked with the now famous “Liberation Day.”

However, market participants quickly regained hope, initially thanks to the absence of a trade war, and subsequently due to a more accommodative Federal Reserve.

Geopolitics was another source of concern at the end of 2024, whether regarding Ukraine, the Middle East, or the future of Sino-American relations.

No one can forget that the last 12 months saw a “surreal” scene in the Oval Office hosting President Zelensky, an open conflict between Israel and Iran, a timid return of V. Putin to the international stage during a “failed” summit with D. Trump in Alaska, and a ceasefire agreement in the Gaza conflict.

And this is without mentioning the US President’s statements on his desire to annex Canada or Greenland, and the tense relations between Washington and Beijing...

The fearful investor, anticipating a “chaotic” drift in international relations triggered by Donald Trump’s return to office, certainly would not have imagined that financial markets would so easily brush aside the geopolitical events we have faced in 2025.

A new proof that human beings quickly adapt to changing circumstances, even the most chaotic ones!



“Our assessment of the probabilities regarding the economic outlook is evolving in a favourable direction.”

FRANÇOIS SAVARY, CIO
GENVIL SA

As 2025 approaches its end, one conclusion is clear: it was a good year for financial assets, despite the aforementioned increase in volatility at the beginning of the year and major currency movements whose impact should not be overlooked.

In this context, while gold and precious metals topped the list of best performers of the year, oil, bitcoin, and, to a lesser extent, the dollar, ranked at the bottom.

This broadly positive assessment of financial markets would deserve more detailed analysis, but that is not our objective. We will merely highlight a few points that deserve attention.

In the bond market, performance was not linear, even though corporate debt consistently outperformed over the past 12 months.

More resilient economic conditions than expected and a certain mistrust toward sovereign bonds favored credit outperformance.

From a global asset allocation perspective, navigating was not as easy as it may seem with hindsight.

Our ability to stay the course of our choices, despite adverse developments, or to adapt them, was tested several times.

“The relative valuation of equity markets still argues in favor of diversification outside the US market in 2026.”

After a particularly difficult first half (the worst since 1973), the dollar managed to stabilize since the summer.

The growing popularity of private debt over the past three years — the market now reaching USD 1.7 trillion — has faced doubts following “spectacular” frauds/bankruptcies in the autumn. Legitimate questions arose regarding the risks that this unregulated market poses to the global financial system.

Another notable point: the outperformance of European equities in Q1 did not withstand the return of the AI theme from late April, resulting in US and European indices finishing with very similar total returns in local currency.

However, the picture changes once currency effects are taken into account!

Finally, emerging market equities returned to the forefront. A development that surprised many, given the persistent underexposure of international investors to these markets.

The “Deepseek moment” played a key role, highlighting that the USA is not the only major AI player, paving the way for real enthusiasm for Asian technology companies.

Our greatest management satisfactions, in terms of performance, stemmed from our choice to overweight gold and underweight USD at the end of last year.

Similarly, our underweight in sovereign debt in favor of corporate bonds and our investment in the energy theme supported portfolio performance.

Among the less favorable decisions, we note not having taken greater advantage of the strong equity correction in spring to more massively increase our exposure to risky assets.

In addition, although our biases toward more defensive sectors, Swiss equities, and/or quality cyclicals proved rewarding from the end of the summer onward, they penalized us in the first half of the year.

We kept you informed through this publication of the reasons behind maintaining certain positions and the (frequent) adjustments we made.

As the new year approaches, we revisit our work, without radically overturning it.

We remain committed to our positive outlook on gold. The conditions for further increases in

gold prices, widely discussed in recent months, still appear intact.

The partial profit taking we executed in October was justified in light of excessive short-term price increases. We maintain a target of USD 4500 per ounce for 2026.

Similarly, our currency exposure continues to reflect our scenario of additional USD depreciation, at least during the first half of 2026.

We maintain our recommendation to diversify into European currencies (EUR and CHF), with targets of 1.22–1.25 against the euro and 0.75 against the Swiss franc. We also believe that the yen could regain strength against the dollar in the medium term (target 140–145 versus USD).

On the bond front, we should first note that we have reduced our underweight in this asset class since the end of the summer. This decision appeared justified given the return of greater decorrelation between bonds and equities.

Furthermore, while we continue to favor credit for 2026, we reaffirm our decision, initiated in autumn, to reduce exposure to high-yield debt in favor of higher-rated instruments for a 12-month horizon. Continuous risk management explains this position.

Regarding equities, it is important to return to the global macroeconomic context in order to clearly explain our orientations for 2026.

The “K,” mentioned in the title of this document, becomes significant here.

You might have guessed, it has nothing to do with Dino Buzzati’s 1966 novel, but serves instead to describe the post-COVID economic recovery, particularly in the United States.

We even see a broader application of this concept.

The divergent developments that the shape of the K symbolizes can be found at different levels:

Between the old industrial economy on one side and the new AI-driven economy on the other,

Between sustained US expansion and stagnant European growth since the end of COVID, despite signs of slightly reduced “US exceptionalism” in recent months,

Between those who benefit from economic and financial conditions and those who suffer from them through two inequality-increasing effects: wealth and inflation,

Between the winners of the equity rally (AI equities now represent nearly 40% of the US flagship index) and the losers, linked to more conventional segments that struggle to attract investor interest.

These notable but non-exhaustive “imbalances” may impact short-term economic developments.

Thus, what would happen if AI investments declined sharply due to reduced demand and/or “natural selection” between competing giants trying to dominate the ecosystem?

Could the US economy avoid recession if wealthier consumers — who disproportionately drive spending and equity ownership — were to tighten their belts due to a negative wealth effect stemming from an equity market decline?

Can Europe, which is clearly relying on a rebound in domestic demand next year, realistically achieve it at a time when rising populism reflects the frustration of economic

agents and when public finances are constrained?

These are only some of the questions that arise from the K-shaped developments.

The ability to correct these divergences/imbances is one of the major challenges of 2026.

Certainly, it is unrealistic to expect everything to be resolved in the next 12 months. However, a partial rebalancing of these multidimensional “fractures” would be healthy.

Equity behavior is driven by economic conditions, earnings growth, and the liquidity factor.

As the end of the year approaches, let us say it clearly: overall conditions appear rather favorable for equity markets.

Concerning economic trends, the consensus for a soft landing is strengthening, reflected in recent IMF forecast revisions.

Despite a deceleration, US activity continues to surprise through its resilience, while “green shoots” of growth are emerging in Europe; this is further supported by the implementation next year of the German stimulus package adopted in 2025.

In China, the willingness to end the accumulation of overcapacity in certain sectors to counter resulting deflationary pressures is good news.

Undoubtedly, the Chinese economic model remains unbalanced and overly dependent on exports, but rumors of new stimulus measures to support consumption must also be taken into account.

Everything suggests that 2026 should be a good year for global growth, especially if the US economy manages to reaccelerate from the spring. We believe this scenario is far from impossible.

The combination of fiscal stimulus already approved by Congress, accommodative monetary policy (we expect three rate cuts by March 2026), and greater tariff stability seems to support such an outcome.

Our assessment of economic probabilities is moving in a favorable direction.

The scenario of a gradual reacceleration of activity is gaining in importance (35%) at the expense of a simple continuation of the soft landing (35%). Probabilities associated with stagflationary drift (20%) and the emergence of a recession (10%) remain unchanged.

While we adopt a more positive view of economic developments in 2026, we do not overlook the fact that inflation remains and will remain a key issue.

Contrary to some investors, we do not agree that the inflation fear can now be relegated to history.

Firstly, because the temporary shutdown of the US government deprives us of certain data, making it too early to draw conclusions; secondly, because one cannot assert that a tariff “shock” on inflation, even temporary, will never occur, especially in the USA.

In this regard, the recent decisions by the Trump administration to exempt certain consumer goods from tariffs are not insignificant...

In general, inflation remains influenced by two opposing forces: on one side, the deflationary potential of the AI revolution through productivity gains, and on the other, the much less favorable impact of reduced trade and increasingly assertive sovereignty/national security policies.

We will therefore continue to closely monitor price developments, given their consequences for our assessment of the global economy and our investment strategy.

Thus, we remain mindful of the risk that political considerations may override economic rationale in determining Fed policy over the coming quarters.

Regarding the liquidity factor, one thing is clear: we remain in a phase of accommodative monetary policy worldwide.

With the exception of Japan, where the BoJ should continue its (moderate) normalization policy, we anticipate:

1. stable rates in Europe (a final rate cut is even possible if inflation falls too low), and
2. monetary easing by the Federal Reserve, reinforced by renewed asset purchases.

Furthermore, a weaker dollar (see above) should support abundant liquidity in emerging markets, while the Chinese central bank has room to lower its key rates.

A certain level of confidence in the economic outlook and abundant liquidity should facilitate strong earnings growth in 2026.

Overall, consensus expects earnings growth of more than 10% for major global equities next year, with the USA in the lead (+14%).

Given the excellent results of the last earnings season (Q3), both in the US and in Europe, these positive expectations appear consistent.

Rising sales growth, margin expansion, and the spread of earnings growth beyond just the AI segment have begun to take shape in the United States.

In Europe, corporate earnings significantly above expectations seem to signal a recovery boosted by accelerating economic activity over the coming quarters.

The relative valuation of international equity markets continues to support diversification outside the US over the next 12 months.

We maintain our choice to overweight Europe in our allocations.

In addition, we will continue to strengthen our exposure to emerging markets, with Asia leading.

At a sector level, progress in the economic and financial cycle leads us to implement broad diversification, especially as questions surrounding the “Magnificent Seven” intensify (debt financing, circular investments, evolution of cash flows, etc.).

We maintain investments in defensive segments (healthcare) as well as in more cyclical stocks, particularly in Europe (financials, industrials, luxury).

In conclusion, we approach 2026 with a rather positive mindset. A target of 7,500 on the S&P 500 seems reasonable in the medium term.

In other words, the equity rally — currently taking a pause as we write — is not over. Recall that we expected a consolidation of the significant gains recorded on the markets since May.

We are therefore not surprised by the recent pullback, which seems healthy from a 12- to 18-month perspective.

Driven by structural forces (AI, reshoring, the fragmentation of economic blocs) and cyclical forces (economic acceleration), equity markets should see further gains in 2026.

In this context, we have introduced/increased our exposure to natural resources more broadly, through individual stocks and/or an ETF.

Expecting a consolidation, we had reduced equity allocations to neutral and retained cash to seize opportunities. We may soon act accordingly.

Because we remain vigilant regarding sovereign debt, we maintain an underweight in bonds.

However, this should be weighed against the fact that our portfolios hold a large exposure to credit risk.

Given that bond markets now face more limited potential for revaluation, a more tactical approach is justified in this component of a diversified portfolio.

In this regard, we recently initiated significant positions in a flexible, absolute-return strategy through a fund.

Due to our positive outlook on gold in particular, we maintain a large share of liquid alternatives (L/S equity hedge funds, relative-value bond strategies, Swiss real estate, gold) in our allocations.

These vehicles, which performed well in 2025, still deserve their place in a diversified allocation. They remain effective investments for managing risk and containing portfolio volatility.

As the holiday season approaches rapidly, we take this opportunity to thank you once again for your trust.

We wish you a joyful holiday season.

Geneva, 26 November 2025

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