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Introduction

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Macro context

Last September, we highlighted that the environment was still favourable to risk assets and that it would support a continued steepening of yield curves. Our conclusion will not be radically different at this start of the year.

Growth momentum remains positive. In recent months, growth forecasts for the major economies have almost all been revised upwards. This was particularly the case in the United States (1.95% expected in 2025 vs. 1.5% in August) but also in the eurozone (1.4% vs. 1.1% in August). Various leading indicators show a dynamic that is still strong in the services sectors while the manufacturing sectors seem to have finally come out of the slump after the rise in energy prices.

Fiscal policies remain highly expansionary. *One Big Beautiful Bill Act* passed in 2025 by the Trump administration will continue to have positive effects in 2026 (tax cuts of about $100 billion). Furthermore, it seems likely that new fiscal stimulus measures will be adopted before the *midterm* elections: the famous dividends linked to customs duties that Trump and Bessent are already having an impact. Based on their statements, this could represent more than $300 billion. In Europe, fiscal support should also remain in place, mainly through the German recovery plan (500€ billion).

On the monetary side, once again, the trend points toward policies that will support growth. U.S. unemployment is rising, inflation seems to be under control, and executive pressure remains strong. The ECB is on hold and should remain so until the end of the first half of the year. In the Eurozone, the outlook depends on inflation trends, where downside risks seem greater than upside risks.

Micro fundamentals are also well-oriented. Valuations are high in some markets, but earnings are ultimately tied to nominal growth and should remain solid in 2026. Recent revisions have been positive, especially in the U.S.

All signals seem to be positive at the end of this year but it is always interesting to think about what could change this dynamic. Below are some possible surprises that could challenge the scenario described above:

- A **surge in energy commodity prices**. Consensus currently favors prices remaining very low for the foreseeable future. Yet, demand driven by the AI theme is strong, the economic context argues for sustained prices, and positioning is currently very weak. This could call into question the disinflationary scenario.

- A **resurgence of inflation risk**, as seen recently in Australia, which could destabilize bond markets and put pressure on risk premiums.

- **Lower earnings expectations** for U.S. tech players amid intensifying competition in both software and hardware.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/12/2025.

Money Market Funds

Euro money market – Current market expectations suggest that the €STR will remain stable at around 1.90% over the next two years. **This scenario supports a positive credit environment, with low rate volatility and wide spreads**. Against this backdrop, our money market funds should continue to deliver a net performance of around €STR +10/20 basis points, with a controlled risk profile.

France exposure – We have confidence in French issuers and view current levels as an opportunity: **French spreads offer attractive risk-adjusted returns.** Fundamentals remain solid despite the current political crisis. Furthermore, the French economy remains diversified, less exposed to US tensions than other European economies, and benefits from structurally higher growth potential than Germany and Italy (demographics, high savings). In the event of credit stress or widening spreads, the portfolio's short duration ensures that positions can be adjusted quickly.

Regulatory Risk – A recent bill is likely to affect some domestic clients who invest in money market funds. Until now, the French real-estate wealth tax (IFI) has targeted only net real estate assets (direct or via SCPI/SCI) exceeding €1.3 million. The reform adopted at the end of November 2025 as part of the 2026 Finance Bill would broaden the tax base by transforming the IFI into an unproductive wealth tax, now including assets that do not contribute to the financing of the productive economy, **such as cash and financial instruments (current accounts, savings accounts, term accounts, euro-denominated funds, money market funds)**, as well as a wide variety of non-productive assets (digital assets, precious metals, collectibles, luxury vehicles, yachts, etc.).

DRIVERS

Credit environment remains supportive, with low volatility, greater visibility on short-term rates and spreads that we believe remain attractive.

Primary market supply remains abundant and diversified, and **French spreads offer attractive risk-adjusted returns** on high-quality issuers. The very short duration of money market funds enables rapid position adjustments, thereby limiting risk.

Integration of ESG criteria helps exclude issuers most exposed to credit stress situations.

WARNING SIGNS

Although France presents an opportunity, we are maintaining a **cautious approach**, given the risk of further widening of spreads and increased volatility.

An upside surprise in inflation could lead to an upward revision in rate expectations, generating further volatility in funds.

Life insurance contracts in euro funds and certain money market funds could be reclassified as "unproductive" assets, **potentially impacting assets under management** in money market funds.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/12/2025

Past performance is not indicative of future results. The management team is subject to change over time and there is no guarantee that it will remain the same throughout the life of the fund.

POSITIONING *****

Overall, we remain positive on money market funds, with expected returns of around 2.10% to 2.20% in a low volatility environment.

For savers affected by the likely IFI reform (property wealth tax), **short-term bond funds** (investment instruments considered productive) may be a simple alternative to facilitate a gradual transition without radically changing the allocation profile: **These instruments retain the main characteristics of traditional money market funds** (high liquidity, low volatility) while offering higher yields and unchanged tax treatment. Short-term bond funds also offer a **risk level significantly lower than that of equity and traditional bond funds**, while maintaining high liquidity.

Investment Grade

United States: The gradual decline in investor expectations regarding the pace of rate cuts in 2026, coupled with slowing growth, weighed on U.S. rates, which closed 2025 at 4.14% for the 10-year bond. Inflation risks remain high, fueled by policy, restrictive immigration policy, and activity rebound. Inflation should stabilize slightly above 3% in 2026. Economic growth remains resilient. After a third rate cut in December (3.50%–3.75%), justified by a management of risks—between a weakened labour market and high inflation—the Fed will be constrained in future cuts due to activity rebound and inflationary pressures, further supporting U.S. rates.

Eurozone: Fiscal and political concerns pushed German and French rates to high levels at the end of 2025, at 2.85% and 3.56% respectively. Inflation is expected to be slightly below the 2% target in 2026 thanks to the slowdown in services and lower wage increases. Growth will remain limited but above potential growth, thanks in particular to investment plans in Germany. The ECB is therefore likely to maintain the status quo in 2026 unless there is a marked deterioration in macroeconomic conditions in the eurozone, which will keep financial conditions accommodative. We will remain attentive to Italian and French spreads, which remain at risk given their high levels of debt and deficits.

Credit spreads on investment grade bonds continued to hit record lows (IG euro at 79 bp and IG US at 80 bp), showing strong resilience to various episodes of volatility in sovereign yields. **Technical factors supporting the asset class remain predominant** (fund inflows, stable money market rates, attractive absolute carry, etc.) against a backdrop of solid microeconomic results.

DRIVERS

Inflation will remain slightly below the 2% target in the eurozone, allowing it to maintain the status quo of its monetary policy, thereby guaranteeing rather accommodative financing terms.

Growth momentum in the eurozone will benefit from German stimulus plans and positive momentum in peripheral countries, particularly Ireland, Spain and Portugal.

High demand in the European IG credit market (attractive yield levels compared to historical levels) should provide technical support and limit volatility.

WARNING SIGNS

Bond supply will be key in 2026, with massive sovereign issuance expected, particularly in Germany, coupled with continued ECB balance sheet reduction

The Fed's monetary policy, potentially more restrictive than anticipated by investors , could push U.S. rates higher and affect European rates through contagion.

Valuation levels for risky assets are at **historically tight levels** (peripheral spreads, IG/HY credit and subordinated debt).

POSITIONING ✱✱✱✱✱

We maintain a positive duration stance given the sharp rate increases observed at the end of 2025, **favoring the belly of the curve** (3-7 years). We are overweight Germany, positive on Italy and Spain, and underweight France due to persistent political risks.

On IG credit, we remain cautious about the risk of spread widening given the extremely tight levels reached at the end of 2025 and the return of significant issuance starting in January. In the absence of a shock, **carry should nevertheless remain the main performance driver in 2026**. We favor quality, defensive sectors, senior formats, and the middle part of the curve (up to 7–8 years), maximizing the *roll-down return** for a moderate beta given the steepening of credit curves. **Given valuations and the macroeconomic environment, we are adopting a more balanced preference for corporates over financials**.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/12/2025

*Capital gain generated by the natural decline in a bond's yield as it approaches maturity

Past performance is not indicative of future results.

The breakdown of the fund's portfolio is subject to change at any time.

High Yield

For 2026, the High Yield credit market is starting from a position very similar to that of 2025, both in terms of credit spread levels and risk-free rates. As a result, yields have remained virtually unchanged (5.1% today versus 5.5% at the beginning of 2025 for euro-denominated High Yield credit).

In the absence of exogenous shocks, High Yield market performance in 2026 is expected to be broadly in line with 2025, supported by the carry component, which continues to benefit from historically low default rates. In particular, we expect the European default rate to decline to around 2%, compared with approximately 3% currently.

The macroeconomic backdrop and progressively less restrictive financial conditions represent positive tailwinds for the asset class. Curve positioning will be a key factor in 2026; in this context, we consider the **short to intermediate segments of the curve** (2 to 4 years) to offer the most attractive opportunities, given the higher volatility of the long end, which remains adversely affected by rising term premia.

DRIVERS

- **Corporate fundamentals** in HY have not been this strong since the Covid crisis (controlled leverage; good liquidity; limited refinancing needs).
- A **rather favorable macroeconomic situation**, even accelerating in some regions, which is positive for default rates.
- **Financial conditions** increasingly less restrictive and abundant liquidity thanks to the Fed continuing to cut rates and expand its balance sheet.
- **Carry remains historically attractive**, and the contribution of roll-down (with curve steepening) will be more significant than in previous years.
- **Flows remain very favorable** to credit.
- **Hedging costs** for USD and GBP should continue to decline in 2026, making HY credit in the U.S. and UK more attractive for European investors.

WARNING SIGNS

- **Risks to the Federal Reserve's independence** following the end of Mr. Powell's term in May 2026.
- Concerns about the **AI bubble**.
- Political situation in **France**.
- **Private debt** in the United States and Europe showing signs of fragility. Although the High Yield credit market is not directly exposed, potential contagion effects cannot be ruled out.
- Increasingly investor-unfriendly **credit documentation** (weaker covenants). This area warrants heightened vigilance.
- Highly consensual market expectations for 2026, implying that **any negative surprises could have a disproportionate impact on asset prices**.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/12/2025.

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POSITIONING ✱✱✱✱✱

Despite current valuation levels, **we believe that credit spreads should remain compressed** and trade within a range of 300 to 350 basis points. In the absence of an exogenous shock, carry is expected to remain the primary driver of High Yield performance in 2026.

From a portfolio construction perspective, **we favor euro and U.S. High Yield markets, with a focus on the short to intermediate segments** of the curve (2 to 4 years), in order to optimize carry and roll-down effects.

Subordinated Debt

2025 was a very good year for subordinated debt, with returns ranging from 4% to 5.5% across different segments, except for AT1 CoCos€, which posted an 8.5% increase. The trend towards **spread tightening,** driven by **strong demand** for any bond offering yield, outweighed the slump caused by the threat of trade barriers and concerns about private debt. We are starting 2026 with even lower spreads (264 basis points on AT1 CoCos, 159 basis points on Corporate Hybrids, and 116 basis points on T2 insurance bonds), after more than two years of rallying. So, will demand ease?

We doubt it, since **yields remain attractive, the macroeconomic outlook is sound, and corporate fundamentals are in excellent shape.** That said, we believe that **performance prospects will largely depend on the carry provided by bonds.** Primary supply should be easily absorbed, as issuance needs are unlikely to change.

We expect new issuers to enter the various segments, which is logical in a low-spread environment. In recent months, we have often found primary issuances unattractive, particularly for second-tier and lower-quality issuers, whose yield premiums compared to more defensive companies were too low in our view. This observation is likely to continue; we will therefore favour "premium" issuers.

While the Americans are deregulating their banks, **Europeans are talking about "simplifying" banking regulations** (with very few quantifiable consequences)... and reigniting the debate surrounding AT1s and their structure! We will see again this year many more attempts **to modify regulations.**

DRIVERS

Bank fundamentals will remain strong, benefiting from rising revenues thanks to steeper yield curves and a supportive macroeconomic environment. This provides a strong anchor for banking sector debt spreads, as demonstrated during *Liberation Day*.

Subordinated debt segments gained depth in 2025, with many new issuers: Central and Eastern European banks, insurance companies finally issuing RT1 bonds following the end of Solvency 1 *grandfathering** (application of new rules), and a wave of new non-financial hybrid debt.

There will be few non-calls this year,** thanks to favorable refinancing conditions and a trend towards early refinancing.

WARNING SIGNS

Valuations are at historically unattractive levels, both in terms of relative value and spreads, even though yields remain reasonable in absolute terms.

"High-beta" credit has a very strong correlation with equity markets, particularly the S&P 500, which could lead to further volatility in spreads. Subordinated debt is more sensitive to the noise from the Magnificent 7 than to the stock market performance of its respective European sectors.

We are less concerned about **M&A** attempts in the European banking sector driven by the pride of certain CEOs, given the failures of UniCredit and BBVA, but we remain vigilant about **attempts at large mergers**. On the other hand, we still see **consolidation among second-tier players.**

POSITIONING ***

Subordinated debt should continue to perform well with **significant carry** reinforcing its diversification role versus High Yield Corporate, while being **less exposed to the risks highlighted recently (AI financing, private debt, trade barriers).** We believe **that spread levels** will remain in a range similar to those of the past two months: **robust demand** for credit markets and **favorable prospects** for equity markets. We continue to favor AT1 CoCos € with high reset spreads*** (i.e., with a higher intrinsic call probability), as they often trade at levels comparable to securities with lower resets. We prefer AT1€ to AT1$ **due to higher spreads and expensive currency hedging**. We favour T2 insurance over Restricted Tier 1, considering **the latter relatively too expensive and offering less liquidity.**

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/12/2025. Spreads are expressed in OAS to Treasury.

*Seniority clause

**No early redemption

***Risk premium at issue

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Alternative Expertise

Capitalising on a Transitioning Environment

The end of 2025 saw a market environment that appeared more stable, yet still marked by significant valuation dispersion. After volatility phases observed earlier in the year, notably in April following tariff and trade measures, markets gradually priced in a scenario of controlled activity slowdown and continued disinflation. This dynamic resulted in a relative easing of interest rate markets, punctuated by some temporary tensions, as well as a gradual normalization of credit conditions during the last quarter.

Monetary policies remained largely unchanged, despite the first rate cuts implemented or anticipated in certain areas. This environment continues to support attractive credit spreads, while reinforcing the need for greater selectivity among issuers. The persistent dispersion between sectors, capital structures and liquidity profiles thus provides fertile ground for arbitrage and relative value strategies. As we approach 2026, although the macroeconomic environment is becoming clearer, it remains fragile and exposed to exogenous and geopolitical shocks, calling for flexible and responsive management focused on capturing market inefficiencies.

DRIVERS

Primary market abundance at the start of the year, notably in credit asset classes (IG, HY, convertibles, securitization), favors active selection.

Thematic, sectoral, and structural volatility are sources of opportunities for our strategies**.**

Strong appetite for M&A, fueled by companies' diversification and growth needs.

WARNING SIGNS

Idiosyncratic variations on spreads and curves, requiring continuous position adjustments.

Occasional pressures on **liquidity** that may limit flexibility.

Short-term valuation fluctuations (mark-to-market), without challenging the fundamentals of positions.

POSITIONING *****

We enter 2026 in an environment where visibility on the pace and magnitude of monetary easing remains partial. Persistent inflationary pressures in the U.S., gradual normalization in Japan, and the withdrawal of certain long-term institutional investors, notably Dutch pension funds, create lasting dislocations on sovereign and corporate yield curves. **We exploit this context through our curve and credit arbitrage strategies**.

M&A activity has already begun to accelerate, driven by regulatory adjustments, the return of cross-border deals, and private equity's contribution to value creation. **We also strengthen our exposure to convertible bonds**, whose structural momentum remains solid, supported by rising issuance and better-calibrated structures. Implied volatility gaps constitute a central performance lever, at the heart of our active, selective, and absolute-return-oriented management.

Sources: Groupe La Française. Data as of 31/12/2025

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Large caps

Equity markets experienced a volatile but overall bullish year in 2025. Stocks rebounded quickly after downturn phases and approached or reached record levels, driven by strong corporate earnings—particularly in technology and artificial intelligence—and by strong investor optimism.

European equities benefited in 2025 from renewed interest from international investors, attractive valuations, and favourable macroeconomic catalysts, positioning them as one of the most dynamic regions. The banking sector continues to be supported by a favorable market environment, as do industrials exposed to long-term trends such as electrification, AI, and sovereignty.

U.S. equities remained broadly bullish, with historical highs reached on certain indices. However, the advance was more moderate than in other regions, partly due to high valuations and a rotation of capital toward more “value” markets starting in October.

Emerging markets outperformed global equities, driven by better-than-expected economic growth, rate cuts in some countries, and U.S. tariffs that were less severe than anticipated. Korea, Taiwan, and China stood out thanks to their exposure to AI. Brazil, Mexico, and Poland also delivered strong performances.

DRIVERS

Stabilizing economic conditions and valuation gaps favor the **continued catch-up of Europe versus the United States**.

In Europe, **growth drivers have been identified**: tariff reductions, fiscal support, the German recovery plan and a resumption of investment.

Electrification & Data centres: massive investment roll-out, which should benefit utilities/renewable energies. Electricity demand growth in Europe and the US of between 1% and 3%.

Solid US growth driven by reindustrialisation, innovation and resilient consumption on average.

WARNING SIGNS

Geopolitical uncertainties persist on both sides of the Atlantic.

AI: The speed of monetisation and significant productivity gains are important for continued investment.

An optimistic consensus for 2026 could increase the risk of accelerating inflation.

US issues: continued interest rate cuts, inflation control, unemployment levels and mid-term elections.

Sources: Crédit Mutuel Asset Management, Bloomberg. Data as of 31/12/2025.

Past performance is not indicative of future results.

POSITIONING ***

The macroeconomic context remains broadly favorable in Europe, with recovery drivers gradually materializing. U.S. growth forecasts have been revised upward, supported by accommodative monetary and fiscal policies.

The structural theme of electrification stands out among major winners, including automation, AI, and data centers. Consumption could play a key role, supported by leisure and hospitality spending, while luxury should regain momentum. **Financials, particularly banks, should maintain their positive trend**, driven by curve steepening, strong earnings releases, and shareholder-friendly policies. Investments in mega infrastructure projects (excluding AI) in the U.S. should support cyclical stocks.

Small & Mid-Caps

The first half of 2025 saw a rebound in **Micro, Small, and Mid-Cap companies**, benefiting from a rotation toward **European domestic stocks**, more focused on local markets, despite an uncertain environment disrupted by tariff announcements from President Trump.

The second half of the year saw **part of this outperformance erased**, in favor of large caps and global stocks, **less impacted by the delayed cyclical rebound** anticipated early in the year.

In this context, **small caps advanced in 2025 by 19%** (MSCI Europe Small Cap ex UK NR), driven by southern countries with lower exposure to international markets and by Utilities and Banking sectors, which performed particularly well in 2025. Conversely, Nordic countries, heavily exposed to growth stocks and the U.S. market, were penalized. French small caps also delivered notable performance, with the Enternext PEA PME Index up 34% for the year, mainly driven by biotech and defense themes.

The current situation at year-end remains **marked by persistent uncertainties** regarding global geopolitical tensions, but **SMEs are better oriented**, and hopes for both **easing in Ukraine** and **economic rebound in Germany** by late 2026 allow us to expect **another favorable year for Small and Mid-Caps**.

DRIVERS

Potential European economic recovery boosted by the end of the war in Ukraine and the impact of the German plan by late 2026 should enable more cyclical small caps to regain investor appeal.

Historically low valuations represent a major lever for medium-term outperformance of small caps.

A supportive context enabling mid-caps to deliver **earnings growth superior** to the rest of the European market.

WARNING SIGNS

Geopolitical uncertainties could intensify with the U.S. electoral cycle, likely a source of announcements and market volatility.

Long-term rates appear to be on an **upward trajectory**, and central bank policies could become **less accommodative**.

Concerns about the valuations of AI-related players and the **concentration of outperformance** around this theme.

POSITIONING ****

The beginning of 2026 could be marked by **volatility in Q4 earnings releases**, as economic recovery remains to be confirmed and uneven across sectors. However, performance drivers—such as PMI indicators, potential easing in Ukraine, and U.S. rate cuts—allow us to remain optimistic about this segment in 2026.

Historically low valuation levels for small caps could signal **a strong rebound** if recovery materializes and triggers more aggressive investor positioning.

In this context, management maintains a selection of **growth and quality companies**. From a thematic perspective, defense stocks remain favored at this stage. A repositioning has also been made on some cyclical stocks to benefit from a potential recovery.

Market capitalization below €500 million for Micro Caps; between €500 million and €3 billion for Small Caps; and between €3 billion and €10 billion for Mid Caps.

Sources: Groupe La Française, Bloomberg. Data as of 31/12/2025.

Past performance is not indicative of future results.

2026 Outlook

2025 could be described as a year of **navigating by sight**, where uncertainty became structural amid heightened geopolitical tensions, accelerating extreme weather events, and the rise of AI. However, some certainties have strengthened: **seven of the nine planetary boundaries (**risk of irreversible environmental damage) **have now been exceeded**. The global average temperature reached 1.45°C above pre-industrial levels, with a **50% chance of exceeding 1.5°C before 2030**.

The political polarization around climate fueled the 2025 'ESG backlash', though it has **not prevented pragmatic responses from the real economy**. What stands out this year is not a retreat in commitments, but the number of organizations that have **raised their ambitions or maintained net-zero targets**. **In the United States**, corporate decarbonization commitments have **increased by 9%,** and **85% of supply chain companies** have increased or maintained sustainability efforts after the government withdrew from the Paris Agreement.

Decarbonisation remains a global norm, economically demonstrated by its adoption by companies that see it as feasible and profitable. A recent International Business Report survey shows that nearly **nine out of ten companies intend to increase or maintain sustainability investments in 2026.**

DRIVERS

Globally, **data center electricity demand** is expected to more than **double**, reaching over 1,000 TWh by 2030 according to the IEA. The risk of electricity shortages looms, so to address these challenges, the energy mix is evolving, **encouraging the deployment of renewables** thanks to their competitiveness and rapid rollout.

More than **50% of companies experienced physical climate impacts in 2025**, and 80% say they are **ready to strengthen resilience and adaptation measures******.

WARNING SIGNS

According to Gartner, **40% of agentic AI projects could be abandoned by 2027** due to excessive costs, uncertain benefits, or poorly managed risks.

Major challenges persist **for decarbonised electrification**, such as grid flexibility, consumption peaks growing faster than available capacity, and the need to develop controllable generation to **ensure security of electricity supply**.

Average agricultural losses are expected to rise from €28 billion to around €40 billion per year by 2050, **impacting crop yields by 6% to 9%**. Drought remains the main cause, but hail, frost, and excessive rainfall are also increasing in frequency and intensity.

POSITIONING ★★★★☆

Addressing short-, medium-, and long-term challenges now means **financing companies** that bring to market products, services, or technologies that can **simultaneously serve our decarbonization needs, industrial competitiveness**, and **strengthen European and French sovereignty**.

Funds are likely to continue flowing towards **renewable energy sources** that can both meet our growing energy needs and **compensate for intermittency**. This theme is linked to flows towards **storage capacities** such as batteries and **distribution networks**. **Rare and critical materials** are also central to these predictions for 2026, from their **extraction to their circularity**. The year 2026 will also be marked by increased attention to the overall ecological state of European waters – *Drinking Water Directive* – in favour of **water treatment and depollution solutions**.

Sources: Crédit Mutuel Asset Management, Bloomberg.

*Planetary Health Check – Our planet's vital signs are flashing red
**Net Zero Stocktake 2025 | Net Zero Tracker
***2025 State of Supply Chain Sustainability Study – MIT Sustainable Supply Chain Lab
****MS_Institute_for_Sustainable_Investing_Sustainable_Signals_Corporate_report_2025.pdf
*****EAFRD_AGRI_Insurance_Risk_MA.pdf

Past performance is no guarantee of future results.

Conclusion

Jean-Louis DELHAY

CIO – Crédit Mutuel Asset Management

On Wednesday, December 10, the U.S. Federal Reserve, as widely expected by economists, **cut its policy rate range by 25 basis points, bringing it to 3.50%–3.75%.** Its members anticipate another similar cut during 2026, less than the financial markets, which are expecting two cuts. On the positive side, the central bank has returned to a quantitative easing stance, with monthly purchases of $40 billion in U.S. Treasuries, with maturities of up to three years. In our view, this policy mix remains supportive of the U.S. economy.

The Fed's latest economic projections also appear relatively robust, pointing to stronger growth alongside contained inflation. Finally, Jerome Powell's term as Fed Chair ends in May, and his potential successor is considered to be closely aligned with President Donald Trump.

We therefore propose five investment themes that we believe are attractive in the medium to long term.

1. **Gold,** "the old barbarous relic," has a bright future ahead. Its safe-haven status is growing with the dollar's declining influence, as central banks, particularly those of emerging countries, seek to reduce their dependence on the dollar.

2. **The steepening of the yield curve is excellent news for European and American banks**, one of their core activities being to borrow short-term to lend long-term. Financial institutions therefore see their profitability mechanically improve when the interest rate spread widens between the levels they pay on deposits (short-term rates) and those they charge on loans (long-term rates). This context is all the more favorable given that bank balance sheets have been significantly strengthened, allowing for attractive returns to shareholders, the fact that deregulation is progressing, and that a robust pipeline of M&A deals should benefit investment banks.

3. Since Russia's invasion in Ukraine in February 2022, **the defense theme has regained strong momentum** and is now unavoidable. Concretely, members of the North Atlantic Treaty Organization (NATO) committed at the end of June to a historic increase in their military budgets, targeting 3.5% of GDP — and up to 5% when including broader security-related spending — compared with the current 2% benchmark. These commitments are mechanically driving a significant increase in order backlogs across the defence industrial sector and reinforce the outlook for sustained medium-term growth in industry activity.

4. **Enthusiasm for AI stocks** remains strong since the launch of ChatGPT at the end of 2022. The explanation is quite simple: the investment phase in AI infrastructure to develop computing power and data storage is lasting longer than expected, and the amounts deployed are proving to be higher. Companies directly involved in AI, as well as those along the value chain (energy generation, electrical grid and gas turbines, suppliers of cables, racks, cooling solutions, advanced semiconductors, and memory), are therefore benefiting from significant visibility. At this stage, it is necessary to be selective and favour solid players.

5. With the German stimulus plan ramping up in 2026, **local industrial companies** (Germany, Austria, Central Europe) will benefit.

We maintain a positive outlook on equities, particularly in the United States, supported by the Federal Reserve's accommodative monetary policy, a weaker dollar, the continued momentum in technology and infrastructure investment. We are also positive on European equities, underpinned by the German stimulus plan and the ECB's interest rate cuts.

On the fixed income side, we believe the environment still favors a continued steepening of yield curves, particularly in areas with very strong fiscal support. In the Eurozone, market expectations are currently for the ECB to maintain the status quo for the whole of 2026, which makes long positions in European bonds asymmetrically favourable from a risk perspective. It seems unlikely that the ECB will raise its deposit rate this year, while on the other hand there is a scenario where inflation surprises on the downside, which would generate a more accommodative bias on the part of the European institution.

Source: Crédit Mutuel Asset Management as of 31/12/2025

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