2026 Market Outlook: Solid Expansion, AI Crossroads and a Balanced Dollar

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Executive Summary

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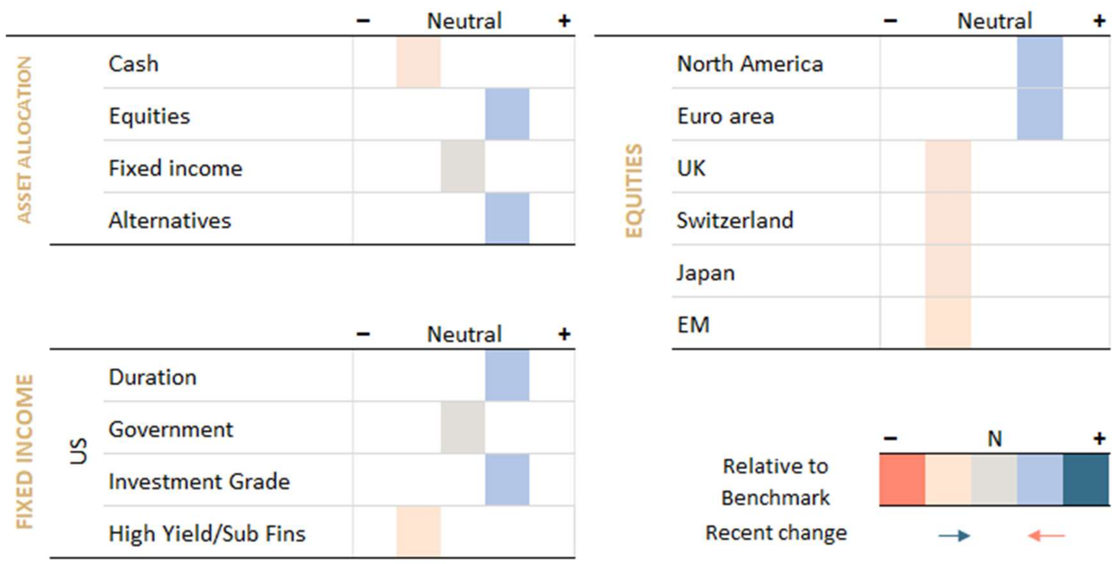
- Our 2026 Outlook is built around a solid central scenario for the global economy and markets, complemented by two equity tail scenarios.
- Our base case (60% probability) assumes US real GDP growth above 2.5%, with global growth broadly supportive. Inflation gradually converging toward 2%, without requiring a recession. Expected returns of roughly 9–12% for the S&P 500 and 5–6% for bonds, supported by mid-single-digit nominal GDP growth, double-digit earnings growth and stable valuation multiples.
- We also consider a positive tail scenario (20%) with faster disinflation and strong growth, leading to an AI-driven "melt-up" in equities and stretched valuations.
- A negative tail scenario (20%) featuring a slowdown in growth with sticky inflation—a stagflation-style outcome driven by labour-market stress in specific segments, tariff shocks and political risk.
- On the US Dollar, another key variable for our asset allocation, we remain broadly constructive but see a more balanced outlook: a central positive scenario (65%) in which structural supports (productivity, AI, high real rates) keep the Dollar firm to slightly stronger.
- A negative scenario (35%) in which elements of the Trump–Miran policy agenda (tariffs, trade re-engineering, capital-flow redirection) weigh on the Dollar over time.
- We do not include an extreme bull scenario of sharp dollar appreciation as a persistent Dollar spike would trigger political resistance from the Trump administration, which is intent on protecting US manufacturing and export competitiveness.
- Taken together, these forces suggest a world of continued growth, easing inflation, and still-loose financial conditions, offset by emerging pockets of political and distributional stress. In this environment, we see a coherent asset-allocation stance as:

    - **Maintaining an overweight in equities;**
    - **Running longer duration than the peer average;**
    - **Staying cautiously long on the Dollar;**
    - **We continue to like alternatives, particularly in relative value and macro.**

Novum's "Investment Mosaic"



2025 performance in key indices

	YTD % TR USD	YTD % TR Local
MSCI World	22.8%	22.8%
S&P 500	19.3%	19.3%
S&P 500 Equal Weighted	12.8%	12.8%
Mag 7 Index	26.8%	26.8%
Russell 2000	15.1%	15.1%
Euro Stoxx 50	37.8%	21.1%
CSI 300 Index	26.3%	21.2%
Hang Seng Index	32.4%	32.5%
Nikkei 225	29.9%	29.1%
MSCI EM	33.6%	33.6%

Most Short Rolling Stocks	40.4%	40.4%
ARK Innovation ETF	35.9%	35.9%
GS Uranium	50.2%	50.2%
BBG Defensive Sectors	9.51%	9.51%

	YTD % TR USD
US Dollar Index	-9.4%
Bitcoin	-7.7%
BBG Precious Metals	70.5%
BBG Energy	-8.8%

	YTD% TR USD
S&P 500 Info Tech	26.0%
S&P 500 Comm. Serv	33.9%
S&P 500 Health Care	15.5%
S&P 500 Financials	16.7%
S&P 500 Cons Discr.	8.3%
S&P 500 Energy	7.4%
S&P 500 Real Estate	3.6%
S&P 500 Materials	12.6%
S&P 500 Industrials	20.9%
S&P 500 Cons Staples	4.6%
S&P 500 Utilities	16.3%

	YTD% TR USD
LQD (High Grade)	8.3%
HYG (High Yield)	8.6%
US Treasuries Index	6.3%
TSY 2 year (bps)	-74
TSY 10 year (bps)	-41
Bund 10 year (bps)	50
SOFR March 27 rate (bps)	-85

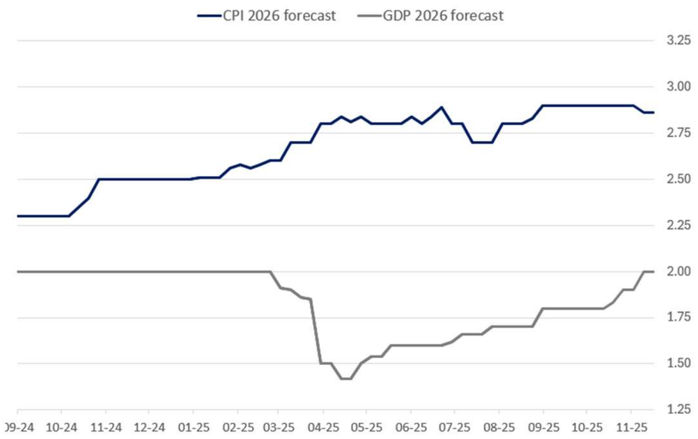
Data as of December 31st

Key Market Scenarios

1. Base Case - "Solid Expansion" (60%)

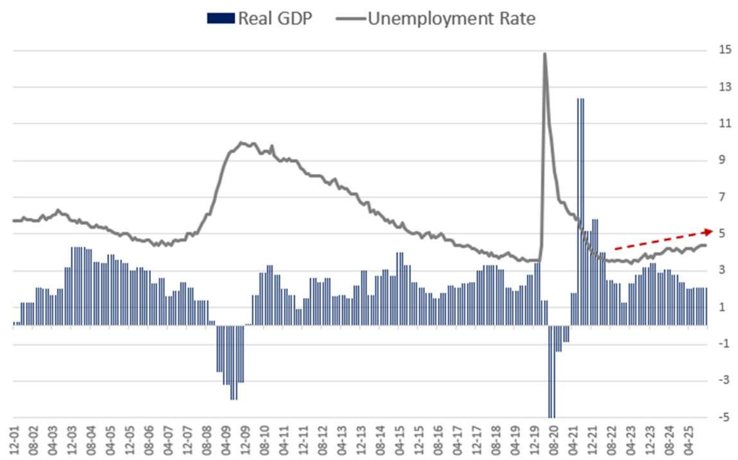
In our central scenario, the US and global economy continue to expand at a healthy pace: US real GDP growth remains above 2.5%, with a modest drift higher in the unemployment rate toward 5% from today's 4.6%. Inflation continues to move gradually toward 2%, consistent with both the Fed's latest projections (2.3% real GDP and 2.4% inflation in 2026) and Bloomberg consensus, though the Fed is somewhat more optimistic on growth and inflation than the market.

> Our base case sees "solid expansion": US and global growth above 2% and 3%, gradual disinflation toward 2%, supportive policy, credit tailwinds and a healthier equity market after an AI-led correction took place in November '25



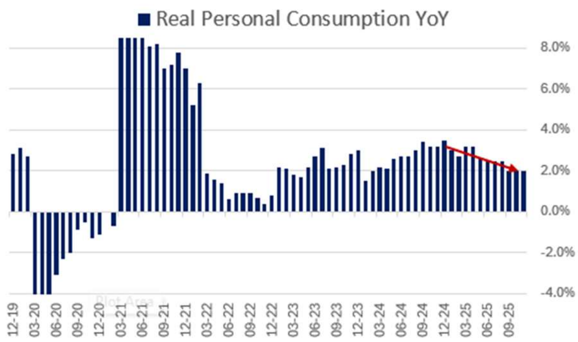
Source: Bloomberg, Novum calculations

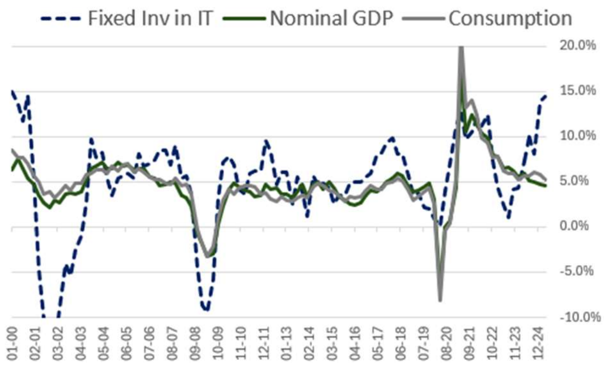
Growth over the last two years has already taken place in an environment of rising unemployment and relatively unremarkable consumption, but strong productivity gains and a surge in investment, especially in technology.



Source: Bloomberg, Novum calculations

This is a form of “jobless growth”: the expansion has been driven by productivity and capex rather than by a booming labour market. After the size and speed of the recent technology investment wave, it is hard to argue that productivity will suddenly revert lower. It is therefore plausible that GDP growth can remain robust or even accelerate even as unemployment grinds somewhat higher—exactly what we have seen so far as inflation fell from 9% to around 3%, while real GDP has grown above 2% and accelerated in the last two quarters.
The next two charts illustrate this: consumption has slowed in real terms (chart on the left), while investment and productivity have become the main drivers of growth (right chart).





Source: Bloomberg, Novum calculations

Positioning remains supportive: an AI-led correction and 5% S&P pullback helped clear excess optimism, while strong Q3 earnings and high tech margins leave a healthier market with scope for broader sector leadership

Positioning is another supportive factor. Despite strong equity performance - especially in technology and AI-linked names - positioning indicators never reached extreme levels. The sharp correction in AI-related stocks since late October (and the 5% pullback in the S&P 500) has helped cleanse excess optimism, leaving a healthier market with more symmetric risks. The strong run of mega-cap tech during the year was followed by a sharp reversal in November, which can be read in three ways:
A simple correction in an ongoing uptrend (1), coinciding with fears that the Fed might not cut in December (fears that proved unfounded). (2) A rotation into cheaper sectors such as healthcare or energy, broadening market leadership. (3) The start of a deeper de-rating of the AI theme, driven by doubts about the profitability of AI investment. We think it was a healthy correction creating room for broader leadership. Q3 earnings season was strong; profit margins, especially in tech, remain very high, and earnings surprised to the upside by more than 6%, well above the seasonal average.

Policy is also supportive in this base case:

Fiscal policy: With full implementation of the OBBA reform, the CBO’s dynamic estimate suggests the bill will raise the level of GDP by up to about 0.9% around 2026, with the boost front-loaded thanks to stronger demand

and improved investment incentives—including immediate expensing of equipment and domestic R&D, which encourages firms to bring forward capex plans. For 2025 instead, tariffs are expected to subtract around 0.5% from GDP, so the net change will be relevant.

Monetary policy: After an initial 100 bps of cuts in 2024 and a pause, the Fed resumed easing in September '25, delivering another 75 bps of cuts. In addition, on 10 December the Fed effectively restarted QE by announcing 40bn of Treasury bill purchases. While not so big in size, the effects of the easing will impact sensitive sectors over the next months.

Credit deregulation is another important macro tailwind: the FDIC has withdrawn the 2013 leveraged-lending guidelines, which had effectively acted as a cap on leverage (especially above 6x debt/EBITDA) and forced banks into tighter underwriting standards. This framework had pushed riskier lending into the non-bank private credit space, now US$1.3tn in direct lending and almost one-third of leveraged finance. Removing the guidelines is a structural deregulation: banks regain flexibility to underwrite higher-leverage deals and compete more aggressively on price, terms and covenants. In the short to medium term this is credit-positive, supporting issuance, refinancing and M&A, especially for non-stressed borrowers.

At the macro level, more flexible bank lending combined with robust private credit improves credit availability for SMEs and mid-caps and can extend the credit cycle, at the cost of more leverage and some future vulnerability if standards loosen too much.

Earnings have driven markets, growing over 11% annually in six years as profits outpace sales via operating leverage.
If nominal GDP grows by 5%, double-digit EPS growth still looks sustainable

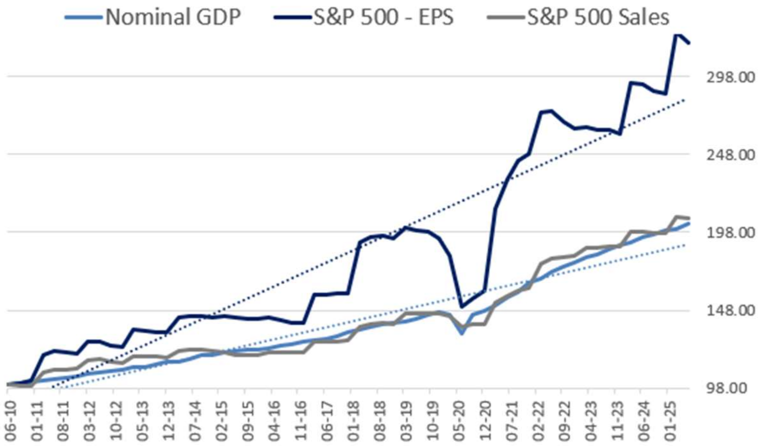
On the S&P 500, our analysis is based on the two main variables that make up the price of the S&P 500, which we analyse separately.

Earnings: these have driven the market in recent years. So let's see if earnings growth (over 11% in the last six years, including the Covid recession in 2020) can continue without any substantial deviations from the trend.

	2020 YoY	2021 YoY	2022 YoY	2023 YoY	2024 YoY	2025 YoY	2026 YoY	2027 YoY	Average
S&P 500	-12.4%	47.1%	4.8%	0.6%	10.5%	9.4%	14.2%	13.7%	11.0%
S&P 500 eq. weighted	-28.8%	74.3%	7.7%	2.9%	4.9%	4.9%	4.9%	11.2%	10.3%
Mag 7	73.6%	82.9%	-12.9%	53.2%	52.5%	29.6%	17.9%	17.6%	39.3%
Eurostoxx 600	-32.4%	73.0%	11.8%	9.9%	-0.2%	-2.5%	15.7%	13.4%	11.1%
CSI 300	-6.4%	2.2%	-5.0%	-5.9%	-2.2%	13.7%	2.1%	16.5%	1.9%
Topix	-36.0%	108.2%	-4.3%	23.9%	12.4%	-4.6%	18.0%	10.3%	16.0%

The table shows S&P 500 YoY EPS growth. Source: Bloomberg, Novum calculations

The question we ask ourselves, therefore, is whether this trend can continue, in line with market expectations that see double-digit growth for 2026 and also for 2027. The chart below shows how (naturally) the sales of S&P 500 companies grow in line with nominal GDP growth.



Source: Bloomberg, Novum calculations

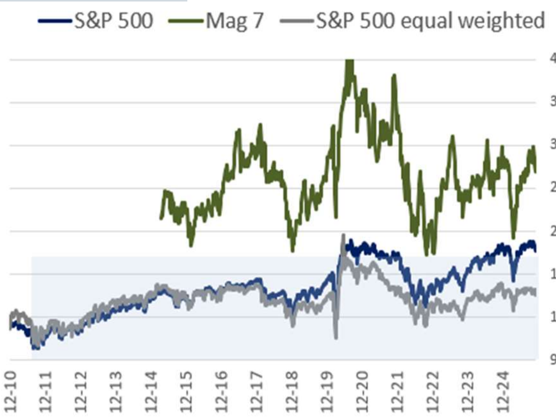
Profits, on the other hand, have grown at almost twice the rate of revenues, reflecting a combination of operating leverage, pricing power, and a structural shift toward higher-margin business models—particularly in the technology sector, which helps explain the 20–30% earnings growth achieved by Big Tech in recent years. Below is the calculation based on the figures recorded over the last six years, with annualised growth for earnings and revenues:

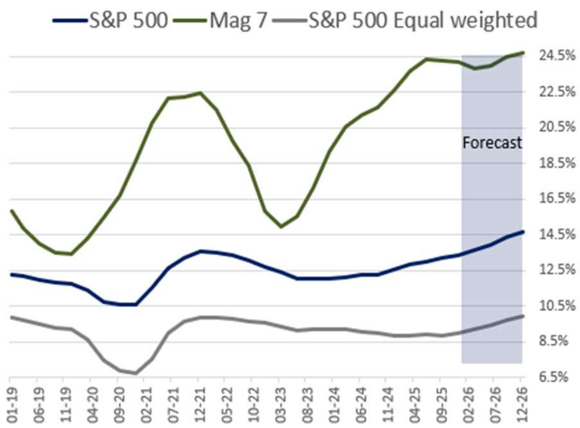
$$\boxed{\textbf{Operational Leverage}} = \frac{\boxed{\textbf{EPS growth } 13.5\%}}{\boxed{\textbf{Revenue Growth } 6.91\%}} = \boxed{\textbf{1.96}}$$

Forward P/Es look elevated mainly due to the Mag 7, but are supported by structurally higher margins. With 10-year yields near 4%, we see current multiples as broadly sustainable, with upside if inflation falls faster

Consequently, if the economy grows at around 5% in nominal terms (roughly 2.5% inflation and 2.5% real growth), double-digit earnings growth remains plausible. This outcome does not require a further acceleration in revenue growth, but rather the preservation of today's structurally higher margin profile, combined with disciplined cost structures and ongoing capital return to shareholders. Importantly, the gap between revenue and earnings growth reflects not only traditional operating leverage from fixed costs, but also durable pricing power, sector mix effects, and capital structure dynamics that have amplified per-share earnings growth over time.

Multiples. Let's start by looking at where we stand on forward P/E ratios for three indices: the S&P 500, its equal-weighted counterpart, and the Mag 7. The chart below shows us that at 16.9X, the S&P 500 equal-weighted is in its central band for the last 10 years. Not a worryingly high level, therefore. The S&P 500, at almost 22, seems rather high and therefore a little dangerous. However, in our opinion, this multiple is strongly influenced by the Mag 7, which practically did not exist 10 years ago and now accounts for over 35% of the index. But, as we can see from the second chart, high multiples go hand in hand with margins, which are double those of the rest of the market, at 24% and growing.





Source: Bloomberg, Novum calculations

What will ultimately determine the sustainability of equity valuation multiples—beyond further earnings growth—is the interaction between inflation, long-term interest rates, and corporate profitability. In the table below, we analyse the key variables at three separate points in time: 2010, 2019 (just before Covid) and today, for the S&P 500 and S&P 500 equal weighted. We use the S&P 500 equal weighted as a proxy for the US market without the outsized market cap impact from the Mag 7 companies. What do we see?

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- In 2010, multiples were much lower, around 13 for both, but margins were much lower, at 9.8% and 6.8%.
- In 2019, multiples were much higher, thanks to two factors, in our opinion: significantly lower interest rates (2.1% for ten-year bonds) and much better margins (thanks to growth in technology).
- Today, further expansion of margins (to 13.4% for the S&P 500, a 30% expansion since 2010) helps support higher multiples, even with rates double those of 2019 at 4.1%.

S&P 500

	Forward PE	Margins	US 10y
2010	13.0	9.8%	4.0%
2019	18.40	12.0%	2.1%
2025	21.6	13.4%	4.1%

S&P 500 Equal weighted

	Forward PE	Margins	US 10y
2010	12.6	6.8%	4.0%
2019	16.90	9.5%	2.1%
2025	17.0	9.0%	4.1%

Source: Bloomberg, Novum calculations

The key to the sustainability of multiples is therefore clear, and lies in interest rates. The sustainability of current valuation multiples therefore depends on the joint evolution of interest rates and margins. While higher long-term rates mechanically reduce valuation support, structurally higher margins-driven by sector composition, scalability, and operating efficiency—partially offset this effect.
With long-term rates stabilising around 4%, current multiples appear more defensible than in past high-rate environments, precisely because corporate margins remain structurally above pre-2010 levels. As we said, there is in fact a scenario in which a faster decline in inflation could guarantee a further expansion of multiples.
A faster-than-expected decline in inflation would further ease financial conditions, lower real discount rates, and potentially allow for additional multiple expansion—particularly for sectors with durable growth and high-margin profiles.

If inflation hits 2% faster while growth stays strong, lower rates could trigger outsized equity gains and a genuine AI bubble, with parabolic tech returns and stretched valuations

2. Positive Tail – "AI Melt-Up" (20%)

In the positive scenario, inflation reaches the 2% target more quickly than expected, while growth remains solid: the Fed, which currently projects only one 25 bps cut in 2026 (and markets price two), could cut more and faster. The terminal Fed Funds rate, now expected to settle just above 3% in 2027 (vs 3.75% currently), could drift even lower. Lower inflation and lower rates, combined with strong growth, would boost not only earnings growth but also valuation multiples, especially in long-duration sectors such as technology. In this scenario, the equity market could experience an acceleration in returns well above our 9–12% base-case range, going as far as 20-30% for the year and a genuine bubble in AI-related equities, with parabolic price action and stretched valuations.

3. Negative Tail – "Stagflation and Disruption" (20%)

The negative scenario combines a growth slowdown with sticky inflation, constrained policy, and rising political risk.

We already see early signs of labour-market fragility: the unemployment rate for the 16–24 age cohort has risen from 6% to 10% over the past year, while the overall unemployment rate has increased from 3.5% to 4.6%.

In terms of sectors, our calculations over the last 16 years show a clear break in services and information technology, the sectors most directly exposed to AI-driven substitution. Over the first 14 years, these sectors created 6.5 million jobs, growing at 2.3% annually, well above the 1.3% economy-wide pace.

	Information + Business Serv.	Contruction	Manufacturing	Total Employment
2010 - 2023	6.5 mln (2.2% cagr)	2.3 mln (2.6% cagr)	1.4 mln (0.9% cagr)	23.7 mln (1.3% cagr)
Last 24 m	-259k	+256k	-163k	+3'290k

Source: Bloomberg, Novum calculations

Our downside scenario is stagflationary: slowing growth, sticky inflation, AI-driven job displacement and rising populism, partly offset by likely fiscal support

Over the past two years, they have lost 259,000 jobs, even as the broader economy added almost 3.3 million. This suggests the displacement dynamics are already in motion and could accelerate, especially for younger and service/IT workers who feel most at risk from AI.

On the inflation side: tariffs, along with the usual stickiness of prices after a multi-year inflation surge, could keep headline and core inflation elevated, limiting the Fed's ability to cut rates just as growth slows.

Second-round effects from tariffs or a new commodity shock are the main upside risks. We rate the latter as relatively low after events such as the Israeli strikes on Iran that did not trigger the feared oil spike, but the risk cannot be dismissed.

Political risk would likely amplify the problem. The US is already deeply polarised. Recent landslides for Democratic governors in Virginia and New Jersey, and the rise of figures like Mamdani in New York, underscore how themes such as inflation, affordability and job security dominate the political agenda.

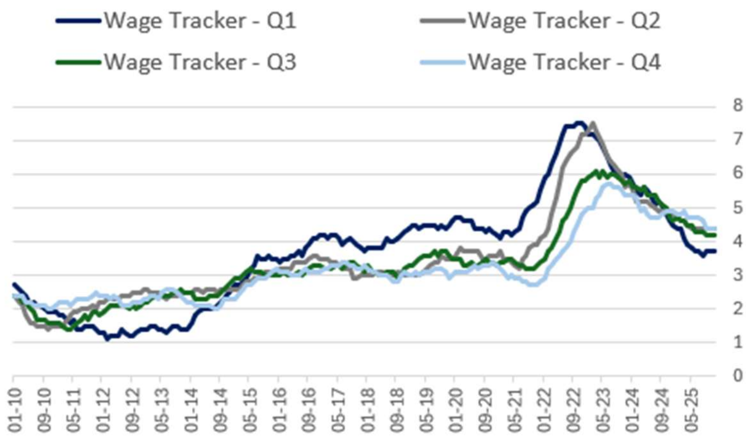
Over the last 16 years, real wage growth has been almost flat, while the S&P 500 has compounded at 14% to 15% annualised. The divergence between real earnings and capital gains is stark, and the summary table below shows just how powerful compounding has been for asset owners vs workers. Compounding is fierce and amplifies differences, as can be seen from the summary table.

		Real GDP	Nom. GDP	Real Earnings	Inflation	S&P Tot Ret
Since 2010 (16 yrs)	cagr	2.3%	4.7%	0.6%	2.6%	13.8%
	Total growth	43%	106%	9.5%	49%	686%
Since Covid (6 yrs)	cagr	2.1%	5.6%	0.5%	3.8%	15.1%
	Total growth	13%	39%	3.1%	25%	132%

Source: Bloomberg, Novum calculations

This environment is fertile ground for populist or anti-market currents, which could translate into higher regulation, higher taxes, or industry-specific interventions.

We assign a relatively low probability (20%) to this scenario because: if growth slows meaningfully, we expect the labour market to weaken quickly, pulling inflation down with it. The Fed is clearly trying to anticipate this dynamic. Our framework treats wages as the main driver of inflation. As the Atlanta Fed wage tracker shows, wage growth is already trending lower:



Source: Bloomberg, Novum calculations

The top quartile of earners—typically a leading indicator—has slowed from above 7% in 2022 to close to 3% today. In other words, wage-driven inflation pressure is already normalising. The main obstacles to a clean return to 2% are therefore tariff effects or exogenous supply shocks.

Even in this negative scenario, there would be an important mitigating factor: a politically embattled administration will do everything possible to retain control of Congress. With only one chamber, Democrats could already launch impeachment proceedings; the stakes are high. This context makes further fiscal stimulus, pressure on the Fed to cut, and perhaps partial tariff relief more likely than not.

We also note that the recently published National Security Strategy appears relatively soft-toned on China. The sense is that the administration wants to avoid a major escalation. China has already shown it can retaliate hard with threats on rare-earth exports. Tariffs on Chinese goods feed directly into US consumer prices. Only 6–7 months ago, escalation with China was perceived as the top geopolitical risk for markets; that is less true today.

Even so, a scenario in which anti-capitalist or strongly anti-market currents “à la Mamdani” gain traction would be a serious concern for markets, with implications for valuations, regulation and the long-term cost of capital.

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US Dollar Outlook

We see the Dollar as structurally balanced: productivity and high real yields support mild strength, but Trump–Miran trade and policy shifts could redirect flows and, in a 35% scenario, gradually weaken it

We view the Dollar through the lens of two opposing sets of structural forces.

Structural positives:

- A sustained US productivity acceleration, potentially driven by AI and technology investment. Historic US productivity outperformance vs the euro area, which has closely tracked Dollar appreciation over the past decade.
- High real yields and deep, liquid markets.

Structural negatives linked to the Trump–Miran policy agenda:

- Continuation and potential expansion of aggressive trade policies introduced in 2025. A deliberate attempt to redirect global flows away from passive financial investment in the US—Treasuries and Nasdaq—toward real investment in the US economy. Foreign trade-surplus countries would be encouraged (or compelled) to recycle savings not into US government bonds, but into US goods, defence equipment, technology and especially FDI: factories, shipyards, semiconductor plants, data centres and R&D facilities on US soil.
- A Fed leadership more aligned with the administration (e.g. under Hassett), supported by deregulated banks able to hold more Treasuries and by global uptake of stablecoins invested in T-bills, would provide an ultra-accommodative domestic backstop, reducing the need for a “strong Dollar” to attract capital.

These opposing forces point to a more neutral, range-bound Dollar over the medium term, with two main scenarios.

1. Positive Dollar Scenario (65%). This is our central Dollar scenario, in which US productivity outperformance continues, assisted by AI and high-tech capex. Real rates remain relatively attractive vs other developed markets. The Fed maintains a credible nominal anchor around 2% inflation, even with some political pressure.
However, we do not include an extreme Dollar bull case in our central framework. A sharp and persistent appreciation would be politically problematic for an administration focused on reindustrialisation and export competitiveness.
We therefore assume that any incipient Dollar overshoot would be met by a combination of policy rhetoric and measures designed to lean against it.

2. Negative Dollar Scenario (35%). In the negative Dollar scenario, the Miran agenda exerts a stronger pull on policy: tariffs remain in place or expand, redirecting trade flows.
Trade-surplus countries are increasingly channelled into buying US goods/FDI rather than Treasuries.
The Fed is pushed toward a more dovish stance, and domestic buyers (banks, stablecoin structures) are expected to absorb more of the Treasury supply.
Over time, this setup could reduce foreign demand for Dollar assets, particularly long-dated Treasuries and US equities. This would lead to a gradual weakening of the Dollar, even if the US economy continues to grow reasonably well.
Given these cross-currents, our high-level conclusion is: the Dollar outlook is balanced rather than one-way. We see a slight bias toward Dollar strength in our base case, but recognise a meaningful (35%) risk that the Trump–Miran framework, if implemented more aggressively, could tip the balance toward a weaker Dollar over the medium term.

Fixed Income

Mathieu Roche
Senior PM

In 2025, fixed income markets were shaped by a clear divergence between the US and the euro area. The ECB moved first, cutting rates four times in the first half of the year as inflation fell back toward target. The Fed, by contrast, delivered three cuts in the second half, acting more pre-emptively to cushion a possible slowdown even though US inflation had not fully returned to 2%. This divergence also showed up at the long end of the curve: US 10-year Treasury yields drifted lower, supported by a dovish Fed and longer-term dots around 3%, while German 10-year Bund yields moved higher on the back of Germany's expansionary fiscal stance—especially infrastructure and defence spending—and additional political and fiscal uncertainty in France. Credit markets remained very calm throughout, with spreads at extremely tight levels thanks to strong demand for yield, resilient macro conditions and solid corporate earnings. The only real wobble came around "Liberation Day", when spreads briefly widened and created attractive, short-lived entry points before retracing.

In fixed income we expect 2–3 Fed cuts, limited ECB tightening, elevated term premia and attractive duration, favouring high-quality sovereigns and AA corporates, with cautious credit risk and some USD linkers

Looking ahead to 2026, the market expects at least two further cuts from the Fed, while the euro area is priced roughly for unchanged rates or even a modest hike. We broadly agree with the idea of 2–3 Fed cuts.
By contrast, we are more sceptical about the probability of an ECB hike and see about a 50% chance that the ECB will eventually follow the Fed with at least one cut, especially if inflation stays under control and eurozone growth concerns resurface. On long-term yields, current pricing—around 4.2% for the US 10-year and 2.9% for the Bund—sits above our strategic fair values of roughly 3.8% and 2.5% respectively. This suggests term premia are still elevated and that adding duration can offer attractive carry and roll-down.

In this context, our 2026 stance favours a cautious, selective approach to credit—keeping duration short in lower-rated segments—while gradually increasing exposure to duration in US and euro area government bonds. We complement this with allocations to inflation-linked bonds, particularly in USD, to hedge against upside inflation surprises. Within corporates, we prefer high-quality issuers around AA, preserving flexibility to add risk if future bouts of market stress reopen more compelling spread opportunities.

	Recommendation 2026	Key Notes / Rationale
Credit	Prudent approach, high selectivity, short duration	Avoid broad exposure; focus on highest quality opportunities; maintain flexibility for re-entry if stress occurs
Duration	Increase exposure in U.S. and Euro Area bonds	Capture term premia; benefit from carry and roll-down opportunities
Linkers	Maintain allocation, especially in USD	Hedge against inflation risk and volatility
Corporate	Prefer high-quality corporates (~AA)	Balance yield and safety; suitable for duration exposure

Global Equities 2026 Outlook: Positioning for Resilience, Selectivity, and Discipline

Karim Khalil
Partner & Senior PM

As we look ahead to 2026, our positioning within the NP Global Core Equity Module, benchmarked against the MSCI ACWI, reflects a deliberate shift toward greater resilience and selectivity. Equity markets continue to be shaped by powerful structural forces, most notably AI, while at the same time facing increasingly demanding valuation and earnings expectations. In this environment, we believe that portfolio construction and risk management are as important as theme identification.

Over the past year, we have therefore gradually reduced exposure to Information Technology and Consumer Discretionary, while increasing allocations to defensive sectors, most notably Utilities (now overweight) and Consumer Staples (back to equal weight). We expect this overall trend to continue through 2026, not as a binary risk-off move, but as a measured response to concentration risks and valuation dispersion.

Reducing cyclical and concentration risk in global equities

> We are trimming Tech and Consumer Discretionary not to abandon innovation, but to reduce cyclicality, index concentration and rich valuations, reallocating toward areas with better risk-reward and macro resilience

Technology and Consumer Discretionary have been the primary drivers of global equity performance in recent years, supported by strong earnings delivery from a narrow group of large-cap companies and by enthusiasm around AI-driven productivity gains. However, this strength has also resulted in elevated index concentration and a growing gap between market leaders and the broader opportunity set. Against the MSCI ACWI benchmark, maintaining large overweights in these sectors increasingly implies accepting higher sensitivity to sentiment shifts and execution risk.

Our decision to reduce exposure is therefore not a rejection of innovation or long-term growth, but a recognition that expected returns must be evaluated alongside downside risk. In several parts of the technology and consumer discretionary universe, valuations embed optimistic assumptions regarding growth persistence, margin expansion, or competitive positioning. In such cases, the margin for error has narrowed.

Accordingly, we have been taking profit in parts of the portfolio where investment theses rely on continued multiple expansion or where the path from technological promise to sustainable cash generation remains uncertain. This has allowed us to rebalance the portfolio toward areas where fundamentals, valuation, and macro sensitivity are more attractively aligned for the next phase of the cycle.

Is AI a bubble? Why we focus on implementation, not prediction

> We don't try to predict an "AI bubble"; instead we stay invested but more selective, concentrating on high-conviction leaders and trimming peripheral names to participate in growth without overpaying for optionality

A central challenge for 2026 is the role of AI in equity markets. It is impossible to say with confidence whether we are in an "AI bubble" in the traditional sense. There is compelling evidence on both sides. On one hand, AI investment is tangible: capital expenditure on data centers, cloud infrastructure, and related hardware continues to expand, and leading companies are committing significant resources to deployment. On the other hand, market history suggests that even genuine technological revolutions can experience periods of over-extrapolation, uneven adoption, and valuation overshoot.

Rather than attempting to time this inflection, our approach has been pragmatic and risk-aware. We have chosen to remain invested in AI, but in a more concentrated and selective manner. Exposure has increasingly been focused on the stocks where we have the highest conviction: companies with clear competitive advantages, strong balance sheets, and a demonstrated ability to translate AI-related demand into sustainable earnings and cash flow.

At the same time, we have reduced exposure to peripheral or lower-conviction AI-linked names, particularly where outcomes are highly sensitive to capital markets conditions. This reflects a broader philosophy for 2026: participate in structural growth but avoid overpaying for optionality.

Utilities: defensive positioning with indirect exposure to AI investment

We overweight Utilities as a defensive, lower-volatility sector that also benefits indirectly from AI-driven data-center power demand, allowing us to capture structural digital growth with more stable, regulated cash flows

Our overweight position in Utilities is a key expression of this philosophy. Demand is relatively inelastic, cash flows are often regulated or contracted, and earnings volatility is typically lower than in more cyclical sectors. Utilities also tend to be sensitive to the interest rate environment; a stabilization or easing in rates would support valuations and reduce financing pressure for capital-intensive balance sheets.

Beyond these traditional attributes, Utilities also provide indirect, second-order exposure to the AI investment cycle. The rapid expansion of data centers and digital infrastructure is translating into structural growth in electricity demand, as well as sustained investment in power generation, transmission, and grid resilience. Utilities benefit from this trend through higher regulated asset bases and long-duration infrastructure spending.

Consumer Staples: reinforcing stability versus MSCI ACWI

We've moved Consumer Staples back to equal weight: after sharp underperformance and a valuation reset, they add defensive earnings stability with upside if consumer sentiment, input costs and fiscal support improve

We have brought Consumer Staples back to equal weight versus MSCI ACWI following a period of relative underperformance. The sector has lagged materially over the past year, reflecting investor concerns about the underlying health of the consumer, volume elasticity after multiple rounds of price increases, and the broader market preference for growth and AI-linked themes. This underperformance has resulted in a meaningful valuation reset across much of the sector. From a portfolio construction perspective, Staples reinforce resilience through earnings visibility and lower sensitivity to macro volatility. At the same time, the sector offers asymmetric optionality into 2026. Should growth remain stable and consumer confidence improve, Staples can benefit from operating leverage as input cost pressures ease. In addition, the potential for fiscal support or stimulus measures ahead of the U.S. mid-term elections could provide a further tailwind to household spending, offering upside that is currently not reflected in market expectations.

Looking ahead to 2026

For 2026 we reduce concentration and cyclical risk, increase defensive exposure, and keep selective AI and structural growth positions, prioritising balance sheets, earnings quality and downside protection versus MSCI ACWI

In aggregate, our equity positioning for 2026 reflects three core objectives:

- Reducing concentration and cyclical risk by trimming exposures where valuations and expectations are most demanding.
- Enhancing portfolio resilience through higher exposure to sectors with stable cash flows and attractive risk-adjusted characteristics.
- Maintaining selective exposure to structural growth themes, including AI, while concentrating capital in the highest-conviction opportunities and avoiding reliance on sentiment-driven outcomes.

We expect equity markets in 2026 to continue rewarding discipline, balance sheet strength, and credible earnings delivery. In that context, the NP Global Core Equity Module is positioned to navigate a more complex investment landscape, participating in long-term growth where justified, while prioritizing resilience relative to the MSCI ACWI benchmark.

Hedge Funds

Maxime Glasson
Partner & Senior PM

Looking ahead to 2026, we anticipate that many of the trends observed in 2025 and over the past several years will persist for hedge funds. These trends are characterized by heightened volatility and dispersion, both within and across asset classes. This environment is driven by macro-economic divergences and elevated geopolitical risks, which increasingly shape global economic policies.
This stands in stark contrast to the pre-2020 era and the peak of the ZIRP period. At the strategy level, we maintain a preference for less correlated, alpha-oriented strategies, particularly in relative value and macro. These strategies are well-positioned to capitalize on the current opportunity set and remain the cornerstone of our allocations.
Relative Value strategies should continue to benefit from persistent market volatility, capturing dislocations in equity, credit, convertible, and fixed income markets. We also see a favorable backdrop for systematic strategies that can monetize both that volatility and dispersion. For Macro strategies, the evolving narrative around global growth, inflation, and divergent central bank responses provides ample opportunities for macro managers to structure highly asymmetric trades across asset classes.

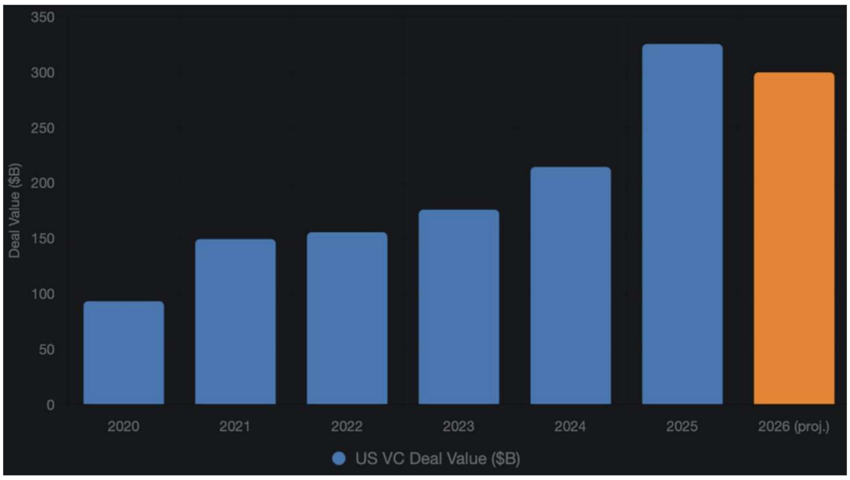
We expect 2026 hedge funds to benefit from volatility and dispersion, favouring low-beta, alpha driven relative value and macro strategies, while staying cautious on crowded multi-strats and selective in equity/credit exposure.

However, we are mindful of the risks building in certain areas, particularly within the multi-strategy manager universe and parts of the macro space. These areas are vulnerable to significant deleveraging/liquidation events, which could lead to correlated downside risks due to asset growth, industry concentration, and position crowding. For our Equity- and Credit-centric strategies, we continue to emphasize idiosyncratic exposures over generic market beta. This approach has led to allocations with generally low net exposure profiles and a sector-focused strategy. We will selectively add directional or geographically targeted allocations where opportunities arise. Our Event Driven overlay, intentionally limited in scope, is expected to benefit from elevated global M&A activity and idiosyncratic credit opportunities.

Private Equity

PE/VC cautiously recovered; deals and exits revived; dry powder declined amid stabilizing rates

In 2025, private equity and venture capital markets in the US and Western Europe demonstrated a cautious recovery amid easing macroeconomic pressures. Deal activity in private equity picked up modestly, with US deal values rising about 8% year-over-year in the first half, driven by larger transactions like carve-outs, take-privates, and continuation vehicles, though overall volume remained subdued due to persistent valuation gaps and leverage constraints.



PitchBook-NVCA Venture Monitor shows VC deals stabilizing

Dry powder levels declined from peak highs, dropping to around $880 billion for US-based funds by September, signaling a gradual deployment amid stabilizing interest rates. Exits showed signs of revival, with global exit values in the first nine months surpassing the prior three full years, bolstered by a rebound in PE-backed IPOs—up 68% in Q3—and sponsor-to-sponsor sales.

Secondaries boomed, discounts narrowed, fundraising lagged; AI-focused VC grew, while liquidity challenge persisted

Secondaries managers focusing on LP-led transactions saw volumes reaching approximately $55 billion in the first half of 2025 with global exit values in the first nine months surpassing the prior three full years, bolstered by a rebound in PE-backed IPOs. This represents massive growth from $88 billion in Full-year 2024. Average pricing for LP portfolios climbed to around 90% of NAV (with buyouts often at 94%+), reflecting narrower discounts (transaction-weighted ~13%) as buyers compete aggressively for diversified, mature exposures. The buyer universe has expanded dramatically, fueled by recompressing returns and making it harder for buyers to secure attractive discounts.

Fundraising, however, faced headwinds, with US commitments tracking 40% below 2024 levels, as limited partners (LPs) favored top-tier managers with proven track records in operational transformation and sector expertise. Venture capital followed a similar trajectory, with early-stage investments gaining strength in AI and tech sectors, particularly in the US where selective funding rounds emphasized "battle-tested" startups over visionary but unproven ideas.

Europe attracted cross-border VC into AI, especially in the UK and Germany, despite liquidity constraints

Europe saw increased VC inflows into AI deals, with regions like the UK and Germany attracting cross-border capital amid a broader shift toward innovation in the Middle East and emerging markets. Liquidity remained a challenge across both PE and VC, with longer holding periods and a backlog of portfolio companies prompting greater use of secondaries and continuation funds as relief valves. Overall, the year highlighted a widening performance gap: top-quartile PE funds outperformed laggards by nearly 14 percentage points in the 2021 vintage, the widest spread since 2014, underscoring the importance of tech integration, such as AI-driven efficiencies in due diligence and portfolio management.

Looking ahead to 2026

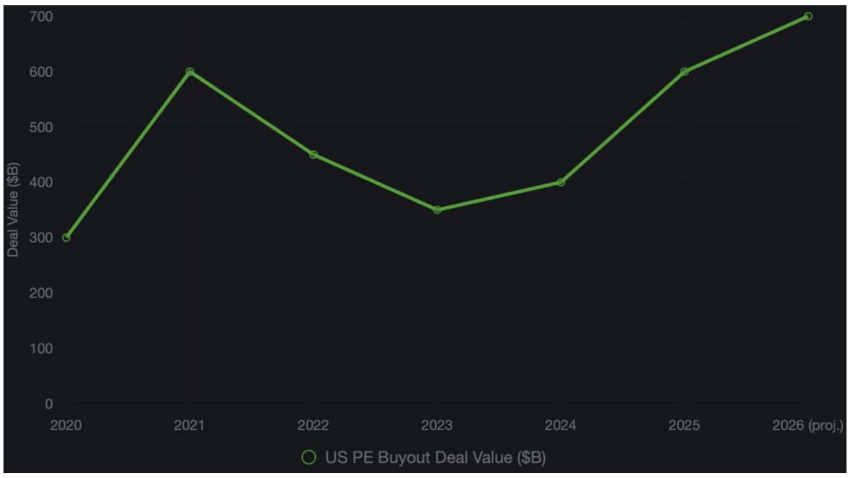
Competition intensifies; flight to quality, secondaries grow; fundraising tight; selective AI-driven opportunities remain

Looking ahead to 2026, we anticipate a more robust yet highly selective landscape for private equity buyouts and venture capital in the US and Western Europe, bolstered by anticipated Federal Reserve rate cuts of 2-3 more and a potentially accommodative ECB stance if eurozone growth falters. Declining borrowing costs should help close persistent bid-ask spreads, catalyzing a stronger resurgence in exits through IPOs and M&A, with liquidity returning to levels approaching pre-2022 highs. Deal activity is poised to accelerate, especially in the US, where a substantial backlog of portfolio companies and abundant dry powder—estimated at around $880 billion for US-based funds as of late 2025—set the stage for recovery.

However, intensified competition from sovereign wealth funds, family offices, and large asset managers will favor high-quality assets, while in Western Europe, fiscal expansions in infrastructure and defense could invigorate buyout opportunities in industrials and energy sectors.

We expect a continued flight to quality, with top-quartile managers outperforming by wide margins through operational enhancements and AI integration in due diligence and value creation—over half of PE firms are projected to expand digital teams for this purpose. Secondaries and continuation vehicles will likely grow as liquidity solutions, representing at least 20% of distributions and unlocking capital from extended holding periods, which averaged 6.4 years in 2025.

Fundraising challenges persist, with US PE commitments down 40% from 2024 levels and VC fundraising potentially reaching $100-130 billion, concentrated among established firms with strong track records. Elevated valuations in AI-heavy sectors pose risks, alongside regulatory pressures for greater transparency, but opportunities emerge in selective buyouts of mid-market companies with resilient business models and in VC for "battle-tested" startups in proptech and AI infrastructure. Overall, the environment favors disciplined deployment, with early-stage VC strength and large-cap market buyouts benefiting from normalising rate markets.



McKinsey and PwC data show how Buyout/LBO keep climbing and are expected to exceed 2021 peaks

NOVUM PARTNERS

Novum's Trade History