GLOBAL MACRO QUARTERLY OUTLOOK

They want it all

- Financial markets want it all in 2026 – to sustain current valuations
- Global growth should hold up but a strong acceleration in the US seems unlikely
- We have reduced spread risk but keep a curve steepening bias

To paraphrase a song by Queen, the market seemingly wants (and sees) it all in 2026, to justify current valuations in equity and credit markets: further Fed rate cuts, a sustained AI boom, robust German fiscal spending, a China recovery, and continued EM outperformance.

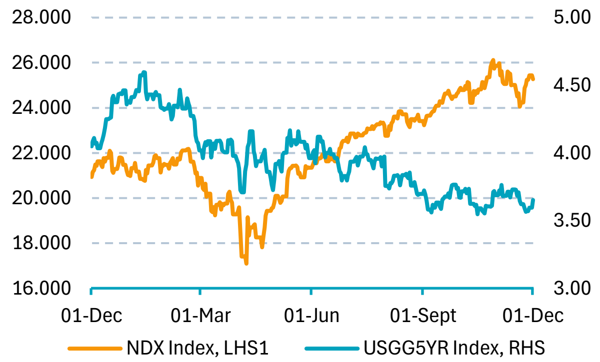
And who can blame them given the festive season of gift-giving ahead. However, November reminded us how fast risk sentiment can change. Bitcoin sold off, the Nasdaq fell 8% and even Nvidia shares came under pressure, fueling the discussion about bubbles.

Asset prices look mostly driven by Fed expectations. When markets priced out a December cut after the FOMC meeting, equities dropped. Later, comments from NY Fed President Williams, hinting a cut was still possible, triggered a sharp rebound, with the Nasdaq 100 rallying about 6% into month-end (see Figure 1). In the meantime, credit spreads have stayed in a narrow range, even with cracks emerging in the private credit market.

For now, risk perceptions seem to have calmed, and investors remain focused on carry rather than directional spread moves. We would caution, though: if downside risks re-emerge, spreads could widen sharply, wiping out carry income. These developments underscore the thesis in our previous outlook (*Fearless*) — that the margin for error remains narrow.

Nonetheless global growth prospects have improved relative to earlier expectations, supported by optimism in both developed and emerging markets. In the US, the AI boom is driving corporate investment and equity-fueled consumer spending, though labor market fragility — marked by cautious hiring and rising layoffs — remains a key risk, prompting the Fed to ease policy.

Figure 1 – Nasdaq 100 index, US 5-yr Treasury yields



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Overall, we believe US growth should avoid stagnation, but a strong acceleration looks unlikely in the face of slowing real income growth. In Europe, growth is providing momentum, while Germany's outlook hinges on a revitalization of investment spending.

OUTLOOK DECEMBER 2025

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Global Macro team

Monetary policy remains uneven: we expect the Fed to cut rates by 25 bps in December, with a terminal rate of 2.75-3.00% seen later next year – as well as renewed balance sheet expansion (via buying T-bills). By contrast, in Japan we see further scope for the BoJ to hike rates as inflation remains above target, reinforced by a weaker yen.

Meanwhile, the ECB continues to signal that rates are “in a good place,” expressing confidence in Europe’s economic outlook. As one of our speakers noted, with growth remaining moderate and inflation likely undershooting the 2% target, this stance lacks ambition. On balance, we remain in the camp that sees risks skewed to further ECB easing.

Heading into the new year, monetary policy and net supply remain key drivers for government bond markets. For Treasuries, we expect support from a more accommodative Fed and favor 2- to 5-year maturities, while staying cautious on longer tenors. Fiscal and inflation risks could lift risk premiums, especially in 10-year bonds. The possible pick of Kevin Hassett as new Fed Chair should reinforce US curve (re)steepening pressure.

In Euro rates, curve steepening positions also remain attractive due to heavy issuance from France and Germany, reduced Dutch pension demand, and ECB balance sheet runoff. We have added to long-end steepeners, as declining liquidity into year-end in combination with paying flows could magnify price action. In the UK, we remain overweight as the 2026 budget supports Gilts via wider fiscal headroom. Elsewhere, in Japan, the risk of a higher terminal rate keeps us underweight JGBs (see Figure 2). We still maintain a slight underweight in long-dated CGBs.

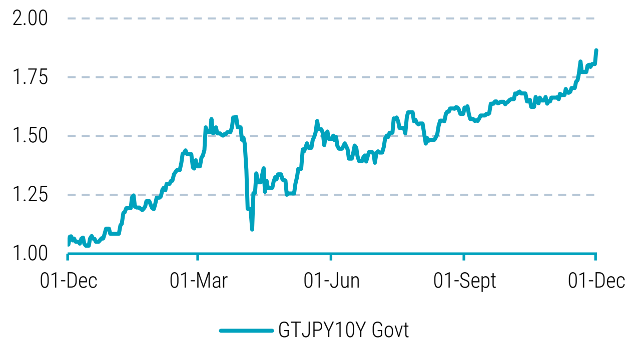
We note that 2025 has been a very strong year for EGB spreads, except for French OATs. Portfolios have benefited from this development as we have been running overweight positions in the periphery. To manage overall portfolio spread risk, we sold Italian 10-year BTPs. This adjustment also positions the funds for the January 2026 start of the supply season, where we aim to use new issuance opportunities to add back paper at more attractive levels.

Credit fundamentals remain broadly solid, supported by high all-in yields and resilient corporate balance sheets. Our positioning remains broadly neutral with betas close to one, with an overweight in short-dated credit. This strategy has worked well this year. We intend to continue adding to this position should entry levels improve.

We have added a short position in German Schatz spreads as we see few catalysts for further tightening, but a risk-off event could prompt a flight into Schatz. This would help to offset potential adverse impacts in sectors where we remain overweight, such as SSA paper and selective EM names like Bulgaria.

Even as EM hard-currency spreads remain tight, we believe yields continue to look attractive relative to developed-market credit. Within hard currency we like Colombia, where valuations look attractive. Next to that, Bulgaria offers a continuing convergence opportunity as it advances toward euro adoption. In local markets, Brazil stands out, where softer data point toward an imminent easing cycle. Within CEE the outlook is mixed but Hungary could provide opportunities going into next year’s elections which could see a shift toward a more pro-EU government.

Figure 2 – Japanese government bond yields continue to rise



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Macroeconomic and policy outlook

- Tech vs. labor market: the battle for US growth
- Growth elsewhere is mixed but mostly better than feared
- Central banks at, or heading back to, neutral; some lag

Growth outlook: AI wants it all

Financial markets and economists have become increasingly optimistic about growth prospects in recent months — both for developed economies and emerging markets (see Figure 3). In the case of the US economy, much of this optimism is attributed to the AI boom, which is driving corporate investment and boosting market sentiment. This, in turn, is supporting consumer spending, particularly among households benefiting from rising equity prices. However, when we look at lower-income households, consumption seems to be stagnating. Therefore, it's unsurprising that the US government has rolled back import tariffs on certain food products and is considering issuing stimulus checks next year.

A similar divergence is visible among businesses: SMEs have yet to participate in the capital expenditure boom unfolding in the tech sector. That said, reduced uncertainty around import tariffs — albeit limited given the pending Supreme Court ruling on the legality of IPEA tariffs — has made smaller firms somewhat more optimistic about investment plans. Tax cuts expected early next year are also likely to provide a positive boost to growth.

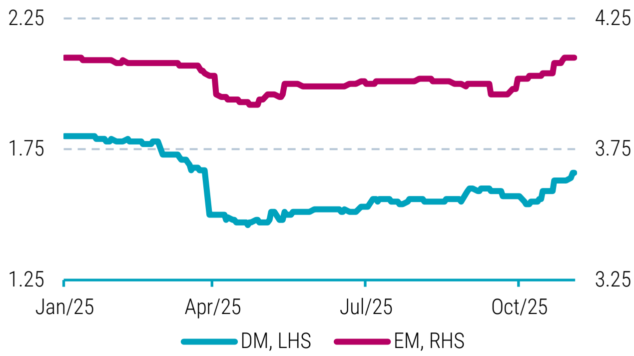
One key concern for the US economy remains the labor market. Companies continue to be cautious about hiring, including recent graduates, and there has been a noticeable uptick in layoff announcements. While this has not yet translated into higher jobless claims, it represents a risk factor — one that has prompted the Fed to cut interest rates.

For now, we anticipate that supportive factors will keep US growth from stagnating. However, given emerging cracks in, for example, private credit markets, we believe it is premature to forecast an acceleration in growth next year — despite suggestions to the contrary from one of our external speakers.

In the eurozone, growth has held up better than feared six months ago, even after adjusting for sharp fluctuations in Irish GDP. The UK economy, however, continues to lag. Southern European economies such as Spain and Greece remain key sources of positive momentum. Based on the recent pickup in credit growth, the eurozone should approach trend growth over the next couple of quarters. Whether growth strengthens further next year will depend on the pace of defense and infrastructure investment in Germany and elsewhere, as well as the extent to which consumers reduce their elevated savings rates and increase spending. Risks include weaker exports and, in some countries such as France, the need for fiscal tightening. The trade deal with the US is not yet finalized, and Europe faces strong competition from China, which has shifted its export focus to other regions.

In emerging markets, Asian economies with significant tech exports are clearly benefiting from the US AI boom. In China, exports remain the main growth engine, and the trade truce with the US appears to have mitigated the worst of the trade-related damage. Domestic demand, however, is still awaiting a sustained recovery in the property market — likely requiring further stimulus. Elsewhere, growth is weakening in countries such as Brazil and Mexico, and Japan, although early signs of improvement are emerging in the latter two. Also note that a fiscal stimulus package will likely support growth in Japan next year.

Figure 3 – Consensus growth forecasts for FY 2026



Source: Bloomberg, December 2025.

Inflation outlook: mind the laggards

Inflation has broadly returned to levels consistent with central bank targets in many developed economies. However, in some countries, underlying inflation remains above target. This group includes Australia, Norway, the UK, and the US. In the latter two economies, labor markets are showing signs of weakening, which is putting downward pressure on wage growth. This trend is expected to translate into lower services inflation over time. The opposite dynamic is still unfolding in Japan.

Despite these developments in the US and UK, it will take some time before inflation fully aligns with central bank objectives. In the UK, this is due to more-elevated wage growth levels. In the US, in addition to upside risks stemming from labor supply shocks linked to immigration policies, goods inflation remains under upward pressure from the lingering effects of import tariffs. That said, the hump in goods inflation has so far been smaller than initially feared. In the eurozone, the deceleration in wage growth is already well advanced. In fact, leading indicators point to wage growth of 2-2.5%, which is arguably too low given the 2% inflation target. Furthermore, the stronger euro and lower energy prices add to disinflationary forces. Both headline and core inflation could fall below 2% in the first half of 2026.

In several emerging markets — such as Brazil, Mexico, Chile, Poland, and South Africa — inflation momentum suggests alignment with central bank targets in the coming months. In many Asian economies, inflation remains stubbornly low, particularly in China, where achieving the inflation target still appears distant.

Monetary policy: from QT, to QN, to QE

Among developed markets, we continue to see a clustering of central banks that have lowered policy rates to around neutral or slightly below. This group includes the Riksbank, RBNZ, ECB, and Bank of Canada. Meanwhile, the Bank of Japan and the SNB maintain policy rates clearly below neutral. At the other end of the spectrum are four central banks — the RBA, Norges Bank, Bank of England, and the Fed — where inflation remains above target (as discussed in the previous section).

For Australia, where monetary policy has been less restrictive than elsewhere, markets expect the RBA to remain on hold for now, a view we share. For the Bank of Canada, markets still price in some probability of further cuts, which we consider reasonable. A clear hiking bias, albeit on a longer horizon, is now being priced for the Riksbank and RBNZ. For the former, we believe this is somewhat premature. Regarding the Bank of England, we see scope for markets to price a lower terminal policy rate than the current expectation of around 3.5%.

For the ECB, markets anticipate unchanged rates for the time being. While this is logical, we believe the probability of a cut as the next move is currently underestimated. Quantitative Tightening or “normalization,” as the ECB prefers to call it, will likely continue in the coming quarters (see our latest Central Bank Watcher for details).

For the Fed, our base case remains a 25 bps cut in December and a terminal policy rate of 2.75-3.00%, slightly below current market pricing. This level could be reached in the first half of 2026 if labor market conditions fail to improve, or later, after a new Fed chair takes office in May 2026. With QT ending on 1 December, we expect the Fed to begin reserve management purchases (RMP) early next year and resume balance sheet growth in line with nominal GDP.

In China, the PBoC has resumed purchases of Chinese Government Bonds (CGBs), likely to cap the rise in yields following the equity rally in Q3. While we do not expect purchases on the scale seen in Q4 2024, this suggests that the anticipated RRR cut and additional 10 bps policy rate reduction will likely be deferred into 2026.

Finally, in Japan, we continue to see scope for markets to price a higher terminal BoJ policy rate, more aligned with the long-term nominal neutral range of 1.0-2.5%.

Rates strategy

- JGBs and Gilts on the move
- Curve steepening drivers still in play
- Shifting opportunities in the Antipodes

For volatility in rates we have had to look away from US Treasuries and Bunds in the past months. 10-year yields remained in a 30-bps range in both markets. Fortunately we could rely on markets such as Japanese government bonds and UK Gilts for more directionality. JGBs continued the sell-off trend they picked up in May (see Figure 4), while a recovery in Gilts pushed yield levels to the lowest since December. For the coming months we expect the trends in both JGBs and UK Gilts to continue. Their diverging trends should remain supported by both fiscal and monetary policy, as described in the previous section.

Going into the new year, monetary policy and net duration supply should remain the most important drivers of rates markets. For Treasuries we expect support from a more accommodative Fed policy, which is expressed in an overweight position (OW) in 2- to 5-year US Treasuries. For longer maturities we remain more cautious. The fiscal and inflationary climate in which we foresee these rate cuts taking place remains uncertain. We expect this uncertainty to be expressed in a higher term premium, especially for 10-year US Treasuries. At current yield levels we prefer to express most of our US Treasuries view in curve steepeners. For adding to OW positions, yields would probably need to rise to the higher end of recent ranges.

For euro rates we also prefer curve positions over outright duration. We expect net duration supply to be a main driver of yields. France and Germany will keep their bond issuance at a high level. This comes at a point where Dutch pension funds are expected to decrease their demand for 10+ year duration. A large part of these flows is expected to be transacted in Q1 2026. ECB policy is not helping to balance net supply either, as the central bank is nowhere near the completion of its balance sheet rundown. This was confirmed in a recent speech by ECB Board Member Isabel Schnabel. The expected imbalance between euro-duration supply and demand is likely to result in a continued steepening of the long end of the euro yield curve.

While the ECB is expected to keep official rates steady for now, this does not mean that Bunds are stale. One only needs to look at history: since 1995 the 2-year Schatz yield has remained in a narrow 1.8-2.2% range. During these periods the 10-year Bund yield has fluctuated between 1.75% and 4.0%.

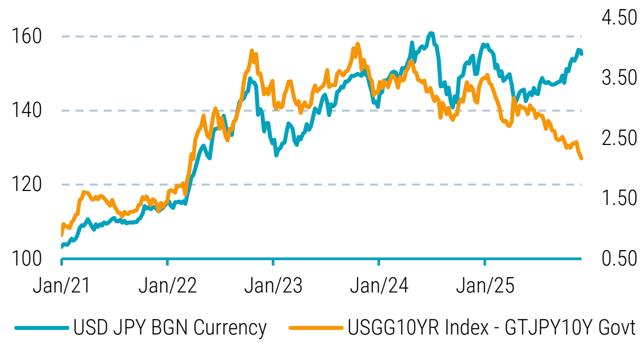
Looking more closely at these data gives a historical clustering of Bund yields in ranges between 2.0-2.8% and between 3-4%. While official rates are steady for now, we still expect that the next step for the ECB is going to be a cut, rather than a hike. That should help to contain any rise in Bund yields. This suggests that the lower of the two yield ranges mentioned above should give guidance on when to add to euro duration.

Within Europe, Norway continues to stand out. Only a few rate cuts are priced in for Norges Bank, and its yield curve has remained flat versus peers. We see this as an opportunity to benefit from potentially more pronounced easing, inflation permitting.

Looking elsewhere, we will probably reduce our curve flattening position in Australia, after a move higher in front-end AGCB yields.

While a renewed rise in the 10-year yield to 2% or above seems less likely in the near term — given the PBoC's de facto yield curve control — we still lean toward maintaining a slight underweight in long-dated CGBs. We also retain a steepening bias on the 2s10s curve. That said, we are lowering the threshold for further reducing the underweight position.

Figure 4 – USD/JPY and Japan-US yield



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Fixed income asset allocation

- Focus on relative value and keep the risk beta in check
- EM HC bonds still our preferred spread category
- French government bonds remain vulnerable

Credit markets: continue for carry

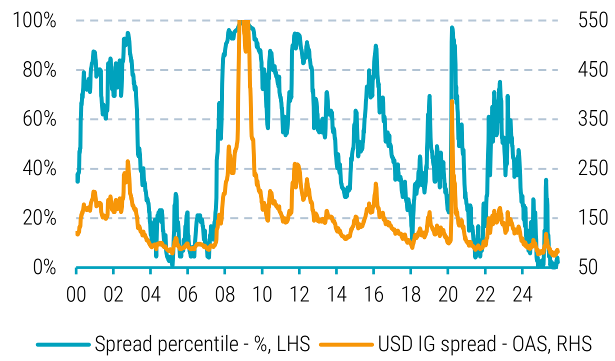
Over the past quarter, credit spreads have traded within a narrow range, and have remained at historical tights (see Figure 5) despite multiple potential catalysts for volatility. Events such as the bankruptcy of First Brands and its ripple effects into the CLO market lack of US data and weakness in US Business Development Companies (BDCs), all have stabilized for the time being. The topic of AI has come to the credit market as a surge in issuance from the hyperscalers starting to tap the investment grade market. Meta, Google and Amazon have taken the top three spots as the largest corporate issuers on a monthly basis, with significant plans to keep issuance high into the future.

The prevailing market narrative remains focused on carry, as investors prioritize income over directional spread moves. This is best seen in 2026 outlooks as they show a strong consensus on credit market performance. Most have a year of carry in credit as a base/best case scenario, with decent returns and an alternative, gradual return to the median spread level as a downside scenario. This results in a small, but positive, excess return for credit. However, historical data suggests spreads rarely normalize gradually. Instead, they tend to overshoot and spend minimal time near the median. That's why we would caution that if a downside scenario were to occur, spreads are likely to overshoot into the third or fourth quartile range.

Looking ahead, credit fundamentals remain broadly solid, supported by high all-in yields and resilient corporate balance sheets. The area where we exercise caution is a bearish signal coming from the distressed segment of the USD HY market, which has underperformed the broader non-distressed cohort. This behavior has previously pre-empted broader market weakness, although false positives have occurred.

Our strategy to buy more shorter-dated IG credit has worked well this year. We intend to keep this position as our overall beta can be managed close to one. Additionally, we have added a short[1] position in 2-year swap spreads. We view this as a cheap hedge, which should perform in case of any risk-off move in markets. We have taken down the size of some positions in EM HC and keep overweight positions in select SSAs.

Figure 5 – Corporate spreads return to historical tights



Source: Bloomberg, December 2025.

Peripheral bonds: performance backed by fundamentals

Country spreads in Europe remained in the sweet spot over recent months, with the spread on 10-year Italian bonds over Germany dropping to 71 bps, Greece to 60 bps, Spain to 48 bps and Portugal to 32 bps – all the lowest levels since the start of the euro crisis in 2010. Despite this rally, we see further performance in these markets, as the spread tightening is backed by fundamental improvements and a series of credit rating upgrades, which we think will continue. That said, tight valuations have caused us to become more selective in where on the curve we want to be invested. Ultra-long-dated bonds still offer value, while short-dated bonds, in our view, no longer do.

The big exception remains France. While Prime Minister Lecornu managed to survive a vote of confidence, the revenue side of his budget proposal was voted down by the National Assembly, meaning the chance to approve the 2026 budget before the 23 December deadline has become slim. The result in that case will be a rollover of the 2025 budget, which would expand the 2026 deficit to 6% of GDP unless replaced in the early months of next year. If this were to eventuate, further rating downgrades would be likely, as the debt to GDP level would continue to rise.

French OATs could potentially also be vulnerable to Dutch pension fund flows. Due to the transition toward a DC system, not only long-dated interest rate swaps likely will be unwound, but holdings of long-dated bonds would probably be reduced as well. With many ALM accounts holding a combination of German, Dutch and French long-dated bonds, additional selling flows could put even more pressure on the

[1] Long government bonds and short-maturity matched swaps

spreads of French bonds. This is a reason enough to remain cautious, and consequently we have shifted ultralong dated French bonds into the 10-year area.

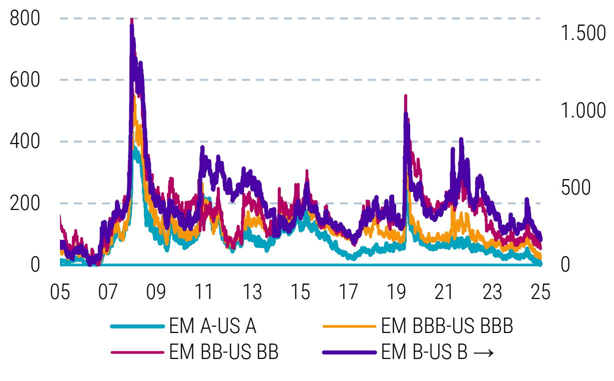
EM debt: keep vol calm and carry on

Emerging market debt extended its positive run into late 2025, with both hard currency and local currency bonds generating solid returns. Hard-currency high yield outperformed, supported by spread compression and falling US Treasury yields, while investment grade spreads widened slightly. Volatility stayed low overall despite notable moves in individual credits. In local markets, FX contributed little and most gains came from rates.

Broad EM macro trajectories continue to improve. The expected fallout from US tariff policy has been milder than feared as many EM economies have adapted or negotiated workable arrangements. Favorable terms of trade and a supportive commodity backdrop persist, though limited fiscal buffers across EM and DM leave economies exposed to shocks.

Hard-currency spreads remain tight (see Figure 6) but yields still look attractive relative to developed market credit. Improved fundamentals and resumed inflows support the asset class.

Figure 6 – US Credit vs EM HC Spreads – Distance to tights



Source: Bloomberg, December 2025.

We favor high-yielding credits with cheap valuations and improving fundamentals. Ecuador for example remains compelling: debt levels are below peers, interest costs are manageable, external financing has improved, and cooperation with the IMF continues.

Bulgaria offers a convergence opportunity as it progresses toward euro adoption. We also favor Colombia, where valuations are attractive and a shift away from the fiscally loose Petro administration in 2026 remains the base case.

Within local currency, we prefer high-carry markets in a constructive risk backdrop. Countries with improving balance-of-payments positions — such as Peru and South Africa — look appealing, though Peru's 2026 elections introduce some tail risk. Several Asian markets are less attractive given low nominal yields and limited policy-easing capacity. Brazil stands out, with high real rates, moderating inflation and softer data pointing toward an imminent easing cycle.

In CEE, Hungary could offer opportunities if elections bring a more pro-EU tilt. Poland is pricing cuts below neutral, while Czech valuations may now be attractive. Turkey also looks notable for 2026 given high implied inflation, elevated real rates and continued real appreciation supported by recent FX reserve accumulation.

FX: the song remains the same

Given our bearish bias on the USD, we remain constructive for EM FX in the year ahead. Admittedly, the dollar proved more resilient through October and November, with yield differentials shifting modestly in its favor against the DM and EM complexes. Within EM, this weighed most heavily on low-yielding CEE currencies. Hungary, benefiting from high carry, held up better than Romania, Czechia, and Poland.

In contrast, Andean FX generally outperformed. Colombia, Peru, and Chile each benefited from distinct idiosyncratic drivers: Colombia's debt-management operations remain currency-supportive, Chile benefited from improved terms of trade; and Peru was supported by rising gold and copper prices.

Within Latam, currencies will remain sensitive to the broader risk environment, but still, elevated carry should help. The Mexican peso looks less attractive at current valuations, whereas the Brazilian real retains sufficient carry to support outperformance. Colombia may stay volatile after significant peso gains driven by debt operations, but the prospect of a possible more market-friendly government next year could spur a strong local-market repricing.

Within CEEMEA, the Hungarian forint stands out, as elevated real rates against a soft domestic backdrop and the possibility of a more pro-EU government next year could offer further support.

Finally, in Asia, signs of policy divergence are emerging. Weak nominal growth in Indonesia and India suggests a continued bias toward growth supportive stances, leaving their currencies vulnerable to underperform the dollar. Meanwhile, strengthening domestic demand in lower yielding

Korea and Singapore points to central banks nearing inflection points not yet fully priced by markets. Improving yield differentials could help these currencies outperform regional peers.

Table 1 – Asset class preferences

	Constructive	Neutral	Cautious
Bunds		✓	
US Treasuries		✓	
JGBs			✓
Euro periphery		✓	
EM local	✓		
EM HC		✓	
IG credit		✓	
HY credit			✓
SSA	✓		

Source: Robeco, December 2025.

We wish to thank Arnaud Mares *(Citi), Ralf Preusser (BAML) and Duncan Toms (HSBC) for contributing to our quarterly outlook meetings.*

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