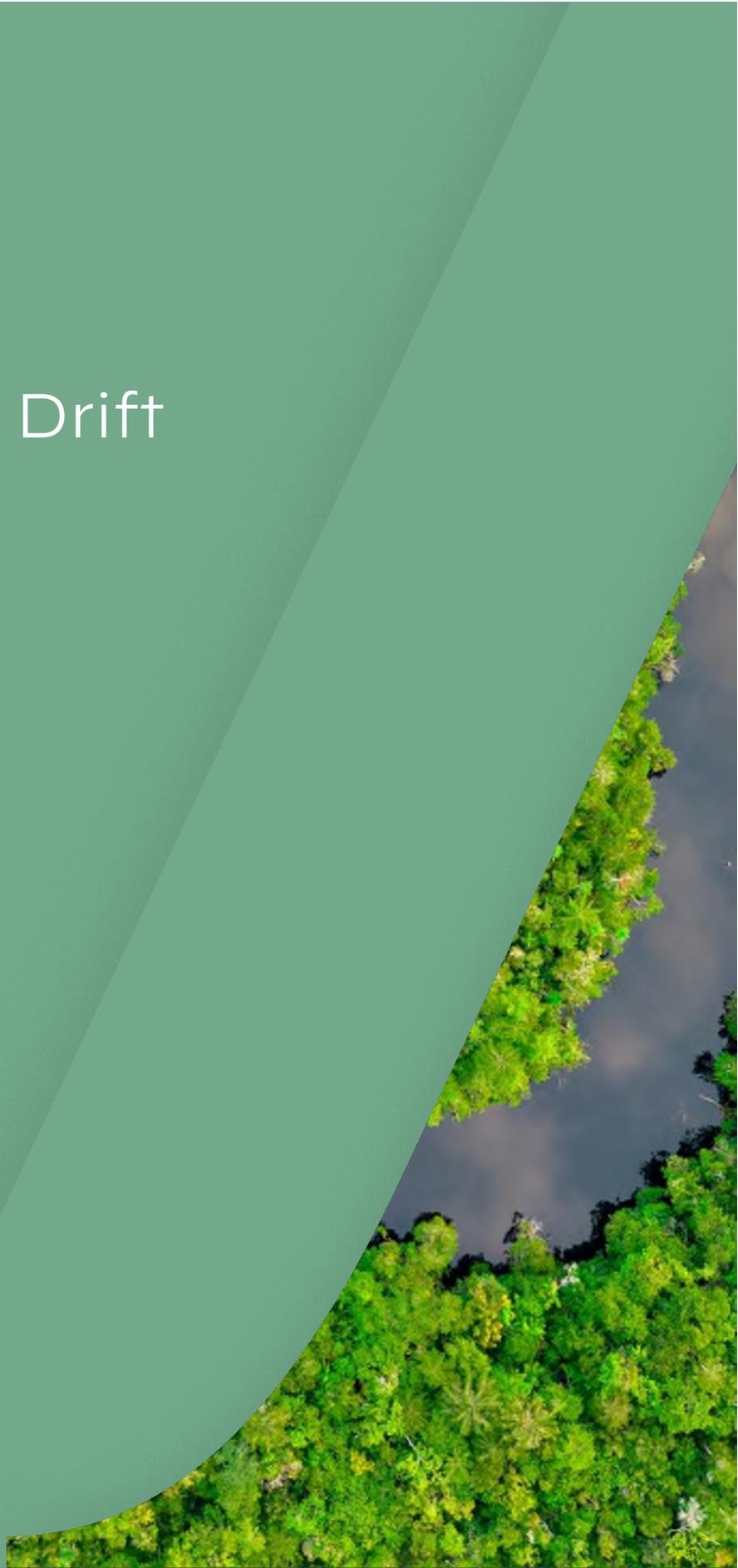


When Anchors Drift - Navigating a Delicate Global Equilibrium

Anthos Annual Investment Outlook 2026



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1 Executive Summary

In 2025 the global economy has, despite elevated uncertainty, shown remarkable resilience. Entering 2026 we maintain a cautiously constructive stance: we expect moderate but continued expansion, further disinflation progress, supportive investment spending and no material signs of financial stress across major economies. At the same time, we remain vigilant. In our view, the balance of risks is still tilted to the downside, as the structural forces shaping today's resilience also narrow policy buffers and heighten sensitivity to shocks.

After five years of sequential shocks – ranging from the pandemic and inflation surge to energy crises, geopolitical tensions and aggressive fiscal interventions – the traditional macro anchors that once provided stability have weakened. Inflation dynamics was broadly predictable, fiscal frameworks imposed some discipline, and political institutions operated with relative continuity, anchored in long-standing ideological commitments. Today, the rise of political populism across major economies has made policy more volatile, more reactive, and less anchored in stable medium-term priorities. Inflation has moderated but remains above central-bank targets, and growth is positive yet below potential. Fiscal policy has effectively become the default stabiliser: with monetary policy constrained by inflation, financial sensitivities and political pressure, governments increasingly rely on discretionary spending, transfers and industrial-policy programmes to support growth. This has delivered short-term resilience, but at the cost of rising debt and greater vulnerability to funding stress. Stability at the surface now coexists with growing fragility underneath, leaving the world more sensitive to shocks and less guided by the predictable cyclical patterns of previous decades.

Against this backdrop, we place the secular outlook at the core of our investment philosophy. We identify five structural forces – geopolitical regionalisation, demographic divergence, the green transition, fiscal dominance and technological acceleration – that are reshaping the global economy. Together, we believe they will produce a secular environment of below-potential growth and inflation modestly above target. This five-year outlook is not a forecast of the near-term cycle, but the baseline against which we assess resilience, valuation anchors and long-term return potential across asset classes.

Within this broader setting, we believe 2026 itself will be shaped by four macro fault lines – the intersections along which the year's direction will be determined. Fiscal policy continues to support demand but at the cost of shrinking buffers and worsening debt dynamics, leaving economies more exposed to funding pressures and political uncertainty. Inflation is easing, though unevenly, while financial conditions oscillate between tightening and sentiment-driven easing, reflecting the loss of a stable monetary anchor. A further fault line lies in the reconfiguration of global trade and industrial policy: the U.S. embeds protectionism into long-term strategy, Europe struggles to redirect supply chains while preserving export competitiveness, and China accelerates export diversification as frictions with the West persist. At the same time, growth prospects diverge across regions: the United States remains the innovation leader but carries financial-market fragilities; Europe steadies through investment but remains structurally constrained; and China balances selective stimulus with demographic headwinds, overcapacity and external pressures. Together, these forces shape a world that is steady on the surface but fragile underneath – a regime of sub-par but stable growth, with inflation sticky above targets and pronounced regional dispersion.

Risks around our cautiously constructive base case are asymmetric. The most immediate is a “shock of overconfidence” in the United States, where an inflation surprise or an unwinding of stretched valuations in AI-linked assets could sharply tighten financial conditions. Renewed trade tensions – particularly between the U.S. and China – could disrupt supply chains and reintroduce price pressures. Institutional risks also matter: a loss of confidence in U.S. policy independence after the end of Powell's term, renewed spread stress in the Eurozone, or a deeper credit contraction in China would all have global repercussions. Additionally, a small number of tail events, from geopolitical escalation to cyberattacks or energy disruptions, frame the extremes of potential outcomes.

When Anchors Drift - Navigating a Delicate Global Equilibrium

On the upside, a faster-than-expected diffusion of AI and automation could lift productivity, ease capacity constraints and support growth more meaningfully than our base case assumes, though execution risks remain high and benefits are likely to materialise unevenly across regions and sectors.

For portfolio construction, this environment calls for strategic resilience and tactical caution. Our Strategic Asset Allocation is grounded in the secular outlook and designed to deliver balance across regimes rather than precision against a single scenario. We will reassess its robustness in light of the below-potential growth environment and elevated inflation variability implied by our five-year view. The cyclical outlook for 2026 complements this by stress-testing those allocations and guiding our tactical positioning. In the near term, we maintain a cautious stance: avoiding strong directional exposure while selectively exploiting market opportunities as they arise.

This Outlook is not a call for defensive retreat, but a case for disciplined navigation. In a world where traditional macro signals have become less reliable and structural forces exert greater influence, resilience, selectivity and flexibility are the most important sources of long-term value. The following chapters elaborate how we see the macro landscape evolving – and how, within this new regime, we seek to safeguard and grow the capital entrusted to us.



2 Secular Outlook

The global economy is shaped by slow-moving structural forces that evolve over decades, setting the backdrop against which shorter-term cycles unfold. These secular trends define the contours of growth, inflation, and market behaviour, influencing what “normal” looks like in each regime. While cyclical dynamics are the main driver of year-to-year performance, understanding these deep under-currents helps investors anchor expectations and assess where headwinds or tailwinds to asset returns are likely to persist.

For investors, these forces set the long-term parameters for potential growth, real returns, and diversification. We identify five secular trends that we believe will most profoundly shape the investment landscape in the years ahead: the shift from a unipolar to a multipolar world, aging demographics, the green transition, debt dynamics, and the wave of technological innovation. Together, these forces form the structural foundation beneath the more volatile macro and market cycles that will define the second half of this decade.

2.1 From a unipolar to a multipolar world

Among the most profound structural shifts underway is the transition from a unipolar world, dominated by the United States, to a more multipolar global order. Global power is fragmenting. Economic, military, and technological influence is increasingly distributed between the United States, China, and a growing set of regional blocs. At the same time, political polarization within advanced democracies is eroding the cohesion that once underpinned the liberal international order. Divergent political systems and rising ideological polarization in the West complicate global coordination and policymaking.

Until now we do not see evidence of outright deglobalization - global trade volumes have continued to expand, underscoring that the world economy remains deeply interconnected. However, we believe the world is undergoing a rewiring of globalization: a restructuring of the existing interconnected system along regional and political lines. Parallel supply chains, payment systems, and financial architectures are emerging as economies prioritize resilience and strategic autonomy. While this transformation shares many of the economic effects associated with deglobalization - notably reduced efficiency, higher transaction costs, and an inflationary bias - it unfolds through different mechanisms, emphasizing redundancy and regional self-reliance rather than isolation.

Populism and the shortening policy horizon

A defining feature of the last decade is the increasing political populism and policy volatility across Western democracies. Fiscal fatigue, perceived widening of inequality, and cultural polarisation have reshaped electoral incentives, leading to fragmented parliaments and increasingly reactive policy cycles. Consensus-based, long-term policymaking has given way to shorter electoral horizons, rapid shifts in fiscal priorities, and a growing emphasis on visible, near-term outcomes.

These political feedback loops influence and amplify several secular trends. In geopolitics, it weakens the cohesion that once underpinned the liberal international order, reinforcing the shift toward a multipolar world. In fiscal affairs, populist spending pressures and electoral incentives exacerbate debt dynamics and the risk of fiscal dominance. And in climate policy, polarisation has turned decarbonisation into a partisan issue, slowing coordination and adding to policy dispersion between regions.

For investors, the result is a world of shorter policy cycles and higher volatility — where structural themes still matter, but the time horizons over which they play out are increasingly unpredictable. Active, adaptive portfolio management becomes essential: capturing long-term opportunities while remaining alert to rapid shifts in the political and policy landscape.



Figure 1: we do not see any evidence of outright deglobalization as global trade volumes continue to expand.



Figure 2: Where export growth historically was relatively balanced to different regions, regionalization has accelerated

The Investor Angle - Political Fragmentation and Portfolio Dispersion

Increasing fragmentation acts as a structural drag on productivity and growth by making supply chains less efficient and more costly. For investors, this means higher input costs and greater vulnerability to supply disruptions — particularly in industries dependent on critical resources such as rare earth metals, semiconductors, and battery materials. Rising political polarisation and policy uncertainty across major economies further amplify these risks, adding a premium to geopolitical and regulatory volatility. Periods of geopolitical tension or trade realignment can therefore amplify regional and sectoral drawdowns.

At the same time, this reconfiguration also creates distinct opportunities. Increased regional dispersion in returns allows for more selective positioning across markets and sectors. Policy initiatives such as the U.S. CHIPS and Science Act, Europe’s Green Industrial Plan, and China’s push for technological self-reliance are catalysing long-term investment cycles in semiconductors, clean energy, and advanced manufacturing. Active investors can benefit from these policy-driven capital flows and the strategic reshoring of production.

Another important effect of this secular trend is the slow erosion of the US Dollar monopoly, as alternative blocs (EUR, RMB, gold) gain ground. At Anthos we acknowledge that this trend might put some pressure on the US dollar in the long run, however we believe the US Dollar will remain the global anchor for the foreseeable future, as the alternatives lack the depth and global integration the dollar has.

2.2 Demographics – the global ageing divide

While the global order becomes more multipolar, another slow-moving force is ageing populations and diverging demographic paths across regions. In most advanced economies and China, working-age populations are shrinking while life expectancy continues to rise. This shift is lifting dependency ratios to levels unseen in modern history and is increasing pressure on public finances through healthcare, pensions, and social spending.

A declining labour supply exerts downward pressure on potential GDP and alter the balance between supply and demand. The demographic effect is not unidirectional: ageing can be both inflationary and deflationary, depending on the policy response.

Tighter labour markets and higher health and pension costs can lift wage pressures and create a higher inflation floor—particularly in the United States, where fiscal policy tends to offset demographic drag. But as seen in Japan, ageing can also prove disinflationary, as high savings, debt overhang, and risk aversion suppress consumption and investment.

Across regions, we expect the inflation dynamics to diverge. The U.S. faces a modest inflationary bias as policy remains expansionary and labour markets tight. Europe’s historical aversion to inflation, its slower fiscal response, and faster ageing make a low-growth, low-inflation equilibrium more likely. China’s demographic turning point presents an even more forceful constraint: a rapidly shrinking working-age population, rising dependency ratios, and slowing household formation are weighing structurally on consumption and productivity.

Emerging markets outside of China remain a demographic counterweight, but the picture is uneven. Regions such as India, parts of Southeast Asia, and sub-Saharan Africa still enjoy demographic tailwinds, while many middle-income economies are ageing while not yet being able to ‘catch up’. The result is a widening divide between ageing, capital-abundant economies and younger, labour-abundant ones a divide that will influence global growth, migration, and capital flows for decades to come.

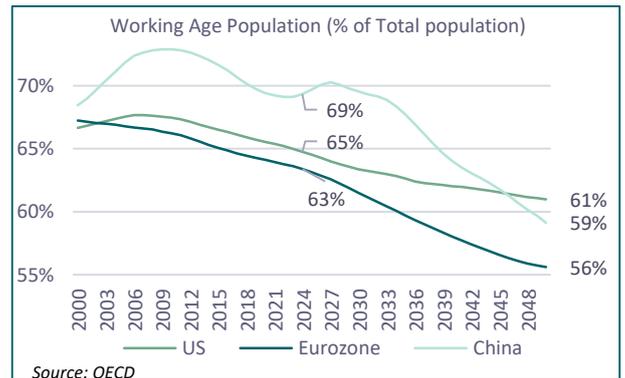


Figure 3: working age populations are declining

The Investor Angle - Demographic Divergence and Regional Opportunity

An ageing world supports long-duration assets and sectors aligned with healthcare, automation, and productivity enhancement. Fiscal pressures in advanced economies imply persistent demand for government financing and a bias toward structurally lower real interest rates, even if short-term cycles fluctuate. Conversely, younger economies with expanding workforces should have a tailwind and attract capital and manufacturing investment as companies diversify production footprints. **The demographic divide therefore contributes to regional return dispersion** — a challenge for passive global allocation but a source of opportunity for active, geographically selective investors.

2.3 The green transition – from climate ambition to industrial policy and political divergence

Building on the previous two trends, the global green transition and push toward decarbonization is emerging as both a structural necessity and a new economic paradigm. Climate change has shifted from being an environmental concern to an organising principle of industrial, fiscal, and geopolitical policy. The transition toward a lower-carbon economy is no longer just about emission targets; it is reshaping global investment flows, trade patterns, and the distribution of comparative advantage.

The transition carries layered macroeconomic impacts. Over the short to medium term, decarbonization and energy security efforts are investment-intensive and inflationary. The need to replace legacy infrastructure and build resilient energy systems has triggered a surge in public and private capital expenditure - a “green capex supercycle”. These investments drive demand for commodities such as copper, nickel, and lithium, and support higher equilibrium inflation as energy systems become less efficient during the handover period. Over time, as technology matures and renewable costs decline, the transition can turn disinflationary, lifting productivity and reducing energy volatility, while gradually lowering dependence on imported fossil fuels and external suppliers.

Yet, unlike in the previous decade, the green transition is no longer a globally coordinated agenda. A broader rise in political polarization across Western economies-where climate policy has become a partisan fault line-has complicated the ability to sustain long-term, cross-party support for the transition. Under President Trump’s second administration, the United States has adopted more of an energy-dominance approach, rolling back parts of the Inflation Reduction Act and prioritizing domestic fossil-fuel production. While the rhetoric is overtly sceptical toward the green agenda, the underlying policy direction reflects more than ideology. It leverages the U.S.’s position as a net fossil-fuel exporter, aiming to revitalise traditional industries, secure energy independence, and deliver visible job creation - prioritising short-term economic renewal over longer-term decarbonisation.

Europe and China sit at the opposite end of the energy chain. Both are large net-energy importers, structurally exposed to volatile global markets and external suppliers. This makes decarbonisation not only an environmental priority but also a strategy of energy security and geopolitical insulation. Europe continues to view the transition as a catalyst for industrial renewal and strategic autonomy, while China treats it as a lever of technological and geopolitical influence through dominance in renewable manufacturing and critical minerals. The result is a divergent policy landscape: major economies are pursuing different paths to balance growth, competitiveness, and decarbonisation. This divergence reinforces the multipolar dynamic, adding another layer of complexity to global capital flows and trade relationships.

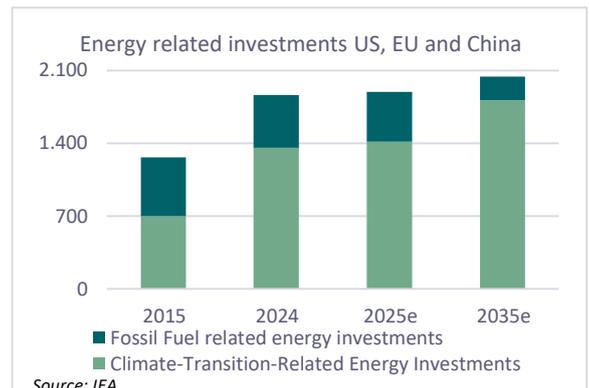


Figure 4: Investment in climate-transition-related Investments are rapidly increasing

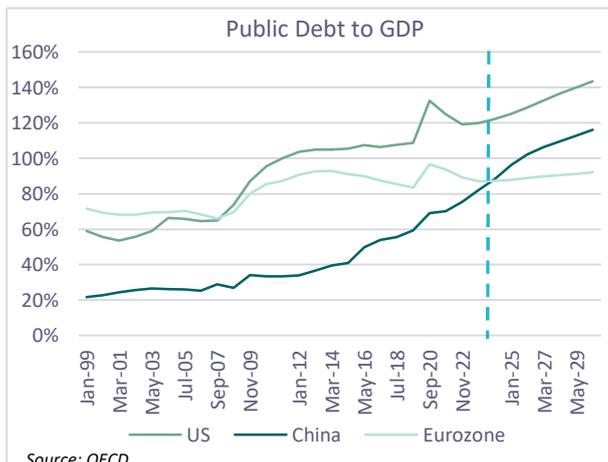
The Investor Angle – Decarbonisation and disperse policy: Shifts in Capital Allocation
The transition creates structural tailwinds for industries linked to electrification, infrastructure, and clean-tech innovation, while increasing input cost pressures in traditional energy-intensive sectors in Europe and China, currently lesser so in the US.. For investors, it implies sustained demand for industrial metals, materials, and capital goods, as well as opportunities in energy efficiency, grid modernization, and renewable technology leaders. However, the uneven policy landscape suggests that regional opportunities will diverge sharply: while Europe and China remain at the forefront of the green-investment cycle, the U.S. may see delayed or politically volatile deployment of capital. At the macro level, the green capex boom in Europe and China reinforces a regime of higher nominal growth and inflation variability, supporting real assets and inflation-linked exposures. Over the long run, successful decarbonization should improve productivity and reduce energy-price volatility – but the path will be uneven, capital-intensive, and regionally fragmented.

2.4 Debt dynamics – from monetary to fiscal dominance

The fourth secular trend we identify as a significant force that will shape the investment landscape in the years ahead is the accumulation of debt and the gradual return of fiscal dominance. Global debt levels have surged over the past two decades, fuelled by low interest rates, repeated crises, and policy interventions ranging from the Global Financial Crisis to the pandemic and energy shocks.

Debt accumulation today spans both the public and private sectors - but with important regional variation. Public debt is rising almost universally, reflecting pandemic-era stimulus, structural ageing costs and higher interest-service burdens. Private borrowing, by contrast, is diverging. In advanced economies many households and non-financial corporates are deleveraging, but in large emerging markets and China private debt continues to climb. The combined effect is heavier debt burdens, slower growth and greater fragility in policy options.

While nominal growth and inflation helped stabilise debt ratios in the early 2020s, structural deficits persist across most advanced economies, leaving governments with less fiscal room to respond to future downturns. The risk is compounded by rising political populism and institutional instability across much of the West, which make sustained fiscal consolidation politically harder to achieve.



As real rates normalised after years of monetary accommodation, debt-servicing costs have risen sharply, outpacing potential growth in several major economies. The fiscal impulse that once supported demand is turning into a structural drag, while higher interest expenses constrain discretionary spending and increase reliance on financial repression. Ageing populations and demands for defence, energy transition, and welfare spending further compound the pressure. Together, these dynamics signal a shift from an era of monetary dominance - where central banks set the tone - to one of fiscal dominance, where government borrowing and financing needs increasingly shape the macro regime.

Source: OECD
Figure 5: Government debt to GDP expected to rise for the foreseeable future

The implications are far-reaching. Fiscal dominance typically coincides with higher average inflation, as policymakers tolerate a modest inflation premium to erode debt burdens in real terms. It also introduces more frequent policy trade-offs: central banks must balance inflation control with financial stability, and governments must navigate between credibility and stimulus. Historically, such environments favour nominal growth but erode the real value of financial assets, challenging the traditional role of sovereign bonds as portfolio diversifiers.

The Investor Angle – From Fiscal Dominance to Inflation Volatility

Persistent fiscal deficits and rising debt-servicing costs suggest a regime of structurally higher nominal growth and inflation volatility. For investors, this argues for selective duration exposure and a greater focus on real assets, credit spreads, and inflation-linked instruments. The erosion of fiscal buffers also increases the importance of sovereign differentiation: countries with credible fiscal anchors and external surpluses may enjoy relative stability, while others face rising risk premia and potential rating pressure. Over the long run, elevated debt burdens and fiscal activism reinforce the case for diversified sources of real income and dynamic allocation across regimes.

2.5 Technological innovation – the next productivity frontier

Amid fiscal strain, demographical headwinds, and geopolitical fragmentation, innovation remains the strongest countervailing force shaping the global economy. The diffusion of artificial intelligence, automation, and data-driven technologies is accelerating across sectors and geographies. Unlike previous technological waves, this one is unfolding at digital speed and on a global scale, altering production processes, business models, and even comparative advantage among nations.

In the United States labour productivity in manufacturing has risen steadily for over two decades as automation and capital deepening transformed production.

Service-sector productivity, by contrast, has remained comparatively subdued, reflecting the difficulty of digitising labour-intensive processes. The challenge for the coming decade is whether AI and automation can lift productivity in the broad services economy, where most output and employment reside. The potential productivity gains are significant, as it would lift trend productivity growth and mitigate the inflationary pressures emerging from tight labour markets and supply constraints. However, the transition also carries disruptive side effects: uneven access to technology may widen gaps between firms, sectors, and countries. Labour displacement, reskilling challenges, and digital inequality could weigh on social cohesion - adding another layer of political polarisation and policy uncertainty.

The race for technological leadership is increasingly geopolitical. The United States and China dominate frontier innovation, competing not only in AI and semiconductors but also in the governance of data and digital standards. Europe, while strong in regulation and niche manufacturing, risks lagging in scale and risk appetite. Meanwhile, emerging markets are leveraging leapfrogging opportunities in fintech, digital infrastructure, and clean-tech applications. Over time, this contest for technological sovereignty may redefine global trade, intellectual property regimes, and the geography of capital flows.

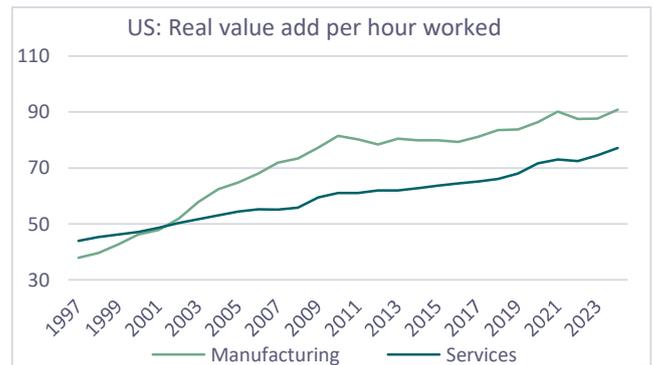


Figure 6: Productivity growth is driven by technological innovation

The Investor Angle – Investing in the Age of Intelligent Capital

Innovation is both an opportunity and a source of dispersion. Productivity-driven sectors such as semiconductors, automation, cloud infrastructure, and AI-enabling hardware continue to attract high capital inflows. Yet higher capital intensity, rising regulatory scrutiny, and national-security oversight also raise volatility and make valuations more cyclical. For investors, this argues for broad, diversified exposure to enablers of technological adoption rather than concentrated bets on a few perceived winners.

At the portfolio level, technological progress is a structural driver of productivity and margin resilience, offering a potential hedge against the inflationary bias introduced by other secular trends. However, the speed of innovation also creates new risks – from market concentration and intellectual-property disputes to shifting labour dynamics. Successful integration requires balancing growth exposure with resilience, using diversified vehicles, active selection, and risk-budgeting frameworks that can adapt to rapid regime change.

2.6 Synthesis: Our Secular Outlook and Capital Market Assumptions for 2026-2030

Taken together, these five secular forces - political fragmentation, demographic divergence, the green transition, fiscal dominance and technological acceleration - define the structural landscape of the decade ahead. They interact in complex ways: fragmentation and fiscal expansion add inflationary pressure; ageing demographics constrain potential growth; while innovation and decarbonisation offer partial offsets through productivity and investment renewal. The common thread is dispersion - across regions, sectors and asset classes - replacing the synchronised macro environment of the past two decades with a more fragmented, regime-dependent one.

When Anchors Drift - Navigating a Delicate Global Equilibrium

While this secular outlook forms the backdrop of our cyclical views, it is also the foundation of our five-year Capital Market Expectations (CMA). Below-trend global growth, mild structural inflation and persistent regional dispersion point to a return environment characterised by lower real rates, modest long-term equity returns and a wider distribution of outcomes across regions. Structural inflation variability supports real assets, credit spreads embed higher risk premia, and government bond returns remain anchored around structurally lower real yields than in previous decades.

Current market valuations also play a material role in shaping the return expectations. Equity multiples - particularly in the U.S. - sit above historical norms, implying a some repricing headwind over the medium term despite robust earnings potential in innovation-led sectors. Credit spreads remain tight, offering limited compensation for cyclical shocks. However, carry levels still offer attractive yields. Government bond yields have reset meaningfully: in Europe, structurally higher inflation variability, increased issuance and wider term premia lift long-term yields compared with last year's assumptions; in the United States, the combination of persistent fiscal expansion, greater supply, geopolitical uncertainty and a higher equilibrium term premium leads us to expect 10-year Treasury yields to settle modestly higher over the five-year horizon.

These valuation starting points explain shifts in our CMAs relative to last year: expected returns on equities and credit have moderated due to higher valuations, while long-term returns on sovereign bonds and real assets have improved as yields and term premia adjust to a world of higher inflation variability, greater fiscal issuance and persistent global investment needs.

For investors, this implies a world where structural diversification and flexibility matter more than ever. Portfolio construction must adapt to wider outcome distributions, shifting correlations and regional differentiation, while integrating cost-efficient inflation protection. Strategic allocations should be anchored in long-term secular themes, while tactical adjustments exploit cyclical and policy-driven dislocations. These secular trends, combined with current valuation starting points, form the basis of our five-year Capital Market Expectations - shaping how we assess return potential, risk premia and the balance between opportunity and resilience across asset classes.

Asset Class	Expected Return 2026-2030	Expected Volatility 2026-2030
Global Developed Equities	6,1%	0,0%
EUR Aggregate	2,5%	0,0%
Euro Government Bonds - 10yr	2,4%	0,0%
US Government Bonds - 10yr	3,1%	0,0%
Euro Asset-Backed Securities	2,4%	0,0%
EUR Investment Grade Corporate	2,9%	0,0%
USD Investment Grade Corporate	4,1%	0,0%
Global High Yield	4,8%	0,0%
Emerging Market Debt - Local FX	5,2%	8,3%
Absolute Return	4,0%	5,5%
Global RE Core+	5,2%	1,0%
Global Listed Infrastructure	5,7%	0,0%
Private Equity	8,1%	16,0%
Private Credit	6,6%	10,0%
Private Credit (Opportunities)	9,0%	13,0%
EUR Cash	1,9%	1,0%
Global Private Infrastructure (Equity)	7,5%	14,5%
EMU Inflation-Linked Bonds	2,2%	4,9%
US-TIPS	3,0%	5,2%
Gold	3,8%	14,5%
Timber	6,3%	10,0%
Farmland	6,4%	10,0%

Table 1 – Anthos Capital Market Assumptions for 2026-2030

3 The Current State of the Global Economy

After five years of successive shocks - from the pandemic and inflation surge to energy crises, fiscal expansion, and geopolitical realignment - the global economy has moved into a more delicate cyclical equilibrium. The system has shown resilience, with inflation receding and activity continuing to expand, but the outlook is clouded by deep structural shifts that add complexity and widen the range of possible outcomes. Inflation has receded but remains above central-bank targets; growth is positive yet fragile; and fiscal activism has become structural even as questions about long-term credibility grow.

Traditional macro anchors -inflation behaviour that was broadly predictable, fiscal frameworks that imposed some discipline, political institutions that functioned with relative stability and political dynamics where anchored around long-standing ideological and institutional commitments - have weakened. They are now overshadowed by larger, less predictable forces. Geopolitics has turned more mercantilist, making policymaking increasingly reactive. Public debt has risen to historical highs as governments fund populist agendas and industrial-policy ambitions. And financial markets are increasingly shaped by expectations of rapid technological change and AI-driven productivity gains - expectations that support valuations but also create vulnerability should progress disappoint.

Against this backdrop, the outcomes for the coming years hinge on how a handful of macro fault lines will evolve. Our base case represents how we expect these intersections to play out - but they also define the primary risks to that view should developments move in another direction. Will 2026 consolidate into a subpar-growth recovery - our base case - or slip back into renewed instability, or break out into above-potential growth? Each fault line is global in scope but manifests differently across the United States, the Eurozone, and China, shaping the balance between resilience and fragility, inflation and disinflation, stability and volatility. In this chapter, we outline these macro fault lines, which together form the foundations of our 2026 Outlook.

3.1 Macro Fault line 1: Policy credibility and fiscal sustainability

Can policymakers maintain confidence in fiscal and institutional frameworks, or will populism, fiscal dominance, and political volatility continue to erode credibility?

The Trump administration has reshaped the policy mix. Trump's trade war has negatively influenced US external relations. Anti-immigrant policies amplify labour shortages, particularly in services, complicating the Fed's disinflation effort. The administration's expansive fiscal stance has blurred the line between cyclical stimulus and structural deficit. The "Big Beautiful Bill" delivers tax breaks and subsidies to corporates and wealthier households, while cutting into social safety nets and clean energy support. Fiscal deficits remain high (>6% of GDP), pushing public debt above 120% of GDP. At the same time, the economy remains resilient, supported by strong investment in manufacturing, energy and technology. The question for 2026 is whether this fiscal-industrial strategy can sustain growth without undermining policy credibility. Institutional friction - political pressure on the Federal Reserve, reduced data transparency and weaker oversight - has increased uncertainty around the long-term coherence of the policy framework, but the U.S. still benefits from deep capital markets, institutional redundancy and the global reserve currency.

In the European Union the fiscal landscape is fragmented, with deficits and debt burdens in France and Italy sitting well above agreed fiscal debt limits, keeping fragmentation risk alive as EU fiscal rules return under a more flexible, country-specific framework. Complex politic dynamics add to the uncertainty and effectiveness of the block, as populist momentum is gaining traction across the block. Especially France has become a focal point where rising political instability adds significantly to eroding market confidence. At the same time, 2025 also marked meaningful steps forward. Under pressure

from Trump's stance on NATO and the Russian war in Ukraine, the bloc has pledged to raise defence spending to 5% of GDP by 2030 - a historic break from past constraints. To finance this, for the first time since the pandemic, a new Eurobond programme is designed for which 19 EU member countries have so far applied. This is marking a controversial but significant step toward fiscal integration as this programme goes beyond just emergency use (unlike previous programmes) and addresses a core sovereign function. Meanwhile, German elections have been a game changer: Berlin is turning to fiscal expansion with new programs for defence, infrastructure, and energy, while cutting through bureaucracy that has long stunted investment. This promises medium-term support for growth, even if immediate effects are limited.

In China, Beijing faces a different challenge: high leverage concentrated in local governments and state-owned enterprises, but a persistent reluctance to deploy large-scale stimulus, due to experience by past debt build-ups. The central government is maintaining targeted easing for strategic sectors such as credit easing for advanced manufacturing and green tech, selective infrastructure projects, and measures to support first-home buyers. This approach supports strategic priorities while avoiding risks from broad-based stimulus associated with earlier debt cycles. However contingent liabilities continue to rise through local-government financing vehicles, with weaker land sales undermining revenues, while LGFVs carry large off-balance-sheet liabilities. The central government retains substantial fiscal capacity, but the challenge lies in deploying it without reinforcing existing imbalances. Policy credibility rests on Beijing's capacity to manage this debt overhang without triggering a systemic liquidity crunch.

3.2 Macro Fault line 2: Inflation and financial conditions: the Monetary Tightrope

Is inflation truly normalising, or are we entering a regime where financial conditions oscillate between tightening and rapid, sentiment-driven easing?

Headline inflation has eased from its 2022–23 peaks, but core inflation remains above target, sustained by strong domestic demand, wage growth, and an expansionary fiscal stance. The Federal Reserve is caught between above target inflation and a cooling labour market. Political pressure on the Fed has intensified, with calls for rate cuts to support “economic competitiveness”. Meanwhile, financial conditions oscillate: yields and spreads widen on fiscal concerns, while periodic bouts of optimism loosen liquidity. This pattern - alternating between bursts of tightness and episodes of speculative loosening - introduces a source of macro uncertainty. While the financial system remains broadly resilient, there are financial fragilities that are remaining just below the surface - high valuations in technology, elevated corporate leverage, and stress pockets in commercial real estate and shadow banking could amplify any negative shock.

The U.S. dollar sits at the intersection of these dynamics. Higher yields and market depth continue to attract flows, yet mounting fiscal concerns, institutional pressure, and political noise weigh on its reserve-currency credibility and safe-haven appeal. The dollar has weakened year-to-date as foreign investors repatriate capital, reflecting both reduced rate differentials and waning confidence in policy coherence. Market volatility around Fed credibility has become a defining feature of the financial landscape, underscoring questions about the long-term stability of the U.S. policy regime.

In the Eurozone inflation dynamics have improved materially. The ECB ended its rate-cutting cycle in September, opting to keep policy rates unchanged as disinflation takes hold. The easing cycle has begun to filter through: after a deep slump, the credit cycle has turned modestly upward, signalling gradually improving financial conditions and suggesting that the ECB's balancing act between stabilising inflation and supporting growth is gaining traction. Yet this improvement remains delicate, dependent on stable energy prices and fiscal credibility, both of which are vulnerable to external shocks. Additionally inflation uncertainty persists against a fragile fiscal backdrop. Services inflation remains stubbornly above 3%, and heterogeneity across member states complicates the picture - Germany's wage dynamics and France's fiscal policies create

uneven inflation momentum within the bloc. Energy prices have stabilised, but Europe's dependence on imported LNG remain a significant risk and rising defence-related spending keep a modest inflation floor in place.

The contrast with China is striking. The economy continues to face disinflationary - at times mildly deflationary - pressures as weak domestic demand, excess capacity in manufacturing, and property-sector stress weigh on prices. The People's Bank of China maintains an accommodative stance through targeted liquidity operations and selective credit easing, yet transmission remains weak: credit demand is subdued and private-sector sentiment cautious. Despite policy support, financial conditions are uneven - private SMEs and technology firms face tighter funding access, while state-owned enterprises and "strategic sectors" continue to receive preferential treatment. China's financial conditions illustrate the theme: liquidity is ample where the state directs it, but constrained elsewhere, creating a system that is loose in aggregate but tight in key private sectors. The risk is not overheating but balance-sheet stagnation, as households and corporates prioritise deleveraging over new investment, leaving growth reliant on state direction rather than market momentum.

3.3 Macro fault Line 3: Growth Engines and the Productivity Divide

Can economies translate investment and innovation into genuine productivity gains, or will the post-pandemic cycle settle into structurally low growth despite technological breakthroughs and fiscal activism?

The U.S. remains the global growth leader, supported by fiscal expansion, resilient employment, and a powerful wave of investment in artificial intelligence and automation. Corporate capex in data infrastructure and semiconductors has surged, fuelling optimism that productivity growth will reaccelerate. However, evidence remains inconclusive: efficiency gains are visible in a few technology-intensive sectors, but aggregate productivity growth has yet to rise meaningfully. Financial markets have priced in a rapid realisation of the AI dividend, leaving valuations stretched and concentration risk elevated. Meanwhile the labour market is rebalancing. Hiring momentum has slowed, job openings have narrowed, and wage growth is moderating, but without signs of acute stress. The economy appears to be settling into a low-hiring, low-firing equilibrium, where firms are cautious to expand but equally reluctant to shed workers. Demographic shifts, lower labour mobility, and early signs of AI-related restructuring are gradually lowering the economy's job-creation capacity - signalling a measured rebalancing rather than outright weakness.

Europe's competitiveness challenge is more acute, as the growth model is under strain. Manufacturing competitiveness is eroding as Chinese firms expand into sectors Europe once dominated, such as automotive and industrial machinery. At the same time, Europe is lagging in innovation compared with its global peers. The US is advancing rapidly in AI and digital technologies, while China is leading in next-generation manufacturing and green tech. Europe retains pockets of strength in green energy, pharma, and high-value services, but fragmented capital markets, risk-averse corporate culture, and bureaucratic hurdles limit the ability to scale these into global leadership. Fiscal expansion plans in Europe, particularly in infrastructure, defence, and the green transition, are promising, yet execution speed remains uncertain and heterogeneity across member states in debt capacity and opportunity constrains delivery. The region's productivity challenge is structural: fragmented capital markets, slow technology adoption, and uneven innovation capacity keep potential growth subdued. Still, targeted public investment and reindustrialisation initiatives could gradually lift potential output if implemented effectively.

Meanwhile China is navigating a difficult structural adjustment. The property downturn and weak household confidence continue to weigh on consumption, while overcapacity and export dependency constrain external rebalancing. The government's focus on "new productive forces" - advanced manufacturing, clean energy, and digital infrastructure - aims to lift productivity and enhance technological self-reliance. However the state's expanding role in "strategic sectors" creates an uneven playing field, discouraging innovation among SMEs and deepening the divide between policy-favoured and market-driven industries.

3.4 Macro fault Line 4: Trade, Tariffs, and Industrial Realignment

Can the global trading system absorb the growing politicisation of trade and industrial policy, or are we entering a phase of persistent fragmentation and rising cross-border friction?

Trump's aggressive trade policy has imposed structurally higher tariffs on major partners (China, EU, Mexico, Canada). Tariffs are providing short-term fiscal revenues, however, are reshaping global supply chains and creating headwinds for trade volumes and input costs. The emphasis on reshoring and "friend-shoring" attracts some capital inflows into domestic manufacturing, but at higher costs and reduced efficiency. While this industrial-policy revival is aimed at supporting near-term investment and employment, it reinforces the shift from rules-based trade to strategic competition.

Europe faces growing pressure from both directions: U.S. industrial policy on one side and a flood of competitively priced Chinese exports on the other. With exports already a weak growth engine, tariffs compound existing pressures. Weak Chinese demand adds further drag, undercutting Europe's traditional markets. Energy remains a structural vulnerability: although prices have stabilized since the 2022 crisis, the bloc's heavy reliance on imported LNG and fossil fuels leaves it exposed to renewed geopolitical shocks. Until the transition to renewables progresses further, this dependence remains a sword of Damocles over Europe's industrial competitiveness and external balance. The bloc's main challenge lies in execution - redirecting supply chains internally while maintaining export competitiveness. Fiscal investment in infrastructure and green technology aims to offset external drag, but limited coordination and slower fiscal deployment risk leaving Europe in a weaker relative position.

In this environment China is adapting to a more hostile trade and investment environment, with its export machine is undergoing structural transformation. Exports to the United States have declined, while shipments to Southeast Asia, the Middle East, and Africa have expanded rapidly. Beijing is deliberately diversifying markets and supply chains, deepening engagement with the Global South through the Belt and Road framework. Yet the external environment remains challenging: Western trade probes, tariff threats, and a growing alignment among advanced economies against perceived industrial overcapacity create persistent headwinds for manufacturing exports.

4 2026 Outlook - Navigating a world where Anchors Drift

The current global balance rests on delicate foundations. As old anchors drift, new paradigm shifts are reshaping the global equilibrium.

The global economy enters 2026 balanced on a more fragile equilibrium - resilient enough to avoid, yet clouded by the weakening of anchors that once guided the macro environment. Familiar macro signals - the yield curve, labour slack, policy cycles, monetary guidance - have lost some of their predictive power as they are operating alongside deeper structural forces: fiscal saturation, technological disruption, geopolitical fragmentation, and political polarisation. These forces distort signals, widen the range of outcomes, and make the macro environment harder to read. Inflation has moderated but remains above target; growth is positive yet subpar; and fiscal activism remains the default stabiliser even as credibility erodes.

Together, these paradigm shifts are changing the way the global economy behaves - and how investors interpret it. The underlying economic relationships still hold, but the path between cause and effect has become more complex.

Cycles blur into regimes, adjustment periods lengthen, and market reactions become more volatile, especially in periods of stress. The result is an environment where traditional signals still matter, but they must be interpreted through a wider set of structural forces.

For 2026, we expect the equilibrium to hold, producing a pattern of **sub-par but stable growth**, modest disinflation, and high dispersion across regions and sectors. Yet the forces sustaining today's stability also make the system more fragile: fiscal expansion, political uncertainty, and uneven financial conditions reduce the room for policy error and increase the economy's sensitivity to shocks. This is why we believe 2026 is less about momentum and more about managing risk with discipline.

Our scenario framework and understanding Our Base Case and the risks

Our outlook is developed using our internal scenario framework (see Appendix 1 for background). Our base case, the sub-par growth environment, represents the scenario we consider most likely for the year ahead. When we refer to a sub-par growth environment, we mean an economic setting in which real GDP expands below potential but remains positive—typically between just below potential and roughly two percentage points below it, or around zero (whichever is higher)—with core inflation below 3 percent.

4.1 Policy Fatigue: Fiscal Firepower Meets market Discipline

We believe expansionary fiscal policy will remain an important factor in 2026, helping to contain the current macro balance, but its limits and accompanying risks will become increasingly visible. In the United States, the Trump administration's renewed fiscal expansion through the "Big Beautiful Bill" and a new round of tax cuts will begin to trickle through. This will support activity, but also sustain a large deficit at a time when public debt has already surpassed 120 percent of GDP and debt-service costs now rival defence spending. Investors continue to fund the shortfall, yet rising term premia and higher real yields reflect growing unease about sustainability. Markets are not pricing crisis but fatigue—the recognition that fiscal firepower cannot expand indefinitely without consequence.

In Europe, fiscal expansion continues under the banners of infrastructure, defence, and the green transition. We expect this fiscal push to lay a floor under growth through 2026, providing partial relief from an increasingly challenging external environment and a still-cautious consumer. Yet coordination remains challenging, resulting in regional dispersion in sovereign-debt dynamics. Germany is moving from restraint to pragmatism and has room to do so, while France and Italy

operate near their fiscal limits-constraints markets are likely to recognise. This pressure has increased since the EU reinstated a revised Stability and Growth Pact in 2024. The updated framework reintroduces deficit and debt constraints through multi-year fiscal adjustment plans, requiring high-debt countries to reduce deficits steadily while preserving investment - a difficult balance in an environment of below potential growth and political fragmentation.

In China, fiscal policy remains targeted rather than broad-based, focused on advanced manufacturing, digital infrastructure, and clean energy. This selective approach sustains activity but fails to restore private-sector confidence. Local-government and state-enterprise balance sheets remain strained, while implicit guarantees and off-balance-sheet financing continue to rise. Increasingly, this fiscal selectivity fuels capital misallocation: excess capacity in electric vehicles, batteries, and solar panels is now visible at home as global markets turn more protectionist. What once could be exported is now absorbed domestically, eroding profitability and efficiency. While China's targeted fiscal and monetary easing has so far succeeded in averting a sharp slowdown and maintaining growth near target, the continued accumulation of contingent liabilities, capital misallocation, and weak private sector confidence raise questions about the long-term sustainability of this approach-today's stability may come at the cost of greater vulnerabilities in the future.

The Risks - Fiscal Slippage and the Bond-Market Reckoning

We believe expansive fiscal policy will underpin growth through 2026, but the balance is increasingly precarious: should debt levels or deficits rise beyond market tolerance—triggering a repricing of sovereign risk evidenced by a sharp increase in yields or failed debt auctions—investor confidence could quickly deteriorate, transforming gradual 'fatigue' into a full-blown fiscal crisis. A disorderly sell-off in Treasuries or French OATs would tighten financial conditions worldwide, pulling the U.S. into a sharper slowdown and pushing the Eurozone toward recession. China, heavily exposed through its large holdings of U.S. assets and limited capital-account flexibility, would face renewed outflow pressure and a weaker renminbi.

A smaller but plausible upside risk lies in fiscal over-delivery: U.S. tax cuts, Europe's investment programmes, and a potential step-up in Chinese stimulus could reinforce other upside forces, providing an additional tailwind to near-term growth — although likely at the cost of higher long-term debt and renewed inflation pressure.

The interplay between **fiscal supply and market confidence** will shape the year ahead. In our base case, fiscal policy remains supportive but is increasingly constrained by market discipline. In the U.S., the Big Beautiful Bill and tax cuts keep activity firm but entrench deficits; in Europe, investment programs stabilise growth but highlights fiscal asymmetry; in China, selective easing prevents a sharp slowdown while misallocating capital. The result is a **slow erosion of fiscal credibility rather than a sudden break**-a world of persistent issuance, elevated yields, and policy improvisation.

4.2 The Monetary Tightrope and Financial Fragility

The U.S. Federal Reserve is navigating a three-way balancing act: cooling inflation, a softening labour market, and mounting political pressure from the administration to support growth. We expect core inflation to recede gradually over 2026, but to remain above 2½ percent, leaving the Fed only limited scope to ease. The central bank will likely shift toward a more balanced stance, able to provide some support to the labour market but highly cautious in applying rate cuts as long as inflation sits well above the 2 percent target. Political pressure is unlikely to translate into outright interference, yet the expiration of Chair Powell's term in May introduces uncertainty over the Fed's longer-term independence and policy direction.

The European Central Bank, by contrast, enjoys its first real breathing space in years: inflation is back near target and the credit cycle is turning upward. Still, latent vulnerabilities-Europe's energy dependence, sticky services prices, and the north-south divide between hawks and doves-remain under the surface. We expect this equilibrium to persist through 2026, with no major rate actions anticipated. The ECB will, however, remain alert to fiscal slippage: if sovereign-debt dynamics in member states deteriorate significantly, it will act to stabilise markets by easing bank-funding conditions and, if needed, through targeted sovereign-bond interventions.

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In China, the central bank remains an instrument of state policy, coordinating piecemeal stimulus and liquidity management. Political priorities remain focused on industrial and strategic objectives, rekindling household demand will remain a secondary priority. Monetary policy will be geared toward this agenda, with the PBoC providing selective liquidity and incremental rate cuts to support investment in priority sectors. Broader household stimulus is unlikely, and the private sector is expected to continue deleveraging rather than expanding consumption.

Despite these different starting points, the global macro environment binds them together. A more fragile equilibrium, shifting trade patterns, and intensifying political activism leave policy visibility low, complicating the work of Central Banks. Inflation may be lower, but its path remains uncertain; capital flows are volatile; and the line between fiscal and monetary policy continues to blur. For now, all three central banks share a cautious instinct: stay reactive, preserve flexibility, and avoid mistakes larger than the problems they aim to solve.

The Risks – The Shock off overconfidence

A renewed inflation surprise in the United States — driven by energy prices, fiscal expansion, or sticky services — would force the Fed to delay or reverse rate cuts. Financial conditions would tighten abruptly, triggering corrections in equity and credit markets. The Eurozone would import the shock through higher yields and weaker confidence, while China would face renewed capital-outflow pressure and renminbi weakness. Another concern is a potential erosion of Fed independence after Powell's term expires in May; even limited interference could steepen U.S. yields, weaken the dollar's safe-haven status, and transmit volatility across global funding markets.

A less likely but plausible upside scenario lies in an acceleration to the Goldilocks phase on the back of monetary policy: inflation moderates faster than expected gives the Fed room to support the labour market more aggressively. Growth could re-accelerate above potential, lifting sentiment and risk assets — though likely at the cost of widening global imbalances and setting up the next policy challenge.

4.3 AI's Slow Burn: The Long Road to Productivity

The optimism around artificial intelligence remains one of the defining narratives of this cycle and has the potential to convincingly accelerate the economy into a new goldilocks era, but also carries the risk of disappointing and thereby triggering a broad repricing across risky assets, exposing vulnerabilities in e.g. leveraged corporates and commercial real estate. The global economy stands at an inflection point: capital expenditure is accelerating on the optimism in investment, but efficiency improvements remain confined to a handful of sectors and firms. The promise is large, but the payoff is yet slow, and may only shimmer through over the coming quarters.

We believe that in 2026 we will continue to see its increasing impact in investment data, corporate earnings calls, and policy narratives, however its translation into broad-based productivity gains remains very gradual and slower than anticipated. However, just fast enough to keep the theme alive and prevent a broad repricing of risky assets.

In the United States, the investment boom continues. Data-centre construction, semiconductor capacity, and cloud infrastructure remain high, we expect no decline in currently AI-related capex. This provides a floor under activity and supports equity valuations, but wage gains, energy costs, and supply bottlenecks dilute near-term productivity benefits.

Europe lags behind: investment in digital infrastructure and automation is increasing but from a much lower base, hindered by regulation, skills shortages, and fragmented capital markets. China, meanwhile, is pursuing self-reliance in advanced manufacturing and green technology, but state-directed investment produces uneven results and risks new pockets of overcapacity.

Our base case sees AI as a slow-burn tailwind rather than a near-term accelerator. It stabilises growth, supports high-valuation sectors, and boosts long-term potential output, yet it does not yet rescue the world from its current sub-par equilibrium. Productivity gains accumulate gradually, more evolutionary than transformative.

The Risks – the hype deflates

The economic promise of AI may take longer to materialise than markets anticipate. If productivity gains remain narrow and profit margins compress under higher labour and energy costs, confidence in the “AI dividend” could fade. Valuations in AI and mega-cap tech stocks, already stretched, can correct sharply, which could trigger a broader repricing across risky assets, exposing vulnerabilities in e.g. leveraged corporates and commercial real estate. The correction cascades through tighter credit, higher funding costs, and declining household wealth. Fragile consumer sentiment deteriorates further, capex retrenches, and credit conditions harden. The result is a synchronized pullback in spending and investment. The United States—where the theme is most embedded in equity prices—would feel the impact first, but spillovers would reach Europe’s industrials and Asia’s supply chains.

A smaller but plausible upside scenario is that AI adoption accelerates faster than expected, driven by breakthroughs in automation, logistics, or services. In this case, productivity could surprise to the upside and briefly lift potential growth, though the benefits would be uneven across regions and likely offset by renewed inflation pressure and valuation excess.

4.4 Fragmented Trade, Rewired Growth

Global trade enters 2026 in a phase of reconfiguration rather than retreat. The shock of de-globalisation has not materialised, but efficiency has given way to resilience as the organising principle of trade. The world economy is adjusting to a web of parallel supply chains, tariff regimes, and industrial-policy blocs that prioritise security and political alignment over cost. Trade flows are holding up in volume terms, yet the composition and direction are shifting: value chains are shortening, duplication is rising, and the inflationary bias from redundancy persists.

In the United States, the tariff policy and reshoring incentives are embedding protectionism into long-term industrial strategy. Domestic manufacturing investment remains strong, but at the cost of higher input prices and growing tension with trading partners. The Eurozone is pursuing a more defensive path. Subsidy schemes and green-industry support aim to preserve competitiveness, while the export engine seeks to reorient toward Europe’s own large internal market. Yet high energy costs, fragmented regulation, and uneven fiscal capacity leave the bloc squeezed between U.S. protectionism and Chinese overcapacity. China, meanwhile, is diversifying its export base toward emerging markets across Asia, the Middle East, and Africa. This strategy offers partial relief from Western barriers but cannot fully offset lost Western demand: these new markets are more price-sensitive, eroding Chinese margins and profitability in key sectors such as EVs, batteries, and solar panels.

Our base case sees 2026 as a year of trade rewiring without collapse, but the process will not be smooth. Supply chains cannot be relocated overnight; skill shortages, infrastructure gaps, and regulatory friction slow the transition. The coming year is therefore likely to be one of continued adjustment and intermittent disruption—a world where trade flows persist, but at higher cost and with greater volatility.

The Risks – Trade War Redux

The risk of renewed tariff escalation and industrial-policy retaliation remains high. Increasing tensions between the U.S and China are the foremost risk, which could potentially further choke off supply of rare earth minerals, raise input costs and further disrupt supply chains. Inflation would re-accelerate, forcing central banks to delay easing and tightening financial conditions worldwide. The Eurozone, heavily exposed through intermediate goods and export-oriented manufacturing, would feel the drag first. Emerging markets integrated into Chinese supply chains would face secondary shocks through weaker demand and currency volatility.

A smaller but positive upside scenario is a period of geopolitical stabilisation: if trade tensions plateau and cooperation in critical minerals and technology standards resumes, firms could re-engage in cross-border investment. Efficiency gains would return slowly, easing supply-side inflation pressures and supporting a modest rebound in global trade volumes.

4.5 Synthesis: The Shape of 2026

Taken together, the 2026 landscape reflects a world holding steady through a complex mix of support and adjustment. Fiscal expansion continues to underpin demand but give rise to sustainability questions and risks eroding credibility; monetary policy is cautious, data-dependent and increasingly caught between politics and markets; the AI investment cycle provides early signs of productivity improvement but is not yet transformative; and the rewiring of global trade reshapes supply chains while introducing new frictions. The result is a delicate equilibrium of sub-par yet positive growth, gradual disinflation and persistent dispersion across regions, sectors and policy paths.

The United States remains the global growth anchor, supported by robust investment and innovation, though elevated valuations make it a focal point of financial sensitivity. Europe steadies through renewed investment momentum and a more pragmatic policy stance, even as structural and political constraints limit the pace of improvement. China maintains macro stability through calibrated policy support while navigating a multi-year adjustment in property and manufacturing, trading short-term efficiency for longer-term strategic alignment. For investors, 2026 is not a year defined by acceleration or contraction, but by navigating dispersion and regime uncertainty - an environment where patience, selectivity and strong balance-sheet positioning become key drivers of durable performance and opportunity capture.

4.6 Tail Risks: Low Probability, High Impact

Beyond these central and alternative scenarios, the world remains exposed to a small number of low-probability but high-impact events that could abruptly reshape the macro and market landscape. These tail risks sit outside our base case but frame the outer bounds of potential outcomes - shocks that could test the limits of policy flexibility, market liquidity, and global coordination. While unlikely, their asymmetry warrants close attention, as such events would directly inform our risk management and portfolio-hedging framework, discussed in the following section.

Geopolitical Shocks

- **Taiwan Strait Crisis** - A crisis in the Taiwan Strait, whether through military confrontation or an extended blockade, would severely disrupt semiconductor supply chains, lift commodity prices, and trigger a stagflationary global shock. An escalation into a blockade or invasion of Taiwan would represent the most severe single-event tail risk. Global semiconductor output would collapse, commodity prices spike, and globally stagflationary recessions would ensue.
- **Middle East Energy War** - Any escalation involving Iran or the Gulf states that impedes the Strait of Hormuz could push oil above \$150 and spike LNG prices, plunging Europe and Asia into stagflationary recession.

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- **NATO–Russia Conflict** – A direct confrontation between Nato and Russia, or a large-scale cyberattack on European infrastructure, would cause a severe risk-off episode, leading to energy shortages and sharp regional contraction. Europe would fall into recession, and safe-haven assets (USD, CHF, gold) would surge.

Systemic and Institutional Shocks

- **Eurozone Fragmentation Risk** – Political crises in France or Italy could reignite existential risk. A redenomination scare or exit threat would cause capital flight into USD and CHF, spreads to widen sharply, and the ECB’s credibility to be questioned.
- **Large-Scale Cyberattack** – A major cyberattack targeting financial infrastructure or energy networks could disrupt payment systems, commodity flows, and investor confidence, producing an immediate liquidity shock.

Global Health and Environmental Risks

- **Global Pandemic Resurgence** – The emergence of a highly transmissible pathogen could again disrupt travel, supply chains, and consumption patterns. Inflation dynamics would bifurcate - short-term price spikes followed by rapid disinflation as demand collapses.
- **Climate or Energy Transition Shock** - A disorderly acceleration of climate policy or severe weather events could generate temporary energy shortages and volatile commodity prices, adding to inflation uncertainty.

In Summary

The defining feature of these tail risks is **non-linearity**: shocks that cannot be absorbed within the current policy and fiscal framework. While individually unlikely, each represents a regime-shift catalyst - capable of upending the sub-par-growth equilibrium that anchors our 2026 base case. In a world already operating with diminished policy buffers, any one of these could turn a delicate stability into systemic instability.

5 Portfolio Implications & Strategy

This final chapter brings together the perspectives of our individual investment teams across asset classes. Each team has provided its own assessment of market conditions, valuation dynamics, and strategy outlook for the year ahead. While the overall investment stance is guided by the macro and secular outlook outlined earlier in this report, differences in emphasis and interpretation naturally arise.

These variations are not contradictions, but a reflection of our model-one that values independent judgment within a shared strategic framework. Markets evolve unevenly, and specialist insight is essential to navigate that complexity. The role of the central outlook is to provide the macro compass; the role of each team is to translate it into actionable positioning within their mandate.

Together, these views form a composite picture of opportunity and risk, illustrating how a common long-term philosophy can adapt to multiple market realities.

5.1 Multi Asset

For the Multi-Asset team, CPM, the secular outlook is the foundation of our long-term investment design. It provides the baseline environment against which we build and test our Strategic Asset Allocations (SAA). The secular outlook, trends and 5 year capital-market assumptions offers the analytical framework to construct all-weather portfolios-ones that are resilient across regimes rather than optimised for a single scenario.

In the coming period, we will revisit the SAA structures to ensure they remain efficient within the below-potential growth environment outlined in the secular outlook. The objective is not to anticipate every turn of the cycle, but to confirm that the strategic mix continues to deliver balance between return, risk, and sustainability in a world of slower growth, persistent inflation variability, and higher dispersion.

The cyclical outlook for 2026 serves a different, complementary role: it provides the stress-testing context for the SAA and informs our Tactical Asset Allocation (TAA). It helps us assess whether our strategic portfolios are robust enough to weather, where possible, to benefit from-the downside and upside risks identified in our base case. We built this cyclical outlook on the Anthos Scenario Framework, which defines five distinct economic states and contains scenario pathway narratives that lead to them. For each scenario pathway we estimate indicative return expectations across major asset classes, capturing how portfolios might behave under different combinations of growth, inflation, and policy outcomes. The table below summarises our expected returns under the five scenarios that anchor the 2026 outlook (see appendix 1 for the scenarios).

Asset Class	Expected Returns in Scenarios EUR unhedged				
	Subpar Growth	Recession	Goldilocks	Stagflation	Overheating
Global Developed Equities	6,1%	-15,0%	16,0%	-4,0%	23,0%
EUR Aggregate	2,5%	8,9%	2,3%	-17,3%	-15,6%
Euro Government Bonds - 10yr	2,4%	10,8%	2,1%	-18,8%	-17,0%
US Government Bonds - 10yr	3,1%	22,7%	-1,0%	-16,6%	-14,3%
Euro Asset-Backed Securities	2,4%	2,2%	3,0%	3,9%	4,4%
EUR Investment Grade Corporate	2,9%	1,3%	2,8%	-11,4%	-9,7%
USD Investment Grade Corporate	4,1%	1,3%	2,8%	-11,4%	-9,7%
Global High Yield	4,8%	-1,0%	6,3%	-9,8%	-6,9%
Emerging Market Debt - Local FX	5,2%	2,9%	6,3%	-12,1%	-8,1%
Absolute Return	4,0%	1,6%	2,3%	4,5%	4,5%
Global RE Core+	5,2%	4,8%	10,1%	-6,2%	-0,8%
Global Listed Infrastructure	5,7%	-8,0%	8,0%	-7,0%	5,0%
Private Equity	8,1%	-8,0%	9,0%	-1,4%	12,7%
Private Credit	6,6%	2,7%	6,2%	3,5%	4,7%
Private Credit (Opportunities)	9,0%	3,0%	10,5%	4,5%	8,0%
EUR Cash	1,9%	1,5%	2,3%	3,5%	4,0%
Global Private Infrastructure (Equity)	7,5%	3,8%	9,0%	8,9%	11,1%
EMU Inflation-Linked Bonds	2,2%	11,0%	5,0%	4,0%	0,0%
US-TIPS	3,0%	20,0%	5,0%	-2,0%	2,0%
Gold	3,8%	6,5%	5,7%	8,3%	8,5%
Timber	6,3%	-3,8%	7,1%	5,8%	11,2%
Farmland	6,4%	-1,8%	6,4%	6,5%	9,5%

Table 2 – Expected Returns in Scenarios EUR unhedged

Our Tactical stance into the new year remains cautious and opportunistic. Market volatility and policy uncertainty argue against directional bias, but they also create short-term dislocations that we seek to exploit selectively. In essence, our approach combines strategic resilience with tactical flexibility: staying invested through uncertainty, while preserving the agility to respond when risk-reward asymmetries become compelling.

5.2 Public Equities

Equity returns have been stellar over the last three years. The MSCI World Total Return Index denominated in Euros compounded over 16% per annum (3year period ending November 5th, 2025). This lifted the 10-year annualized return to just over 11%, a stellar number. But this number needs some nuances. Firstly, this return is lifted by the US market, which gained over 13.2% per annum during the last decade. Other regions like Europe, Japan and Emerging Markets delivered a total return around 7% per annum. Also, larger companies did significantly better. In comparison, the MSCI World Equal Weight index gained by 7.6% per annum during this same period. If we zoom in on the last three years, these trends have been even more pronounced.

So, what does this mean for future returns? With these spectacular returns, equity valuations have also risen sharply. Based on the Shiller CAPE metric, the US Stock Market now trades at levels last seen in the late nineties, just ahead of the Dotcom crisis. We are aware that valuation itself is hardly a trigger for markets to correct. But valuation as an input factor to determine long-term expected returns is very powerful. Over the next 12 months, we therefore expect returns to be more moderate, well below the last couple of years and below the long-term average of 8%-9%. We are least optimistic about returns in the US, and favour International Markets (Europe, Japan, Emerging Markets).

Another important theme which drives equity markets today is artificial intelligence. Since the launch of ChatGPT in November 2022, stocks directly or indirectly related to the theme have been on fire. The new technology has triggered an arms race in capital spending on data centers, on GPUs and on several other linked value chains. The amounts are unprecedented. A group of "hyperscalers", among them Microsoft, Amazon, Google and Meta, continue to increase their

capex guidance. But with all this euphoria, risks are growing as well. There's a growing concern that an increasing percentage of this spending is funding with debt. Also, investors start questioning the circular nature of certain deals.

From a financial market perspective, we believe equity markets are pricing in a goldilocks scenario. The economy is growing but not running hot; inflation is coming down, allowing the Fed to cut interest rates. This economic situation can last longer, however we view the risk of overheating as realistic; so is the risk of a subsequent recession in case the Fed steps in.

Geopolitics have hardly been a longer-term driver of equity returns. The best evidence is that in a period of elevated geopolitical tensions with multiple conflicts taking place at the same time, equity markets break new records at a stunning clip. We are very mindful though the secondary effects of conflicts could very well influence stock markets and would like to stress this a continuously elevated risk over the next year.

In summary, risks are slowly rising whilst valuations in certain risk assets start to look bubbly. Corporate results are still solid, and cash flow is ample among the hyperscalers. Economic growth is slowing but still healthy.

5.3 Bonds

In the aftermath of elevated central bank rates, we have seen developed market central banks engaging in a new cycle of rate cuts following the lead of emerging market central banks who this time around led the way. After the Covid pandemic, inflation spiked due to pent up demand and supply chain issues, which was quickly countered by central bank rate hikes. EM central banks were the first to hike and were successful in containing inflation and able to cut rates early.

Credit spreads have tightened to decade lows as economies have grown steadily with low default rates and ample liquidity. Some brief bouts of volatility broke this tightening trend this year, the first being Liberation Day and more recently some scares in the private credit market.

We feel this monetary cycle is coming closer to the end as for the US inflation seems to be somewhat stickier than expected and fiscal expansion is in the cards. This fiscal policy is instigated by signs of consumer weakness, a slowing labour market and a willingness to support domestic industry. The FED is confronted with a dilemma of choosing between the dual goal in their mandate, growth and inflation. This is why we believe short end rates have some scope to come down but are close to their cycle lows. A similar case can be made for yields in the Eurozone. As for credit spreads, they are pricing an extremely benign environment where we believe a slowing economy will have a negative impact on defaults. Also due to higher input costs because of tariffs. As such we expect credit spreads to widen moderately to reflect this new reality. Credit metrics in public credit markets reflect moderate leverage which is why any widening will be contained. Private credit markets however, have recently delivered some nasty surprises and should be monitored closely as contagion effects can give rise to a spike in volatility, as recently experienced, and push spreads wider suddenly. It should be noted that loosening underwriting standards in private credit can give rise to elevated defaults. We always should remember "the worst loans are made in the best of times" according to Howard Marks.

Emerging markets will continue to do well in this environment, as long as USD liquidity is abundant, barring multiple hikes this will be the case, and inflation remains well behaved also due to disciplined EM central banks. EM yields will therefore remain stable to slightly lower, and the EM FX basket will appreciate supported by high real yields. Both effects will contribute to positive total returns also supported by increasing inflows to fixed income in emerging markets in local currency.

5.4 Absolute Return

The objective of absolute return strategies remains to provide positive, uncorrelated investment outcomes. This involves seeking alternative sources of return that are largely decoupled from the directional movements of traditional equity and fixed income markets. The overarching objective is to deliver stable, positive absolute returns over a full market cycle while maintaining a predefined, low-volatility profile in the 4% to 6% range. In the increasingly uncertain environment we prefer to be as diversified as we can across niche strategies, active in various asset classes, sectors, regions, and underlying securities.

The first half of 2025 saw challenges for certain strategy segments. Specifically, quantitative, systematic strategies struggled with the heightened policy uncertainty generated by the new Trump administration. Such models, which rely on historical data and consistent factor correlations, required time to adjust. Performance stabilization was observed after this recalibration was completed. Conversely, qualitative, discretionary strategies demonstrated greater adaptability, leveraging fundamental analysis and active positioning in response to policy shifts following that were anticipated since the US election outcome in 2024. This divergence underscored the importance of integrating both systematic and discretionary capabilities within a diversified absolute return platform.

Looking forward, a new, dynamic economic regime provides a fertile backdrop for global macro strategies. Financial markets must now start pricing in several key US and global political risks. The potential for the Republicans to lose their House majority in the upcoming mid-term elections introduces potential legislative uncertainty. Globally, the evolving trade tensions require continuous risk-premium adjustment across supply chains and export-oriented sectors. Furthermore, the correlation between energy prices and geopolitical dynamics remains something to watch, representing a critical factor influencing global inflation and market stability. This environment of structural and cyclical shifts is highly conducive to macro strategies focused on identifying and trading major economic inflection points.

While the performance of the absolute return strategy has recently been sensitive to the returns generated by macro and quant strategies, 60% to 65% of the portfolio allocated to arbitrage strategies has performed in line with expectations. These segments are structurally positioned to thrive in an environment characterized by higher market dispersion, a regime we anticipate persisting. Strategies such as convertible arbitrage and Special Purpose Acquisition Company (SPAC) arbitrage directly benefit from active, albeit uncertain, capital markets and even from increases in volatility. These positions contribute a critical foundation of returns that are largely independent of the broader market beta.

Beyond traditional arbitrage, yield-oriented strategies remain well-suited to the current landscape of elevated asset dispersion. Although overall credit spreads have exhibited cyclical tightening, the bifurcation of pricing between highly-rated issuers and riskier borrowers continues to exceed historic averages, creating specific long/short opportunities. Our focus continues to be on sourcing truly uncorrelated, cash-generative strategies that do not layer on corporate credit risk, such as income streams derived from litigation outcomes, royalties, patents and natural catastrophe insurance. These allocations are intended to act as fundamental diversifiers, mitigating the portfolio's exposure to traditional corporate earnings cycles.

The challenging current environment-marked by high equity valuations and tight corporate bond spreads-makes the repetition of recent years' beta-driven returns increasingly difficult. A core differentiator of the absolute return strategy is the intentional effort to mitigate the portfolio's vulnerability to fluctuations in risk markets and benchmark interest rates. By systematically increasing diversification and adding genuinely new sources of return, the strategy is aimed at providing investors with a stable return profile, measured in Euro terms. We believe the absolute return strategy has the potential to produce returns similar to those it has delivered over the past 3-to-5-years.

5.5 Real Estate

In the last years real estate has repriced significantly in all three regions and now reached a price level that represents an attractive entry point. We believe real estate offers good value both from a risk premium perspective but also when considering rental income and its growth potential. Europe is currently best positioned, followed by Asia Pacific and the US.

In Asia Pacific the investment outlook for developed markets has picked up again and we see investment volumes increasing. Japan, South Korea, Singapore and Australia are attracting growing investor attention. Even pressured sectors like Australian offices are showing some first signs of recovery in the prime segments of the market. The persistent challenges in the region remain concentrated in China and Hong Kong real estate. Foreign capital looking for exits and wobbly occupier fundamentals create a market with a gloomy outlook. As long as banks are willing to refinance expiring loans, values will hold up. However when exits are forced, significant revaluations are to be expected. That being said, the impact on the broader Asian real estate market is expected to be limited.

In Europe the picture is more balanced. Values have repriced and supply constraints create for healthy demand in most sectors. Our outlook for Europe focuses on income and income growth, while value growth is expected to be moderate. In an environment of heightened inflation, European rental indexations offer good inflation protection. However, to see real value growth, meaningful interest rate declines would be required.

For the US the outlook is more opaque at this moment. Current valuations imply significant rent growth and lower interest rates, while the impact of tariffs on the real economy are still yet to materialize fully. This uncertainty makes us more cautious in our approach to the US. So far markets have clearly stabilized and are holding up well. Should inflation be controlled, momentum for targeted sectors in the US is certainly there.

Real estate sectors show quite a similar picture across regions. Most in vogue remain the logistics and living sectors. Continued urbanisation and supply constraints in most of the world's metropolitan areas cater for solid investment cases. On the other hand, the office sector went through a challenging period. Working from home has structurally changed office demand in many mature office markets. We now see valuations for grade A offices stabilize in for example American and Australian prime CBD's. Investors are considering office investments again, so we expect modern office to become less of a detractor in the coming period.

Our focus for new investments has shifted to so-called alternative real estate, niches from traditional sectors which rely strongly on the operator component. Of these sectors, we believe student accommodation and senior living show the best fundamentals.

5.6 Private Equity

The long-term perspective of private equity came to play during 2025. Where during 2021 and 2022 exits came early as there was the opportunity to sell, the years after show a different profile. The private equity market has continued at a slower pace throughout 2025. Investors opt to hold on to portfolio companies longer to wait for a better exit market, or to spend time to improve the company's shape to make it more attractive to prospective buyers that are willing to pay more for derisked companies. The limitations in traditional exit routes, especially for the large segment, could continue given the continuing uncertainties in the global landscape.

The lower market segments are less impacted by these challenges: the investments are more often asset light, less dependent on leverage and have shorter and more local supply chains. While the pacing of new investments is still slower, there hasn't been a standstill in acquisitions or exits, nor a dependency on continuation vehicles.

While uncertainties remain, the prolonged complexity in the market creates attractive acquisition opportunities for hands-on investors who are positioned well within the (mid-)market and have capital to invest. Their exit markets are expected to improve throughout 2026 as the larger end of the private equity market will experience increasing pressure to invest (and divest) as dry powder builds up.

Being positioned in the lower mid-market there are ample opportunities to add value and prepare the portfolio for exit. It's also expected to offer more opportunities for attractive continuation vehicles where a longer hold could add outsized value increases as companies are derisked and grown into a different buyer segment.

5.7 Multi Asset Impact

The multi-asset strategy is guided by a disciplined Strategic Asset Allocation (SAA) framework and aims to deliver absolute returns above its Euro core inflation reference index. In addition to broad asset class diversification, the portfolios are structured to capture opportunities across local currencies, multiple investment themes, and varied industries, with a deliberate preference toward emerging markets. Although recent market hesitation around social impact and climate-related themes-most notably in the United States-has been observed, we view this as temporary. European investors and family offices remain highly engaged with these areas, and Anthos remains committed to integrating impact objectives in its investment strategy.

The public equities allocation, which plays a critical role in our portfolio, has benefited from robust absolute returns within the asset class and the broad diversified universe of companies in our existing funds. The multi-thematic approach prioritizes companies positioned to benefit from structural drivers such as artificial intelligence and digital transformation, both of which underpin long-term productivity and innovation. We further diversified within this sleeve and added a third manager with a strong impact assessment methodology and a more defensive positioning compared to our existing funds. We are cautiously optimistic about the performance of emerging market equities and may explore this segment.

Within fixed income, performance has been supported by strength in local currency sovereign bonds amid a softer US dollar. Despite credit spreads have tightened, our exposure to emerging market corporates continues to generate attractive returns through high-quality, higher-yielding issuers. The fixed income allocation was further enhanced by incorporating a global carbon-neutral strategy which will offer both thematic and geographic diversification. With a further diversified fixed income portfolio, going forward we expect more modest returns and lower volatility.

The private equity allocation, primarily venture-oriented strategies, has faced headwinds due to a constrained fundraising environment, limited IPO activity, and muted M&A markets. In response, fund managers have adopted pragmatic approaches such as share buybacks and secondary transactions to maintain portfolio liquidity. Looking ahead, we expect 2026 to present renewed opportunities for both conventional and alternative exit routes as market dynamics improve and capital markets regain momentum.

A key priority in 2025 has been the expansion of private credit strategies to achieve greater diversification across duration, credit exposure, and liquidity. Adding capital-protected and first-loss structured strategies has improved downside protection while maintaining attractive floating-rate income streams. With private credit now having a larger weight in the portfolio, we expect more reliable returns for the impact portfolio as a whole.

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In the context of persistent inflationary pressures, we continue to strengthen our real assets allocation by pursuing infrastructure opportunities beyond the existing Africa platform, maintaining an emphasis on emerging markets more broadly. As global trade patterns evolve toward deglobalization, we remain cautiously optimistic about the resilience of emerging markets, particularly in Asia and India, where structural growth trends continue to support compelling return potential.

Thus looking forward in 2026, we expect the fixed income, real asset and private credit sleeves to keep providing downside protection and stable current income while our public and private equity sleeves should provide higher returns but with less predictability and more volatility.

Given some of our private equity funds are nearing their respective maturity dates and or investment periods, we are cautiously optimistic about real distributions. In summary the portfolio is positioned for resiliency and downside protection in ongoing uncertain macroeconomic and geopolitical environment.



Appendix 1 – The Anthos Scenario Framework

At Anthos we use our inhouse developed Scenario Framework to guide us in constructing expectations and projections, identifying risks and opportunities. Day to day this framework keeps us disciplined, provides structure and enhances understanding in internal discussions on the macro-economic environment. The Scenario Framework provides the structure for the Leading Economic Indicator we publish monthly and serves as the foundation for this 2026 Outlook.

Purpose

The scenario framework is **not a forecasting tool**, nor a model that produces numerical signals or prescriptive asset-allocation rules. Instead, it serves as a structured way to sharpen internal debate, identify what is plausible (not just probable), understand the interactions between policy, growth, inflation and financial conditions, instils discipline and ensures our views are coherent across regions, and guards against blind spots and consensus drift.

The intention is not to predict one future, but to map the range of credible futures. Our scenario narratives should be interpreted in this spirit. The narratives may read as extreme or overly stylized- and this is deliberate. Their function is to stretch the mind, expose the boundaries of the plausible, and force us to think through environments that lie outside base-case assumptions. They are used internally as a discipline of imagination, not as signals for portfolio action.

The framework provides direction, not destination. It anchors our expectations and outlook conceptually while allowing judgement, experience and discretion to play a central role.

Structure

The Scenario Framework consist of two layers: the Economic States and Scenario Pathways.

Five Economic States

We describe the economic environment through 5 distinct states, defined by target inflation and potential economic growth. The five states form the “map” of possible environments and are designed to capture the different regimes though inflation and growth. We defined the following 5 economic states:

- *Recessionary (GDP growth < maximum of (potential growth - 2%) or (0%))*
The recessionary state reflects an environment where real economic GDP growth is significantly lower (-2%) than potential, often producing market and behavioural conditions that resemble a recession. Note that the defining feature here is not strictly negative GDP growth, but a material shortfall from an economy’s underlying speed limit (e.g. in China a recessionary environment is already defined by growth lower than 3%). This environment constitutes a recessionary environment in practical terms - marked by weak income growth, rising unemployment pressures, tightening financial conditions and elevated policy intervention. Markets typically respond as if the economy is in recession, and policymaking shifts toward stabilisation.
- *Subpar Growth (potential growth > GDP growth > potential growth - 2%; Inflation < target +1%)*
A regime of positive but below-potential growth, often driven by weak to moderate productivity, softening labour-market momentum or fading policy impulse. Inflation is generally contained, but can be moderately above target.

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- *Stagflation* ($\text{potential growth} > \text{GDP growth} > \text{potential growth} - 2\%$; $\text{Inflation} > \text{target} + 1\%$)
A stressful macro environment combining below-trend growth with significantly above-target inflation. Supply-side constraints, policy credibility concerns or geopolitical shocks typically drive the divergence between weak activity and elevated prices.
- *Goldilocks* ($\text{GDP growth} \geq \text{potential growth}$; $\text{Inflation} < \text{target} + 1\%$)
A benign and broad-based expansion, where strong activity is accompanied by contained inflation. Productivity gains, favourable supply conditions or effective policy frameworks often underpin this state. Financial conditions are supportive, corporate profitability broadens, and real incomes rise.
- *Overheating* ($\text{GDP growth} \geq \text{potential growth}$; $\text{Inflation} > \text{target} + 1\%$)
A regime of high growth with inflationary pressure, often fuelled by strong demand, tight labour markets or fiscal/credit expansion.

Five Scenario Pathways

While the states define where we can be, the pathways define how we get there within one to two years. Each pathway describes the sequence of economic and policy developments that could lead the global economy from today's economic state into one of the four other states, or remaining in the current state.

The pathway methodology allows us to:

- assess not just outcomes, but transitions
- identify inflection points and conditional triggers
- map risks, including nonlinear and binary events
- ensure our base case is rooted in a structured exploration of alternatives

Our cyclical outlook chapter draws directly on this framework. The "macro fault lines" that define 2026 - fiscal credibility, inflation/financial conditions, competitiveness, and trade/industrial policy - correspond to the intersections we see that determine which scenario pathway materialises.

How to read the Scenario Pathway Narratives

Each scenario narrative reflects a coherent macro sequence, not a prediction. It's important to note that each pathway can contain multiple plausible chains of events, for that reason a pathway can contain multiple narratives. The scenarios pathway narratives are formulated at the regional level - United States, Eurozone and China - as these three blocs define the global macro impulse and exhibit distinct policy, demographic and competitiveness dynamics. For each pathway can be the case multiple plausible have multiple scenario narratives

Each scenario narrative is intentionally concise and stylised. It focuses on the core drivers that would move the economy in one of the five economic states rather than providing exhaustive detail.

United States

- The Pathway to Subpar growth

Stuck in the middle - Growth momentum remains weak. Wage growth moderates but remains positive leading to consumption softening at the margin but doesn't collapse, while business investment remains cautious amid policy uncertainty. Fiscal stimulus provides some offset, but trade frictions and fragile sentiment cap upside. The labour market cools gradually, though unemployment stays low by historical standards. Growth stabilizes around 1–1.5%, below potential but avoiding contraction.

Early productivity gains from AI remain modest, not yet able to lift GDP back to potential, and productivity-related disinflationary pressures from AI are largely offset by immigration restrictions and tariff costs, preventing inflation from falling below 2.5%, leaving the Fed cautious with limited but gradual scope to ease.

- The Pathway to a Recessionary environment

- *From Soft Patch to Stall* - Tariffs, trade frictions, and policy uncertainty begin to weigh on business sentiment, while temporary supports (inventories, fiscal impulse) fade. Depressed consumer confidence translates into slowing consumption. Inflation does not decline to target due to tariffs and service costs; immigration restrictions keep labour supply tight and wage pressures present. The Fed hesitates for too long, limiting policy support as growth momentum stalls.

- *The AI Spark in a Fragile System* - The US financial system proves more fragile than expected. Valuations in AI and mega-cap tech stocks, already stretched, correct sharply as productivity gains fail to materialize at scale. This triggers a broader repricing across risky assets, exposing vulnerabilities in e.g. leveraged corporates and commercial real estate. The correction cascades through tighter credit, higher funding costs, and declining household wealth. Fragile consumer sentiment deteriorates further, capex retrenches, and credit conditions harden. The result is a synchronized pullback in spending and investment.

- *The Fiscal Squeeze* - The sheer size of the US debt burden and persistent deficits begin to weigh on financial conditions. With annual deficits above 6% and public debt over 120% of GDP, Treasury issuance soars. Political interference further undermines US institutions: pressure on the Fed's independence reduces credibility, while manipulation of statistics erodes trust in official data. Investor confidence deteriorates, forcing long-end yields sharply higher as markets demand greater compensation for fiscal risk. The "Big Beautiful Bill" compounds the problem, eroding revenues through tax cuts while cutting into social safety nets without delivering durable growth. Rising Treasury yields ripple into corporate borrowing costs and mortgage rates, crowding out private demand. Activity buckles under tighter financial conditions.

- The Pathway to Stagflation

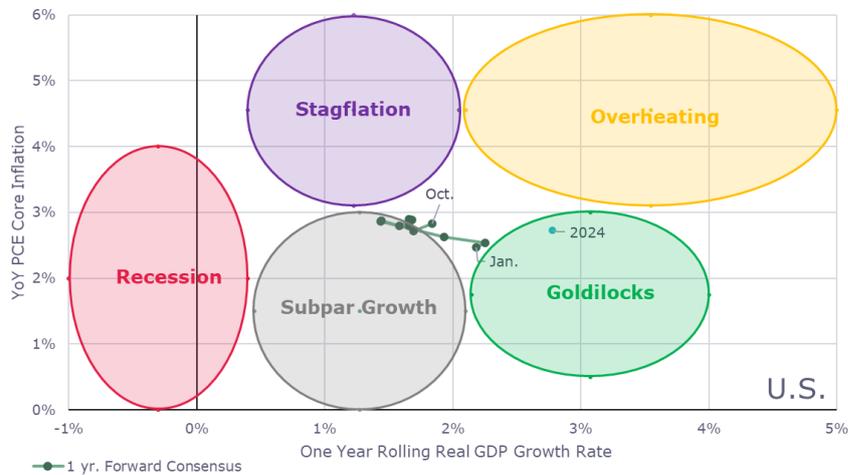
- *Sticky and Slow* - Growth momentum remains weak. Consumption softens at the margin but doesn't collapse, while business investment remains cautious amid policy uncertainty. Fiscal stimulus provides some offset, but trade frictions and fragile sentiment cap upside. The labour market cools gradually, though unemployment stays low by historical standards. Growth stabilizes around 1–1.5%, below potential but avoiding contraction.

Supply-side constraints bite harder: tighter immigration curbs labour availability in services, while efforts to onshore manufacturing also start to effect labour demand, fuelling wage growth. Early productivity gains from AI remain modest and cannot provide a counterbalance. Tariffs keep goods prices elevated, while shelter costs remain stubborn. Together, these push core inflation back above 3%. The Fed is trapped - unable to cut rates given inflation pressure, but unable to tighten without deepening the slowdown. Growth and inflation are both stuck in uncomfortable territory.

- The Pathway to Goldilocks

 - Back on Track* - The US economy finds its footing. The Fed manages to strike the right balance between inflation and growth: a dovish pivot in late 2025 anchors expectations and eases financial conditions. Political disruption from the administration abates somewhat, with fewer destabilizing policy surprises than in early 2025, allowing households and firms to plan with greater confidence. Disinflation progresses without a collapse in activity, while modest productivity gains provide an upside surprise. Consumer confidence improves, the labour market holds steady, and growth accelerates back toward potential.
 - The AI Dividend* - AI developments accelerate and deliver a step-change in productivity growth. Early gains visible in IT and finance broaden modestly into healthcare, logistics, and professional services. Equity and capex booms reinforce confidence, and productivity becomes the new growth engine. As early evidence of efficiency gains help to contain unit labour costs, the Fed takes a more dovish stance, supporting a durable Goldilocks expansion.
- The Pathway to Overheating

 - Too hot to handle* - Fiscal and political forces collide with technological momentum to push the US economy beyond balance. Trump’s “Big Beautiful Bill” injects fiscal stimulus through tax cuts, while political pressure and Fed Governors appointed by Trump leaves the Fed overly accommodative. At the same time, AI-driven productivity gains broaden over different sectors and boost investment and activity, reinforcing confidence. Financial conditions loosen sharply as equity markets rally and credit spreads tighten, further stimulating demand. The combined effect is an overheating mix. Although increased AI adoption and productivity are work deflationary, immigration restrictions and manufacturing onshoring efforts tighten labour supply exactly where AI automation falls short, sustaining wage pressures where it hurts: in services, specialist manufacturing and lower-end jobs that resist automation. Tariffs amplify cost-push inflation, even as growth accelerates past potential. Growth climbs above potential and inflation re-accelerates above 3%.



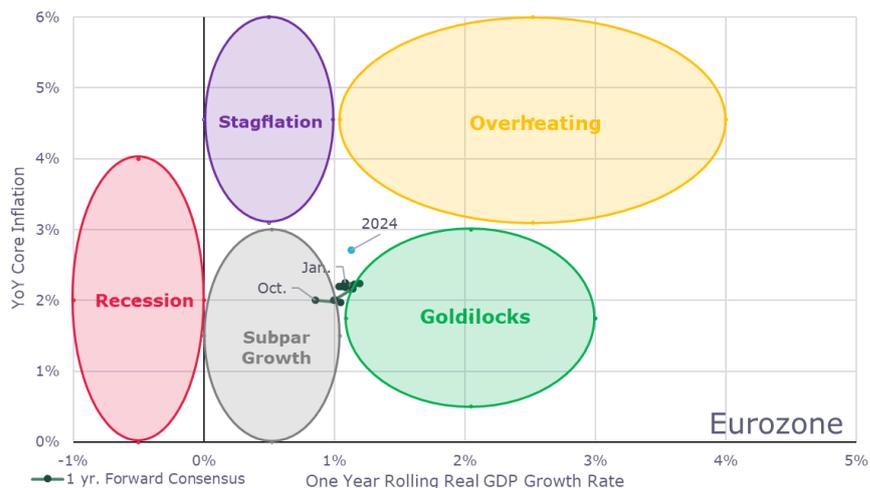
US Scenario likelihoods	Consensus	Anthos	
	Dec. 2025	Dec. 2025	Nov. 2025
Subpar growth	Consensus Base Case; >30%	34%	34%
Goldilocks	<40%	8%	8%
Inflationary Boom		9%	9%
Stagflation		29%	29%
Recession		19%	19%

Eurozone

- The Pathway to Subpar growth
 - *Stuck in the Slow Lane* - The Eurozone avoids extremes but remains trapped in a low-growth, moderate-inflation equilibrium. Manufacturing stabilizes at a weak level, exports remain under pressure from global competition and tariffs. German weakness drags, but France and Spain cushion. Households remain cautious: real wages are positive, but confidence stays fragile, limiting consumption growth. Investment is subdued but does not contract. Fiscal offsets from defence/green programs take time to execute, leaving no decisive lift. Growth hovers around 0.5–1%, too weak to close the output gap. Inflation drifts lower but does not normalize fully. Services prices stay sticky due to structural labour constraints, while energy remains stable keeping core around 2.3–2.6%. With the credit cycle showing signs of recovery, the ECB winds down its rate-cutting cycle and settles into a holding pattern near current levels - cautious not to reignite inflation but also unwilling to tighten.
- The Pathway to a Recessionary environment
 - *Engine Stalls* - The Eurozone's manufacturing and export engine seizes under the combined weight of Trump's tariffs, subdued Chinese demand, and intensifying Chinese competition in autos and machinery. German order cancellations propagate through EU supply chains and investment plans are shelved across the bloc. Domestic demand fails to pick up the slack. Households retrench despite positive real wages: confidence rolls over on weaker job news and risk-asset wobble, while higher effective mortgage rates in parts of the periphery slow durables. With both net exports and capex negative and consumption flat-to-down, the eurozone tips into contraction. The ECB cuts again but is constrained by sticky services inflation and hawk/dove divisions; easing is too cautious to offset tightening credit. Bank lending turns down; policy offsets from EU defence/green programs and German stimulus are slow to execute (permitting and capacity bottlenecks), leaving the next 12 months short on support.
 - *Sovereign Stress Loop* - A run of political stalemates in key member states turns fiscal consolidation into a moving target. In France the deadlock between the President and a fragmented Assembly leads to paralysis. In Italy the Coalition strains and rising spending (wages, pensions, legacy tax credits) slow reform momentum, with EU recovery-plan milestones increasingly at risk. As services inflation is still sticky, the ECB is reluctant to deploy TPI forcefully; eligibility concerns (rule compliance, sustainability) and hawk/dove divisions limit action. This leads to Institutional investors (pensions, insurers, trackers) becoming forced sellers on downgrade and index rules, while banks take mark-to-market losses. Credit conditions tighten across the bloc; SMEs and households face higher loan rates. Policy offsets (EU defence/green spend, German stimulus) arrive too slowly.
- The Pathway to Stagflation
 - *Sticky and Slow* - The Eurozone fails to regain momentum. Manufacturing stabilizes at a weak level, exports remain under pressure from global competition and tariffs. Manufacturing fails to recover meaningfully, weighed down by global competition and a widening innovation gap, while consumer confidence remains subdued, keeping consumption cautious. Inflation, however, refuses to ease. Labor costs re-emerge as the main driver: right-wing electoral wins curb immigration, tightening labour supply in already strained sectors like construction, logistics, and healthcare. Demographics reinforce the squeeze as retirements accelerate, while workers in services continue to demand catch-up pay after years of real wage erosion, with public-sector settlements setting the tone. The result is structurally sticky services inflation, pushing core inflation back above 3% even as growth stagnates near 1%. The ECB finds itself trapped - unable to cut further as inflation edges higher, but with growth too weak to normalize.

- *Energy Snapback* - Escalation in Ukraine and/or the Middle East triggers fresh disruptions in LNG supply, sending gas and electricity prices sharply higher. LNG now makes up only around 9% of the Eurozone's total energy mix, but as the marginal source of supply it plays a critical role in setting prices across power generation, heating, and industry. Energy-intensive sectors slash output, while households face surging utility bills. Inflation rebounds above 3% even as growth stagnates near 1%. The ECB is forced to slow its easing cycle, unable to cushion activity. Fiscal fragmentation leaves the policy response piecemeal, underscoring the Eurozone's structural reliance on imported energy.
- The Pathway to Goldilocks
 - *Back in the Game* - After bottoming out, the business cycle decisively turns the corner: export diversification and stronger intra-EU demand anchor growth. With more than 60% of exports staying within the single market, European firms are able to offset weaker Chinese demand and the drag from US tariffs. Germany's fiscal shift and EU-wide defence spending spill over into regional supply chains, reinforcing domestic demand across the bloc. At the same time, households provide support: savings buffers are elevated, and with disinflation boosting real incomes, consumption strengthens. The ECB's early rate cuts filter through into credit conditions, stabilizing investment. Manufacturing contraction eases, order books steady, and the services sector holds. With inflation trending back toward 2% and growth stabilizing in the 1.1–2.0% range, the Eurozone finally looks to be back in the game after years of stagnation.
 - *Powered Up* - A public-private capex wave leads the recovery. EU defence outlays (Eurobond-funded) and national programs (notably Germany) crowd in private investment in infrastructure, and automation. The Green Deal investment push, with large-scale renewable and grid projects, begin to bear fruit. Productivity improves just enough to contain unit labour costs while demand firms. The ECB cuts modestly, confident in anchored inflation. Growth lifts toward 1.5–2.5% with inflation anchored below 3%.
- The Pathway to Overheating
 - *All engines firing* - For the Eurozone to overheat, multiple engines will fire at the same time. The pivot to fiscal expansion, driven by defence and green investment and financed partly through Eurobonds, provides the first push. This public spending wave crowds in private capex, unlocking investment in renewables, grids, electro-manufacturing, and automation. Bureaucracy reforms in Germany reduce permitting delays, accelerating execution. Households add a second engine: with elevated savings buffers and improving real incomes, consumers begin to dissave, spending more freely on services and durable goods. This broadens domestic demand just as industry stabilizes. Financial markets provide the amplifiers. Equity rallies and tight credit spreads lower financing costs, encouraging corporates to lever up and expand. Easy market funding and exuberant valuations magnify the investment wave, while wealth effects feed through into household confidence. The Eurozone economy accelerates beyond 1.5% growth, but structural bottlenecks in labour, construction capacity, and energy grids create hard supply ceilings. Wage pressures intensify in sectors that cannot automate quickly, from logistics to healthcare, and services inflation re-accelerates above 3%. The ECB, lulled by earlier disinflation, is slow to react. When inflation re-emerges, policy is left behind the curve. Instead of a balanced recovery, the bloc experiences a brief but pronounced overheating cycle, driven by the rare conjunction of fiscal stimulus, private capex boom, and market exuberance.

When Anchors Drift - Navigating a Delicate Global Equilibrium



Eurozone Scenario likelihoods	Consensus	Anthos	
	Dec. 2025	Nov. 2025	Oct. 2025
Subpar growth	Consensus Base Case (>25%)	46%	46%
Goldilocks		8%	8%
Inflationary Boom	<50%	6%	6%
Stagflation		14%	14%
Recession	25%	26%	26%

China

- The Pathway to Subpar growth

- *The Balancing Act* - China avoids growth deteriorating below 3%, but is not able to meaningfully accelerate. The property sector continues to drag, but defaults are contained, and the government manages a slow, controlled adjustment without a major crisis. Exports stabilize, but global diversification away from China limits any rebound, while US/EU tariffs cap upside.

Domestic demand remains subdued. Households hold onto precautionary savings, and consumption growth is modest. Wage gains are uneven, with labour mismatches persisting in some sectors but not enough to drive broad inflation. Inflation flirts with zero but stays marginally positive, with CPI hovering around 0.5–1%. Deflation risks fade but there is no strong price momentum. Growth stabilizes below potential but above recessionary territory. Policy remains in cautious easing mode: the PBoC provides liquidity and selective rate cuts, while fiscal policy supports strategic sectors without broad-based stimulus. Beijing prioritizes stability over growth, aiming to manage risks in property, local government debt, and capital flows while avoiding extremes.

- The Pathway to a Recessionary environment

- *The Hesitation Trap* - China's fragile growth model tips below 3% GDP growth as its remaining engine (exports) falters. The property downturn deepens, undermining household wealth and construction demand. Local governments, reliant on land sales and strained by LGFV debt, tighten spending as financing conditions worsen. At the same time, external headwinds intensify as US tariffs expand, European trade frictions rise, and global firms continue relocating supply chains hollowing out China's main growth engines. With exports under pressure, property still depressed, and consumption declining due to a negative wealth effect and weak confidence, China slips into recessionary territory.

Beijing deploys incremental measures - targeted credit support, selective fiscal easing - but remains too cautious to unleash broad stimulus. Debt concerns, fear of capital flight, and a preference for gradual adjustment leads to hesitation. The result is a policy response that arrives too late and too small to stabilize momentum, allowing recessionary dynamics to take hold.

For China to slip into outright recession, however, it would likely require a policy misstep. Beijing either stays too hesitant for too long, leans on the wrong tools (state-led capex with low multipliers rather than household support), or underestimates how quickly confidence unravels. In that case, stimulus loses effectiveness as corporates and households stop believing in Beijing's capacity to stabilize, creating a self-reinforcing downturn.

- The Pathway to Stagflation

- *Costs Without Growth* - China avoids contraction but is not able to accelerate, remaining caught in a fragile equilibrium. The property sector continues to drag, but defaults are contained, and the government manages a slow, controlled adjustment without a major crisis. Exports stabilize, but global diversification away from China limits any rebound, while US/EU tariffs cap upside. Domestic demand remains subdued. Households hold onto precautionary savings, and consumption growth is modest.

However fresh geopolitical shocks in Ukraine and the Middle East send global energy prices higher. Despite discounted Russian crude and pipeline gas, China remains heavily dependent on imported oil and LNG, being a price taker makes China vulnerable to global price swings. Higher input costs filter through to industry and utilities, lifting headline inflation even as growth stagnates. At the same time, structural mismatches in the labour market add to cost pressures. The working-age population is shrinking, rural-to-urban migration has slowed, and skills gaps persist in sectors such as logistics, healthcare, and high-end manufacturing. Even with broader unemployment still elevated, these mismatches drive wage increases in services, feeding into stickier inflation.

With property still weak, consumption subdued, and exports under pressure, growth stays stuck below potential. Yet inflation edges higher toward 3%+, leaving policymakers trapped and policy credibility squeezed.

- The Pathway to Goldilocks

- *Restored Stability* - The property downturn stops worsening - not solved, but contained by Beijing's targeted measures for first-home buyers and selective credit easing. Defaults fade from headlines, stabilizing household wealth perceptions.

Exports diversify modestly toward ASEAN and the Global South, while a better-than-expected trade deal with the US softens tariff pressure and stabilizes headline volumes. With external demand less fragile, China's export machine adjusts rather than contracts.

Consumption edges higher as confidence improves on the back of a steadier property outlook and a stabilizing labour market. Precautionary savings remain high, but households begin spending more consistently.

Inflation creeps back into positive territory - not a surge, but enough to dispel deflation fears. Policymakers remain cautious, but their incremental easing gains credibility as growth steadies. The result is a fragile but workable balance: a narrow Goldilocks pathway of restored stability.

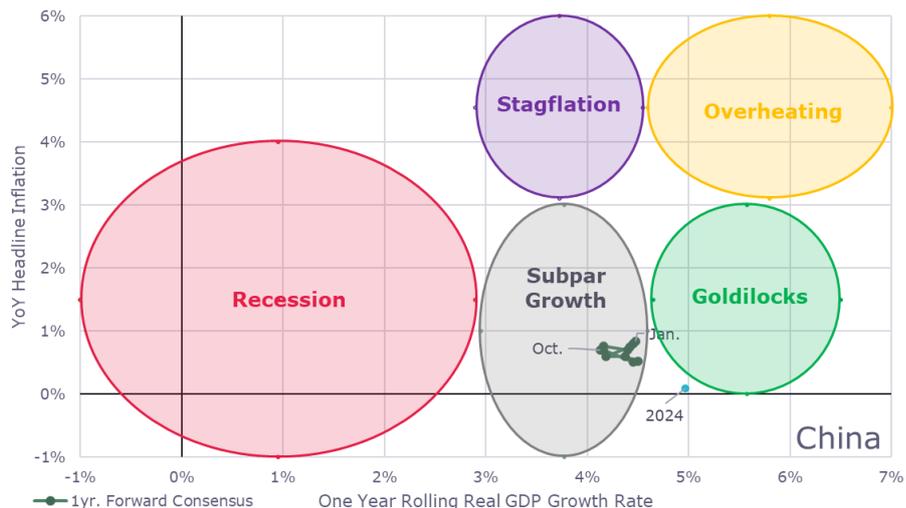
- The Pathway to Overheating

- *Over the Red Line* - China's recovery gathers more force than expected. The property sector finds firmer footing: sales turn modestly positive, price declines halt, and targeted support for first-home buyers contains the risk of further defaults. While not fully restored, the sector no longer drags on growth. Consumers step up spending as job stability improves and wages rise, dipping into savings that had been held back during years of uncertainty. Domestic demand strengthens across services and durable goods.

Exports surprise on the upside: global demand for EVs, batteries, and solar products fuels record order books, while diversification toward emerging markets in Asia, the Middle East, and Africa gains traction. A more lasting trade reprieve with the US softens tariff headwinds, preventing further external drag and sustaining headline growth momentum.

Beijing adds to the upswing with a more forceful policy stance: fiscal spending on infrastructure and green projects scales up, while credit flows to households and corporates loosen. With demand broadening and policy amplifying it, growth accelerates above 5.5%, running beyond potential. But costs rise quickly. A renewed energy shock from global oil and LNG markets lifts import costs despite discounts from Russia, while labour-market mismatches push wages higher in services and advanced manufacturing. Inflation, unusually for China, climbs toward 3%. The PBoC hesitates to tighten into strength, allowing the economy to run hot.

When Anchors Drift - Navigating a Delicate Global Equilibrium



China Scenario likelihoods	Consensus	Anthos	
	Dec. 2025	Nov. 2025	Oct. 2025
Subpar growth	Consensus Base Case (>23%)	53%	53%
Goldilocks	< Market Base Case Likelihood	14%	14%
Inflationary Boom		6%	6%
Stagflation		14%	14%
Recession	10%	16%	16%

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