

# The Way We See It

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*Our 2026 Outlook favours a H1 rally and a challenging H2 - So far so good!*

A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

### Review of Developments

#### - Global Economies

The latest GDP-Now estimate from the Federal Reserve Bank of Atlanta indicates that the United States economy is expanding at a robust annualised pace of approximately 3% quarter to date in Q4.

For the full 2025 calendar year, GDP growth is expected to average close to 3% per annum, underscoring the resilience of the US economy. This stands in sharp contrast to the markedly weaker performance in Europe and Japan, where growth is projected at only around 1% per annum.

The divergence reflects stronger household consumption in the US, a rebound in net exports, and substantial capital investment in artificial intelligence and associated sectors. Nonetheless, this momentum is tempered by softer labour market signals, with non-farm payroll growth remaining subdued through November, influenced by tariffs, immigration dynamics, and sectoral adjustments linked to AI.

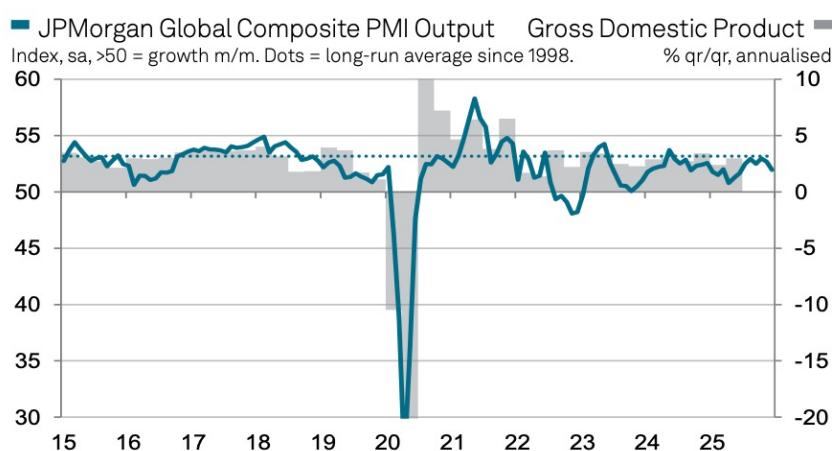
Across other developed markets, activity is improving only gradually. Early indicators from Europe and Japan suggest modest positivity, yet structural fragilities persist, particularly in export-oriented industries. Global trade flows remain constrained by tariff regimes and ongoing geopolitical uncertainties, limiting both external demand and domestic investment appetite.

China continues to post positive growth, though signs of deceleration are increasingly evident. Weak consumer sentiment and persistent softness in residential and commercial property markets weigh heavily on activity. Elevated tariffs have reduced exports to the US, further dampening momentum. Even so, capital expenditure in technology, artificial intelligence, and defence related sectors remains resilient, echoing trends observed in the US.

Inflationary pressures across OECD economies have broadly stabilised, with most central banks nearing the conclusion of their rate cutting cycles. Core inflation in Europe and Japan has converged towards long term targets of 2% per annum. In the US, core inflation, measured by the PCE deflator, has moderated to around 2.7–3%, still above the Federal Reserve's long-term objective of 2%.

**Inflationary pressures across OECD economies have broadly stabilised.**

## J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global PMI,

Following the December 25bps cut, futures pricing currently assigns a 19% probability of a further 25bps

reduction at the January FOMC meeting and a 45% probability at the March meeting. The prevailing “rate on hold” stance reflects recent commentary from Chair Powell and New York Fed President John Williams, who emphasised that US monetary policy is now positioned close to neutral.

Looking ahead, geopolitical risks have re emerged as a key headwind for 2026. Political developments in Venezuela, continued tensions in Ukraine, and unresolved issues surrounding China, Japan, and Taiwan pose threats to regional stability and global supply chains. These dynamics reinforce the imperative for investors to integrate geopolitical risk considerations into strategic asset allocation frameworks.

## - Global Markets

### Review of Year 2025

Despite tariff uncertainties, 2025 proved highly rewarding for US and global equity markets. Equity total returns ranged between 18% and 33%, significantly surpassing long term averages and extending the strong performance of the previous two years. Gains were underpinned by robust corporate earnings, particularly in artificial intelligence, technology and financials, alongside accommodative monetary and fiscal policies. Investor underweight positioning following the earlier tariff driven sell off also contributed to the rally.

Emerging Markets, despite being directly impacted by tariffs, delivered the strongest performance across major asset classes, rising 34%. Precious metals were another standout, benefiting from both safe haven demand and a sharp depreciation of the US dollar, which fell 7.2% against a basket of global currencies.

Fixed income provided stable returns of 6–8% in USD terms. Commodities, however, lagged, dragged lower by energy weakness. In contrast, precious metals, rare earth minerals and copper registered exceptionally strong gains, reinforcing their strategic importance.

**2025 proved highly rewarding for US and global equity markets.**

## Review of the Month of December

The US equity rally lost momentum in December, with the anticipated Santa rally failing to materialise. Investor sentiment was weighed down by concerns over a potential unwinding of the perceived “AI bubble” and disappointment regarding the pace of further Federal Reserve rate cuts.

By contrast, equity markets outside the US delivered modest gains, supported by diversification flows and relative value opportunities. Europe, Japan and selected emerging markets benefited from expectations of improving GDP growth and a gradual recovery in corporate earnings. The prevailing narrative of AI driven expansion, combined with accommodative monetary conditions, continues to underpin upward revisions to global economic and earnings forecasts. Consensus suggests monetary policy across the US and other OECD economies will remain broadly supportive, with fiscal stimulus expected to persist. In response to US trade measures, both Europe and China have introduced expansionary monetary and fiscal initiatives aimed at offsetting external pressures, which may help stabilise broader macroeconomic conditions.

Nonetheless, questions are emerging regarding the sustainability of the equity rally. Particular scrutiny has been directed at vendor financing structures and circular capital flows underpinning high profile transactions involving NVIDIA, OpenAI and other AI infrastructure players. Much of the Nasdaq and S&P 500's recovery from the April trough appears to have been driven by retail momentum, short covering and FOMO led activity from hedge funds and algorithmic strategies. The relatively muted participation of institutional investors raises concerns about elevated valuations in the AI segment and the durability of the rally, particularly against a backdrop of stagflationary risks in the US and subdued global growth.

From a performance perspective, global equities rose by 0.8% in December (USD terms). US equities were flat, while developed markets ex US gained 3%. Emerging markets also advanced 3%, despite a 1.2% decline in China. US Treasuries fell 0.3%, while global bonds edged up 0.1%. Commodities were mixed:

**Questions are emerging regarding the sustainability of the equity rally.**

crude oil softened on increased Saudi output and weak demand, whereas gold extended its upward trajectory. The US dollar depreciated by 1.1% over the month.

## Near-term performance of various asset classes

Asset Class	US Equities	Global Equities	Global ex US Equities
Index	MSCI USA	MSCI World	MSCI World ex USD
1 month	0.01%	0.84%	3.02%
3 months	2.42%	3.20%	5.26%
YTD	17.75%	21.60%	32.55%
FY 2024	25.08%	19.19%	5.26%

Asset Class	US Corporate	US Treasury	US Aggregate
Index	Bloomberg US Corporate	Bloomberg US Treasury	Bloomberg US Agg
1 month	-0.20%	-0.33%	-0.15%
3 months	0.84%	0.90%	1.10%
YTD	7.77%	6.32%	7.30%
FY 2024	2.13%	0.58%	1.25%

Asset Class	Global Govt Bonds	Global Aggregate	GEM Equities
Index	Bloomberg Global TSY	Bloomberg Global Agg	MSCI EM
1 month	0.12%	0.26%	3.02%
3 months	-0.44%	0.24%	4.78%
YTD	6.82%	8.17%	34.36%
FY 2024	-3.58%	-1.69%	8.05%

Asset Class	Asia ex Japan Equities	China A	China Offshore
Index	MSCI AC AxJ	MSCI China A Onshore	MSCI China
1 month	2.75%	4.90%	-1.21%
3 months	4.33%	2.31%	-7.35%
YTD	33.02%	30.26%	31.42%
FY 2024	12.51%	11.91%	19.67%

Asset Class	Global Commodities	Gold	USD
Index	CBR	Spot Price	Norm. Broad USD Index
1 month	-1.22%	2.43%	-1.08%
3 months	-0.92%	11.80%	-0.37%
YTD	0.37%	65.51%	-7.24%
FY 2024	12.47%	26.49%	9.03%

Source: GOJI, MSCI, Bloomberg; data as of 31/12/2025

## Market Outlook

### The Month of January and Q1 2026

GOJI's outlook for the opening month and quarter of 2026 remains constructive, in line with the perspective outlined last month: supportive conditions in the first half of the year, with a more challenging backdrop anticipated in the second half. However, the sudden escalation of American involvement in Venezuela has disrupted what had otherwise been a relatively smooth equity environment, introducing an additional layer of geopolitical uncertainty.



Thematic tailwinds continue to underpin a positive bias. Artificial intelligence, the broadening of market leadership, expectations of a Federal Reserve pause or further easing, and seasonally favourable dynamics in the early months of the year all provide support. Yet, the broader environment remains defined by macroeconomic fragility, elevated valuations, high levels of retail participation, and persistent geopolitical risks. Against this backdrop, GOJI's investment strategy is anchored in a multi-dimensional framework, incorporating macro indicators, corporate earnings projections, asset valuations, investor positioning, capital flows, and technical chart patterns. This approach informs our strategic asset allocation and risk adjusted positioning across global markets.

The US economy is expected to sustain strong momentum, supported by tax refunds and tax cuts following the passage of the Big Beautiful Bill, ongoing monetary easing, robust capital expenditure in AI, and a nearly fully employed labour market. Outside the US, the macroeconomic backdrop is broadly supportive, provided trade tensions do not intensify. Europe and China have introduced expansionary fiscal and monetary measures aimed at stabilising growth and mitigating the adverse effects of US trade actions. These interventions may help sustain momentum, though structural headwinds remain, particularly in export dependent economies. As a result, global GDP growth is projected to advance close to its long-term average.

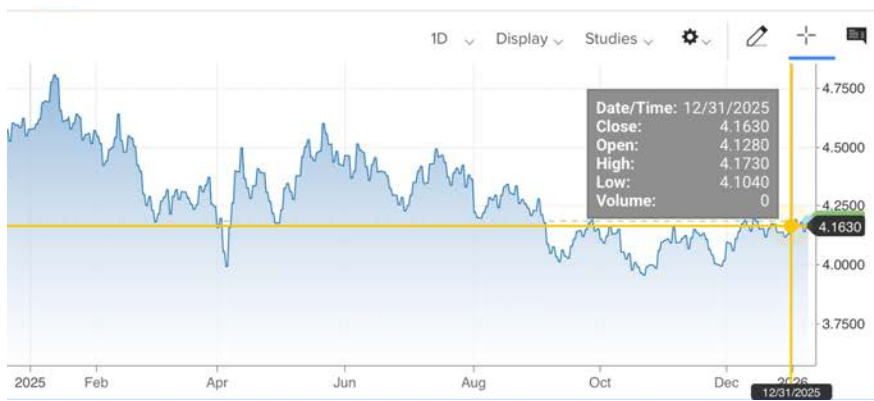
Europe's easing cycle appears near completion, while China continues to maintain an accommodative stance. In the US, further easing remains plausible should economic data deteriorate, potentially bolstering liquidity and investor confidence. Corporate earnings, particularly in AI, technology, and financials, are expected to remain resilient. However, valuation pressures may intensify if long duration yields rise. With the S&P 500's forward P/E ratio at 23–24x, sustaining current levels will require continued strength from high growth technology leaders and a stable 10-year Treasury yield below 4.50%.

**The US economy is expected to sustain strong momentum.**

**Macroeconomic backdrop is broadly supportive outside US.**

The US bond market remains volatile, shaped by technical and structural factors. GOJI favours selective entry into Treasuries when yields approach 4.50% per annum. Non-US bonds have experienced notable yield compression, limiting upside unless recession risks escalate. Duration exposure should be carefully managed given prevailing valuations and shifting rate dynamics.

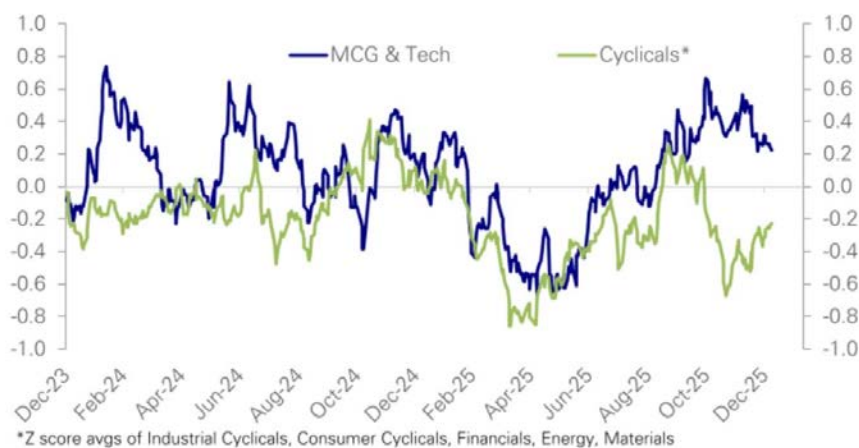
## U.S. 10 Year Treasury



Source: CNBC.com

Investor positioning reflects divergence. Systematic strategies remain overweight, actively trading in and out based on momentum and volatility signals. From near full investment, any adverse shock could prompt substantial selling, as these models adjust rapidly. This dynamic introduces potential downside risk if sentiment weakens unexpectedly.

## Sector Positioning



Source: Deutsche Bank Asset Allocation

**Positioning has continued to rotate away from Mega Cap Growth (MCG) & Tech into other sectors**

Discretionary managers have modestly reduced equity exposure, citing concerns over an AI bubble, elevated valuations, and expectations of limited further rate cuts by the Federal Reserve.

## Discretionary vs Systematic Equity Positioning

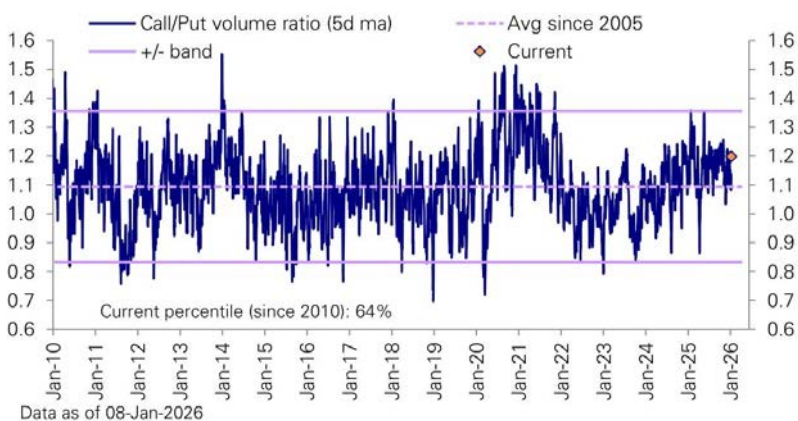


Source: Deutsche Bank Asset Allocation

**Investor positioning reflects divergence between Systematic and Discretionary.**

Retail sentiment remains bullish, fuelled by high profile transactions involving NVIDIA, OpenAI, and other AI infrastructure leaders. Confidence in further rate cuts has supported risk appetite. Options activity has surged, particularly in calls, driven by retail traders and fast money funds. This aggressive pursuit of upside, coupled with minimal demand for protective puts—evidenced by a notably high call/put ratio—suggests heightened vulnerability. Should adverse news emerge, markets may face abrupt downside pressure due to limited hedging activity.

## Equity Call / Put Volume Ratio

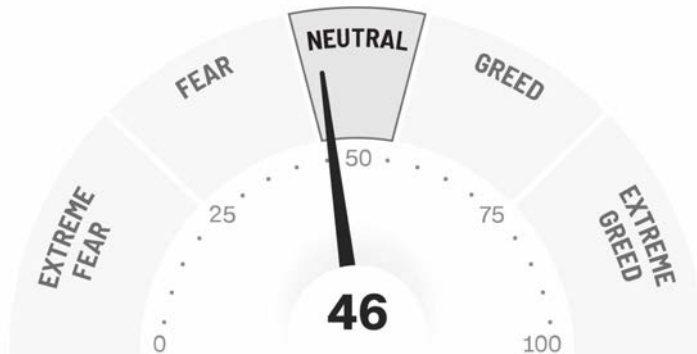


Source: CBOE, Haver Analytics, Deutsche Bank Asset Allocation



## Fear & Greed Index

- What emotion is driving the market now?



Source: CNN Business  
Last update January 8 at 8:00:00 PM ET

The CNN Fear & Greed Index continued to move up the barometer and recently stood at "Neutral" in the first week of January.

## Short-term Technical Analysis

US equity indices—the Dow Jones, Nasdaq and S&P 500—remain comfortably above their 200 day moving averages, though recent sessions have been characterised by heightened volatility. This reflects a clear divide between investor cohorts: the bullish camp, confident in the durability of the AI driven growth narrative, the prospect of continued Federal Reserve easing and relative political stability; versus the more cautious group, sceptical of the sustainability of the AI boom, wary of the Fed's policy trajectory, and mindful of an unsettled geopolitical backdrop.

This tension continues to shape short term market behaviour. While corporate earnings remain resilient and technical indicators supportive, the outlook is far from assured. Elevated price momentum and strong retail participation, set against concerns of an AI fuelled bubble, demand agility and discipline. In today's complex environment, sustaining performance requires vigilant monitoring of valuations, prudent risk management and readiness to adjust strategies as conditions evolve. Adaptability remains essential to navigating both risks and opportunities.

## S&P 500 Stock Price Index



Source: MarketWatch.com

## The Way We See It

### - Global Markets and Investment Thematics

At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.

### Long-Term Risk-Neutral Strategy Rationale

GOJI maintains a long-term risk-neutral stance, reflecting elevated valuations and sub-par global growth. Current market behaviour appears anchored in best-case assumptions, favouring pro-growth, pro-equity, and pro-digital asset policies.

In this context, we recommend a modest underweight in high-beta growth assets, given stretched valuations and volatility. Conversely, we favour overweight allocations to cash and high-quality, stable assets. This strategy seeks to preserve capital, enhance resilience, and maintain flexibility amid policy uncertainty, balancing risk and opportunity across global portfolios.

**LT: Maintain a long-term risk-neutral stance.**

## **Short Term: to retain a moderately bullish tactic in January and H1 but remain flexible.**

GOJI's tactical asset allocation stance for January and Q1 remains moderately bullish, supported by the Federal Reserve's dovish bias, prioritising employment over inflation risks through successive rate cuts. This policy backdrop, combined with resilient corporate performance in US growth sectors—particularly artificial intelligence, technology and financials—underpins a constructive near-term outlook.

Nonetheless, America's recent involvement in Venezuela introduces potential volatility and new risks for the global economy and financial markets. Assuming geopolitical tensions do not escalate, discretionary investors, currently underweighted, may be encouraged to re-enter, while retail participants, buoyed by gains since April, are likely to sustain momentum, potentially with increased leverage.

However, optimism is already reflected in valuations, leaving limited margin for error. Elevated price levels and concentrated positioning in high-beta exposures heighten vulnerability. GOJI therefore advocates nimble positioning, disciplined risk management, and readiness to pivot strategies as market dynamics evolve.

## **Special Section: Global implications of Venezuela invasion**

The sudden and forceful US military intervention in Venezuela on Saturday, 3 January has, so far, caused limited disruption to global financial markets. Equity indices continued their upward trend, bond yields remained broadly stable, and safe-haven assets—particularly precious metals—attracted increased demand. Oil prices also moved modestly higher.

Despite the muted market reaction, political analysts are increasingly focused on the longer-term implications. A growing narrative points to a potential geopolitical realignment into three dominant spheres of influence: the United States across the Americas, Russia in Eastern Europe, and China in Asia, including Taiwan.

**ST: Remain moderately bullish.**

Such a shift would carry far greater geopolitical and economic risks than those currently reflected in asset prices. While consensus expectations suggest that the Venezuelan situation is unlikely to escalate into a global conflict, it may nonetheless usher in a more complex and sensitive geopolitical environment. Should this scenario gain traction as a base case, risk premia across equities, fixed income, currencies and commodities would need to be materially reassessed.

More constrained global trade flows could weigh on economic growth across major economies. Equity markets, which currently appear priced for optimism, may be vulnerable to sharper corrections if valuations fail to incorporate heightened geopolitical uncertainty. Rising inflationary pressures could push interest rates and long-dated bond yields higher. Meanwhile, the safe-haven appeal of precious metals and cryptocurrencies may strengthen further, and any disruption to oil supply chains could drive energy prices significantly higher.

In summary, this development represents a clear negative risk factor and has the potential to challenge our constructive outlook for the first half of the year. For now, we maintain our positive stance, supported by resilient fundamentals, but the geopolitical backdrop warrants closer and more continuous monitoring. We reaffirm our commitment to communicate promptly and transparently with clients should our house view change materially in response to evolving global events.

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