

Economic Situation and Strategy

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Outlook 2026 (III): Our tactical positioning

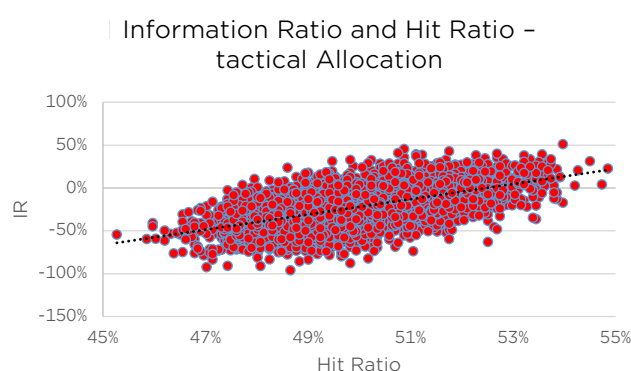
For decades, Warburg has been producing capital market outlooks at the turn of the year, coupled with recommendations for tactical positioning in the new year. The accompanying assessments should always be interpreted and implemented with a degree of caution – after all, one always operates under uncertainty in the capital markets, and sometimes exogenous events that were hardly foreseeable can call entire scenarios into question overnight. On the other hand, it would be a mistake to completely forgo such assessments and not develop scenarios for the future. For even if the future is uncertain, Louis Pasteur's statement that fortune favors those who are prepared is particularly true for capital markets. Moreover, there is no doubt that good tactical decisions can generate added value for portfolios compared to a completely static allocation.

However, this is disputed by many, who question whether sufficiently high success rates can even be achieved with tactical allocation. We have critically examined this question by generating and analyzing thousands of potential tactical allocation structures based on concrete data for a large number of asset classes and markets since the late 1990s.

This analysis reveals that, considering realistic costs for active asset management, tactical success rates of approximately 53 percent should be achieved to generate a positive contribution through tactical allocation (measured by a positive information coefficient).

Interestingly, positive value contributions can often be achieved even with a success rate of, for example, only 50 percent. At first glance, this may seem completely

counterintuitive, but the reason lies in the fact that not all "hits" in decision-making are equally important. Very often, various markets develop so homogeneously and "unobtrusively" that even decisions that subsequently prove to be suboptimal have only a marginally negative impact on the overall portfolio performance. Occasionally, however, tactical decisions are of extreme importance; namely, whenever massive market movements occur and there are significantly divergent price movements in different markets and asset classes. These events are relatively rare, but extremely crucial when it comes to the long-term added value of a tactical allocation.



The good news is that these very large movements usually cast their shadows before them. While smaller movements often cannot be reliably classified and anticipated with a sufficiently high success rate through fundamental analysis, this is much more likely to be the case for large and ultimately tactically relevant events. For this reason, considering average success rates in tactical allocation is not very useful, and this also explains why even extremely successful hedge funds sometimes only have success rates of, for example, 50.5

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percent, although they can generate very systematic added value for their clients over many years.

We take this as motivation to adopt very clear tactical positions in times of extraordinary developments, but also to adopt comparatively constructive, yet not extreme, positions in largely "unremarkable" times.

Even though it may be surprising given the economic slowdown in Europe and various geopolitical challenges, at the end of the day we are still living in rather "unremarkable" times. Corporate profits are rising, key interest rates are stable or still slightly declining depending on the currency area, and while government debt is high, refinancing is not at risk. The world may be in the nascent stages of an AI bubble, but there is no compelling indicator of its imminent bursting, and there are no systemic disruptions on the credit side like those seen during the subprime crisis. However you look at it, this is not the time to take extreme positions on a tactical level. Below we provide an overview of the tactical allocation assessment on the equity and bond sides.

Stocks 2026: Robust earnings growth drives prices

The S&P 500 is currently trading at a price-to-earnings ratio of just over 22, the Euro Stoxx 50 at around 16, and the DAX at approximately 15. These major indices are already trading above their historical average valuations. Accordingly, we do not expect a further widening of valuation levels in 2026. This would require a significant decline in the yields on US Treasury bonds and German government bonds. Given the debt levels in the US and many European countries, as well as elevated inflation in the US above two percent, this seems unlikely. We are considerably more optimistic, however, about corporate earnings growth. Particularly in the US, profits are expected to grow by double digits again next year, given a booming economy and supportive economic policies. We therefore anticipate another positive year for the stock market in 2026, although, as in 2025, we expect periods of heightened risk aversion.

After three years of stagnant corporate profits in Europe, a recovery is emerging for 2026. While we consider the forecasts of corporate analysts to be overly optimistic, the easing of currency headwinds, the recovery in corporate investment, and expansionary monetary and fiscal policy should improve the profit situation in Europe next year.

We therefore also believe that new record highs are likely for European stock markets. All of this suggests a slight

overweighting of equities while maintaining a high weighting in US stocks.

Bonds 2026: Sideways trend with attractive carry

Unlike previous years, the upcoming bond market year is likely to be less influenced by external factors such as tariff policy and the resulting inflation expectations. In the US, given a slightly deteriorating labor market (and some political pressure that cannot be entirely ignored), the Federal Reserve will probably cut interest rates two or three more times by the end of 2026. However, this is now more or less considered a consensus and is unlikely to surprise any market participants.

In our view, the expected interest rate cuts should be noticeable at the short end of the yield curve. The long end, on the other hand, could suffer from the influence of high government spending, the associated increase in the supply of US Treasury bonds, and a potential loss of confidence, particularly if President Trump were to intervene more strongly in the Federal Reserve's monetary policy independence. Against this backdrop, we expect a moderate increase in yields of around 15 basis points to approximately 4.20 percent for 10-year US Treasuries by the end of 2026. As in the Eurozone, this should lead to a slight steepening of the yield curve.

Based on this market assessment, we recommend keeping the duration relative to the respective benchmark at a maximum of neutral.

Furthermore, we remain convinced that corporate bonds will continue to outperform government bonds next year, despite already low credit risk premiums. In our view, the main reason for this assessment lies in the issue of debt. While government debt is rising noticeably, companies in both Europe and the US are presenting very solid earnings figures and stable debt levels.

US dollar weakness persists

The development of the EUR/USD exchange rate in 2025 was surprising. With the inauguration of Donald Trump and the prospect of growth-oriented taxation and deregulation policies, market participants largely agreed that the US dollar would appreciate against the euro. In fact, however, the opposite occurred. Concerns about the potentially negative impact of new tariffs on the US economy, the continued rise in national debt, and political attacks on the independence of the Federal Reserve significantly undermined confidence in the US dollar. Consequently, the greenback depreciated

considerably against the euro. Looking ahead to 2026, however, we do not expect any sharp fluctuations in the EUR/USD exchange rate, but rather a sideways trend with a slight depreciation tendency for the US dollar.

Given the differing monetary policy stances of the Federal Reserve and the European Central Bank, the US interest rate advantage is likely to shrink further, making US fixed-income securities relatively less attractive. This fact, however, has been known and priced in for many months and is likely no longer relevant to the exchange rate. What is difficult to assess, however, is the (at least implicit) political desire of the US administration to further weaken the US dollar in order to protect its own industry. It is almost impossible to quantify the extent of this politically desired effect, especially since it can be assumed that the majority of this effect will already have been factored into exchange rate developments by 2025. From this perspective, there is little reason to proactively reduce the allocation of US assets out of fear of exchange rate fluctuations.

Our tactical roadmap for 2026, therefore, can be summarized as it was for much of 2025: Equities have more potential than bonds, so equities should be overweighted. Fundamental data in the US is significantly better than in Europe, so a high weighting of US equities remains appropriate. Yields on longer-term bonds are expected to rise slightly on average rather

than fall, making a high duration seem less advantageous. Since default rates on corporate bonds are likely to remain limited, corporate bonds should constitute a substantial portion of the fixed-income allocation despite limited risk premiums.

As long as the fundamental picture does not change significantly, setbacks should be seen as buying opportunities rather than warning signals. Otherwise, as always, capital market forecasts should be treated with considerable humility. In recent years, scenarios have frequently had to be rethought after substantial changes in the underlying data. Until that changes, the following still applies: seizing opportunities remains more effective than avoiding risks. The resilience of markets should not be underestimated in the coming year either.

With that in mind, we wish you a peaceful Christmas and all the best for the coming year!

Dr. Christian Jasperneite

Market data

	As of 19.12.2025 09:00	12.12.2025 -1 week	18.11.2025 -1 month	Change versus 18.09.2025 -3 months	18.12.2024 -1 year	31.12.2024 YTD
Stock marktes						
Dow Jones	47952	-1,0%	4,0%	3,9%	13,3%	12,7%
S&P 500	6834	0,1%	3,3%	3,1%	16,4%	16,2%
Nasdaq	23006	-0,8%	2,6%	2,4%	18,6%	19,1%
DAX	24200	0,1%	4,4%	2,2%	19,5%	21,5%
MDAX	30281	1,1%	6,3%	-0,6%	17,2%	18,3%
TecDAX	3558	0,2%	4,1%	-2,7%	1,5%	4,1%
EuroStoxx 50	5742	0,4%	3,7%	5,2%	15,8%	17,3%
Stoxx 50	4860	1,0%	3,1%	5,8%	10,7%	12,8%
SMI (Swiss Market Index)	13136	1,9%	5,2%	9,0%	12,9%	13,2%
Nikkei 225	49507	-2,6%	1,7%	9,3%	26,7%	24,1%
Brasilien BOVESPA	157923	-1,8%	0,9%	8,5%	30,8%	31,3%
Indien BSE 30	84808	-0,5%	0,2%	2,2%	5,8%	8,5%
China CSI 300	4568	-0,3%	0,0%	1,6%	15,9%	16,1%
MSCI Welt	4382	-0,6%	2,9%	2,4%	17,8%	18,2%
MSCI Emerging Markets	1358	-2,3%	-0,3%	0,9%	24,0%	26,3%
Bond markets						
Bund-Future	127,57	14	-114	-94	-705	-587
Bobl-Future	116,08	6	-186	-176	-222	-178
Schatz-Future	106,75	4	-24	-25	-36	-23
3 Monats Euribor	2,05	-3	0	2	-80	-67
3 Monats \$ Libor	3,62	-1	-32	-41	-74	-75
10 year US Treasuries	4,14	-3	3	5	-36	-43
10 year Bunds	2,87	4	20	19	62	50
10 year JGB	2,02	9	28	43	96	94
10 year Swiss Government	0,33	1	17	12	6	6
US Treas 10Y Performance	641,13	0,7%	0,4%	1,1%	7,9%	8,3%
Bund 10Y Performance	557,91	0,2%	-0,9%	-0,5%	-2,1%	-1,2%
REX Performance Index	457,80	0,1%	-0,5%	-0,2%	0,6%	1,1%
IBOXX AA, €	3,33	-1	15	22	41	30
IBOXX BBB, €	3,57	-1	9	16	23	11
Commodities						
MG Base Metal Index	491,50	-0,5%	6,7%	11,9%	19,7%	21,2%
Crude oil Brent	59,66	-2,5%	-8,1%	-11,6%	-19,5%	-20,2%
Gold	4322,84	0,9%	6,7%	18,8%	63,8%	64,7%
Silver	65,44	5,5%	29,0%	56,5%	122,8%	126,4%
Aluminium	2871,73	1,3%	4,6%	6,8%	15,5%	13,7%
Copper	11764,11	2,0%	10,1%	19,2%	32,0%	36,0%
Iron ore	106,90	0,8%	2,5%	1,6%	2,1%	3,2%
Freight rates Baltic Dry Index	2071	-6,1%	-6,5%	-6,1%	101,5%	107,7%
Currencies						
EUR/ USD	1,1707	-0,2%	1,0%	-0,9%	11,5%	12,7%
EUR/ GBP	0,8758	-0,4%	-0,6%	0,8%	6,1%	5,9%
EUR/ JPY	183,48	0,3%	2,0%	5,3%	13,6%	12,5%
EUR/ CHF	0,9312	-0,2%	0,9%	-0,2%	-0,7%	-1,1%
USD/ CNY	7,0409	-0,2%	-1,0%	-1,1%	-3,4%	-3,6%
USD/ JPY	155,56	-0,2%	0,0%	5,1%	0,5%	-1,0%
USD/ GBP	0,75	-0,1%	-1,7%	1,4%	-5,0%	-6,3%

Source: ISEG Datastream

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