NPB CIO Outlook

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Quarterly Asset Allocation Views – Q4 2025

– How I Learned to Stop Worrying and Love the Bubble(s)

Executive Summary

How I Learned to Stop Worrying and Love the Bubble(s)

- Financial markets, led by equities, have witnessed a remarkable recovery from the economic and political uncertainty following 'Liberation Day'.
- Stock markets have not only passed the more seasonally volatile September/October period unscathed but continued to strive throughout.
- This makes us believe that "we should learn to stop worrying and embrace the rally", for the usual year-end bull run – being it a bubble or not (Hint: we always only know it was a bubble after it burst).
- Of course, our view is emboldened by the three don't fights: 1) don't fight the trend, 2) don't fight the Fed, and 3) don't fight the government. All three favour currently further advances of 'risky assets'.
- Our regional preference remains for Europe, as a factor-style choice we like small cap globally.
- Sector-wise we would start rotating away from the hyperscalers (e.g. Microsoft, Meta, Google, etc.), which are massively increasing their fixed-cost base due to the AI race. Invest where their money is flowing, which is Utilities and Energy.
- With bond yield risk to the upside and historically tight spreads in corporate bonds, we see little reward and a lot of (albeit not imminent) risk.
- We keep what we think is a minimum neutral exposure to Gold, however, do not want to chase the rally here given the recent parabolic price advance.
- In the alternative space, our focus continues to lay on liquid alternatives (aka Hedge funds) and would refer our readers also to our newly introduced 'Kairos' strategy. Commodities (hard assets) remain of interest too.

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CIO Office Global Scenarios

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Geopolitical and Macroeconomic Views

		Base Case	Best Case	Worst Case
Economy	Growth	Is the mid-cycle slowdown already over? Recently, we have been able to observe signs of renewed economic strength and improving sentiment.	Continued little fiscal discipline in the short term, coupled with a new easing monetary policy stimulate the (US) economy to above trend growth.	From a contrarian viewpoint, everybody was crying for a recession from 2022 to 2024. Today, no one does so. Could renewed "Trump Tariff Tantrum" lead to increased economic uncertainty again?
	Inflation	Inflation proves to be "sticky" and is stuck for the coming quarters at current levels.	AI-driven productivity increase acts longer-term as a lid and even pushes the inflation rate back into central banks' target zone.	Too loose monetary police, i.e., overstimulation leads to an economic overheating and a sharp rise in inflation.
Geopolitics	Trade Wars	The world is moving away from the global ruled-based/liberal order of the past fifty years to one of multipolarity. Smaller, but more frequent feuds keep (economic) uncertainty elevated.	Experience over the past six months show that short-term effects of trade wars can largely be faded, however, long-term impacts are still to be seen.	Trade wars fully escalate, fuelling the roots of global segmentation further; highest geopolitical tensions in decades return.
	Middle East	Iran has been "put in its place" for now. The peace talks surrounding Gaza are encouraging and should bring further stability to the region.	No major escalation and/or negative headlines bring an unusual prolonged period of relative peace to the region.	Re-escalation leads to renewed worries regarding infrastructure in the region (energy, shipping, etc.) with global market implications.
	Russian War / NATO Tensions	Ukraine/Russia remain in a quasi-stalemate situation. Drone incursions fade away. However, distrust surrounding the situation in Europe remains elevated.	Diplomatic efforts are renewed and lead to peace talks with an at least temporary ceasefire.	NATO is pulled into the Ukraine conflict as they get 'tired' of Russian provocations via drone incursions into the members' territory.
Quarterly Spotlight: - Europe (MEEGA*)		On the backdrop of reasonable equity valuations, coupled with excessive pessimism, we see marginal improvements which could lead to relative outperformance.	A better-than-expected economic rebound on the back of fiscal stimulus and reduced red tape out of Brussels lead to a strong rerating of European equities.	France's political upheaval leads to renewed fragmentation and Europe falls back into its old pattern of fiscal austerity and overregulation, killing off any early signs of green sprouts.
Probability		*High*	*Highly unlikely*	*Tail risk; low probability*

* Make Europen Equities Great Again

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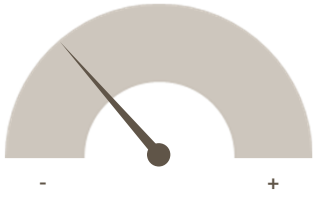
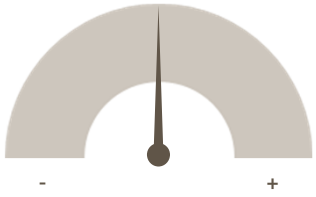


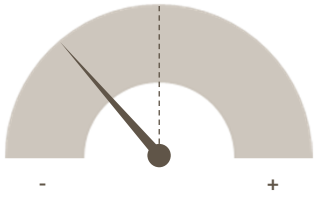
Cash & Money Market

Low, and partially even negative levels of interest rates in Europe and Switzerland warrant an underweight to cash. Monetary policy forecasts for the US suggest that Dollar cash will become less interesting rapidly too.



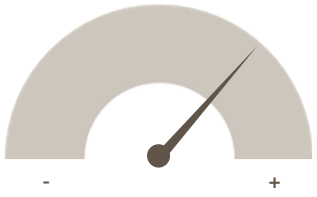
Precious Metals

We keep a neutral exposure to precious metals as they continue to serve as a hedge against economic (debasement) and geopolitical (war) risks. However, the recent price ascent keeps us from going overweight. Tactical catch-up opportunity in Palladium could exist.



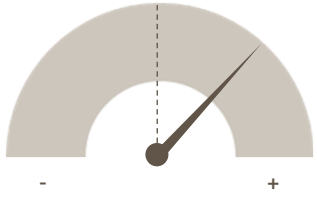
Fixed Income

Whilst we expect government bond yields to stay range bound for now, we see risks to the upside, especially at the longer-end of the curve. Couple this with extremely unexciting corporate credit spreads, and an underweight for this asset class is more than justified.



Alternatives

Given our longer-term (2-5 years) outlook, we increasingly like this asset class, especially the liquid alternatives space. Commodities should remain a focus too.
Our newly introduced 'Kairos' strategy makes extensive use of this asset class.



Equities

We move equities tactically to overweight, expecting a year-end-rally over the coming weeks to months. However, focus on lagging segments such as value and small-cap in the US, and quality growth in the rest of the world. Agility in the allocation remains key.

Current view Previous view (if different)

NPB Global Tactical Views

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Equities	View	Commentary
United States		As well-documented, certain pockets of the US equity market are at extreme valuations. However, others, such as small caps, offer very good value, especially in the light of an easing monetary policy cycle. We think the market will increasingly rotate to those undervalued areas, rather than a correction in the expensive corners pulling everything else down.
Europe		MEEGA, or Make European Equities Great Again, is our spotlight theme for this quarter. As Howard Marks said: "The biggest gains are made when things go from terrible to merely bad, not from good to great" and we think Europe is going from terrible to merely bad, creating an exciting opportunity.
Switzerland		Switzerland has been one of the lagging developed markets this year, mainly due to the too strong Swiss Franc. However, the small- and mid-cap segments continue to be made up by some of the most innovative, high-quality companies worldwide. Plus, an overhang from the index heavy-weight pharmaceutical companies seems to be being removed. Stay exposed.
UK		What is supposed to be one of the worst economies in Europe has suddenly one of the better performing equity markets in the region. Is the market sniffing out changes or is pessimism simply that elevated that the path of least resistance is to the upside? Stay neutral.
Japan		Japanese stocks have broken out of their trading range and had the following ascent not been so steep, we would have moved to a double-overweight rating. Continue to buy on dips however, as corporate reforms are real in Japan.
Emerging Markets		Emerging market equities may have got slightly ahead of themselves, especially if the US Dollar can show some short-term strength. But use any pullback to reinforce exposure.
China		We upgrade Chinese equity (Hong Kong & Mainland) to neutral. The economy is not out of the woods (and deflation), but stimulus coupled with changing government rhetoric is enough to improve investors' sentiment.
India		Despite strong economic growth and falling inflation, the stock market has been struggling over the past 12 months, which is a hint of investors' saturation. We downgrade to neutral until we see a clear catalyst or technical breakout.
Middle East		Sudden hopes over relative political calm in the region could be a catalyst for the several regional markets to move out of their consolidation period of recent months. We stay overweight.

Underweight | Neutral | Overweight | ● Previous view (if different)

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Fixed Income	View	Commentary
Government		Whilst we think that government bond yields could remain range bound over the next quarter or two, we expect the long end of the curve eventually to feel more upside "heat". We move to neutral for now with a perspective to a further downgrade.
Investment Grade		Spreads over treasuries are extremely tight. However, we do not expect, absent any exogenous event, a spread widening. Balance sheets for investment grade companies around the globe remain solid.
High Yield		We do not expect a meaningful spread widening for the high yield segment. However, the extreme narrow spread coupled with tail-end risks, oblige us to move underweight. Prefer an exposure to convertible bonds, which gives equity upside.
Emerging Markets		We continue to overweight emerging market bonds, expecting several more quarters of relative outperformance. Once the US Dollar starts to soften again, consider exposure to EM debt in local currency.
Duration		As stated in the government section above, we believe that the risks for yields eventually are to the upside and hence reduce duration. Consider curve steepener trades.

Currencies	View	Commentary
Swiss Franc		On paper (i.e., PPP) the Helvetic currency is overvalued against just about any other currency. However, its unique "safe-haven" positioning warrants it an at least neutral rating given global economic and political uncertainty.
Euro		After a period of consolidation, mainly due to excessive optimism, the Euro should eventually resume its uptrend. We remain overweight on a 12-months horizon.
US Dollar		The US Dollar has some further upside potential due to excessive pessimism, but eventually will head lower, as it is the "escape valve" of the current US fiscal and debt situation.
British Pound		A better-performing stock market confirmed by an improving political environment could lead to some flows into the UK, helping the Pound. However, our conviction remains low, and therefore we recommend to keep exposure neutral.

Underweight | Neutral | Overweight | ● Previous view (if different)

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Alternatives	View	Commentary
Commodities*		Our conviction for commodities remains elevated given the ongoing global segmentation which should further fuel re-shoring, near-shoring and the connected hoarding of natural resources. Energy commodities remain the missing element to lift the broader index further.
Hedge Funds		Liquid alternatives ("Liq Alts") are currently one of our favourite sub-asset classes and are also the focus of our newly introduced 'Kairos' strategy.
Private Equity		Our exposure to private equity is left at neutral, however, we would highlight the need for selectivity. Avoid large cap/mega-deal necessary PE exposure and focus on small- to mid cap managers, preferably within semi-liquid solutions.
Private Debt		We have grown very concerned regarding private debt as highlighted over the past quarters. A sudden increase of negative news flow surrounding private credit firms, including some high-profile defaults, seem to confirm our view.
Infrastructure		Considering European, US and above all, AI-related spending plans, we believe an overweight to this asset class is justified.

*Commodities ex precious metals

Underweight | Neutral | Overweight | ● Previous view (if different)

NPB Bedrock*

Themes for the Long-Run

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Demographics

> Aging populations and lower birth rates in many regions will lead to shifts in labor markets and consumption patterns, likely favoring sectors like healthcare, pensions, and age-targeted goods and services. Implications on regional asset allocation should be considered.

Longevity

> Longer lifespans are reshaping retirement planning and healthcare demands, driving growth in biotech, pharmaceuticals, and sectors focused on wellness, creating opportunities in preventative care and life extension technologies.

Climate

> The transition to a low-carbon economy and increasing regulatory and societal pressure on climate action will shift capital towards sustainable technologies, renewable energy, and climate-resilient infrastructure.

Energy Transfer

> Recent experiences have shown that the Energy Transition to most intermittent renewable energy carries its own challenges. This will likely lead to more capital allocated to alternative energy solutions such as nuclear and/or natural gas in the intermediate term.

Geopolitics

> Geopolitical tensions and shifting alliances are likely to impact global trade and supply chains, encouraging investments in localized production, defense industries, and cybersecurity as nations prioritize resilience.

Technology

> Rapid technological advancement, especially in AI, blockchain, and automation, will continue to disrupt traditional industries, necessitating long-term investments in innovation-driven sectors to capture outsized returns.

* The term **bedrock** originates from geology, where it refers to the solid layer of rock found beneath soil, sand, and other superficial materials on Earth's surface. Bedrock is considered the foundational layer that provides structural support for the land above it. In investing, **bedrock** refers to core trends that form the basis of long-term decision-making. Just like the geological bedrock underpins the land, these principles provide stability and guidance for navigating the financial landscape.

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