QUARTERLY REVIEW OF FINANCIAL MARKETS AND OUTLOOK

2025/Q4

Renalco

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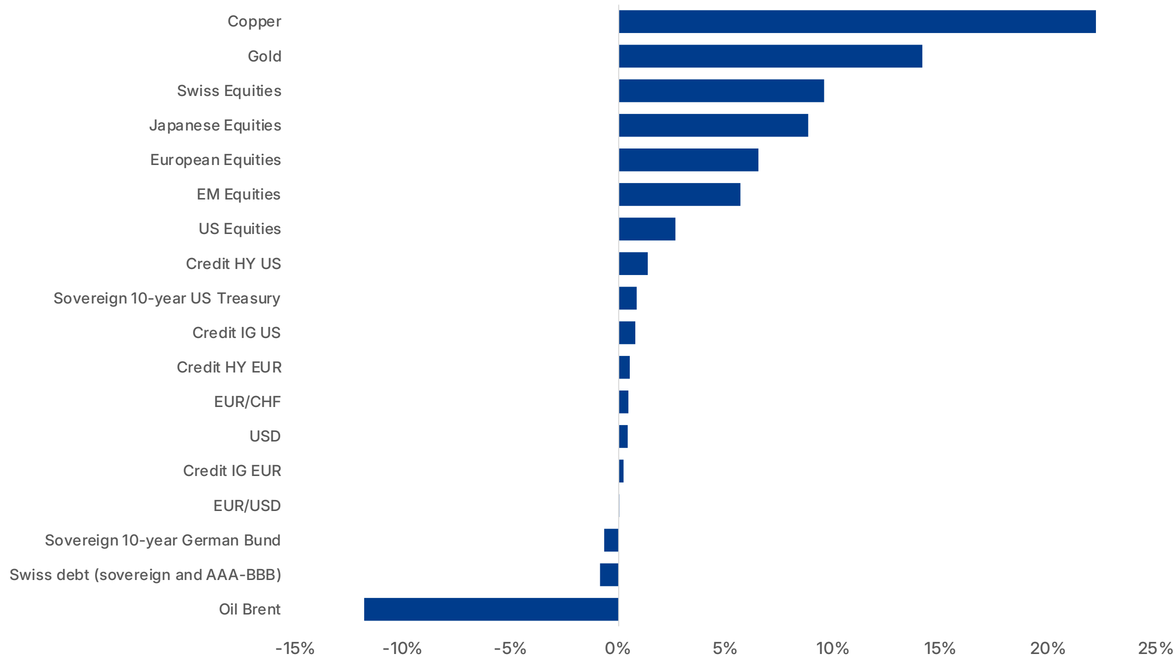
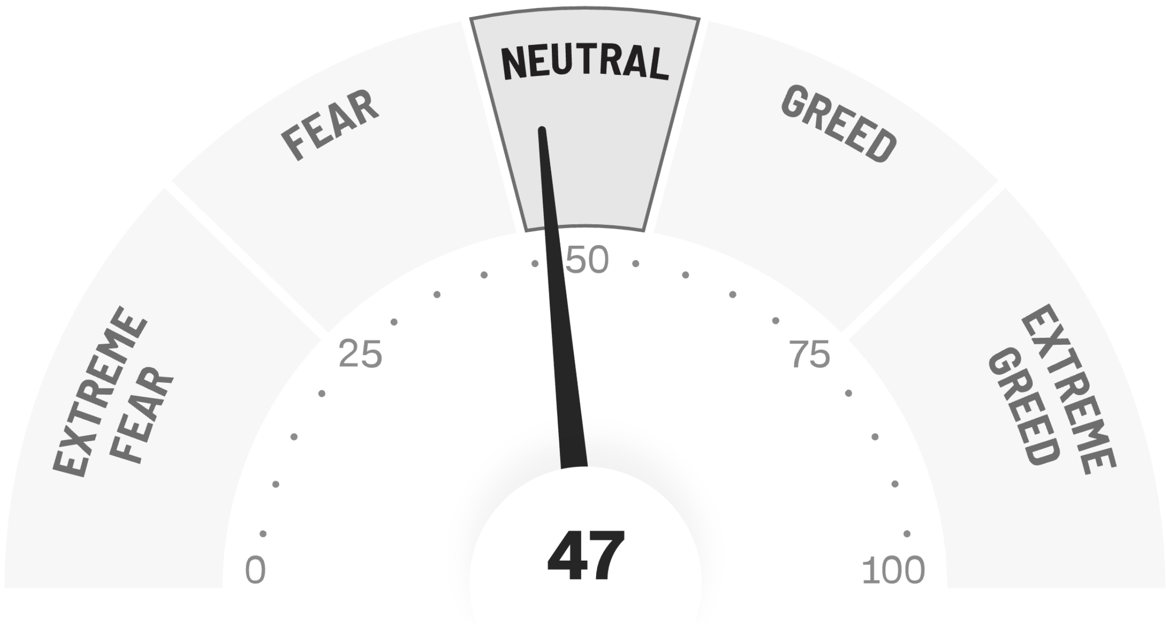
Overview

MAIN ASSET CLASSES
3-MONTHS PERFORMANCE



Source: Factset, 31/12/2025
Past performance is not a guarantee of future performance.

FEAR & GREED INDEX



Last updated Jan 6 at 5:44:16 AM ET

Source: CNN Business, 6/01/2026
Past performance is not a guarantee of future performance.

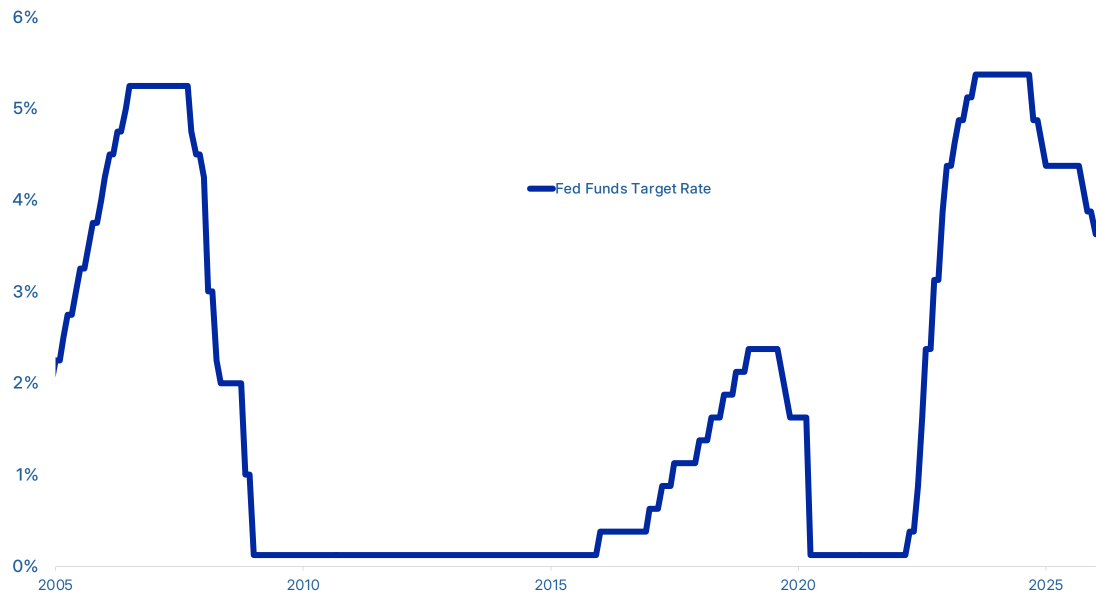
Macroeconomics

United States: "A more selective Fed after three insurance cuts"

The quarter opened with a US government shutdown, which paralyzed the release of macroeconomic data for several weeks, without, however, halting economic activity: business surveys remained positive and growth surprises remained relatively favorable in the United States.

The Federal Reserve continued its rate cuts, reducing the Fed funds rate by 25 basis points in October and again in December, bringing it to between 3.50% and 3.75%. Powell described these decisions as "risk management cuts", aimed at rebalancing the risks between a less dynamic labor market and still-too-high inflation. The turning point of the quarter came primarily from the projections: the Fed surprised with robust 2026 growth forecasts and a median dot plot that leaves the door open for only one rate cut next year, even though the dispersion of the dot plots remains significant.

The end of QT in early December and the launch of Reserve Management Purchases also signaled a shift in the balance sheet dynamics. On the consumer front, the divergence between "soft" and "hard" data remained striking: consumer confidence remained low, while retail sales showed signs of recovery. In the labor market, the figures were distorted by the shutdown, but unemployment claims remained contained, suggesting a gradual deterioration rather than a sharp decline.



Source: Factset, 31/12/2025
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Macroeconomics (...)

Eurozone: “The ECB remains on pause, but growth is surprising”

In the eurozone, the quarter confirmed a more resilient growth dynamic than feared, even if the industrial sector did not return to a strong expansion. After a slight rebound in inflation in October (mainly due to base effects), inflation is now hovering around the 2% target.

The ECB maintained the deposit rate at 2% throughout the quarter, and its growth forecasts published in December were revised upwards for 2025 and 2026. With services inflation still persistent, the Governing Council favored a wait-and-see approach, while markets are not expecting any further movement in 2026 at this stage. On the activity front, the composite PMIs remained above 50, with dynamic services, but German industry still struggling. France stood out in December with a composite PMI back in the green, a first in over a year.

United Kingdom: “A rate cut… and a hawkish message”

In the UK, the calendar was punctuated by the autumn budget and then the Bank of England’s December meeting. The budget presentation was generally well received by the markets, despite the delicate trade-offs between supporting growth and maintaining discipline.

The BoE cut its key interest rate by 25 basis points in December to 3.75%, supported by a decline in inflation and a significantly weakening labor market. However, the decision was made within the narrowest of ranges (5-4), and Andrew Bailey emphasized that further easing would be “more limited” in the future. Economic indicators remained stronger than on the continent, with expanding PMIs and an improving industrial sector. Consequently, expectations for rate cuts in 2026 have been revised downwards: the market now anticipates only one or two moves.

Macroeconomics (...)

China: “Record export surplus, faltering domestic demand”

In China, the quarter’s news contrasted a still-impressive export powerhouse with a domestic economy struggling to recover. Following the US-China trade truce announced in October, China’s neo-mercantilist model continued to break records: **by November, the trade surplus in goods had already surpassed $1 trillion for the year**.

Meanwhile, domestic indicators deteriorated: industrial production slowed, investment declined, retail sales lost momentum, and deflation persisted in producer prices and real estate. The rebound in consumer prices observed at the end of the quarter seemed more like an optical illusion than a genuine normalization.

The yuan benefited from external surpluses, with authorities allowing the currency to fall below 7 against the dollar, but the equation remains delicate: supporting domestic activity without triggering a new wave of overcapacity.

India: “Solid domestic growth, very low inflation... but a currency under pressure”

In **Q4 2025**, India continued to display a very favorable macroeconomic profile: activity remained driven by domestic demand (consumption, investment), and official indicators confirmed a strong pace, with **real GDP at +8.2% in the July-September 2025** quarter (Q2 FY25-26), which the RBI itself highlighted as a cornerstone of the central scenario.

In parallel, disinflation was dramatic: CPI inflation in **November 2025** came in at **+0.7% (YoY)**, mainly thanks to negative food inflation. This combination of **high growth and very low inflation** paved the way for monetary policy adjustment at the end of the quarter. After maintaining **the repo rate at 5.50% and a neutral stance in early October**, the **RBI lowered the repo rate by 25 basis points to 5.25%** at its meeting in early December, while remaining cautious on policy guidance (still maintaining a neutral stance).

On the market front, the message is somewhat less straightforward. Indian assets were supported by domestic momentum, but **pressure on the rupee intensified at the end of the year**. Regarding interest rates, the yield curve remains broadly anchored in the **mid-6% range for the 10-year bond**, but sensitivity to supply (issuances, government debt) and foreign inflows increased at the very end of the year.

Macroeconomics (...)

Japan: “The Bank of Japan resumes tightening, but the yen refuses to recover”

In Japan, political instability continued to fuel volatility, with the announcement of a major stimulus package in the fall and recurring debates about the risk of “fiscal dominance.” Markets were reassured, however, by the preservation of the central bank’s independence.

The Bank of Japan finally raised its key interest rate in December from 0.50% to 0.75%, as inflation, particularly in the services sector, and wage signals strengthened ahead of the 2026 “shuntō” (annual financial transition). The economic situation showed signs of improvement, with surveys in expansionary territory and exports rising.

Nevertheless, the yen remained under pressure: fiscal concerns overshadowed the narrowing of the interest rate spread with the United States, even though the government repeatedly signaled its willingness to intervene should any movement be deemed excessive.

Switzerland: “With reduced tariffs, the Swiss National Bank can wait and see”

In Switzerland, the end of the year was marked by a trade agreement with Washington that reduced tariffs from 39% to 15%, easing some of the uncertainty that had been weighing on export sectors. Sentiment indicators improved in the wake of this agreement.

The Swiss National Bank (SNB) maintained its key interest rate at 0%, despite inflation hovering near the lower end of its target range. The economic recovery reduced fears of a return to negative interest rates, while the Swiss franc retained its safe-haven status.

Bond Markets

Rates: “In a scattered order”

Over the quarter, the trajectory of monetary policies confirmed significant divergences: the Fed continued its “insurance-style” rate cuts but toughened its forward-looking tone for 2026; the ECB remained on hold; the BoE cut rates while maintaining a restrictive bias; the BoJ resumed its rate-hike cycle; and the SNB remained at 0%.

In this environment, the reading of the curves was dominated by the question of the pace of US easing and by debates surrounding term premiums. In Japan and Germany, long-term rates surged due to announcements of stimulus packages that were poorly received by the markets.

Credit: “A market that remains highly sought after, despite reduced visibility”

High yield (HY) spreads ended the year near their lows, despite a rise in long-term interest rates in December. In this environment, the performance hierarchy remained clear: **emerging market dollar debt, subordinated debt (AT1)**, and high yield continued to attract carry interest, while **US credit** benefited more from the interest rate environment than European credit.

Volatility was more micro than macro. Uncertainty surrounding the Fed and the sequence of US data releases fueled swings (particularly in HY, with significant swings), but investors regularly **bought back the lows**, supported by still-solid fundamentals. The main volatility stemmed from idiosyncratic episodes in **US private credit** (factoring), which were not systemic but indicative of a market where the risk premium leaves little room for error.

The message for 2026: carry first, selection second. With spreads already tight, performance should be **driven less by compression and more by carry**, in a context where investment banking will have to absorb a still high volume of issuances (tech/M&A) and where we will be monitoring the return of more aggressive financial policies on the high-yield side. The market scenario remains favorable for credit, but the trajectory will likely be **less linear** than in 2025.

Equity Markets

Equity: "US exceptionalism remains vibrant"

A solid quarter, but less "linear": the market has largely digested its rally. After an October driven by **US Tech** (and a valuation that has become demanding), with a few quickly absorbed volatility spikes, November resembled a **crash test for the AI thesis**: pauses, doubts about overinvestment in data centers and monetization, then a rebound at the end of the month thanks to **a more accommodative pivot from the Fed** and the return of the "Fed put."

Rotation was the real driving force. When Tech stalls (Nasdaq under pressure in November), investors reallocate: **Healthcare** as a defensive anchor and outperforming, while **European defense** experienced a dip on hopes of "calming" in Ukraine. In December, the scene changed: **European catch-up, led by banks**, and renewed interest in **semiconductors** (with the market paying close attention to capex discipline and supply chain issues).

Year-end: a more diversified risk-on environment, but still dependent on the AI narrative and the US policy mix. The optimism for the end of 2025 was reflected in the European recovery and the leadership of financials, while maintaining a high level of vigilance regarding the AI complex's ability to justify its multiples. The quarter primarily serves as a reminder of one thing: **performance is built as much on sector selection (and idiosyncratic deals/M&A) as on pure beta.**

Currencies

Currencies: "A volatile dollar, but a year of sharp depreciation"

The dollar appreciated in October, buoyed by a less dovish message from the Fed and positive surprises in US growth data. It then weakened in November and December as markets focused on the December rate cut. **Overall, the DXY index finished the quarter slightly higher (+0.4%), but ended 2025 with a sharp decline (-9.3%), its worst annual performance since 2017.**

Among major currencies, the euro ended the quarter unchanged (EUR/USD: -0.0%), the pound sterling edged higher (GBP/USD: 0.4%) thanks to perceptions of a more restrictive Bank of England in 2026, and the Swiss franc also gained (CHF/USD: 0.6%), as the likelihood of negative interest rates was pushed back. The yen, however, depreciated sharply over the quarter (USD/JPY: +6.4%), as budgetary concerns offset the resumption of rate hikes by the Bank of Japan.

Commodities

Oil: "Excess supply remains dominant, despite geopolitics"

Oil prices fell for the third consecutive month in December, ending the quarter down approximately 11.8% for Brent crude (10.7% for WTI). The underlying theme was a structurally oversupplied market: announcements from OPEC+ (a production increase in November followed by a freeze announced for Q1 2026) were insufficient to dispel the consensus of overproduction. Markets also priced in the possibility of a de-escalation of tensions in Ukraine, which contributed to the downward pressure on energy prices at the end of the year. Overall, Brent crude finished 2025 sharply lower (-18.8%), its worst year since the pandemic.

Source: CRB - Commodity Research Bureau, 05/01/2026
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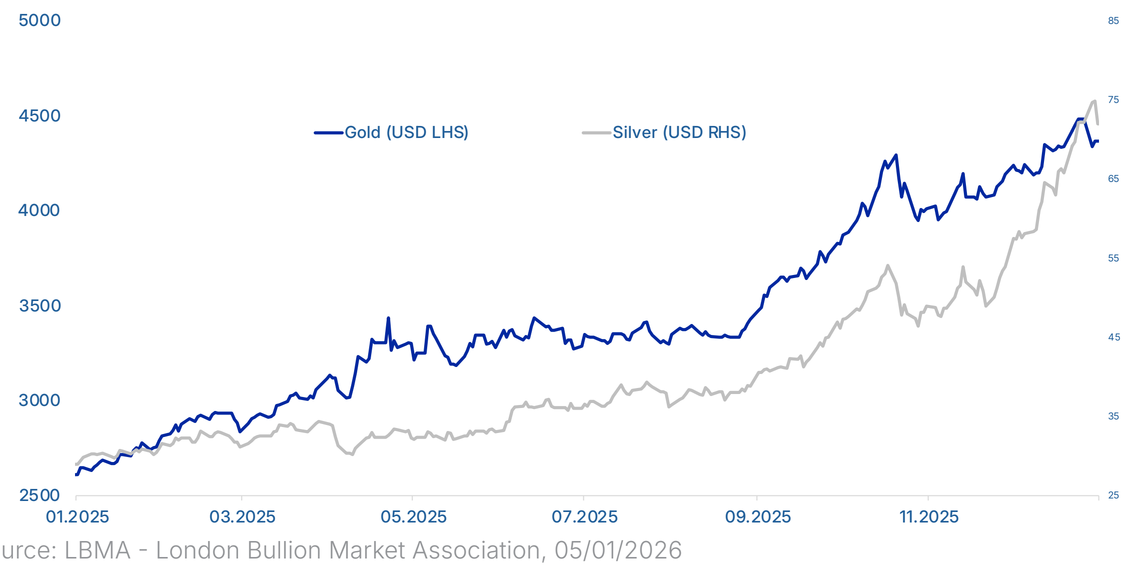
Precious Metals: "Gold shines brightly, and silver marks an exceptional year"

After a period of high volatility in October, gold and especially silver accelerated in November and December. Over the quarter, gold rose by approximately 12.1% and silver by approximately 49.7%. The decline in expected real yields, the geopolitical context, and structural demand (central banks for gold) continued to provide support. The year 2025 ended with historic performances: +64.6% for gold and +148.0% for silver, their best year since 1979.



Source: LBMA - London Bullion Market Association, 05/01/2026
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