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Investment Outlook 2026

Multi-Asset Strategies

15.12.2025

Summary: choose selectively across sectors and regions for extra returns

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Macro: Consumption and AI related investments saved the year in the US with 2% GDP growth, and despite the trade war and shutdown the outlook remained solid. Recession risk is low, but the weakening labor market, high and fast rising debt, halted disinflation above CB's target, and political pressure on the Fed remain a cause for concern. Looser fiscal policy in the EU could add to GDP growth in 2026-2027, but debt sustainability issues can not be neglected. Inflation is at target levels, but risks are more tilted to the upside. In the short run we expect the market to price in more cuts as the new FED chair is getting closer, which will moderate long bond yields. In Europe, we still expect term premiums to rise. From the current level, we do not expect further meaningful HUF appreciation, but holding long positions remains to be attractive due to high interest rate differential.

Equities: Fiscal and monetary easing continues to provide strong tailwinds, but equities are expensive, meaning there is less and less room for error. We are therefore keep some powder dry, to increase equity exposure in case of drawdowns, and selectively choosing between sectors and regions for excess returns. In the US, we favor sectors primarily linked to the development of AI infrastructure, like semis on the hardware and cybersecurity on the software, utilities/renewables on the energy supply side. Within Europe, we see potential in the cheapest small-cap segment, several factors could catalyze its outperformance in addition to the German stimulus. The weakening dollar and Fed interest rate cuts are tailwinds for EM, but valuation is already neutral, so we prefer the cheapest Brazil and the nearshoring driven Mexico. After a long consolidation, we would also start building positions in the structural megatrends driven India. We see no change in the factors driving CEE so far, depressed valuations compensate for higher risks.

Bonds: While the weakening labor market and slowing growth are pushing yields lower, continued significant budget deficits and deteriorating debt trajectories pose risks in the opposite direction. For this reason, we continue to favor the short/medium end of the yield curve. Corporate bonds' historically tight spreads do not cover the increasing risks.

Commodities: We maintain an overall neutral view on commodities, as energy and agricultural products remain weak for now. However, the outlook for industrial and precious metals remains favorable, so selective exposure is recommended. We like copper, uranium, and gold related exposures.

	Underweight ←		Neutral	Overweight →	
Asset Class					
Equities					
Bonds					
Commodities					
Cash					
Equities - regions					
US					
Europe					
Emerging markets					
CEE					

6-12-month market perspective, rebalancing quarterly

The most favored investment topics:

- Semiconductors ✸
- Cybersecurity ✸
- Utilities/Renewables
- Miners
- India ✸
- LatAm
- Europe Small Cap ✸
- Gold

✸ Newly added topic to the list

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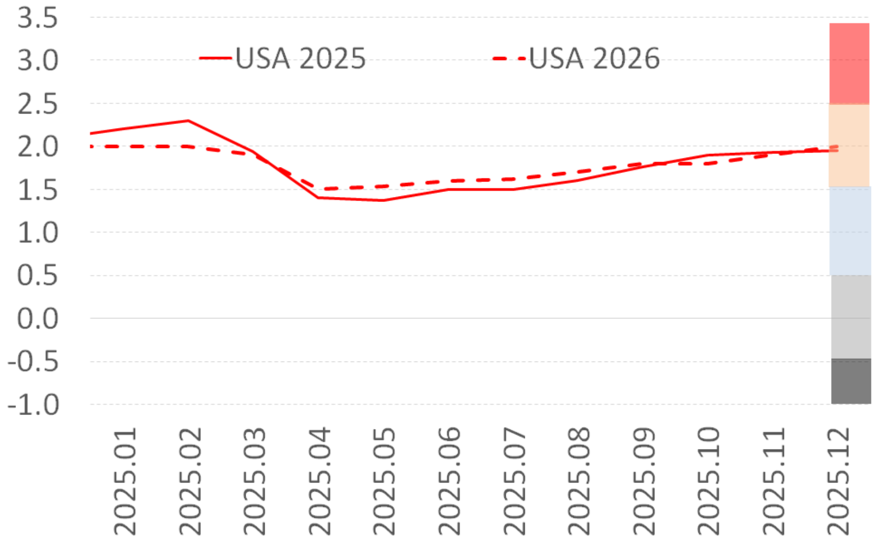
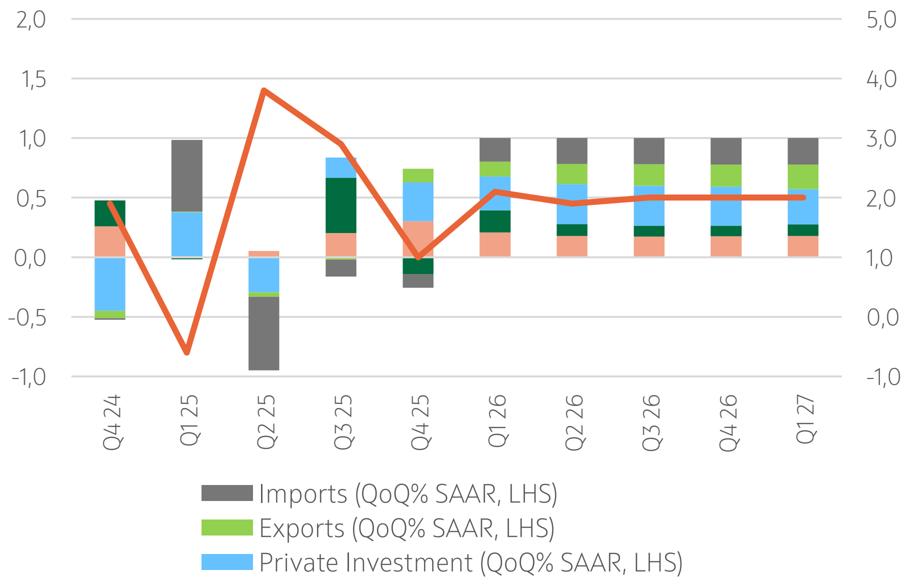
US: Despite the trade war and the shutdown, the outlook remained solid

YoY GDP growth, fact and forecast (%)



QoQ GDP growth, fact and forecast (%)



2025: 2% growth as consumption and AI related investments saved the year

- Q1-Q2: The up-and-downs made by net exports camouflaged the fact that there was a gradual deceleration in domestic demand, in consumption and investment.
- Q3: the flash GDP estimate will arrive with a significant delay due to the shutdown. Available high-frequency data suggest that growth remained strong, Atlanta Fed's GDPNow shows 3.5, the consensus expects 3% growth % (QoQ, SAAR) for Q3. Consumption and nonresidential investments could remain the main drivers, but net exports also looks to have positive contribution after tariffs.
- Q4: The shutdown could result in a temporary slowdown to around 1% SAAR .

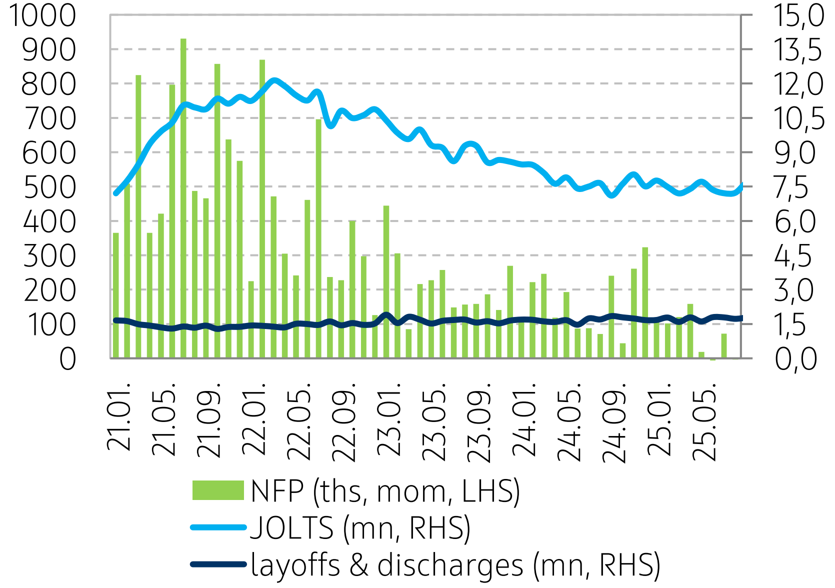
2026/27: GDP growth expectations for next year also improved, to 2.0%, from 1.7% three months ago as it became clear, that tariffs will not have strong effect on short-term growth. The trade war, tariffs, higher prices and uncertainty are expected to take their toll on domestic demand, while net exports could positively contribute to growth, as imports are expected to fall.

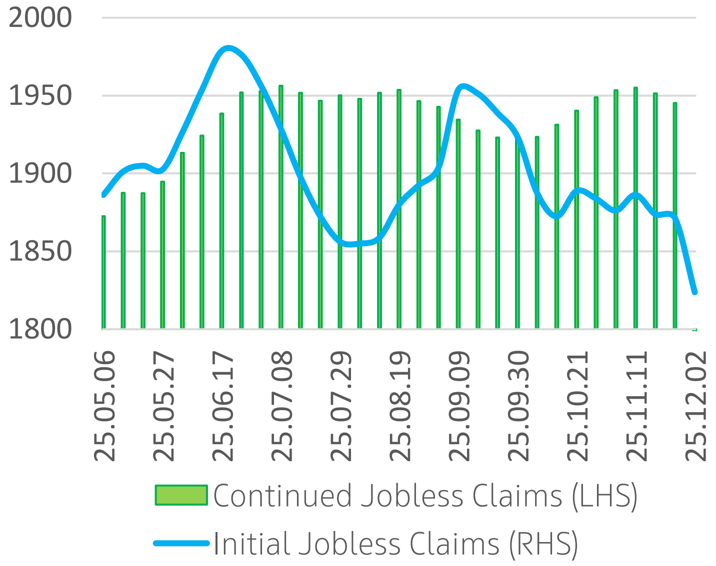
Risks: A labor market negative feedback loop can not be ruled out. Markets are also worried of the AI bubble, which is a real risk. However, in our view these risks are mitigated in the short run by loose fiscal and monetary policy. Interest rates were cut in Q4 2025, and further loosening is in the pipeline. Recession probabilities moderated in the past few months, from 40% to a still above-normal 30%.

Source: Bloomberg, OTP Research

US: The picture of the labor market is still obscure

Labour market figures





Labor market data is incomplete, the available is contradictory, their assessment is far from clear

- Due to the government shutdown statistics are delayed and incomplete.
- On the U.S. labor market both demand and supply growth lost momentum, though demand seems to be more fragile now.
- Since May, job creation has stalled, and the unemployment rate has begun to edge up, albeit it's level is till low in historic comparison.
- However, the number of job openings appears to have stabilized at a high level, slightly above 7 million. The number of layoffs is not increasing significantly.
- Wage growth has remained robust, it's pace is still too high compared to the inflation target.
- We still do not have a clear understanding of what is causing the sudden deterioration in the labor market: (1) uncertainty caused by the trade war is holding back hiring; (2) strict immigration policies and deportations have reduced the labor supply; (3) the rise of AI is reducing demand for certain types of jobs.

Source: Bloomberg, Refinitv, OTP Research

US: high and fast-rising debt will remain a cause for concern

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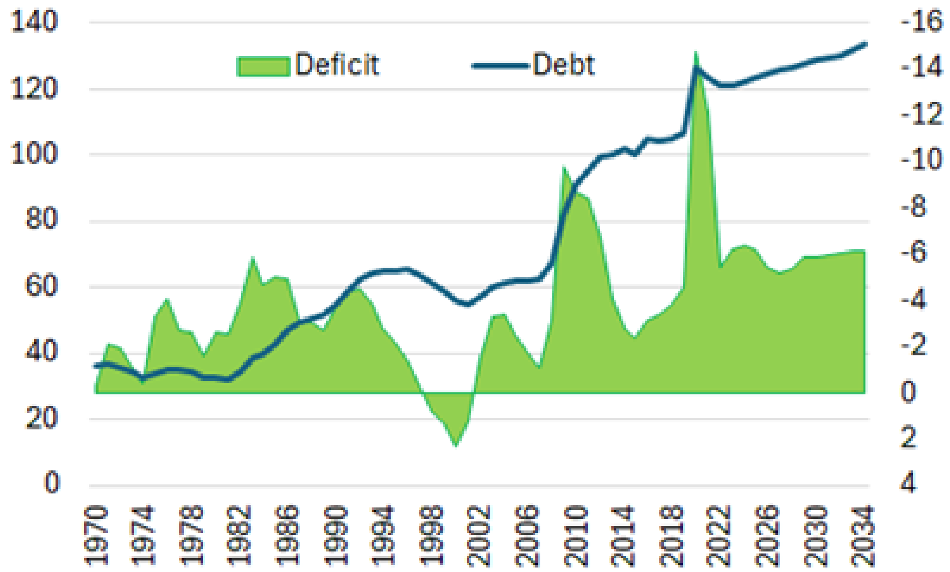
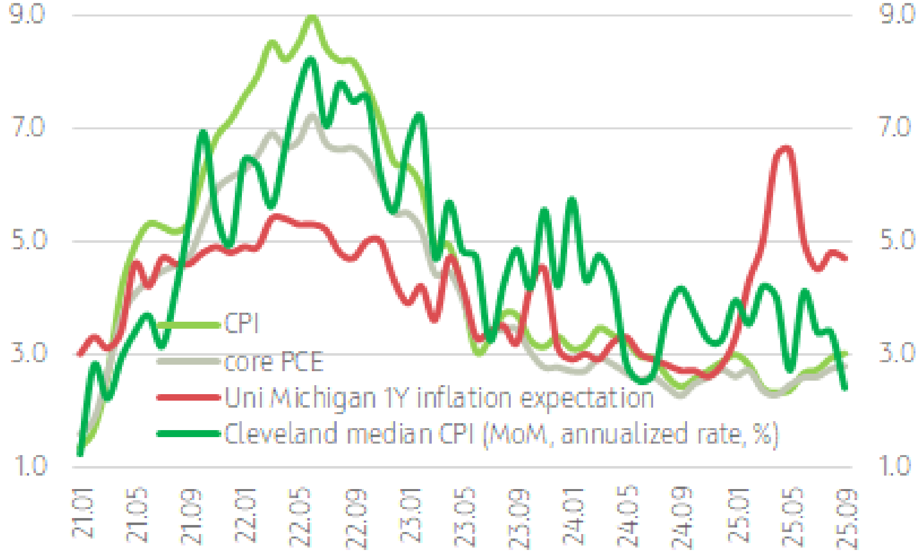
Budget deficit and debt (% of GDP)



- Trump's low approval, weak growth, and upcoming midterms may lead to more stimulus.
- The recent shutdown centered on health care subsidies under the Affordable Care Act. If Democrats extend these benefits, it will add pressure to the budget.
- Tariff revenues have helped the budget, but they're expected to be spent soon.
- Public debt has already reached those very high levels, where the role of cheap and stable refinancing is gaining importance

Inflation (YoY %)



- Disinflation halted around 3%, mainly due to high wage growth and fast service inflation.
- Tariffs themselves add to inflation pressures, the problem could be made worse by loose fiscal policy and tight labor supply. The Fed remains hopeful that the tariffs will only result in a one-time upward shift in price levels.
- Long-term inflation expectations have declined, but remained high.
- Political pressure on the Fed is on the rise. Jerome Powell's term as Fed chair expires in May 2026. When choosing his successor, the main consideration is not a commitment to disinflation, but a willingness to cut interest rates.

Source: Bloomberg, OTP Research

Eurozone: resilient, but debt sustainability issues cannot be neglected

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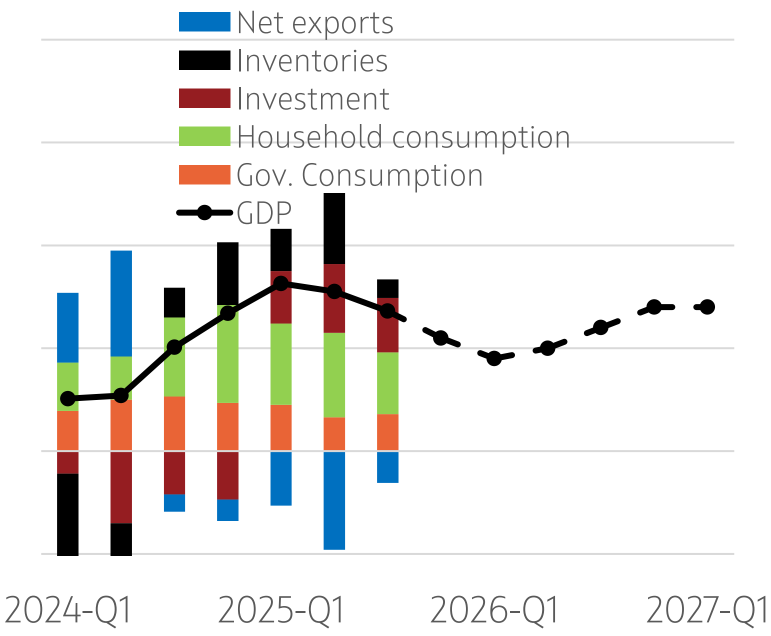
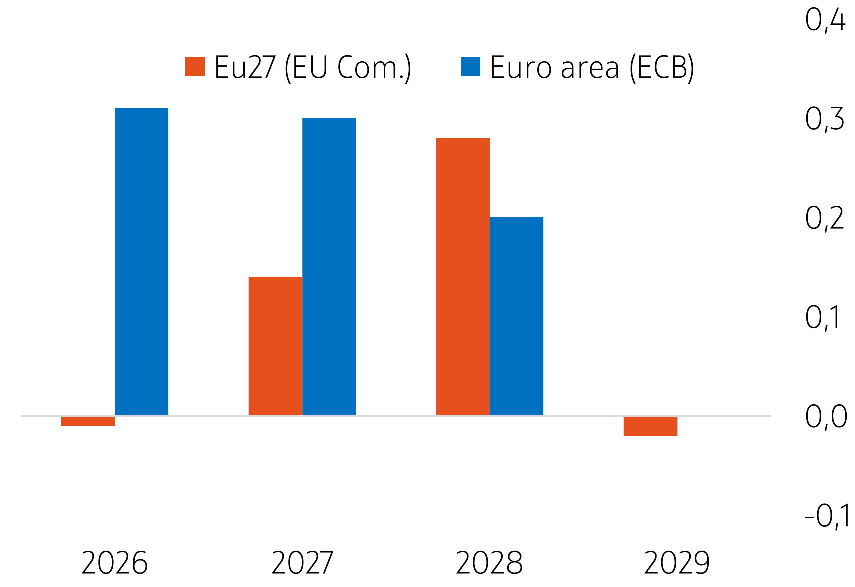
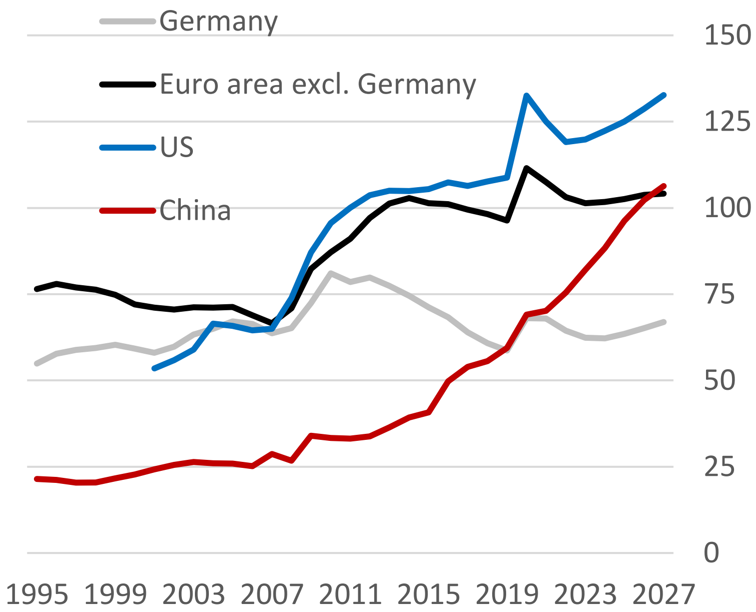
Quarterly YoY GDP growth in the Eurozone (%)



GDP growth effect of the REARM EUROPE program



Deficit and debt in major economies % of GDP



- Q1-Q3: Excluding volatile Ireland, H1 annualized GDP growth gained pace from 0.8% annualized QoQ to 1.2% by Q3. The recovery seems broad based in additional to consumption investment is adding visibly to growth as credit flows are recovering. The labor market remained tight, real wage growth remained strong in historical comparison. Growth patterns have not changed: Mediterranean looks to be leading, industry-driven countries are laggards.
- Q4: the market consensus is 0.2% QoQ and 1.1% YoY, but upside surprises ard possible as PMIs improve, while October real economy figures suggest strengthening industry.
- 2026/27: Looser fiscal policy, in the EU could add to GDP growth around 0.2-0.3 ppts in 2026-2027. Europe still has the largest elbow-room in fiscal policy. Nevertheless, outside Germany the Debt level of euro area economies combined are above 100% of GDP, and recent rise in yields point to fiscal fragility.
- Risks are tilted to both directions (+larger than expected effect of fiscal stimulus /- debt sustainability concerns contribute to higher yields).

Source: Bloomberg, Eurostat, OTP Research

Eurozone: service sector inflation is rising, driven by high wage growth

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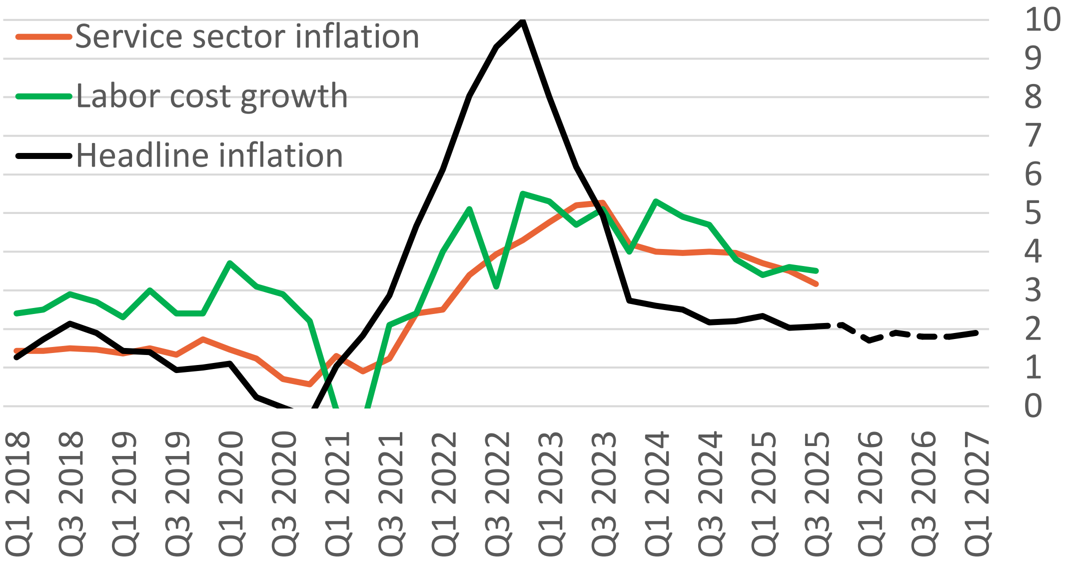
Inflation and wages (YoY; %)



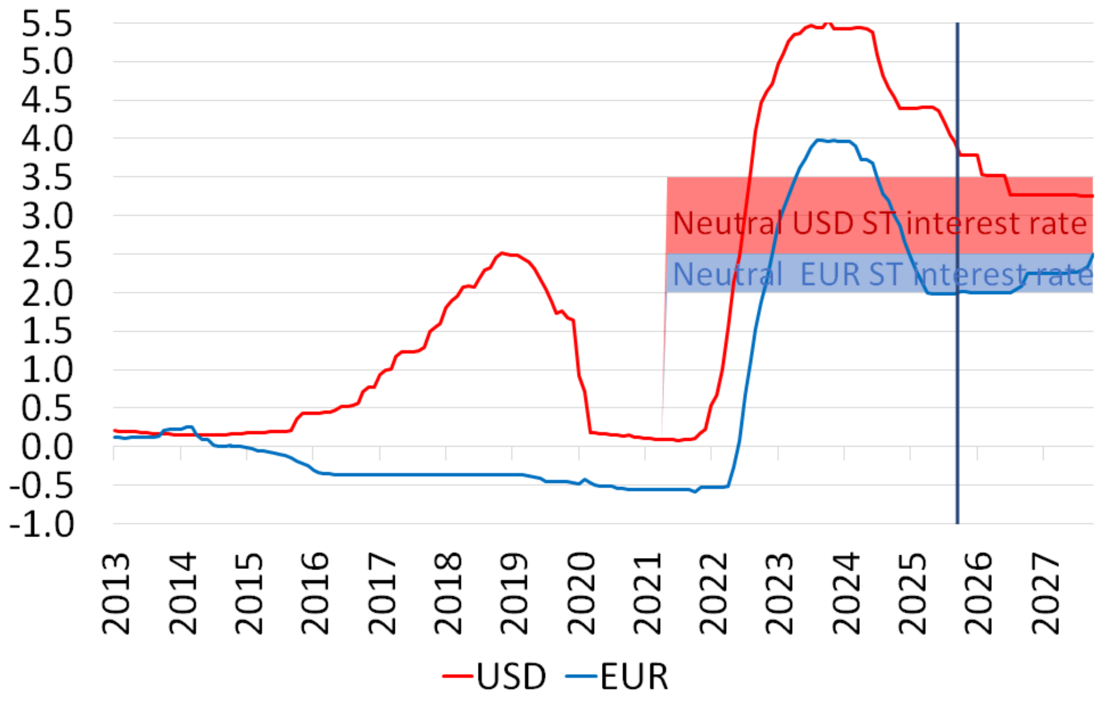
Service sector inflation(3m SAAR; %)

- Inflation has fallen back to the target after a long process of sluggish disinflation. However, the core rate remained somewhat above 2% (Nov: 2.5%), and in 2025H2, service sector inflation started to gain momentum again. The annualized seasonally adjusted inflation rate in the service sector rose to 4%, clearly not consistent with the 2% target.
- On account of favorable energy base effects, the market expects the headline rate to fall below somewhat the 2% target, however, the medium-term outlook is not fully reassuring, given core inflation around 2.5%. Not surprisingly, recent Governing Council members have started to send more hawkish messages on the rate outlook, and the market has priced in 2 rate hikes by 2027, while a few months before cuts were in the curve.
- Risks are more tilted to the upside, given a still tight labor market and geopolitical fracturing, which could also add to industrial goods inflation. There are also signs, that US tariff hikes are not only paid by US costumers, but being spread globally, at least partly.

Source: Bloomberg, OTP Research

The new FED chair can be a game changer in pushing rates lower

Priced USD and EUR base rate trajectories (%)



Our assessment on mid-term bond market outlook

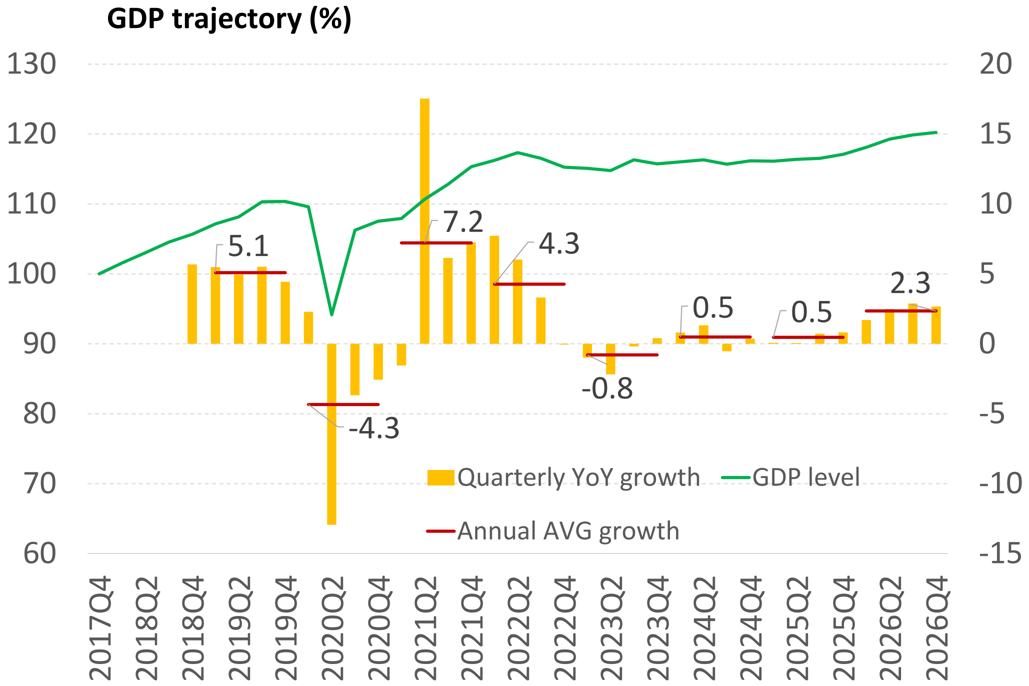
- Positive real interest rates are required to reduce inflation to their targets in a fragmented world, with tariffs, high deficit, and tight labor markets. We expect short-term rates to fluctuate around 2-2.5% in the eurozone and around 3% in the USA on the long run. Term premiums on long-dated yields should also remain positive due to high financing requirement, we expect 10-year term premium to reach 100-150 bps.
- The willingness to make fiscal policy sustainable is low and the temptation is strong to restrict central bank commitment for low inflation and to impose measures of financial repression.

Short-term outlook: we expect the market to price in more cuts as the new FED chair is likely to become more dovish. In Europe, we still expect term premiums to rise.

- The Fed Board of Governors started rate cuts in September and delivered three 25 bps cuts and pushed down the target band of the key rate from 4.25-4.5% to 3.5-3.75%. Even if the environment is not optimal for further rate cuts, we think that yield could moderate on the short run as the the Fed's new chair could be announced very soon.
- The stubbornly high service inflation in the Eurozone and the rising financing requirement could keep EUR yields under pressure.
- We think that on the short run long USD yields could be modestly overweighted, however we maintain our below-neutral positioning for longer EUR bonds.

Source: Bloomberg, OTP Research

Hungarian GDP growth could reach 0.5% in 2025 and around 2.5% GDP growth in 2026



Investments and exports will continue to strongly restrain growth in 2025

2025: 0.5% GDP growth

- Consumption is the only driver of growth in 2025, just like in 2024.
- Investments have been declining for the third consecutive year as fiscal tightening and the freeze of EU funds are drag on public investments, while weak outlook and the excess capacities built up in previous years make the private sector cautious.
- Exports are declining due to weak growth in Europe, fragile demand for industrial goods and cars and the strong competition from China.

2026: 2-2.5% GDP growth

- Consumption will continue to grow by 5%+ because of significant fiscal support, fast real wage growth (~7%).
- Investments: public and residential investment will rise and we expect bottoming out also in private non-residential investments.
- Export is expected to pick up moderately because of new export capacities, German fiscal stimulus and the easing of uncertainty caused by the trade war.
- However, growth in 2026 might be temporary, and after the fading of many election-related stimulus measures, growth might slow down again in 2027.

Source: Bloomberg, OTP Research

The deficit is expected to meet the governments 5% target in 2026 in a no-policy change scenario

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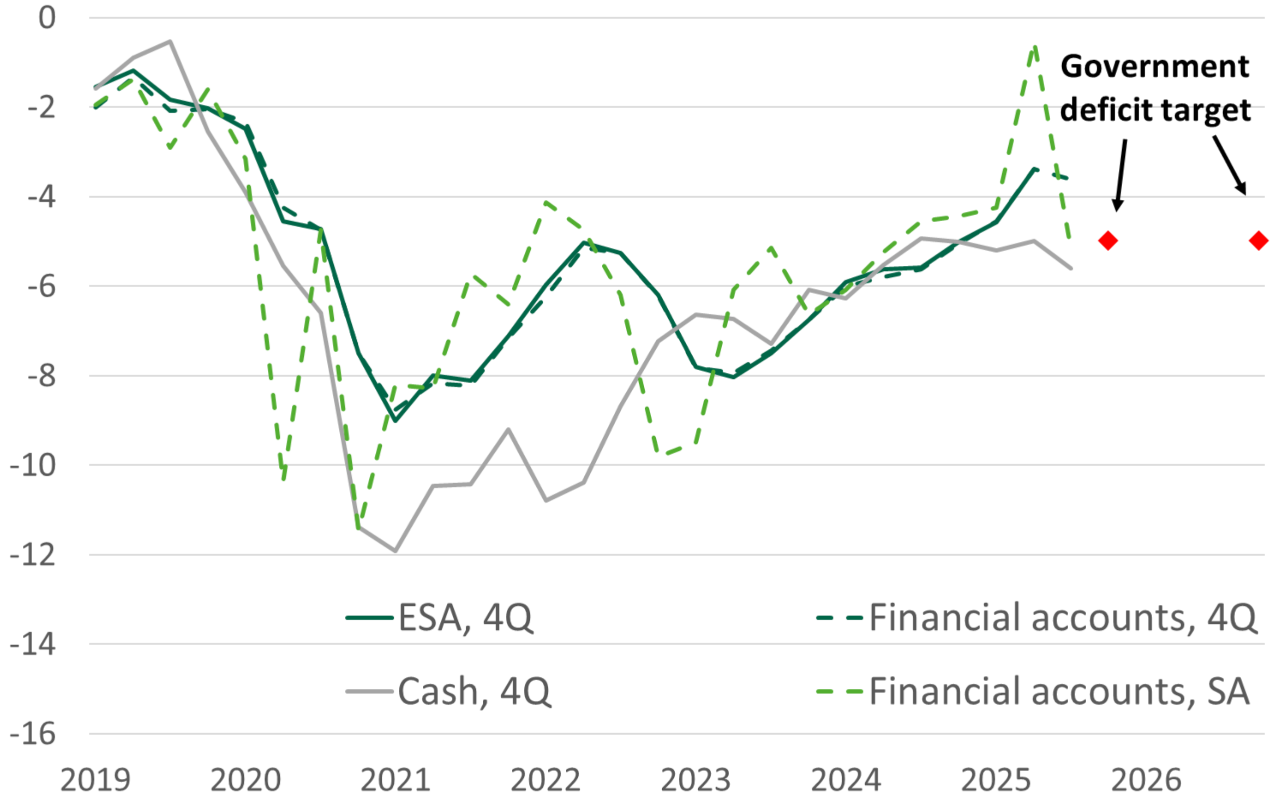
Indicators of budget balance (% of GDP)

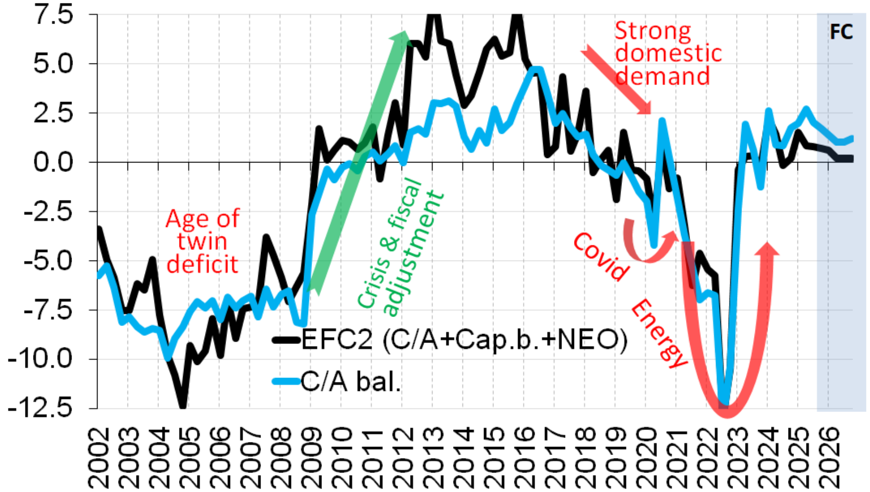


- 2020-2023: Covid, elections: 6-8% deficit
- 2024: 5% deficit after the adjustment (tax hikes, cut in public investment)
- In 2025 the deficit was modest in Q1-Q3, below 2.5% of GDP, so the hiked 5% target calls for a significant deficit in Q4.
- For 2026 the government also hiked the deficit to 5%. With the already announced many measures, this is realistic, under a no-policy-change trajectory.
- Further measures could come before the election in order to stimulate growth, a HUF 100 bn energy storage subsidy was already announced after setting the 5% target.
- After the elections deficit improving measures could come.
- No progress regarding EU funds

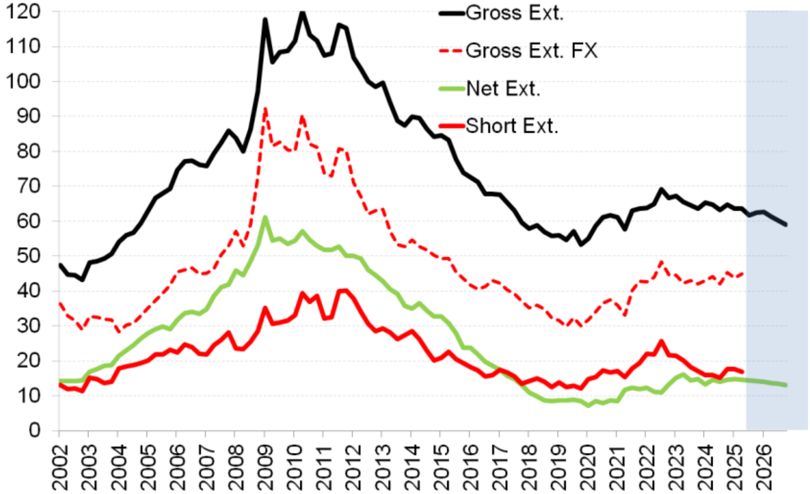
Source: Bloomberg, OTP Research

The external position shows a higher surplus after revisions

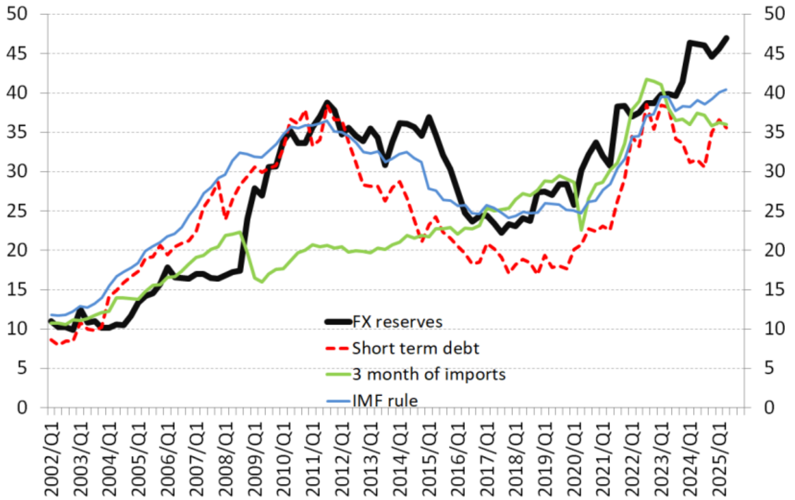
Indicators of external imbalances (% of GDP)



External debt (% of GDP)



FX reserves and reserve adequacy rules (EUR bn)



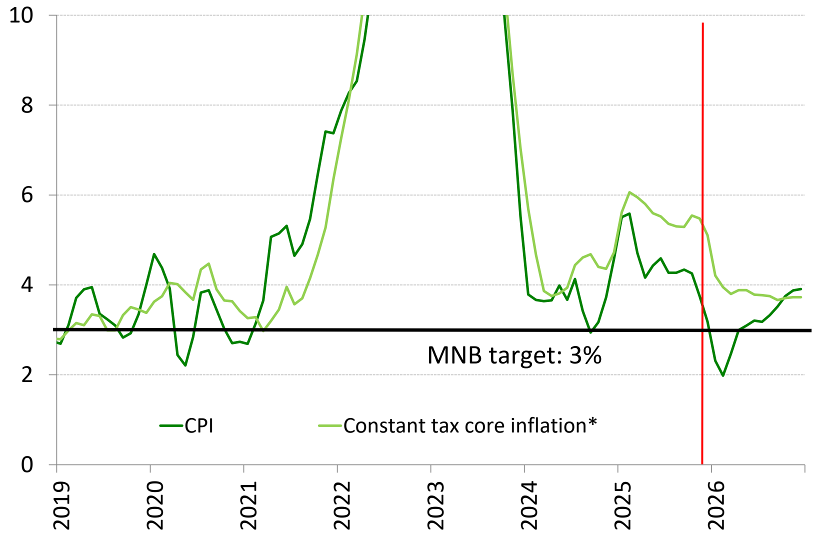
The external position remained a bright spot among Hungarian macro-figures as Hungary runs a sustainable external trajectory

- The recent revisions even improved the picture, as the new figures reflect a higher and modestly rising external surplus of 2-3% of GDP, including Q3 preliminary data.
- FDI inflows and EU fund absorption remained subdued.
- External debt indicators have been stagnating for many quarters, while FX reserves are exceeding the adequate levels with increasing margin (EUR 10 bn).
- This level of surplus suggests that the fair value of the HUF could be around 370-375.
- Looking ahead we expect a current account balance of +2% of GDP in 2025 and +1% in 2026. Consequently, the net financing capacity could remain in the positive territory in this year and next, despite to expected rise in domestic demand and the appreciation of the HUF.
- We expect net FDI inflow to return to the slightly positive territory after the recent one-offs and we anticipate external debt indicators to gradually decline further, reaching around 60% by 2026.

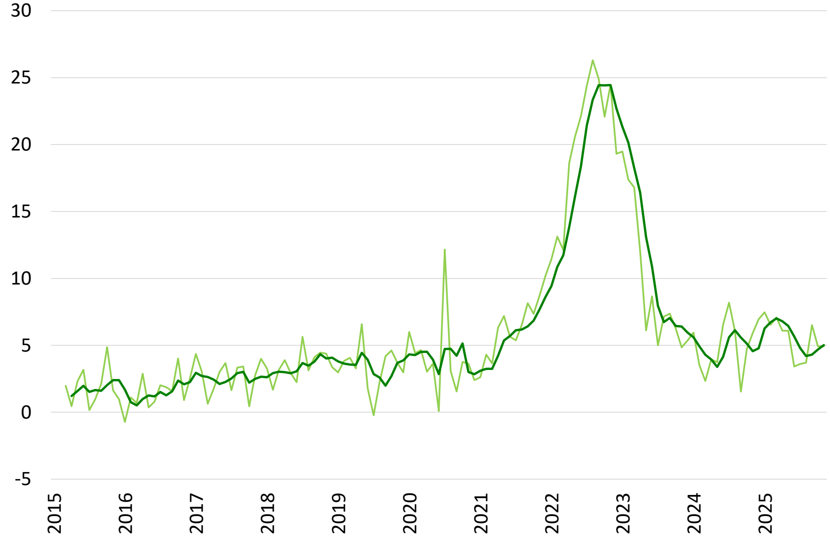
Source: Bloomberg, OTP Research

We expect around 3.5% inflation in 2025, while it temporarily falls well below the central bank's 3% target at the beginning of the year

OTP inflation forecasts



Annualized MoM change of trend inflation* (%)



*goods and market services w/o backward-looking pricing items
Sources: Bloomberg, OTP Research

- 2024 H2: Disinflation stopped as food and energy deflation exhausted
- 2025 Q1: inflation rose to 6%, due to strong demand, unanchored expectations and active corporate repricing to pass through the weak HUF, tax hikes, as well as rising agro-commodity and natural gas prices
- 2025 Q2-Q3: moderation to around 4.5%. The government implemented administered measures (margin caps, 'voluntary' price cuts of medicines and services), with an effect of 1.5 ppts. The reappreciation of the HUF has already kicked in, too: goods inflation moderates.
- 2025 Q4: Inflation has returned into the MNB' 3 +/-1% target band. mainly due to the declining food and fuel inflation. However, the improvement in underlying inflation indicators seen during the summer came to a halt in the fall.

Outlook: until the end of 2025, inflation can be around 4.5%.

Early 2026: sharp fall below 3%:

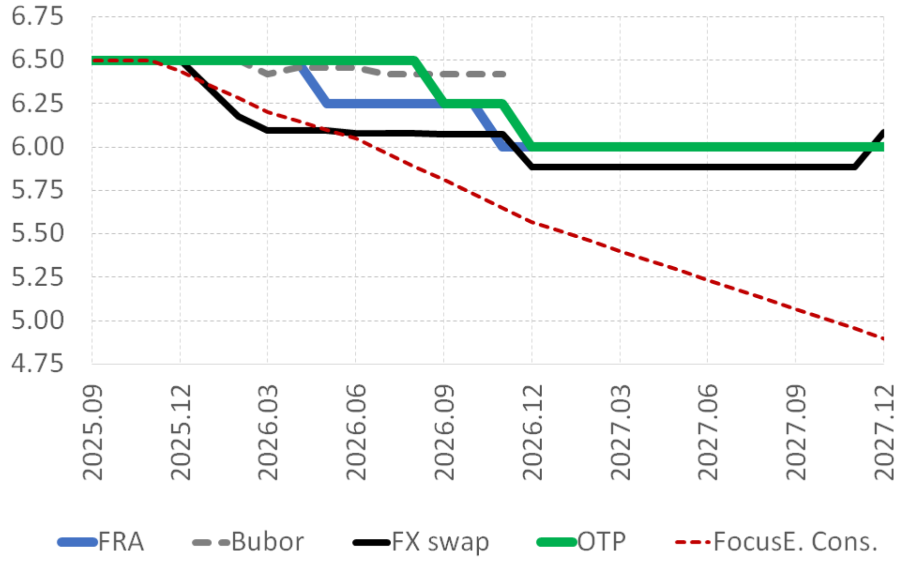
- Excise duty hikes usually take place in January; in 2026 they will be delayed until July (elections will be held in April)
- Oil prices down on lower oil prices, weaker USD, stronger HUF
- The significant repricing at the beginning of 2025 will be left out of the base

2026/27: rising above the target, risks tilted to the upside:

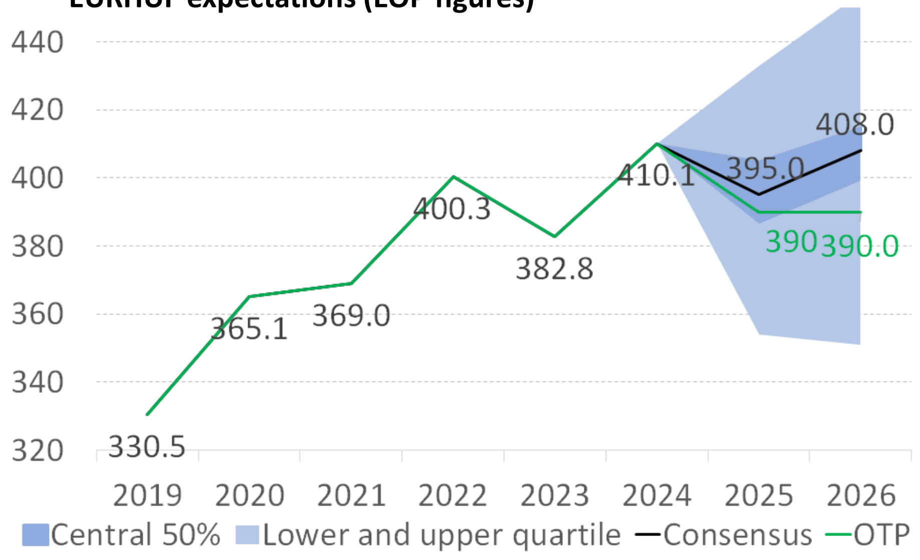
- 11% minimum wage hike in 2026
- Further and further fiscal stimulus measures; credit boom generated by the new subsidized housing loan scheme
- We assumed that margin caps will be kept. If they are phased out, that could increase inflation by another 1 percentage points

In 2026 the conditions of credible rate cuts could arrive

Effective rate evolution (OTP forecast and pricing)



EURHUF expectations (EOP figures)



After the base rate was on hold through 2025 we expect two cuts in 2026.

- Having been cut from 18% to 6.5% by September 2024, the base rate has been on hold since then.
- Rate cut expectations have significantly moderated, from three-to-four cuts to only two moves in 2026.
- As the central bank remains strongly committed to maintaining stability in the foreign exchange market and the government's price control measures continue to play a significant role in inflation developments, we do not expect interest rate cuts in the coming months, despite the favourable inflationary trends and the stronger forint. If the coming months confirm that the deterioration seen in October in the underlying inflation indicators was only temporary, and repricing at the beginning of next year will also be moderate, then a window of opportunity for rate cuts might open in 2026.
- As we expected, long-term yields fell in the first half of Q4, then rose on higher deficit targets. Just like at the end of Q3, the long end looks to be attractive.

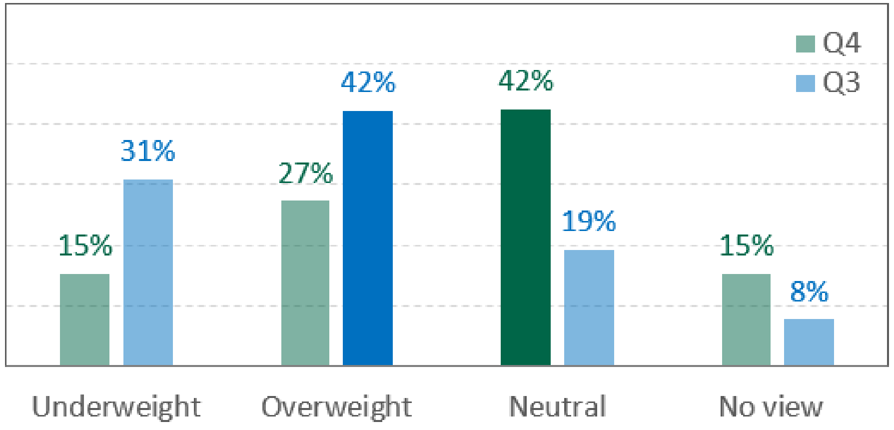
EUR/HUF: We do not expect further appreciation, but the HUF could remain around its current level in Q1 2026

- The weaker USD, the hawkish new central bank governor via the high carry helped the HUF appreciate. Despite the appreciation, the HUF remained slightly undervalued, by 3-4% in our view, as the fair EUR/HUF level could be around 370-375 according to our estimations.
- The HUF hit the 380 level in Q4 as we suggested in our previous strategy. We do not expect further appreciation from the current level. This means that in our view, holding HUF long positions remains to be more attractive due to the interest rate differential.

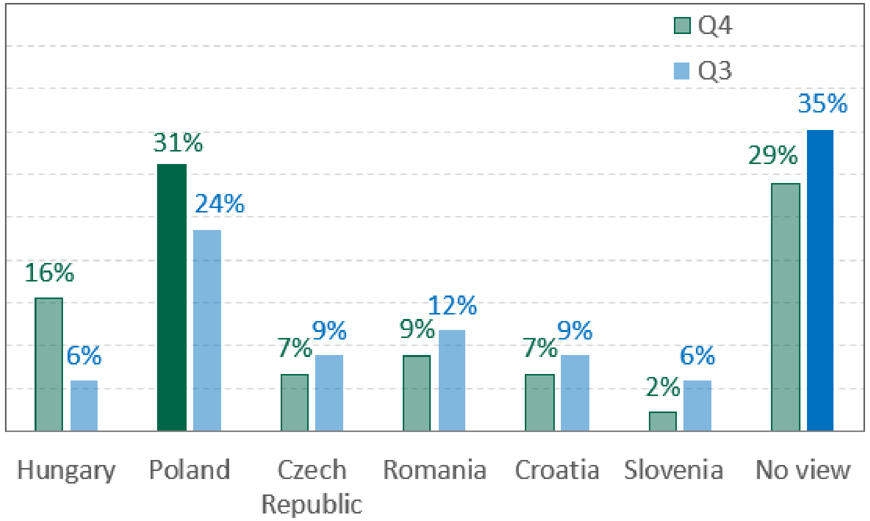
Source: Bloomberg, OTP Research

OTP Global Markets Institutional Investor Survey Results

Would you be underweight or overweight Max Index on a duration basis in the next 3 months?



Which CETOP country will outperfrom most in the next 3 months?



- Over 30 senior financial professionals, active in CEE markets and managing more than EUR 6.5 billion in assets under direct control, participated in our survey, which was closed by 5th of December. Here, we highlight the most notable insights. Access the full report here.
- The survey shows a clear shift toward neutrality on Max Index duration positioning as participants weigh two offsetting forces: (1) the government's decision to raise the budget deficit target, which pushed yields higher from early November and increased perceived risk, and (2) elevated purchases of government bonds by Hungarian banks to reduce extra profit tax, which supported the demand side and helped stabilize yields. The 7–10y segment remains the most favored, supported by somewhat more attractive I-spreads, and strong demand from banks, particularly for maturity after 2030.
- Respondents see EURHUF broadly stable over the next three months. The majority of respondents forecasting inflation in the 2.5–4.5% range in early 2026, and EURHUF stable at 375–385. Institutions expect gradual NBH easing (the consensus shifting toward a 50 bps cut) with FX stability as a guiding objective, and only limited probability of a policy pivot away from the stronger-HUF regime in the near term. Regarding regional FX: HUF is the clear top expected outperformer. Election risk is moving to the center of portfolios: the survey shows it already influences decisions "significantly".
- Respondents taking higher risk relative to benchmark in equities and favoring EM and CEE exposures over the next 3 months. Institutional sentiment on CETOP country performance shows a clear rotation in expectations. Poland strengthens as the top pick for outperformance, while Hungary also gains traction. The shift toward Poland reflects supportive factors like strong earnings across sectors, resilient macro fundamentals, and a sharp rebound in bank stocks following the August tax shock. Despite the introduction of a higher bank tax, investors reassessed the sector as valuations looked attractive and profitability remained robust. Conversely, Romania emerges as the key underperformance candidate, which reflects its relatively weak economic outlook, the strong rally in the BET index in recent quarters, and thin liquidity compared to peers.

Source: OTP Multi-Asset Strategies

Asset classes

Equities

Fiscal and monetary easing continues to provide strong tailwinds, but equities are expensive, meaning there is less and less room for error. We are therefore selectively choosing between sectors and regions in order to achieve excess returns.

Bonds

Weakening labor market and slowing growth are pushing yields lower (in the US), continued significant budget deficits and deteriorating debt trajectories pose upside risks. For this reason, short/ medium maturities are favored.

Commodities

We maintain our neutral view, as energy and agricultural products' outlook remain weak. The outlook for metals remains favorable, selective exposure is recommended (e.g. copper, uranium and gold).

Overweight

Neutral

Underweight

Equities: on the verge of a bubble

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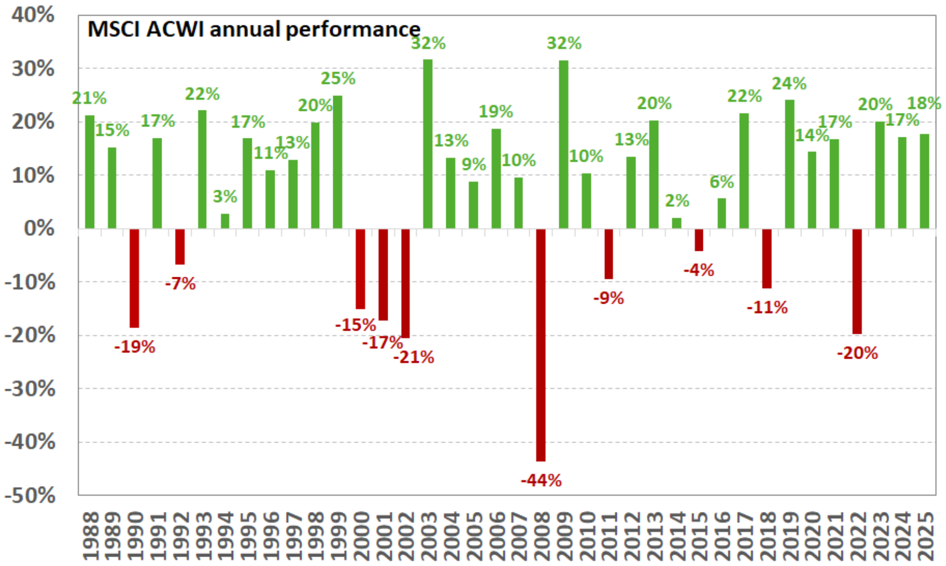
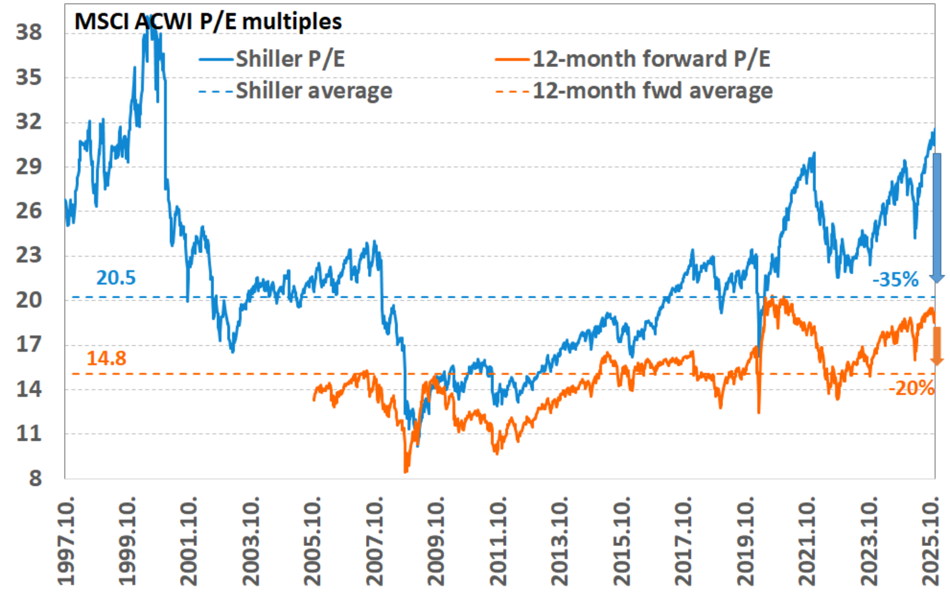


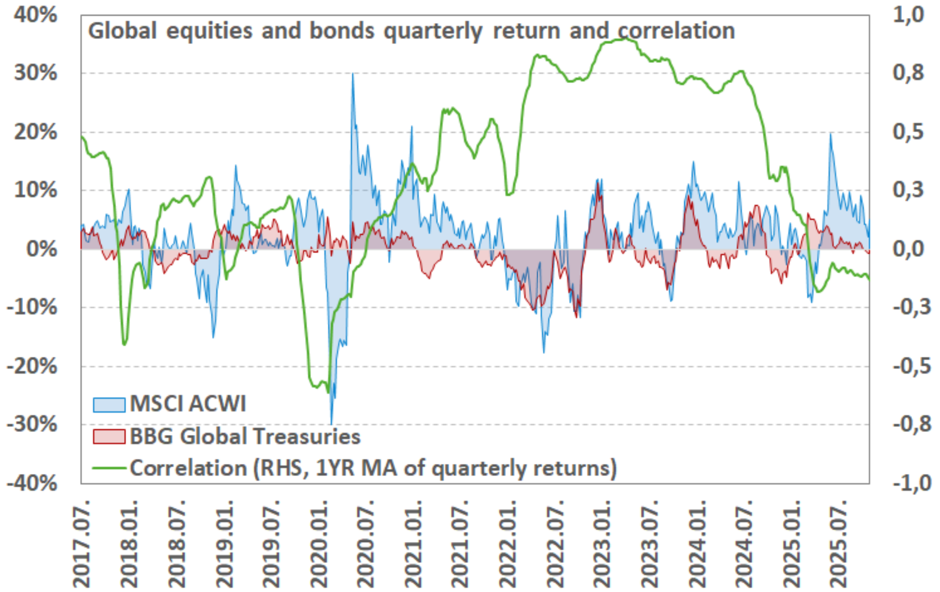


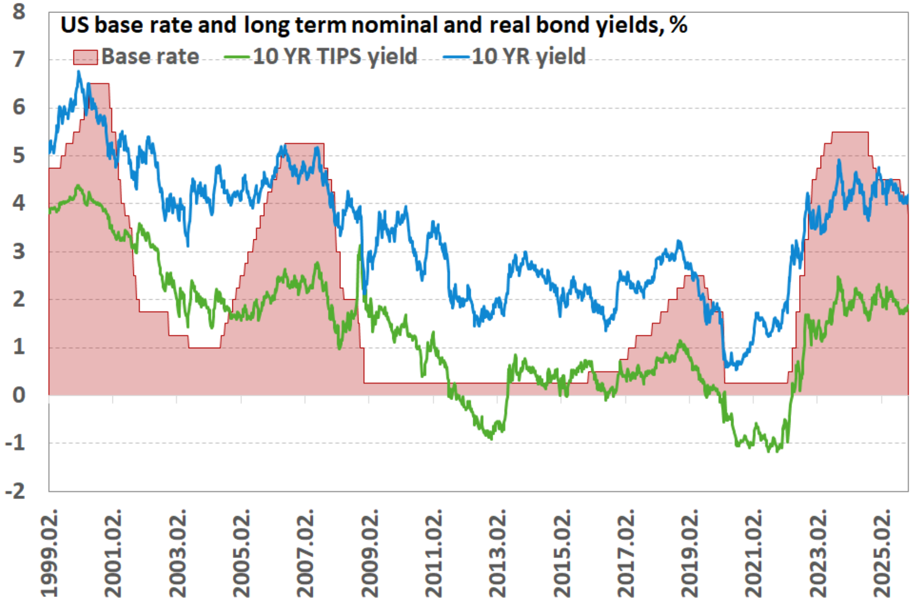
Source: Bloomberg, OTP Multi-Asset Strategies

- Given the continued supportive fiscal and monetary outlook, healthy corporate profit growth, low risk of recession in the US as midterm elections approach, and the unbroken momentum of AI infrastructure investments, our baseline outlook for 2026 is similar to that for this year: equities may perform well, but with greater volatility, so after a significant (40%) rally since last April lows, we would keep some powder dry, to increase equity exposure during market drawdowns.
- As equity markets are expensive, profit growth is expected to continue to drive returns (as has largely been the case this year), which could result in a more moderate index level increase compared to the ~20% seen in recent years. Global corporate profit margins have reached new highs, with consensus expectations of 13% profit growth by 2026, which may be achievable given the supportive economic outlook. AI-related investments and the bigtech's above average performance undoubtedly contributing a lot to this, partly that's why the upward profit cycle has now been able to extend longer than we have seen in the past 20 years (3 years vs. 2-2.5 avg.), although the 30% rise from the previous low still falls short of average levels of 40-60%.
- Healthy profit dynamics also help keep valuation levels high, as do, of course, accommodative central bank policies and the liquidity tailwind provided also by rising commercial bank's lending volumes. However, the Shiller P/E ratio above 31 is already higher than the local peak at the end of 2021. The last time we were here was before the tech bubble, and although forward valuations have not yet exceeded those peaks, the long-term average is still 20% lower. High valuations leave less room for error, meaning that negative scenarios related to AI returns or growth prospects, or even a sudden rise in long-term bond yields, could trigger rapid and significant corrections going forward. However, these can still be used to increase equity exposure for the time being, as in the absence of a recessionary economic outcome – the risk of which is low – and with the Fed's preemptive easing, we are increasingly moving down the path we took before the tech bubble (like from 1998 to 2000). In such a case, even from current levels, another wave of rising stock markets could come, which would take us into what is likely to be the final, and therefore most intense, phase of a bubble.

Fiscal and monetary easing, healthy corporate earnings growth are strong tailwinds for equity markets, which, however, have already priced in much of this, making them expensive and leaving less room for error. For this reason, we maintain neutral stance on equities, and are selectively choosing sectors and regions in order to achieve excess returns. After a significant rally since last April, we would keep some powder dry, to increase equity exposure during market drawdowns.

Bonds: remain cautious about the long end of the yield curve



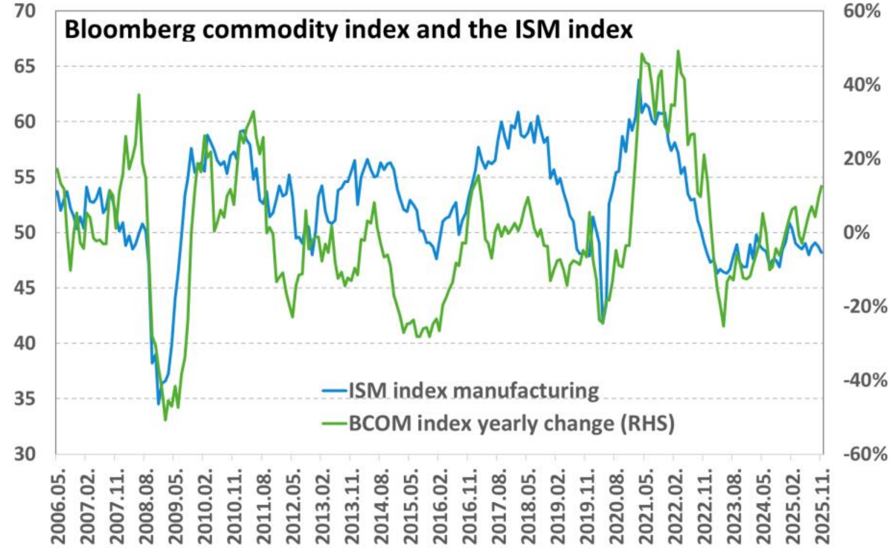


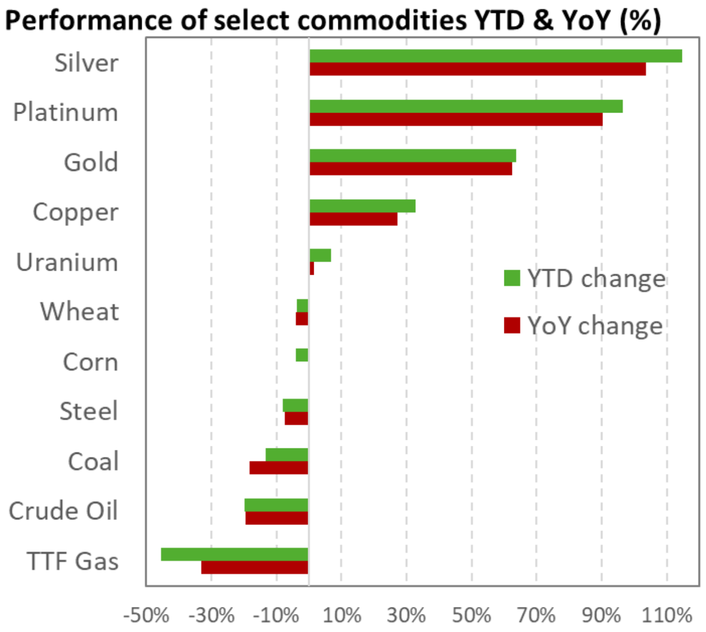
Source: Bloomberg, IMF, OTP Multi-Asset Strategies

- While the US labor and housing markets are showing signs of weakness and growth is slowing, continued significant fiscal spending (with no turnaround expected before the midterm elections) and high indebtedness pose risks to the Fed's independence, while foreign bond holdings remain at near record highs. The latter may keep long-term bond yields high (the 50 bp term premium does not seem to be sufficient compensation for the increasing risks), even though the budget deficit is planned to be financed primarily with shorter maturities (T-Bills) and the Fed ended its quantitative tightening program at the end of October. Even if further interest rate cuts are made following the change of central bank governor in the spring, this is likely to only temporarily lower longer-term yields, rather than permanently.
- However, politically driven risks, a more dovish new Fed chair, a potentially more aggressive Fed in terms of interest rate cuts, and the resulting tightening of interest rate differentials may put further pressure on the dollar, as it remains expensive on a valuation basis, confidence in its role as a safe haven has been shaken, and capital is seeking diversification opportunities outside the US.
- The European bond market may remain a popular destination for diversification away from US assets, as the fiscal spending of previously troubled peripheral countries is relatively disciplined this time around, and Germany has also room with comfortable debt levels to carry the announced fiscal loosening. On the other hand, debt sustainability issues can not be neglected either (France, UK), as well as the tight labor market, high wage growth and rising service inflation, which pose upside risks to the inflation outlook, and keeping EUR yields also under pressure.
- In the corporate bond segment, spreads remain close to historic lows, which, in our view, does not cover the increasing risks that rising bankruptcy rates may pose as growth weakens and the need for refinancing at higher interest rates for debt issued at the low yields of 2020 grows stronger. We still favor IG over HY credit.

Our view on bond exposure remains unchanged: while the weakening labor market and slowing growth are pushing yields lower in the US, continued significant budget deficits and deteriorating debt trajectories, above target and/or increasing inflation pose risks. For this reason, we continue to favor the short/medium end of the yield curve.

Commodities: oil remains weak for now, but metals may be strong in 2026





- The overall picture of the commodities markets has improved somewhat in recent months, mainly due to the strong performance of precious metals, but copper is also doing well, and the prices of some other industrial metals have also improved. However, energy-related products are still struggling, especially oil, although US natural gas prices have risen (while European prices are trending downward). In addition, agricultural products are not performing particularly well either, with the exception of a few items (e.g., coffee, wool).
- The strong performance of gold and silver is nothing new, as the rise has been going on for almost 2 years now, but platinum and palladium have also joined in this year. In the case of copper, weakness on the supply side is an important element, but demand is also being supported by several structural factors. For other industrial metals, the supply-demand situation appears somewhat mixed, but the outlook for lithium, aluminum, tungsten and tin, is better. An important aspect for metals in 2026 will be how the Chinese economy performs, which held up relatively well in 2025, mainly due to strong export performance despite the trade war.
- Within commodities, the outlook for metals is appealing for us (one of our favored assets in 2026), but the big question for the broader sector is whether oil will also start to rise. The main bearish reason is that in 2025, OPEC+ released large quantities of oil back onto the market, while US production also increased, leading to a significant oil surplus. The IEA, for example, now expects a surplus of more than 3.8 million barrels in 2026 (~3-4% oversupply), while the OPEC seems more optimistic, expects significantly higher demand growth in 2026.
- In our view, a sustainable positive turnaround could likely occur (aside from geopolitical events) if US shale oil production were to stagnate or decline slightly, while the global economic outlook improves, leading to higher-than-expected demand (another favorable factor is that several OPEC+ member countries are producing below their production quotas). Given the current downward trend in oil prices and looser fiscal and monetary policies, this does not seem an impossible outcome in 2026, but for us, it's still too early to bet on it. For the time being, it may be worth staying on the sidelines.

Overall, we maintain our neutral view on commodities, as energy and agricultural products remain weak for now. However, the outlook for industrial and precious metals remains favorable, so selective exposure is recommended (e.g., copper, uranium, gold).

Source: Bloomberg, OTP Multi-Asset Strategies, OPEC, IEA

Equities - Regions

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US

Fiscal and monetary policy is likely to remain supportive, so even though the stock market is expensive, this is counterbalanced by abundant liquidity, healthy corporate earnings momentum, and an AI investment boom.

Europe

With increased German spending, growth may slowly improve in 2026, and the corporate profit recession may come to an end. The region is relatively cheap, but there are still many obstacles to overcome, which may prolong the repricing process.

Emerging Markets

The region could deliver the highest profit growth in 2026, but there are questions about its sustainability. The weakening dollar and Fed interest rate cuts are tailwinds, but valuation is already neutral. We favor Latin America and India.

CEE

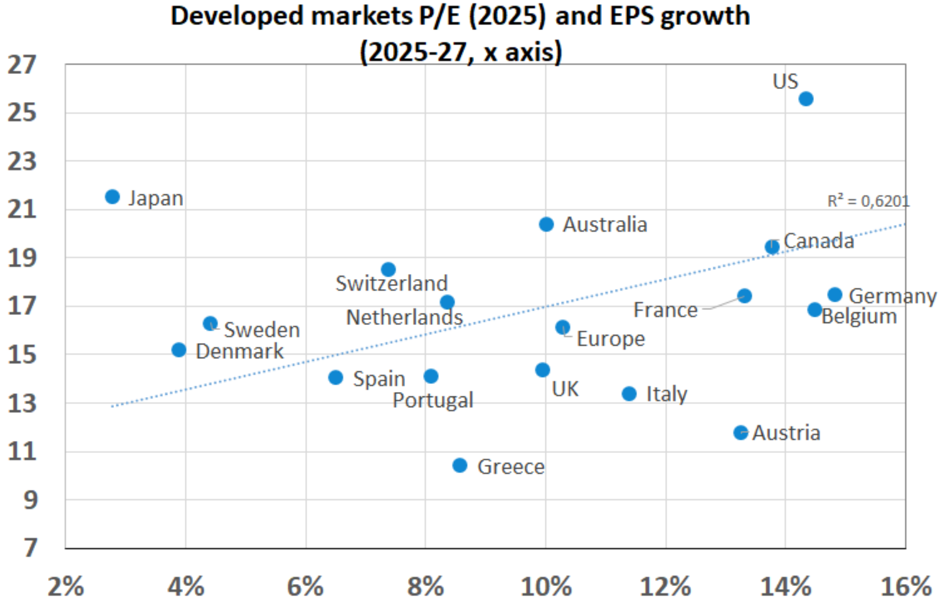
We see no change in the factors driving the region so far, with a further slow improvement in growth expected and profit consensus likely to remain subdued. Although risks are increasing, the pricing discount still appears excessive.

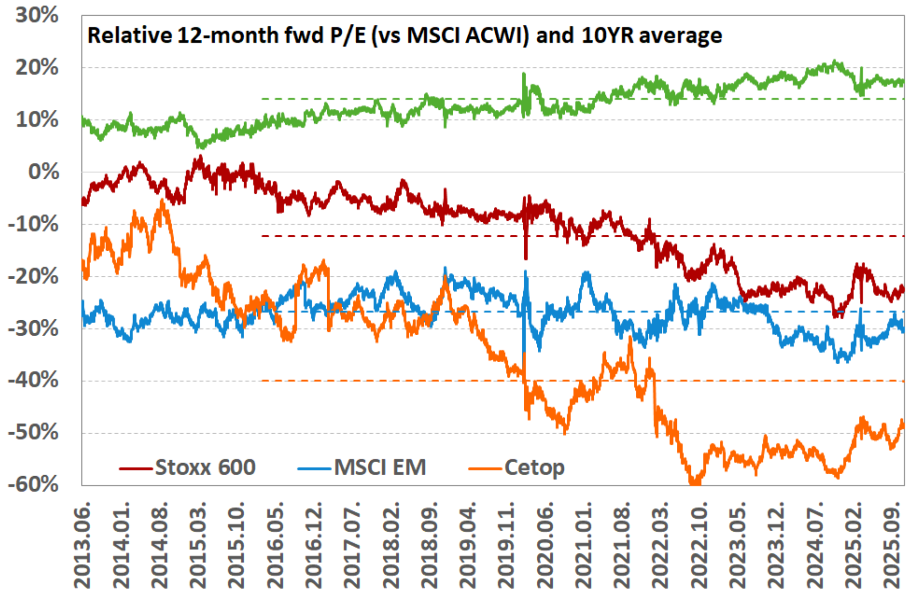
Overweight

Neutral

Underweight

US: expensive, but hard to bet against





Source: Bloomberg, OTP Multi-Asset Strategies

- Economic growth is expected to slow down in the US, with the labor and housing markets looking weak and trade tariffs having a negative impact, but AI-related infrastructure investments are supportive, although productivity growth effects may take time to materialize. Fiscal policy is loose (the growth-stimulating effects of the Big Beautiful Bill will carry over into 2026), while the central bank has begun cutting interest rates in response to the weakening labor market, which together keep recession risks low. Due to the midterm elections in early November and the expiration of the Fed chair's term in mid-May, the current loose (or even looser) economic policy stance is likely to remain in place.
- All this could translate into healthy profit growth (above 10%), supported by further increases in investment spending next year due to the rollout of AI infrastructure. US companies' return on investment and profit growth indicators remain among the best in the world. The strongest argument against US market remains its high valuation: a forward P/E ratio of 22, which is nearly 40% above the 20-year average and 17% above the global level, compared to the usual 10%. The cyclically adjusted Shiller P/E ratio also exceeds the local peak at the end of 2021, at 38. This means that strong fundamentals are already largely reflected in high prices. This in itself does not halt the bull market, which is younger than average in terms of age (38 months vs. the average of 67), but there is less and less room for error (corporate profits falling short of expectations; unfavorable news related to AI; rising bond yields).
- Seeing signs pointing towards further monetary policy easing (QT stopped end of October, Fed starts T-Bill purchases, change of central bank governor), the stronger upward potential from current levels would result in a situation similar to the bubble period seen from 1998 to 2000. However, there are also scenarios in which the focus could easily shift from America to other stock markets around the world: if there were to be a break in optimistic expectations regarding the return on AI investments (which cannot be ruled out with the arrival of newer innovations), or if the Fed were to push interest rate cuts too aggressively amid upward inflationary risks, which would keep long bond yields high, and put the dollar under further pressure.
- For all these reasons, we would maintain a neutral stance on US equity exposure and favor sectors primarily linked to the development of AI infrastructure, an area in which the US has a strong advantage. We consider these to be semiconductors on the hardware, and cybersecurity companies on the software side, the utilities/renewables that provide the necessary energy supply, which is a bottleneck in terms of data center operations, and copper miners in terms of raw materials which are crucial for the infrastructure buildout.

Europe: can keep up the pace, but needs more to overtake

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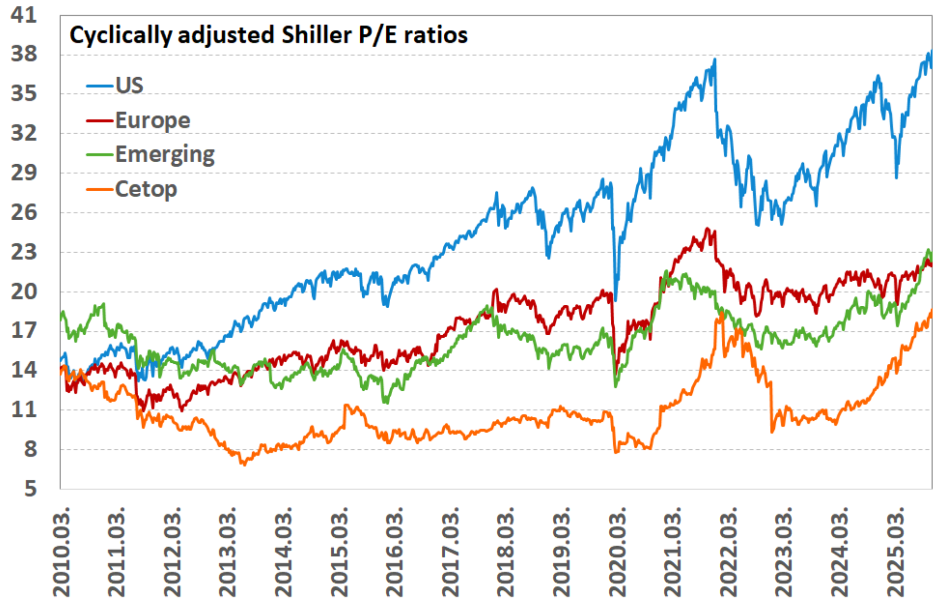
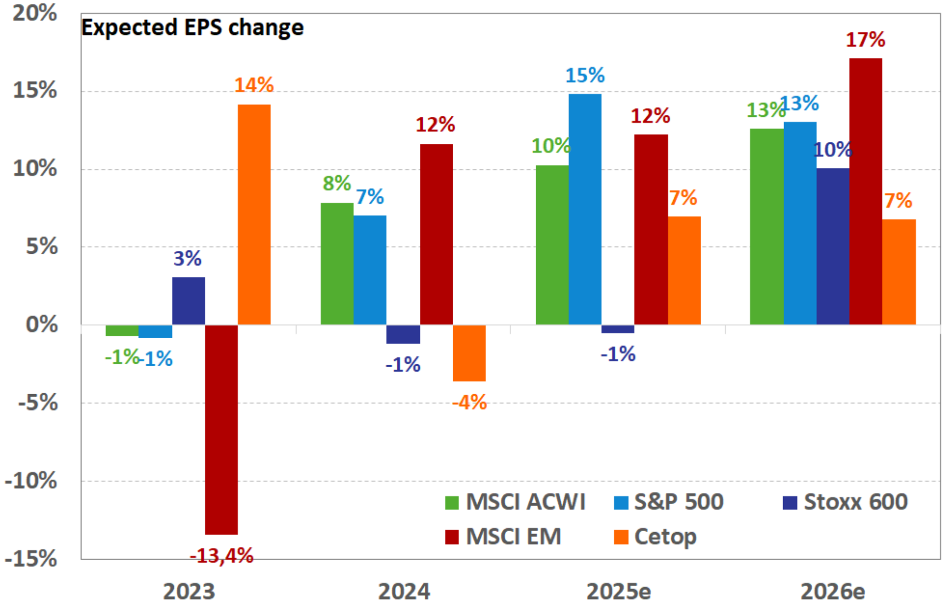
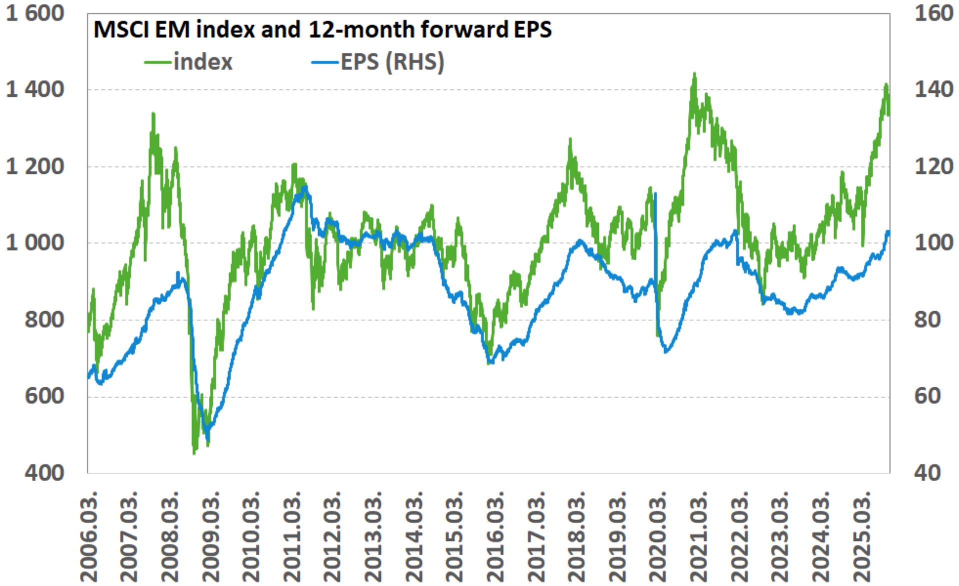


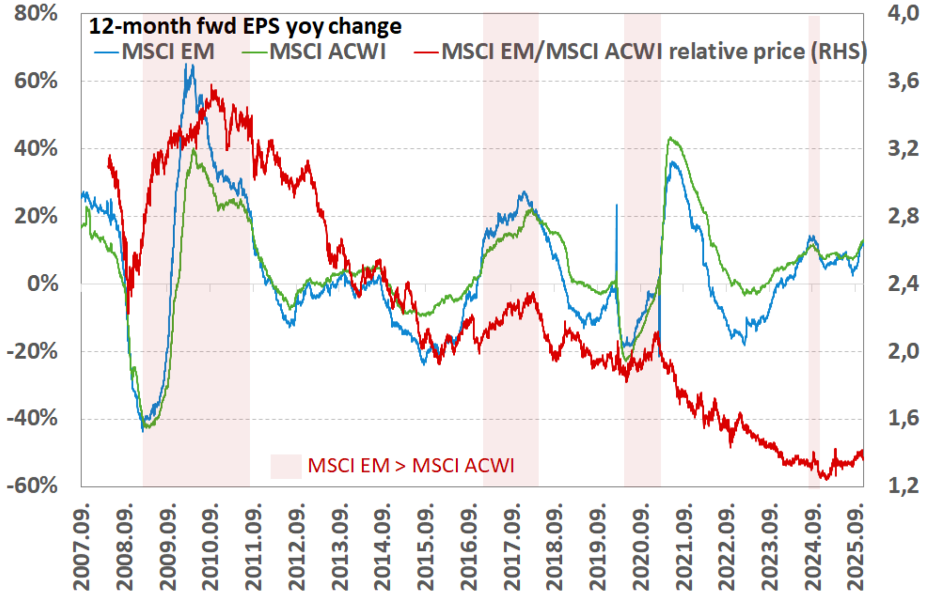


Source: Bloomberg, OTP Multi-Asset Strategies

- The truly groundbreaking change this year was the easing of German debt brake rules and the increase in infrastructure and defense spending. This may be felt on European economic growth in 2026, mainly in the second half. This fiscal stimulus will be most beneficial to the German economy, but will have an indirect positive effect on the whole eurozone, as well as the effect of ECB's monetary easing, the strengthening of bank lending dynamics, and the RRF funds still available (primarily to support southern European economies). There have also been other positive developments recently: an agreement on US trade tariffs, and diversification of trade relations (India and Brazil). Inflationary pressure may remain low despite German spending, partly due to the disinflationary effect of cheap Chinese exports, products redirected to Europe (partly because of higher US tariffs).
- On the other hand, Chinese goods are also becoming increasingly competitive on global markets, for example with German machinery and automotive products, not to mention certain competitive advantages on the technological front. European productivity remains weak, energy costs are high, the demographic situation (declining working-age population) is unfavorable, geopolitical risks due to the Russian-Ukrainian war are weighing heavily, while the popularity of extremist parties is growing in several key countries. This includes France, which has been plagued by constant government crises over the past year and is expected to remain a weak point in the region going forward, as the political stalemate prevents real budgetary reforms from being implemented, which in turn means that debt may remain on an unsustainable path.
- These negatives are, of course, reflected in prices, with the European stock market looking increasingly attractive on a valuation basis. The cyclically adjusted P/E ratio is below its 2021 peak only in this region, while the forward P/E ratio is only 10% above the long-term average (only CEE is in a better position), and compared to global equities, the discount is 22%, which is also significant. The good news is that corporate profits, which have been stagnant for three years, are also expected to pick up, with growth of around 10% in 2026.
- This may be helpful for the European stock market to keep pace with the US in the coming period, but until we see more attractive figures in terms of profit generation, the arguments for and against the region cancel each other out. Within Europe, we see potential in the lagging and small-cap segment, as there are several factors that could catalyze its outperformance, which is typical in the mature phase of an upturn.

Emerging markets: how long the driving forces will last?



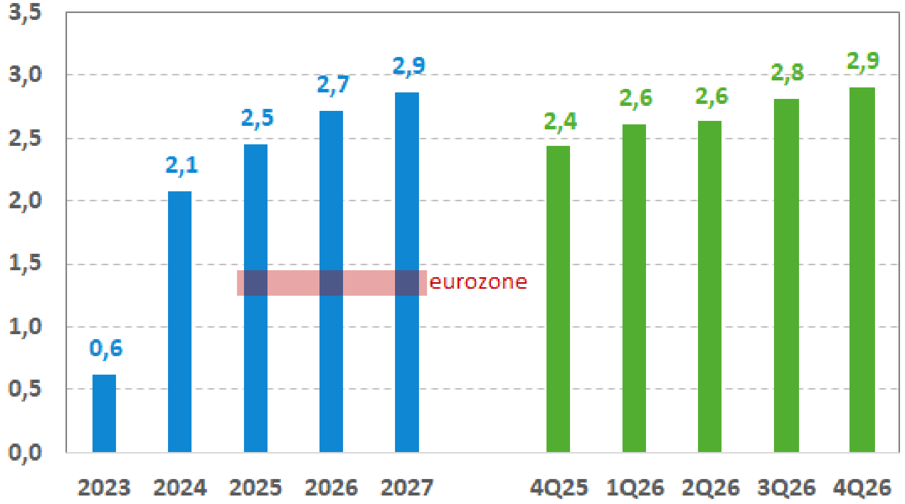


Source: Bloomberg, OTP Multi-Asset Strategies

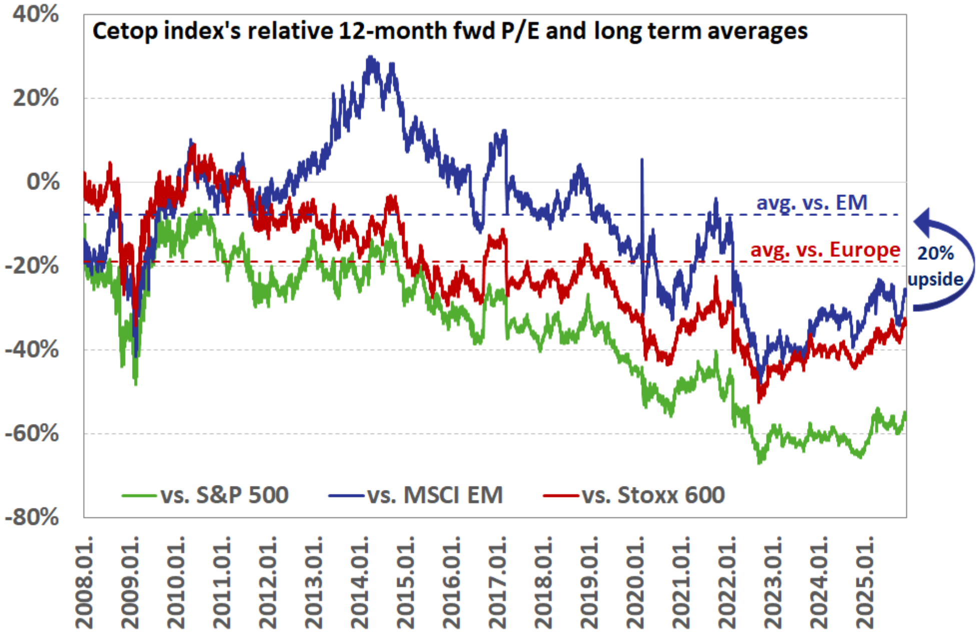
- Capital outflows from US assets, the weakening of the dollar, and the Fed's interest rate cuts are all tailwinds for emerging markets. It is no coincidence that consensus expects the largest profit growth in this region by 2026, at over 15%, which could finally lead to profit dynamics outperforming the global average. This would be a necessary condition for the region to be able to outperform the global index.
- However, it should not be forgotten that profit growth in emerging markets has been unable to exceed global growth for at least the last two years, and that current levels have repeatedly marked the peak of the profit cycle over the past 20 years, followed by a downturn. In the first half of 2026, the weakening of the dollar will also help due to the favorable base effect, but if there is no further wave of weakening from current levels, this effect may disappear in the second half of the year. Moreover, it would not be unprecedented for analysts' profit expectations to fall sharply within the year, as has been the case in each of the past few years. In other words, there are downside risks on the profit side, while the region's previous cheapness has now disappeared: the relative P/E discount is significant, sits at 30% compared to the global average, but this is already close to the average, while the P/E ratio of 13 is not far behind the European valuation level and already exceeds the long-term average by 10%.
- The Chinese economy, which has the greatest impact on the EM indices, continues to face challenges: the real estate sector continues to perform poorly, meanwhile the export-driven manufacturing growth is being hit by the effects of US tariffs. The latter is becoming increasingly apparent in the growth figures, but it is encouraging that further tariff increases are unlikely for the time being, following the temporary de-escalation of disputes after an agreement reached by Presidents Trump and Xi in October. Despite the coming slowdown, GDP growth is likely to remain at around 4-5% in the coming years, with the strategic focus shifting to strengthening domestic consumption, but productivity is also set to increase. Chinese stock market valuations have now climbed back above their long-term average, and we are at neutral levels in a relative sense. China's dominant position in the AI race and the de-escalation in trade relations with the US may help the market in the short term, but in the longer term, risks arising from confrontations between Eastern and Western blocs, geopolitical tensions, unfavorable demographics, economic model change.
- Within the emerging region, we much more favor the Brazilian and Mexican stock markets over China, as well as India. The South Korean market is also attractive, but due to the heavy weight of semiconductor manufacturers, we believe it is worth riding the AI investment trend in other ways (through US exposures).

CEE: although shrinking, there is still potential

Cetop countries* real GDP growth expectations, %



*weighted average of Poland, Czech Rep., Romania, Hungary, Slovenia, Croatia



Source: Bloomberg, OTP Multi-Asset Strategies

- Since the global stock market bottomed out in October 2022, the Central and Eastern European stock market (Cetop: +145%) has been outperforming strongly and has maintained its leading position also this year. The latter was helped also by the rising probability of a Russian-Ukrainian peace agreement, but overall in recent years, rising share prices were coupled with rising corporate profits. Annual profit dynamics have also outperformed those of other main regions for most of the time, meaning that the rally was also supported at the fundamental level. For this reason, although stock market valuations have risen somewhat, the region is still one of the cheapest globally in both historical and relative terms.
- We do not see any change in the factors that have supported the region so far: economic growth is twice that seen in the eurozone, and growth is expected to strengthen slightly in the coming years, supported by the use of EU funds (there are still two years left in the 2021-27 cohesion budget cycle, and there are still opportunities to draw down the remaining RRF funds) and loose fiscal policies. However, due to the latter, excessive deficit procedures are ongoing in key countries, such as Poland, Hungary, and Romania, which means that meaningful steps and plans must be formulated to reduce the deficit. However, this is not expected to come at the expense of growth in 2026, as the Romanian example shows that the Council is flexible in terms of timing and the extent of spending cuts, which means that the region's weighted average budget deficit (to GDP) is expected to decline only slightly. As many countries in the developed world are struggling with the same phenomenon, the market is not forcing tougher adjustments for the time being. Under these conditions, regional disinflationary processes are slowing down and the scope for further interest rate cuts is narrowing. Strong economic growth and relatively high interest rates, on the other hand, favor the stock market, which is typically dominated by banking and cyclical sectors, where the expected profit growth of around 7% by 2026 may again prove too conservative compared to the double-digit percentage growth expectations of other regions (as has been the case in recent years).
- However, risks have also emerged, as all major countries in the region are placing a burden on the financial sector in the form of special taxes in order to reduce budget deficits, which is dampening profit growth potential. However, these may already be factored into profit expectations and are reflected in the continued depressed valuation levels. We believe that the P/E ratio, which is below the historical average, and the significant valuation discount compared to EM or European stock markets are still excessive, even with these factors taken into account. A further 10-20% upside potential from current levels appears justified on fundamental grounds, which is why we are maintaining our overweight recommendation.

The most favoured investment topics

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Semiconductors

AI creates further structural growth opportunities. Semis are expensive, but supply-demand conditions are still favorable.

Cybersecurity

The next leg of the AI investment story may be on the software side, and the cybersecurity sector is well positioned for that.

Utilities/Renewables

Rising electricity demand is a structural tailwind for both. Renewable expansion will continue, valuations are still reasonable.

Miners

Electrification, Chinese stimulus measures, and weak supply help copper; uranium market is still in structural deficit.

India

Well positioned for many long-term megatrends, the country has huge internal potential. Returning profit growth may be a catalyst.

LatAm

Mexico may be a relative winner of Trump's tariffs, nearshoring trends may continue. Brazil is globally one of the cheapest.

Europe Small Cap

Cheapest segment in Europe, there are several factors, which could catalyze a usual outperformance around the last phase of bull markets .

Gold

Buoyant central bank demand, high geopolitical risks and no signs of improvement in fiscal discipline support gold.

Removed topics from the list

Newly added topics to the list

Semiconductors: AI momentum supports acceleration of growth

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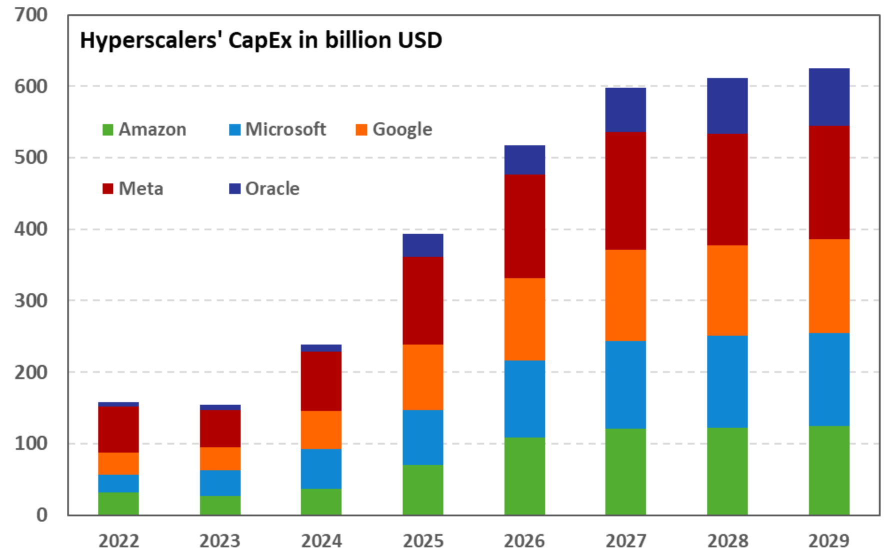
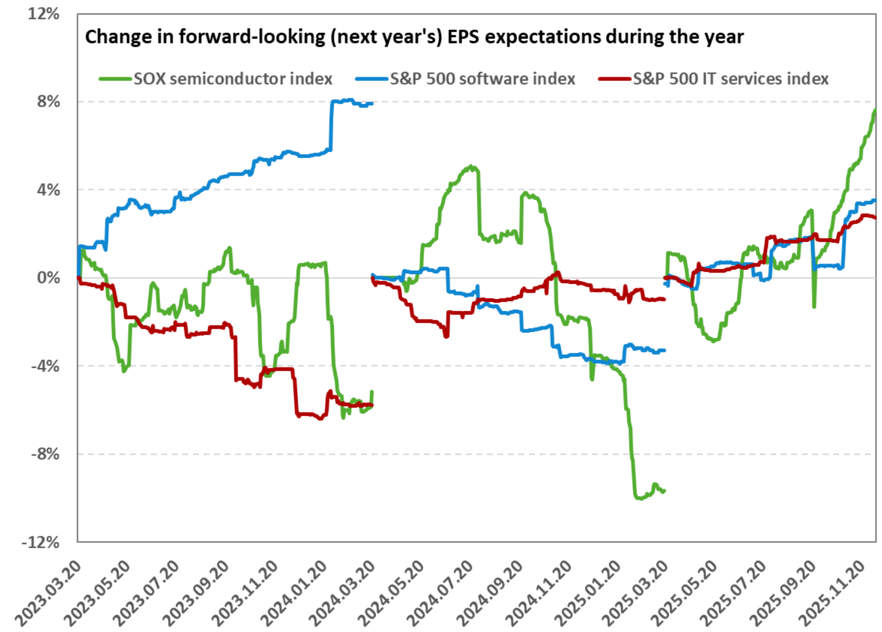


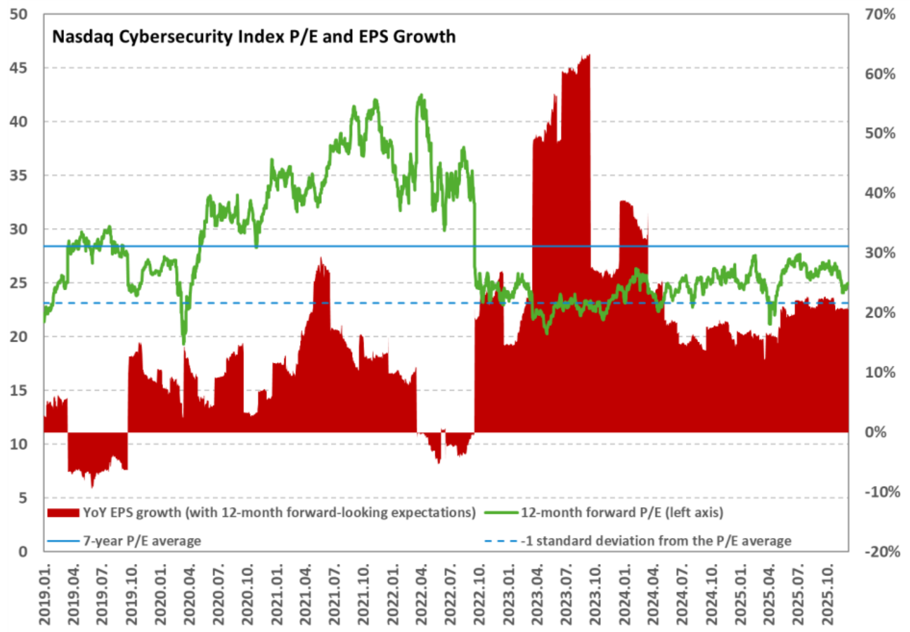


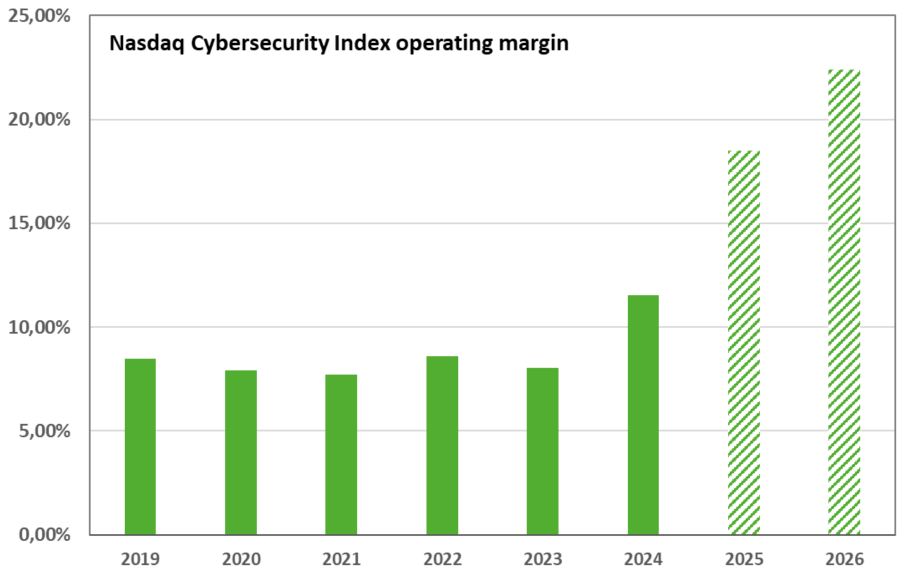
Source: Bloomberg, OTP Multi-Asset Strategies

- Momentum remains strong in AI infrastructure and cloud services. The annual CapEx plans of hyperscalers (Google, Meta, Amazon, Microsoft, Oracle) could rise to ~$520 billion in 2026 (30% growth YoY), while they are preparing for a total of approximately $2.9 trillion in additional investment by 2030 – nearly four times the amount spent between 2023 and 2025. Based on this, current computing capacities cover only ~20% of the planned infrastructure, which paints a favorable growth picture for semiconductor companies until the end of the decade.
- AI-driven demand continues to exceed supply: Nvidia, a leading player in AI, has already secured more than $500 billion worth of chip orders for the 2025-2026 period, which could result in ~50% revenue growth in 2026, but further increases in order backlog carry upside potential. A similar situation is emerging for most of the semiconductor companies, although the supply shortage in the market for memory chips, which are essential for AI infrastructure, is even more severe. Memory prices have risen several times over from their early 2025 levels, and the trend is expected to continue in 2026 as most industry players have already contracted to sell their entire 2026 inventory. Due to strong market demand, the pricing power of the semiconductors may continue to increase in 2026, with estimates suggesting that gross margins could approach 54%, which would be a historic high, while net profit margins could expand to over 28% from the current level of around 25%.
- Data center construction driven by the AI megatrend and the associated demand for chips are the main drivers of growth, but there may also be an upturn in traditional, more widespread semiconductor products (PCs, smartphones) compared to 2025. Industry revenue growth could accelerate to over 15% in 2026 from 10% this year, while profit dynamics could rise to over 30% (currently 26%) thanks to expanding margins. In the last six months, analysts have revised their earnings expectations for 2026 upward by nearly 9%, and although valuations remain high (forward P/E: 27), this is accompanied by outstanding margins and growth.

We believe it is worth maintaining exposure to the hardware side of the technology sector, as artificial intelligence creates structural growth opportunities and favorable supply-demand conditions for semiconductors, which may remain with us during 2026. Although valuations are high and market expectations leave little room for error, we believe that AI, as a supporting megatrend, justifies exposure to the industry.

Cybersecurity: industry consolidation could help margins expand



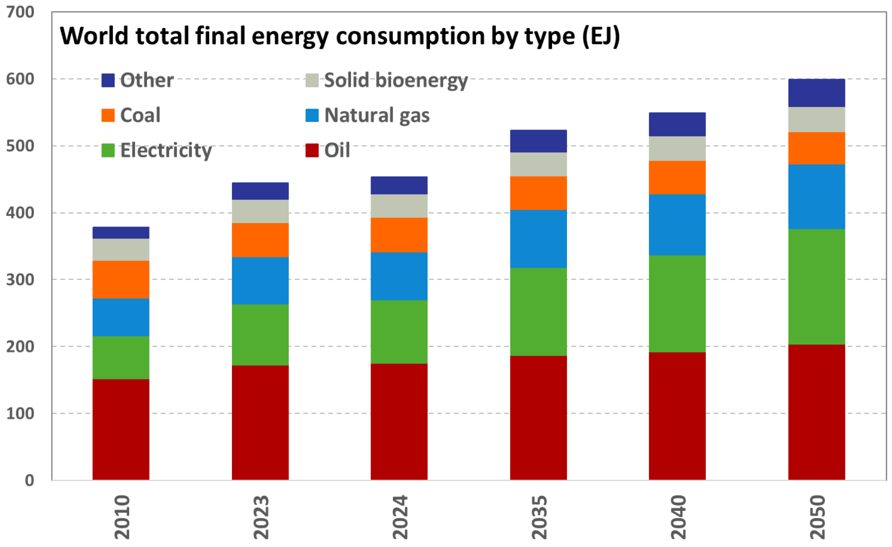


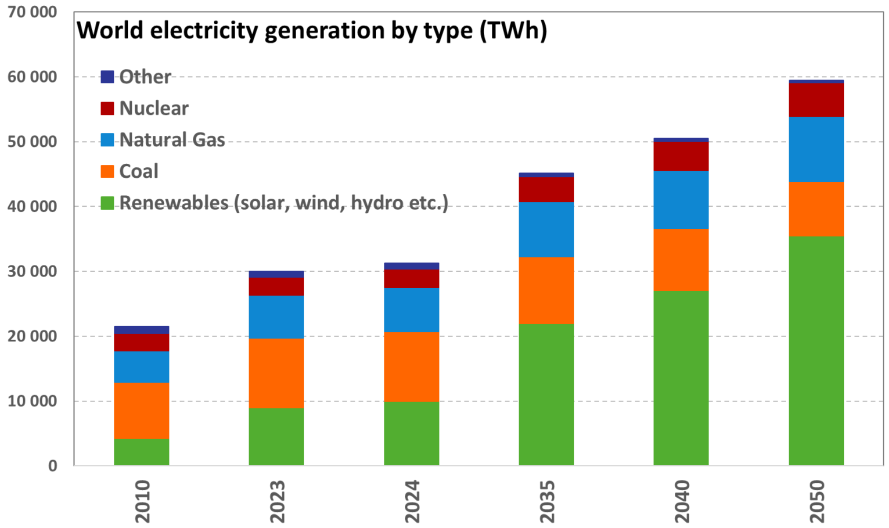
Source: Bloomberg, OTP Multi-Asset Strategies

- The cybersecurity industry underperformed within the technology sector in 2025, but on the software side, it could be one of the biggest beneficiaries of the structural tailwind provided by AI, with the rollout and adoption of infrastructure. The data centers being built can help meet the growing demand for cloud services and, at the same time, increase the need for monitoring and protecting cloud and cloud-based workflows. Furthermore, the expansion of computing capacities will enable the spread of AI agents, which could be a new catalyst for the authentication and identity security segment.
- Demand for cybersecurity solutions is further strengthened by the fact that the average number of cyberattacks per company has nearly tripled in the past five years. In addition, attacks carried out by generative AI are becoming increasingly sophisticated and could account for 17% of all incidents by 2027, according to Gartner. Tighter regulations and increasing transparency are heightening reputational risks, prompting companies to spend more on cybersecurity and preventive measures.
- The long-term growth prospects of the cybersecurity industry are reinforced by increasing geopolitical tensions. The rise of hybrid warfare could mean significant government orders for the sector. Currently, only ~0.1% of US GDP is spent on cybersecurity, but a NATO proposal adopted this year envisages a 1.5% allocation for infrastructure and cybersecurity by 2035, which could result in an average annual increase of over 22% in government spending in this area over the next ten years.
- In the short term, consolidation processes in this still fragmented industry may help margins expand, with operating margins reaching 22% by 2026, compared to 12% in 2024. In contrast, the segment is trading at a discount of around 10% compared to broader technology and is also below its own historical average, which points to further upside potential. Looser monetary policy would help pricing multiples expand, as the industry is still in a growth phase and therefore more sensitive to interest rate cycles.

On the software side of the technology sector, the spread of AI could be a clear positive catalyst for cybersecurity, supporting growth in the long term, while consolidation processes in the industry could widen margins. In addition, there may still be room for upward movement in valuations, especially if the Fed continues to cut interest rates.

Utilities & Renewables: electricity consumption rapidly grows





- According to the International Energy Agency's new World Energy Outlook (WEO) publication, global electricity demand could rise by 40% by 2035 compared to the 2024 baseline. This is due to several factors, including the demand for air conditioning, modern industrial manufacturing, electromobility, and data centers. Accordingly, more than 40% of global energy investments are related to the electricity sector. This currently amounts to a total of $1.4 trillion per year (approximately $1 trillion for electricity generation and $400 billion for grid development).
- The significance of the electrification process is well illustrated by the fact that, according to IEA estimates, global energy demand may increase by "only" 1.2% per year between 2024 and 2035 (90% of which will be in developing countries), while electricity demand may grow by 3% annually over the same period (roughly equivalent to adding Japan's annual consumption each year). Various household appliances and air conditioners may account for 30% of the increase in electricity demand, industrial demand for 25%, and electric cars and data centers for another 20%. Additional demand may come from heat pumps, lighting, desalination, and agricultural needs among others.
- Despite their popularity, data centers will only account for 10% of the increase in electricity demand by 2035, which is certainly not insignificant, but it is worth putting into context. It is important to note, however, that the expansion of data center capacity will largely come from the US and China, and in the former it will account for roughly half of the expected increase in electricity demand by 2030.
- Also according to the WEO data, renewable energy production met 70% of the increase in electricity demand in 2024, primarily from solar and wind energy. It is worth noting that between 2015 and 2024, annual solar capacity expansion increased tenfold (to 540GW per annum), while wind capacity "only" doubled (to 115GW per annum). However, the growth rate of capacity expansion is likely to slow significantly in the coming years (especially for solar energy), meaning that coal likely remains the largest source of electricity and natural gas the second largest even after 2030. It is also interesting to note that natural gas-fired power generation could expand by 45% between 2024 and 2035.

Overall, we remain optimistic about the prospects for both utility companies and renewable energy production in 2026, where rapid growth in electricity demand will provide a strong structural tailwind. However, fossil fuels such as natural gas and coal should not be written off by any means.

Source: Bloomberg, OTP Multi-Asset Strategies, IEA

Miners: copper and uranium may continue to rise in 2026

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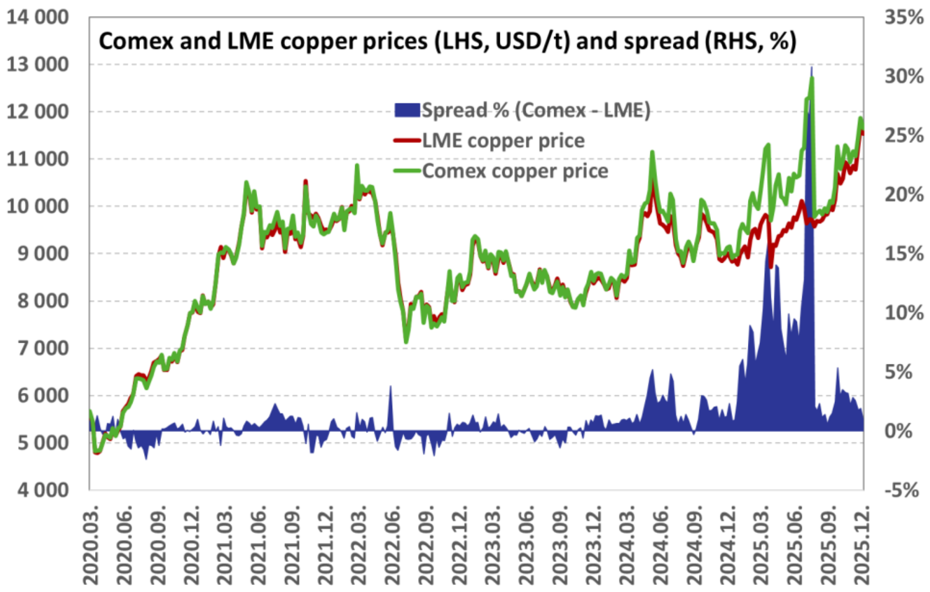
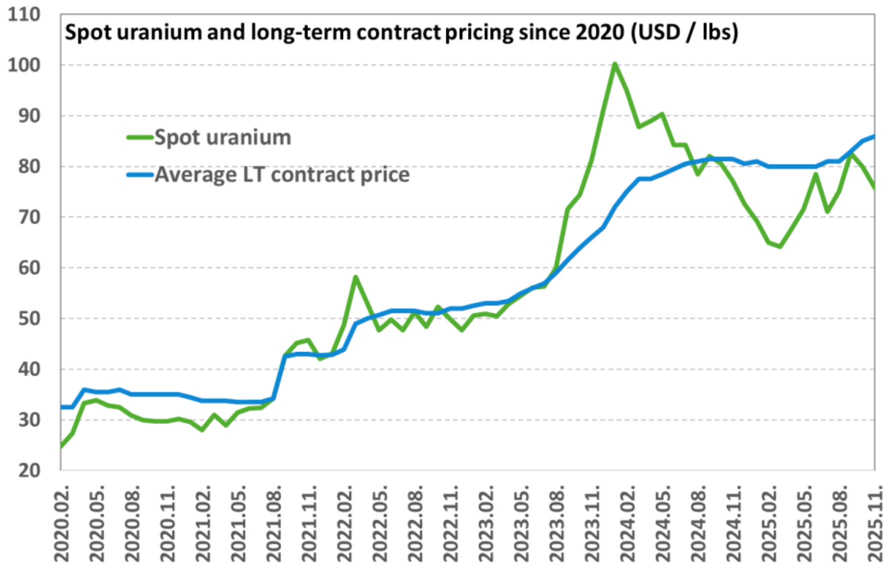




Source: Bloomberg, OTP Multi-Asset Strategies, Cochilco, China NBS, Cameco

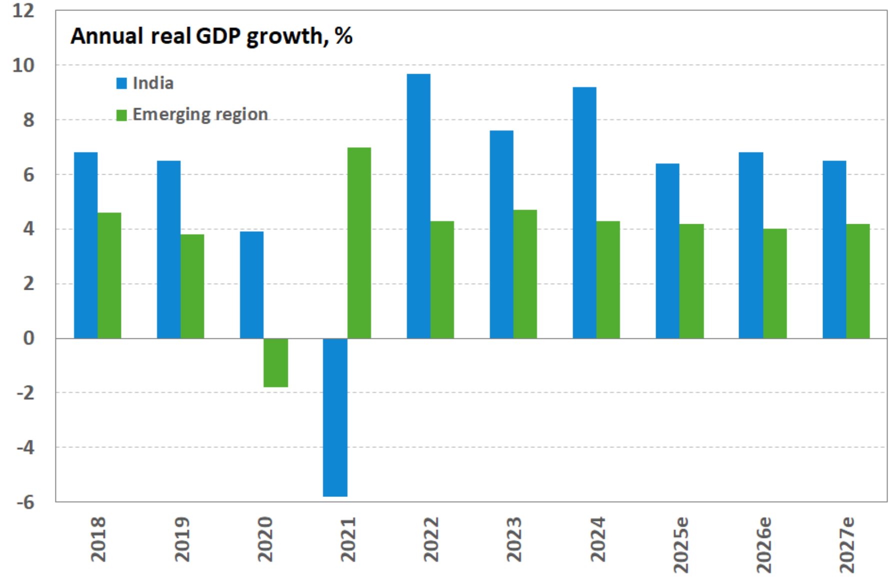
- Copper performed strongly in 2025 and its price has risen by more than 30%. The London price (LME) reached a new record high in December, while the tariff distorted US price (Comex) did so in July.
- Chile, the world's largest producer, significantly underperformed its own production forecast. At the beginning of the year, the Chilean Copper Commission expected YoY growth of nearly 5%, but now they are only estimating stagnation for 2025. Growth in 2026 is currently estimated to be a modest 2.5%. Global supply is similarly weak due to several mining accidents. The most notable of these was the large mudflow at Freeport-McMoRan's Grasberg mine in Indonesia (the world's second-largest copper mine) in September, but there are other issues on the supply side. As a result, there may be a moderate deficit in the copper market in 2026.
- Chinese economic data, which is important for the demand side, shows a mixed picture: the 5% growth target for 2025 may be achieved, but a slowdown was visible in the second half of the year, and the property sector remained weak. On the other hand, the country's export performance stayed strong despite US tariffs, and further economic stimulus measures could be introduced in 2026. Copper may get a further boost if the US Fed continues to cut interest rates in 2026, and a weakening of the USD would also have a supportive effect.

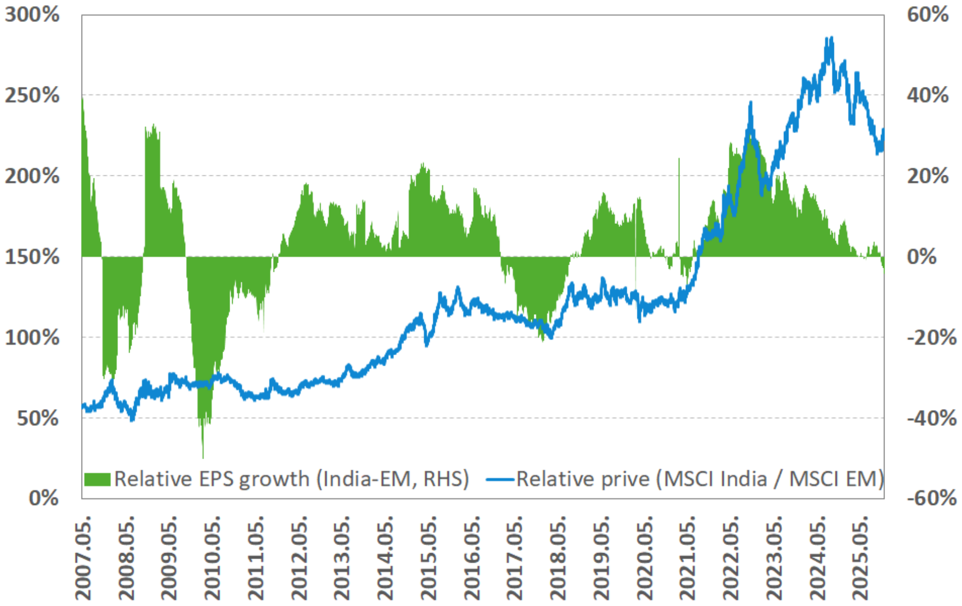
As an industrial metal, copper is sensitive to changes in the economic environment, which is somewhat uncertain, but thanks to tight supply, the outlook for 2026 remains favorable, and it may be worth having exposure to copper miners.

- The news flow regarding nuclear energy has remained very positive in recent months. Among other things, the European Commission approved Poland's request to provide state aid for its first nuclear power plant. The unit will be built by US company Westinghouse at a cost of ~$50 billion and is expected to be completed by 2036. In addition, in October, the US government, Cameco, and Brookfield entered into a strategic partnership to invest at least $80 billion in nuclear power plants in the US using Westinghouse technology.
- The uranium spot price mostly remained in the $70-80 range throughout 2025, rising only slightly YoY. However, the long-term contract price, which is more important for the industry, began to rise again in the fall after more than a year of stagnation, reaching $86 at the end of November, which is particularly encouraging.

Fundamentals remain favorable for uranium, the market is still in deficit and production difficulties are frequent. We recommend exposure to uranium mining, as we see room for further upside in 2026.

India: here is an opportunity to ride the megatrend.



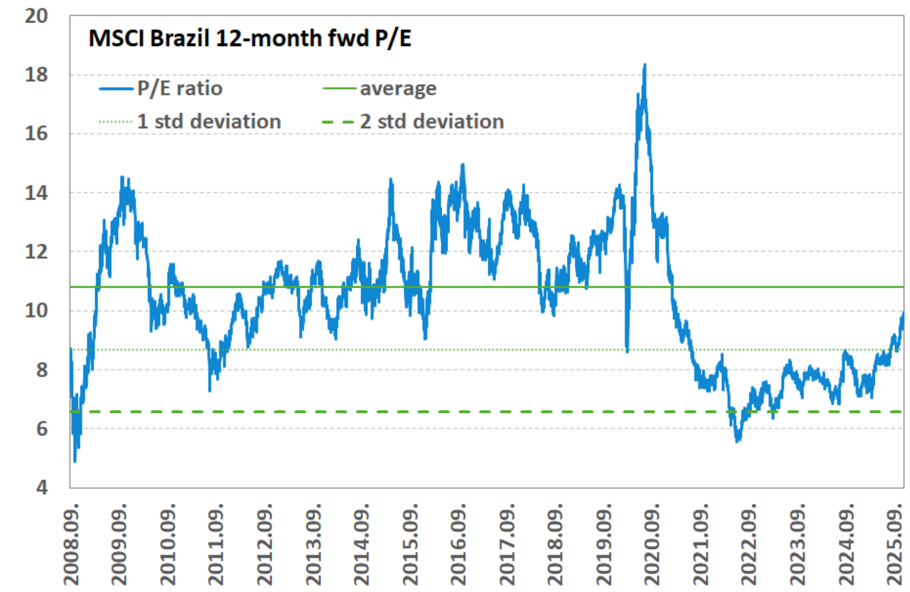


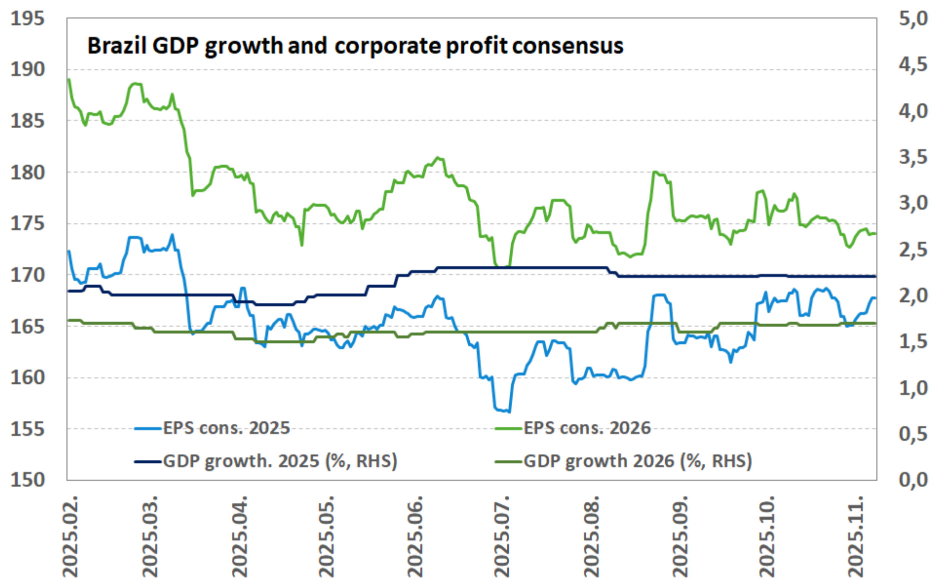
Source: Bloomberg, OTP Multi-Asset Strategies

- There are a bunch of long-term trends and drivers that are good for India's economy and stock market: demographics are favorable (median age is 29); large domestic market (now the world's most populous country); transition from a former agriculture-driven economy model to a service-driven, focusing on digitalization, financial services, and technological transformation; growth of the educated middle class; significant room for improvement in infrastructure to achieve its goal of becoming a developed market by 2047; a stable domestic political environment; balancing geopolitical role between East and West. All this allows for high, above-average GDP growth in the coming years (6-7%), while fiscal policy is not too loose and debt levels are comfortable. Therefore, despite fiscal easing measures, there is no excessive inflationary pressure, so monetary policy does not need to be overly tight to stifle growth opportunities.
- As the Indian stock market has been consolidating for a year and a half and is therefore lagging behind the rest of the world, this may provide a good entry point for longer-term investors. In addition to the relative expensiveness of the market, the deterioration in earnings momentum may have played an important role in its recent underperformance, but we expect this to change. The Indian government is stimulating domestic consumption this year by reducing income tax and VAT, and regulatory changes have also taken place (banking deregulation, labor reforms), which may have a positive impact on the stock market dominated by cyclical sectors. With the turnaround in the profit cycle, earnings growth of around 15% could return in the coming years, which would make the high, but recently much-improved valuations acceptable. US trade tariffs are currently higher than average for Indian products (which partly justified the fiscal easing), but as a result of negotiations between the parties, there is a chance that these will be reduced over time, providing a further catalyst for corporate profit growth.
- In recent years, the Indian stock market has held up relatively well amid market volatility catalyzed by fears surrounding technology and AI, so in such further cases, it can work well as a diversification exposure. In the longer term, the country's huge internal reserves and potential provide a compelling investment story.

We would take advantage of the recent consolidation to take a position in India, which continues to enjoy favorable long-term trends. Stocks are still not cheap, but strong profit growth dynamics may return next year, which could make the country a target for capital flowing into emerging markets.

LatAm: attractive valuation, unique supporting factors





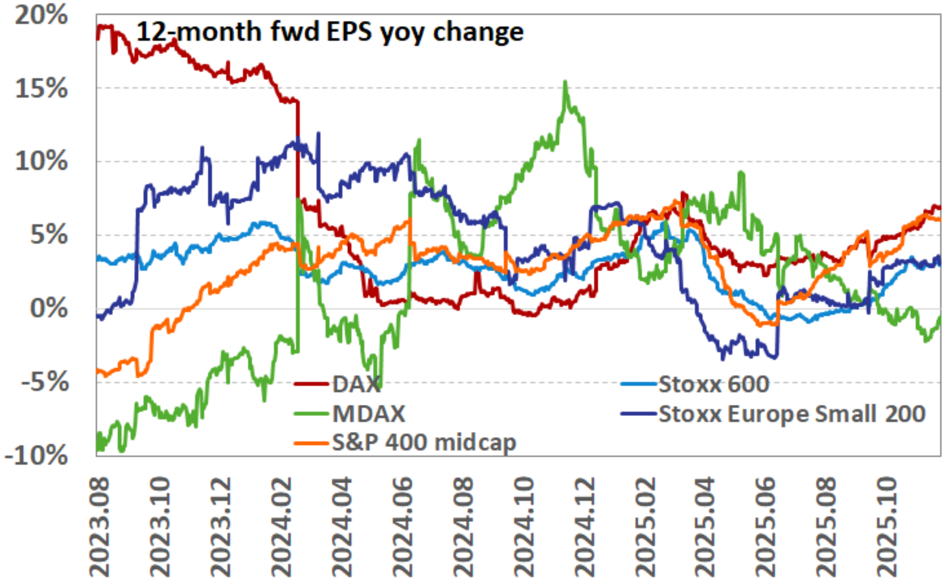
Source: Bloomberg, OTP Multi-Asset Strategies

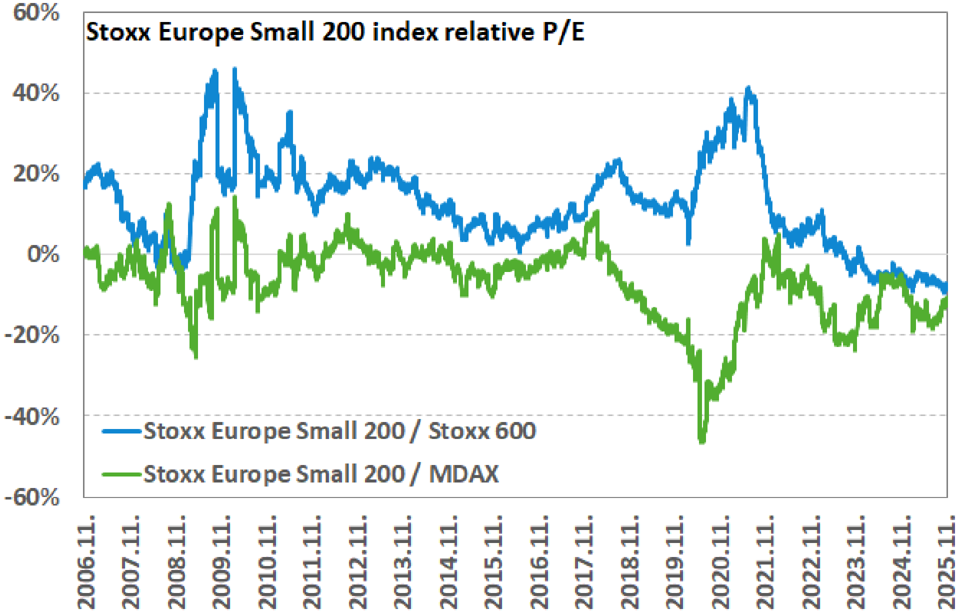
- The Brazilian stock market is still one of the cheapest globally, through which (due to the country's significant raw material exports) one can gain protection against upward inflation risks. US granted exemptions in several rounds for certain Brazilian products from the high tariffs previously imposed on them, so the overall trade impact of tariffs may be milder than feared. Economic growth will still slow down next year, however, inflation is also likely to return to the central bank's target range, paving the way for monetary easing in 2026. As real interest rates are exceptionally high even from a global perspective, interest rate cuts could have a beneficial effect on both the economy and the stock market.
- In addition to trade negotiations and interest rate cuts, the 2026 presidential election will also be an important catalyst or risk factor, so overall a source of volatility for the equity market. The current president, Lula da Silva, recently announced that he may run for president again next year, so the risk could arise if the elections trigger heavy spending, as this would cause the Brazilian real to weaken again and tie the central bank's hands in terms of interest rate cuts. On the other hand, Lula does not seem to have any really strong challengers at the moment, which means that he may be able to maintain his popularity with minor easing measures that do not significantly affect the budget deficit and the central bank's actions.
- Fiscal consolidation may continue in Mexico (although this does not eliminate the need for fiscal reforms in the medium term), which could lead to weak GDP growth, but continued disinflation, resulting in a gradual further decline in the central bank's base rate. One of the winners of US tariffs is Mexico, in relative terms, as nearly 80% of its exports to the United States are tariff-free, which represents an effective tariff rate of nearly 7-8% overall, the lowest among the US's partners. However, the USMCA free trade agreement (US, Mexico, Canada) will be formally reviewed until early 2026, which still carries uncertainties.
- Donald Trump's tariff threats and trade uncertainty may continue to weigh on the local stock market in the short term, but looking further ahead, there are still reasons to be optimistic about Mexico: forward-looking earnings expectations have been rising nicely since the beginning of the summer, and nearshoring trends, favorable labor costs, and integration with US industry, among other factors, can be mentioned as supporting factors.

Within emerging markets, maintaining exposure to Brazil and Mexico remains advisable, as the weakening dollar and Fed interest rate cuts are favorable in both cases, while the Brazilian market is also cheap, meanwhile Mexico is a nearshoring growth story.

Europe small caps: could we see the "usual" outperformance?

otp Global Markets



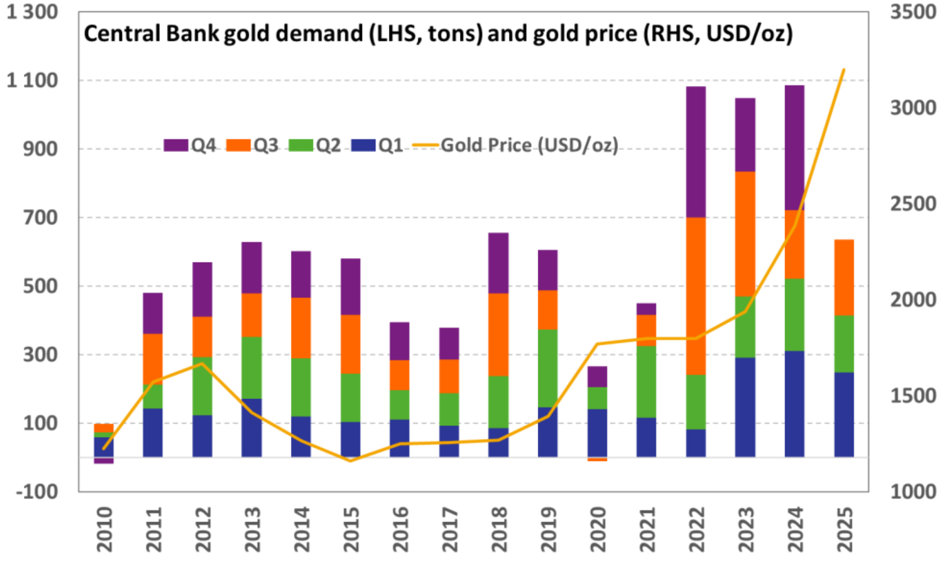


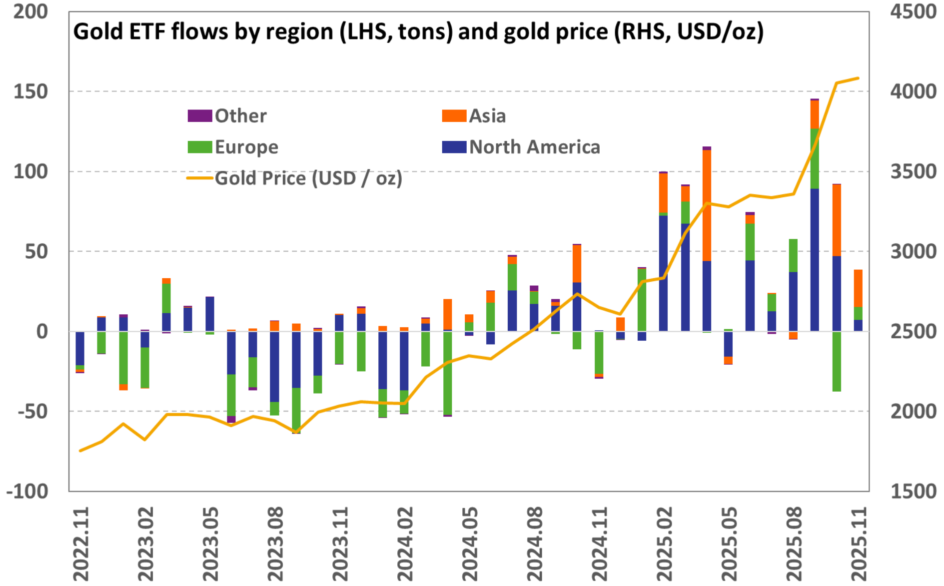
Source: Bloomberg, OTP Multi-Asset Strategies

- Slowly improving economic growth is expected in the eurozone by 2026, partly supported by the arrival of German stimulus measures (according to the IMF, the largest fiscal impulse is expected here in 2026, at 1% of GDP), as well as the easing of the negative effects of US tariffs and a monetary environment that is already moving in a more relaxed direction this year. This will benefit smaller companies that are more exposed to domestic markets, as they are less affected by the negative impact of US tariffs and the strengthening of the euro on exporting companies.
- Furthermore, Stoxx Europe Small, which comprises European small-cap companies, is more attractive than Stoxx 600 in terms of its composition, as it contains a similar proportion of sectors sensitive to economic cycles (industry 21%, finance 19%, raw materials 8.7%, cyclical consumer goods 7.5%), it has somewhat greater exposure to regions with lower budget deficits but higher real GDP growth prospects for the coming years.
- The segment's profit dynamics reached their lowest point during the summer months, a period of slight profit recession, but then began to recover, following the trends seen in the overall European market. In terms of indebtedness, the picture is similar, slightly better than the overall European market, but weaker in terms of return indicators. In contrast, however, the valuation picture is rather depressed, as while the overall European market is trading 10% above its long-term average valuation (P/E), small-cap companies are lagging behind the average by a similar margin (P/E ratio of 13.7, which represents an emerging market level). Even from a relative perspective, the discount seems unjustifiably large, already reaching 8% compared to the main market, as opposed to the typical 15% premium.
- Over the past year, the smaller-cap segment has performed similarly to the European market as a whole, while in the final months of the upturn, smaller companies typically outperform. Given that we expect stock markets to experience volatility similar to this year's overall from 2026 onwards, but with further upward movement, this, together with the catalysts mentioned above, could provide a good basis for the smaller segment to enter a period of stronger performance.

It is currently one of the cheapest segments in Europe, while small-cap stocks typically begin to outperform in the final stage of equity bull markets. We are currently seeing several factors that could catalyze such a movement.

Gold: the rise may continue, but some caution is warranted





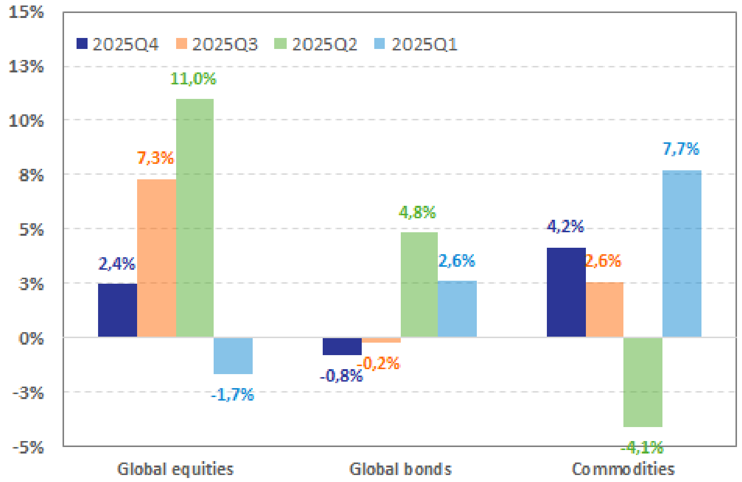
Source: Bloomberg, OTP Multi-Asset Strategies, WGC

- The yellow precious metal continued to perform well in 2025, with its price rising by over 60% since the beginning of the year and exceeding the $4,000 mark in October. Of course, after such a big rally, the question arises whether gold's march can continue in 2026.
- Central bank demand rose by ~10% YoY in Q3 2025, with Kazakhstan and Brazil being the two largest buyers. However, it is important to note that demand between Jan-Sep has fallen by ~13% YoY, so for 2025 as a whole, the pace of central bank gold purchases is likely to fall compared to the levels seen in 2022-2024.
- Demand for gold ETFs remained strong in the fall, driven primarily by North America and Asia. According to data from the World Gold Council (WGC), May was the only month in the first 11 months of 2025 to see a moderate outflow from gold ETFs. At the same time, by early December, the amount of gold held by funds had already slightly exceeded the previous 2020 highs (3,944 tons vs. 3,929 tons). The expected decline in central bank purchases and the record amount of gold held by funds are mild warning signs for investors.
- However, this does not necessarily mean that gold's rally is over. On the one hand, the factors structurally supporting the rise remain in place, including rising government debts and high budget deficits, as well as deglobalization processes. The easing US monetary policy, and the possible weakening of the USD (debasement trade) could provide additional tailwinds in 2026, so on a portfolio level it's still adviseable to hold gold. However, it's already worth being cautious (so position sizing matters), as the odds of a larger and more sustained correction may also rise.
- Taking all this into account, the question arises whether it is worth holding physical gold or gold miners. In our view, this mainly depends on one's risk appetite and time horizon. The valuation of gold miners are not high, but this is mostly due to the fact that the price of the precious metal has risen more sharply than production costs. However, the latter typically tend to rise regardless of the price of gold, as labor, logistics, and material costs go up over time. A possible correction in the price of gold would thus be accompanied by narrowing margins and a jump in valuations, but this can also occur in the event of a sideways price movement if costs rise in the meantime.

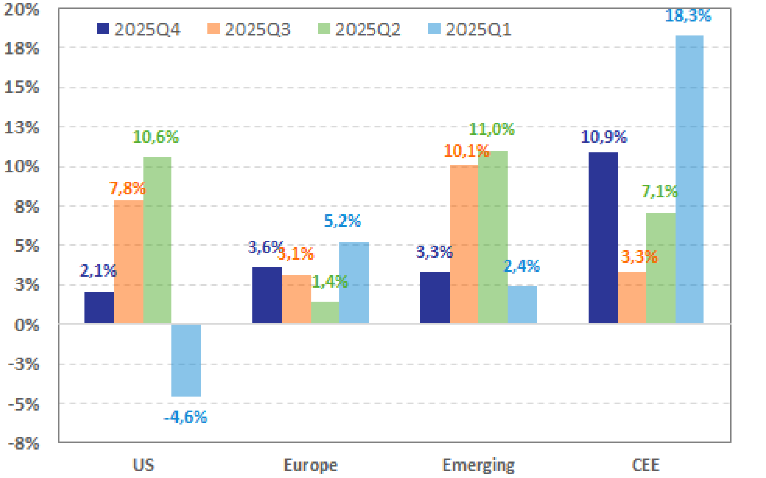
For more risk-oriented investors it may be still worthwhile to maintain some exposure to gold miners in 2026 in case gold keeps going up, which we still see as a possibility, but timing and efficient profit-taking will be important factors. In contrast, physical gold may be a better choice as a long-term investment or as a portfolio diversification tool.

2025 YTD performance review

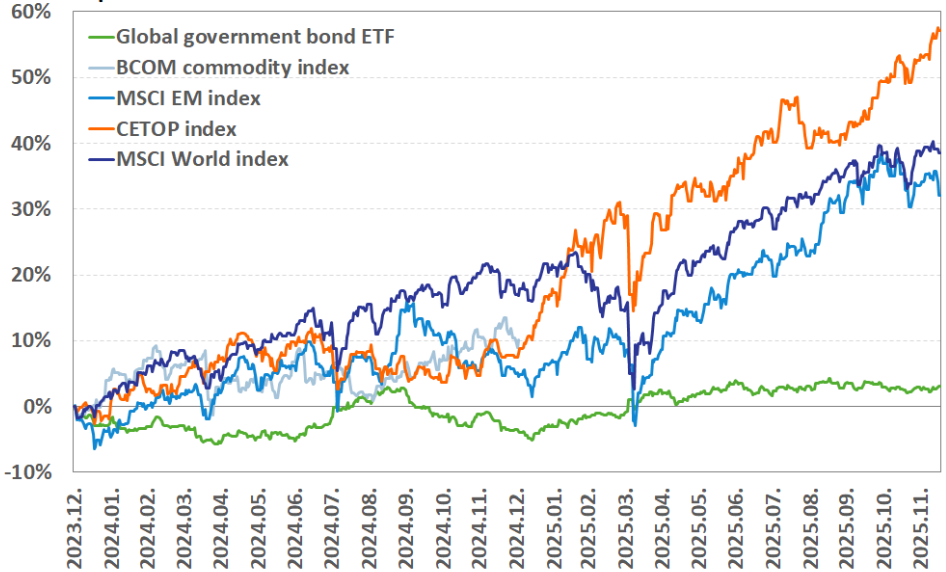
Asset Class performance



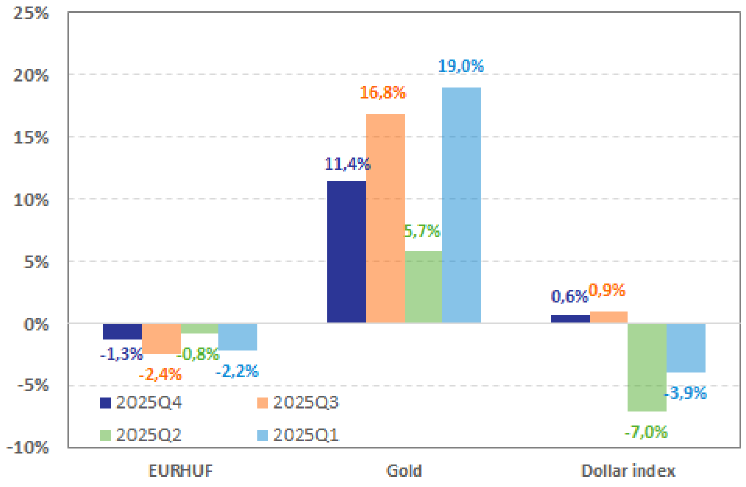
Equity regions' performance



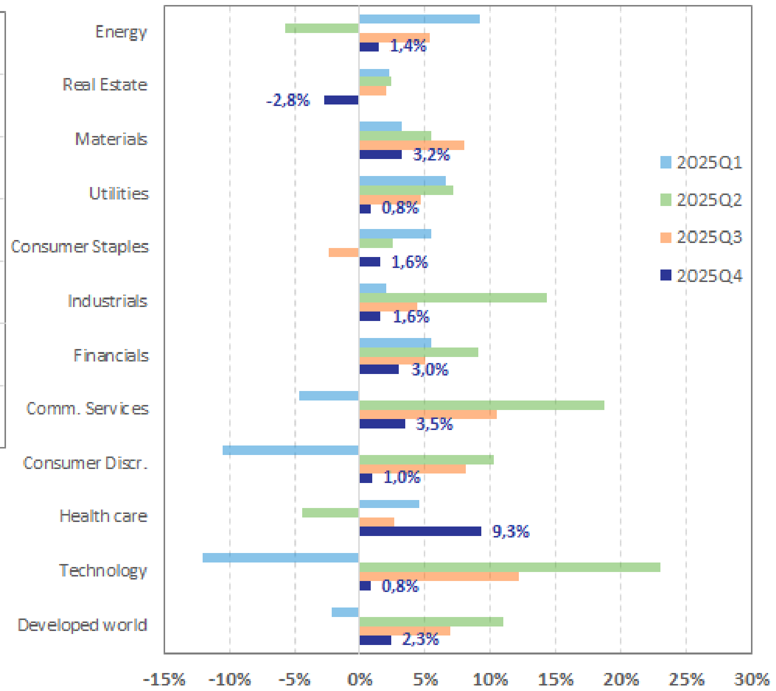
Relative performance of main asset classes



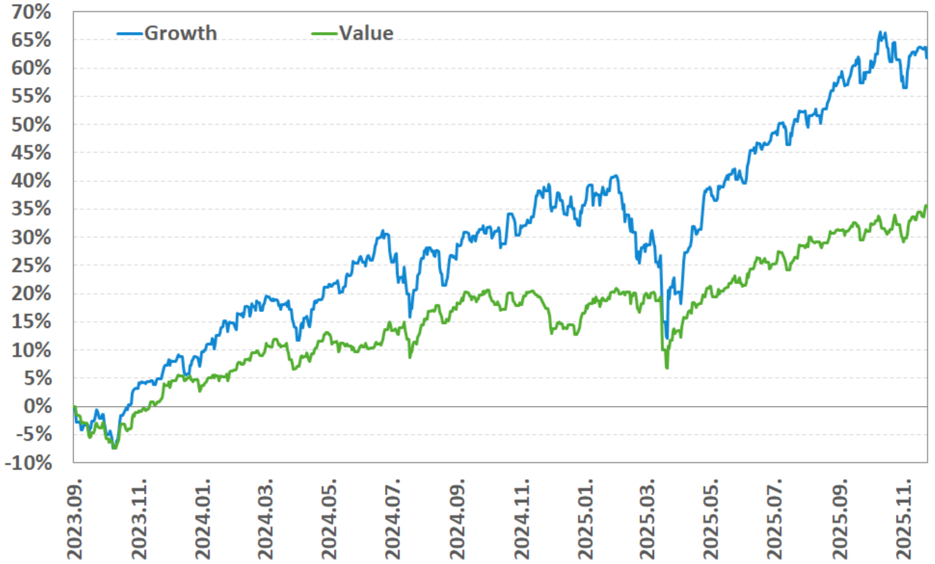
FX and gold performance



Equity sectors' performance



MSCI ACWI growth and value relative performance



Source: Bloomberg, OTP Multi-Asset Strategies

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