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Geopolitics: power as policy

CROSS ASSET INVESTMENT STRATEGY

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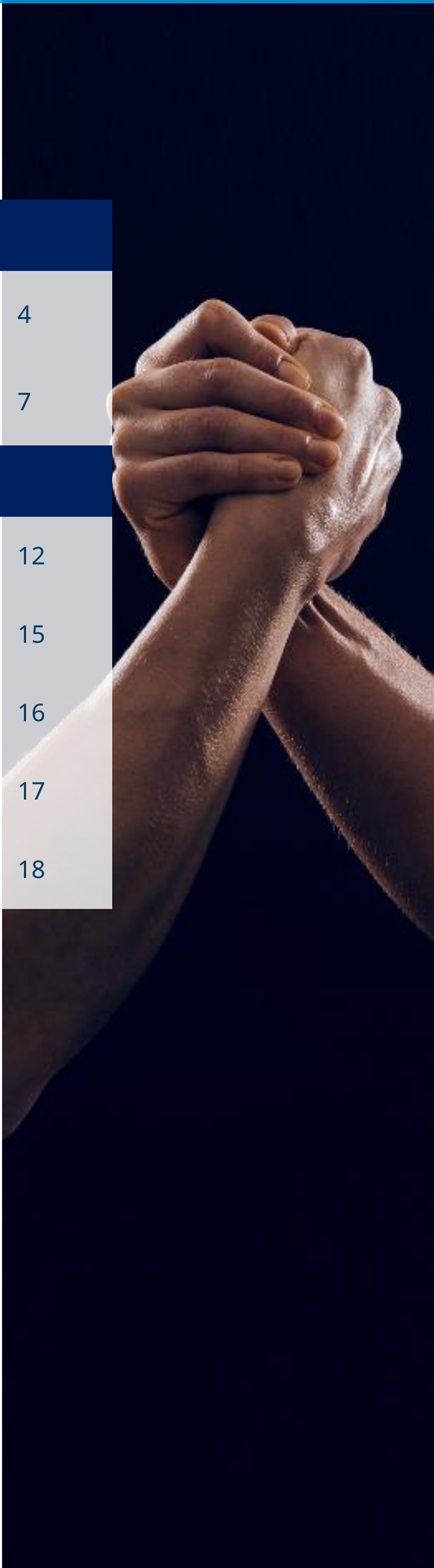


"The geopolitical landscape has shifted to a world where power and leverage matter more than ever. With the midterms approaching, the current US administration is likely to prioritise fast, attributable wins, including tactical foreign policy headlines, to improve the odds of Republicans retaining their House majority."

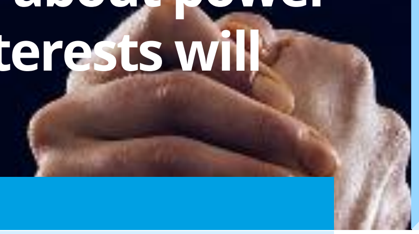
MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"In a shifting, multipolar regime, the USD can remain the reserve currency while still gradually weakening, and gold has already been a key beneficiary. Diversification means building around multiple resilient return drivers, not a single anchor."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

TOPIC OF THE MONTH

Geopolitics: it's now all about power and might, but core interests will hold



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KEY TAKEAWAYS

With multilateralism retreating, diversification is increasingly critical for investors.

In a multipolar world where leverage comes from critical resources and military power, governments are prioritising resilience. AI and defence spending should remain supported despite high levels of public debt. The USD will remain the reserve currency given the lack of alternatives, but its status is likely to weaken as a wider set of alternatives emerges, supporting gold.

New security alliances and trade deals are emerging despite intensifying economic friction as policymakers seek to compensate for the eroding global order. These will ensure global trade and investment continue to flow.

Following the US strike on Venezuela, growing threats against Greenland, and intensifying protests in Iran, we recap our expectations for geopolitics in 2026.

It has been our long-standing assumption that **the level of geopolitical risk would continue to rise into 2026**. **Indeed, one of the drivers leading us to this conclusion is the melting ice in the Arctic**. It is opening new shipping routes, intensifying resource competition, and creating shorter routes for Russia and China to reach North America. We have therefore always taken Trump's Greenland aspirations seriously.

This year will be dominated by Washington seeking to expand its powers domestically and internationally. **Tensions with Russia are more likely to intensify than abate**, at least in the next several months. The Middle East will continue to see change. **Tensions between China and the US will remain**, but our base case is no escalation. **The AI race will continue** and shape the Great Power Competition and, with no regulatory oversight, the political and social consequences will likely be significant over time.

There is plenty of risk out there and avenues for things to go wrong. There are more active conflicts today than at any point since the end of World War II as countries seek to change geopolitical realities to their advantage. **As economic friction is more likely to intensify, governments and investors will continue to diversify** to build resilience. There will be winners and losers, or at least countries and regions better able to navigate the emerging new order. In short, 2026 is now all about power and might. However, overall, we expect core interests to hold and prevent wide-scale escalation.

Expect more interventionist US foreign policy

Early in Trump's second presidency, we outlined a framework for how to think about US policy. Most of the policies pursued by this administration seek to achieve the following objectives: get a better deal for the US, achieve greater economic self-sufficiency, and increase Washington's power. This framework still holds.

We anticipated that the Trump administration would oust Maduro with military means. But Trump's readiness to leverage US military strength to achieve geopolitical goals is now ringing alarm bells for allies and adversaries alike.

Should the president be faced with a divided government after the midterm elections, which is likely, he will also likely double down on foreign policy. Limited ability to shape domestic politics usually encourages a president to do so.

The US under Donald Trump is, however, unlikely to undo the pillars that have cemented US power over the past few decades. There are US presidents and US interests, and while the former come and go, the latter usually stay. NATO and US alliances are essential US interests and eroding these will likely face resistance from within US power structures.

Similarly, **a world divided into spheres of influence**, where the US drops support for Ukraine and allows Russia to swallow it while China's Taiwan ambitions are accepted by the US, would clash with core US interests and is therefore **not our base case expectation**.

Greater US interference in Latin America is now a given after decades of largely ignoring the continent. The US has already put Cuba on notice and warned Mexico and Colombia. Trump's LatAm strategy can be summarised as reducing soft power via aid and ramping up economic and military pressure. This aims at weakening drug cartels, allegedly achieving a better deal for the US, and undermining regimes not aligned politically with the US. But Latin American politics is also moving towards the right because of domestic electoral shifts. Important elections are on the agenda in 2026, such as in Brazil, Peru, and Colombia.

However, Trump's repeated emphasis on Venezuelan oil now being controlled by the US will cause memories of previous 'US imperialism' which was also responsible for the rise of far-left politics in the continent in the first place. Trump is therefore, ironically, a risk to his political allies in LatAm.

Significantly reducing China's role in the region will be difficult as Beijing has heavily invested in infrastructure (such as ports and telecoms), resource exploration, and diplomacy in the subcontinent. For many countries, China is as important a partner as the US.

Europe faces a critical year

Forcing regime change in an adversary country, Venezuela, which can be considered geographically and strategically important to the US, is different from seizing territory from an allied country. **While Greenland, due to its geography and sparse population, would be easy to seize militarily, the costs for the US are too high**: military action against an ally would erode the NATO alliance and cause ruptures with other US allies, a key strength the US has vis-a-vis Russia and China.

The recent controversial National Security Strategy emphasised the importance of US alliances and Europe as an ally. **Most US aspirations over Greenland can be achieved without a military takeover,** the US has an agreement with Denmark to allow it to have military bases and extract natural resources; the Danish government has signalled readiness to improve the current terms.

Militarily seizing Greenland by claiming that Denmark has no right over it would open Pandora's box and could lead to many challenges over territorial realities created since at least the 18th century. **However, the issue is unlikely to go away — Trump will continue to press the matter to extract maximum concessions** and seek to force a sale. But any action over Greenland is unlikely to be immediate at a time when tensions with Russia are building over the lack of an agreement on Ukraine.

Despite progress on aligning the Western position on how a ceasefire would be secured, **we see the continuation of the Russia–Ukraine war as the most likely scenario**, at least for the first several months of the year. The base case is an intensifying hybrid war, with potential sporadic flashpoints beyond Ukraine.

Europe will likely undergo greater political transformation this year as a result of defence spending and a fickle US forcing Europe to step up. A big focus will be on Germany's ability to spend and the wider impact on the European economy. The upside risk would be a ceasefire potentially allowing Europe to capitalise on Ukraine's reconstruction.

Hungary holds elections that could bring political change to the EU should Viktor Orbán be voted out of office, removing one stumbling block to more EU integration. Geopolitical pressures will likely continue to force EU leaders to push forward difficult reforms, but the pace will likely remain slow, also because the US seeks to erode EU unity. Even though elections are only scheduled to take place in 2027 in France, 2026 will likely see campaigning intensify.

China will continue to flex its muscles, but seek stability

China is likely concerned about the Trump administration's renewed interest in Latin America and its desire to reduce Chinese influence in the region. However, **both the US and China** have realised their mutual dependencies in 2025. The US understands now it can't do much without Chinese rare earths, while China's economic performance and social contract (political control in exchange for economic prosperity) depend on global trade flowing. Therefore, in 2026 there is **likely a limit to how much the relationship will deteriorate**. Tactical deals between the two are possible, but a material change in the relationship is unlikely as trust remains low. We expect this 'tense understanding' scenario to persist even as Xi and Trump are expected to meet. Questions over Taiwan's political status will continue to grow as geopolitical realities are changing and China expands its influence campaign and geopolitical power.

"From Beijing to the Middle East, the global landscape is shifting. The US and China may still cut occasional tactical deals, but a true reset looks unlikely, while Iran's regime is weakening and the odds of a significant political change are rising."

Prepare for more change in the Middle East

The Middle East will see ongoing political uncertainty. **The Iranian regime is weakening, and the odds of regime change are rising** through a combination of domestic protests and likely involvement from Israel and the US. 2026 could therefore be the year in which the country sees a leadership transition. The question is whether it will only be a change at the top or a more radical shift.

There are wider power shifts underway in the region. The Gulf is getting attention because of growing investments. But there is a power rivalry between the UAE and Saudi Arabia, a weakening Iranian grip, an unstable Syria, and Israel is facing elections. How this restructuring ends is currently hard to predict.

Key implications for 2026

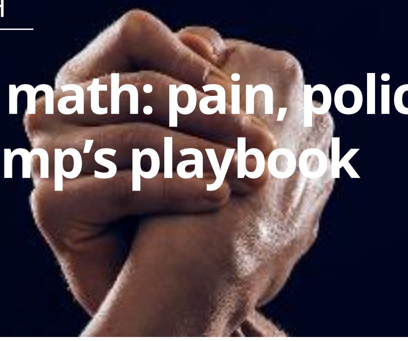
The new multipolar world order determines that those with natural resources that others depend on (energy, food, rare earths) and military might (especially nuclear capabilities) have the upper hand. These dependencies will motivate governments to reduce overreliance. **Efforts will likely be undertaken to reduce exposure to China's rare earth supply chain**. US interests in Venezuela can also be explained by its critical mineral deposits. However, **greater self-sufficiency will take years** given the extent of the challenge.

The geopolitical and political reality will continue to cause **pressure on public finances** — the current environment makes it hard for governments to stop spending on AI and defence, meaning these sectors will likely continue to do well. Populations are already restive, meaning cuts to social spending are politically difficult to pull off.

The **USD will remain the reserve currency**, because of the lack of alternatives, but its status is likely to **continue to weaken**. While there may not be a single alternative emerging, a portfolio of alternatives will. **Gold** is already the **main beneficiary** of geopolitical trends and will likely continue to be for as long as geopolitical tensions do not subside.

Nevertheless, **the 'Great Diversification'** playing out last year, which saw the USD weaken, and new security alliances and trade deals emerge, will continue. New interest-based trade and security agreements to compensate for an eroding global order are likely. These will see **global trade and investment flowing despite intensifying economic friction**.

TOPIC OF THE MONTH



Midterm election math: pain, policy progress, and Trump's playbook

AUTHORS

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Measuring President Trump's political capital ahead of the midterms

We assess the economic and political costs of President Trump's policies to anticipate how difficult it may be for the Republican Party to retain its majority and whether future US policies are likely to be disruptive.

Our approach combines two dimensions:

- **Accumulated pain indicators**: measuring accumulated economic and political pressure across a set of 'pain' indicators — pressure on markets, households, housing, corporate sector, the broad economy, recession risks, inflation, rates, the Fed, and the dollar, living conditions of Trump's electoral base, and polls and approval ratings.
- **Key policy progress indicators:** tracking progress on core administration priorities. As those objectives are met, the administration may be more willing to ease the pressures that motivated those priorities — trade rebalancing, re-industrialisation, partner concessions, middle-class recovery, and stemming immigration.

Accumulated pain indicators:

- **Market drawdown -** leading signal for the broader economy
- **Household pain -** particularly consumption, confidence, jobs, and income
- **Housing stress -** key for households (affordability) and construction
- **Corporate pain -** capex, manufacturing activity, and corporate confidence matter for jobs and re-industrialisation
- **Broad economic pain -** amplified by higher perceived recession risks
- **Surging inflation -** hurts households and undermines a key election pledge
- **Easing rates, Fed stance, and the dollar -** reduces pain for households, firms, and exporters
- **Electoral base pressure -** living standards of Republicans, the middle-class, and voters in swing states
- **Polls and approval ratings -** midterms on the horizon

Key policy progress indicators:

- **Trade rebalancing -** lower imbalances, higher customs duties (to limit the deficit), stronger domestic consumption in China
- **Early signs of re-industrialisation -** via reviving the economic fabric, investments from abroad, on/near/re-shoring
- **Partner concessions -** EU: LNG buying, less tech pressure, military spending. China: voluntary export cuts, market access, rare earths
- **Middle class recovery -** the natural Trump electorate: lower wealth inequality, job creation, wages
- **Stemming immigration -** improving middle-class purchasing power and job prospects

Key finding: pain peaked, but pockets of weakness matter for the midterms

Pressure peaked in spring 2025. That peak appears to have prompted a tactical retreat by the administration, reflecting both political calculation and some measurable policy progress on trade and immigration.

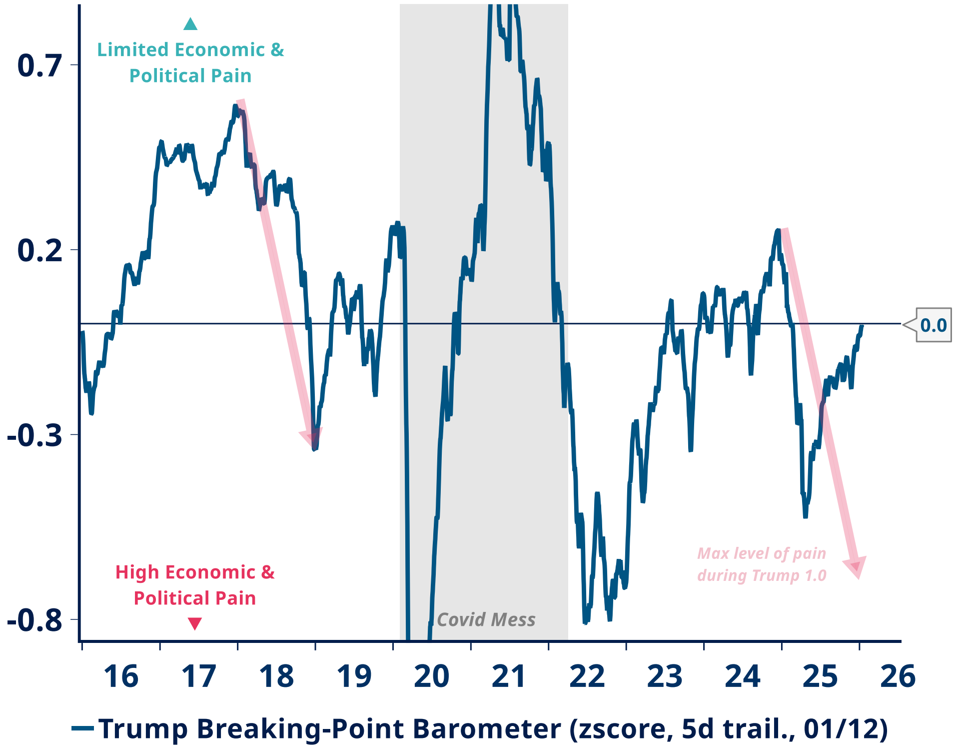
Overall, aggregate pain is lower today than at that spring 2025 peak, but it remains meaningfully higher than at inauguration.

The main deterioration is concentrated in employment, consumer sentiment, and the living conditions of Trump's electoral base — precisely the areas most likely to drive midterm turnout and swing voting.

Trump 1.0 offers a useful reference: disruption rose sharply into late-2018 and then eased, with milder aftershocks thereafter. A similar pattern — intense pressure followed by a moderated, domestic-focused phase — is plausible for Trump 2.0.

"Pain peaked in spring 2025; the risk now sits in employment, sentiment, and the living conditions of the electoral base."

Breaking-Point Barometer: pressure eased from the spring 2025 peak, but remains higher than at inauguration



The Barometer tracks i) accumulated economic & political pressure across a set of "pain" indicators, and ii) progress on core policies - as objectives are met, Trump is likelier to ease pressures that produced them (these indicators are thus inverted in the scoring). A low reading - rising pressure coupled with recorded policy gains - signals higher odds of a tactical retreat.

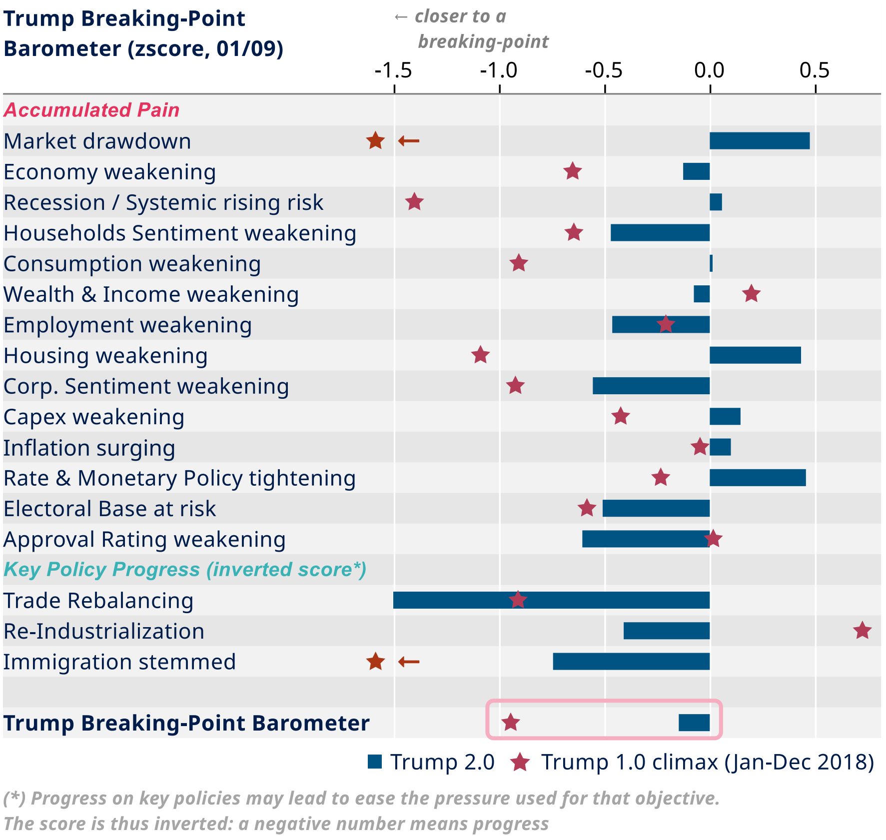
Source: Amundi Investment Institute, Macrobond, Bloomberg. Data is as of 12 January 2026.

Our "Breaking-Point" Barometer combines accumulated pain and policy progress. A lower reading indicates rising pressure alongside recorded policy gains. The red arrow in our chart highlights the end-2017 to end-2018 pressure spike and serves as a stylised comparison for current conditions.

Detailed component scores in the following table highlight that some indicators (employment, sentiment) are weaker now than during the early Trump 2.0 period, while progress on trade and immigration registers as material gains.

Lead midterm indicators suggest an uncertain outcome with risk of losing the House

Sub-factors in our Barometer



Source: Amundi Investment Institute, Macrobond, Bloomberg. Data is as of 9 January 2026.

Three empirical lead indicators tend to shape the midterms outcome:

1. Presidential approval – especially among independents and swing voters. Current approval levels are weak, although the Republican base remains mobilised.

2. Economic health – most importantly employment, inflation, household income/wealth and housing affordability. These measures are broadly average, but localised weakness matters.

3. Local political dynamics – seats at stake, local political context, campaign dynamics, fundraising. These are presently mixed: seats on the ballot are not unusually challenging to win, but Democrats have regained momentum.

"Taken together, the signals are mixed. Given the narrow majorities involved, the Republican Party is at significant risk of losing the House. Leading up to the midterm elections, we expect President Trump to favour fast, attributable, and domestically focused moves, similar to what his predecessors did."

Likely policies to be implemented to improve Trump's standing at midterms

- **Targeted fiscal spending** (local infrastructure, grants, targeted transfers) to improve purchasing power and create visible benefits that can be credited to the White House.
- Accelerated **deregulation to lower costs for households** and firms and to unlock credit or investment.
- Efforts to **improve housing affordability** through administrative approvals, tax incentives, and credit support for first-time buyers, while casting the blame on the Fed for lack of progress.
- **Avoidance of broadly inflationary measures**.
- Measures aimed at **lowering energy prices** and boosting domestic production: faster permitting, leasing, targeted diplomacy and, where possible, Strategic Petroleum Reserve (SPR) actions.
- Quick, **tactical foreign-policy wins** that generate positive headlines.

The midterm elections will have an influence beyond US borders

Trump's foreign policy will be influenced by the midterms. The desire to limit economic volatility will likely lead Trump to maintain his fragile trade deal with China, even if episodic tensions continue.

Buoyed by the administration's perceived military success in Venezuela, which has resonated with some voters, Trump is likely to pursue additional foreign-policy wins in Latin America and beyond. Iran deserves close scrutiny in that context.

If Republicans lose the midterms, Trump will probably lean even more into foreign policy, given his reduced domestic leverage.

Conclusion

Domestic policy and economic uncertainty have eased since their spring 2025 peak, but weaknesses remain in areas that will matter most in the midterms. The administration is therefore likely to deploy its playbook aggressively and sooner rather than later — targeted fiscal spending, purchasing-power and affordability measures, deregulation, selective diplomacy and an emphasis on quick, attributable wins.

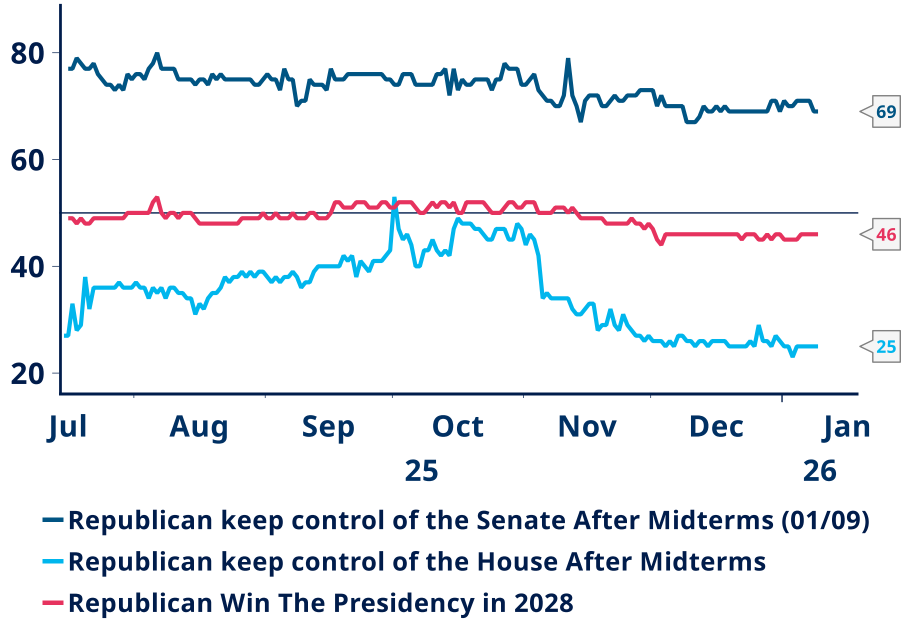
Signals to watch include a shift in polls, the jobs picture, housing affordability, and voter swings in key districts.

History suggests Trump will likely lose the House majority — an outcome currently priced by online betting markets. Until then, he will probably try to enact as many of his planned reforms as possible before the election.

Post-midterms, should the House be lost, policy would need to be more bipartisan, implying less disruptive domestic measures and a greater focus on foreign policy.

"The administration will likely act sooner than later to deliver visible results before the election; a Republican midterm loss could see Trump lean further into foreign policy as domestic leverage diminishes."

US elections: online betting odds (House, Senate, Presidency '28)



Source: Amundi Investment Institute, Macrobond, Bloomberg. Data is as of January 2026.

GLOBAL INVESTMENT VIEWS

Central banks easing into a thus-far resilient economy

VINCENT MORTIER
GROUP CIO

MONICA DEFEND
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PHILIPPE D'ORGEVAL
DEPUTY GROUP CIO

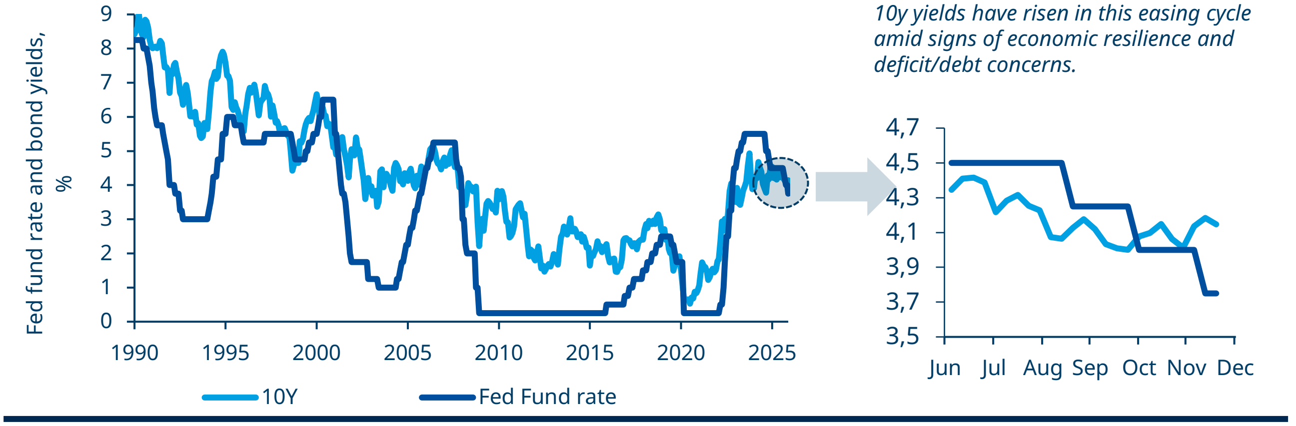
The year gone by has been exceptional in some respects. Global equities touched new highs, and emerging market stocks reached close to their 2021 levels. All this happened despite the US administration's somewhat unconventional policies, particularly on the trade front, leading to a phenomenal performance of safe-haven gold.

The fact that assets at both ends of the risk spectrum delivered strong returns is remarkable. More recently, European and Japanese bond yields rose. Interestingly, US yields have risen despite the Fed's rate-cut cycle. Although the long end of the yield curve is less affected by monetary policy decisions (versus the short end), it is still unusual for both to move in opposite directions.

Looking ahead, fiscal policy is likely to do the heavy-lifting, particularly in the US, Germany, and Japan, with monetary policy also expected to provide support. Hence, consumption, labour markets, and the inflation environment will drive policy decisions, while artificial intelligence (AI)-related investments will attract greater market scrutiny. All this will happen along with challenges to US exceptionalism:

- **Higher income tax refunds set to improve the US growth outlook in H1 2026 slightly,** but do not change the prospects beyond that. We have slightly upgraded our 2026 growth projections from 1.9% to 2.0%, but the narrative remains that of below-potential growth. The slowdown in US consumption reflects a softening rather than collapse of the labour market. Additionally, with an eye on the midterm elections, the Trump administration could spring policy surprises. We expect inflation to matter significantly in a midterm election year. It may lead to Trump softening his stance on tariffs.

US10y yields have risen recently, despite Fed rate cuts



Source: Amundi Investment Institute, Bloomberg, as on 19 December 2025. Fed fund rate, upper bound.

The unorthodox policies of the Trump administration and pressures on the Fed mean real yields in the US are likely to be capped, which would diminish the greenback's safe haven appeal.

- **Most global central banks including the Fed, ECB and the bank of England (BOE), will likely reduce rates.** We project the BOE will reduce policy rates in 2026 as it did in December. Importantly, a declining fiscal deficit as a share of GDP will allow the Bank of England to reduce policy rates. Collectively, this creates a constructive environment for gilts.
- **The Bank of Japan (BOJ)'s December rate hike was as per our expectations.** The bank will remain an exception and will raise rates once in 2026. A sustained rise in domestic yields would increase the appeal of domestic debt for local investors and could eventually trigger large scale capital repatriation. However, for a sustainable increase in nominal and real yields, the BOJ needs to signal a stronger commitment to rate normalisation, which seems unlikely at this stage.
- **AI presents opportunities, but markets would question the return potential of capex**, rewarding companies that provide greater clarity on monetisation and profitability from such investments. Additionally, we may see the AI investment cycle expand from hyperscalers to utilities (i.e. electricity providers) and to industrial companies that manufacture end-use physical products such as automated robots and autonomous vehicles/equipment. The higher capital needs of these firms will be reflected in increased supply in credit markets.
- **From a geopolitical perspective, competition between the US and China for AI supremacy is likely to continue**. Both countries would strive to build AI ecosystems that serve their national interests, particularly China, which is seeking to achieve 'semiconductor independence' from the US.

Amundi Investment Institute: Monetary policy easing to continue

Leadership uncertainty persists at the Fed, but what is clear is that the new leader will be more dovish. Monetary policy will remain accommodative, and our projection of two rate cuts by the Fed in 2026 is unchanged. In December, the Fed cut rates as we had expected, and initiated Reserve Management Purchases, mainly buying T bills – an indication that the Fed is keen to maintain liquidity, which remains ample. This is not quantitative easing (QE), but it does imply a balance sheet expansion. However, in the event of heightened policy uncertainty, this could dry up quickly if volatility rises.

Following the ECB's decision in December, our stance of two rate cuts in 2026 remains unchanged. We believe the growth outlook for the euro area is subdued, and the ECB may be underestimating the negative impact of US tariffs on European exports. Additionally, a delay in ETS2 (EU Emissions Trading System 2) implementation could prompt the ECB to lower its inflation forecasts. The ECB's quantitative tightening (QT) is passive, and the ECB would reverse this stance only if financial conditions tightened significantly. We do not expect that at present.

Both macro liquidity (balance sheet expansion, money supply etc.) and market liquidity are sufficient, but could dry fast in case of policy uncertainty and high volatility. This supports our moderate risk stance.[1]

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

Risks related to high debt and widening deficits in the developed world, and global geopolitics will persist. In this environment, emerging markets present a strong case for idiosyncratic opportunities, particularly as DM central banks ease policies. We describe our investment convictions in detail below:

- **In fixed income,** we are overall close to neutral on duration, slightly positive on the EU and UK, but cautious on the US. We have upgraded Japanese duration and are monitoring the BOJ's policy action, inflation, and fiscal policy. Despite the anticipated rate hike, we think the BOJ is behind the curve and that's the reason why yields have risen sharply in December. The high fiscal stimulus in the country implies the central bank will continue to raise rates even in 2026. On EM bonds, we maintain our constructive stance, and see greater scope for idiosyncratic stories amid high valuations.

- **In equities,** we believe it is a time for diversification but with greater selection and towards segments with strong long-term convictions on valuations, earnings, and economic outlook. Additionally, we think markets will demand more clarity on return on capital of corporate investments in the tech and AI space. Hence, this is an opportune time to move into regions such as Europe. Emerging markets such as India also present opportunities linked with their domestic growth potential.

- **In multi-asset,** we maintain our active stance, and tactically have lowered our conviction on Chinese equities, all the while staying positive on emerging markets as an asset class. On fixed income, we are less cautious on Japanese duration, with an eye on monetary and fiscal policies.

Concerns about weakening US labour markets and high risk-asset valuations are balanced by fiscal and monetary support, and abundant liquidity. Against this not so straightforward backdrop, we have slightly reduced our pro-risk stance.

Overall risk sentiment

Risk off ◀ **Risk on**

We have tactically reduced our overall risk stance mainly due to a marginal deterioration in risk sentiment and technicals.

Changes vs the previous month

- **Multi-asset**: Tactically reduced our stance on Chinese equities to neutral, and turned less cautious on Japanese duration.
- **Fixed income:** Upgraded Japanese duration, in an overall active approach.
- **FX**: More positive on EM FX in general, upgraded EUR to neutrality, and shifted to a negative view on the USD.

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee. Our stance may be adjusted to reflect any change in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

FIXED INCOME

AUTHORS

AMAURY D'ORSAY
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Neutral duration with regional divergences

While the global economy has been reasonably resilient, there are some minor nuances across the main regions. For instance, in the EZ, wage inflation is low, and overall disinflation looks on track. Our expectations of ECB rate cuts in 2026 remain, despite recent hawkish comments from some board members. In Japan, a key question for us is at what yield-level Japanese debt becomes sufficiently attractive, and how much further fiscal easing is likely from the government.

In this environment, we prefer to play across geographies in the search for stability and additional yields. For the latter, we find opportunities in corporate credit and EM bonds (also good from a diversification perspective) that are a source of high-quality yields.

Duration and yield curves

- **Our overall duration stance is close to neutral** – marginally positive on the EA, and UK, but cautious on US (2Y). Our steepening expectations are maintained across DM, except Japan.
- **In Japan, we turned neutral following the increase in yields.** But yields are still not attractive enough to trigger material capital repatriation. On the other hand, the BOJ will need to control inflation, which underscores the importance of raising rates.

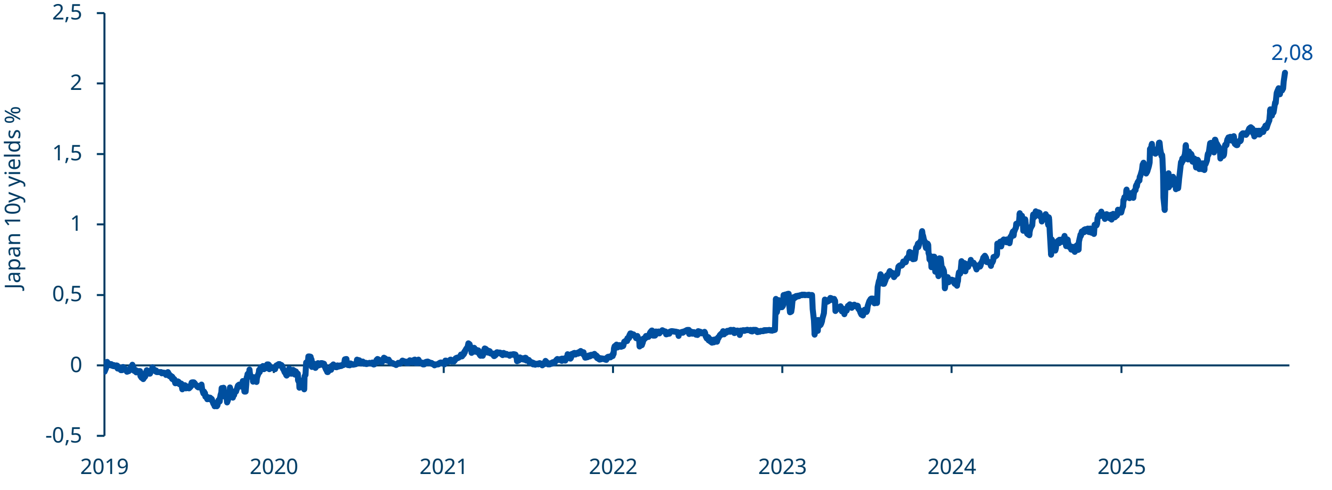
Credit and EM bonds

- **Corporate credit is driving the market's hunt for yield and high quality**. In EU IG, the financials sector is attractive with its high capital buffers and profitability. In HY, where we are neutral, select names in telecom and financials offer good value.
- **We are positive on EM bonds** but acknowledge expensive valuations in some segments. We like LC debt in Brazil, Mexico, Hungary and India, where yields are attractive, and disinflation is ongoing.

FX

- In FX, **we downgraded the US dollar to cautious** due to negative seasonality around the year-end, and fading US exceptionalism. Fed is not in a hiking mode, and tariffs remain a source of uncertainty.
- **On EM FX, we are slightly more positive**. We prefer high-yielding FX such as the BRL and the TRY. Any positive sentiment from progress on a Russia–Ukraine agreement could be reflected in the FX of some eastern European currencies, such as the PLN.

Fiscal easing and monetary tightening have been pushing Japanese yields up of late



Source: Amundi Investment Institute, Bloomberg, as of 22 December 2025.

EQUITIES

Diversify with small and mid caps in Europe

AUTHORS

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HEAD OF EQUITY PLATFORM

The global economy has played out reasonably well, and that's being reflected in market performance amid ample liquidity. What's not reflected in the markets is policy uncertainty, signs of consumption slowing down, and risks of high valuations. In this environment, our focus remains on fundamentals and staying tilted towards businesses where risk-reward is well balanced. Increasingly, we find such businesses in regions outside the US.

For instance, Europe is making strong commitment to high public spending and to onshoring strategic supply chains. Additionally, in emerging markets, our positive view is reinforced by this year's outperformance versus the developed world. Overall, we maintain our barbell approach, with a positive stance on quality industrials and defensive sectors.

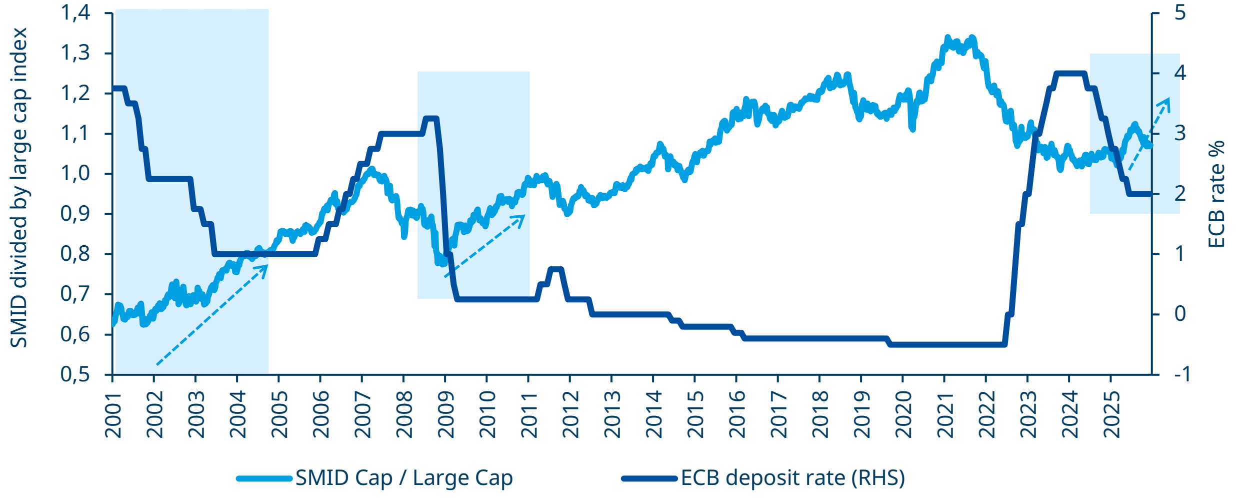
Developed Markets

- In Europe, defence and infrastructure spending plans are long-term game changers, and lower energy prices should also support the region. **We favour more domestically-exposed SMID segments in Europe**. In the AI theme, we explore businesses that will benefit from increased demand for equipment and electricity (companies providing electrical infrastructure to data centres etc. We are also less cautious on European financials than before.
- The UK budget has been well-received and valuations and dividend profile paint an attractive picture.
- In contrast, we think the US is an expensive market, and we are selective However, Japanese valuations are attractive.

Emerging markets

- EM offers a combination of strong export and domestic consumption stories, but we favour a selective approach.
- We prefer Latin America due to its cheaper valuations relative to much of the EM, and we also favour emerging Europe.
- In Asia, we are neutral on China due to stretched valuations and less favourable macro environment than before. Indian equities – and the financials sector in particular – are areas we are exploring.
- In the Middle-East and North Africa region, earnings profile in South Africa is robust, notwithstanding the political environment. The recent credit rating upgrade is an affirmation of our stance.
- From a sector viewpoint, we are cautious on technology, materials, and energy, but positive on consumer discretionary.

ECB rate cuts should support the more domestic-oriented SMID segment



Source: Amundi Investment Institute, Bloomberg as on 19 December 2025. SMID = MSCI Europe small and mid caps index.

MULTI-ASSET

Risk-on: recalibrate, but not retreat

We are seeing mixed macro signals in the US. Job markets are deteriorating, but the pace (of deterioration) is stabilising, the Fed is easing and is conscious of maintaining liquidity, and fiscal policy is supportive. In Europe, consumption is subdued, but inflation is declining. These factors, combined with strong liquidity and benign credit conditions in the markets, somewhat offset (but not completely eliminate) the risks posed by high valuations. Hence, we made some adjustments to our views on risk assets, without changing our medium-term stance. In addition, we maintain that safeguards in the form of gold and hedges on DM equities are essential amid high valuations.

Our views on equities are optimistic, including on the US, UK and EU. Fed easing and earnings are supportive. But markets would increasingly scrutinise the return potential from companies' capex in AI and in the broader US tech sector. In EM, we are seeing a deterioration in China's domestic sentiment, when valuations are stretched, leading us to tactically move to neutral on China. We continue to monitor the economic environment there. We'd like to stay more balanced through a positive view on the broader EM, which includes China.

We maintain our constructive view on duration mainly through the US and Europe, but have reduced our negative view on Japan following the rapid rise in yields in recent months driven by the BOJ's intent to normalise policy. But we are still cautious on Japan. In the US, we think the short-end and the middle of the yield curves are more attractive vs the long end. In Europe, we see lower rates going forward as growth is a bit fragile. We are also positive on Italian BTPs vs the bund. We continue to seek value in EU IG as well as EM bonds.

Our FX views rely on structural challenges to the USD. Additionally, we are positive on NOK and JPY vs the EUR. The NOK would be supported by Norway's cyclical exposure at a time of decent global growth.

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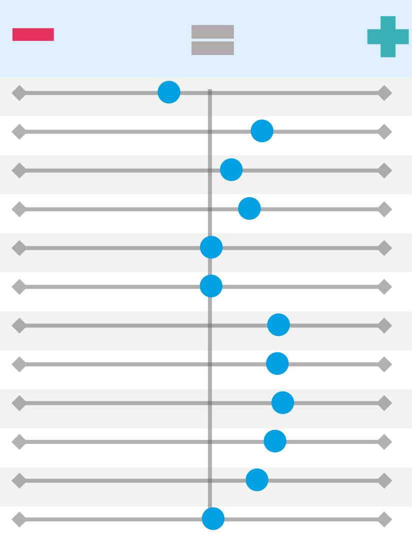
"We've moved to a more balanced stance on EM equities, reflecting the strong movements, while on duration we have tactically recalibrated our views on Japan."

Amundi Multi Asset Investment Views*

Cross-asset allocation views net of hedges	Change vs M-1
Cash	
Duration	▲
Credit	
IG credit	
HY credit	
EM Bonds	
Equity	
US	
DM ex US	
EM	▼
Gold	
Oil	



▼ Downgrade vs previous month
▲ Upgrade vs previous month

Source: Amundi, as of 23 December 2025. Changes M-1 include from previous month. The table represents the main investment convictions (including hedging) of the Multi Asset Platforms. *The views are expressed relative to a Reference Asset Allocation (with benchmark 45% equity, 45% bonds, 5% commodities, 5% cash) with "=" being neutral. The + and – may not sum-up due to potential use of derivatives in the implementation. This is an assessment at a specific time, and it can be subject to change at any time. This information is not intended to be a forecast of future results and should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is for illustrative purposes and does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

Amundi views by asset classes

Equity Views

DM Equities	**Change vs M-1**	---	--	-	-/=	=	=/+	+	++	+++
US						◆				
US Growth				◆						
US Value							◆			
Europe							◆			
Europe SMID								◆		
Japan							◆			

EM Equities	**Change vs M-1**	---	--	-	-/=	=	=/+	+	++	+++
EM							◆			
EM Asia							◆			
Latin America								◆		
Emerging EMEA								◆		
EM-ex China							◆			
China						◆				
India							◆			

Fixed Income Views

Duration	**Change vs M-1**	---	--	-	-/=	=	=/+	+	++	+++
US					◆					
EU							◆			
UK							◆			
Japan	▲					◆				
Overall						◆				

Credit	**Change vs M-1**	---	--	-	-/=	=	=/+	+	++	+++
US IG						◆				
US HY				◆						
EU IG								◆		
EU HY						◆				
Overall							◆			

EM Bonds	**Change vs M-1**	---	--	-	-/=	=	=/+	+	++	+++
China govt.						◆				
India govt.								◆		
EM HC								◆		
EM LC									◆	
EM corp.								◆		
Overall								◆		

Global FX views

FX	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
USD	▼				◆					
EUR	▲					◆				
GBP					◆					
JPY							◆			
EM FX*	▲							◆		

Source: Summary of views expressed at the most recent **global investment committee (GIC) held on 17 December 2025**. The table shows absolute views on each asset class and are expressed on a 9 scale range, where = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the GIC. * Represents a consolidated view of multiple EM currencies.

▼ **Downgrade vs previous month**
▲ **Upgrade vs previous month**

DEFINITION ABBREVIATIONS
Currency abbreviations: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.

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Amundi Investment Institute

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