

The Compass 2026



Foreword

01 December 2025

Dear Clients,

We are pleased to present *The Compass 2026*, our flagship annual publication offering a distinctive European perspective on the global economy and financial markets.

Trump 2.0 has proven more tumultuous and disruptive than many imagined just a year ago. The old global order is unravelling but the new one remains undefined. We can glimpse some emerging contours: a more interventionist state, national interests prevailing over global rules and a more inward-looking US.

Despite resilient global growth in 2025 and strong equity-market performance fuelled by the AI boom, uncertainty persists. The enthusiasm about the transformative potential of AI has been tempered by concerns over a fading Pax Americana. The US dollar has weakened by roughly 10% across major currencies, while gold has surged to record highs.

Looking ahead, 2026 is likely to bring more of the same. AI will remain the dominant market narrative, while President Donald Trump's unpredictable policies will continue to inject volatility across trade, fiscal policy, security and immigration. The potential politicisation of the Fed is among our key concerns.

In this environment, agility and diversification are essential for investors. Valuations remain elevated, leaving little room for disappointing data and reinforcing the importance of selective positioning and risk management.

We invite you to explore our second edition of *The Compass*, in which we examine these themes in depth and outline their implications for investors.

Best wishes for next year!

Manuela

Manuela D'Onofrio

Chair of The Investment Institute

Fabio

Fabio Petti

Co-Chair of The Investment Institute

WHAT WORLD? 2

The Trump aftershock

OUR STORYLINE 3

MACRO CONVICTIONS 4

2026: a year of geoeconomic adjustment, not upheaval

MARKET CONVICTIONS 14

Cautious optimism:
risk-on meets geopolitical realities

TOP STORIES FOR 2026 21

1. Europe's 2026 reality check
2. Europe's critical raw materials dilemma
3. Risks and opportunities in the private credit market

WHAT IF WE ARE WRONG? 30

1. The AI investment surge: are we ignoring the risks?
2. Could Europe replace the US as the reference market?

INVESTMENT CONVICTIONS 38

FORECAST TABLES 40



What world?

Edoardo Campanella,

Director and Chief Editor of The Investment Institute

The Trump aftershock

In seismology, a major earthquake is usually followed by aftershocks – smaller tremors that can occur for some time while the earth's crust adjusts. If 2025 experienced Trump's second-term earthquake, 2026 will see the aftershock. The global economy is likely to shake again next year, although the magnitude of the shock will be far more contained than what we have experienced this year.

US President Donald Trump still has plenty of ways to jolt markets – and he will not hesitate to act if he sees a political payoff, no matter how shortsighted it may be. However, since returning to the White House, he has opened so many fronts in such radical fashion that any future move is likely to be incremental rather than sweeping.

POLITICAL CONSTRAINTS

With the midterm elections looming, Trump is likely to act cautiously to avoid destabilising the economy through shock-and-awe moves. With his approval rating falling, Trump is trying to address the affordability crisis by reconsidering tariffs on food products and by redistributing part of the tariff revenues to all Americans except top earners.

Likewise, many policy decisions taken in 2025 will tie his hands next year. With the federal budget deficit above 6% of GDP, there is no room for another One Big Beautiful Bill. Next year will bring the full impact of the fiscal measures approved before the summer. Meanwhile, layoffs and hiring freezes have left federal agencies short-staffed, limiting the scope for further cuts. Another "Liberation Day" of global tariff hikes is off the table. The US is still grappling with the first round of reciprocal tariffs. What is more likely is that Trump revisits specific trade agreements signed recently and threatens new protectionist measures to gain leverage with certain countries if tensions were to escalate.

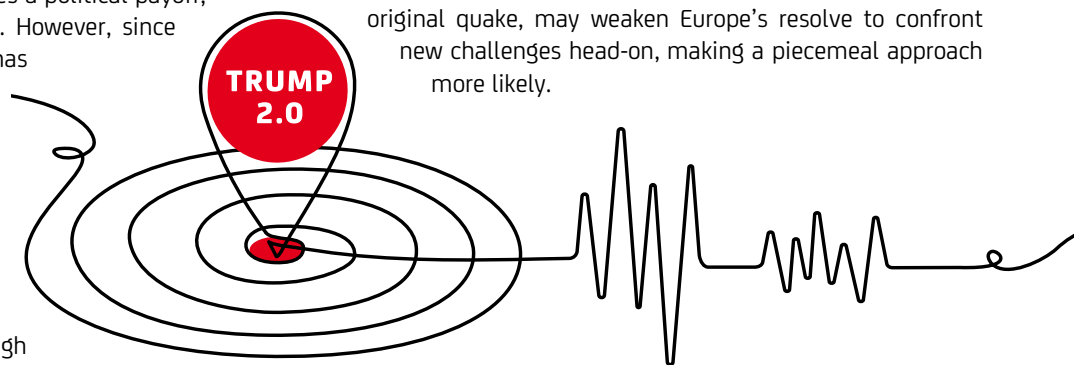
The main uncertainty lies with the Fed. Political interference will likely rise but checks and balances – including the Supreme Court – make a full takeover improbable. We see only two more rate cuts through 2027, as the natural rate drifts higher amid the AI boom, low household savings and a high fiscal deficit.

THE TRUMP AFTERSHOCK WILL BE FELT GLOBALLY

China has been preparing for a fracturing global order for almost a decade. Its strategy of self-reliance is paying off, even in semiconductors – an area where China has been traditionally reliant on the US. While the fruits of this farsighted policy approach are visible on the supply front, with Chinese manufacturing having clearly moved up global value chains,

domestic demand remains too weak. Thus, reliance on exports remains strong and is a source of vulnerability. The trade truce with Washington is likely to last until next fall, but Beijing will not shy away from weaponizing the export of critical materials if needed. At the same time, the tech race with the US will likely intensify, with China focusing more on AI application and the US on foundational AI models.

Europe is trying to adjust to Trump's ruleless order, which is driven solely by national interests. After bold announcements in 2025 – Germany's fiscal bazooka and major defence initiatives – 2026 needs to be a year of implementation and delivery on the ground. The aftershock, which will be less intense than the original quake, may weaken Europe's resolve to confront new challenges head-on, making a piecemeal approach more likely.



Yet next year we might see the emergence of coalitions of the willing in areas where meaningful progress is within reach. What is needed is the willingness to invest political capital, adopt a truly European approach and cover the last mile.

MARKET CONSEQUENCES

For markets, the aftershock will certainly be less destabilising than the original shock. For this reason, pressure on the US dollar may ease somewhat, even though its future as a safe haven remains uncertain. Similarly, government bond yields on both sides of the Atlantic are likely to edge slightly higher throughout our forecast horizon. Gold might still benefit from the uncertainty generated by the shift from one global order to another.

Global equity markets are set to climb further next year. Overall, the AI story remains intact. In our view, there is no AI bubble, but this does not mean that there are no risks. But we need to look at them through the right lens. Comparisons with the dotcom bubble are misleading. The Mag 7 are not start-ups with exciting business ideas but no products to sell. They are mature, cash-rich and earnings-generating companies. A better analogy here is the railway mania of the mid-nineteenth century in Britain. Back then, excessive leverage and overcapacity caused the bubble to burst. The key area of vulnerability for the AI boom is indeed the buildup of the AI infrastructure, where the risk of overinvestment is high.

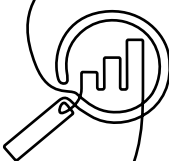
The first year of Trump 2.0 front-loaded disruption; what follows in 2026 is likely to be a phase of adjustment rather than another tectonic shift.

Our storyline



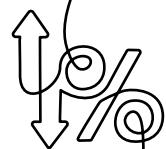
GLOBAL

- Trade tensions persist
- US-China rivalry hardens, with Europe squeezed in between
- Global economy shows adaptive resilience



GROWTH

- Solid but K-shaped economic expansion in the US
- Moderate growth in the eurozone, with Germany's fiscal bazooka kicking in
- Modest expansion in Japan
- Further deceleration in China



INFLATION

- Above target in the US
- Close to 2% in the eurozone
- Moving close to target in Japan
- Deflationary pressure in China



KEY CENTRAL BANKS

- Fed to cut twice more through 2027
- ECB on hold in 2026; one hike in late 2027
- BoJ to hike rates gradually
- PBoC to further ease monetary policy

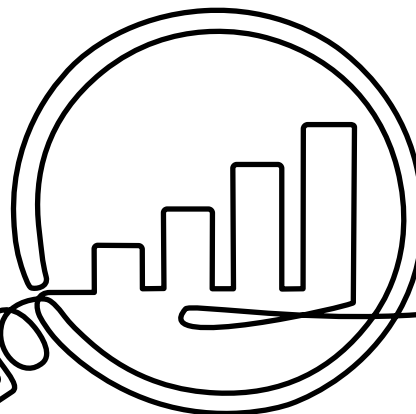


ASSET CLASSES

- Government bond yields to edge slightly higher in both the US and the eurozone
- Continued upside for global equities amid enduring AI momentum
- US dollar weakness to lose intensity
- Energy prices to broadly stabilise
- Gold supported by intact long-term drivers



Macro convictions



EDITORS

Tullia Bucco

Andreas Rees

AUTHORS

Tullia Bucco

Loredana Maria Federico

Eszter Gárgyán

Mauro Giorgio Marrano

Roberto Mialich

Andreas Rees

Marco Valli

Daniel Vernazza

2026: a year of geoeconomic adjustment, not upheaval

As 2025 comes to an end, it does so on a note of cautious optimism after a tumultuous period of trade wars and tentative truces. Many countries struck rapid-fire tariff deals with the US to avert an all-out trade war, including China's last-minute trade truce with the US at the end of October. These deals have calmed financial markets, but they did not resolve the underlying geoeconomic tensions. Instead, global trade is fragmenting into rival blocs, and policymakers worry that a new storm could be brewing. In our view, the baseline scenario for 2026 is one of continued geoeconomic friction without it erupting into a full-blown trade war. Policymakers and businesses will need to navigate this new normal. As the saying goes: hope for calm but prepare for (some) turbulence.

HIGHER TARIFFS ARE HERE TO STAY

Washington's protectionism is not a temporary tactic but a sustained strategy. Higher US tariffs are seen by Trump as a multi-purpose tool, to encourage the reshoring of industry, to shrink trade deficits, and to put pressure on China and Europe to concede ground. If the US Supreme Court were to strike down US tariffs imposed under the International Emergency Economic Powers Act (IEEPA), the Trump administration would likely use other US laws to keep tariffs at high levels. In our view, trade-policy uncertainty will remain elevated in 2026, although its peak has likely passed.

US-CHINA RIVALRY HARDENS

The latest US-China trade truce is a tactical pause rather than a durable peace in the trade war. While providing some immediate relief, the temporary easing of tariffs and export controls is unlikely to prevent a broader process of economic decoupling, especially in high-tech sectors and critical resources. 2025 saw the concept of “weaponized interdependence” playing out. China successfully retaliated against US chip sanctions by leveraging its dominance in critical minerals. In the coming years, the rivalry between the US and China is likely to intensify in emerging technologies, such as AI, quantum computing and biotech. Realistically, one should expect further protectionist measures sooner or later, as each superpower tries to slow the other’s progress.

EUROPE CAUGHT IN A PRECARIOUS “SANDWICH” POSITION

The EU has been squeezed between security dependence on Washington and economic dependence on Beijing. This delicate balancing act may be tested again soon, for two reasons. First, Chinese companies might divert some of their exports from the US to Europe. Second, the new US-EU trade framework brought some short-term relief but created political obligations, such as massive energy purchases and foreign direct investment (FDI), which Europe may struggle to fulfil in 2026/27. Trump could therefore claim that the EU is failing to hold up its end of the deal and again threaten the introduction of higher tariffs.

GLOBAL ECONOMY TO SHOW ADAPTIVE RESILIENCE IN 2026

We expect global GDP to rise 3.1% yoy in 2026 and 3.2% in 2027 after 3.2% in 2025. While more protectionism will trigger some negative demand effects, the private sector continues to show a remarkable capacity to adapt. For instance, European companies front-loaded exports early in 2025, while their US peers reorganised supply chains to blunt the impact of higher tariffs. Furthermore, companies may get used to heightened policy uncertainty, which would reduce the negative impact on the global economy. Although the trend in annual global goods trade growth might decline to 2-3%, from 4%,

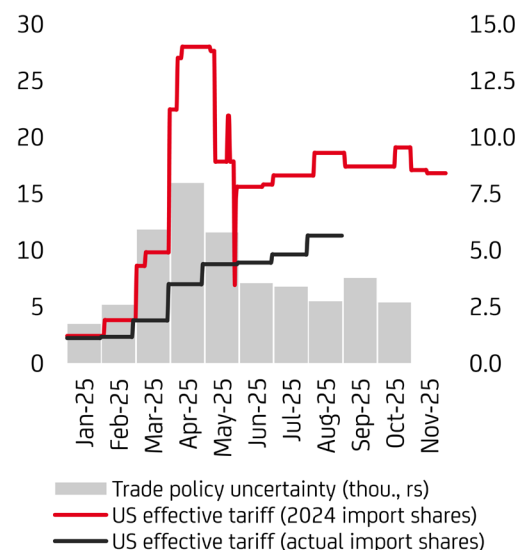
accelerating trade in services is likely to compensate for this. Further digitisation and AI could accelerate the shifting composition of global trade towards services. Meanwhile, governments have been subsidising the manufacture of strategic goods such as chips and batteries to reduce dependence on China. These efforts will dampen the negative demand effects but will also raise public debt levels. If investors demand higher yields to hold this debt, central banks could come under pressure to suppress borrowing costs.

FRAGMENTATION, LOWER GROWTH AND HIGHER INFLATION ARE LONG-TERM RISKS

The US and China are increasingly ring-fencing trade and technology within their respective spheres, with Europe caught in the middle. It is therefore likely that a structural shift will occur in the form of a fracturing of the global economy into rival blocs. A fragmented world is more prone to supply-side shocks such as tariffs and export controls, which hit production costs. Over the longer term, this implies higher and more volatile inflation and weaker growth than in the era of unfettered globalisation.

CHART 1.1: TRADE UNCERTAINTY LIKELY TO HAVE PEAKED

US TRADE POLICY UNCERTAINTY AND TARIFFS



Source: Economic Policy Uncertainty, US Census Bureau, US Department of the Treasury, The Yale Budget Lab, The Investment Institute by UniCredit



US economy: solid but K-shaped

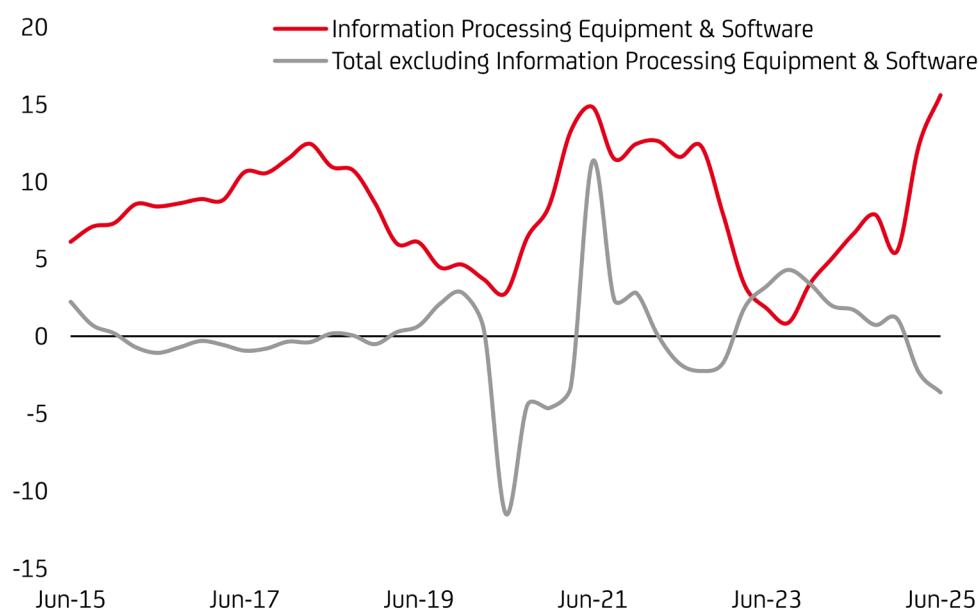
We expect the US economy to post **solid growth** next year (2.1%) and in 2027 (2.0%) thanks to fiscal support, AI investment, some easing of policy uncertainty and favourable financial conditions. The government shutdown will weigh on 4Q25 GDP growth, but this loss is likely to be almost fully recouped in 1Q26. The main question for the outlook is whether the bigger risk is the recent weakness of employment growth or too-high inflation. We fall in the latter camp.

US economic activity has been **remarkably resilient** in 2025, despite much higher tariffs and policy uncertainty, and in large part due to strong AI investment and spending by higher-income households. Lower-income households are under some stress (the lower leg of the so-called K-shaped economy), but we don't expect this to spread. Hiring has slowed notably, although this is mainly due to lower immigration, and partly due to the impact of heightened economic uncertainty and AI investment on labour demand. To the extent lower hiring is due to lower immigration, it does not signal slack. We expect heightened economic uncertainty to ease somewhat, or at least firms to become used to uncertainty. Hiring should pick up, but with a lower elasticity to GDP growth than its historical relationship. The unemployment rate may rise, but likely not by much.

We expect heightened economic uncertainty to ease somewhat, or at least firms to become used to uncertainty.

Measures of **underlying inflation** are currently around 3%, and we expect core inflation to peak at 3.5% over the next six months. Pass-through of tariffs likely has further to run, as stockpiles from frontloading of imports are run down, and tariff-related uncertainty (which had led some firms to wait before passing on tariffs) eases. Indicators of non-housing services inflation have picked up recently, and measures of short-term inflation expectations remain elevated. The **tariff impact** should fade from the second half of next year, although we expect inflation to remain above target through 2027.

CHART 1.2: US AI INVESTMENT BOOM
US REAL BUSINESS INVESTMENT (% YOY)



Source: US Bureau of Economic Analysis (BEA), The Investment Institute by UniCredit



TRUMP WILL FOCUS ON PRESERVING MAJORITY IN CONGRESS

During Trump's first year of his second term as president, he has made sweeping changes across many functions of government and beyond, including tariffs, fiscal policy, immigration policy, regulation and foreign policy. Will his second year be simply more of the same? Trump will keep an eye on the midterm elections in November. It is **too soon to predict the outcome** (for what it's worth, current polls predict Republicans will hold on to a majority in the Senate but will narrowly lose control of the House). Some have argued that Trump should, therefore, re-focus on domestic policies and on safeguarding the economy.

We are perhaps already seeing early signs of this. Following wins by Democrats in several state elections in early November, Trump has turned his attention to the cost of living, after previously downplaying the impact of his policies (particularly tariffs) on inflation. He has proposed that a **USD 2,000 tariff rebate check** be sent to all Americans excluding high earners, supposedly financed by incoming tariff revenue, as well as 50-year mortgages, and a major rollback of tariffs on a range of food items. However, we doubt he will meaningfully lower tariffs from current levels.

Eurozone shows resilience, fiscal policy to provide support

The eurozone economy has weathered the tariff storm better than expected. Business confidence is holding up reasonably well amid continued high volatility in exports to the US. Domestic demand remains on a trajectory of slow but positive growth and the risk of a downturn in the labour market is still contained.

However, the current economic resilience should not be taken for granted. A **low business investment rate** indicates that eurozone firms are reluctant to embark on new projects, while households continue to increase their precautionary savings from already high levels. In this environment, fiscal policy will have to play a decisive role. Our working assumption is that Next Generation EU (**NGEU**) investments will fire on all cylinders ahead of the expiry of the program at the end of 2026, while the boost from Germany's infrastructure and defence programs will kick in only gradually due to implementation challenges and bottlenecks. The growth impulse from the pan-European rearmament plan will probably be small and backloaded. Households are likely to remain cautious and the growth rate of private consumption lacklustre.

Following a continuation of slow growth at the turn of the year, we project a gradual reacceleration of economic activity over the course of 2026, supported by fiscal policy, a reduction of tariff-related uncertainty and the lagged effect of ECB rate cuts. In yearly average terms, GDP will probably rise by 1.0% in 2026 and by 1.4% in 2027. At a **country level**, we expect growth of 0.9% in Germany (1.2% in non-working-day adjusted terms) next year, followed by a robust 1.8% in 2027 (non-adjusted: 1.9%). In France, we forecast growth of 0.9% for 2026 and 1.1% for 2027, while for Italy we have pencilled in 0.6% and 0.8%, respectively.

The price outlook is benign. Headline inflation will likely settle slightly below 2% in 2026-27, while core inflation resumes a downward trajectory and dips below 2% as wage growth continues to ease. Underlying price pressure might bottom out toward the end of 2026 or in early 2027.



Germany

WILL THE FISCAL BAZOOKA FINALLY START FIRING?

In a historic U-turn from austerity in early 2025, the German government enacted sweeping measures to loosen the constitutional debt brake and to pump enormous funds into defence and infrastructure. The big question now is execution. As of late 2025, the foundations for the bazooka to start firing are laid: funding vehicles are largely established and implementation is gearing up.

In our view, the longer-term outlook for the German economy is promising, as the bazooka is likely to lift productivity and lead to higher potential growth, possibly to 1-1.25% from about 0.5%. The additional funds for infrastructure are explicitly targeted at the crucial needs of the economy, such as reducing transport bottlenecks, furthering the clean energy transition and supporting digitisation. Furthermore, higher defence spending has the potential to become a win-win for the military and civilian sectors as dual-use innovation and technological spillover effects kick in.

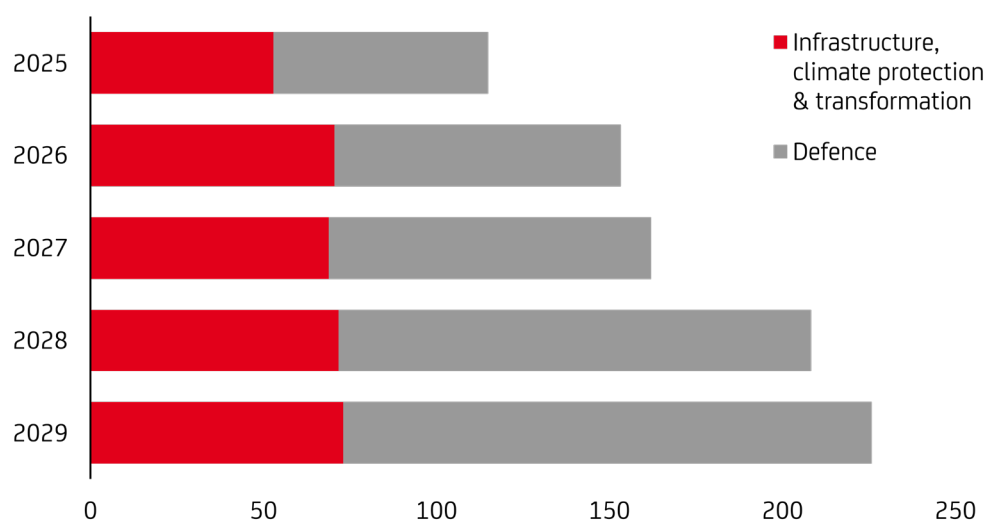
However, economic success will not come overnight. Surmounting implementation barriers by cutting red tape and reforming public procurement will inevitably take time to become effective. Moreover, there are capacity constraints in Germany's construction sector and the defence industrial base, at least in the short term. Hence, we expect the bazooka's positive impact to gradually unfold from 2026 onward, gathering speed in the subsequent years as more infrastructure and defence projects break ground.

The big question now is execution.



CHART 1.3: PUBLIC SPENDING TO RISE STRONGLY

SPENDING OF FEDERAL GOVERNMENT (EUR BN)



Source: Federal finance ministry, The Investment Institute by UniCredit
Note: 2025 defence figure excludes EUR 26bn from 2022 shadow budget.



France

FRENCH POLITICAL DRAMA TO CONTINUE

France's current political instability is likely to persist through 2026 and extend into 2027. While we cannot rule out further disruption, the odds of snap presidential elections remain low. Lingering political instability stems largely from the fact that even politicians who advocate a renewed role for parliamentary debate in shaping government decisions frequently prioritise electoral strategy. Their actions are driven by the aim of maximising their own or their party's prospects in the presidential elections, officially scheduled for 2027 but which some are pushing to advance.

The odds of snap presidential elections remain low.

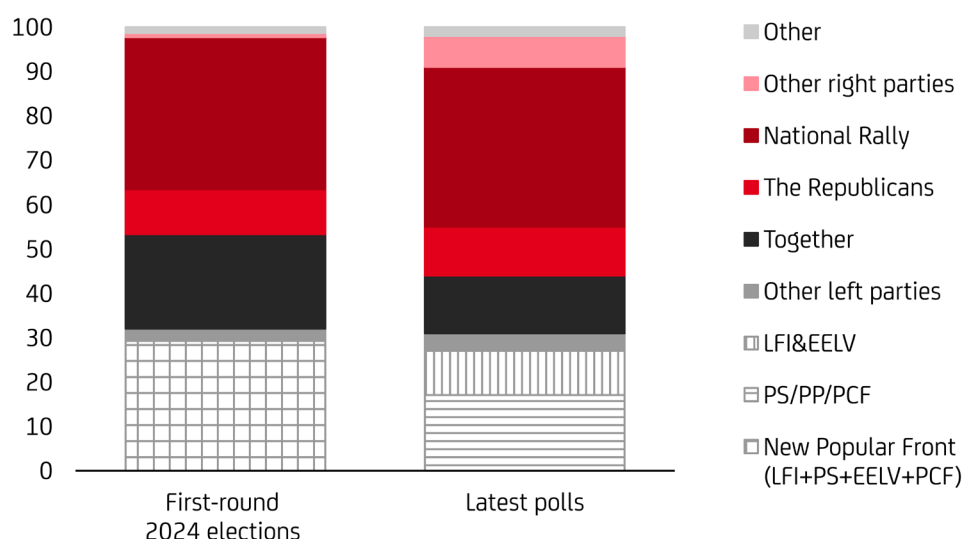


This push is based on the illusion that holding elections following the traditional playbook – including a revival of the so-called “republican pact,” which encourages voters to unite against the far-right National Rally (RN) – could represent a solution to the political deadlock. In fact, given the current fragmented political landscape, neither a **snap parliamentary election** nor a **snap presidential election** would be likely to yield a stable majority, even a relative one, unless in the former case the president voluntarily limits his prerogatives or in the latter political parties acknowledge the electorate's shifting preferences, notably the growing support for the RN.

This misconception is likely to prolong political instability, hindering France's ability to take the measures necessary to ease domestic social tension surrounding wealth distribution and to address the various challenges affecting its GDP growth prospects. Moreover, the lack of fiscal room for manoeuvre – if left unaddressed – will limit Paris's ability to effectively shape the European policy debate on responses to the most pressing geopolitical threats.

CHART 1.4: FRAGMENTED POLITICAL LANDSCAPE

2024 LEGISLATIVE ELECTION RESULTS VS. CURRENT VOTING INTENTIONS (%)



Source: IFOP-Fiducial pour LCI, Le Figaro et Sud Radio, The Investment Institute by UniCredit



Italy

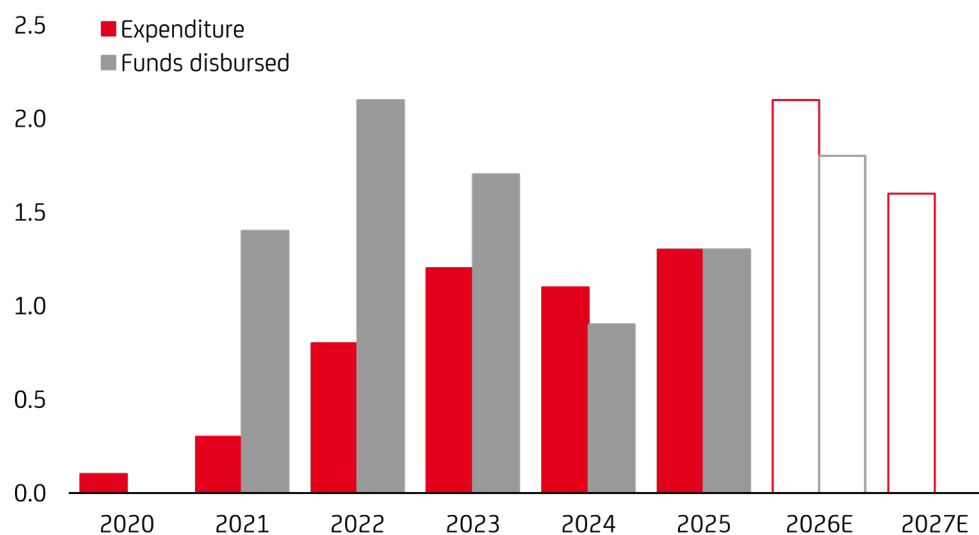
NGEU INVESTMENT REMAINS A SIGNIFICANT TAILWIND

The European Commission has outlined the final roadmap for implementing national recovery and resilience plans (NRRPs) under its Next Generation EU programme. All reforms and investment must be **completed by 3Q26**, and all disbursements will be finalised by the end of next year. Actions after this date will not count towards achieving milestones and targets. The countdown is on.

Given the high level of EU funds already disbursed and a substantial step forward in bringing projects to life, we expect Italy to remain broadly on track with its implementation. Like other EU countries, Italy has finalised the latest revision of its plan to avoid risking up to EUR 14bn of resources (7.3% of the total) going unused. New or strengthened initiatives will now be aimed at supporting business competitiveness, achieving digital connectivity at 1Gbps nationwide and investing in agriculture and water infrastructure. Some financial tools will also be introduced to provide greater flexibility in completing projects.

Once all the EU requirements have been met, part of the **expenditure**, which could be worth around 1.6% of GDP, **will extend beyond 2026**. Therefore, the NRRP will be a key growth driver in 2026 and 2027, thereby preventing Italy from experiencing a cliff effect. Moreover, public investment will move closer to 3.8% of GDP by 2027, significantly contributing to supporting the country's potential growth.

CHART 1.5: ITALY SET TO ACHIEVE MAXIMUM ABSORPTION OF EU FUNDS
RECOVERY AND RESILIENCE FACILITY (RESOURCES AND EXPENDITURE AS % GDP)



Source: Italy's Ministry of Economy and Finance, The Investment Institute by UniCredit

UK: stuck in a low gear

UK economic **growth** is likely to be **anaemic** next year (1.0%) before picking up slightly in 2027 (1.2%). Productivity growth is weak, fiscal policy is set to be tightened, and monetary policy is likely to remain restrictive through most of next year. A further deterioration in the labour market is likely, which will keep consumer confidence low and the household savings rate high. Concerns over the public finances, political stability and weak growth are likely to mean UK government long-term bond yields remain the highest in the G7, which is also weighing on much needed investment. Rate cuts by the BoE through next year, as inflation moves down to around 2% by the end of 2026, should offer some relief in 2027.

China: no rebalancing

We are maintaining a **cautious growth outlook** for China, projecting growth of 4.1% in 2026 and 3.8% in 2027 (2025: 5.0%). The deceleration reflects a confluence of domestic and external headwinds that are unlikely to abate quickly. The real-estate correction continues to erode household wealth and confidence, with high developer debt suppressing housing starts. Consumers remain cautious, prioritising precautionary savings amid job insecurity and demographic pressure. Fiscal-policy stimulus is likely to remain targeted and too modest to trigger a meaningful rebalancing towards household consumption.

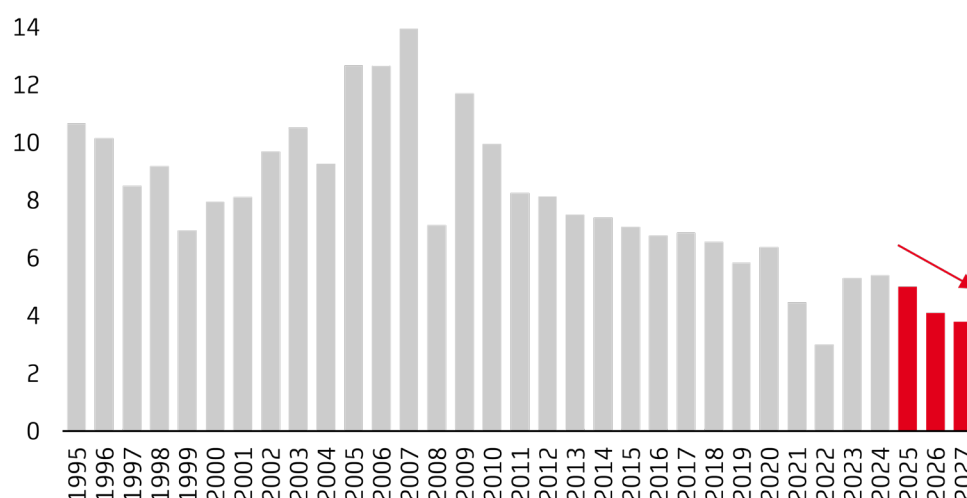
Instead, China is likely to keep leaning on its established growth model: heavily subsidised investment in strategic sectors and exports to absorb industrial capacity. Furthermore, **“tech nationalism”** will probably feature prominently in the next Five-Year Plan that will be formalised next spring, i.e. a further upgrading of manufacturing and working towards breakthroughs in semiconductors and other foundational technologies. Since sticky US tariffs will keep pressure on exports, Chinese companies will probably divert exports from the US to Europe. With weak price dynamics, we expect the PBoC to ease further through measured rate cuts, liquidity operations and directed credit.

China is likely to keep leaning on its established growth model.



CHART 1.6: STRUCTURAL GROWTH SLOWDOWN IN CHINA

REAL GDP (% YOY)



Source: China Bureau of National Statistics, The Investment Institute by UniCredit



CEE: growth may pick up amid still-lingering fiscal risks

Economic growth in CEE is set to pick up in most countries in 2026, driven by recovering external demand and stronger investment, supported by increased absorption of **EU funds**. Consumption remains the key growth engine, backed by tight labour markets and positive, though moderating real wage growth (apart from Romania). GDP growth may range between 2.0% and 3.3%, with Romania and Slovakia trailing due to fiscal consolidation.

Fiscal risks related to political developments will be in focus in Hungary, Poland, Romania and potentially Czechia. Inflation should stay within target ranges, except in Hungary and Romania, although fiscal and regulatory steps pose upside risks. Central banks are thus likely to remain cautious, with room for further rate cuts next year mainly in Poland, Romania and Serbia.

In 2027, the expiry of the Recovery and Resilience Facility (RRF) will reduce EU fund inflows, but stronger external demand, boosted by German fiscal stimulus, should contribute to keeping GDP growth between 2.0% and 3.0%. Slovakia will likely lag again due to fiscal consolidation. Inflation may stay within target, and we expect most central banks to keep interest rates stable, except in Hungary and Romania, where we see room for reduction. Politically, the focus will shift to elections in Bulgaria, Slovakia and Poland.

Fiscal risks in CEE

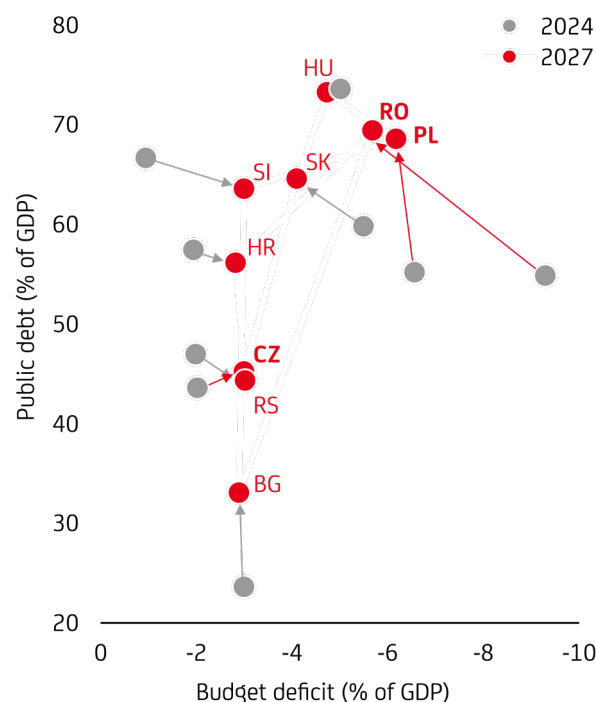
While the 2026 CEE election calendar is light, with Hungary's parliamentary vote in focus, fiscal and political dynamics could drive local markets in Poland and Czechia and remain relevant in Romania, where fiscal consolidation plans still face implementation risks.

In Hungary, the recent HUF outperformance may reflect expectations that a potential victory by the pro-EU opposition Tisza party could restore access to EU funds, scale back interventionist policies and compress risk premiums. As the fiscal deficit may stay above 5% of GDP, keeping the debt-to-GDP ratio around 74%, consolidation steps may be needed post-election to safeguard stability.

In Poland, the prospects of consolidation before the autumn 2027 election are limited amid waning support for the ruling parties. Cohabitation between the pro-EU government and an opposition-aligned president with substantial veto rights adds to the political challenge. Despite a fiscal deficit above 6% of GDP and a steep rise in the debt-to-GDP ratio, solid growth and domestic fiscal rules are mitigating pressure to rapidly reduce the deficit, though political risks may widen risk premiums closer to the election.

In Czechia, markets await fiscal plans from the new populist coalition. Uncertainty and expectations of looser policy have lifted long-term yields. Fiscal rules should limit risks, at least in 2026: we expect a higher deficit but not above 3% of GDP, which should preserve the country's strong credit fundamentals.

CHART 1.7: FISCAL DEBT SUSTAINABILITY IN CEE
CHANGES IN FISCAL POSITION AND PUBLIC DEBT-TO-GDP RATIO (2024 VS. 2027 FORECASTS)



Source: Eurostat, The Investment Institute by UniCredit.



Central banks

ECB ON HOLD

We expect the ECB to **keep the deposit rate at 2%** for a prolonged period. In 1H26, the risks remain tilted towards a final cut amid still-weak growth and below-target inflation. A progressive strengthening of economic activity will then lead to a shift in the balance of risks around the medium-term inflation outlook. We have pencilled in a 25bp rate hike in late 2027, with the view that rates could move from the mid-point of the ECB's neutral range (2% currently) to the upper end of this range (2.5%) by 2028. In terms of balance-sheet policies, we see QT at the current pace throughout 2026, after which liquidity conditions might lead to increased volatility in money-market rates.

FED CUTS LIMITED BY THE MACRO OUTLOOK

We expect the Fed to hold rates steady for six months, then **cut by 25bp in June 2026 and in 4Q26** to 3.25-3.50%, followed by steady rates in 2027. High core inflation and solid growth mean there is no macro reason for rate cuts. We have assumed a modest impact from political interference on Fed policy. Jerome Powell's term as chair expires in May 2026 and the chair has an outsized role in influencing deliberations. We have not assumed Trump gets de-facto control of the Fed as this would require a sequence of "ifs"; for example, if in January 2026 the Supreme Court were to rule Governor Cook can be fired, and if in February a majority on the Fed Board refuses to appoint regional Fed presidents not aligned to Trump. As we discussed in our [Short View – The economic and market impact of a political Fed](#), a full politicisation of the Fed would lead to an aggressive monetary easing, a weaker USD, lower short-dated yields and a significantly higher term premium due to a spike in inflation expectations.

We think the longer-run **equilibrium interest rate** is around **3.5%**. While the equilibrium rate is unobservable, it can be estimated by its works on the economy. Growth has proven remarkably resilient despite higher real interest rates, the personal savings rate is low,

investment is likely to remain strong (buoyed by AI and fiscal incentives), public debt as a share of GDP is high and will continue to rise quickly, and geoeconomic fragmentation will weigh on global demand for USTs.

BOJ TIGHTENING TO RESUME, BUT STILL GRADUALLY

Japanese long-term yields have risen, and the JPY has fallen amid fears of a financial crisis in Japan after the new fiscal plan was announced. We think these worries are probably overstated. Japanese debt is almost fully held domestically, reflecting one of the highest private saving rates in the world. Yet, the BoJ is facing two opposing pressures, one from the real economy and another from the moral suasion employed by the new government to delay or slow the pace of new rate hikes. Japanese inflation is close to 3% compared to the BoJ's 2.0% target. This, together with wage pressure, is making Japanese real rates too low and calls for tighter monetary policy. So far, however, BoJ Governor Kazuo Ueda has been vague about the timing of further moves, probably in anticipation of political decisions by new PM Sanae Takaichi, who favours loose fiscal and monetary policies. We expect the BoJ to **raise the target rate from 0.50% currently to 1.00% in 2026** (this level is considered the floor for the "natural rate" for Japan) and probably up to 1.25% by early/mid-2027.

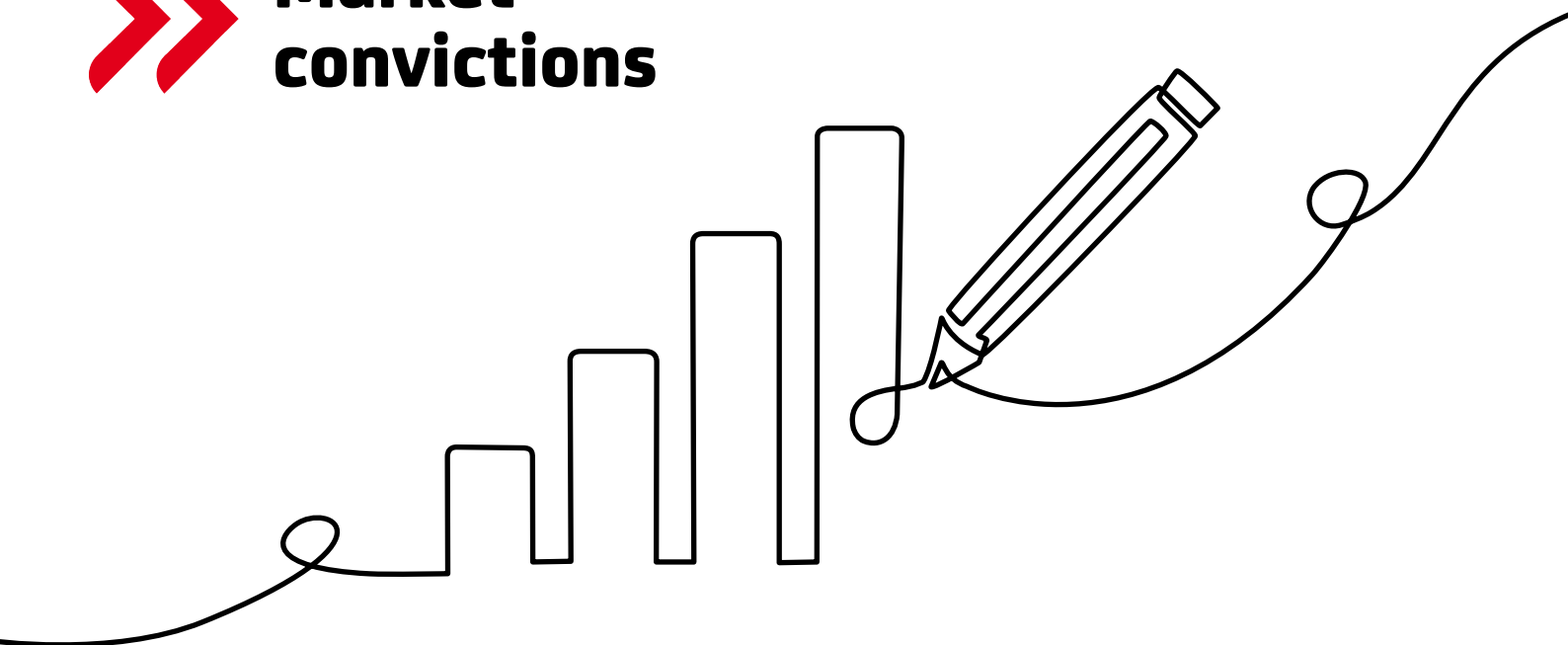
BOE TO CUT BY MORE THAN MARKETS EXPECT

We expect the Bank of England to **cut the bank rate by 25bp in December to 3.75%, followed by one 25bp cut per quarter through 2026 to 2.75%**. Fiscal tightening, a deteriorating labour market and negative base effects for inflation should see inflation moving down to around 2% next year, allowing the BoE to keep cutting the bank rate. We see rates steady in 2027 at 2.75%, a level we judge to be broadly neutral given the UK's low productivity growth and signs of structurally higher precautionary saving from households.





Market convictions



EDITORS

Francesco Maria Di Bella

Tobias Keller

AUTHORS

Luca Cazzulani

Francesco Maria Di Bella

Tobias Keller

Stefan Kolek

Roberto Mialich

Giovanni Mazzariello

Jonathan Schroer

Christian Stocker

Thomas Strobel

Michael Teig

Cautious optimism: risk-on meets geopolitical realities

Global markets will enter 2026 with moderate growth but a fragmented inflation backdrop, leaving policymakers with little room for error. Structural shifts, in particular tariffs that have become entrenched, fractured geopolitics and the slow rewiring of supply chains, are now permanent features of the global economy that markets must contend with, rather than passing irritants.

Against this background, **equities** retain their upside potential. The US is set to lead the way, powered by AI-driven productivity gains and fiscal investment that should sustain corporate earnings. Europe's outlook is anchored by defence and infrastructure spending, yet soft demand and slower tech uptake are restraining momentum. Emerging markets appear resilient, supported by demographics and near-shoring, even as commodity volatility and refinancing risks linger.

Fixed income faces a more challenging environment. Sovereign issuance is heavy, while central banks are easing only gradually, keeping yields elevated. Carry strategies are set to dominate, but duration risk has returned. European corporate credit markets should remain resilient, but the recovery phase of the credit cycle – marked by rising leverage and increased supply – suggests returns will hinge on carry rather than further spread compression.

Currency markets are pointing to a gentler decline in the USD, with de-dollarisation evolving incrementally rather than abruptly.

In short, 2026 is shaping up to be a year in which cautious optimism towards equities will contrast with constrained bond markets – a landscape defined by structural change, policy complexity and enduring uncertainty.

Fixed income

Govies caught between heavy supply and little monetary easing

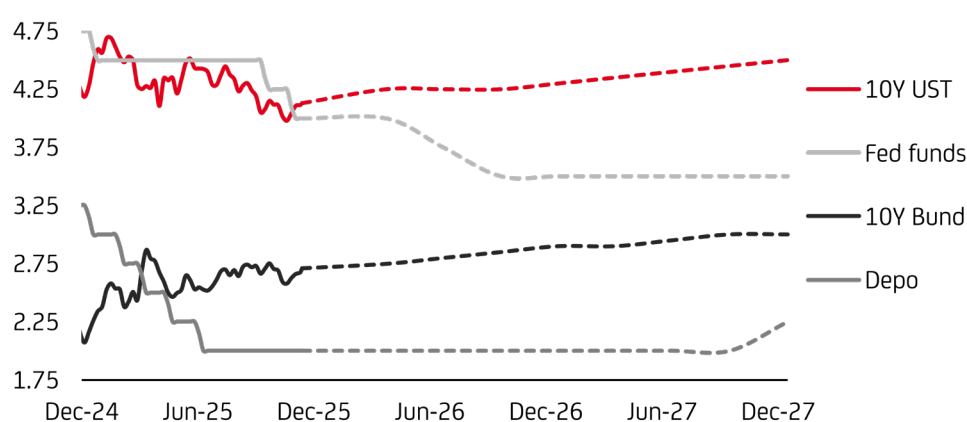
Govies face a **challenging environment in 2026**. Central banks are likely to disappoint current easing expectations as global growth is set to improve and US inflation, albeit stabilising, should remain above target. Yields are likely to rise moderately, especially at the long end of the curve. As a result, we expect positive but limited performance from this asset class, especially for EGBs, where yields are low. Against this backdrop, carry will remain the name of the game. An example in this respect is emerging market bonds in hard currencies, which remain attractive despite recent tightening.

For **USTs**, we see two key drivers pushing yields higher. First, markets are pricing in aggressive Fed cuts, which we see as overly optimistic. A repricing could lift the 10Y UST yield by 20-30bp. Second, the US federal deficit is expected to remain near 6% of GDP, sustaining heavy UST supply. While Fed reinvestments and a tilt of issuance by the Treasury toward shorter maturities may help in the near term, a higher term premium seems likely. We expect the 10Y UST yield to rise gradually toward 4.30% by end-2026, with a potential move to 4.50% once a higher terminal rate is fully priced in. However, this adjustment is likely to be slow, and bear steepening remains a medium-term story.

In the eurozone, the easing cycle appears to be over. The ECB's balance-sheet reduction and steady sovereign issuance should keep upward pressure on EGB yields. **Bunds** may lead the move higher, supported by Germany's fiscal expansion. We see the 10Y Bund yield rising towards 3% by late 2026 or early 2027.

CHART 2.1: UST AND BUND CURVES TO BEAR-STEEPEN MODERATELY

CENTRAL BANK RATES, GOVERNMENT BOND YIELDS AND OUR FORECASTS (%)



Source: Bloomberg, The Investment Institute by UniCredit



EGB-BUND SPREAD – ROOM FOR FURTHER CONVERGENCE

Appetite for BTPs, SPGBs and PGBs has improved notably in 2025, with their spreads to Bunds now trading at their lowest levels since the sovereign crisis. These bonds have also been highly correlated with Bunds in the past few months, which indicates that investors perceive idiosyncratic risks from these countries as contained. While investors have been cautious regarding OATs due to political developments in France, sound fiscal policies, stable political situations and higher-than-average economic growth have boosted demand for Italian, Spanish and Portuguese bonds. The launch of the fiscal bazooka in Germany, which is regarded as a game changer in terms of fiscal discipline, and a stronger institutional backdrop in the eurozone have also played key roles.

Should these positive conditions remain in place and risk appetite be healthy, we would expect spreads to tighten further in the coming months. The room for significant tightening now appears limited as elevated debt/GDP ratios and rating gaps with Germany represent headwinds for demand. From a longer-term perspective, spread behaviour will depend on these countries' fundamentals, as well as political cohesion in Europe. In our view, a further stepping-up in common funding and shared policies would be crucial for yields to converge further.

Credit cycle points towards slightly wider spreads

European corporate credit is moving through the recovery phase of the credit cycle. While stronger economic growth should support firms' EBITDA generation, it is also likely to lead to higher capex and more shareholder-friendly corporate policies, both of which would contribute to increasing leverage. Against this backdrop, we expect an increase in new supply in both the investment-grade (IG) and high-yield (HY) segments, further driven by greater M&A activity. Given ample liquidity, the refinancing of bond maturities should not be problematic, on average, which is likely to favour contained default rates. All in all, the above-mentioned drivers suggest moderate spread widening next year. We see both iBoxx IG non-financials and bank spreads at 90bp and the HY credit spread at 300bp by the end of 2026.

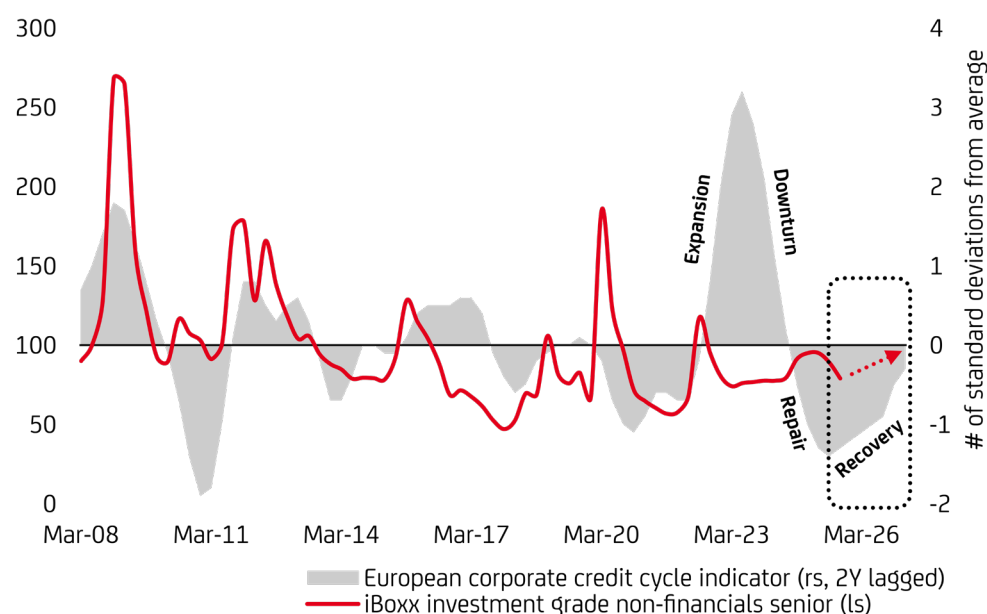
However, with carry still attractive, we expect positive total returns of between 1.8% and 4% from European corporate credit in 2026. This constructive view could be challenged by two risk factors. First, a deterioration in the geoeconomic environment could adversely affect eurozone economic growth, leading to a more-pronounced deterioration in credit metrics. The second risk factor is the possibility of spillover from potential trouble in the US private credit market. In 2026, we expect non-financials senior bonds to outperform bank senior bonds, as bank credit is likely to be more sensitive to the further development of US credit. On balance, we continue to prefer IG bonds over HY credit.

We expect an increase in new supply in both the IG and HY segments.



CHART 2.2: RECOVERY PHASE SUGGESTS SLIGHTLY WIDER SPREADS

EUROPEAN CREDIT CYCLE VS. IBOXX IG NON-FINANCIALS SPREAD (BP)



Source: S&P Global, The Investment Institute by UniCredit

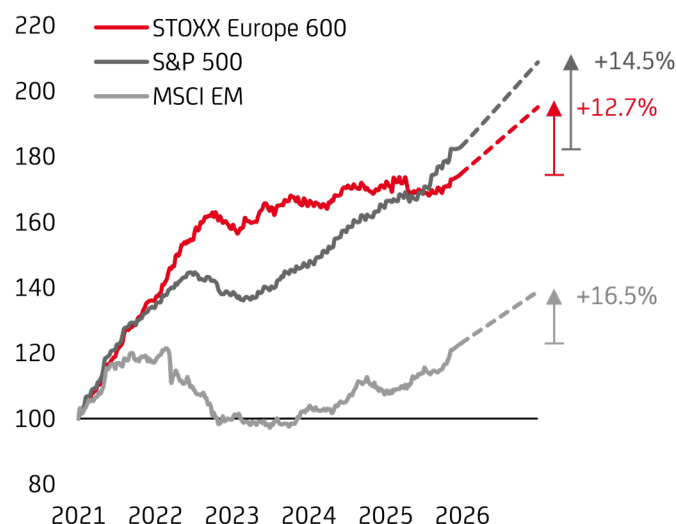
Equities

2026: another year of positive stock-market potential

As we head towards 2026, global stock markets are poised for moderate growth amid persistent uncertainties. The AI narrative, which is particularly important for the US stock market, remains a double-edged sword: it is fuelling innovation and earnings potential while raising bubble concerns. We see opportunities stemming from technological advancements and the easing of monetary policies, but risks are posed by trade tensions, high valuations and geopolitical volatility. Corporate earnings are expected to accelerate (see Chart 2.3), driven by AI, infrastructure and defence investments, albeit the sustainability of high AI investments is being questioned. Overall, we expect higher volatility in stock markets but no end to the underlying upward trend.

CHART 2.3: 12M FWD. EPS ESTIMATES EXPECTED TO RISE BY DOUBLE DIGITS IN 2026

12M FORWARD EARNINGS ESTIMATES AND THEIR 2026 YEAR-END EPS PROJECTIONS



Source: LSEG Datastream, I/B/E/S, The Investment Institute by UniCredit

The **US stock market** is forecast to see robust earnings growth of about 14% for the S&P 500, supported by AI-led productivity gains in the tech sector. Chances abound for AI juggernauts like semiconductors and software, where massive capex could supercharge profits, helping to lift the index by about 12% to 7,600 by the end of next year. However, we expect 2026 to be characterised by higher volatility than 2025 due to the high valuations, in combination with increasing company earnings growth, potential Fed rate volatility and especially if enthusiasm around AI moderates. On the other hand, infrastructure investment (in part also driven by investment in data centres) will likely broaden demand in sectors such as utilities, materials, construction and, last but not least, financials, due to increasing financing needs. Therefore, we see a good probability of a broadening performance distribution in the US stock market in 2026.

The outlook for **European stocks** is more tempered, with the Euro STOXX 50 expected to increase by 11% to around 6,200 by end-2026, fuelled by 8% earnings growth. Germany's fiscal stimulus alongside rising defence spending across Europe are expected to support the machinery, transport, logistics and technology sectors. However, risks stemming from trade wars and tariffs could burden growth and are intensified by low tech investment, which is lagging behind the AI boom in the US. Consensus earnings estimates growth for 2026 may be overly optimistic at 13% and are prone to export disruptions. Therefore, our earnings-growth estimates are more conservative. AI plays a more muted role, with Europe undervalued relative to the US but hindered by productivity gaps.

Emerging market (EM) equities are anticipated to post GDP growth of around 4%, outpacing advanced economies and contributing two thirds of global expansion. Earnings are looking promising, with the MSCI EM Index 12M forward P/E at around 14, attracting inflows amid a weaker USD. Opportunities may be provided by demographic dividends in India and Africa, near-shoring in Mexico and Vietnam and AI reshaping sectors such as electronics in the Association of Southeast Asian Nations (ASEAN). The risks we may face here include debt-refinancing peaks, commodity volatility and geopolitical tensions, which might cause capital outflows. AI adoption is uneven, supporting tech exporters but exposing others to US-led disruptions.

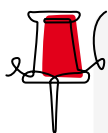


FX

Selling of the USD to continue, but at a slower pace

We do not expect selling pressure on the USD to disappear in 2026. Uncertainty about Trump's policies remains, and he may favour a competitive currency ahead of the US mid-term elections next November. De-dollarisation will likely continue, primarily involving payment systems (see box below). Still, an 8% plunge in the US dollar index (DXY) like in 2025 looks to be out of the question.

We see limited room for EUR-USD to exceed 1.20 in 2026, as we now expect the neutral rate in the US at 3.50%, the Fed delivering fewer rate cuts than markets expect and limited risks of Fed politicisation. An increase in US borrowing and more spending in the eurozone would further lock **EUR-USD** in the 1.15-1.20 band. A return to 1.10 or below would require more ECB easing and a full reversal of Fed rate-cut expectations. Despite its recent rally, we expect a lower **USD-JPY** due to a tighter US/Japan interest-rate differential and stronger fiscal policy in Japan, which is supporting stocks and attracting funds from abroad. Nevertheless, a return below 150 will likely be slow and end at just around 145.

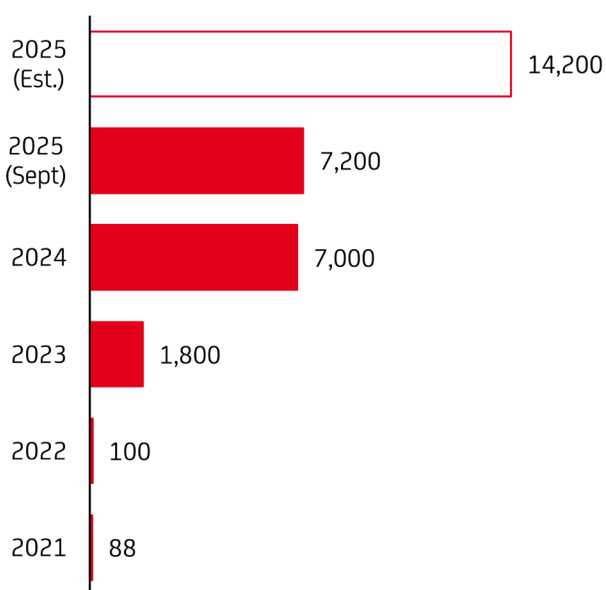


FX WARS TO BECOME EVEN MORE DIGITAL

Last year, we argued that the USD's leadership was not at risk, due to the absence of serious alternatives. The situation is unlikely to change in 2026. The BIS Triennial Central Bank Survey of FX markets confirmed that the USD was on one side of 89.2% of all FX daily trades, while the IMF showed that the USD makes up nearly 58% of all central bank reserves. Still, the global payment system may become the area in which the dominance of the USD might be challenged more rapidly, with the yuan (CNY), rather than the euro, assuming a key role. Rather than a digital dollar, the US still favours private cryptocurrencies and stablecoins, which, being pegged to the USD, might help it maintain its leadership. The eurozone is still lagging behind, as the first transaction in digital euro is not expected before mid-2029. China, by contrast, is making giant leaps. The chart below shows the impressive increase in the volume of **digital yuan (e-CNY)** transactions in recent years.

CHART 2.4: VOLUME OF DIGITAL-YUAN TRANSACTIONS

CNY BN



Source: People's Bank of China, The Investment Institute by UniCredit

The e-CNY is now an important part of Chinese trade flows with ten members of the Association of Southeast Asian Nations (ASEAN) and six Middle Eastern countries, including Saudi Arabia, the United Arab Emirates and Qatar. Many countries are already digitally integrated with the Chinese Cross-Border Interbank Payment System (CIPS).

This way, Beijing is building a parallel payment system that is faster, less expensive and less exposed to the whims of the US administration. This approach could be seen as typical of China: not directly attacking an established system but bypassing it by creating a new one. Beijing offers what many countries are aiming for: financial stability without geopolitical conditions. China has no interest in substituting the USD, at least for now, but it wants to relativise it by creating a system in which the US unit is just one of many choices.

Commodities

Crude oil

Oil markets set for another soft year

Oil markets are expected to experience another soft year as supply growth continues to outpace demand. After averaging USD 68/bbl in 2025, Brent is expected to trade in the **USD 60-65/bbl range next year**, with risks tilted to the downside. The decision by OPEC+ to pause quota increases in 1Q26 has partly eased short-term worries about oversupply but has had little impact on our forecast. Rather, it underscores the cartel's flexibility in adapting to shifting market conditions. While output discipline may slow the build-up, rising supply from non-OPEC+ producers, particularly those in the US, combined with demand growth that remains modest by historical standards, points to higher inventories. Structural headwinds and subdued Chinese consumption are reinforcing the bearish tone, leaving geopolitical flare-ups and an erratic OPEC+ as the only meaningful upside catalysts for oil prices.



We expect Brent to trade in the USD 60-65/bbl range next year.

Gas

New supply to put pressure on prices

Significant new LNG supply is set to come online in 2026, mainly from the US, Qatar and Canada. This supply growth is likely to exceed demand growth and put downward pressure on prices. We are expecting an average TTF price of **EUR 30-35/MWh in 2026** compared to EUR 39/MWh in 2025. However, pricing during the coming winter could be volatile, depending on weather conditions, as inventories are lower than they were in the winter of 2024-25 due to a significant drawdown of inventories during the cold winter. If this winter is similarly cold, the refilling needs will be even higher next summer. This situation creates a tense backdrop for the European gas market, especially in the first half of the year before the new supply is available in full.



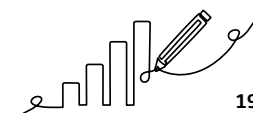
We are expecting an average TTF price of EUR 30-35/MWh in 2026.



GAS MARKET FACES AI-POWERED DISRUPTION

Structural shifts in demand and supply dynamics could introduce medium-term risks of heightened price volatility. A key driver of this transformation is the surge in investment by **hyperscalers** in next-generation data centres to support AI development. Order books for gas turbines at major manufacturers, which are largely tied to AI-related infrastructure, primarily in the US, suggest an additional 155-206bcm of annual natural gas demand globally between 2025 and 2035.

In the US alone, this amount represents roughly 18-24% of current domestic consumption. Beyond the scale of demand, its nature matters: for these operators, even an hour of downtime can translate into billions in losses, making demand highly inelastic and prompting a willingness to pay premiums for reliability. On the supply side, producers favour long-term, fixed-price LNG contracts above spot levels to justify incremental drilling in mature basins. The combination of more rigid demand and constrained supply leaves the natural gas market exposed to shocks and price swings.



Gold

Solid structural support as tailwinds wane

Gold has surged more than 50% YTD, driven by US fiscal concerns, strong central-bank demand, and expectations of monetary easing. After briefly correcting from record highs, prices have stabilised above USD 4,000/oz, supported by renewed rate-cut expectations and resilient ETF inflows. Despite this strong performance, short-term dynamics suggest a more constrained outlook. Supportive factors such as geopolitical risks, central-bank buying and US economic uncertainty remain but may exert less influence going forward. Meanwhile, reduced USD weakness, a pause in Fed cuts and stable real rates are weighing on momentum.

These conditions point to sideways price action, with upside risks early next year as markets recalibrate expectations around monetary policy and global risk sentiment. With long-term drivers intact, we maintain a constructive view. We expect gold to trade in a **USD 4,100-4,400/oz range in 2026** as the global investment landscape continues to favour safe-haven assets.

We expect gold to trade in a USD 4,100-4,400/oz range in 2026.



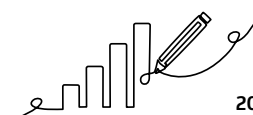
Alternatives

Bitcoin

Neutral outlook but still a tactical allocation

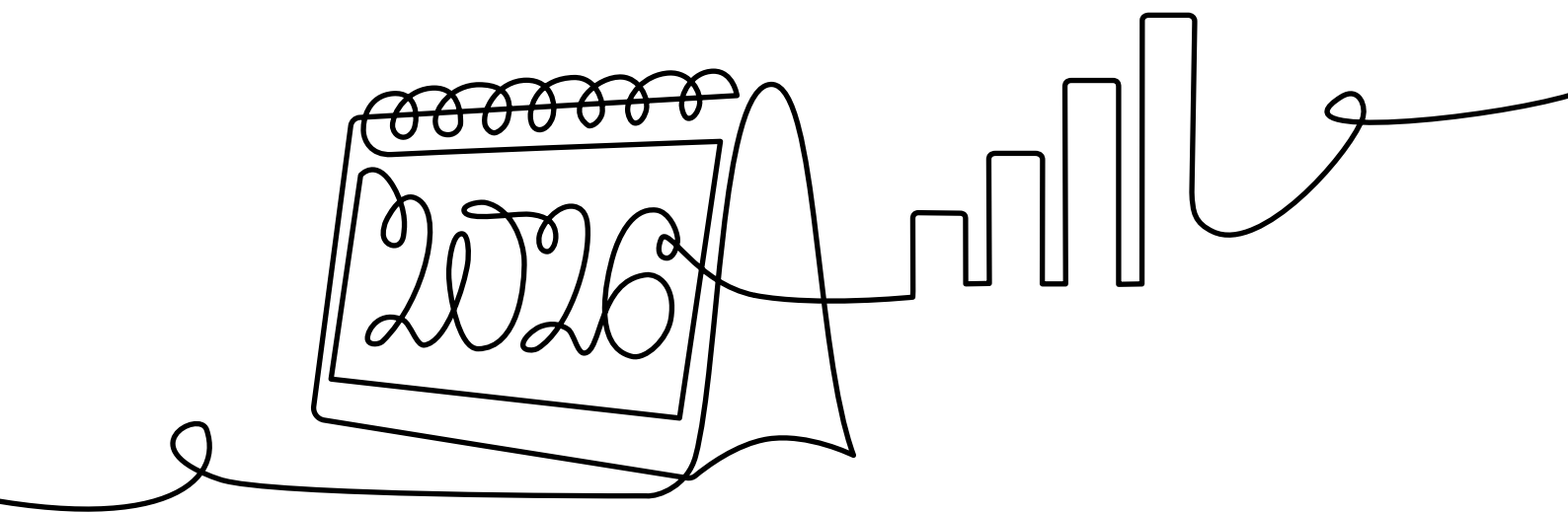
Bitcoin has erased its yearly gains, falling sharply from October's record level above USD 125,000 to below USD 90,000. The drop reflects heavy ETF outflows and macro headwinds such as fading rate-cut expectations and a stronger US dollar. Earlier gains this year were driven by supportive US regulation, including the Genius and Clarity Acts, which clarified oversight and encouraged institutional adoption (e.g., pension fund allocations). However, sentiment has recently deteriorated, and crypto markets are currently dominated by risk aversion, warranting a neutral stance into year-end. We view Bitcoin as a high-beta asset linked to equities rather than a store of value, given its near-zero correlation with gold. Despite volatility and downside risks, our medium-term outlook through 2026-2027 remains neutral to slightly constructive, supported by expected US rate cuts, rising liquidity, and a structurally weaker US dollar. However, Bitcoin remains a high-risk trade suited only for the most opportunistic investors.

Stablecoins, by contrast, saw record inflows of approximately USD 45bn in 3Q25, up sharply from USD 10.8bn in the previous quarter, with total supply surpassing USD 300bn. Transfer volumes reached roughly USD 15.6tn in 3Q25, with automated activity accounting for around 70% of the total. Despite this, the number of retail transactions, i.e. those under USD 10,000, continues to grow steadily – reflecting expanding adoption among everyday users. Stablecoins function as a low-volatility bridge between cryptocurrencies and fiat money, supporting trading, payments, remittances and decentralised finance (DeFi) activity. Primarily backed by cash and short-term US Treasuries, they provide liquidity and 24/7 usability while maintaining a stable value. Their role complements high-beta assets such as Bitcoin, and both segments benefit from ongoing regulatory clarity, even as transparency requirements for stablecoins continue to evolve.





Top stories for 2026



AUTHORS

Tullia Bucco

Loredana Maria Federico

Eszter Gárgyán

Tobias Keller

Stefan Kolek

Andreas Rees

Jonathan Schroer

Michael Teig

Marco Valli

- 1 Europe's 2026 reality check
- 2 Europe's critical raw materials dilemma
- 3 Risks and opportunities in the private credit market

1 Europe's 2026 reality check

As 2026 arrives, Europe stands at a crossroads with **promises to keep**. The EU has announced headline commitments in defence spending and integration, a reform of its economy and an overhaul of its migration policy. Germany, the largest European economy, has given up fiscal conservatism and unveiled its fiscal bazooka (see [“WILL THE FISCAL BAZOOKA FINALLY START FIRING?”](#), p. 8). These moves signal Europe's determination to respond to mounting geopolitical threats by acting in unison on issues once thought too sensitive or too vast for EU coordination.

Yet Europe is unlikely to confront the enormous challenges head-on. The balance of evidence still points to a **piecemeal approach**, which increases the risk of underdelivering. In terms of economic effectiveness, national initiatives, most prominently Germany's, will still carry most of the load. While common initiatives, such as SAFE (Security Action for Europe) help, they might not be sufficient to address the core weaknesses Europe has long struggled with. Tellingly, the moderate rise in the EU budget for 2028-34 proposed by the European Commission was met with firm resistance by the so-called “frugal” member states. This limits the EU's capacity to act strategically beyond earmarked initiatives such as defence and highlights the gap between Europe's big ambitions and its political inertia, compounded by limited fiscal tools.

Recourse to the enhanced cooperation mechanism, as recently suggested by former ECB president Mario Draghi, would require a Franco-German lead on key strategic issues. This also seems difficult to achieve, given the unstable political situation in France (see [“FRENCH POLITICAL DRAMA TO CONTINUE”](#), p. 9) and the fact that the German government is squarely focused on its own domestic agenda. Hence, the turn towards a more “geopolitical” Europe appears to be **more aspirational rather than assured**. This means that 2026 is likely to be a year of incremental progress rather than one of structural transformation.

EU BUDGET

After two years of negotiations, the 2028-34 financial framework will focus on smarter instead of bigger spending, **more conditionality**, a leaner structure and a stronger tilt towards competitiveness and defence. The budget also reorients spending towards European public goods (EPGs), such as key infrastructure and industrial policy. However, common fiscal capacity remains constrained. Plans to finance EPGs through large-scale common debt have not been seriously discussed. Even if the new framework marks institutional progress, the **volume of resources available** will therefore fall short of what would be required to enable the EU to meet the challenges posed by the new geopolitical landscape.

DEFENCE

Next year will be a **critical test** of whether Europe's big spending plans deliver greater autonomy from the US or simply reinforce existing fragmentation. The EU and its member states have pledged a major ramp-up in spending, with the aim of moving towards NATO's 3.5% of GDP target for core defence outlays. Germany has moved first, using a new national escape clause to expand its deficit and frontload defence spending, while most other EU-NATO allies are planning a more gradual increase. At the European level, **SAFE** has emerged as the **flagship tool**: a long-term EUR 150bn loan programme with strict conditions, including “buy European” criteria and requirements that projects involve at least two member states. SAFE is designed to encourage countries to engage in joint planning and industrial integration rather than the usual fragmented national efforts. If project selection is sharp and member states use the instrument at scale, Europe's defence industry and strategic autonomy could be significantly strengthened.

COMPETITIVENESS

Besides security concerns, Europe's lack of competitiveness has been a growing source of concern, particularly as the US and China have been racing ahead in technology and investment. The key challenge for Europe's competitiveness will be the speed of implementation. Only about **11% of Draghi's recommendations** had been fully implemented 12 months after the release of the Draghi report in September 2024, with roughly 20% partially addressed. The good news is that 2025 has seen the launch of EU initiatives that signal a strategic shift towards more autonomy and higher efficiency. A centrepiece of this agenda is the **Clean Industrial Deal**, which encompasses measures to re-industrialise Europe by promoting clean-tech manufacturing, securing critical supplies and reducing input costs for the industry. Another important policy initiative is the completion of the **EU Single Market** by 2028, simplifying rules and reducing fragmentation. However, many of Draghi's recommendations are directed at national policies: from upgrading education and skills training, to overhauling tax and labour regulations and completing the single market in services.

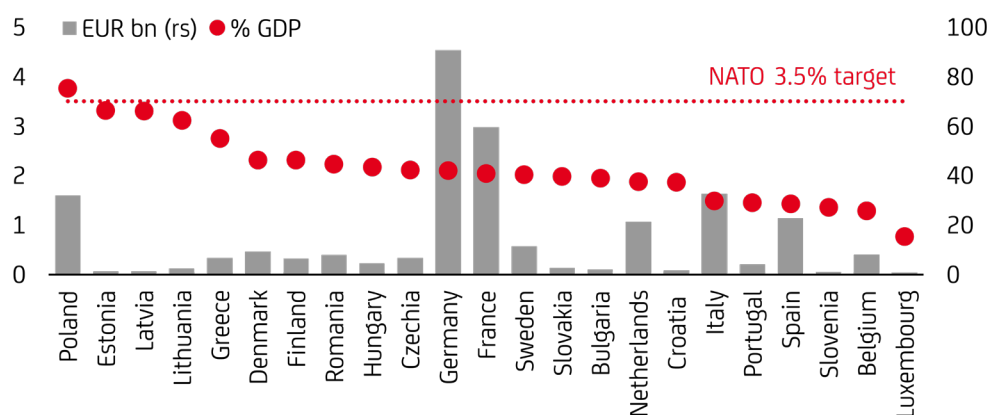
MIGRATION

Migration has been one of Europe's most divisive political issues since the 2015 refugee crisis. After finally agreeing on a comprehensive new pact on migration and asylum in 2024, the regulations will be fully operational by summer 2026. This means that **2026 will be a crucial year** for Europe's migration management, a key deliverable for both internal EU cohesion and domestic politics in member states.

EU DECISION-MAKING AND COALITIONS OF THE WILLING

Whether Europe will make further progress on strategic priorities in the longer term also depends on its (complex) decision-making process. While the unanimity rule ensures that all member states have a voice, it also allows individual governments to stall collective action, even when broader strategic consensus exists. Recent discussions suggest that **qualified majority voting** could be selectively applied to future enlargement decisions, a development particularly relevant for CEE countries that are awaiting accession (Ukraine, Moldova and the western Balkans). Furthermore, 2026 is likely to see a growing number of initiatives driven by **"coalitions of the willing"**: smaller groups of European countries, potentially joined by non-EU members, which seek to advance integration in selected areas, while leaving the door open for others to join later.

CHART 3.1: EU-NATO ALLIES TO BOOST CORE DEFENCE SPENDING
TOTAL DEFENCE EXPENDITURE IN 2024



Source: European Commission, European Defence Agency, The Investment Institute by UniCredit

2 Europe's critical raw materials dilemma

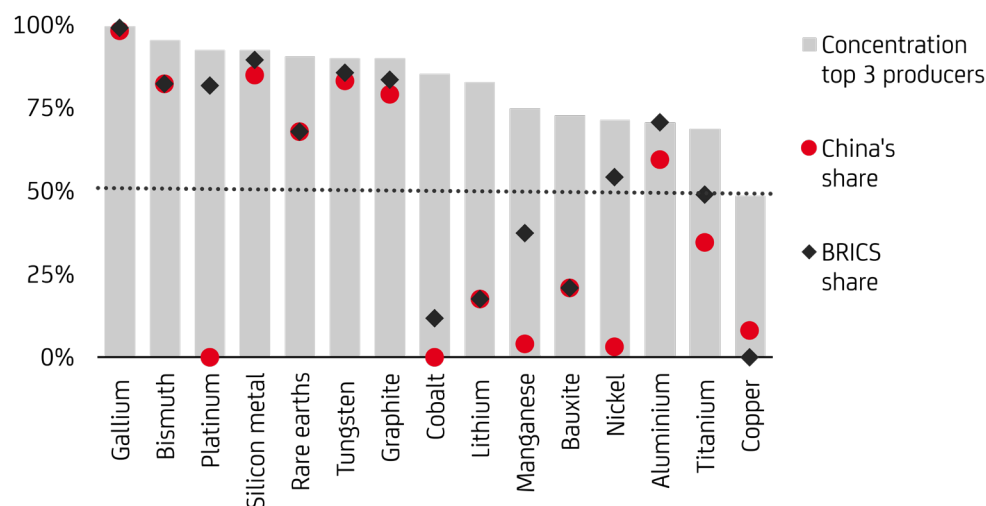
Goeconomics¹ – the strategic use of economic tools for geopolitical goals – has emerged as a defining force in global markets, especially in critical commodities. Materials such as lithium, cobalt and rare earths are essential to the technological and industrial backbone of the 21st century, from renewable energy and electric vehicles to consumer electronics, advanced manufacturing and defence. Consequently, they have shifted **from industrial inputs to strategic assets** and have moved to the forefront of goeconomic competition. The most recent dispute between the US and China following Beijing's decision to curb rare earth exports to the US,² although it has been suspended for a year, underscores the importance of goeconomic risk, which still carries the potential to unsettle markets in 2026. In this context, the EU faces a dilemma: its member countries are resource-poor but their demand for critical minerals is high, which means that reliable supply is of paramount importance. Europe's resource scarcity, as well as its limited extraction and processing capacity, create supply bottlenecks that could derail its green transition and undermine its strategic autonomy.

G7 COUNTRIES MUST RELY ON ACCESS TO BRICS RESOURCES

Against this backdrop, in order to deal with the problem, the EU differentiates between strategic, critical and non-critical minerals. Strategic and critical raw materials (SRM, CRM) exhibit a high concentration risk among a few mining countries, creating **strategic vulnerabilities** for resource-poor regions such as the EU. Chart 3.2 shows the degree of concentration of 15 SRMs, as defined by the EU: the top three producer countries account for between 50% and 100% of mining supply, and some minerals are to a large extent concentrated in China, underscoring Europe's vulnerability.

CHART 3.2: PRODUCTION OF KEY STRATEGIC MINERALS IS HIGHLY CONCENTRATED

SHARE OF MINERAL MINING PRODUCTION CLASSIFIED AS SRM BY THE EU



Source: EU, US Geological Survey, The Investment Institute by UniCredit

¹ The term was coined by Edward Luttwak in "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce", *The National Interest*, No. 20, 1990, pp. 17-23

² It follows a similar step by the Chinese government in 2010 to ban rare earth exports to Japan following an incident around the Senkaku islands.

Moreover, unlike BRICS+ countries, which control substantial reserves, most G7 economies lack significant deposits. Only the US, Canada and Australia, which is economically and politically aligned with the G7, can help these nations to partially offset this gap. Nevertheless, BRICS+ countries still maintain an **oligopolistic position** in mining. China is the most dominant player, accounting for over 50% of global mining output for nearly half of the minerals classified as strategic by the EU. This dominance is even more pronounced in refining: for minerals where China has limited reserves, such as cobalt and lithium, it has secured leading positions through its extensive refining capacity.

This imbalance stems from decades of strategic, economic and environmental choices. Western economies, including the EU, deprioritised domestic mining due to strict environmental regulations, high extraction costs and political resistance. Globalisation reinforced a just-in-time supply chain model, favouring efficiency over resilience. China capitalised on this gap through state-backed investment, long-term contracts and equity stakes in mining operations across Asia, Africa and Latin America under the Belt and Road Initiative, which ensured a steady flow of raw materials to Chinese refineries and entrenched its **upstream dominance**. At the same time, G7 countries underinvested in existing operations, such as rare earths in the US, relying instead on cheaper imports from Chinese suppliers. Building competitive refining infrastructure could take a decade or more, according to industry estimates. As a result, BRICS+ nations, led by China, retain strategic leverage over critical mineral supply chains. This position is likely to persist and shape global technology and manufacturing for the foreseeable future.

EUROPE'S MINERAL STRATEGY IS EVOLVING FROM ASPIRATION TO URGENCY

Recognising its dependence on external suppliers, the EU has implemented a number of legislative and other initiatives to reduce its dependencies. The EU's Critical Raw Materials Act, adopted in 2024, sets the following clear benchmarks for 2030: at least 10% of EU demand mined domestically, 40% processed within the bloc, 25% sourced from recycling and no more than 65% coming from a single third country. These ambitious targets underscore a strategic pivot. Europe is no longer treating resource security as an industrial footnote but as the **cornerstone of economic resilience**. Its implementation is backed by an estimated EUR 22.5bn in investment across 47 strategic projects spanning 13 EU member states and partner countries.

In addition, the European Raw Materials Alliance is tasked with diversifying supply chains beyond China and Russia, while the European Battery Alliance aims to create a competitive battery ecosystem to reduce dependence on Asian cathode and anode producers. Complementing these efforts, the Circular Economy Framework, sets the bloc's **strategic vision for reducing waste and improving resource efficiency**, and the forthcoming Circular Economy Act will translate that vision into binding targets, including doubling the EU's circularity rate to 24% by 2030. Trade diplomacy adds another lever: agreements such as EU-Mercosur are designed to secure access to CRM from resource-rich partners.

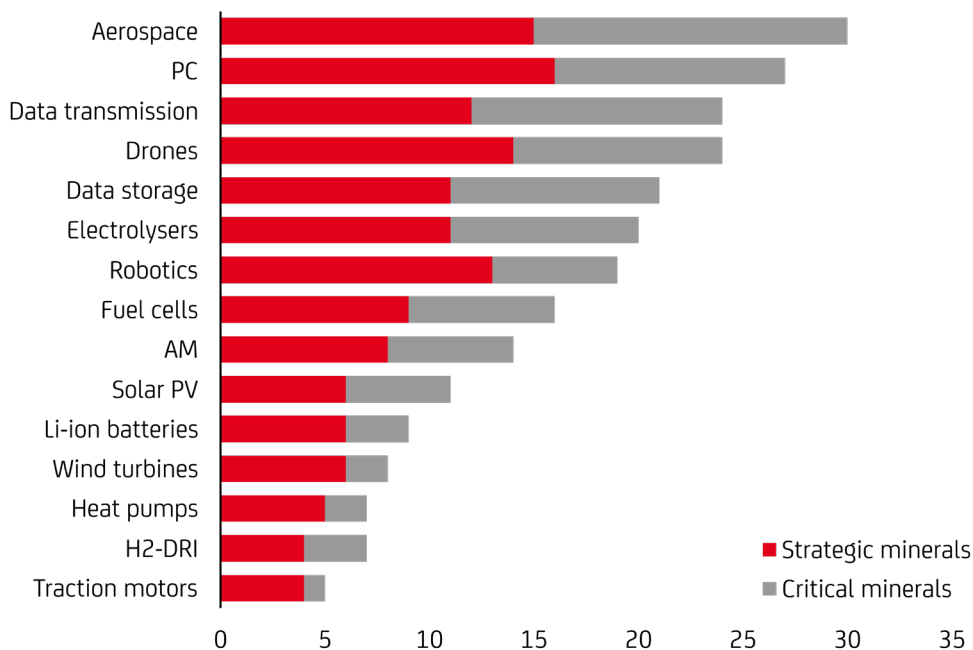
SECTORAL RAMIFICATIONS

Meanwhile, demand for products manufactured from strategic and critical minerals is set to rise at an unprecedented pace across virtually all technologies, driven by growth in renewable-energy technologies, electric mobility and advanced manufacturing. The most widely used materials across strategic technologies include aluminium, copper, nickel, silicon metal and manganese, with each appearing in more than a dozen critical applications. This dependence runs across **all stages of the value chain**, from raw mineral extraction to refining, processing and the production of intermediate components. In sectors such as solar photovoltaic, China's dominance covers the entire value chain, while in wind power and electric motors it extends to key materials such as rare earth magnets.

Using the EU classification of strategic and critical minerals, Chart 3.3 shows the dependence of specific technologies which the European Commission considers as key to 21st century economic life on these minerals. However, the quantity of material needed does not reduce the importance of these minerals: the absence of a single element can impact production. Demand for these materials will also surge. For lithium, for example, EU projections indicate a twenty-one-fold increase by 2050, while platinum demand could surge two-hundred-fold over the same horizon.

CHART 3.3: MINERAL RELIANCE IN 21ST-CENTURY TECHNOLOGIES

NUMBER OF SRMS AND CRMS USED IN SELECTED ECONOMIC SEGMENTS IN THE EU



Source: EU, The Investment Institute by UniCredit

Note: AM = Additive manufacturing, PV = Photovoltaic, H2 DRI = Hydrogen direct reduced iron and electric arc furnaces

Bottom line, geoeconomics can trigger shocks that ripple through industrial sectors, adversely affecting competitiveness and economic security. Moreover, the combination of increasing demand and concentrated supply exposes the EU to the risk of severe disruptions in the event of geoeconomic tensions, implying a tail risk for risky-asset markets. In the absence of geological reserves, the EU can reduce its dependency on critical materials from BRICS+ countries by **diversifying supply chains** towards stable partners, expanding strategic stockpiles, building up processing and recycling infrastructure – particularly for rare earths and batteries – and through technological innovation and better resource efficiency. However, new processing projects require long lead times before becoming operational, while recycling efforts depend on the buildup of end-of-life materials, a process that may not yield significant benefits before 2030.

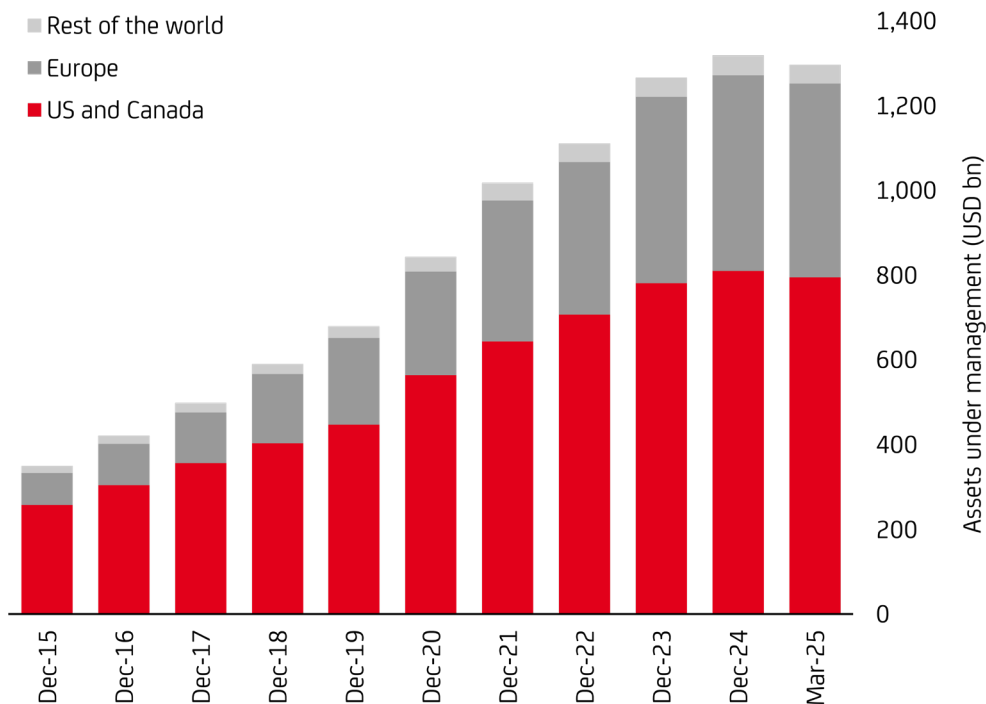
Against this backdrop, maintaining constructive and reliable relationships with the leading producers of key minerals is crucial to mitigating supply-chain vulnerabilities. The EU can also strengthen its bargaining position in international trade by leveraging areas of structural strength: its market size, leadership in manufacturing and green-technology standards. And the bloc also has several potential retaliatory tools that it could employ against other countries seeking to undermine its economy, such as restricting access to unique technologies and, in extreme cases, deploying its anti-coercion instrument. For investors, this means monitoring EU trade diplomacy and strategic projects, as these will shape supply security and investment opportunities in clean tech and advanced manufacturing.

3 Risks and opportunities in the private credit market

Private credit refers to direct loans made to mid-market businesses, typically by non-bank vehicles such as private debt funds and business development companies (BDCs). The private credit market has shown a strong 20% CAGR over the past decade, dominated by the US market. Recent headlines concerning defaults in the US involving private credit financing have raised concerns about its credit quality and potential negative spillover to the wider financial system and the US economic outlook.

CHART 3.4: STRONG DEVELOPMENT OF THE PRIVATE CREDIT MARKET

TOTAL VOLUME OF OUTSTANDING DIRECT AND ASSET-BASED LOANS BY BORROWER REGION (USD BN)



Source: Preqin, The Investment Institute by UniCredit

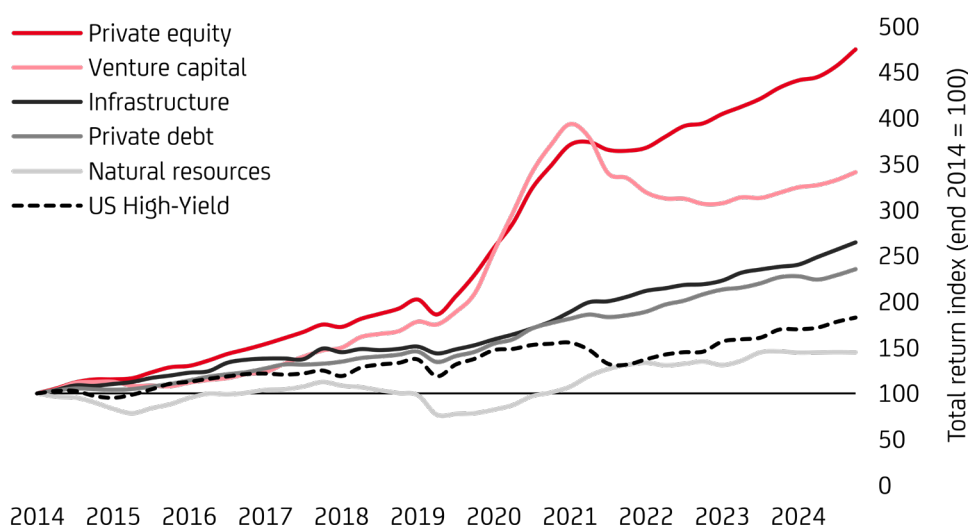
Private credit provides opportunities for investors, offering portfolio diversification and the possibility of enhanced returns. The average annualised total return on US private debt over the past ten years is 8.1% per year, which represents an excess annualised return of 2.5 percentage points over US high-yield (HY) credit. It is difficult to measure and compare volatility as private credit is a less liquid asset class than HY bonds. That said, the standard deviation of quarterly returns from 2015 to 2025 is lower for private credit than for HY bonds.

Private credit is a less liquid asset class than HY bonds.



CHART 3.5: US PRIVATE CREDIT OUTPERFORMED US HIGH-YIELD OVER THE PAST DECADE

TOTAL RETURN INDICES OF ALTERNATIVE ASSET CLASSES AND US HIGH-YIELD



Source: Bloomberg, PitchBook Data, The Investment Institute by UniCredit

The risks private credit poses to the financial system are repeatedly flagged by US and European regulators. The IMF's October 2025 *Global Financial Stability Report*, for example, showed that the vulnerabilities of non-bank financial intermediaries can quickly transmit to the core banking system, amplifying shocks and complicating crisis management. In this context, the exposure of traditional banks to non-bank financial institutions (NBFI), which include areas under a lighter regulatory framework, such as private equity and private credit, has increased strongly. On average, US banks have 9% exposure of their loan books to NBFIs and in the US around half of the banks analysed by the IMF have exposure to NBFIs in excess of their Tier-1 capital, meaning a risk scenario could significantly impact their capitalisation levels.

In the US, one area of concern is the **transfer of commercial real estate loans** from the traditional banking sector to private credit operators, accompanied by funding lines from banks to these operators, which limits the transparency of the banking sector's underlying look-through asset quality. In Europe, despite the growth of the private credit market, it is still small compared to total bank loans. ECB-supervised banks have EUR 5.7tn of loans to non-bank financial institutions compared to EUR 0.4tn of European private credit assets under management. BDCs are often **rated in lower investment-grade (IG) territory**, while private credit loans are disbursed to lower-rated borrowers. This development is supported by stricter bank regulation, which makes it more attractive from a return-on-allocated-capital perspective for banks to hold exposure to IG-rated private credit operators than to lower-rated corporate loan risk. In addition, several European banks also provide credit lines to US private-credit operators.

Despite the recent idiosyncratic default cases in the US, we currently see no systemic risk for the overall private credit sector. The defaults were related to **borrowers with weak economic fundamentals or vulnerable business models**, and they were partly due to fraudulent activities. Quarterly default data of US private credit transactions show only a gradual deterioration in 3Q25. There has been a slowdown in the volume of new deals in 2025 compared to 2024. The pricing of recent private credit deals in 2025 shows a further slight spread tightening over the course of 2025, which indicates that credit providers see no systemic stress (explaining the tighter spreads) but might become more selective at a single-deal level (explaining the reduction in the volume of new business compared to 2024).

Our base-case scenario for 2026 is for more idiosyncratic defaults in the US, but no systemic stress. This would have a manageable impact on the banking sector but would likely lead to more volatility in the equity and credit valuations of exposed banks. We also expect slower growth of the segment in 2026. As a risk case, in a prolonged economic recession (which is not our base case) we see the risk that increasing private loan defaults could put pressure on private credit operators leading to more bank defaults. Looking back at the market reaction in 2023, when several US regional banks and Credit Suisse suffered problems, is helpful in this context. As Chart 3.6 shows, in 2023, investors were differentiating between different types of credit, with European financials and HY credit (along with equities) coming under substantial pressure, causing the respective iBoxx indices to widen substantially, while the iBoxx Non-Financials Index remained pretty stable.

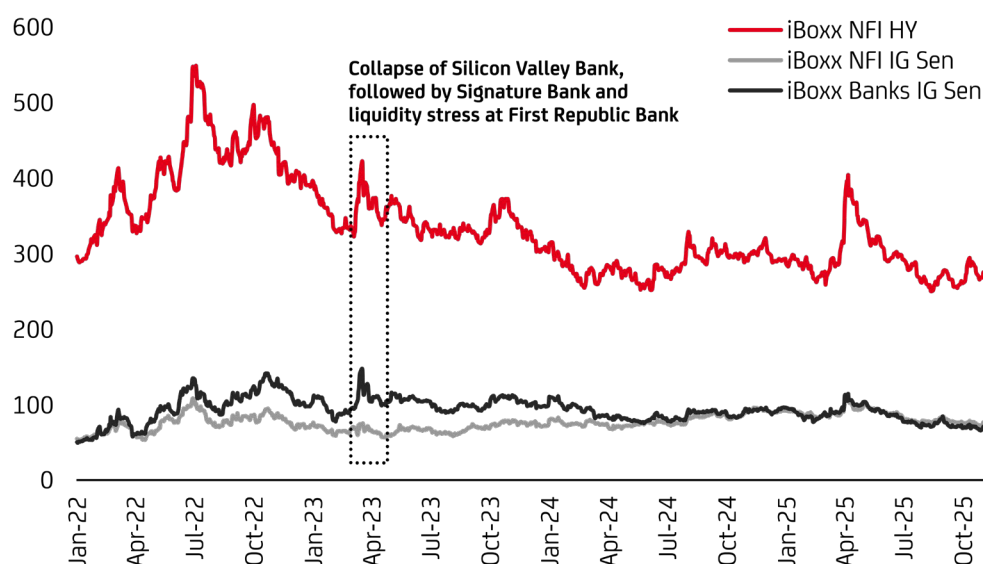
Our base case scenario for 2026 is for more idiosyncratic defaults in the US, but no systemic stress.



This indicates that, back then, the market priced in **negative spillover for European financials**, but not for the broader macroeconomic environment. European banks are also engaged in lending to US private-credit operators, and European insurers and pension funds hold positions in US private credit. Financials are the most vulnerable credit-market segment. Potential transmission channels include a decline in liquidity related to redemptions of (or margin calls on) US private credit funds, leading them to liquidate assets elsewhere, including European credit. The subsequent repricing of illiquid and leveraged exposures could spill over into a revaluation of European alternative-credit funds, as well as trigger higher defaults and collateral deterioration, causing bank losses and tighter credit conditions in Europe. This would affect weaker segments of the market, such as HY credit. Whether central banks step in would depend on the severity of a possible crisis and whether it might spill over to other areas of the economy. If such a situation were to escalate into a systemic issue, there is a high probability that major central banks would take extraordinary (liquidity) measures.

CHART 3.6: US MID-SIZED BANK TURMOIL IN 2023 HIT EUROPEAN FINANCIALS AND HY CREDIT

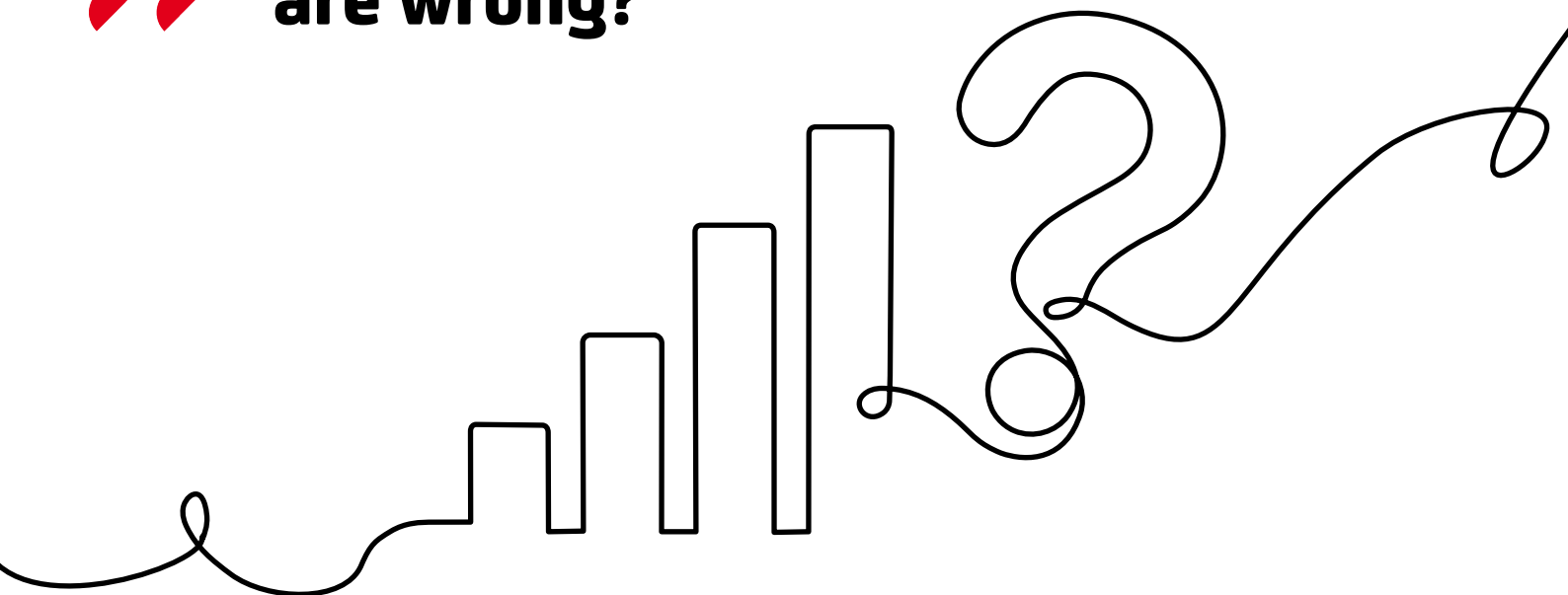
SELECTED IBOXX CORPORATE CREDIT SPREADS (BP)



Source: S&P Global, Bloomberg, The Investment Institute by UniCredit



What if we are wrong?



AUTHORS

Edoardo Campanella

Luca Cazzulani

Francesco Maria Di Bella

Tobias Keller

Roberto Mialich

Giovanni Mazzariello

Christian Stocker

Thomas Strobel

Beyond the baseline

Our base case for 2026 remains constructive, yet markets rarely move in straight lines – and history reminds us that turning points are often mispriced. What if our baseline view proves to be wrong? We explore two scenarios that could reshape the investment landscape.

Scenario 1 AI momentum falters

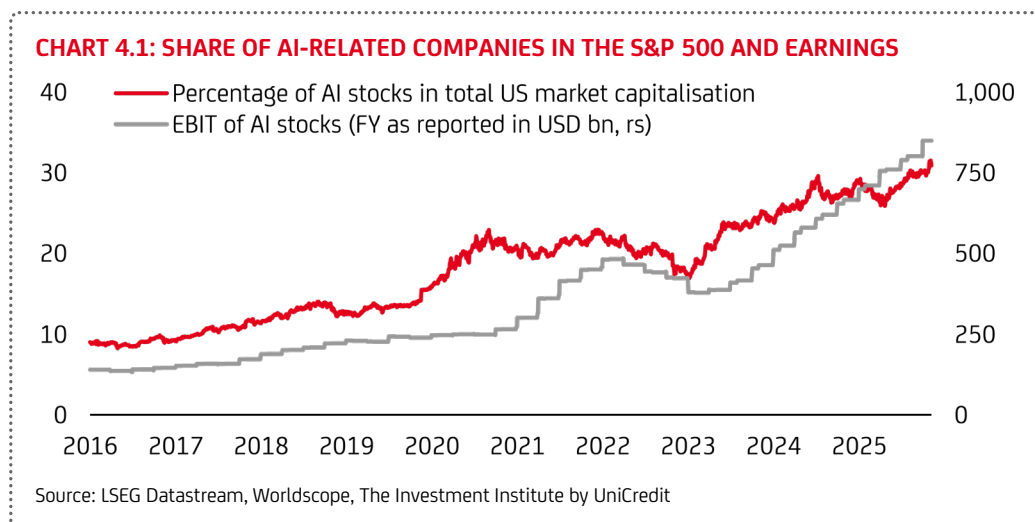
AI has been the dominant force in equity markets since late 2022. Our baseline assumes AI will deliver transformative productivity gains, but vulnerabilities cannot be ignored. Excess capacity and rising leverage, particularly in the infrastructure layer, could spark a correction if monetisation proves slower than expected. Past technology booms suggest long-term benefits endure, but the adjustment phase could be volatile.

Scenario 2 Europe steps into the spotlight

Europe has rarely been the first choice for investors. That could change. Fiscal expansion, deeper integration and stronger institutions are laying the groundwork for a more compelling equity story. An expanding Bund market, surging investment in defence and digital infrastructure and a firmer euro could position Europe as a credible alternative in an increasingly multipolar world in which US exceptionalism begins to wane.

The AI investment surge: are we ignoring the risks?

AI has been the dominant force in equity markets since late 2022. Tech stocks tied to AI account for roughly three-quarters of S&P 500 returns over this period, and about a third of the index's market capitalisation is now linked to AI themes. This concentration reflects extraordinary investor confidence but also creates structural vulnerabilities.



While our base case assumes that AI will deliver transformative gains and we maintain a constructive outlook for equity markets in 2026 (see also [Market Convictions](#)), investors must evaluate where the risks in the **three layers of the AI ecosystem – infrastructure, platforms and applications** – lie if momentum falters.

1 Infrastructure Capital intensity creates operational fragility

The scale of capital deployment into AI is striking. Big Tech is committing trillions of dollars to the **technology backbone** – data centres, advanced chips and power generation – extending far beyond silicon into concrete, steel and transmission lines. Net capex spending of large US firms (in nominal terms) has already exceeded that of the dot-com bubble. These investments are front-loaded, yet their returns remain largely untested. Hardware cycles add pressure: GPUs typically depreciate within three to four years, and even if their lifespan extends somewhat further, it remains limited compared with the decades-long utility of the fibre infrastructure installed during the dot-com boom. Despite the speculative nature of that era, its capital investments ultimately created enduring assets that underpin today's global internet.

Financing compounds the risk. Today's buildout is financed by the robust cash flows of tech giants, whose financial strength allows them to serve as powerful engines driving the AI cycle. But as investment needs persist, hyperscalers are increasingly seeking to reduce direct capital intensity by outsourcing compute to smaller "neo-cloud" providers. These firms lack comparable financial strength and often depend heavily on both equity and debt to fund capacity expansion. And **leverage** is poised to play a larger role across the AI ecosystem not just among smaller players. Meta's recent USD 30bn bond issuance marks the first major move by Big Tech to finance AI infrastructure through debt, adding a new dynamic that heightens systemic risk.

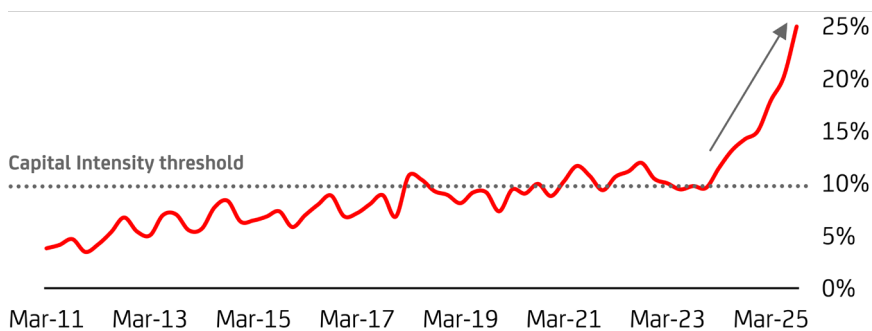
Scenario 1 – AI momentum falters

The AI investment surge: are we ignoring the risks?

Moreover, fragility lies not only in the technology but in the **feedback loop between market expectations and investment behaviour**. Quarterly capex updates act as “momentum barometers”. As long as spending surprises to the upside, confidence remains high, reinforcing the perception of a robust cycle and pushing firms toward ever more extreme capital-intensive strategies. However, any shortfall in AI-related infrastructure spending could trigger sharp reactions.

CHART 4.2: TECHNOLOGY IS CAPITAL-INTENSIVE AGAIN

CAPEX RATIO: MICROSOFT, APPLE, GOOGLE, AMAZON, META AND ORACLE



Source: Bloomberg, The Investment Institute by UniCredit

2 Platforms The monetisation challenge

AI platforms introduce their own uncertainties. Large language models (LLMs) have captured global attention. They are transforming how people interact with technology and have sparked a powerful investment cycle. Yet, both the economic model that will ultimately sustain this transformation and monetization remains uncertain. Despite widespread adoption, the ability to convert engagement into sustainable revenue and profits is still unproven. Industry estimates indicate that the market share of OpenAI, the primary driver of compute demand, has declined from near-total dominance at launch to about 74% in consumer traffic, while its enterprise API share has fallen to about 25%, reflecting limited corporate adoption. These figures show that most usage comes from retail users, often relying on free models. Thus, traffic does not necessarily translate into profit.

Meanwhile, competing platforms – from open-source models to integrated AI features within existing software ecosystems – are eroding differentiation and accelerating commoditisation. Revenue strategies, whether through commerce integration, advertising, or premium tiers, remain largely undefined. In parallel, the marginal cost of inference (i.e. the cost of producing each response by a chatbot that differs from the cost of training AI to give that response) continues to decline as hardware and model efficiency improve, which is positive for adoption, but potentially compressing pricing power over time.

3 Applications From promise to proof

As competition intensifies and model differentiation narrows, value creation is likely to shift upward toward the **application layer**. However, this evolution is still in its early stages. The challenge lies in moving from experimentation to indispensable applications and proving that AI can generate durable revenue streams beyond incremental efficiency gains. The top



Scenario 1 – AI momentum falters

The AI investment surge: are we ignoring the risks?

layer of the AI stack depends on identifying a “killer use case” that can drive mass adoption and justify the massive infrastructure investments beneath it. So far, commercial traction has been limited, with most applications focused on productivity tools, coding assistants, and copilots – enhancing workflows but not yet delivering large-scale monetisation or transformative economic impact.

If differentiation among models fades and applications fail to scale meaningfully, the investment momentum fuelling today’s capex boom could lose steam. In that sense, the next phase of the AI story will depend less on expanding compute capacity and more on demonstrating tangible economic value at the application layer.

How AI could amplify market stress

The story does not end with capital spending and the challenges of monetisation and mass adoption. AI is increasingly embedded in market structure. Algorithmic trading could amplify herd behaviour, with models reacting similarly to signals and accelerating volatility. In a market concentrated in a few AI-driven stocks, cross-investments and exclusive supply agreements heighten correlation, making sentiment shifts more impactful. While a **correction in valuations for AI-heavy equities is a key risk**, systemic stress would only become a concern if debt-funded expansion intensifies, as leverage could turn a slowdown into a deeper market disruption. Against this background, monitoring three indicators – capital deployment, revenue realisation and investor positioning – remains essential, as they serve as early signals of both corporate health and potential fragility.

AI spending sets the stage for lasting transformation

History offers perspective. The dot-com era saw massive fibre investment, followed by painful overcapacity, but ultimately drove down broadband costs and fuelled e-commerce. A similar pattern may emerge in AI: today’s heavy spending could lower inference cost – currently high due to GPU and compute demands – unleashing demand over the long term. Even if a short-term correction occurs, cheaper inference would accelerate adoption and unlock new applications. However, the comparison has its limits. Unlike the largely speculative demand of the dot-com years, today’s AI buildout reflects a genuine and rapidly expanding need for compute.

The real challenge is not the absence of demand, but whether **monetisation** and **productivity gains** can scale quickly enough to justify the pace and magnitude of investment. Britain’s railway boom of the 1840s offers another, if certainly more tenuous, parallel. Parliament waved through plans for 15,000km of new lines. A third of those routes never broke ground, and investors paid a heavy price when the bubble burst. Yet, many of the tracks laid then still form the backbone of the UK rail network – a reminder of how periods of overinvestment can leave a durable (and possibly positive) imprint.

As history shows, markets often struggle to accurately price technologies that promise exponential gains but require substantial upfront investment. Risks tend to be concentrated in the infrastructure layer, where the key vulnerability lies with potential overcapacity and, possibly, excessive leverage over time. However, while the adjustment phase can be volatile, past investment booms have consistently proven supportive of the underlying technology – even in cases involving initial overinvestment.

Therefore, our base case remains constructive: AI is poised to reshape business models and unlock innovation-driven growth. Current valuations appear to price in expectations of sustained productivity gains, while large-scale infrastructure investments could yield durable returns over time. Historically, transformative technologies have delivered a **profound long-term impact**, and we expect AI to follow a similar trajectory. In the near term, we anticipate the equity market momentum to continue – though likely with more measured enthusiasm, greater risk awareness and a gradual broadening beyond today’s concentrated leaders.

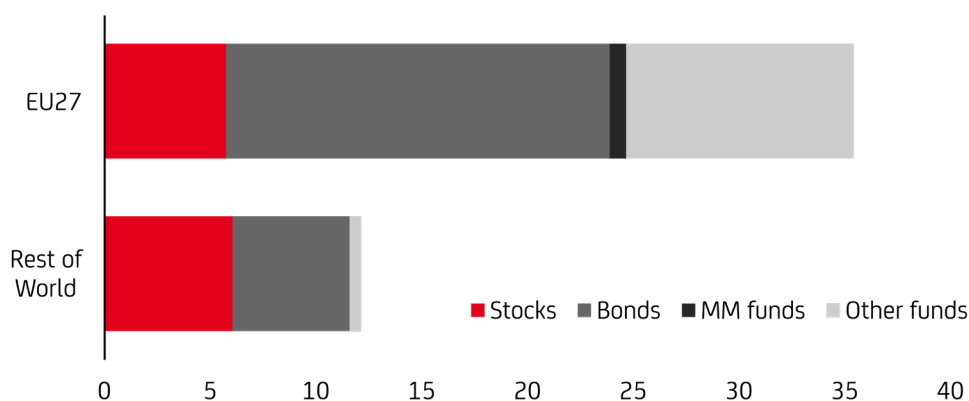


Could Europe replace the US as the reference market?

From a historical perspective, Europe has seldom been perceived as an ideal place to invest. Not only do non-European investors tend to prefer the US and emerging markets but European investors have also turned their gaze elsewhere, in search of more appealing returns. This is especially the case for equity markets, where the longstanding preference for US and EM assets stems from the perception of higher growth potential, better returns, greater willingness to innovate and less political fragmentation and regulation.

CHART 4.3: HOW EUROPEANS INVEST THEIR WEALTH

EUR TN



While European investors prefer to buy **fixed-income assets** and **funds** issued and distributed in the EU, their **stock** portfolios are equally split between EU27 and the rest of the world (mostly the US). US TIC data confirm that European investors have resumed buying US stocks since 2023.

Source: ECB, The Investment Institute by UniCredit

While some argue that US exceptionalism is set in stone, others believe that the political and economic measures introduced by the Trump administration could lead to a **weakening of US institutions**, along with a loss of the country's geopolitical predominance. The US is unlikely to completely lose its status, but we appear to be moving towards a world with not just one but several reference markets.

The key question is then:

How can Europe become a reference market, possibly replacing the US in such a role?

In some cases, it is just a matter of changing perceptions about the continent. In other cases, it is more a matter of redirecting resources most productively. There are some quick wins and others that require more time.



We see five interrelated areas where progress is tangible and which can help Europe rebrand itself throughout our forecasting horizon:

1. Effective **industrial policies**
2. Development of a **liquid safe-haven asset**
3. Completion of the **single market**
4. Launch of the **digital euro**
5. Large-scale introduction of **advanced technologies**

Of course, this requires political effort that goes beyond the piecemeal approach that we expect next year (see our Top Story “[Europe’s 2026 reality check](#)”, p. 22)



1 Industrial policies

Effective industrial policies can boost equity returns

Europe has lagged behind the US in terms of economic growth since the pandemic, with the divide in part coming from inadequate industrial policies. The launch of the Next Generation EU (NGEU) programme in the aftermath of the pandemic, and the **announcement of the “fiscal bazooka”** in Germany in March represent two game changers. The former has opened the door to common funding and the latter has contributed to changing the perception of fiscal policy in Europe. More recently, European countries have expressed their intention to step up their investment in defence, infrastructure and innovation-driven sectors, which should support economic growth, promote the investment appeal of EU firms and defend national interests in key areas.

For instance, the Clean Industrial Deal encompasses measures to re-industrialise Europe by promoting clean-tech manufacturing and reducing input costs for the industry. As part of this, the European Commission introduced an Affordable Energy Action Plan, which comprises specific actions to lower energy prices. There are other initiatives such as the Critical Raw Materials Act and the Chips Act that aim to secure critical supplies for the European economy. The steps taken recently have been substantive and address core weaknesses that Europe has long struggled with. By 2026, Europe could start seeing these efforts bearing fruit, which would lift the financial appeal of the continent for investors.

2 Liquid safe-haven asset

Bunds could emerge as a new global safe-haven asset

Bunds have become a more valid and appealing alternative to USTs than they were in the past and we anticipate this trend will continue into next year. **1.** With the start of Trump’s second mandate, investors have become more cautious regarding the stability and politicisation of US institutions, especially the Fed. In contrast, the governance structure of the ECB makes it less vulnerable to political interference. **2.** The launch of the fiscal bazooka is set to structurally raise Bund supply, making German government bond markets deeper. **3.** The eurozone is no longer experiencing stubbornly weak inflation, which limits the room for the ECB to reintroduce QE or other extraordinary measures that made Bunds scarce in the past. The rapid growth of the EU bond market does not represent a real threat to Bunds, at least in the near term, as the former will probably remain less liquid. On the contrary, the stepping-up of common funding and the strengthening of European institutions represent a further incentive for investors to purchase eurozone assets. From a longer-term perspective, should eurozone countries start to rely more on common funding than on national finances, EU bonds could replace Bunds as safe-haven assets for the eurozone.

3 Single market Completed single market could unleash Europe's potential

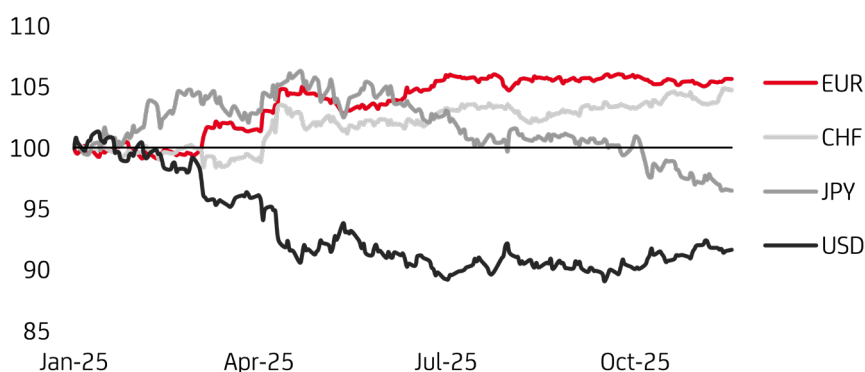
Another important policy initiative is the possible completion of the EU single market by 2028, as it simplifies rules and reduces fragmentation. In practice, the measures include the removal of barriers to establish a services single market, a common energy market and harmonised telecoms/digital networks that allow EU-wide scale operators. Already in early 2026, the European Commission aims to present legislative proposals for a so-called “28th regime”, a harmonised set of EU rules to make it easier for businesses to operate across member states. Companies could then already voluntarily operate under the 28th regime or continue under their national laws until 2028.

The completion (at least addressing key gaps) of the **single market by 2028** would meaningfully improve the use of capital on the continent, strengthen investor returns and boost economic opportunities for firms. In addition, it would foster the circulation of ideas and technologies across the continent. European companies are, on average, smaller than their US rivals, which stems from cautious lending practices and inefficient resource allocation. Smaller scale discourages investment and R&D expenditure and weighs on growth potential, making European small and mid-caps significantly cheaper than both large-cap firms and their historical averages. The European Commission estimates that the single market has already lifted EU GDP by 3-4%. Full completion could roughly double the gains over time.

4 Digital euro EUR likely to benefit from further de-dollarisation

With investors exhibiting disaffection with the greenback, the euro has emerged as a clear winner, outperforming other safe-haven currencies. Further **de-dollarisation** could help the common currency reduce the current gap with the USD. Invoicing and payment systems are two areas where the euro should become more important in the coming years. The eurozone is still lagging behind other jurisdictions in the **introduction of a digital currency**, mostly due to the complexity of the related legislation, with transactions using the digital euro not expected before 2029. The slow rollout of the digital euro thus limits short-term progress but underscores the need for complementary measures such as trade agreements and deeper capital market integration. Accelerating the phasing-in of the digital euro would increase the chances of gaining more influence at the expense of the USD.

CHART 4.4: EUR HAS OUTPERFORMED OTHER SAFE-HAVEN CURRENCIES
TRADE-WEIGHTED INDICES (1 JANUARY 2025 = 100)



Source: Bloomberg, The Investment Institute by UniCredit

5 Advanced technologies Bridging the technological divide

The AI race seems to be the prerogative of China and the US. Well-known structural deficiencies are weighing on Europe's ability to catch up and unleash its own AI giants. While Europe might not be pioneering innovation breakthroughs in the near future, it can still win the race in the long term by promoting the wide **diffusion of AI technologies** across its economy. Promoting the widespread adoption of digital technologies requires the implementation of policies that differ substantially from bringing to light the next generation of AI models. Instead of channelling financial support for frontier R&D activities to elite labs or universities, European governments should widen the skill base in AI with a focus on industry-specific skills rather than general ones, while developing appropriate digital infrastructure, adapting legal and ethical frameworks to govern and foster AI advances and building professional bridges between AI engineers and scientists. Of the five areas analysed here, the technological gap undoubtedly seems the most challenging to bridge.

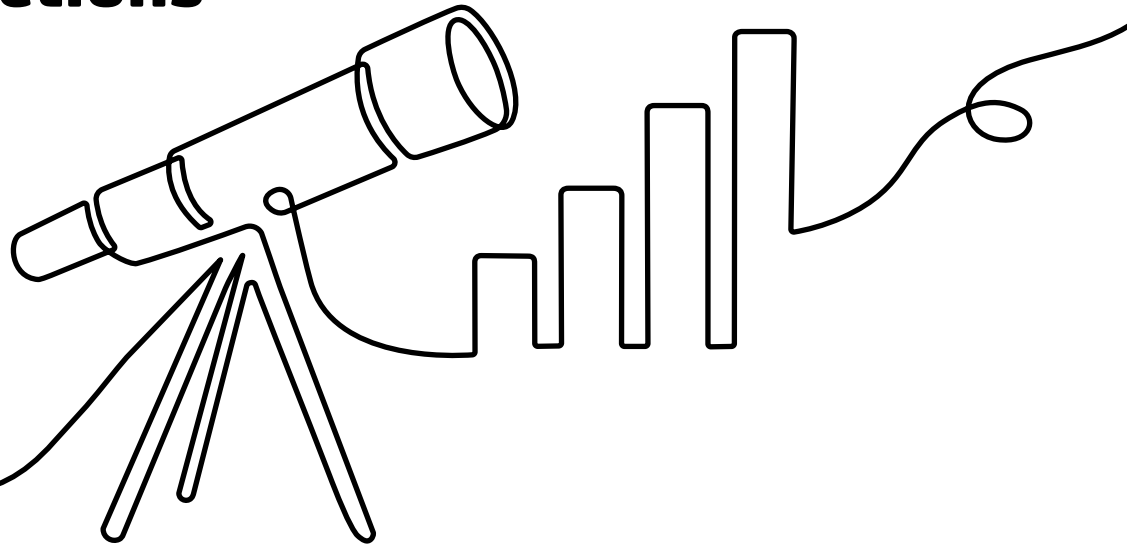
Europe's growing role in asset allocation

Europe can aspire to replace the US as a benchmark market. This requires political efforts that go beyond competing national interests to the adoption of a truly European approach. After all, meaningful progress in key areas is within reach. What is needed is to cover the last mile to adopt a comprehensive perspective that looks at both the industrial and financial dimensions of the problem. For equity investors, deeper integration and infrastructure spending could boost sectors such as industrials, clean tech and defence, reinforcing Europe's role as a **strategic anchor in global asset allocation**. Investor disaffection with Treasuries could boost the appetite for Bunds and EU bonds outside the eurozone. In FX, the growing appeal of euro-denominated assets, underpinned by the de-dollarisation trend and capital inflows, supports selective EUR exposure, making euro-hedged strategies attractive for global portfolios.





Investment convictions



AUTHORS

Alessandro Caviglia
(Italy CIO)

Philip Gisdakis
(Germany CIO)

Fabio Petti
(Co-Head of
The Investment Institute)

Oliver Prinz
(Austria CIO)

Leaning into opportunity while preserving balance

With macro conditions signalling stabilisation, asset allocation should reflect both resilience and selectivity. We see room for adjustments where fundamentals and valuations align.

The most notable change is in **emerging market (EM) equities**: we upgrade our stance from neutral to overweight, as we aim to increase diversification in the technology sector and add exposure to Asian currencies while maintaining a neutral view on global equities. Attractive valuations, relatively strong growth and earnings prospects as well as supportive liquidity trends could offer investors a favourable entry point. Structural tailwinds in Asia and selective EM regions reinforce this view.

In **fixed income**, we maintain a neutral position on global bonds but keep our overweight recommendation for EM debt. Despite lingering volatility, EM bonds continue to offer appealing carry and diversification benefits, supported by relatively sound fundamentals and easing inflation in several economies. We confirm our cautious stance on USTs and EGBs, as developed fixed-income markets present an unfavourable risk-return balance at the long end of the curves due to fiscal expansion.

Overall, we are not advocating for wholesale portfolio shifts. Instead, we lean into areas that combine near-term recovery potential with long-term growth drivers – EM equities and EM debt – while preserving diversification discipline across other asset classes. Importantly, our positioning continues to reflect a **quality bias**: we favour companies and issuers with robust balance sheets, resilient cash flows and strong governance standards. This approach ensures prudent risk management at a time when policy surprises or geoeconomic tensions could still unsettle markets. On the back of the above, we retain our cautious stance on the USD vs. the EUR.

Asset Allocation

OUR INVESTMENT VIEW ON ASSET CLASSES

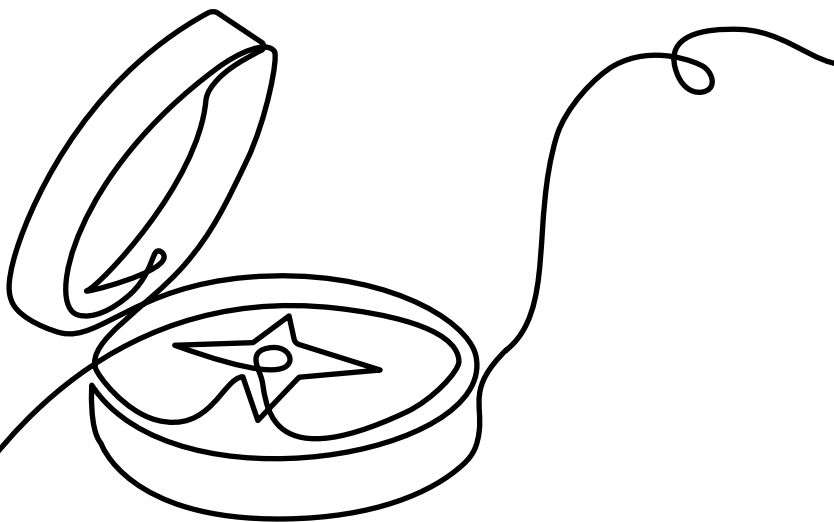
	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
GLOBAL EQUITIES		●	
US EQUITIES		●	
EUROPE EQUITIES		●	
PACIFIC EQUITIES (DEVELOPED MARKETS ¹)		●	
EMERGING MARKET EQUITIES			●
GLOBAL BONDS		●	
GOVERNMENT BONDS (EMU)	●		
GOVERNMENT BONDS (NON-EMU)	●		
CORPORATE BONDS (EUR INVESTMENT-GRADE)		●	
CORPORATE BONDS (HIGH-YIELD)	●		
EMERGING MARKET BONDS (HARD CURRENCY)			●
EMERGING MARKET BONDS (LOCAL CURRENCY)			●
MONEY MARKETS		●	
ALTERNATIVES		●	
BITCOIN		●	
COMMODITIES		●	
OIL		●	
GOLD		●	

1. Developed markets: Australia, Japan, Hong Kong, New Zealand, Singapore





Forecast Tables



UniCredit Forecasts

GDP, CPI AND BUDGET BALANCE FORECASTS

	Real GDP (% Y/Y)			Consumer prices (% Y/Y)			Budget balance (% of GDP)		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Global	3.2	3.1	3.2	-	-	-	-	-	-
US	1.9	2.1	2.0	2.7	2.9	2.6	-7.4	-7.9	-8.0
Eurozone	1.4	1.0	1.4	2.1	1.8	1.9	-3.4	-3.7	-3.6
Germany	0.2*	1.2*	1.9*	2.2	1.9	2.0	-3.0	-4.3	-4.3
France	0.8	0.9	1.1	1.0	1.3	1.4	-5.4	-5.0	-4.6
Italy	0.5	0.6	0.8	1.5	1.4	1.6	-3.1	-2.9	-2.7
Spain	2.9	2.1	1.8	2.7	2.1	2.0	-2.5	-2.1	-2.2
UK	1.4	1.0	1.2	3.4	2.4	2.0	-4.5	-3.8	-3.5
China	5.0	4.1	3.8	-0.3	0.5	1.0	-8.5	-8.0	-8.0
Japan	1.0	0.8	0.8	3.0	2.1	2.0	-3.1	-4.0	-3.8
India	6.6	6.2	6.4	2.8	4.0	4.0	-7.1	-7.2	-7.1

Source: The Investment Institute by UniCredit

*Non-WDA figures. Adjusted for working days: 0.3% (2025), 0.9% (2026) and 1.8% (2027)

CENTRAL BANKS WATCH

	Current	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
Fed	4.00	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.50
ECB	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25
BOE	4.00	3.75	3.50	3.25	3.00	2.75	2.75	2.75	2.75	2.75
BoJ	0.50	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25	1.25
Riksbank	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
Norges Bank	4.00	4.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75

Source: The Investment Institute by UniCredit

Note: Figures are end-of-period



INTEREST RATE AND YIELD FORECASTS

	25.11.25	1Q26	2Q26	3Q26	4Q26
Eurozone					
Depo rate	2.00	2.00	2.00	2.00	2.00
3M Euribor	2.07	2.00	2.00	2.00	2.00
2Y Schatz	2.02	2.10	2.10	2.10	2.10
10Y Bund	2.67	2.75	2.80	2.85	2.90
2Y EUR swap	2.16	2.25	2.25	2.25	2.25
10Y EUR swap	2.73	2.80	2.85	2.90	2.95
10Y swap-Bund spread	5	5	5	5	5
2Y BTP	2.19	2.30	2.30	2.30	2.30
10Y BTP	3.40	3.45	3.50	3.55	3.60
10Y BTP-Bund spread	73	70	70	70	70
US					
Fed fund rate	4.00	4.00	3.75	3.75	3.50
3M OIS SOFR	3.80	3.68	3.60	3.42	3.35
2Y UST	3.46	3.70	3.70	3.65	3.65
10Y UST	4.00	4.25	4.25	4.25	4.30
10Y UST-Bund spread	132	150	145	140	140

FX FORECASTS

	25.11.25	1Q26	2Q26	3Q26	4Q26
EUR-USD	1.16	1.14	1.16	1.17	1.18
USD-JPY	157	154	150	148	145
EUR-JPY	181	176	174	173	171
GBP-USD	1.32	1.29	1.29	1.28	1.27
EUR-GBP	0.88	0.88	0.90	0.91	0.93
USD-CNY	7.08	7.10	7.09	7.08	7.07
EUR-CNY	8.18	8.09	8.22	8.28	8.34

Source: Bloomberg, The Investment Institute by UniCredit

RISKY ASSETS FORECASTS

	25.11.25	Mid-2026	End-2026
Oil			
Brent USD/bbl	62.5	62.5	62.5
Equities			
Euro STOXX 50	5,574	5,900	6,200
STOXX Europe 600	568	600	630
DAX	23,465	25,500	27,000
MSCI Italy	112	118	123
S&P 500	6,766	7,200	7,600
Nasdaq 100	25,018	27,000	28,000
Credit			
iBoxx Non-Financials Senior	77	95	90
iBoxx Banks Senior	75	95	87
iBoxx High Yield NFI	281	325	300

Source: Bloomberg, S&P Global, The Investment Institute by UniCredit

For detailed forecast tables click the following links:

[Economics >](#) | [FI >](#) | [FX >](#) | [Risky Assets >](#)



Development of selected financial market indices

From	25.11.20	25.11.21	25.11.22	25.11.23	25.11.24	25.11.20	01.01.25
To	25.11.21	25.11.22	25.11.23	25.11.24	25.11.25	25.11.25	25.11.25

STOCK MARKET INDICES (TOTAL RETURN, IN %)

MSCI World (in USD)	26.0	-13.8	13.9	27.8	16.7	84.7	18.8
MSCI Emerging Markets (in USD)	5.5	-22.4	6.9	14.6	27.4	27.5	29.1
MSCI US (in USD)	30.8	-14.8	15.4	33.9	14.1	96.7	16.3
MSCI Europe (in EUR)	26.1	-4.4	8.1	14.0	15.1	70.9	15.3
MSCI AC Asia Pacific (in USD)	5.3	-19.3	7.3	16.7	22.8	31.0	24.0
STOXX Europe 600 (in EUR)	26.2	-5.6	7.8	14.3	15.4	69.3	15.5
DAX 40 (Germany, in EUR)	19.8	-8.7	10.3	21.1	20.9	76.5	17.9
MSCI Italy (in EUR)	24.0	-3.4	25.4	21.1	35.1	147.5	32.2
ATX (Austria, in EUR)	50.8	-10.0	5.0	14.5	46.2	138.8	41.4
SMI (Switzerland, in CHF)	22.1	-7.7	0.6	10.8	12.9	41.6	13.6
S&P 500 (US, in USD)	31.4	-13.0	15.1	33.2	14.5	100.4	16.4
Nikkei (Japan, in JPY)	14.0	-2.0	21.0	17.4	27.9	104.9	24.2
CSI 300 (China, in Yuan)	1.5	-21.2	-3.4	12.1	19.9	2.0	17.1

BOND MARKET INDICES (TOTAL RETURN, IN %)

US government bonds 10Y (in USD)	-4.3	-15.0	-2.7	5.9	6.9	-10.1	8.8
German Bunds 10Y (in EUR)	-2.6	-17.2	-3.8	6.3	-1.0	-17.5	0.1
EUR government bonds 1Y-10Y (iBOXX, in EUR)	-2.6	-15.4	-3.2	7.3	0.8	-12.9	1.2
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	-0.9	-12.9	2.1	8.6	3.2	-0.7	3.2

BOND YIELDS (CHANGE IN BASIS POINTS = 0.01 PERCENTAGE POINTS)

US government bonds 10Y (in USD)	75	208	79	-23	-28	311	-58
German Bunds 10Y (in EUR)	33	222	77	-41	43	320	27
EUR government bonds 1Y-10Y (iBOXX, in EUR)	35	227	88	-54	33	316	22
EUR corporate bonds 1Y-10Y (iBOXX, in EUR)	33	321	47	-102	10	298	3

EURO EXCHANGE RATES (CHANGE, IN %)

US dollar (EUR-USD)	-5.6	-7.6	4.8	-3.9	10.1	-2.6	11.2
British pound (EUR-GBP)	-5.4	1.9	1.0	-3.9	5.3	-1.3	6.0
Swiss franc (EUR-SFR)	-3.3	-6.1	-1.8	-3.3	0.2	-13.7	-0.7
Japanese yen (EUR-JPY)	4.2	11.8	13.5	-1.0	11.6	45.4	10.7

COMMODITIES (CHANGE, IN %)

Commodity Index (GSCI, in USD)	-2.1	-2.0	14.2	29.8	56.4	121.3	55.8
Industrial metals (GSCI, in USD)	32.8	-12.5	-5.9	11.0	10.1	34.3	14.0
Gold (in USD per fine ounce)	-1.3	-2.2	13.8	31.7	57.0	128.8	57.4
Crude oil (Brent, in USD per barrel)	69.1	2.1	-5.8	-8.9	-14.4	30.6	-16.3

Source: Refinitiv Datastream, The Investment Institute by UniCredit (as of 25 November 2025)

Note: Past values and forecasts are not a reliable indicator of future performance. Indices cannot be purchased and therefore do not include costs. When investing in securities, costs are incurred which reduce the performance. The return on investments in foreign currencies may also rise or fall as a result of currency fluctuations. So-called synthetic bonds are calculated to reflect the performance of government bonds in a fixed maturity range. In each case, the most "suitable" real federal bond at the relevant time is used as a reference for the yield opportunity of the synthetic bond. The development of the expected yield to maturity is shown under the following conditions: servicing of interest payments and redemption in accordance with the terms and conditions and holding until maturity. In this respect, it is a yield opportunity. The yield opportunities reflect the different risk assessments of the investors for the respective products or countries (higher yield opportunity=higher risk assessment). The synthetic bonds cannot be purchased and therefore do not include any costs. In the case of currencies and commodities, acquisition and/or custody costs incurred are not included.



**UniCredit S.p.A.**

The Investment Institute
by UniCredit

**Address**

Piazza Gae Aulenti, 4
20154 Milano

**Email**

the-investment-institute@unicredit.eu

Online

www.the-investment-institute.unicredit.eu

INSTITUTE LEADERSHIP

Manuela D'Onofrio, *Chair*

Fabio Petti, *Co-Chair*

Edoardo Campanella,
Director and Chief Editor

IDEA GENERATORS

Tullia Bucco

Alessandro Caviglia,
CIO, Italy

Luca Cazzulani

Francesco Maria Di Bella

Loredana Maria Federico

Eszter Gárgyán

Mauro Giorgio Marrano

Philip Gisdakis,
CIO, Germany

Tobias Keller

Stefan Kolek

Giovanni Mazzariello

Roberto Mialich

Oliver Prinz,
CIO, Austria

Andreas Rees

Jonathan Schroer

Leonardo Segato

Chiara Silvestre

Christian Stocker

Thomas Strobel

Michael Teig

Marco Valli,
*Head of Macroeconomic
Analysis*

Daniel Richard Vernazza

**MANAGING EDITORS OF
THE COMPASS 2026**

Tullia Bucco

Francesco Maria Di Bella

Tobias Keller

Andreas Rees

Chiara Silvestre

PRODUCTION

Ingo Heimig

Edda Nee

Axel Schwer

Sandra Schleiter

Matthew Stevenson

Till Welzel

DESIGN

Isla Morgan

MARKETING

Olav Blasberg

Marcello Calabró

Laura Cabrera Gálvez

Maik Dornheim

Ivana Milojevic

Kim Steinsberger

Legal Notices

Glossary

Terms used in the report are available on our website: <https://www.the-investment-institute.unicredit.eu/en/glossary>.

Marketing Communication

This publication/video constitutes a marketing communication of UniCredit S.p.A., UniCredit Bank Austria AG, Schoellerbank AG and UniCredit Bank GmbH (hereinafter jointly referred to as the “UniCredit Group”) is addressed to the general public and is provided free of charge for information only. It does not constitute investment recommendation or consultancy activity by the UniCredit Group or, even less, an offer to the public of any kind nor an invitation to buy or sell securities. The information contained herein does not constitute an investment research or financial analysis since, in addition to the lack of content, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

UniCredit Group, including all its group companies may have a specific interest in relation to the issuers, financial instruments or transactions detailed herein. Relevant disclosures of interests and positions held by UniCredit Group are available at: <https://www.the-investment-institute.unicredit.eu/en/conflictsofinterest-positiondisclosures>. Any estimates and/or assessments contained in this publication represent the independent opinion of the UniCredit Group and, like all the information contained therein, are given in good faith on the basis of the data available at the date of publication, taken from reliable sources, but having a purely indicative value and subject to change at any time after publication, on the completeness, correctness and truthfulness of which the UniCredit Group makes no guarantees and assumes no responsibility. Interested parties must therefore carry out their own investment assessments in a completely autonomous and independent manner, relying exclusively on their own considerations of the market conditions and the information available overall, also in line with their risk profile and economic situation. Investment involves risk. Before any transaction in financial instruments please refer to the relevant offering documents. It should also be noted that:

1. Information relating to the past performance of a financial instrument, index or investment service is not indicative of future results.
2. If the investment is denominated in a currency other than the investor’s currency, the value of the investment can fluctuate strongly according to changes in exchange rates and have an undesirable effect on the profitability of the investment.
3. Investments that offer high returns can undergo significant price fluctuations following any downgrading of creditworthiness. In the event of bankruptcy of the issuer, the investor may lose the entire capital.
4. High volatility investments can be subject to sudden and significant decreases in value, being able to generate significant losses at the time of sale up to the entire capital invested.
5. In the presence of extraordinary events, it may be difficult for the investor to sell or liquidate certain investments or obtain reliable information on their value.
6. If the information refers to a specific tax treatment, it should be noted that the tax treatment depends on the individual situation of the customer and may be subject to change in the future.
7. If the information refers to future results, it should be noted that they do not constitute a reliable indicator of these results.
8. Diversification does not guarantee a profit or protect against a loss.

The UniCredit Group cannot in any way be held responsible for facts and/or damages that may arise to anyone from the use of this document, including, but not limited to, damages due to losses, lost earnings or unrealised savings. The contents of the publication – including data, news, information, images, graphics, drawings, brands, and domain names – are owned by the UniCredit Group unless otherwise indicated, covered by copyright and by the industrial property law. No license or right of use is granted and therefore it is not allowed to reproduce its contents, in whole or in part, on any medium, copy them, publish them and use them for commercial purposes without prior written authorisation from UniCredit Group unless if purposes of personal use only.

E 25/1

Information and data contained in this document is updated as of 25 November 2025.