



CIO Office

Global Markets Weekly Kickstart

Euro Equities Shine Under the Xmas Light!

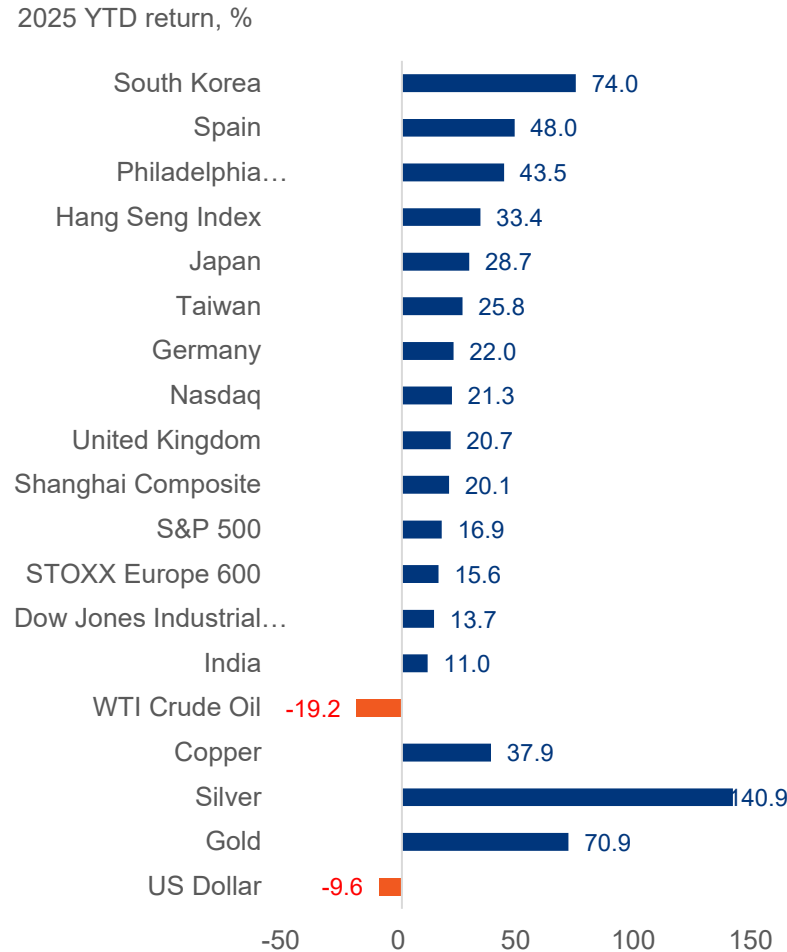
29 December 2025

Looking Ahead to 2026: Valuation and Earnings as the Core Anchors

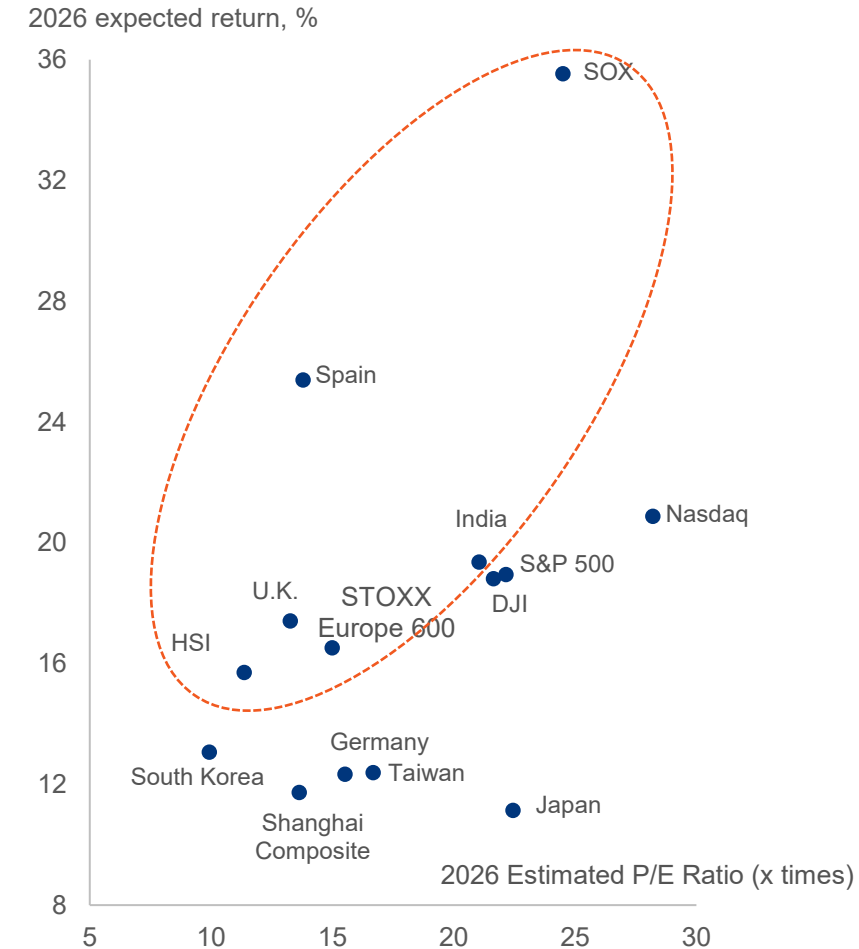
- ▶ Looking back at 2025, AI development, Trump-era tariffs, and the Fed's rate cuts were the three dominant market themes. Despite elevated volatility, most equity markets ended the year near record highs. Tech-heavy markets such as Korea, the Philadelphia Semiconductor Index, and Taiwan outperformed. Hong Kong equities also posted strong gains, supported by technology exposure, capital returning to Asia, and a low starting base. Commodities including gold, silver, and copper likewise reached new highs.
- ▶ Looking into 2026, the key question is whether market leaders can sustain their outperformance or whether laggards will stage a catch-up rally. The answer likely comes back to economic fundamentals and corporate earnings trajectories.
- ▶ In 1H26, spillover effects from tariffs are expected to persist, modestly weighing on global growth. That said, AI semiconductor orders and earnings visibility remain strong, suggesting continued momentum for leading tech stocks. Markets with improving fundamentals and relatively attractive valuations—such as Europe, Spain, the UK, and even India—may benefit from solid earnings outlooks, a weaker USD, capital rotation, and fiscal expansion, offering further upside. Other markets are still expected to rise, though gains may be more constrained given the high base set in 2025.

Source: Bloomberg

Will Market Leaders Continue to Outperform in 2026, or Will Laggards Catch Up?



2026 Expected Returns and Valuation Multiples of Major Country Indices

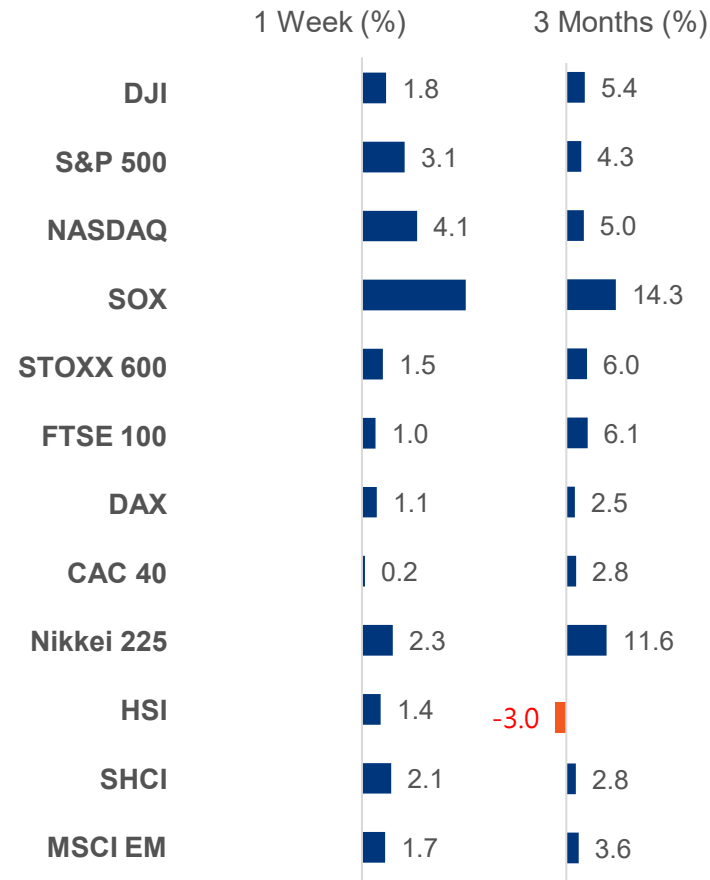


Market Recap

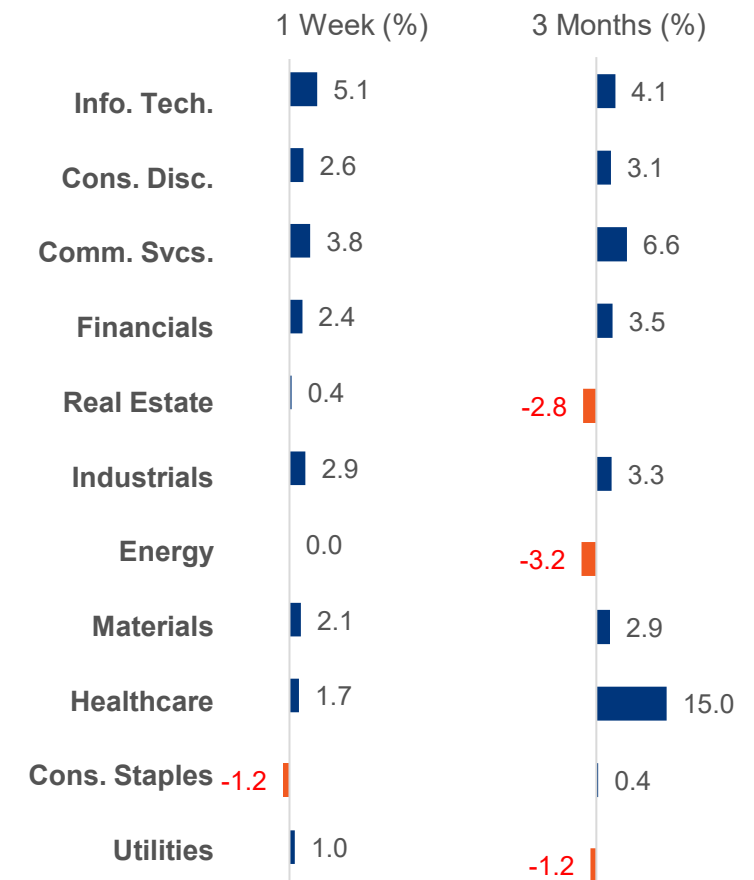
Holiday-Thinned Trading Around Christmas and New Year

- ▶ U.S. 3Q GDP grew 4.3% YoY, beating expectations of 3.3% and the prior 3.8%, driven mainly by consumer spending, which expanded 3.5% and remained a key pillar of growth. However, consumer confidence weakened. The Conference Board's December Consumer Confidence Index fell to 89.1, below the expected 91, dropping for a fifth straight month and matching the longest decline since the 2008 financial crisis. The data reflect lingering inflation pressure and a soft labor market, leaving future consumption momentum uncertain. With markets closed for Christmas, trading was thin and turnover in both U.S. and Taiwan equities declined.
- ▶ Micron's strong guidance signaled sustained AI demand. Nvidia's flagship H200 AI chips are expected to begin shipping to China before the Lunar New Year in February, while AMD CEO Lisa Su's meeting with China's Commerce Minister Wang Wentao further supported gains in AI and semiconductor stocks. The U.S. Navy announced plans to build new warships to revive domestic shipbuilding and address a shortage of small vessels. Trump signed an executive order to "ensure U.S. space dominance," directing the Pentagon and intelligence agencies to draft a space-security strategy and urging private contractors to boost efficiency, lifting space-defense related stocks.

Regional Index Performance (%)



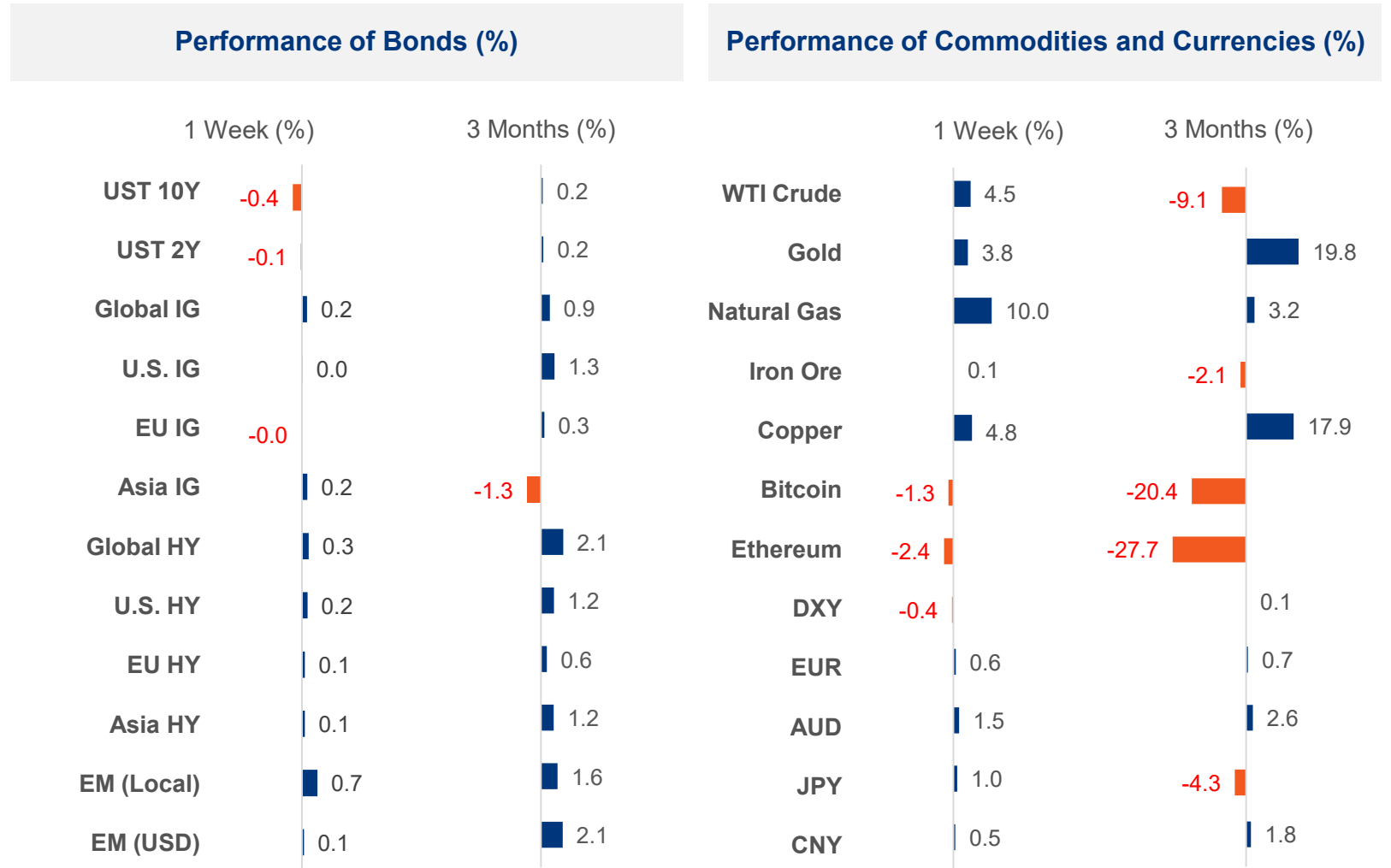
U.S. Sector Index Performance (%)



Source: Bloomberg, 26 Dec 2025

Weaker USD and Rising Geopolitical Risks Push Gold, Silver, and Copper to New Highs

- ▶ U.S. November CPI rose 2.7% YoY, below the expected 3.1%. Core CPI increased 2.6%, also under forecasts, suggesting tariff-driven inflation pressure remains manageable. Rates futures indicate the market expects 50 bps of Fed cuts by end-2026, above the 25 bps implied in the dot plot, keeping liquidity loose. The U.S. 10Y yield slipped to 4.13%, with Treasuries moving near flat.
- ▶ The U.S. tightened its oil blockade on Venezuela, while Trump ordered an airstrike on Nigeria on Christmas Eve. Though framed as targeting ISIS, terrorism, and protecting religious freedom, the strike may have aimed at Nigeria's oil self-sufficiency and rare-earth resources. Heightened geopolitical tensions boosted safe-haven demand for gold and silver, with gold breaking to a fresh high above USD 4,500/oz, and silver and copper also hitting record levels. The DXY fell to 97.9 as markets expect the ECB's cutting cycle to be near its end, supporting EUR strength, while the JPY stabilized after verbal intervention. RBA minutes showed rising concern over upside inflation risks, raising the possibility of a rate hike in 2026 and pushing AUD to a one-year high.



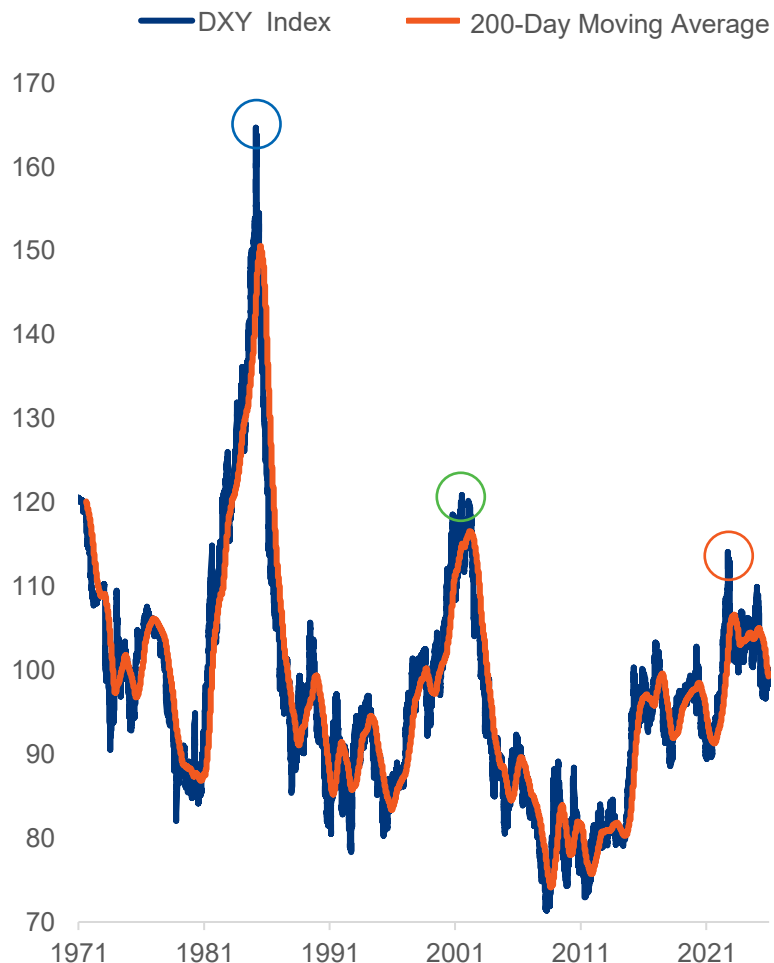
Source: Bloomberg, 26 Dec 2025

Soft Labor Market Pressures the USD; Fed Independence Emerges as Downside Risk

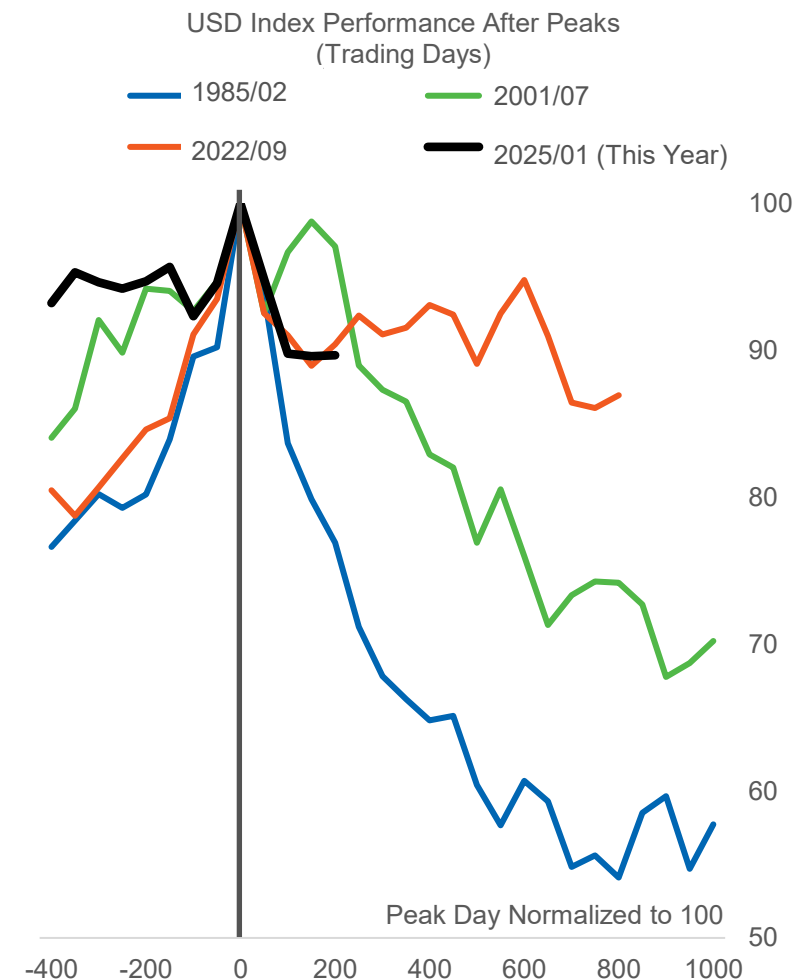
- ▶ The DXY in December traded slightly below its 200-day average, suggesting fading short-term momentum and a shift toward range-bound trading. With U.S. labor-market data continuing to weaken, the USD may keep softening.
- ▶ Despite solid GDP growth and expectations of steady expansion in 2026, nonfarm payrolls have declined. Initial jobless claims recently hit their highest since 2008, and entry-level positions have been reduced by AI adoption, raising the risk that short-term frictional unemployment turns into long-term structural unemployment. Beyond jobs, the Fed's other mandate—price stability—faces only one-off tariff effects, with markets expecting limited and short-lived impact once absorbed. A weaker labor market and cooling inflation point to larger rate cuts, pressuring the USD.
- ▶ A further downside risk comes from challenges to Fed independence. The Trump administration has pushed for rapid and sizable rate cuts. Separately, a court ruling on the removal of Lisa Cook could come in 1Q26, with oral arguments set for 21 January 2026. Should the Supreme Court allow her removal, the White House may continue using various justifications to steer policymakers toward its preferred direction, intensifying concerns over Fed independence and adding downside pressure on the USD.

Source: Bloomberg

Dollar Index Slightly Below Its 200-Day Moving Average



Compared With Past USD Peaks, the Current Decline Is Mild

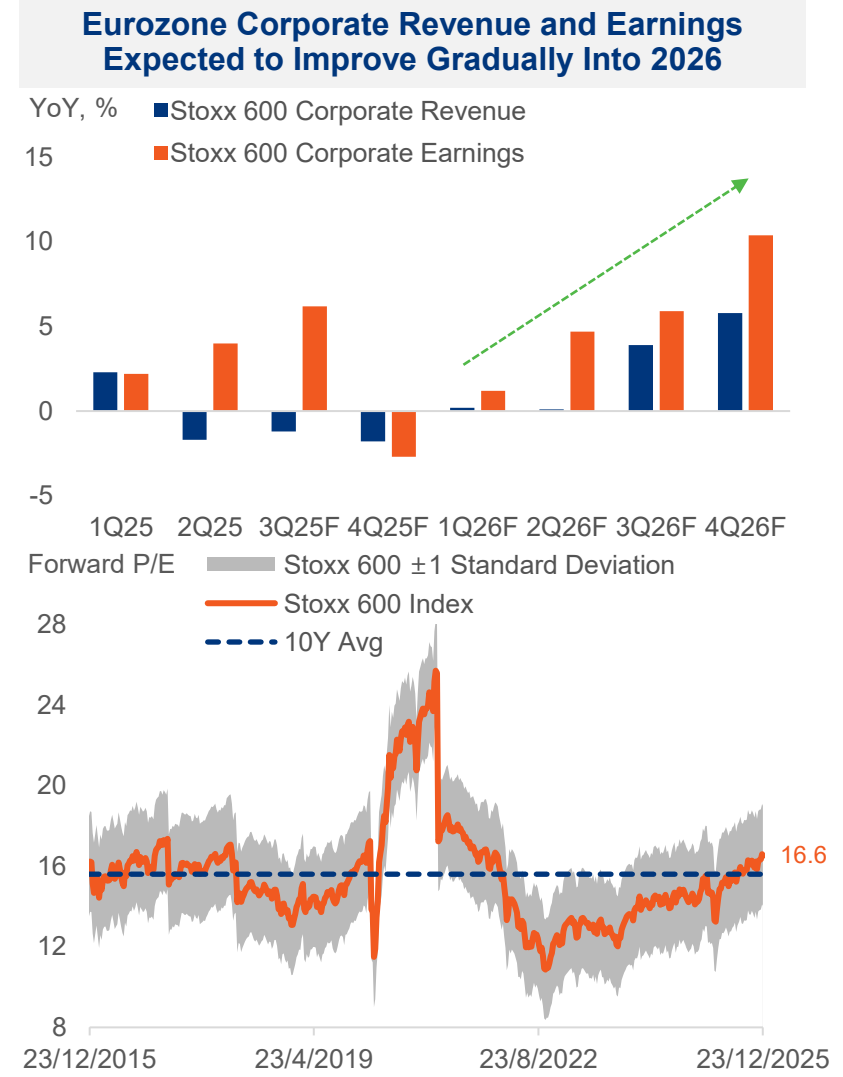
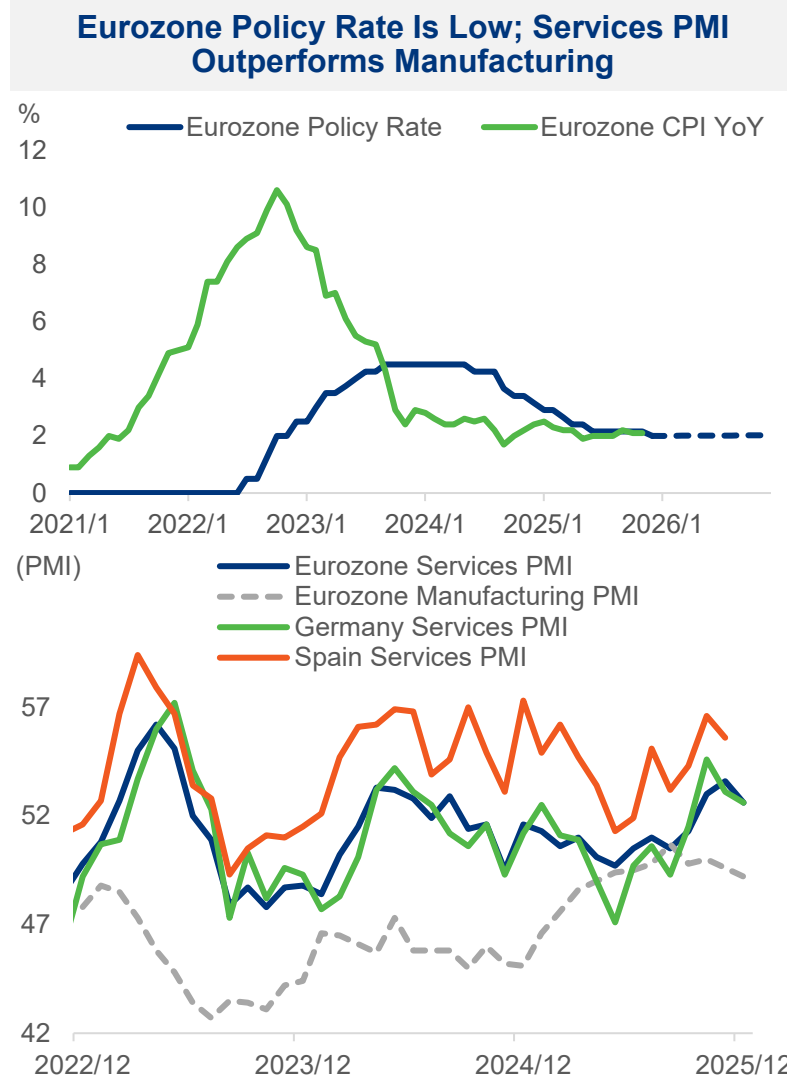


Eurozone Earnings Keep Improving; Low-Rate Environment Supports Valuations

▶ Eurozone November CPI eased to 2.1%. A stronger EUR will further suppress core goods prices, and the ECB expects inflation to gradually return toward its 2% target. After cutting the policy rate to 2%, it intends to keep it unchanged—still lower than the U.S. and U.K.—creating a rate environment supportive for economic activity and financial assets. Eurozone 3Q GDP rose 0.3% QoQ, beating expectations. Composite PMI climbed for a sixth straight month to 52.8, a near 30-month high, driven mostly by services, offsetting manufacturing weakness. Real wages remain in positive growth, supporting domestic demand and services activity, with most countries' services PMIs holding above 50, and Southern Europe performing even better.

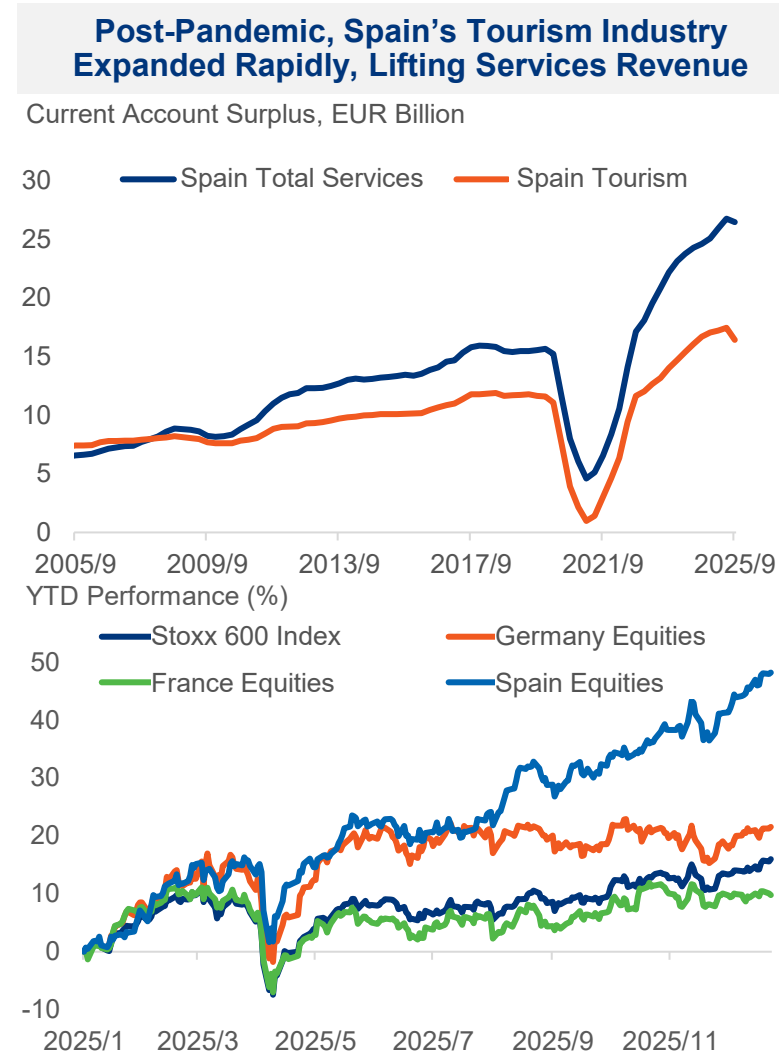
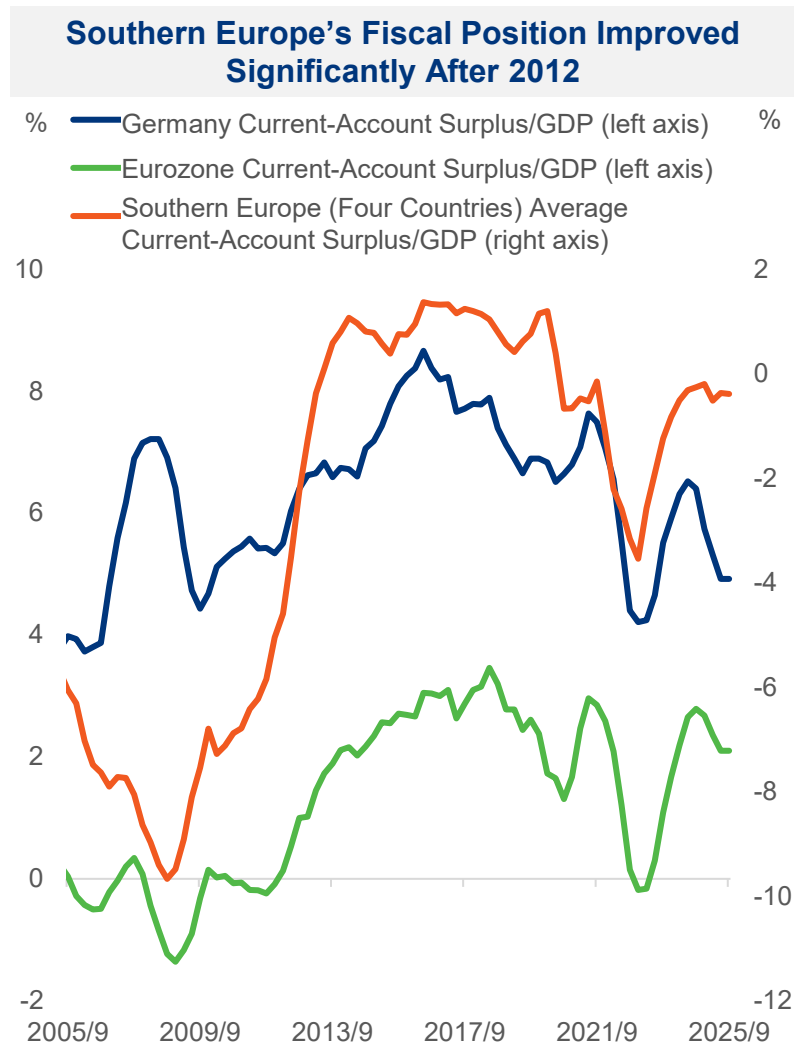
▶ As Russia–Ukraine peace talks progress, reconstruction demand may lift Eurozone manufacturing from its trough, allowing corporate earnings to rise gradually. Markets expect European revenue and profit to improve quarter by quarter into 2026. Eurozone's low rates not only stimulate growth but also enhance equity valuations. Valuation re-rating remains a key driver for the continued strength in European equities. The Stoxx 600 currently trades at 16.6x forward P/E—well below U.S. equities. Even at record highs, its P/E is only slightly above the 10-year average, offering attractive value.

Source: Bloomberg, LSEG



Tourism Boom Lifts Spain; Services Sector Breaks Out

- ▶ Eurozone total debt-to-GDP is about 88%, lower than the U.S. and Japan, giving room for fiscal expansion. Germany faces state elections next year, likely pushing the federal government to accelerate fiscal stimulus, providing support for equities. Germany's current-account surplus relative to GDP outperforms the Eurozone, reflecting stronger fundamentals and supporting a constructive view on German equities. Southern Europe's current-account surplus-to-GDP ratio has also improved significantly since 2012.
- ▶ Spain stands out this year, with a surge in tourism revenue fueling services-sector growth. The EU's 2026 Recovery and Resilience Facility (NGEU), totaling EUR 800bn, is expected to meaningfully stimulate economies such as Spain and Italy and advance green and digital transformation. European banks have materially strengthened compared with the past, yet still trade at lower valuations than U.S. peers, leaving room for rerating. Spain's market has a high weighting in banks and financials, suggesting its equity momentum can extend if bank stocks continue to rise. We recommend increasing allocation to diversified European equities, with Germany and Spain as satellite country exposures. Sector focus: financials, defense, and raw-material names positioned to benefit from the EU's 2026 "European Critical Raw Materials Hub" initiative.



Asset Strategy

| Asset Type | Market View | Preferred Assets |
|------------------|--|--|
| Equities | <ul style="list-style-type: none"> ◆ Investment Outlook for 2026 can be approached through L (Liquidity Shift), E (Earnings Focused), A (Adding Credit), and D (Diversified Asset). Capital is expected to continue flowing out of the U.S. dollar, where rate cuts are anticipated, into non-U.S. assets. Equity investments should focus on earnings growth to reinforce valuation rationality, while combining bond income with moderate allocations to alternative assets helps diversify portfolio risk and enhance investment efficiency. ◆ European equities can serve as part of diversified allocation, with Germany—supported by fiscal stimulus and clear economic improvement—and Spain—with strong fundamentals and a high weighting of financial stocks—as preferred countries. Preferred sectors include financials, benefiting from improved balance sheets, and defense, supported by policy. Japanese equities should focus on domestic demand, banks, and semiconductors. | <p>Strategy: Under the AI theme, the core beneficiaries include technology, semiconductors, utilities, and machinery; outside of AI, aerospace, defense, and pharmaceuticals are favored.</p> <p>Regions: German equities, Spanish equities, Japanese banking stocks, and Japanese semiconductor stocks.</p> |
| Bonds | <ul style="list-style-type: none"> ◆ As the yield curve steepens, attention can be paid to locking in yields through medium- to short-term investment-grade bonds, high-yield bonds, and emerging market bonds. Sectors with higher risk-adjusted spreads include financials, utilities, and industrials. ◆ With long-term concerns over U.S. dollar depreciation, diversification into non-U.S. currency bonds—such as investment-grade bonds denominated in euros and Singapore dollars—can help mitigate risk. | <p>Duration: Medium- to short-term government bonds, investment-grade bonds for yield lock-in.</p> <p>Sector: Investment-grade bonds for yield lock-in, with financials, industrials, and utilities preferred.</p> |
| Forex | <ul style="list-style-type: none"> ◆ The Federal Reserve’s hawkish rate cuts have deferred expectations for future easing, but a weak labor market and cooling inflation will increase the extent of U.S. rate cuts. In addition, with the Fed’s independence possibly challenged in 2026, the U.S. dollar is expected to remain weak. ◆ The Bank of Japan has raised rates, but the government favors accommodative policy. At present, the Fed’s hawkish cuts support the dollar and weaken the yen. Looking ahead, a softer dollar and narrowing U.S.–Japan yield differentials are expected to boost the yen. The European Central Bank is nearing the end of its rate-cut cycle, German bond yields have rebounded, and the euro is showing strength. | <p>USD: Bias toward depreciation.</p> <p>JPY, EUR: Volatile but biased to gradual appreciation.</p> |
| Commodity | <ul style="list-style-type: none"> ◆ U.S. inflation has not further deteriorated, and the market expects the Federal Reserve to maintain accommodative policy. In addition, the U.S. has tightened its oil sanctions on Venezuela, raising geopolitical risks and driving gold prices to new highs. Demand for silver has surged due to applications in technology and semiconductors, and with Trump seeking to increase import tariffs on minerals, manufacturers are stocking up in advance. Silver is expected to remain strong in the short term.. | <p>Gold: Bullish in the medium to long term</p> <p>Silver: Remains strong in the near term..</p> |

Appendix

Key Economic Data / Events

► DEC 2025

22

Monday

- Taiwan Nov Unemployment Rate (Act:3.35% Est:3.31% Prev:3.33%)

23

Tuesday

- U.S. 3Q GDP QoQ Saar (Rev.) (Act:4.3% Est:3.3% Prev:3.8%)
- U.S. Oct Durable Goods MoM (Prel.) (Act:-2.2% Est:-1.5% Prev:0.7%)
- U.S. Nov Industrial Production MoM (Act:0.2% Est:0.1% Prev:-0.1%)
- U.S. Dec Conference Board Consumer Confidence (Act:89.1 Est:91.0 Prev:92.9)
- Taiwan Nov Export Orders YoY (Act:39.5% Est:32.0% Prev:25.1%)

24

Wednesday

- U.S. Initial Jobless Claims (Weekly) (Act:214k Est:224k Prev:224k)

25

Thursday

26

Friday

- Japan Dec Tokyo CPI YoY (Act:2.0% Est:2.3% Prev:2.7%)
- Japan Nov Unemployment Rate (Act:2.6% Est:2.6% Prev:2.6%)
- Japan Nov Job-Offers-to-Applicants Ratio (Act:1.18 Est:1.18 Prev:1.18)
- Japan Nov Industrial Production MoM (Prel.) (Act:-2.6% Est:-2.0% Prev:1.5%)

► JAN 2026

29

Monday

30

Tuesday

31

Wednesday

- U.S. Initial Jobless Claims (Weekly) (Prev:214k)
- China Dec Mfg. PMI (Est:49.3 Prev:49.2)
- China Dec Services PMI (Est:49.7 Prev:49.5)
- China Dec S&P Global Mfg. PMI (Est:49.7 Prev:49.9)

1

Thursday

2

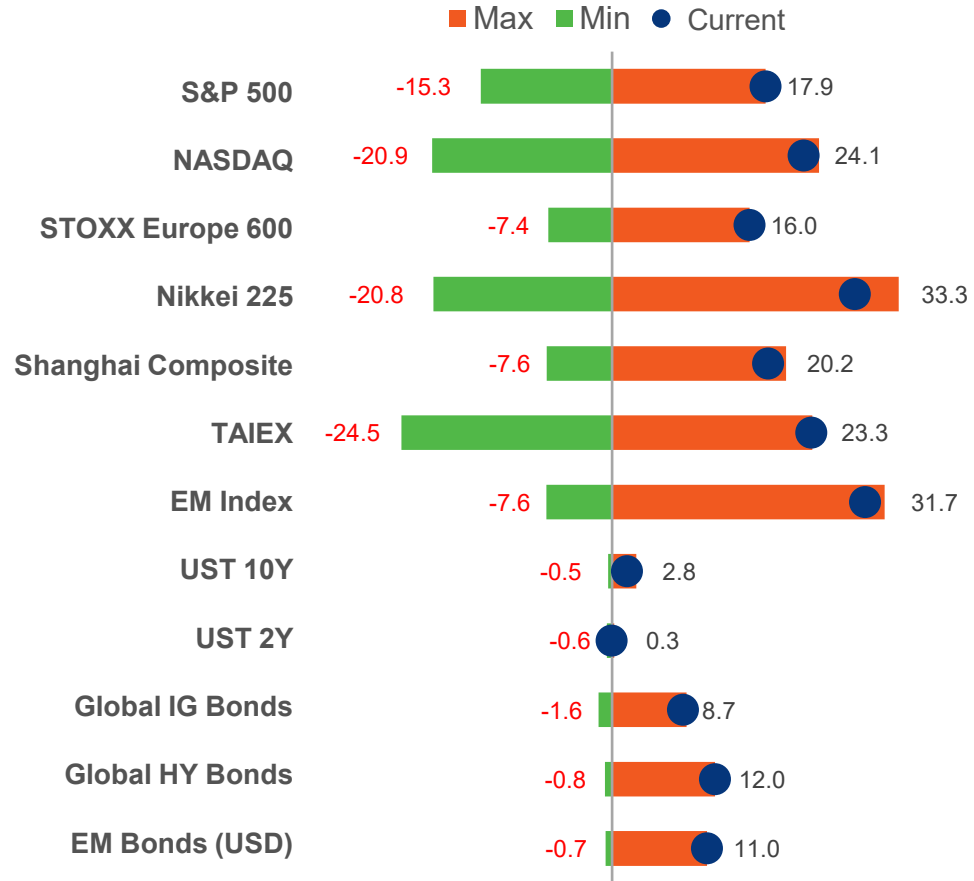
Friday

- U.S. Dec S&P Global Mfg. PMI Final (Est:51.8 Prev:52.2)
- Eurozone Dec Mfg. PMI Final (Est:49.2 Prev:49.6)

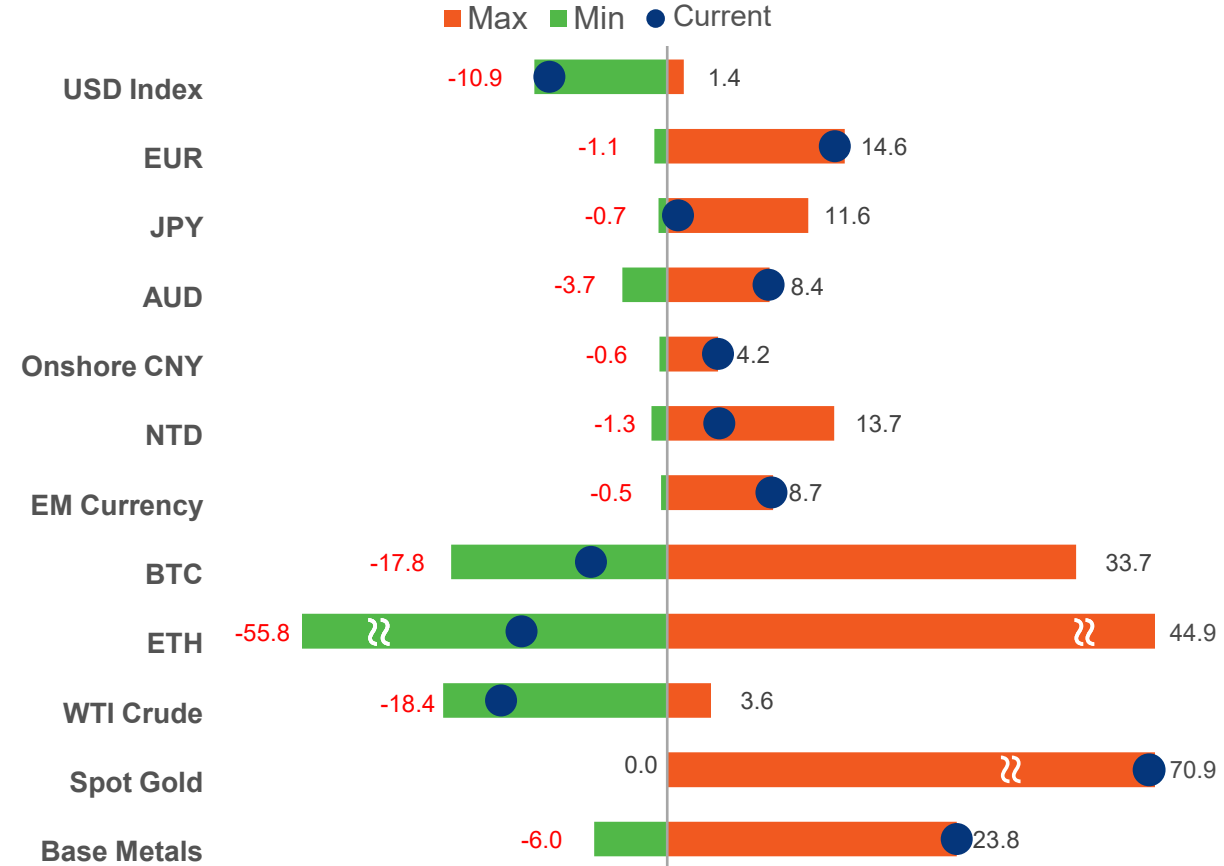
Source: Bloomberg

YTD Major Market / Asset Performance

Equities & Bond Markets YTD Performance (%)

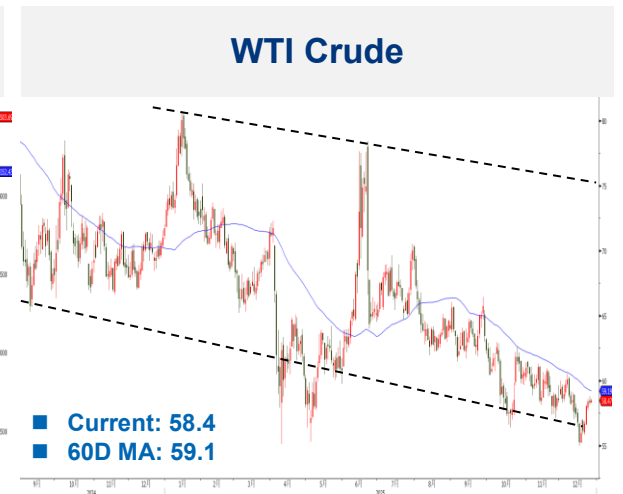
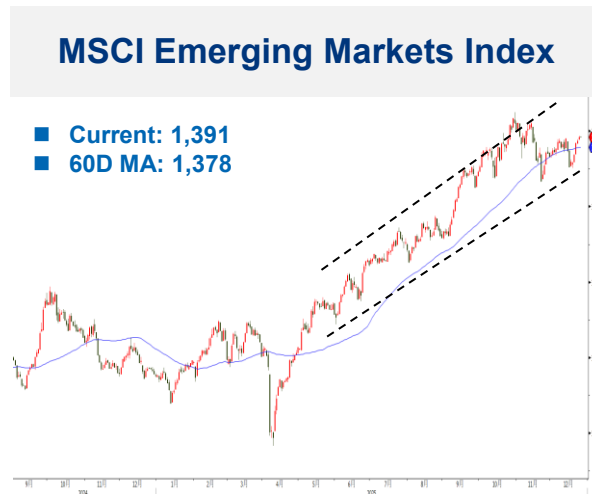
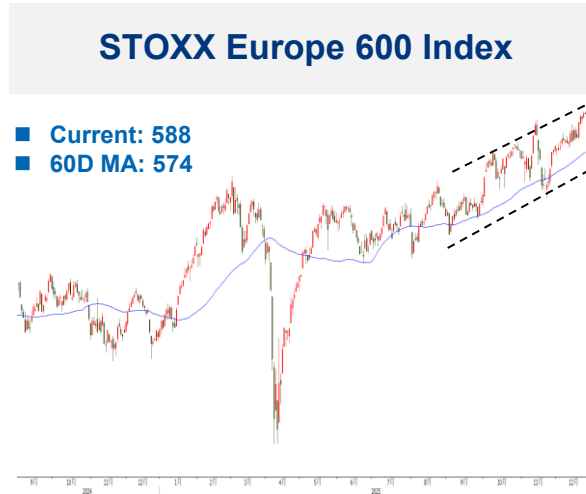
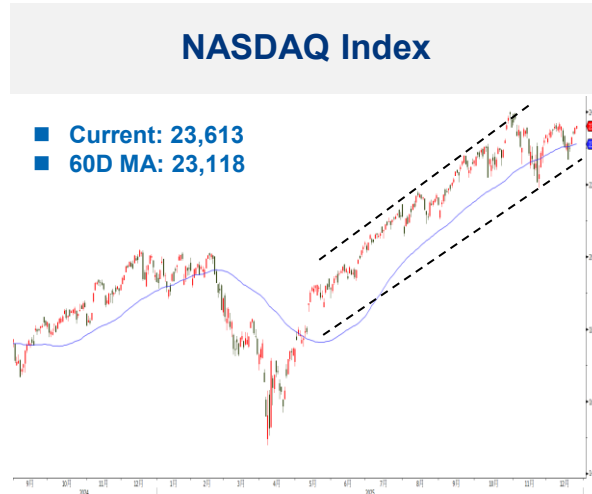
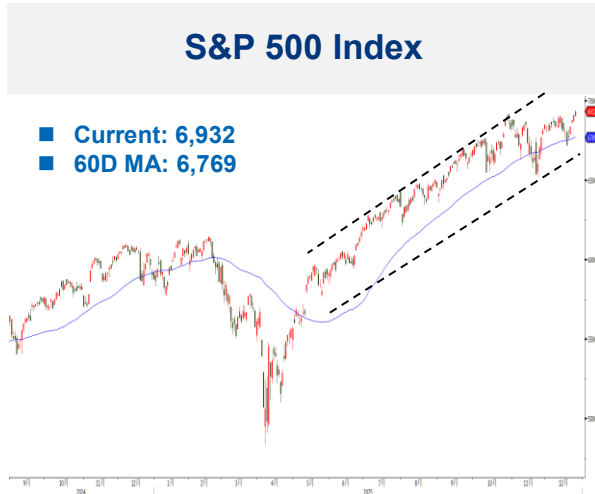


Currencies and Commodities Market YTD Performance (%)



Source: Bloomberg, 26 Dec 2025

Technical Analysis



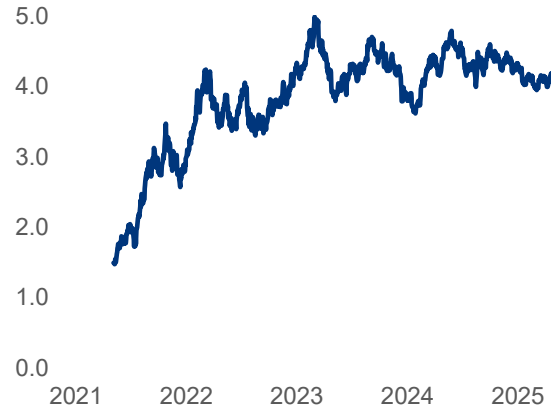
Source: Bloomberg, 26 Dec 2025

Market Monitor

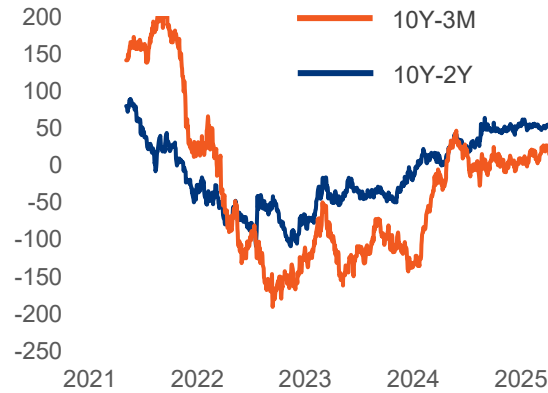
U.S. CPI YoY (%)



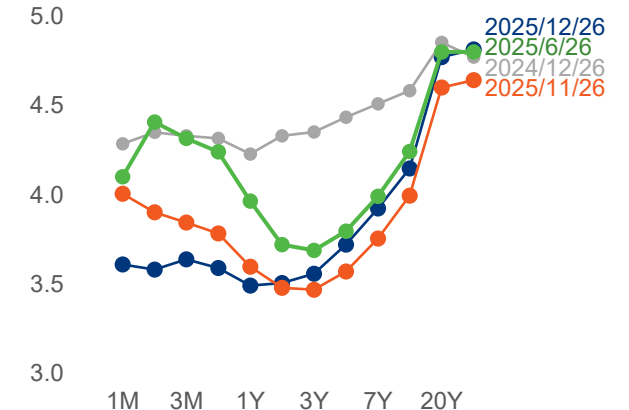
U.S. 10-Year Treasury Yield (%)



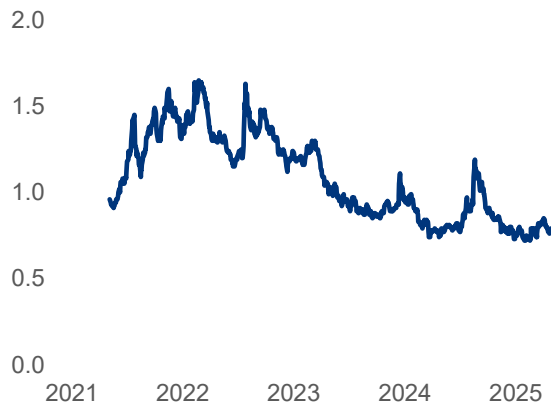
U.S. Treasury Yield Spread (bps)



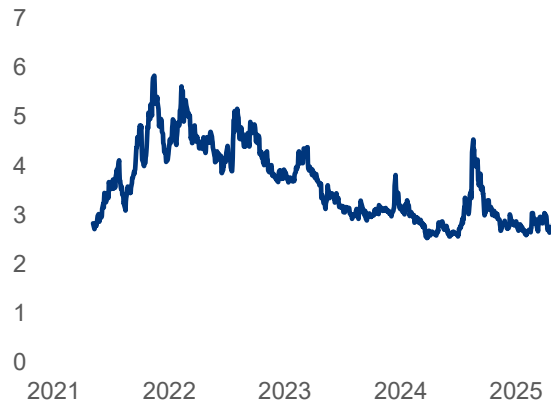
U.S. Treasury Yield Curve (%)



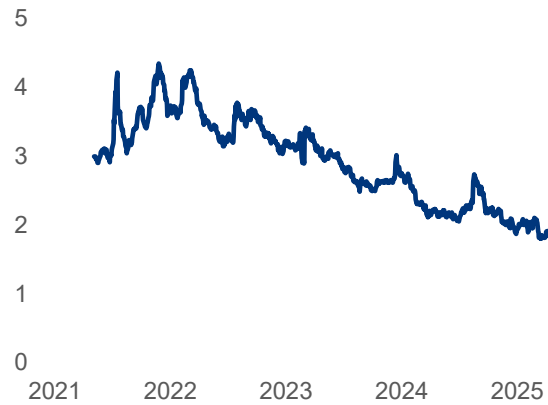
USD IG Credit Spread (%)



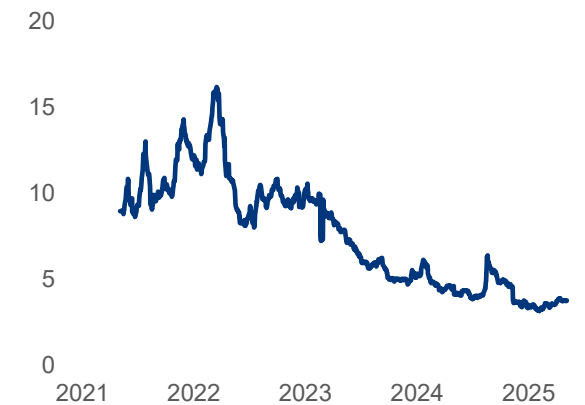
USD HY Credit Spread (%)



USD EM Credit Spread (%)



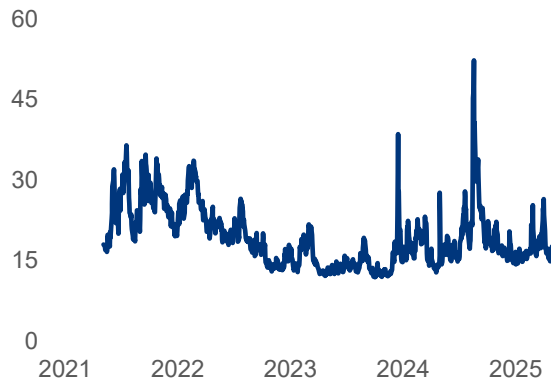
USD Asia Credit Spread (%)



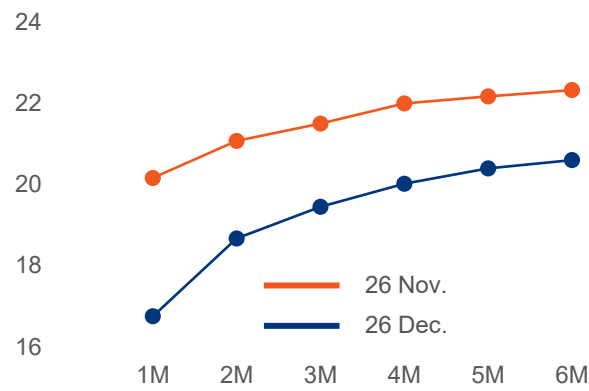
Source: Bloomberg, 26 Dec 2025

Market Monitor

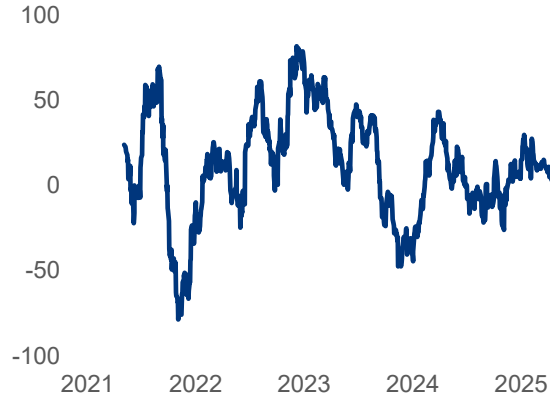
VIX Index



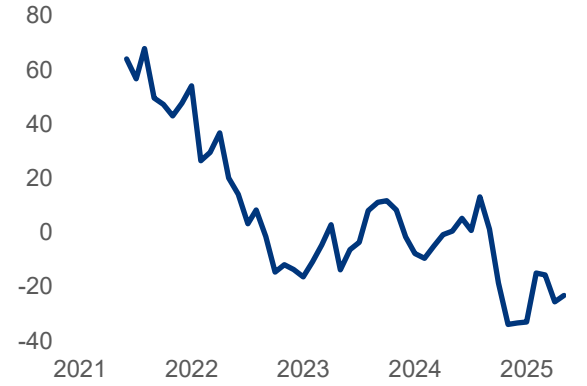
VIX Term Structure



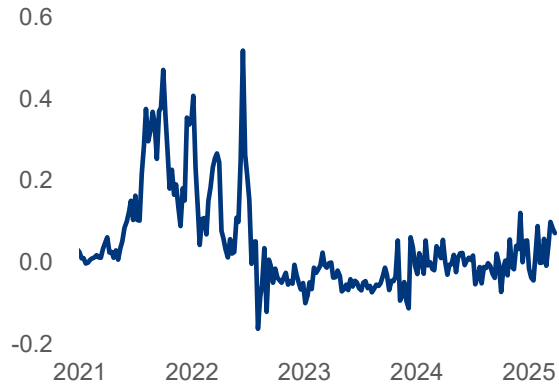
U.S. Citi Economic Surprise Index*



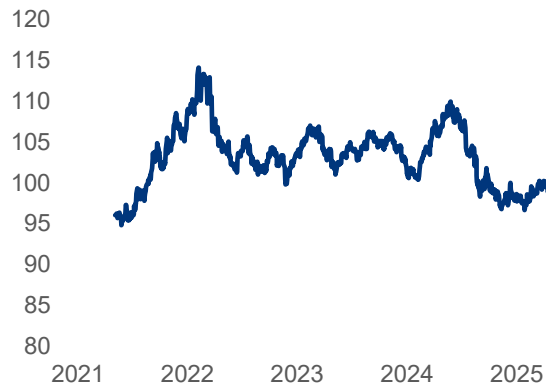
U.S. Citi Inflation Surprise Index*



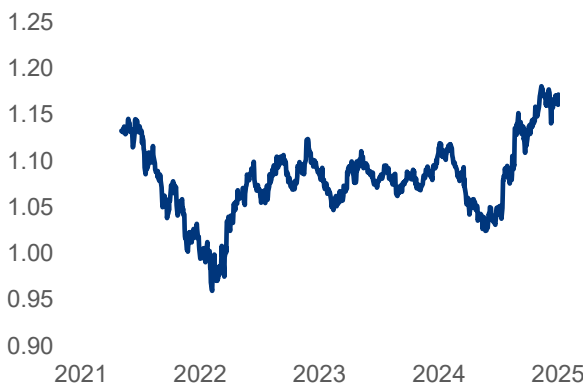
TED Spread (bps)



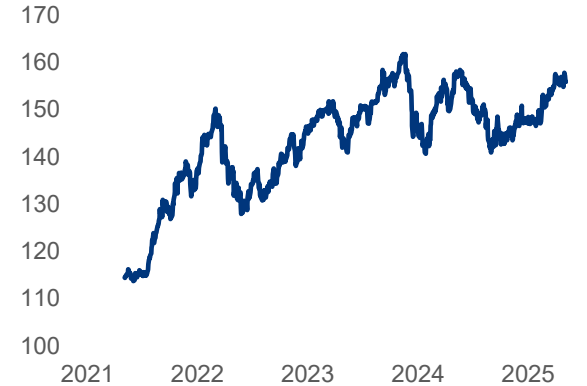
U.S. Dollar Index



EUR to USD



USD to JPY



Source: Bloomberg, 26 Dec 2025 *The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.

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