

Paris, December 1st, 2025

OUTLOOK

2026: Transition or disruption?

After more than three decades marked by the 'great moderation', markets are entering a new phase in which global economic balances are being redrawn. The deglobalisation of value chains, accelerated by the protectionist policies of the Trump administration, is redefining trade flows and investment decisions. At the same time, new structural drivers are emerging: the rise of artificial intelligence, whose economic impact now extends beyond the technology sector alone, and monetary innovation, which is redefining the scope of intervention for economic players, foremost among them central banks.

The combination of these developments raises a key question for 2026: are we in a transition phase or is this the beginning of a genuine break with the current economic and financial regime?

In this more fragmented and less predictable environment, Axel Botte, Head of Market Strategy, Alexandre Caminade, Head of Sovereign, Emerging Market and Aggregate Fixed Income, Philippe Berthelot, Head of Credit and Monetary Markets, and Frédéric Leguay, Head of Fundamental Equities, present Ostrum AM's outlook for the coming year: continued uneven global growth, selective normalisation of monetary policies, a credit market that remains buoyant, and an equity environment supported by a return to earnings growth.

Markets: between resilience and tensions

According to **Axel Botte, Head of Market Strategy**, Donald Trump's return to the White House has significantly increased economic uncertainty in the United States, weighing on growth and employment, with the notable exception of the artificial intelligence sector. AI is expected to contribute nearly half of US growth in 2025, at the cost of a marked crowding-out effect on the rest of the economy: concentration of funding, pressure on energy costs and a general slowdown in non-technology activity.

This two-speed growth is expected to persist in 2026, remaining below its potential of 2%. The risk of an AI-related bubble bursting and the deterioration in consumer credit quality are the main downside factors. Inflation is nevertheless expected to moderate from the spring onwards, while unemployment will continue to rise.

However, the US Supreme Court's expected ruling in the first quarter on the legality of tariffs could change the trajectory of global trade: a forced de-escalation would pave the way for a rebound in trade.

In the Eurozone, the economic recovery is gaining momentum, driven in particular by investment plans in Germany, which will run a public deficit of more than 3% of GDP for the foreseeable future. This stimulus will partially offset the expected consolidation in France, enabling European growth to remain above 1%, thanks in particular to Spain. Inflation is expected to remain slightly above 2% due to a still tight labour market and residual wage pressures.

In China, the economy remains at a crossroads: weak domestic demand, industrial refocusing on advanced technologies, a contraction in the property market and increased deflationary pressures.

On the monetary front, Jerome Powell will step down in May. The reshuffling of the Fed's Board of Governors should favour a more accommodative stance, with the Fed funds rate expected to be around 3%. In the Eurozone, the ECB is expected to maintain its deposit rate at 2% while continuing its quantitative tightening. If inflation persists, a rate hike could be considered in the fourth quarter.

Fixed Income: an asymmetrical environment between Europe, the United States and emerging markets

In Europe, according to **Alexandre Caminade, Head of Sovereign, Emerging Market and Aggregate Fixed Income**, German 10-year bond yields are expected to evolve in a context of reduced volatility in 2026, with bullish and bearish factors offsetting each other. Uncertainty surrounding the valuation of AI companies and tensions in the US unlisted credit market should support demand for German debt. The ECB's monetary status quo will help

anchor the short end of the curve, automatically benefiting 10-year bonds via the associated slope and carry/roll-down.

However, upward pressure will remain, linked to the increase in gross and net issuance in Germany, as well as the effects of the Dutch pension fund reform, which will mainly affect long maturities. Investors' growing disinterest in very long maturities should accentuate this trend. After a steepening of around 40 basis points on the 10-30 year segment since the beginning of 2025, a further rise of around 20 basis points is expected in 2026.

Spreads on peripheral countries' debt should continue to narrow, but with more limited potential. According to Ostrum AM, France's spread should remain around 80 bp, reflecting a more fragile fiscal and political situation.

In the United States, the outlook for long-term interest rates remains more uncertain. The Fed's monetary policy appears less transparent than that of the ECB. Persistent inflation could slow the cycle of rate cuts, while the reshuffling of the FOMC could have the opposite effect. Added to this are the mid-term elections, a high budget deficit, the Trump administration's policies, the high valuations of AI companies and the vulnerability of unlisted credit, all of which are likely to maintain a certain level of volatility in 2026.

In an environment that remains supportive for risk assets, emerging markets are benefiting from a favourable growth differential compared to developed countries, and from a steady improvement in their sovereign ratings. With a yield of close to 7% on external debt¹ and a return of buying flows, Ostrum AM believes the asset class offers attractive opportunities in a still highly diversified universe.

Credit: a market that remains buoyant

For **Philippe Berthelot, Head of Credit and Monetary Markets**, 2026 should closely resemble 2025. Current fundamentals support credit, which will be a preferred bond asset for next year according to Ostrum AM: moderate growth in Europe, inflation close to the ECB's target, stable credit quality, controlled leverage and contained default rates. Philippe Berthelot believes credit bonds offer attractive yields, even if spreads appear less generous than in the past. In addition, monetary stimulus should ease over the course of the year.

Reverse Yankee issuances are expected to reach a new record in 2026, driven in particular by the massive investment needs of hyperscalers in AI. At the same time, the size and opacity of the unlisted credit market, particularly in the United States, remain sources of uncertainty and volatility.

Ostrum AM maintains a preference for bank debt, whose slightly higher spreads could once again offer a more robust relative performance than that of non-financial issuers.

European equities: a market on the rise thanks to sustained earnings growth

In Europe, equity markets are expected to perform positively in 2026, driven by a return to earnings growth. However, this trend remains dependent on companies' ability to deliver against high expectations.

Supported by a dynamic US market, European indices remained on a favourable trajectory in the first half of 2025, despite a complex environment. According to **Frédéric Leguay, Head of Fundamental Equities**, the 2026 stock market year in the Eurozone will rely more on endogenous drivers such as fiscal stimulus and the delayed effects of the ECB's rate cuts, although the ongoing slowdown in the US economy and its impact on employment in particular will need to be monitored.

In Europe, in the absence of additional monetary support, there will be greater reliance on fiscal measures in Germany and a return of confidence. Global growth in 2026 is expected to be similar to that of 2025, and geopolitical calm would be an additional favourable factor.

Eurozone earnings, expected to decline slightly in 2025, should start rising again in 2026. Ostrum AM anticipates 9% growth in the earnings base for the Eurozone, a sharp upturn compared with the last three years, although around 6 points below the analysts' consensus of 15%².

¹ Source: JP Morgan EMBI Global diversified index

² Source: Bloomberg, Morgan Stanley, IBES, november 2025

Valuations, already on the rise in 2025, should remain buoyant thanks to the rebound in profits and sustained appetite for private issuers. Particular vigilance is still required regarding long-term interest rate trends and the major growth themes of recent quarters (AI, defence, electrification, German recovery), which could prove disappointing. In this context, European equities, which are still underweight, should continue to attract capital.

Gaëlle Malléjac, Global Chief Investment Officer at Ostrum AM, concludes: *"Investors are now operating in a world where traditional benchmarks are giving way to new dynamics: artificial intelligence is becoming a key driver of growth, while the return of economic and political sovereignty is taking precedence over coordinated globalisation, disrupting the rules of the economic game. In this environment, growth will remain uneven in 2026, stimulated by AI in the United States, supported by German fiscal policy in Europe and impacted by structural transformations in China. It will be accompanied by risks, particularly those linked to the dominance and even excesses of the technology sector. In this context, selectivity will remain essential: between the relative stability of European interest rates, still attractive credit yields and the potential for an earnings recovery in Europe, the markets will offer opportunities, provided that a demanding and disciplined approach is adopted. In the face of emerging risks, it will be advisable to maintain diversified portfolios and take advantage of periods of volatility."*

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Ostrum Asset Management draws on its investment expertise to enhance the impact of its clients' commitments as they act together to support European citizens' life plans, health and retirement.

Ostrum Asset Management is among the European leaders¹ in institutional asset management, providing support to its clients operating under liability constraints across the entire investment value chain with a range of insurance-based (equities, bonds, multi-assets), fixed income, equity and quantitative management offerings, combined with a dedicated set of service offerings. Ostrum Asset Management is a well-established responsible investment advocate² and manages €386 billion^{3/4} in assets for large institutional clients – insurers, pension funds, health insurers, corporations.

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1. IPE Top 500 Asset Managers (Investment & Pensions Europe) 2025 ranked Ostrum AM as the 9th largest European institutional asset manager, as at 12/31/2024. Any reference to a ranking, a rating or an award provides no guarantee for future performance.
2. Ostrum AM was one of the first French asset manager signatories to the PRI in 2008. More details: www.unpri.org
3. Source: Ostrum Asset Management, consolidated data at end-September 2025. The services provided for a given client may concern certain services only.
4. Change in the methodology used for the reporting of assets, effective January 1, 2025.

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1. Survey respondents and publicly available data ranked by Investment & Pensions Europe/Top 500 Asset Managers 2025 ranked Natixis Investment Managers as the 20th largest asset manager in the world based on assets under management as of December 31, 2024.
2. Assets under management (AUM) of affiliated entities measured as of September 30, 2025, are \$1,528.4 billion (€1,300.9 billion). AUM, as reported, may include notional assets, assets serviced, gross assets, assets of minority-owned affiliated entities and other types of nonregulatory AUM managed or serviced by firms affiliated with Natixis Investment Managers.

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