Richelieu Invest

GROUP BANQUE RICHELIEU

Macro & markets

2026

A year marked by favorable domestic dynamics for risk assets

GROUP Banque Richelieu

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Summary

1 Domestic dynamics at the heart of the 2026 macroeconomic scenario

- Strong growth and public debt management on the menu in the USA p.3
- Europe faces the challenge of catching up on investment, particularly in defense p.5
- In China, the focus of the 15th Five-Year Plan p.6

2 2026 should prove promising for risk assets, with a few areas of risk to watch out for

- The strong earnings momentum and hopes of lower US interest rates are supporting equities p.6
- Balance sheets quality and demand, favorable to credit, particularly IG p.7
- Currency risk management p.7
- Risks and turning points to watch p.8



1 Domestic dynamics at the heart of the 2026 macroeconomic scenario

In 2025, the policies of the second Trump administration dominated the global scenario:

The trade war *heavily weighed as the announcement of "Liberation Day" tariffs brought the effective rate of US customs duties back to a level not seen since the end of the Second World War. Today, the signing of several bilateral trade agreements between the USA and its partners, not least China, has allayed fears of serious supply disruptions but points to a slowdown in trade. Beyond that, the statistical confusion caused by the sharp increase in stockpiling in 1H25 in anticipation of the introduction of tariffs complicates the economic analysis. Looking ahead, the Supreme Court's expected ruling on the legitimacy of so-called reciprocal tariffs, introduced under the International Emergency Economic Powers Act (IEEPA) in January 2026, is a residual uncertainty that needs to be factored into the scenario. The verdict does not change our view that the trade war is here to stay.*

Two other themes also shaped the 2025 scenario:

The anti-immigration policy *led by Immigration & Customs Enforcement (ICE). This has reduced the supply of labor in the USA, which, combined with the lower demand for labor, has helped to keep the unemployment rate close to its historic low. Beyond that, the uncertainty caused by the disruptive policies and the other revolutions spreading through the labor market (in particular, the adoption of AI and its effects on the employment of young graduates and on productivity) accelerated the return of the FED's rate cuts used as an insurance to hedge against the risk of a further slowdown.*

The growing political pressure to lower interest rates. *The end of J. Powell's term as FED Chair in May 2026, Kevin Hassett's (current Chairman of the US National Economic Council and a close Trump ally) lead in the fight to his succession and the ongoing reshuffling of the FOMC clearly illustrate the difficulty the FED will have in maintaining its independence in conducting the US monetary policy in 2026.*

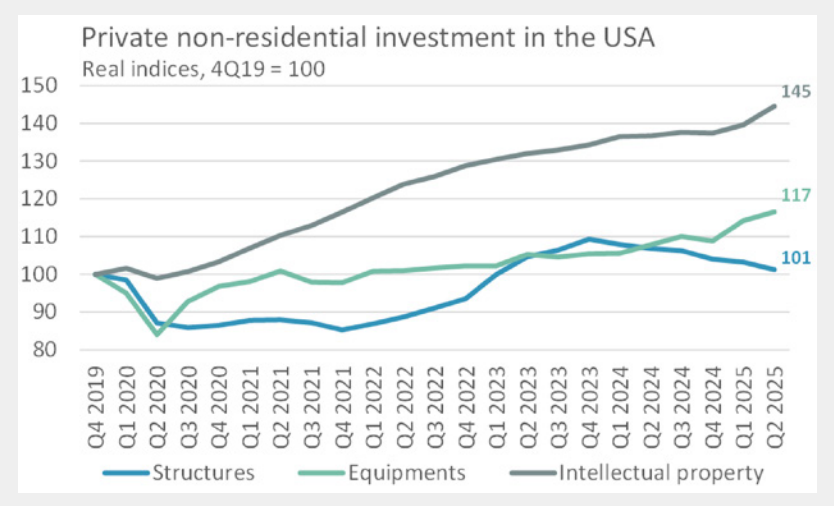
In 2026, it is unlikely for the trade war to entirely disappear from the radar. Similarly, US policies will continue to have a significant global impact. However, this time around, our scenario revolves more on the domestic dynamics shaping the outlook within our main investment regions rather than on global drivers.

Strong growth and public debt management on the menu in the USA

In the USA, we expect economic growth to continue to exceed its potential (above 2%) in 2026, driven by a robust household consumption and a strong investment momentum.

• The combination of an unemployment rate that we still expect to remain close to its historic low (around 4.5%), continued high wage increases (around 3.5%), offsetting inflationary pressures, and above all, solid household balance sheets (deleveraging and an increase in their wealth, aided by the positive stock market performance, interest rate income and property valuations) will support consumption levels (nearly 70% of US GDP).

• On the investment side, several factors will come into play: relocations resulting from the trade war (commitments by several partners to invest in the USA under the bilateral trade agreements signed in 2025); investments related to the deployment of generative AI; military spending. Beyond that, given the type of investments envisaged, the multiplier effect could also help.



Source: Bureau of Economic Analysis via Saint Louis FED Database and Richelieu Invest analysis, last data point in 2Q25.

• **The fiscal stimulus brought by the One Big Beautiful Bill Act (OBBBA) will support consumption and investment** thanks to the prolongation and extension of the provisions of the 2017 Tax Cuts and Jobs Act (TCJA) for households (tips, etc.) and industrial companies (immediate deduction of R&D expenses, new deduction for structures associated with tangible production, etc.).

In this context, pressure from the Trump administration to keep on lowering the FED Funds rate despite persistent reflationary risk (gradual introduction of tariffs) is not only important for the revival of credit (unblocking the residential property market in particular). **It also feeds into the broader context of worsening US public finances**. The savings presented by the OBBBA, the additional ones possible given the level of mandatory spendings (Medicare, Medicaid), the defense budget, and the additional receipts expected from tariffs do not in any way offset the planned 'tax breaks'.

Inflation which remains above the FED's 2% target and an aggressive policy of lowering interest rates (FED Funds rate towards 3% at the end of 2026) are, in this context, tantamount to an attempt to monetise public debt.

Evolution of fiscal receipts and outlays in the USA

In USD bn unless mentioned otherwise	Actual	Preliminary	Gross change	Adjusted change*	
	2024	2025	USD bn	USD bn	%
Receipts	4 918	5 226	308	308	6
Outlays	6 735	7 035	301	228	3
Balance	**-1 817**	**-1 809**	**8**	**80**	**-4**

Outlays details in the USA

In USD bn unless mentioned otherwise	Actual	Preliminary	Gross change	Adjusted change*	
	2024	2025	USD bn	USD bn	%
Social Security	1 448	1 569	121	121	8
Medicare	870	987	117	72	8
Medicaid	618	669	52	52	8
Mandatory	**2 935**	**3 225**	**290**	**245**	**8**
DoD - Military**	826	869	43	38	5
Net interest on public debt	949	1 029	80	80	8
Discretionary	**3 800**	**3 810**	**11**	**-17**	**-5**
Outlays	**6 735**	**7 035**	**301**	**228**	**3**

** Calendar adjustment. ** Department of Defense.*
Source: The Congressional Budget Office, November 2025.



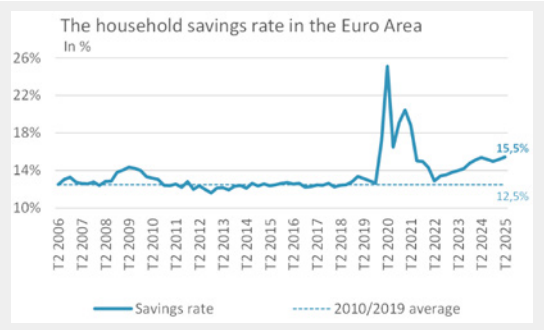
Europe faces the challenge of catching up on investment, particularly in defense

2026 should be a pivotal year for the Euro Area.
Although the ECB has achieved its objective of returning inflation to the 2% target, we believe that it is unlikely to change its key interest rates in the absence of a major macroeconomic shock. In fact, while growth in the Euro Area remains steady despite the (trade and real) war, the risks surrounding inflation appear to be balanced at present (upside risks include supply tensions linked to the trade war and food inflation due to extreme weather events caused by climate change; downside risks include imported Chinese deflation and the Euro appreciation).

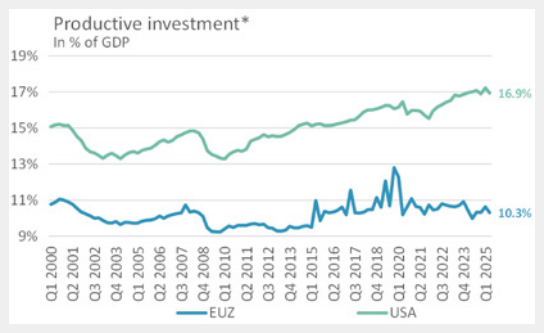
Two drivers will influence the dynamics of 2026:

• **First, the hoped-for (but long-awaited) decline in the household savings rate,** enabling a gradual acceleration in consumption while supply factors (particularly demographic ageing) stabilise the unemployment rate at around its historic low.

• **Second, and most importantly, the contemplated success of the German recovery plan for infrastructure and defense,** and more broadly, increased defense spending at the European Union level.



Sources: Eurostat and Richelieu Invest analysis, last data point in 2Q25.



** Non-residential fixed investment. Source: ECB, Eurostat, OECD, and Richelieu Invest analysis, last data point in 2Q25.*

Overall, economic growth is expected to remain modest, at around 1%, and any positive surprises from the above mentioned drivers would likely lead to a more marked acceleration. As for a possible ceasefire agreement between Ukraine and Russia, brokered by the USA, although it cannot be entirely ruled out, we do not believe it is the most likely outcome in the short run.

In China, the focus of the 15th Five-Year Plan

We do not expect any major change in the Chinese outlook in 2026. The structural slowdown in economic growth to below 5% is likely to continue, with the Communist Party reiterating its political priority of technological hegemony over domestic demand at its 4th Plenum at the end of October. The reshuffling of trade flows towards ASEAN countries rather than directly to the USA, already well underway in 2025, should enable China to avoid suffering too much from the slowdown in global trade.
Also, the country will continue to face sluggish household consumption and an ongoing property crisis, even though the post-Covid slump is now over. Against this backdrop, all eyes will be on the announcement in early March of the specific measures featured in the 15th Five-Year Plan (covering the period going from 2026 to 2030).

2 2026 should prove promising for risky assets, with a few areas of risk to watch out for

The strong earnings momentum and hopes of lower US interest rates are supporting equities

In 2026, earnings growth is still expected to rise in the USA and in Europe (catch-up), enough to maintain favorable stock market performances in both regions. Further cuts in key interest rates will provide support in the USA (FED Funds rate at around 3% at the end of 2026), but more marginally, as these cuts are now well anticipated by money market and bond rates.

Within sectors, the AI theme remains unavoidable but given concerns about a possible market bubble taking shape in the USA, selectivity is a must. In this context, looking at Chinese stocks that directly compete with their US counterparts but are less highly valued may also be an interesting entry point. Beyond, banks and financial institutions will continue to be among our preferred sector picks in 2026. In the USA, deregulation (lower capital ratios freeing up additional lending capacity) will be supportive, volatility levels as well, in line with those seen in 2025, boosting trading revenues, and the M&A activity. On both sides of the Atlantic, upward pressure on long-term rates (coupled with a continued decline in US key rates) will support net interest margins, while credit risk remains under control given balance sheets quality. **Lastly, globally, strong demand for commercial aircraft and the arms race will continue to support the aerospace and defense sectors.**

Balance sheets quality and demand, favorable to credit, particularly IG

In 2026, bond markets will continue to benefit from the favorable economic outlook. In fact, although bankruptcies are on the rise, they are not expected to skyrocket (no recession in sight). The gradual consolidation of balance sheets following the 2008 Great Financial Crisis and the European sovereign debt crisis, along with regulations aimed at strengthening financial stability and limiting systemic risks (especially in Europe), will continue to support this asset class. Furthermore, corporate treasurers' accurate anticipation of the rise in global key interest rates after years of rock-bottom rates has eliminated the 'debt wall' phenomenon.

Another factor favoring credit, particularly in the USA is the low equity risk premium and the still relatively high levels of interest rates (positive real rates). A quick back-of-the-envelope calculation gives an idea of the scale of the phenomenon: the FED Funds rate or 10-year UST rate at 4% remain very attractive compared to the current SP 500 earnings yield (inverse of the P/E ratio at 4.5% in November 2025).

In terms of rating, we continue to favor IG bonds over HY bonds given the historically tight spreads currently on offer not adequately compensating the credit risk incurred.

In terms of duration, given our good visibility regarding the evolution of key interest rates (stable in the Euro Area, falling in the USA)**, which contrasts with the long-term portion of the yield curves** (rise in long-term sovereign rates, which we discuss in the risks to watch below)**, our preference remains for short/medium-term durations** (2 to 5-year portion of the curves).

Currency risk management

The trends observed in 2025 on the foreign exchange market, particularly the appreciation of the Euro and the depreciation of the Yen against the US Dollar, are expected to continue in 2026, albeit at a slower pace.

• The disruptive nature of the Trump administration's policies (challenging the Rule of Law, undermining the independence of the FED) and the desire to share the burden of maintaining the USD's status as the international reserve currency with other partners, will continue to weigh on the value of the Greenback, as will a monetary policy that is now at odds with that of the ECB. However, the US economy's outperformance relative to the Euro Area, as well as certain initiatives (such as the issuance of USD-backed Stablecoins), will limit the extent of the depreciation (EUR/USD towards 1.2 in 2026).

• The appointment of a pro-Abenomics Japanese government in early October 2025 reshuffled the Japanese scenario, with global spill-overs expected to continue throughout 2026. The most visible effect was the sharp depreciation of the Yen, which rose above 155 to the US Dollar. For 2026, with the government having approved a massive fiscal stimulus programme, quickly priced in the Nikkei 225, the BoJ's stance will be key. Either it abandons its commitment to fighting stubborn inflation, exposing the economy to a double monetary and fiscal stimulus, and the Yen further depreciates (along with a rise in long-term interest rates, which we will discuss in our section on risks to watch below). Or it maintains its independence in the face of political pressure, in which case the Yen should gradually regain ground (USD/JPY target for 2026 between 150 and 155).

Risks and turning points to watch

A few risks and some pivotal events loom on our baseline scenario (J. Powell's succession at the helm of the FED, the US Midterms, the peace talks outcome in Ukraine, the new Middle East) **that will need to be closely monitored in 2026.**

The most immediate risk remains that of a prolonged stock market correction in the USA due to stretched valuations and performance concentration on technology stocks (MAG7 and generative AI). In any case, in the absence of the usual signs of exuberance and as the earnings momentum remains the main driver of the market performance at the end of 2025, we continue to believe that the correction is healthy and that it is helping to create entry points rather than signalling the start of a stock market crash.

Another point of concern is the level of long-term sovereign interest rates in most developed economies and the risk of an increase in the term premium. Several factors could contribute to this, in particular: any further loss of credibility by the FED (loss of independence from the political power, unanchoring of inflation expectations); the BoJ abandoning its inflation-fighting mandate, leading to a new wave of Yen carry trade unwinding; the momentum of sovereign bond issuance to finance growing budget deficits (health, ageing, defense, AI, etc.).

The third risk relies in the strong movement towards financial deregulation in the USA and the accompanying risks of instability (loosening of leverage constraints for systemic banks, Stablecoins and other cryptoassets promotion, etc.).

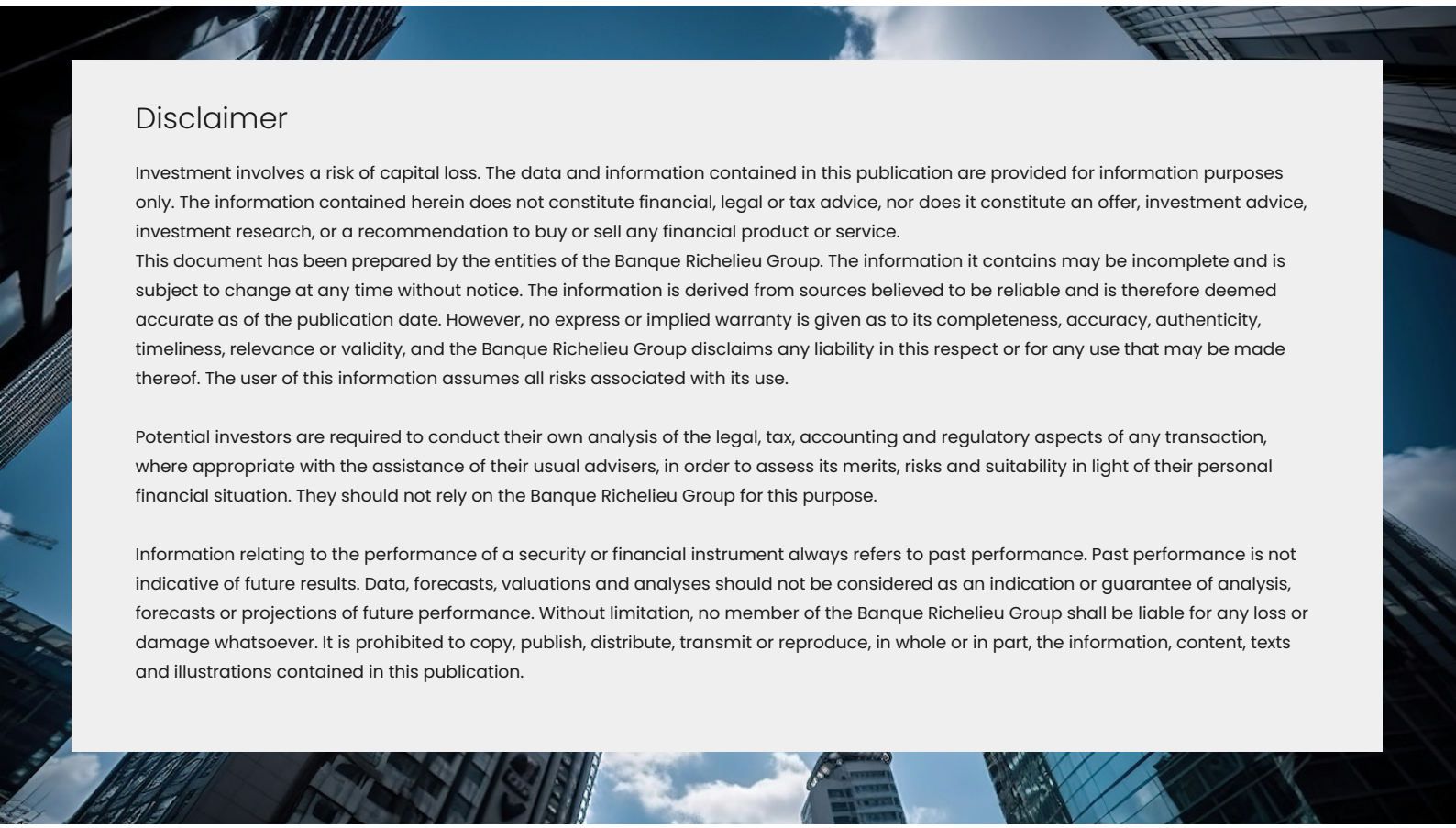
The fourth and final risk relates to the growing polarisation within our economies, both at the household and business levels. For the former, the increase in net wealth favors the wealthiest, while the poorest see their propensity to spend reduced by rising prices for staples. For the latter, it is all about positioning: in relation to a more or less privileged target customer base in B2C sectors, or in the race for technological leadership in B2B sectors. In any case, these growing imbalances justify, in our view, a focus on selectivity, flexibility and high credit quality.

Forecasts (rates and currencies)	2025	2026
ECB Deposit	2%	2%
2y Bund	2%	2% / 2.25%
10y Bund	2.5% / 2.75%	2.75% / 3%
FED Funds	4%	3%
2y UST	3.5%	3.5%
10y UST	4% / 4.25%	3.75% / 4%
EUR/USD	1.15 / 1.17	1.2
USD/JPY	155 / 160	150 / 155

Investment strategy determinants	USA	Euro Area	o/w France	China	Japan
GDP growth	+	0	0	0/+	0
Earnings	++	0/+	0	0/+	+
Monetary policy	+	0	0	0/+	0
Short rates	++	0	0	0/+	0
Long rates	0	-/0	-/0	0	-/0
Fiscal policy	++	0/+	0/+	+	+
Politics	-	-/0	-	- (1)	+
Currency risk	-	+	-	-	-/0
Conclusion	**Overweight**	**Neutral**	**Underweight**	**Overweight**	**Neutral**

Legend: 0: neutral; -: negative; +: positive; (1) The political environment in China is considered negative due to geopolitical risk and a lack of transparency regarding public debt. Source: Richelieu Invest.

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