INSURANCE INSIGHTS | MACRO STRATEGY | JANUARY 2026

Relative Value & Tactical Asset Allocation

Q1 2026

Key Takeaways

- MetLife Investment Management (MIM)'s Global Economic & Market Strategy team expects a below-potential growth environment with some consumer cohorts under pressure.
- Market Strategy finds opportunities within sectors benchmarked on intermediate tenors, as a steepening yield curve enhances total returns, while sectors benchmarked on the back end of the curve are less attractive.
- We expect prepayment risk to become a concern.

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Navigate Through High Seas

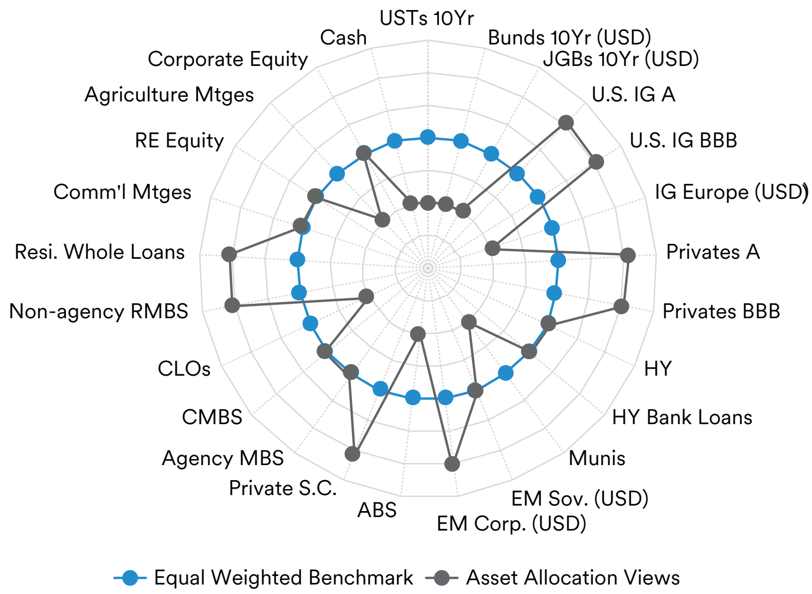
Risks to the outlook abound.

The dispersal of artificial intelligence (AI) and related technologies across the economy is creating both optimism and pessimism. Job disruptions caused by the spread of this technology appear to be manifesting in rising youth unemployment, a development that has real social and economic impacts in both the short and long term — both on the workers directly impacted and on their families. At the same time, MIM expects advances in productivity resulting from technology-driven improvements in educational outcomes and labor quality could solve a number of significant issues for the U.S. economy. These crosscurrents have the potential to increase volatility and cause seismic shifts in the relationship between market returns and consumer responses.

CEO expectations detailed in the Conference Board CEO Survey for Q4 2025 show that they are counting heavily on the ability of AI tools to reduce their employment and expense structures. This may prove too optimistic. Further, the most recent Conference Board CEO survey shows that for every CEO who sees AI as a means to better compete with new products or services, there are two who see it primarily as an expense-reduction tool. A focus on costs rather than innovation ignores the historical lessons witnessed during the advent of historical shifts in technology and suggests corporate America may be participating in an "illusion of progress" — providing tools to manage short-term expenses within their current operating framework — while discounting the potential for Schumpeterian disruption that may create existential risks for those same companies.

Finally, geopolitical risks have the potential to disrupt markets and/or disrupt real economic activity. The conflict between Russia and Ukraine continues to generate uncertainty, as persistent hostilities threaten energy supplies, disrupt agricultural exports and heighten volatility in European and global markets. Meanwhile, tensions between China and Taiwan have intensified, raising concerns about the stability of critical supply chains and the potential for broader regional conflict in the Asia-Pacific — an area vital to global manufacturing and technology sectors. Additionally, the ongoing friction between Venezuela and the United States adds another layer of risk that could impact commodity markets and global energy prices. Collectively, these geopolitical flashpoints contribute to an environment where sudden shocks or escalations can rapidly ripple through financial markets and the real economy, amplifying uncertainty for investors and policymakers alike.

Figure 1 | Tactical Asset Allocation Views



Note:

1. The asset class views in the accompanying chart are based solely on our macroeconomic views, sector fundamentals, and market expectations by the authors, **which may be different from MetLife's Portfolio Managers' and sector strategists' views, which are included in this report.** For illustrative purposes only.
2. The asset class views are not associated with any MetLife or Client portfolios.
3. No portfolio specific constraints are considered in these asset allocation views.
4. The asset class views reflect a relative directional overweight/underweight among the assets, without absolute weightings.

Source: MetLife Investment Management (MIM). As of Nov 14, 2025.

Outlook for Future Global Growth Remains Challenging

U.S. — Economic growth in the United States in 2026 is expected to trend near the level seen in 2025, and inflation is likely to remain elevated. Survey data point to low levels of economic activity in both the manufacturing and services sectors. These two surveys point to a level of activity that, prior to COVID, had only been associated with war, crisis or recession. Post-COVID, the numbers look less aberrant but remain indicative of a below-potential growth environment. Supporting this evident weakness are consumer surveys indicating a rapidly deteriorating view of labor market conditions. Since the start of the year, the percentage of consumers describing the number of jobs as "plentiful" has fallen sharply. Problematically, this rapid decline is traditionally associated with a significant rise in the unemployment rate. The unemployment rate has increased in each of the last three months.

Adding to labor market concerns is an increasing volume of noise about the potential impact of artificial intelligence on corporate hiring plans, as well as the recent flurry of layoff announcements from numerous firms. Almost 30% of CEOs expect a net reduction in their workforce over the next 12 months, and just under 25% expect a net reduction over the next three years. This appears to be already impacting youth unemployment, adding further stress, not just to young workers but also to their parents.

The net result is that, despite low unemployment, low gasoline prices and a rising stock market, consumer sentiment is lower than that seen during the Great Financial Crisis (GFC). Consumers are cutting back on spending on everyday items — a fact that may be being masked by some increase in spending on goods, where spending has been pulled forward to avoid the impact of tariffs.

Europe — Euro area growth in 2025 exceeded expectations, buoyed by robust exports and inventory build-up ahead of U.S. tariff hikes, with GDP rising 0.2% quarter-on-quarter in Q3, and high-frequency indicators such as the composite PMI signaling further momentum was likely in Q4. As a result, MIM raised its full-year 2025 growth outlook to 1.3%. While higher U.S. tariffs and ongoing trade policy uncertainty are set to weigh on prospects in 2026, stabilizing confidence levels, supportive European Central Bank (ECB) monetary policy and German fiscal stimulus are expected to underpin household consumption and private investment. Inflation has largely returned to the

ECB's 2% target; MIM anticipates a gradual disinflation trend through 2026 but does not expect this to prompt further rate cuts, with the ECB's deposit rate likely to remain at 2% throughout next year.

U.K. — The pace of growth in the U.K. economy slowed to 0.1% QoQ (1.3% YoY) in Q3 from 0.3% QoQ (1.4% YoY) in Q2, with output depressed by the impact of a cyber-attack that sharply reduced industrial production in the third quarter. However, this impact is expected to fade, supporting a rebound in Q4. MIM has raised its 2025 GDP growth forecast to 1.4% and anticipates similar growth (1.3%) in 2026, assuming stabilizing confidence post-budget and easing U.S. trade policy uncertainty. The Bank of England has cut rates to 4% in 2025, with inflation peaking at 3.8% in September before beginning to moderate. Disinflation is expected to continue as the labor market loosens, and the Bank Rate is projected to reach 3.25% by mid-2026.

Asia — MIM has upgraded China's GDP growth outlook for 2025 and 2026 to 4.8% and 4.7%. However, growth is expected to remain subdued with limited support from exports and low inflation persisting due to weak demand. Japan's 2026 GDP forecast is raised to 1.0%, bolstered by more accommodative fiscal policy, with inflation expected to ease below 2% in the first half of 2026 (but average around 2% for the year). Two policy rate hikes are anticipated, although the Bank of Japan is likely to resist further increases unless the yen weakens significantly. Across the rest of Asia, regional growth is set to improve in 2026 as trade tensions ease, supporting inflation normalization and signaling that central banks are nearing the end of their rate-cutting cycles.

Latin America — Economic growth has slowed in Mexico and Brazil, while activity in the Andean countries (Chile, Colombia, Peru) remains robust and near trend. Mexico faces weakened domestic and external demand, while supportive credit policies and tight labor markets have helped offset Brazil's second-half 2025 slowdown. Inflation has generally eased across the region, with goods and energy prices declining, though services inflation remains persistent. Central banks are expected to have room for rate cuts due to improved inflation trends and anticipated Federal Reserve easing, with Mexico likely to cut rates gradually through 2026, Brazil starting in early 2026 and Colombia later in the year. Rates in Chile and Peru are near neutral, and additional cuts are possible. Long-term interest rates should trend lower due to monetary easing and softer U.S. rates, though fiscal and policy risks could lead to volatility, especially in Brazil and Colombia.

Global Sovereigns Remain Less Attractive

U.S. Treasury (UST) — MIM expects more rate cuts from the Federal Reserve through the first half of 2026, as it continues to respond to evolving economic conditions. Despite these expected policy adjustments, the outlook for 10-year Treasury yields remains relatively stable, with MIM projecting that yields will finish both this year and next near 4.25%. However, there are several factors that could push yields higher over the coming year: persistent worries about the growing federal budget deficit continuing to weigh on investor sentiment; inflationary pressures proven more stubborn than initially forecast; and uncertainty regarding the U.S. Treasury market's capacity to consistently attract sufficient foreign investment flows, especially in light of global market volatility and shifting monetary policies abroad. Collectively, these risks suggest that while a base case of steady yields is plausible, there is an upside risk for yields if any of these concerns intensify or materialize more acutely.

Japanese Government Bonds (JGBs) — Longer-end yields should remain under upward pressure. Prime Minister Takaichi has stated that 'responsible and proactive fiscal policy' entails scrapping the primary surplus target as the main fiscal anchor and 'adopting a multi-year sustainability approach that controls and lowers the pace of debt accumulation and the Debt/GDP ratio to ensure fiscal sustainability'. She emphasized that the focus would be on Net Debt/GDP rather than achieving a primary surplus. Meanwhile, the proposed supplementary budget was higher than initial expectations, leading to a bond sell-off, mostly in the longer end (20-year and 30-year yields have risen to multi-decade highs, while the 10-year yield is at its highest level since 2008). Expect continued upward pressure on yields until there is greater clarity and comfort on the bond issuance program.

Chinese Government Bonds (CGBs) — 10-year yields are likely to remain rangebound. MIM is constructive on the equity market outlook, while expectations for a near-term loan prime rate (LPR) cut have faded away. U.S.-China relations should remain on a relatively stable path, albeit not without recurring headline risks, as both sides attempt to extract concessions from the other. Two planned meetings next year between Xi and Trump should also provide an anchor, incentivizing dialogue and consultations that reduce the likelihood of worst-case outcomes. Meanwhile, the PBoC is expected to remain active with its bond purchase program, which should cap yield upside even if equity market strength is sustained. Policymaker guidance of a 1.75%-1.85% interest rate corridor appears well supported and credible in the market.

German Bunds — Bunds are supported by Germany's strong governing institutions, the country's sound relative fiscal position (particularly its moderate starting level of gross government debt) and resilient market demand for the highest-quality euro-denominated sovereign paper in a much larger common currency area (particularly during periods of heightened uncertainty).

Borrowing requirements are expected to rise sharply in the coming years after the current government loosened Germany's fiscal rules to materially increase its flexibility to raise spending on defense and infrastructure projects. The short end of the bund curve looks fairly valued in the context of MIM (and consensus) forecasts that the ECB is done with rate cuts in this cycle, absent a material undershoot of growth and/or inflation outcomes relative to expectations. The balance of risks around the longer end is for yields to move moderately higher, as Germany's debt issuance needs rise sharply heading into 2026, the ECB continues with its passive QT program, and Dutch pension funds transition to defined-contribution from defined-benefit plans next year (reducing institutional demand for longer-dated euro-denominated sovereign paper).

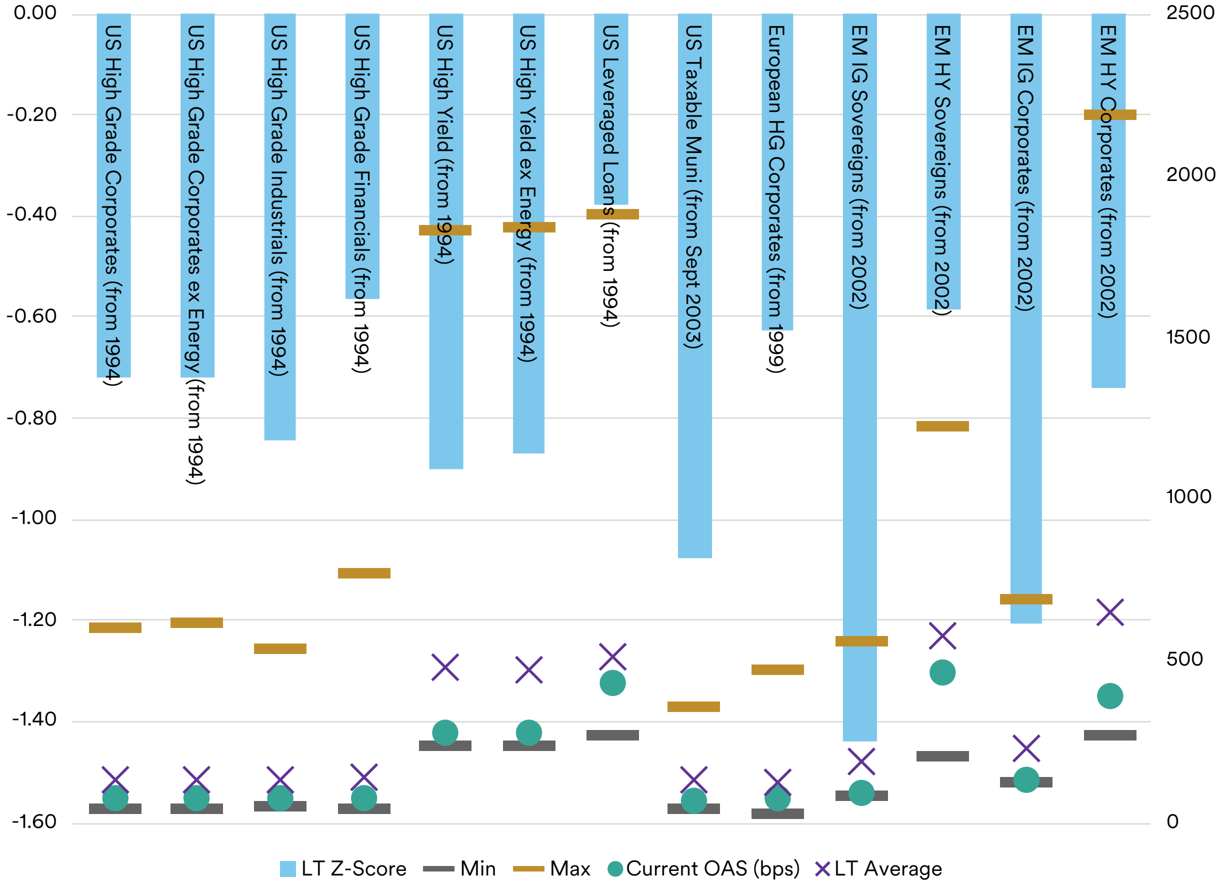
Risky Sectors Spreads Decompressed

Macro Credit — Current credit cycle conditions remain tight, but U.S. default rates, U.S. high yield (HY) spreads, Fed policy, the U.S. yield curve, and the Senior Loan Officer Opinion Survey all improved versus the last quarter. U.S. investment grade (IG) and HY fundamental data remain resilient. Credit metrics were stable during 3Q25, except for the fact that the Free Cash Flow/Total Debt ratio worsened for IG. The LTM Net Leverage ratio saw a slight downward tick versus the previous year but remained unchanged compared to the previous quarter, and it remains below long-term averages. For HY, LTM Net Leverage ratios also saw a slight downtick, both on a quarter-over-quarter and year-over-year basis. Both measures were still below long-term averages. Q3 earnings came in well above expectations, and coverage ratios also improved for both IG and HY.

Default outlook: Although Moody's expectation for U.S. speculative-grade was for defaults to continue a downward trend in 2025 into 2026, and fall to 2.96% from the current 5.28% level, the forecast December 2025 default rate moved higher from last quarter's 4.3% to 4.4%.

Rating migration outlook: slightly higher risk of "Fallen Angels" compared to the last quarter. MIM sees an upward tick on downgrades compared to the previous quarter. Spreads in the high yield, leveraged loan and CLO markets decompressed a bit (See Figure 2).

Figure 2 | Risky Sectors Spreads Decompressed

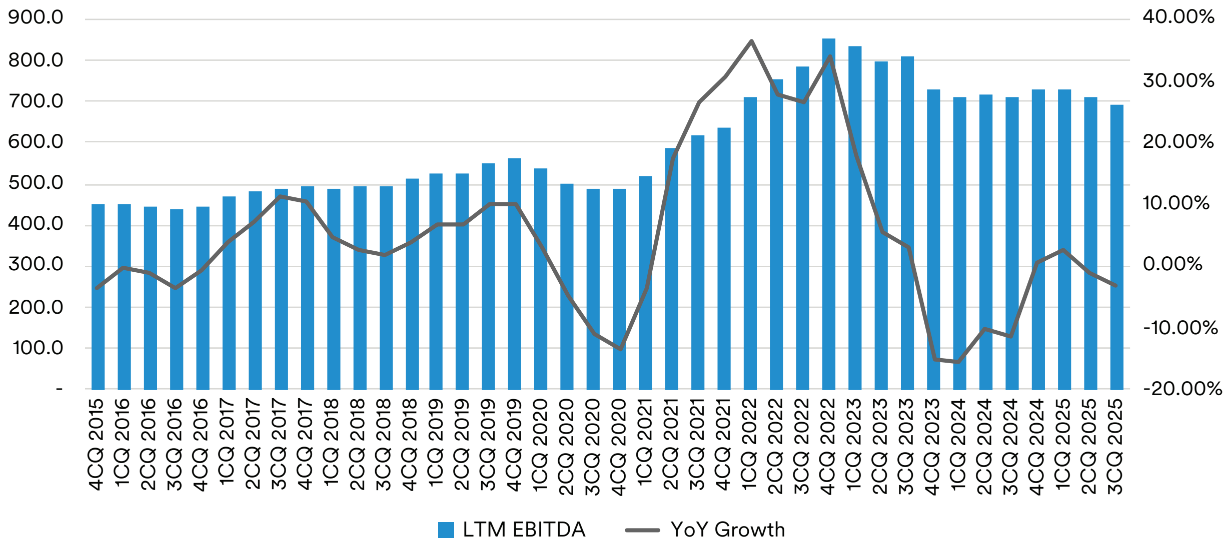


Note: Z-score is a metrics used to show how high or low the value relative to the average value using standard deviation as a unit.
A Z-score of one indicates that the current value is one standard deviation higher than the average value.
OAS refers to option-adjusted spread.
Source: Bloomberg, J.P. Morgan, Barclays, Credit Suisse, MIM. As of 10/31/2025.

U.S. Investment Grade (IG) — The market focus has shifted from tariff and trade policy, to expectations of Fed rate cuts, to impacts from a government shutdown, and now, to speculation about a potential AI investment bubble. Despite these various issues, spreads still appear largely supported by yield-oriented buyers. With a lack of economic data, market fragility has been heightened with spreads leaking wider amid the uncertainty around both the labor market and AI expenditures. The Fed cut rates by another 25 basis points (bps) in October, lowering the target range to 3.75%–4%, despite limited economic data. Markets are currently pricing in cuts into 2026. Historically, cutting cycles have coincided with increased long-end issuance, a trend we are starting to see again. The technology, media and telecommunications (TMT) sector continues to be front and center in headlines, with several large deals tied to AI infrastructure build-outs. Credit fundamentals remain healthy for 3Q 2025. EBITDA margins improved slightly and, while the Free Cash Flow/Total Debt ratio declined, it remains near its six-year average. With spreads still at the tighter end of long-term historical averages and interest rates slightly softer, companies are likely to continue to capitalize on favorable financing conditions, driving a strong new issue calendar related to elevated capex and M&A activity into 2026. Whether yield-sensitive investors remain supportive or rotate into alternative investments will depend on the Fed's next moves. Within the sector, MIM maintains a defensive posture in portfolios as we believe the risks are tilted toward further spread decompression and see no real catalysts in the near term for further compression.

European IG — Q3 saw solid earnings and subdued spread volatility with option-adjusted spreads (OAS) spreads tightening from 93 bps at the end of June to 79 bps at the end of September — reaching year-to-date tights and levels last seen before the global financial crisis. This compression occurred across the ratings curve, with BBBs tightening more than higher-rated bonds. The Euro IG market experienced its typical summer slowdown, with gross issuance falling to €136bn, split between Financials and Non-Financials. Reverse Yankee issuance remained active but also slowed, making up a smaller share of gross volumes compared to Q2. October saw a significant ramp-up in new issuance, particularly from Hyperscalers, while new issue discounts remained minimal, and ratings momentum for peripheral credits continued, driven by sovereign upgrades. However, after taking into account FX hedging costs, the overall yield in EU IG is less attractive compared to the other sectors.

Figure 3 | EU HG EBITDA



Note: EBITDA stands for Earnings before interest, tax, depreciation and amortization.
Source: Bloomberg, MIM. As of 10/31/2025.

High Yield (HY) — The HY market remains cautiously optimistic despite valuations being at or near long-term tights. All-in yields are hovering near long-term averages and appear attractive, particularly if the Federal Reserve continues to cut rates. Historically, HY performs well during Fed easing cycles, provided a recession is avoided. Macro data continue to suggests some resilience in the U.S. economy, with credit fundamentals intact and supportive of the asset class. The HY new issue market remains healthy, driven by strong inflows and issuers capitalizing on lower yields to refinance and extend maturities. The default rate is expected to stay below trend over the next year, but security selection will be critical to avoid credit blow-ups and manage downside risk as idiosyncratic risks increase. Overall, MIM is neutral on HY.

Leveraged Loans — The leveraged loan market is supported by elevated base rates and high all-in yields, encouraging buyers to seek loan yields. Strategists forecast a carry-type return expectation for 2026, bolstered by robust refinancing activity and renewed corporate M&A behavior. Falling debt costs, a rebound in earnings and potential tailwinds from deregulation and lower corporate taxes are expected to drive corporate deal-making and capital raising. An up-in-quality approach remains prudent, as corporate activity grows, and the dispersion of economic outcomes widens. This strategy mitigates risks while leveraging opportunities in a growing market.

Municipals — Municipal bonds experienced a strong third-quarter performance, driven by favorable technicals, lower interest rates and tighter spreads. The Bloomberg Taxable Municipal Index returned 2.51%, with notable excess returns relative to duration-matched Treasuries. Sectors such as Education, Healthcare and Transportation outperformed due to their longer duration and higher spread duration, benefiting from the environment of declining rates. Tax-exempt municipals also performed well, achieving a 3% total return despite heavy issuance and valuation adjustments during the summer. Looking ahead, the municipal bond market is expected to remain resilient, supported by stable interest rates and strong demand. However, risks such as fiscal sustainability concerns and potential long-term rate increases could impact valuations. Given our expectation for the shape of the higher yield at the back end of the yield curve and Muni's relatively longer duration, MIM believes there are other sectors that would offer more appealing returns than Municipals.

Emerging Markets (EM) — The macro environment remains a critical factor for EM credit performance, with U.S. growth and Federal Reserve policy being key variables influencing the sector. EM sovereigns continue to display stable or improving fundamentals, supported by structural reforms, stable commodity prices and prudent fiscal policies. Political risks appear low, with upcoming elections in Latin America potentially catalyzing positive policy changes. EM corporates and banks maintain healthy balance sheets, with active liability management reducing refinancing risks and keeping leverage at manageable levels despite expected EBITDA moderation. Spread-per-turn of leverage remains attractive compared to Developed Markets (DM), and defaults in EM corporates have been significantly lower than DM peers. However, year-to-date outperformance relative to DM has reduced cross-over investor interest, and new issue concessions may be necessary to sustain demand. Looking ahead, a potential weakening of the U.S. dollar into 2026 could bolster inflows into local currency-denominated debt and dynamic hard currency funds. Overall, MIM sees EM Corporates attractive but remains neutral on EM Sovereigns.

U.S. Consumers Still Under Pressure

Asset-backed Securities (ABS) — Demand for ABS remains robust despite increased supply, with Q3 issuance reaching $95 billion, the highest quarterly issuance in five years. Prime borrowers continue to perform well, while subprime borrowers face stress due to inflation and higher interest rates. ABS spreads tightened quarter-over-quarter, except for subprime auto loans, which widened modestly due to publicized corporate malfeasance. We remain constructive on prime student and auto loans, franchise and hyperscale data centers with long-term leases, while limiting exposure to subprime sectors and retail cards. Overall, we remain cautious about the sector amid persistent pressure on U.S. consumers.

Collateralized Loan Obligations (CLOs) — New issue supply is tracking 2024 levels, with middle market issuance increasing to 25% of total volume. CLO ETFs have seen strong inflows over the past two years, though recent months show outflows. We favor longer non-call periods and higher-quality managers, prioritizing liquidity over marginal spread pickup. However, MIM finds floating-rate products are less attractive and prefers opportunities in the other sectors.

Commercial Mortgage-Backed Securities (CMBS) — Issuance remains brisk. Duration remains hard to find in private label, as under 10% of the 35 billion quarterly issuance came with 10-year terms, with roughly 90% in floating/short, fixed supply. Overall delinquency rates inched higher to 7.25%, driven by the office subsector (currently at 11%+). On a positive note, property subsectors are showing signs of stabilization with many of the indexes showing year-over-year prices increases.

It has been difficult to source a 10-year term paper. Just 10% of the new issue supply has been 10-year, but there are opportunities in higher quality SASB (Single Asset Single Borrower) issuance. Spreads look snug, and while there are some constructive signals from the commercial real estate (CRE) market, overall, we think the opportunity set will remain small, and MIM remains neutral on CMBS.

Agency & Non-Agency MBS — The RMBS market is focused on prepayments, given the drop in mortgage rates. Refi indexes are at a three-year high, with about 20% of borrowers having some incentive to refinance. Non-agency supply is outpacing last year, with both the Non-QM and prime jumbo sectors up 40% year-over-year. Credit performance remains stable, with non-QM delinquencies in the 3%-4% area, while prime performance remains solid. One interesting note in the trend of issuance is the increase in hybrid production. Affordability constraints and a steeper yield curve have pushed borrowers to adjustable-rate mortgages, currently at 20% of all issuance.

In Agency, MIM prefers focusing on pools with some sort of call protection and seasoned collateral over newer production. Floaters look attractive with most cap structures at over 100 bps of margin. MIM prefers to limit allocation to generic/TBA-like collateral as it offers no protection for lower rates. Loan sizes are around 500,000 now, compared to mid-300,000 five years ago. It takes less rate incentive for borrowers to see the economic benefit of refinancing with a larger loan amount, and the process is more efficient. Market Strategy downgrades the Agency MBS sector to neutral but remains overweight on Non-Agency MBS.

Private Structured Credit (PSC) — In Q4 2025, the asset-backed finance (ABF) market demonstrated strong issuance across various asset sectors, with spreads tightening significantly due to robust investor demand. The MIM ABF team notes that spreads have fully retraced earlier widening and now sit at the tight end of a multi-year range. Despite this tightening, ABF spreads continue to offer attractive pick-up compared to corporate credit. Investor sentiment remains bullish, supported by stable macroeconomic data, corporate earnings growth and sustained consumer spending, even as market participants largely dismissed concerns such as the prolonged U.S. government shutdown, global trade tensions and isolated fraud cases. Looking ahead to Q1 2026, ABF issuance is expected to remain active across sectors like consumer credit, C-PACE, fund finance and energy. However, vigilance is necessary as late-cycle behaviors, such as weaker credit terms and higher leverage, have emerged in certain deals. MIM believes that small club and bilateral origination channels are more likely to secure favorable credit terms, healthy allocations and attractive pricing. MIM remains overweight on Private Structured Credit.

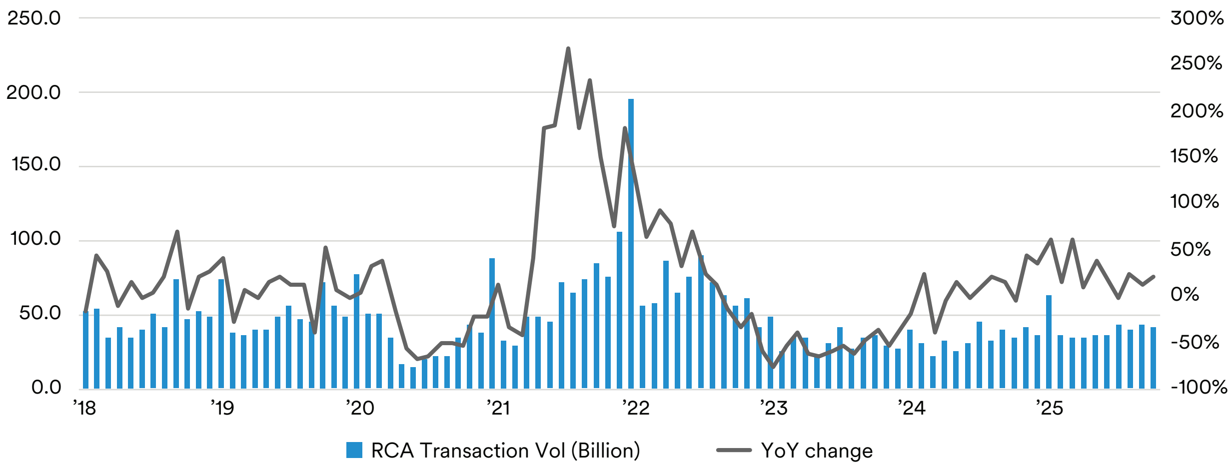
Residential Whole Loans — Housing fundamentals remain stable for residential credit investments, with overall home supply for sale still constrained. Low delinquency levels persist in the portfolio, with credit availability still limited to new borrowers. Losses in the portfolio remain well below expectations. Elevated prepayments are a concern should the pressure of affordability lower lending rates.

Spreads for residential whole loans and single-family rental debt financing continue to offer strong relative value versus public residential credit opportunities, with loss-adjusted spreads in the low 200s depending on the opportunity. Supply of opportunities continues to be robust despite a persistent higher lending rate environment. Overall, MIM finds the sector remains one of the most attractive in the current environment.

Commercial Real Estate & Commercial Mortgage Loans

Commercial real estate (CRE) fundamentals showed mixed performance in the past quarter. Multifamily markets in the Sunbelt experienced easing supply pressures, while coastal markets like New York and San Francisco maintained stable rent growth due to limited new construction. Industrial fundamentals remain under pressure from prior supply growth, though completions are sharply declining. Retail conditions are robust, with vacancy rates at their lowest levels in over 30 years, excluding malls. Hotels are seeing slowing revenue growth, with expenses expected to outpace RevPAR growth in the coming years. Office markets are showing signs of stabilization, with national vacancy rates declining and positive value growth in cities benefiting from population increases. For the next quarter, commercial mortgage technicals are expected to remain favorable as debt capital markets continue to recover, and transaction volumes are projected to increase modestly (See figure 4). Equity valuations appear fairly priced, suggesting stable conditions, while debt originations are expected to rise further. Overall MIM looks at the real estate sector as neutral to slightly positive, with retail and office showing the most promise for improvement.

Figure 4 | RCA Transaction Volume



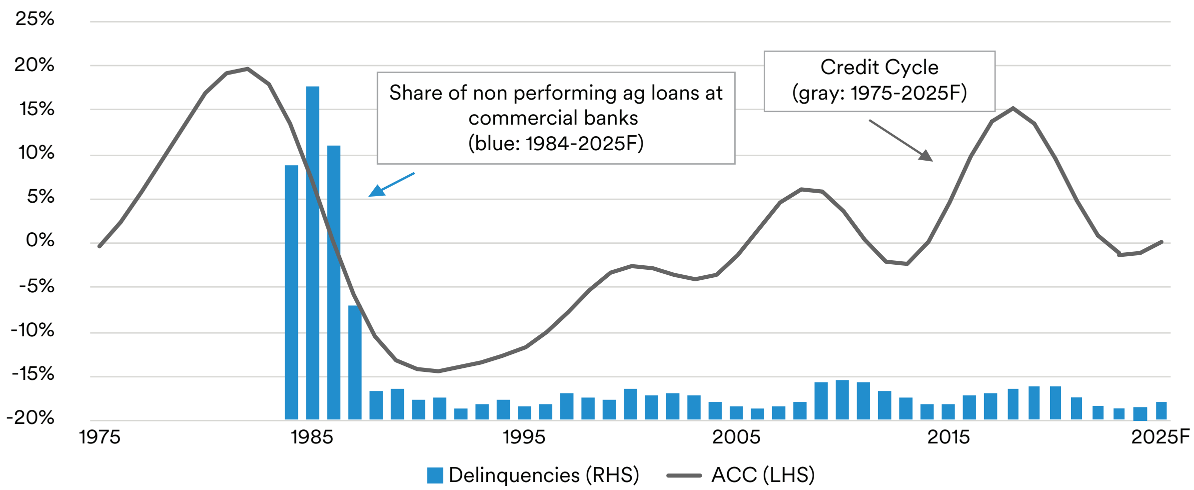
Source: MIM

Agricultural Mortgage Pressures Released by Support Programs

Agricultural Mortgages — The agricultural sector experienced a significant boost in Net Farm Income (NFI), projected to increase by 40% year-over-year to $180 billion in 2025, driven largely by supplemental government payments under the American Relief Act of 2025. While crop prices have moderated and input costs remain elevated, profitability pressures are mitigated by improvements in farm support programs expected to bolster incomes in late 2026.

As the sector gets further from the record-high incomes of 2022, demand for agricultural mortgages is expected to increase (See figure 5). A framework for a U.S.–China trade deal was made, which included annual purchase commitments of 25 million metric tons of soybeans, slightly below historical averages. While possibly not resulting in an increase in exports, this development should remove a substantial amount of uncertainty, assuming the deal is signed, and the parties involved follow through on their commitments. Livestock profitability remains favorable due to high prices and reduced feed costs, while permanent crops benefit from reduced labor costs under the revised H-2A program. Agricultural mortgage spreads have slightly narrowed, and farmland values continue to appreciate modestly, supported by stable, long-term demand fundamentals despite rising delinquency rates. For the next quarter, agricultural mortgage volumes are expected to grow as credit demand rebounds, and spreads should remain stable. Despite strong fundamentals and favorable policy developments, MIM is expecting a higher benchmark rate, which may push lower the total return of long-duration loans. Market Strategy has downgraded the Agricultural Mortgage sector.

Figure 5 | Agricultural Credit Stress Indicator



Notes: The Agricultural Credit Cycle measures the deviation in the growth rate of leverage in the agricultural economy from the estimated historical trend.
Source: MIM, Ag Finance Databook, Kuethe & Hubbs

U.S. Equity

S&P 500 volatility has eased into the Thanksgiving holiday, with intraday swings and option prices dropping, but underlying risks remain as trading resumes in early December. The index rebounded from early November losses, aided by improved market breadth and a shift from mega-cap tech to value and small-cap stocks (amid rising hopes for a December Fed rate cut). While volatility metrics have fallen, and conditions appear calmer, cautious positioning persists, as evidenced by elevated put-call ratios and gamma models, which indicate more fragile support. The easy gains of the recent rebound may be over, and the market could become unstable if economic data or Federal Reserve expectations disappoint, especially if the S&P 500 falls below the 6,750 level.

Private Equity Remains Cautiously Optimistic

Private Equity (PE) — The private equity sector demonstrated resilience and adaptability in 3Q25 despite economic uncertainties. U.S. buyout activity surged to $370B year-to-date, marking a 46% increase year-over-year, driven by significant take-private transactions like the $55B acquisition of Electronic Arts. European PE dealmaking accelerated, supported by interest rate cuts and a stable macroeconomic backdrop, with deal value rising 25.2% quarter-over-quarter. Asia saw a rebound in investment to $35.5B, led by large-cap transactions, although Japan lagged with weak deal flow. Exit activity globally increased 31% year-over-year, with corporate buyers driving 60% of total exit value. Venture capital markets showed signs of recovery, with AI/machine learning-related deals dominating and exit values reaching their highest quarterly level since 4Q21. Fundraising conditions remain challenging, particularly for first-time managers. Overall, MIM remains cautiously optimistic, with long-term opportunities expected to arise from the current economic reset.

Mixed Pictures Across Global FX

In Q4 2025, the USD maintained a strong tone despite the longest government shutdown in U.S. history. The Federal Reserve's cautious rate cuts within an easing bias left markets focused on policy trajectory into 2026. Structural headwinds such as moderating U.S. growth, narrowing interest rate differentials and fading safe-haven demand suggest a gradual depreciation of the dollar. However, upside risks like stickier inflation (so fewer rate cuts) or stronger U.S. growth could trigger short-term dollar strength.

Asia — Asian currencies showed mixed performance in Q4 2025, driven by local fundamentals and policy responses. MYR outperformed due to robust domestic data, while JPY underperformed amid fiscal stimulus signals and persistent inflation. Looking ahead, resilient external demand for technology exports and moderating inflation should support most currencies, with China sustaining strong export growth.

Europe — EUR and related currencies weakened in Q4 2025 due to stagnating economic indicators and expectations of ECB rate cuts. While Germany's fiscal spending may pick up in 2026, near-term support remains limited. Q1 2026 is projected to see modest GDP growth and near-target inflation, reflecting a stable but low-growth environment.

LATAM — LATAM currencies outperformed in Q4 2025, led by COP and CLP gains amid stabilized global risk appetite and firm commodity prices. Political uncertainty and fiscal challenges remain key themes for 2026, with election cycles dominating headlines.

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