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Macroeconomic and Investment Outlook

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2025: a good year for risk assets

The year 2025 was characterised by relatively linear growth in risk assets,[1] accompanied by remarkably low volatility,[1] except for the spike linked to "Liberation Day."

For equities, this is the third consecutive year of double-digit performance on both sides of the Atlantic,[1] with Europe benefiting primarily from an expansion in valuations rather than genuine earnings growth. In addition, **we saw a "depolarisation" of leadership**: notably, the S&P 500 was among the worst performers among the major global indices (expressed in dollars);[1] an atypical situation **that illustrates the questioning of American exceptionalism.**

In credit, carry was the main driver of performance in 2025.[1] The asset class also stood out for its contained volatility,[1] thanks in particular to favourable technical support: steady inflows coupled with modest net supply, limiting declines during periods of stress such as the famous "Liberation Day." **As for risk premiums, these remain compressed,**[1] **limiting the likelihood of a sharp tightening in the future: 2026 should be another carry year.**

Finally, from a valuation perspective, the argument that the European market is "cheap" played out fully in 2025 but is becoming more difficult to defend in 2026 after last year's valuation adjustments. **In Europe, multiples have now normalised, while in the US they remain high.**[1]

[1] Source: Tikehau Investment Management, Bloomberg, data as of 31 December 2025.

2026:
stars aligned, but higher volatility regime

We believe the environment remains favourable: positive economic growth is anticipated on both sides of the Atlantic[2] as monetary and fiscal stimulus measures are deployed across the globe. **Earnings growth is confirmed**: earnings growth outlooks for 2026 appear to be higher than those for 2025,[3] with margins proving remarkably resilient[4] despite disinflation and persistent trade tensions. Companies continue to adapt to economic cycles by rigorously adjusting their cost structures and pricing policies[4]. We believe **these factors should continue to support risk assets in 2026**.

However, **there are a growing number of uncertainties**:

- **Markets are increasingly worried about risks surrounding artificial intelligence (AI)**, particularly regarding the return on investment of the massive amounts of capital deployed by the US tech giants. In addition, **software publishers must now contend with a new reality**: the rise of AI is calling into question the viability of their business models.
- **Inflationary pressures induced by stimulus measures** could lead to higher long-term rates. In addition, the continued increase in public deficits could enhance volatility in the bond markets and, as a result, also weigh on long-term rates.
- **Concerns about tariffs persist** in an **increasingly complex geopolitical environment**.

The year 2026 is therefore likely to be marked by greater uncertainty and more pronounced volatility. Furthermore, with valuations high in both equity and credit markets, the potential for performance appears more limited.

2 Source: Tikehau Investment Management, IMF, data as of 31 October 2025.
3 Source: Tikehau Investment Management, FTSE, IBES, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for the world, Europe (excluding the United Kingdom; United States: S&P 500, data as of 31 December 2025.
4 Source: Tikehau Investment Management, earnings releases, data as of 30 September 2025.

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Equities: where selection will make the difference

FOCUS ON EUROPE: THE AWAKENING OF THE SLEEPING BEAUTY

We continue to take a constructive view of Europe. In our opinion, the continent keeps on benefiting from a combination of positive factors:

- A fiscal stimulus policy, particularly in Germany,
- A monetary policy that has now normalised, supported by disinflation that appears to be continuing,[5]
- A historic valuation discount compared to US markets,[5]
- Earnings growth that should pick up again in 2026.[6]

Furthermore, after a disappointing 2026 in terms of flows, 2026 could see a return of capital to the region, providing additional support for the asset class.

Within European equities, the theme of sovereignty and resilience is emerging as a long-term catalyst, opening several pockets of opportunity.

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[5] Source: Tikehau Investment Management, Bloomberg, data as of 31 December 2025.
[6] Source: Tikehau Investment Management, FTSE, IBES, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for the world, Europe (excluding the United Kingdom); United States: S&P 500, data as of 31 December 2025.

EUROPEAN DEFENCE

In our view, Europe is home to one of the world's most successful defence ecosystems, both in terms of major contractors and their suppliers. Today, the main challenge these companies face is not related to technology or know-how, but rather to ramping up production capacity.

For investors, this sector offers several advantages, in our view. On the one hand, **backlogs are at historically high levels**,[7] offering visibility over several years. **On the other hand, the growth prospects for these companies remain attractive**,[7] as evidenced by their quarterly earnings reports. Finally, despite the remarkable stock market performance of this segment in 2025,[8] **the expected earnings growth of European defence companies is three times higher than that of their US counterparts, even though European valuations remain lower, thus offering a particularly attractive profile for long-term investors.**[9]

Although markets have focused on the war in Ukraine as one of the main catalysts for these companies' stock market performance, **the need for rearmament in Europe is a structural trend that goes beyond the context of the Russian-Ukrainian war alone** and can be explained, among other things, by the erosion of the US military "umbrella" in a context of a lasting shift in US strategic priorities. In addition, decades of chronic underinvestment and the fragile state of the European military apparatus require a significant long-term mobilisation of capital.

These factors point to sustained long-term demand for European defence companies. In addition, beyond the historical know-how that these companies possess, they should also benefit from the "Buy European" movement, aimed at reducing dependence on equipment manufactured in the United States in particular, in favour of European industrial capabilities.

However, it is important to closely monitor margin growth, which remains constrained given public sector demand that limits pricing power. In this context, **diversification between the civil and military sectors, as well as between equipment manufacturers and systems integrators, remains a key factor**.

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7 Source: Tikehau Investment Management, earnings releases, data as of 30 September 2025.
8 Source: Tikehau Investment Management, Bloomberg, data as of 31 December 2025.
9 Source: Tikehau Investment Management, Goldman Sachs FICC & Equities, GIR, data as of 9 January 2026.

EUROPEAN SOVEREIGNTY IS NOT LIMITED TO DEFENCE

The need to strengthen European autonomy goes beyond the defence sector. In light of this, an unprecedented mobilisation of capital is underway: several hundreds of billions of euros are being allocated to support key sectors at the European level, in order to strengthen their autonomy and competitiveness and ensure the long-term influence and resilience of the European economy.

Infrastructure is a major strategic pillar. From a sovereignty perspective, the modernisation of infrastructure, particularly in the energy sector, and more specifically those linked to the energy transition and electrification, is an essential lever. In this regard, Europe has some real champions.

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In addition, the Old Continent is now demonstrating a desire to regain a certain degree of **industrial autonomy**. This approach is reflected in a vast movement to reindustrialise the European economic landscape. Here too, the continent has major champions capable of taking advantage of the large-scale budget deployment plans being implemented.

The technology sector is also emerging as a key driver of international competitiveness: in this sense, the emergence of European technological champions is a central issue. While there has been some lag, it is nevertheless important to highlight that **Europe possesses, within each strategic technological vertical, players of excellence**. However, most of these companies fail to reach a sufficient scale to compete globally. This situation is mainly the result of a historic investment shortfall, limited access to capital, and a lack of strong commitment from public authorities and private savings to take risks in favour of innovation. The case of the semiconductor sector, for example, perfectly illustrates these dynamics.

Finally, **healthcare is also emerging as a major theme for sovereignty**, a reality that became abundantly clear to us during the Covid crisis. In this context, it seems entirely plausible to imagine the emergence of major European players, particularly in the pharmaceutical sector, who could take full advantage of this new collective awareness at a time when this sector is trading at a significant discount to the rest of the market.

US technology remains an essential exposure in any diversified asset allocation. Nevertheless, it is important to adopt a selective approach: favour companies with genuine pricing power and diversified businesses, generating sufficient cash flow to finance their growth cycle and demonstrating real investment discipline.

US EQUITIES: SELECTIVITY WITHIN US TECHNOLOGY

Over the past decade, **tech companies' earnings have grown faster than the market**, thanks in particular to online advertising, artificial intelligence, and the cloud.[10]

Nevertheless, some uncertainties remain regarding a possible, even marginal, slowdown in the pace of innovation, as well as return on investment (ROI) that remains heterogeneous. Furthermore, issues surrounding the circularity of financing, the increasing reliance of debt (including through private markets), as well as the energy constraints inherent to the sector's large-scale deployment collectively argue for prudence.

However, despite these points of caution, we believe that **US technology remains an essential exposure in any diversified asset allocation**. Nevertheless, it is important to adopt a selective approach: favour companies with genuine pricing power and diversified businesses, generating sufficient cash flow to finance their growth cycle and demonstrating real investment discipline.

[10] Source: Tikehau Investment Management, Datastream, Worldscope, Goldman Sachs Global Investment Research, data as of 18 December 2025.

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Credit:
the central pillar of an allocation

The credit market is experiencing what could be described as "a golden age", offering yields that are considered attractive.[11] Volatility remains contained,[11] with the asset class being supported by an investor base that is predominantly focused on carry and by a still limited net supply of bonds.[11] At the same time, we believe that demand is structurally sound and should maintain this flow momentum, driven in part by reallocations away from monetary instruments as interest rates begin to fall.

In European high yield in particular, **issuer fundamentals remain strong** according to our analysis:[12] default rates are low[13] and net margins remain at comfortable levels in Europe,[12] although some sectors are struggling, such as chemicals, automotive and packaging.

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[11] Source: Tikehau Investment Management, Bloomberg, data as of 31 December 2025.
[12] Source: Tikehau Investment Management, company publications, data as of 30 September 2025.
[13] Source: Tikehau Investment Management, CreditSights, ICE Data Indices, data as of 29 January 2026.

We continue to favour a **portfolio construction focused on high-yield issuers** with reasonable debt levels and yields between 4% and 7%.[14] Within this core portfolio, we seek to identify market sub-segments offering a certain degree of convexity:

THE SELECTION OF LOWER-RATED INSTRUMENTS, PARTICULARLY CCC

This cohort offers an attractive pool of opportunities for rigorous and selective investors.

Within this universe, our approach consists mainly of targeting issuers rated B/B- on senior debt but with unsecured subordinated bonds rated one notch below, i.e., CCC. **This allows us to seek an additional 3% to 4% yield within the same capital structure**.[14]

SUBORDINATED FINANCIAL BONDS

The fundamentals of the European banking sector remain solid in our view.[15] Banks, and particularly institutions in southern Europe, have significantly strengthened their balance sheets in recent years. At the same time, **AT1 subordinated debt continues to offer what we consider to be attractive yields**.[14] However, f**ollowing the recent tightening,**[14]**we have adopted a more neutral tactical stance** and remain highly selective, particularly in the often-oversubscribed primary market.

Within the banking sector, we remain constructive on peripheral banks, namely Portuguese, Spanish, Italian, and Greek institutions, and are increasingly investing in instruments issued by leading banks in Eastern European countries (Banca Transilvania, Kommunalkredit Austria, MBH Bank, etc.).

We continue to maintain limited sensitivity to interest rates. In our view, appetite for long maturities remains contained at present, given the current flatness of credit curves[14] and the significant sovereign issuance needs that could trigger volatility in long-term rates.

[14] Source: Tikehau Investment Management, Bloomberg, data as of 31 December 2025.
[15] Source: Tikehau Investment Management, company publications, data as of 30 September 2025.

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