LUWEA

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Content

Executive summary

The global investment landscape is being reshaped by powerful structural forces that have been building for more than a decade. Demographics, debt, deglobalisation, and decarbonization (the "Four Ds") define a regime of structurally higher inflation, elevated long-term yields, and weaker diversification benefits from government bonds. These dynamics, reinforced by geopolitical fragmentation and a more multipolar world, are contributing to greater volatility and challenging long-standing assumptions around stability and policy coordination.

In 2025, economic data, markets, and policy signals frequently pointed in different directions. Yet investor optimism, supported by the AI investment boom, expansionary fiscal policy, and increasingly accommodative central banks, proved resilient, even as traditional anchors such as the US dollar weakened, yield curves steepened, and gold reached new highs.

At the same time, valuations in several major equity markets, most notably in the United States, remain demanding, with prices discounting near-flawless outcomes and leaving little margin for error. While technological progress is real and transformative, its economic impact is likely to be more constrained and uneven than markets currently assume.

Against this backdrop, our positioning remains deliberately measured and risk-aware. We maintain a meaningful underweight to US equities, complemented by selective overweight in Switzerland and Asia ex Japan, and continued conviction in Healthcare, Asian Technology, and European fiscal expansion themes, including defence, energy, and strategic infrastructure. Gold and defensive hedge fund strategies play an increasingly central role as portfolio stabilisers as sovereign bonds offer less reliable protection.

This letter reviews the key developments of 2025, outlines the structural drivers shaping the years ahead, and explains the portfolio choices we believe are appropriate, including a dedicated chapter on AI.

Marco Schaller
Chief Executive Officer
LUWEA AG

2025 in Review

2025 will likely be remembered as a year of policy hyperactivity, elevated noise, and repeated tests of perceived limits, particularly in the US. Despite the steady accumulation of structural tensions, investor optimism proved remarkably resilient, supported by the AI investment surge, accommodative central banks, and a still-robust US economy. Beneath this optimism, however, important contradictions continued to build, most visibly in a weakening US dollar, rising gold and silver prices, and a persistent steepening of the yield curve.

An economy holding up, but narrowly

Global growth proved more resilient than anticipated. US activity remained positive, and labour markets softened only gradually. As the year progressed, however, this resilience became increasingly narrow, with lower-income consumers showing clearer signs of strain. Europe continued its slow and uneven recovery, constrained by weak domestic demand and long-standing competitiveness challenges, while China largely exported disinflation rather than growth.

Market priced for continuity

Financial markets in the US reflected a far more optimistic narrative. Valuations reached historically elevated levels, supported by earnings concentration, enthusiasm around artificial intelligence, and ample liquidity. Credit spreads remained compressed for much of the year, showing limited sensitivity to late-cycle risks, fiscal deterioration, or geopolitical uncertainty.

Policy drift and a weaker dollar anchor

Policy credibility eroded gradually through 2025. Monetary policy shifted towards cautious easing, not because inflation risks had disappeared, but because concerns around financial stability and fiscal sustainability took precedence. Fiscal policy, particularly in the US, remained structurally expansionary.

As a result, the US dollar lost some of its traditional safe-haven appeal, weakening as twin deficits, political uncertainty, and stretched valuations became harder to ignore. For EUR- and CHF-based investors, managing US dollar exposure proved to be one of the central challenges of the year.

In 2025, we prioritised caution and flexibility over prediction, a discipline that supported benchmark outperformance.

Our positioning in 2025

Our positioning throughout 2025 was guided by a consistent assessment: late-cycle dynamics, elevated valuations, and policy uncertainty warranted restraint. Rather than attempting to time inflection points, we focused on limiting downside risk while maintaining tactical flexibility. Despite a structurally defensive equity stance, we outperformed our benchmark, largely driven by three asset-allocation decisions:

- A reduced allocation to US equities, balanced by selective exposure to Asia ex Japan equities and high-quality Swiss dividend stocks;
- An overweight position in gold;
- An overweight allocation to emerging-market bonds, with local-currency exposure hedged into EUR/CHF.

The main detractors from performance were private equity and hedge fund allocations, which disappointed primarily due to their inherent US dollar exposure.

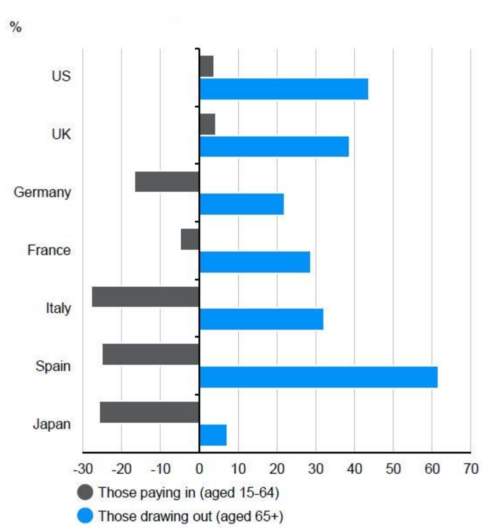
Looking back, 2025 reinforced the principles that shaped our decisions. Markets can remain detached from fundamentals longer than expected, but the margin for error narrows as policy anchors weaken and valuations rise.

2026 Outlook: Long-term macro structural drivers

Demographics: Ageing populations and labour tightness

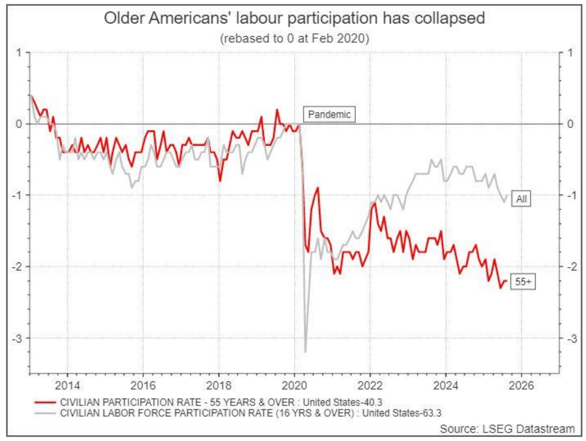
Demographic trends across advanced economies remain a powerful, though often underappreciated, driver of macroeconomic outcomes. Working-age populations are stagnating or contracting across most developed markets, while the number of retirees continues to rise. This dynamic is constraining labour supply and supporting higher wage growth, while rising demand for services, particularly healthcare, reinforces inflation persistence. Together, these forces point to a long-term environment in which inflation is unlikely to return sustainably to pre-pandemic lows.

Exhibit 1: Change in population by 2050



Source: J.P. Morgan

Exhibit 2: Labour participation in the U.S.



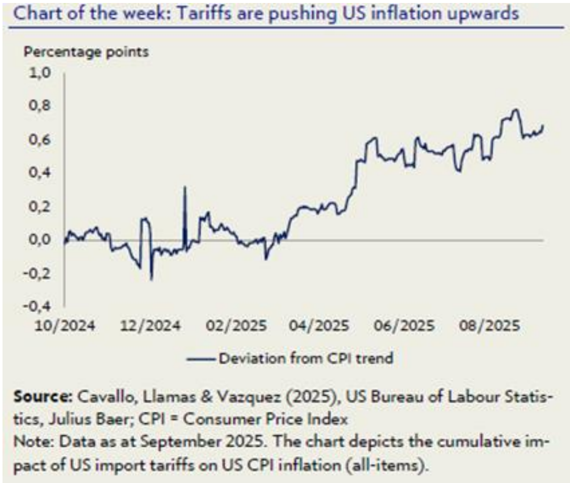
Source: LSEG Datastream

Ageing populations and labour scarcity are reinforcing wage pressure and making inflation more persistent.

Deglobalisation: Reshoring, fragmentation, and higher costs

For several decades, globalisation delivered efficiency gains, lower input costs, and a powerful disinflationary impulse. That era is fading. Supply chains are increasingly being redesigned for resilience rather than optimisation, while governments are incentivising domestic production in strategic sectors, from semiconductors to pharmaceuticals, energy, and defence. While gradual, this shift is structural, introducing friction into the global trading system and putting lasting upward pressure on prices.

Exhibit 3: US import tariffs impact on US CPI



Source: Julius Baer

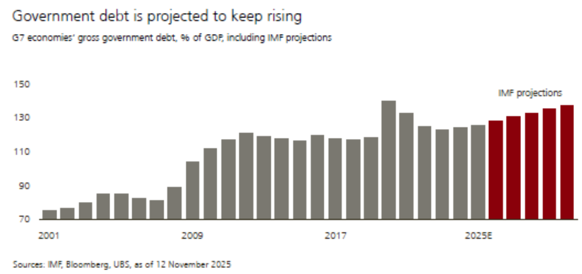
Decarbonisation: Capital intensity and inflationary pressure

The transition towards lower-carbon energy systems is a multi-decade process requiring significant capital investment and is inherently inflationary. Renewable generation, grid expansion, storage, and regulatory requirements all raise system-wide costs. These pressures are most visible in Europe and increasingly relevant in the US, as AI-driven electricity demand forces a reassessment of energy strategy. China's mixed approach, combining legacy and renewable energy, currently appears better positioned to absorb these challenges.

Debt: Fiscal dominance and higher long-term yields

Public debt across major economies is at or near post-war highs, and governments remain committed to sustained fiscal deficits. This shift towards fiscal dominance is incompatible with low long-term yields and has weakened the traditional diversification role of government bonds, particularly US Treasuries. In a regime of higher inflation and heavy debt issuance, long-duration sovereign bonds can no longer be relied upon as effective risk-off hedges.

Exhibit 4: Gross government debt as a % of GDP (G7 Economies)



Source: IMF, Bloomberg

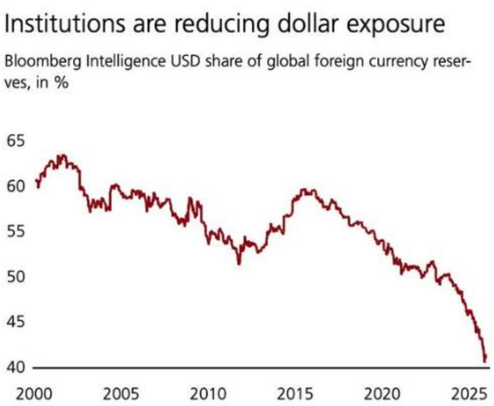
Geopolitics: Fragmentation, realignment, and higher volatility

The post-Cold War geopolitical order is undergoing a profound transformation. Strategic industries are increasingly viewed through a national security lens, alliances are realigning around energy and technology, and military spending is rising globally. The Russia/Ukraine conflict and intensifying US/China rivalry exemplify this shift, introducing greater tail risks and enhancing the strategic value of traditional havens and real assets.

USD Debasement: A gradual shift away from dollar dominance

The US dollar continues to face long-term headwinds. Persistent fiscal deficits, rising debt, increasingly interventionist industrial policy, and the emergence of alternative monetary and financial channels are incrementally eroding the dollar's structural advantage. While the dollar will remain the dominant global currency for the foreseeable future, the trend points towards gradual debasement and greater diversification by global investors.

Exhibit 5: US dollar share as a % of Global Foreign Exchange Reserves

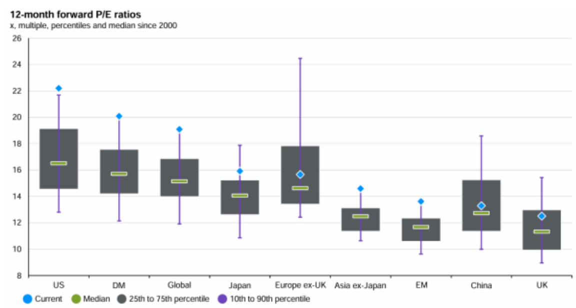


Source: Bloomberg

Valuations: Pricing for perfection in the United States

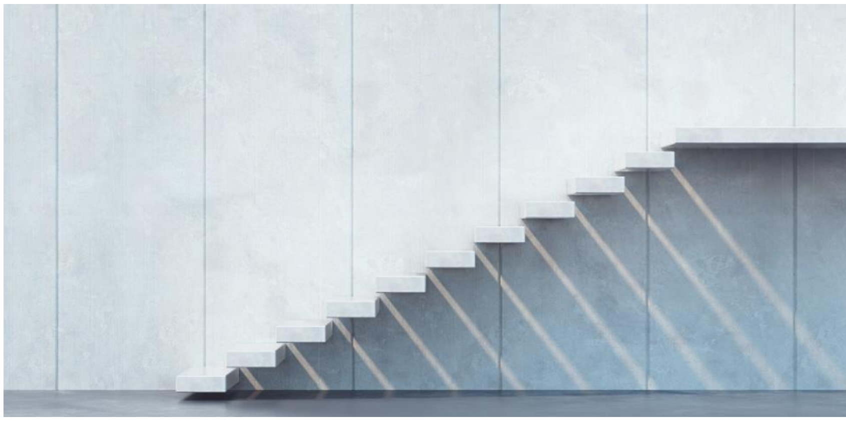
Equity valuations in the United States remain elevated by historical standards and increasingly depend on optimistic assumptions, including rapid AI–driven productivity gains, sustained margin expansion, moderate inflation, and stable geopolitics. While technological innovation will benefit parts of the economy, the pace and breadth of these gains are often overstated. As a result, the current valuation regime in the US leaves little room for disappointment, even as more attractive value persists in other regions.

Exhibit 6: Forward P/E ratios by region



Source: J.P. Morgan

“The global economy is entering a structurally different regime, shaped by demographics, deglobalisation, decarbonisation, and fiscal dominance, with higher capital intensity, more persistent inflation, and elevated volatility redefining portfolio construction.”



Investment themes shaping the next decade

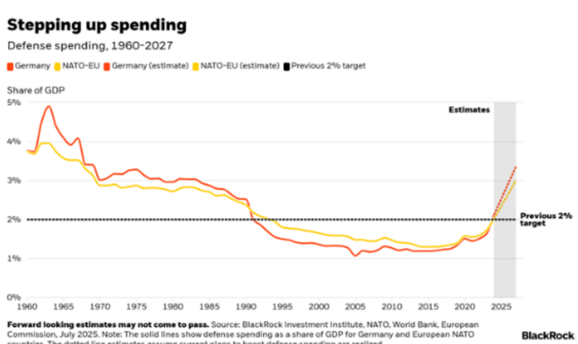
Currency, debt, and a higher-inflation regime

High debt levels, fiscal dominance, and structurally higher inflation are reshaping the currency landscape and challenging traditional allocation frameworks. The US dollar is likely to remain under pressure over the medium to long term, while the euro and yen face similar, though less acute, constraints. In this environment, hard assets, real return strategies, and exposure to economies with stronger fiscal positions and more balanced external accounts become increasingly important.

Geopolitics and the rise of defence spending

Defence and strategic industries are undergoing a structural re-rating as governments reassess national security priorities. Europe is entering a multi-year phase of elevated defence and infrastructure investment. Beyond defence budgets, the shift toward a multipolar world is reshaping supply chains, technology standards, trade flows, and capital allocation, requiring investors to navigate a landscape of greater industrial policy intervention and persistent geopolitical risk.

Exhibit 7: Defence spending as % of GDP



Source: Bloomberg

For investors, rising geopolitical fragmentation is turning defence and strategic industries into long-term structural allocation themes.

Healthcare and longevity: Investing in better and longer lives

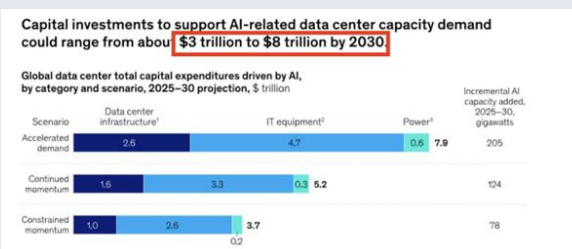
The intersection of ageing populations, technological innovation, and rising healthcare demand represents a compelling long-term investment opportunity. Breakthroughs in obesity treatments, oncology, diagnostics, and medical devices are improving patient outcomes while supporting durable growth. Medical aesthetics, wellness, and preventive care are also poised to benefit as societies place increasing emphasis on quality of life, not just longevity.

SPOTLIGHT: Investing in AI in 2026: Scale without precedent, constraints without illusion

Artificial intelligence is reshaping capital allocation at unprecedented speed. The long-term structural case remains compelling: AI is likely to prove more transformative than the internet, closer in impact to an industrial revolution, with the potential to lift productivity and partially offset demographic headwinds. Our caution, however, lies not in the destination, but in the path markets are currently assuming.

The scale of investment is already extraordinary. Estimates suggest USD 3-8 trillion of cumulative AI infrastructure capex this decade, making it the most capital-intensive technology build-out in history. AI capex growth now exceeds overall non-residential fixed investment, implying that non-AI investment is increasingly being crowded out.

Exhibit 8: Capital investment required for AI data centre demand

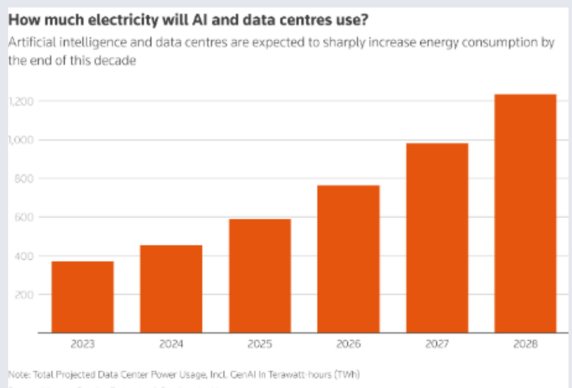


Source: Mc Kinsey & Company

The binding constraint is no longer chips, but power. Data centre electricity demand is set to more than double by 2030, from a base already comparable to total UK consumption, while grid expansion timelines of three to seven years remain misaligned with the pace of AI deployment. In response, US power prices near major data centre clusters have risen sharply. This dynamic is reshaping the geopolitical balance: China's rapid expansion of renewable generation and transmission capacity may prove as strategically important as chip design itself, as cheap and abundant electricity increasingly outweighs marginal performance gains.

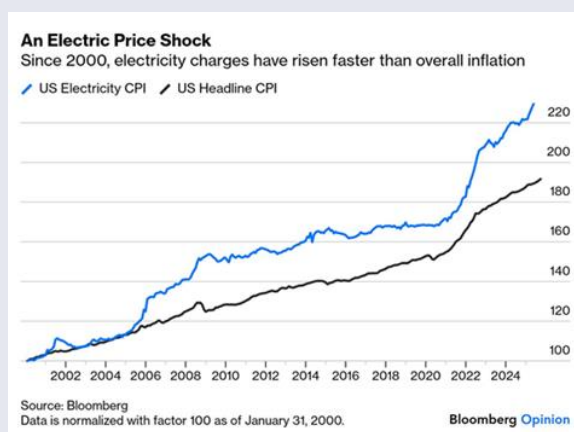
> *AI remains a long-term structural opportunity, but capital intensity and infrastructure limit demand selectivity.*

Exhibit 9: Required energy for AI and data centers



Source: Morgan Stanley

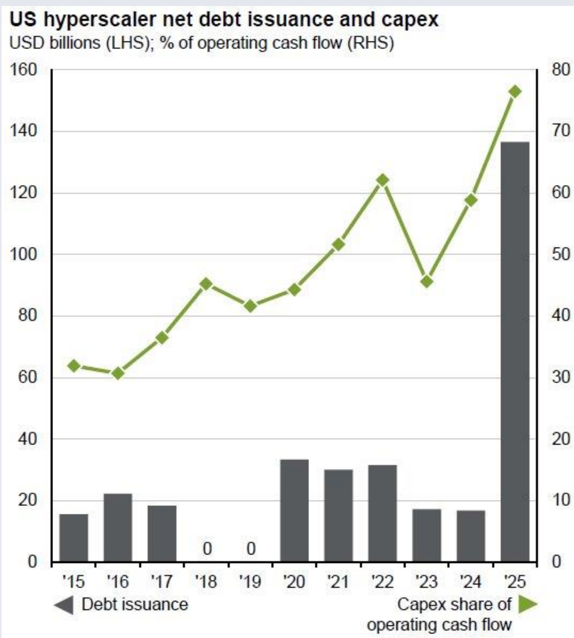
Exhibit 10: US Electricity prices compared with headline inflation



Source: Bloomberg

Financing dynamics are shifting as AI investment moves from being largely cash-flow-funded towards greater reliance on debt, private credit, and off-balance-sheet structures. At the same time, depreciation assumptions for AI hardware often extend well beyond its economic life, raising the risk that reported earnings overstate true profitability if monetisation disappoints.

Exhibit 11: Hyperscalers' historical net debt issuance and capex



Source: J.P. Morgan

Within this environment, differentiation is becoming clearer. Vertically integrated players with distribution advantages, such as Google, are better positioned to translate AI capability into monetisation, while Nvidia remains best in class even as hyperscalers increasingly internalise silicon design. Valuations, however, already reflect optimism, with consensus earnings growth assuming smooth execution. As constraints become more visible, a 10 to 15 percent correction would represent a normal repricing rather than a regime break. We therefore retain long-term conviction but favour a selective, upstream-tilted exposure focused on semiconductors, energy, grids, and connectivity, while closely monitoring financing quality, power infrastructure, and balance sheet resilience.

Tactical portfolio positioning for 2026

Against this macro and thematic backdrop, we translate our views into concrete portfolio positioning.

Cash and Fixed Income positioning

We remain overweight cash, reflecting our underweight in global equities and our preference for flexibility to add risk during market corrections.

In Fixed Income, we are neutral in EUR- and CHF-denominated bonds, both in terms of weight and duration, given limited upside. By contrast, we maintain an overweight in Emerging Market Bonds, where valuations remain attractive even after accounting for currency hedging costs.

Equities: Underweight US Large Caps

We maintain a defensive tactical stance toward global equities, with a meaningful underweight in the US, where valuations remain extended, and the margin for error is slim amid geopolitical uncertainty and structural inflation. In contrast, we remain overweight Switzerland (with a focus on dividend stocks) and Asia ex Japan, where valuations are more reasonable, and sector composition aligns better with long-term structural themes. We also hold selective overweight positions in quality secular growth areas, including Healthcare, Asian Technology, European financials, and European defence-related industries.

Currencies: Underweight US dollar, overweight Swiss Franc

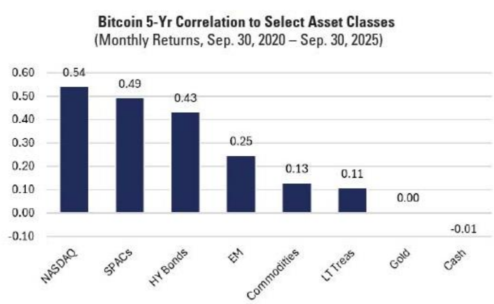
We seek to restrict US dollar exposure to assets with exceptional return prospects. We continue to prefer currencies supported by stronger fiscal fundamentals and external balances (e.g., Swiss Franc). This positioning reflects our view that currency resilience and balance-sheet strength will play an increasingly important role in portfolio stability as fiscal divergence and macro volatility persist.

Alternatives: Neutral Gold, selective exposure to Bitcoin

Gold retains a central role as a strategic hedge against inflation, geopolitical stress, and currency debasement. However, given its more limited near-term appreciation potential, we have reduced our exposure to neutral.

Bitcoin's role as a portfolio diversifier remains unproven in our view, and we continue to see it primarily as a tactical asset driven by global liquidity conditions rather than consistent diversification benefits (see Exhibits 12 and 13). Following its recent sharp correction, we have added a small tactical position.

Exhibit 12: Bitcoin Five-Year Correlation with Selected Asset Classes



Source: Richard Bernstein Advisors

Exhibit 13: Bitcoin Price and US Financial Conditions

Source: Bloomberg

Greater use of active management, reduced passive exposure

In an environment characterised by strong market concentration, higher dispersion, greater volatility, and increased structural complexity, active management can play a critical role. We favour managers with demonstrated skills, disciplined risk management, and a proven ability to navigate regime changes. While global data show that 70% of active funds underperform their benchmarks, we believe that certain asset classes and regions, such as Japan, Switzerland, and Emerging Markets, are particularly well-suited to active management, where dispersion and local market dynamics create meaningful opportunities for skilled managers.

"Our 2026 portfolio positioning reflects an environment in which valuation discipline, liquidity, and selectivity matter more than broad market exposure. By combining tactical flexibility with targeted allocations to assets supported by stronger fundamentals and structural tailwinds, we aim to preserve capital while remaining positioned for selective opportunity."

Exhibit 14: LUWEA Growth Portfolio positioning in Q4

Asset Class	Portfolio Allocation	Positioning relative to SAA and direction in Q3 (arrow)		
		U/W	NEUTR	O/W
Money Market	7.9%			↑
Fixed Income	19.3%		=	
Euro Bonds	14.1%	=		
Emerging Market Bonds	5.2%			=
Equity	51.3%	↓		
North America	22.8%	=		
Europe ex Switzerland	8.8%	=		
Switzerland	4.2%			=
Asia ex Japan	9.0%			↓
Japan	5.4%			=
Theme: Healthcare	1.1%			↑
Alternatives	21.5%			=
Private Equity	7.8%		=	
Hedge Funds	6.9%		=	
Gold	6.3%			=
Bitcoin	0.5%			↑

Note: Positioning: U/W — underweight, NEUTR — neutral, O/W — overweight.
Note: Direction in Q3: ↑ – increased positioning, = – no changes, ↓ – decreased positioning.

SPOTLIGHT: Our strategic asset allocation (SAA) approach, providing firm guidance through noise

Strategic Asset Allocation is the anchor of our investment process. It defines how risk is allocated across asset classes and provides a stable reference point through market cycles, ensuring portfolios remain aligned with long-term objectives despite short-term noise.

Our SAA process begins with a clear understanding of each client's risk profile and an appropriate benchmark, which embeds assumptions about long-term returns, volatility, and downside risk. Our objective is to improve upon these characteristics in a disciplined and diversified manner without altering the portfolio's intended risk profile.

Allocation decisions combine proprietary historical analysis with forward-looking capital market assumptions from leading global asset managers. This dual approach grounds our views in both empirical evidence and market-implied expectations, allowing us to construct allocations that are robust rather than reliant on any single forecast.

We structure portfolios around two core pillars. First, long-term growth is driven by return-seeking assets such as global equities, private equity, and high-yield credit, diversified across multiple risk premia using robust optimisation techniques. Second, downside protection is provided through stabilising assets, including government bonds, investment-grade credit, gold, and selective hedge fund strategies, implemented within a risk-budgeted framework and supported by scenario analysis and Expected Shortfall (CVaR).

This disciplined, benchmark-aware SAA framework is what allows us to remain consistent through cycles, adaptive in periods of stress, and focused on long-term outcomes rather than short-term narratives.

Conclusion

The investment environment will continue its fundamental transition. As markets adapt to this new regime, our investment philosophy remains unchanged: protect capital first, diversify intelligently, and compound patiently over time.

In this context, caution is not a lack of conviction, but a prerequisite for durability. We remain defensively positioned where valuations and expectations appear misaligned, while maintaining targeted exposure to opportunities supported by strong and durable structural tailwinds.

More concretely: looking ahead, we expect structurally higher inflation to persist, supported by tight labor markets, deglobalization, decarbonization, and fiscal dominance. Geopolitical tensions are likely to remain a key source of volatility, while the shift toward a multipolar world continues to shape capital flows and industrial policy.

Artificial intelligence will be an important driver of productivity growth over the long term, but markets are increasingly confronting real-world constraints in energy, infrastructure, financing, and time that will influence the pace and distribution of economic benefits.

Taken together, these forces argue for a balanced investment approach that prioritizes capital preservation, strategic diversification, and selective exposure to the most compelling long-term themes.

We see two main risks to our outlook. The first is an overly cautious interpretation of the long-term structural drivers outlined above. The second is the willingness of financial markets in 2026 to focus predominantly on the near-term effects of expansionary fiscal policy and accommodative central banks. Such a backdrop could further propel the main winners of 2025 and potentially broaden the equity market rally, especially in the U.S.

Accordingly, we must also remain active tactically, prepared to adjust portfolio positioning as often as necessary throughout the year, both to manage emerging risks and to capitalize on opportunities as market narratives and price action evolve.

As the investment regime evolves, our philosophy remains constant: protect capital, diversify intelligently, and compound patiently. In a world shaped by structural constraints, durability matters more than speed.

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