

# INVESTMENT OUTLOOK FOR 2026

“At VIG Asset Management, our mission is to provide a stable foundation for our clients as they pursue their financial goals. We hope that our Investment Outlook 2026 publication will support them on this journey.”

Your ambition, our excellence.



# Outlook 2026

## Investing with confidence in a changing world

Individuals carefully managing their savings, families planning for long-term security, business leaders responsible for corporate financial stability, and executives at insurance companies or pension funds – all share a common sentiment today: in personal conversations, they appear more concerned about economic developments than at any time in recent years. Given the rapidly shifting global and domestic financial, regulatory and geopolitical landscape, this heightened caution is entirely understandable. Added to this is the overwhelming flow of information, which makes navigating today's world increasingly challenging.

I would like to reassure our partners that VIG Asset Management – recently recognized with four major industry awards – builds on 30 years of experience and has successfully navigated a wide range of market environments. As part of the Vienna Insurance Group, Central Europe's largest insurance group with 200 years of history and more than 30 million clients across 30 countries, we benefit from a strong and stable international foundation. In a world full of noise, our role is to remain a calm and reliable point of reference, helping investors find long-term, meaningful solutions.

Looking ahead to 2026, we expect the investment environment to be shaped by multiple forces: central-bank policy decisions, investor concerns around rising sovereign debt levels, the often unpredictable shifts in U.S. trade policy, ongoing geopolitical tensions and the elevated expectations surrounding artificial intelligence. These factors together may create a complex market backdrop requiring continuous attention. At the same time, long-term global megatrends and the growing demand for sustainability-focused solutions will further influence the broader picture.



All these considerations underline the importance of proactive investment decisions, active portfolio management and, above all, diversification – principles to which we remain firmly committed in 2026.

At VIG Asset Management, our mission is to provide a stable foundation for our clients as they pursue their financial goals. We hope that our Investment Outlook 2026 publication will support them on this journey.

Warm regards,

**Péter Kadocsa**  
Chief Executive Officer



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# Introduction

## Guidance on the 2026 economic environment and market dynamics

In 2026, several key questions will shape the investment landscape: whether gold's strong momentum can continue, whether the AI-driven investment cycle will remain intact, and whether the technology sector's elevated equity valuations will prove sustainable. A further weakening of the U.S. dollar could continue to create a favourable environment for emerging-market assets, while a growing concern looms over how long investors will tolerate rising sovereign debt levels worldwide. The outlook for the Central and Eastern European region will also be heavily influenced by the trajectory of the war in Ukraine – progress toward peace could accelerate economic convergence, whereas a prolonged conflict may continue to constrain the region's growth potential. Together with my portfolio-manager colleagues, we have reviewed these issues in detail – along with many other themes affecting the global economy and capital markets – to provide our clients with meaningful guidance for navigating 2026's economic and market dynamics.

In our base-case scenario, the global economy in 2026 continues to be shaped by the trends that emerged in 2025, with the overall macro backdrop remaining supportive for risk assets. In our optimistic (bull-market) scenario, we envision an almost ideal environment where economic growth can pick up without generating inflationary pressures. Our pessimistic (bear-market) scenario, by contrast, focuses on the potential market implications of rising and increasingly unsustainable sovereign-debt burdens.

Within this publication, readers will find thematic deep dives on artificial intelligence and sovereign-debt risks, as well as shorter analyses on Germany's fiscal expan-



sion and commodity-market trends. Our quantitative research team and technical analysts also contribute timely insights, and we provide an extended section on emerging markets – particularly Central Europe.

I sincerely hope this Outlook will assist our clients in making well-informed investment decisions in 2026, and I wish everyone every success in the year ahead.

Looking forward to navigating 2026 together,

**András Loncsák**  
Chief Investment Officer



# 2025 review

## Successful Monthly Tactical Asset Allocation in 2025

**András Loncsák**, Chief Investment Officer

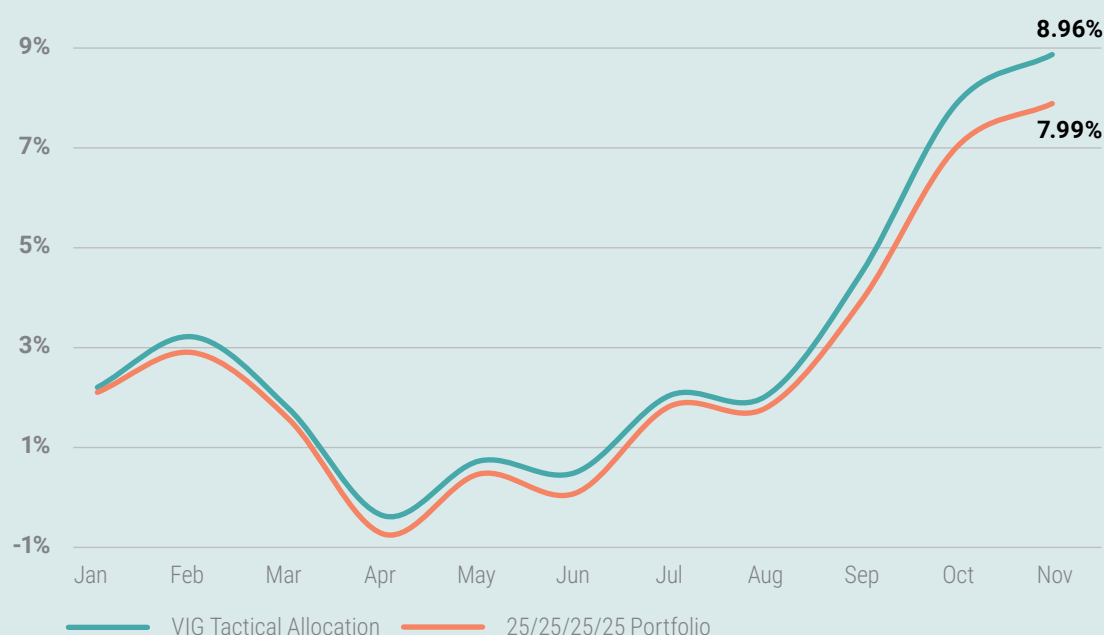
Global markets in 2025 were shaped by investor expectations surrounding the inauguration of the new U.S. president, the uncertainty triggered by an emerging trade war, and the subsequent wave of optimism that drove equities to new record highs. The gradual weakening of the U.S. dollar and a strong rally in gold further supported market sentiment. AI-driven innovation once again propelled the U.S. technology sector to the forefront, with the “Magnificent 7” companies – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – delivering particularly strong performance. Although the announcement of new US tariffs in April caused a brief but sharp correction, markets stabilised quickly and risk appetite strengthened again in the second half of the year. Emerging markets – led by the CEE region – outper-

formed, supported by attractive valuations, improving earnings expectations and a more stable macroeconomic backdrop.

Following strong results in 2023 and 2024, VIG AM’s monthly tactical asset allocation continued to adapt effectively to rapidly changing market conditions in 2025. Supported by our Investment Clock framework and the asset-class-specific Quadrant analysis, our monthly investment process resulted in a model portfolio that outperformed its benchmark by 87 basis points in EUR terms by the end of November 2025 (benchmark allocation: 25% money market, 25% bonds, 25% commodities, 25% equities), clearly reflecting the success of our monthly tactical decisions.

### VIG AM tactical allocation vs 25/25/25/25 benchmark portfolio (EUR)

Jan 2025 – Nov 2025

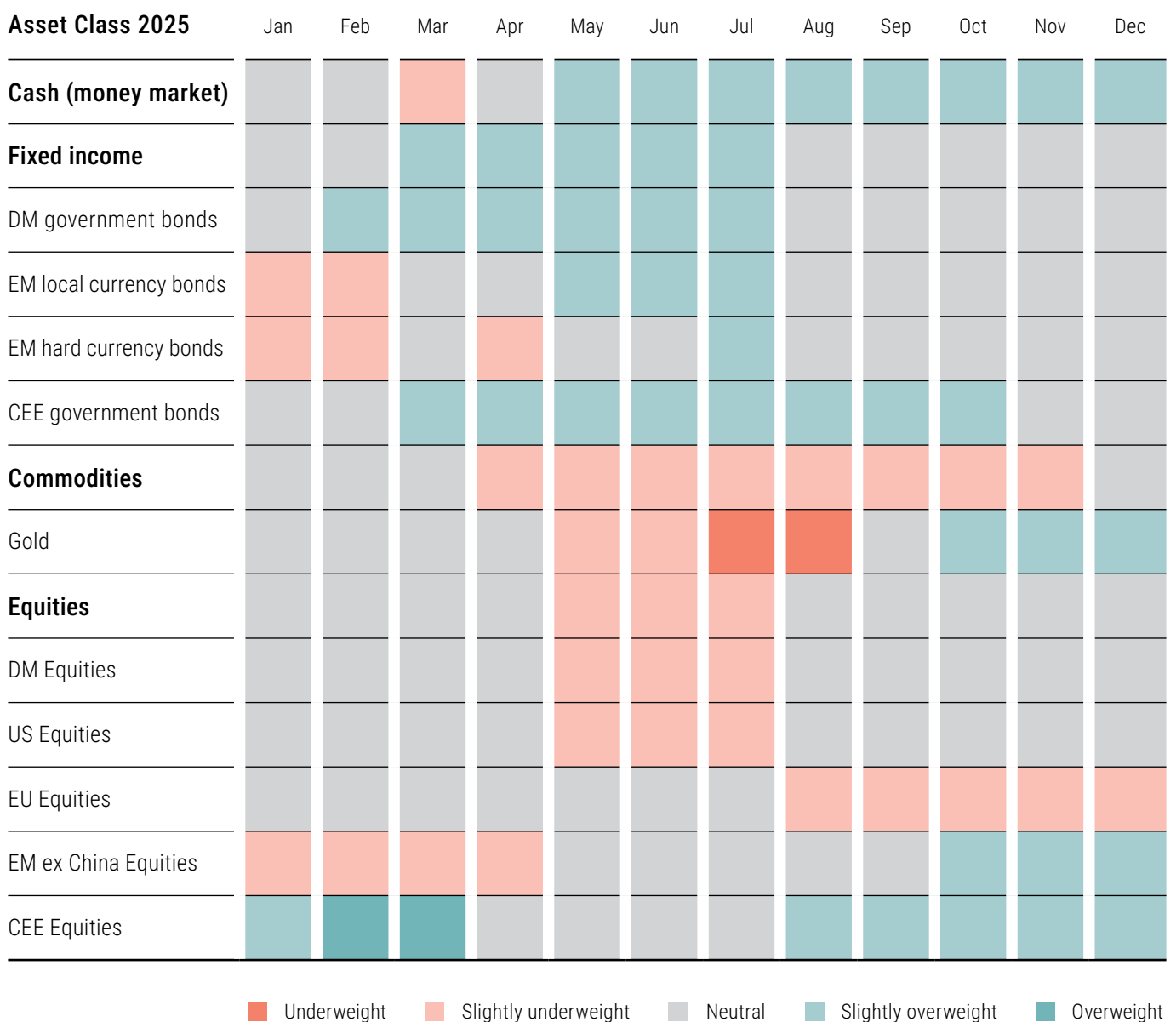


Source: VIG Asset Management



The 8.96% nominal EUR return and the strong relative performance were driven primarily by commodity and equity allocation decisions. The underweight in commodities, combined with the timely downgrade and subsequent upgrade of gold – particularly during the autumn price rally – provided a meaningful contribution to returns. Within equities, the overweight in CEE mar-

kets – 2025's best-performing equity region – and the underweight in European equities, which performed well early in the year, but lagged thereafter, were key performance drivers. The persistent strength of U.S. equities and our summer underweight position had only a limited negative impact on overall returns, as the weaker dollar helped cushion the effect.



Source: VIG Asset Management





# Outlook for 2026

Ádám Bakos, Head of Fixed Income  
György Pálfi, Head of Equities



2025 has been a good year for many asset classes after the Liberation Day turmoil. Gold prices soared massively, equity markets performed well and we have also seen outstanding returns in pockets of the fixed income space, particularly in emerging markets.

How do we go further? As it remains an impossible task to assess the whole spectrum of the probability distribution, in our 2026 outlook we focus on three themes that might come to the fore next year. Our base case covers a positive fiscal story, our bull case is about a world with an AI-driven productivity jump and the resulting low inflation while our bear case is about rising yields due to resurfacing global debt fears. These stories cover some of the known unknowns capital markets are facing. We admit our selection of themes is completely subjective: the world is more complicated and also there are many unknown unknowns waiting for us but we think

it is important to play with the numbers and guide investors how a portfolio would fare if these real risks would materialize. Our methodology is not about a scientific approach. The output is the professional estimate of our portfolio managers' common thinking about these imaginary scenarios and their market effects. The direction of travel is more important than the final point estimate, but still, we hope you will find it as a useful guide to 2026!

In the summary table, you can find the expected portfolio returns in USD terms which were calculated using our forecasts from the table below. The recommended portfolio weights are arbitrary but represent the most important message: how to position the portfolio if you expect a similar state of the world. At the end of each scenario description, we also present a more detailed, indicative investment fund allocation.

## 2026

### Recommended Portfolio Weights

| SCENARIOS                          | Probability | Cash | Equity | Bond | Commodity | Return (USD) | Volatility | Sharpe |
|------------------------------------|-------------|------|--------|------|-----------|--------------|------------|--------|
| BASE – Fiscal Stimulus             | 55%         | 20%  | 45%    | 25%  | 10%       | 7.20%        | 8.80%      | 0.39   |
| BULL – AI-Driven Productivity Boom | 20%         | 5%   | 60%    | 35%  | 0%        | 19.40%       | 10.50%     | 1.49   |
| BEAR – Bond Vigilance              | 25%         | 50%  | 10%    | 30%  | 10%       | -0.20%       | 3.80%      | -1.05  |

Source: VIG Asset Management





|                                 | Actual (30/11) | Bloomberg consensus (end 2026) | BASE –<br>Fiscal stimulus | BULL –<br>AI boom | BEAR –<br>Bond vigilance |
|---------------------------------|----------------|--------------------------------|---------------------------|-------------------|--------------------------|
| <b>FED</b>                      | 4.00%          | 3.25%                          | 3.50%                     | 2.75%             | 2.00%                    |
| <b>US 10-year bond</b>          | 4.10%          | 4.07%                          | 4.50%                     | 3.75%             | 5.25%                    |
| <b>ECB</b>                      | 2.00%          | 2.00%                          | 2.00%                     | 1.75%             | 1.50%                    |
| <b>EZ 10-year average yield</b> | 3.40%          | 3.00%                          | 3.50%                     | 3.00%             | 4.00%                    |
| <b>EURUSD</b>                   | 1.16           | 1.21                           | 1.25                      | 1.10              | 1.30                     |
| <b>EMBIG spread</b>             | 265            | 310                            | 280                       | 250               | 450                      |
| <b>Gold</b>                     | 4100           | 4275                           | 4500                      | 3000              | 6000                     |
| <b>Oil</b>                      | 60             | 58                             | 65                        | 50                | 40                       |

Source: VIG Asset Management

## Base scenario (55% probability) – fiscal stimulus is on the way

In the base scenario we assume the world economy in 2026 will be shaped by forces that were unleashed in 2025 and the macroeconomic backdrop remains broadly supportive for risk assets.

In advanced economies, several factors may support growth. The lagged effect of monetary stimulus and easy financial conditions could play an important part in supporting global growth while fiscal stimuli from Trump's "one big, beautiful bill" and the German defense and infrastructure package could come to the rescue as well. In the US, fiscal expansion may be front-loaded: after a negative fiscal impulse in the second half of 2025 – exacerbated by the temporary government shutdown – the impulse could turn meaningfully positive next year, already in H1. The extent of planned German spending is significant, but due to implementation risks, positive effects there are more likely to be expected in the second half of the year. Chinese fiscal boost is also on the way as the government tries to spur local consumption in the face of deflationary risks and falling external demand while also focusing on ambitious expansion in strategic sectors and industrial upgrading.

We calculate with the status-quo in trade wars and no big escalation between US and China given the interdependence of the two economies for most of the year but as we approach the mid-term elections Trump's unpredictability might return. Although the Supreme Court might challenge Trump's tariffs, probably the administration will find ways to keep the new trade regime intact. We believe most of the disinflation is behind us and better growth prospects will hinder a further big fall in sticky core inflation which will make the probability of further rate cuts by the Fed and ECB lower, but the change of Fed chair in May remains a risk event.

## Fixed income

In the Base scenario the Fed may have limited room to cut rates as job market deterioration slows and core inflation remains above target. Eurozone inflation is already on target but the ECB is expected to remain on hold as it assesses the inflationary impact of the fiscal boost. The long end of the curve in the US may remain anchored but macro factors suggest some steepening particularly in Europe. Periphery spreads can tighten as the German fiscal boost is positive for EU growth but disproportionately negative for German bonds amid higher supply. Already tight corporate and emerging market spreads remain stable and provide sufficient carry compensation for investors. In our base scenario, we think it may be worthwhile for investors to keep short duration and look for carry via high yield EM and corporates.

## Equities

This fiscal backdrop arrives at a critical moment for corporate fundamentals. In 2025, global EPS growth slightly exceeded 10%, supported disproportionately by US mega-cap tech, whose earnings rose 18%. Excluding these stocks, EPS growth for the rest of the market would have been just 7–8%. In the year ahead, a positive fiscal impulse should broaden the earnings recovery beyond the mega-cap segment, creating a more even distribution of profit growth across sectors and regions. Markets currently expect 12% EPS growth for the MSCI All Country equity index next year, but the recent shift in earnings revisions back into positive territory in the second half may suggest further upside risk.

Given this environment, we expect small and mid-cap equities may outperform after several years of sluggish returns, benefiting from both improved consumer sentiment and more evenly distributed profit growth. Valuations in this segment are particularly attractive: global mid-caps are trading near 30-year relative lows versus



the MSCI World (17x forward earnings versus 20x), reflecting an unusually wide valuation gap that leaves room for meaningful catch-up.

The EU stands to benefit as well from this improving global environment. Despite the strong performance of European equities in 2025 – helped in part by USD depreciation – EPS growth in the region remained subdued, and most of the market's gains were driven by revaluation rather than earnings expansion. In 2026, however, the outlook may be more favourable: increased fiscal support across major EU economies, alongside the gradual fading of tariff-related disruptions, should enable a more meaningful acceleration in earnings. Moreover, European equity markets higher weighting toward real-economy sectors – including industrials, utilities, materials, and financials – positions the region to outperform the main US indices in a year when growth is expected to broaden beyond mega-cap technology.

Our base case still anticipates that AI spending related earnings growth will persist, but high valuations and elevated expectations temper potential gains. Global equities (MSCI All Country World Index) are priced at more than 20 times forward 12-month earnings, around historical highs. A major driver of this rerating has been the rapid expansion of high-growth segments, particularly Information Technology and Communication sectors, whose share of the index has climbed dramatically over the past decade to more than 28%.

The valuation picture is even more demanding in the United States. The S&P 500 trades near 23x expected earnings, placing it close to the upper bound of its historical valuation range. Meanwhile, the Nasdaq's trailing price-to-earnings ratio – roughly 30x – remains far below the levels seen during the dot-com bubble, yet still reflects a strong degree of confidence. By contrast, markets outside the U.S. look comparatively restrained: European and Chinese indices sit modestly above their 20-year averages, and Japanese equities continue to trade at a discount relative to their longer-term norms.

Overall, the combination of monetary easing, substantial fiscal support, improving consumer dynamics, and broadening earnings growth may form a compelling backdrop for more diversified equity leadership in the coming year. We expect an equity growth of 11% based on our model assumptions, which is slightly below what the earnings growth justifies in 2026.

**In the Base Scenario (fiscal stimulus), we expect a 7.2% annual portfolio return denominated in USD with 8.8% volatility. Both equities and commodities may deliver low double-digit returns in this scenario, alongside slightly rising bond yields. We expect flat commodity markets in the base scenario.**

#### Funds to consider under the Base Scenario:



### Bull scenario (20% probability) – AI-driven productivity boom

In this scenario we imagine a perfect world. The results of an AI-driven productivity boom in the US becomes more evident. We assume a faster pace of adoption and a wider diffusion of AI technologies across industries. This may lift growth but in a non-inflationary manner partially through the easing of the labour market and wages driven by discharges from tech companies. Trade tensions fall further as US and China engage in a trade truce. On top of that, Russia's war in the Ukraine comes to an end – improving consumer confidence in Europe and CEE. In this scenario growth could move to a higher path while inflation may remain subdued, not only due to the help of productivity but also due to falling commodity prices on the back of easing geopolitical tensions. US debt sustainability fears are alleviated as higher potential output helps to outgrow debt.

#### Fixed income

Despite the positive growth picture, this is not an unfavourable scenario for fixed income. Central banks are able to cut rates as energy prices fall and wages remain well-behaved, which may cause core inflation to moderate. Long yields are less positively affected as breakeven inflation falls but the neutral real rate may move higher. Term premium also falls as macro volatility and debt fears ease. This is the best scenario for spread products as corporate balance sheets improve further and emerging markets could benefit from lower energy prices and



less geopolitical and trade tensions. In this scenario overweighting fixed income assets may be the good solution mainly via US government bonds, and emerging market fixed income.

## Equities

Jensen Huang, CEO of Nvidia rejected the idea of an “AI bubble” during the company’s latest conference call arguing instead that the industry is at a “tipping point” of structural change. But markets still need more evidence that we are approaching the long-awaited productivity breakthrough. A key question for 2026 is whether AI labs and enterprises can finally turn technological breakthroughs into substantial, dependable revenue streams. It could deliver the long-anticipated second leg of the AI boom, ultimately justifying the massive investments made to date. In this scenario we assume a higher earnings growth of AI related stocks, adding even more significant boost to overall earnings than in 2025.

If the technology sector’s outperformance continues in 2026, the U.S. market is likely to maintain its leadership, just as it did in the second half of 2025. Besides the USA, technology-oriented Asian markets such as Taiwan, South Korea, and China could generate even stronger returns.

Other major upside risk for equity markets would be a more predictable and stabilizing geopolitical and trade environment. The U.S.–China trade truce, stable tariff levels, or an acceleration in Russia–Ukraine peace talks leading to a durable resolution would all help reduce uncertainty. Although markets managed to revalued despite policy and geopolitical uncertainties in 2025, a more predictable global backdrop could lower equity risk premia even further, especially in the CEE region.

In this scenario, we would overweight the U.S. and emerging markets, with a particular preference for Asian and CEE equities. We believe that current equity valuations are not an obstacle to further gains, as accelerating earnings growth and stable interest rates can justify elevated multiples.

**In the Bull Scenario (AI-driven Productivity Boom), we expect a 19.4% annual portfolio return in USD terms with 10.5% volatility. Equities are poised to deliver exceptionally strong returns in this environment, alongside with superior bond returns. Conversely, we anticipate that commodity prices could decline significantly in this scenario.**

## Funds to consider under the Bull Scenario:

|                                   |                                       |                                      |                                  |                                      |                                     |
|-----------------------------------|---------------------------------------|--------------------------------------|----------------------------------|--------------------------------------|-------------------------------------|
| AI driven productivity Boom (20%) | VIG Developed Markets Government Bond | VIG Global Emerging Market Bond Fund | VIG Central European Equity Fund | VIG MegaTrend Equity Investment Fund | VIG Emerging Market ESG Equity Fund |
|-----------------------------------|---------------------------------------|--------------------------------------|----------------------------------|--------------------------------------|-------------------------------------|

## Bear scenario (25% probability) – bond vigilance

Our bear scenario is centered around global debt fears taking centre stage again after only shorter episodes of stress in recent years. Fiscal impulse will not have the desired effect: the growth impulse will be disappointing and limited as low consumer confidence and low fiscal multiplier of defense spending constrain a more favourable outcome. As this becomes evident, bond market vigilantes do not tolerate higher government bond supply and yields on the long end may rise significantly. Higher yields may act as a negative catalyst for lofty equity market valuations: equity markets fall driven by tech firms. Higher yields and lower equity markets tighten financial conditions and this puts the global economy on a recessionary path which further heats debt fears.

## Fixed income

As described above, government bond yields rise across the board. Central banks try to counter recessionary fears and rising yields by cutting rates but they are not successful in anchoring the long end. Emerging market fixed income and global corporate bonds underperform as bond market volatility jumps with spreads widening significantly. We have to admit though that in this scenario the chances of monetary or government intervention aiming to stabilize long end rates (like yield curve control) are high. If this materializes the spike in yields would be short-lived and would be followed by a significant liquidity injection to markets with yields ending up lower and spread products performing very well. But until then it may be advisable to keep the gunpowder dry, overweight cash and short term developed market government bonds.



## Equities

In our bear case, the macro backdrop turns less supportive, exposing the fragility of the AI-driven equity rally. A reversal in the rate environment would undermine one of the key pillars that has allowed AI valuations to inflate. While Fed rate cuts and stable long-term yields have helped fuel the AI boom, any sustained increase in borrowing costs could trigger cracks in the AI narrative. This vulnerability is amplified by rapidly rising leverage across the tech sector: hyperscalers have issued more than \$120 billion of debt this year, compared with an average of \$28 billion over the past five years, while complex financing links involving Nvidia and OpenAI have added to these concerns. Credit spreads have already begun to widen, and a renewed jump in long-term yields could accelerate stress across AI-exposed corporate bond markets.

Equity valuations among AI leaders are pricing near-perfection, with exceptionally low equity risk premia that leave little room for disappointment. In a scenario where yields rise and sentiment shifts, there is substantial downside risk to valuations and a likely repricing of ERP. A bursting of the AI bubble would not remain isolated: the shock could quickly spill over to other tech-linked emerging markets – such as Taiwan, South Korea, and China – and even to AI-dependent industries like utilities, which have benefited from data-center-driven demand expectations. Market participants are heavily concentrated in AI themes as global indices have become increasingly top-heavy. In this environment, the unwinding of

AI optimism becomes a broader market event rather than a sector-specific correction.

In this scenario, we see significant downside risks to both earnings and valuations. While it is difficult to predict the precise trigger for an AI-driven bubble to burst, any deterioration in liquidity conditions or renewed concerns over government debt sustainability could create a very different and far more challenging environment for global equities. In such a case, we would underweight equities – particularly in the U.S. and across Asia.

**In the Bear Scenario (Bond Vigilance), we expect a – 0.2% annual portfolio return in USD terms with 3.8% volatility. As higher bond yields weaken both equity and fixed-income performance, we anticipate mediocre returns across the two main asset classes. Commodity returns are expected to be slightly negative overall; however, we foresee exceptionally strong performance for gold and weak returns for crude oil.**

### Funds to consider under the Bear Scenario:



## Appendix

### Appendix 1 – Equity summary

MSCI All Country World sensitivity analysis and year end target returns

MSCI All-country World equity YE targets

| LT Risk Free Rate | Earnings scenarios compare current market consensus |       |      |      |
|-------------------|---|-------|------|------|
|                   | 15%   | 0%    | -15% | -25% |
| 3.00%             | 1 252   | 1 091 | 930  | 823  |
| 3.75%             | 1 242   | 1 082 | 923  | 816  |
| 4.50%             | 1 232   | 1 074 | 915  | 809  |
| 5.50%             | 1 219   | 1 062 | 905  | 801  |

■ Base case ■ AI boom ■ Bond vigilance

Source: VIG Asset Management



### MSCI All-country World equity returns

| LT Risk Free Rate | Earnings scenarios compare current market consensus |     |      |      |
|-------------------|---|-----|------|------|
|                   | 15%   | 0%  | -15% | -25% |
| 3.00%             | 29%   | 12% | -4%  | -15% |
| 3.75%             | 28%   | 12% | -5%  | -16% |
| 4.50%             | 27%   | 11% | -6%  | -17% |
| 5.50%             | 26%   | 10% | -7%  | -17% |

Sensitivity based on long term risk free rates and yearly earnings growth compare the current market consensus.

### Appendix 2 – Fixed Income summary

Core yields estimates end 2026

|                      | Bloomberg consensus forecast | Expected end 2026 | Expected 1-yr total return | Expected end 2026 | Expected 1-yr total return | Expected end 2026 | Expected 1-yr total return |
|----------------------|------------------------------|-------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|
|                      |                              | Base case         |                            | AI boom           |                            | Bond vigilance    |                            |
| US 10-year           | 4.10%                        | 4.50%             | 1.50%                      | 3.75%             | 6.40%                      | 5.25%             | -0.30%                     |
| EZ average 10-year   | 3.00%                        | 3.50%             | 2.20%                      | 3.00%             | 5.70%                      | 4.00%             | -5.50%                     |
| EM USD spread (bp,%) | 310                          | 280               | 5.30%                      | 250               | 12.50%                     | 450               | -10.30%                    |

CEE yields estimates end 2026

|         | Bloomberg consensus forecast | Expected end 2026 | Expected 1-yr total return | Expected end 2026    | Expected 1-yr total return | Expected end 2026 | Expected 1-yr total return |
|---------|------------------------------|-------------------|----------------------------|----------------------|----------------------------|-------------------|----------------------------|
|         |                              | Base case         |                            | AI productivity boom |                            | Bond vigilance    |                            |
| Czechia | 4.60%                        | 4.50%             | 4.80%                      | 4.25%                | 6.20%                      | 6.50%             | -6.30%                     |
| Hungary | 7.00%                        | 6.25%             | 10.00%                     | 6.00%                | 11.10%                     | 8.50%             | -0.10%                     |
| Poland  | 5.30%                        | 5.00%             | 5.10%                      | 4.50%                | 7.10%                      | 7.00%             | -3.10%                     |
| Romania | 6.90%                        | 7.00%             | 6.30%                      | 6.50%                | 8.40%                      | 10.00%            | -6.50%                     |

Macro assumptions end 2026

|                          | Actual (30/11) | Bloomberg consensus (end 2026) | BASE – Fiscal stimulus | BULL – AI boom | BEAR – Bond vigilance |
|--------------------------|----------------|--------------------------------|------------------------|----------------|-----------------------|
| FED                      | 4.00%          | 3.25%                          | 3.50%                  | 2.75%          | 2.00%                 |
| US 10-year bond          | 4.10%          | 4.10%                          | 4.50%                  | 3.75%          | 5.25%                 |
| ECB                      | 2.00%          | 2.00%                          | 2.00%                  | 1.75%          | 1.50%                 |
| EU 10-year average yield | 3.40%          | 3.00%                          | 3.50%                  | 3.00%          | 4.00%                 |
| EURUSD                   | 1.16           | 1.21                           | 1.25                   | 1.1            | 1.30                  |
| CZ                       | 4.60%          | 3.90%                          | 4.50%                  | 4.25%          | 6.50%                 |
| HU                       | 7.00%          | 6.50%                          | 6.25%                  | 6.00%          | 8.50%                 |
| PL                       | 5.30%          | 4.95%                          | 5.00%                  | 4.50%          | 7.00%                 |
| RO                       | 6.90%          | 7.69%                          | 7.00%                  | 6.50%          | 10.00%                |
| EMBIG spread             | 265            | 310                            | 280                    | 250            | 450                   |
| Gold                     | 4100           | 4275                           | 4500                   | 3000           | 6000                  |
| Oil                      | 60             | 28                             | 65                     | 50             | 40                    |
| BCOM Index               | 110            |                                | 121                    | 85             | 115                   |

Source: VIG Asset Management





# The long-term valuation of equities

András Loncsák,  
Chief Investment Officer

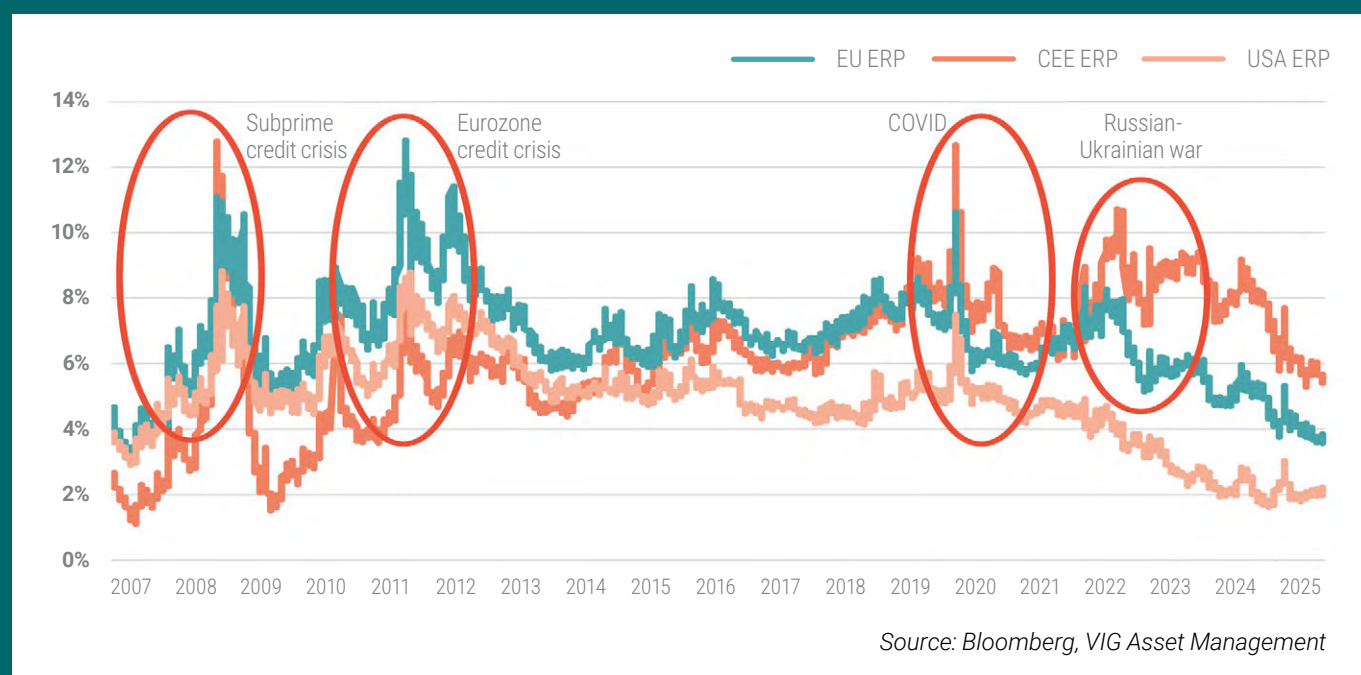
Achieving inflation-adjusted returns over the long run is possible through both short- and long-duration bonds as well as equity investments. However, the longer the bond duration or the higher the equity allocation in a hypothetical 100-year portfolio, the higher the resulting real return – albeit with greater volatility compared with a short-term bond strategy. Benjamin Graham, the renowned value investor of the last century, argued that an investor's portfolio should never hold less than 25% or more than 75% equities. In his view, when equity markets are expensive, allocations should be closer to 25%, while during periods of market stress – when prices fall and companies become undervalued – the equity share should move toward 75%. This reactive allocation approach, adjusting the balance between equities and bonds as valuations shift, can further enhance real returns. This is why the regular assessment of market valuations remains so important: they ultimately reflect investors' collective expectations of future economic and financial-market conditions.

Another fundamental principle of equity investing is that valuations are poor short-term indicators – indeed,

in the current rally, investors are not scrutinising technology-sector P/E ratios as closely as one might expect. Over longer horizons, however, valuations become key signals. The Equity Risk Premium (ERP) captures whether optimism or caution is priced into equities relative to bonds. As the chart below illustrates, U.S. equities have built up a level of optimism not seen since before the 2007 credit crisis, with an ERP of barely 1%. Historically, when the ERP has spiked – during the global financial crisis, the eurozone crisis, or the COVID shock – it has coincided with sharp corrections in equity markets. The same pattern emerged during the Asian financial crisis in 1997 and the bursting of the dot-com bubble in 2000. When equities become overvalued and the ERP falls too low, as it is today, subsequent drawdowns of 40–50% have not been uncommon.

While the U.S. equity market may continue to rise in 2026, any shift in investor perception or the emergence of a new, unforeseen risk could trigger a significant revaluation of equities relative to bonds, potentially ushering in a bear market. This is not our base-case scenario, but investors should be mindful of the risk.

## Equity Risk Premiums (ERP) 2007-2025







# USD Outlook

## Scenario analysis

Gábor Németh, Senior Portfolio Manager



### Base case: a structurally weaker dollar (EUR/USD 1.20–1.25)

The Trump administration's policy stance continues to lean toward a weaker dollar, with the Federal Reserve expected to cut rates multiple times – even in an environment where macro fundamentals may not fully justify such easing. Throughout much of 2025, particularly in the first half of the year, market movements closely tracked Donald Trump's unpredictable actions and negotiation tactics. Periods of sudden USD weakness were typically linked to event risks: the announcement of reciprocal tariffs, ongoing political pressure on the Federal Reserve, demands for immediate rate cuts, the unveiling of Germany's fiscal stimulus package, and recurring episodes in the trade war with China.

In many respects, U.S. economic policy began to resemble that of an emerging market – with all the associated risks. At times, the long-held notion of “American exceptionalism” came into question, triggering capital outflows toward other regions. As a result, the DXY dollar index fell 11% in the first half of the year – the sharpest six-month decline since 1972.

Market consensus attaches the highest probability to this scenario: an EUR/USD exchange rate rising toward 1.20–1.25 and a broadly weaker U.S. dollar. This requires further Fed rate cuts, bringing the policy rate down to around 3.5%, or potentially below. Such an outcome could be driven not only by a notable softening in the U.S. labor market, but also by a scenario in which growth remains more resilient than expected while the administration – supported by a newly appointed Fed Chair – exerts political pressure to cut rates more than justifiable.

Fundamental pressures from a widening fiscal deficit and deteriorating debt metrics, or a slowdown triggered by an AI bubble bursting, could similarly weigh on the dollar – though these begin to overlap with the alternative scenarios discussed later.

### Classic USD smile



Source: VIG Asset Management



Under the classical “dollar smile” framework, stronger relative growth outside the U.S. would also support USD weakness. In the euro area, gradually accelerating fiscal stimulus may help cyclical momentum, while in emerging markets a weaker dollar could reinforce a virtuous cycle of lower risk premia, declining policy rates and stronger currencies.

Event-risk catalysts remain heavily tied to Trump. It is difficult to envision a year without new tariff announcements or unexpected twists in the temporary U.S.–China truce. Persistent political pressure on the Federal Reserve is also likely – which we already discussed above.

Unexpected political maneuvers ahead of the 2026 U.S. midterm elections could also lift risk premia. Paradoxically, the absence of such surprises is the biggest risk to the weaker-dollar scenario.

We nonetheless view the weak dollar environment as the base case because reducing the U.S. trade deficit and improving industrial competitiveness remain core strategic priorities of the Trump administration. Higher tariffs, a weaker dollar and lower interest rates are seen as essential tools. Trump’s favored economist – Stephen Miran, now a Fed policymaker – has repeatedly argued that America’s trade deficit is not due to fiscal policy, but rather to an overvalued dollar. With many of his policy proposals already implemented, the strategic preference for a weaker dollar is unlikely to disappear.

But for the dollar to weaken more meaningfully than consensus the market would probably need a new narrative, like

- deeper-than-expected rate cuts,
- Plaza-Accord-style FX intervention, or
- even U.S. yield-curve control (YCC) aimed at suppressing long-term yields.

If further actions follow in 2026, historical precedents suggest meaningful downside remains: the dollar fell ~25% between 1974–78, over 50% between 1985–87, and more than 40% between 2002–08.

## Medium-probability scenario: no unorthodox measures, resilient U.S. growth (EUR/USD falls to 1.10)

Without further surprises from U.S. policymakers, the dollar could stabilize, find a bottom, or even begin to strengthen. The tariff conflict appears to have calmed, and markets have reacted less intensely to trade-related

headlines. With the U.S. achieving tariff outcomes favorable to its interests, policy uncertainty may diminish – an inherently USD-supportive development.

“American exceptionalism” also returned after the temporary wobble in April, and interest-rate differentials could shift back in favor of the dollar. Looking ahead to the 2026 midterm elections, Trump will likely prioritize a strong economy, reducing the incentives for political shocks or renewed trade escalation.

Stronger-than-expected U.S. growth, driven by an extended AI-driven productivity boom, would clearly support the dollar.

## Alternative scenario: debt crisis, surging long-term yields or an AI bubble burst – Fed cuts deep below 3%, USD collapses (EUR/USD above 1.30)

“Expect the unexpected.” While implied recession probabilities remain low, multiple vulnerabilities threaten U.S. financial stability: extreme market concentration, stretched valuations, AI-driven exuberance and the growing dependence of U.S. households on equity-market performance. It remains uncertain whether massive AI-related capex will ever deliver the expected returns.

Globally, structurally rising debt levels and persistent fiscal deficits are increasingly unsustainable. A bond-market revolt could push long-term yields sharply higher – often a precursor to recession.

In such an environment, the Fed faces a dilemma: if soaring long-term yields trigger market stress, cutting short-term rates alone may worsen instability. Yet historically, the Fed reacts faster and more forcefully than any other central bank – a dynamic that may intensify under a new Fed leadership. In a recession, the USD typically weakens sharply, which would likely occur again.

However, in the early phase of a shock, EM currencies would suffer as risk premia spike and carry trades unwind – limiting their initial benefit from a weaker USD.

A true “wild card” scenario emerges if Trump or the Fed acts unexpectedly: a renewed tariff war with China, or more dramatically, the introduction of yield-curve control to cap long-term U.S. yields (for example at 3.5%). Such measures could trigger a severe dollar crisis, pushing EUR/USD above 1.30.

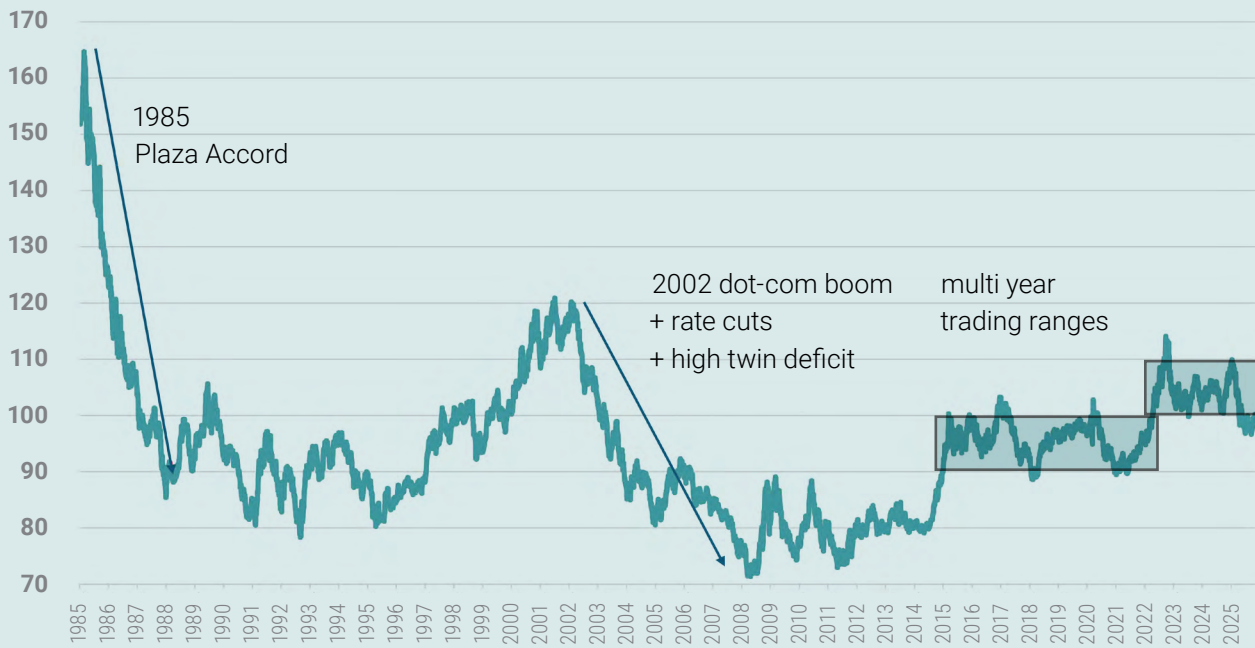


## Summary

Our base case remains an EUR/USD rise above 1.20. However, for the dollar to weaken further, the Trump administration will need to introduce new policy actions –

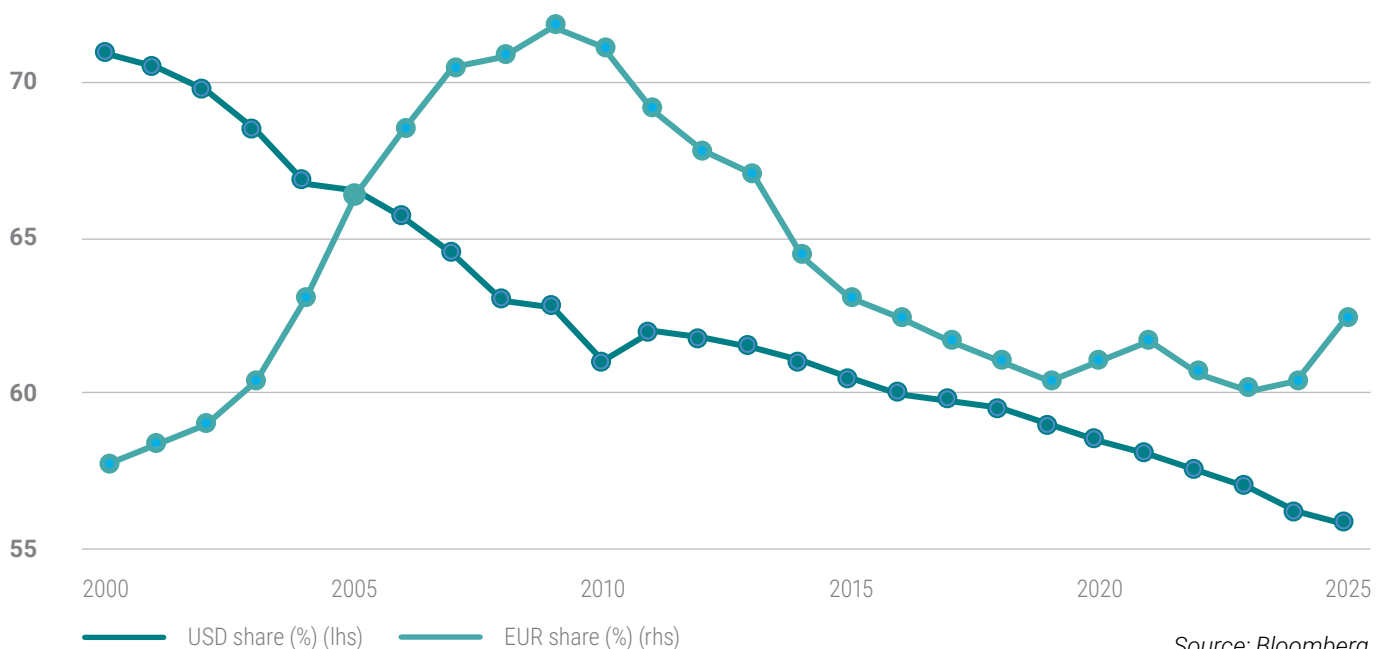
existing narratives are losing momentum. We maintain a structurally bearish USD view because weakening the dollar aligns with key strategic goals of the administration and its leading economists. But delivering this outcome in 2026 will probably require renewed action.

## DXY dollar index in the past 40 years



## USD share of reserves fell, EUR share rose in Q2 2025

Current composition of global foreign exchange reserves



# Public Debt

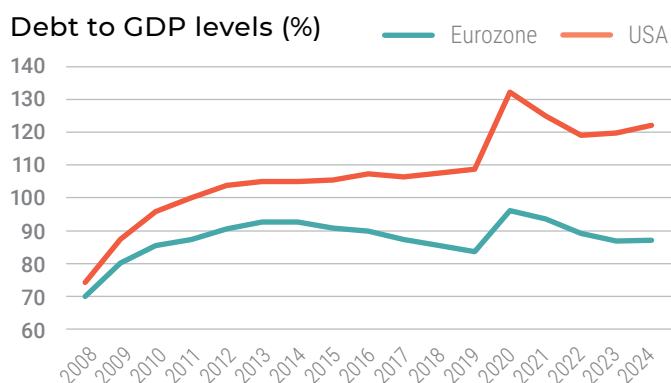
## How long will the market tolerate high public debt levels?

Mátyás Király-Kovács, Portfolio Manager

### Is Yield Curve Control (YCC) coming?

In the early 2010s, the European – primarily Greek – debt crisis repeatedly unsettled investor sentiment. To help keep debt levels under control, alongside fiscal tightening, the European Central Bank also introduced several measures: it launched liquidity and bond-purchase programs, and, in a previously unimaginable move, cut the deposit rate into negative territory, all the way down to  $-0.5\%$ . The 2010s were defined by ZIRP (Zero Interest Rate Policy) both in the Eurozone and in the U.S., where, following the 2008 subprime crisis, the Fed reduced the policy rate to  $0-0.25\%$  and purchased mortgage-backed securities and Treasuries under its quantitative easing (QE) programs.

As a result of these measures, debt levels in Europe eased in the second half of the 2010s, while in the U.S. the growth rate of public debt slowed substantially. The next surge in indebtedness came with 2020 and the Covid shock: in the U.S., the debt-to-GDP ratio jumped from 109% to above 130%, while in the Eurozone it rose from 84% to 97%. Since Covid, however, the two economic regions have diverged: in the Eurozone, the debt ratio fell by nearly 10 percentage points, whereas in the U.S. debt to GDP ratio it is expected to rise close to 125% by the end of 2025.



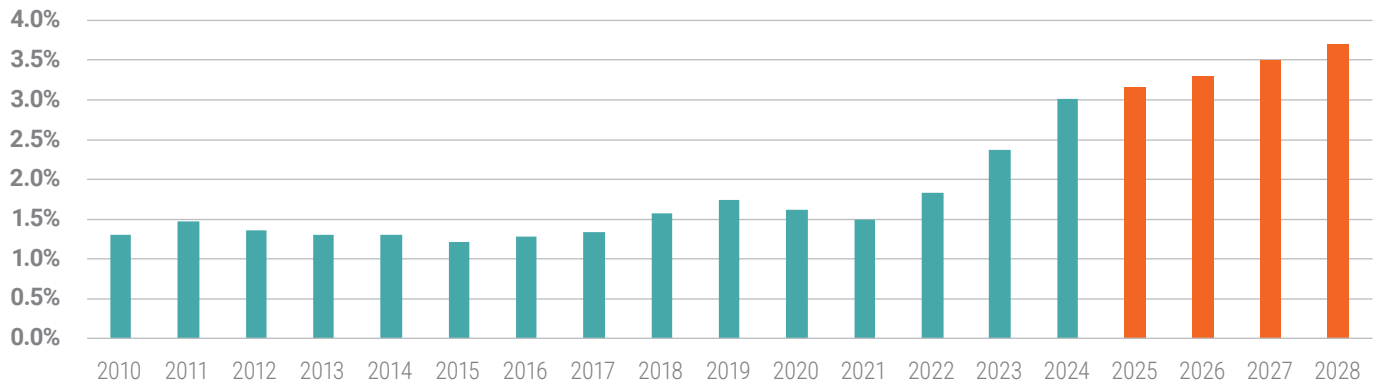
Source: Bloomberg



Accordingly, investors now tend to question the sustainability of U.S. debt dynamics. This has been reflected in the bond market through elevated term premiums, higher real yields, and the steepening yield curve. The outlook is further clouded by the fact that, based on the Trump administration's previous policy actions, the U.S. budget deficit is likely to remain above 6% this year and in the coming years.

Meanwhile, debt-servicing costs are rising sharply: interest payments amounted to 3.0% of GDP in 2024 in the U.S., a steep increase compared with prior years. Based on current macroeconomic forecasts, the cost of interest payments on U.S. debt will continue to rise in the coming years. These developments have been reflected in sovereign credit ratings as well: in 2023, Fitch downgraded the U.S. from AAA to AA+, and in 2025 Moody's downgraded it from Aaa to Aa1 (S&P had already cut the U.S. from AAA in 2011).

## US debt service (interest payments to GDP, %) dynamics



Source: IMF

For now, one can say that the market still finds the U.S.'s roughly 120% debt-to-GDP ratio acceptable, as it is neither historically nor internationally extreme. The relative stability of bond yields also supports this. However, confidence can quickly evaporate, as the debt trajectory is unsustainable under current parameters. A significant rise in bond yields would further increase financing costs, causing debt levels to spiral even more over the forecast horizon, which could eventually force some policy response – either fiscal (deficit reduction) or monetary (accelerated bond purchases).

## Can we expect Yield Curve Control (YCC) in the U.S. in 2026?

Policymakers have little direct influence over long-term yields – at least without the interventions noted above – since these are shaped primarily by market forces. Short-term yields, however, are easier to influence. U.S. Treasury Secretary Scott Bessent regularly criticizes the Fed's leadership, as does President Trump, arguing that high interest rates harm the economy. The new Fed Chair – appointed by Trump – is therefore expected to further cut the policy rate next year, which would reduce yields on short-term Treasuries.

However, further rate cuts will only be credible if investors do not perceive rising inflation risks. Otherwise, higher inflation expectations would push up long-term yields (steepening the curve), increasing U.S. interest expenses on new debt issuance.

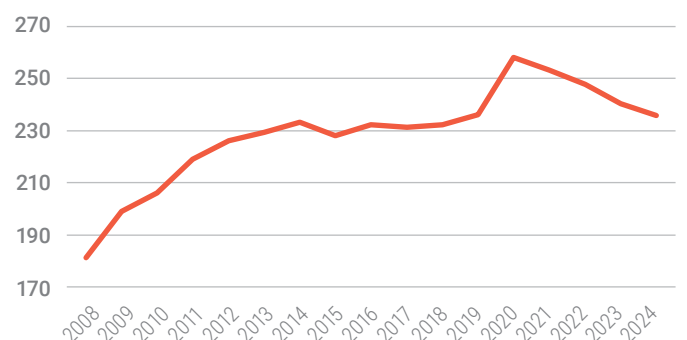
Policymakers have several tools available to control yields. Cutting the policy rate lowers short-term yields, so the Treasury may shift issuance toward shorter maturities, which become cheaper to finance as rates fall. Reduced supply of long-term bonds – assuming demand remains the same or falls more slowly – would also dampen long-term yields. Since keeping yields in check – that is, reduc-

ing the cost of debt financing – is economically desirable, it is quite possible that the new Trump-aligned Fed Chair taking office in May 2026 will expand the Fed's balance sheet again, increasing central bank bond purchases. At the October Fed meeting, the FOMC already decided to maintain the level of asset purchases, ending the recent period of declining bond-buying volumes.

According to fund managers surveyed by Bank of America (BoFA Global Fund Manager Survey), there is a 54% probability that the new Fed Chair – taking office in May 2026 – will attempt to push down long-term Treasury yields through quantitative easing (QE) or yield curve control (YCC), thereby reducing U.S. debt-servicing costs.

What does yield curve control mean in practice? YCC means that the central bank targets specific yield levels for certain maturities (e.g., 2-year or 10-year yields), and purchases government bonds – potentially in unlimited quantities – to maintain those targets. Japan introduced YCC in 2016, targeting a -0.1% short-term rate and a 0% 10-year yield. Japanese YCC can be considered relatively successful: it did not trigger significant inflation, supported the economy, and debt levels did not meaningfully increase further. However, the Japanese yen has depreciated by more than 40% against the dollar since 2021, as the Bank of Japan ramped up bond purchases to keep yields stable despite rising inflation.

## Debt to GDP (%), Japan



Source: Bloomberg



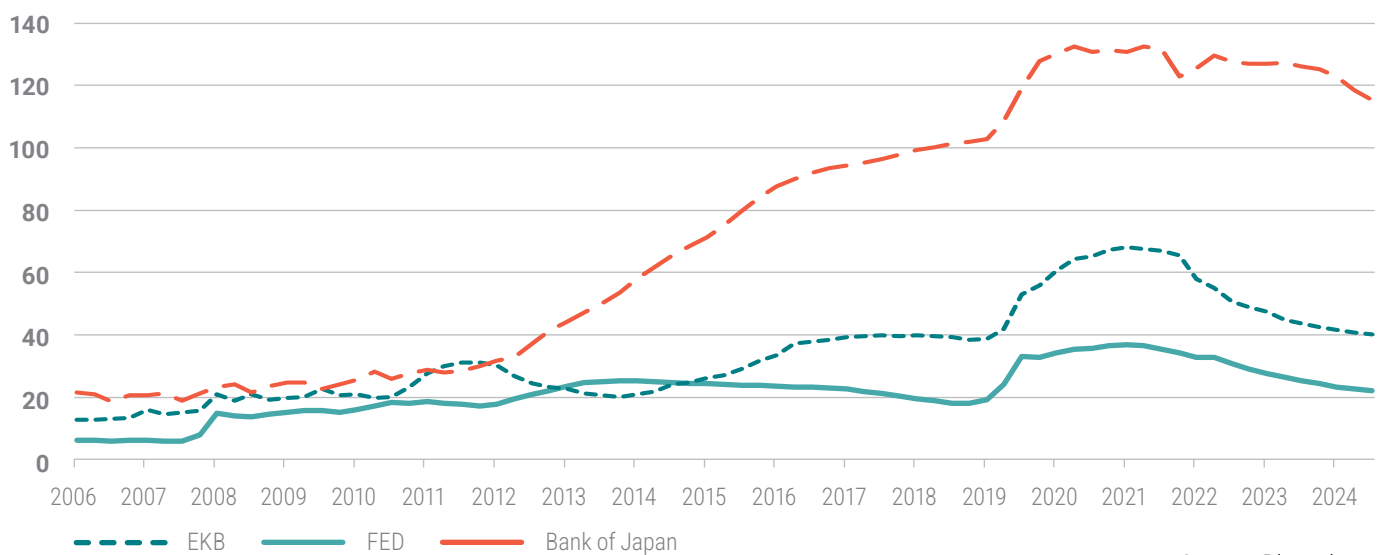


If yield curve control is followed by surging inflation, this amounts to “financial repression”: investors who buy bonds at low nominal yields would end up earning negative real returns due to higher inflation.

**Summary: Investors overall do not expect the Fed to implement yield curve control starting in 2026, but short-term economic policy goals catalysed by a new Fed leadership could easily lead to stronger monetary support: in addition to cutting rates, the Fed may once again expand its balance sheet and purchase more Treasuries.**

In this case, the U.S. would increasingly become a “high-pressure economy”, where both fiscal and monetary policy are expansionary. Instead of the previously typical ~4% deficit (2000–2019 average), a 6% deficit could become the “new normal”, and the Fed’s balance sheet may grow again. Strong fiscal and monetary stimulus alike increase the supply of dollars, which carries medium-term inflation risks and suggests further structural depreciation of the USD.

### Central bank balance sheets to GDP (%)



Source: Bloomberg





# Emerging Markets

## Strong 2025 performance sets the stage for a promising 2026

**Csaba Miklós, Portfolio Manager**

Emerging markets delivered a strong performance in 2025, and a closer look at the underlying economic and structural drivers suggests that the outlook for 2026 remains favourable. The geopolitical and economic weight of developing countries continues to rise, supported by long-term trends such as demographics, age structure, urbanisation, institutional reform, and the gradual liberalisation of capital-market regulation. On a purchasing-power-parity basis, emerging economies already account for more than half of global GDP, and their growth rates consistently outpace those of developed markets.

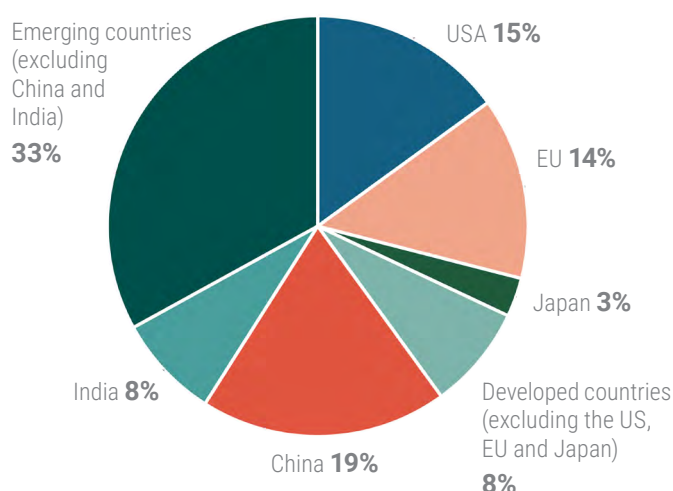
The global macro backdrop is likely to remain constructive, and one of the key catalysts for the continued strengthening of emerging-market currencies and assets – U.S. dollar weakness – also appears set to persist into the new year. The structural forces behind the dollar's decline, particularly the unwinding of long-standing trade imbalances, typically play out over multiple years. The United States' record-high current-account deficit vis-à-vis emerging markets has built up over two decades,



and its normalization would naturally support dollar depreciation and the appreciation of developed-market currencies. Short- and medium-term dynamics reinforce this trend: the impact of the higher U.S. tariff regime and the accelerating Fed rate-cut cycle may both add downward pressure on the dollar. As U.S. labour-market data gradually weakens, the central bank may be forced to ease more aggressively – earlier, more frequently, or in larger increments – than currently expected. Since most emerging markets are already well ahead in their rate-cut cycles, the relative rate differential versus U.S. yields is likely to widen, further enhancing the attractiveness of EM assets.

More favourable valuation levels versus developed-market equities continue to support the case for emerging markets, though regional differentiation remains important. Central and Eastern Europe stands out as one of the most attractively valued segments globally, both relative to its own history and compared with other emerging-market regions.

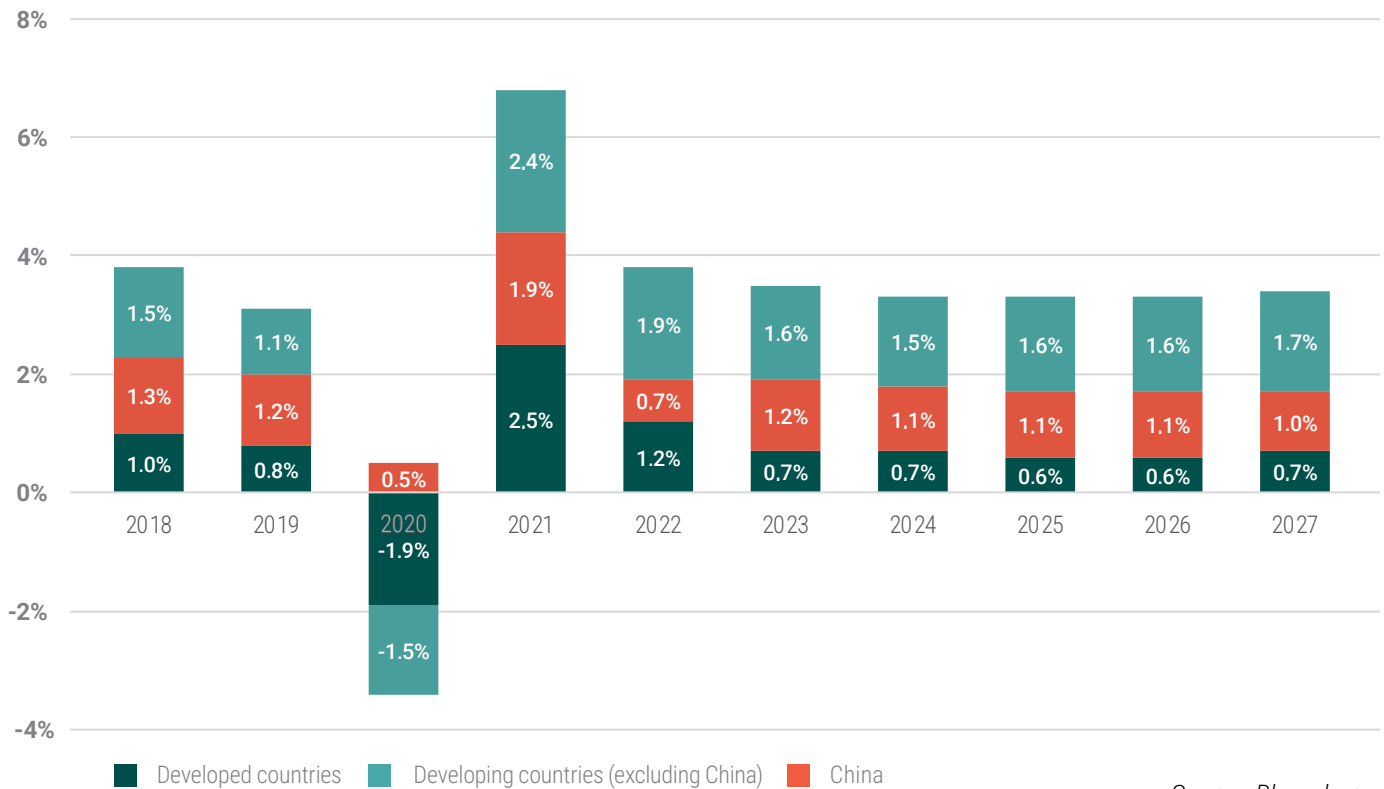
### GDP distribution (PPP) in 2024



Source: Bloomberg



## Contribution of emerging countries to global GDP growth



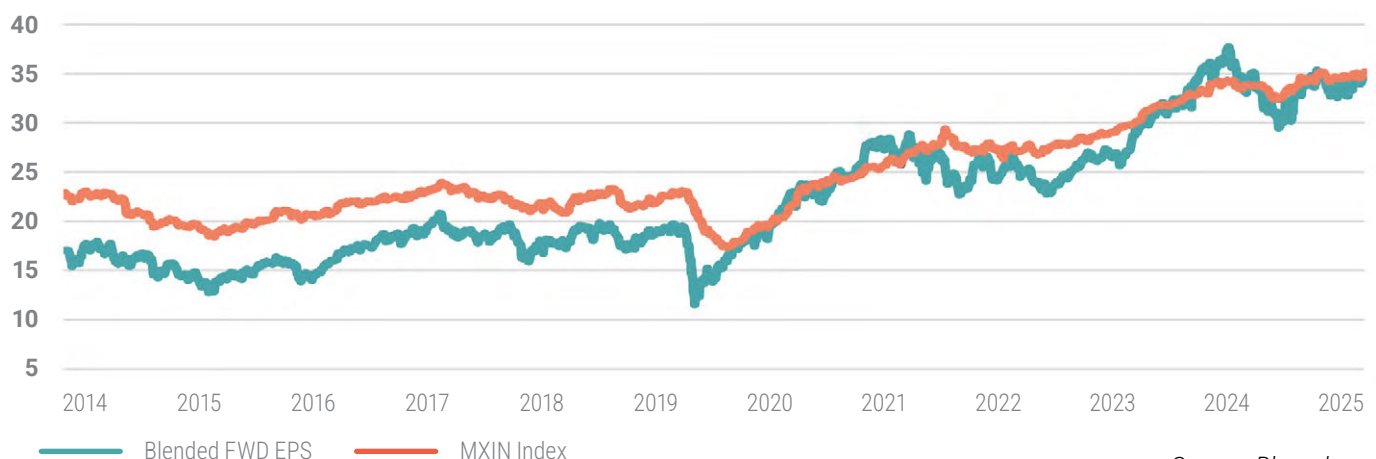
Source: Bloomberg

## India: a consolidation phase poised to become a catch-up opportunity in 2026

India – the world’s most populous nation and the second-largest emerging-market economy – also deserves special attention. Fiscal stimulus, an increasingly supportive monetary stance, and ongoing structural reforms provide a credible pathway to achieve

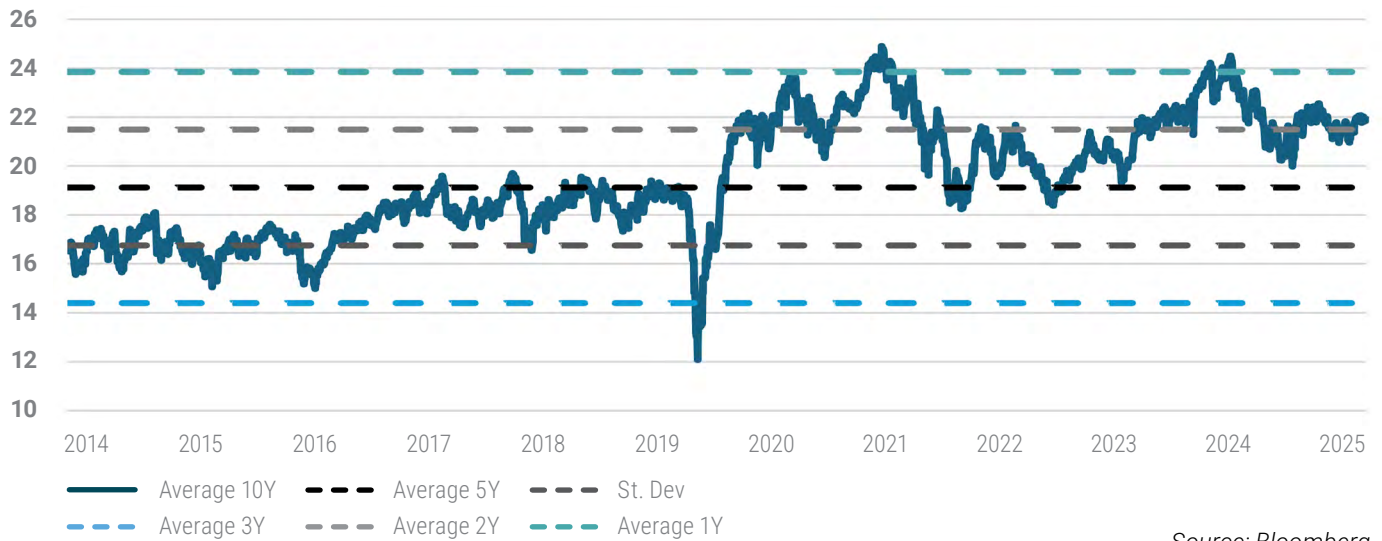
domestic-demand-driven GDP growth of around 7%. After a multi-year period of outperformance, Indian equities diverged from broader EM trends in 2025, entering a phase of consolidation. The market also failed to match the 5–15% appreciation seen across most developed-market currencies versus the dollar. However, this sideways movement improved equity valuations and helped unwind previous excesses, suggesting that India could be among the noteworthy catch-up stories of 2026.

## India – forward EPS (forward-looking earnings per share) and the performance of the MSCI India index (in USD)



Source: Bloomberg

## Forward P/E 12m – 12-month forward price/earnings ratio



Source: Bloomberg

## How to capture the AI trend within emerging markets?

Within the developing world, Taiwan – economically and institutionally closest to advanced markets – serves as the primary technology proxy for emerging markets. Taiwanese equities have historically tracked the performance of the U.S. technology sector, and are likely to

remain closely aligned with the global AI megatrend. The dominance of TSMC, which represents roughly 50% of the local index and generates 75% of its revenues in developed markets, underscores this dynamic. As the world's leading semiconductor foundry and the key supplier to major global technology companies – including, most prominently, Nvidia – Taiwan remains a strategic gateway for gaining exposure to AI-driven growth within the EM universe.







# Central and Eastern European Outlook

András Loncsák, Chief Investment Officer

CEE economies are still waiting for the tide to turn, hoping geopolitical tensions will ease and growth can resume.

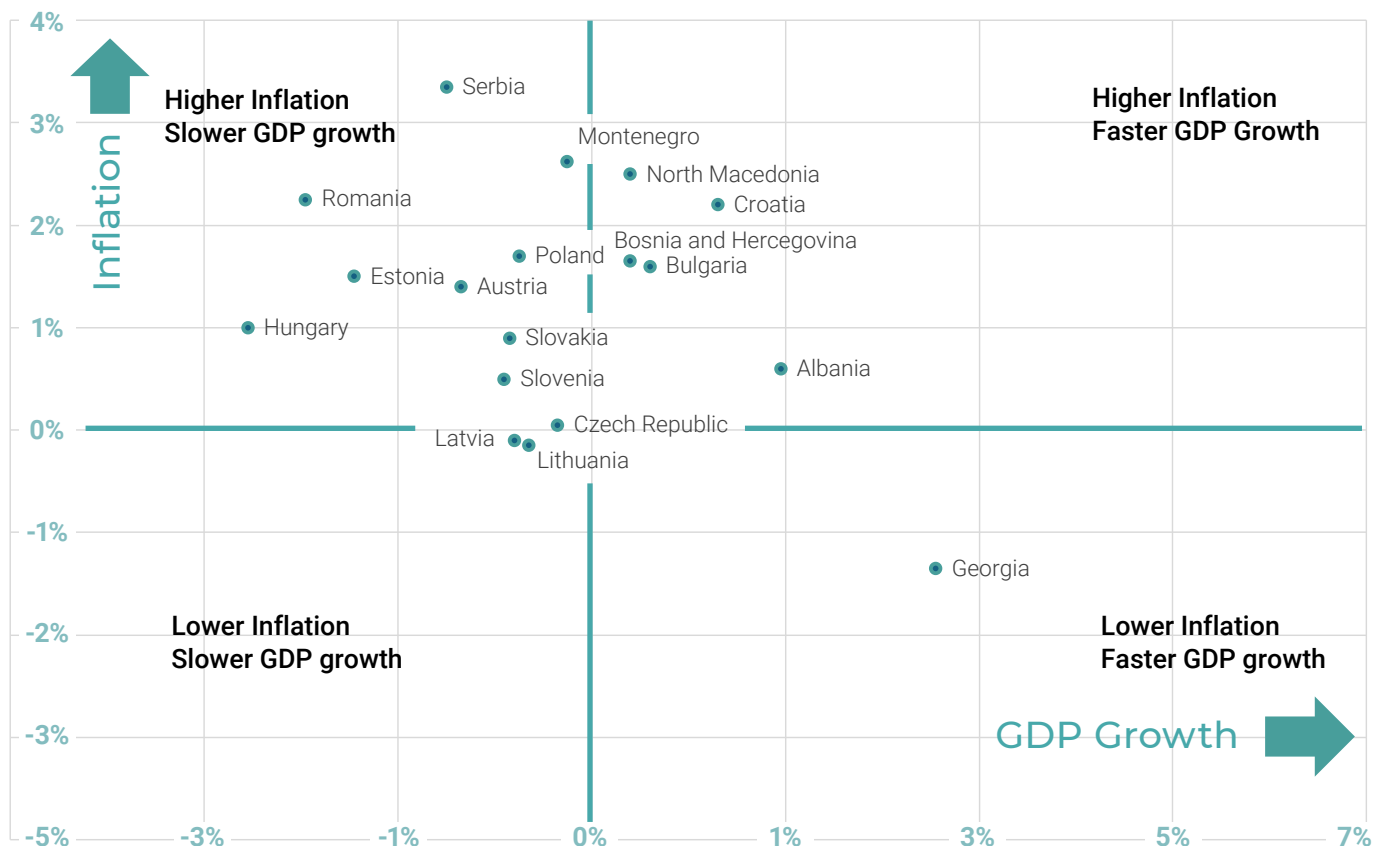
## CEE GDP growth

The CEE region remains in a prolonged holding pattern, with economic growth still significantly weaker than in the years before the pandemic and the war. Inflation – though moderating – is materially higher than pre-crisis norms, while fiscal positions have deteriorated sharply as governments absorbed successive shocks. Policy-makers, businesses, and investors are acutely aware that the region is operating below potential, effectively waiting for the tide to turn. A lasting return of peace would not only help the dust settle but could also unlock

a meaningful improvement across key macroeconomic indicators – from stronger growth and more anchored inflation to a gradual repair of budget balances.

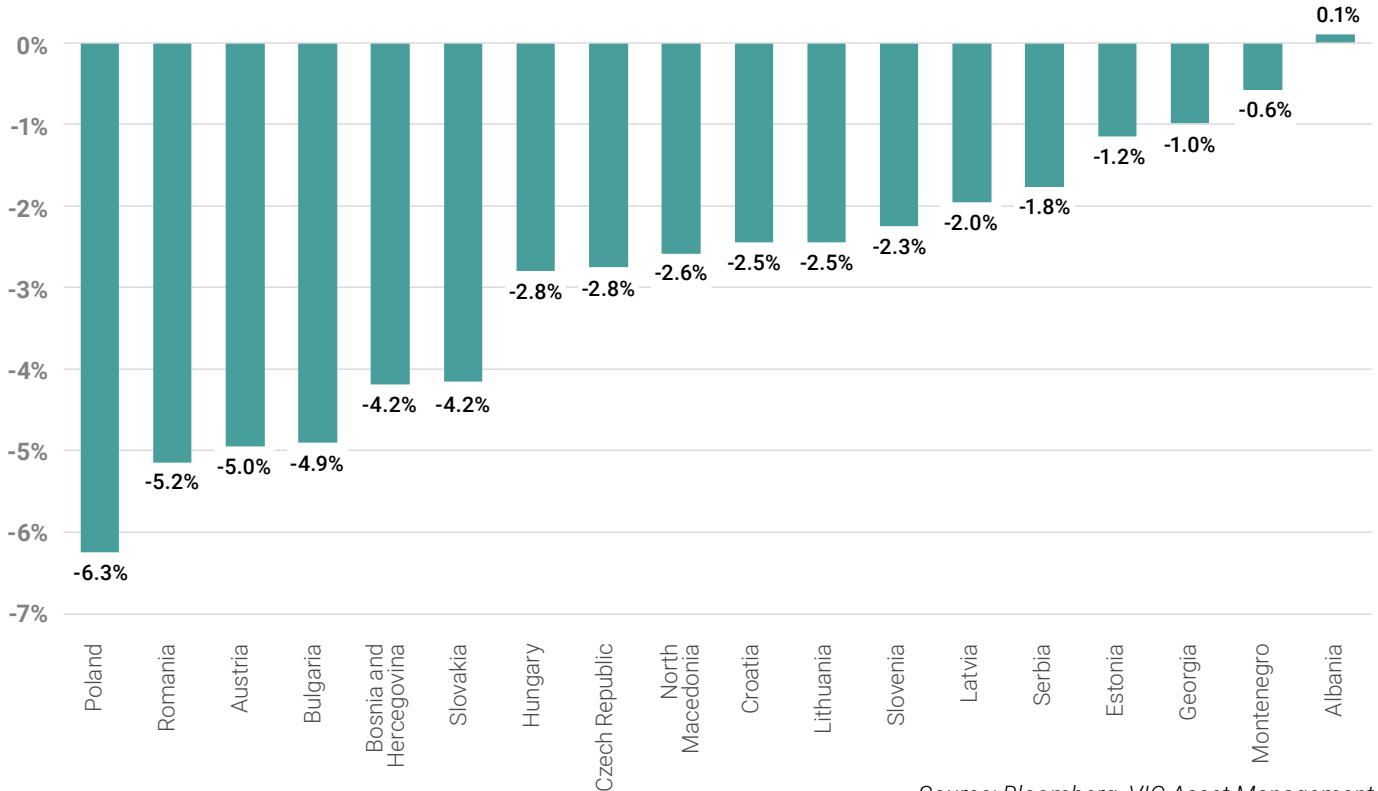
While the CEE countries' counter-cyclical policy responses helped them exit the COVID-induced recession, they – along with the shockwaves from the Russia – Ukraine war – failed to generate the degree of growth that had been hoped for. At the same time, fiscal deficits remained elevated, weighed down by weaker post-crisis growth dynamics and persistently higher inflation. In many cases, it has also proven difficult for economic policy to step back from the high levels of spending deployed during successive crises. As a result, macroeconomic equilibrium has yet to be restored in most economies, and the additional burden of rising defence expenditures continues to strain public finances.

GDP Growth and CPI difference compared to pre COVID/war period (2025/24 avg vs 2019/18 avg)



Source: Bloomberg, VIG Asset Management

## Fiscal balance deterioration post-crisis vs. pre-crisis (2024-25 avg. vs 2018-19 avg)



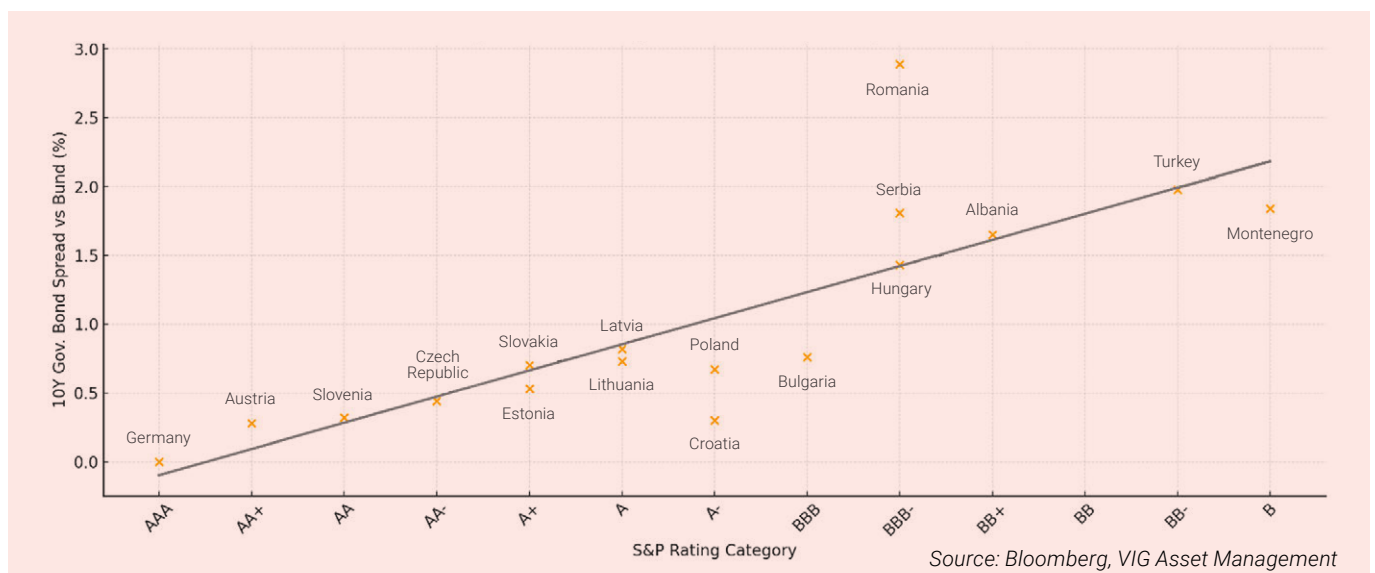
Source: Bloomberg, VIG Asset Management

## CEE government bonds

Regional sovereign spreads increasingly reflect the mounting burdens on public finances across several CEE economies. While there remains a broadly linear relationship between credit ratings and 10-year yield differentials, a number of countries stand out meaningfully from the trend. Romania, rated BBB-, trades with a spread of nearly 300 basis points – substantially wider than peers in the same rating bucket – indicating

the market's clear pricing of elevated political and fiscal risks, as well as the possibility of further downgrades; from a yield perspective, however, it offers one of the most notable carry opportunities in the region. Hungary and Serbia, both rated BBB-, also pay a sizeable premium of 140–180 basis points, reflecting a persistent political and fiscal risk premium. In a gradually stabilising macro environment, these spreads could become increasingly attractive for investors willing to take moderate risk.

## Sovereign credit rating vs 10Y bond spread (with trendline)



Source: Bloomberg, VIG Asset Management



## CEE equities

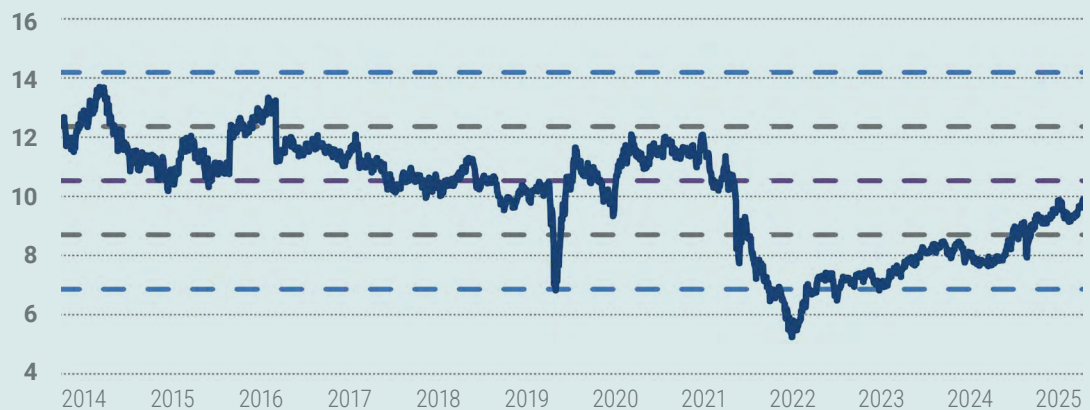
Global equity markets delivered exceptionally strong returns in 2025, and a continuation of this performance increasingly depends on the materialisation of more optimistic macro and earnings scenarios. As Benjamin Graham famously noted, long-term equity performance is driven primarily by dividend income and the trajectory of corporate earnings, though market valuation – such as the price-to-earnings (P/E) ratio of a listed company – also plays a critical role over extended horizons. On a P/E basis, most major equity markets now screen as expensive, with valuations in several regions sitting well above long-term averages, particularly in technology segments linked to artificial intelligence. A notable exception is the CEE equity market, where still single-digit P/E multiples remain below their 10-year norms, offering an attractive entry point. This is reinforced by the fact that earnings

prospects for CEE corporates remain broadly favourable, further enhancing the region's investment appeal.

Although CEE equities are no longer as cheap relative to their own history – the war-related discount has largely faded – they continue to trade at a meaningful valuation discount compared with both developed and other emerging markets. While expected EPS growth for next year is currently the lowest in the CEE region, analysts have continuously revised their 2025 earnings forecasts upward across Czech, Polish, Hungarian, Austrian and Romanian corporates. As noted earlier, GDP growth across CEE remains below pre-crisis levels, and an eventual end to the war would likely support the broader economic environment and, by extension, corporate profitability. This combination suggests that the region still offers considerable upside potential for investors positioned in CEE equity markets.

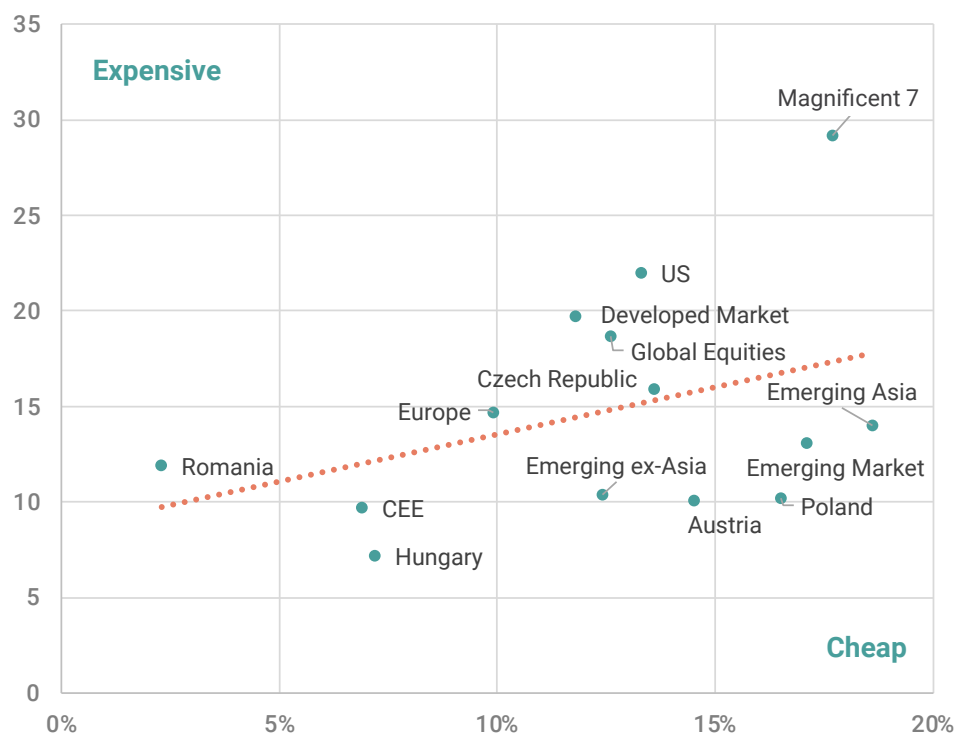
### CETOP index forward P/E 12M

Source:  
Bloomberg,  
VIG Asset  
Management



### Market valuation (BF P/E) and EPS growth

Source:  
Bloomberg,  
VIG Asset Management







# CEE Inflation Outlook

Zsófia Béri, Portfolio Manager



## Progress made, challenges ahead

Disinflation remained the dominant theme across Hungary, Czech Republic and Poland throughout 2025. As winter set in, price pressures moderated further, and December inflation is expected to fall comfortably within central bank tolerance ranges. With this, regional easing cycles are nearing completion, while both the Czech and Hungarian central banks have already maintained a steady policy stance for some time. Although inflation targets are now within sight, 2026 is unlikely to mark full convergence for much of the region.

In the Czech Republic, the 2026 inflation outlook will be shaped primarily by the development of household energy costs, as the risks surrounding the 2025 parliamentary elections will already be behind us. Czech households face some of the highest energy costs in the EU, making cost reduction a central topic in the October election campaign. Both the government and major energy suppliers have been exploring measures to mitigate rising costs, several of which could positively influence the 2026 inflation trajectory. The central bank's rate-cutting cycle has ended, and future moves will likely hinge on how energy costs evolve.

In Hungary, next year's inflation dynamics will be determined primarily by the April elections and the potential extension of related government measures. Many of the policies designed to temporarily suppress inflation are scheduled to expire in 2026, meaning that the lower inflation seen in the run-up to the election will likely give way to a trend-like acceleration in the second half of the year. The magnitude of the rebound is uncertain, but artificially depressed inflation in the

first half will almost certainly result in lower average inflation in 2026 than in 2025. Consequently, a renewed round of rate cuts is unlikely in the first half of the year. Service inflation is expected to remain sticky in 2026, leaving our forecast above market consensus. A stable political environment and a sustained decline in household inflation expectations will be essential prerequisites for restarting monetary easing.

In Poland, the successes achieved this year have played a major role in positioning the Polish central bank to be the first in the region to reach its inflation target in 2026. However, several risks threaten next year's inflation path. Fiscal easing and strong domestic consumption may constrain the fight against inflation. Reducing household energy costs remains a priority in Poland as well, especially since the energy price freeze expires at the end of this year. The President nonetheless aims to reduce energy costs for both households and businesses through new decrees thereafter. Having curbed inflation more effectively than its regional peers, the Polish central bank may be approaching the end of its easing cycle.

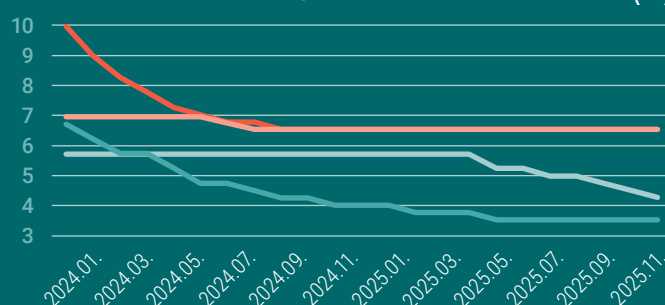
Romania is the outlier in the region, as its inflation trajectory has diverged sharply due to government measures implemented in 2025. In summer 2025, the Romanian government introduced significant tax increases to restore fiscal balance. VAT was raised from 19% to 21%, the energy price cap was removed, and excise taxes were increased as well. As a result, Romania's fight against inflation will lag regional peers by around one year: the high-inflation period that began in July 2025 will only end in summer 2026, after which the continuation of the rate-cutting cycle may once again become feasible.

| 2026 average inflation | Hungary | Czech Republic | Poland |
|------------------------|---------|----------------|--------|
| Market consensus       | 3.6%    | 2.2%           | 2.8%   |
| VIG AM                 | 4.0%    | 2.6%           | 2.5%   |

— Hungary — Poland — Czech Republic — Romania

Source: VIG Asset Management

Central bank base rates (%)





# Elections in Central and Eastern Europe

András Loncsák, Chief Investment Officer

Several upcoming elections across the CEE region may meaningfully shape the policy environment and influence investor sentiment over the next one to two years. Hungary, Latvia and Slovenia will all hold parliamentary elections in 2026, each carrying the potential for shifts in fiscal priorities, regulatory direction and alignment with EU policies. Bosnia and Herzegovina will also hold general elections in 2026, an event the market is likely to monitor with heightened caution. In Poland, a parliamentary election must take place by 2027; while this

still appears distant, its market relevance is expected to increase toward the end of 2026 as investors begin positioning for either policy continuity or potential change in the region's largest economy.

Overall, although none of these elections necessarily signal abrupt shifts, the political calendar remains an important source of event risk – one that may temporarily elevate volatility while also creating selective opportunities as policy trajectories become clearer.





# Commodities Outlook

Zsolt Kardos, Portfolio Manager

In our base-case scenario, most of the global disinflation process is already behind us, and improving growth prospects are set to support commodity demand in 2026. Under these conditions, a broad-based increase in commodity prices appears likely. In our optimistic scenario, AI-driven productivity gains help keep inflation and energy prices contained, limiting commodity price appreciation with a few key exceptions. Conversely, our pessimistic scenario points to weaker commodity markets, as rising interest rates could push the global economy toward recession, reducing overall demand.

Based on our analysis, three commodity segments stand out in 2026 with the potential for meaningful upside: gold, copper, and agricultural products.

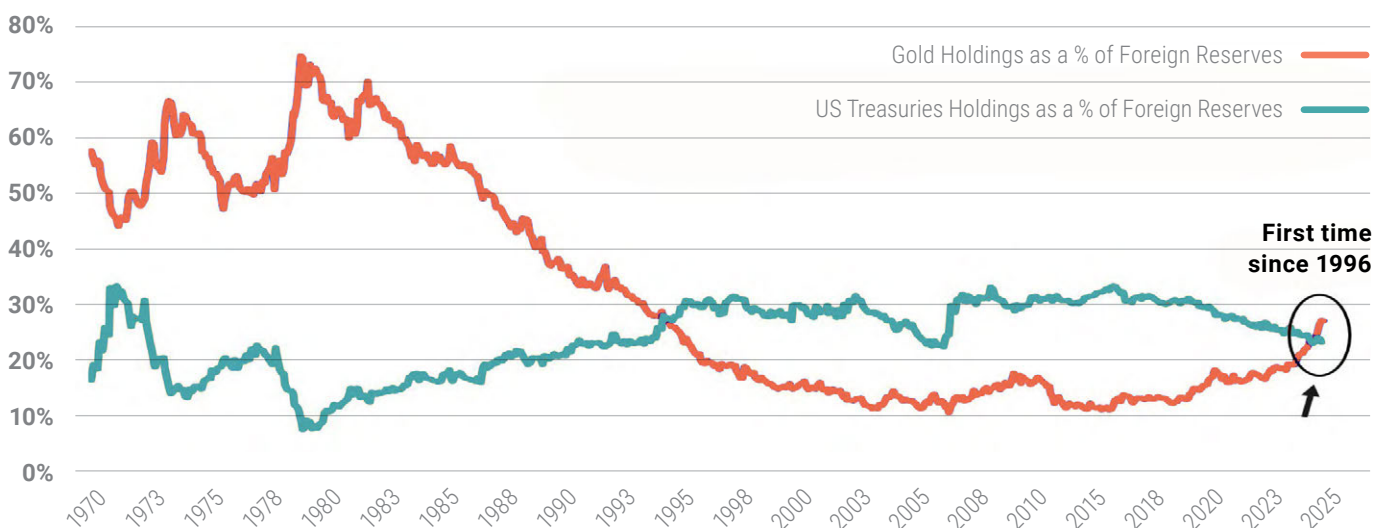
## Gold

Gold delivered a spectacular rally of more than 50% in 2025, driven by geopolitical uncertainty, concerns over the sustainability of the U.S. fiscal path, a dovish Federal Reserve, and record levels of central bank buying. The Trump administration's unpredictable economic policy decisions and explicit preference for a weaker U.S. dollar reinforced this "unorthodox policy mix," historically known to support gold – similar to previous bull markets anchored in the oil crisis, stagflation, quantitative easing, or the COVID-19 shock.



Central-bank reserve diversification is adding a structural tailwind: for the first time in thirty years, foreign central banks now hold more gold than U.S. Treasuries. Meanwhile, retail and institutional portfolios remain underweight in gold, partly due to the post-COVID rise in stock-bond correlations – meaning the asset class is still broadly underowned.

## Foreign central banks hold more gold than treasuries



Source: Bloomberg, Tavi Costa



Following the exceptional 2025 rally, the autumn correction was natural and in line with previous bull-market patterns, where sharp pullbacks typically preceded renewed gains. Entering 2026, the fundamental drivers remain in place: elevated global debt levels, a weaker-USD policy stance, deteriorating fiscal outlooks, and a likely Fed rate-cutting cycle. Historically, gold performs particularly well when the Federal Reserve eases policy while inflation remains above 2%.

Overall, while a repeat of the 2025 surge appears unlikely, the macro backdrop continues to suggest meaningful upside potential for gold in 2026.

## Copper

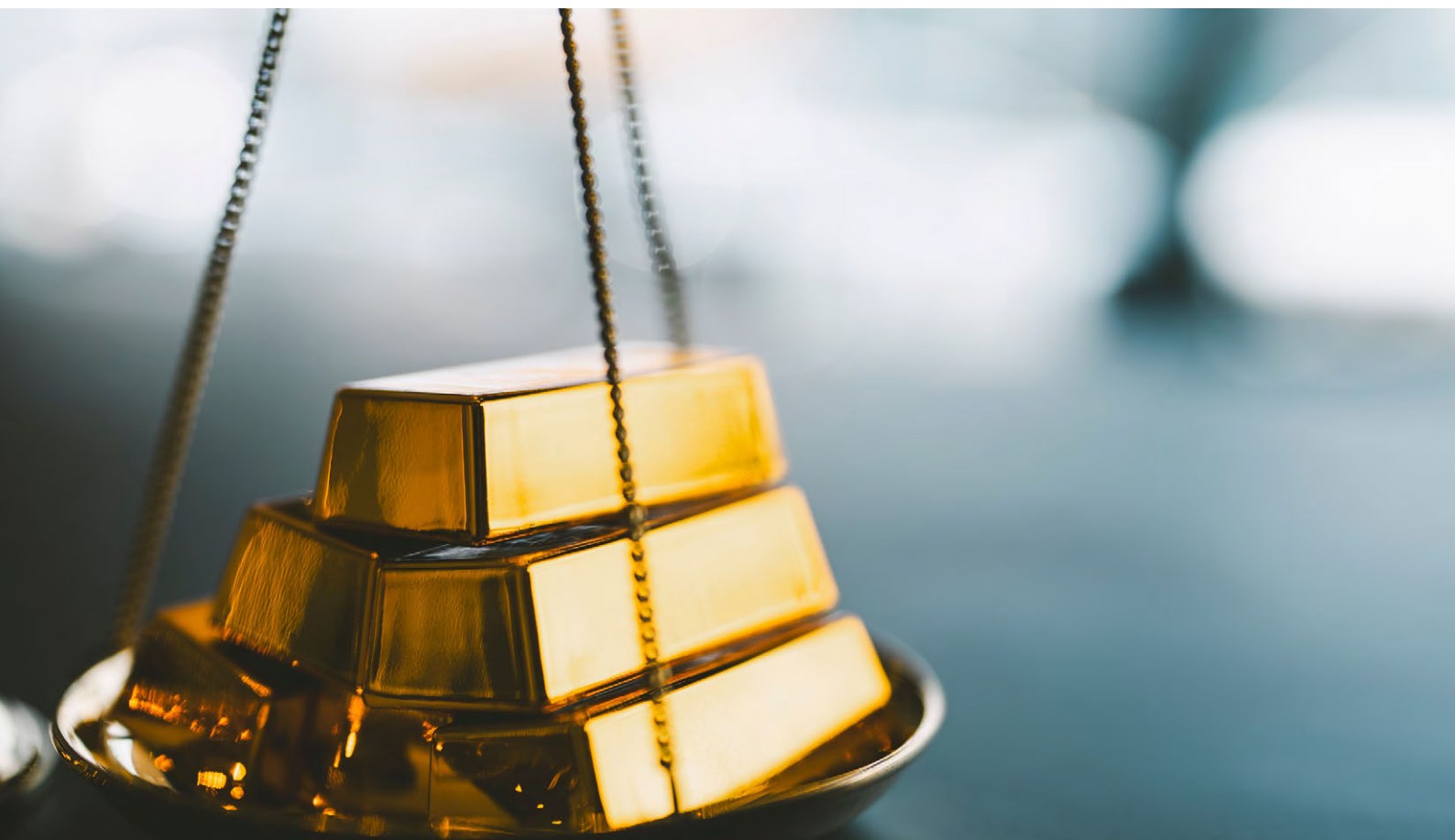
Copper is poised to be one of the most interesting commodities in 2026. The rapid expansion of artificial intelligence is triggering an unprecedented wave of data-center construction, placing enormous pressure on global electricity grids. Major economies are not yet prepared for this surge in demand, making large-scale upgrades and modernization of power infrastructure inevitable.

A historical parallel can be drawn to the post-World War II United States: while the electric grid managed the introduction of household appliances in the late 1940s, it collapsed under the widespread adoption of air conditioning in the early 1950s, forcing the country into a decade of grid expansion. The AI revolution may create a similar dynamic today – resulting in a highly supportive demand environment for copper.

## Agricultural products

Agricultural commodities may also present attractive opportunities in 2026. In 2025, China effectively halted purchases of U.S. agricultural goods, severely impacting American farmers and driving many into bankruptcy. As 2026 is an election year in the United States, the Trump administration is expected to make significant efforts to secure Republican control of both chambers of Congress. This places particular political emphasis on agricultural states, where restoring Chinese demand for U.S. soybeans, corn and wheat may be crucial.

If U.S. – China trade in agricultural goods resumes, it could trigger substantial price increases – creating favourable return prospects for investors in this segment.



# Technical view of the markets

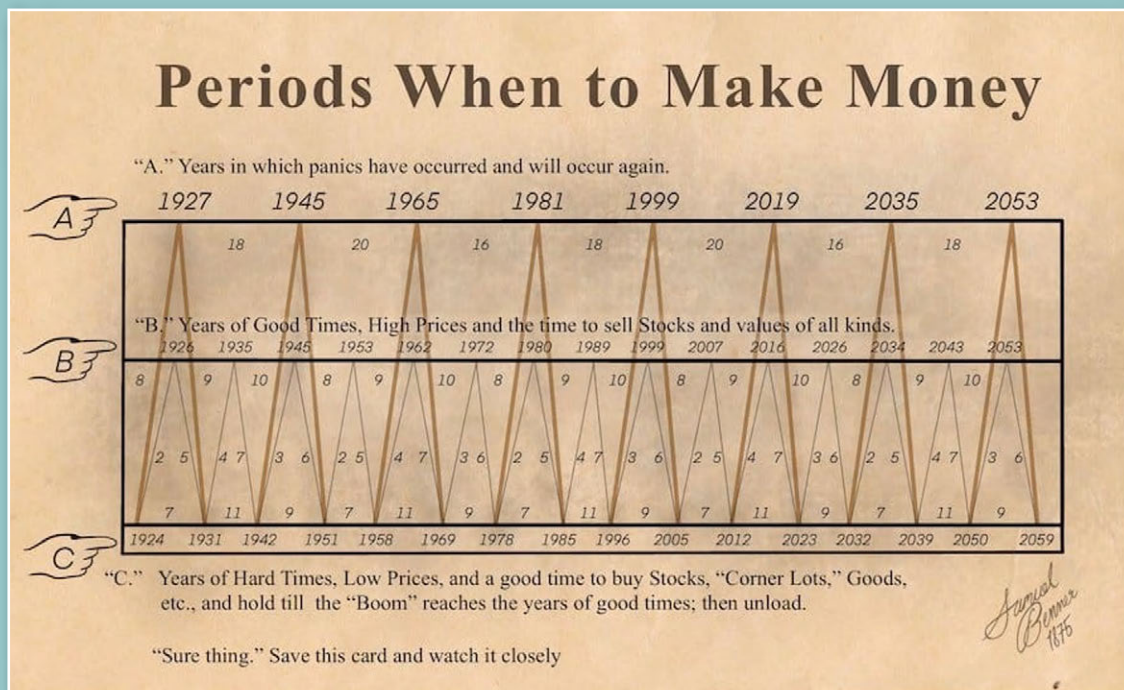
László Kovács,  
CMT, Chief Business Development Officer



A long term forecast in technical analysis should always be combined with thoughts that were established back in the 1930's by the greatest pioneers in this analysis methods. One of these working example is the Benner Cycle, which proved to be a rock solid method in the past century. The Benner Cycle, developed in 1875 by farmer-analyst Samuel Benner, is a long-term market rhythm model built on recurring historical patterns of booms, busts and panics observed in 19th-century commodity and financial markets.

According to the Benner Cycle's long-term pattern, 2026 may mark the final leg of the current multi-year market upswing – a late-cycle rally that often arrives suddenly and unexpectedly. The structure of the cycle suggests that while the broader trend into 2026 remains upward, investors may be approaching a pivotal turning point similar to previous peaks observed in 1999, 2007 and 2016.

In all three cases, markets experienced strong acceleration before the cycle shifted. Two of these moments – 1999 and 2007 – were followed by significant price corrections, while 2016 produced a correction in time rather than in price, with markets consolidating sideways before resuming their advance. If the Benner pattern holds, 2026 could therefore represent both opportunity and heightened risk: the final phase of a long rally, but also a period when vigilance, diversification and disciplined positioning become increasingly essential.



Source:  
Samuel T. Benner's  
1875 book "Benner's  
Prophecies of  
Future Ups and  
Downs in Prices"



## S&P 500

Looking at the long-term performance outlook of the S&P 500, we can clearly see the magnitude of the rally that this leading index has delivered. We are approaching the end of the fifth Elliott wave in the 2025 upward leg, which may not have fully completed yet. The index has turned parabolic this year, and when combined with an RSI showing weakening market strength through lower highs, this could serve as an early warning signal for the entire year ahead.

The S&P 500 will most likely experience a correction in the coming months; however, given the strong underlying fundamentals, this correction may unfold more in time than in price – resulting in a longer period of sideways movement rather than a sharp decline. After such a parabolic advance, the forecasted yearly performance is expected to be lower than in 2025 and could even fall below the average annual returns of the past five years.



Source:  
Investing.com  
VIG Asset  
Management

## NASDAQ composite

A similar performance pattern appears on the Nasdaq Composite chart, showing the same parabolic advance. Based on the RSI, this index still looks stronger than the S&P 500, yet a correction is also due here. Given the inherently more volatile nature of the Nasdaq, this correction will most likely occur through price rather

than time, potentially bringing the index down toward the 20,000 level before the broader trend resumes. Over the course of the year, a predominantly sideways movement is expected in the coming months, resulting in below-average overall performance.







## Crude oil WTI

WTI remains in a long-term downward trend, which appears set to continue. However, the slope of this decline has shifted into a more sideways pattern, keeping WTI contained between the 60–80 USD range. The

upward-ticking RSI also indicates a weakening of the multi-year downtrend, suggesting that this trading band will most likely persist through 2026.



Source:  
Investing.com  
VIG Asset  
Management

## US 10YR

U.S. long-term yields have moved sideways with a slight downward bias in recent years. The chart has formed a triangle pattern, and its eventual breakout will signal the next major directional move. Current indications suggest that 10-year yields may break lower, falling through both the long-term rising support line and the lower boundary

of the triangle. The declining RSI reinforces this view. Should this breakdown occur in the early weeks of 2026, it would likely mark the beginning of a sustained downward yield trend that could persist throughout 2026—and potentially even longer.



Source:  
Investing.com  
VIG Asset  
Management



## Gold

Gold has made an exuberant move in recent years – one that is unusual when compared with the broader performance of equity markets. The advance has turned parabolic, supported by extreme RSI readings. Such conditions typically signal a highly overvalued market that may be vulnerable to a bubble-like correction. While this has

not yet appeared on the current chart, a decline in Gold that pushes the RSI below 40 at any point in 2026 would likely accelerate the price correction. In an overextended market such as this, 10–15% pullbacks are normal, and if the RSI rule holds, these could present attractive buying opportunities.



Source:  
Investing.com  
VIG Asset  
Management





# Multi-Asset Quantitative Strategies

## Navigating asset allocation with a quantitative lens

**Pál Baranyi, Portfolio Manager**

As we enter the new year, it is useful to review how systematic multi-asset strategies have behaved relative to a traditional global 60/40 portfolio and how they may be positioned for what is likely to remain a demanding macro environment. This note focuses on two complementary, rules-based frameworks: Bold Asset Allocation (BAA)<sup>1</sup>, which varies its risk exposure through a regime-switching mechanism, and Adaptive Asset Allocation (AAA)<sup>2</sup>, which remains fully invested while reallocating risk across global asset classes. For benchmark, we take a traditional global 60/40 portfolio built from ACWI (global equity) and AGG (US bond).

### Strategy design: regime-switching versus adaptive risk allocation

BAA is a dual-momentum, multi-asset strategy built around a simple regime signal. A “Global 13612” canary universe of SPY (S&P500), VEA (developed equity), VWO (emerging equity) and BND (bond) is used solely for risk management: at each month-end, a weighted average of 1-, 3-, 6- and 12-month returns is calculated, and the number of assets with negative momentum determines how much capital can be allocated to risky assets versus a defensive fixed-income basket. When breadth is strong the portfolio is fully invested; as more canary assets turn negative, the defensive allocation increases stepwise until the portfolio can become entirely defensive. Within the risky sleeve, a broader set of equity, credit, real-estate and commodity ETFs (exchange traded funds) is ranked by 12-month performance and the top four are equally weighted, while the defensive sleeve is invested in the single ETF with the lowest 12-month correlation to SPY, maximising diversification versus US equities.



AAA is more aggressive in its opportunity set but more nuanced in how it balances risk. The investable universe spans global equities, fixed income and alternatives via liquid ETFs. Each month begins with a cross-sectional momentum screen: a 126-day return signal is computed for every ETF, the universe is ranked, and the five strongest assets form the investable subset for the coming month. The second step is a minimum-variance optimisation that takes into account how these top-momentum assets interact. A forward-looking covariance matrix is estimated by combining 126-day rolling correlations of daily log returns with 20-day volatility estimates from the Yang–Zhang estimator. The covariance between any two assets is their realised correlation multiplied by the product of their annualised volatilities.

$$\Sigma_{ij} = \rho_{ij} \cdot \sigma_i \cdot \sigma_j$$

<sup>1</sup> Keller, W. J. (2022). Relative and absolute momentum in times of rising/low yields: Bold asset allocation (BAA). Low Yields: Bold Asset Allocation (BAA)(July 18, 2022).

<sup>2</sup> Butler, A., Philbrick, M., & Gordillo, R. (2016). Adaptive Asset Allocation: Dynamic Global Portfolios to Profit in Good Times-and Bad. John Wiley & Sons.



Given this matrix, portfolio weights are chosen by solving a long-only, fully invested minimum-variance problem. A cyclical coordinate descent algorithm iteratively adjusts pairs of weights while holding the others fixed, converging toward the allocation that minimises ex-ante portfolio variance.

$$\min_{\mathbf{w}} \mathbf{w}^T \Sigma \mathbf{w}$$

In practice, this produces a concentrated yet risk-aware portfolio that tilts toward the strongest trends while allowing the optimiser to determine how much risk each position should carry.

## Performance comparison

Both strategies are evaluated using daily total return data and monthly rebalancing, with a 10 basis-point transaction cost applied to changes in portfolio weights. The strategies are tested from 30 September 2008 to late November 2025, reflecting data availability.

Long-run performance statistics over the respective sample periods are summarised below.



| METRIC                  | AAA    | BAA    | 60/40 Benchmark |
|-------------------------|--------|--------|-----------------|
| Cumulative return       | 406%   | 288%   | 311%            |
| CAGR                    | 6.9%   | 5.8%   | 6.0%            |
| Volatility (annualised) | 11.1%  | 11.2%  | 10.8%           |
| Sharpe ratio            | 0.94   | 0.79   | 0.84            |
| Drawdown                | -16.8% | -18.4% | -22.0%          |

Source: Bloomberg, VIG Asset Management

AAA has delivered the strongest overall profile, with the highest cumulative return and compound growth rate, lower volatility than the benchmark and materially better risk-adjusted measures. Its maximum drawdown is milder than those of the 60/40 portfolio, reflecting the benefits of combining momentum-driven selection with minimum-variance weighting. BAA offers a more modest return premium versus the benchmark but still improves the downside experience: drawdowns are smaller and drawdown-based measures such as the Calmar, Ulcer and Serenity ratios all favour the strategy. The long-horizon equity curves show the same pattern: the 60/40 portfolio participates fully in equity bull markets but suffers deeper setbacks, while AAA pulls away over time and BAA tracks more closely but with smoother declines.

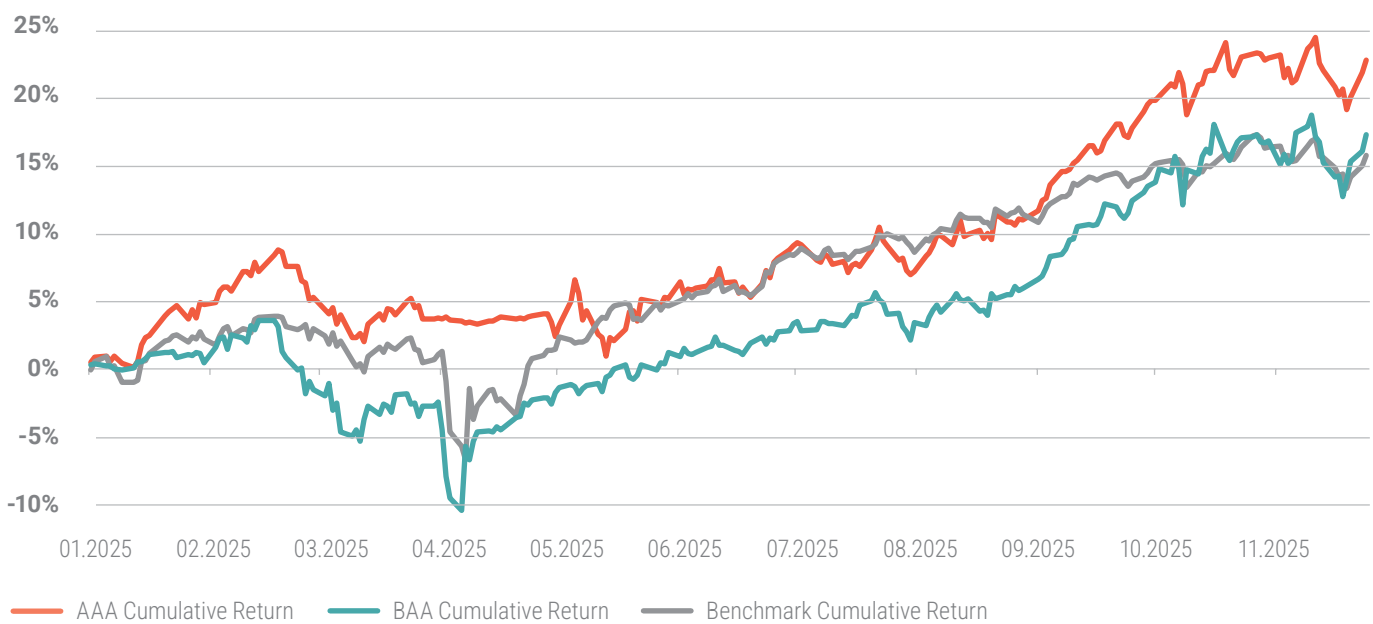




The shorter-term picture in 2025 is consistent with these long-run observations.

From 1 January to late November 2025, both strategies outperformed the benchmark, with AAA in particular benefiting from its ability to rotate quickly. BAA's regime-switching mechanism led to a high initial allocation to defensive assets, partial de-risking in the spring and a renewed risk-on stance in the second half of the year. In both cases, the result is a pattern of returns that participates meaningfully in rising markets while seeking to limit the depth of interim drawdowns, leaving each strategy ahead of a traditional 60/40 allocation over the most recent year and over the broader backtest horizon.

| METRIC                    | AAA    | BAA    | 60/40 Benchmark |
|---------------------------|--------|--------|-----------------|
| Year-to-date return (net) | 22.69% | 16.57% | 15.07%          |
| Drawdown                  | 6.91%  | 12.99% | 9.8%            |
| Sharpe ratio              | 2.13   | 1.41   | 1.46            |



Source: Bloomberg, VIG Asset Management





# The AI craze and the dot-com bubble: echoes across two eras



Gábor Czachesz, Head of Multi Asset and Quant

The surge of enthusiasm surrounding artificial intelligence in today's equity markets bears unmistakable similarities to the dot-com boom of 2000–2001. In both eras, investors became enthralled by a transformative technology that promised to reshape entire industries. In the late 1990s, the internet was expected to reinvent commerce, communication, and business models. Today, generative AI inspires comparable expectations, seen as a force capable of reshaping productivity, decision-making, and automation. The shared narrative is powerful: early adopters and infrastructure providers will dominate the future, and investors scramble to identify potential winners before the rest of the market catches up.

Market behavior reflects this optimism. During the dot-com boom, internet-linked companies achieved extraordinary valuations regardless of earnings, cash flow, or balance-sheet quality. A similar dynamic is unfolding today: chipmakers, cloud platforms, and datacenter developers enjoyed outsized price appreciation. As in 1999, investor psychology gravitates toward long-term total addressable markets rather than near-term fundamentals. Where the dot-com era focused on novel metrics such as “eyeballs” and “page views,” the current AI cycle leans on GPU demand, model-training scale, and speculative AI-related revenue projections. In both periods, companies are valued less for what they are and more for what they might become.

The historical parallel, however, contains an important lesson. The dot-com bubble ultimately burst when expectations decoupled too far from economic reality.

Technological innovation proved real, but profitability, competitive dynamics, and capital intensity still mattered. Even before the collapse, companies themselves signaled rising risks: regulatory filings grew longer, denser, and more technical. As enthusiasm soared, the public narrative became simpler and more promotional, while the legal and accounting disclosures quietly expanded. Subsequent academic research confirmed the pattern: less readable, more convoluted filings were statistically associated with higher stock-price crash risk.

A similar disclosure divergence is emerging today, particularly among the datacenter developers and AI-infrastructure plays – like CoreWeave, TerraWulf or Cipher Mining. These firms market crisp narratives centered on “AI cloud,” “next-generation compute,” or “high-efficiency mining.” Yet their regulatory filings tell a more complicated story. Behind the simplicity of the equity pitch lie sprawling pages of caveats, obligations, contractual dependencies, and concentration risks. CoreWeave's most recent quarterly report, for example, devotes roughly 45 pages to risk disclosures alone – striking for a company still early in its public-market life.

The broader message is familiar. When technological revolutions ignite investor imagination, disclosure complexity often rises in parallel – sometimes because the underlying business is genuinely intricate, and sometimes because risks are mounting faster than the narrative allows. The dot-com era taught investors that technological promise does not eliminate financial discipline. The AI era may prove no different.





# AI Capex

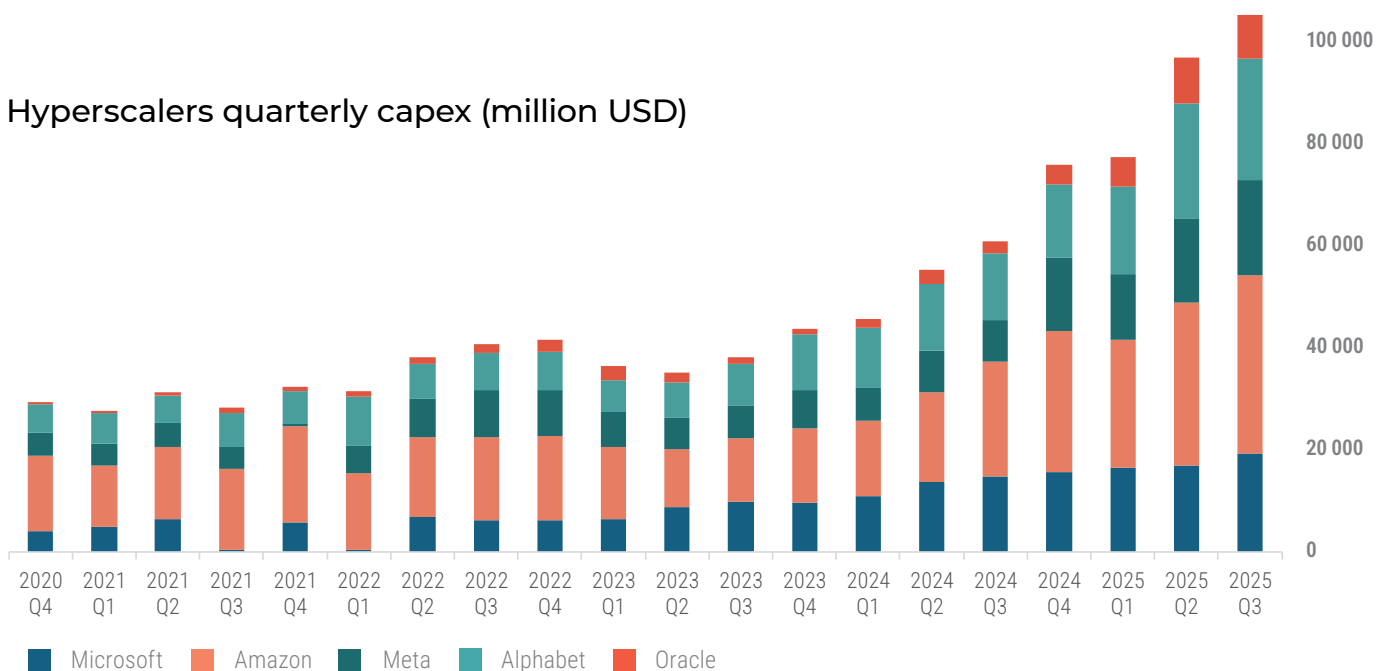
## AI investment boom: overheated market or the dawn of a new infrastructure era

**Péter Richter**, Senior Equity Portfolio Manager

The artificial intelligence boom of recent years has been fueled by the data center investments of hyperscaler companies – Amazon.com Inc., Alphabet Inc., Meta Platforms Inc., Microsoft Corporation, and Oracle Corporation – and their latest earnings results have once again confirmed the accelerating pace of the AI race. (Hyperscalers are the largest operators of IT infrastructure globally: technology giants that run hundreds or even thousands of data centers across multiple continents, providing cloud services, AI compute capacity, storage, and processing power.) All major hyperscalers have raised their capital expenditure forecasts for 2026. At the beginning of 2024 and 2025, consensus expectations pointed to roughly 20% annual capex growth. In reality, capex growth exceeded 50% in both years. As we approach 2026, analysts now forecast 34% capex growth – up from the 20% projected at the start of the third quarter. This implies that AI investments could reach as much as \$533 billion next year, compared with roughly \$400 billion in 2025 and \$237 billion in 2024.



**Hyperscalers quarterly capex (million USD)**



Source: Bloomberg, VIG Asset Management

The hyperscaler capital expenditure cycle is the primary driver of AI development. However, concerns about a potential AI bubble have begun to intensify as the valuations of many AI-exposed companies have surged, the buildout of AI infrastructure is attracting investment on a historic scale, and the ecosystem is becoming increasingly circular in nature.

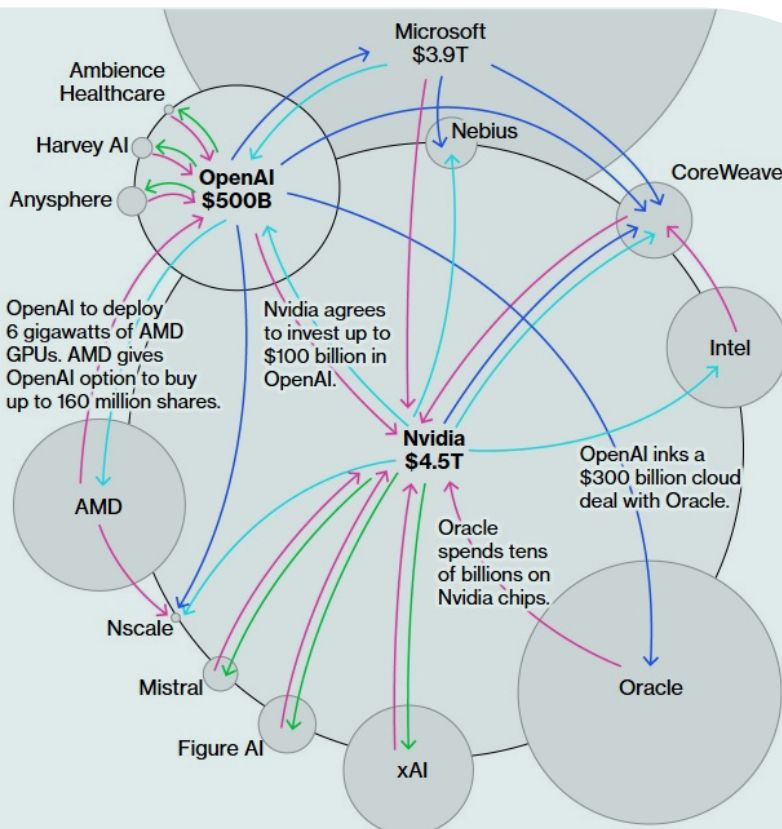
Nvidia, OpenAI and several other technology giants are fueling the AI investment boom through circular, mutually reinforcing partnerships that already move hundreds of billions of dollars and could collectively reach the trillion-dollar scale. In these arrangements,

companies simultaneously act as investors, suppliers, and customers. The essence of the phenomenon is that the same players are both giving and receiving money: one company invests in another, which then spends that capital on services or equipment purchased from the very same investor. As a result, the money effectively circulates within the system – creating the appearance of sustained growth, even though the actual economic return materializes far more slowly. This tightly interlinked business network increasingly resembles the excesses of the dot-com era, especially because the underlying AI technologies' monetization and profitability currently lag well behind the pace of investment.

### Cyclically-adjusted price earnings ratio S&P500 Index



Source: [multpl.com/shiller-pe](https://multpl.com/shiller-pe)  
(Shiller P/E is a cyclically adjusted exchange rate gain ratio)



### An increasingly circular AI ecosystem

— Hardware or Software  
— Services  
— Venture Capital  
— Investment

Circles sized by market value

Source: Bloomberg

In this increasingly circular financing system, OpenAI is also an indispensable player. The key difference between the ChatGPT operator and the major hyperscalers, however, is that the latter have stable, well-established business models that have generated profits for many years. OpenAI, by contrast, expects to burn a total of \$115 billion in cash by 2029.

While the hyperscalers have funded the majority of their capex from operating cash flows, these companies also have substantial debt-raising capacity, and in recent years they have increasingly turned to debt financing – opening further room for additional investment. Since 2021, the group's aggregate net debt (debt minus cash) has risen from –\$158 billion to +\$137 billion. Despite the \$295 billion increase in net debt, their balance sheets remain exceptionally strong: the group's net debt-to-EBITDA ratio has climbed from –0.7x in early 2021 to only +0.2x today. Most of these companies carry credit ratings at the upper end of the Investment Grade category, with the notable exception of Oracle, whose cost

of insuring its debt against default has surged sharply in recent months – marking the largest increase since 2021. CDS (credit default swap) prices typically rise when investor confidence in a company's credit quality deteriorates.

One of the biggest risks of the current AI investment boom is the increasingly circular network of financing and ownership, which leaves the ecosystem highly vulnerable. If a major hyperscaler were forced to write down a multibillion-dollar data center investment, it could trigger a domino effect across the supply chain. Such a write-down would effectively wipe out the company's expected growth outlook for the coming years and reveal that a portion of the investment cycle was built on overly optimistic assumptions. This vulnerability is amplified by the fact that hyperscalers still do not generate meaningful profits directly from AI: their massive AI-related capex is being funded by their core, highly profitable businesses (cloud, advertising, e-commerce). If these core segments slow, or if AI projects fail to deliver returns on the

## Oracle 5-year CDS



Source: Bloomberg, VIG Asset Management

expected timeline, the entire capex model could quickly come under pressure. In 2026, a “digestion phase” is likely – meaning a 20–30% slowdown in capex growth after the current surge, as companies will need to test whether these investments actually produce incremental revenue.

In addition, one of the most underestimated yet critical risks of the current AI investment wave is the limitation of power supply. The electricity demand of data centers is rising at a pace that grid capacities in many countries simply cannot keep up with. If the expansion of the power grid lags behind the growth of AI infrastructure,

a portion of newly built data centers may end up underutilized. We could reach a point where the bottleneck is no longer the technology itself, but the availability of sufficient energy.

This represents a significant risk because AI currently dominates U.S. equity markets – the market capitalization of a handful of major technology companies accounts for nearly half of the entire market. If this extreme enthusiasm were to fade abruptly, the consequences would extend far beyond Silicon Valley and could undermine the financial stability of the global economy.



## Underestimation of disruptive technologies over the past decades

| COMPUTE CYCLE | INITIAL FORECAST  | ACTUAL   | % UNDER-ESTIMATION                  | 10YR CAGR               | INITIAL FORECAST DATE |
|---------------|---|--|-------------------------------------|-------------------------|-----------------------|
| PC            | <b>225mn</b><br>PC Users in 2000                        | <b>354mn</b><br>PC Users in 2000                         | <b>36%</b>                          | <b>14%</b><br>1995-2005 | February 1996         |
| Internet      | <b>152mn</b><br>Internet Users in 2000                  | <b>361mn</b><br>Internet Users in 2000                   | <b>58%</b>                          | <b>41%</b><br>1996-2006 | February 1996         |
| Mobile        | <b>657mn</b><br>Smartphones Shipments in 2013           | <b>1,019mn</b><br>Smartphones Shipments in 2013          | <b>36%</b>                          | <b>15%</b><br>2010-2020 | January 2010          |
| Cloud         | <b>\$90.2bn</b><br>Top 3 Cloud Provider Revenue in 2020 | <b>\$115.6bn</b><br>Top 3 Cloud Provider Revenue in 2020 | <b>22%</b>                          | <b>30%</b><br>2017-2026 | March 2017            |
|               |   |  | <b>Average Underestimation: 38%</b> |                         |                       |

Source: Source: Bank of America

In recent months, the term “AI bubble” has become one of the hottest topics in financial markets – so much so that some are now speaking of a “bubble about the AI bubble.” At the same time, market history suggests that such bubbles typically do not burst when skepticism is still widespread, but rather when doubt has all but vanished and everyone is celebrating the technology, seeing it as the sole path to the future.

However, it is important to remember that technological progress typically follows a pattern in which we overestimate the impact of a new technology in the short term, yet underestimate its significance over the long term. The history of the internet, the mobile revolution, and cloud computing all illustrate this well: in the late 1990s, the internet promised an immediate transformation but collapsed in the dot-com bust – only to become the backbone of the modern economy years later; the early smartphone era was marked by app euphoria that soon faded, yet mobile technology ultimately became the central platform of digital life; and cloud adoption initially progressed slowly and met with skepticism, but eventually grew into the core of enterprise infrastructure. AI today appears to be following the same trajectory: while the current hype and spending surge may seem excessive in the near term, its long-term potential is likely far deeper and more transformative than what is visible right now – much like in previous technological revolutions.

Although many consider the current valuation of the Nasdaq to be stretched, it is not entirely accurate to compare today’s environment one-to-one with the late-1990s dot-com era. Today’s wave of technology investments is driven not only by market enthusiasm, but also by geopolitics – the competition among major powers and the race to build strategically important digital infrastructure. This dynamic is more reminiscent of the period when the launch of Sputnik triggered a technological acceleration during the Cold War. The capital flowing into artificial intelligence and digital infrastructure therefore appears less like a short-lived surge and more like the beginning of a deeper, long-term structural transformation.

Overall, AI capex currently carries both bubble-like risks and significant long-term opportunities. Hyperscalers are pouring capital into massive data center projects and chip purchases, yet these investments are not generating meaningful revenue so far, and the increasingly circular financing structures make the ecosystem more fragile. Over the long run, however, the buildout of AI infrastructure could drive genuine economic transformation, much like the internet or cloud services did in previous cycles. After a potential correction of short-term excesses, the rise of AI is expected to create secular demand across several sectors – including software development, data center real estate, optical networks, energy providers, grid expansion, cooling technologies and broader infrastructure hardware – where structural growth, rather than a mere hype cycle, is the dominant outlook.



# German Fiscal Stimulus

## Economic stagnation meets unprecedented stimulus

**Bálint Jagadics, Analyst**

Decades of constitutional fiscal restraint served as Germany's anchor. Yet, as 2025 ends, crisis has shattered this bedrock. Driven by energy costs still 30% above 2021 levels the competitiveness of German industry is in serious jeopardy.

Germany now faces the bill for decades of underinvestment. Obsessed with maintaining rigid fiscal austerity, Berlin ignored eroding infrastructure and industrial modernization. Now, the cost of inaction outweighs the cost of debt, forcing a radical pivot and the government launched a massive, credit-financed overhaul to rebuild the nation's foundations.

This decision secures the economy's future but burdens it with a new financial reality. Financing this intervention requires a fundamental restructuring of public finances. Projections indicate that as the government leverages its balance sheet, interest payments will effectively replace fiscal surpluses as a central pillar of the budget.

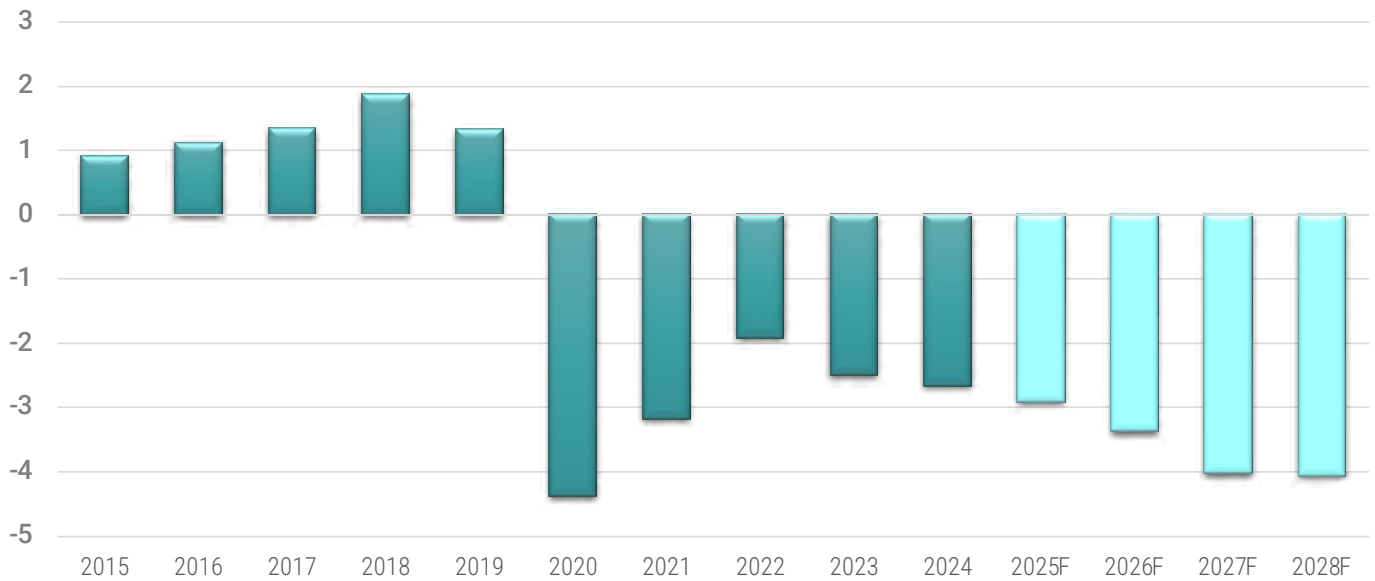


As the chart illustrates, the scale of this shift is staggering. The newly accepted fiscal expansion program effectively mobilises annual resources equivalent to nearly 2.5% of GDP. To put this into perspective, this fiscal impulse greatly surpasses the recent Covid-era NGEU (Next Generation EU) stimulus and even exceeds the relative size of the Marshall Plan, the legendary reconstruction effort that rebuilt West Germany from the rubble of World War II. This capital is not merely for short-term stabilization but is dedicated to a structural transformation of the industrial base. It funnels approximately €500 billion into modernizing physical and digital infrastructure, ranging from rail networks to green energy grids, while simultaneously permanently lifting defence spending to over 2% of GDP to fund domestic rearmament.

While the legislative framework was established in 2025, the actual economic impact will not be instantaneous. There is a natural lag between passing the budget and deploying the capital. This lag explains why GDP growth is forecast to jump from near stagnation this year to a robust 1.4% in 2026, as record levels of government investment finally hit the real economy.



## German Budget deficit (%)



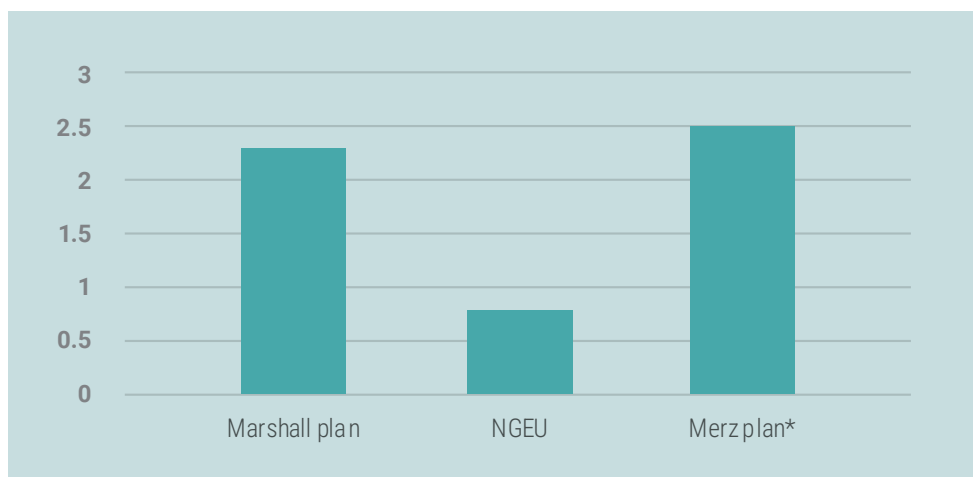
Source: IMF, VIG Asset Management

The cost of this growth is a structural shift in the nation's finances. Public debt is projected to climb steadily, reaching approximately 67–68% of GDP by 2027, a significant departure from the deleveraging era. Furthermore, the influx of state capital into a labor-constrained market is expected to keep inflation sticky, hovering around or above 2%, as higher wages and construction costs ripple through the economy.

The government's fiscal pivot is a necessary condition for Germany's survival, but it is not a guaranteed cure. While the sheer volume of capital will prevent a down-

ward spiral, the "economic miracle" investors hope for faces severe headwinds. The success of this historic shift rests entirely on whether the government can overcome deep labor shortages and a notorious bureaucracy that threatens to bottleneck spending. Without radical deregulation and an influx of skilled workers, the €500 billion fund risks driving up construction costs rather than real industrial output. Also, fiscal multiplier of defence spending will probably be quite low. Ultimately, Germany has bought itself a lifeline to modernize its foundation, but the execution risk remains high, pointing to a slow, difficult recovery rather than a quick bounce back.

## Spending as a share of recipient economy GDP per annum (%)



Source: BNP Paribas, EC, VIG Asset Management



# 30 years in Hungary

VIG Asset Management has a 30-year history in the local and regional asset management sector through its legal predecessors. While our headquarters is in Budapest, our reach extends from the Baltic to the Adriatic

Sea. Across this diverse regions, we manage wealth of private individuals, families, as well as insurance companies and pension funds – always with a commitment to trust, responsibility, and long-term sustainable value.

# 200 years in Europe

VIG Asset Management is a member of Vienna Insurance Group (VIG), the leading insurance group throughout Central and Eastern Europe, with a 200-years of history. More than 50 insurance companies and pension funds in

30 countries form the Group with long-standing tradition, strong brands and close customer relations. Around 30,000 employees in the VIG take care of the day-to-day needs of around 33 million customers.





# Awards

Our expertise is underscored by the fact that in 2025 we received four prestigious industry awards.

At the renowned Portfolio Investment and Wealth Management Awards, we were honored as Institutional Asset Manager of the Year, while the Investment Fund of the Year (Managed in Hungary) went to the VIG Central European Equity Investment Fund.

Additionally, at the Privátbankár.hu Klasszis ESG Awards, we claimed two more distinctions: second place for ESG Asset Manager of the Year and the award for Best Absolute Return and Derivative ESG Fund, which was granted to the VIG Marathon ESG Absolute Return Fund.



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The future performance that can be achieved by investing may be subject to tax, and the tax and duty information relating to specific financial instruments and transactions

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