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MULTI ASSET PEOPLE & PLANET STRATEGY

Energy Demand Growth Fuels Investment in Sustainability and Innovation

- o Global equities accelerated into a strong year-end Santa rally.
- o Markets were supported by resilient economic data and rising expectations of rate cuts.
- o Clean energy outperformed this month, driven by solid underlying fundamentals

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What's happening?

Global stocks rose in December, capping a year of record highs driven by US Federal Reserve (Fed) rate cuts and artificial intelligence (AI) optimism across markets, while gold enjoyed its best year since 1979 as investors hedged bullish AI exposure with safe-haven hedges. Positive geopolitical developments also helped to boost markets, with Russia and Ukraine pushing towards peace after stalled talks, and US trade worries significantly reduced. Asia and emerging markets pushed higher, with hopes that a Chinese recovery would be delivered by the government's anti-involution initiatives, while Mexico saw equities and peso rise in tandem.

US government bond yields – which move inversely to prices – edged up in December despite the US Federal Reserve (Fed) delivering its widely-expected 0.25% interest rate cut. This reflected the persistent inflation concerns that have dogged the US and the expectation that rates will still remain higher for longer than expected. The rise in yields following a rate cut also reflects concerns about US fiscal spending and the amount of debt issuance that is needed. A stronger dollar, which has risen thanks to its safe-haven status, also makes treasuries less attractive to foreign buyers and puts upward pressure on the yield.

The yield on US 10-year treasuries rose from 4.01% at the end of November to 4.11% at the end of December.

Portfolio positioning and performance

	MA PEOPLE & PLANET		
	<i>Dec-24</i>	<i>Nov-25</i>	<i>Dec-25</i>
Net Equity	69,3%	71,8%	70,5%
Equities	69,3%	71,8%	70,5%
Equities derivatives	0,0%	0,0%	0,0%
Risk Mitigation Strategies	0,0%	0,0%	0,0%
Fixed Income	26,5%	28,1%	27,3%
Govies	6,9%	8,0%	7,9%
<i>Bond Derivatives</i>	16,8%	0,5%	0,8%
High Yield Credit	1,5%	1,0%	1,0%
Investment Grade	16,5%	17,6%	16,9%
Emerging Debt	1,5%	1,5%	1,5%
Diversification	0,0%	0,0%	0,0%
Cash & Money Market	4,1%	0,1%	2,2%

December proved to be a slightly negative month for global markets, influenced by a combination of monetary policy developments, economic data releases, and geopolitical factors. In the US, despite generally positive economic results and the Fed's December rate cut, the government shutdown period introduced some data quality and relevance concerns, tempering optimism. The equity portfolio experienced some setbacks, primarily driven by losses in specific sectors. Consumer discretionary, healthcare, and consumer staples each faced declines, reflecting concerns over economic growth prospects and sector-specific challenges. Conversely, clean energy, real estate and financials delivered positive returns, supported by resilient fundamentals and market expectations of continued rate adjustments. In light of recent trends over the past few months indicating a rising energy demand, primarily driven by Technology and AI companies, the portfolio has allocated over one-third of its holdings to this theme. While this sector experienced some volatility in December, we view it as a crucial driver for the portfolio in the long term, especially considering the European Commission's estimate that approximately EUR 1.2 trillion will be required for investments in electricity grids, gas, and hydrogen infrastructure by 2040*.

Fixed income allocations were increased this month but also experienced mixed results. Losses were concentrated in government bonds and longer-duration assets, while the short end of the curve posted positive returns and corporate high-yield positions posted modest positive returns. The environment was influenced by the Fed's December rate cut, which reduced market volatility and led to a decrease in volatility pricing compared to November. Additionally, persistent upside surprises from economic data in the Euro Zone caused markets to fully unwind expectations of further ECB rate cuts, with some indications of potential rate hikes in 2026.

Looking ahead, we anticipate the Fed will continue its rate cutting cycle into 2026, maintaining a widening interest rate differential with the Euro Zone. With the Euro Zone experiencing upside surprises in economic data, the euro may have further potential to outperform the USD if global growth remains resilient as expected. We remain vigilant to ongoing geopolitical tensions, economic data surprises, and policy shifts. Our tactical positioning aims to balance risk and return while maintaining flexibility to adapt to evolving market conditions in this uncertain environment.

Focus stock of the month:



GE VERNOVA

: GE Verona, Inc. is an energy equipment manufacturing and services company formed from the merger and spin-off of General Electric's energy businesses in 2024: GE Power, GE Renewable Energy, GE Digital and GE Energy Financial Services. Headquartered in Cambridge, Massachusetts and listed on the NYSE, the organization is specialized into four divisions in the US, France and Denmark: Power, Wind, Electrification Systems and Electrification Software.

GE Verona made notable contributions to sustainable development and innovation in recent months through:

- 7.2: Significantly advancing global access to sustainable energy through its deployment of renewable power solutions and grid infrastructure. In 2024, approximately 25% of the world's electricity was generated using GE Vernova's technology, with 71 GW of new capacity energized, enabling millions of people in developing and emerging economies to access reliable electricity. The company's focus on energizing power grids and deploying renewable energy sources directly supports SDG 7.
- 8.1: Fostering sustainable economic development by creating jobs and investing in workforce development globally. In 2024, the company trained over 5,700 students through programs like the Next Engineers Academy (with a goal of training over 30,000 students by 2030) and the GE Vernova Star Scholarship, with a focus on underserved populations. The company also committed to advancing inclusive employment with a significant percentage of employees from underrepresented groups.
- 13.1: Reducing its carbon footprint and supporting clients' decarbonization efforts. It reported in 2024 a 51% reduction in Scope 1 and 2 emissions since 2019, and new capacity installed in 2024 aims to avoid approximately 27 million metric tons of CO2 emissions annually. Additionally, the company's solutions (such as gas turbines capable of operating with hydrogen and carbon capture technologies) are designed to lower the carbon intensity of power generation.

GE Vernova's strategic focus on expanding renewable energy, reducing carbon emissions, and fostering workforce development underscores its commitment to driving sustainable progress globally. Its dedication to climate action is exemplified by substantial emission reductions and breakthrough technologies like hydrogen and carbon capture. Equally important, GE Vernova's investment in training programs highlights its role in cultivating a skilled, inclusive workforce prepared to lead the energy transition. By integrating education with sustainable innovation, advances its business objectives but also empowers the next generation of energy workers.

Outlook

The final weeks of 2025 were marked by limited macro visibility due to the US government shutdown, leaving investors reliant on partial and sometimes questionable data. Against this backdrop, the Federal Reserve delivered its third consecutive rate cut in December, reinforcing the "Goldilocks" narrative of steady growth and moderating inflation. However, dissent within the Fed and the breakdown of the Powell-era consensus introduced uncertainty around the policy path for 2026. Markets now look to the appointment of a new Chair, which is expected to tilt the focus toward continued accommodation. Recent data broadly supports this stance, showing no significant deterioration in labour markets or inflation, even as the economy remains bifurcated---lower-income households and small businesses require support, while aggregate GDP and corporate earnings remain robust.

In Europe, the ECB maintained its policy stance, but markets have started to price in the possibility of a rate hike later in 2026. This reflects expectations that fiscal expansion in Germany and delayed spending under the Next Generation EU program could lift the neutral rate for the Eurozone. Meanwhile, growth indicators remain resilient, supported by steady business activity and improving sentiment.

Investor positioning continues to be cautious. Discretionary investors have largely stayed on the sidelines, while systematic strategies have benefited from lower volatility. Retail participation has been muted, leaving room for additional flows into equities should conditions stabilize. This dynamic suggests potential for renewed risk appetite, provided no major shocks emerge.

Credit markets remain well supported, particularly investment grade, as investors seek yield without taking excessive risk. High yield has lagged, with spreads near historically tight levels, while government bonds remain less attractive compared to equities and credit. Demand for financing from technology companies—driven by AI infrastructure investment—has been notable, but overall corporate balance sheets remain healthy.

Looking ahead, the combination of accommodative monetary policy, fiscal stimulus across major economies, resilient corporate earnings, and easing geopolitical tensions—including the rising probability of a Ukraine ceasefire—creates a constructive backdrop for risk assets as we enter 2026. While policy uncertainty and episodic volatility may persist, the fundamental environment remains supportive for growth-oriented strategies.

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January 2026

*Herbert Smith Freehills Kramer, The EU Grids Package: A Blueprint for Europe's Future Energy Infrastructure

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January 2026

*Herbert Smith Freehills Kramer, The EU Grids Package: A Blueprint for Europe's Future Energy Infrastructure

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