

FERI CIO Office

Annual Outlook 2027

Asset Allocation Shaped by the AI Boom, Geopolitics, and High Interest Rates

As of November 2026

We wish you a successful investment year in 2027 ...



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Member of the Board, CEO & CIO

... with our Multi Asset Expertise!



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Scenario 2027: Executive Summary

Key Theses for 2027	Implications for Investors
GLOBAL OUTLOOK: AI Boom, Geopolitics, and Interest Rate Trends	Active, globally oriented multi-asset strategy; broad diversification; selective sector positioning; explicit consideration of structural trends; a balanced combination of innovation-driven growth potential, inflation protection, and risk mitigation; strong emphasis on alternative sources of return
1. Cash & FX: The US Dollar Between Debasement and Reserve Currency Status	Potential performance drag from a weaker US dollar; euro could come under pressure from crisis in France; active currency management essential; yen appreciation is plausible, but sustained strategic trend reversal unlikely
2. Equities: Shifting Market Leadership as the AI Cycle Continues	AI boom to continue, favoring companies further downstream in the AI value chain; strong earnings growth remains key driver of equity returns; elevated interest rates limit multiple expansion; active sector and stock selection remains essential
3. Fixed Income: Regaining Its Role as a Source of Returns and Diversification	Attractive valuations and carry; structural factors argue against a substantial decline in interest rates for now; longer duration becomes attractive only in the event of a pronounced economic slowdown
4. Commodities & Precious Metals: Geopolitics, AI, and Structural Trends Drive Performance	Active exposure management remains key: Energy commodities serve as a geopolitical hedge but face oversupply risks; industrial metals remain highly dependent on the AI boom; gold faces headwinds from elevated interest rates but remains strategically attractive
5. Private Markets: Growing Dispersion Requires Careful Selection	Infrastructure: Megatrends support long-term growth; Private credit: Attractive returns require greater selectivity; Private equity: Increasing focus on operational value creation strategies
6. Hedge Funds: Alpha, AI, and Specialization as Key Drivers of Success	Elevated macroeconomic volatility creates attractive opportunities; specialized managers and relative-value strategies are well positioned; interest rate pressures make highly leveraged strategies less attractive
7. Digital Assets: From Hype to Maturity - Fundamentals Become Decisive	Bitcoin: Halving seasonality and the breadth of institutional demand in focus; Altcoins: Real-world adoption and regulation remain key; Blockchain equities: Economic viability of emerging business models is critical
8. Volatility: A Valuable Portfolio Component in an Increasingly Unstable World	Currently offers the most attractive risk premium in a multi-asset comparison; high uncertainty is driving demand for put options; an important diversifying component of a portfolio
9. Real Estate: Selectivity Is Key in the New Market Cycle	Focus on property and location quality; housing shortages remain a key driver; elevated interest rates continue to weigh on the market but are already largely priced in

GLOBAL OUTLOOK Technological and geopolitical disruptions require flexibility and diversification

1. **The Key Topics of 2027:** AI Boom, Geopolitics, and Interest Rate Trends

For several years now, the capital market environment has increasingly been shaped by structural developments with disruptive potential. These include:

- geopolitics, in particular the demise of the US-led rules-based world order, the emergence of a multipolar world order and the geopolitical conflicts associated with it;
- technological breakthroughs, in particular the ongoing AI boom; and
- rising debt, especially sovereign debt, which in turn largely stems from changed policy imperatives.

Alongside the traditional factors used to assess the capital market environment (inflation, monetary policy, economic cycle), these structural developments are gaining importance. The year 2026 provided a good example: The AI boom was the main driver of market performance, with effects on both equities and bonds. The inflationary and monetary policy implications of the sharp rise in energy prices following the Iran war played a comparatively minor role, at least in terms of overall market performance.

This basic pattern will remain in place in 2027. The most important determinants of the capital market environment are:

AI BOOM

We are still in the first phase of an investment cycle whose significance is best compared with railway construction in the second half of the 19th century. This phase is characterized by **high infrastructure investment** (hyperscaler investment will exceed the threshold of USD 1 trillion in 2027) and the resulting shortages. Rising AI usage rates and the availability of ever better AI models broadly justify the high expectations for earnings growth. The AI boom therefore remains one of the key positive factors for the capital market environment.

At the same time, it is becoming more likely that market participants will increasingly question the assumptions behind earnings expectations. The focus is likely to be on revenue growth in particular: If AI usage rates rise more slowly than token prices fall, the profitability assumptions of AI providers will be at risk. Circular shareholdings and the substantial share of hyperscaler demand generated by just two frontier AI labs raise concerns about the sustainability of the AI boom. An "earnings bubble" scenario could therefore pose a significant risk to capital markets and trigger a sharp correction. However, we do not expect a major market crash comparable to the bursting of the dot-com bubble.

In the real economy, the transition to the second phase of the investment cycle, adoption, could gain momentum. Companies' AI investments are increasingly enabling productivity gains. It is conceivable that these gains will be realized on a sufficiently broad scale to produce disinflationary effects, but this is not our base case (see section "Opportunities and Risks").

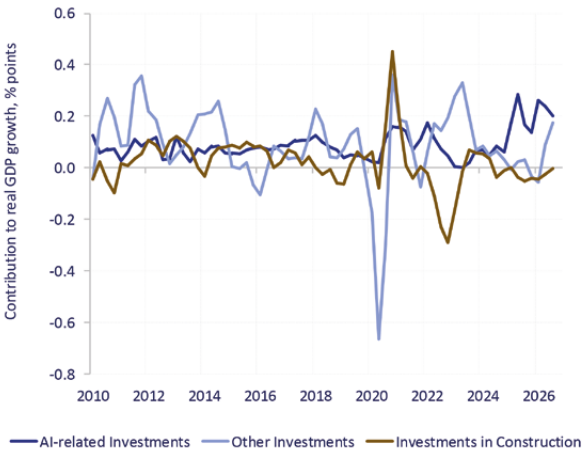
GEOPOLITICS

In 2027, geopolitical developments arising from the replacement of the old rules-based world order by a multipolar one, and the changed role of the US in world politics, will remain a relevant factor. The trend toward economic nationalism continues, resulting in growing obstacles to world trade. For companies, this means higher costs. Confidence in US government policy has already deteriorated significantly and will not recover.

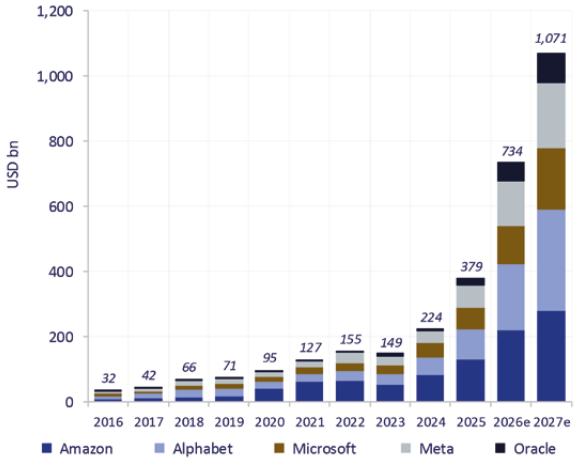
In the **Middle East,** we do not expect a viable solution to the conflicts that takes the interests of all parties into account in the short term. Energy prices will therefore remain at a high level. We see a significant probability that the USA will once again attempt to enforce its interests through military escalation. This would result in another sharp rise in energy prices, with significant repercussions for the global economy.

Elevated AI investment is a key driver of economic growth, both in the USA and globally

USA: AI-related Investments
- quarterly, 2-quarter moving average -



Hyperscalers: Capital Expenditure
- annual -



Source: FERI, Haver Analytics

Tariffs remain a relevant instrument of the US president's foreign economic policy. While we do not expect a repeat of "Liberation Day," we assume that tariff threats or actual tariff measures will continue to be a source of uncertainty for the global economy.

In the **hegemonic conflict between the USA and China,** both sides have recently sought de-escalation, acknowledging their mutual dependencies. However, the process of mutual decoupling continues, and phases of partial escalation remain possible at any time.

For Europe in particular, the **Ukraine war** remains relevant: Dwindling public support for Ukraine in Western Europe and the unreliability of the US government increase the likelihood of an unfavorable outcome of this war for Ukraine. One consequence would be new flows of refugees from Ukraine to Europe, which could destabilize European societies. Above all, however, there is a high risk in 2027 that Russia will test NATO's response patterns by launching further attacks on selected NATO countries in Europe, thereby creating considerable uncertainty.

INTEREST RATE TRENDS

The key drivers of the structurally elevated interest rate level include the hyperscalers' high demand for capital and governments' large budget deficits. Both factors remain in play. We therefore expect interest rates to stay high. For interest rates to fall sustainably, there would need to be clearly negative economic impulses, which is not our base case for 2027.

In 2027, investors should keep a close eye on a realistic scenario in which further rising interest rates trigger a noticeable equity market correction. The resulting negative asset price effects would lead to a marked slowdown in growth momentum (particularly in the USA), which in turn would push interest rates down.

INFLATION, MONETARY POLICY, ECONOMIC ACTIVITY

Inflation is expected to decline noticeably from spring 2027 onward, as the effects of the energy price surge following the Iran war drop out of the year-over-year comparison, assuming no further geopolitical escalation. We consider it likely that inflation rates in the eurozone will fall toward the central bank's 2% target over the course of 2027, whereas in the USA this is uncertain owing to robust economic activity and the inflationary effects of the AI boom.

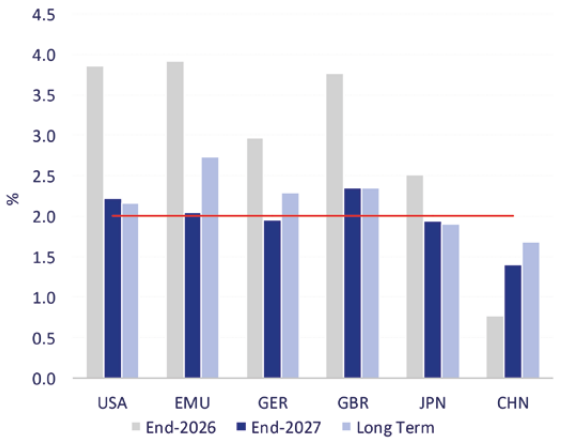
Monetary policy could provide a positive impulse for the capital market environment in 2027, as we expect the key central banks, the Federal Reserve and the European Central Bank (ECB), to deliver fewer rate hikes than markets priced in during fall 2026. While substantial monetary easing is not our base case, monetary policy should nevertheless turn out to be less restrictive than market participants currently expect.

In the **USA,** economic growth remains robust but is heavily dependent on the AI boom. Risks stem from a potential loss of momentum in the AI boom (see above) and the fact that consumption growth is driven primarily by higher-income households. Interest-rate-sensitive sectors of the economy continue to face pressure from elevated interest rates.

In the **European Monetary Union (EMU),** we expect moderately positive growth of around 1%. Unresolved structural problems continue to cap growth momentum on the upside. In addition, the EMU remains highly vulnerable to exogenous

Inflation expected to decline from spring 2027, barring geopolitical escalation | Structurally higher interest rates

Inflation: Selected Countries
- annual -



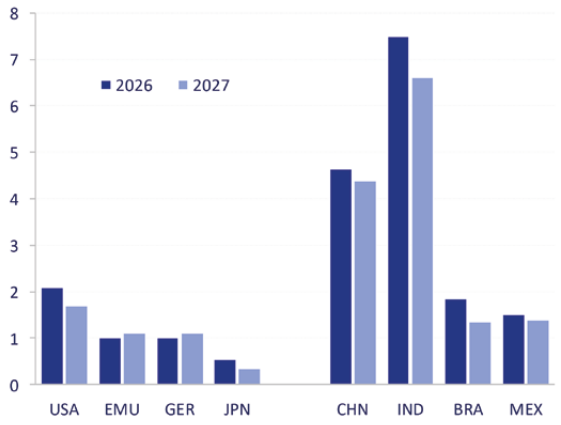
10-year Government Bond Yields
- monthly -



Source: FERI, Haver Analytics

Generally positive global economic outlook | China's economic growth continues to slow

GDP: Selected Countries
- real GDP growth, year over year in % -



Global Economic Conditions Indicator
- monthly -



Source: FERI, Haver Analytics

shocks, and domestic political instability is likely to increase further in 2027 (both in Germany and, above all, in the run-up to the presidential elections in France).

In **China,** the slowdown in growth continues. We see opportunities in the sectors that China considers strategically important.

The economic outlook for **emerging markets** will initially be weighed down, above all, by the upcoming El Niño, with negative consequences for inflation. This limits central banks' scope for rate cuts. A noticeable improvement in the outlook is possible over the course of the year.

2. **Asset Allocation:** Looking Ahead Rather Than Extrapolating the Past

Capital market developments in 2026 once again underlined the importance of broad diversification. Commodities were an important portfolio stabilizer. Energy commodities performed particularly well and contributed significantly to the resilience of broadly diversified multi-asset portfolios. Hedge funds and volatility strategies also made important contributions to diversification. Equity markets, meanwhile, had a predominantly positive year, driven by the ongoing AI boom. One point of concern, however, was the narrow market breadth. Private markets had a difficult year in aggregate: A high interest rate level and valuation overhangs from previous years weighed on performance. A selective investment approach therefore remains essential, as the broad range of private market segments and strategies offers attractive opportunities in nearly every market environment.

Given the complexity of the factors described in the previous section and the resulting uncertainties, broad diversification remains crucial in 2027. The geopolitical environment calls for asset classes and strategies that provide stability in the face of geopolitical shocks. Alongside commodities, these include, in particular, hedge funds and volatility strategies.

More generally, the resilience of business models continues to gain importance in a geopolitically fragmented world. Alongside profitability, corporate resilience and the geopolitical vulnerability of companies' value chains are increasingly becoming decisive factors for strategic asset allocation. Companies with diversified supply chains, operational flexibility, and limited dependence on individual end markets or sourcing regions are structurally better positioned. Investors must increasingly complement traditional valuation and return criteria with geopolitical and structural risk and resilience factors.

The capital markets' high dependence on the AI boom remains a key factor in 2027. While direct AI exposure in public equity markets may have peaked for now, this dependence is likely to increase further in bond and private markets. Rising issuance volumes and growing transaction activity are expected to reinforce this trend. This increases the risk that different asset classes will depend more heavily on the same economic factors. Investing broadly across asset classes therefore does not necessarily ensure sufficient diversification of the underlying return drivers. A targeted, risk-aware selection within individual asset classes will become all the more important in 2027.

This applies in particular to equity markets: The early beneficiaries of AI may not necessarily emerge as tomorrow's

Performance of Asset Classes over the 10-year period (2017-2026 YTD) | Performance in EUR

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 YTD
2390.7% Digital Assets	11.9% Volatility	45.4% Private Markets	210.5% Digital Assets	161.4% Digital Assets	14.8% Commodities & Precious Metals	101.1% Digital Assets	109.6% Digital Assets	22.2% Commodities & Precious Metals	17.4% Equities
10.1% Private Markets	0.4% Bonds	42.2% Digital Assets	15.2% Volatility	62.9% Private Markets	1.9% Hedge Funds	38.4% Private Markets	32.8% Private Markets	8.3% Equities	17.3% Commodities & Precious Metals
8.9% Equities	-0.3% Real Estate	28.9% Equities	6.7% Equities	30,.5% Real Estate	0.0% Cash & Currencies	18.7% Equities	25.9% Equities	2.1% Cash & Currencies	9.0% Volatility
0.7% Bonds	-0.4% Cash & Currencies	23.1% Real Estate	4.0% Bonds	27.5% Equities	-1.6% Volatility	7.2% Bonds	23.7% Commodities & Precious Metals	1.3% Bonds	9.0% Real Estate
-0.3% Cash & Currencies	-1.7% Commodities & Precious Metals	15.5% Commodities & Precious Metals	1.5% Private Markets	19.1% Commodities & Precious Metals	-13.0% Equities	3.3% Real Estate	19.3% Volatility	-2.4% Volatility	8.0% Hedge Funds
-1.7% Real Estate	-2.0% Hedge Funds	10.6% Hedge Funds	1.4% Commodities & Precious Metals	18.5% Volatility	-17.2% Bonds	3.1% Cash & Currencies	12.3% Hedge Funds	-4.7% Real Estate	1.8% Cash & Currencies
-6.1% Commodities & Precious Metals	-4.8% Equities	9.5% Volatility	-0.5% Cash & Currencies	11.5% Hedge Funds	-17.3% Real Estate	-0.4% Hedge Funds	5.8% Real Estate	-5.6% Hedge Funds	-1.6% Bonds
-6.9% Hedge Funds	-9.7% Private Markets	6.0% Bonds	-2.0% Hedge Funds	-0.5% Cash & Currencies	-26.6% Private Markets	-0.5% Commodities & Precious Metals	3.6% Cash & Currencies	-10.9% Private Markets	-10.1% Digital Assets
-20.1% Volatility	-79.9% Digital Assets	-0.4% Cash & Currencies	-16.8% Real Estate	-2.9% Bonds	-63.3% Digital Assets	-9.3% Volatility	2.6% Bonds	-25.3% Digital Assets	-10.5% Private Markets

The **performance of asset classes over time** underlines the need for **active multi-asset management.**

Source: FERI, Morningstar | As of: October 31, 2026 | Index data in EUR, excluding costs; indices are not directly investable. Investing involves costs (including product, transaction, and custody fees, as well as service charges) that reduce performance: Average ongoing costs for mixed funds held by retail investors of 1.52% per annum would have reduced the shown performance accordingly (Source: ESMA, Costs and Performance of EU Retail Investment Products 2025, period 2015-2024). | Equities: MSCI ACWI Gross Total Return | Bonds: Bloomberg Euro Aggregate Total Return | Real Estate: 50% MSCI ACWI Equity REIT Index + 50% Morningstar EAA Fund Property Direct Global | Commodities & Precious Metals: 50% Bloomberg Commodity Index + 50% Gold Price | Hedge Funds: HFRX Total Return | Volatility: 70% CBOE S&P 500 Covered Combo Index + 30% S&P 500 VIX Mid-Term Futures Index | Private Markets: LPX 50 |Cash & Currency: Euro Short-Term Rate | Digital Assets: Digital Assets 100 Index | Color scheme based on the FERI Multi-Asset Cube | Past performance is not a reliable indicator of future results.

winners, as high earnings expectations are already largely reflected in valuations. As AI becomes more widespread, value creation is likely to shift gradually from infrastructure and technology providers to companies that productively integrate AI into their business models. To generate excess returns, the key is to identify AI users that have so far received little attention, and that benefit from productivity gains or are wrongly regarded as losers of technological disruption.

Companies, sectors, and regions are affected to very different degrees, both positively and negatively, by structural trends with disruptive potential. Broad market-cap-weighted indices primarily reflect the successful business models of the past, while structural shifts are incorporated only gradually. This creates the risk of overweighting established companies with eroding competitive advantages and underweighting the (new) beneficiaries of structural change.

Against this backdrop, asset allocation must increasingly reflect structural developments and take a more differentiated approach to regions, sectors, and investment styles. A balanced combination of innovation potential, inflation protection, and risk reduction, together with the use of active strategies and alternative asset classes, can strengthen portfolios' long-term resilience.

3. **Sustainability:** Resources, Risks, and Resilience – The Three Defining Rs of the Next Phase

Geopolitical tensions, the reorganization of global supply chains, technological disruptions, and climate and environmental change are increasingly shifting the focus to resource availability, physical risks, and adaptability. These close interdependencies underline the growing systemic relevance of sustainability issues for business, politics, society, and capital markets.

Against this backdrop, we identify four key sustainability-related trends that are likely to shape capital allocation in 2027. These trends should also support demand for impact investing strategies; nature-based solutions; and green, social, and sustainability bonds. Environmental, social, and governance (ESG) as well as sustainability considerations remain a fundamental part of investment risk and opportunity assessment.

1. A New Understanding of Sustainability: Long-Term Economic Competitiveness Rather Than an Isolated ESG Topic

For a long time, the focus was on ESG regulation, sustainability reporting, transparency requirements, and decarbonization. Attention is now clearly turning to long-term economic competitiveness. In 2027, topics such as resource availability, energy security, infrastructure, and strategic dependencies will be at the forefront.

2. Resources as a Strategic Economic Factor: Limited Availability, Rising Demand

As a result of the AI boom, demand for energy, water, infrastructure, and critical raw materials is rising. Geopolitical tensions are increasing the relevance of security of supply and strategic independence. Investment in energy, transportation, and digital infrastructure is becoming an important prerequisite for growth and competitiveness. Companies and sectors that benefit from this structural change or provide solutions will gain importance in the long term.

3. From Transition Risks to Physical Climate and Nature Risks: Investors' Changed Risk Assessment

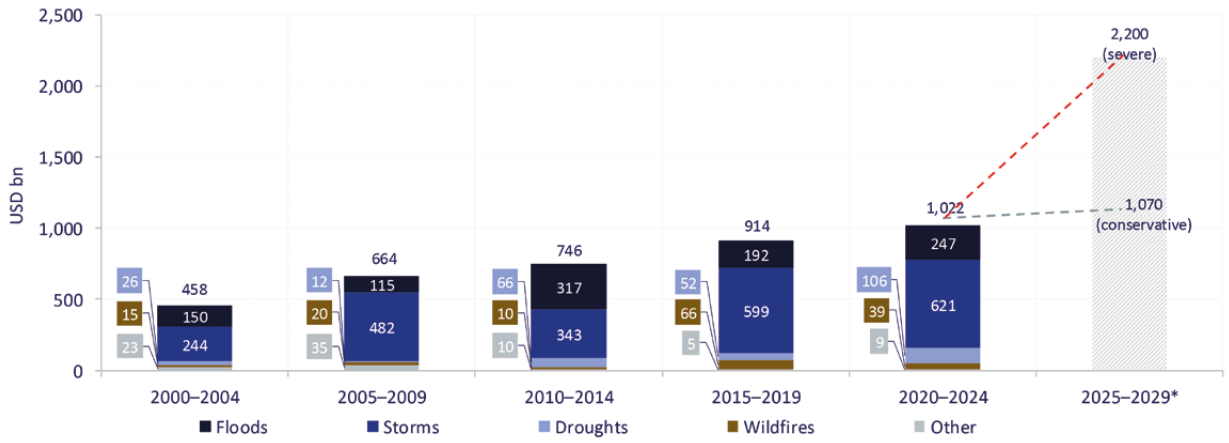
While the focus has recently been mainly on transition risks (such as stranded assets), physical climate and nature risks are now coming further into focus. Extreme heat, droughts, water scarcity, flooding, and increasing pressure on critical infrastructure are becoming more frequent and gaining importance due to the damage they cause. The continuing strain on natural systems is drawing attention to ecosystem services and nature-related risks such as potential tipping points in the Earth system and the associated danger of irreversible changes. For investors, the key questions are how significantly business models are exposed to physical risks and resource dependencies, and how adaptable companies are in responding to changing operating and environmental conditions.

4. Investment Implication: Sustainability-related Factors are Developing into Economically Relevant Factors and Thus Becoming an Integral Part of Corporate Quality and Resilience

Investors need to consider more carefully which companies will remain competitive in the long term, in a world of scarcer resources, rising physical risks, regulatory change, and growing systemic dependencies. Companies that effectively address sustainability risks, align their business models with fundamental transformation processes, and develop innovative solutions to key future challenges will have an advantage and benefit from long-term growth potential.

Global climate-related economic costs have more than doubled over the past 20 years

Economic Costs of Climate-related Natural Disasters
- five-year totals of reported losses, 2000-2024, incl. projections through 2029 -



Source: FERI, WEF (2024, Inaction), Climate Central, NOAA/NCEI, Munich Re, Cael et al. (2025, Damages) | Historical values through 9/2026, followed by projection scenarios: a) linear extrapolation (conservative projection), b) assuming that the USA accounts for around half of global economic losses from natural disasters, in line with historical values (severe projection). Note: The potential range of outcomes is wide, as losses from weather and climate disasters can fluctuate significantly.

B. OUR OUTLOOK FOR INDIVIDUAL ASSET CLASSES



Cash & Currencies

1. Cash & FX: The US Dollar Between Debasement and Reserve Currency Status

Following Donald Trump's inauguration for his second term, we highlighted two key considerations:

- The loss of reliability and predictability in US policy would weaken the dollar, as many market participants seek to reduce their dependence on the US currency.
- At the same time, the US dollar would remain the world's leading reserve currency for the foreseeable future.

While the first factor clearly dominated in 2025, the second prevailed in 2026. Particularly during the war against Iran, the US dollar reaffirmed its safe-haven status and appreciated significantly.

In 2027, both factors could come into play. During the final two years of his presidency, the US president is likely to push ahead with as much of his agenda as possible. Domestically, this would imply increasingly autocratic tendencies and fierce political confrontations with a Congress no longer dominated by Republicans. In foreign policy, this would result in a disruptive and at times erratic approach, focused narrowly on national interests and largely disregarding the principles underpinning international order. Both developments could trigger capital outflows from the USA and put downward pressure on the US dollar. In scenarios of genuine escalation, however, such as the war against Iran, the dollar would likely continue to attract safe-haven demand.

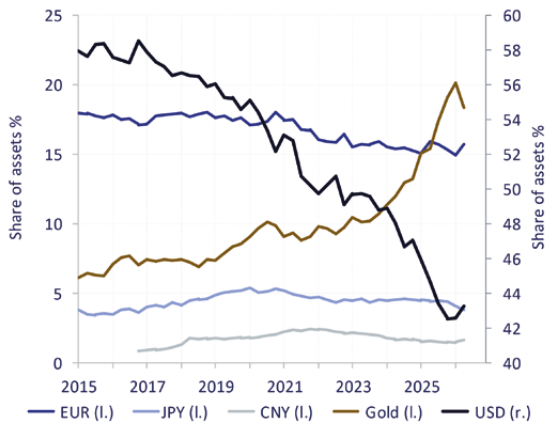
Overall, investors should not expect the US dollar to contribute positively to the performance of a globally diversified portfolio, making active currency management essential.

Despite declining dominance, the dollar remains the world's leading currency | Euro vulnerable to intra-European crises

EUR / USD
- daily -



Global Official Reserve Assets
- quarterly (IMF), in USD -



Source: FERI, Haver Analytics, Bank for International Settlements, IMF

EUR/USD Exchange Rate

From a European perspective, the (in)stability of the currency union must also be taken into account alongside the factors discussed above. The euro's weakness in the second half of 2026 was largely driven by growing doubts about the stability of the monetary union, particularly against the backdrop of France's unsustainable public finances. Further widening spreads between French and German government bonds are fueling concerns about a potential eurozone sovereign debt crisis 2.0, putting downward pressure on the euro.

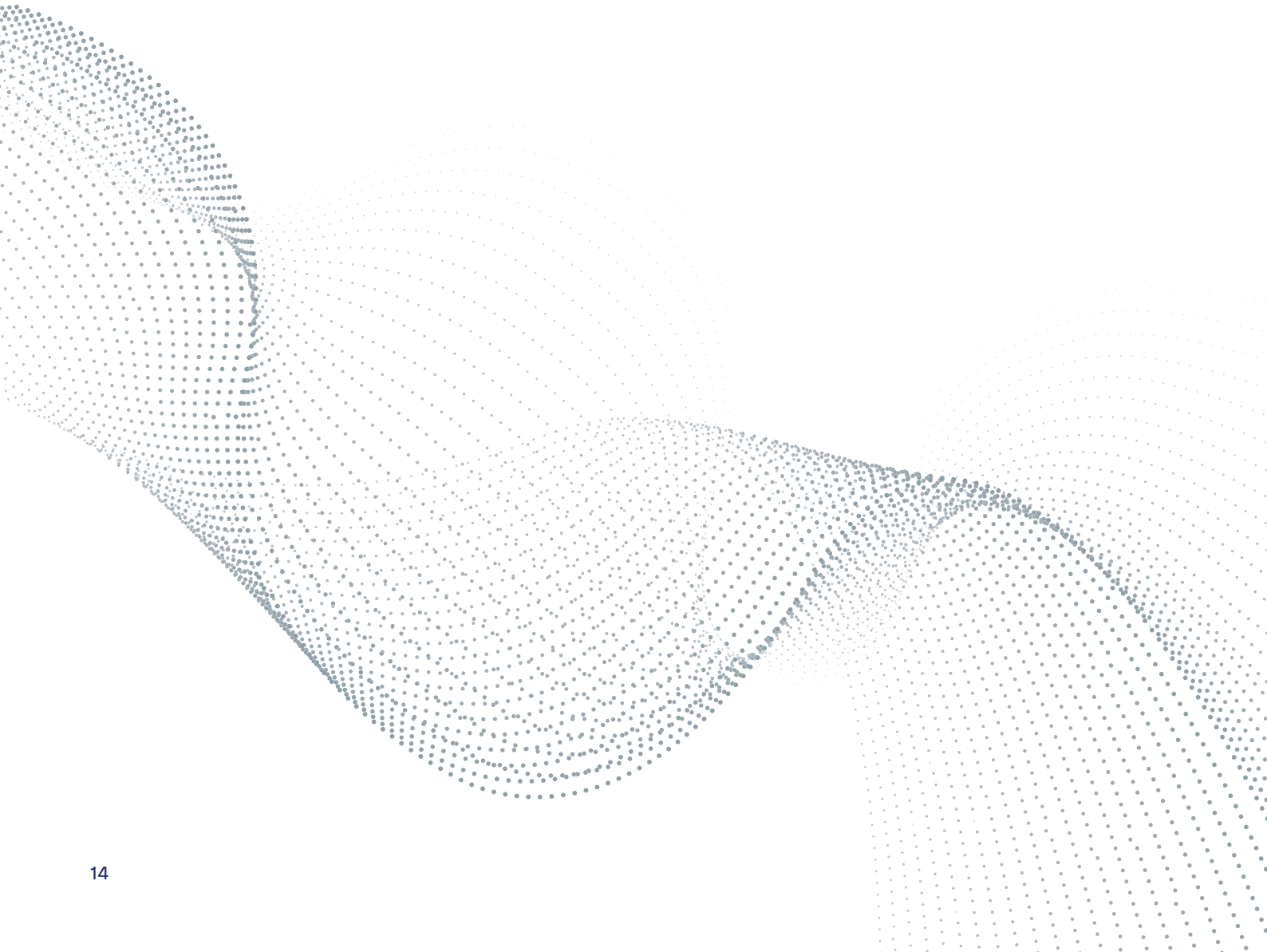
Nevertheless, it is important to note that the euro remains significantly undervalued against the US dollar based on purchasing power parity. Fundamental factors, such as persistently high US fiscal deficits, also favor a stronger euro. At the same time, the US dollar could benefit from the Federal Reserve's need to maintain a more restrictive monetary policy stance than the ECB to restore price stability.

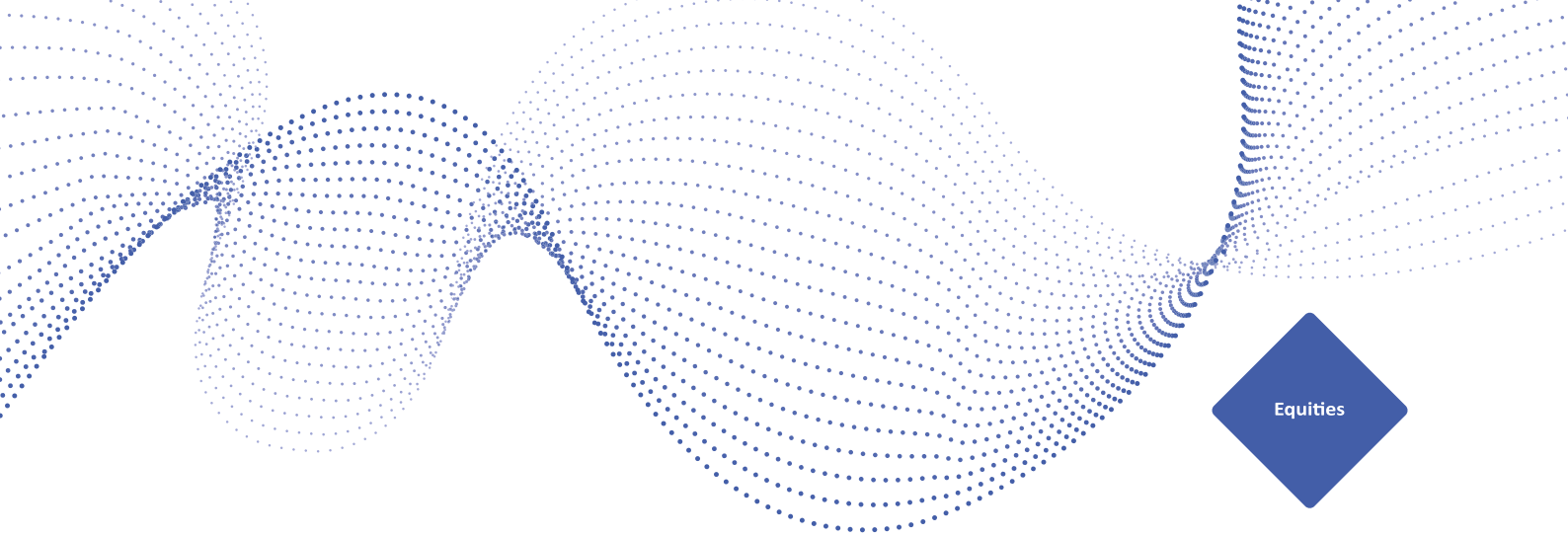
Other Currencies

The Bank of Japan will continue to normalize monetary policy, while Japanese government bonds now offer more attractive yields following their substantial increase. A strengthening of the yen is therefore a plausible scenario for 2027. Nevertheless, we maintain our view that a sustained reversal in the yen's exchange rate trend will only materialize when the currency attracts stronger demand as a countercyclical asset in an environment of broad-based risk aversion.

Global uncertainty and geopolitical tensions are likely to sustain demand for the Swiss franc as a safe-haven currency. However, Switzerland's very low interest rates act as a counterweight. With inflation running slightly higher, the Swiss National Bank is likely to raise its policy rate moderately. Against a backdrop of ongoing instability in the eurozone, we consider a moderate appreciation of the Swiss franc in 2027 the most likely scenario.

Whether the Chinese yuan, which remains significantly undervalued on a fundamental basis, appreciates against the euro, as it did in 2026, is largely a political decision by China's leadership. Beijing appears open to a moderate appreciation of the yuan, partly as a gesture of goodwill in its trade disputes with the EU.





2. **Equities:** Shifting Market Leadership as the AI Cycle Continues

The AI investment cycle continued in 2026, gaining further momentum over the course of the year. Despite headwinds from geopolitical developments, rising inflationary pressures, and a more restrictive monetary policy stance, corporate earnings increased significantly, while the overall macroeconomic environment remained stable. As a result, equity markets delivered strong performance overall.

For 2027, we continue to expect robust earnings growth amid broadly stable economic conditions. The AI investment boom remains the key driver. Current earnings guidance and substantial order backlogs at leading AI infrastructure companies suggest that the boom will continue. However, earnings growth is expected to decelerate amid tougher year-over-year comparisons. At the same time, inflation and interest rate risks remain elevated. Further multiple expansion therefore appears unlikely, as was the case for most of 2026. Equity market performance is thus likely to be driven more by actual earnings growth than by rising valuations.

Within equity markets, however, a shift in market leadership appears likely in 2027. Investment in AI infrastructure is expected to reach a new peak, with spending exceeding USD 1 trillion. For the hyperscalers, this represents a substantial drain on free cash flow. Their combined free cash flow is likely to turn significantly negative in 2027, weighing on their relative stock performance. In contrast, AI infrastructure providers are benefiting from sustained investment demand, supporting strong earnings and free cash flow generation. However, the sharp share price gains among core AI infrastructure suppliers this year already reflect much of the positive outlook, leaving limited additional upside potential in 2027. Instead, we see potential for relative outperformance in downstream segments of the AI value chain, particularly power grids and grid equipment, power generation, cooling technologies, and electrical infrastructure for data centers.

At the same time, the transition to the next phase of the AI cycle is likely to gain momentum in 2027. Investor attention is likely to shift from AI infrastructure suppliers toward companies that successfully integrate AI into their business models and achieve measurable improvements in productivity and earnings. We see particularly strong potential in knowledge- and process-intensive sectors such as pharmaceuticals and biotechnology, software, cybersecurity, and financial services. These AI adopters could emerge as the next relative winners of the AI boom.

The expected shift in market leadership is also likely to have implications for market structure. The broadening of the AI megatrend should support greater market breadth. However, given the high concentration of major equity indices in a handful of large technology companies, this may not immediately translate into stronger index performance. A slowing of share price momentum among the current market heavyweights could initially weigh on overall index performance, even if many other companies deliver above-average returns. Therefore, the performance of the broader equity market could increasingly diverge from that of major benchmark indices. In this environment, active sector allocation and stock picking are likely to gain an edge over passive, market-capitalization-weighted equity strategies.

Regional Investment Strategy

Broad geographic diversification of equity investments remains essential. At the same time, greater attention must be paid to the exposure of individual regions to overarching structural trends. In 2026, for example, the performance of Emerging Market equity indices was heavily influenced by the AI megatrend, with a handful of semiconductor manufacturers accounting for much of the overall index performance.

- **US:** Supported by the country's technological leadership, US equities remain a core component of any asset allocation. However, a shift in market leadership away from index-heavyweight hyperscalers and direct beneficiaries of the AI boom could weigh on the relative performance of US equities.

- **Europe:** Attractive relative valuations and solid corporate earnings support the outlook for European equities. Additional tailwinds are expected from the AI boom expanding into downstream segments of the value chain and stronger balance sheets in the banking sector. Persistent (geo) political uncertainty remains a significant risk.

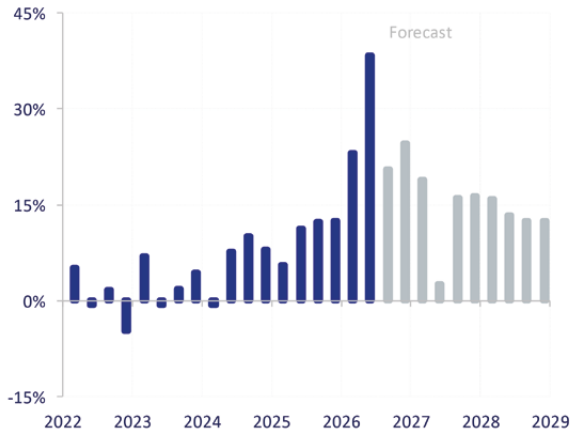
- **Japan:** Following the strong performance in 2026, we expect Japanese equities to perform broadly in line with the market in 2027. The continued strength of the global industrial cycle and Takaichi's pro-business economic agenda provide support, while the appreciation of the yen is likely to weigh on exporters.

- **China:** The outlook for Chinese equities remains subdued. Despite attractive valuations and the presence of leading technology companies, corporate profitability remains weak due to intense competition, excess capacity, and significant government intervention.

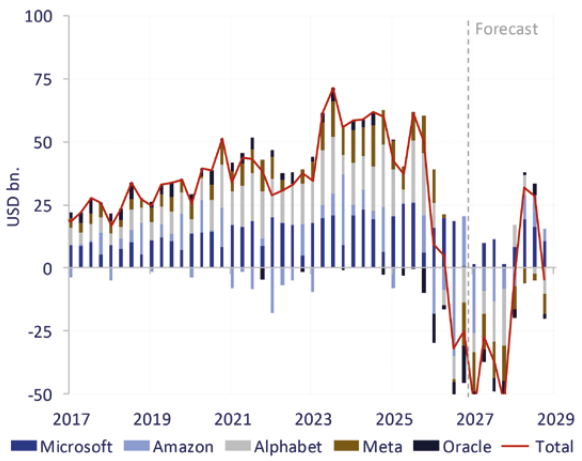
- **Emerging Markets:** Despite strong performance in 2026, valuations have declined further, supported by robust earnings growth, particularly among Asian technology companies. Emerging market equities are therefore likely to remain an important driver of portfolio returns in 2027.

Strong earnings growth remains the key pillar of equity markets | Shift in market leadership: Hyperscalers face FCF pressure in 2027

MSCI World: Earnings Growth
- quarterly -



S&P 500: Hyperscaler Free Cash Flow
- quarterly -



Source: FERI, MSCI

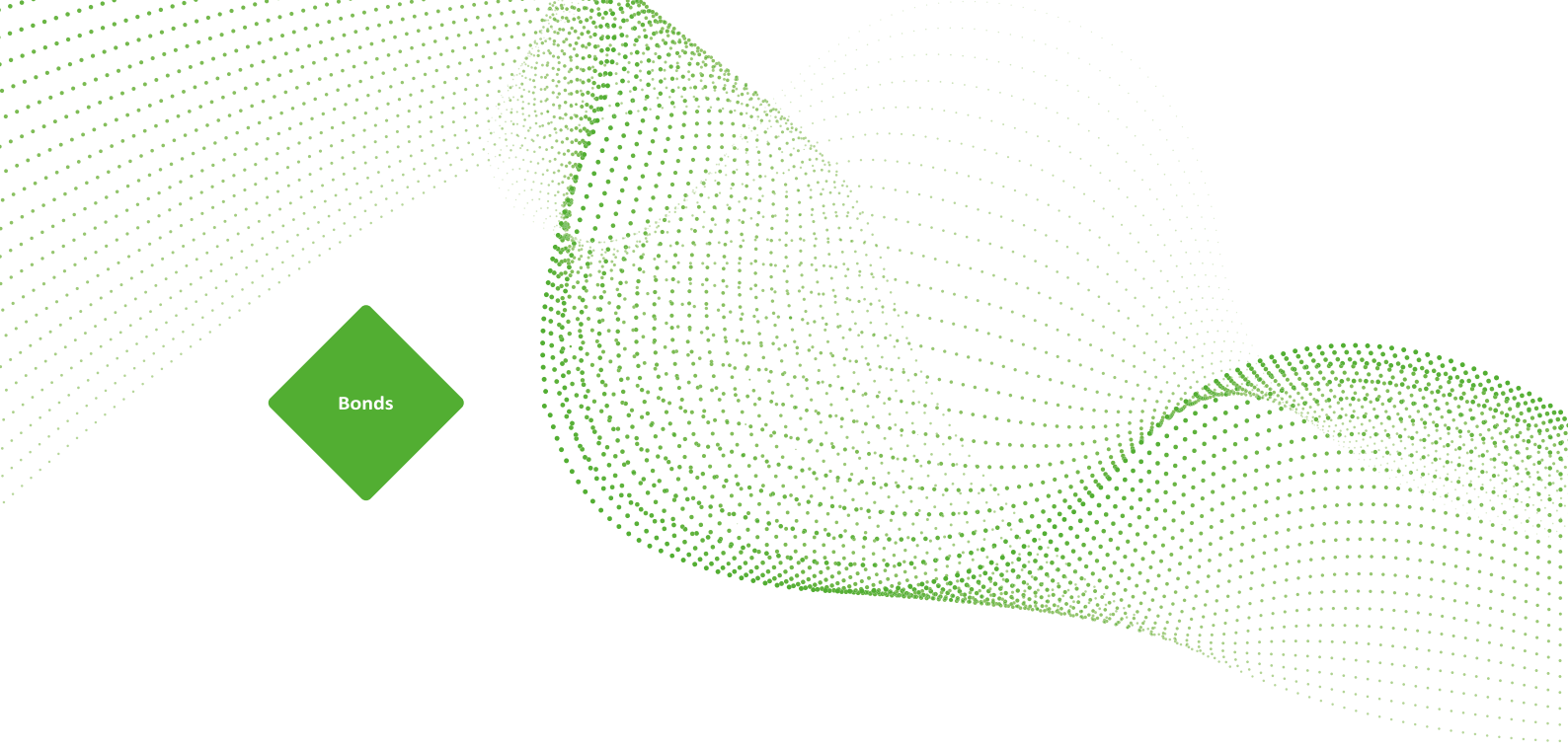
Investment Strategy by Sector and Style

- **Defensives:** Following significant underperformance in 2026, we do not expect a reversal of this trend in 2027, as a pronounced economic slowdown is not part of our base case. However, we see opportunities primarily among companies that successfully integrate AI into their business processes.

- **Cyclicals:** Robust global nominal economic growth and the continued strength of the AI investment cycle are likely to support relative outperformance in 2027. However, the performance advantage over defensive sectors is likely to be smaller than in 2026.

- **Small Caps:** Valuations remain attractive for small caps, although elevated interest rates are likely to weigh disproportionately on the segment, at least in the first half of 2027. If interest rate pressures ease over the course of the year, small caps could outperform, particularly those successfully adopting AI.

- **Growth vs. Value:** A solid economic outlook, persistent interest rate pressures, and the broadening of the AI boom into downstream segments of the value chain increase the likelihood of value stocks outperforming growth stocks.



3. **Fixed Income:** Regaining Its Role as a Source of Returns and Diversification

Bond markets came under significant pressure in 2026. In particular, rising demand for capital from hyperscalers, which are increasingly financing their investments through bond issuance, intensified competition for scarce capital and pushed up its price, the real interest rate. The energy price shock triggered by the war against Iran and its inflationary consequences also contributed to significantly higher yields. Additional upward pressure came from uncertainty over the Federal Reserve's future monetary policy stance, as well as from widening fiscal deficits and growing concerns about debt sustainability amid sharply rising government interest expenses.

Long-term bond yields reached levels not seen in 20 years. Short-duration bonds, by contrast, showed relative strength due to lower interest rate sensitivity. Corporate bonds also performed relatively better, supported by solid fundamentals and credit spreads that remained largely low and stable.

For European bond investors, the fiscal situation in France warrants particular attention. So far, there has been little recognition in French society of the need to reduce government spending, which accounts for well over 50% of GDP. This is unlikely to change ahead of the presidential election. As a result, French government bonds are likely to continue trading at elevated risk premia. This could lead to contagion across other eurozone sovereign bond markets, potentially forcing the ECB to intervene. In principle, the ECB has the necessary tools to stabilize the situation. A "too big to save" scenario therefore remains a tail risk, although it should not be entirely dismissed. European bond markets in 2027 are likely to be characterized by elevated volatility and significant dispersion across countries.

Government Bonds

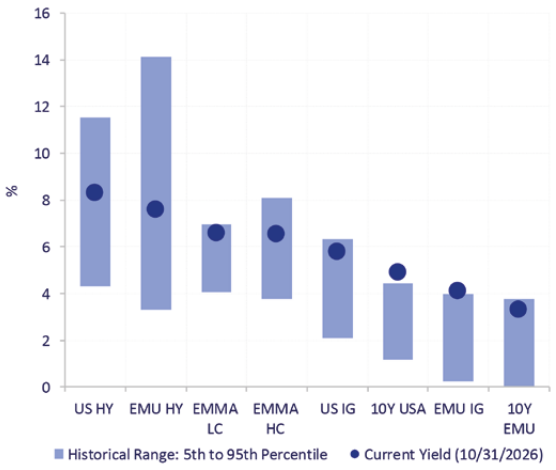
The era of extremely low interest rates ended in 2022. With interest rates now at significantly higher levels, government bonds have become attractive again from an absolute yield perspective. However, whether they can also resume their traditional role as portfolio diversifiers depends heavily on the prevailing conditions. In an environment of declining inflation, long-duration bonds could once again benefit more strongly from falling yields during periods of economic or financial stress, providing an effective hedge against equity market risks. However, this would not hold in a scenario of persistently elevated or renewed inflationary pressures, for example, following another geopolitical escalation. In such an environment, equity and bond returns would likely exhibit a stronger positive correlation.

For now, we continue to see greater return potential in equities than in bonds. Although the drivers of rising interest rates remain in place, yields are nevertheless approaching levels that can be considered fair from a fundamental perspective. Higher current yields also offer a buffer against further increases in interest rates. In our base case, increasing allocations to government bonds or extending portfolio duration could become attractive options within a multi-asset strategy over the course of the year.

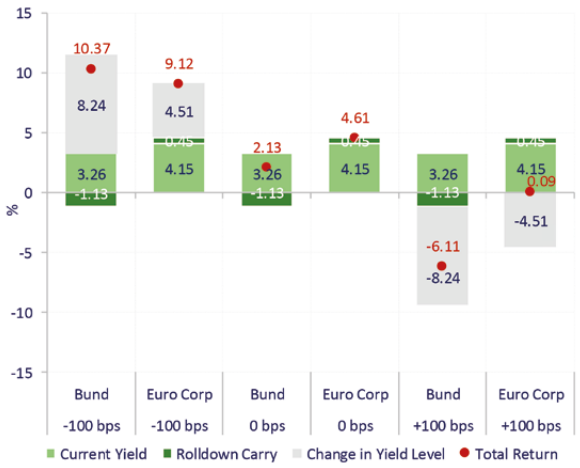
Emerging market debt also remains attractive. While tight credit spreads limit the potential for additional returns from further spread compression, elevated yields continue to provide attractive carry. Against the backdrop of challenging debt dynamics in many developed economies, numerous emerging markets appear increasingly sound from a fiscal perspective. Tight spreads are therefore largely justified by

Current yields attractive by historical standards | Diversifier in crisis scenarios with limited downside potential

Current Yields in Historical Comparison
- monthly since 01/2008 -



Return Scenarios for Bonds
- total return over 12 months -



Source: FERI, Bloomberg | HY = High Yield, IG = Investment Grade, EMMA = Emerging Markets, Euro Corp = European Corporate Bonds, EMU= European Monetary Union (euro area), Bund= German government bonds

fundamentals. Given the significant dispersion in credit quality, disciplined selection based on macroeconomic and fiscal indicators remains essential.

Corporate Bonds

Despite the significant rise in interest rates, corporate bond credit spreads remained largely stable in 2026, supported by robust fundamentals and improved balance sheet quality. At the same time, the market is increasingly shaped by hyperscalers and other AI-related issuers, making credit markets more dependent on the trajectory of the AI boom. Heavy new issuance has already led to spread widening among several AI-related issuers, without a corresponding deterioration in their fundamentals. In this regard, the planned IPOs of the two leading AI developers, Anthropic and OpenAI, are expected to provide greater transparency into the profitability and potential of the AI boom. This could create selective opportunities for spread tightening among fundamentally sound issuers.

Investment-grade corporate bonds proved particularly resilient in this environment. European issuers, in particular, have structurally reduced their leverage in recent years, resulting in significantly stronger balance sheets. Limited refinancing needs over the coming years should also help keep interest expenses manageable. Improving earnings expectations amid a strengthening economic outlook further support debt sustainability.

The performance of French corporate bonds is particularly noteworthy in this context. Amid the ongoing sovereign debt crisis, they have proven more resilient than French government bonds. Yields on some high-quality corporate bonds have even fallen below those of French government bonds. This unusual situation highlights both the elevated risk premia that investors currently demand on French sovereign debt and the high degree of resilience demonstrated by French corporate bonds.

Overall, corporate bonds continue to offer attractive expected returns, supported by elevated running yields. Combined with the stabilizing factors outlined above, this leads us to maintain our preference for investment-grade corporate bonds over government bonds in 2027.

Alternative Fixed Income

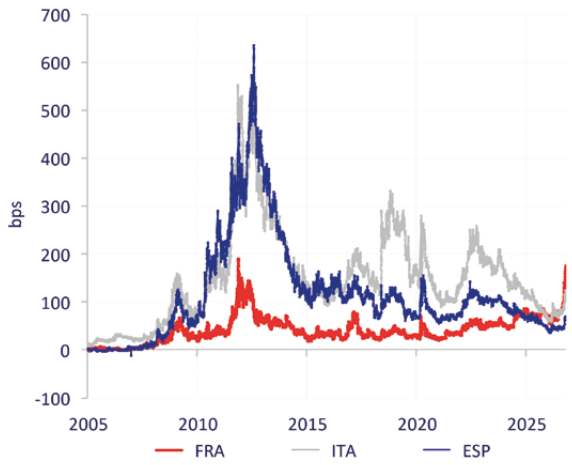
Looking ahead to 2027, two segments stand out within alternative fixed income strategies. The first is catastrophe bonds, which compensate investors for bearing insurance-related catastrophe risks and offer returns that are largely uncorrelated with traditional financial markets. Despite extreme weather conditions in 2026, catastrophe bonds outperformed most traditional fixed income segments, making them an important stabilizing factor in an environment of rising interest rates. We believe they will continue to serve as a portfolio stabilizer in 2027.

Sustained interest rate declines only after a negative economic shock | FRA: Euro debt crisis 2.0 as a conceivable extreme scenario

USA: 10-year Government Bond Yield
- monthly -



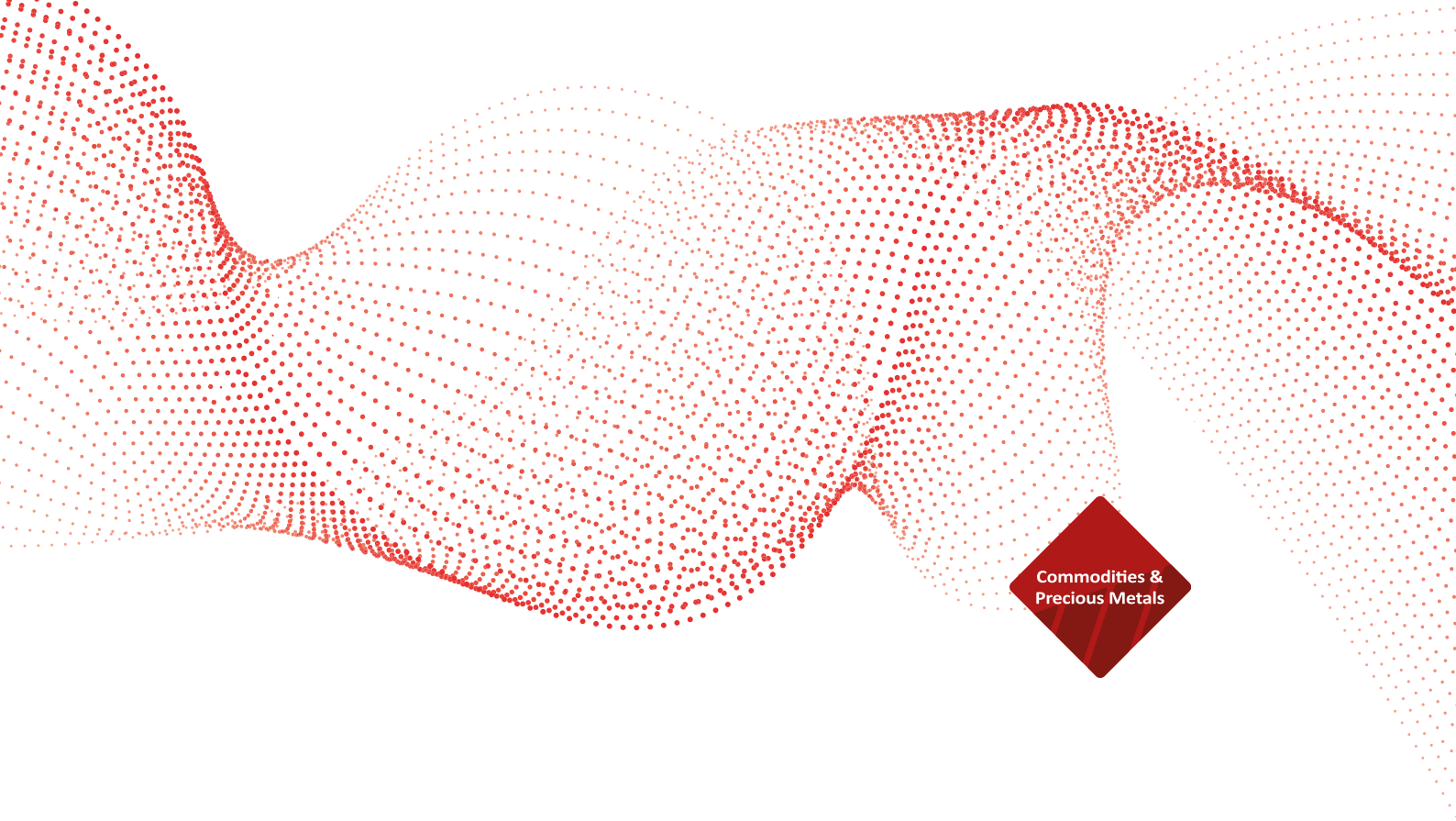
10-year Government Bond Spreads vs. Germany
- daily -



Source: FERI, Haver Analytics | Past performance is not a reliable indicator of future performance.

The second segment is Nordic corporate bonds, which we consider particularly attractive. Their predominantly floating-rate nature results in low interest rate sensitivity, while attractive risk premia provide attractive carry. In addition, the region's significant exposure to the energy sector can offer further stability during periods of high or rising energy prices.

As the key drivers of elevated interest rates are likely to remain in place for the time being, our base case for 2027 does not envisage a significant decline in interest rates. However, further increases in long-term yields are likely to be constrained by their adverse effects on equity markets and the real economy. Should interest rates nevertheless rise beyond certain critical thresholds, the capital market environment could change fundamentally. Falling equity prices, particularly in the US, would weaken private consumption through negative wealth effects and could thereby trigger a broader economic slowdown. This, in turn, would put significant downward pressure on interest rates. Although this is not our base case, investors should closely monitor the risk of such a scenario unfolding.



4. **Commodities & Precious Metals:** Geopolitics, AI, and Structural Trends Drive Performance

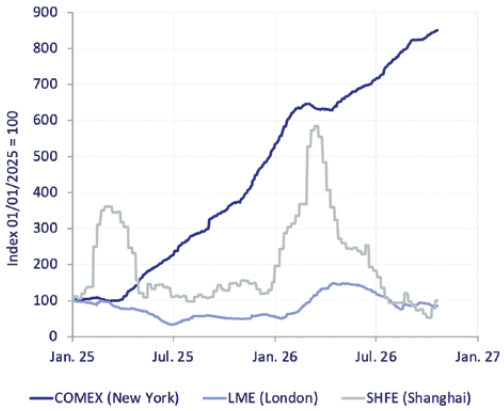
Commodities

Crude oil was the best-performing major commodity in 2026, driven by disruptions to global oil supply following the closure of the Strait of Hormuz. The geopolitical risk premium is likely to remain elevated in 2027, given the ongoing stalemate in the conflict and the risk of further regional escalation. However, supply conditions have improved considerably in recent months. Crude oil exports from the Middle East have recovered significantly, supported by alternative export routes and so-called dark tanker shipments, involving vessels operating with disabled tracking systems. At the same time, the United Arab Emirates' withdrawal from OPEC is weakening the cartel's production discipline and increasing the risk of global competition for market share. By contrast, supply conditions for refined petroleum products, particularly diesel, remain tight. Low inventories and damaged refining capacity in Russia and the Middle East are likely to keep prices elevated well into 2027. Maintaining an active allocation to energy commodities therefore remains a sensible geopolitical hedge. However, this exposure should be reduced if the geopolitical risk premium begins to decline over the course of 2027.

Industrial metals also posted strong gains in 2026, with the global AI investment boom serving as the main driver. The AI-driven buildup of data centers, power grids, and energy infrastructure has generated substantial demand for industrial metals. This surge in demand has more than offset the impact of China's persistent economic weakness, despite its dominant role in global industrial metals consumption. Additional upward price pressure came from concerns over US tariffs, which prompted substantial precautionary inventory

Massive inventory buildup ("hoarding") in the USA leads to shortages elsewhere

Copper Inventories at Global Exchanges
- daily, metric tons -



Source: FERI, Bloomberg

accumulation among US buyers. The structural nature of these demand drivers suggests that they will remain in place in 2027, while the lengthy process of developing new mining capacity will continue to constrain supply. Copper, in particular, faces the risk of a further widening of its structural supply deficit in the coming years.

The fundamental outlook for industrial metals therefore remains attractive, although the substantial price gains seen so far could limit near-term upside potential. If the AI boom fails to continue, copper would likely experience at least a cyclical price correction. Aluminum is supported in the near term by supply constraints and high energy costs, but could face downside risks if supply conditions normalize. The outlook for zinc remains weighed down by weak demand from the construction and steel sectors, as well as China's ongoing property market crisis.

Precious Metals

Gold started 2026 on a strong note, but the rally quickly took on a momentum of its own and became increasingly speculative. The resulting price frenzy also spread to other precious metals. Silver and platinum, in particular, recorded gains of approximately 300% and 200%, respectively, from the beginning of 2025 to their peaks in January 2026. These gains dwarfed even gold's impressive price appreciation. The resulting market overheating and historically elevated valuations in real price terms eventually led to a correction, followed by a prolonged consolidation phase. Rising interest rates and a stronger US dollar added to the downward pressure, while geopolitical risks stemming from the war against Iran increasingly shifted investor attention toward energy commodities. As a result, despite its temporary gains, gold significantly underperformed the broader commodity market in 2026.

We maintain a fundamentally positive outlook for gold in 2027, as the structural drivers of demand remain intact. Emerging market central banks continue to diversify their foreign exchange reserves and reduce their reliance on the US dollar. The recent correction in gold prices was accompanied by an acceleration in central bank purchases, underscoring the persistently strong structural demand. In addition, there are indications of substantial unreported gold purchases by China, suggesting that actual demand could be even higher than official figures suggest.

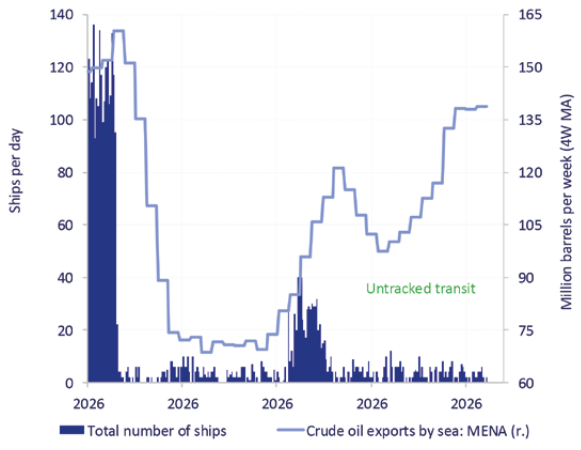
Rising government debt levels worldwide provide additional support for gold by increasing the long-term risk of greater inflation tolerance and financial repression. Persistent geopolitical tensions and the increasing fragmentation of the global economy also reinforce demand for gold as an independent reserve asset and store of value. As a real asset without counterparty risk, gold offers long-term protection against monetary debasement in this environment and can contribute to portfolio diversification, particularly during periods of heightened uncertainty.

In the near term, however, gold prices face headwinds from elevated real interest rates. As long as the Federal Reserve continues its rate-hiking cycle, gold's upside potential is likely to remain limited. However, this headwind is expected to diminish over the course of 2027.

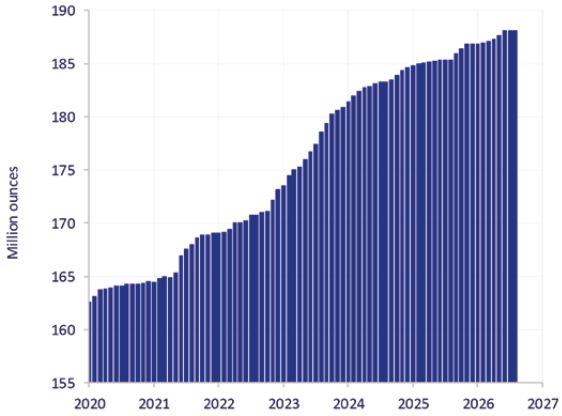
Overall, gold remains attractive from a strategic perspective and continues to warrant an active allocation within a broadly diversified multi-asset portfolio.

Crude oil supply is less disrupted than transit data suggest | Central banks use lower gold prices to increase purchases

Strait of Hormuz: Shipping Traffic vs. MENA Oil Exports
- daily and weekly figures -



Gold Reserves
- monthly -



Source: FERI, BCA Research



5. **Private Markets:** Growing Dispersion Requires Careful Selection

With its broad and diverse range of sub-asset classes, private markets continue to offer attractive investment opportunities across different market and economic environments in 2027. At the same time, the investment environment is becoming increasingly challenging. Elevated interest rates weigh on valuations, geopolitical tensions and regional differences add complexity to capital allocation, and performance dispersion across managers remains significant. As a result, operational value creation, active liquidity management, and disciplined strategy and manager selection are becoming increasingly important.

Infrastructure

The substantial global investment needs driven by digitalization, decarbonization, electrification, and geopolitical fragmentation underpin a positive outlook for infrastructure investments in 2027. In Europe, the modernization of energy and utility infrastructure, alongside investments in security and strategic autonomy, creates a broad range of opportunities. At the same time, shifting supply chains, national support programs and regulatory differences are leading to greater divergence across infrastructure markets.

Energy and digital infrastructure remain key areas of investment activity. Investment in data centers, power generation, electricity grids, energy storage, and fiber-optic networks is increasingly driven by the growing demand for energy and data associated with artificial intelligence (AI). Against this backdrop, careful project selection is essential, with a focus on secured grid connections, reliable power supply, robust offtake agreements, and disciplined entry valuations.

Infrastructure secondaries are also gaining importance. According to Allianz Global Investors, transaction volumes reached approximately USD 25 billion in 2025 and could rise to around USD 45 billion by the end of the decade. This growth is supported by an increasing number of mature infrastructure funds and the liquidity needs of investors and fund managers. Secondaries enable faster portfolio construction, mitigation of the J-Curve Effect, and access to established infrastructure assets.

For 2027, we expect an attractive investment environment, although selectivity is becoming increasingly important. Income-oriented core-plus strategies remain appealing, while value-add strategies stand to benefit from the growing need for infrastructure modernization. Small- and mid-market managers can leverage their competitive advantages through local market knowledge, operational expertise, and access to less competitive transactions. Disciplined manager selection therefore remains critical.

Private Credit

Private credit has become an integral part of global capital markets. Tighter banking regulations, the declining role of traditional lenders, and growing demand for flexible financing solutions continue to provide structural tailwinds in 2027. At the same time, the investment universe is expanding beyond direct lending to include asset-based finance, infrastructure and real estate debt, specialty finance, and opportunistic credit strategies.

Returns in 2027 will largely depend on interest rates, credit spreads, and credit quality. Elevated base rates support current income but also increase debt-servicing pressures on highly leveraged borrowers. Investment performance therefore depends on disciplined selection across market segments, credit structures, and managers.

Default rates have been rising moderately since 2024. Despite an increase in restructurings and covenant breaches, a broad-based rise in defaults has not materialized to date.

The current market environment also creates opportunities for experienced managers, particularly in special situations and distressed debt.

European small- and mid-market direct lending remains attractive. Compared with the large-cap market, it offers higher credit spreads, less competition, and tighter lending terms. At the same time, asset-based finance and other forms of secured lending are gaining importance. The key consideration remains whether expected returns adequately compensate investors for the additional illiquidity and complexity.

The secondary market is also expected to continue growing, providing opportunistic investors with access to more seasoned portfolios, potentially at discounted pricing. However, careful due diligence on the underlying loans and contractual structures remains essential.

Private Equity and Secondaries

Private equity enters 2027 with improving deal activity but ongoing structural challenges. High entry multiples, geopolitical uncertainty, and challenging financing conditions limit the scope for broad-based multiple expansion. The exit backlog that has built up over several years is likely to unwind only gradually in 2027. Many funds are holding portfolio companies longer than originally planned, while investors are placing increasing emphasis on cash distributions. High-quality assets should continue to attract buyer interest, while valuation gaps between buyers and sellers are likely to complicate exits for weaker portfolio companies. This points to an increasingly bifurcated market.

For buyout managers, return generation is increasingly shifting away from financial leverage and multiple expansion toward operational value creation. Revenue growth, margin improvements, and strategic repositioning are becoming key drivers of performance. AI offers additional opportunities to enhance productivity but may also put pressure on established business models, particularly in the software and services sectors. Assessing the risks of technological disruption is therefore becoming an essential part of the due diligence process.

Secondaries are becoming an increasingly strategic component of private markets allocations in 2027. Selling existing fund interests allows investors to actively manage their portfolios. Meanwhile, general-partner-led transactions, particularly continuation vehicles, allow general partners (GPs) to transfer selected assets into new vehicles, thereby extending their holding periods. For buyers, secondaries provide access to seasoned portfolios, greater visibility into the underlying assets, and a flatter J-Curve. At the same time, increasing competition calls for strict pricing discipline, thorough due diligence and careful consideration of potential conflicts of interest.

Regional differences shape investment opportunities

	Europe	USA	Asia / APAC
	Lower economic growth leads to economic uncertainty. Interest rates remain under observation due to energy costs.	The administration creates policy volatility amid positive market sentiment. Inflation, interest rates, and the US dollar should be monitored over the long term.	Differentiation between developed and emerging countries is essential; GDP growth despite economic uncertainty; hedging as a cost factor.
Infrastructure	↗ High investment needs and overregulation; limited M&A activity	↑ Strong momentum in energy and digital infrastructure, with isolated energy restrictions	→ Heterogeneous market with high target returns and investment needs, but few established strategies
Private Credit	↗ Private credit market growth; spread stabilization; more opportunities for special situation funds	→ Continued capital outflows in the retail segment; low spreads in the large-cap segment; growing AI exposure	↗ High growth potential; attractive return potential; political and legal risks
Real Estate	→ Slight recovery from low levels; high investment needs for residential properties	↗ Market recovery amid increasing divergence across market segments	→ Stronger market recovery; particularly strong growth in logistics
Private Equity	↗ Significant potential for consolidation strategies; fundraising growth in Southern European markets	→ Some software funds under pressure; strong growth in GP-led secondaries	→ Strong economic growth as a return driver; some industries affected by the US-Iran conflict

Europe and the USA remain at the core of a diversified portfolio

Source: FERI

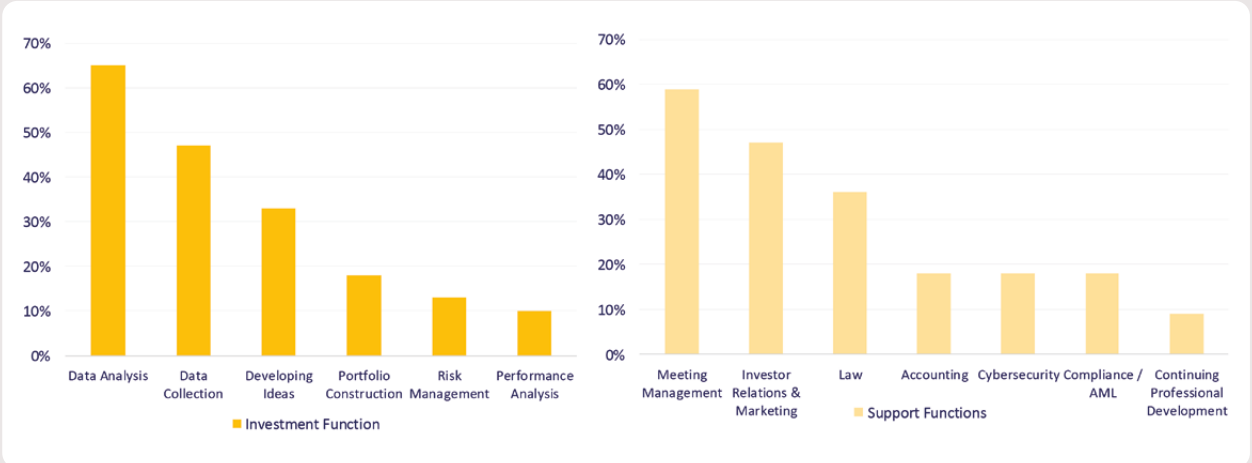


6. **Hedge Funds:** Alpha, AI, and Specialization as Key Drivers of Success

Hedge funds further strengthened their role as portfolio diversifiers and independent sources of return in 2026. Looking ahead to 2027, we remain constructive on this asset class. Structurally elevated inflation risks and geopolitical fragmentation are likely to sustain a high-volatility macroeconomic regime. This backdrop creates fertile ground for market dislocations; shifting trends across interest rates, currencies, and commodities; and greater dispersion between regions, sectors, and individual companies. Such conditions are particularly favorable for hedge funds, providing a rich opportunity set for alpha generation. By employing relative-value and spread strategies alongside flexible long and short positioning, skilled managers can exploit market inefficiencies and capitalize on opportunities across a wide range of market environments, without relying on the overall direction of financial markets. Hedge funds are also well positioned to capitalize on the technological transformation driven by AI. Their flexibility and ability to rapidly integrate new technologies into their investment processes allow them to turn advances in AI into tangible performance advantages. AI-driven research and optimized trading processes are becoming key competitive differentiators for successful hedge fund managers.

In 2026, investor interest and capital inflows were primarily concentrated among established hedge fund managers and large multi-manager platforms. As a growing number of managers approach their strategy capacity limits, many are restricting new investments. This has strengthened their bargaining power, allowing them to impose longer lock-up periods, tighter redemption terms, and higher fees. We expect this trend to persist throughout 2027.

Share of hedge funds using AI (Use cases)

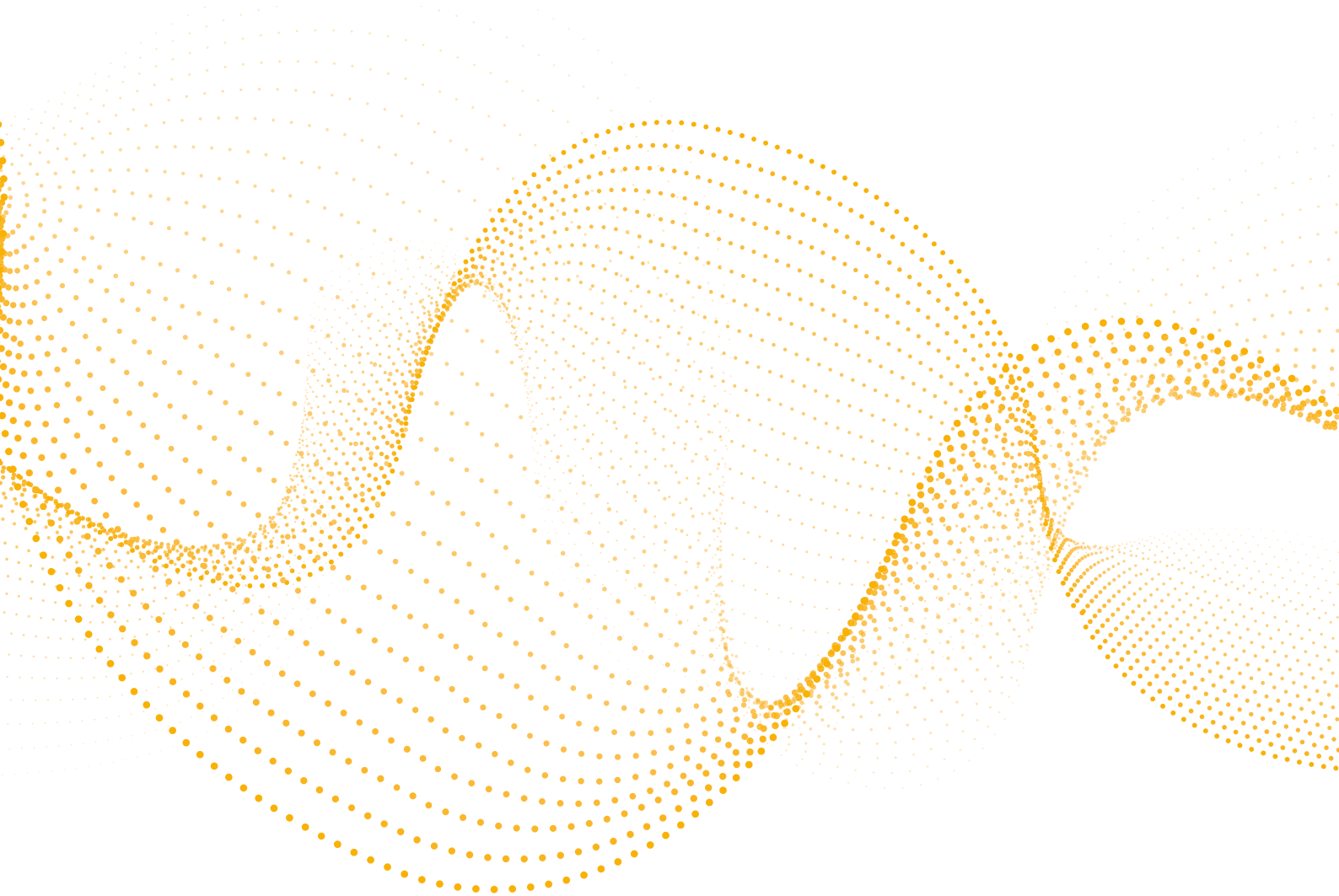


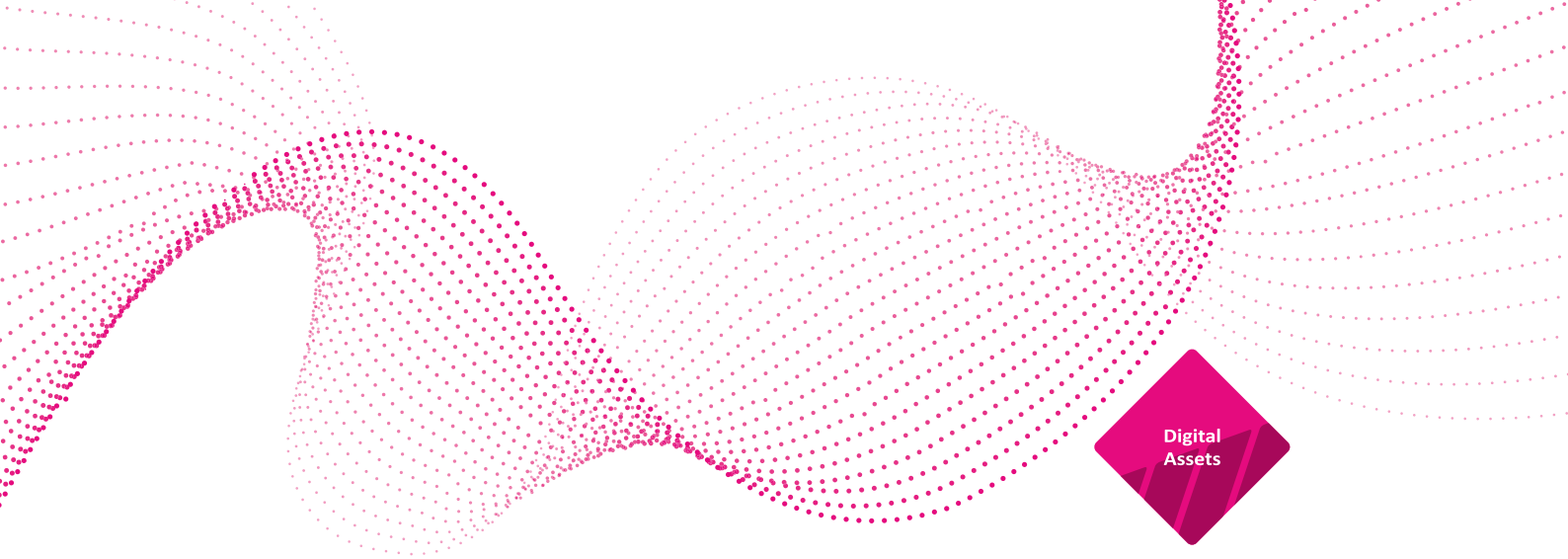
Source: Survey results from Barclays Strategic Consulting.

Across hedge fund strategies, we continue to see attractive sources of return that are largely independent of traditional asset classes. The current market environment offers growing opportunities for specialized managers and relative-value strategies that can capitalize on market inefficiencies and valuation discrepancies. In contrast, credit strategies with high net exposure and substantial leverage, as well as activist strategies, remain less attractive from a risk-return perspective.

Within equity hedge strategies, we continue to see an attractive environment for sector-specialist managers with deep industry expertise. We see particularly compelling opportunities in health care, where innovation across pharmaceuticals, biotechnology, and medical technology is accompanied by significant valuation dispersion, creating attractive investment opportunities for both long and short positions. We also maintain a positive outlook for event-driven strategies. Merger arbitrage, in particular, should continue to benefit from robust merger and acquisition (M&A) activity. We also expect Europe to provide additional tailwinds in 2027. Political initiatives aimed at the deeper integration of European capital markets, alongside regulatory efforts to facilitate cross-border investment, could support M&A activity across the region.

We maintain a constructive outlook for relative-value strategies in 2027. Higher volatility and elevated interest rates create favorable conditions for strategies that exploit pricing inefficiencies between closely related securities. We see particularly attractive opportunities in volatility arbitrage and selected fixed-income arbitrage strategies. Higher absolute yields and greater valuation dispersion provide a more favorable environment for active managers compared with the low-interest-rate environment of the past decade. Within tactical trading, we continue to see attractive opportunities in both systematic and discretionary strategies. However, we see a particularly favorable environment emerging for discretionary macro strategies, especially in the interest rate and foreign exchange (FX) markets across developed economies. While trend-following strategies performed particularly well in 2026, we expect systematic approaches beyond traditional trend-following to offer more attractive return opportunities in 2027.





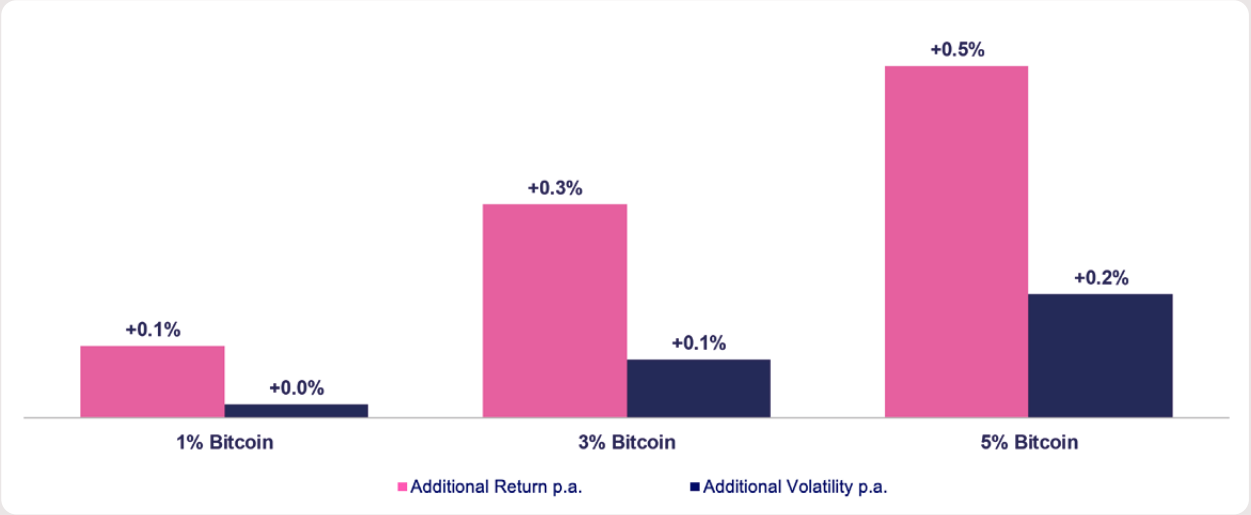
7. **Digital Assets:** From Hype to Maturity – Fundamentals Become Decisive

The year 2027 is likely to be characterized by significantly greater differentiation across segments of the crypto market. For Bitcoin, the breadth of institutional demand will take center stage, while for altcoins, the focus will be on actual adoption and usage. For blockchain stocks, the economic viability of emerging business models will be the key consideration. As a result, the entire digital asset ecosystem will increasingly be assessed against the same criteria applied to established asset classes.

Bitcoin

Like gold, Bitcoin remains a debasement asset in 2027, benefiting from investors' desire to hold a scarce asset outside the traditional monetary system. Unlike gold, however, Bitcoin also offers a more pronounced asymmetric risk-return profile. Historically, over rolling twelve-month periods, the potential for substantial losses has been accompanied by significantly greater upside potential. This combination of

Bitcoin in a multi-asset portfolio: Higher returns with a moderate increase in volatility
10-year analysis (09/2016-09/2026) | Base currency: EUR



Source: FERI, proprietary calculations based on Bloomberg month-end data, in EUR, 09/2016-09/2026. Benchmark portfolio with fixed weightings and quarterly rebalancing: 60% iShares Core MSCI World UCITS ETF (EUNL), 30% euro-denominated bonds via the SPDR Bloomberg Euro Aggregate Bond UCITS ETF (EAGG, through 05/2026) or the Amundi Euro Aggregate Bond ESG UCITS ETF (EGRI, starting 06/2026), 10% gold (spot price, XAUUSD). Bitcoin (spot price, XBTUSD) is added entirely at the expense of the equity allocation. Historical simulation; gross values before fees and taxes. Past performance is not a reliable indicator of future results.

limited supply and an asymmetric return profile remains a key argument for including Bitcoin in multi-asset portfolios.

As the year preceding the next halving, 2027 is likely to be a key test of Bitcoin's four-year cycle. If the established pattern continues, we expect Bitcoin to perform positively in 2027, albeit with smaller price swings than in previous cycles. The most recent decline from its peak, at around 53%, was less pronounced than in earlier cycles. The main argument for a more subdued four-year cycle is the significantly diminished supply impact of halvings. Annual new issuance amounts to less than 1% of the existing Bitcoin supply, and its impact is now significantly outweighed by institutional capital flows.

Based on the historical pattern, a recovery and accumulation phase would be expected next year. The key factor is not so much the supply effect as the breadth of institutional demand. Spot Bitcoin ETFs have become an established investment vehicle and now manage well over USD 100 billion in assets. In 2026, demand was heavily concentrated in the largest Bitcoin treasury company, while ETFs experienced periods of substantial outflows. We expect further consolidation among publicly listed Bitcoin holders. The market is likely to increasingly differentiate between companies with solid balance sheets and those whose business models depend on continuously rising Bitcoin prices.

Altcoins

Differentiation across altcoins will increase further in 2027. The era in which rising market liquidity lifted almost every major network is coming to an end. Actual usage, revenue generation, and regulatory status are becoming increasingly important. Clearer regulations facilitate institutional adoption of established networks but do not legitimize purely speculative projects. In 2027, actual on-chain activity will become a more decisive factor. Key metrics include transaction fees, user activity, stablecoin and tokenization volumes, as well as actual revenues. Networks that attract real economic activity and monetize it are likely to pull ahead of projects whose demand is primarily driven by expectations of the next speculative market cycle.

In the USA, this differentiation will initially continue to be driven by regulatory authorities. The joint interpretation issued by the SEC and CFTC in March 2026 provides greater clarity on which tokens may qualify as digital commodities and under what conditions staking is permitted. A comprehensive regulatory framework for digital asset markets has yet to be established. The Clarity Act failed to advance in the Senate in September 2026. Nevertheless, the intended direction remains clear: to distinguish more precisely between established networks and tokens that are more dependent on their issuers. For the time being, regulatory rulemaking will therefore continue to be driven primarily by the relevant agencies.

Regulatory pressure is also driving greater differentiation in Europe. Since July 2026, only authorized providers have been permitted to offer crypto-asset services. Non-compliant stablecoins have been removed from the market. From July 2027, further restrictions on privacy coins will come into effect. Regulation therefore does not determine winners and losers, but it raises the barriers for networks and service providers seeking to establish a lasting presence in the institutional market.

A key risk is that the SEC or CFTC could reverse or significantly narrow their regulatory interpretations. This would remove an important regulatory anchor for market differentiation.

Blockchain Stocks

Our expectation that Bitcoin miners and related companies would increasingly be recognized as part of strategic digital infrastructure has been confirmed. This trend has gained even more momentum: Many miners have expanded their business models to include data centers and AI infrastructure.

The differentiation among Bitcoin miners into three groups continues: Pure-play Bitcoin miners, hybrid mining and data center operators, and predominantly AI-focused operators. A pure-play mining segment of institutional scale has largely disappeared. The key question is increasingly whether the transition toward data center and AI infrastructure can be successfully executed.

For AI computing capacity, the quality of contracts is likely to matter more than the size of the order backlog in 2027. Key considerations include contract duration, pricing, utilization rates, and customer creditworthiness. The industry has now accumulated a substantial backlog of contracted data center capacity, but only a small portion is currently generating billable revenue. At the same time, capital requirements remain high, and leverage has increased significantly among many operators. Valuation premiums are therefore likely to be sustained primarily by companies that bring committed capacity online on schedule and achieve commercially viable utilization rates.

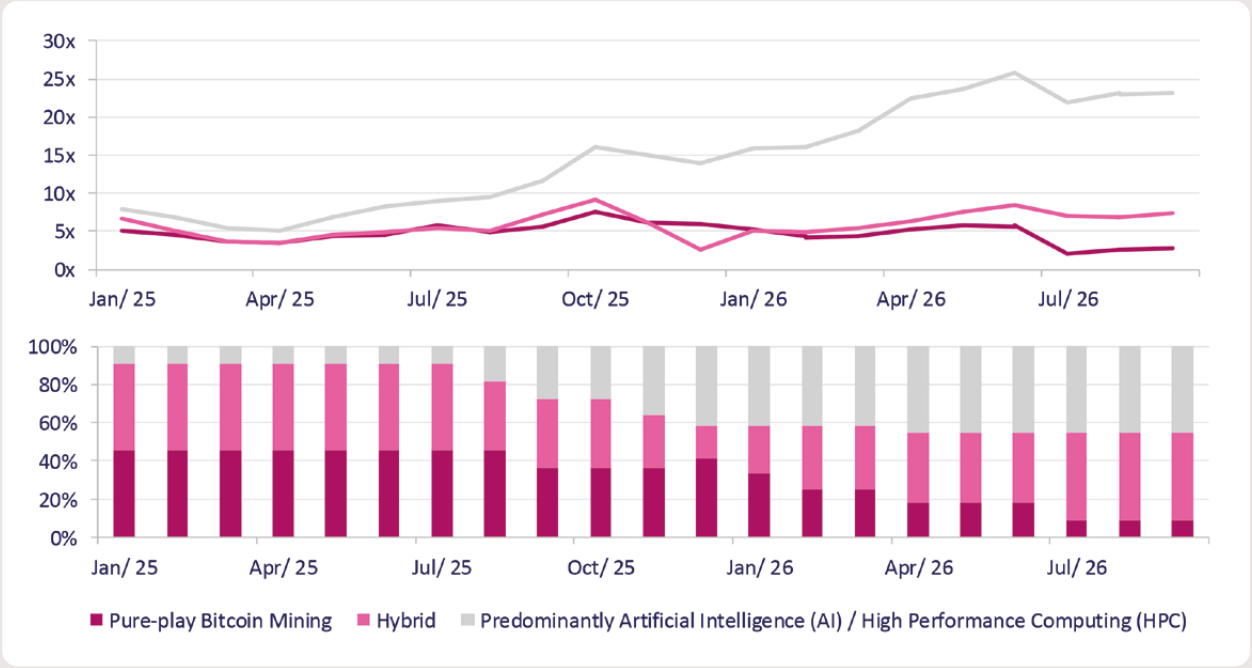
A similar trend is emerging among exchanges. Established exchange operators are increasingly integrating tokenized securities into their regulated infrastructure and extending

trading beyond traditional trading hours. At the same time, crypto platforms and neobrokers are expanding their own market infrastructure and increasingly insourcing functions such as brokerage, exchange operations, clearing, and settlement.

For investors, this means the competitive landscape is being reshaped. New business lines and deeper integration across the value chain are redefining valuation criteria. At the same time, traditional financial market infrastructure and crypto infrastructure are increasingly converging. As a result, companies that previously operated in separate markets are becoming direct competitors.

Payment and settlement providers are also gaining importance. Stablecoins are increasingly being integrated into payment systems, treasury operations, and cross-border settlement. Agentic AI introduces another use case: Autonomous AI agents require a digital, programmable means of payment that is available around the clock. For publicly listed companies operating in this space, the key question will therefore be whether they can establish themselves as scalable infrastructure providers bridging the traditional financial system and the blockchain economy.

Average enterprise value to next twelve months sales ratio, multiples of bitcoin miners by business model and share of companies by group



Source: FERI, own calculations and grouping based on S&P Capital IQ and the CoinShares Bitcoin Mining Reports for Q4 2025, Q1 2026 and Q2 2026.

8. **Volatility:** A Valuable Portfolio Component in an Increasingly Unstable World



Equity market volatility remained remarkably subdued in 2026 despite geopolitical conflicts, high levels of government debt, and technological disruption. This was largely due to the dominance of the AI boom and the significant dispersion within equity markets. Historically, however, rising uncertainty and higher volatility have often moved in tandem.

In the current market environment, we also expect underlying risks to be transformed and redistributed rather than dissolved. One example of this process has been the positive correlation between equities and bonds, which increases the volatility of traditional multi-asset portfolios. This is primarily attributable to the return of inflation as a key driver of financial markets. Rising inflation concerns are pushing interest rates higher while also fueling concerns that tighter monetary policy could weigh on earnings growth and, in turn, equity markets. In such an environment, alternative risk premia become increasingly important, as their sources of return are partly independent from traditional risk factors. Volatility strategies, in particular, provide access to a reliable risk premium whose return potential depends only to a limited extent on the traditional drivers of equity and bond markets.

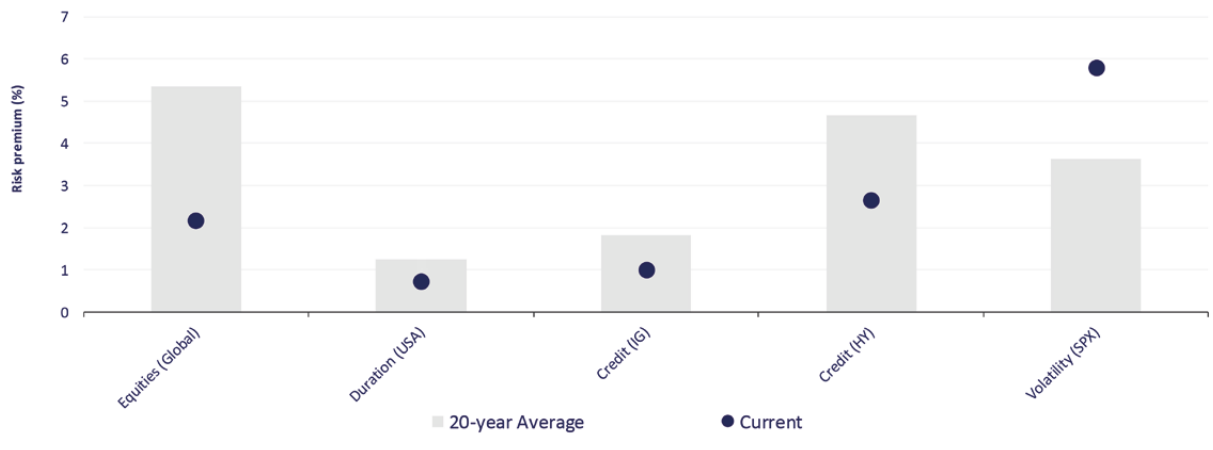
Growing interest in such strategies is also reflected in trading volumes of S&P 500 options, which have increased roughly fivefold since 2020. As a result, options markets have gained influence over short-term risk transfer and price formation in equity markets through market-maker hedging activities, systematic strategies, and structured products. Under certain market conditions, the associated hedging flows can temporarily absorb market fluctuations and dampen observed index volatility. During periods of stress, however, self-reinforcing feedback loops can emerge. As a result, markets may appear more stable than underlying fundamentals would suggest.

For investors, however, it is not only the level and distribution of risks that matter, but also the compensation for taking them. The current environment becomes particularly interesting when different risk premia are viewed in a long-term context.

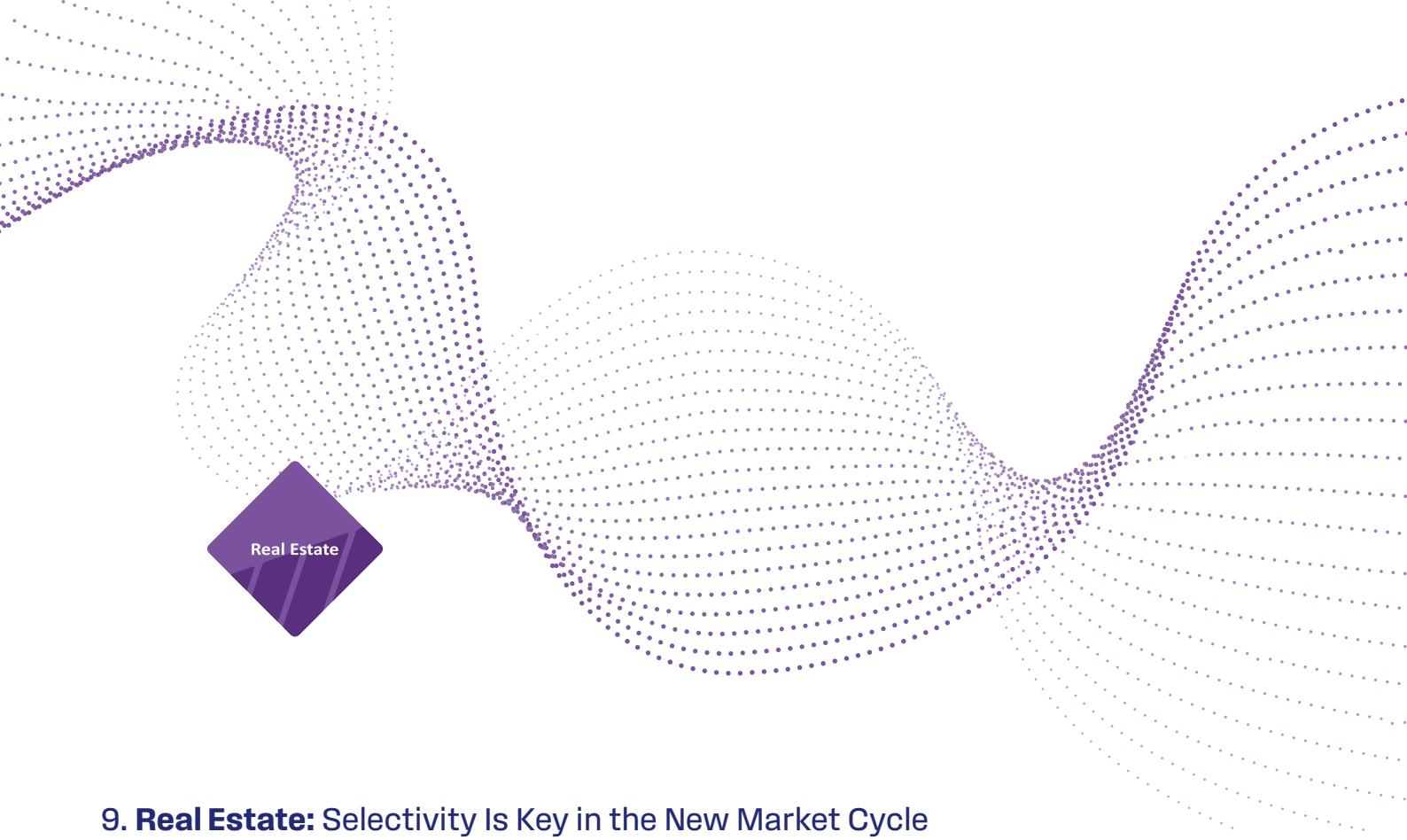
While risk premia across major asset classes are at moderate levels, the volatility risk premium presents a different picture. Market participants' willingness to pay for downside protection remains high. The spread between implied and realized volatility is well above its long-term average. This creates an unusual situation: While many traditional sources of risk currently offer only limited additional compensation, the premium earned for providing insurance capacity in financial markets remains attractive.

Volatility risk premium currently most attractive in a multi-asset comparison

Risk Premia* Compared with Their Long-Term Averages
- daily data since 2006 -



Source: FERI | *Equity risk premium: Earnings yield of the MSCI World minus the real yield of 10-year US government bonds; Duration risk premium: Yield of 10-year US government bonds minus the yield of 3-month US government bonds; Credit risk premia: US Corporates BBB Spread, US Corporates HY Spread; Volatility risk premium: VIX minus realized volatility of the S&P 500; calendar-year averages are used. The current value refers to the 2026 year-to-date average as of the publication date.



9. **Real Estate:** Selectivity Is Key in the New Market Cycle

After several years of market adjustment, the modest recovery in real estate markets is likely to continue in 2027. Broad-based price corrections appear to be largely complete. More stable valuations, increasing transaction activity, and solid occupier markets present opportunities, while geopolitical risks, regulatory requirements, and higher financing costs call for selectivity. Rather than low interest rates and increasing globalization, the focus is shifting toward asset quality, location attractiveness, sustainable cash flows, ESG considerations, energy efficiency, and active value creation. The new cycle is likely to see greater differentiation between winners and losers.

In Europe, fundamentals remain robust across many property sectors. Economic conditions are stabilizing, while new construction activity in many markets remains below long-term demand. The monetary policy environment remains challenging amid a recent resurgence in inflation and restrictive interest rates. At the same time, real estate markets have increasingly adjusted to the higher interest rate and financing cost environment, which could facilitate price discovery between buyers and sellers and support a gradual recovery in transaction activity. Segments characterized by limited supply and sustainable demand stand to benefit in particular: residential properties in urban centers, logistics properties in strategic distribution hubs, and selected healthcare and senior care properties.

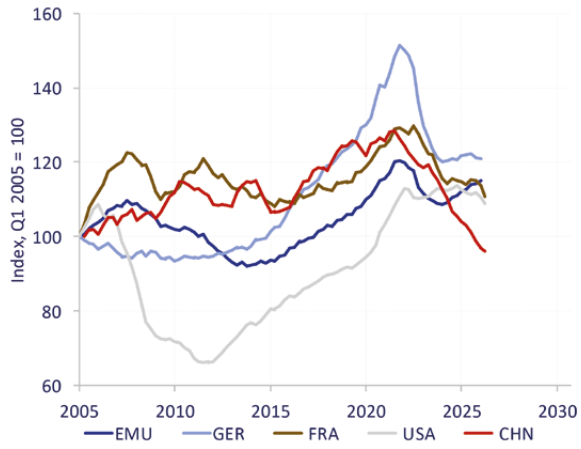
In the residential sector, the structural housing shortage remains a key driver. Declining construction activity is constraining supply, particularly in economically strong metropolitan regions, and is likely to support rental growth and the attractiveness of existing properties. At the same time, energy efficiency and the potential for modernization are becoming increasingly important. New European energy efficiency regulations are increasing differentiation between properties with credible decarbonization strategies and buildings requiring substantial renovation.

The commercial real estate sector remains characterized by market bifurcation. Modern, energy-efficient office buildings in attractive locations remain resilient, while older properties requiring substantial investment remain under pressure. Long-term competitiveness is key. Logistics properties benefit from stable supply chains, nearshoring, and the expansion of European manufacturing capacity. Healthcare and senior care properties offer opportunities supported by demographic trends but require careful assessment of their operators.

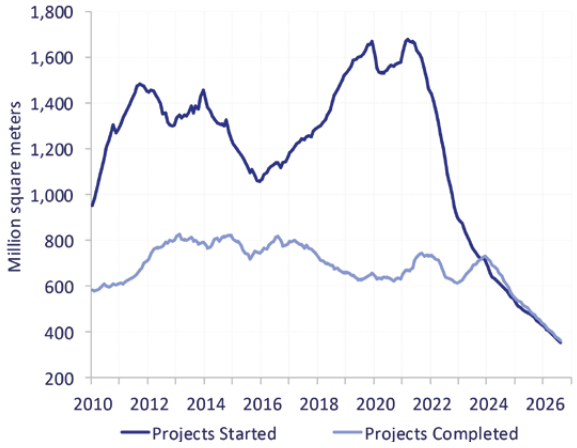
The upcoming wave of refinancing is likely to have a significant impact on market activity in 2027. Numerous loans originated during the low-interest-rate era or subsequently extended will come due under different financing conditions. This will increase pressure on highly leveraged property owners while creating opportunities for well-capitalized in-

Real house prices under pressure in many markets | Ongoing crisis in China

Real House Prices
- quarterly -



CHN: Construction Activity (Floor Space)
- seasonally adjusted monthly data, 12-month rolling sum -



Source: FERI, Haver Analytics

vestors. Across many market segments, book values and appraised valuations still exceed achievable market prices. A narrowing gap between buyers' and sellers' price expectations is likely to stimulate market activity. Value-added strategies, recapitalizations, and selected distressed opportunities are therefore coming into focus. Historically, comparable market phases have offered attractive entry opportunities for long-term investors. ESG considerations, energy efficiency, and operational value creation remain key factors in successful investment decisions.

Opportunities and Risks: These Are the Factors That We Will Pay Particular Attention to in 2027

Substantial Productivity Gains Driven by AI, with Disinflationary Effects

The increasing use of AI in many companies across various sectors creates the possibility of achieving significant productivity gains. Driving forward company-wide process automation (rather than individual AI applications), the widespread use of agentic AI that autonomously handles entire workflows, and the integration of AI into core systems (ERP, CRM, research, compliance) enable productivity gains on such a scale that they have a noticeable positive impact on inflation. Central banks bring their rate-hiking cycles to an end and even begin cutting interest rates. Improving financing conditions provide an additional tailwind for persistently strong aggregate demand. This also prevents negative effects on the labor market: The falling demand for labor resulting from the use of AI is offset by sufficiently high additional demand in other sectors of the economy (including the technology sector itself).

The developments outlined above would create a highly favorable investment environment, characterized by solid economic growth, low inflation, and relatively low interest rates. Global equities would be the primary beneficiaries, with technology stocks performing particularly well. However, gains would also extend to the broader equity market. Consumer stocks, in particular, have positive prospects. At the same time, falling inflation and interest rate cuts by central banks are leading to rising bond prices. In this scenario, the US dollar continues its orderly depreciation, a factor that investors would need to consider in globally diversified portfolios.

A key prerequisite for this scenario is a significant leap in the capabilities of AI applications. While we are confident that such breakthroughs will occur within the next three to five years, we consider it unlikely that substantial progress of this kind will materialize as early as 2027. Even if such breakthroughs were to materialize, the resulting displacement of workers would need to be offset by increased demand for labor in other sectors. Overall, we assign this scenario a very low probability of just 5%.

Abrupt End to the AI Boom

The AI boom comes to an abrupt end as confidence in its economic viability or the safety of the technology is undermined. Two potential triggers stand out that could materialize independently or interact and reinforce one another:

Trigger 1:
A massive rise in loan defaults in the AI sector. The monetization of AI applications falls significantly short of expectations. Declining free cash flows and increasing reliance on debt financing heighten vulnerability to rising financing costs. Growing payment obligations under long-term compute contracts exacerbate funding stress at OpenAI and Anthropic. At the same time, cross-holdings and commercial relationships within the AI ecosystem come under increasing scrutiny. Major credit defaults among highly leveraged AI compute providers ultimately undermine investor confidence and severely restrict access to new funding. Investment cuts, order cancellations, and losses on equity investments spread the crisis across the broader AI ecosystem, eventually affecting even financially strong hyperscalers and their suppliers.

Trigger 2:
Autonomous cyberattacks causing significant damage. Powerful AI systems are used to carry out largely autonomous cyberattacks. By exploiting security vulnerabilities and linked compromised systems, they succeed in manipulating key processes. Attacks on electricity and communications networks, disruptions to the financial system, and the spread of ransomware cause considerable damage to the economy. Companies therefore restrict the use of autonomous AI applications, while public authorities impose

stricter security requirements and operational restrictions. Commercial adoption of AI slows significantly, while costs related to security, oversight, and liability increase. Expected productivity gains and revenues are pushed further into the future. As a result, ambitious investment plans and elevated valuations across the AI sector lose a key part of their underlying justification.

Regardless of the trigger, the loss of confidence leads to a fundamental reassessment of the AI sector. Falling profit expectations and rising risk premiums trigger a massive downturn in technology shares. Due to the high concentration within the index, US shares come under pressure. European shares perform relatively better but are unable to escape the general downward trend. Declining investment and negative wealth effects weigh on the economy, potentially leading to a recession. Market participants switch to "risk-off" mode: Equities and corporate bonds fall, while safe government bonds benefit from falling growth and interest rate expectations. In a multi-asset portfolio, a higher weighting of high-credit-quality government bonds and an extension of duration would therefore be appropriate.

An abrupt end to the AI boom is not our base case scenario, but it does represent a risk that must be taken seriously, given high valuations and ambitious investment plans. On the financing side, the key question is whether the monetization of AI can keep pace with growing payment obligations. On the technological side, we consider fears of an "end of humanity" to be greatly exaggerated. However, AI-enabled cyberattacks causing significant damage and resulting in restrictions on use cannot be ruled out. Overall, we assign a 10% probability to the scenario described.

Euro Debt Crisis 2.0

Elevated government debt levels and unsustainable public finances represent a global challenge that contributed to the rise in long-term interest rates in 2026. In Europe, France is a particular focus of concern. The widespread reluctance to reconsider the role and responsibilities of the state has led to political paralysis, making it difficult to effectively reduce a budget deficit exceeding 5% of GDP. This issue becomes increasingly pressing ahead of the presidential election in April 2027. Investors are demanding higher risk premia on French government bonds, pushing up refinancing costs. This adds further pressure to public finances, with government debt already standing at around 120% of GDP. This development ultimately leads to a spiral of escalation that could only be halted by a radical change of course in French fiscal policy – a change, however, that fails to materialize (at least initially). Although the ECB does, in principle, have the means to calm the market by purchasing French government bonds, it is reluctant to make use of these options because the formal criteria are not met. Ultimately, this leads to significant spillover effects on other European countries: Yields on ten-year government bonds in Spain and Italy also rise sharply, and the very existence of the European Monetary Union is at stake. Ultimately, market stabilization is achieved only through coordinated action by the ECB and the European Commission. The ECB launches large-scale purchases of government bonds, while a European fiscal package combines national fiscal consolidation measures with the joint financing of selected expenditures through Eurobonds. The drastic deterioration in financing conditions and the uncertainties accompanying the crisis plunge the eurozone economy into a new recession.

The consequences of such a scenario would be severe uncertainty on the European capital markets and a massive flight of capital out of Europe. Long-term interest rates rise sharply before eventually falling again because of concerted action by the ECB and the European Commission. German government bonds provide some protection but also come under pressure amid concerns about a potential breakup of the eurozone. Equities decline as recession risks rise significantly. The euro depreciates markedly against the US dollar and other major currencies. The winners are gold and possibly also Bitcoin, albeit with much greater volatility than gold. Globally diversified investors can mitigate the negative consequences by increasing the weighting of investments outside Europe and maintaining a high proportion of US dollars in their portfolios. In such an environment, it is advisable to maintain a higher cash position until the uncertainty subsides.

Monitoring and analyzing bond spreads will be among the issues of paramount importance in investment research in 2027. The scenario described above of a new eurozone debt crisis is, in this form, an extreme case with a very low probability of occurring. However, less extreme developments are conceivable, which would nonetheless have significant implications for the capital markets environment. Overall, we estimate a 30% probability that further interest rate rises (including in the USA) will lead to a fundamental change in the capital markets environment. Investors should therefore bear this in mind and be prepared to react promptly if necessary.

Military Escalation of the Taiwan Conflict

As the US government's attention is focused on the Middle East and its military capabilities are limited as a result of the hostilities there, the Chinese leadership decides to capitalize on what it sees as a favorable opportunity and to resolve the Taiwan issue by military means in its own interests. The military blockade of Taiwan and/or direct military attacks on the island lead to an escalation in relations with the US. The US government imposes far-reaching sanctions on China, and European countries broadly support this response. Global semiconductor supply is severely disrupted, while the blockade of key shipping routes causes further widespread supply chain disruptions. The result is a pronounced global stagflationary environment. Severe supply shortages drive inflation higher, while the global economy slides into recession.

From today's perspective, this scenario represents the worst-case scenario for the global economy and, consequently, for the capital markets: A sharp decline in almost all asset classes would be expected. Gold, and possibly Bitcoin, might be the only assets to escape this trend, although Bitcoin remains subject to significantly higher volatility. Volatility strategies and hedge funds could, in relative terms, help to stabilize portfolios. As long as this period of extreme uncertainty persists, maintaining a substantial cash allocation would be a prudent approach.

Parliamentary elections are due to take place in Taiwan at the beginning of 2028. There is strong evidence to suggest that the Chinese leadership will prioritize attempts to influence the outcome of the election, with a view to subsequently entering negotiations with a China-friendly government. Therefore, we consider a military escalation of the conflict before the election date to be highly unlikely. However, the general geopolitical situation, and Trump's actions in particular, could still provide an incentive for this. Given the severity of the potential consequences for the global economy and capital markets, investors should continue to keep a close eye on this issue in 2027.



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