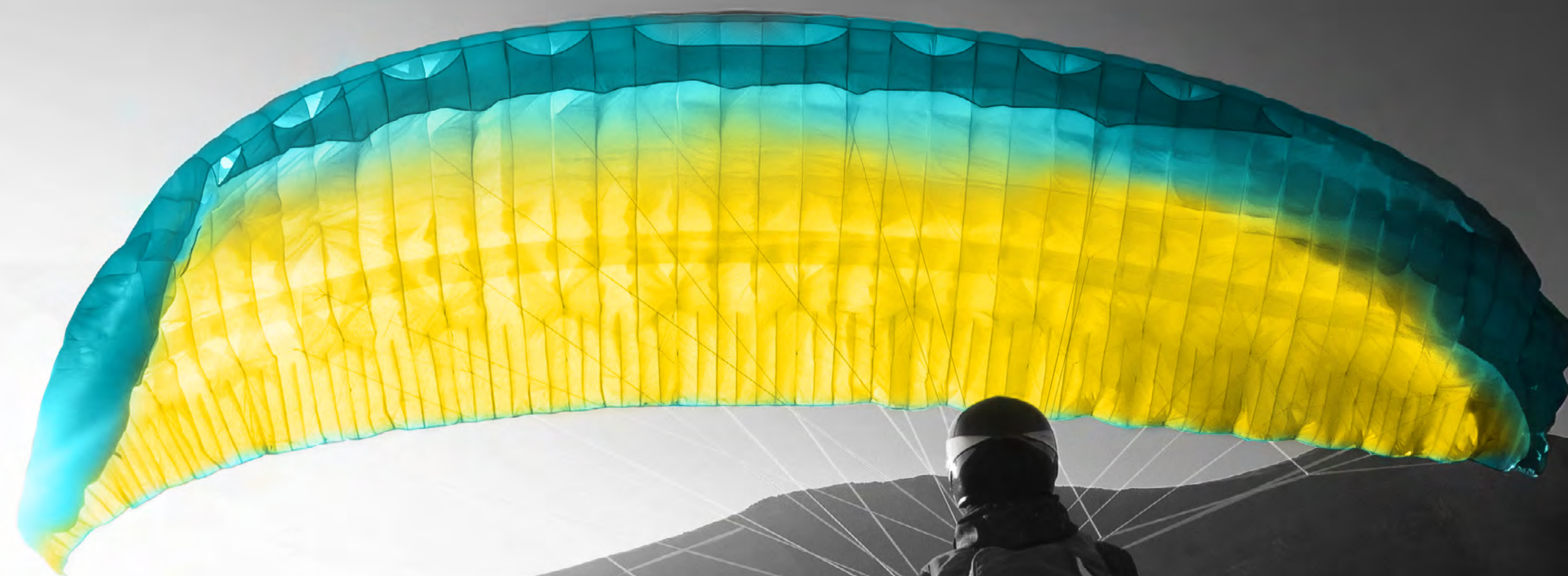


2026 Outlook

House View

From headwinds to tailwinds:
growth set to revive in 2026

This document is for professional clients and institutional/qualified investors only.





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Our House View document is a comprehensive compilation of views and analysis from major investment teams.

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The House View document serves two main purposes. First, its preparation provides a comprehensive and forward-looking framework for discussion among the investment teams. Secondly, it allows us to share our thinking and explain the reasons for our economic views and investment decisions to those whom they affect.

No one can predict the future perfectly. But the contents of this report represent the best collective judgement of Aviva Investors on the current and future investment environment.



Executive summary

From headwinds to tailwinds: growth set to revive in 2026

- **Global growth is expected to rebound in 2026 as tariff headwinds give way to fiscal, monetary and investment tailwinds.**
- **AI-driven capex is set to surge, boosting growth but adding volatility and risks to equity and credit markets.**
- **Inflation should converge to target in 2026, but upside risks remain for 2027, leaving us neutral on duration.**
- **Diversification ideas include modest dollar underweights and long gold**

Cross-asset returns have been remarkably solid in 2025. The market disruption caused by US tariffs and other global geopolitical events this year proved to be short-lived. And while much of the hype has been on the growing AI theme, returns have been even better in previously less-loved corners of the market, such as European banks. Meanwhile, the more speculative behaviour has been seen in assets like gold, which has had its best year since the 1970s. Looking ahead to 2026, we think the macro backdrop should improve over the year. We expect the headwinds to US and global growth coming from tariffs are likely to be at their worst around the end of 2025 or early 2026. There are then a host of tailwinds that should support a revival in growth through the year. These include: lagged impact of easier monetary policy; modest global fiscal boost; rising business investment from both tech and more traditional cyclical sectors; rising disposable real incomes for households. We think that ought to provide a constructive backdrop for risk assets as we head into 2026 and prefer to be overweight equities.





Tariff headwinds give way to fiscal, monetary and investment tailwinds, supporting growth and risk assets



Monetary policy easing cycle nearing an end... but AI-thematic still has room to run

As we look further ahead through 2026, we expect most central banks to end their easing cycles by mid-year, with rates around neutral and underlying inflation converging to target. With little spare capacity likely to have been created, our growth view for H2 2026 could see some markets move to price in a modest move higher in rates. So long as that is driven by stronger demand, we don't think that derails risk asset performance. However, the market's patience around vast AI-related capex spend might start to be tested later in 2026, as visibility improves on earnings and return on investment. The increasing shift to financing AI capex spend via capital markets, rather than retained earnings, could also bring some indigestion to the corporate bond market.

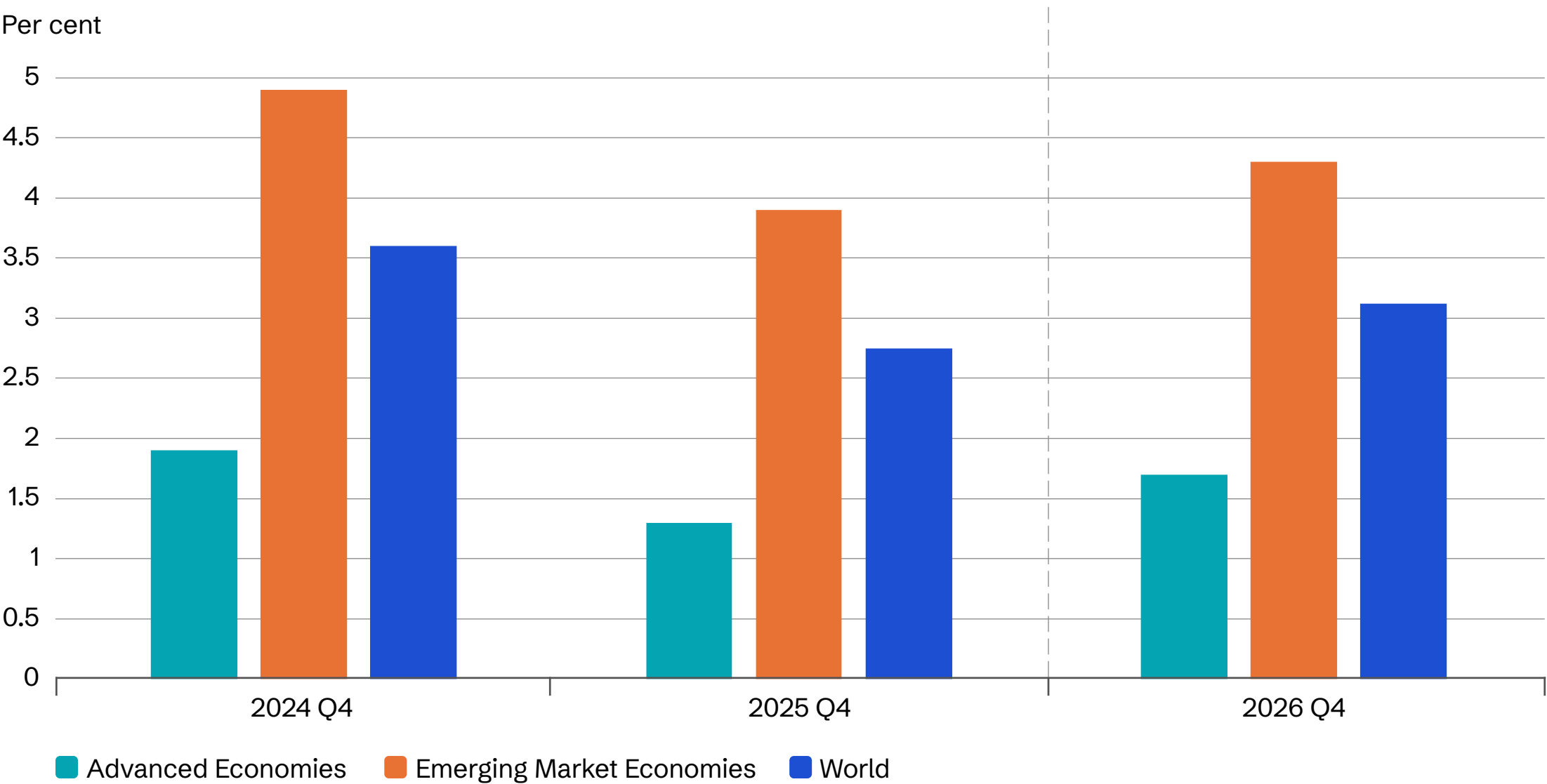
Near-term downside labour market risks remain

In the near term, we wait for the data vacuum left by the US government shutdown to be filled, albeit only partially at first. In our last House View we discussed at some length the downside risk from a more rapid deterioration in the US labour market. While some private indicators have suggested that layoffs may have picked up, other private survey-based measures have not deteriorated further. The employment situation in September gave a mixed picture, with payrolls recovering, but unemployment rising. We will need to see more official labour market data to be confident that the downside risk has either passed or been realised. If the risk has indeed abated, then the scope for further rate cuts from the Federal Reserve will be limited. However, if it has been realised, we would expect to see more delivered than the market currently has priced. The distribution of outcomes remains quite wide.

Growth recovery expected, with AI-related capex set to expand further

Looking out to 2026 and 2027, we expect global growth of around 3 per cent in each year, a little lower than in 2025. However, the calendar-year averages mask the extent of the recovery we expect in global growth, with quarterly growth compared to a year earlier in both advanced and emerging market economies expected to bottom in Q4-2025 and rise through to Q4-2026 ([Figure 1](#)).

Figure 1. Aviva Investors global, advanced and emerging market growth projections (Q4 compared to a year earlier)



Source: Aviva Investors, Macrobond as at 1 December 2025.

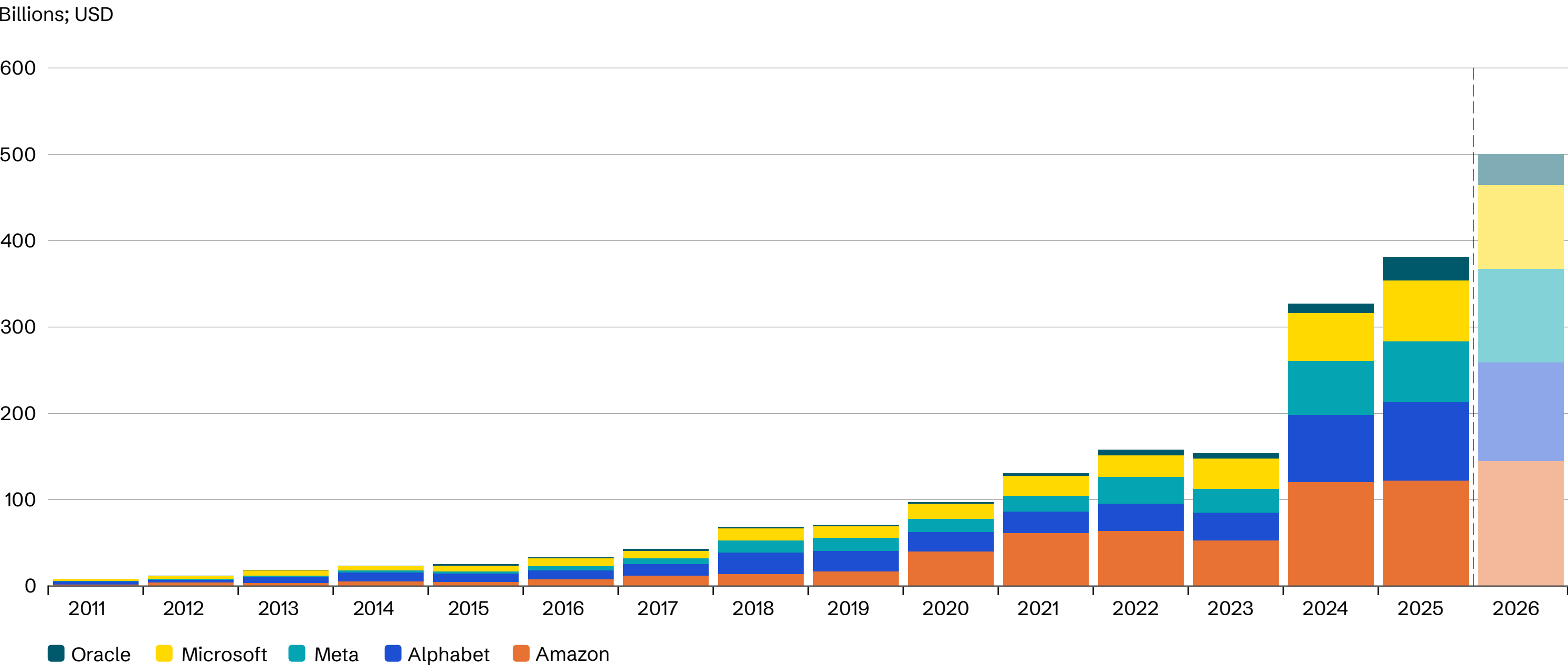
As we look further ahead through 2026, we expect central banks to end their easing cycles by mid-year, with rates around neutral and underlying inflation converging to target



We think AI-related capex spending could become an increasingly important global driver of business investment. The major US “hyperscalers” are expected by analysts to increase their capex to around \$500bn in 2026 (Figure 2), over three times their level of annual capex prior to the arrival of ChatGPT and other Large Language Models (LLMs). While the hyperscalers are expected to represent the bulk of AI-related investment over the coming years, we also expect investment across the major adopter industries (e.g. financial and business services) and supporting sectors (e.g. utilities and industrials) to rise as business practices are transformed and as demand increases.

We think AI-related capex spending could become an increasingly important global driver of business investment

Figure 2. Hyperscaler capex



Forecast for 2026 based on average of analysts' expectations
The companies mentioned are for illustrative purposes only, not intended to be an investment recommendation.
Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.



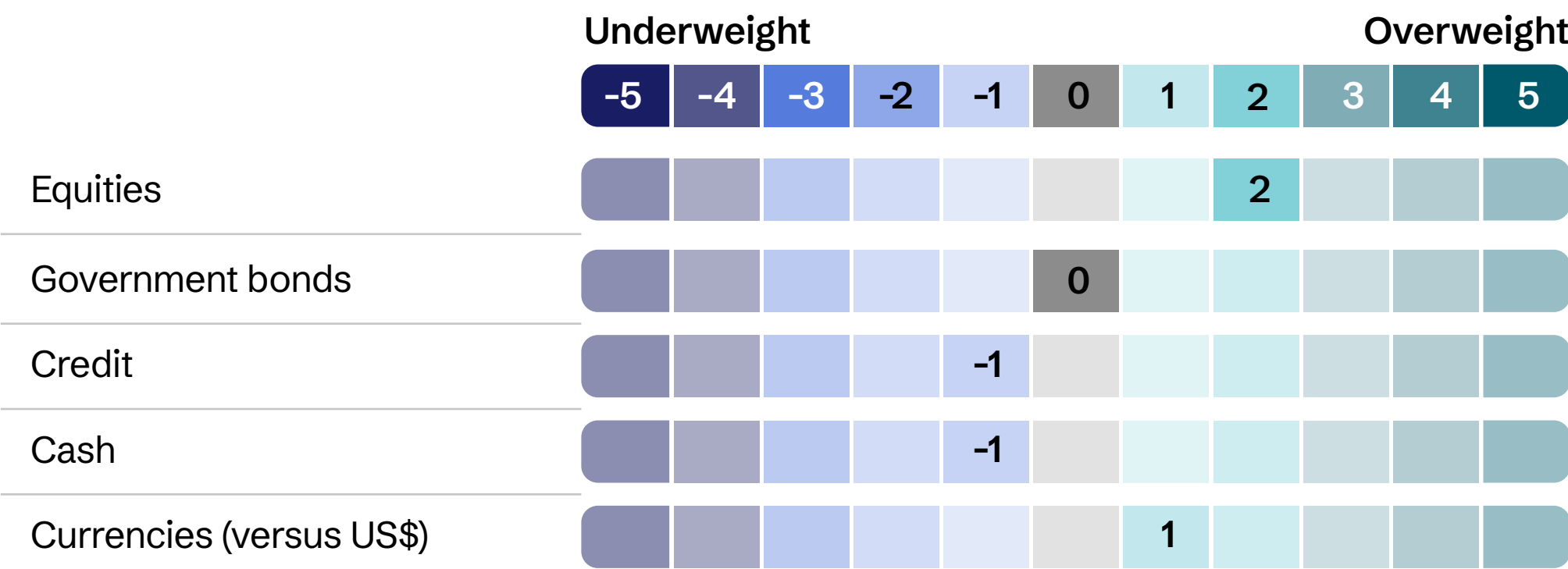
Overweight US equities, underweight US corporate credit

That said, the AI thematic carries its own set of risks to the market outlook. As we have already highlighted, the return on investment will need to become clearer, with the adoption and embedding of AI into business practices key to delivering on that expected return. While initial data suggests robust returns by adopting firms, this is largely based on anecdotal evidence and visibility remains low. Hence, risks to return on capital are likely to add to equity and credit market volatility in the year ahead. We look to hedge out some of our equity overweight (Figure 3) with an underweight in corporate credit, in particular in US investment grade. We also see potentially growing pockets of risk in private credit. The rapid growth in recent years has potentially led to weaker underwriting standards in some segments. Recent defaults in private debt funds that have engaged in inventory financing have raised questions of opacity, in particular given the growth in US bank lending to Non-bank Financial Institutions (NBFIs). At this time, we do not think there are material systemic risks, but we are closely monitoring the space for connections back to the banking and insurance sector in the US.

Inflation converges to target, but upside risks in 2027

We expect slightly different inflation dynamics across major economies in 2026. In the US, the full impact of tariffs should pass through into inflation by early 2026 and keep measured inflation above target throughout the year. As tariff-related effects start to drop out towards the end of 2026, we may start to see some underlying inflationary pressures start to emerge as growth picks up. In the Eurozone, we expect core inflation to remain around the 2 per cent target, while in the UK the current elevated inflation rate is expected to slow more markedly through 2026 to end the year around 2 per cent. While that represents a relatively benign global inflation outlook, we see potential upside risks emerging as spare capacity is eroded with pressures potentially re-emerging in both goods and services inflation. The growth and inflation backdrop leaves us with a neutral view overall on duration.

Figure 3. Tactical asset allocation view



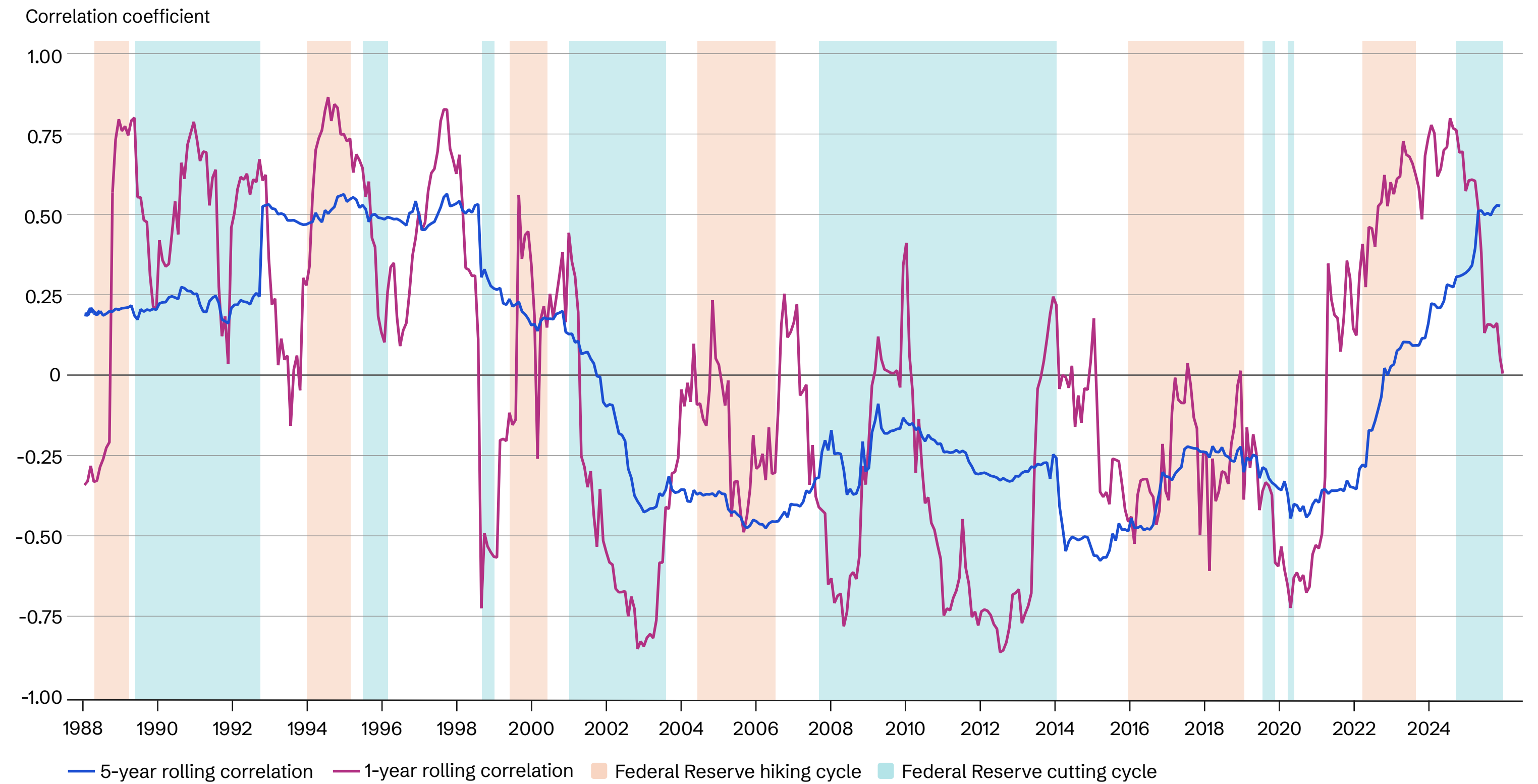
Note: The weights in the Asset allocation table only apply to a model portfolio without mandate constraints. Our House View asset allocation provides a comprehensive and forward-looking framework for discussion among the investment teams. For illustrative purposes only.
Source: Aviva Investors as at 1 December 2025.

The risks to AI investments are likely to add to equity and credit market volatility in the year ahead

Equity-bond correlation to remain unreliable

A feature of post-Covid market dynamics has been the break down in the correlation between short-term returns on equities and bonds. For much of the prior 20 years, there had been a consistent negative correlation (Figure 4), with government bonds acting as a helpful diversifier during periods of equity market sell-offs. However, with the emergence of supply-side shocks and rising bond market volatility, the correlation moved decisively positive. The Fed cutting cycle has seen somewhat of a reversal again in the correlation, but we expect it will be unreliable other than in the more serious downside market stress environments. That heightens the need for alternative diversifiers, and in previous episodes of market stress long US dollar positions might have benefited. However, we also see that as unreliable in the current set-up, with the cyclical downside risks in the near-term most acute in the US and the structural drivers of the dollar weakening (as discussed in the previous House View). As such, we prefer to be modestly underweight the dollar against a mix of euro and Emerging Market currencies. While not part of our formal asset allocation process, for those who can access it, we also like to be long gold as a diversifier.

Figure 4. Equity-bond correlation



Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.

Equity returns based on S&P 500; bond returns based on Bloomberg US Treasury index.



Key investment themes and risks

1

Growth rebound to end
G10 rate cutting cycle

2

AI investment cycle
– Rapid expansion and
increasing influence

3

Geopolitics of trade:
a temporary truce

1. Growth rebound to end G10 rate cutting cycle

Looking back on growth expectations a year ago, it was hoped that pro-business policies and tax cuts would boost US growth, with some positive spillovers for the rest of the global economy. Our 2025 House View also warned that the new US administration policies were bound to cause volatility – that proved to be correct. Financial conditions tightened sharply in April ([Figure 5](#)), but as discussed in the Executive summary, as it became clearer that the more severe outcome of trade wars and recession risk was averted, markets and growth expectations recovered. Central banks saw the negative growth shock and potential for disinflation, especially as retaliation against the US wilted (except for China) and continued with their rate cutting path.

Our House View a year ago also warned that the new US administration was bound to cause volatility

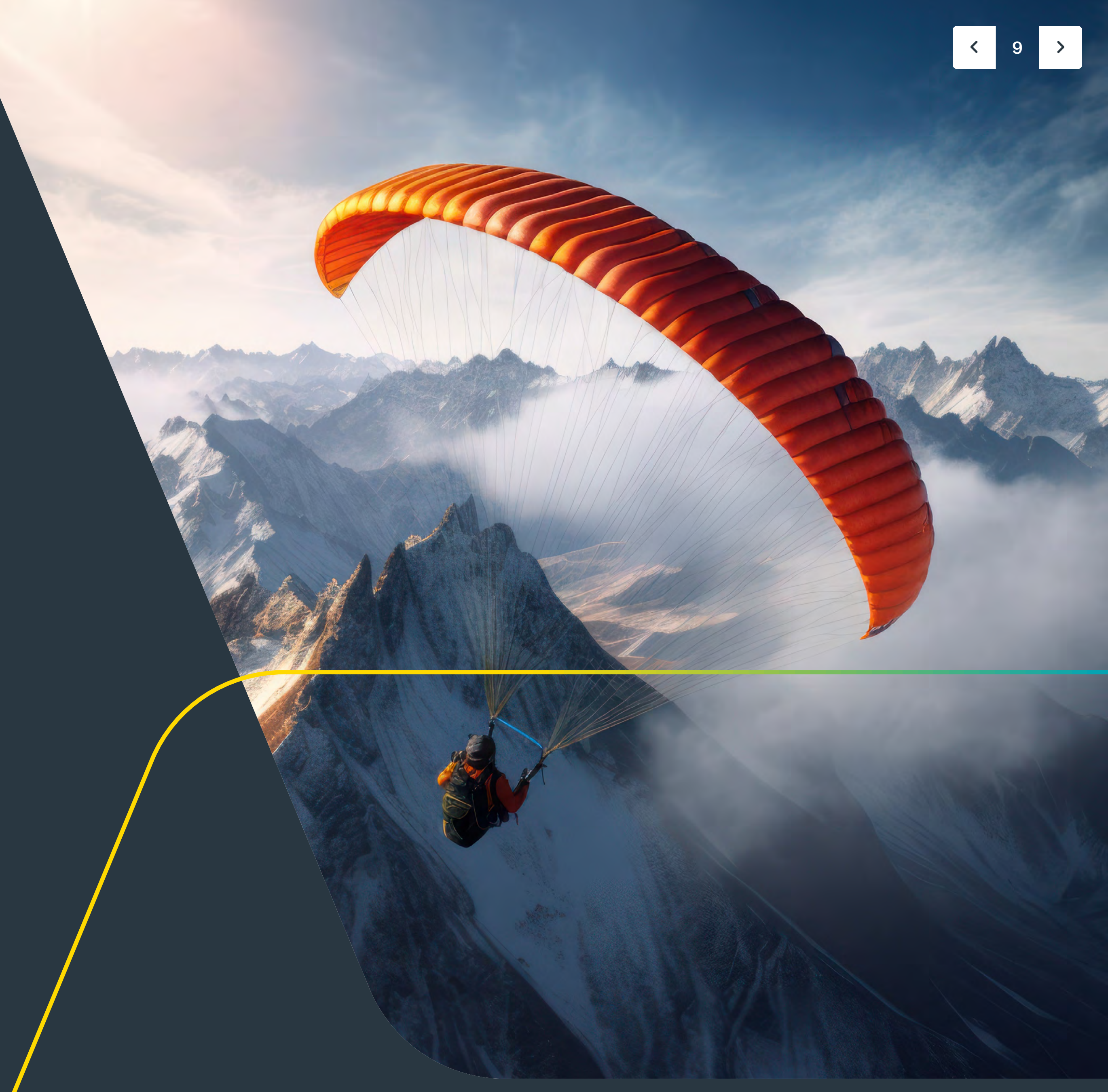
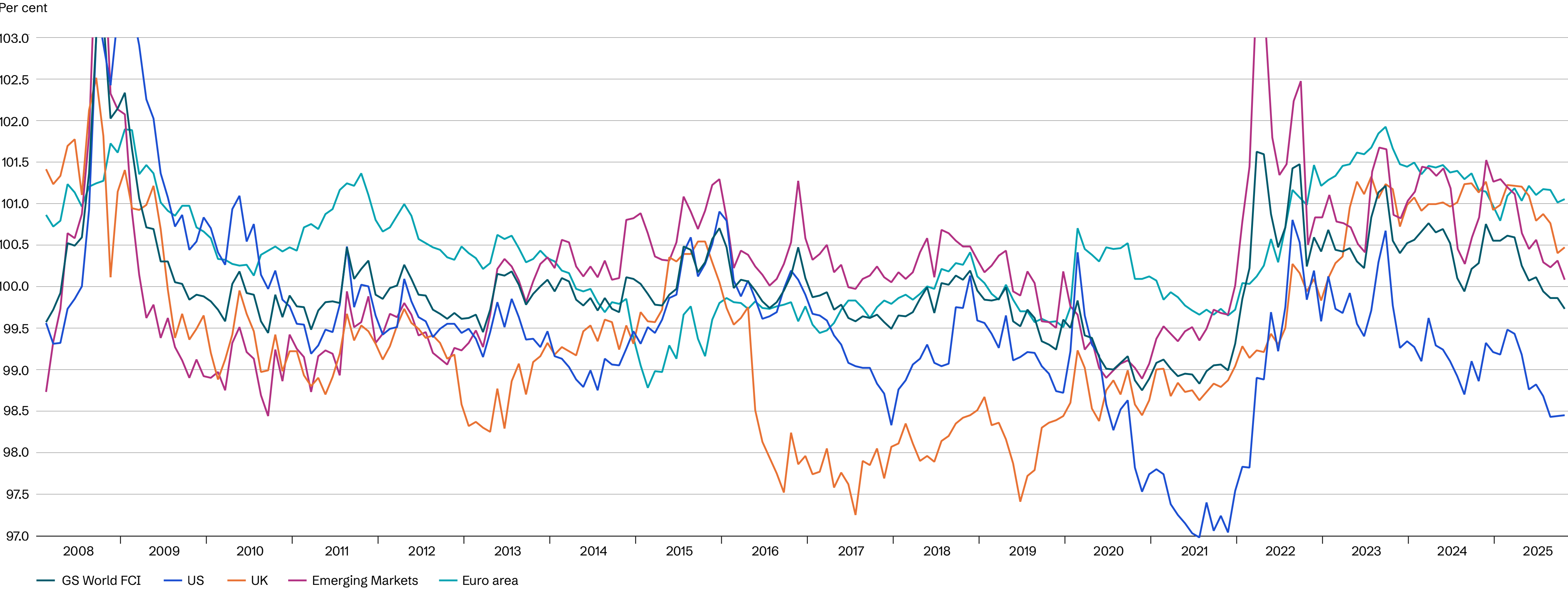




Figure 5. Financial conditions indices

Financial conditions have eased considerably as the inflation danger passed



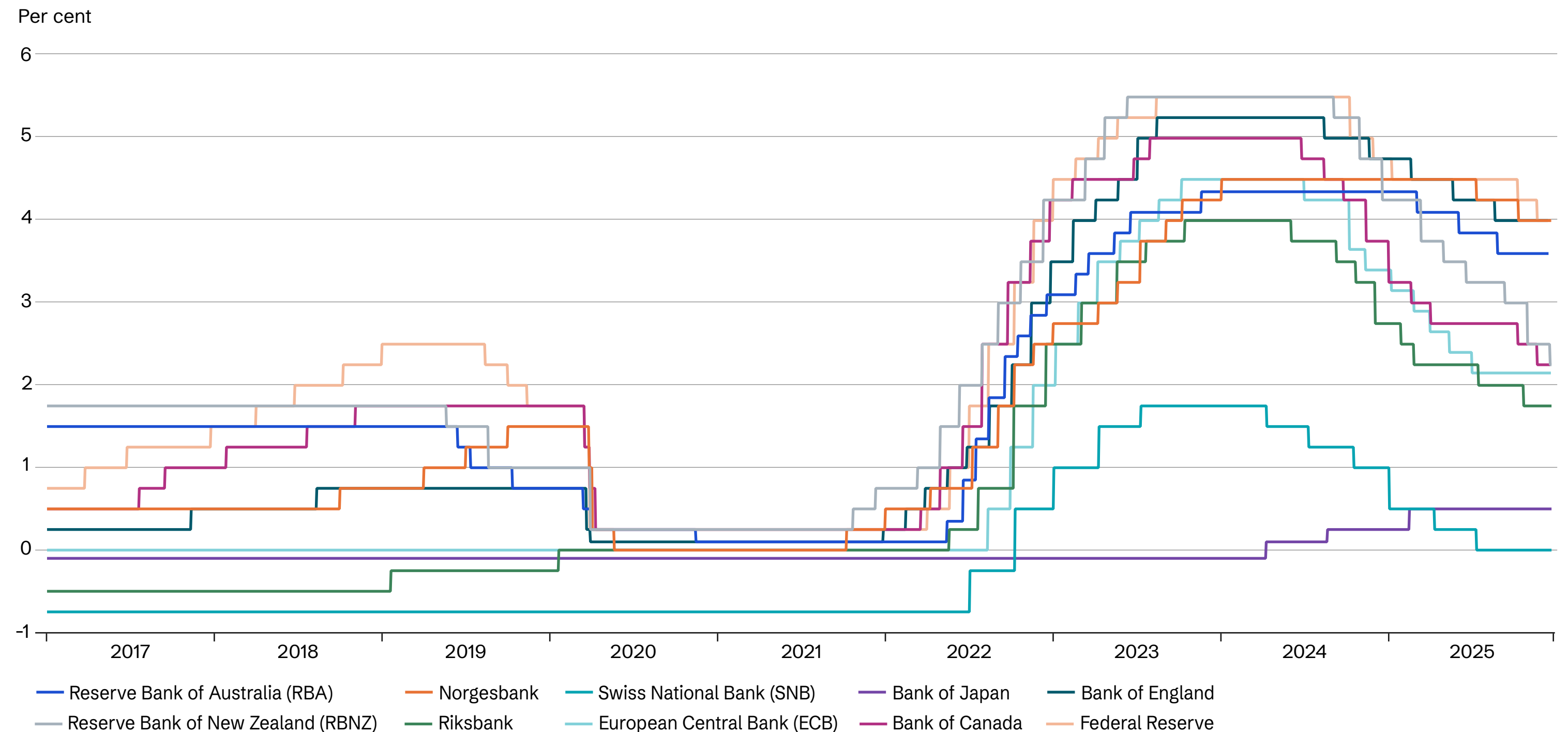
Source: Aviva Investors, Bloomberg, Goldman Sachs, Macrobond as at 1 December 2025.

Lowering policy rates in developed market began far before Trump won re-election: the SNB began in March 2024, with a much more synchronised, if uncoordinated, global easing in late 2024. In 2025 there has been more erratic decision-making, as data and markets became noisier, and with inflation at or close to target in some areas, some major central banks, like the ECB, are likely finished for now. As shown in [Figure 6](#), there has been considerable cumulative easing, and that should help interest-rate sensitive sectors stabilise or accelerate. Lower rates also create the perception of fiscal space, something that politicians are eager to use, ignoring the usual calls from the IMF and BIS for precautionary austerity and consolidation.

The need for Western countries to re-arm after the Ukraine conflict, and prepare for possible new threats and less reliable allies, as discussed below, means that the public debt restraints are much less binding for NATO members as well as for Japan, Australia, and the Middle East. Infrastructure, from road to rail, ports and utilities, has been neglected for too long, but is now firmly in focus. The energy ‘addition’ is more apt than a transition, as renewables are key to electrification, but oil and natural gas, are now accepted as being needed for at least a few more decades. Electrification requires grid investment and upgrades, and the AI boom is power-hungry and will build its own networks, too.

Putting this all together, signs that the manufacturing cycle is bottoming suggests that growth is troughing and will continue to pick up into 2026. Global GDP growth slowed from above 3 per cent to ~2.7 per cent, but Q4-25 looks like the trough; even with a China slowdown this should accelerate to ~3.1 per cent around end-2026. Labour markets, particularly unemployment,

Figure 6. Central bank policy rates are landing in neutral territory



Source: Aviva Investors, Macrobond as at 1 December 2025.

are often lagging indicators, but better growth should help reduce the probability of deterioration. With inflation still above target, even if it is arguably “converging”, monetary policy in risk-management mode will not require further cuts. It is impossible to pinpoint when monetary authorities feel they’ve done enough, but as evidence grows we expect more will feel they are now at neutral, and that further easing in 2026 is imprudent. Given current pricing in some

curves, this is mildly bearish, as discussed in the Markets Outlook section. Should our optimism prove too conservative, there is even the risk of hikes ([Risk #1, below](#)) – and some Emerging Markets are likely to lead the way. While not our base case. on the flip side, if the credit market problems emerge ([Risk #2](#)) or the AI boom goes bust ([Risk #3](#)), then there would most likely be the need for more monetary policy activity to cushion negative impacts.



Signs that the manufacturing cycle is bottoming suggests that growth is troughing and will continue to pick up into 2026



2. AI investment cycle – Rapid expansion and increasing influence

We are seeing clear signs of increasing AI/Technology-related investment manifesting across the market, from individual company results to the US national accounts ([Figure 7](#)).

We have highlighted in the past how investments of such magnitude are likely to have much broader ramifications than what many market participants might expect. The last few months have given us further confidence on that view, as more areas of the market that were not initially seen as winners of the tech investment cycle have surprised investors given how much they are in fact benefiting.

We have seen a number of such examples in the recent earnings season, such as in the industrial machinery sector. Those companies were not seen as plays on the AI investment cycle, but are now experiencing significant growth related to AI capex investments. As data centres continue to expand, the machinery sector is seeing strong demand for turbines, power generators, transformers and other equipment needed to deal with their increasing energy requirements. The industrial machinery sector is far from the only area where we are seeing the impact of the technology cycle translate into strong results for companies not often associated with AI. We have seen similar trends in utilities and oil companies as they provide energy to data centres, construction companies, real estate companies and even insurance companies as demand for insurance solutions for data centres and energy supply increases.

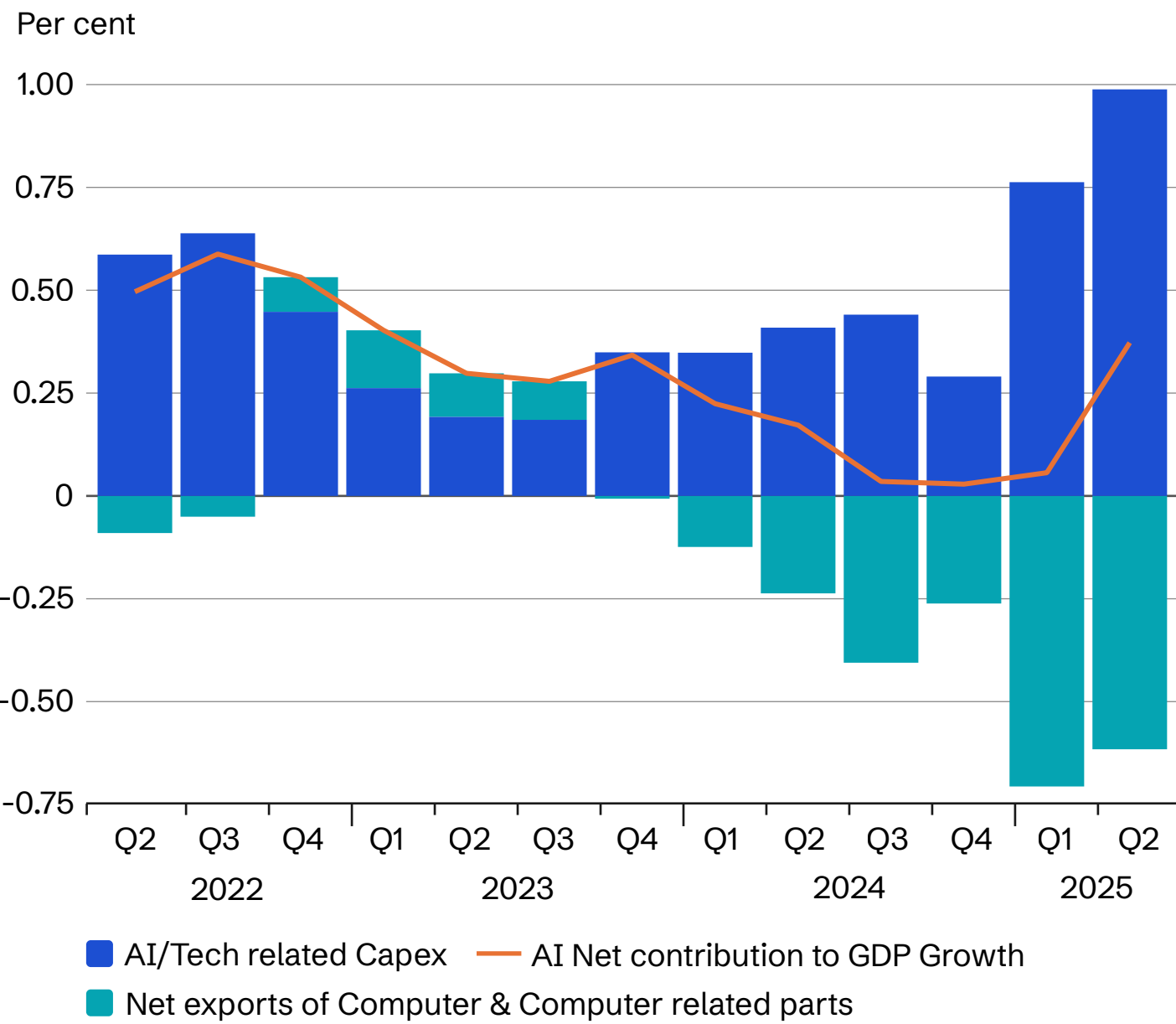
In our view, given the broad nature and the sheer magnitude of the investment cycle, the tendency is for the benefits to continue to spread more broadly down the supply chain and impact more “traditional cyclical” areas of the market. Our base case is that the

list of companies and sectors that surprise the market positively on the back of the technology investment cycle will continue to expand.

This paints a picture of a broadening of the benefits of the technology cycle, rather than mega-cap technology companies continuing to reap nearly all the rewards of the new technology. The hyperscalers and other technology stocks are now investing large amounts of cash into the infrastructure needed to continue developing AI and the products associated with the new technology. The more traditional manufacturing exposed companies then receive that cash as compensation for their products and services. With that, the end result of the large revenues generated by the technology becomes less highly concentrated, and gradually moves towards what we would expect in a standard capex cycle.

One way to illustrate how this broadening is already playing out is to look at the number of sectors seeing upgrades to earnings. Through most of the current bull market the majority of sectors were actually getting downgrades to earnings and only a relatively small proportion were seeing earnings upgraded. More recently, however, we reached a level of a net 40 per cent of the sectors in the US seeing earnings upgrades (21 out of 30 sectors are now getting upgrades to earnings). This is the highest level seen since the period of reopening of the economy after the Covid lockdowns, and although the current month data saw a small reduction from that peak, the level remains close to the post-reopening highs ([Figure 8](#)).

Figure 7. Impact of AI-related capex on US GDP growth



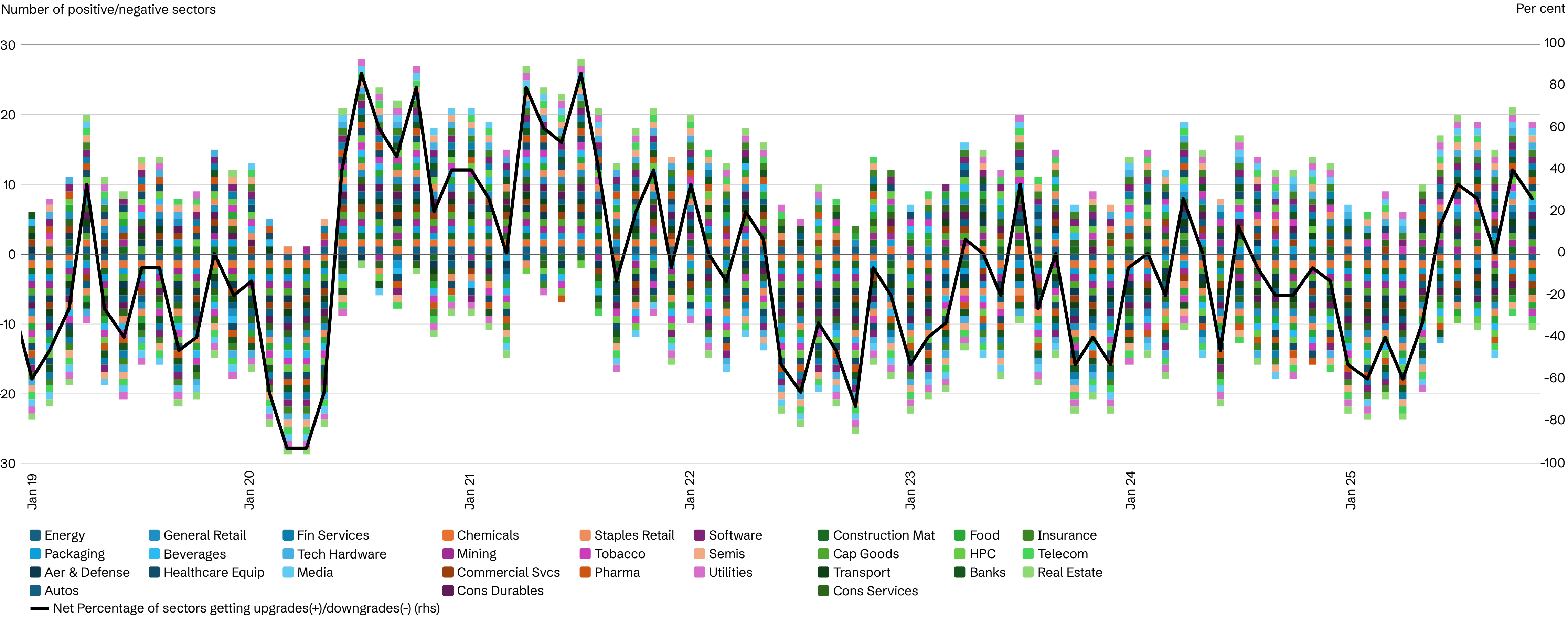
“AI/Tech related Capex” defined as the Software (IPP), IT Information Processing Equipment and Power and Communication Structure (data centres) categories within Private Non Residential Fixed Investment

Source: Aviva Investors, Macrobond as at 1 December 2025.

We are seeing clear signs of increasing AI/Technology related investment manifesting across the market



Figure 8. Market broadening - a growing proportion of sectors are now seeing upgrades to earnings



Source: Aviva Investors, Refinitiv Workspace as at 1 December 2025.

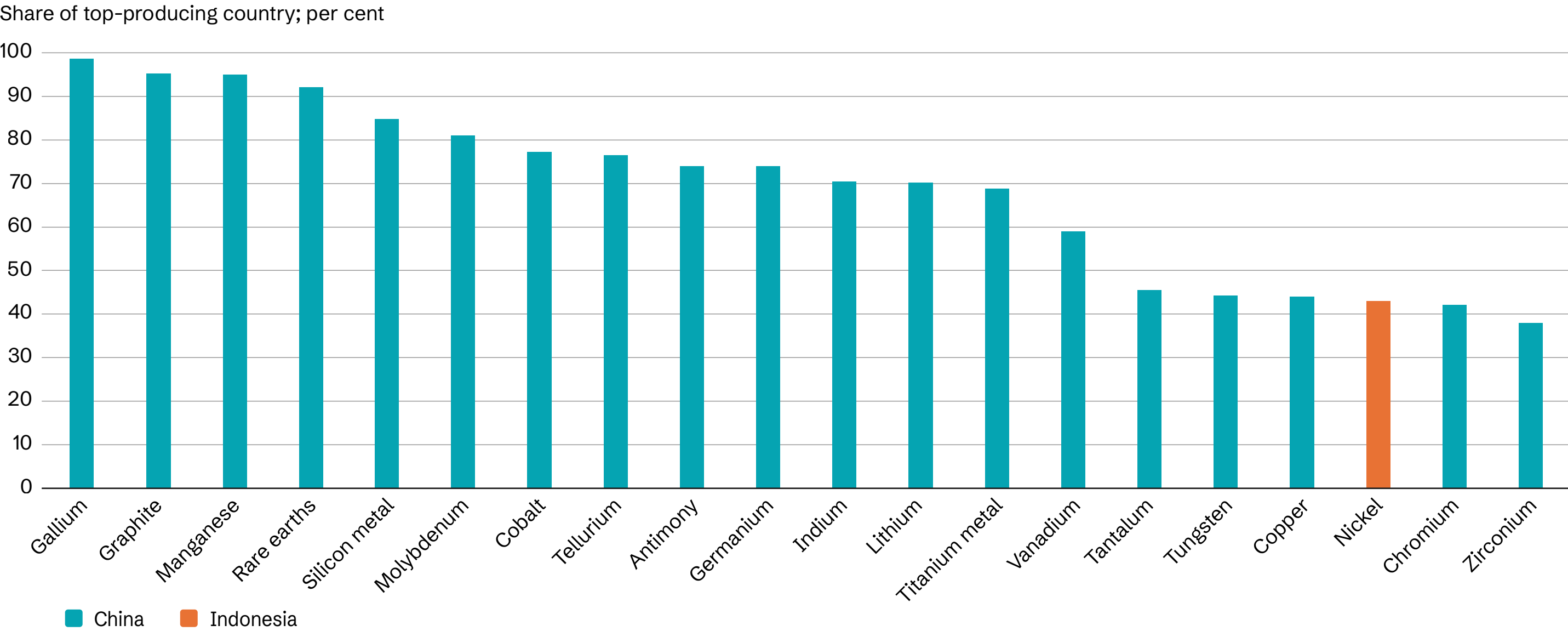


3. Geopolitics of trade: a temporary truce

President Trump’s frenetic trade policy, with tariffs raised, lowered, threatened, retracted, and adjusted with exemptions and short-term pauses with repeated extensions, has made for a tumultuous first year. It has caused upheavals in financial markets, but with tariff levels now settling at around a 1 per cent of GDP tax on US consumers and/or importers and exporters, the economic impact is moderate. The wise decision of most countries to not imitate and impose matching tariffs means that the overall growth drag, believed in Q2 to risk recession, has abated. The cost is not entirely removed, but in most cases the tariffs are a one-off shock that is also attenuated as levies come down thanks to deals. These pacts adjust trade policies at the margin, also promising commodity purchases or FDI to the US, which quite possibly will not happen or would have happened anyway – the US has already been attracting \$250bn per year in FDI and immense portfolio flows as well, which go hand-in-hand with America’s huge current account deficits. The strains between the US and Europe, Latin America, and Asia-Pacific will therefore not disappear, but occasional tariff pressure and reset will be the new norm for another three years, at least.

While ending US trade deficits is doomed to fail (unless by an epic economic collapse), that is not the case for reducing or eliminating the Western world’s dependence on China and Russia. Conversely, China has been pursuing, and has doubled down on, its efforts to promote dual circulation and dominate key sectors, while weaning itself as much as possible from its own vulnerability. China will never be self-sufficient in raw materials, but Russia provides many key inputs. Russia itself, like North Korea and Iran, is isolated and increasingly on a permanent war setting.

Figure 9. Critical minerals refining is dominated by China’s technology, IP, and investment



Source: IEA, data for 2024 or most recent year available, as of May 2025

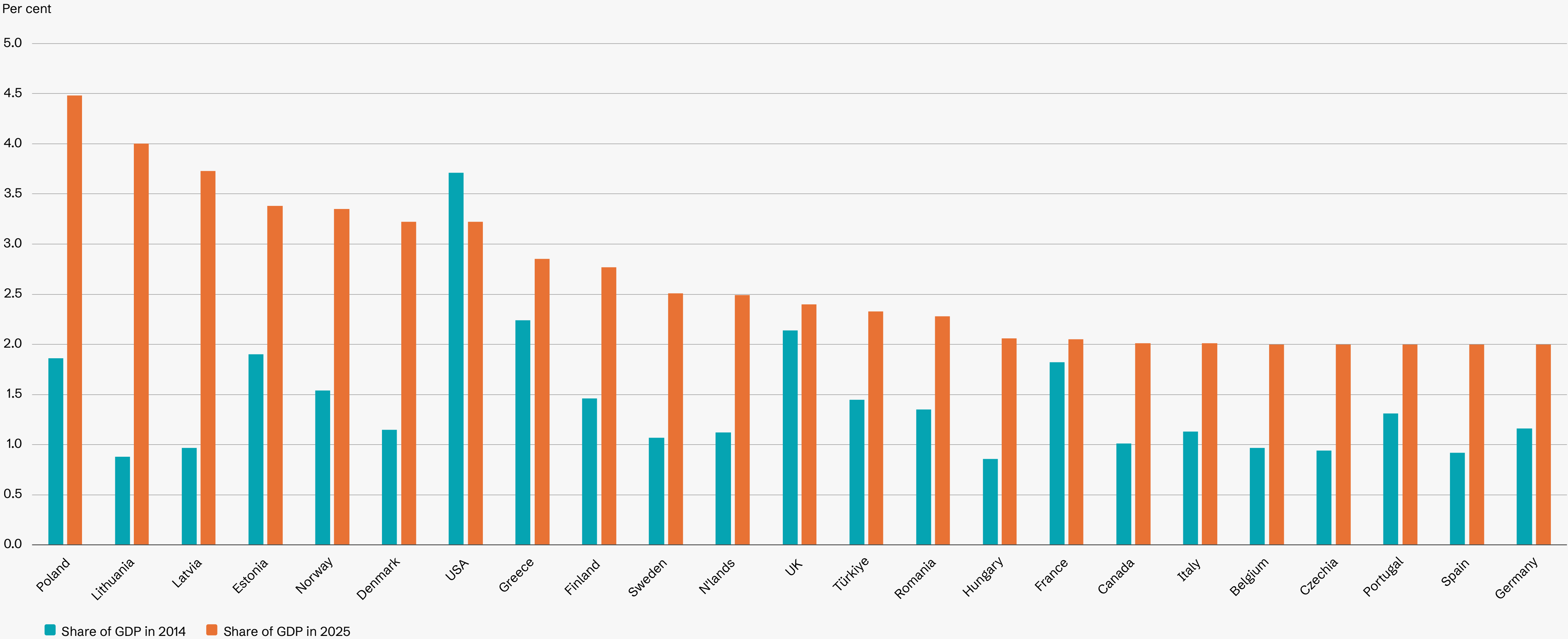
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This New Cold War is the unfortunate reality for 2026 and beyond. We expect selective decoupling of industries, and competitive confrontation to be the best way to describe the increasing tension between unresolvable world views. Resource nationalism is a key battlefield, with rare earths and critical minerals more broadly an Achilles heel for the global economy – everything from industry to energy to defence is reliant on many such inputs. China dominates production and refining of these in almost all areas (Figure 9), but they are likewise helpless

if restrictions are put on high-end chips, integrated circuits, as well as iron and copper to feed the energy and infrastructure growth engine. For now, as both sides race to insulate themselves, while ramping up their war machinery (Figure 10), the Nash Equilibrium of avoiding mutually assured destruction means a temporary truce is kept intact. Proxy wars and territorial conflict, or attempts at soft power diplomacy (e.g. US Treasury’s \$40bn to help Argentina) will also be par for the course.



Figure 10. Defence spending in NATO countries has ramped up



Source: NATO [<https://www.nato.int/content/dam/nato/webready/documents/finance/def-exp-2025-en.pdf>] as at 1 December 2025.



“AI-driven capex is set to surge, boosting growth but adding volatility and risks to equity and credit markets.”



Michael Grady
Head of Investment Strategy
and Chief Economist



Risks

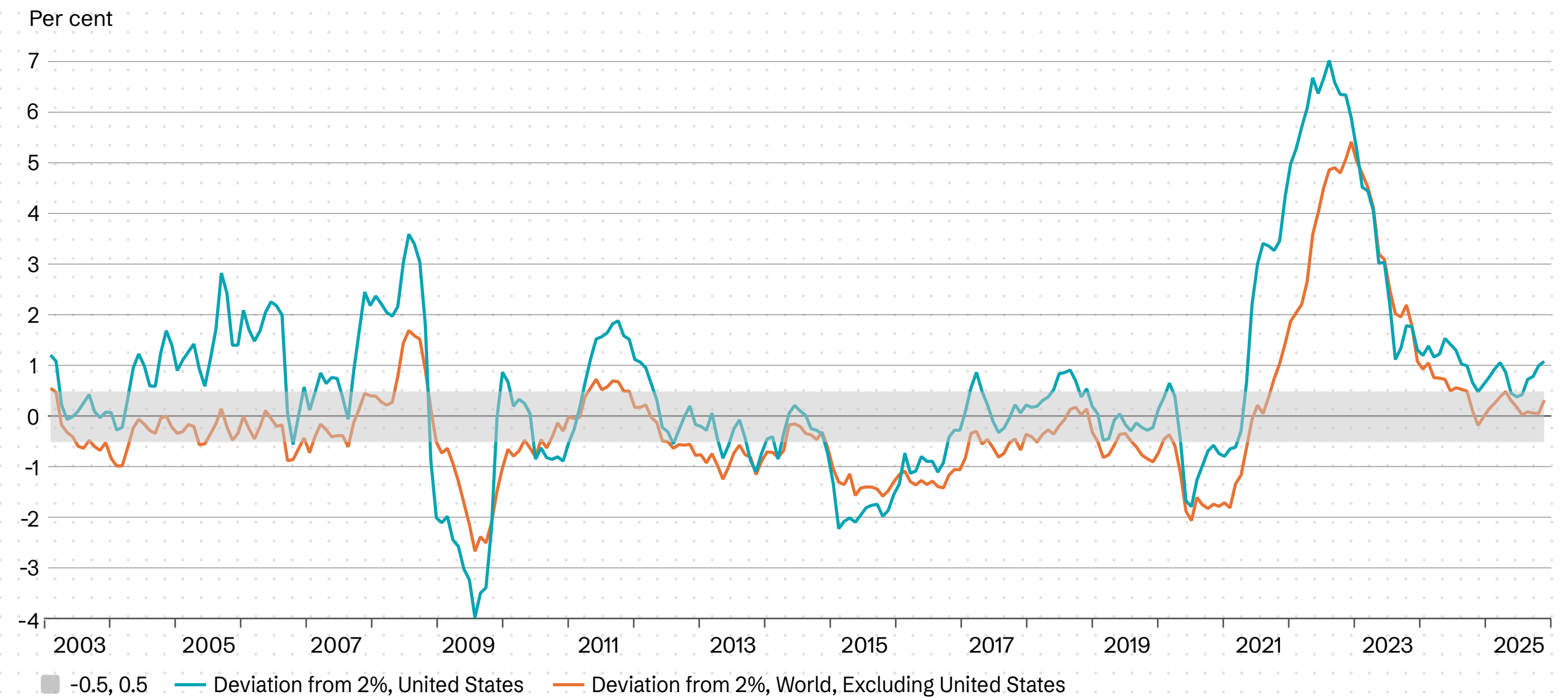
Inflation reaccelerates

After inflation peaked at just above 7 per cent in 2022, the IMF projected that inflation in Developed Markets will be 2.35 per cent at the end of 2025 and converge to 2 per cent in the medium term. We would argue that the risks around this benign inflation outlook are greater than currently appreciated. The implications from US trade policy are likely still in the pipeline, whilst a temperamental geopolitical landscape, ‘sticky’ services inflation and tailwinds to growth from loose financial conditions all present sizeable upside risks to the global inflation outlook. Moreover, there is the risk of some considerable heterogeneity at the country level – particularly given the US’s lagging disinflationary journey versus the rest of the world ([Figure 11](#)).

Whilst the tariff debate may seem long in the tooth, it remains a sizeable risk to the global inflation profile both within and outside the US. In its latest form the US effective tariff rate is thought to settle at c.15 per cent, having started the year at c. 2.5 per cent. The pass through to consumer prices has taken a longer time to show up than anticipated, but the fivefold levels shift seen in the effective tariff rate suggests an inflationary upswing in the US that has yet to fully manifest, even if firms choose to absorb a greater amount in their margins than we had previously assumed.

For the rest of the world, tariffs are a negative external demand shock, but also structural supply shock in forcing the reallocation of global trade flows. Exporters will have to reorganise supply chains as they try to break into new international markets: this will be costly and may cause upward pressure in the inflation of imported goods writ large.

Figure 11. Global inflation risks could re-emerge



Source: Aviva Investors, Macrobond as at 1 December 2025.

Whilst the tariff debate may seem long in the tooth, it remains a sizeable risk to the global inflation profile both within and outside the US



Given global trade volumes have been largely resilient this year, a major global importer such as the US becoming more isolationist does risk a disinflationary impulse to other global importers. That said, whilst Chinese exports have continued to surge, thus far these trade flows have mostly found their way to the Global South and not Developed markets. Metals and semiconductor prices are being pushed higher, and a DM fiscal and capex bonanza is only in its early stages.

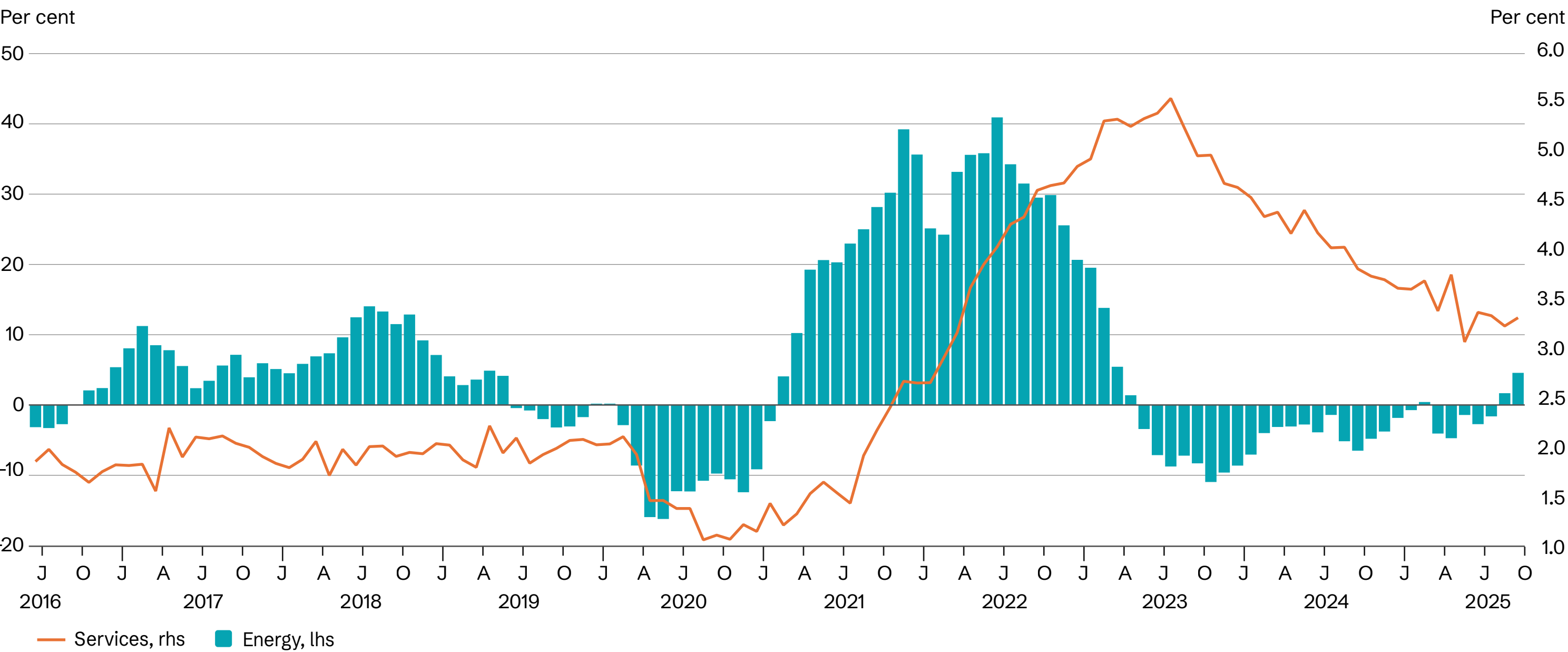
A second and perhaps more direct upside risk to the global inflation outlook lies within the commodity complex. Goods price inflation, specifically energy, has been a drag on headline inflation in most countries throughout 2024 and the first half of 2025 (Figure 12). Indeed, much of the “goods” portion of the inflation basket are largely traded goods whose prices are heavily influenced by gyrations in international commodity markets. As the geopolitical landscape remains ever volatile, and companies continue to reorganise their supply chains, the risk of near-term supply induced price spikes are perhaps more material than some might appreciate.

Finally, given the disinflationary aid provided by tradable goods inflation has largely dissipated, one of the more pressing risks towards the global inflation outlook lies in that of services inflation, which has remained relatively sticky. Services inflation tends to be more reflective of dynamics within the domestic economy both in terms of the strength of domestic demand and inflation beliefs. Globally, inflation has been above-target for nearly five years; as a result both firms’ and consumers’ upward expectations are more easily triggered than in the decade prior.

Figure 12. The drag from energy disinflation is over, whilst services inflation remains sticky

“Energy” – simple average of YoY change in Energy/Energy related CPI (Japan, Norway, Sweden, Switzerland, Euro Area, UK & the US)

“Services” – simple average of YoY change in Services CPI (Japan, Norway, Sweden, Switzerland, Euro Area, UK & the US)



Source: Aviva Investors, Macrobond as at 1 December 2025.

Financial conditions have loosened materially in 2025, aiding a cyclical recovery next year and raising the risk of a resurgence in global inflation

But while more sensitive inflation expectations are not enough to generate inflation upside/persistence on its own accord, what may enable it to do so is a conducive demand backdrop. Indeed, financial conditions have loosened materially in 2025, which we envisage aiding

a cyclical recovery in the latter half of 2026. As such, given the potential increased sensitivity of inflation expectations, the diminishing drag of goods inflation and persistence in services inflation, the risk of a resurgence in global inflation should not be overly discounted.



Corporate bond, loan and private credit markets

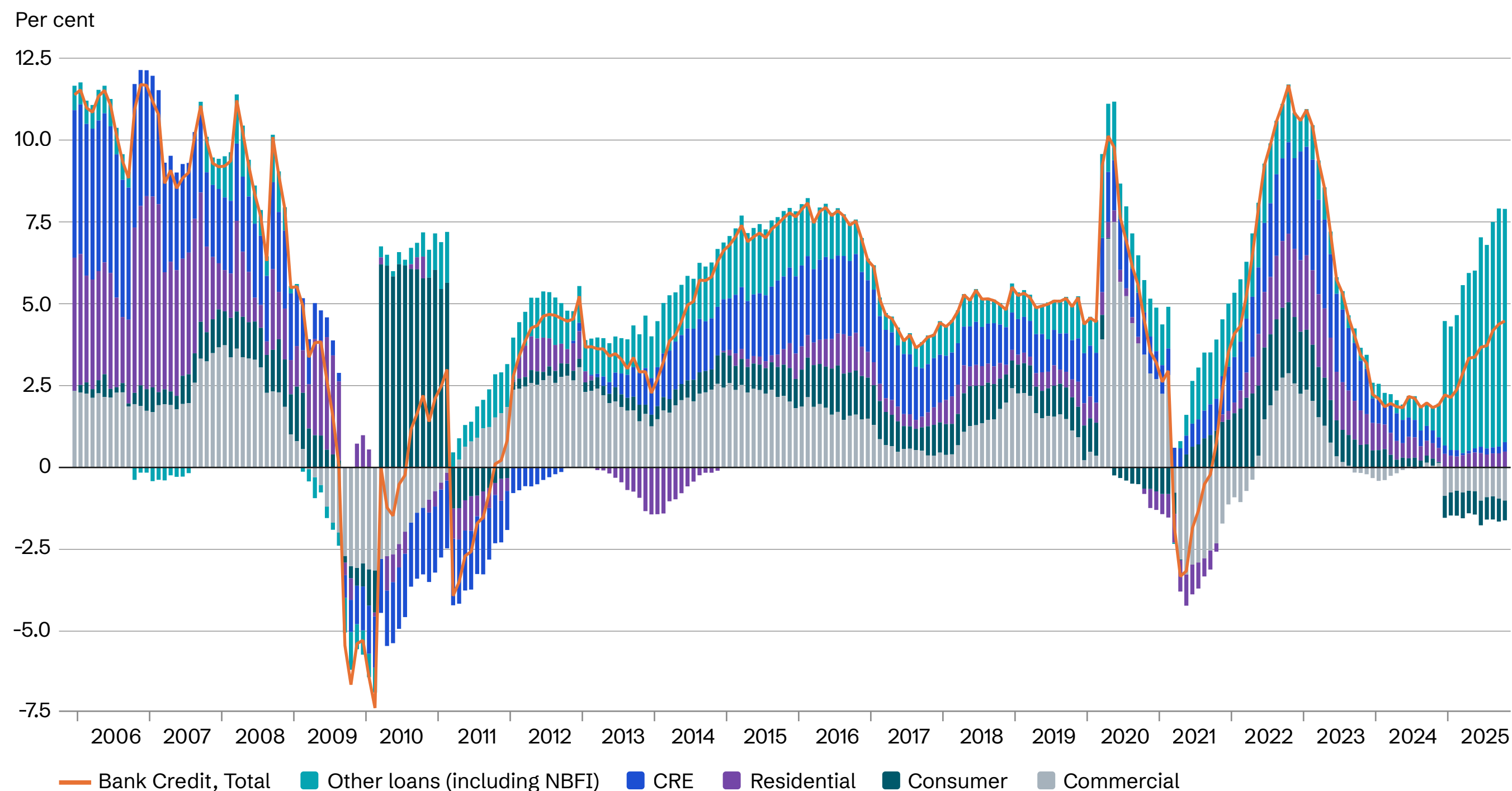
It is probably too early to worry about a credit bubble – for most sectors, following a long period of deleveraging and tighter lending standards, the low rates that prevailed after the GFC and until the post-Covid inflation surge were not used to leverage aggressively. Household debt is low as a proportion of income, and both homeowners and corporates have termed out debt, reducing the costs of servicing their borrowing. Wealth and assets have grown, too, and fiscal deficits mean that other sectors are recipients of government largesse, whether through transfers or low taxes.

Yet, we have seen episodes of imprudent or unlucky credit stress: in 2015-16, in the energy space as prices tumbled, and after the recent rate hikes when a set of poorly run banks and some parts of the Commercial Real Estate (CRE) space were wounded.

In the US, the tighter regulation that went into effect has had an important consequence – whether intended or unintended, “shadow banking” has been booming. This sector, which includes “non-bank financial institutions” encompasses everything from safe money market funds to the structured investment vehicles that were an important part of the GFC. As banks retreated from making loans, especially riskier lending to small companies, private credit and “Business Development Companies” have stepped in; many of these are backed by large PE firms, and some have gone public or raised debt of their own. They are SEC-regulated and have internal guidelines on collateral and leverage, but are at the same time more opaque and do not (and in many cases cannot) mark-to-market their pools of loans and other investments. BDCs typically cap debt/equity at 2x, and must keep asset coverage in check in order to remain viable and pay dividends.

The one thing we do know: thanks to generous capital requirements, this part of banks’ balance sheets has been growing at a 39 per cent y/y rate, contributing more than the total growth in bank credit growth, which is expanding at a more moderate rate as other sectors pay off debt ([Figure 13](#)).

Figure 13. US bank credit growth (YoY)



Source: Aviva Investors, Macrobond as at 1 December 2025.

It is probably too early to worry about a credit bubble – following a long period of deleveraging and low rates, household debt and corporate debt service are low

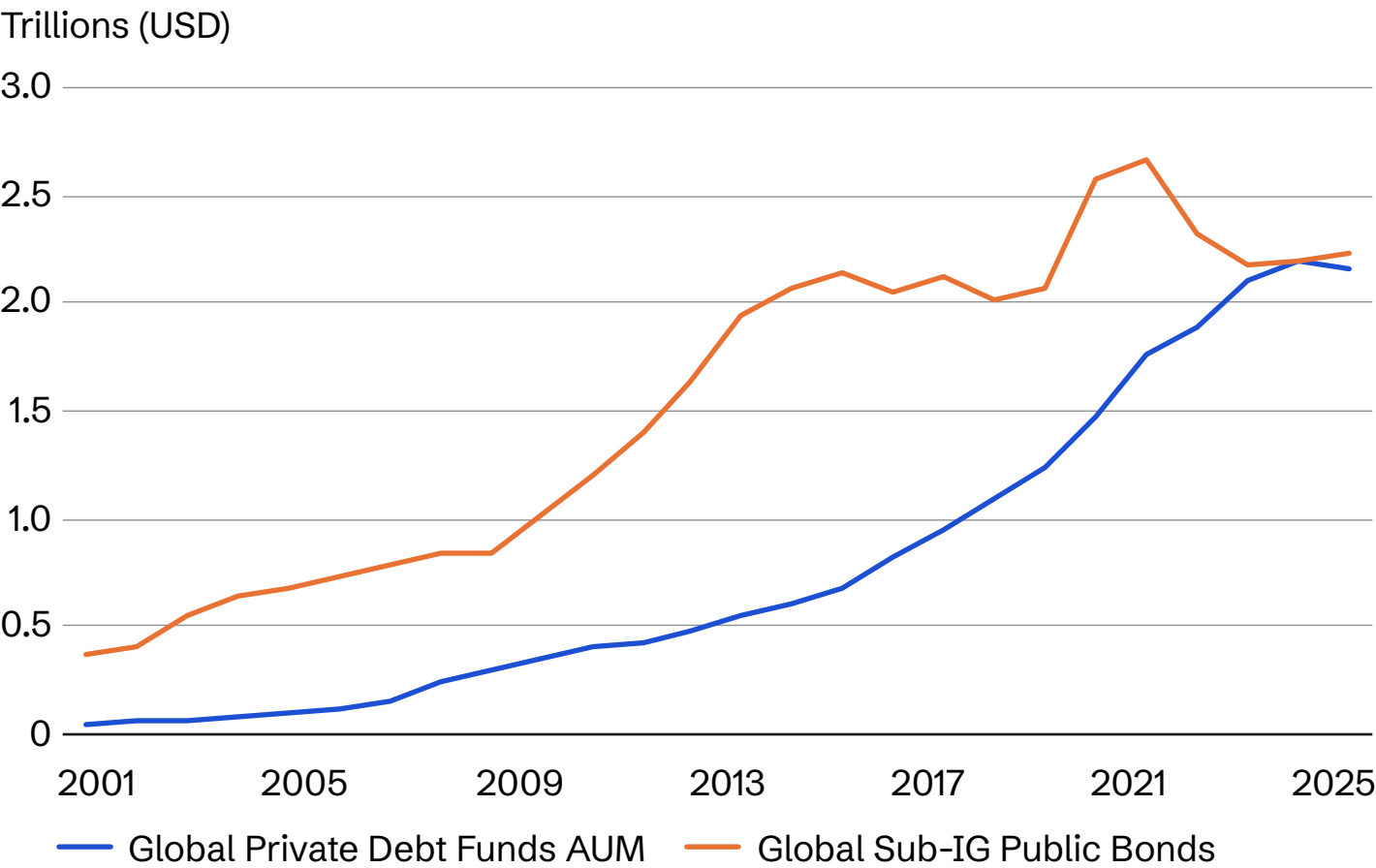


Recently, a handful of idiosyncratic fraud cases have exposed some private lenders to small losses, leading to increased scrutiny. Regulators are also rightly concerned that the lending to these sectors or related vehicles like CDOs or SIVs, whether by banks (to avoid greater capital requirements and hence lower profits of taking the risk of the ultimate borrowers) or insurers, could eventually become systemic. While the growth is impressive, and this part of the shadow banking system is relatively large at over \$2.5 trillion, this is far smaller in size and cumulative growth than the housing boom or TMT binge, and it would take truly catastrophic losses to dent the US's banking system's balance sheet, with close to \$30 trillion in assets and \$3.2 trillion in equity.

The growth in private credit in the US reflects a broader global trend, with private debt funds growing significantly over the past two decades. Today, the private debt fund market is comparable in size to the high yield public bond market (Figure 14), reflecting structural shifts in lending (outlined above) and sustained investor appetite for yield. This expansion has brought diversification and flexibility to portfolios, but with scale comes greater scrutiny from market participants and regulators.

Private debt is often perceived as a single asset class, but in reality it is not a monolith. It spans a wide range of strategies, risk profiles, and investor types. While in the closed-end fund space institutional funds still dominate assets under management, the market is evolving to include semi-liquid and evergreen structures aimed at retail investors, alongside growing participation from insurers. These developments broaden access but can introduce new complexities, such as liquidity mismatches between long-term assets and short-term investor preferences and different valuation frequencies.

Figure 14. Growth in private debt funds



Source: Preqin private debt AUM (including real estate and infrastructure debt) and ICE BofAML Global High Yield Index face value, as at November 2025.

As private debt has scaled, its links to the broader financial system have deepened. Banks, CLO managers, and insurance companies are increasingly active in the space; this deepens and diversifies the lender base, but also creates channels through which stress could propagate during periods of market volatility. One area currently under heightened scrutiny is the use of the Private Letter Ratings (PLRs), especially from the non-big three rating agencies which have significantly increased their market share in recent years. Similarly, complex offshore funded reinsurance structures in the insurance sector are under review with regulators tightening capital requirements, mandating detailed recapture plans involving more illiquid private debt assets, and increasing transparency standards to address concentration and counterparty risks from offshore structures.

The growth story in private debt remains compelling, supported by structural demand and attractive return profiles. However, select

As private debt has scaled, its links to the broader financial system have deepened

areas, such as illiquidity risk, reliance on PLRs, and governance around complex structures require careful oversight. The next phase of growth will depend on managers demonstrating disciplined underwriting, robust internal controls, and investment structures designed to withstand liquidity pressures. Transparency and strong governance will be critical to sustaining investor confidence and ensuring resilience across this diverse and evolving asset class.

In coming quarters, the AI boom will become more capital intensive and hungry for debt – and we expect both private markets and corporate bond markets to absorb hundreds of billions of dollars’ worth of securities linked to data centres, utilities, and other tech-related ventures. That means both public and private debt markets will accumulate a new risk on top of the existing ones.



AI adoption flags/slows

“In spite of the painful correction, the technology boom is not going away. What we have seen so far is just the beginning. The early visible wealth is being captured by the technology firms themselves. The real benefits of technology [will] accrue not to the tech companies or their owners but to ordinary companies by improving the quality and lowering the costs of their offerings. ... the technology revolution is more than a passing bubble. It will have permanent macro and micro effects... higher growth, more productivity, lower inflation and lower interest rates.”

Forbes Op-Ed, February 2000.

How right the bulls were at the peak of the 2000 TMT/dot-com bubble, and also how wrong! The ravenous appetite for data storage, process, analysis, and training of faster and better AI models, on everything from LLMs to enterprise to graphics to industrial shows no sign of abating. Projections for usage, whether measured in trillions of ‘tokens’ or Giga-watts, are upgraded every quarter. Sell-side analysts and investors alike are tripping over themselves to extrapolate their spreadsheets, with one recent bond offering projecting “Illustrated cash flows” going out to a rather cartoonish 2049.

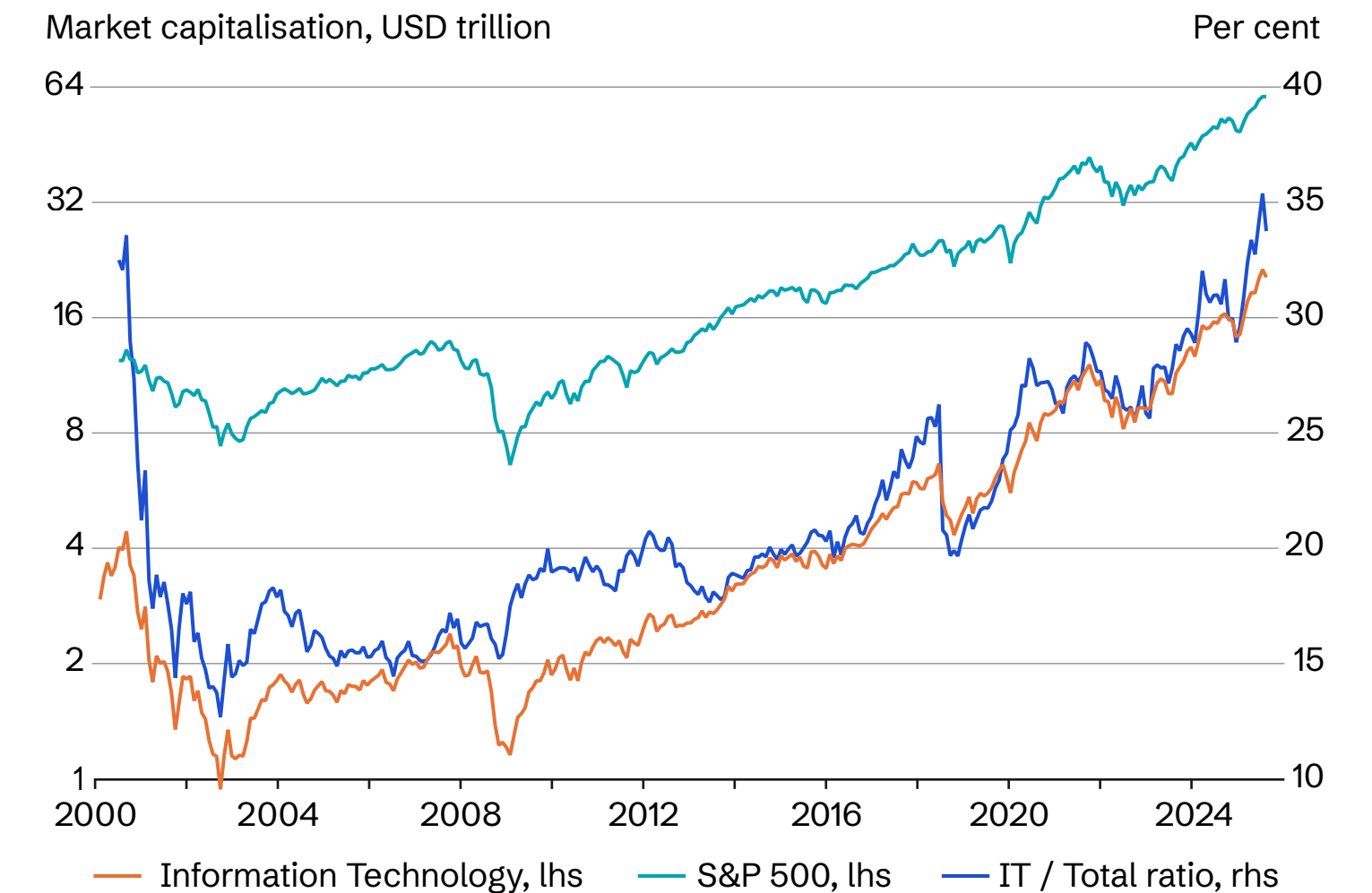
We are not Pollyannish about the outlook for the sector – our optimism is not naïvely hopeful, or blind to the risks, but looking realistically at tech companies’ capacity to spend out of their cash flows and borrowing, and ability to earn profits. Cloud clients are migrating internal data and services to the cloud, and this is still growing rapidly; the AI interfaces overlap with these platforms but are also a parallel source of demand for the huge computing power. The truth is, no one knows what the demand or costs will

be in a few years, but since ChatGPT was launched in late 2022, the major error has been to underestimate the growth of demand, and the increase in computing power has been subject to a kind of “Jevons Paradox”, in which productivity gains are only raising the demand (and revenues generated) for AI.

Yet current growth rates cannot be sustained over the long term, and at some point will slow; the risk is that this materialises as a “hard landing”. This might come from an external shock, as non-tech firms are less able to spend on upgrades, at least temporarily. Tech borrowing costs may increase, and their capex cash flow needs might require scaling back stock buybacks. Extremely positive expectations on EPS growth and sustaining 30–50 per cent margins might go to merely ebullient. Or, some of the large customers trying to adopt machine learning, or Agentic AI, or other features that were supposed to lead to productivity gains might abandon ship, rightly or wrongly.

If that happens, the virtuous cycle will, for a quarter or for a year, go into reverse. Wealth effects will go backward too, affecting consumption – particularly in the US, where the Information Technology sector alone makes up over a third of the market cap of the S&P 500 ([Figure 15](#)). Adding companies in other sectors that are also largely Tech companies (such as Alphabet, Meta, Netflix in the Communications sector or Amazon and Tesla in the Consumer Discretionary sector), we get to circa half of the S&P market cap, and a considerable part of the \$195 trillion in household net worth.

Figure 15. Information and technology constitute a record-high percentage of the US equity market



Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.

Current growth rates at some point will slow; the risk is that this materialises as a “hard landing”

The vendor financing and large investments that appear as profit growth for suppliers now (and are amortised later) will eventually dry up, leaving a lot of debt to be repaid. In 2050, just like that Forbes’ article, these worries will be long forgotten. But in the next few years investors will continue to worry about whether the AI story will have a happy ending.

Note: The companies mentioned are for illustrative purposes only, not intended to be an investment recommendation.



Macro forecasts charts and commentary

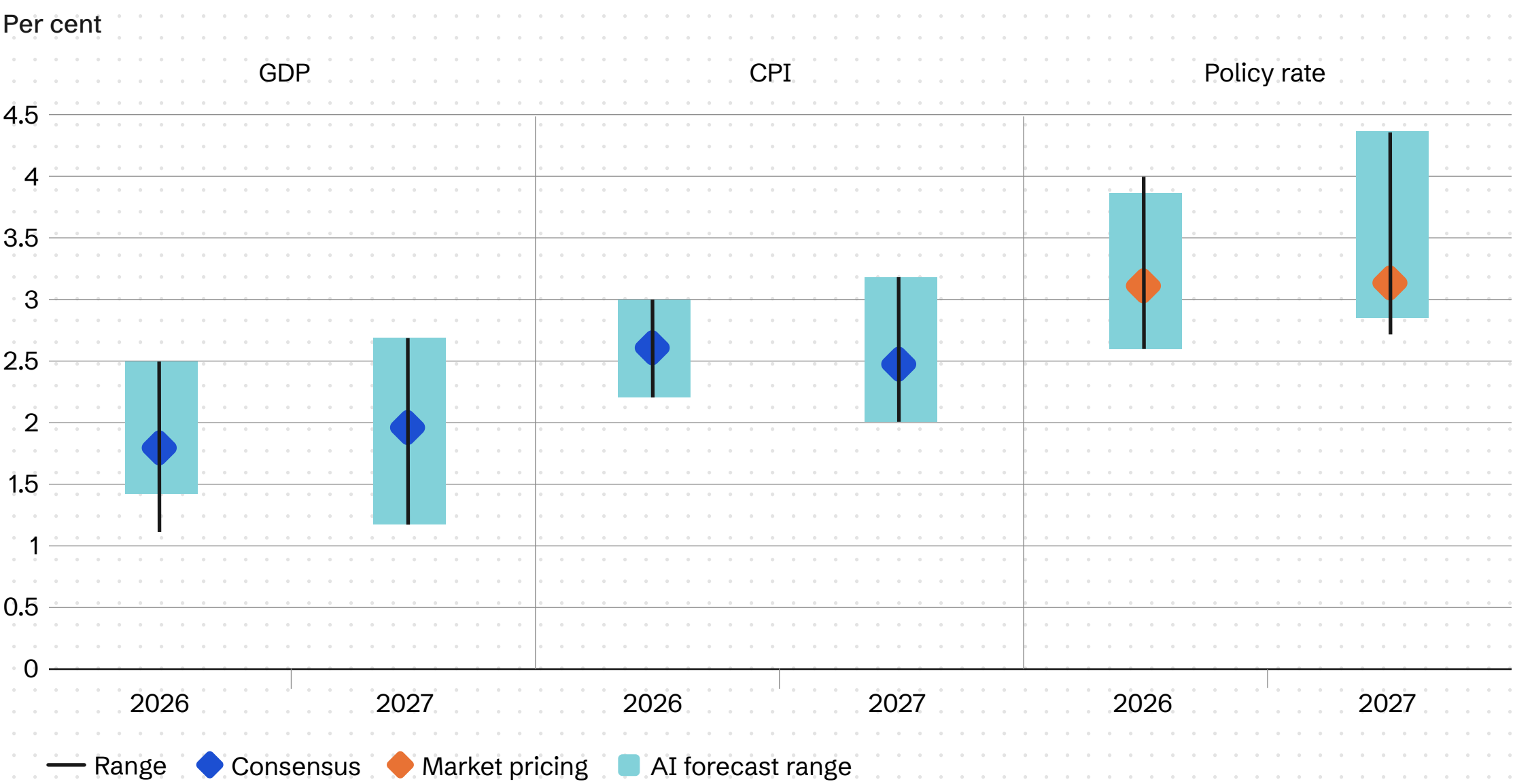
US

Near-term risks, medium-term optimism

The uncertainty and economic volatility brought on by tariff policy measures in the first three quarters of 2025 have left the US economy in a weaker position than at the start of the year. The labour market has softened, with hiring weak and some early signs of layoffs picking up. The government shutdown in October and early November has delayed or prevented collection of some official data, making an assessment of the economy more difficult, and at a time when the labour market was potentially weakening more seriously. While the data for September suggested a stabilisation, the outcomes for the remainder of the year will be key in determining whether the downside risk of a rapid deterioration in the labour market has transpired. For now, we stick to our central view that it has continued to cool gradually.

While the weaker underlying growth situation over the year to date was largely down to softer personal spending – reflecting weaker sentiment – we expect the inflationary impact of tariffs to weigh further as we approach the end of 2025. We have been somewhat surprised by limited pass-through into inflation so far – estimated to be around 0.3-0.4pp – but would expect the full effect of around 1pp to come through by early 2026. Once that peak effect on sequential rates of inflation is behind us though, we expect personal spending to pick up through the course of 2026, supported by tax rebates in the first part of the year, alongside the tailwind from easy financial conditions and, towards the end of the year, by a softening in inflation.

Figure 16. US



Note: GDP calendar year growth; Consumer Price Index (CPI) Q4/Q4; Policy Rate Q4.
Source: Aviva Investors, Bloomberg as at 1 December 2025.



On the corporate side, we expect business investment to be supported by strong growth in AI-related capex, with a broadening beyond the tech “hyperscalers” into supporting and adopting industries. That said, one must be careful in not overplaying the contribution to US GDP growth, given the large import share of computer chips and related equipment. Lower business taxes and further deregulation in 2026 should also support business activity.

Given the near-term labour market risks, we expect the Federal Reserve to reduce the policy rate further. That is despite inflation being above target and – at least for the next few months – likely to move up further. In our central case we expect the FOMC to reduce rates to 3-3.25 per cent by early 2026 ([Figure 16](#)). But there remains a wide range of possibilities depending on the strength of the labour market. Looking further ahead, we see the recovery in growth, improvement in the labour market and still-above target inflation as sufficient conditions for the market to price some probability of rate hikes in 2027.

We expect US personal spending to pick up in 2026, supported by tax rebates, the tailwind from easy financial conditions and, later, by a softening in inflation



Eurozone

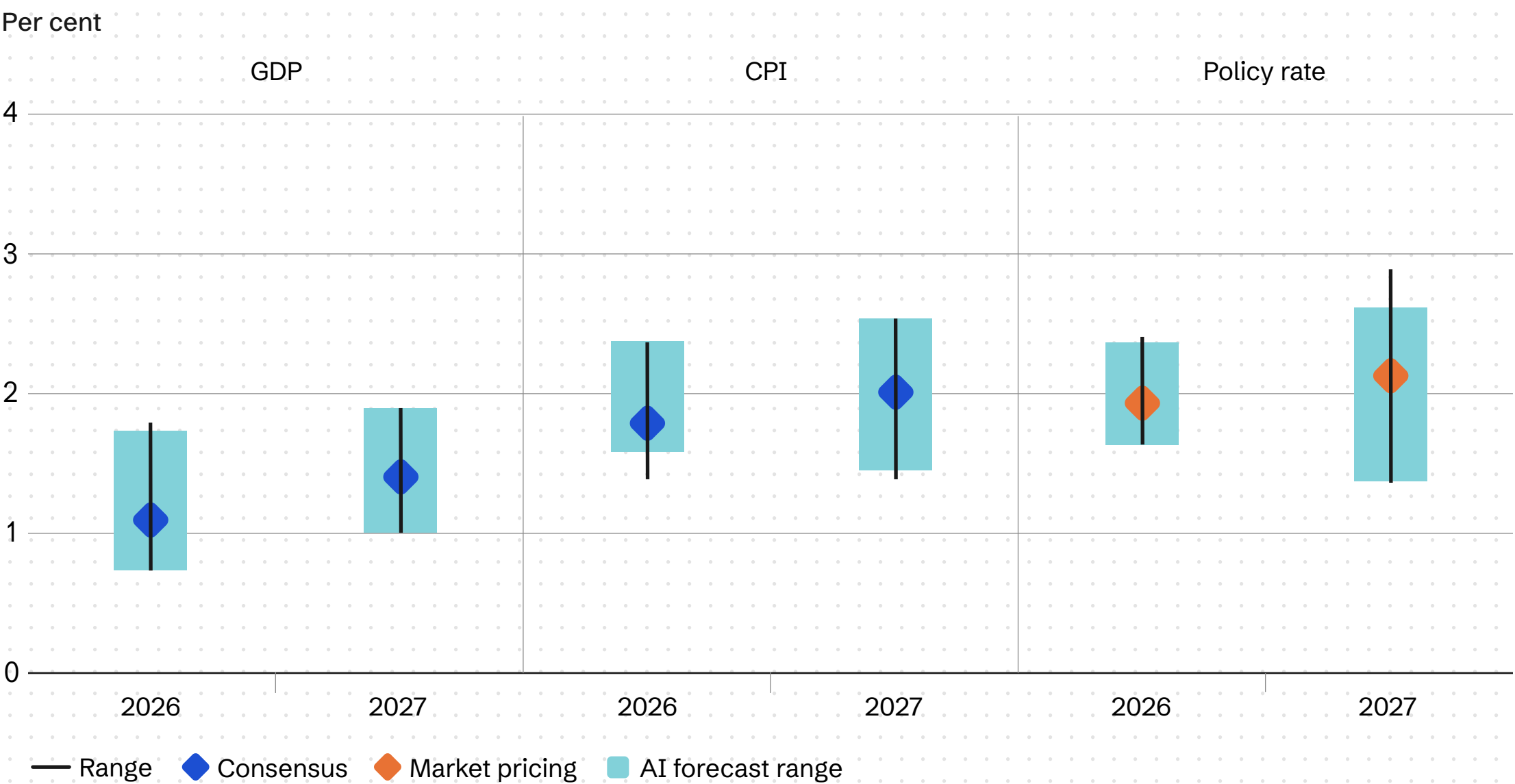
A positive growth story

The Eurozone economy expanded by 0.9 per cent between the end of last year and 3Q25. For 2025, we expect growth of 1.4 per cent (vs consensus at 1.3 per cent), which – if realised – would exceed both our and market expectations at the start of the year. This resilience highlights the region’s ability to withstand tariff-related and global uncertainties. For 2026, we forecast growth of 1.2 per cent, slightly lower than 2025, as last year’s figure was flattered by a strong pickup in 1Q25 due to export frontloading. Looking further ahead, we project 1.5 per cent growth in 2027, reflecting a gradual trend improvement supported by German/EU fiscal stimulus and solid consumer demand (Figure 17). Inflation has stabilised around the ECB’s 2 per cent target, and we expect it to hover near this level through 2026 and 2027. Accordingly, we anticipate the ECB will remain on hold at 2 per cent, with risks of hikes being priced in late 2026 or early 2027, depending on the timing and scale of German fiscal stimulus and consumer activity.

Although detailed 3Q25 data are pending, activity this year has been supported by investment and consumption. With monetary easing filtering through the economy – via lower borrowing costs and reduced inflation compared to a year ago – we expect both investment and consumption to strengthen in 2026. This will be aided by the German infrastructure spending, continued positive real income growth, and access to excess household savings.

Headline inflation may dip temporarily in 1Q26 due to energy base effects but should return to target thereafter. Strong consumer demand and fiscal stimulus should keep headline inflation near 2 per cent, while core inflation is likely to run slightly higher over the forecast horizon.

Figure 17. Eurozone



Note: GDP calendar year growth; Consumer Price Index (CPI) Q4/Q4; Policy Rate Q4.
Source: Aviva Investors, Bloomberg as at 1 December 2025.



The combination of improving activity and inflation near target suggests the ECB has completed its easing cycle. In fact, we see risks that markets may begin pricing hikes for late 2026/2027. Wage growth is moderating, but the pace of further normalisation remains uncertain, while services inflation has started to rise again – all against the backdrop of a sizeable German fiscal stimulus (around 1.7 per cent of GDP).

Risks to our growth projections are balanced: potential renewed uncertainty on tariffs, delays in fiscal stimulus implementation, geopolitical events or other shocks could weigh on confidence and growth; at the same time, a swift implementation of fiscal stimulus and/or consumers tapping into their excess savings could support activity more than we expect. We also see risks to our inflation projections as balanced: on one hand, the fiscal impulse is likely to be inflationary; on the other hand, a potential delay to the ETS 2.0 could shave off 30bps from headline CPI in the ECB's 2027 forecasts.

With monetary policy easing filtering through the Eurozone economy, we expect both investment and consumption to strengthen in 2026



UK

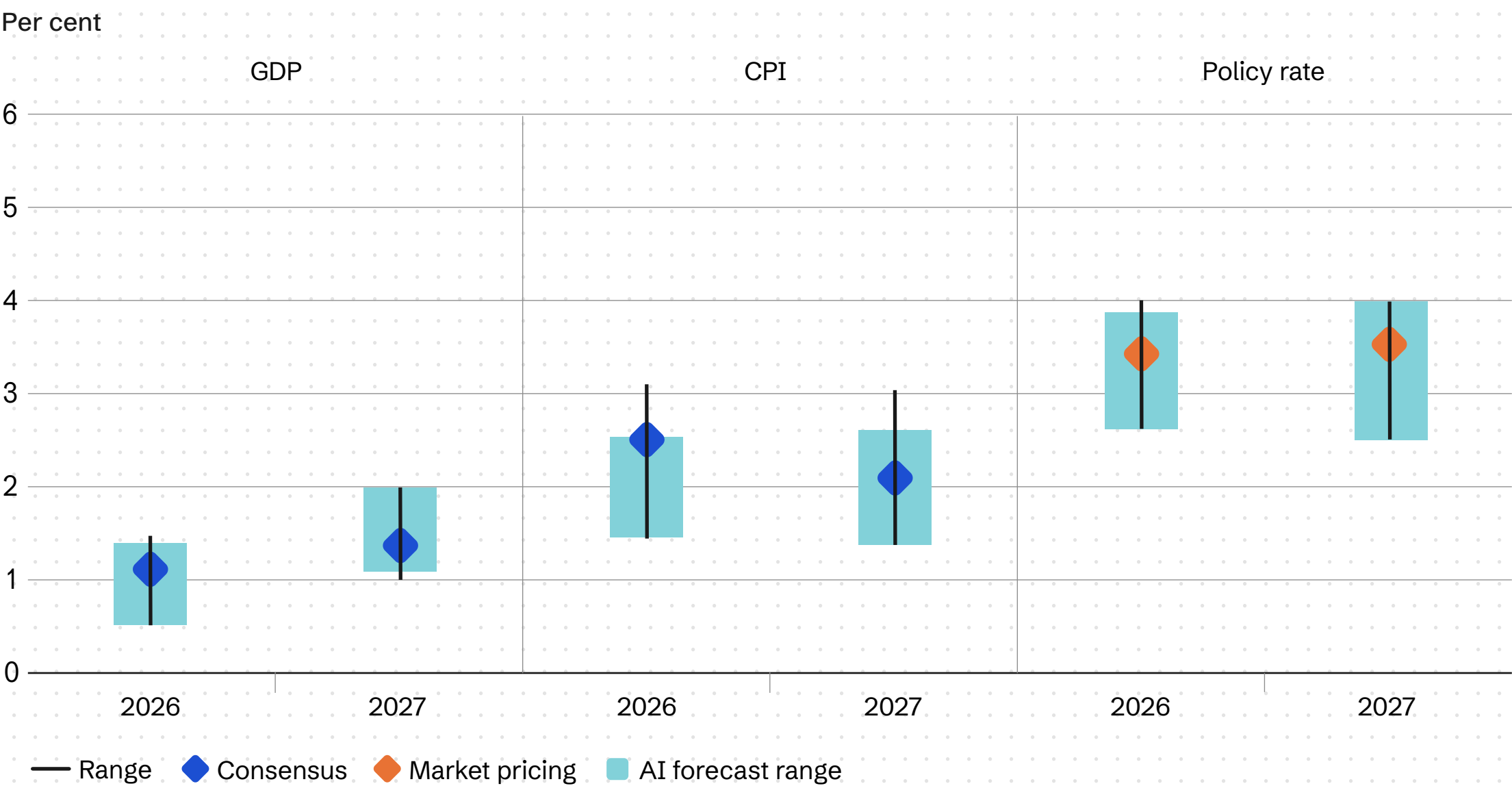
Weaker growth in 2026

The UK economy expanded by 1 per cent through 3Q25, and we expect full-year growth of 1.4 per cent. This performance was partly driven by strong business investment in 1Q25 – though momentum has since largely moderated – and government spending, particularly in 2Q25. Export frontloading earlier in the year also contributed meaningfully. However, the economy has clearly lost steam: the 0.7 per cent quarterly gain in 1Q25 was followed by much weaker growth in subsequent quarters. Household consumption remains subdued, with its level now barely 1 per cent above December 2019, underscoring persistent structural weakness in domestic demand. For 2026, we forecast real GDP growth of around 1 per cent. A recovery to 1.5 per cent is expected in 2027 (Figure 18), supported primarily by Bank of England monetary easing in response to growth headwinds and inflation normalising lower. We expect the terminal policy rate to settle near 3.25 per cent, with a meaningful risk of an even lower endpoint should economic conditions deteriorate further.

While the increase in budget headroom is a welcome development – enhancing credibility in managing public finances – it will not improve growth prospects in an economy which is already in a weak state. Consumption growth remains anaemic, the labour market is deteriorating and the prospect of (future) tax rises may weigh further on household and business sentiment. However, some recovery may begin later in 2026 and extend into 2027, as Bank of England rate cuts reduce borrowing costs, cushion household consumption, and improve business confidence.

Inflation – which likely peaked at 3.8 per cent in 3Q25 – is expected to continue trending lower due to (a) base effects from regulated prices; (b) subdued consumption growth; and (c) falling wage growth. We envisage that headline CPI will approach the 2 per cent target towards the end of 2026 or early 2027, although core is likely to remain slightly above that level.

Figure 18. UK



Note: GDP calendar year growth; Consumer Price Index (CPI) Q4/Q4; Policy Rate Q4.
Source: Aviva Investors, Bloomberg as at 1 December 2025.



The combination of demand headwinds and normalising inflation should be sufficient for the Bank of England to cut rates to around 3.25 per cent, with a meaningful risk of an even lower terminal rate. The exact outcome will depend on the pace of wage growth moderation, and any further loosening in the labour market, which is ending 2025 on very shaky ground.

We assess that risks to our growth outlook are skewed to the downside, primarily due to the worrying signals from recent labour market loosening. At the same time, risks to our inflation outlook are balanced: on one hand, weaker activity could accelerate and deepen the decline in price growth; on the other hand, wage growth stickiness could slow the pace of inflation convergence towards target. The May local elections also pose a risk in terms of challenging the Labour Party leadership, something that could unsettle markets and weigh on sentiment.

We expect the BoE's terminal rate to settle around 3.25 per cent, with a meaningful risk of an even lower endpoint should UK economic conditions deteriorate further



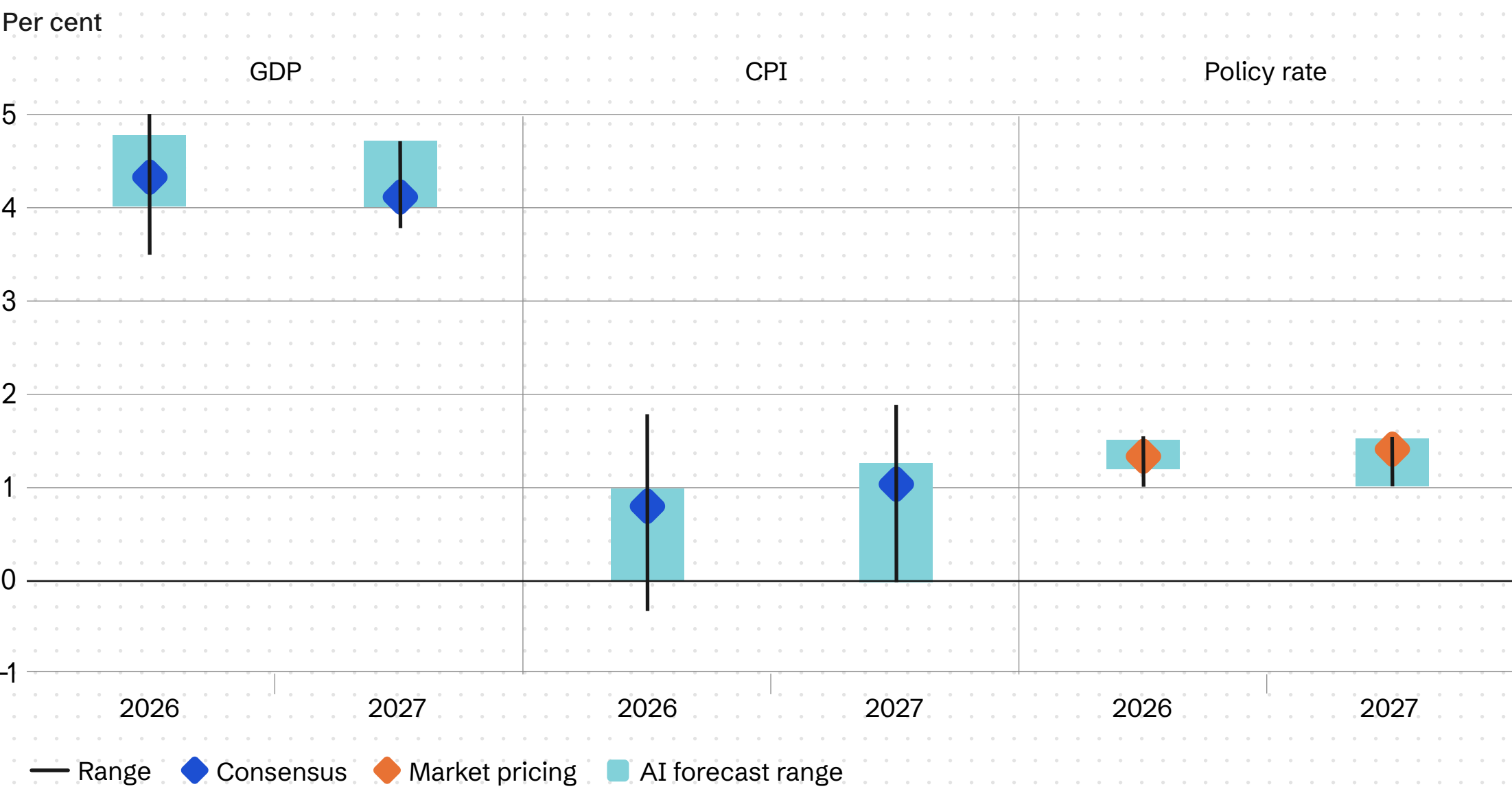
China

Five Year Plan will be tackled one year at a time

Despite many challenges, and evidence that pursuing low quality GDP growth is causing a multitude of domestic and external distortions, China’s leadership is continuing to use policy tools and credit to achieve expansion of output in its economy. Infrastructure and industry are the twin engines for the foreseeable future, but high-end manufacturing and exports are signs that the shift to higher quality growth is underway. The struggles of the property market, which shows few signs of improvement and only occasional signs of bottoming, are set to continue. This will dampen already weak domestic demand, with demographics and debt burdens also important headwinds. We expect GDP to achieve its ‘around 5 per cent’ goal, but to decline steadily in coming years ([Figure 19](#)), though we have upgraded our outlook as policy support was utilised and US tariffs have not had as much impact as feared thanks to reductions and exemptions.

Retail sales were boosted temporarily by the national consumer goods trade-in program, which subsidised white goods with a 15 per cent discount, after which appliance sales soared by over 50 per cent. Now comes the hangover, with overall sales falling back to just 2.9 per cent y/y in October, exacerbated by weak pricing power and a far cry from the c.10 per cent y/y growth that prevailed pre-Covid. On the investment side, additions to fixed assets (FAI) looked like they were holding up, but this sharply deteriorated at the end of Q3 and start of Q4. This occurred due to a confluence of forces: anti-involution policies to reduce excess capacity played some role, but so did the re-escalation of trade and geopolitical tensions ahead of the latest temporary truce. Real estate inventories remain huge, and as sales drop further the ratio is still deteriorating. Finally, government spending and credit seems to be going into repaying overdue payments, rather than breaking ground. Should FAI remain in negative territory, there will be downside risk for economic projections in 2026, absent additional stimulus.

Figure 19. China



Note: GDP calendar year growth; Consumer Price Index (CPI) Q4/Q4; Policy Rate Q4.
Source: Aviva Investors, Bloomberg as at 1 December 2025.



The oversupply of many goods and high savings rates is the root cause of overcapacity, combined with weak domestic demand that is exacerbated by the wealth destruction of the property recession. The excess goods cause disinflation or deflation in many products, which dampens profits and keeps CPI close to zero and PPI negative; although the recent -2 per cent y/y reading is improved from the -5.5 per cent to -3.5 per cent range, observed the past few years, it still intensifies China's high debt burdens. Monetary policy is loose in terms of liquidity, but restrictive when looked at through the lens of real rates.

While EVs, processed metals, and a range of manufactured goods from pharma to solar panels are dominant in world markets, imports are large but stagnant, and that is in turn the cause of the large and chronic trade and current account surpluses. This keeps CNY stable, even with FDI in reverse and large capital outflows. Dollar weakness globally should mean the FX appreciates slightly versus the dollar, but is actually steadily weaker against other, more flexible currencies.

The Five Year Plan was announced by the Central Committee in late October, after the conclusion of the plenum. The full machinery of government and regulation will be set into motion after the Two Sessions (NPC and CPPCC) in March 2026; in our view it continues and builds on the "Made in China 2025" ten-year roadmap. The aim is to retain domination and/or achieve self-reliance in processed materials, power, technology and high-value-added manufacturing across a range of sectors, and expand into areas like 6G, quantum computing, and AI. The focus is on production and supply, even as efforts to increase consumption at the margin and broaden social security are given some lip service and promises of extra fiscal support, but no real change in the debt-fuelled investment-led growth model.

Risks to our forecasts include:

- Geopolitical conflicts, if China sees itself as having the opportunity or forced to respond to real or perceived risk. Potential for miscommunication and concentrated power may increase the likelihood of accidents.
- China will always have dependence on key commodities such as energy, metals, and (for now) advanced microchips and the dollar, and conversely has a stranglehold on rare earths and a variety of key products in a range of industries; trade wars can damage China and its trade partners if they escalate and retaliate.
- Internal debt burdens of developers, local governments and their financing vehicles, and banks can all become systemic financial problems – even if they are unlikely to become crises or cause global disruption.

The Five Year Plan and upcoming Two Sessions will build on the "Made in China 2025" ten-year roadmap



Japan

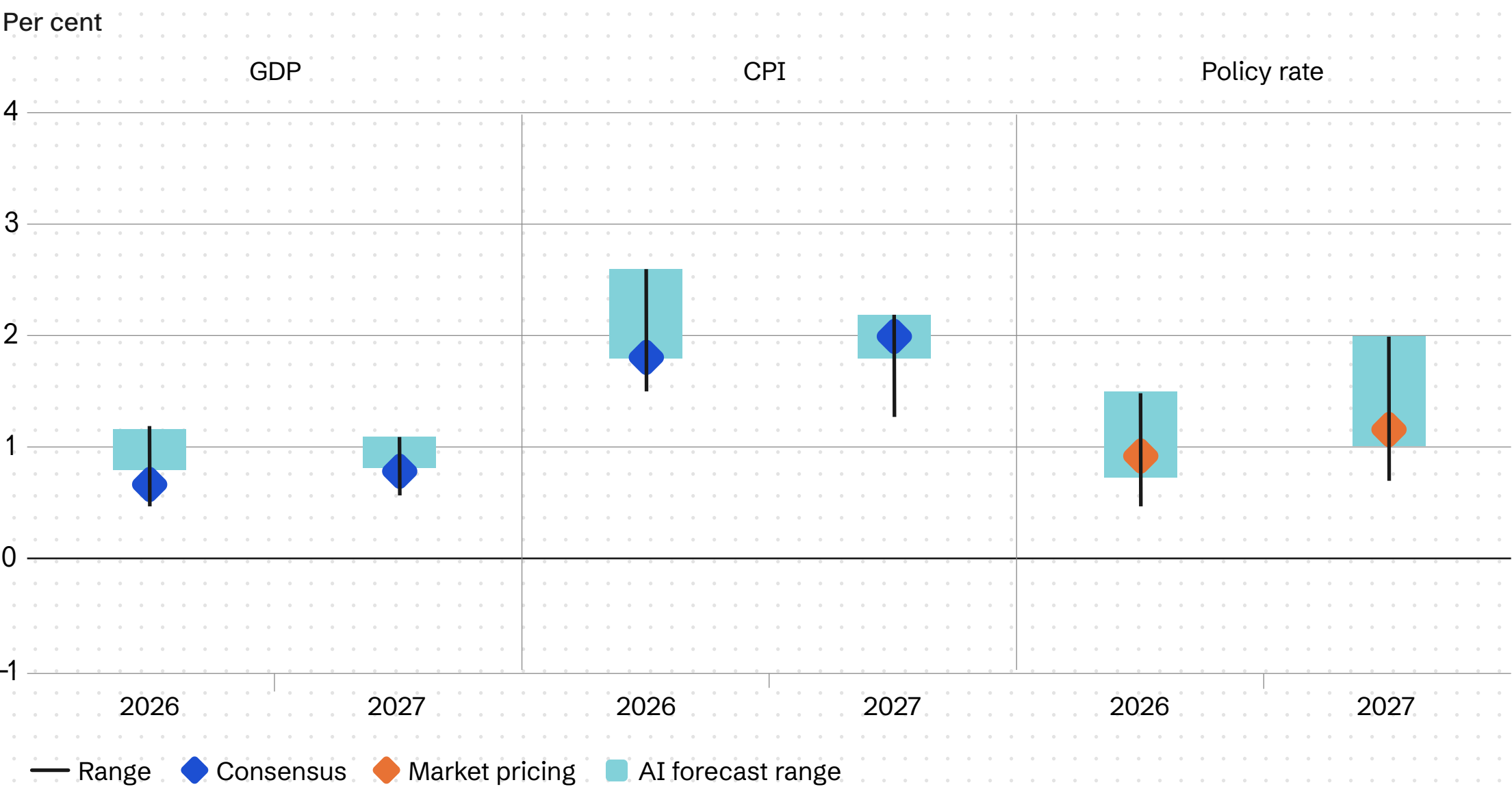
Takaichi time!

In our previous House View, we predicted that, just “as the world saw with Abenomics ... new leaders can effect big changes in markets.” So far, Japan’s new Prime Minister, Sanae Takaichi, has done just that, putting together a coalition that has boosted sentiment, weakened the yen, kept the BoJ in slow motion, even while a more expansive fiscal policy will keep inflation well above the 2 per cent target.

A larger-than-expected supplementary budget is set to add spending of ¥18 trillion, with additional tax cuts of nearly ¥3 trillion bringing the total to 3.5 per cent of GDP – about 50 per cent larger than the boost a year ago. That will keep fiscal consolidation a promise for sometime in the future, as defence spending and subsidies to lower inflation, and delivering on pledges to help with cost of living, take precedence. Apparently, the government believes fiscal multipliers are above 1, even on defence – and with interest rates low in nominal terms, negative in real terms, and far below the growth rate, this means the more you spend, the more ‘sustainable’ the debt becomes, even if it is larger. That has a whiff of magical thinking about it, but Japan has been different for a long time.

GDP growth should be close to 1 per cent in coming quarters (Figure 20), which implies steady productivity gains even with an ageing population and a declining population (close to -0.4 per cent per year). For now, greater participation rates by women and the elderly, and a bit of immigration, has kept the labour force growing by +0.8 per cent per year coming out of Covid’s shock. Easing regulations on working hours, and continuing efforts to raise wages will continue this boost to potential growth. The government will also make direct investments and try to stimulate private investment in a variety of tech, industry, energy, and defence fields, continuing the emphasis begun by Kishida – that has had some impact in raising capital spend, and keeping investment growth well above GDP overall. Compared with European countries and the US, a 2 per cent of GDP spending on military personnel and systems has scope to expand further, and a more hawkish stance towards China is clear – though not something that is helping bilateral relations.

Figure 20. Japan



Note: GDP calendar year growth; Consumer Price Index (CPI) Q4/Q4; Policy Rate Q4.
Source: Aviva Investors, Bloomberg as at 1 December 2025.



China's heavy-handed measures toward neighbours, and decision to strengthen ties with Russia, has meant Japan has pushed closer to its Western allies, even before its new neo-con government took the reins. Heavy corporate investment into the US might have happened anyway, but has been a useful bargaining chip against Trump's tariffs. Partnership on rare earths and shipbuilding with the US, Australia, and others is seen as a strategic imperative to diversify supply chain away from unreliable trade partners and geopolitical rivals. Finally, Japan's large current account surplus allows for accumulation of foreign assets, the appetite for which, given Japan's low growth and negative real yields, is a structural headwind for yen appreciation.

While headline inflation has come down from 4 per cent y/y at the start of the year, both overall CPI and core measures are stuck at around 3 per cent y/y. This may come down because of subsidies, but will in any case remain sustainably and durably above the BoJ's 2 per cent target. However, the BoJ seems unable or unwilling to raise rates, whether making excuses for political reasons or because of genuine uncertainty, and while we expect one or two 25bp hikes over the next year, this is unlikely to provide much support for the exchange rate until the Fed is done cutting rates.

Japan's new government's policies have boosted sentiment, weakened the yen, kept the BoJ in slow motion, and expanded fiscal policy



Canada

Close, but not out of the woods just yet

Since our last House View, the economic news in Canada has been strong, particularly regarding the labour market, with the recent strength in job growth halting its negative trend, and the downward trend in wage growth grinding to a halt. However, headline inflation remains benign at 2.2 per cent YoY as of October, whilst the Bank of Canada’s core inflation measures have shown sequential improvement as the BoC continues to point to other core inflation proxies to show that underlying inflation remains contained.

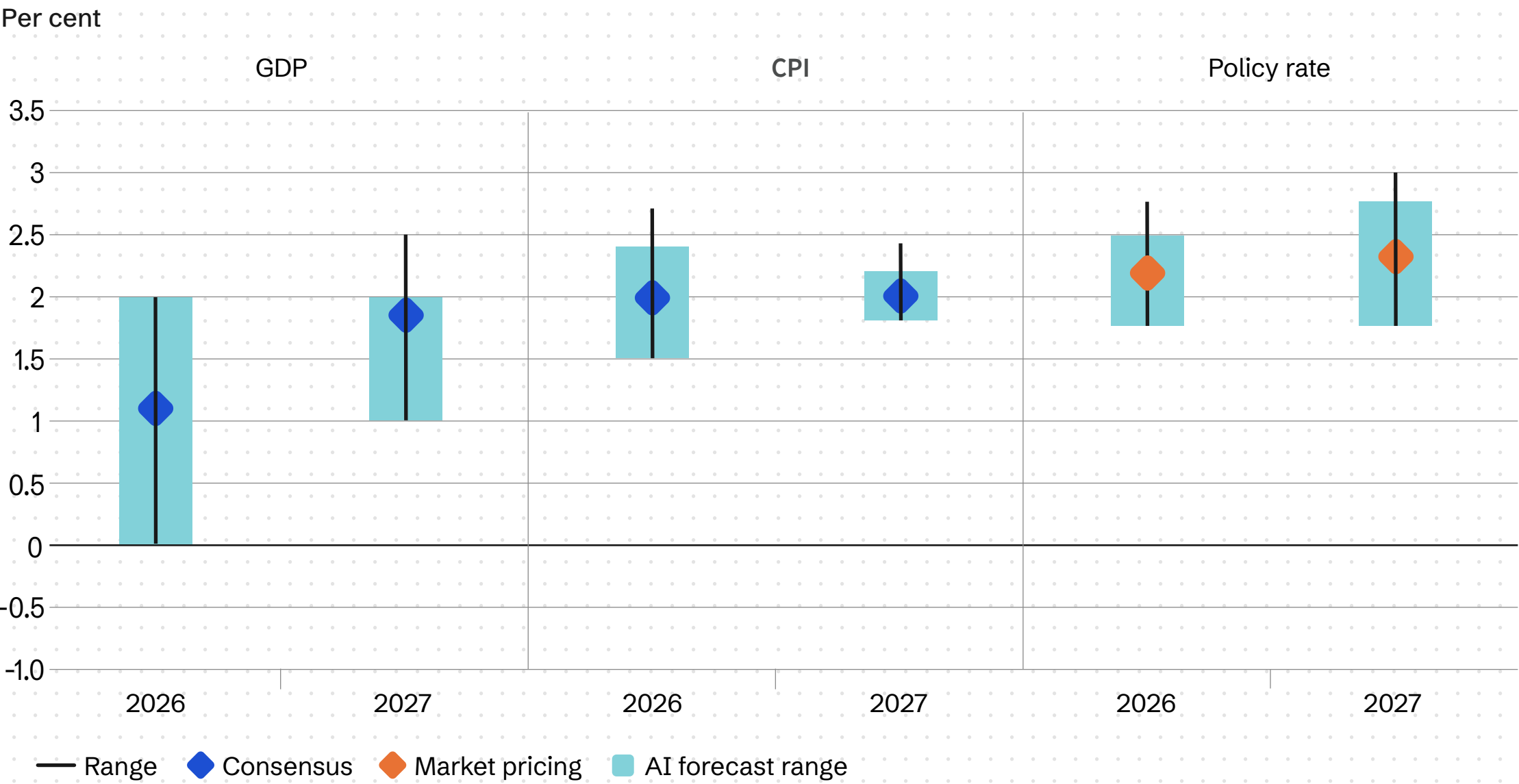
There are many reasons to have a more constructive outlook for Canada in 2026. November’s Fall Economic Statement confirmed that a sizeable fiscal boost is coming next year, whilst our projections for a cyclical recovery in both US and global growth should make the external backdrop much more growth supportive in 2026.

But these tailwinds will likely manifest in the latter stages of the year. As such the next few quarters will be soft and will likely see Canadian growth below trend and the output gap negative. The labour market, whilst having improved, remains in an extremely fragile state with much of the recent job growth concentrated in a select few sectors. Household consumption, whilst having been a stalwart in 2025, is likely to fade into next year as the slowdown in population growth intensifies.

The firming in the recent data has led the BoC to deliver one more 25 basis point cut at their October meeting with an accompanied communique suggesting that they are now at the end of their cutting cycle.

Our base case is for the BoC to stay on hold next year, but we continue to see risks skewed towards further easing in the near term. We acknowledge the upside risk that the rise to 4 per cent y/y wage growth presents to the inflation outlook, but we think the Bank’s core inflation measures should continue to ease, with headline inflation remaining contained around 2 per cent (Figure 21).

Figure 21. Canada



Note: GDP calendar year growth; Consumer Price Index (CPI) Q4/Q4; Policy Rate Q4.
Source: Aviva Investors, Bloomberg as at 1 December 2025.



Ultimately, whilst the ingredients for a cyclical revival are in sight, the current lack of clarity in the softer data and risk of a negative inflection in the labour market in a broader backdrop of excess supply should keep the BoC data dependent, with a particular sensitivity to any downside surprises in the data. As such risks to both our policy rate and growth projections remain to the downside in the first half of next year, before a clearer acceleration in growth to above trend puts these concerns in the rear-view mirror in the latter stages of 2026.

There are many reasons to have a more constructive outlook for Canada in 2026, but we think the risks are skewed toward further easing by the central bank

Global market outlook and asset allocation

Equities: We remain positive and ask: “are we in fact at the start of a new cycle in equity markets?”

Fixed income: We anticipate a growth rebound in 2026, supported in part by fiscal stimulus. Combined with the conclusion of the G10 monetary easing cycle, this should tilt yields higher across major economies, though likely later in the year – except in the UK, where activity is likely to remain subdued.

Credit: Corporate bond spreads are near historically tight levels, and we expect them to widen gradually, generating poor risk-adjusted excess returns. We have growing concerns about large corporate issuance in public markets, but not a rapid deterioration in credit metrics.

Currencies: We still see some further dollar downside early in the year as global growth dynamics improve and Fed independence concerns resurface; however, as US growth rebounds later in 2026, the dollar may find fresh support.

Private Markets: Private markets remain well positioned to navigate the macroeconomic environment. We expect to see investment volumes increase in 2026, in particular for Real Assets with tailwinds from fiscal policy.





Global market outlook

Liberation Day triggered significant turbulence in global markets, but risk assets staged an impressive recovery and have since rallied strongly, albeit with some loss of momentum toward year-end. EM equities outperformed developed markets, supported by better-than-expected global growth and a strong performance of the Asian technology sector. Japanese equities also delivered robust gains, aided by a weaker JPY and, more recently, expectations of fiscal stimulus.

US equities underperformed Europe in the first three months of the year but quickly recovered and were back to outperformance by the summer, driven by the AI theme, solid earnings growth, and growing expectations of Fed rate cuts. At the same time, bond markets exhibited diverging trends with US yields falling, most notably at the short end of the curve while Japanese yields rose to historic highs, followed by European yields; UK yields moved sideways for most part of the year but fell recently on expectations of fiscal prudence and expectations of more BoE easing.

In currencies, the dollar weakened broadly – primarily in H1-25 – but has regained some ground recently as the Fed repriced higher. Terms of trade will be important in the next year, as metals become caught up in a race for critical inputs for energy, grid, and industrial supply chains, but crude oil prices should be under downward pressure given rising supply and inventories. Emerging market FX has been heterogenous, with lower carry exchange rates trading in line with G10, but high-carry markets performing more strongly; this is likely to continue into next year.

For 2026, we maintain a bullish view on equities largely driven by the broadening of the AI theme and the recovery in the industrial and other “traditional cyclical” sectors. That recovery – following two years of a downturn for most cyclical stocks not directly exposed to AI/technology – leads us to question whether the broad consensus that we are in a late cycle stage with the risk of an “AI bubble” bursting is misplaced. We see significant (upside) risk that we have in fact gone through a traditional cyclical downturn, offset by a powerful technology cycle that happened to coincide with that downturn. Now, equity markets find themselves at the junction of a powerful technology and investment cycle that has significant further room to run alongside a traditional cyclical recovery (albeit a slow one).

In fixed income we are neutral but have a bias toward higher yields as the year progresses, predicated on our expectations of a revival in global growth; as well as some pricing in of risk premia due to wide (or widening) fiscal deficits. We think some further curve steepening may be in the offing – especially in Europe. However, curve flattening could emerge later in 2026 as markets begin to contemplate potential hiking cycles.

Fundamentals for the credit market are intact, and should be helped by fiscal policy and stabilising consumption alongside booming investment in a few large sectors. Technical factors remain strong, but tight spreads and increased supply – particularly from the need to fund immense AI-related cap-ex – means that the path for spreads is higher, especially given our view that monetary easing cycles are drawing to a close.

We see some further dollar downside early in the year, supported by improving global growth and renewed concerns over Fed independence; EURUSD should stay supported in the range of 1.14-1.18, while procyclical and high carry FX should perform well in the first part of the year. However, as US growth rebounds later in 2026, the dollar may find fresh support.

For 2026, we maintain a bullish view on equities largely driven by the broadening of the AI theme and the recovery in the industrial and other “traditional cyclical” sectors



Equities: Brave new cycle

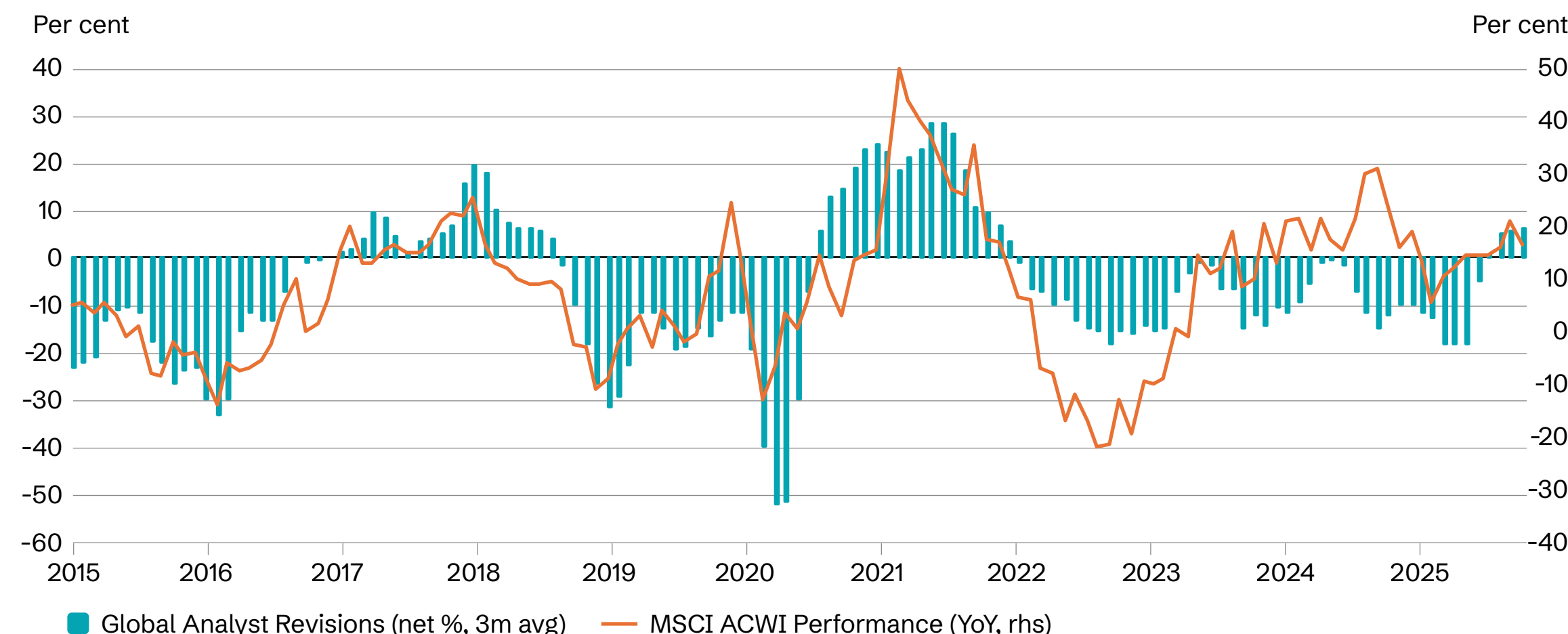
Have we just gone through the perfectly disguised equity downcycle?

The consensus market view is that we are in a late cycle environment with significant risk of that cycle ending in the burst of an “AI bubble”. While this is a risk scenario we remain attentive to, we think this downside risk is often overstated in the financial press; while at the same time there is an upside risk that the market is significantly underappreciating: that the current environment in equity markets is actually more akin to an early cycle.

We are not surprised this is not a widely discussed scenario. After all, how could equities have any semblance of an early cycle when global equity markets are up circa 16 per cent year to date and over 70 per cent in just over three years since the lows post the bear market of 2022? Despite the recent strong performance, we believe there are a number of areas within equities where an early cycle is the best description of the environment. To understand this view, the key is to distinguish between the traditional cyclical component of the market and the Technology and Artificial Intelligence driven component. In addition, the issue of market concentration is a double-edged sword. While it increases idiosyncratic risk, it also allows for the strength of a few companies to make up for the weakness of many.

Let us start at the broadest level, global earnings. While on the surface global equities appear to show robust earnings growth starting from early 2024 (following a weak 2022 and 2023), this is not the whole picture. Most of that growth was driven by the Technology sector and especially a few stocks within (AI exposed, hyperscalers). When we look at earnings revisions globally, the impact of the market cap weight of those companies (which has driven overall market returns) and the weight of their profits on the overall profit pool (which has driven the index earnings growth) falls away and mega-cap technology is no longer the dominant effect. This provides a more balanced and holistic picture of equity markets, revealing that we have just gone through a multi-year earnings downgrade cycle for global equity markets ([Figure 22](#)). Starting from the beginning of the Ukraine conflict in February 2022, global equity earnings had been consistently downgraded all the way to August this year. Revisions to earnings only turned positive in August for the first time in three and a half years and have been moving progressively higher since.

Figure 22. Global equities earnings have finally seen the end of a 3.5 year downgrade cycle



Source: Aviva Investors, Refinitiv Workspace as at 1 December 2025.

Global equity earnings were consistently downgraded from February 2022 all the way to August this year. Earnings revisions turned positive in August and have been moving progressively higher since

In effect, following years of no growth outside of Technology, equity markets are starting to see the green shoots of a recovery in the traditional cyclical component of the market (i.e. industrial manufacturing and materials companies not normally associated with the AI/Technology cycle).

One pushback against this view is the idea that companies and investors are simply using AI as a label and as soon as a company uses that label, its share prices move higher. As discussed in the AI theme section above, we see it differently, and more often than not the reaction is not superficial hype, but due to fundamental results that show AI Capex is generating significant profits, for companies that the market did not expect would be significantly impacted by AI.



Earnings – Show, don’t tell

Once again, the Q3 earnings season that just ended has been a strong one for US equities, even against high expectations for companies exposed to the AI thematic. Earnings came in ahead of consensus with an aggregated earnings surprise of +6.3 per cent. Perhaps more importantly, revenue surprises were circa +2.1 per cent, which is in line with the previous quarter’s earnings season as the two best revenue surprise levels for over two years ([Figure 23](#)).

All sectors in the S&P 500 delivered revenues ahead of expectations. Looking at earnings, there was one sector which did not deliver – Communications – but this was largely driven by one-off issues around Meta and Netflix and the net number of companies beating forecasts was still a significant +10 per cent. Supporting the idea that we are seeing a recovery in the traditional cyclical component of the market, the strongest earnings surprises came from Industrials. This EPS season makes it the fourth quarter in a row with the S&P 500 delivering earnings growth well into double digits relative to the same quarter one year prior. This positive result is enhanced by revenue growth that has jumped significantly higher, to circa 8 per cent vs Q3 2024. But despite another earnings season delivering robust results, price reaction on the day of results has been underwhelming (companies were on average flat on results during this earnings season). This has largely been a bull market where investors have demanded from companies that they “show, don’t tell”. Even strong results have often been met with muted price reactions.

The earnings season in Europe has also been positive, albeit at a smaller magnitude than the US. And also in Europe we see signs of improvement, with the first positive aggregate revenue surprise for over two years for European equities. Helped by tech, particularly in Asia, Emerging Markets has also seen the best aggregated earnings surprise in more than two years.

All in all, we believe the environment remains positive for equity markets. And while we have and will continue to examine risks around valuations, any potential AI bubble and market concentration; we pay equal attention to upside risks. As such, our base case is that the trough of the cyclical (ex-technology) downturn in equity earnings is now behind us and we have entered a new cycle for those companies. Going forward we should see a continued modest recovery in equities that did not initially benefit from the technology cycle, while those stocks that have benefited still have further room to run (albeit at a more modest pace). If this proves correct, equities should continue to see significant upside into 2026.

Figure 23. Q3 2025 Earnings Season – The best revenue surprises in over two years

	Revenue		Earnings	
	Net % of Companies Surprising Positively	Aggregated Surprise	Net % of Companies Surprising Positively	Aggregated Surprise
S&P 500	52%	2.1%	68%	6.3%
Energy	64%	5.0%	50%	6.2%
Materials	48%	0.8%	56%	5.8%
Industrials	32%	2.0%	71%	14.5%
Consumer Discretionary	51%	2.7%	47%	11.0%
Consumer Staples	29%	0.4%	84%	4.4%
Health Care	66%	2.2%	88%	12.8%
Financials	62%	2.8%	74%	8.7%
Technology	72%	1.7%	86%	6.6%
Communications	5%	1.0%	10%	-10.9%
Utilities	52%	1.4%	55%	5.2%
Real Estate	58%	2.0%	68%	4.1%

Source: Aviva Investors, Bloomberg as at 1 December 2025.

The Q3 earnings season has been a strong one across global markets and supports the idea that we are seeing the end of the downturn in traditional cyclical/manufacturing equities

Note: The companies mentioned are for illustrative purposes only, not intended to be an investment recommendation.



Fixed Income: Growth revival skews the risks towards higher yields as the year progresses

2025 was marked by divergent trends across major bond markets. In the US, yields declined materially, led by the short end of the curve. This move was driven primarily by shifting expectations for Federal Reserve policy, which weighed on long-dated yields (Figure 24), while risk premia remained more contained than we expected. The key catalysts were a downward revision of US growth forecasts following Liberation Day and signs of labour market weakness, resulting in a steeper yield curve.

In contrast, Bund yields rose across the curve, supported by anticipation of forthcoming German fiscal stimulus and stronger-than-expected Eurozone growth. With the ECB cutting rates by 100bps in the first half of the year and subsequently holding steady, the curve steepened, most notably in the 5s30s segment.

UK 10-year yields traded sideways for most of the year before trending lower in Q4, albeit with some volatility, as markets priced in a fiscally prudent Autumn Budget. Yield curves steepened here as well, driven by a repricing of BoE policy on the back of weak activity data, a softening labour market, a lower-than-expected inflation peak, and expectations of the budget's contractionary impact.

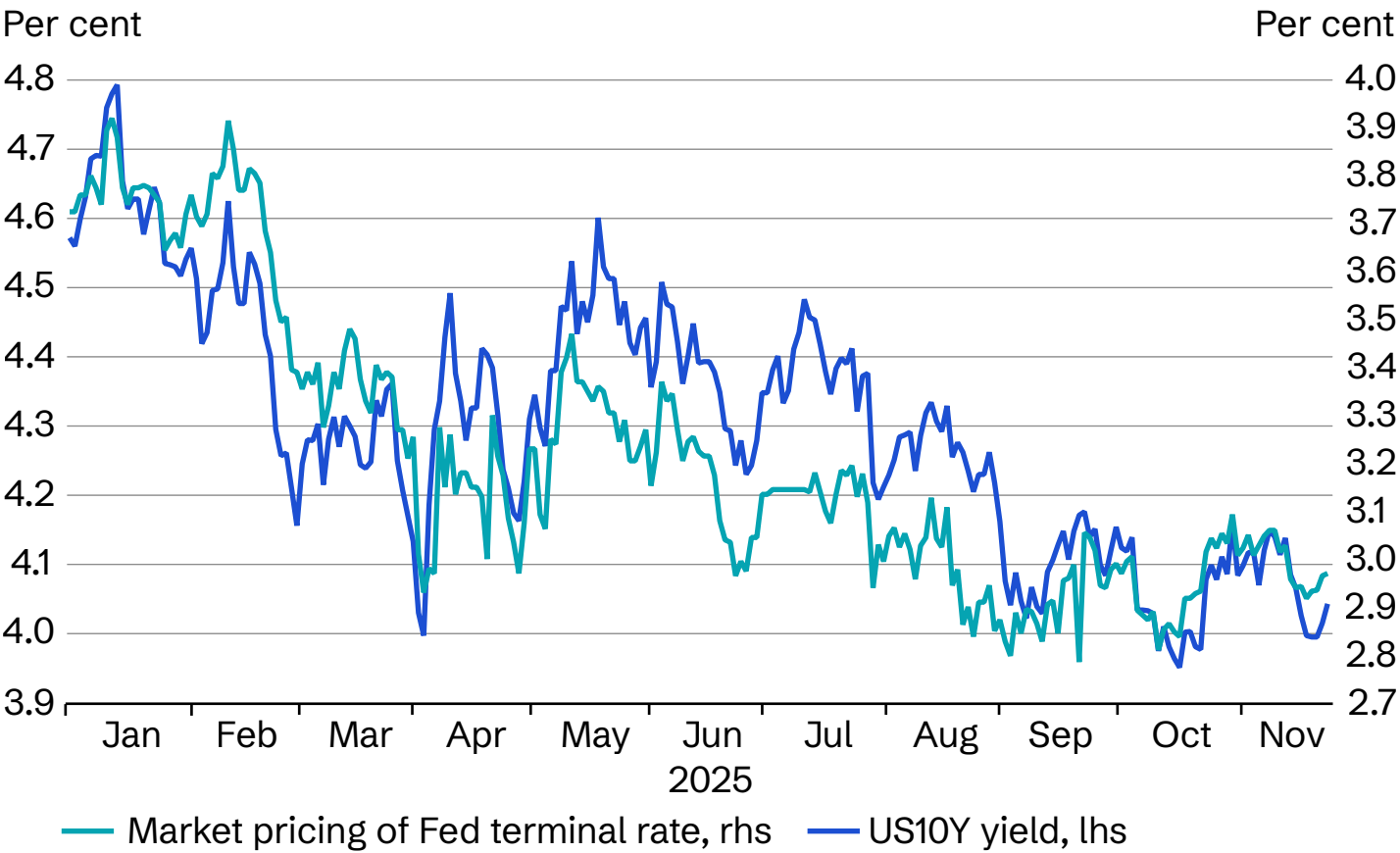
In Japan, JGB yields climbed to multi-year highs across the curve. Market-based inflation expectations firmed as price pressures were perceived to be more durable, while the appointment of Sanae Takaichi as Prime Minister reinforced expectations of looser fiscal policy and therefore more supply, which a saturated market will fund, at a price.

Looking ahead to 2026, we maintain varying conviction levels across major markets, staying neutral early on in select economies but our overarching bias is for higher yields likely as the year progresses, supported by an expected rebound in growth and looser fiscal stances.

In the US, the recent government shutdown has clouded cyclical developments due to missing data, while the Fed's hawkish pivot in October pushed terminal rate expectations higher. Around 90bps of easing is priced through end-2026, which we view as reasonable, though risks skew both ways – more cuts if labour markets weaken further, fewer if inflation proves sticky. On balance, we expect US yields to move sideways initially and drift higher as growth recovers (likely towards H2-26) and risk premia rise amid persistent fiscal deficits. The upcoming Fed chair appointment in May could inject volatility: Fed independence concerns may steepen curves via the front end, though a stronger recovery later could reintroduce flattening pressures.

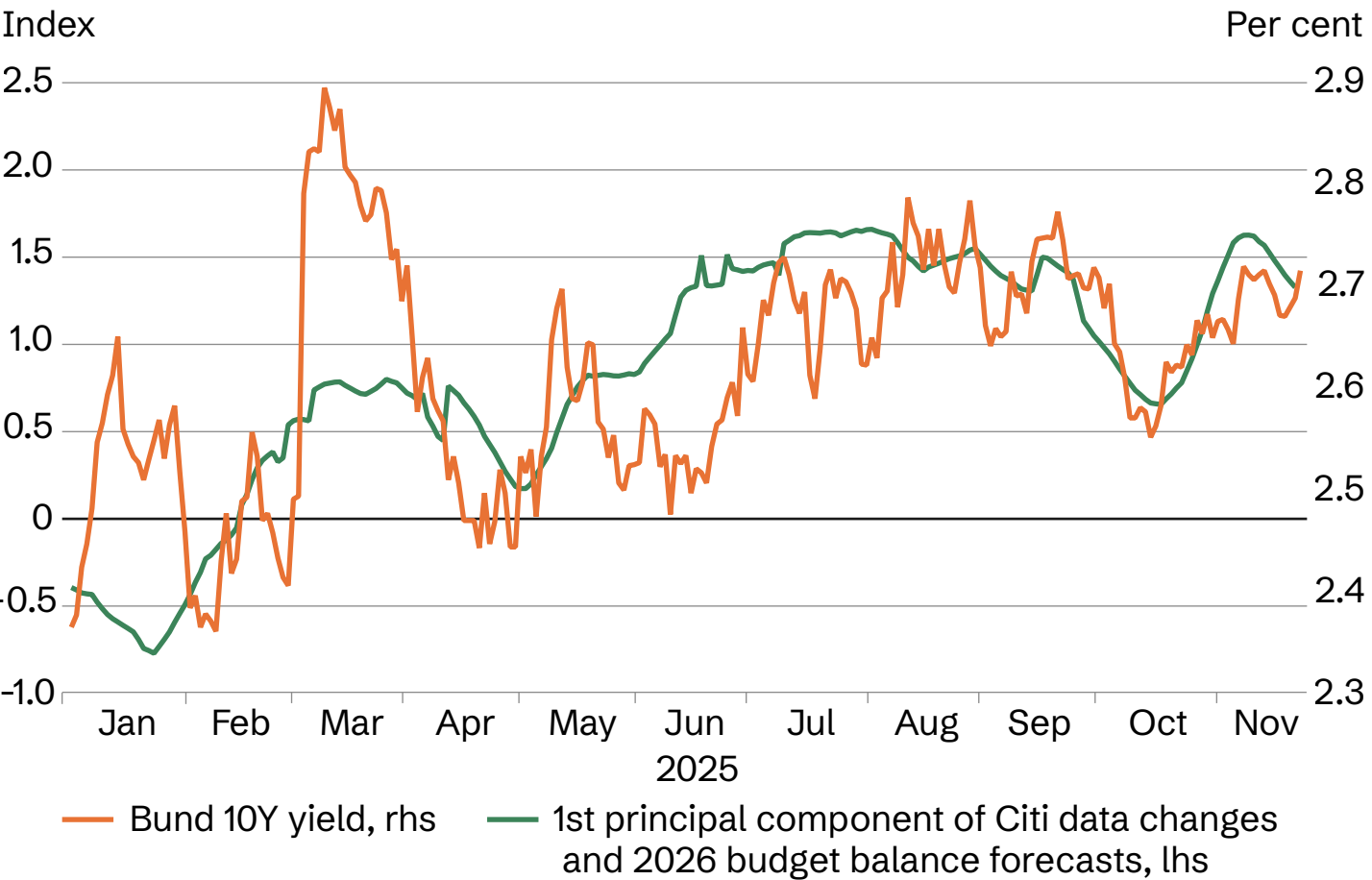
In Europe, growth has outperformed expectations, and fiscal stimulus is set to arrive next year. This backdrop should lift risk premia through heavier issuance and stronger growth assumptions, driving higher yields and steeper curves (Figure 25). We believe the ECB has finished its easing cycle and will keep rates unchanged. While energy base effects will dampen inflation early in 2026, fiscal support and resilient households could rekindle price pressures over the course of the year. Markets may start pricing a potential hike for late 2026 or early 2027, at which point flatteners could gain traction. For now, we remain biased toward higher yields and steeper curves.

Figure 24. Fed rate expectations have driven the long end in the US



Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.

Figure 25. Fiscal expectations and improved data largely explained the direction in bond yields this year



Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.



In the UK, we continue to see value in duration. Despite the recent decline, 10-year gilt yields remain overvalued and still embed risk premia that we expect to be priced out following the Autumn Budget. Sluggish growth should further support lower yields. However, we hold limited conviction on curve direction: declines in long-dated yields could be offset by moves at the front end, as we see a risk that the BoE delivers more rate cuts than currently priced.

In Japan, the anticipated curve flattening has yet to materialise. Persistent political influence over the BoJ remains a key obstacle to monetary policy normalisation despite elevated inflation. We expect the BoJ will decide to hike in 2026 at least once, also due to looser fiscal policy, which should push short-end yields higher and mark the start of curve flattening, but possibly only out to 3-5 years. That said, uncertainty around this path remains significant, given the determination of the new government to spend aggressively and put political pressure on the central bank.

Emerging market hard currency spreads are tight, in general, but do not face huge financing needs and fiscal deficits are generally stable. For local currencies, the broad dollar should set the tone but higher-carry currencies can continue to outperform and bond yields have some limited room to come down in many cases (Brazil, Mexico, South Africa for example) as central banks deliver on mostly-expected easing. However, as past easing shows up in activity, and fiscal levers are pushed harder, we should expect some reflation and rise in term premia, and perhaps a handful of rate hiking cycles to begin.

Finally, political risks will rise ahead of elections but may help bonds and currencies as some heterodox and populist leaders lose power – though some markets (Colombia, Hungary, Brazil) already indicate optimism.

In credit, US high grade spreads are closing the year close to where they began, after a rollercoaster in H1. US IG spreads are around 85bp over Treasuries, and 125bp over swaps, while European IG has outperformed and tightened aggressively to just 70bp over swaps. These are all tight, historically, and inflows and all-in yields show IG remains attractive to many allocators. We are concerned about large issuance from the AI capex buildout, along with lease agreements, off-balance sheet vehicles, and other contingent liabilities. This supply will have some impact even on a large, \$10 trillion asset class, even as other sectors remain more disciplined, and we expect spreads to widen.

Both European and US HY spreads are around 300bp, and have produced strong gains as default rates have been low. Spreads are expected to stay range-bound, with carry producing steady excess returns, as long as we remain ‘late cycle’.

Our bias for higher yields over the course of the year – excluding certain markets such as the UK – reflects our expectation of stronger growth prospects and supportive fiscal dynamics. The most significant downside risk is a material shortfall in growth relative to our baseline projections. Such an outcome could arise from several sources: a deterioration in labour market conditions that undermines household consumption; a failure to deliver anticipated fiscal spending measures, either due to political constraints or implementation delays; unexpected policy shifts; or exogenous shocks, including geopolitical tensions. Each of these factors would challenge our assumption of growth resilience and could lead to a reassessment of our yield outlook.

Looking ahead into 2026, we maintain varying conviction levels across major markets, staying neutral early on in select economies, but our overarching bias is for higher yields likely as the year progresses



Currencies: Still some dollar weakness but US growth rebounding later in 2026 could provide fresh support

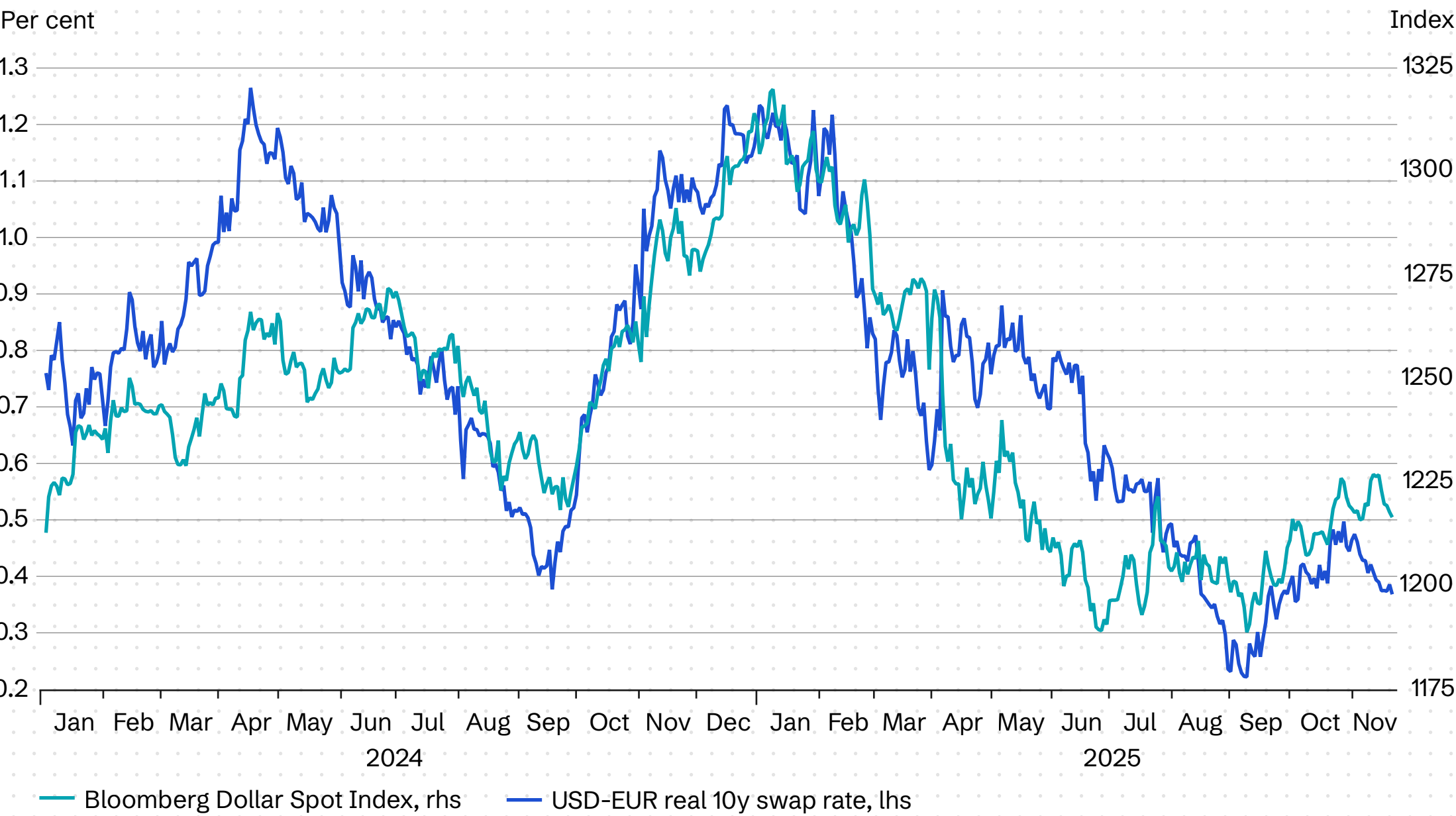
The dollar weakened in 2025, with the trade-weighted (TW) index down about 7 per cent year-to-date. Most of this depreciation occurred in the first half of the year, while Q4 saw the dollar regain some ground. Among G10 currencies, EUR, NOK, SEK, and CHF were the main beneficiaries. GBP lagged, largely due to recent weakness driven by poor UK data, which reinforced expectations of further BoE easing. NZD and JPY also underperformed – the former due to aggressive monetary policy easing, and the latter amid the BoJ’s reluctance to tighten sufficiently and concerns over the new government’s influence on future rate decisions.

As highlighted in our previous House View publications, the dollar’s decline reflects both structural and cyclical factors. Structurally, rising term premia – linked to a wide US deficit and political uncertainty – were exacerbated by perceived erosion of institutional independence, notably at the Fed. Cyclically, the slowdown in the US economy, driven by tariff-related headwinds, a weakening labour market, and Fed rate cuts, weighed on the currency. Unsurprisingly, USD moves closely tracked US real rates (Figure 26).

Looking ahead to 2026, we expect structural factors to remain relevant, particularly in the first half of the year with the appointment of a new Fed Chair. However, cyclical dynamics may be shifting. While we still lack important data releases, the Fed’s hawkish pivot in October was significant, prompting a material upward repricing of the rate path. High-frequency indicators such as the PMIs, though not booming, suggest the economy is holding up reasonably well.

On balance, we anticipate modest dollar weakness in H1-20, driven by renewed concerns over Fed independence. However, a likely rebound in US growth later in the year should provide some fresh support for the USD.

Figure 26. Dollar has largely followed developments in real rates



Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.

The dollar’s decline reflects both structural and cyclical factors



We expect the EUR to remain supported within the 1.14–1.18 range, driven by resilient Eurozone growth and favourable rate differentials (Figure 27), particularly in the early part of the year. Procyclical currencies such as NOK, SEK, and AUD should perform well as global growth expectations improve. In contrast, GBP is likely to underperform, weighed down by subdued domestic growth dynamics and the risk of further BoE easing.

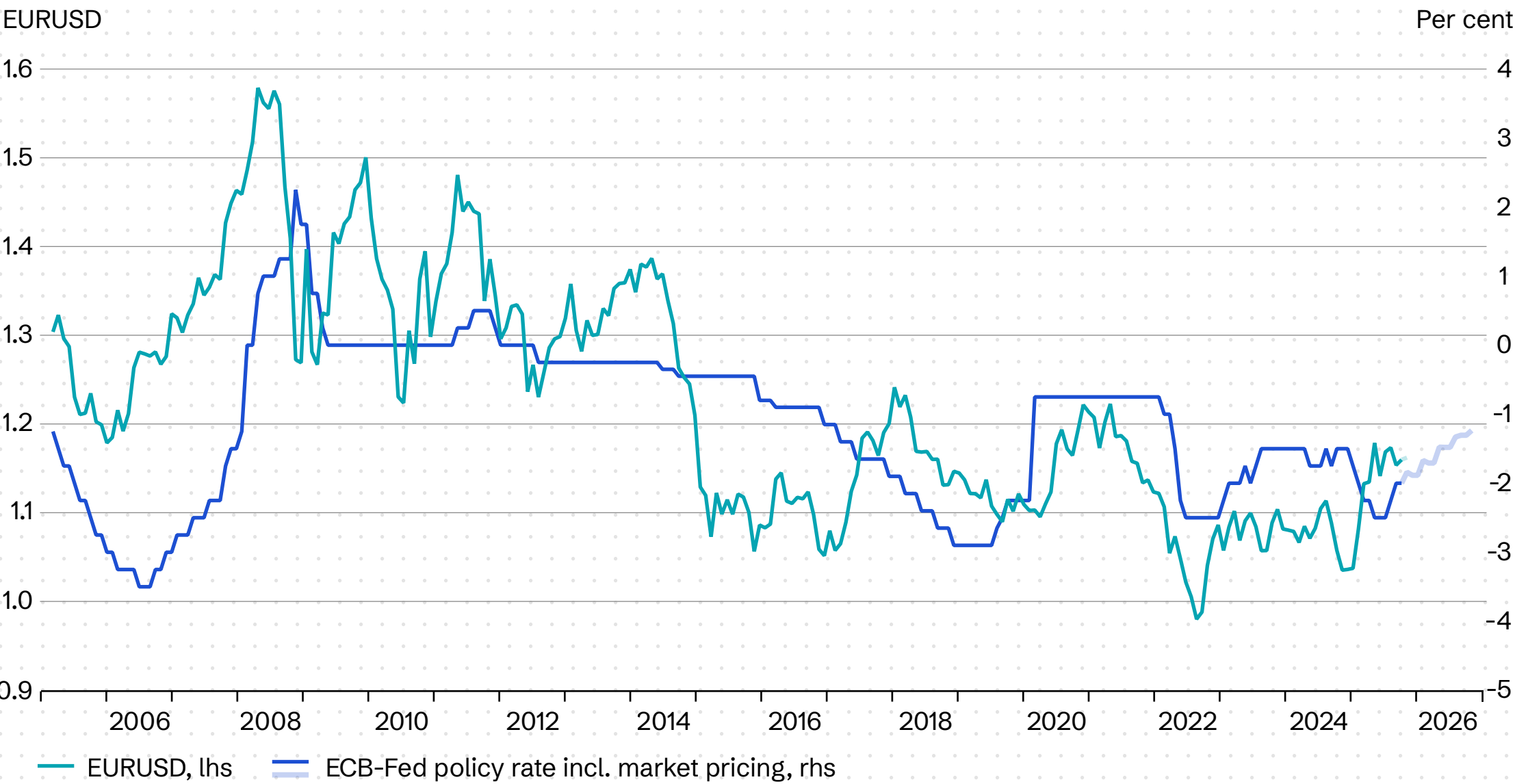
We hold no strong conviction on JPY, given persistent uncertainty around the BoJ’s hiking cycle. Meanwhile, in an environment where the Fed cuts rates and global growth regains traction, EM FX should remain broadly supported, with high-yielders such as BRL and MXN standing out as likely beneficiaries. Moreover, a swift increase in demand for commodities on the back of the upward trajectory for AI-capex, should provide a favourable backdrop for commodity-exporters such as CLP, PEN (as well as AUD in G10).

That said, later in 2026 markets may begin to price in the possibility of Fed rate hikes, which could restore dollar strength.

Our currency outlook assumes a revival in US and global growth. The key risk to this view is a scenario where RoW growth disappoints relative to the US, reigniting the “US exceptionalism” trade and supporting the dollar earlier than anticipated.

We anticipate modest USD weakness in H1-26, driven by concerns over Fed independence. However, a rebound in US growth later in the year should provide fresh support, and markets may begin to price in possible Fed hikes

Figure 27. Monetary policy pricing still suggest some EUR upside



Source: Aviva Investors, Bloomberg, Macrobond as at 1 December 2025.



Private Markets: positioned for growth with cyclical and structural tailwinds

Private markets remain well positioned to navigate the macroeconomic environment. The breadth of the asset class, including sub-asset classes where we specialise: private debt, real estate and infrastructure, offers investors exposure to diverse sources of return and differentiated risk & return characteristics.

The long-term nature of private market investments is a defining feature. These strategies are designed to capture long term structural themes, making them particularly relevant in a world where megatrends, including technology adoption and energy transition, are reshaping economies and capital flows.

Private Markets fundraising is picking up momentum, with private markets AUM forecast to exceed US\$ 30 trillion by 2030

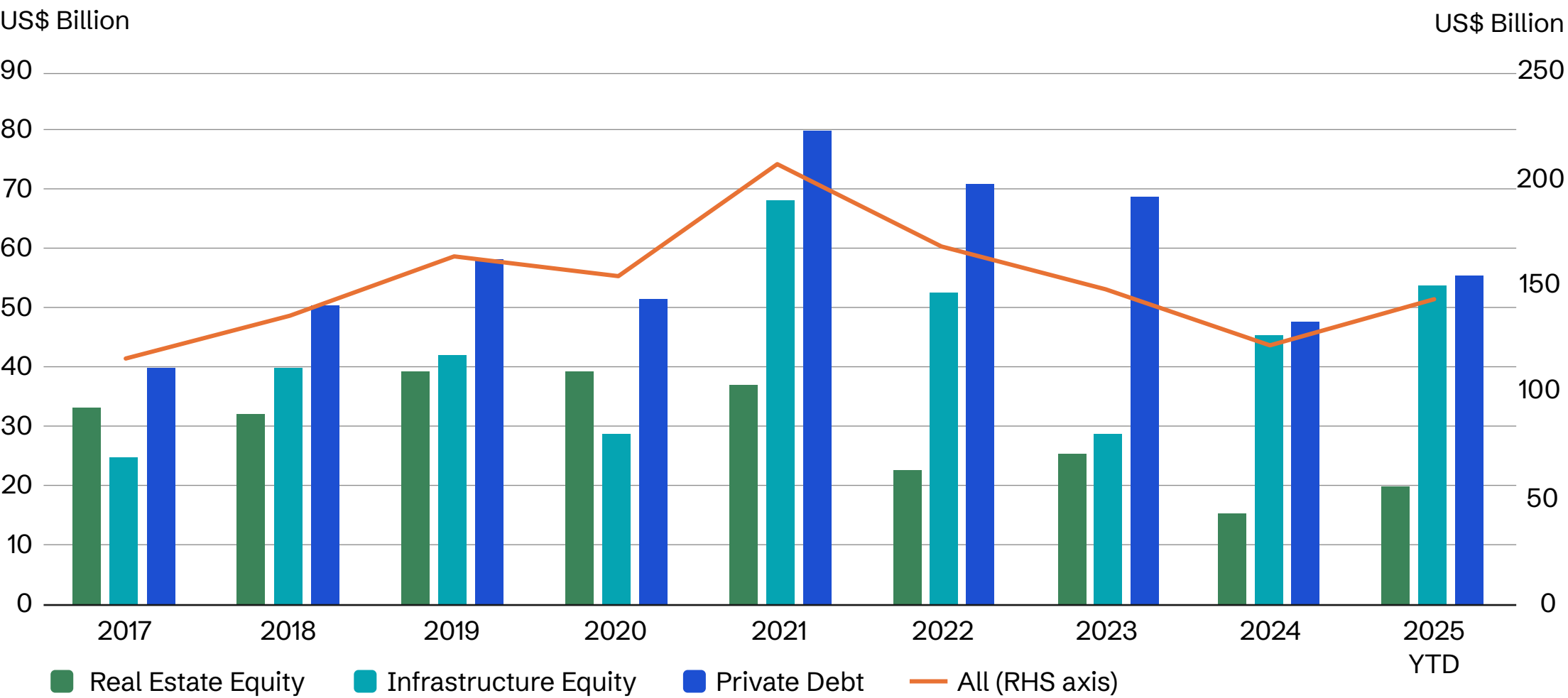
After three consecutive years of contraction, private markets fundraising has staged a noteworthy recovery in 2025, ([Figure 28](#)). In Europe, year-to-date volumes across real estate equity, infrastructure equity and private debt already exceed full year volumes for 2024. We expect this to feed through to dry powder, committed but unallocated capital, in 2026 driving momentum in investment volumes.

Growth in the asset class is expected to continue, with Preqin forecasting private markets AUM to grow by 9.4 per cent annually, surpassing US\$30 trillion globally by 2030. Private debt and infrastructure are expected to lead this expansion, supported by structural demand for non-bank lending and investment aligned with long term megatrends, in particular energy transition and security.

In private debt the illiquidity premium remains a key source of relative value

Private debt has remained in the spotlight in 2025. In Europe, fundraising for private debt funds outpace both real estate and infrastructure equity, although the gap to infrastructure has reduced significantly ([Figure 28](#)).

Figure 28. European closed ended funds fundraising picks up pace in 2025



Note: Private debt includes direct lending, mezzanine, real estate debt and infrastructure debt.
Source: Aviva Investors, Preqin as at 10 October 2025.

Relative value for the asset class remains compelling, with the higher for longer rate environment supporting all-in yields and attractive risk-return profiles, offering stability and downside protection. Select segments call for careful attention of evolving risks as set out in ([Risk #3](#)), but we remain constructive of the outlook and expect continued growth in the asset class.

As discussed in the House View last quarter, a key metric for assessing relative value in private debt for assessing relative value is the illiquidity premium (ILP), the excess spread private debt offers over comparable public debt of similar credit quality.

Public credit spreads tightened following “Liberation Day” and subsequent tariff-related volatility, compressing risk premia across public markets. Private debt pricing also tightened year-to-date, but at a more measured pace. As a result, the ILP remains above its long-term average, reinforcing the attractiveness of investment-grade private debt.

In Q3 2025, the trailing four-quarter ILP improved to 92 basis points, up from 74bps in the prior period. This resilience underscores the structural appeal of private credit, particularly in investment-grade segments where spreads remain healthy relative to history. While competition has increased in certain sectors, disciplined underwriting and sector selection remain critical.



Real Assets supported by both structural and cyclical tailwinds

Private markets are uniquely positioned to harness the transformative impact of long-term megatrends, forces that shape economies and societies over decades. Their extended investment horizons enable them to capture these dynamics. At Aviva Investors, our research team have identified five mega-TRENDS: technological advances, resilience to climate change, the energy transition, the emergence of a new global order, and demographic shifts. These themes underpin structural changes that create compelling opportunities for investors seeking growth and diversification. For example, in real estate equity the living sector remains one of our top sector calls driven by housing undersupply and strong alignment to demographic shifts. In Infrastructure, 35 per cent of European investment volumes in the first half of 2025 were in renewables, with strong alignment to energy transition and energy security in a new global order.

Private Markets Mega-TRENDS

T

R

E

N

D

Technology

Resilience to climate

Energy transition

New global order

Demographics

Government fiscal support is increasingly aligned with these mega-TRENDS, particularly through packages targeting energy transition, defence, and infrastructure across the UK and Europe. In the UK alone, at least £725 billion is earmarked for economic and social infrastructure over the next decade, with commitments to maintain public infrastructure capital funding in line with inflation.

The outlook for real assets in 2026 is underpinned by a unique combination of structural tailwinds from mega trends and fiscal support, alongside cyclical tailwinds following the repricing to a higher for longer rate environment.

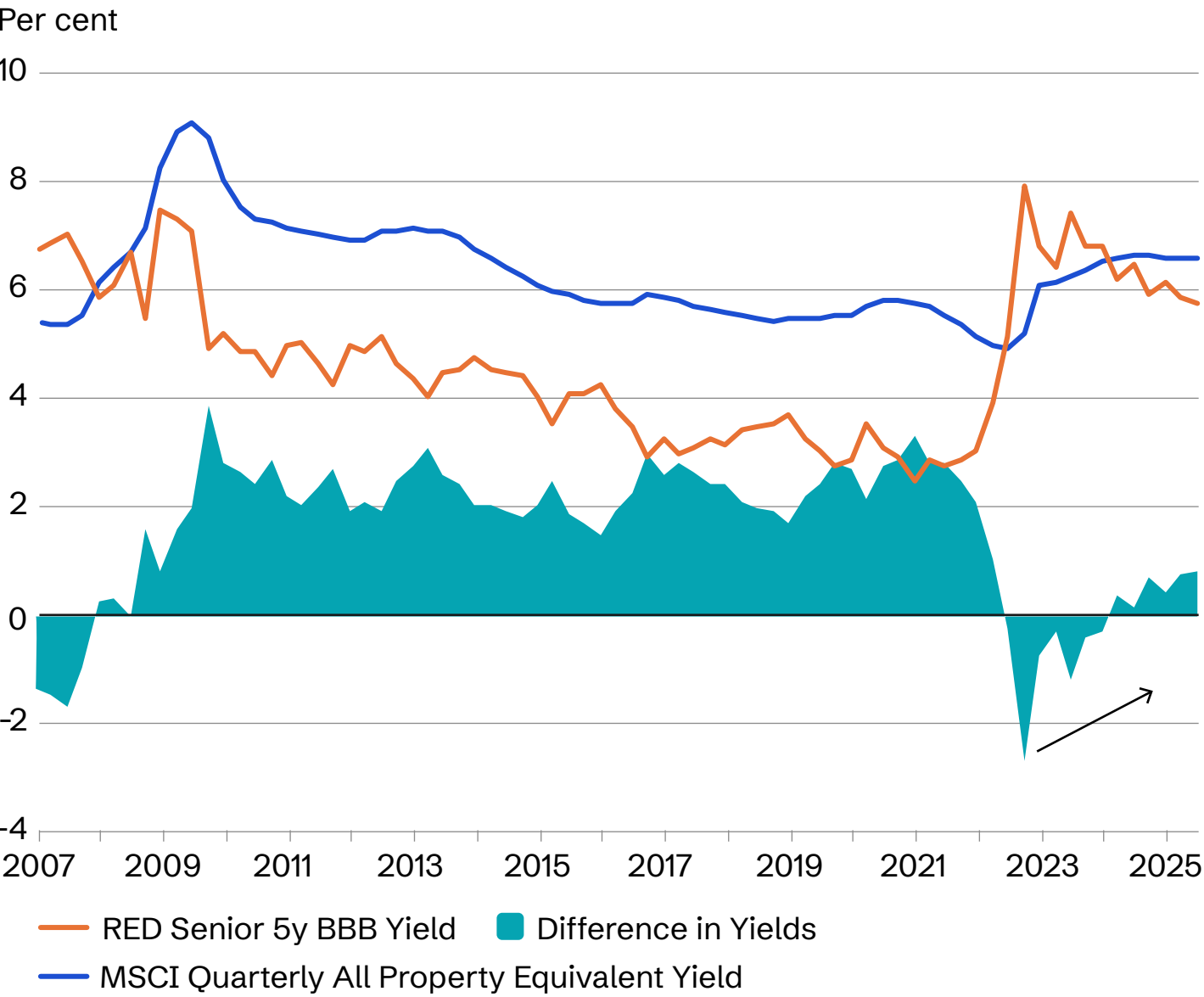
Leverage in Real Estate transitioned from headwind to tailwind

One of the most notable shifts in 2025 has been the re-emergence of leverage as an accretive tool in real estate strategies. During the hiking cycle, debt costs exceeded property yields, (Figure 29), resulting in leverage being uneconomic. This dynamic has now reversed across a number of markets and sectors. Reducing interest rates, tighter credit spreads and stabilised property yields have restored the positive impact of debt financing.

This inflection is significant. As the cost of finance declines and equity yields remain stable post-repricing, we expect a resurgence in transaction activity in 2026. For Real Estate Debt deal volumes are expected to return, while in Real Estate Equity leverage represents an opportunity to enhance returns, provided structures remain conservative and aligned with long-term fundamentals.

When looking ahead to 2026 in private markets, the daylight between risk adjusted returns across debt and equity risk is narrowing. Supported by the interplay of stabilising valuations, supportive fiscal policy and structural megatrends we anticipate this sets the stage for renewed growth in 2026.

Figure 29. Real Estate Debt Vs Real Estate Equity, UK

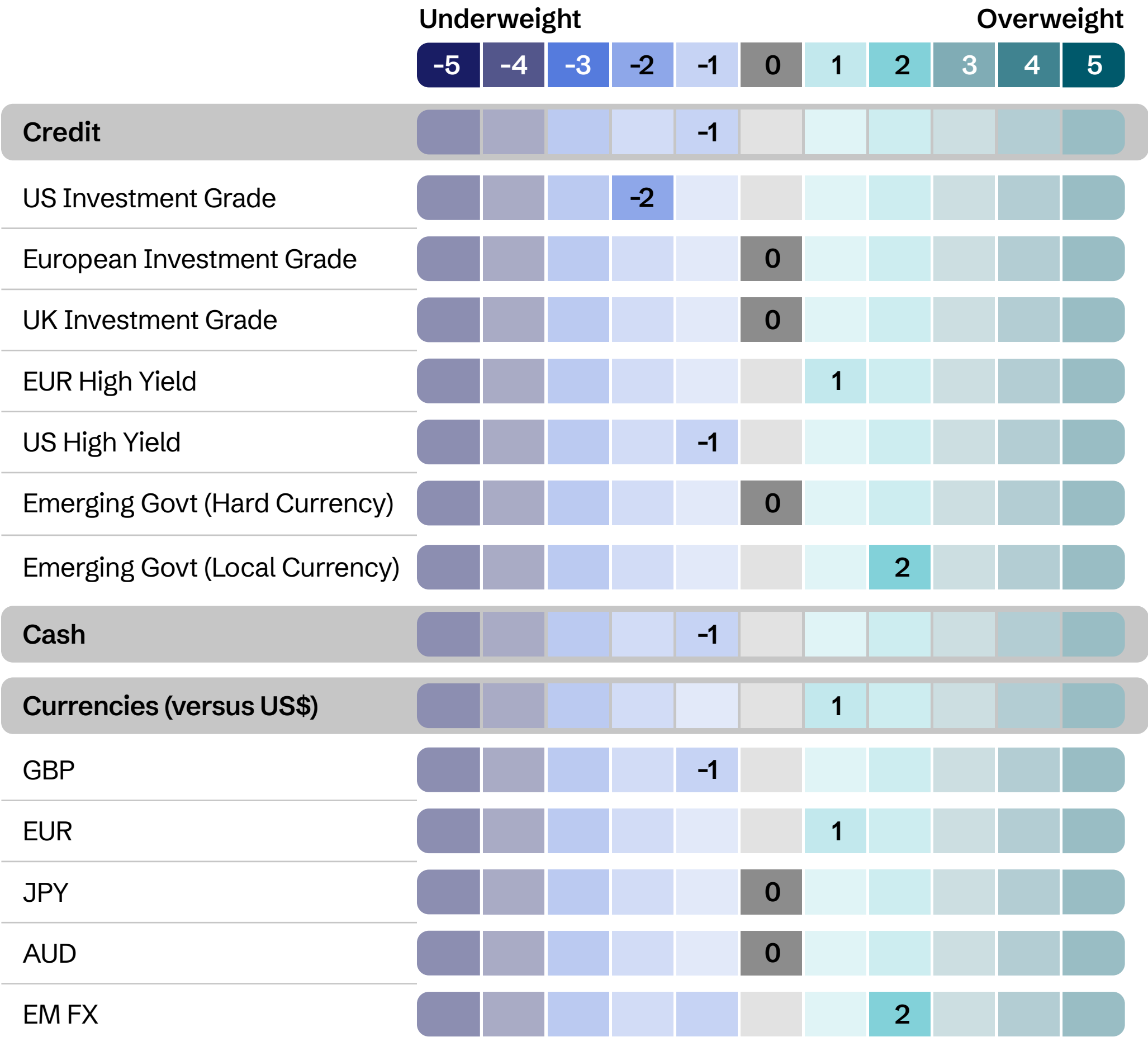
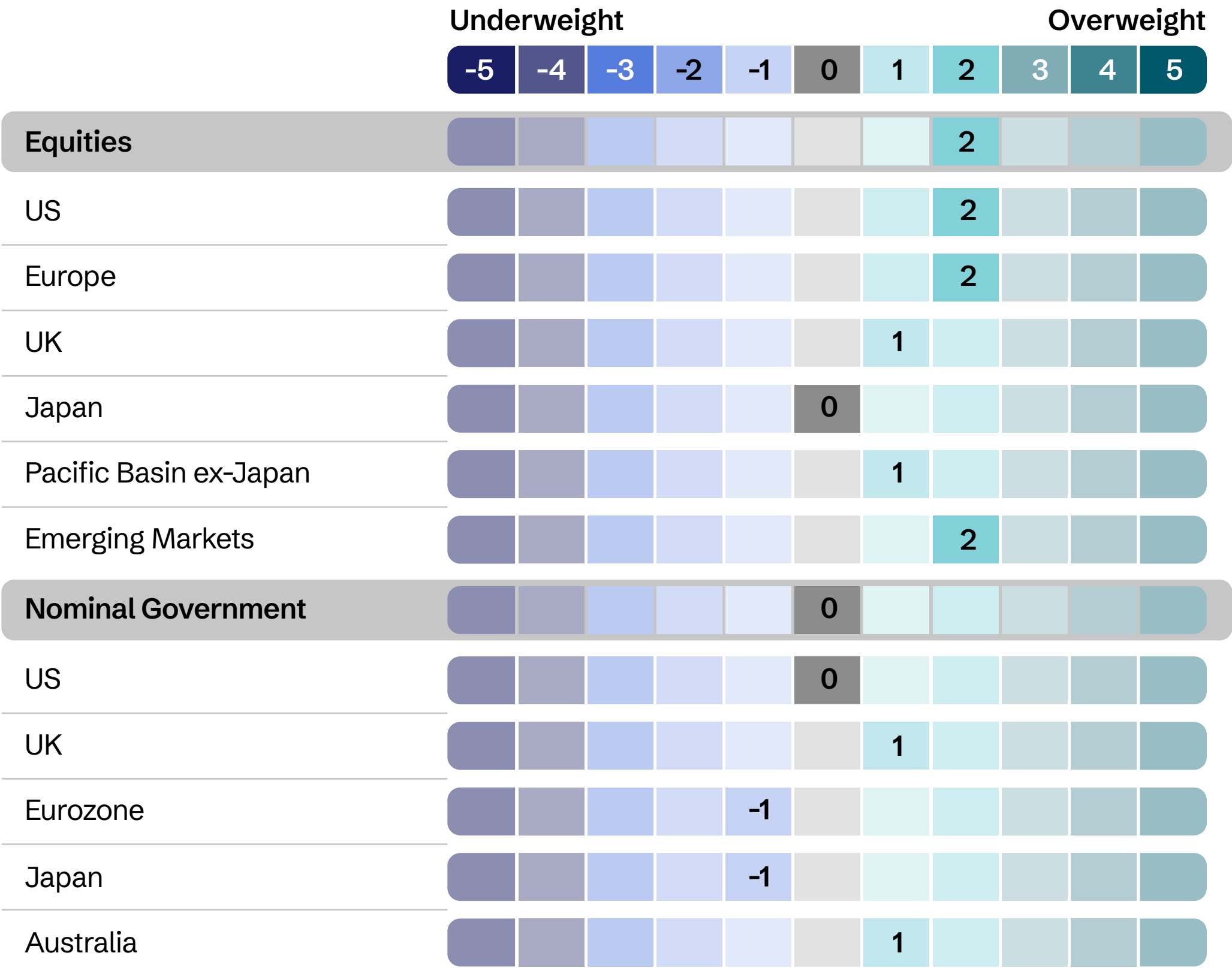


Source: Aviva Investors, Bloomberg, MSCI as at 1 December 2025.

The outlook for Real Assets in 2026 is underpinned by a unique combination of structural and cyclical tailwinds



Figure 30. Asset allocation



Note: The weights in the Asset allocation table only apply to a model portfolio without mandate constraints. Our House View asset allocation provides a comprehensive and forward-looking framework for discussion among the investment teams. For illustrative purposes only.

Source: Aviva Investors as at 1 December 2025.



Webcast

House View 2026 Outlook

13 January 2026 | 15:00 GMT | 45 MINS

Register now for our House View Q1 2026 webcast hosted by Nicole Lowe (Investment Director), who will be joined by David Nowakowski (Senior Strategist), Sunil Krishnan (Head of Multi-Asset Funds), and Allice Mullan (Director, Private Markets), as they delve into the big macro themes, opportunities and risks impacting asset allocations.



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