

Monthly Newsletter

*December
& January*

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Monthly Highlights

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Escalation in US-Venezuela Tensions Raises Geopolitical and Energy Market Risks

In December 2025, tensions between the United States and Venezuela intensified following a series of political, legal, and economic actions that renewed geopolitical uncertainty in Latin America. The US government expanded sanctions targeting Venezuelan oil exports and financial institutions, citing democratic backsliding, human rights violations, and alleged links between senior Venezuelan officials and transnational criminal networks. These measures followed earlier indictments against members of the Venezuelan leadership and increased diplomatic pressure from Washington.

The escalation came at a sensitive moment for global energy markets. Venezuela holds the world's largest proven oil reserves, and any disruption to its production or exports carries implications for global supply balances. Although Venezuelan output remains constrained by years of underinvestment and sanctions, the renewed tensions raised concerns over potential further restrictions on crude flows, especially to Asia. As a result, oil prices briefly firmed, reflecting a rise in geopolitical risk premiums.

From a political perspective, the situation reinforced divisions between global powers. While the US and several Western allies supported stronger pressure on Caracas, countries such as China and Russia criticized unilateral sanctions and reaffirmed their economic and diplomatic ties with Venezuela. This added to broader concerns about geopolitical fragmentation and the increasing use of economic tools as instruments of foreign policy.

Financial markets reacted cautiously. Emerging market assets linked to Latin America experienced increased volatility, while energy equities showed mixed performance as investors weighed higher prices against geopolitical risk. Safe-haven assets, including U.S. Treasuries and gold, experienced modest inflows during periods of heightened uncertainty. Overall, the episode highlighted how geopolitical tensions, even without direct military conflict, can influence global markets through energy prices, risk sentiment, and capital flows.

Netflix Strengthens Revenue Model Amid Streaming Industry Shift

In December 2025, Netflix remained in focus as investors assessed its evolving business model. The company continued to expand its advertising-supported tier and explored live content offerings, aiming to diversify its revenue streams amid slowing subscriber growth in mature markets. While competition in the streaming sector remains intense, Netflix's global content pipeline and pricing strategy supported steady cash flow expectations. Market attention centered on margins, advertising growth, and long-term profitability as the industry adjusts to a more disciplined growth environment.

Federal Reserve Signals Cautious Policy Path for 2026

At its December meeting, the US Federal Reserve held interest rates steady while signaling a cautious approach toward policy easing in 2026. Officials acknowledged moderating inflation but emphasized uncertainty around labor markets and global growth. Markets interpreted the communication as mildly dovish, leading to lower Treasury yields and support for equities. The guidance influenced global rate expectations and reinforced sensitivity to upcoming inflation and employment data.

OPEC+ Maintains Discipline as Demand Outlook Softens

OPEC Plus reaffirmed its commitment to voluntary production cuts through early 2026, aiming to stabilize oil prices amid mixed global demand signals. While consumption remained resilient in some regions, weaker industrial activity in Europe and China weighed on the outlook. Energy markets reacted with moderate price stability, while inflation expectations remained contained. The decision underscored OPEC Plus's continued role in managing supply amid uncertain global growth conditions.

Global Markets Rally as Inflation Cools and Rate Cut Expectations Strengthen

In mid January 2026, global financial markets staged a broad based rally following the release of US inflation data that showed a faster than expected slowdown in price pressures. Both headline and core inflation measures surprised to the downside, reinforcing the view that the disinflation process was gaining momentum. The data strengthened investor confidence that the Federal Reserve could begin easing monetary policy later in the year, provided inflation continues to move toward target.

Equity markets responded positively across regions. US stock indices advanced as rate sensitive sectors, particularly technology and consumer discretionary, led gains. European equities followed, supported by improved global risk sentiment and easing concerns over restrictive financial conditions. Asian markets also posted gains, with emerging market equities benefiting from expectations of lower global interest rates and improved capital flows. The rally reflected a synchronized shift toward risk assets as investors reassessed growth and policy outlooks.

In fixed income markets, US Treasury yields declined across the curve, with the largest moves seen in shorter maturities that are most sensitive to policy expectations. The decline in yields supported equity valuations and reduced pressure on highly leveraged sectors. The US dollar weakened modestly against major currencies, providing additional support to emerging market assets and commodity prices. Gold prices rose as investors balanced improved risk sentiment with continued hedging against macroeconomic uncertainty.

The rally also highlighted a broader shift in market positioning. Investors who had remained defensive amid persistent inflation risks began to reenter equity markets, while volatility indicators declined from recent highs. However, market participants remained cautious, emphasizing that future gains would depend on confirmation from upcoming labor market and growth data.

Overall, the January rally underscored how sensitive global markets remain to inflation dynamics and central bank expectations. While the data provided relief, investors continue to monitor economic indicators closely to assess whether easing financial conditions can be sustained without reigniting inflation pressures.

Central Banks Reinforce Data Dependent Stance Amid Slowing Global Growth

By late January 2026, major central banks including the Federal Reserve and the European Central Bank reinforced a cautious, data dependent approach to monetary policy. Policymakers acknowledged easing inflation trends but highlighted risks from slowing growth and geopolitical uncertainty. Financial markets reacted with mixed performance, as equities stabilized while bond yields moved within narrow ranges. The messaging emphasized that policy decisions would remain sensitive to incoming economic data.

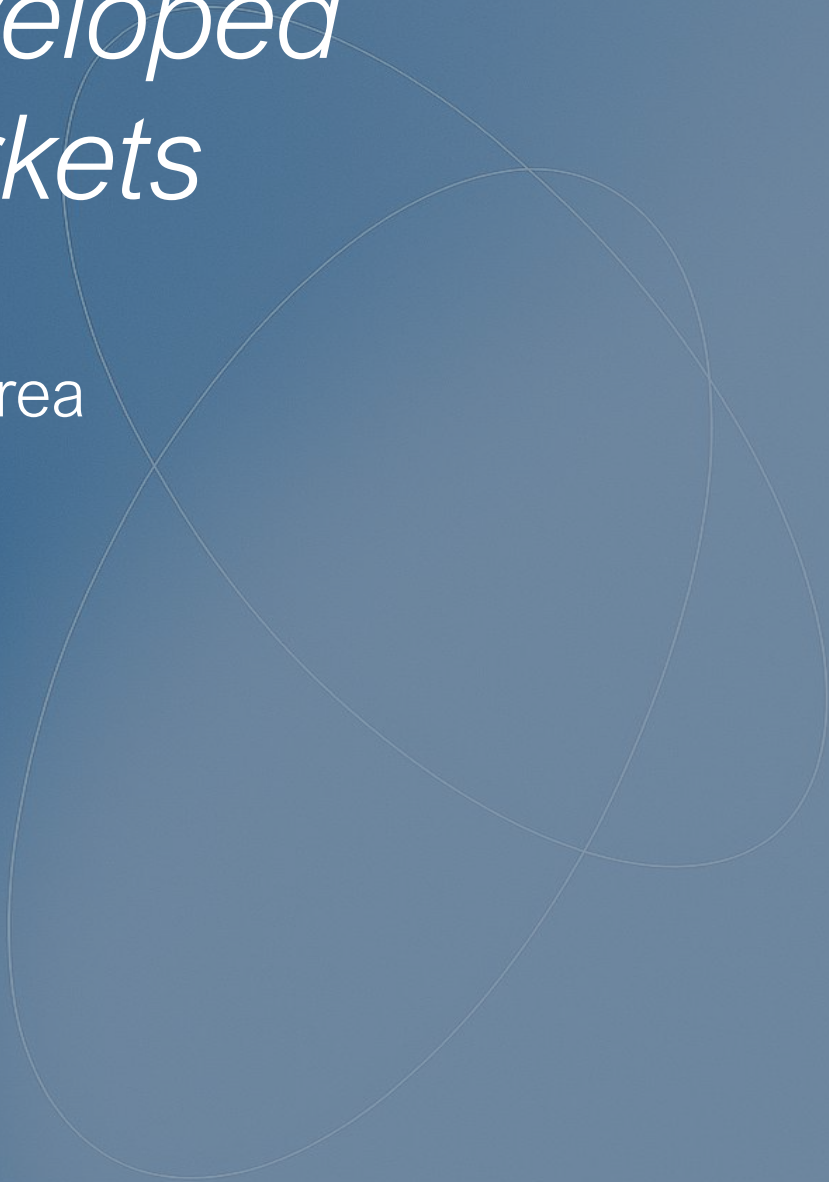
Developed Markets

U.S.

Euro Area

U.K

Japan



U.S.

December was a month marked by diverse surprises in the economic scope for the US. Despite growing fears of an AI bubble in capital markets, economic activity has defied expectations as American Exceptionalism shows its worth. Economic growth and interest rates decision are the data driving the euphoria for now.

Real GDP growth for Q3 came in stronger than expected, with the BEA's updated estimate showing growth of 4.4% (SAAR), above the 3.8% recorded in Q2. The main driver of this extraordinary result was consumer spending, which rose 3.5%, led by both goods (3.0%) and services (3.6%); and exports, which rebounded to 9.6% from -1.8% in Q2. At the same time, imports decreased at a 4.4% rate, following the sharp -29.3% drop seen in Q2, reinforcing the net-trade tailwind to headline growth.

Meanwhile, fixed investment grew at a much slower pace than in the previous quarter, rising 0.8% (vs. 4.4%). The composition remained uneven: equipment increased 5.2% and intellectual property products rose 5.6%, but this was outweighed by contraction in structures (-5.0%) and continued weakness in residential investment (-7.1%). Government spending also contributed, ticking up 2.2% after contracting -0.1% in Q2.

Payroll Data Concerns and Unemployment

On the other hand, employment is setting some worries over the market, as the Fed has repeatedly framed labor-market conditions as a pivotal input for policy calibration. Payrolls remained soft: November (as revised) added 56,000 jobs and December added 50,000, both consistent with a cooling hiring impulse. The unemployment rate rose to 4.6% in November and eased back to 4.4% in December, while the number of unemployed stood at 7.8 million in November and 7.5 million in December.

Despite that, the increase in unemployment still appears concentrated in more rate-sensitive / lower-tenure segments, with teenage unemployment at 15.7% in December, while adult men and women were both 3.9%. The establishment survey also does not yet suggest broad-based deterioration: in December, job gains were concentrated in food services and drinking places (+27,000), health care (+21,000), and social assistance (+17,000), while retail trade lost 25,000 jobs; most other major industries showed little to no change.

Inflation Update: CPI Steady, PPI Re-Accelerates on Services

Moving on to inflation, the CPI for the 12 months prior to November stood at 2.7%, with core (all items less food and energy) at 2.6%. Energy was the component with the highest annual increase, at 4.2%, driven by energy services (+7.4%), including electricity (+6.9%), utility gas service (+9.1%), and fuel oil (+11.3%). Food inflation was supported by food away from home (+3.7%), while the remaining components continued to run in a materially lower band. December data (released in mid-January) showed food +3.1%, energy +2.3% (with energy services +7.7% and energy commodities -3.0%), and core steady at 2.6%; within core, commodities less food and energy +1.4%, while services less energy services +3.0%.

Meanwhile, producer prices re-accelerated into year-end. The PPI for final demand increased 0.5% in December, following +0.2% in November. The December pickup was led by final demand services (+0.7%), with a meaningful contribution from trade services margins (+1.7%); transportation and warehousing services rose 0.5%, while services less trade, transportation, and warehousing increased 0.3%. Final demand goods were unchanged in December, after rising 0.8% in November; in December, goods less foods and energy (+0.4%) offset declines in final demand energy (-1.4%) and final demand foods (-0.3%).

Real Earnings and Activity

Real earnings growth remained modest but positive on a year-on-year basis. From November 2024 to November 2025, real average hourly earnings increased 0.8%, reflecting +3.5% nominal average hourly earnings against +2.7% CPI. In December, real average hourly earnings for all employees were unchanged from November to December (as +0.3% nominal hourly earnings was matched by +0.3% CPI), while real average weekly earnings fell 0.3% due to a shorter workweek. On a 12-month basis, real average hourly earnings increased 1.1% from December 2024 to December 2025, while nominal average hourly earnings increased 3.8%.

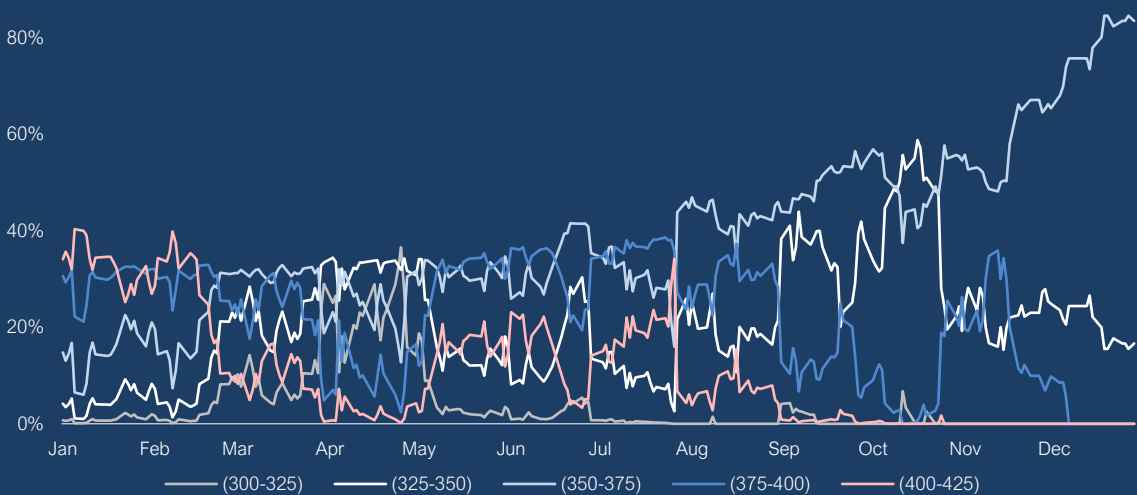
services sales for October remained virtually unchanged from October 2024, ticking down 0.1%, while representing a 3.4% growth MoM; despite that, there was a growth of 0.6% MoM in November, catching up from the previous month. Business surveys also point to slower—but still positive—momentum. December’s manufacturing PMI remained in expansion territory but eased to 51.8 from 52.2, undershooting consensus expectations and marking the weakest reading in several months. The message is not contraction, but a softer rate of improvement as firms continue to reprice inputs, reconfigure supply chains, and absorb policy uncertainty into capex and hiring decisions.

Interest Rates

Changing to interest rates, the Fed held the target range at 3.50%–3.75% at the January 28 meeting, aligning with market pricing into the decision and reinforcing the idea of a near-term pause. With activity surprising to the upside but labor-market momentum visibly cooler, the policy debate is increasingly about timing and confidence rather than direction, with investors looking for clearer confirmation from inflation (core services) and employment breadth before repricing the next move.

In parallel, the policy outlook is now inseparable from governance risk: on January 30, President Donald Trump nominated former Fed Governor Kevin Warsh to succeed Jerome Powell when Powell’s term as chair ends in May. The nomination has already revived market concerns around the Federal Reserve’s perceived independence and the risk that policy could be pressured toward faster easing, even if inflation dynamics remain sticky; the next key variable is the Senate confirmation path and the tone Warsh adopts between nomination and May’s leadership transition.

Figure 1
Target Fed Rate Probabilities



Source: CME Group

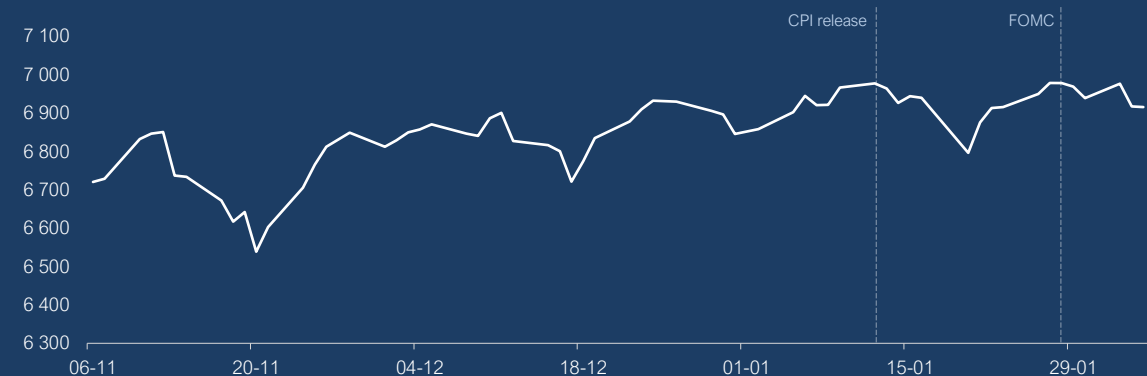
International Ops Raise Caution

Looking at the international picture, January was dominated by a sharp escalation in U.S.–Venezuela policy: U.S. forces conducted an operation in Caracas that resulted in the capture of President Nicolás Maduro, after months of rising pressure and sanctions linked to alleged narcotics trafficking and illicit financing networks. Maduro was transferred to the United States to face longstanding federal charges, shifting Venezuela’s political trajectory back to the center of the 2026 energy and geopolitics debate given the country’s scale in heavy crude and its relevance to broader Western Hemisphere supply optionality.

Besides Venezuela, pressure on Greenland has also intensified, with President Trump sustaining public demands that the territory align more directly with U.S. strategic control in the Arctic, while Denmark and Greenland’s government have rejected the premise and NATO allies have worked to contain the spillover into alliance cohesion. Even without an explicit military path, the episode has kept tariffs and broader transatlantic bargaining risk in focus, particularly as Arctic security and critical-resource supply chains become more salient in 2026.

Along with all this, 2025 ended with an extraordinary result for US stocks, with the S&P 500 returning 16.4% and the tech focused Nasdaq Composite 21.5%. Communication services and tech were the main winners for the third consecutive year. Despite the results, returns have been diminished as pressure rises on tech companies in the last 3 months, with increasing worries about a potential AI bubble.

Figure 2
S&P 500 Index



Source: Bloomberg

Market Performance, and Fed Governance Risk

Markets carried December’s risk-on tone into January, with risk assets holding near-record levels even as leadership remained concentrated: the S&P 500 ended 2025 up 16.4%, and in January 2026 the index rose by roughly ~1.4% (with an MTD gain of ~1.37% as of Jan 30), before volatility picked up again into early February amid renewed scrutiny of mega-cap tech and AI-linked valuations. Valuation remains demanding: FactSet places the forward 12-month P/E at ~22.2, above both the 5-year (~20.0) and 10-year (~18.8) averages, while analysts are simultaneously projecting ~14.3% earnings growth for CY2026, leaving little room for disappointment in margins or guidance. Rates also stayed restrictive: Treasury par yields show the curve modestly re-steepening through January, with the 2-year moving from 3.47% (Jan 2) to 3.52% (Jan 30) and the 10-year from 4.19% to 4.26% (30-year 4.86% → 4.87%), while broad financial conditions remained loose by historical standards, with the Chicago Fed’s NFCI around -0.56 in late January. Against that backdrop, the Fed held the target range at 3.50%–3.75% on Jan 28, reiterating data dependence, but the policy narrative became increasingly entangled with governance risk after the White House announced Kevin Warsh as the nominee to succeed Chair Powell, while Senate Democrats requested a delay to proceedings and the administration faced heightened scrutiny over perceived pressure on Fed independence (including the resignation of Fed Governor Stephen Miran from his White House role).

Euro Area

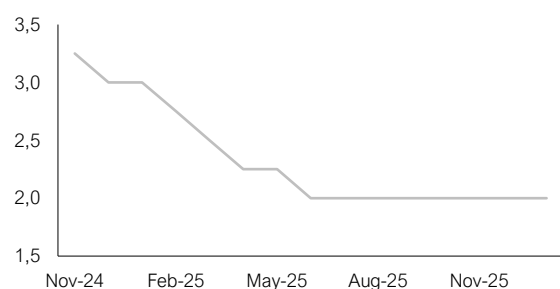
Bulgaria joins the Euro

Bulgaria joined the euro area on 1 January 2026, expanding the monetary union and the ECB Governing Council's national central bank representation, an institutional development with long-run significance for integration and policy governance.

Monetary Policy (ECB Pause):

The ECB kept the Deposit Facility Rate at 2.00% at its 18 December 2025 meeting, maintaining a pause after the 2024–25 easing cycle. The tone remained data-dependent, with particular attention on services inflation, wages, and transmission. Into January 2026, the stance was unchanged, with policymakers waiting for further confirmation that inflation will stabilise at target without a renewed upswing.

Figure 3
ECB Deposit Rate (%)



Source: European Central Bank

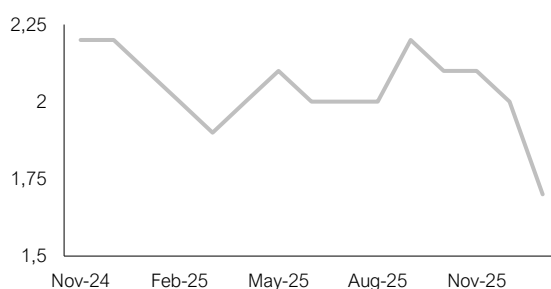
Economic Growth & Sentiment

Activity stayed modest but positive. Q3 2025 GDP grew 0.3% q/q, and the euro area ended the year with a similarly restrained growth profile. After softening in December, sentiment improved in January 2026, though surveys still point to a split: industry remains weak, while consumption and services provide the main support to growth, especially outside Germany.

Inflation (HICP & Disinflation)

Headline HICP reached 2.0% in December 2025, consistent with the ECB's medium-term target, supported by weaker energy dynamics while services inflation remained the most persistent component. In January 2026, headline inflation fell to 1.7%, largely driven by a stronger negative contribution from energy and a modest easing in services; underlying measures also softened, but services and wage pass-through remain the key variables to monitor.

Figure 4
HICP YoY (%)



Source: Eurostat

Currency (EUR/USD):

The euro remained firm across December and January, averaging around 1.17 USD in both months. The stronger currency helps reduce imported inflation, reinforcing disinflation in early 2026, but it also tightens export competitiveness at the margin while external demand remains fragile.

U.K.

UK Sectoral Collapse

The UK chemicals industry, once central to the country's industrial base, is shrinking in a way that goes beyond normal cyclical weakness. Entering 2026, the decline is increasingly visible across multiple segments and is primarily driven by high industrial energy costs, rising carbon-related costs, and aging infrastructure that requires major reinvestment. Together, these factors have made it more economically attractive to locate energy-intensive production abroad, steadily eroding the UK's capacity to manufacture foundational industrial inputs domestically.

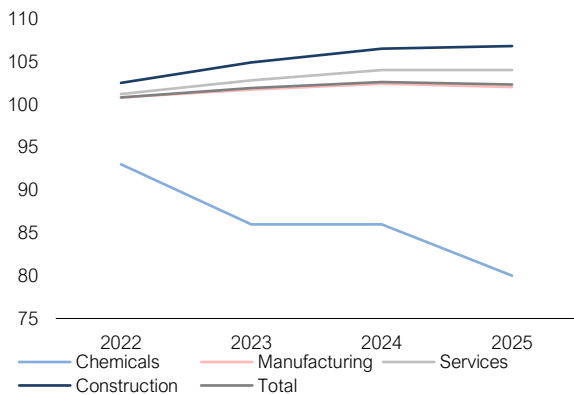
Salt production illustrates the vulnerability. The INEOS Inovyn plant in Runcorn produces roughly 50% of Britain's salt, and in mid-January the company warned that, without government intervention, it may have to shut the site. If it closes, the UK would become dependent on imported salt for the first time in modern history, exposing essential users, food, pharmaceuticals, water treatment, and manufacturing, to longer supply chains and greater external risk.

This pattern is not limited to salt. The UK has lost domestic ammonia production at the Billingham site that historically underpinned nitrogen fertiliser supply; Britain is now reliant on imported ammonia feedstock for fertilisers. Soda ash (sodium carbonate), a key input for glass and paper, has also ceased to be manufactured domestically following the shutdown of Tata Chemicals Europe's Lostock plant after roughly 150 years of near-continuous operation. In addition, INEOS Inovyn exited the UK sulphur chemicals market, removing a major domestic source of sulphur chemicals capacity.

These changes have wider economic consequences. As domestic production of foundational chemicals declines, the UK becomes more exposed to global price swings, logistics disruptions, and geopolitical shocks, while the manufacturing base weakens and supply-chain resilience deteriorates. Recent reporting notes chemicals sector output falling by around 20% over the past three years, underscoring the speed of the contraction.

From an investment and commodities perspective, the key transmission mechanism is increased import dependence: greater sensitivity to global ammonia and soda ash pricing, freight costs, and supplier concentration. However, the loss of domestic upstream production can also reduce UK industrial energy demand even as it increases "embedded" energy imported through materials. Overall, the strategic importance of energy policy and foundational industrial inputs rises as domestic capacity diminishes.

Figure 5
Output Index by Sector (2022 = 100)



Source: Sky News

Japan

Elections

Japan's Prime Minister Sanae Takaichi is preparing to dissolve the lower house of parliament and call a snap general election, likely on February 8, in an effort to secure a renewed mandate following a significant realignment of the governing coalition. The move follows the breakdown of the LDP–Komeito coalition, which had long functioned as a stabilising factor through Komeito's reliable electoral support. The prospect of early elections has unsettled financial markets, contributing to renewed pressure on the yen and selling in government bonds, as investors reassess fiscal sustainability in one of the world's most highly indebted advanced economies. These concerns have coincided with heightened attention on the Bank of Japan ahead of its 23 January monetary policy meeting, where policymakers are widely expected to keep the deposit rate unchanged at 0.75%, even as markets look for stronger forward guidance on future rate increases amid rising long-term yields driven by fiscal deterioration and political uncertainty. The election timetable also complicates approval of the 2026 budget, increasing the likelihood of provisional spending measures.

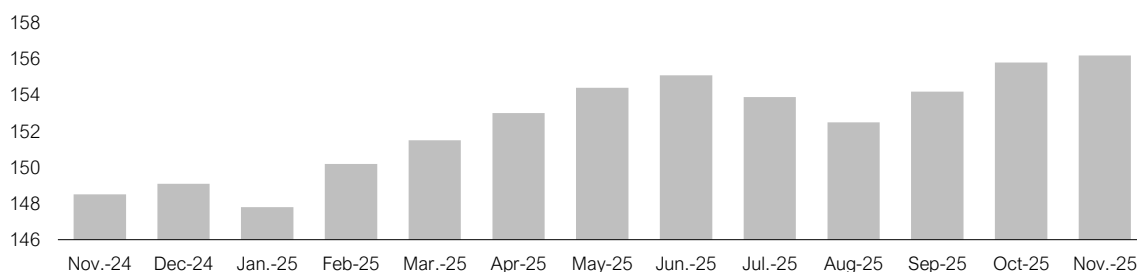
At the same time, opposition parties are moving to consolidate centrist forces in response to the government's shift toward a more assertive stance on defence and national security. The Constitutional Democratic Party and Komeito have agreed to form a new centrist party, initially limited to lower-house lawmakers, aiming to coordinate electoral strategy and appeal to moderate voters. The election is therefore set to function as a broader referendum on the government's economic and security agenda, including higher public spending, increased defence outlays and the interaction between fiscal expansion and monetary normalisation.

Nikkei 225 and Japanese Markets

The equity rally entering 2025 has been marked by a historically strong performance in the Nikkei 225, which recently closed above the 54,000 level for the first time on record. The index is up close to two-thirds from its April 2024 low, a magnitude that contrasts sharply with the intermittent and fragile rallies observed since 2012. Corporate payout behaviour has been a central feature of this move, with listed companies on track to distribute approximately \$127 billion in dividends during the current fiscal year. Dividend payments have more than doubled over the past decade, with payout ratios now averaging roughly one-third of earnings.

Figure 6

Dividends paid by Nikkei 225 companies (indexed to 2015)



Source: LSEG

Despite the strength of equity prices, the macroeconomic backdrop remains comparatively modest. Real GDP growth is projected at around 1.3 percent for fiscal year 2026, and a significant share of recent earnings growth, particularly among exporters, has been supported by yen depreciation rather than domestic demand. This introduces sensitivity to any potential currency reversal as monetary conditions evolve. Nevertheless, higher dividend income has had measurable effects on household balance sheets and market participation. Japanese households now hold roughly one-fifth of all listed equities, while total household financial assets reached a record ¥2.3 quadrillion by September, supported by a near 20 percent increase in equity holdings and a 21 percent rise in investment trust assets.

These dynamics suggest that the equity rally is increasingly underpinned by structural shifts in capital allocation and investor behaviour, allowing market performance to remain resilient even in a low growth and ageing economic environment.

Yen and Takaichi Trade

Foreign exchange dynamics over December and January increasingly reflected the political risk premium embedded in the yen, as markets repositioned around expectations associated with a renewed fiscal expansion under Prime Minister Sanae Takaichi as discussed before.. Anticipation of sizable stimulus measures, estimated at around \$135bn, reinforced perceptions that monetary normalisation would proceed cautiously, limiting the yen's support from interest rate differentials. At the same time, pressure intensified in government bond markets, with yields on 20-year Japanese government bonds reaching a record high slightly above 3.14 percent and the 10-year yield climbing to around 2.16 percent, its highest level since February 1999, signalling a rise in term premia driven by fiscal and political uncertainty rather than policy rates alone. These yield dynamics, combined with Japan's public debt burden exceeding 200 percent of GDP, pushed USD/JPY toward the upper end of its post-2024 range near ¥159–160 per dollar, levels that have previously prompted official concern.

Figure 7
Yen per USD – from June 2024



Source: Bloomberg

Emerging Markets

China

Brazil

Mexico

MENA



China

Exports-led Model

China's economic model remains anchored in a state-directed, supply-side framework that prioritises industrial scale, manufacturing depth and export competitiveness over domestic consumption-led growth. Policy coordination through multi-year planning, state bank credit allocation and targeted industrial support continues to favour capacity expansion in strategic sectors, even as domestic demand remains subdued. This structure has produced a persistent divergence between production and absorption, with excess supply increasingly channelled into external markets rather than absorbed internally. As a result, trade outcomes have become the primary transmission mechanism through which China's macroeconomic cycle interacts with the global economy

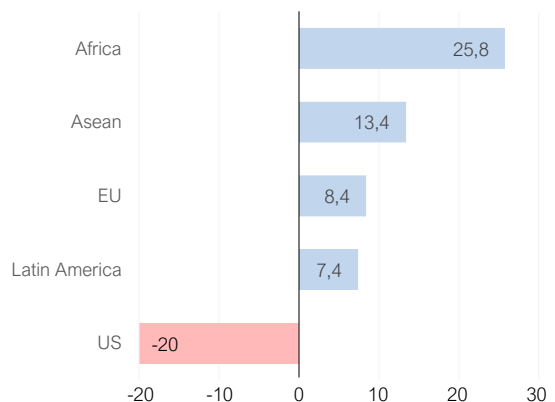
Trade Balance: historical results

China's external accounts have moved into a new regime of scale, with the full-year trade surplus reaching almost \$1.2tn in 2025, the highest level ever recorded. The surplus expansion has been driven less by a collapse in imports than by sustained export momentum, particularly in the second half of the year. December data showed exports rising 6.6% YoY in dollar terms, while imports rebounded 5.7%, both materially above market expectations. Even with this late-year import recovery, cumulative imports for the year remained broadly flat, leaving net exports as a dominant contributor to headline growth. Over time, the surplus has accelerated sharply since 2020, breaking decisively above the \$1tn threshold for the first time, a signal that cyclical fluctuations are now operating on top of a structurally elevated external surplus rather than around a balanced trade position.

If not the US, where?

Geographically, the surplus reflects a pronounced reorientation of export flows rather than uniform global demand strength. Exports to the US contracted by 20% in 2025, reducing the US share of Chinese exports to 11.1%, the lowest since the mid-1990s and a clear indication of sustained bilateral trade erosion. This weakness was offset by strong growth across non-US destinations, with exports to Africa (+25.8%), ASEAN (+13.4%), the European Union (+8.4%) and Latin America (+7.4%) absorbing an increasing share of China's output. Over the longer run, these shifts have reshaped the export map: ASEAN has overtaken both the US and EU as China's largest trading partner, while emerging markets account for a rising proportion of incremental export volumes. For global markets, this redistribution matters as much as the headline surplus itself, as it spreads competitive pressure across a wider set of economies and reduces the effectiveness of country-specific trade barriers in constraining China's aggregate export capacity.

Figure 8
Annual change of exports (%) by area

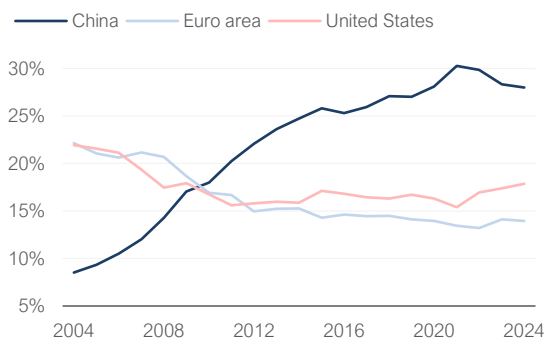


Source: General Administration of Customs, Wind, Financial Times

The trade surplus is reinforced by China's dominant position in global manufacturing. China now accounts for more than a quarter of global manufacturing value added, a share that has increased materially over the past two decades while corresponding shares in the US and euro area have declined. This reflects both scale advantages and policy-driven capital deepening in sectors viewed as strategically important, allowing China to move simultaneously up the value chain while retaining leadership in legacy manufacturing. The result is a production base capable of supplying both advanced and intermediate goods at volumes and price points that are difficult for competitors to match.

Figure 9

Share of Global Manufacturing GVA (%)



Source: World Bank, BEA

Not only Manufacturing, but High Technology as well

At the sectoral level, export concentration has intensified rather than diversified. China holds global export shares exceeding 30 percent in several key industries, including batteries, mobile phones, semiconductor components, computers and electrical equipment, while maintaining significant positions in autos, industrial machinery and robotics. This breadth amplifies spillovers for trading partners, as competitive pressure is no longer confined to low-value goods but extends across capital-intensive and technologically complex sectors. Importantly, this manufacturing depth is increasingly reinforced by upstream technological control, with Chinese firms now leading global patent filings in robotics and “physical AI” applications embedded in machines, vehicles and industrial systems. The accumulation of intellectual property in these areas strengthens the influence over standards and deployment pathways, suggesting that export dominance is being complemented by growing leverage in innovation-intensive segments.

ChiNext/Markets

Chinese equities have become increasingly concentrated in technology and innovation-driven segments, a shift that is now evident not only in secondary-market performance but also in primary issuance and capital formation. Onshore, the ChiNext Index rose by close to 13% in January, clearly outperforming both global peers and broader domestic benchmarks. The rally has been underpinned by a sharp re-pricing of AI-exposed names following DeepSeek’s breakthrough, with spillovers across the domestic tech complex. Large platform companies such as Alibaba Group and Tencent Holdings have accelerated the integration of generative AI into cloud services, advertising and consumer-facing applications, while upstream beneficiaries in semiconductors, automation and high-end manufacturing have also attracted incremental flows. The optimism has begun to extend into the primary market, with a pipeline of IPO candidates spanning AI software, robotics, commercial space and advanced mobility, signalling improved risk appetite for long-duration growth assets despite a still-fragile macro backdrop.

Offshore markets have mirrored this re-rating, albeit at a more measured pace. The Hang Seng Tech Index has gained roughly 6% over the same period, outperforming the Nasdaq 100 and indicating a partial narrowing of valuation discounts applied to Chinese technology names listed in Hong Kong. According to Jefferies, a basket of 33 Chinese AI-related stocks has added approximately US\$732bn in combined market capitalization over the past year, reflecting both earnings optimism and multiple expansion. High-profile constituents span internet platforms, AI infrastructure providers and hardware-linked innovators, including firms exposed to data centers, robotics and autonomous systems.

At the same time, valuation metrics have become increasingly stretched. Cambricon Technologies, a domestic producer of AI chips, is currently trading at around 120 times projected earnings, a level that places it well above global semiconductor peers. Broader measures show a similar pattern: indices tracking robotics and advanced automation companies in China are valued at more than 40 times forward profits, compared with roughly 25 times for the Nasdaq 100. These figures suggest that a significant portion of expected growth has already been capitalized into prices, raising concerns about overheating in parts of the technology complex.

Brazil

On the 5th and 16th of January, Brazil's Central Bank published new economic data through Focus Bulletin. GDP growth had little to no change, sustaining around the 2.26% level of growth for 2025, and predictions of 1.80% growth for 2026 and 2027, slightly lower than a month ago. Meanwhile, the Dollar closed the year at 5.44 BRL, with real being one of the currencies that most gained against the USD, growing 14.01%, which helped to ease inflation.

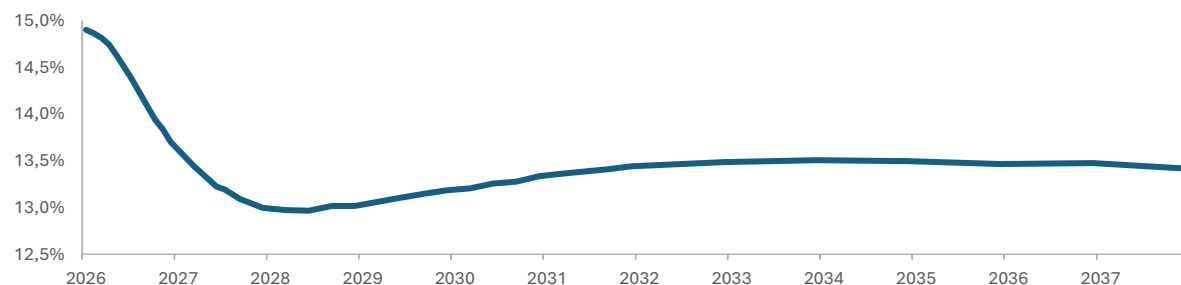
IPCA (Consumer Inflation Index YoY) ticked down once more, following a downwards path since April. It now stands at 4.31% for 2025, from 4.40% four weeks ago. Predictions for 2026 have experienced some change, going from 4.16% four weeks ago to 4.02% now, also following a decreasing trend. For 2027, estimations were maintained at 3.80%.

Further enhancing this view of a deceleration in inflation, IGP-M, (a mix of IPCA, Producer Price Index and Construction Price Index) closed the year at -1.05%. Besides that, it was at -0.01% MoM for December, reverting part of the 0.27% MoM increase in November. This deflation level will potentially persist for the following months, as the Central Bank has set that it will sustain high rates for a long period. The index has seen a steep decline for the past 12 months, coming from 8.58% in March, mostly driven by the PPI, that represents 60% of the overall.

Monetary Policy Outlook: Selic Path vs. Market Expectations

In the meantime, Selic (Brazil's interest rate), is being maintained at 15.00%, with an expected 2.75 pp drop until the end of the year, ending 2026 at 12.25%. Though still high, it is a certain improvement from the high levels seen in the past three years. On the other hand, DI futures are pricing interest rates to end 2026 between 13.75% and 14.00%, about 1.75 pp higher than the estimation indicated by BCB, with steep decreases in the first half of 2026, but higher levels maintained afterwards.

Figure 9
DI Rate Futures



Sources: B3 and Bloomberg

Political Developments: Tax Reform and Trade

Upon politics, the Brazilian Chamber of Deputies approved in mid-December the second major regulation bill in the Tax Reform, being a decisive step to finalize the transition into the new dual VAT-based system. The reform's goal is to simplify the tax system in Brazil, one of the most complex in the world. However, the implementation will take up to seven years to be completed, with the test phase beginning in January 2026, and the entire process ending in 2033.

Many changes have been made during the entire voting process, as well as disagreements. Brazil will have the highest VAT tax in the entire world, at 28% - a reflex of the high levels of taxation in the country. Political agendas were pushed into the project, such as the exemption for people earning up to 5000 BRL in income tax – which brings it to the same level of exemption seen in 1996, when corrected to inflation. Besides controversies, the change should decrease costs related to taxation and bring more foreign investments to Brazil.

Furthermore, the EU and the Mercosur trade bloc closed agreement that will create the biggest free trade zone in the world, between European Countries and South American countries. The agreement was first introduced about 25 years ago but has been continuously postponed due to political pressure. The voting happened in the European Parliament and took place in Brussels, on the 12th of January.

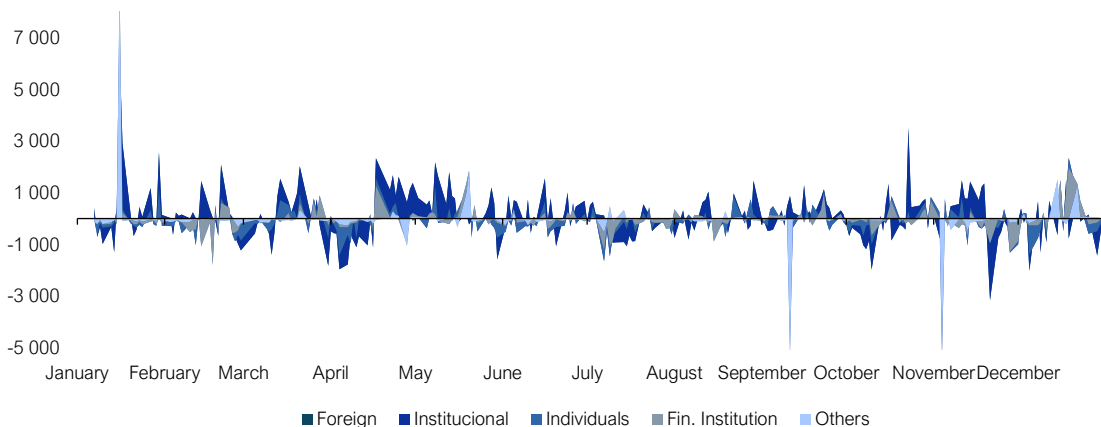
Geopolitics and Market Reaction

The Agreement was postponed in December after French and Polish governments were contrary to the agreement, and Italy showed some concern on some securing measures to Italian farmers. Meanwhile, Germany, Spain and Portugal were great supporters of the agreement, as it will provide the bloc with a greater market for industrialized products, while reducing prices for commodities such as grains and minerals, also reducing dependency on the US.

Still on international matters, the US incursion into Venezuela and capture of Maduro, former strongman of the Venezuelan Government, was highly criticized by the Brazilian government. Maduro is a close ally of President Lula, and the capture will be a hard topic for the presidential elections in Brazil in October.

Brazilian markets, however, were optimistic with the news and reacted positively, climbing slightly after the attacks. IBOV closed the year 35.44% up, among the best performing markets in the world, with a high influx of international investments from US hedge funds and national investors. Moreover, high interest rates have also brought a big amount of investment into fixed income instruments. The increase in stocks, although positive, should be taken with caution, as history has proven that Brazilian markets are used as fast capitalization source, with steep increases when international outlook is good, but also devastating losses when international fluxes invert directions (an event that is highly unpredictable and volatile).

Figure 10
Inflows and outflows into B3 (past 3 months) in millions



Source: B3

Mexico

Monetary Policy and Inflation

Mexico's monetary policy stance has become increasingly contentious as the Banxico continues to ease policy despite inflation remaining above target and core pressures proving persistent. In its December meeting, the central bank delivered a further 25 basis point cut, lowering the policy rate to 7%, the twelfth consecutive reduction since the easing cycle began in March 2024. Inflation dynamics remain a central source of concern for monetary policy. According to data released by the Bank of Mexico, headline inflation stood at 3.69% year-on-year at the end of December 2025, remaining above the central bank's 3% target. More importantly, core inflation reached 4.33%, completing eight consecutive months above the 4% threshold, underscoring the persistence of underlying price pressures. These monetary challenges are occurring alongside a weakening growth outlook, complicating the policy trade-off. Mexico's GDP contracted by 0.2% in the third quarter after stagnating in the second, prompting Banxico to halve its 2025 growth forecast to just 0.3%. While the central bank expects a gradual recovery in 2026 and 2027, near-term risks remain elevated due to sluggish domestic demand and uncertainty surrounding US trade policy and tariffs.

Markets and Foreign Exchange

Figure 11

Inflows and outflows into B3 (past 3 months) in millions



Source: Yahoo Finance

At the start of the year, financial indicators point to broadly stable market conditions, even as inflationary pressures remain elevated. The Mexican peso has traded within a relatively narrow range, with the FIX exchange rate around 17.7 pesos per US dollar, helping to contain imported price pressures and limit near-term exchange-rate pass-through. Mexico's external position continues to provide an important buffer, with international reserves exceeding USD 252 billion, supporting confidence in the currency and mitigating vulnerability to external shocks. At the same time, domestic risk assets have continued to perform strongly: the main equity index has recorded gains of just over 4% over the past month and stands more than 30% higher than a year earlier, pointing to sustained investor appetite for Mexican equities. The coexistence of elevated core inflation with strong asset performance suggests that financial conditions continue to reflect favorable liquidity and risk-taking dynamics rather than the persistence of underlying price pressures.

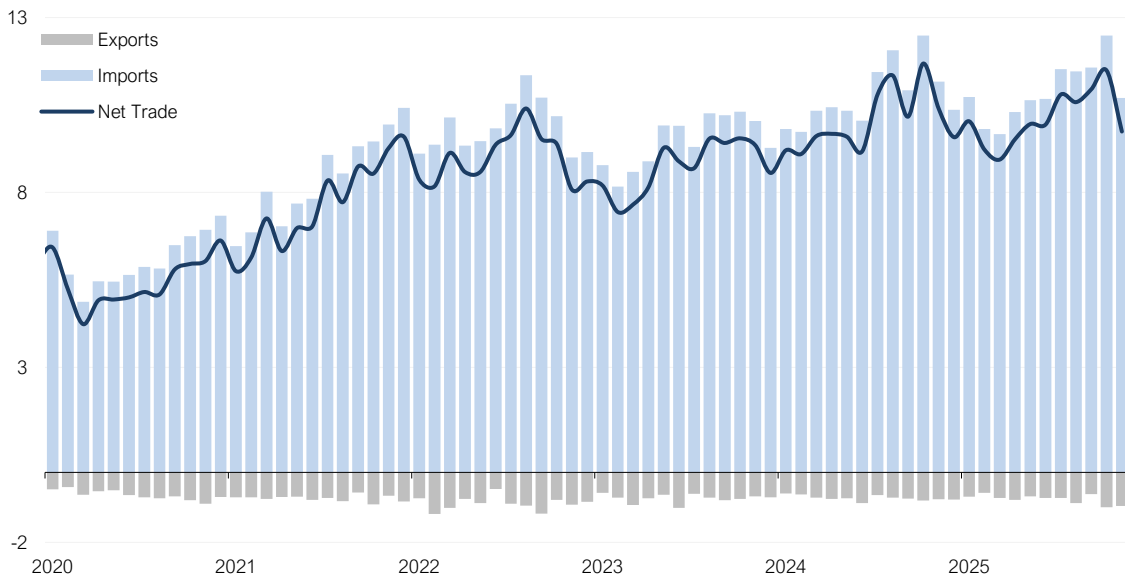
Tariffs and Trade Balance

Mexico imposed a package of new tariffs of up to 50% on more than 1400 products, impacting dozens of countries that do not have a free trade agreement with the Latam country, mainly China but also including India and Indonesia. This move comes alongside increasing threats from President Trump of higher import taxes, as Washington claim that the Chinese could be using Mexico to bypass US tariffs, signalling plans for more involvement in the continent and expanding their footprint in recent years.

Some companies are benefiting from redirecting their production from other countries to Mexico, aiming to explore lower tariffs imposed by the US in the Latam country. WEG, a Brazilian-based electronics manufacturer, has been using this strategy at the same time it's been shifting its South American production to export to other countries, also taking advantage of recently inaugurated facilities.

The tariff package also reflects the growing geopolitical constraints faced by Mexico as its economic ties with the United States deepen while imports from China continue to expand. Mexico is now the US's largest trading partner, and imports from China reached close to USD 130bn last year, up by more than 75% since 2020. Chinese products currently account for roughly one-fifth of Mexico's total imports, with the automotive sector standing out: about 20% of cars sold in Mexico in November were imported from China, and Mexico was the world's largest buyer of Chinese-made vehicles in the first half of the year. Against this backdrop, the new tariffs approved by a wide margin in the Senate and expected to generate over USD 2.5bn in additional revenue next year appear aimed not only at protecting domestic industries but also at easing US concerns that Mexico could be used as a channel to circumvent American trade restrictions. While the move may help preserve Mexico's preferential access to the US market, it also raises the risk of renewed trade tensions with China, whose commerce ministry has already criticised the measures and announced a review of trade and investment barriers

Figure 12
Mexico Imports and Exports to China



Source: BCMM, Data Mexico

MENA

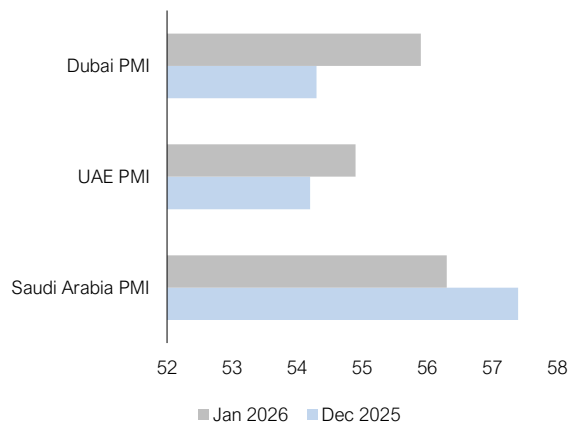
Tensions across the Middle East persist, yet economic activity continues to operate on pragmatic foundations rather than political alignment. This environment has enabled the Gulf Cooperation Council to sustain its structural rebalancing away from hydrocarbons and toward non-oil growth engines. Recent December and January projections point to real GDP growth of around 3.3% in 2025, with further acceleration expected in 2026, underpinned by resilient domestic demand and expanding non-oil sectors.

These gains are most evident in the UAE, Saudi Arabia, and Qatar, where non-oil activity is projected to grow in the 4–6% range, supported by tourism, financial services, logistics, and large scale infrastructure investment. Inflation remains contained across most GCC economies and fiscal positions broadly stable, allowing governments to maintain elevated capital spending without generating significant social pressure. Saudi Arabia, in particular, continues to record historically high employment levels and solid non-oil momentum as diversification initiatives mature.

Trade policy has increasingly shifted toward bilateral and regional agreements as the bloc seeks to reduce exposure to global supply disruptions. New partnership frameworks, including recently announced multi-billion-Dollar investment agreements with advanced economies aim to attract foreign capital and diversify export destinations. China remains the GCC's largest trading partner, while the United Arab Emirates leverages its geographic position to expand trade agreements and reinforce the region's role as a global transit and logistics hub.

Overall, the council's combination of controlled inflation, manageable fiscal balances, and rising non-oil contribution supports forecasts of relatively robust growth compared with other Middle Eastern economies. This trajectory reflects not only near-term economic management but a deliberate push toward greater structural autonomy, allowing hydrocarbon revenues to underpin long-term stability while the non-oil economy gains increasing strategic importance.

Figure 13
GCC Non-Oil PMI



Source: Emirates NBD & S&P Global

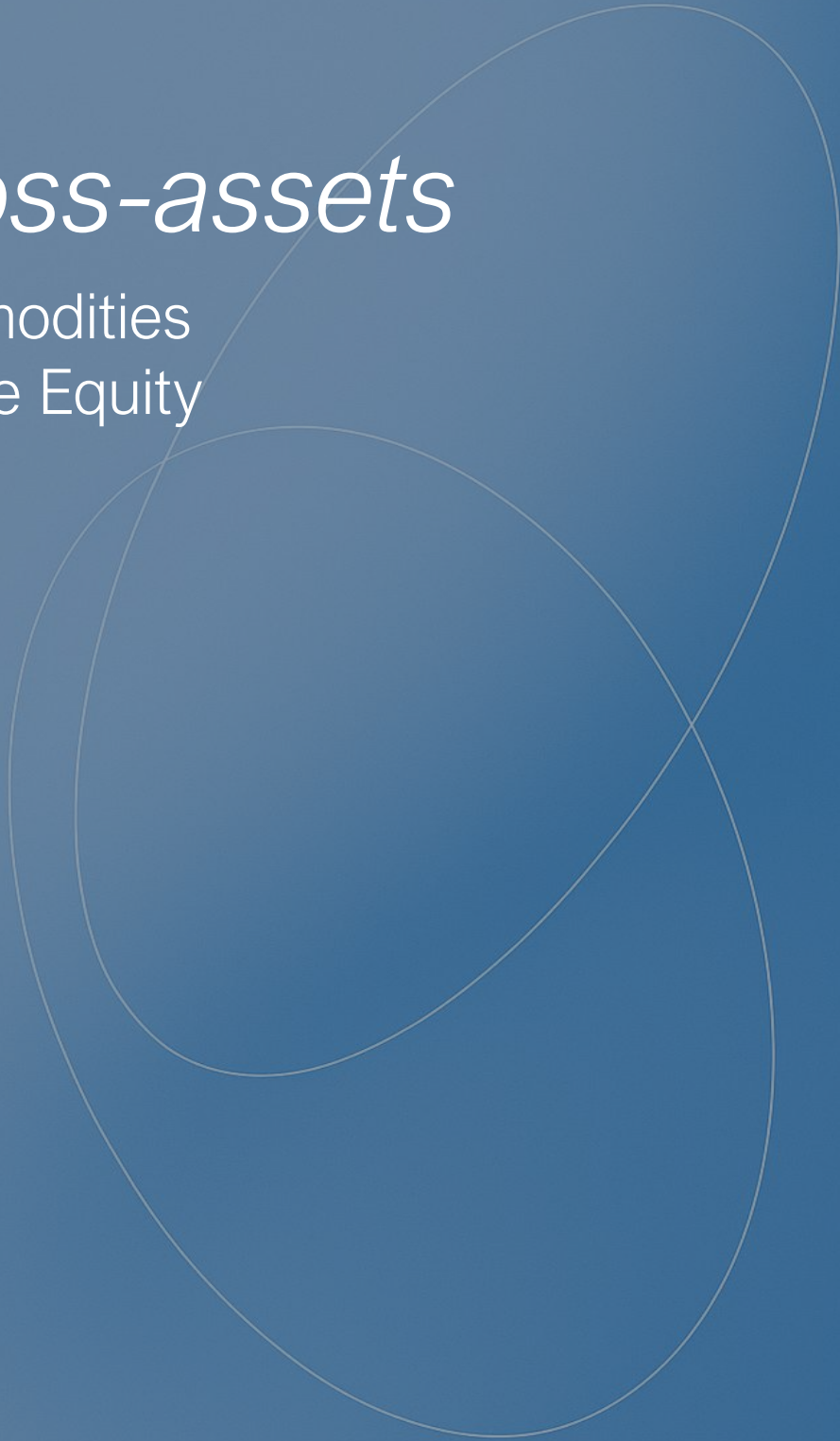
Cross-assets

Commodities

Private Equity

Credit

M&A



Commodities

Non-precious Metals

Copper

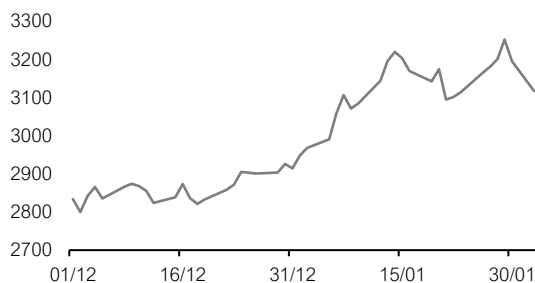
The non-precious metals market continued to be dominated by the energy transition narrative and persistent supply constraints in December and into January, with copper extending the record gains achieved at the end of November. Copper's notable performance, which initially hit a new all-time high above US\$11,200/metric ton (mt) on the London Metal Exchange (LME) late last year, accelerated further through January, with prices moving well above US\$13,000/mt by the end of the month, reflecting a deepening structural shortage.

Leading industry analysis continues to reinforce the outlook for an increasingly tight market, projecting a global refined copper deficit of approximately 330 thousand metric tons (kmt) in 2026, although some market consensus estimates point to a moderately smaller shortfall. This forecast remains driven by acute supply disruptions, such as the fatal mudslide at the Grasberg mine in Indonesia and ongoing operational challenges at the Quebrada Blanca mine in Chile, which have led to a downward revision of mine supply growth to only +1.4% in 2026. On the demand side, long-term structural drivers—such as electrification, the expansion of renewable energy infrastructure, and notably the surge in demand from data centers (which could add about 475 kmt of copper demand in 2026, an increase of 110 kmt versus 2025)—continue to underpin bullish sentiment. Consequently, forecasts suggest copper prices could test levels above US\$12,500/mt during 2026, with full-year average price expectations revised upward relative to earlier

Aluminium

In contrast, aluminum followed a firmer but still comparatively stable trajectory, with LME prices rising from around US\$2,866/mt in early December to above US\$3,000/mt by late January. While the medium-term outlook for aluminum still implies a more moderate appreciation relative to copper, the metal is increasingly benefiting from copper's sharp rise. The widening price differential between the two metals is accelerating substitution trends, whereby aluminum is used instead of copper in certain industrial applications, although this remains a longer-term structural shift. Copper continues to be viewed by analysts as the preferred industrial metal, given its central role in the global energy transition.

Figure 14
Aluminium



Source: Bloomberg

Precious Metals

In December 2025 up until the last week of January 2026 gold and silver prices rallied reaching all time highs. The positive performance was driven by USD weakness and lower real yields, with markets leaning further into Fed easing expectations, reducing the opportunity costs of holding such commodities. Reuters notes the dollar was down ~10% in 2025, which served as tailwind to USD-priced commodities, which includes gold and silver. Banks and strategists repeatedly pointed to sustained central banking buying as a key pillar under the rally. In a broad perspective, gold reported ~67% increase in 2025 and reached a record of USD 5,594.82 per ounce intraday (Jan 29).

Last week the same commodities plummeted: Gold fell 9% and 6% on two consecutive days, whilst silver dropped over 30% on the course of three days. A key driver for that short-term reversal was a Hawkish policy shock. Kevin Warsh being nominated by President Trump to lead the Fed was interpreted by the market as more hawkish policy risk, pushing the dollar up and pressuring precious metals. CME group also raised margin requirements, exacerbating forced selling/positions unwinds in metals. Profit-taking was also a key-driver after an extreme run. On the long-run, uncertainty remains high. Whilst it's expected that central banks' purchases will stay as a trend, a violent correction is still plausible in a scenario of materially stronger USD and higher terminal rates.

Figure 15
Silver



Figure 16
Gold



Non metals

Energy

Energy markets have been the dominant swing factor since December, with crude oil whipsawing between recession-style pricing and short-covering rebounds. Brent capitulated to US\$58.92/bbl on Dec 16 (lowest since early 2021) before snapping back into year-end (US\$73.16 on Dec 26) and then retracing into mid-January (US\$64.13 on Jan 16); WTI tracked the same arc (US\$55.27 → US\$69.24 → US\$59.44 over those same dates). Into late January, prices remained range-bound, reflecting a market still oscillating between demand-side caution and supply-driven positioning.

Gas

The narrative shifted from early-December tightness in the U.S. (Henry Hub ~US\$5.35/MMBtu on Dec 4) to a more muted forward curve by mid-January (front-month around US\$3.10/MMBtu), a softer structure that broadly persisted into month-end. Europe continued to re-price winter risk: Dutch TTF moved from sub-€30/MWh in early December to ~€37.5/MWh by Jan 17, while Asian LNG (JKM) also firmed, with March JKM around US\$10.10/MMBtu on Jan 16, consistent with tighter seasonal balances.

Agriculture

December-to-date trading has been more about incremental revisions and macro cross-currents than a single weather shock, with CBOT prices holding relatively contained ranges into mid-January: corn ~424.75¢/bu (US\$4.25) and wheat ~518.00¢/bu (US\$5.18) on Jan 16, while soybeans ~1,068.75¢/bu (US\$10.69). The January USDA WASDE nudged balance sheets toward a slightly heavier tone in corn, raising 2025/26 U.S. corn production to 17.021bn bu (from 16.752bn) and ending stocks to 2.227bn bu (from 2.029bn), alongside a US\$4.10/bu season-average price assumption. In soy, USDA cut exports and lifted carryout (ending stocks 350m bu vs 290m bu; average price US\$10.20/bu vs US\$10.50), consistent with a market that has struggled to build a sustained risk premium. At the consumer basket level, FAO's December 2025 read showed the overall food index down 0.6% m/m, while cereals (+1.7%) and sugar (+2.4%) were firmer—an important reminder that “food” remains bifurcated across sub-complexes.

Credit

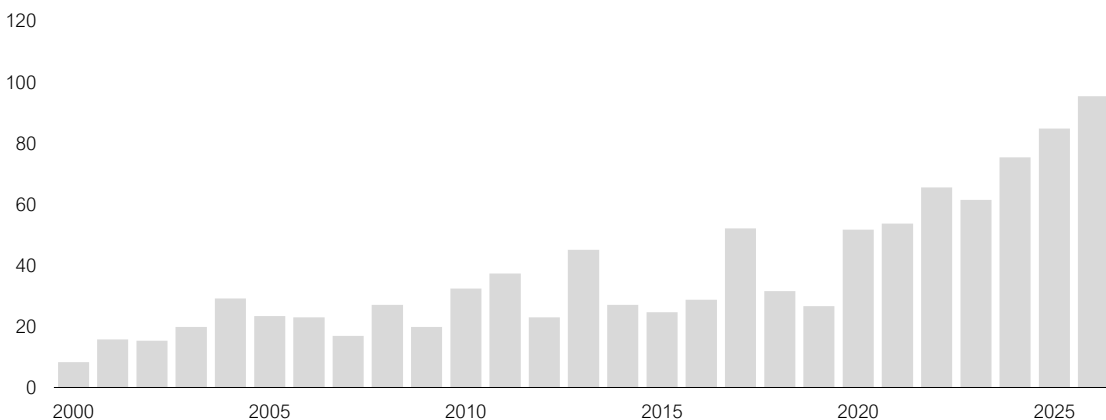
Corporate Credit and Bond Market

The month of December followed a trend of the market that has been showing tendencies of corporate spreads compressing over the last months, well below historical norms, and private debt gaining ground in the alternative investments' world, especially the Europe case.

In the US, the Federal Reserve issued both short term securities and long-term ones. Long term bonds, where auctioned by December as planned in the month before, of two types, one accepting \$22Bn of long bonds, the 2055 series, and a 2045 series, accepting \$13Bn bonds. Furthermore, according to a new Fitch Ratings report, default rates declined to 2.5% for U.S. high-yield TTM bonds and 4.8% for leveraged loans from 2.8% and 5.0% in November, showcasing how the leveraged loans rates remain high, ranking the third highest on record after 2009 (10.5%) and 2024 (5.3%).

According to ECB data, in the Euro Area we have a growth on government bonds by 5.1%, showing continued public borrowing. While in the corporate sector we have a growth of 3.8%, although the highlight in December is the growth of issuance by non-bank financial intermediaries that rose 10.7%. With the total outstanding debt increasing 5.7% in December, showcasing a signal credit expansion via bond markets.

Figure 17
Investment-grade bond issuance in first full week of January (\$bn)



Source: LSEG

In APAC, specifically in China we have that government stimulus gradually could improve the credit demand at year-end, as new bank loans in December rose faster than the expectancy rate. According to Reuter calculation, based on PBOC data, banks gave 910 Bn yuan in new loans in December, an increase from 390 Bn yuan in November. With household loans shrinking 91.6 Bn yuan, while corporate loans grew by 1.07 trillion yuan. While in South Korea we had a decrease of bank loans to both households and the corporate sector, with also decreases of lending to SME's, highlighting the slowing stock investments. With bank lending to corporate sector decreasing KRW 11.5 trillion, where KRW2t decrease is to large corporations, BOK blaming the change on temporary repayments of loans.

In Latin America, we have that the market is active and established, fostered by the record annual issuance, with issuers able to refinance existing debt and bring new issues to market even amid macro uncertainty. With Argentina raising \$1Bn in its first domestic sale of debt since a 2020 restructuring, in early December, priced at around 9.26% yield, marking a step towards a return to broader capital markets. While Colombia positioned throughout December, strategically planning multiple debt management operations in local and international markets in 2026 to manage maturities and optimize its financing structure, having 21 trillion pesos (\$5.5 Bn) saved in debt service payment. With the City of Bogotá issuing its first international green bonds issued by a municipality in Latin America, in December equivalent to roughly \$600 Mi, including sovereign issuance and sub-national municipal debt, with 93.4% of the issuance allocated to international investors, reflecting the confidence of global investors in the region fiscal strength.

Private Credit & Direct Lending

Questions about the resilience of the private credit start to flourish due to rising default structures, covenant-lite deal terms, and competition driving looser underwriting. Which starts to increase the risk in the market

One highlights in this market is the EPR Iguazu case. Where they were successfully able to issue a batch of incentivized debentures in late December 2025, totalling around R\$ 8.6Bn, making it the largest issuance of the year in Brazil, used to fund highway investments

With the Alternative Investment Management Association (AIMA) estimating that the global private credit market reached \$3.5 trillion AUM. With a continue maturing of the industry across all major regions specially in Europe, as it remains attractive for investors with the steady flows that other alternative assets don't offer with the same risk. Although this increase in competition, compresses the spreads returns remain still very attractive, being the fastest-growing alternative asset class over the past two decade, according to Alternative Credit Council research.

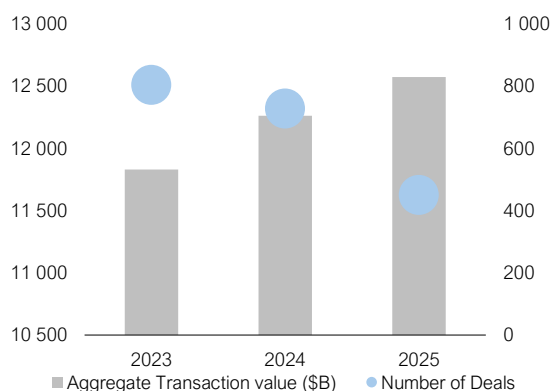
Concluding, we remain very cautious with future of the credit market with the recent news of Trump capping the credit card rates of 10%, which consequences remain unknown not only in the US, but how it would shift the credit market if it is imposed by 20th of January. With spreads decreasing furthermore, how it will affect them and the overall world, while the booming and intensifying competition in private debt, could leverage this cap imposition. Although, the outlook remains positive as already in the first week of January, according to LSEG data, in the US corporate borrowers have raised more than \$95bn from 55 investment grade bonds, the highest recorded volume since May 2020.

Private Equity

January 2026 points to a cautiously improving backdrop for private equity. With interest rates having largely stabilised but still above pre-2022 levels, sponsors are putting capital to work in defensive, high-quality themes: assets with stable demand, predictable cash generation, and clear operational value-creation levers. While the exit environment remains uneven. Deal flow this month is led by large, clearly priced transactions across “quality sectors”: Hg’s \$6.4bn take-private of OneStream reinforces appetite for mission-critical enterprise platforms; reported talks around TPG’s potential acquisition of Optum UK (£1.2-£1.4bn) highlight continued demand for healthcare IT with high switching costs; and AE Industrial Partners’ move to acquire approximately 60% of L3Harris’ Space Propulsion & Power Systems unit (\$845m EV) signals ongoing interest in specialised space/defense supply-chain assets where value creation is primarily operational. In consumer, L Catterton’s \$500m+ deal for Good Culture shows sponsors remain willing to pay for wellness-aligned brands with tangible category momentum, while InPost’s disclosure of an indicative proposal (reported €6-€7bn) underlines that public-to-private remains attractive when listed valuations lag private underwriting, especially for infrastructure-like logistics platforms.

On exits, routes are reopening selectively: Blackstone-backed Liffitt’s IPO filing points to a cautious return of public exits for the right assets, and strategic buyers remain active as shown by Symmetry Energy Solutions being sold to NextEra and Energy Capital Partners’ \$3.45bn asset sale to Talen. The larger structural message, however, is the continued rise of “manufactured liquidity”, where continuation vehicles and secondaries increasingly used to deliver distributions when traditional exit windows are delayed, illustrated by HSG’s continuation vehicle activity around ByteDance exposure. Overall, January’s mix supports a 2026 view of steady deployment into enterprise software, healthcare IT, strategic industrials, logistics/infrastructure, and resilient premium consumer, with a gradual exit recovery led by selective IPOs and strategic sales, and secondary/continuation structures acting as an important pressure valve for distributions.

Figure 18
Aggregate PE/VC Transaction Value and Number of Deals



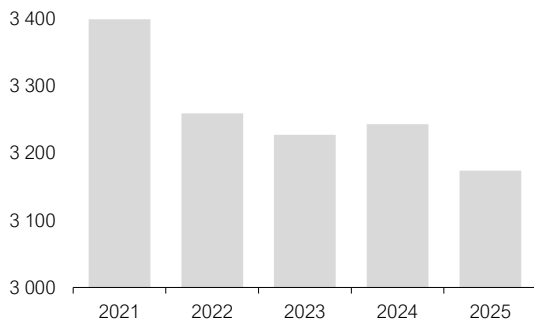
Source: S&P Global

M&A

“The Great Unlocking”

The beginning of 2026 has been marked by rising optimism in the global M&A market, with several large-cap and mega-deals due to regulatory easing and interest rate cuts after years of tight constraints. In the energy sector, nuclear powerhouse Constellation completed its acquisition of Calpine Corporation, a major gas and renewable energy producer, on January 7 in a deal valued at around \$16.4-26 billion. The deal, which required certain divestitures to secure U.S. Justice approval, combines Constellation’s nuclear fleet with the geothermal assets in Calpine, turning the company into the largest independent power producer in the United States and strengthening its market dominance. Meanwhile, big tech giant Meta closed its 2 billion acquisition of Singapore-based AI startup Manus, whose core is autonomous AI agents, and which generated roughly \$100 million in revenue in 2025, bolstering Meta’s position in the tech sector despite unfavorable regulatory scrutiny from China.

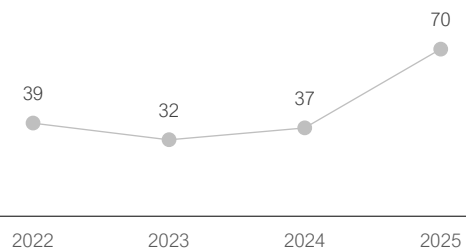
Figure 19
Aggregate transaction value of all M&A deals



Source: S&P Global

These transactions highlight corporations’ growth reliance driven by lower interest rates in both the US and the European Union, which effectively increased capital-intensive acquisitions. This favorable environment paired with great regulatory transparency following American political transition, meeting with an abrupt year-over-year demand of AI-related infrastructure. According to Goldman Sachs, a record pipeline of nearly \$1.5 trillion in deals was advised in 2025, and the bank projects a solid 10-20% increase for 2026, fueled by the dry powder accumulated during cautious years and a more predictable financing environment. This resurgence is not merely about horizontal scaling but represents a fundamental “de-risking” of business models through the acquisition of proprietary technology and energy independence, as seen in the recent multi-billion dollar consolidations within the power and agentic AI sectors. The M&A world has kicked off the year on a promising note, showing a clear gap between macroeconomic uncertainties and market volatility on one side, and real expansion momentum on the other.

Figure 20
Number of Mega deals (>US\$10bn)



Source: Reuters y Deologic

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